PART 6

INCOME SPLITTING UNDER THE INDIVIDUAL INCOME TAX

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I. Introduction

In 1948, the Committee on Ways and Means adopted the income-splitting provisions which became a part of the Revenue Act of 1948 as finally enacted. The objectives stated in the report on the 1948 bill were (1) to produce substantial geographical equalization in the impact of the individual income tax on married couples residing in community- and non-community-property States; (2) to forestall the unfortunate enactment of community-property legislation by common-law States; (3) to reduce the incentive for married couples in common-law States to decrease their taxes by splitting their income through such devices as trusts, joint tenancies, and family partnerships; (4) to reduce the administrative difficulties stemming from the use of such devices; and (5) to reduce the need for legislation on the income-tax treatment of trusts and family partnerships.[1]

The income-splitting provisions made substantial reductions in the tax liabilities of married couples. In making other decreases in the individual income taxes, the Revenue Act of 1948 provided a larger reduction in tax in the first surtax bracket, the area in which no benefit is derived from income splitting, than in the remaining brackets. In the case of the first $2,000 of surtax net income the reduction in tax was 12.6 percent; on the surtax net income between $2,000 and approximately $137,000, the reduction was 7.4 percent; and on the surtax net income in excess of $137,000 the reduction was 5 percent. These percentage reductions and the 5 percent reduction provided by the 1945 act were removed by the Revenue Act of 1950. Thus, except for the increase in exemptions, the only major tax reduction feature of the 1948 act which remains is the income-splitting provision.

Prior to the action in 1948 repeated efforts were made to remove the tax differences among married couples. The Committee on Ways and Means took action on this subject in 1921, 1934, and 1941, and the Senate Committee on Finance in 1941. However, the Congress did not adopt any of the proposed legislation.

Beginning in the late thirties, there was a growing movement among non-community-property States to obtain for their residents the income tax advantages of the community-property system. This system was originally confined to eight States: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, and Washington. Oklahoma and Oregon enacted community-property laws in 1939 and 1943, respectively; however, these laws were repealed when the Supreme Court of the United States held that they were ineffective

[1] Report of the Committee on Ways and Means on the Revenue Act of 1948, H. Rept. No. 1274, 80th Cong., 2d sess., p. 24.

for Federal tax purposes. In 1945, Oklahoma and Hawaii enacted community-property laws which the Federal Government recognized for tax purposes; Oregon, Nebraska, and Michigan enacted community-property laws in 1947 which were also recognized. The Pennsylvania community-property law, enacted in 1947, was declared unconstitutional by the Pennsylvania Supreme Court.

This action by the several State legislatures and the increasing demands for similar legislation in non-community-property States were major influences underlying the enactment of the income-splitting provisions of the 1948 act. Subsequently, the community-property laws in all but the original eight community-property States were repealed.

The 1948 act removed the incentives for States to adopt community-property laws by extending to all married couples the benefit of income splitting. Thus, at the present time, married couples with the same total income pay the same tax, regardless of their State of residence or the actual division of income between the spouses. The major accomplishment of the 1948 income-splitting provisions was that they achieved geographic uniformity in the tax burdens of married couples without interfering with State property laws.

In equalizing the tax treatment of married couples, income splitting also effected the relative tax burdens of single persons and married persons. It is with this new tax relationship between single and married persons that this report is primarily concerned. To show this relationship the relative tax burdens under the present income-splitting provisions are discussed below.

II. Relative Tax Burdens Under the Present Income-Splitting Provisions

Income splitting reduced the tax burdens of married couples with one income or with two unequal incomes exceeding the amount taxable under the first surtax bracket of $2,000. It did not affect the tax liabilities of single persons or of married couples whose combined taxable incomes do not exceed the first surtax bracket of $2,000. Thus, taking into account the $600 per capita exemption, income splitting reduces the tax of married couples only in the case of combined net incomes above $3,200 if they have no dependents, $4,400 if they have two dependents, and $5,000 if they have three dependents. Above these levels the tax benefit increases substantially as the total income rises. As shown in table 1, if the net income of the married couple with no dependents is $5,000 and is all received by one spouse, the tax benefit from income splitting amounts to $36. The tax benefit reaches a maximum of $25,180 for a married couple where the total net income is $401,200 and is all received by one spouse. Percentagewise the maximum tax benefit of about 29 percent occurs at about the $25,000 net income level.

TABLE 1.—*Comparison of individual income taxes of married couples [1] with no dependents, with and without income splitting, under present law rates and exemptions*

Net income (after deductions but before exemptions)	Amounts of tax		Tax benefits due to split income	
	With split income	Without split income	Amount	Percent
$1,500	$60	$60		
$2,000	160	160		
$3,000	360	360		
$5,000	760	796	$36	4.52
$8,000	1,416	1,600	184	11.50
$10,000	1,888	2,232	344	15.41
$15,000	3,260	4,174	914	21.90
$20,000	4,872	6,624	1,752	26.45
$25,000	6,724	9,442	2,718	28.79
$50,000	19,592	25,956	6,364	24.52
$100,000	52,776	66,276	13,500	20.37
$500,000	403,548	428,728	25,180	5.87
$1,000,000	858,548	[2] 870,000	11,452	1.32

[1] Assumes income earned by 1 spouse.
[2] Maximum effective rate limitation of 87 percent

As a result of income splitting, the tax of a married couple is twice the tax of a single person with half as much income. That is, a married couple with $10,000 of net income pays the same tax as two single persons with incomes of $5,000 each. This also means that two single persons with separate incomes pay the same or less tax after they marry than they did before marriage. This fact is often cited as a major reason for not departing from income splitting.

However, in the case of identical incomes, the tax burdens of married couples under income splitting may appear to be too low as compared with tax burdens of single persons. Before 1948, in those cases where married couples could not divide their income the difference in the taxes of married couples and single persons with the same incomes was relatively small since it depended solely on the difference in exemptions. Under income splitting, the tax liabilities of single persons exceed the liabilities of married persons by substantial amounts beginning at about the $10,000 income level. This may be illustrated by reference to the figures in table 1. The tax liabilities in this table under the column headed "Without split income" are also the liabilities of single persons with one dependent under present law rates and exemptions. Although single persons with one dependent have the same number of exemptions as married couples with no dependents, the table indicates that single persons are subject to substantially heavier tax burdens than married couples. For example, at the $10,000 level, a single person with one dependent pays $2,232 whereas a married couple pays $1,888 or 15 percent less; at the $25,000 level, a single person with one dependent pays $9,442 whereas a married couple pays $6,724 or 29 percent less.

The tax differential between single and married persons due to income splitting is so large that, if the rates were raised to the wartime levels by the addition of three percentage points in all brackets, single persons would pay the same tax as they did during the war except for the effect of the $100 increase in exemptions, whereas the liabilities of married persons would be considerably lower than the wartime liabilities. This is illustrated in table 2. For example, at the $25,000 net income level the tax of a married person with no dependents would be 72.2 percent of the wartime tax while the tax of a single person with one dependent at the same income level would be 98.6 percent of the wartime tax.

TABLE 2.—*Comparison of individual income taxes for a married couple with no dependents and a single person with 1 dependent, under the 1944 rates and exemptions and under present law after 3 percentage points are added to the rates* [1]

Net income	Married couple [1] with no dependents [2]			Single person with 1 dependent [2]		
	Amount of tax under 1944 rates and exemptions	Present law plus 3 percentage points		Amount of tax under 1944 rates and exemptions	Present law plus 3 percentage points	
		Amount	Percent of 1944 tax		Amount	Percent of 1944 tax
$1,500	$130	$69	53.1	$130	$69	53.1
$2,000	245	184	75.1	245	184	75.1
$3,000	475	414	87.2	475	414	87.2
$5,000	975	874	89.6	975	910	93.3
$8,000	1,885	1,620	85.9	1,885	1,804	95.7
$10,000	2,585	2,152	83.2	2,585	2,496	96.6
$15,000	4,695	3,674	78.3	4,695	4,588	97.7
$20,000	7,315	5,436	74.3	7,315	7,188	98.3
$25,000	10,295	7,438	72.2	10,295	10,156	98.6
$50,000	27,585	21,056	76.3	27,585	27,420	99.4
$100,000	69,435	55,740	80.3	69,435	69,240	99.7
$500,000	443,895	418,512	94.3	443,895	443,692	100.0
$1,000,000	[3] 900,000	888,512	98.7	[3] 900,000	[3] 900,000	100.0

[1] Assumes income earned by 1 spouse.
[2] The total number of exemptions is 2 in the case of both married couples with no dependents and single persons with 1 dependent.
[3] Maximum effective rate limitation of 90 percent.

III. Effect of Income Splitting on Rate Graduation

Income splitting doubled the effective width of the surtax brackets for married persons filing joint returns. Thus first surtax bracket for married people now covers $0 to $4,000 instead of $0 to $2,000 and all the other brackets cover twice their former ranges. This means that the starting rate of 20 percent extends over a wider area of the income tax scale and that the effect of rate graduation in all brackets is substantially reduced.

The effect of doubling the width of the surtax brackets can be seen from table 3 which shows the combined normal tax and surtax rates for single persons and married persons filing joint returns under all the revenue acts since 1941. As the table indicates, the rates for all single persons and for married persons with taxable incomes of less than $2,000 are 3 percentage points below the highest wartime levels. However, the rates for married persons with incomes above the first bracket are substantially lower. At the $25,000 taxable income level the marginal rate of tax for single persons is 3 percentage points below the 1944–45 level. By contrast the marginal rate of tax for married persons in this taxable income bracket is 19 percentage points below the 1944–45 level. In fact, between about $25,000 and $100,000 of net income, the tax for married persons with no dependents is actually lower under present law than under the Revenue Act of 1941.

TABLE 3.—*Combined normal tax and surtax rates, 1941–51*

SINGLE PERSONS AND MARRIED PERSONS FILING SEPARATE RETURNS

Surtax net income [1]	Taxable years						
	1941	[2] 1942–43	1944–45	[3] 1946–47	[3] 1948–49	[3] 1950	1951
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Not over $2,000	10	19	23	19.00	16.60	17.40	20
$2,000 to $4,000	13	22	25	20.90	19.36	20.02	22
$4,000 to $6,000	17	26	29	24.70	22.88	23.66	26
$6,000 to $8,000	21	30	33	28.50	26.40	27.30	30
$8,000 to $10,000	25	34	37	32.30	29.92	30.94	34
$10,000 to $12,000	29	38	41	36.10	33.44	34.58	38
$12,000 to $14,000	33	42	46	40.85	37.84	39.13	43
$14,000 to $16,000	36	46	50	44.65	41.36	42.77	47
$16,000 to $18,000	39	49	53	47.50	44.00	45.50	50
$18,000 to $20,000	42	52	56	50.35	46.64	48.23	53
$20,000 to $22,000	45	55	59	53.20	49.28	50.96	56
$22,000 to $26,000	48	58	62	56.05	51.92	53.69	59
$26,000 to $32,000	51	61	65	58.90	54.56	56.42	62
$32,000 to $38,000	54	64	68	61.75	57.20	59.15	65
$38,000 to $44,000	57	67	72	65.55	60.72	62.79	69
$44,000 to $50,000	59	69	75	68.40	63.36	65.52	72
$50,000 to $60,000	61	72	78	71.25	66.00	68.25	75
$60,000 to $70,000	63	75	81	74.10	68.64	70.98	78
$70,000 to $80,000	65	78	84	76.95	71.28	73.71	81
$80,000 to $90,000	67	81	87	79.80	73.92	76.44	84
$90,000 to $100,000	68	83	90	82.65	76.56	79.17	87
$100,000 to $136,719.10	69	85	92	84.55	78.32	80.99	89
$136,719.10 to $150,000					80.3225	82.503	
$150,000 to $200,000	70	87	93	85.50	81.2250	83.430	90
Over $200,000 [4]	[5] 71–81	88	94	86.45	82.1275	84.357	91

MARRIED PERSONS FILING JOINT RETURNS

Surtax net income [1]	1941	[2] 1942–43	1944–45	[3] 1946–47	[3] 1948–49	[3] 1950	1951
Not over $2,000	10	19	23	19.00	16.60	17.40	20
$2,000 to $4,000	13	22	25	20.90			
$4,000 to $6,000	17	26	29	24.70	19.36	20.02	22
$6,000 to $8,000	21	30	33	28.50			
$8,000 to $10,000	25	34	37	32.30	22.88	23.66	26
$10,000 to $12,000	29	38	41	36.10			
$12,000 to $14,000	33	42	46	40.85	26.40	27.30	30
$14,000 to $16,000	36	46	50	44.65			
$16,000 to $18,000	39	49	53	47.50	29.92	30.94	34
$18,000 to $20,000	42	52	56	50.35			
$20,000 to $22,000	45	55	59	53.20	33.44	34.58	38
$22,000 to $24,000	48	58	62	56.05			
$24,000 to $26,000	48	58	62	56.05	37.84	39.13	43
$26,000 to $28,000	51	61	65	58.90			
$28,000 to $32,000	51	61	65	58.90	41.36	42.77	47
$32,000 to $36,000	54	64	68	61.75	44.00	45.50	50
$36,000 to $38,000	54	64	68	61.75	46.64	48.23	53
$38,000 to $40,000	57	67	72	65.55			
$40,000 to $44,000	57	67	72	65.55	49.28	50.96	56
$44,000 to $50,000	59	69	75	68.40	51.92	53.69	59
$50,000 to $52,000	61	72	78	71.25			
$52,000 to $60,000	61	72	78	71.25	54.56	56.42	62
$60,000 to $64,000	63	75	81	74.10			
$64,000 to $70,000	63	75	81	74.10	57.20	59.15	65
$70,000 to $76,000	65	78	84	76.95			
$76,000 to $80,000	65	78	84	76.95	60.72	62.79	69
$80,000 to $88,000	67	81	87	79.80			
$88,000 to $90,000	67	81	87	79.80	63.36	65.52	72
$90,000 to $100,000	68	83	90	82.65			
$160,000 to $120,000	69	85	92	84.55	66.00	68.25	75
$120,000 to $140,000	69	85	92	84.55	68.64	70.98	78
$140,000 to $150,000	69	85	92	84.55	71.28	73.71	81
$150,000 to $160,000	70	87	93	85.50			
$160,000 to $180,000	70	87	93	85.50	73.92	76.44	84
$180,000 to $200,000	70	87	93	85.50	76.56	79.17	87
$200,000 to $250,000	71	88	94	86.45	78.32	80.99	89
$250,000 to $273,438.20	73	88	94	86.45	78.32		
$273,438.20 to $300,000	73	88	94	86.45	80.3225	82.503	
$300,000 to $400,000	75	88	94	86.45	81.2250	83.430	90
Over $400,000 [4]	[5] 76–81	88	94	86.45	82.1275	84.357	91

[1] Net income after personal exemption and credit for dependents. For 1944–45 no credit for dependents was allowed in computing normal tax net income.

[2] For 1943 individuals were subject to the 5 percent Victory tax on income in excess of $624 less certain credits.

[3] After reductions from tentative tax.

[4] Maximum effective rate limitations: 1944–45, 90 percent; 1946–47, 85.5 percent; 1948–49, 77 percent; 1950 80 percent; 1951, 87 percent.

[5] Rates range from 71 percent on income in the $200,000–$250,000 class to 81 percent on income over $5,000,000 for single persons, and from 76 percent on income in the $400,000–$500,000 class to 81 percent on income over $5,000,000 for married persons.

IV. Offsetting All of the Tax Effects of Income Splitting

In considering various methods which might be devised to offset the tax effect of income splitting, it is essential to retain uniformity of tax burdens for all married couples with the same incomes in order to avoid the inequalities which created dissatisfaction prior to 1948. It is believed desirable to retain all of the advantages of income splitting which the Committee on Ways and Means emphasized in its report on the 1948 act.

It might be noted in this connection that the issue regarding the desirability and legal basis for requiring married persons to file joint returns is no longer an important consideration if it is desired to offset the tax differential between married and single persons resulting from income splitting. Income splitting, in effect, requires the filing of joint returns since married couples can ordinarily gain no advantage by computing their tax on separate returns. Consequently, it is possible to change the relative burdens of married couples and single persons and still retain both the uniformity of tax burdens among married couples and the option of married couples to file separate returns.

If it is desired to reestablish the pre-1948 relative burdens of single persons and married couples with the same income, it is necessary either to offset completely the effect of income splitting or to extend it to single persons. However, the latter method would lose about $400 million in revenue in a full year of operation. To offset income splitting and still retain the present uniformity among all married couples, it is necessary to give special treatment to those filing separate returns. This is essential to prevent a reduction in tax by filing separate returns. (This is the effect of the law today.)

To achieve these results, married couples filing joint returns and single persons would be required to compute their tax on the basis of the present rate schedule, but these married couples could not split their income. Married couples would retain the option of filing separate returns but, if they exercise this option, they would be required to double their surtax net incomes and divide the resulting tax by 2. This method of tax computation for separate returns would considerably increase the tax burden on many married couples in community-property States as well as on married couples in other States who, prior to 1948, had achieved some form of income splitting. However, their relative tax burden would not be greater than that imposed prior to 1948 on a married couple having the same amount of income but not able to obtain any benefit from income splitting.

The following example will illustrate how this method would operate:

A married couple with no dependents filing a joint return with net income of $10,000 would first deduct $1,200 on account of its two exemptions, and then compute the tax on the remaining surtax net income of $8,800 without income splitting. At present rates, the tax would amount to $2,232.

A married person with no dependents, filing a separate return, with a net income of $5,000 would first deduct his $600 personal exemption, and then multiply his surtax net income of $4,400 by 2. Applying present rates to the resulting $8,800, he would obtain a tax of $2,232;

he would then divide this amount by 2, which would give him his final liability of $1,116. Since both spouses filing separate returns would apply the same procedure, the combined tax liability of a couple with an equal division of income between the spouses would be exactly the same as that of a married couple filing a joint return with the same total income. Thus, the present law equality in the treatment of married couples would be retained regardless of whether they file separate or joint returns.

The amount and percentage tax increase resulting from this method of completely offsetting the tax benefits of income splitting are shown in table 4.

TABLE 4.—*Increase in tax liability for married persons with no dependents which would result from the complete offset of the benefits of income splitting*

Net income (after deductions but before exemptions)	Increase in tax liability	
	Amount	Percent
$1,500		
$2,000		
$3,000		
$5,000	$36	4.74
$8,000	184	12.99
$10,000	344	18.22
$15,000	914	28.04
$20,000	1,752	35.96
$25,000	2,718	40.42
$50,000	6,364	32.48
$100,000	13,500	25.58
$500,000	25,180	6.24
$1,000,000	11,452	1.33

The increase in revenue resulting from the removal of the tax benefits of income splitting is large. It amounts to $2.5 billion in a full year at present rates; about $1 billion of this increase would be paid by married persons who are now benefiting directly from the 1948 income-splitting provisions and the remaining $1.5 billion would be paid by married couples who could avail themselves of income splitting either under State community-property laws or by other methods.

V. Offsetting Part of the Tax Effect of Income Splitting

It is possible to go part way toward offsetting the income-splitting advantages of married couples over single persons without going all of the way. The mechanics of such a partial offset are as follows: Single persons would use the same rate schedule they use today. Married persons would be allowed to split their incomes if they file joint returns, but the rate schedule would be altered to yield the desired percentage offset. Married persons filing separate returns would use the same rate schedule as married persons filing joint returns but, as under present law, would not split their income. Practically any degree of offset can be achieved by this method throughout most of the income scale.[2]

Table 5 presents the marginal rates which would offset approximately 50 percent of the tax effect of income splitting.

[2] As an alternative, partial offset of the tax effect of income splitting can be accomplished by the method of tax computation described above for a full offset to income splitting.

TABLE 5.—*Marginal rates necessary to offset approximately 50 percent of the tax effect of income splitting for married persons filing joint returns, compared with the 1944–45 and 1951 rates*

Surtax net income bracket (in thousands) [1]	1944–45 rates	1951 rates (present law)	Rates required to offset 50 percent of the tax effect of income splitting	Surtax net income bracket (in thousands) [1]	1944–45 rates	1951 rates (present law)	Rates required to offset 50 percent of the tax effect of income splitting
	Percent	*Percent*	*Percent*		*Percent*	*Percent*	*Percent*
0 to $2	23	20	20	$32 to $38	68	50–53	58
$2 to $4	25	20	21	$38 to $44	72	53–56	62
$4 to $6	29	22	24	$44 to $50	75	59	65
$6 to $8	33	22	26	$50 to $60	78	59–62	68
$8 to $10	37	26	30	$60 to $70	81	62–65	71
$10 to $12	41	26	32	$70 to $80	84	65–69	74
$12 to $14	46	30	37	$80 to $90	87	69–72	77
$14 to $16	50	30	38	$90 to $100	90	72	79
$16 to $18	53	34	42	$100 to $150	92	75–81	83
$18 to $20	56	34	44	$150 to $200	93	81–87	88
$20 to $22	59	38	47	$200 to $300	94	89	90
$22 to $26	62	38–43	50	$300 to $400	94	90	90
$26 to $32	65	43–47	54	Over $400	94	91	91

[1] Taking into account the effect of income splitting.

NOTE.—Married persons would be allowed to split their income if they file joint returns.

Table 6 compares the tax burden under present law for a married couple with no dependents at selected net income levels with that under a 50 percent offset of income splitting. For example, at the $15,000 level the tax increase would be $466 or about 14 percent.

TABLE 6.—*Individual income tax burdens for a married couple [1] with no dependents under present law and under a 50 percent offset of the tax effect of income splitting*

Net income classes (after deductions but before exemptions)	Amounts of tax		Tax increase	
	Present law	50 percent offset of the tax effect of income splitting	Amount	Percent
$1,500	$60	$60		
$2,000	160	160		
$3,000	360	360		
$5,000	760	778	$18	2.37
$8,000	1,416	1,508	92	6.50
$10,000	1,888	2,060	172	9.11
$15,000	3,260	3,726	466	14.29
$20,000	4,872	5,752	880	18.06
$25,000	6,724	8,120	1,396	20.76
$50,000	19,592	22,780	3,188	16.27
$100,000	52,776	59,512	6,736	12.76
$500,000	403,548	415,868	12,320	3.05
$1,000,000	858,548	[2] 870,868	12,320	1.44

[1] Assumes income earned by one spouse.
[2] Does not take into account maximum effective rate limitation.

This 50 percent offset would increase revenues by about $1.25 billion in a full year. This is approximately the same revenue effect as the 1948 income-splitting provisions under present rates, exemptions, and income levels. All of this revenue increase would come from married persons who, in the aggregate, would pay the same tax as they would be paying now if income splitting had not been enacted. However, the tax distribution among married couples would differ from the pre-1948 distribution. As compared with the pre-1948 burdens, married couples in community-property States as well as married couples in common-law States who had obtained some forms of income splitting would have their burden increased more than married couples not then receiving any benefits from income splitting.

VI. Administrative and Compliance Considerations

It is important to recognize that while the benefits of income splitting accrue largely to high-income taxpayers, low income groups above the first bracket are also affected, although to a much lesser extent. As a consequence, any proposal to offset income splitting will have important effects on the supplement T tax table, the tax computations on Form 1040, and the withholding tables.

In the case of the supplement T tax table, which is used by taxpayers with incomes under $5,000 electing the standard deduction, a complete offset of income splitting would require the addition of four columns, increasing the number of columns from 14 to 18. Partial offset of income splitting would increase the number of columns from 14 to 21. To add this information to the present tax table, it would be necessary to reduce the size of the type substantially; as an alternative it might be preferable to print the tax table in two or three parts in the instructions rather than on the back of the return form.

A complete offset of income splitting would decrease the number of computations on page 3 of Form 1040 required for married couples filing joint returns, the great bulk of the married taxpayers who compute their tax on page 3. For married persons filing separate returns, additional computations over and above present law would be required although these computations would be no more complicated than those now required for married couples filing joint returns. In the case of a partial offset of income splitting, the tax computations required of single persons, married persons filing joint returns, and married persons filing separate returns would be the same as they are today but it would be necessary to have two rate schedules in the instructions in place of the one now presented.

For withholding purposes, under either a complete or partial offset of income splitting it would probably be necessary to introduce graduated rates in order to prevent underwithholding.

Appendix A explains in greater detail the effect of complete and partial offsets of income splitting on the supplement T tax table, on the tax computation on page 3 of Form 1040, and on the withholding system.

APPENDIX A

Administrative and Compliance Considerations

1. *Supplement T tax table*

The supplement T tax table is used in the determination of the tax liability in the case of all taxpayers with adjusted gross incomes under $5,000 who elect the standard deduction. For 1948, tax was determined from the supplement T tax table in the case of 20.2 million Form 1040 returns and 19.2 million Form 1040A returns.

Under present law the maximum amount of surtax net income covered by the supplement T tax table is $3,877.50 ($4,975 less the 10 percent standard deduction of $497.50 and less the allowance for one exemption of $600). The first bracket rate is applicable to the entire amount of surtax net income covered by the tax table in the case of joint returns since in effect income splitting doubled the width of the first bracket of $0 to $2,000, thus extending it to $4,000. In the case of a single person or a married person filing separately, the first bracket rate is applicable to only the first $2,000 of surtax net income and the second bracket rate is applicable to the balance. Thus it is necessary to differentiate between (*a*) joint returns of married couples and (*b*) returns of single persons or married persons filing separately in the income area above the $2,000 surtax net income level. This is accomplished by inserting two columns under each exemption status in the appropriate income bracket.

If the tax effect of income splitting were eliminated, the maximum amount of surtax net income to be covered by the supplement T tax table would remain at $3,877.50. In the case of joint returns and returns of single persons, the first-bracket rate of 20 percent would apply to the first $2,000 of surtax net income, and the second-bracket rate of 22 percent would apply to the balance. In the case of separate returns of married persons, however, the first-bracket rate of 20 percent would apply to the first $1,000 of surtax net income, the second-bracket rate of 22 percent to the next $1,000 of surtax net income, the third-bracket rate of 26 percent to the next $1,000 of surtax net income, and the fourth-bracket rate of 30 percent to the balance ($877.50). Thus, it would be necessary to differentiate between (*a*) joint returns or returns of single persons, and (*b*) separate returns of married persons, in the area above the $1,000 surtax net income level. In order to make this differentiation, the supplement T tax table would need to contain 18 tax columns, or an increase of 4 columns over the present 14-column table.

Partial offsetting of the tax effect of income splitting would make the tax table more complicated. This arises from the fact that tax liabilities throughout most of the tax table would be different for (*a*) married persons filing joint returns, (*b*) married persons filing separate returns, and (*c*) single persons, and therefore a substantially larger number of columns would have to be added.

A comparison of the present law tax table with the tax tables required under a full or partial offset of income splitting is given in exhibit A.

As an alternative to introducing additional dual headings, it might be desirable in either a full or partial offset of income splitting to provide separate tables for joint returns, returns of single persons, and separate returns of married persons.

2. *Tax computations on Form 1040*

The tax computation on page 3 of Form 1040 is used by taxpayers who do not use the supplement T tax table. Under present law separate computations are provided for (*a*) single persons or married persons filing separate returns and (*b*) married persons filing joint returns. Both categories of taxpayers compute their tax by reference to the combined normal tax and surtax rate schedule contained in the instructions.

Of the 52.1 million returns filed for 1948, the tax on 12.7 million was computed on page 3 of the form. Of these 12.7 million returns approximately 8.8 million were joint returns, 3.3 million were returns of single persons, and 0.5 million were separate returns.

In the case of the 8.8 million joint returns the tax computation requires (A) that the surtax net income be divided by 2, (B) a tax be computed on this income, and (C) the resultant tax be multiplied by 2 to determine tax liability. Single persons and married persons filing separately compute their taxes directly from the rate schedule without this division and multiplication.

If the tax effect of income splitting were eliminated, married persons filing joint returns, like single persons under present law, would compute their tax directly from the rate schedule without dividing their income and multiplying the resulting tax by 2. Married persons filing separate returns would multiply their surtax net incomes by 2, compute a tax on this amount, and divide the resulting tax by 2. Thus, the computations on the nearly 9 million joint returns of married persons would be simplified while only one-half million separate returns of husbands and wives would require additional computations.

If the tax effect of income splitting were only partially removed, the method of computation would remain the same as under present law except that a new and separate tax rate schedule in the instructions would be required for married persons.

A comparison of the tax computations required under present law with those required under a full or partial offset of income splitting is shown in exhibit B.

3. *Effect on withholding*

Under present law only one withholding rate is provided. The present rate of 18 percent represents the combined normal tax and surtax rate of 20 percent applicable to the first surtax bracket less an allowance for the 10 percent standard deduction. Since the first-bracket rate now applies to the first $4,000 of surtax net income in the case of married couples, the withholding system collects the full amount of income tax liability with respect to the salaries and wages under $5,777 [1] plus $667 [2] for each dependent. In the case of a

[1] $5,777 less the sum of the standard deduction of $577 and the exemptions of $1,200 gives $4,000 of surtax net income.

[2] $667 less the standard deduction of $67 gives the value of one exemption, or $600.

single person the 18 percent withholding rate collects the full amount of tax on the first $2,000 of surtax net income (salaries and wages of $2,888 plus $667 for each dependent). For married couples with combined surtax net income in excess of $4,000 and single persons with surtax net incomes in excess of $2,000, the withholding rate is less than the rate applicable in determining liability.

If the tax effect of income splitting were eliminated, the second-bracket rate of 22 percent would be applicable to combined surtax net incomes of married couples in excess of $2,000. In order to avoid the introduction of underwithholding for married couples with surtax net incomes between $2,000 and $4,000 and to overcome the present law underwithholding for single persons in the same income area, it would be desirable to provide a two-rate graduated withholding system. The first-bracket rate of 18 percent would be applied to the first $2,000 of surtax net income and the second-bracket rate of 20 percent (the second-bracket rate of 22 percent less the 10 percent standard deduction) would be applied to surtax net incomes in excess of $2,000.

If approximately 50 percent of the tax effect of income splitting were offset, a two-rate graduated withholding system would also be necessary. For single persons, the first-bracket rate of 20 percent (for liability purposes) would be applicable to the first $2,000 of surtax net income and the second-bracket rate of 22 percent would be applicable to the next $2,000 of surtax net income as under present law. For married couples, however, the first-bracket rate of 20 percent would be applicable to the first $2,000 of surtax net income and a 21-percent rate would be applicable to the next $2,000 of surtax net income. Thus, in the case of single persons, an 18-percent withholding rate would be applicable to the first $2,000 of surtax net income and a 20-percent withholding rate would be appropriate for the balance. In the case of married persons, an 18-percent withholding rate would be applicable to the first $2,000 of surtax net income and a 19-percent withholding rate (21 percent less the 10-percent standard deduction) would be appropriate for the balance in this instance. The decision as to whether a 19-percent or 20-percent second-bracket withholding rate should be used depends on whether it is deemed more desirable to underwithhold on second-bracket single persons (if 19 percent is used) or to overwithhold on second-bracket married couples (if 20 percent is used).

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EXHIBIT A

Comparison of Supplement T Tax Table Under Present Law With Table Required if Tax Effect of Income Splitting Is Completely or Partially Offset

1. Present law

TAX TABLE FOR PERSONS WITH INCOMES UNDER $5,000 NOT COMPUTING TAX ON PAGE 3

		1							1		2			3			4			5				
At least	But less than	And you are a married person filing separately	And you are single	2	3	4 or more	At least	But less than	And you are a married person filing separately	And you are single	And you are a married person filing separately	And you are a married couple filing jointly	And you are single	And you are a married person filing separately	And you are a married couple filing jointly	And you are single	And you are a married person filing separately	And you are a married couple filing jointly	And you are single	And you are a married person filing separately	And you are a married couple filing jointly or are single	6	7	8 or more
		Your tax is—							Your tax is—															
$0	$675						$2,325	$2,350																
*	*						*	*																
*	*						*	*																
2,300	2,325						4,950	5,000																

NOTE: If the tax effect of income splitting were completely offset it might be desirable to provide separate tables for (a) married persons filing joint returns or single persons and (b) married persons filing separate returns, in lieu of the table shown. Similarly, if the tax effect of income splitting were partially offset it might be desirable to provide separate tables for (a) married persons filing joint returns, (b) single persons, and (c) married persons filing separate returns, in lieu of the table shown.

EXHIBIT A

Comparison of Supplement T Tax Table Under Present Law With Table Required if Tax Effect of Income Splittino Is Completely or Partially Offset

1. Present law

TAX TABLE FOR PERSONS WITH INCOMES UNDER $5,000 NOT COMPUTING TAX ON PAGE 3

Read down the shaded columns below until you find the line covering the total income you entered in item 4, page 1. Then read across to the column headed by the number corresponding to the number of exemptions claimed in item 1, page 1. Enter the tax you find there in item 5, page 1

If total income in item 4, page 1, is—		And the number of exemptions claimed in item 1, page 1, is—				If total income in item 4, page 1, is—		And the number of exemptions claimed in item 1, page 1, is—								
									2		3					
At least	But less than	1	2	3	4 or more	At least	But less than	1	And you are single or a married person filing separately	And you are a married couple filing jointly	And you are single or a married person filing separately	And you are a married couple filing jointly	4	5	6	7	8 or more
		Your tax is—						Your tax is—								
$0	$675					$2,325	$2,350									
•	•					•	•									
•	•					•	•									
2,300	2,325					4,950	5,000									

2. Tax effect if income splitting is completely offset

TAX TABLE FOR PERSONS WITH INCOMES UNDER $5,000 NOT COMPUTING TAX ON PAGE 3

Read down the shaded columns below until you find the line covering the total income you entered in item 4, page 1. Then read across to the column headed by the number corresponding to the number of exemptions claimed in item 1, page 1. Enter the tax you find there in item 5, page 1

If total income in item 6, page 1, is—		And the number of exemptions claimed in item 1, page 1, is—					If total income in item 6, page 1, is—		And the number of exemptions claimed in item 1, page 1, is—													
		1							1		2		3		4		5				
At least	But less than	And you are a married person filing separately	And you are single	2	3	4 or more	At least	But less than	And you are a married person filing separately	And you are single	And you are a married person filing separately	And you are a married person filing jointly or are single	And you are a married person filing separately	And you are a married person filing jointly or are single	And you are a married person filing separately	And you are a married person filing jointly or are single	And you are a married person filing separately	And you are a married person filing jointly or are single	6	7	8 or more
		Your tax is—							Your tax is—												
$0	$675						$2,325	$2,350													
•	•						•	•													
•	•						•	•													
2,300	2,325						4,950	5,000													

3. Tax effect if income splitting is partially offset

TAX TABLE FOR PERSONS WITH INCOMES UNDER $5,000 NOT COMPUTING TAX ON PAGE 3

Read down the shaded columns below until you find the line covering the total income you entered in item 4, page 1. Then read across to the column headed by the number corresponding to the number of exemptions claimed in item 1, page 1. Enter the tax you find there in item 5, page 1.

If total income in item 4, page 1, is—		And the number of exemptions claimed in item 1, page 1, is—					If total income in item 4, page 1, is—		And the number of exemptions claimed in item 1, page 1, is—																
		1							1		2			3			4			6				
At least	But less than	And you are a married person filing separately	And you are single	2	3	4 or more	At least	But less than	And you are a married person filing separately	And you are single	And you are a married person filing separately	And you are a married couple filing jointly	And you are single	And you are a married person filing separately	And you are a married couple filing jointly	And you are single	And you are a married person filing separately	And you are a married couple filing jointly	And you are single	And you are a married person filing separately	And you are a married couple filing jointly or are single	6	7	8 or more
		Your tax is—							Your tax is—															
$0	$675						$2,326	$2,350																
•	•						•	•																
•	•						•	•																
2,300	2,325						4,950	5,000																

NOTE: If the tax effect of income splitting were completely offset it might be desirable to provide separate tables for (a) married persons filing joint returns or single persons and (b) married persons filing separate returns, in lieu of the table shown. Similarly, if the tax effect of income splitting were partially offset it might be desirable to provide separate tables for (a) married persons filing joint returns, (b) single persons, and (c) married persons filing separate returns, in lieu of the table shown.

EXHIBIT B

Comparison of Tax Computation on Page 3 of Form 1040 Under Present Law With the Computation Required if the Tax Effect of Income Splitting Is Completely or Partially Offset

1. Present law

TAX COMPUTATION—FOR PERSONS NOT USING TAX TABLE ON PAGE 4

5. Subtract line 4 from line 3. Enter difference here	$
Line 6 should be filled in ONLY if this is a joint return of husband and wife. 6. Use the tax rates shown in Tax Table A of Instructions to figure your tax on amount in line 5 (if line 3, above, includes partially tax-exempt interest, see Instructions). This is your combined normal tax and surtax	$
Line 7 should be filled in ONLY by a single person. 7. Use the tax rates shown in Tax Table B of Instructions to figure your tax on amount in line 5 (if line 3, above, includes partially tax-exempt interest, see Instructions). This is your combined normal tax and surtax	$
Lines 8 to 10 should be filled in ONLY by a married person making a separate return. 8. Enter here amount shown on line 5 multiplied by 2	$
9. Use the tax rates shown in Instructions (Tax Table A) to figure your tax on amount shown in line 8 (if line 3, above, includes partially tax-exempt interest, see Instructions). Enter the tax on amount shown in line 8 here	$
10. Divide amount on line 9 by 2. Enter this tax here. This is your combined normal tax and surtax	$
11. If alternative tax computation is made on separate Schedule D, enter here tax from line 12 on back of Schedule D	$
If you used the standard deduction in line 2, disregard lines 12, 13, and 14, and copy on line 15 the same figure you entered on line 6, 7, 10, or 11, whichever is applicable.	
12. Enter here any income tax payments to a foreign country or U. S. possession (attach form 1116) $	
13. Enter here any income tax paid at source on tax-free covenant bond interest	
14. Add the figures on lines 12 and 13 and enter the total here	$
15. Subtract line 14 from line 6, 7, 10, or 11, whichever is applicable. Enter difference here and in item 5, page 1. This is your tax	$

EXHIBIT B

Comparison of Tax Computation on Page 3 of Form 1040 Under Present Law With the Computation Required if the Tax Effect of Income Splitting Is Completely or Partially Offset

1. Present law

TAX COMPUTATION—FOR PERSONS NOT USING TAX TABLE ON PAGE 4

1. Enter amount shown in item 4, page 1. This is your Adjusted Gross Income
2. Enter DEDUCTIONS. If deductions are itemized above, enter the total of such deductions. If adjusted gross income (line 1, above) is $5,000 or more and deductions are not itemized, enter the standard deduction of 10 percent of line 1, above, or $1,000, whichever is the lesser, or $500 if this is the separate return of a married person
3. Subtract line 2 from line 1. Enter the difference here. This is your Net Income
4. Multiply $600 by total number of exemptions claimed in item 1, page 1. Enter total here
5. Subtract line 4 from line 3. Enter difference here

Line 6 should be filled in ONLY by a single person or a married person making a separate return

6. Use the tax rates shown on page 16 of Instructions to figure your tax on amount shown in line 5 (if line 3, above, includes partially tax-exempt interest, see Instructions). This is your combined normal tax and surtax

Lines 7 to 9 should be filled in ONLY if this is a joint return of husband and wife

7. Enter here one-half of amount on line 5, above
8. Use the tax rates shown on page 16 of Instructions to figure your tax on amount shown in line 7 (if line 3, above, includes partially tax-exempt interest, see Instructions)
9. Multiply amount on line 8 by 2. This is your combined normal tax and surtax
10. If alternative tax computation is made on separate Schedule D, enter here tax from line 12 on back of Schedule D

If you used the standard deduction in line 2, disregard lines 11, 12, and 13, and copy on line 14 the same figure you entered on line 6, 9, or 10, whichever is applicable

11. Enter here any income tax payments to a foreign country or U. S. possession (attach form 1116)
12. Enter here any income tax paid at source on tax-free covenant bond interest
13. Add the figures on lines 11 and 12 and enter the total here
14. Subtract line 13 from line 6, 9, or 10, whichever is applicable. Enter difference here and in item 5, page 1. This is your tax

2. Tax effect if income splitting is completely offset

TAX COMPUTATION—FOR PERSONS NOT USING TAX TABLE ON PAGE 4

1. Enter amount shown in item 4, page 1. This is your Adjusted Gross Income
2. Enter DEDUCTIONS. If deductions are itemized above, enter the total of such deductions. If adjusted gross income (line 1, above) is $5,000 or more and deductions are not itemized, enter the standard deduction of 10 percent of line 1, above, or $1,000, whichever is the lesser, or $500 if this is the separate return of a married person
3. Subtract line 2 from line 1. Enter the difference here. This is your Net Income
4. Multiply $600 by total number of exemptions claimed in item 1, page 1. Enter total here
5. Subtract line 4 from line 3. Enter difference here

Line 6 should be filled in ONLY if this is a joint return of husband and wife or a return of a single person

6. Use the tax rates shown in Instructions to figure your tax on amount shown in line 5 (if line 3, above, includes partially tax-exempt interest, see Instructions). This is your combined normal tax and surtax

Lines 7 to 9 should be filled in ONLY by a married person making a separate return

7. Enter here amount shown on line 5 multiplied by 2
8. Use the tax rates shown in Instruction to figure your tax on amount shown in line 7 (if line 3, above, includes partially tax-exempt interest, see Instructions). Enter the tax on amount shown in line 7 here
9. Divide amount on line 8 by 2. Enter this tax here. This is your combined normal tax and surtax
10. If alternative tax computation is made on separate Schedule D, enter here tax from line 12 on back of Schedule D

If you used the standard deduction in line 2, disregard lines 11, 12, and 13, and copy on line 14 the same figure you entered on line 6, 9, or 10, whichever is applicable

11. Enter here any income tax payments to a foreign country or U. S. possession (attach form 1116)
12. Enter here any income tax paid at source on tax-free covenant bond interest
13. Add the figures on lines 11 and 12 and enter the total here
14. Subtract line 13 from line 6, 9, or 10, whichever is applicable. Enter difference here and in item 5, page 1. This is your tax

3. Tax effect if income splitting is partially offset

TAX COMPUTATION—FOR PERSONS NOT USING TAX TABLE ON PAGE 4

1. Enter amount shown in item 4, page 1. This is your Adjusted Gross Income
2. Enter DEDUCTIONS. If deductions are itemized above, enter the total of such deductions. If adjusted gross income (line 1, above) is $5,000 or more and deductions are not itemized, enter the standard deduction of 10 percent of line 1, above, or $1,000, whichever is the lesser, or $500 if this is the separate return of a married persen
3. Subtract line 2 from line 1. Enter the difference here. This is your Net Income
4. Multiply $600 by total number of exemptions claimed in item 1, page 1. Enter total here
5. Subtract line 4 from line 3. Enter difference here

Line 6 should be filled in ONLY if this is a joint return of husband and wife.

6. Use the tax rates shown in Tax Table A of Instructions to figure your tax on amount in line 5 (if line 3, above, includes partially tax-exempt interest, see Instructions). This is your combined normal tax and surtax

Line 7 should be filled in ONLY by a single person.

7. Use the tax rates shown in Tax Table B of Instructions to figure your tax on amount in line 5 (if line 3, above, includes partially tax-exempt interest, see Instructions). This is your combined normal tax and surtax

Lines 8 to 10 should be filled in ONLY by a married person making a separate return.

8. Enter here amount shown on line 5 multiplied by 2
9. Use the tax rates shown in Instructions (Tax Table A) to figure your tax on amount shown in line 8 (if line 3, above, includes partially tax-exempt interest, see Instructions). Enter the tax on amount shown in line 8 here
10. Divide amount on line 9 by 2. Enter this tax here. This is your combined normal tax and surtax
11. If alternative tax computation is made on separate Schedule D, enter here tax from line 12 on back of Schedule D

If you used the standard deduction in line 2, disregard lines 12, 13, and 14, and copy on line 15 the same figure you entered on line 6, 7, 10, or 11, whichever is applicable.

12. Enter here any income tax payments to a foreign country or U. S. possession (attach form 1116)
13. Enter here any income tax paid at source on tax-free covenant bond interest
14. Add the figures on lines 12 and 13 and enter the total here
15. Subtract line 14 from line 6, 7, 10, or 11, whichever is applicable. Enter difference here and in item 5, page 1. This is your tax