

## AMENDING SECTION 37 OF THE INTERNAL REVENUE CODE OF 1954 WITH RESPECT TO THE EARNED INCOME LIMITATION ON RETIREMENT INCOME

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Mr. BYRD, from the Committee on Finance, submitted the following

### REPORT

[To accompany H. R. 7036]

The Committee on Finance, to whom was referred the bill (H. R. 7036) to amend section 37 of the Internal Revenue Code of 1954 with respect to the earned income limitation on retirement income, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

By virtue of this action, the Committee on Finance accepts the report of the Committee on Ways and Means, which is as follows:

#### PURPOSE OF BILL

This bill, as reported, liberalizes the retirement income credit provided in section 37 of the Internal Revenue Code of 1954 so that the "earnings test" under this provision corresponds with the "work test" under the social-security laws.

#### GENERAL STATEMENT

Under section 37 of the 1954 code, an individual who is 65 years of age or over is granted a credit against his tax liability equivalent to the tax, at the first bracket rate, on the amount of his retirement income up to \$1,200. This same retirement income credit is extended to those under age 65 with respect to pensions or similar payments received from public retirement systems other than military retirement systems (although this later restriction is removed in H. R. 291, which has been passed by both Houses of Congress). Section 37 of the 1954 code also permits an individual to earn up to \$900 a year as an employee or in self-employment without affecting the amount of the retirement credit. However, earnings in excess of \$900, in the case of an individual under age 75 reduce, dollar for dollar, the \$1,200 maximum for retirement income. For those aged 75 and over there is no earned income limitation.

H. R. 7036, as reported, amends section 37 (d) (2) to increase from \$900 to \$1,200 the amount that an individual can earn without reducing the \$1,200 on which the retirement credit is computed. The age at which there will be no limitation upon the amount of earned income, also in subsection (d) (2), is reduced from 75 to 72. The amendments made by the bill apply only to taxable years beginning after December 31, 1955.

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The age limit of 75 for the waiving of the "earnings test" and the exclusion of the first \$900 from the application of this test were designed to correspond to the then existing old-age and survivors insurance program. Benefits under that program, at the time the retirement income provision was considered last year, were reduced for earnings in excess of \$900 and for those age 75 and over there was no work test. The House report on the 1954 code with respect to the retirement income provision stated:

"Since the benefit of the credit is intended for retired individuals, the bill employs substantially the same test of retirement as that adopted for social-security purposes."

However, in the Social Security Amendments of 1954, passed by Congress after the enactment of the 1954 code, the amount of earned income excluded, in determining whether social-security benefits were to be reduced, was raised from \$900 to \$1,200 and the work test was made inapplicable to those age 72 and over, rather than to those age 75 and over. Thus, the changes made in this bill in the case of the retirement income credit merely conform to the changes made in the Social Security Amendments of 1954.

Since social-security benefits presently are not available to those under age 65, this bill raised the earnings test from \$900 to \$1,200 only for those age 65 to age 72.

It is estimated that this bill as amended will reduce revenues by about \$11 million a year.

### CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman):

### SECTION 37 OF THE INTERNAL REVENUE CODE OF 1954

#### SEC. 37. RETIREMENT INCOME.

(a) **GENERAL RULE.**—In the case of an individual who has received earned income before the beginning of the taxable year, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the amount received by such individual as retirement income (as defined in subsection (c) and as limited by subsection (d)), multiplied by the rate provided in section 1 for the first \$2,000 of taxable income; but this credit shall not exceed such tax reduced by the credits allowable under section 32 (2) (relating to tax withheld at source on tax-free covenant bonds), section 33 (relating to foreign tax credit), section 34 (relating to credit for dividends received by individuals), and section 35 (relating to partially tax exempt interest).

(b) **INDIVIDUAL WHO HAS RECEIVED EARNED INCOME.**—For purposes of subsection (a), an individual shall be considered to have received earned income if he has received, in each of any 10 calendar years before the taxable year, earned income (as defined in subsection (g)) in excess of \$600. A widow or widower whose spouse had received such earned income shall be considered to have received earned income.

(c) **RETIREMENT INCOME.**—For purposes of subsection (a), the term "retirement income" means—

(1) in the case of an individual who has attained the age of 65 before the close of the taxable year, income from—

- (A) pensions and annuities,
- (B) interest,
- (C) rents, and
- (D) dividends, or

(2) in the case of an individual who has not attained the age of 65 before the close of the taxable year, income from pensions and annuities under a public retirement system (as defined in subsection (f)), to the extent included in gross income without reference to this section, but only to the extent such income does not represent compensation for personal services rendered during the taxable year.

(d) **LIMITATION ON RETIREMENT INCOME.**—For purposes of subsection (a), the amount of retirement income shall not exceed ~~[\$1,200]~~ \$1,500 less—

(1) in the case of any individual, any amount received by the individual as a pension or annuity—

(A) under title II of the Social Security Act,

(B) under the Railroad Retirement Acts of 1935 or 1937, or

(C) otherwise excluded from gross income, and

“(2) in the case of any individual who has not attained the age of 72 before the close of the taxable year, any amount of earned income (as defined in subsection (g))—

“(A) in excess of \$900 received by the individual in the taxable year if such individual has not attained the age of 65 before the close of the taxable year; or

“(B) in excess of \$1,200 received by the individual in the taxable year if such individual has attained the age of 65 before the close of the taxable year.”

