89TH CONGRESS } SENATE { REPORT
2d Session } { No. 1721

TAX CONSEQUENCES OF CONTRIBUTIONS TO NEEDY OLDER RELATIVES

A REPORT

BY THE

SPECIAL COMMITTEE ON AGING

UNITED STATES SENATE

TOGETHER WITH

MINORITY VIEWS

OCTOBER 13, 1966.—Ordered to be printed

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[Pursuant to S. Res. 189, 89th Cong.]

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Mr. SMATHERS, from the Special Committee on Aging, submitted the following

REPORT

TOGETHER WITH MINORITY VIEWS

I. INTRODUCTION

This committee's chairman, Senator Smathers, in announcing the study and hearing upon which this report is based, stated the basic question with which we were concerned:

> Are Federal tax laws fair to those who heed the Biblical injunction: "honor thy father and mother"?

Our study and the hearing we held in Washington, D.C., on June 15, 1966,[1] have shown to our satisfaction that the answer is negative; that Federal tax laws discriminate against and penalize many, if not most taxpayers who sacrifice to provide financial assistance to needy older relatives; and that legislative changes are needed to remove this discrimination and to prevent undue hardship upon families of these taxpayers.

This committee has been charged by the Senate with the responsibility of studying problems and opportunities of assuring adequate incomes for the elderly.[2] Our committee could not adequately carry out that mandate without studying contributions from relatives as one of the principal sources of income during old age. Studies of the Social Security Administration have shown [3] that approximately 1,800,000 elderly U.S. individuals, if forced to depend upon their own incomes alone, would be below "the economy level of the poverty index", and are saved from poverty only by the fact that they live with families who are above the poverty level. During 1962, approxi-

[1] Hearing entitled "Tax Consequences of Contributions to Needy Older Relatives", 89th Cong., 2d sess. Hereafter referred to as "hearing."

[2] The following is an excerpt from sec. 2 of S. Res. 189, the resolution under which we are presently operating:

"SEC. 2. It shall be the duty of such committee to make a full and complete study and investigation of any and all matters pertaining to problems and opportunities of older people, including * * * problems and opportunities of * * * assuring adequate income * * *"

[3] Orshansky, "Recounting the Poor—A Five-Year Review", p. 13, Social Security Bulletin, April 1966.

mately 586,040 older Americans received contributions from persons not in the recipients' homes.[4] One of the most important areas of inquiry with reference to these families relates to Federal tax treatment of these contributions. In undertaking this inquiry, we were interested in determining whether maximum use is being made of Federal tax laws to encourage and stimulate contributions to older relatives and whether Federal tax laws are fair to families within which such contributions are made. For many of these older Americans and their families, no Federal legislation could be enacted which would be as helpful as amending Federal tax laws to remove inequities which bear heavily upon them.

Contributing to older relatives is a social phenomenon which relates primarily to the neediest of senior citizens. In making this assertion, we are in danger of laboring the obvious. Not even the best of sons and daughters are likely to make the sacrifices required by contributing to their elderly parents if the parents are already in comfortable financial circumstances. This is borne out by statistics from the Social Security Administration's 1963 Survey of the Aged, specifically a table reproduced on p. 65 of the appendix of our hearing. The staff computation based upon that table shows[5] that of the 586,040 elderly recipients of contributions from persons not in their homes, 272,820, or approximately 46 percent, were in the one-third with lowest incomes; 187,040, or approximately 32 percent, were in the middle income third, and only 126,180, or approximately 22 percent, were in the high income third.

Not only the parents who receive aid, but also many of the taxpayers who give it, are in modest financial circumstances. The wife of an Air Force sergeant in Arizona wrote the committee [6] that her husband has been contributing substantially to her mother from a take-home pay which until recently was only $170 every 2 weeks. A minister in Pennsylvania wrote [7] that she had been contributing substantially to the support of her mother on an income which appears to be slightly less than $150 a week. A Florida taxpayer wrote: [8]

> I feel after 5 years of helping my older mother, I could certainly use some help on my income tax. My small monthly earning is only $209 a month.

In a monograph which resulted from a study by the Social Security Administration, it was pointed out: [9]

> * * * it is the parents in the lowest income group who more often receive contributions * * * working-class mores require help to parents and other relatives in a way that middle-class mores do not.

Some with narrow views of the functions of taxes might question the framing of tax laws to achieve socially desirable objectives, such as increasing contributions to needy older relatives. They should be reminded that Federal taxes as a major element in the economy must inevitably exert a profound influence in achieving or hindering the

[4] Staff computation based upon table which appeared in an article by Erdman Palmore, presented in hearing p. 65.
[5] Hearing, p. 66.
[6] Hearing, app. C, p. 49.
[7] Hearing, app. C, p. 62.
[8] Hearing, app. C, p. 52.
[9] Schorr, "Filial Responsibility in the Modern American Family," Social Security Administration, June 1960, p. 7.

achievement of desirable social objectives. It is much better to recognize this and to make a rational choice of the tax policies which are best designed to further desired objectives than blindly to refuse to consider the social consequences of tax policies.

It should be clearly understood that this report concerns tax equity and the social consequences of tax provisions, not tax reduction. As the report is issued, our Nation is preoccupied with its struggle in Vietnam to protect human dignity and liberty against the onslaught of totalitarian Communism, and there is concern over the rising price level. These conditions give rise to proposals to increase taxes to combat inflation. In recommending more equitable tax treatment for those who contribute to older relatives, this committee takes no position on whether taxes should be increased or decreased; this is an issue outside the scope of our jurisdiction. However, it should be noted that adoption of our recommendations would remove a type of discrimination which creates an already intolerable tax burden on some taxpayers. If these recommendations are enacted, and if the President should thereafter recommend and Congress should enact an inflation-combating tax increase, such legislation could be enacted without making an existing hardship even more onerous.

Briefly summarized, the findings and recommendations in this report are as follows:

Finding No.	*Finding*	*Page*
1	**There are compelling reasons why more generous tax concessions should be enacted for taxpayers who contribute to the support of needy older relatives**	5
	(*a*) They would be an effective stimulus for increased contributions from younger family members to older family members;	
	(*b*) They are needed to eliminate tax discriminations against taxpayers who contribute to the support of older family members, and would thus make Federal taxes more equitable, whether or not they would be an effective stimulus for increased contributions of this type; and	
	(*c*) They are an efficient alternative to public expenditures and promote desirable social objectives, abundantly justifying any "revenue loss" which may be entailed.	
2	**At present, Federal income tax statutes discriminate against taxpayers who contribute to the support of needy elderly relatives, and, in effect, punish and discourage such contributions. These statutes reward taxpayers who refuse to contribute to the support of needy elderly relatives and who force them to seek public assistance and assistance from private charities**	9
3	**At present, Federal income tax statutes discriminate against families having members over 65 whose family incomes are derived from earnings of family members who are under 65**	9
4	**At present, Federal income tax statutes discriminate against taxpayers who pay the medical expenses of their needy elderly relatives but who are prevented by technicalities from deducting such expenditures**	10
5	**At present, Federal income tax statutes discriminate against taxpayers who contribute to dependent older relatives whose income is derived from rents, farming, businesses, and other sources which entail expenses to produce or collect income**	11
6	**A few limited tax benefits are presently available to taxpayers who contribute to the support of needy older relatives**	11

Recommendation No.	Recommendation	Page
1	The committee recommends that the income test for claiming relatives over 65 as dependents be increased from $600 to $1,200	17
2	The committee recommends that taxpayers who have dependents over 65 be given 2 personal exemptions for each such dependent, instead of one exemption, as at present	17
3	The committee recommends that the Internal Revenue Code be amended to permit deduction by a taxpayer of his payments for medical expenses of a relative over 60 who had less than $1,200 of gross income during the taxable year, even if the taxpayer did not contribute more than ½ of the support of the older relative during the year	18
4	The committee recommends that the Internal Revenue Code be amended to relate the income test for claiming exemptions for dependents over 65 to *adjusted gross income*, rather than to *gross income*, as at present	19
5	The committee recommends that Internal Revenue Code sec. 214 be simplified to make *any* taxpayer eligible for the deduction for care of a disabled dependent over 60 and that another amendment be enacted increasing from $6,000 to $7,000 the joint income allowed a taxpayer and spouse before reduction of the deduction where the dependent is over 60	20
6	The committee recommends that Congress enact legislation authorizing a special issue of Federal savings bonds which could be purchased with a stipulation that the interest thereon be paid periodically to an individual age 60 or over, with the privilege reserved to the purchaser of the bond to cash it at any time and recover his investment, and that the Internal Revenue Code be amended to require that the interest be included in the gross income of the recipient, instead of in that of the purchaser of the bond	21
7	The committee recommends that a proviso be added to Internal Revenue Code sec. 677(b) to the effect that trust income paid to an individual over 60 cannot be included in the gross income of the settlor of the trust solely because he has a legal obligation to support the recipient of the income	22

II. FINDINGS

Finding No. 1

There are compelling reasons why more generous tax concessions should be enacted for taxpayers who contribute to the support of needy older relatives:

(a) They would be an effective stimulus for increased contributions from younger family members to older family members;

(b) They are needed to eliminate tax discriminations against taxpayers who contribute to the support of older family members, and would thus make Federal taxes more equitable, whether or not they would be an effective stimulus for increased contributions of this type; and

(c) They are an efficient alternative to public expenditures and promote desirable social objectives, abundantly justifying any "revenue loss" which may be entailed.

A. STIMULATING INCREASED CONTRIBUTIONS

No one can predict with certainty whether more generous tax concessions will stimulate increased contributions to support needy older relatives. At our hearing, the spokesman for the Treasury Department, Gerard M. Brannon, Director of its Office of Tax Analysis, expressed doubt that this would be the result: [1]

> * * * from our experience with attempts to look at the effects of these tax provisions we find that there is very little evidence that most tax incentives greatly change the way people operate. * * *

Nevertheless, the committee believes that more equitable and generous tax treatment of taxpayers who contribute to needy older relatives would inevitably stimulate contributions from taxpayers who would not otherwise contribute and would result in increased contributions from taxpayers who would otherwise make smaller contributions. While many, perhaps most, taxpayers would not foresee the tax advantages of contributing and would not make contribution solely from that motive, almost all taxpayers who make contributions or contemplate making contributions must eventually file Federal income tax returns. When they do, they will be made aware of the extent to which their contributions decrease their taxes and the extent to which more generous contributions would have decreased them even more. This will inevitably influence them to make contributions or to increase their contributions.

Even if we assume the existence of a U.S. taxpayer who is completely oblivious to tax considerations and indifferent to tax incentives, he would feel a financial pinch when his contributions result in no Federal tax benefit to him, which would exert pressure upon him to

[1] Hearing, p. 11.

decrease or discontinue his contributions. On the other hand, if his contributions helped decrease his Federal taxes, he would find more money in his pockets and would be able with less difficulty to make contributions or to increase his contributions, and would be more willing to do so.

In this country, we have experienced a constantly rising level of real incomes. Little, if any, of the real income increase will benefit elderly retired individuals unless ways are found to encourage younger taxpayers to shift some of their growing affluence to older family members whose labors were not as well rewarded. We feel that the recommendations in this report will be effective stimulants to this end.

B. ELIMINATING DISCRIMINATIONS AGAINST CONTRIBUTORS

In this inquiry, the committee has found various tax provisions which presently discriminate against taxpayers who contribute to the support of needy older relatives, as outlined in findings two through five. Whether or not tax concessions would stimulate increased contributions, they would eliminate present discriminations against these taxpayers, and would make Federal income tax laws fairer.

C. CONTRIBUTIONS AS AN EFFICIENT SUBSTITUTE FOR PUBLIC EXPENDITURES

In the willingness of taxpayers to contribute to the support of needy older relatives, the Nation has a valuable national asset which should be cultivated and encouraged. It is one of the means whereby the material needs of old age can be met, other such means being the savings of the elderly individual, his income from employment, public contributory pension programs, such as social security and railroad retirement, private pensions, and, if all else fails, public assistance. For many senior citizens, no one of these sources of income is sufficient by itself, and it is possible to achieve an adequate income level only if several of them are available. The important consideration to be borne in mind is that contributions are supplementary to most other sources of income in old age, not an alternative thereto. The only exception is public assistance, which is reduced by contributions.

Many relatives of needy senior citizens have a horror of permitting them to become public charges. This sentiment was well expressed in a letter received by the committee from a New York taxpayer,[2] who said:

> * * * My mother was on county relief to supplement income * * *. I was shocked when I heard of it, told her she could come live in our three-room apartment free or pay what she could, but I would not have her on welfare.

A Pennsylvania taxpayer wrote: [3]

> I plead with you for help to * * * children who are trying to care for their parents and do not want to put them on relief.

Another Pennsylvania taxpayer wrote the committee: [4]

> My parents would die if they had to go on relief.

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[2] Hearing, p. 59.
[3] Hearing, p. 62.
[4] Hearing, p. 61.

That this sentiment results in a substantial decrease in public expenditures for old-age assistance is shown by the table based upon the Social Security Administration's 1963 Survey of the Aged which was reproduced on page 65 of the appendix of our hearing. Commenting upon the statistics in the table, the author of the article in which it appeared said: [5]

> * * * in view of the low total income of the low-income thirds, it is rather surprising that only a fifth of the low-income couples and nonmarried women received any public assistance * * *. Part of the answer may be that many persons in this income group live with relatives and derive support from them that is not counted as income but makes them ineligible for public assistance payments.

The committee is impressed with the efficiency of relative contributions in comparison with public assistance as a means of meeting the material needs of the elderly. To illustrate, assume that a particular senior citizen during 1965 received $44 a month ($528 for the year) social security, which was his only income. His bachelor son supplemented this with cash contributions of $75 a month.

If the son had made no contribution, the father would probably have qualified for old-age assistance. If it be assumed that the maximum grant in his State is $75 per month, and that the father qualified for the maximum grant, he would receive $900 from that source, instead of $900 from his son. This is a public outlay approximately five times the additional revenue received from the son due to his refusal to contribute to his father and his failure to qualify for an additional exemption. If we further assume that the additional $166 revenue received from the son is to be used for no purpose other than for his father's old-age assistance, an additional $734 must be taken from the other revenue received from the son and other taxpayers to make the $900 annual old-age assistance payment to his father. If the $166 tax benefit for which the son qualifies by contributing to his father is considered a "revenue loss" tantamount to a Federal "outlay," then a result is being accomplished by means of this $166 "outlay" which could otherwise be accomplished only by an outlay of $900 of public funds. Furthermore, the son's contributions avoid the necessity of incurring the administrative costs which would otherwise be required to determine the father's eligibility and to make payments to him from public funds. If it is a reasonable estimate that $3 is required for administration for each $100 of old-age assistance payments, then $27 of public funds will have been saved by the son's meeting this need without forcing his father to apply for public assistance. The following table shows the difference in efficiency between the two alternatives:

	When son contributes	When old-age assistance is paid
Supplementary financial assistance received by father during year	$900	$900
Amount of assistance made available to father which comes from "outlay" of public funds	166	900
Outlay of public funds required for administrative expenses	0	27

[5] Palmore, "Differences in Sources and Size of Income: Findings of the 1963 Survey of the Aged," Social Security Bulletin, May 1965, p. 6.

Thus, it can be seen that it takes about six times as much outlay of public funds to provide public assistance to the father as it does when the son provides the same amount of supplementary income to him by voluntary contributions.

The foregoing does not take into consideration the satisfaction received by father and son in meeting this need within their family without calling upon governmental assistance, and the strengthening of the family bond which may result. To the extent that more generous tax concessions for such contributions fosters a social pattern of families caring for their own, without dependence upon government, there will be an increase in mutual regard among family members.

Such tax concessions would also strengthen family ties by easing financial strains resulting from dependence of the needy older relative. August B. Hollingshead, in a sociological discussion of family stability, said: [6]

> While crises draw family members together, they also act as divisive agents; for when a family has to share its limited living space and meager income with relatives, kin ties are soon strained, often to the breaking point. The family is not able to give aid to another on an extensive scale without impairing its own standard of living; possibly its own security may be jeopardized. In view of this risk, some persons do everything short of absolute refusal to aid a relative in distress; some even violate the "blood is thicker than water" *mos* * * *. This ordinarily results in the permanent destruction of kin ties, but it is justified by the belief that one's own family's needs come first.

More generous tax concessions would make the elderly who receive contributions feel better about receiving them. A 74-year-old Florida widow wrote the committee: [7]

> I have one child, a son 44 years of age, married and has four children. He is very glad to help me all he can afford and I do have to accept his help. If he could deduct this expense from income tax, I would not feel so reluctant to take it.

A Florida teacher of retarded children advised the committee that her inability to qualify under present law for more favorable tax treatment on account of her support of her parents "has made them feel that they are adding to my burdens." [8]

In view of the social advantages which would result from more enlightened tax treatment of taxpayers who contribute to the support of needy older relatives, the committee regards any "revenue loss" which may result from implementing its recommendations abundantly justified. As a matter of fact, the committee believes it is more accurate to consider such tax concessions as a sound investment in improved economic conditions for the Nation's elderly and in a more equitable Federal tax system than as a "revenue loss." We are

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[6] Hollingshead, "Class Differences in Family Stability," Annals of the American Academy of Political Science, November 1950, p. 45.
[7] Hearing, p. 36.
[8] Hearing, p. 35.

reminded of a statement of a witness at a hearing of one of our subcommittees:[9]

> Two centuries ago in England there was a tax on windows. Do we count it a revenue loss that we do not now tax the entrance of sunlight into people's homes?

Finding No. 2

At present, Federal income tax statutes discriminate against taxpayers who contribute to the support of needy elderly relatives, and, in effect, punish and discourage such contributions. These statutes reward taxpayers who refuse to contribute to the support of needy elderly relatives and who force them to seek public assistance and assistance from private charities.[10]

Example: Taxpayer A is a 40-year-old widow with one 15-year-old child and a mother and father, both of whom are over 65. Taxpayer A had $6,000 of earnings for 1965, from which she contributed $200 a month (total for year, $2,400) to the support of her parents. The only other income of her parents during the year was a small pension received by her father, the total of which for the year was $700.

In computing her Federal income tax for 1965, she qualified for three personal exemptions: one for herself, one for her child, and one for her mother. She could not claim a personal exemption for her father since he had over $600 of income.

The facts in the case of taxpayer B were identical in every respect to those of taxpayer A, except that taxpayer B made no contributions to the support of her parents, preferring to spend the money on herself and to force her parents to seek public assistance or assistance from private charities. She, therefore, qualified for two exemptions: one for herself and one for her child.

Comparison of taxpayers A and B [1]

	A	B
Income from earnings	$6,000	$6,000
Amount of earnings available for spending on taxpayer and child	$3,600	$6,000
Number of exemptions	3	2
Standard deduction	$600	$600
Federal income tax for 1965, assuming that neither itemized deductions	$588	$700
Percentage of income available for spending on taxpayer and child which was required for paying Federal income taxes	16½	11⅔

[1] The facts in this example are similar in many respects to those in the case of the Florida teacher of retarded children, whose letter appears on pp. 33-35 of the transcript of our hearing, and to those in an example in the testimony of Ernest Giddings, legislative representative of the American Association of Retired Persons and National Retired Teachers Association, hearing, p. 27.

Finding No. 3

At present, Federal income tax statutes discriminate against families having members over 65 whose family incomes are derived from earnings of family members who are under 65.[11]

[9] Dr. Roger F. Murray, professor of banking and finance at Columbia University, p. 44, hearings entitled "Extending Private Pension Coverage," Subcommittee on Employment and Retirement Incomes, Senate Special Committee on Aging, 89th Cong., 1st sess., Mar. 4, 1965.

[10] The discrimination illustrated in this finding would be eliminated by implementation of our recommendations Nos. 1 and 2 on p. 17.

[11] The discrimination illustrated in this finding would be eliminated by implementation of our recommendation No. 2 on p. 17.

Example: Family A is composed of a father and mother, both of whom are 65, a widowed daughter age 40, and a granddaughter age 15. The father and mother had no income during 1965. The family's income was derived exclusively from the earnings of the daughter, which amounted to $6,000 during 1965. In computing her Federal income tax, she is entitled to four exemptions: one for herself, one for her daughter, and one each for her mother and father.

The facts in the case of family B are identical, except that the family's income during 1965 was derived exclusively from earnings of the grandfather. In computing his Federal income tax, he is entitled to six exemptions: two for himself, two for his wife, one for his daughter, and one for his granddaughter. His minimum standard deduction is $800.

Comparison of families A and B

	A	B
Family income	$6,000	$6,000
Exemptions	4	6
Standard deduction	$600	$800
Federal income tax for 1965, assuming that neither itemized deductions	$480	$236
Percentage of family income needed to pay Federal income taxes	8	4

This example illustrates that the double exemption for taxpayers 65 and over is of absolutely no benefit to those who are dependent upon others, many of which elderly individuals are the poorest of the elderly poor.

FINDING NO. 4

At present, Federal income tax statutes discriminate against taxpayers who pay the medical expenses of their needy elderly relatives but who are prevented by technicalities from deducting such expenditures.[12]

Example: Taxpayer A[13] is a 40-year-old widow with one 15-year-old child and a mother and father, both of whom are over age 65. Taxpayer A had $6,000 of earnings during 1965, from which she contributed $1,000 during the year for the support of each of her parents (total, $2,000). All of this amount was in the form of payment of medical expenses of her parents.

Her parents spent $1,100 each from their own resources during the year. Therefore her contributions did not amount to more than half the support of either parent during the year, and she was thereby prevented from claiming them as exemptions on her return or deducting medical expenses paid in their behalf.

Taxpayer A's parents could not deduct these medical expenses, since they had not paid them. Therefore, the medical deduction was completely lost to the family.

Taxpayer B is a 40-year-old widow with one 15-year-old child, whose parents are wealthy. Consequently, she did not make any contribution to her parents during the year from her $6,000 annual income.

[12] The discrimination illustrated in this finding would be eliminated by implementation of our Recommendation No. 3 on p. 18.

[13] This example is based largely upon an example in Mr. Giddings' testimony on p. 28 of the transcript of our hearing.

Comparison of taxpayers A and B

	A	B
Income from earnings	$6,000	$6,000
Amount of earnings available for spending on taxpayer and child	$4,000	$6,000
Exemptions	2	2
Standard deduction	$600	$600
Federal income tax for 1965, assuming that neither itemized deductions	$700	$700
Percentage of income available for spending upon taxpayer and child which was required for paying Federal income taxes	17½	11.6

Finding No. 5

At present, Federal income tax statutes discriminate against taxpayers who contribute to dependent older relatives whose income is derived from rents, farming, businesses, and other sources which entail expenses to produce or collect income.

Such a taxpayer is precluded from claiming an exemption for his older relative if the latter's *gross income* exceeds $600 for the year, even though his *adjusted gross income* is less than $600.

Example: Taxpayer A's [14] mother during 1965 received $1,000 in rents, but was forced to expend $600 during the year in upkeep, maintenance, and other deductible expenses of the rental property, leaving her an adjusted gross income for the year of $400. Since her *gross income* was over $600 for the year, taxpayer could not take an exemption for his support of her, even though he contributed over half of her support during the year.

On the other hand, taxpayer B's mother received $400 in interest during 1965, and taxpayer B contributed more than one-half of her support. He can claim an exemption for her, since her *gross income* did not exceed $600 for the year.

In addition, this discrimination operates against taxpayers who contribute to older relatives compared with those who contribute to the support of children under 19 or students. The Code permits the latter to claim exemptions for such younger dependents regardless of their gross incomes, if other tests of dependency are met.

As a further extension of the example given above, assume that taxpayer C's 18-year-old son during 1965 operated a small, part-time business from which he received $1,000 of gross income during 1965, with $300 of business expenses, leaving him adjusted gross income of $700. Taxpayer C could claim him as an exemption, even though both his gross income and his adjusted gross income are over $600 for the year, if all other dependency requirements were met.

Finding No. 6

A few limited tax benefits are presently available to taxpayers who contribute to the support of needy older relatives.

These tax benefits are discussed below under the headings: (1) Exemption for Dependents; (2) Multiple Support Agreements; (3) Head of Household; (4) Medical Deductions; (5) Care of Disabled Dependents; and (6) Trust Income.

[14] This example is based upon the letter from Louis F. Provine, Birmingham, Ala., reproduced on p. 49 of our hearing transcript.

EXEMPTION FOR DEPENDENTS [15]

A taxpayer who contributes to the support of an older relative is entitled to one additional exemption ($600) on his individual income tax return if the following requirements are met:

(*a*) The gross income of the older relative for the taxable year in question was less than $600;

(*b*) The older person is sufficiently closely related to the taxpayer as to fall within the definition in subsection (a) of Internal Revenue Code section 152, or is a member of the taxpayer's household within the meaning of that subsection.

(*c*) Over half of the support of the older person during the taxable year was received from the taxpayer; and

(*d*) The older person did not file a joint return with his or her spouse for the taxable year.

MULTIPLE SUPPORT AGREEMENTS

Before 1954, many situations developed in which no one taxpayer contributed over half the support of an older relative or other dependent, but two or more taxpayers jointly contributed over half his support. The result, without the present multiple support agreement provision, was that no taxpayer could claim such individual as a dependent, even though he was, in fact, the dependent of two or more taxpayers. Recognizing the inequity of completely denying a dependent's exemption in a case of this type, Congress as part of the Internal Revenue Code of 1954, included the present multiple support agreement provision. Under it, a taxpayer who contributed over 10 percent of the dependent's support was given a dependent's exemption for him if:

(*a*) No one person contributed over half the support; and

(*b*) Over half of such support was received from persons each of whom, but for the fact that he did not contribute over half of such support, would have been entitled to claim the individual as a dependent for that year; and

(*c*) Each such person who contributed 10 percent of the individual's support filed a written declaration that he will not claim such individual as a dependent for that year.

This provision makes it possible for the children or other relatives of a needy older person to cooperate in supporting him or her, and if their combined contributions amount to over half his or her support, to arrange among themselves as to which of them is to claim the older relative as a dependent during the year in question.

HEAD OF HOUSEHOLD

The Revenue Act of 1948 enacted the so-called split-income provision. This, in effect, taxes the combined income of a husband and wife who file a joint return as if it were equally divided between them, thus enabling them to be taxed in a lower tax bracket than if the total income of husband and wife were considered as one income or if the income of the spouse with the larger income were taxed as a unit, without "splitting." Later, it appeared to Congress that some

[15] Our findings Nos. 2 and 3 and our recommendations Nos. 1 and 2 relate to exemptions.

single taxpayers who supported dependents should be treated more favorably than single taxpayers who were not the "heads of households," and the "head of household" provision was enacted. Mr. Brannon, the Treasury Department witness at our hearing, described it as giving "about half the benefits of full income splitting allowed to a married couple." [16]

To qualify for favorable tax treatment as a "head of household," the taxpayer must:

(*a*) Be single or otherwise ineligible for "income splitting";

(*b*) Be able to claim the older relative as a dependent; and

(*c*) Furnish over half of the cost of maintaining as the taxpayer's home a household which during the entire year, except for temporary absences, was occupied by the older relative as the principal place of abode and as a member of the taxpayer's household. (Except that if the older relative is the taxpayer's mother or father, the home maintained by the taxpayer for one or both of them need not be the taxpayer's own residence.)

MEDICAL DEDUCTIONS [17]

If a taxpayer elects to itemize deductions, he can deduct (subject to certain limitations) the amounts paid for medical and dental expenses of a person who meets the following two requirements for being claimed as a dependent by the taxpayer:

(*a*) Is sufficiently closely related to the taxpayer to fall within the definition in code section 152(a), or is a member of the taxpayer's household within the meaning of that subsection; and

(*b*) Received over half his support for the year from the taxpayer.

The other two requirements for being claimed as a dependent by the taxpayer need not be met:

(*a*) Had a gross income of less than $600 for the year; and

(*b*) Did not file a joint return with his or her spouse for the taxable year.

Thus, if a taxpayer is sufficiently closely related to an older person and contributed over half his support for the year, he would be able to deduct medical expenses of such person paid by the taxpayer, even if such person had $600 or more of gross income for the year and filed a joint return with his or her spouse. However, under these circumstances, the taxpayer would not be able to claim the older person as his dependent, because of failure to meet two of the four requirements.

For the calendar year 1966, the taxpayer may deduct all the medical and dental expenses of a parent who is 65 or over, without excluding 3 percent of the taxpayer's adjusted gross income. Similarly, the taxpayer may deduct all amounts paid by him for medicines and drugs for his parents who are 65 or over, without excluding 1 percent of his adjusted gross income.

In enacting the Social Security Amendments of 1965 (Public Law 89–97), a different rule was provided for taxable years beginning after December 31, 1966. For those taxable years, section 106 of that act limits the deduction for medical and dental expenses of a parent

[16] Hearings, p. 6.
[17] Our finding No. 4 and our recommendation No. 3 relate to medical deductions.

who is 65 or over to that portion which, when added to the taxpayer's other deductible medical expenses, exceeds 3 percent of the taxpayer's adjusted gross income, and limits the deduction for the aged parent's medicines and drugs to the portion which, when added to the taxpayer's other deductible drugs and medicines, exceeds 1 percent of the taxpayer's adjusted gross income.

That section introduced for the first time in the Internal Revenue Code a special provision relating to deductibility of amounts paid for medical insurance for the taxpayer and his dependents.

Heretofore premiums for medical insurance have been deductible, but only on the same basis as other medical expenses. Under the special provision, the taxpayer may deduct, without regard to the 3-percent limitation, one-half of his premiums for medical insurance for himself, his spouse, and his dependents, up to a maximum of $150. The other half of his premiums and the amounts over the $150 maximum can be deducted along with other medical expenses, subject to the 3-percent limitation.

Under this provision, the taxpayer can pay the $3 per month required for supplementary medical insurance for an older relative under part B, and deduct half the $36 annual charge as a medical expense without regard to the 3-percent limitation. Likewise, his payment of premiums on commercial health insurance will carry the same privilege.

This committee is particularly interested in deductibility or nondeductibility of charges of homes for the aged borne by taxpayers in behalf of their older relatives. Commissioner Sheldon S. Cohen of the Internal Revenue Service has advised [18] us as follows concerning the present state of the law in this regard:

> The extent to which expenses for care in an institution other than a hospital shall constitute medical care is primarily a question of fact which depends upon the condition of the individual and the nature of the services he receives (rather than the nature of the institution).
>
> Questions of fact are determined by the district directors of internal revenue upon the merits of each case. However, the regulations (at sec. 1.213-1(e)(1)(v)(a)-(b)) provide the following guidelines for these determinations: Where an individual is in an institution because his condition is such that the availability of medical care in such institution is a principal reason for his presence there, and meals and lodging are furnished as a necessary incident to such care, the entire cost of medical care and meals and lodging at the institution, which are furnished while the individual requires continual medical care, shall constitute an expense for medical care. For example, medical care includes the entire cost of institutional care for a person who is mentally ill and unsafe when left alone. Where an individual is in an institution, and his condition is such that the availability of medical care in such institution is not a principal reason for his presence there, only that part of the cost of care in the institution as is attributable to medical care shall be considered as a cost of medical care; meals and lodging at the insti-

[18] Hearing, p. 47.

tution in such a case are not considered a cost of medical care for purposes of this section. For example, an individual is in a home for the aged for personal or family considerations and not because he requires medical or nursing attention. In such case, medical care consists only of that part of the cost for care in the home which is attributable to medical care or nursing attention furnished to him; his meals and lodging at the home are not considered a cost of medical care.

CARE OF DISABLED DEPENDENTS [19]

Internal Revenue Code section 214 now provides a deduction for expenses borne by certain taxpayers for the care of a dependent or dependents who meet certain requirements. The deduction is only available to the following types of taxpayers:

(*a*) Women;

(*b*) Widowers, including men who are divorced, and who have not remarried; and

(*c*) Husbands whose wives are incapacitated or institutionalized.

The older relative for whom the expense of care was incurred must:

(*a*) Be physically or mentally incapable of caring for himself;

(*b*) Meet all tests for being claimed as the taxpayer's dependent except the requirement that the individual not have filed a joint return with his or her spouse. Thus, the three requirements for dependency which must be met are that the individual have less than $600 gross income, that he be closely related to the taxpayer or be a member of his household; and that the taxpayer contributed more than half of his support.

It is also required that the care for which payment was made by the taxpayer be for the purpose of enabling the taxpayer to be gainfully employed or actively to seek gainful employment.

The deduction for a taxable year is limited to $600 for one dependent or $900 for two or more dependents. Furthermore, if the taxpayer claiming this deduction is married, he or she is required, with a minor exception, to file a joint return with his or her spouse, and the deduction will be reduced by the amount by which the combined incomes of the husband and wife for the year exceeds $6,000.

TRUST INCOME [20]

At all times since the Federal income tax was first enacted, the owner of income-producing property has been able to make its income taxable to another, rather than to himself, by unconditionally transferring the property to the other individual. However, from the beginning, complex questions have arisen as to the taxpayer in whose gross income the income from an asset or investment is includible, where the original owner has placed it in trust for the benefit of another while retaining for himself certain beneficial interests, powers, and reversionary interests.

It was decided early in the history of the Federal income tax that where a settlor of a trust retained the right to revoke the trust, the income therefrom was includible in his own gross income, rather than

[19] Our recommendation No. 5 relates to this deduction.
[20] Our recommendations 6 and 7 relate to trust income.

in that of the beneficiary, even if the settlor did not exercise that right and the income, in fact, actually went to the beneficiary. (*Corliss* v. *Bowers*, 281 U.S. 376 (1930); *Burnet* v. *Wells*, 289 U.S. 670 (1933); 106 A.L.R. 800–801).

Thereafter, settlors attempted to avoid taxability on trust income by refraining from reserving a right to revoke, but instead, retaining a "sprinkle power", a power to determine which of two or more possible income beneficiaries should actually receive the income. It was decided that the retention of such a power was sufficient to cause the trust income to be includible in the settler's gross income, even though the trust income, under the terms of the trust instrument, could not possibly come to the settlor. (*Brown* v. *Commissioner*, 131 F. 2d 640 (1942); cert. den., 318 U.S. 767 (1943).

Finally, it was held in *Helvering* v. *Clifford*, 309 U.S. 331, (1940), that where a trust settlor provides that the property in trust is to return to his ownership after a specified period of time, the income from the trust during the interim must be included in his gross income, even though there is no way under the terms of the trust instrument whereby the trust property or income could come to the settlor until the expiration of the time specified.

In enacting the Internal Revenue Code of 1954, Congress established a new policy with reference to Clifford-type trusts by enacting sections 671 through 678. These sections enable the trust settlor to make the trust income taxable to its recipient, not to himself, by specifying that the trust property will revert to him at the expiration of 10 or more years from the date when he transferred the property in trust or upon the death of the income beneficiary, whichever should first occur. However, it was provided in section 677 (b) that any of the income of the trust which is paid to an individual whom the settlor is legally obligated to support must be included in the settlor's gross income.

To summarize the present effect of Federal income tax laws on taxability of trust income paid to an older relative:

(1) With the exception outlined in (3) below and certain other minor exceptions, the settlor is not taxable on trust income if he has no power to revoke the trust, no "sprinkle" power, and has retained no reverter of the trust property under which it will revert to him earlier than 10 years after the transfer in trust or before the death of the income beneficiary, whichever should first occur.

(2) If he retains any of those powers or reverters, the income is includible in his own gross income, whether or not he exercises such powers.

(3) The income from the trust is includible in the settlor's gross income, even though he does not retain any of the powers or reverters described in (1) above, if the income is actually paid to an older relative whom the settlor has a legal obligation to support.

III. RECOMMENDATIONS

Recommendation No. 1

The Committee recommends that the income test for claiming relatives over 65 as dependents be increased from $600 to $1,200.

If this recommendation were enacted the comparison between taxpayers A and B in finding No. 2 would be changed as follows:

Comparison of taxpayers A and B

	A	B
Income from earnings	$6,000	$6,000
Amount of earnings available for spending on taxpayer and child	$3,600	$6,000
Exemptions	[1] 4	2
Standard deduction	$600	$600
Federal income tax for 1965, assuming that neither itemized deductions	$480	$700
Percentage of income available for spending on taxpayer and child which was required for paying Federal income taxes	13⅓	11⅔

[1] One each for taxpayer's father, taxpayer's mother, taxpayer, and taxpayer's child.

The Treasury Department estimates[1] that implementation of this recommendation would entail a revenue loss of $50 million per annum if the income test relates to gross income, as at present, and that it would result in a revenue loss of $55 million if, pursuant to our recommendation 4, the $1,200 income test were made to relate to adjusted gross income.

We consider this recommendation comparatively restrained. Under present law, there is no limit upon the amount of income which can be received by a dependent under 19 or one who is a student. We would interpose no objection to an identical rule with respect to older relatives. However, we shall be satisfied if the income test for a dependent over 65 is merely raised from $600 to $1,200, especially if accompanied by implementation of our reccmmendation 4, relating the test to adjusted gross income.

Recommendation No. 2

The committee recommends that taxpayers who have dependents over 65 be given two personal exemptions for each such dependent, instead of one exemption, as at present.

If this recommendation were enacted without enactment of our recommendation No. 1, the comparison between taxpayers A and B in finding No. 2 would be changed as follows:

[1] This estimate and all other Treasury Department estimates in this report were given the committee in a letter from Hon. Stanley S. Surrey, Assistant Secretary of the Treasury, which was reproduced on p. 30 of the record of our hearing.

Comparison of taxpayers A and B

	A	B
Income from earnings	$6,000	$6,000
Amount of earnings available for spending on taxpayer and child	$3,600	$6,000
Exemptions	[1] 4	2
Standard deduction	$600	$600
Federal income tax for 1965, assuming that neither itemized deductions	$480	$700
Percentage of income available for spending on taxpayer and child which was required for paying Federal income taxes	13⅓	11⅔

[1] 2 for taxpayer's mother, 1 for taxpayer, 1 for her child.

If both recommendation No. 1 and recommendation No. 2 were enacted, the comparison would be as follows:

Comparison of taxpayers A and B

	A	B
Income from earnings	$6,000	$6,000
Amount of earnings available for spending on taxpayer and child	$3,600	$6,000
Exemptions	[1] 6	2
Standard deduction	$800	$600
Federal income tax for 1965, assuming that neither itemized deductions	$236	$700
Percentage of income available for spending on taxpayer and child which was required for paying Federal income taxes	6	11⅔

[1] 2 each for taxpayer's mother and father, and 1 each for taxpayer and her child.

While the percentage of taxpayer A's income available for spending on herself and her child which would be required for paying Federal income taxes would be lower than that for taxpayer B, her income available for spending on herself and her child would be so much lower than that of taxpayer B that the financial sacrifice required of taxpayer A would be at least as great as that required of taxpayer B.

If this recommendation were enacted, the figures for family A in finding No. 3 would be identical to those for family B.

The Treasury Department estimates[2] that implementing this recommendation would entail a revenue loss of $400 million per annum.

Recommendation No. 3

The committee recommends that the Internal Revenue Code be amended to permit deduction by a taxpayer of his payments for medical expenses of a relative over 60 who had less than $1,200 of gross income during the taxable year, even if the taxpayer did not contribute more than one-half of the support of the older relative during the year.

If this recommendation were enacted, the comparison between taxpayers A and B in finding No. 4 would be changed as follows:

[2] Hearing, p. 30.

Comparison of taxpayers A and B

	A	B
Income from earnings	$6,000	$6,000
Amount of earnings available for spending on taxpayer and child	$4,000	$6,000
Exemptions	2	2
Standard deduction	0	$600
Medical deduction	$2,000	0
Federal income tax for 1965, assuming that taxpayer A had no "other deductions" besides medical expenses of her parents and that taxpayer B did not itemize deductions	$444	$700
Percentage of income available for spending on taxpayer and child which was required for paying Federal income taxes	11.1	11.6

The committee believes implementation of this recommendation would be a valuable supplement to Medicare in financing medical care for the elderly. Unlike Medicare, it would provide assistance to the age group between 60 and 65. It could assist with the financing of expenses not covered by Medicare, such as drugs and ordinary dental expenses. It would help to finance the deductibles and to finance costs beyond the limits of Medicare. In addition, it would help to finance long term care for the elderly, for which Medicare provides no assistance unless the patient is ill enough to enter a hospital for 3 days.

The Treasury Department estimates [3] that there would be a revenue loss of $15 million per annum if this recommendation were implemented.

Recommendation No. 4

The committee recommends that the Internal Revenue Code be amended to relate the income test for claiming exemptions for dependents over 65 to adjusted gross income, rather than to gross income, as at present.

As shown in our finding No. 5,[4] there is presently a discrimination against taxpayers whose dependent older relatives receive incomes from sources which entail outlays. There is no substantial difference between receipt of adjusted gross income from such sources and its receipt from sources, such as interest, dividends, and wages, which do not entail such outlays. The important consideration, in either event, is how much income is available to the dependent for spending on his own needs, that is, adjusted gross income. This is a much more accurate indication than gross income of his dependency upon a taxpayer, and is the measure which should be used. Its use would eliminate the present discrimination between taxpayers whose older relatives receive income from such sources as rents, farming, and business and those whose older relatives receive income from such sources as interest, dividends, and earnings.

The Treasury Department estimates [5] that implementing this recommendation will result in a revenue loss of $5 million per annum if our recommendation 1 is also implemented, such that a taxpayer could claim as a dependent a relative over 65 whose adjusted gross income does not exceed $1,200 for the taxable year.

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[3] Hearing, p. 30.
[4] See p. 11.
[5] Hearing, p. 30.

RECOMMENDATION NO. 5

The committee recommends that Internal Revenue Code section 214 be simplified to make any taxpayer eligible for the deduction for care of a disabled dependent over 60 and that another amendment be enacted increasing from $6,000 to $7,000 the joint income allowed a taxpayer and spouse before reduction of the deduction where the dependent is over 60.

Code section 214 could be of much greater assistance than at present to taxpayers who assist with the expenses of caring for an elderly incapacitated relative. With steadily rising longevity, there is a progressive increase in the number of older Americans for whom the best course of action is to enter a long-term care institution. This means that more and more younger taxpayers will feel compelled by kinship ties and their consciences to contribute to the care of elderly relatives in such institutions. The care given some of these seniors will be sufficiently medical in character to qualify these contributions for deduction as medical expenses. Many more will not, leaving the only possibility for deductibility the possibility that such contributions can qualify as expenses for care of a disabled dependent.

A major difficulty with this section as it now reads is that it capriciously and arbitrarily excludes some taxpayers from its benefits. For example, taxpayers who are unmarried women can take the deduction, but those who are unmarried men cannot. Likewise, a single man who has never married cannot take it, but a single man who was previously married but who lost his wife through death or divorce can.

Another difficulty which has stringently limited the usefulness of this provision is the requirement that the taxpayer claiming the deduction, if married, file a joint return with his or her spouse, and that the deduction be reduced by the amount their joint income exceeds $6,000 for the year. The committee feels that there should now be a moderate increase in this income limit to, perhaps, $7,000, at least where the dependent is over 60.

The committee feels that if these two improvements are enacted, the many other complexities and limitations in this section are adequate protection against abuse of this deduction. The following requirements would still stand:

(*a*) That the care for which payment was made by the taxpayer be for the purpose of enabling the taxpayer to be gainfully employed or actively to seek gainful employment;

(*b*) That the individual for whom care was provided meet three of the four requirements for being claimed as the taxpayer's dependent;

(*c*) That the dependent be physically or mentally incapable of caring for himself;

(*d*) That the deduction be limited to $600 for one dependent or $900 for two or more;

(*e*) That if the taxpayer is married, he file a joint return with his or her spouse, and the amount of the deduction be reduced by the amount that their combined incomes exceeds $7,000.

The Treasury Department estimates[5] that making single men eligible for this deduction would entail a revenue loss of $3 million per annum. Apparently, the Treasury Department found it dif-

[5] Hearings, p. 31.

ficult to make any estimate of the possible revenue loss resulting from making married men whose wives are not incapacitated eligible. It estimates [6] that the revenue loss resulting from increasing from $6,000 to $7,000 the joint income allowed a taxpayer and spouse before reduction of the deduction for care of a disabled dependent over 60 would be $2 million per annum. However, this estimate does not relate to married men whose wives are not incapacitated, who would be made eligible for the deduction if our recommendation were implemented.

Recommendation No. 6

The committee recommends that Congress enact legislation authorizing a special issue of Federal savings bonds which could be purchased with a stipulation that the interest thereon be paid periodically to an individual age 60 or over, with the privilege reserved to the purchaser of the bond to cash it at any time and recover his investment, and that the Internal Revenue Code be amended to require that the interest be included in the gross income of the recipient, instead of in that of the purchaser of the bond.

The committee believes that the availability for purchase of such a bond with includibility of its interest in the gross income of the recipient rather than in that of the purchaser would encourage many younger or more affluent taxpayers to take this means of contributing to the support of elderly family members. The advantage of such an investment to the investor would be that it would transfer taxability of the income from him to his needy relative, without requiring him to relinquish control over his investment. Presumably affluent younger family members would be more willing to purchase such a bond than they would be to establish a short-term (Clifford) trust, inasmuch as the grantor could recoup his investment at any time, to meet unforeseen emergencies and contingencies. Another advantage over establishing a short-term trust would be the simplicity and inexpensiveness of purchasing the special Federal bond, as compared with establishing a Clifford trust.

Perhaps the principal advantage of the special bond issue to the Federal Government would be its beneficial effect upon the income of the elderly. However, there would be another advantage in that it would promote the sale of Government bonds, which would help finance the national debt.

Depending upon the experience with these bonds, Congress might later provide additional tax inducements for their purchase, such as giving a limited deduction on Federal estate tax returns for bequests to purchase them.

Implementing this recommendation would be of much more assistance to taxpayers in moderate circumstances than to wealthy taxpayers. The latter can afford to make absolute gifts to older relatives or to establish trusts with no powers and reverters. However, a taxpayer in more modest circumstances who has managed to accumulate a "rainy day fund" cannot surrender control over it sufficient under present law to cause its income to be taxed to another person who may actually receive it. Otherwise, he risks making it unavailable to assist in financial emergencies or to assist in educating a son

[6] Hearing, p. 31.

or daughter. Implementing this recommendation would enable such a taxpayer to give the income from such a fund to a needy older relative, to make it taxable to the recipient rather than to himself, and yet to be able to reclaim the principal sum as needed for family emergencies. Providing this convenient mechanism for supplementing the income of an older relative would encourage many taxpayers to do so who otherwise would never progress beyond the point of wishing they could be more helpful to their needy elders.

The Treasury Department was unable to estimate the revenue loss which would result from implementation of this recommendation.[6]

Recommendation No. 7

The committee recommends that a proviso be added to Internal Revenue Code section 677(b) to the effect that trust income paid to an individual over 60 cannot be included in the gross income of the settlor of the trust solely because he has a legal obligation to support the recipient of the income.

As pointed out in our finding No. 6, one of the limited tax benefits presently available to taxpayers who contribute to the support of needy older relatives is the privilege of establishing a short-term (Clifford) trust and making the older relative the income beneficiary.[7] A taxpayer who does so and complies with all the technical requirements of Code sections 671 through 678 can make the income from the trust property taxable to the older relative who receives it instead of to himself, unless he has a legal obligation to support the older relative. If he does have such a legal obligation, section 677(b) requires that all the trust income which is paid to the older relative be included in the taxpayer's gross income, not in the older relative's, even though the latter received it and there is no way whereby the settlor can obtain it.

This result is undesirable from at least three standpoints:

(*a*) It introduces an unnecessary complication, at war with the constant effort of Congress and the Treasury Department to make the Federal income tax as simple as possible;

(*b*) It discourages and impedes the establishment of trusts to provide income for needy older relatives, at war with the national commitment to combat poverty and to provide adequate incomes during old age; and

(*c*) It casts upon the individual having the support obligation the burden of paying Federal income taxes on such trust income without being able to utilize any of such income to assist him in discharging his tax liability. He must bear that burden completely from his other income. This can severely penalize the taxpayer who establishes a trust to provide income for a needy older relative.

Perhaps the argument might be advanced that the lawyers of the taxpayer who establishes such a trust should determine whether local law casts upon him this obligation, and advise him accordingly. However, laws relating to the obligation to support an older relative are extremely complex, as shown by the memorandum prepared for the committee by the American Law Division of the Legislative

[6] Hearing, p. 31.
[7] See p. 16.

Reference Service of the Library of Congress, which was reproduced in the appendix of our hearing.[8] A reading of that memorandum indicates that many of these provisions are vague, many of them only obligate the younger relative to contribute to the older relative if the latter is in need, and others depend upon contingencies which cannot be predicted or determined in advance for the duration of the trust. The entire subject is fraught with complexities which can easily be avoided by implementing this recommendation.

Enacting our recommendation would eliminate a discrimination against taxpayers residing in States which cast upon them the obligation to support needy older relatives. According to the memorandum prepared for us by the Library of Congress,[8] jurisdictions which seem to have such a requirement are Alabama, Alaska, California, Connecticut, Delaware, the District of Columbia, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Rhode Island, South Dakota, Vermont, Virginia, West Virginia, and Wisconsin. On the basis of the information in that memorandum, it seems that there is no way whereby a younger taxpayer in those States can establish a short-term trust to provide income for a needy older relative without paying Federal income taxes on such income.

The committee is not certain of the wisdom of *compelling* younger relatives to contribute to the support of their elders, as contrasted with *encouraging* them to do so, as would be the effect of implementing our recommendations herein. However, the committee is convinced that it is inequitable that younger relatives in those States must suffer the consequences of this code provision, while those in other States do not. The discrimination is not only one against the younger taxpayer who wants to establish a short-term trust to provide income to a needy older relative. It is also a discrimination against the elderly in those States, who would otherwise be more likely to receive supplementary income in this way.

The Treasury Department was unable to estimate the revenue loss which would result from implementation of this recommendation.[9]

[8] Hearing, p. 66.
[9] Hearing, p. 31.

IV. SIMPLICITY AND WORKABILITY OF RECOMMENDATIONS

In making our recommendations, we have been careful to avoid making Federal income tax laws any more complicated than they are at present. Some of the changes we recommend would actually make them simpler. This would be the effect of the following aspects of the following recommendations:

Recommendation No. 5.[1] Eliminating the present complex distinction between taxpayers who can and those who cannot take deductions for care of disabled dependents who are over 60, and making all taxpayers eligible for this deduction.

Recommendation No. 7.[2] Making income from short-term trusts which meet the requirements of the code taxable to the older recipient rather than to the settlor of the trust, regardless of complex local laws on obligations to contribute to the support of older relatives.

Other recommended changes merely substitute one figure for another, without making other changes:

Recommendation No. 1.[3] Increasing from $600 to $1,200 the amount of income an older relative can have without disqualifying himself as the taxpayer's dependent.

Recommendation No. 2.[4] Giving two exemptions (total $1,200) for a dependent over 65 rather than one ($600).

Recommendation No. 5.[5] Increasing from $6,000 to $7,000 the amount of adjusted gross income a husband and wife can have before there will be a reduction in deduction for care of a disabled dependent over 60.

Our other recommendations propose changes which would be simple and easy to administer:

Recommendation No. 3.[6] Permitting a taxpayer to deduct medical expenses of an older relative who had less than $1,200 of gross income, even if the taxpayer did not contribute more than half the older relative's support. A determination must already be made as to whether an individual age 65 or over had gross income of $1,200 during the year, for purposes of determining whether he is required to file a return. If this recommendation were implemented, that determination could also serve to determine whether a taxpayer who failed to contribute over half his support can deduct amounts paid by the taxpayer for his medical expenses.

Recommendation No. 4.[7] If the gross income of a person over 65 is less than $1,200 for the year in question, he is not required to file a

[1] See p. 20.
[2] See p. 22.
[3] See p. 17.
[4] See p. 17.
[5] See p. 20.
[6] See p. 18.
[7] See p. 19.

return. In this case, his adjusted gross income would certainly be under that amount, meeting the income test under our recommendations for a younger taxpayer to claim him as a dependent. If his gross income is over $1,200, he would be required to file a return, in which case it would be relatively simple to determine whether his adjusted gross income were under $1,200.

Recommendation No. 6.[8] It would be administratively simple at the time when the taxpayer purchased the special bond to determine from social security records or otherwise whether the older relative were, as claimed by the purchaser, over the age of 60. If so, the Treasury Department itself would have a record of the amount of the bond's interest paid the older relative, and could make certain that this interest would be included in the older relative's gross income. The purchaser of the bond could ignore the interest in preparing his own return.

[8] See p. 21.

V. PRIORITIES OF RECOMMENDATIONS

Some of our recommendations are more urgently needed than others. The committee has established the following priorities among its recommendations:

A. Changes most urgently needed:

Recommendation No. 1. Increasing from $600 to $1,200 the income test for claiming relatives over 65 as dependents;

Recommendation No. 3. Permitting deduction by a taxpayer of his payments for medical expenses of a relative over 60 who had less than $1,200 of gross income, even if the taxpayer did not contribute more than one-half of the support of the older relative during the year;

Recommendation No. 4. Relating the income test for claiming relatives over 65 as dependents to adjusted gross income rather than to gross income.

As shown above, on pp. 17 and 19, the Treasury Department estimates the revenue loss resulting from these recommendations as $50 million; $15 million; and $5 million respectively, or a total of $70 million.

B. Changes urgently needed, but less urgently than those above:

Recommendation No. 2. Giving taxpayers two exemptions, rather than one, for each dependent over 65;

Recommendation No. 5. Making all taxpayers eligible for the deduction for the care of a disabled dependent over 60, and increasing from $6,000 to $7,000 the joint income allowed a taxpayer and spouse before reduction of the deduction for care of a disabled dependent over 60.

C. Changes which should eventually be made—the sooner the better:

Recommendation No. 6. Providing a special issue of Federal savings bonds with special tax privileges;

Recommendation No. 7. Including income from a short-term trust paid to individual over 60 in his gross income, rather than in the gross income of the settlor, regardless of local law on obligation to support.

VI. CONCLUSION

Federal income tax laws at present impede efforts toward our National goal of adequate incomes for the elderly, and penalize taxpayers who cooperate in the achievement of this objective. Implementation of our recommendations will encourage and facilitate efforts by younger taxpayers to supplement inadequate incomes of their older loved ones, and will make Federal income tax laws more equitable. This can be done with only nominal "revenue losses" and with little, if any, net increase in complexity of Federal income tax laws.

MINORITY VIEWS OF MESSRS. DIRKSEN, CARLSON, PROUTY, FONG, ALLOTT, MILLER, AND PEARSON

The present administration, as indicated by Treasury Department testimony before the Committee on Aging, opposes new income tax concessions for families supporting older relatives.

Despite this administration antagonism, we believe the committee, through its recent hearings on tax relief for families with aged dependents, has made a good beginning in a field of inquiry which has revealed some tax inequities.

We believe our national policy in this field should recognize that—

1. The family is the keystone of American society;
2. Tax provisions which help the family meet its responsibilities to its dependent or partially dependent older members are an effective and proper method of strengthening the family;
3. Inequities exist in the tax law which tend to weaken the ability of some families to meet their responsibilities to dependent older members; and
4. Worsening inflation and high interest rates under this administration have cut the value of pensions, savings, and insurance of older Americans and reduced the real incomes of many families, thus aggravating these inequities.

The first two-thirds of the 20th century brought many changes to American society. Among these were alterations in family living patterns, some of which have special significance for older people and their relationships to their children, and other relatives.

This period in history has seen developments of specialization in labor, mechanization of industry and agriculture, widespread instant communication facilities, and rapid transportation throughout the Nation.

America has changed from an essentially rural, agriculture-based society to an increasingly urban one.

Coincidentally, its population has become highly mobile. During the last century, most people remained in one community throughout their adult life, often in the one where they were born. Today, movement of individuals and families across the continent, or beyond, is commonplace.

Marked changes in family relationships both within the family and to the community have resulted.

Concurrently, this century has observed medical advances and higher living standards which have produced both longer life spans and increased capacity for living at all ages. This, too, has changed the character of America's families.

In 1900, the youth of 15, privileged to enjoy all of his grandparents, was indeed a rarity. Today's youth not uncommonly gets to know most of his great-grandparents. It should be noted, too, that today many so-called senior citizens have dependent parents.

The American family is no longer a 2- or 2½-generation unit; today it usually consists of 3 or 4 generations—and sometimes 5 generations.

Nor is the family, in this larger sense, a one household, or even one community, social unit. Its members may be hundreds or even thousands of miles apart.

Even where great distance does not separate its components, the multigeneration family of today normally differs sharply from the single household arrangements common in the past. Desire of older people and increased capacity for independent living have created a family pattern embracing several homes.

Some have interpreted this to mean a breakdown in family relationships.

We do not believe this is true.

We believe the American family remains strong, as it certainly should, despite or perhaps even because of the more independent living arrangements embracing its several generations.

Evidence brought to the attention of the Committee on Aging in repeated hearings and studies since its beginning shows that this Nation's families want to and do accept responsibility, both financial and personal, for their elders.

We share the belief of most Americans that this willingness to help older Americans through the family, whether found in a single household or several, is a wholesome virtue. We believe national policy, therefore, should encourage this exercise of family responsibility.

Tax policy to help the family meet the responsibility it feels for its elders has long been recognized by the Congress. It has been a counterpart to creation of special tax concessions to older Americans who require no assistance.

The latter has been manifest in a number of ways. One was extension of a double personal income tax exemption—$1,200 instead of $600—to persons past 65 by the 80th Congress. Others have included exemptions related to retirement income and recently the Dirksen-Baker proposal for exemption of capital gains on sale of homes by persons past 65.

The former have included Internal Revenue Act provisions which provide tax concessions to taxpayers with dependents over age 65.

The Committee on Aging quite properly has addressed itself to whether these tax concessions on behalf of families with dependent or partially dependent older people are fully equitable.

The committee study has given recognition also to benefits for all taxpayers which may be affected by making it easier for families to help their elders without undue penalty as an alternative to forcing older people on governmental relief.

Even more important is the socially desirable end of helping preserve the family's integrity, which adequate tax considerations may further.

Neither majority nor minority members of the Committee on Aging who endorse such a tax approach are suggesting relaxation in efforts to provide full economic independence to as many older Americans as possible.

We believe emphatically that long-range policy must be aimed at adequate incomes for the increasing number of persons past 65 through every means possible including wider use of growing private pension plans, improved old-age assistance, and a more effective social security system.

The fact remains, however, that there are millions of young and middle-aged Americans who have dependent parents, aunts, uncles, or grandparents whom they wish to help. They should be encouraged. One important way is to give them better tax concessions.

Inequities in current tax laws as they apply to elderly dependents have been disclosed at least partially by the committee inquiry. Inadequacies in current tax concessions have been more than suggested.

Under present law, for example, a single taxpayer with a dependent older person in his home receives a substantially better "income tax break" than does a family of four with an older dependent in the home.

Both majority and minority members of the committee raised questions during the hearing regarding the propriety of this discrimination. We believe this matter deserves careful consideration by appropriate legislative committees of Congress.

Other suggestions that deserve productive consideration include those which would:

1. Permit taxpayers to claim an exemption for dependent relatives over 65 with incomes in excess of $600 when providing more than half of their support.
2. Provide recognition, through tax concessions, to persons who provide necessary assistance to elderly relatives even when this is less than half the older person's total income.
3. Amend the Internal Revenue Code to base the income test for claiming deductions, credits, or exemptions on the adjusted gross income of the older person receiving support instead of his gross income. This can be of particular help to low-income older people whose income is derived from small business or farming.
4. Liberalize deductions or establish credits related to payment of medical costs on behalf of older relatives.
5. Develop ways of giving taxpayers who provide assistance to older relatives living in other households consideration comparable to that afforded when needy relatives are in the taxpayer's own home.

The precise changes in tax laws, both Federal and State, to provide maximum equity for those giving help to elderly relatives should be the result of more comprehensive study than the Committee on Aging has been able to make.

Increase of the income test for claiming older persons as dependents, for example, perhaps should be to an amount above $1,200. Conceivably it could be less. The test should be related to the economic facts of life and not a matter of guesswork.

Committee hearings also developed questions as to whether increasing deductions or exemptions is best. Another possibility, which may be of greater help to those in the middle and lower income brackets, is extension of tax credits (actual reductions in tax payable rather than reduction in tax base) to persons providing support to older relatives.

Whatever methods are used, however, we believe that equity and regard for the family as the basic American social unit demand action.

Minority members of the Committee on Aging have repeatedly pointed out the grave threat to older Americans imposed by inflation.

The continuing drive of inflation as a result of the present administration's fiscal policies warrants restatement of our view that rising living costs are the most serious problem immediately affecting almost all of the elderly.

This is appropriate to a discussion of taxes because inflation itself is nothing more or less than a tax—a hidden tax. Either way, purchasing power is taken from people. Inflation, however, hurts most those who can least afford it.

Despite efforts of the minority to fight for fiscal policies which would produce stable dollar values, we must recognize the financial toll taken by inflation during the past 5 or 6 years.

Retirees, living on fixed incomes, have been hit most heavily by this loss in real income due to inflation. This is true for those who have succeeded in achieving economic independence. It is doubly true for those whose incomes were already inadequate.

Since older Americans are least able to share in higher wages which usually but not always accompany inflation, they are confronted with this hidden tax with little or no compensating increase in ability to pay.

More and more those who had achieved economic independence find it necessary to turn to others for help.

As a matter of fairness, it would appear that adjustments are necessary. One way is through modification of other tax burdens relating to both independent and dependent older persons.

For the former, we suggest a review of the special income tax exemptions for those over 65. If the double exemption was valid when enacted by the 80th Congress in 1948, as we believe it was, it would appear that current living costs justify a new appraisal of its adequacy.

For the dependent older American, and the family of which he is a part, tax concessions such as we have discussed above appear worthy of consideration. It is a practical, efficient way of helping these families meet the responsibility they feel is theirs.

Such action appears to be a minimum effort toward equity in the face of constant new pressures on dollar values.

We should continue our fight for price stability. We shall persist in our efforts to improve social security payments in line with rising costs. To these efforts we add our support of relief through changes in the direct Federal tax structure for the elderly and their families.

The economic problems confronted by older Americans are real; they are immediate. Every day inflation continues, the need for action becomes more urgent.

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