PRELIMINARY REPORT ON EARNED INCOME

REPORTS

to the

Joint Committee on Internal Revenue Taxation

Pursuant to

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Vol. II—Part 1

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LETTER OF TRANSMITTAL

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION,
Washington, June 20, 1930.

To Members of the Joint Committee on Internal Revenue Taxation:

There is transmitted herewith a "Preliminary Report on Earned Income," as prepared by our staff.

The report presents three possible methods of determining earned income relief for the consideration of the committee. Our staff contend that any one of these methods is superior to the present method both on the basis of simplicity and on the basis of equity and adequacy.

Your comments and suggestions on this subject will be appreciated.

Very truly yours,

WILLIS C. HAWLEY,
Chairman Joint Committee on Internal Revenue Taxation.

LETTER OF SUBMITTAL

Congress of the United States,
Joint Committee on Internal Revenue Taxation,
Washington, April 7, 1930.

Hon. Willis C. Hawley,
Chairman Joint Committee on Internal Revenue Taxation,
House of Representatives, Washington, D. C.

My Dear Chairman: There is respectfully submitted herewith a report on earned income.

In my opinion, the report is sufficient to establish, first, that earned income relief is justifiable; second, that the present method of granting the relief is too complicated and in many cases inadequate; and, third, that new methods are available which will correct the defects of the present method.

Three new methods of computing the earned income relief are presented for the consideration of the committee. The first method proposes a deduction of 12½ per cent of the earned net income from the income subject to normal and surtax. The second method contemplates the allowance of a 33⅓ per cent deduction from the income subject to normal tax only. The third method uses a table of constants so designed as to permit of the determination of an earned income tax credit directly from the table as soon as the earned net income has been computed.

These methods give results which vary to a considerable extent, but they all give slightly greater relief than the present method on earned net incomes of less than $30,000 and substantially greater relief on incomes in excess of that amount.

The fact that greater earned income relief is advocated on incomes above $30,000 than below that amount will be surprising at first sight. The reasons for this are comparatively simple, however.

In the first place, earned incomes below $30,000 now receive a 25 per cent relief from tax, while those over $30,000 receive a much less percentage relief. In fact, on earned incomes of $100,000 the relief is only 3 per cent. Furthermore, in the case of the smaller incomes, the tax is so low already that it is impossible to give much greater relief without eliminating the tax altogether. For instance, a married man with a salary of $4,000 now pays a tax of $5.63 after an earned income tax credit of $1.87. In other words, the earned income relief is substantial and fairly adequate on the smaller incomes and only a relatively slight further relief seems justified.

In the second place, however, where the earned income exceeds $30,000 the relief appears entirely inadequate to provide for the differential in tax between earned income and unearned income which appears proper. The present situation in regard to these

larger earned incomes and the relief proposed by the three new methods may be best shown by a hypothetical case as follows:

HYPOTHETICAL CASE

Mr. A, a married man, has $1,250,000 capital left him by his father, from which he derives an income of $75,000 per annum (all derived from first mortgages). His tax is $10,309.38.

Mr. B is in the same situation as Mr. A except he has his money invested in the preferred stock of domestic corporations. His tax is $6,960.

Mr. C is a married man and has a net income of $75,000 per annum derived from his business as a lawyer. His tax after the deduction of the present earned income credit is $9,818.75.

The proposed methods would result in the following taxes on Mr. C's income:

First method (12½ per cent deduction from net income subject to normal and surtax)	$8, 202. 50
Second method (33⅓ per cent deduction from net income subject to normal tax only)	9, 123. 33
Third method (table of constants)	8, 904. 00

It is believed that the above hypothetical case shows on its face the justice of additional earned income relief. Mr. A and Mr. B are both millionaires in a situation which assures not only themselves but their posterity of an ample income. On the other hand, the situation of Mr. C is such that he is subject to the chances of business, he has no capital on which he can retire, his posterity is not provided for, his necessary expenses which are not deductible for income-tax purposes are large, and his present tax of $9,818.75 is larger than Mr. B's and almost as great as Mr. A's. This tax, in fact, is sufficiently heavy to prevent Mr. C from setting aside a reasonable capital reserve. In this situation the increase in the present relief from $496.25 to $1,191.67, to $1,411, or even to $2,112.50, which result, respectively, from the three suggested methods, seems entirely within reason.

The suggestions and comments of the members of the committee in respect to the submitted report are respectfully requested.

Very respectfully,

L. H. Parker,
Chief of Staff.

PRELIMINARY REPORT ON EARNED INCOME

A. Foreword

The present income tax law provides for the taxation of earned income up to amounts not in excess of $30,000 by a method which, in effect, taxes this form of income at lower rates than the rates used in taxing income from capital. This method consists of the allowance of a tax credit of 25 per cent of the amount of the tax which would have been payable upon the earned net income of the taxpayer computed as if this earned net income constituted his entire net income. The computation of the credit requires no less than 14 separate items upon the standard form of return. The method is therefore open to serious objection because of its complicated nature.

Two reports on earned income have been published by the staff of the joint committee. The primary object of both was simplification. The first report recommended in lieu of the 25 per cent tax credit the allowance of a deduction from net taxable income of an amount equal to 10 per cent of the amount of the earned net income, subject to maximum and minimum limits equivalent to those fixed by existing law. While this recommendation was approved by the joint committee and included in their report dated November 15, 1927, the Committee on Ways and Means failed to adopt it during the consideration of the revenue act of 1928. Acting on suggestions made during the discussion before the Committee on Ways and Means, the staff prepared and published a second report under date of March 13, 1928. The latter report developed a method by which the tax credit allowable could be found in a table after computation of the earned net income.

Subsequent to the publication of the above-mentioned reports, there has been considerable public discussion as to the adequacy of the present earned income relief, and many reasons have been advanced for the extension of such relief. Inasmuch as the former reports did not cover this phase of the subject, this further report is prepared for the purpose of discussing the adequacy and distribution of the present relief, and for the purpose of developing certain new methods which will give equity as well as simplicity.

B. Synopsis

1. Earned Income Defined.

Earned income may be defined as compensation for services rendered, such as salaries, wages, professional fees, and business profits due to personal endeavor. It is one of the three great divisions into which income subject to tax is divided and must be distinguished from the two other divisions, namely, investment income and capital gains.

2. Arguments for Earned-Income Relief.

The principal reasons advanced for a differentiation between the tax on earned income and the other forms are briefly as follows:

(*a*) Inasmuch as the productive agent of investment income, namely, capital, receives deductions from taxable income on account of depreciation or exhaustion, it is proper that the productive agent of earned income, namely, the individual, should receive proportionate relief since the latter is also subject to the exhaustion of earning power.

(*b*) The individual with earned income generally bears expenses not borne by the individual with unearned income, and the majority of these expenses are not allowable deductions for tax purposes.

(*c*) Earned income is more uncertain than unearned income.

(*d*) Since capital gains receive tax relief by a method purporting to distinguish gains for investment purposes from gains for speculative purposes, it is also proper that earned income should receive relief according to its peculiar characteristics, for brain and brawn are entitled to as much consideration as capital.

(*e*) The fact that the principle of earned income is recognized by such countries as Great Britain, France, Italy, Belgium, and Spain is persuasive as to its soundness.

3. Arguments Against Earned-Income Relief.

There are two principal arguments against earned-income relief as follows:

(*a*) There is already sufficient discrimination in favor of earned income because the local taxes on property, plus the income tax on investment income therefrom, already place a heavier burden on investment income than on earned income.

(*b*) A distinction between earned income and unearned income is not justified, because such income does not, in either case, vary as to the deserts of the recipient.

It is believed that these arguments are refutable. The facts do not support the first argument, as over 65 per cent of the total local taxes are paid by individuals with practically no investment income, and, therefore, the local taxes are paid in large measure out of earned income instead of out of investment income. In regard to the second argument, it appears impossible to base a practical tax law on moral issues.

4. The Relief Provided by the Revenue Act.

The present earned-income provision provides for a tax credit of 25 per cent of the amount which would be payable on the earned net income of the taxpayer, computed as if such earned net income comprised his entire net income. However, the law provides that earned net income shall not be recognized as such in excess of $30,000. It also limits the amount to be recognized as earned in the case of business profits partly attributable to capital to 20 per cent of the total profits.

5. Objections to Present Method of Relief.

There are three major objections to the present earned-income-relief provision, as follows:

(*a*) The present method is too complicated, requiring no less than 14 entries on the return, and results in errors and expense to both Government and taxpayer.

(*b*) The method is inadequate, especially in the case of incomes of over $30,000.

(*c*) The 20 per cent limit applied to business profits in determining the amount earned is unfair and entirely arbitrary.

6. Remedy for Complexity.

Two new methods which would remedy the complexity of the present method have already been suggested in published staff reports. It seems certain that any other new method of computing the earned-income relief that may be adopted should not disregard the necessity for the simplification of the present provision.

7. Determination of Adequacy or Inadequacy.

It appears that the extent of the present earned-income relief was based rather on revenue requirements than on any scientific basis. It is necessary, therefore, to set up certain theoretical, practical, and comparative tests for the adequacy or inadequacy of our present provision.

(*a*) *Theoretical tests.*—Two theoretical tests have been developed which show as follows:

(1) On the basis that the productive agent of earned income, namely, the individual, is entitled to similar allowances for the return of capital as are allowed to the productive agent of investment income, namely, capital, it is found that from 10 per cent to 13 per cent of the earned net income should be exempted from tax. This is determined by use of the future expected profits method of valuation.

(2) On the basis of a similar theory, it is believed that, since the average allowance for depreciation granted corporations is 12⅓ per cent of their net income, it is consistent to exempt individuals from tax on 12⅓ per cent of their earned net income.

(*b*) *Practical tests for adequacy.*—Two practical tests for adequacy have been developed as follows:

(1) It is believed that living expenses increase with salaries and that it is necessary in the average case for a salaried man to live in a manner compatible with his position. A schedule has been set up showing estimated necessary living expenses on different salaries varying from $3,600 on a $4,000 salary to $9,050 on a $100,000 salary.

(2) It would be desirable if every person were able to save such a sum during a normal working life as would allow him to retire at the expiration of such period on half pay. Working out this proposition, it is found that if a person puts aside from 10½ per cent to 13 per cent of his annual salary he would be able to retire at the end of a working life of 30 years at one-half his average annual salary.

(*c*) *Relative tests for adequacy.*—These tests simply compare the present tax on earned income with the tax on like amounts of income derived from ordinary investments, from dividends, from tax-exempt interest, and from capital gains.

(*d*) *Inadequacy of present relief.*—Finally, it is shown on the basis of the tests set up that the present earned-income relief can be properly increased somewhat on net incomes up to about $28,000; that no additional relief should be given on net incomes between $28,000 and $31,000; and that on net incomes above $31,000 considerably more relief should be given.

8. Remedy for Inequity of 20 Per Cent Limit.

The arbitrary 20 per cent limit now used in determining the earned income where capital is a material income-producing factor has been found unjust. It is believed, for practical purposes, that this limit should be increased to not more than 50 per cent, with the proviso that the commissioner shall retain the power to reduce this percentage in the light of the facts and circumstances of each individual case.

9. Pertinent Statistics on Earned Income.

The statistics which appear pertinent to a study of earned income are given and show, among other things, that—

(*a*) The number of taxpayers with net incomes of less than $10,000 is decreasing.

(*b*) The number of taxpayers with net incomes of more than $10,000 is increasing.

(*c*) The present earned income-tax relief amounts to about $34,000,000 per annum.

10. Principles Advocated for Earned-Income Relief.

It is believed that the following two principles should be accepted in granting earned-income relief:

(*a*) The individual should be tax-exempt on such certain percentage of his earned income as would represent a fair allowance for the exhaustion of his earning power.

(*b*) Due to the structure of our present income tax law, which ceases to make any distinction in the individual's ability to pay on incomes in excess of $100,000, it is believed that earned income should not be recognized above that limit. From practical considerations, it seems probable the limit to which income is recognized as earned should be set at $75,000.

11. Description of Five Practical New Method.

Five possible methods based on the principles set forth seem worthy of consideration. These methods may be described as follows:

(*a*) *Present method with no limit.*—This method consists of the allowance of a tax credit of 25 per cent of the amount of tax which would be payable if the taxpayer's earned net income constituted his entire net income. The method is the same as the present method without the $30,000 maximum limit. Under the tests developed in paragraph 7, this method is shown to give excessive relief on net incomes of over $30,000, and its use is not recommended.

(*b*) *10 per cent deduction from net income.*—This second method proposes a deduction from net income of 10 per cent of the amount of the earned net income. While this method appears theoretically sound it is somewhat too conservative and increases the tax on some of the small taxpayers. It is believed that the 10 per cent rate is too low and that the rate used should be increased.

(*c*) *12½ per cent deduction from net income.*—The third method is the same as the second with the exception of the rate which is increased to 12½ per cent. This method meets the tests shown in paragraph 7 and appears advantageous both from the standpoint of adequacy and of simplicity.

(*d*) *40 per cent deduction from net income subject to normal tax.*—As a fourth method, it is proposed to allow as a deduction from the net income subject to normal tax, a sum equal to 40 per cent of the earned net income. In the computation of the surtax no effect would be given to earned income. When this method is tested it appears to give excessive relief on the smaller incomes and, therefore, its use is not recommended.

(*e*) *33⅓ per cent deduction from net income subject to normal tax.*—This fifth method is the same as the fourth, except that the rate used is 33⅓ per cent. When tested, it is found that this method has certain advantages, especially from the point of view of the small taxpayer.

12. Arbitrary Table of Constants Method.

In addition to the above methods, which are based, at least to some extent, on theory, there is set up a further method, which is entirely arbitrary and elastic. This is the table of constants method already considered in detail in a published staff report to the joint committee dated March 21, 1928. (Vol. I, pt. 5.) This method is simple and any desired relief can be given by its use. A definite set of figures have been set up for purposes of comparison with the other methods.

13. Comparison of the Three Preferable Methods as to Adequacy.

Of the methods described, the three which seem preferable are as follows:

Method No. 3: 12½ per cent deduction from net income.

Method No. 5: 33⅓ per cent deduction from net income subject to normal tax.

Table of constants method.

A comparison of these three methods leads to the conclusion that method No. 3 is most favorable from a theoretical standpoint, and also from the standpoint of the larger salaried person. Method No. 5 is most favorable to the small taxpayer. The table of constants method, as arbitrarily developed in the report, adopts a middle course between the other two methods.

The final choice between these methods will rest largely on practical considerations, such as revenue requirements, liberality to the small taxpayers, and simplicity.

14. Refinement of Methods to Meet Other Requirements.

It is recommended that, in the event any one of these methods is used, it be modified as follows:

First, all amounts of net income subject to normal tax up to $5,000 should be recognized as earned whether actually earned or not.

Second, when the earned net income of a taxpayer exceeds $75,000, only $75,000 should be recognized as earned net income for tax purposes.

15. Test for Complexity.

An examination of the three preferable methods described shows that they remedy the complexity found in the present provision. The new methods eliminate from 11 to 13 items out of the 14 items at present necessary on the standard form of return.

16. Probable Loss of Revenue by Proposed Methods.

Inasmuch as each of the methods suggested increases the earned income allowances, it is evident that the adoption of either would occasion a loss of revenue. The annual loss of revenue which would result is estimated as follows:

By method No. 3	$34, 000, 000
By method No. 5	24, 000, 000
By table of constants method	20, 000, 000

17. Recommendation.

It is recommended that the committee consider the three new methods for the determination of the earned income allowance in three respects:

First, as to which method is considered preferable.

Second, as to the limit to be set for the recognition of earned income.

Third, as to the increase in the present 20 per cent limit on business profits.

C. Discussion

1. Earned Income Defined and Distinguished.

For tax purposes, income may be divided into (1) earned income, (2) investment income, and (3) capital gain. It is important to distinguish between these forms of income in order to develop a fair tax upon earned income as compared with the tax levied on the other forms. This is the more necessary because of the difference in the conception of these terms from an economic and a tax standpoint.

Earned income may be defined as the gain derived from labor, such as salaries, wages, professional fees, and profits due to the personal endeavor of the taxpayer as distinguished from profits arising from the employment of capital. In general, all of this income is taxable, but there are certain exemptions based on constitutional limitations; such as the salary of the President of the United States, the salaries of the judges of constitutional courts, and the salaries of officers and employees of the States.

Investment income may be defined as the gain derived from capital, such as interest, dividends, rents, and gains from the sale or conversion of assets held less than two years. This form of income may be subdivided into (1) investment income subject to both normal and surtax, such as ordinary interest, rents, royalties, etc.; (2) investment income subject only to surtax, such as dividends, and Liberty bond interest; and (3) investment income which is tax exempt, such as interest on Government bonds (other than Liberty bonds) and the obligations of State and local governments.

Capital gain may be defined as the income from the sale or conversion of assets other than stock in trade, held for a period of more than two years; for example, gains from the sale of stocks, bonds, patent rights, real property, etc., provided they have been held for the required period.

2. Arguments for Earned-Income Relief.

Adam Smith in his Wealth of Nations would ask one question in determining the ability to pay—"How much is your income?" This test, however, is no longer the only test that should be applied. The current viewpoint is aptly stated by Prof. H. L. Lutz in his book on Public Finance (1929 edition). After discussing the six tests which Sir Josiah Stamp would apply in determining ability to pay, the author draws the following conclusion:

> It is no longer sufficient to assert simply that taxation is adjusted in accordance with ability when the rates are levied according to the relative amounts of income. It is a far cry from Smith's dictum that equality in taxation consists in levying taxes in proportion to the respective revenues of the citizens.

The amelioration of the tax levied on earned income need not be advocated from a sympathetic standpoint, but may be justified on equitable grounds. In fact, the principle of ability to pay constitutes a general basis for relief inasmuch as two persons with the same taxable net incomes may have very different actual net incomes, for certain deductions are allowed in one case and not in the other, and certain obligations attach to one and not to the other. Furthermore, in at least one case even the rate of tax is different.

Specific arguments for earned-income tax relief may be briefly stated as follows:

First, the productive agent of investment income, namely, capital, is carefully guarded by the existing law from bearing any tax through allowances for depreciation, depletion, obsolescence, and loss of useful value. Therefore, the productive agent of earned income, namely, the individual, should be protected through a similar allowance for the exhaustion of the individual's earning power. This argument is more forcibly expressed in the report of the National Tax Association, as follows:

> Income has been likened to the fruit of the tree of capital. In the case of the earner it is the fruit of his toil and the margin above his expenses is in fact his capital. Income from capital can bear taxes at progressive rates, the capital remains intact and the owner is at most deprived of the use of a part of his wealth. The earner is attempting to grow his tree of capital and a heavy progressive tax is in effect cutting down the growth of his tree. A doctor's skill, a lawyer's intellect, an author's inspiration, or a business executive's energy are not fixed and indestructible, capable of producing annual income forever. Yet the income they produce is taxed on a parity with that of capital. Capital is permitted to replenish its loss by dipping into income through depreciation, obsolescence, depletion. But the human vitality, health, and strength lost in earning salaries, fees, and similar compensation can not be deducted as depreciation, obsolescence, or depletion from the income of the earner.

Second, the individual with earned income has expenses not borne by the individual with investment income. The former must live near his place of employment and maintain a standard of living in keeping with the dignity of his position. On the other hand, the investor may elect to reside wherever he pleases, thus avoiding the excess expenses required in a particular community, and his standard of living has no effect on the return derived from his investments. Inasmuch as the major portion of these excess expenses borne by the individual with earned income is not deductible for tax purposes, it results that earned income is taxed to some extent on a gross basis while investment income is taxed on a net basis.

Third, earned income is more uncertain than income derived from capital. If the investor places his funds with reasonable care, without the objective of exorbitant profits, he is assured of a stable income. On the other hand, the individual with earned income is always confronted with the possibility of illness or accident, either of which may temporarily or permanent suspend his income, thus creating the necessity for savings to protect him and his family from charity. Both this and the preceding argument are summed up by Sir Josiah Stamp in his book on The Principles of Taxation as follows:

> * * * It was long ago recognized that £100 from toil was "weaker" than £100 from dividends, because the toiler has to make provision for precariousness of employment, sickness, old age, and other infirmities, and also because he is tied and often has to incur extra expenditure through living near his work and being unable to select his abode very widely. In this connection it must not be forgotten that we do not get our season ticket expense between house and business, or the extra cost of our meals in town, allowed as deductions from income.

Fourth, the present law imposes a tax of 12½ per cent on the gain from the sale or conversion of capital assets held for a period of more than two years. Where the net income is $30,000 or more, this results in a material reduction in tax. There appears to be no reason why earned income arising from personal endeavor should not receive as much consideration as capital gains occurring in many cases without effort on the part of the taxpayer.

Fifth, the example set by such countries as Great Britain, France, Italy, Belgium, and Spain, in recognizing the principle of earned income in their tax systems, is persuasive of the soundness of a distinction between earned and unearned incomes. The general point of view of the British on this subject was well summed up by Mr. Asquith in 1907, as follows:

> Comparing two individuals, one who derives, we will say, £1,000 a year from a perfectly safe investment in the funds perhaps accumulated and left to him by his father, and, on the other hand, a man making the same nominal sum by personal labor in the pursuit of some arduous and perhaps precarious profession, or some form of business, to say that those two people are, from the point of view of the state, to be taxed in the same way, is, to my mind, flying in face of justice and common sense.

3. Arguments Against Earned-Income Relief.

There are comparatively few arguments against earned-income tax relief. This is undoubtedly due in part to the paucity of discussion on this subject. In fact, only two arguments have been found which appear to have sufficient weight to deserve consideration.

First, it is held that there is a sufficient discrimination in favor of earned income because the local taxes on property, plus the income tax on investment income therefrom, already place a heavier burden on investment income than on earned income. It is claimed this eliminates the necessity for any earned-income relief provision in the Federal law. This point of view has not only been taken by certain economists but the legislative history of the revenue acts discloses that a similar position was taken by some of the Members of Congress. The argument appears best summarized in the recent text on public finance by Prof. H. L. Lutz, which is quoted as follows:

> A final judgment as to the proper treatment of personal and property incomes can not be reached by considering the Federal income tax only. The tax system of the American States will probably always contain the property tax in some form. The combination of property and income taxes results in a heavier total

taxation of the funded or unearned incomes, without the necessity of emphasizing the distinction in the income tax. (H. L. Lutz, Public Finance, p. 308.)

This argument does not appear to be supported by the facts. Indeed, an opposite conclusion seems justified. An examination of the table in Appendix I discloses that the individual with little wealth pays an average of 5 per cent of his total income in property taxes in spite of the fact that 75 per cent of his income is earned income. On the other hand, the wealthy individual with only 16 per cent of his income earned pays in local taxes only 2 per cent of his total income. It must be apparent, then, that the earned income class pay more than their proportionate share of the property tax and that it is eminently fair to give them a reduction in Federal tax on earned income since the Federal Government can not give reduction on their property taxes. These figures confirm what might have been reasonably expected, namely, the salaried man with practically no investment income but who owns his own home is bearing the bulk of the local property taxes. These taxes are paid out of earned income, for there is no investment income out of which to pay them. Thus the facts do not appear to support the argument that local taxes on property, added to income taxes on the revenue therefrom, result in a heavier tax burden on investment income than on earned income.

Second, it is contended that no distinction between earned and investment income is justified, because such income does not in either case vary as to the deserts of the recipient. This conception is set forth in Lord Hugh Cecil's exposition of political theory, Conservatism, in his chapter on Property and Taxation. The author, after providing the reader with a special definition of the word "unearned," proceeds to argue that no distinction should be made. After discussing necessary limitations on absolute ownership, he says:

> The conception which lies more or less definitely in people's minds, that a man is justly entitled to what he owns because he has deserved to acquire it, is, I suggest, a delusion; and all consequent distinctions about "earned" or "unearned" increment of wealth are equally unfounded.

Further on in his discussion, in comparing "earned" and "unearned" income, he says:

> Let us say, then, that a man gets wealth by lending his possessions or lending his exertions. A distinction may fairly be drawn between the two forms of lending, and the word "earned" may be properly applied to the second method of acquisition. But, if so, "earned" must not be understood to connote any element of desert; for a moment's consideration is sufficient to show that exertions are not paid for in proportion to their desert.

And at this point he compares the easy gains of popular or vicious writing with the niggardly profits of a good scientific work and refers to the fact that a barrister and a plowman, a prima donna and a laborer do not necessarily differ in desert. Then, after fully discussing the nature and causes of "increment," he concludes:

> All property is seen to be on the same moral level, as something acquired without injustice, that is to say, without fraud or violence, but not meritoriously so that the owner's title may rest on his virtues.

It seems unnecessary to attempt to disprove the above argument for the author is viewing the tax system as having been constructed on an entirely different basis than the Federal income tax laws. The writer is viewing the distinction solely from a moral basis. Taxing authorities have never adopted any such test as a guide in enacting

Federal tax laws, realizing its utter impracticability. In fact, a bootlegger who earns $30,000 commission in dispensing illegal wares may, under the law, claim the benefits of the earned income provision.

4. THE RELIEF PROVIDED BY THE REVENUE ACT.

Legislative history discloses that earned income relief was advocated as far back as the Civil War period. During the passage of the revenue act of 1913, amendments were offered providing for a discrimination in favor of earned income. Similar proposals were made during the consideration of subsequent acts. It was not until 1924, however, that our tax law finally recognized the principle of earned income and, then, only to the extent of $10,000. The sole changes in the earned income provision since 1924 have been successive increases, to $20,000 and $30,000, respectively, in the maximum limit up to which earned income is recognized.

The provision providing for the tax credit on earned income in the case of the revenue act of 1928, now in force, is as follows:

SEC. 31. EARNED INCOME CREDIT. (*a*) *Definitions.* For the purposes of this section

(1) "Earned income" means wages, salaries, professional fees, and other amounts received as compensation for personal services actually rendered, but does not include that part of the compensation derived by the taxpayer for personal services rendered by him to a corporation which represents a distribution of earnings or profits rather than a reasonable allowance as compensation for the personal services actually rendered. In the case of a taxpayer engaged in a trade or business in which both personal services and capital are material income producing factors, a reasonable allowance as compensation for the personal services actually rendered by the taxpayer not in excess of 20 per centum of his share of the net profits of such trade or business, shall be considered as earned income.

(2) "Earned income deductions" means such deductions as are allowed by section 23 for the purpose of computing net income, and are properly allocable to or chargeable against earned income.

(3) "Earned net income" means the excess of the amount of the earned income over the sum of the earned income deductions. If the taxpayer's net income is not more than $5,000, his entire net income shall be considered to be earned net income, and if his net income is more than $5,000, his earned net income shall not be considered to be less than $5,000. In no case shall the earned net income be considered to be more than $30,000.

(*b*) *Allowance of credit.* In the case of an individual the tax shall be credited with 25 per centum of the amount of tax which would be payable if his earned net income constituted his entire net income; but in no case shall the credit allowed under this subsection exceed 25 per centum of his normal tax plus 25 per centum of the surtax which would be payable if his earned net income constituted his entire net income. This credit shall be in addition to all other credits against the tax.

5. OBJECTIONS TO THE PRESENT METHOD OF RELIEF.

There are three major objections to the present method of reducing the tax on earned income. These are, first, complexity of computation; second, inadequacy of relief; third, arbitrary 20 per cent limit on business profits. These objections will be taken up in order.

5. (*a*) *Complexity of computation.* Our previous reports on this subject have gone at length into the complexity of the earned income tax credit computation and the findings made may be summarized as follows:

1. Nearly 20 per cent of all individual returns are in error on account of the earned income computation.

2. Fourteen items are added to the standard form of return for the computation of this tax credit.

3. The clerical work in audit is increased, with consequent delay and expense.

4. Many small refunds or additional collections are required.

5. Taxpayers are often obliged to bear the expense of technical advice in the preparation of their returns which would otherwise be unnecessary.

Informal reports submitted to the joint committee and a subcommittee of the Treasury Department during the year 1927 by employees of the Bureau of Internal Revenue almost without exception condemn the complexity of the existing statute. The overwhelming sentiment of collectors and agents was in favor of the repeal of the earned income provision because of its complexity. Paralleling the viewpoint of Government officers is the action of the National Tax Association in 1926, which recommended the elimination of this section principally on the grounds of simplicity of administration. Their conclusions as to its complexity were summed up as follows:

> The method of calculation is so complicated that almost universal objection is voiced to it.

The discussions before the joint committee and before the Committee on Ways and Means of the method employed resulted in not a single statement in defense of the present method of computation. No change, however, was made at the time of the enactment of the revenue act of 1928, for the reason that objections were offered to the substitute methods proposed. It appears to be unnecessary to support this objection further, for anyone who had made out the standard form of return, designated as Form 1040, knows that the present method of computing the earned income tax credit is prima facie complicated.

5. (*b*) *Inadequacy of relief.* The second objection to the present provision is that the relief granted is inadequate. Many petitions have been presented to Congress requesting a reduction in the tax on earned income. The signers of these petitions include wage earners, actors, judges, lawyers, doctors, and preachers; in fact, people from all walks of life. There appears to be reasonable grounds for this objection; first, because the 25 per cent reduction is based on a mere guess dictated by revenue requirements; and, second, because the $30,000 limitation is equally unfounded and arbitrary. The following table illustrates the relief given by the present provision in the case of a married man with no dependents, this case being selected because it has the average amount of personal exemptions and credits.

Net income	Tax without earned income relief	Present tax if income is all earned	Total relief	Per cent relief
$3,500.00	--	--	--	--
4,000.00	$7.50	$5.63	$1.87	25
5,000.00	22.50	16.88	5.62	25
6,000.00	37.50	28.13	9.37	25
7,000.00	52.50	39.38	13.12	25
8,000.00	75.00	56.25	18.75	25
10,000.00	135.00	101.25	33.75	25
12,000.00	225.00	168.75	56.25	25
15,000.00	415.00	311.25	103.75	25
20,000.00	825.00	618.75	206.25	25
25,000.00	1,365.00	1,023.75	341.25	25
30,000.00	1,985.00	1,488.75	496.25	25
40,000.00	3,405.00	2,908.75	496.25	14.6
50,000.00	5,085.00	4,588.75	496.25	9.8
75,000.00	10,415.00	9,918.75	496.25	4.8
100,000.00	16,265.00	15,768.75	496.25	3.1
200,000.00	41,265.00	40,768.75	496.25	1.2

It can be seen from the above that the tax on all amounts of earned net income up to and including $30,000 receive a tax reduction of 25 per cent. The actual amount of tax relief varies from 0 to $496.25. It is apparent that there is no self-evident answer to the question as to whether this relief is adequate or inadequate.

In the case of earned net incomes in excess of $30,000, the percentage relief does not remain constant at 25 per cent, but the actual amount of the relief becomes fixed at $496.25. The result, of course, is that the percentage relief drops rapidly from 25 per cent on earned net incomes of $30,000 until it becomes comparatively negligible at slightly more than 1 per cent on earned net incomes of $200,000.

5. (*c*) *Inequity of 20 per cent limit on business profits.*—The revenue act of 1928 which has already been quoted in full contains the following limitation on earned incomes derived from business profits:

> In the case of a taxpayer engaged in a trade or business in which both personal services and capital are material income producing factors, a reasonable allowance as compensation for the personal services actually rendered by the taxpayer not in excess of 20 per centum of his share of the net profits of such trade or business, shall be considered as earned income.

It is contended that this provision is entirely arbitrary and indefensible except on the ground that it is easy of administration. For example, suppose a man has a capital of $25,000 and by working hard 16 hours a day suppose he makes a profit of $25,000. His earned income under the law is $5,000, the other $20,000 of profit being allocated to capital. This allocation of an 80 per cent profit to capital seems absurd. The harshness ascribed to this rule is further illustrated by the case of the small unincorporated taxpayer whose earned income is limited to 20 per cent of his net profits, in contrast to the principal officer of a close corporation whose earned income (salary) may be increased at his will and subject only to the maximum limit of $30,000.

The Joint Committee on Internal Revenue Taxation approved the following conclusion in the report of its staff dated November 15, 1927:

> The arbitrary 20 per cent limit placed on the earnings from a business where capital is a material income producing factor, which is assumed to represent earned income, is unjust in the case of small business men.

6. Remedy for Complexity.

The mechanics of the present method are chiefly responsible for its complexity. This is due to the fact that relief is provided by means of a tax credit which requires two separate and distinct tax computations.

The staff of the joint committee recommended, in a report dated November 15, 1927, the elimination of the present method and the substitution therefor, of a method by which the relief would be determined by allowing a deduction in computing net income of an amount equal to a certain percentage of the earned net income. The latter method, not only eliminated 13 items from the return, but also required but one tax computation.

A second method was proposed in a staff report dated March 21, 1928, by which the tax credit was determined from a table of constants to be printed on the return. This table was constructed so as to

show the tax credit allowable opposite the amount of the earned net income.

Either method appears to be practical and would solve the present difficulties of computation. In fact, the first method has been proven practical by use in England. In that country the method was adopted about 1920 as a substitute for a former and unsatisfactory provision providing for a difference in tax rate.

7. Determination of Adequacy or Inadequacy.

The most difficult and important problem to be dealt with in this report is the determination of the extent to which the earned income relief should be allowed. It has been shown that the present relief is not a guide because it appears to have been based on judgment controlled by the necessities of the revenue, without regard to scientific basis or social conditions. Before any definite opinion can be expressed as to the adequacy or inadequacy of our present allowance, certain theoretical, practical, and relative tests for measuring the extent of the relief must be discussed.

7. (*a*) *Theoretical tests for adequacy.*—In a preceding paragraph, certain arguments for granting earned income relief were stated. The first argument was that the productive agent of earned income, namely, the individual, is entitled to relief similar to that granted to the productive agent of investment income, namely, capital, through depreciation, depletion, and other allowances of like character. If the theory underlying this argument is followed it is possible to make two theoretical tests for the adequacy of earned income relief.

7. (*a*) (1) *Return of capital.*—In the case of property subject to wear and tear, exhaustion, obsolescence, and other causes resulting in the reduction in value of such property, the income tax law permits a taxpayer to put aside annually tax-free, a sum which will compensate for such reduction in value. In the ordinary case of depreciation and depletion, a certain percentage of the actual cost of the property is put aside annually in a reserve—the percentage allowed being predicated on the probable life of the property. In a great many cases, however, the cost of the property is not the basis, but the value as of a certain date. In these latter cases, the value is often obtained by a formula which, by discounting the future expected profits from the property back to the basic date, gives an approximation of the value at that time.

If the individual is to be granted deductions comparable with those allowed to capital for exhaustion, it is apparent that the basis of cost will never be available, but that the basis of value determined from future expected profits sometimes used for capital may be applicable. This can be readily shown by a hypothetical case.

For instance, suppose on March 1, 1913, a man has a mine, which will be exhausted in 30 years and which is returning an annual net profit of $1,000 per year. The method employed under the tax law in determining the March 1, 1913 value and the depletion allowances would be about as follows:

Present value of $1,000 per annum for 30 years with 15 per cent interest allowed purchaser and 4 per cent sinking fund rate	$5,958.47
Annual depletion allowable would be $5,958.47 divided by 30, equals	198.62

Next, suppose a resident of the United States on March 1, 1913, had a slave in Africa, where slavery was legal, and suppose the net profit from the labor of this slave was $1,000 per annum and that he had a life expectancy of 30 years. It is believed that in this case a taxpayer could claim a March 1, 1913, value of the slave of $5,958.47, and an annual depreciation allowance of $198.62, exactly as in the case of the mine.

Finally, suppose an individual on March 1, 1913, had logical reasons for believing that through his mental and physical equipment he would make a profit of $1,000 per annum for 30 years through the use of such faculties. Why should he not be allowed an annual deduction of $198.62 exactly as in the case of the mine and of the slave?

If our law had provided for depreciation on any productive agent of income which was subject to exhaustion and decay it would then be obvious that every individual would be entitled to depreciation on his individual value as a producer of income. The computation of such depreciation allowances accordingly affords a measure for proper earned income relief.

If, therefore, the principle is adopted that a taxpayer should be allowed to put aside annually a sum which at the end of his productive life will amount to his value at the beginning of his productive life, it will be possible to secure a definite measure of the earned income relief. In other words, a theoretical test for adequacy has been found.

To illustrate this test, assume, for the first case, that a man has a working life of 30 years and that his salary for that period is $10,000 per annum. Assume further that his necessary living expenses are 35 per cent of his salary or $3,500 per annum, and, therefore, that the annual profit from his salary is $6,500. The facts are now available for determining the value of the individual at the beginning of his productive life, exactly as the value of capital is often retrospectively determined.

The computation of his value is as follows:

Present value of $1 per annum for 30 years, allowing for 15 per cent interest rate and 4 per cent sinking fund rate, equals	$5. 9585
Present value of $6,500 per annum for 30 years, at same rates, equals $6,500 times $5.9585, or	38, 730

Applying the same rule that we apply in arriving at the depreciation or depletion deduction on capital items, it will be seen that the annual earned income deduction should be $38,370, divided by 30, or the sum of $1,291. This amount then represents an annual deduction of approximately 13 per cent of the annual earned income of $10,000. It should be noted that in the above computation interest rates of 15 and 4 per cent have been selected for discount purposes, not arbitrarily, but consistently with the rates used in the case of capital, due account being taken of the risk involved. (See A. R. M. 34, ruling of Bureau of Internal Revenue.)

As far as this case is concerned, therefore, it would seem that a deduction from income amounting to 13 per cent of the earned income would exempt from tax an amount equivalent to that exempted

through depreciation and depletion allowances in the case of income from capital.

Of course, the above case is not sufficient to prove the propriety of the percentage except in cases where a uniform salary is received. Therefore, a second case will be taken where the annual salary varies in a reasonable manner.

Assume the following facts:

Average working life, 30 years.	
Annual salary first 5 years	$5,000
Annual salary second 5 years	10,000
Annual salary third 5 years	15,000
Annual salary fourth 5 years	15,000
Annual salary fifth 5 years	15,000
Annual salary sixth 5 years	5,000
Necessary annual expenses, 35 per cent of annual salary; interest rate, 15 per cent; redemption rate, 4 per cent.	
Average annual salary	10,833

Solving for the present value of the annual profits above indicated, the value at the beginning of productive life is found to be $32,183. By an algebraic equation, the percentage of the annual salary to be put aside annually which will amount to this value at the end of 30 years will be found to be 9.9 per cent, or approximately 10 per cent.

In view of the two representative cases given above, and numerous other cases which have been computed, it is believed, on the basis of this test, that the exemption from tax of from 10 to 13 per cent of the earned net income will result in adequate earned income tax relief.

Additional weight is given to the above conclusion from the fact that for many years Great Britain granted for earned income relief a deduction from net income of 10 per cent of the amount of the earned net income. In their last finance act, however, the percentage was increased to 16⅔ per cent. It is possible, therefore, that the upper limit of 13 per cent which has been stated is somewhat conservative.

7. (*a*) (2) *Exhaustion of earning power.*—Based on the same theory that the earning power of the individual is entitled to similar allowances for exhaustion as is granted to capital, it is possible to make a direct test for adequacy in the case of the earned income relief.

The net profits of all taxpaying corporations in 1927 amounted to $13,187,344,678 before the depreciation allowance of $2,493,195,405 was deducted. Therefore the depreciation allowance reduced net income by approximately 19 per cent for tax purposes. Now, if this percentage is applied to the earned income of an individual, after the deduction of a reasonable amount for living expenses in order to make the test consistent, it will be found that the 19 per cent is equivalent to a 12⅓ per cent deduction from the gross earned income of the individual. For instance, a man has a salary of $10,000, his living expenses are $3,500, and his net profit from the salary is $6,500. An allowance of 19 per cent of $6,500 would amount to $1,235, which is 12⅓ per cent of the gross salary of $10,000.

This result, therefore, is in agreement with the test made in paragraph 7 (*a*) (1), where the percentage was found to be between 10 and 13 per cent.

7. (*b*) *Practical tests for adequacy.*—It is also possible to make certain practical tests for the adequacy of earned income relief on the basis of common sense rather than on any particular tax theory applied to other forms of income. Two such tests will now be described.

7. (*b*) (1) *Proportionate increase of living expenses with salary.*—Considering exclusively salaried persons, it is seen that the revenue act taxes their salaries at progressive rates on amounts in excess of a certain fixed exemption, purporting to be for normal living expenses.

For instance, all married men without dependents and with salaries less than $3,500 pay no tax, those with salaries of $7,500 pay taxes on $4,000, those with salaries of $100,000 pay taxes on $96,500, and so on. There is also a very substantial increase in the rate of tax applied, varying from 1½ per cent (½ per cent, 1929) to 25 per cent.

While the principle of ability to pay is thus completely recognized as far as the gross salary is concerned, our taxing statute fails to apply a consistent theory in regard to personal exemption and credits for dependents, which are fixed and invariable for each class of taxpayers.

It must be admitted as a practical matter that our conventions and customs are such as to practically require a man to increase his expenses as his salary increases. It is obviously a very exceptional case when a married man with a $100,000 annual salary finds it necessary to spend only $3,500, the exemption allowed under the statute. It is highly probable that if such a man had failed to increase his expenses in accordance with his station in life, he would never have risen to the $100,000 salary.

There are no reliable and complete figures on actual living expenses of individuals classified by size of salaries. It is only possible to make what seems to be a reasonable assumption based on judgment and common sense. After considerable study on this point, the necessary living expenses of married persons with no dependents have been arrived at by the following rule:

On salaries of more than $3,500 but not more than $10,000, the necessary living expenses are estimated at $3,500 plus 20 per cent of the excess of the salary over $3,500.

On salaries of more than $10,000 but not more than $15,000, the necesssary living expenses are estimated at $4,800 plus 15 per cent of the excess of the salary over $10,000.

On salaries of more than $15,000 but not more than $30,000, the necessary living expenses are estimated at $5,550 plus 10 per cent of the excess of the salary over $15,000.

On salaries of more than $30,000 but not more than $50,000, the necessary living expenses are estimated at $7,050 plus 5 per cent of the excess of the salary over $30,000.

On salaries of more than $50,000 but not more than $100,000, the necessary living expenses are estimated at $8,050 plus 2 per cent of the excess of the salary over $50,000.

On salaries of more than $100,000, the necessary living expenses are estimated to be constant at $9,050.

The result of applying the above rule to salaries of various amounts may be seen from the following table:

Necessary living expenses in proportion to salary of married man with no dependents

Salary	Necessary living expenses	Per cent expenses to salary	Salary	Necessary living expenses	Per cent expenses to salary
$3,500	$3,500	100	$20,000	$6,050	30.3
4,000	3,600	90	22,000	6,250	28.4
5,000	3,800	76	24,000	6,450	26.9
6,000	4,000	66.7	26,000	6,650	25.6
7,000	4,200	60	28,000	6,850	24.5
8,000	4,400	55	30,000	7,050	23.5
9,000	4,600	51.1	35,000	7,300	20.9
10,000	4,800	48	40,000	7,550	18.9
11,000	4,950	45	45,000	7,800	17.3
12,000	5,100	42.5	50,000	8,050	16.1
13,000	5,250	40.4	60,000	8,250	13.7
14,000	5,400	38.6	70,000	8,450	12.1
15,000	5,550	37	80,000	8,650	10.8
16,000	5,650	35.3	90,000	8,850	9.8
17,000	5,750	33.8	100,000	9,050	9.1
18,000	5,850	32.5	200,000	9,050	4.5
19,000	5,950	31.3	500,000	9,050	1.8

The point of view taken in estimating the necessary living expenses shown above is to exclude from such expenses all expenditures for pleasures, luxuries, or charities, and to include therein only those expenses which would be deemed unavoidable for conventional mode of life compatible with the salary received.

It is admitted that the above figures are very uncertain, but it is believed that they are conservative. Search has been made for authorities on this subject, but little of value has been found which is suitable from a tax standpoint. Charts have been constructed from the data secured, but they are not considered sufficiently valuable to be included here, although they have been of some assistance in arriving at the rule already stated.

In spite of the admitted inaccuracy of the above schedule of necessary living expenses, it is believed that this is a very important test of the earned income relief, for it gives a direct measure of the deserved relief according to the size of the earned income. It will therefore be used in examining the propriety of the relief contemplated in certain new methods to be proposed later.

7. (*b*) (2) *Retirement on half pay.*—As a practical matter, it must be conceded that it would be a "consummation devoutly to be wished" if every person was able to save a sum during a normal working life which would enable him to retire on a comfortable income at the expiration of such normal period.

This idea leads to a method by which the adequacy of earned income relief may be tested. Such a method can be developed based on the following principle applicable to taxation:

An individual should be tax exempt on such portion of his annual earned income, which, if put aside annually into a retirement fund, would amount to a sum, the interest from which would enable the individual to retire at the expiration of a normal working life.

In order to apply this principle concretely, it will be assumed, first, that half pay is a sufficient income for a person on retirement, and, second, that the normal working life of an individual is 30 years.

The half-pay conception is rather common, and for our purposes will be more accurately defined as one-half the average annual salary received over the working life. The 30-year period seems fair on its face. With these qualifications the principle stated can be exemplified by two simple examples.

For the first case, suppose a man has a salary of $10,000 per year for his productive life (30 years). It will be necessary for him to put aside sufficient money each year so that he will have $83,333 at the end of the 30 years, because interest at 6 per cent on $83,333 will yield $5,000 per year and will therefore enable the man to retire on half pay. The necessary annual sinking-fund payment which at 6 per cent interest will amount to $83,333 in 30 years is found to be $1,054. Therefore, in the case of a uniform salary, if a man puts aside 10½ per cent of his salary each year, he will be able to retire at the end of 30 years on half pay, if we assume that money will earn 6 per cent interest.

Now, take a second case where the salary is not uniform over the productive life. Assume a man's salary to be $5,000 per year for the first 10 years, $10,000 per year for the second 10 years, and $15,000 per year for the third 10 years. His average salary for the period is $10,000 as in the first case, and, therefore, he will need a capital of $83,333 as before, if he is to retire at one-half his average annual salary. The problem in this case is to find what per cent of his annual salary he must put aside annually to amount to the last-mentioned sum in 30 years. This problem has been approximately solved and it is found that if the man puts aside 13 per cent of his annual salary he will have the required sum of $83,000 plus at the end of the 30 years. Or, in other words, he must put aside $650 a year for the first 10 years, $1,300 a year for the second 10 years, and $1,950 a year for the last 10 years.

From the above cases, which are representative, it is concluded, as far as this test is concerned, that a deduction from net income of from 10½ to 13 per cent of the earned income would constitute a fair earned income relief. It should be observed that this is in very close agreement with the conclusion reached in paragraph 7 (*a*) (1).

7. (*c*) *Relative tests for adequacy.*—No investigation as to the adequacy of earned income relief can be complete without a comparison between the tax on earned incomes and the tax on the various other forms of income, for, after all, the determination of the proper tax on any form of income must be made in the light of the burden on the other forms. Such a comparison will now be undertaken.

7. (*c*) (1) *Comparison with tax on ordinary investment income.*—The first comparison made is between the tax on earned incomes and on ordinary investment incomes. The term "ordinary investment incomes" is used to denote those consisting of items subject to both normal and surtax, such as bank interest, interest on mortgages, interest on corporate bonds, business profits attributable to capital investment, and the like.

The facts which should be considered can be shown by the following simple table:

Comparison between tax on earned income and ordinary investment income

[Basis: Married man with no dependents 1928 rates]

Net income	Theoretical tax on ordinary investment income without earned income provision	Actual tax on ordinary investment income (first $5,000 considered earned)	Actual tax on earned income, 1928 act	Actual difference in tax	Actual percentage relief
$3,500.00					
4,000.00	$7.50	$5.63	$5.63		
5,000.00	22.50	16.88	16.88		
7,000.00	52.50	46.88	39.38	$7.50	16.
10,000.00	135.00	129.38	101.25	28.13	21.7
15,000.00	415.00	409.38	311.25	98.13	24
20,000.00	825.00	819.38	618.75	200.63	24.5
25,000.00	1,365.00	1,359.38	1,023.75	335.63	24.7
30,000.00	1,985.00	1,979.38	1,488.75	490.63	24.8
40,000.00	3,405.00	3,399.38	2,908.75	490.63	14.4
50,000.00	5,085.00	5,079.38	4,588.75	490.63	9.6
75,000.00	10,315.00	10,309.38	9,818.75	490.63	4.7
100,000.00	16,265.00	16,259.38	15,768.75	490.63	3.
200,000.00	41,265.00	41,259.38	40,768.75	490.63	1.2

It can be observed from the above data that the maximum actual earned income relief in comparison with the actual tax on ordinary investment income occurs in the case of earned incomes between $10,000 and $30,000. In fact, on incomes of $5,000 and less there is no difference in the tax and on incomes in excess of $75,000, the relief is relatively inconsequential.

Whether the above results are defensible or not will be considered when the adequacy of the present method is discussed.

7. (*c*) (2) *Comparison with tax on dividends.*—The next comparison which will be made is between the tax on earned income and the tax on dividends received from the stock of domestic corporations.

In making this comparison, however, serious difficulty is encountered, because the incidence of the corporate tax has not yet been satisfactorily determined. This subject of incidence is too broad to be discussed in any detail here. Indeed, a special report on this subject has been authorized. It will be necessary, however, to state the three theories now held as to the incidence of the corporate tax and then present the necessary facts on each theory.

The first theory is that the corporate tax is passed on to the consumer and is therefore not really borne by the corporation and does not reduce its profits.

The second, and most generally accepted theory, is that the corporate tax is not passed on and therefore diminishes the profits distributable.

The third theory is that the corporate tax is partly passed on and partly borne by the corporation.

The facts which must be considered, on the basis of the first theory, in making a comparison between the tax on earned income and on domestic dividends are as follows:

Comparison between tax on earned income and domestic dividends on theory corporate tax is passed on

[Basis: Married man with no dependents—1928 rates]

Net income	Actual tax on dividends paid by individual	Actual tax on earned income, 1928 act	Discrimination against earned income	Percentage of discrimination
$3,500.00	----------	----------	----------	----------
4,000.00	----------	$5.63	$5.63	----------
5,000.00	----------	16.88	16.88	----------
7,000.00	----------	39.38	39.38	----------
10,000.00	----------	101.25	101.25	----------
15,000.00	$60.00	311.25	251.25	419
20,000.00	220.00	618.75	398.75	181
25,000.00	510.00	1,023.75	513.75	101
30,000.00	880.00	1,488.75	608.75	69
40,000.00	1,800.00	2,908.75	1,108.75	62
50,000.00	2,980.00	4,588.75	1,608.75	54
75,000.00	6,960.00	9,818.75	2,858.75	41
100,000.00	11,660.00	15,768.75	4,108.75	35
200,000.00	31,660.00	40,768.75	9,108.75	29

If the theory upon which the above comparison is made is correct, the discrimination against earned income is indefensible, for the tax on such income is greatly in excess of the tax paid on dividends. However, the above theory is not the view of the majority, as shown below.

In a recent report by the National Industrial Conference Board, data are presented which show that out of 10,000 questionnaires only 1,036 answers were received in sufficient detail to be useful for an analysis of the question "Is the corporate tax shifted?" Out of these 1,036 replies, 449, or 43 per cent, answered the question in the negative; 128, or 12 per cent, answered in the affirmative; and 459, or 45 per cent, did not answer or indicated no opinion on the subject.

Thus, it is seen that a large number of persons competent to judge believe that the corporate tax is not passed on. The questionnaire apparently did not contain the question "Is the corporate tax partly shifted?" It is believed, however, that a considerable number of the 45 per cent expressing no opinion on this subject would have answered this latter question in the affirmative.

The facts which are pertinent to the second theory, held by 43 per cent of the persons answering the questionnaire, are next presented. This theory is that the corporate tax is not passed on but is borne by the stockholder.

Comparison between tax on earned income and domestic dividends on theory corporate tax is not passed on

[Basis: Married man with no dependents—1928 rates]

Net income	Tax on gross dividend paid by corporations	Tax on net dividend paid by individual	Total tax on dividend	Actual tax on earned income, 1928 act	Tax relief on earned income	Percentage relief
$3,500.00	$420.00	----------	$420.00	----------	$420.00	100
4,000.00	480.00	----------	480.00	$5.63	474.37	98.8
5,000.00	600.00	----------	600.00	16.88	583.12	97.2
7,000.00	840.00	----------	840.00	39.38	800.02	95.3
10,000.00	1,200.00	----------	1,200.00	101.25	1,098.75	91
15,000.00	1,800.00	$32.00	1,832.00	311.25	1,520.75	83
20,000.00	2,400.00	128.00	2,528.00	618.75	1,909.25	75.5
25,000.00	3,000.00	320.00	3,320.00	1,023.75	2,296.25	69.2
30,000.00	3,600.00	608.00	4,208.00	1,488.75	2,719.25	64.6
40,000.00	4,800.00	1,328.00	6,128.00	2,908.75	3,219.75	52.5
50,000.00	6,000.00	2,240.00	8,240.00	4,588.75	3,651.25	44.3
75,000.00	9,000.00	5,380.00	14,380.00	9,818.75	4,561.25	31.7
100,000.00	12,000.00	9,380.00	21,380.00	15,768.75	5,611.25	26.2
200,000.00	24,000.00	26,860.00	50,860.00	40,768.75	10,091.25	19.8

It will be observed from the above figures that if the corporate tax is not passed on the relief given to earned income is excessive, or more probably the tax on dividends is too severe.

In any event, the results shown on this theory are not only entirely at variance with those shown on the other theory, but they are in opposite directions. For in this case it is found that earned income receives too great relief and in the other case it was found that earned income not only received no relief but that it was discriminated against.

Finally, those facts necessary in considering the third theory will be presented. This theory is that part of the corporate tax is passed on and part is not passed on. In the absence of any authentic data it will be assumed that one-half the corporate tax is passed on and the other one-half is not passed on. The figures follow:

Comparison between tax on earned income and domestic dividends on theory corporate tax is one-half passed on

[Basis: Married man with no dependents—1928 rates]

Net income	Tax on gross dividends paid by corporation	Tax on net dividend paid by individual	Total tax on dividend	Tax on earned income	Tax relief on earned income	Percentage relief
$3,500.00	$210.00	----------	$210.00	----------	$210.00	100
4,000.00	240.00	----------	240.00	$5.63	234.37	97.7
5,000.00	300.00	----------	300.00	16.88	283.12	94.4
7,000.00	420.00	----------	420.00	39.38	380.62	90.6
10,000.00	600.00	----------	600.00	101.25	498.75	83.1
15,000.00	900.00	$42.00	942.00	311.25	630.75	67
20,000.00	1,200.00	172.00	1,372.00	618.75	753.25	54.9
25,000.00	1,500.00	410.00	1,910.00	1,023.75	886.25	46.4
30,000.00	1,800.00	736.00	2,536.00	1,488.75	1,047.25	41.3
40,000.00	2,400.00	1,560.00	3,960.00	2,908.75	1,051.25	26.5
50,000.00	3,000.00	2,600.00	5,600.00	4,588.75	1,011.25	18.1
75,000.00	4,500.00	6,150.00	10,650.00	9,818.75	831.25	7.8
100,000.00	6,000.00	10,520.00	16,520.00	15,768.75	751.25	4.6
200,000.00	12,000.00	29,260.00	41,260.00	40,768.75	491.25	1.2

Even under this final theory, which represents a compromise between the two opposing theories as to the incidence of the corporate tax, it can be seen from the above data that the tax on dividends and the tax on earned income are irreconcilable.

The defect in our system lies in our method of taxing dividends and, therefore, as far as earned-income relief is concerned, any test predicated upon the relative tax on dividends must be abandoned.

7. (*c*) (3) *Comparison with treatment of tax-exempt interest.*—There is no Federal income tax on the obligations of State and local governments. Such a tax would be unconstitutional. In addition to this, there is no tax on certain Government bonds and on interest up to $300 received from building and loan associations.

Since there is no tax on this class of income and the tax on earned income has been already shown, no comparative figures are necessary. It seemed important merely to mention the exemption of these certain forms of income in order that the fact that certain forms of investment income are tax exempt might be kept in mind.

7 (*c*) (4) *Comparison with capital-gains tax.*—It has already been pointed out that one of the main divisions of income is capital gains. In case these gains result from the sale of assets held over two years, special tax relief is given, but the method of giving the relief only affects the larger incomes. The facts which should be considered in comparing the tax on earned income and the tax on capital gains are set forth in the following table:

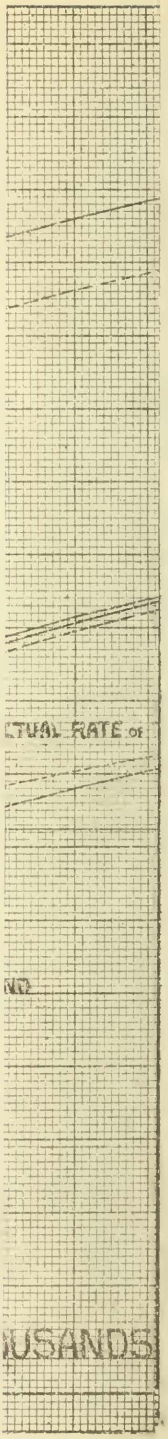
Comparison between tax on earned income and on capital gains

[Basis: Married man with no dependents—1928 rates]

Net income	Tax on capital gain	Tax on earned income	Difference in tax	Percentage relief on earned income	Percentage discrimination against earned income
$3,500.00	----------	----------	----------	----------	----------
4,000.00	$5.63	$5.63	----------	----------	----------
5,000.00	16.88	16.88	----------	----------	----------
7,000.00	46.88	39.38	−$7.50	16	----------
10,000.00	129.38	101.25	−28.13	21.7	----------
15,000.00	409.38	311.25	−98.13	24	----------
20,000.00	819.38	618.75	−200.63	24.5	----------
25,000.00	1,359.38	1,023.75	−335.63	24.7	----------
30,000.00	1,979.38	1,488.75	−490.63	24.8	----------
40,000.00	3,399.38	2,908.75	−490.63	14.4	----------
50.000.00	5,079.38	4,588.75	−490.63	9.6	----------
70,000.00	8,750.00	8,668.75	−81.25	.9	----------
75,000.00	9,375.00	9,818.75	443.75	----------	4.7
100,000.00	12,500.00	15,768.75	3,268.75	----------	26.1
200,000.00	25,000.00	40,768.75	15,768.75	----------	63.1

It can be seen from the above that as far as capital gains are concerned, the relief granted earned income is the same as in the case of ordinary investment income up to about $70,000. On incomes of $75,000 and over, it is found that there is no relief on earned income, but, on the contrary, the tax on earned income is from 4.7 to 63.1 per cent more than the tax on income from capital gains.

This situation must be attributed, however, not to our earned-income provision but to a defective capital-gains provision. A report recommending the revision of the method of taxing capital


ACTUAL RATE OF
NO
THOUSANDS

gains has already been made and is under consideration by the committee.

For the benefit of those who would prefer a graphic to a statistical presentation comparing the tax on different classes of income, a chart has been prepared showing the composite tax rates on ordinary investment incomes, earned incomes, capital gains, and dividends. This chart shows such data for both the revenue act of 1926 and the revenue act of 1928.

It is believed that the examination of this chart will show the present distinction in tax at a glance, provided that the problem of the incidence of the corporation tax is kept in mind. It will be observed that the tax on dividends is shown both on the theory that the tax is shifted and on the theory the tax is not shifted. The chart referred to faces this page.

7. (*d*) *Inadequacy of present relief.*—It appears that a sufficient basis has now been established for a consideration of the adequacy or inadequacy of our present earned-income provision.

If the eight tests for adequacy, which have just been discussed, are reviewed it will be found that they can be consolidated and eliminated for practical application as follows:

Test (A): This test, designated for convenience as (A), is a consolidation of the three tests discussed in paragraphs 7 (*a*) (1), 7 (*a*) (2), and 7 (*b*) (2), based on principles of return of capital, exhaustion of earning power, and retirement on half pay, respectively. The conclusions arrived at in these three cases in the order named were briefly as follows:

7. (*a*) (1) The deduction of from 10 to 13 per cent of the earned net income from the income subject to tax results in an adequate earned income relief.

7. (*a*) (2) The deduction of 12⅓ per cent of the earned net income from the income subject to tax results in an adequate earned income relief.

7. (*b*) (2) The deduction of from 10½ per cent to 13 per cent of the earned net income from the income subject to tax results in an adequate earned income relief.

It is obvious that the conclusions in these three cases, though resulting from the application of different principles, are in such close agreement that the three may be consolidated into one, as follows:

The deduction of from 10 to 12½ per cent of the earned net income from the income subject to tax results in an adequate earned income relief.

In regard to the above rate of 12½ per cent, it should be stated that this is selected instead of 13 per cent for practical purposes, as 12½ per cent equals one-eighth and is more easily applied.

Test (B): This test is the one discussed in paragraph 7 (*b*) (1) and is not adapted to consolidation with other tests. It is based on the principle that necessary living expenses increase as the salary increases.

Test (C): This is the comparative test discussed in paragraph 7 (*b*) (1) and is based on a comparison with the tax on ordinary investment income.

Eliminations: The tests discussed in paragraphs 7 (*c*) (2), 7 (*c*) (3), and 7 (*c*) (4) are not directly usable in making direct comparisons

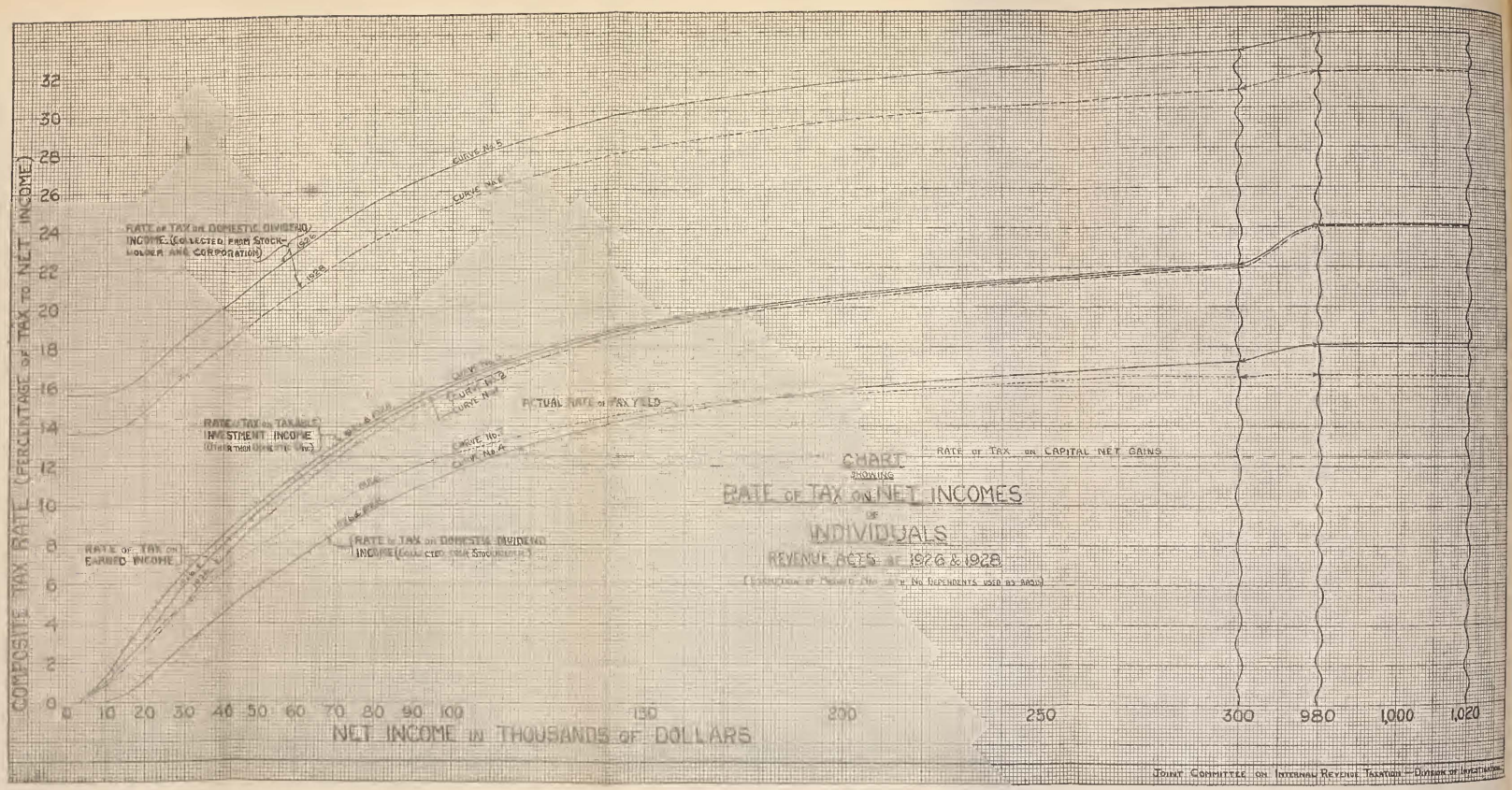


CHART
SHOWING
RATE OF TAX ON NET INCOMES
OF
INDIVIDUALS
REVENUE ACTS OF 1926 & 1928
(EXCLUSION OF PERSONAL EXEMPTION & NO DEPENDENTS USED BY BASIS)
COMPOSITE TAX RATE (PERCENTAGE OF TAX TO NET INCOME)
NET INCOME IN THOUSANDS OF DOLLARS
0
2
4
6
8
10
12
14
16
18
20
22
24
26
28
30
32
0
10
20
30
40
50
60
70
80
90
100
150
200
250
300
980
1,000
1,020
RATE OF TAX ON DOMESTIC DIVIDEND INCOME (COLLECTED FROM STOCKHOLDER AND CORPORATION)
CURVE No. 5
CURVE No. 6
1928
RATE OF TAX ON TAXABLE INVESTMENT INCOME (OTHER THAN DOMESTIC DIV.)
ACTUAL RATE OF TAX YIELD
CURVE No. 2
CURVE No. 1
CURVE No. 3
CURVE No. 4
RATE OF TAX ON CAPITAL NET GAINS
RATE OF TAX ON EARNED INCOME
RATE OF TAX ON DOMESTIC DIVIDEND INCOME (COLLECTED FROM STOCKHOLDER)
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION — DIVISION OF INVESTIGATION

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for the reasons stated in those paragraphs, and they are eliminated. It is obvious that the present taxes on dividends and capital gains are inherently defective and not adapted for use in determining directly the extent of the relief to which earned income is entitled.

In order to test the adequacy or inadequacy of the present 25 per cent tax credit allowed as earned income relief, it is merely necessary then to set forth a table showing, on different amounts of net income, (1) the tax payable without earned income relief, (2) the present theoretical relief, (3), the relief under test (A) (minimum, 10 per cent), (4) the relief under test (A) (maximum, 12½ per cent), the relief under test (B), and the actual relief, test (C). This comparison has been set forth in the following table:

Adequacy or inadequacy of present earned-income relief

[Basis: Married man with no dependents—1928 rates]

Net income	Tax without earned income relief	Present theoretical relief, 25 per cent tax credit	Test A (minimum): 10 per cent deduction from income	Test A (maximum): 12½ per cent deduction from income	Test B: living expenses	Test C: actual relief in comparison with investment income
$3,500.00	----------	----------	----------	----------	----------	----------
4,000.00	$7.50	$1.87	$6.00	$7.50	$1.50	----------
5,000.00	22.50	5.62	7.50	9.37	4.50	----------
7,000.00	52.50	13.12	10.50	13.12	10.50	$7.50
10,000.00	135.00	33.75	30.00	37.50	39.00	28.13
15,000.00	415.00	103.75	100.00	122.50	133.00	98.13
20,000.00	825.00	206.25	180.00	220.00	225.00	200.63
25,000.00	1,365.00	341.25	285.00	352.50	345.00	335.63
30,000.00	1,985.00	496.25	380.00	470.00	446.00	490.63
40,000.00	3,405.00	496.25	600.00	740.00	607.00	490.63
50,000.00	5,085.00	496.25	870.00	1,080.00	793.50	490.63
75,000.00	10,315.00	496.25	1,700.00	2,112.50	1,161.00	490.63
100,000.00	16,265.00	496.25	2,400.00	3,000.00	1,332.00	490.63
200,000.00	41,265.00	496.25	5,000.00	6,250.00	1,377.50	490.63

An analysis of the above figures leads to the following conclusions:

On net incomes below $7,000, the present relief is inadequate on the basis of test A, but adequate on the basis of test B. On account of distortion due to a fixed personal exemption, it appears the present relief is not unjust, but that it could be increased reasonably without inequity.

On net incomes from $7,000 to $25,000, inclusive, the present relief lies between the minimum and maximum limits shown by test A, and is slightly inadequate on the basis of test B. Taken as a whole, it would seem the present relief was fair but not liberal, and that slightly more relief could be given with propriety.

On net incomes of about $30,000 the present relief is adequate and even somewhat excessive on the basis of all tests.

On net incomes of over $30,000, the present relief is inadequate on the basis of all tests, and grossly inadequate on net incomes of $50,000 and over.

It can be concluded, therefore, that our present earned-income relief can properly be somewhat increased on net incomes up to about $28,000, that no additional relief should be given between net incomes of $28,000 to $31,000, and that on net incomes about $31,000 considerably more relief should be given.

It will be observed that in the above analysis test C has not been discussed. This is because the object of the test is merely to show the actual difference between the tax on earned and investment income, and the variation in the figures shown in the test C column from those shown under the column headed "Present theoretical relief" is due to the fact that our present law recognizes the first $5,000 of net income as earned whether it is actually earned or not.

It is believed this arbitrary $5,000 allowance is justified on two grounds: First, on account of simplification and ease of administration, and, second, on account of the 12 per cent tax on dividends deducted at the source. It is not felt that persons with earned income should complain because a fair measure of relief given them is extended to a different class consisting of small taxpayers who are inequitably treated in certain other respects.

8. Remedy for Inequity of 20 Per Cent Limit.

In a preceding paragraph, the following conclusion was found justified:

> The arbitrary 20 per cent limit placed on the earnings from a business where capital is a material income-producing factor, which is assumed to represent earned income, is unjust in the case of small business men.

The proper theoretical method for remedying this inequity is obvious. The capital employed in the business should be determined, and after a fair rate of profit has been assigned to such capital, the earned income should be found by deducting from the total profit the profit assignable to capital by the application of the fair rate to the amount of such capital.

Such a method, however, is complicated and constitutes a return to invested capital computations, the extreme difficulty of which has been amply demonstrated. As a result it would seem best to recommend the retention of the present arbitrary method with an increase in the percentage limit as was suggested in the first report on this subject.

Putting this in concrete form, it is recommended that the earned income allowance, in the case of a business where capital is a material income-producing factor, shall not exceed 50 per cent of the net profits of such business.

It should be observed that this recommendation provides merely for a greater maximum limit and that the commissioner retains the power to deny the maximum amount where the facts warrant such action.

9. Pertinent Statistics on Earned Income.

Certain pertinent statistics in connection with the income and tax of individuals should be considered in connection with earned-income relief. The years 1925, 1926, and 1927 will be used, as the rates and exemptions were the same for individuals in all these three years.

TABLE R.—*Number of returns*

	1925	1926	1927	Per cent increase, 1927 over 1925
0 to $10,000 (taxable)	2, 174, 148	2, 136, 671	2, 095, 044	−3. 6
$10,000 to $25,000	236, 779	246, 730	252, 079	6. 5
$25,000 to $50,000	59, 721	57, 487	60, 123	. 7
$50,000 to $80,000	16, 562	16, 162	17, 680	6. 7
$80,000 to $100,000	4, 396	4, 358	4, 893	11. 3
$100,000 to $150,000	4, 739	4, 724	5, 261	10. 6
$150,000 to $300,000	3, 223	3, 267	3, 873	20. 2
$300,000 to $500,000	892	892	1, 141	27. 9
$500,000 to $1,000,000	479	468	557	16. 3
Over $1,000,000	207	231	290	40. 1
Total (taxable)	2, 501, 166	2, 470, 990	2, 440, 941	−2. 4
Under $10,000 (nontaxable)	1, 669, 885	1, 667, 102	1, 660, 606	−. 6
Grand total	4, 171, 051	4, 138, 092	4, 101, 547	−1. 7

The above figures show rather surprising results for an era of prosperity.

First, there are more taxpayers in every class with net incomes above $10,000 in 1927 than there were in 1925. The greatest rate of increase is found to be 40 per cent.

Second, there are fewer taxpayers in the class with net incomes below $10,000 in 1927 than there were in 1925. The decrease amounts to 81,104 returns, or 3.6 per cent.

Third, there are fewer persons filing nontaxable returns as required by law in 1927 than there were in 1925. The decrease amounts to 9, 279 returns, or 0.6 per cent.

This situation deserves attention in connection with the study of earned income relief, in order to see whether or not it is possible that the tax on the individual with a small income can possibly have contributed to the unsatisfactory condition in which this class appears to be.

The first thing to be examined in this respect is evidently the net income and tax of this class of taxpayers with net incomes below $10,000. We find this to be as follows for the years 1925 to 1927, inclusive:

Year	Net income	Tax	Average tax per individual	Per cent tax to net income
1925	$8, 157, 375, 183	$33, 057, 457	$15	0. 41
1926	8, 033, 926, 992	33, 551, 101	15	. 41
1927	7, 921, 631, 297	32, 416, 729	15	. 41

It is quite obvious that the tax of 4 mills on the dollar or the total tax per individual of $15 is entirely too small to account for the condition noted. Moreover, it has already been shown that the number of persons who file nontaxable returns has also decreased, and it is, of course, impossible to ascribe this result to taxes, as none are paid. The real reason must be looked for elsewhere.

If the total income of all persons making returns (whether taxable or nontaxable) with net incomes of less than $10,000 be analyzed, some light will be thrown on the subject. This is shown below:

Year	Per cent of total income from wages, salaries, business and partnerships	Per cent of total income from investments
9125	75.86	24.14
1926	75.42	24.58
1927	74.78	25.22

Thus, it can be seen that the percentage of wages and the percentage of business and partnership profits to total income has been decreasing since 1925. The income from wages and the income from business and partnerships profits in 1925 was $10,990, 917,629 while in 1927 it was $10,818,502,902, a decrease of $172,414,727. Now, this decrease comes about not through a decrease in wages but through a decrease of business and partnership profits, for from 1925 to 1927 the aggregate wages of this class increased from $7,405,578,878 to $7,646,444,712, an increase of $240,865,834, while in the same period business and partnership profits decreased from $3,585,338,751 to $3,172,058,190, or a total of $413,280,561.

From the above, and a study of a large number of other statistics, which will be omitted for the sake of brevity, it seems reasonably certain that the principal reason why there has been a decrease in our income-tax class below $10,000 is because the small businesses and partnerships have had a decided falling off in profits. This decrease in profits has been no less than 11 per cent in the last two years. This conclusion, arrived at from a consideration of the statistics, is in accordance with what appears to be the general opinion that the small business is unable to compete successfully with the large corporation, consolidation, and chain store. It is also probably true that the increase in the number of $5,000 to $10,000 positions is also very small, if there is any increase at all, and that this class in general fail to improve their financial position and increase their income through savings.

It must be evident that if the whole tax paid by individuals with incomes less than $10,000, and amounting in three years to approximately $99,000,000, had been eliminated, it would have fallen far short of giving any substantial relief to the small individual business man whose aggregate profits have decreased $413,000,000 in the last three years, for a large portion of the $99,000,000 tax is borne by the salaried person and not the man running his own business. It must be concluded that the condition of this class can not be substantially improved by reducing the already very light burden placed upon it by the Federal income tax.

The income classes above $10,000 will now be considered. Reverting to Table R, already given, it is seen that there has been an increase in the number of returns in all these classes. However, in one class, with incomes between $25,000 and $50,000, the increase is not

substantial, amounting to only seven-tenths of 1 per cent from 1925 to 1927. In the case of the net income class from $10,000 to $25,000 and the net income class from $50,000 to $80,000, the increase has been in both cases approximately 6½ per cent. There has been a marked increase in all income classes above $80,000 amounting in no case to less than 10½ per cent and reaching a maximum in the case of persons whose net income exceeds $1,000,000 where the increase has been 40 per cent. From the above it would seem that additional earned income relief would be justifiable in the case of persons with net incomes below $80,000, with the maximum of such relief being allowed on net incomes between $25,000 and $50,000.

There is another point which should be considered in respect to the distribution of earned income relief. This is in connection with the increase in taxes to our various classes of taxpayers since the original revenue act of 1913, the year of lowest tax rates, and also in connection with the decrease in taxes since the revenue act of 1918, the year of highest tax rates. The facts as to this increase and decrease, under the revenue act of 1928, are shown below for a married man with no dependents and all earned income:

Net income	Per cent increase in tax since 1913	Per cent decrease in tax since 1918	Net income	Per cent increase in tax since 1913	Per cent decrease in tax since 1918
$5,000	68.8	90.6	$60,000	514.0	56.1
10,000	68.8	87.8	70,000	537.4	54.7
15,000	183.0	81.4	80,000	541.4	54.2
20,000	286.7	76.5	100,000	528.2	55.0
25,000	293.8	72.5	200,000	442.9	59.6
30,000	313.5	69.8	500,000	362.9	64.2
40,000	419.4	62.4	1,000,000	301.2	65.7
50,000	503.8	58.4			

It will be observed from the above percentages that the class of taxpayers with net incomes between $50,000 and $100,000 have had a much greater increase in tax since 1913 than any other class, the maximum increase being 541.4 per cent on an $80,000 income. It will also be observed that this same class has received less tax reduction since 1918 than any other class, the minimum reduction being 54.2 per cent on incomes of $80,000. It would seem, therefore, that if the revenue requirements permit there will be ample justification for giving the class mentioned earned income relief, since the present limit to which earned income is recognized only extends to $30,000. Preliminary figures covering the 1928 returns have been examined, and it is found that these figures confirm the conclusion arrived at from the 1925, 1926, 1927, statistics.

For the benefit of those who wish to analyze the earned income of individuals more carefully, there is included in Appendix II a complete statement of the earned income of individuals by net income classes for the years 1916 to 1927, inclusive.

Only one other set of statistics will be given here. These are for the purpose of showing the actual earned income tax credit allowed for 1924 to 1928, inclusive, by net income classes. The figures follow:

Income classes	1924	1925	1926	1927	1928 (tentative)
$10,000	$22, 696, 408	$8, 738, 764	$8, 723, 175	$7, 559, 125	$8, 506, 569
$10,000 to $25,000	5, 613, 325	8, 327, 360	8, 815, 397	9, 657, 267	9, 672, 392
$25,000 to $50,000	1, 545, 396	4, 524, 630	4, 370, 703	4, 539, 651	8, 910, 080
$50,000 to $100,000	561, 806	1, 909, 642	1, 811, 033	1, 952, 846	4, 135, 996
$100,000 to $150,000	120, 207	476, 211	450, 357	516, 359	1, 262, 066
$150,000 to $300,000	74, 833	339, 952	331, 828	480, 006	1, 224, 489
$300,000 to $500,000	14, 171	185, 919	84, 100	117, 688	420, 010
$500,000 to $1,000,000	9, 256	46, 537	40, 895	64, 756	235, 675
Over $1,000,000	2, 061	21, 168	19, 505	27, 617	127, 762
Total	30, 637, 463	24, 570, 183	24, 646, 993	24, 915, 315	34, 495, 039

The above figures are interesting in that they show the total reduction in taxes by the earned-income credit. The much larger credit in the case of the income class from 0 to $10,000, observable in 1924, is due to a higher rate of tax and smaller personal exemptions, and not because the percentage relief for earned income was greater. It should be noted that for 1925, 1926, and 1927 the earned income relief has remained practically constant at slightly less than $25,000,000 per annum. The tentative figures for 1928 indicate an increase in the total earned income relief of about $8,500,000, which is due to the increase in the limit to which earned income is recognized from $20,000 to $30,000.

10. Principles Advocated for Earned-Income Relief.

While some of the principles have been discussed upon which it would appear earned-income relief should be based, it is proper before discussing possible methods of giving the relief to summarize those principles which it is believed should be followed.

10. (*a*) *Basic principles.*—The principle of allowing a deduction from net income subject to tax of a certain percentage of the amount of the earned net income, representing a fair allowance for the exhaustion of the earning power of the individual, is deemed to be the most fair.

It has been shown that this principle is consistent with the present deductions allowed in the case of income from capital, and, also, that as a practical matter it is equivalent to allowing a man to put aside annually tax free a sum which at the end of a normal working life will permit him to retire on half pay.

It is believed that the principle stated is especially well adapted to application to earned-income relief on net incomes not in excess of $50,000.

On net incomes above $50,000, where in many cases the compensation of the individual is a combination of compensation for personal ability and compensation for power and influence resulting from wealth, it is recommended that due weight be given to the principle that necessary living expenses compatible with a man's position in life increase as salaries increase.

10. (*b*) *Limitation on amount recognized as earned.*—It has already been pointed out that our present earned income provision sets up two limitations on amounts recognized as earned. The first, and most important, recognizes as earned only such amounts received as wages and personal compensation as do not exceed in toto the

arbitrary sum of $30,000. The second limitation is that of 20 per cent placed on business profits partly attributable to capital.

The first proposition, then, can be stated in question form as follows: Should there be a limit on the amount of income recognized as earned, and, if so, what limit is proper?

In answering this question, the structure of our present income tax act must be considered. It seems clear that inasmuch as we recognize the principle of ability to pay only up to $100,000 income by placing our maximum surtax rate at that point that it would be consistent to place a limit of $100,000 on earned income.

It is believed further that in the majority of cases where we have earned incomes of over $100,000 that the compensation is not entirely due to the personal service of the taxpayer but is paid in part on account of the extraordinary power he wields on account of his capital. In substantiation of this an actual case is given, showing a certain taxpayer's investment income and his earned income for a series of years:

Year	Dividends	Salary	Year	Dividends	Salary
1917	$44,730	$30,123	1922	$130,000	$88,500
1918	14,920	45,871	1923	303,880	105,160
1919	15,846	61,100	1924	515,317	181,417
1920	33,519	76,870	1925	401,774	181,633
1921	56,894	84,990			

It will be observed that this taxpayer's salary increases as his dividends increase. It is very doubtful if he had put no money in the business that his salary would have had the increase shown.

A discussion of the question of how much money a taxpayer can be considered to earn solely by his personal service will not be entered into here. It is believed that the requirements of the revenue will demand that some limit be set. It is felt that the limit under present conditions should not exceed $75,000, which it may be noted in passing is the salary of the President of the United States. It certainly should never exceed $100,000 with our maximum surtax rate on that point. On the other hand, it is believed that the limit should not be less than $50,000 if the revenue requirements permit. The exact extent of the limit is largely a matter of judgment upon which the committee should pass. In the remainder of this report we will accept a tentative figure of $75,000 for the purposes of discussion only.

11. Description of Five Practical New Methods.

Now that the principles upon which earned income relief should be based have been discussed and the tests and facts necessary in determining the extent of such relief have been developed, it is possible to consider and analyze certain new methods for granting the relief which appear to be practical.

The methods which will be discussed are as follows:

Present method: Tax credit of 25 per cent of the amount of the earned net income in excess of personal credits and exemptions, with a limit on the amount recognized as earned income of $30,000.

Method No. 1: Same as the present method with *no limit.*

Method No. 2: A deduction from income in arriving at net income of 10 per cent of the amount of the earned net income with no limit on amount recognized as earned.

Method No. 3: Same as method No. 2 except as to rate, which in this case is 12½ per cent.

Method No. 4: A deduction of 40 per cent of the amount of the earned net income in excess of personal credits and exemptions from the net income subject to normal tax only, with no limit on amount recognized as earned.

Method No. 5: Same as method No. 4 except as to rate, which in this case is 33⅓ per cent.

The result of the application of these methods is shown in Table No. 1, and Chart No. 1, which follow:

TABLE NO. I.—*Study of earned income (married man with all earned income)*

Net income	Present tax without earned income allowance	Present method: 25 per cent credit limited at $30,000		Method No. 1: 25 per cent credit unlimited		Method No. 2: 10 per cent of earned net income deducted from income (unlimited)		Method No. 3: 12½ per cent of earned net income deducted from income (unlimited)		Method No. 4: 40 per cent of earned net income after exemptions and credits deducted from income subject to normal tax (unlimited)		Method No. 5: 33⅓ per cent of earned net income after exemptions and credits deducted from income subject to normal tax (unlimited)	
		Present earned income credit	Present net tax after credit	Earned income credit	Net tax after credit	Reduction in tax due to earned income deduction	Net tax	Reduction in tax due to earned income deduction	Net tax	Reduction in tax due to earned income deduction	Net tax	Reduction in tax due to earned income deduction	Net tax
$3,500.00													
4,000.00	$7.50	$1.87	$5.63	$1.87	$5.63	$6.00	$1.50	$7.50		$3.00	$4.50	$2.50	$5.00
5,000.00	22.50	5.62	16.88	5.62	16.88	7.50	15.00	9.37	$13.13	9.00	13.50	7.50	15.00
6,000.00	37.50	9.37	28.13	9.37	28.13	9.00	28.50	11.25	26.25	15.00	22.50	12.50	25.00
7,000.00	52.50	13.12	39.38	13.12	39.38	10.50	42.00	13.12	39.38	21.00	31.50	17.50	35.00
8,000.00	75.00	18.75	56.25	18.75	56.25	19.50	55.50	22.50	52.50	34.50	40.50	30.00	45.00
9,000.00	105.00	26.25	78.75	26.25	78.75	27.00	78.00	33.75	71.25	55.50	49.50	50.00	55.00
10,000.00	135.00	33.75	101.25	33.75	101.25	30.00	105.00	37.50	97.50	76.50	58.50	65.00	70.00
11,000.00	175.00	43.75	131.25	43.75	131.25	43.00	132.00	51.25	123.75	90.00	85.00	75.00	100.00
12,000.00	225.00	56.25	168.75	56.25	168.75	58.00	167.00	70.00	155.00	112.00	113.00	95.00	130.00
13,000.00	285.00	71.25	213.75	71.25	213.75	78.00	207.00	95.00	190.00	144.00	141.00	125.00	160.00
14,000.00	345.00	86.25	258.75	86.25	258.75	84.00	261.00	105.00	240.00	176.00	169.00	155.00	190.00
15,000.00	415.00	103.75	311.25	103.75	311.25	100.00	315.00	122.50	292.50	208.00	207.00	185.00	230.00
16,000.00	485.00	121.25	363.75	121.25	363.75	112.00	373.00	140.00	345.00	240.00	245.00	208.33	276.67
17,000.00	565.00	141.25	423.75	141.25	423.75	129.00	436.00	158.75	406.25	270.00	295.00	225.00	340.00
18,000.00	645.00	161.25	483.75	161.25	483.75	144.00	501.00	177.50	467.50	290.00	355.00	241.67	403.33
19,000.00	735.00	183.75	551.25	183.75	551.25	162.00	573.00	200.00	535.00	310.00	425.00	258.33	476.67
20,000.00	825.00	206.25	618.75	206.25	618.75	180.00	645.00	220.00	605.00	330.00	495.00	275.00	550.00
21,000.00	925.00	231.25	693.75	231.25	693.75	199.00	726.00	246.25	678.75	350.00	575.00	291.67	633.33
22,000.00	1,025.00	256.25	768.75	256.25	768.75	218.00	807.00	267.50	757.50	370.00	655.00	308.33	716.67
23,000.00	1,135.00	283.25	851.25	283.25	851.25	240.00	895.00	297.50	837.50	390.00	745.00	325.00	810.00
24,000.00	1,245.00	311.25	933.75	311.25	933.75	260.00	985.00	320.00	925.00	410.00	835.00	341.67	903.33
25,000.00	1,365.00	341.25	1,023.75	341.25	1,023.75	285.00	1,080.00	352.50	1,012.50	430.00	935.00	358.33	1,006.67
26,000.00	1,485.00	371.25	1,113.75	371.25	1,113.75	306.00	1,179.00	377.50	1,107.50	450.00	1,035.00	375.00	1,110.00
27,000.00	1,605.00	401.25	1,203.75	401.25	1,203.75	324.00	1,281.00	401.25	1,203.75	470.00	1,135.00	391.67	1,213.33
28,000.00	1,725.00	431.25	1,293.75	431.25	1,293.75	336.00	1,389.00	420.00	1,305.00	490.00	1,235.00	408.33	1,316.67
29,000.00	1,855.00	463.75	1,391.25	463.75	1,391.25	358.00	1,497.00	445.00	1,410.00	510.00	1,345.00	425.00	1,430.00
30,000.00	1,985.00	496.25	1,488.75	496.25	1,488.75	380.00	1,605.00	470.00	1,515.00	530.00	1,455.00	441.67	1,543.33
31,000.00	2,115.00	496.25	1,618.75	528.75	1,586.25	402.00	1,713.00	495.00	1,620.00	550.00	1,565.00	458.33	1,656.67
32,000.00	2,245.00	496.25	1,748.75	561.25	1,683.75	416.00	1,829.00	520.00	1,725.00	570.00	1,675.00	475.00	1,770.00
33,000.00	2,385.00	496.25	1,888.75	596.25	1,788.75	439.00	1,946.00	546.25	1,838.75	590.00	1,795.00	491.67	1,893.33
34,000.00	2,525.00	496.25	2,028.75	631.25	1,893.75	462.00	2,063.00	572.50	1,952.50	610.00	1,915.00	508.33	2,016.67
35,000.00	2,665.00	496.25	2,168.75	663.25	2,001.75	485.00	2,180.00	598.75	2,066.25	630.00	2,035.00	525.00	2,140.00

37,500.00	3,030.00	496.25	2,533.75	757.50	2,272.50	540.00	2,490.00	671.25	2,358.75	680.00	2,350.00	566.67	2,463.33
40,000.00	3,405.00	496.25	2,908.75	851.25	2,553.75	600.00	2,805.00	740.00	2,665.00	730.00	2,675.00	608.33	2,796.67
45,000.00	4,215.00	496.25	3,718.75	1,053.75	3,161.25	730.00	3,485.00	903.75	3,311.25	830.00	3,385.00	691.67	3,523.33
50,000.00	5,085.00	496.25	4,588.75	1,271.25	3,813.75	870.00	4,215.00	1,080.00	4,005.00	930.00	4,155.00	775.00	4,310.00
55,000.00	6,015.00	496.25	5,518.75	1,503.75	4,511.25	1,020.00	4,995.00	1,267.50	4,747.50	1,030.00	4,985.00	858.33	5,156.67
60,000.00	7,005.00	496.25	6,508.75	1,751.25	5,253.75	1,180.00	5,825.00	1,465.00	5,540.00	1,130.00	5,875.00	941.67	6,063.33
65,000.00	8,065.00	496.25	7,568.75	2,016.25	6,048.75	1,360.00	6,705.00	1,685.00	6,380.00	1,230.00	6,835.00	1,025.00	7,040.00
70,000.00	9,165.00	496.25	8,668.75	2,291.25	6,873.75	1,530.00	7,635.00	1,897.50	7,267.50	1,330.00	7,835.00	1,108.33	8,056.67
75,000.00	10,315.00	496.25	9,818.75	2,578.75	7,736.25	1,700.00	8,615.00	2,112.50	8,202.50	1,430.00	8,885.00	1,191.67	9,123.33
80,000.00	11,465.00	496.25	10,968.75	2,866.25	8,598.75	1,840.00	9,625.00	2,300.00	9,165.00	1,530.00	9,935.00	1,275.00	10,190.00
90,000.00	13,865.00	496.25	13,368.75	3,466.25	10,398.75	2,160.00	11,705.00	2,687.50	11,177.50	1,730.00	12,135.00	1,441.67	12,423.33
100,000.00	16,265.00	496.25	15,768.75	4,066.25	12,198.75	2,400.00	13,865.00	3,000.00	13,265.00	1,930.00	14,335.00	1,608.33	14,656.67
125,000.00	22,515.00	496.25	22,018.75	5,628.75	16,886.25	3,125.00	19,390.00	3,906.25	18,608.75	2,430.00	20,085.00	2,025.00	20,490.00
150,000.00	28,765.00	496.25	28,268.75	7,191.25	21,573.75	3,750.00	25,015.00	4,687.50	24,077.50	2,930.00	25,835.00	2,441.67	26,323.33
175,000.00	35,015.00	496.25	34,518.75	8,753.75	26,261.25	4,375.00	30,640.00	5,468.75	29,546.25	3,430.00	31,585.00	2,858.33	32,156.67
200,000.00	41,265.00	496.25	40,768.75	10,316.25	30,948.75	5,000.00	36,265.00	6,250.00	35,015.00	3,930.00	37,335.00	3,275.00	37,990.00

A study of the table and chart just presented is worth while, it being noted that the chart is simply a graphic representation of the figures shown in the table.

An examination of the results obtained by the use of the five methods set forth will now be made. In considering the adequacy of such results it should be borne in mind that methods Nos. 2 and 3 are based directly on the principles and tests already described and therefore constitute a maximum and minimum limit for earned-income tax relief by any of the proposed methods.

11 (*a*). *Present method with no limit.*—This method (No. 1) is simply the present 25 per cent tax-credit method with the $30,000 limit eliminated. If Table I and Chart I are examined, it will be found that this method is fairly adequate on net incomes up to $30,000, but on net incomes of $30,000 and over the relief becomes excessive as compared with our theoretical methods 2 and 3. It has also been checked by test B, already referred to, and has been found still more excessive on the basis of this necessary living-expense test.

It is believed, therefore, that the present method of granting earned-income relief is not adaptable to extension by removal of the $30,000 limit, and therefore its use is not recommended.

11 (*b*). *10 per cent deduction from net income.*—Method No. 2 proposes to give a deduction from net taxable income of 10 per cent of the amount of the earned net income. It is seen that this method is nothing more than the direct application of the most important principle that has been developed in this report. As already stated, this method results in allowances which represent a minimum for net incomes below $40,000.

It will be observed from Table I and Chart I that this method gives somewhat less earned-income relief than the present method up to net incomes of $30,000. This feature is certain to meet with objection, as an increase of taxes, no matter how small, always raises protests.

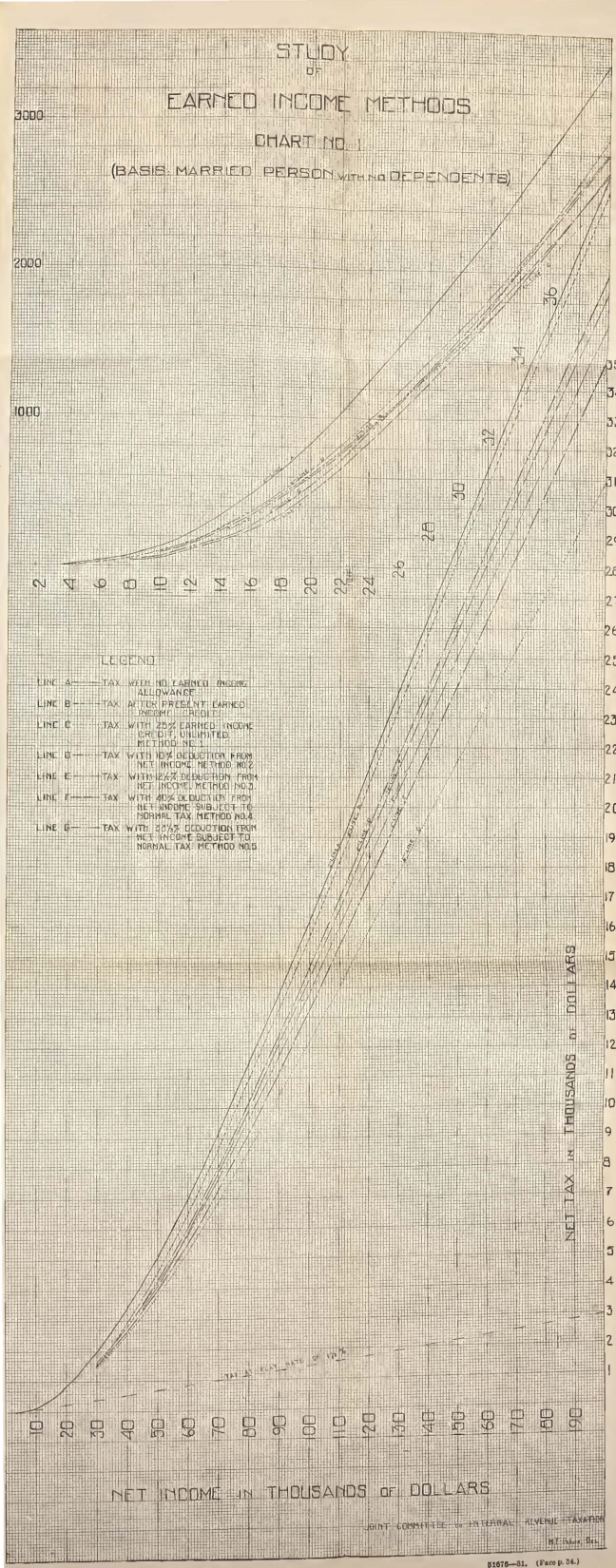
If reference is made to page 24, an examination of this method can be made on the basis of test B (living-expense test). The result of such an examination leads to the conclusion that this method meets the requirements of this test up to net incomes of $50,000, but above that point appears to give excessive relief.

It is believed that this method with the 10 per cent rate should be eliminated from further consideration, not because it is unsatisfactory, but because the same method with a slightly higher rate does not increase the small taxpayer's burden, as will be shown in the next paragraph.

11 (*c*). *12½ per cent deduction from net income.*—This method, which has been designated as No. 3, is exactly the same as method No. 2 just described except that it allows a 12½ per cent deduction from net taxable income instead of only a 10 per cent deduction.

From Table I, Chart I, and test B on page 24 the following conclusions may be drawn:

First, the earned-income relief granted by this method is adequate and consistent for all amounts of income. The relief appears somewhat too large for incomes above $50,000 only on the basis of the very conservative living expense test.



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Second, no class of individuals will have their taxes increased except those having an income of around $30,000, and in this case the increase is inconsequential ($20 on a $1,500 tax).

The method is so advantageous both from the standpoint of adequacy and simplicity that it can not be eliminated and must be discussed further.

11 (*d*). *40 per cent deduction from net income subject to normal tax.*—This fourth method is not based directly on the fundamental principles previously developed, although it has a relation to these principles. It must therefore be tested both by tests A and B.

The method proposes a deduction from net income subject to normal tax of 40 per cent of the amount of the earned net income. For surtax purposes the earned-income provision would have no effect under this method.

An examination of Table I, Chart I, and the data on page 24 would lead to the conclusion that this method gives excessive relief on net incomes up to $40,000; above this amount is appears to be a fair allowance.

The relief appears sufficiently excessive on the lower incomes, however, to force the elimination of this method with the 40 per cent rate without wasting further time on its consideration.

11. (*e*) *33⅓ per cent deduction from net income subject to normal tax.*—This method (No. 5) is the same as that just described except that the rate used is 33⅓ per cent.

While this deduction of 33⅓ per cent of the earned net income from the net income subject to normal tax is not as sound theoretically as method No. 3 it has certain practical advantages.

On the basis of the tests set up for adequacy, this method shows the following characteristics:

First, on net incomes up to $25,000 the earned income relief seems to be somewhat excessive, but not to an extraordinary degree. On the average, it appears to be about 25 per cent too high.

Second, on net incomes above $25,000, the relief is less than indicated as proper by test A (exhaustion of earning power) and is fairly well supported by test B (living expenses).

This method will be reserved for further discussion in view of certain practical advantages in connection with the revenue and in connection with giving the small taxpayer the benefit of the doubt in the matter of earned income relief.

12. The Arbitrary Table of Constants Method.

Before proceeding with a further description and comparison of those methods which have been selected as preferable, it will be necessary to describe one further method which is entirely arbitrary and elastic. This is the table of constants method already considered in detail in the staff report to the joint committee dated March 21, 1928 (vol. 1, pt. 5).

The method suggested would provide substantially as follows, retaining the same definition for earned income as in the present act:

1. If the individual's net income is not more than $5,000, the tax shall be credited with an earned-income tax credit of 33⅓ per cent of the amount of the tax computed under section 210. (This section provides for the computation of the normal tax).

2. If the individual's net income is more than $5,000, the earned-income tax credit shall be computed in the following manner:

(*a*) Deduct from the earned net income the personal exemption and credits for dependents.

(*b*) Using the result of the subtraction in (*a*) as an index (or the net taxable income computed under section 210 if it is smaller), find the earned-income tax credit from Table A, which follows:

TABLE A.—*Earned-income tax credits*

Index column [1]	Tax credit	Index column [1]	Tax credit	Index column [1]	Tax credit
$0 to $200	$0.50	$8,000 to $8,400	$67.00	$18,000 to $18,400	$269.00
$200 to $400	1.50	$8,400 to $8,800	74.00	$18,400 to $18,800	279.00
$400 to $600	2.50	$8,800 to $9,200	81.00	$18,800 to $19,200	290.00
$600 to $800	3.50	$9,200 to $9,600	88.00	$19,200 to $19,600	301.00
$800 to $1,000	4.50	$9,600 to $10,000	95.00	$19,600 to $20,000	312.00
$1,000 to $1,200	5.50	$10,000 to $10,400	101.00	$20,000 to $20,400	323.00
$1,200 to $1,400	6.50	$10,400 to $10,800	107.00	$20,400 to $20,800	335.00
$1,400 to $1,600	7.50	$10,800 to $11,200	114.00	$20,800 to $21,200	347.00
$1,600 to $1,800	8.50	$11,200 to $11,600	121.00	$21,200 to $21,600	359.00
$1,800 to $2,000	9.50	$11,600 to $12,000	128.00	$21,600 to $22,000	371.00
$2,000 to $2,400	11.00	$12,000 to $12,400	136.00	$22,000 to $22,400	383.00
$2,400 to $2,800	13.00	$12,400 to $12,800	143.00	$22,400 to $22,800	395.00
$2,800 to $3,200	15.00	$12,800 to $13,200	151.00	$22,800 to $23,200	407.00
$3,200 to $3,600	17.00	$13,200 to $13,600	159.00	$23,200 to $23,600	419.00
$3,600 to $4,000	19.00	$13,600 to $14,000	167.00	$23,600 to $24,000	431.00
$4,000 to $4,400	22.00	$14,000 to $14,400	175.00	$24,000 to $24,400	443.00
$4,400 to $4,800	26.00	$14,400 to $14,800	183.00	$24,400 to $24,800	455.00
$4,800 to $5,200	30.00	$14,800 to $15,200	192.00	$24,800 to $25,200	468.00
$5,200 to $5,600	34.00	$15,200 to $15,600	201.00	$25,200 to $25,600	481.00
$5,600 to $6,000	38.00	$15,600 to $16,000	210.00	$25,600 to $26,000	494.00
$6,000 to $6,400	42.00	$16,000 to $16,400	219.00	$26,000 to $26,400	507.00
$6,400 to $6,800	46.00	$16,400 to $16,800	229.00	$26,400 to $26,800	517.00
$6,800 to $7,200	51.00	$16,800 to $17,200	239.00	$26,800 to $27,200	525.00
$7,200 to $7,600	56.00	$17,200 to $17,600	248.00	$27,200 to $27,600	533.00
$7,600 to $8,000	61.00	$17,600 to $18,000	259.00	$27,600 to $28,000	541.00

And on amounts of earned net income in excess of $28,000 (after deducting personal credits and exemptions) there shall be allowed as a tax credit $541 plus 2 per cent of the amount of such excess, provided that no earned net income shall be recognized in excess of $75,000.

[1] Index column denotes earned net income less personal credits and exemptions.

As already stated, this method is elastic, and the relief given can be fixed at any desired amount for any size of income. The figures in the preceding table seem reasonable but were selected primarily for the purpose of making a definite comparison with tests A and B. This comparison follows:

Net income	Present earned income relief	Relief by test A, 12½ per cent	Relief by test B	Relief by table of constants
$3,500.00				
4,000.00	$1.87	$7.50	$1.50	$2.50
5,000.00	5.62	9.37	4.50	7.50
7,000.00	13.12	13.12	10.50	17.00
10,000.00	33.75	37.50	39.00	46.00
15,000.00	103.75	122.50	133.00	121.00
20,000.00	206.25	220.00	225.00	229.00
25,000.00	341.25	352.50	345.00	349.00
30,000.00	496.25	470.00	446.00	517.00
40,000.00	496.25	740.00	607.00	711.00
50,000.00	496.25	1,080.00	793.50	911.00
75,000.00	496.25	2,112.50	1,161.00	1,411.00
100,000.00	496.25	3,000.00	1,332.00	1,411.00
200,000.00	496.25	6,250.00	1,377.00	1,411.00

It may be concluded from the above that by the use of this method any degree of relief may be fixed. The specific relief given by the particular set of constants used in this case follows test A on incomes up to $40,000 and above that point gives considerable weight to the living-expense test B.

On account of the flexibility of this method, it will be reserved for further discussion in comparison with methods Nos. 3 and 5.

One objection to the method should be pointed out, which is that the table of constants will require revision every time normal and surtax rates are changed materially.

The effect of this method may be seen from Table II, which follows:

TABLE 11.—*Study of earned income*

[Basis: Married man with all earned income]

Net income	Net income after personal credits and exemptions	Present earned income credit	Proposed earned income credit by table	Present tax without earned income credit	Present tax	Proposed tax	Reduction in present tax by proposed method	Per cent reduction in tax by present method	Per cent reduction in tax by proposed method
$3,600.00	$100.00	$0.37	$0.50	$1.50	$1.13	$1.00	$0.13	25	33⅓
3,800.00	300.00	1.12	1.50	4.50	3.38	3.00	.38	25	33⅓
4,000.00	500.00	1.87	2.50	7.50	5.63	5.00	.63	25	33⅓
4,200.00	700.00	2.62	3.50	10.50	7.88	7.00	.88	25	33⅓
4,400.00	900.00	3.37	4.50	13.50	10.13	9.00	1.13	25	33⅓
4,600.00	1,100.00	4.12	5.50	16.50	12.38	11.00	1.38	25	33⅓
4,800.00	1,300.00	4.87	6.50	19.50	14.63	13.00	1.63	25	33⅓
5,000.00	1,500.00	5.62	7.50	22.50	16.88	15.00	1.88	25	33⅓
5,200.00	1,700.00	6.37	8.50	25.50	19.13	17.00	2.13	25	33⅓
5,400.00	1,900.00	7.12	9.50	28.50	21.38	19.00	2.38	25	33⅓
5,700.00	2,200.00	8.25	11.00	33.00	24.75	22.00	2.75	25	33⅓
6,100.00	2,600.00	9.75	13.00	39.00	29.25	26.00	3.25	25	33⅓
6,500.00	3,000.00	11.25	15.00	45.00	33.75	30.00	3.75	25	33⅓
6,900.00	3,400.00	12.75	17.00	51.00	38.25	34.00	4.25	25	33⅓
7,300.00	3,800.00	14.25	19.00	57.00	42.75	38.00	4.75	25	33⅓
7,700.00	4,200.00	16.50	22.00	66.00	49.50	44.00	5.50	25	33⅓
8,100.00	4,600.00	19.50	26.00	78.00	58.50	52.00	6.50	25	33⅓
8,500.00	5,000.00	22.50	30.00	90.00	67.50	60.00	7.50	25	33⅓
8,900.00	5,400.00	25.50	34.00	102.00	76.50	68.00	8.50	25	33⅓
9,300.00	5,800.00	28.50	38.00	114.00	85.50	76.00	9.50	25	33⅓
9,700.00	6,200.00	31.50	42.00	126.00	94.50	84.00	10.50	25	33⅓
10,100.00	6,600.00	34.75	46.00	139.00	104.25	93.00	11.25	25	33.1
10,500.00	7,000.00	38.75	51.00	155.00	116.25	104.00	12.25	25	32.9
10,900.00	7,400.00	42.75	56.00	171.00	128.25	115.00	13.25	25	32.7
11,300.00	7,800.00	46.75	61.00	187.00	140.25	126.00	14.25	25	32.6
11,700.00	8,200.00	51.75	67.00	207.00	155.25	140.00	15.25	25	32.4
12,100.00	8,600.00	57.75	74.00	231.00	173.25	157.00	16.25	25	32.0
12,500.00	9,000.00	63.75	81.00	255.00	191.25	174.00	17.25	25	31.8
12,900.00	9,400.00	69.75	88.00	279.00	209.25	191.00	18.25	25	31.7
13,300.00	9,800.00	75.75	95.00	303.00	227.25	208.00	19.25	25	31.4
13,700.00	10,200.00	81.75	101.00	327.00	245.25	226.00	19.25	25	30.9
14,100.00	10,600.00	88.00	107.00	352.00	264.00	245.00	19.00	25	30.4
14,500.00	11,000.00	95.00	114.00	380.00	285.00	266.00	19.00	25	30.0
14,900.00	11,400.00	102.00	121.00	408.00	306.00	287.00	19.00	25	29.7
15,300.00	11,800.00	109.00	128.00	436.00	327.00	308.00	19.00	25	29.4
15,700.00	12,200.00	116.00	135.00	464.00	348.00	329.00	19.00	25	28.9
16,100.00	12,600.00	123.25	143.00	493.00	369.75	350.00	19.75	25	29.0
16,500.00	13,000.00	131.25	151.00	525.00	393.75	374.00	19.75	25	28.8
16,900.00	13,400.00	139.25	159.00	557.00	417.75	398.00	19.75	25	28.6
17,300.00	13,800.00	147.25	167.00	589.00	441.75	422.00	19.75	25	28.4
17,700.00	14,200.00	155.25	175.00	621.00	465.75	446.00	19.75	25	28.2
18,100.00	14,600.00	163.50	183.00	654.00	490.50	471.00	19.50	25	28.0
18,500.00	15,000.00	172.50	192.00	690.00	517.50	498.00	19.50	25	27.9
18,900.00	15,400.00	181.50	201.00	726.00	544.50	525.00	19.50	25	27.7
19,300.00	15,800.00	190.50	210.00	762.00	571.50	552.00	19.50	25	27.5
19,700.00	16,200.00	199.50	219.00	798.00	598.50	579.00	19.50	25	27.4
20,100.00	16,600.00	208.75	229.00	835.00	626.25	606.00	20.25	25	27.4
20,500.00	17,000.00	218.75	239.00	875.00	656.25	636.00	20.25	25	27.3
20,900.00	17,400.00	227.75	248.00	915.00	687.25	667.00	20.25	25	27.1
21,300.00	17,800.00	238.75	259.00	955.00	716.25	696.00	20.25	25	27.1
21,700.00	18,200.00	248.75	269.00	995.00	746.25	726.00	20.25	25	27.0
22,100.00	18,600.00	259.00	279.00	1,036.00	777.00	757.00	20.00	25	26.9
22,500.00	19,000.00	270.00	290.00	1,080.00	810.00	790.00	20.00	25	26.9

TABLE 11.—*Study of earned income*—Continued

Net income	Net income after personal credits and exemptions	Present earned income credit	Proposed earned income credit by table	Present tax without earned income credit	Present tax	Proposed tax	Reduction in present tax by proposed method	Per cent reduction in tax by present method	Per cent reduction in tax by proposed method
$22,900.00	$19,400.00	$281.00	$301.00	$1,124.00	$843.00	$823.00	$20.00	25	26.8
23,300.00	19,800.00	292.00	312.00	1,168.00	876.00	856.00	20.00	25	26.7
23,700.00	20,200.00	303.00	323.00	1,212.00	909.00	889.00	20.00	25	26.7
24,100.00	20,600.00	314.25	335.00	1,257.00	942.75	922.00	21.75	25	26.6
24,500.00	21,000.00	326.25	347.00	1,305.00	978.75	958.00	21.75	25	26.6
24,900.00	21,400.00	338.25	359.00	1,353.00	1,014.75	994.00	20.75	25	26.5
25,300.00	21,800.00	350.25	371.00	1,401.00	1,050.75	1,030.00	20.75	25	26.5
25,700.00	22,200.00	362.25	383.00	1,449.00	1,086.75	1,066.00	20.75	25	26.4
26,100.00	22,600.00	374.25	395.00	1,497.00	1,122.25	1,102.00	20.25	25	26.4
26,500.00	23,000.00	386.25	407.00	1,545.00	1,158.75	1,138.00	20.75	25	26.3
26,900.00	23,400.00	398.25	419.00	1,593.00	1,194.75	1,174.00	20.75	25	26.3
27,300.00	23,800.00	410.25	431.00	1,641.00	1,230.75	1,210.00	20.75	25	26.3
27,700.00	24,200.00	422.25	443.00	1,689.00	1,266.75	1,246.00	20.75	25	26.2
28,100.00	24,600.00	434.50	455.00	1,738.00	1,303.50	1,283.00	20.50	25	26.2
28,500.00	25,000.00	447.50	468.00	1,790.00	1,342.50	1,322.00	20.50	25	26.1
28,900.00	25,400.00	460.50	481.00	1,842.00	1,381.50	1,361.00	20.50	25	26.1
29,300.00	25,800.00	473.50	494.00	1,894.00	1,420.50	1,400.00	20.50	25	26.1
29,700.00	26,200.00	486.50	507.00	1,946.00	1,459.50	1,439.00	20.50	25	26.1
30,100.00	26,600.00	496.25	517.00	1,998.00	1,501.75	1,481.00	20.75	24.8	25.9
30,500.00	27,000.00	496.25	525.00	2,050.00	1,553.75	1,525.00	28.75	24.2	25.6
30,900.00	27,400.00	496.25	533.00	2,102.00	1,605.75	1,569.00	36.75	23.6	25.4
31,300.00	27,800.00	496.25	541.00	2,154.00	1,657.75	1,613.00	44.75	23.0	25.1
32,000.00	28,500.00	496.25	551.00	2,245.00	1,748.75	1,694.00	54.75	22.1	24.1
35,000.00	31,500.00	496.25	611.00	2,665.00	2,168.75	2,054.00	114.75	18.7	22.9
40,000.00	36,500.00	496.25	711.00	3,405.00	2,908.75	2,694.00	214.75	14.6	20.9
45,000.00	41,500.00	496.25	811.00	4,215.00	3,718.75	3,404.00	314.75	11.8	19.2
50,000.00	46,500.00	496.25	911.00	5,085.00	4,588.75	4,174.00	414.75	9.8	17.9
55,000.00	51,500.00	496.25	1,011.00	6,015.00	5,518.75	5,004.00	514.75	8.2	16.8
60,000.00	56,500.00	496.25	1,111.00	7,005.00	6,508.75	5,894.00	614.75	7.1	15.9
65,000.00	61,500.00	496.25	1,211.00	8,065.00	7,568.75	6,854.00	714.75	6.2	15.0
70,000.00	66,500.00	496.25	1,311.00	9,165.00	8,668.75	7,854.00	814.75	5.4	14.3
75,000.00	71,500.00	496.25	1,411.00	10,315.00	9,818.75	8,904.00	914.75	4.8	13.7
80,000.00	76,500.00	496.25	1,411.00	11,465.00	10,968.75	10,054.00	914.75	4.3	12.3
90,000.00	86,500.00	496.25	1,411.00	13,865.00	13,368.75	12,454.00	914.75	3.6	10.2
100,000.00	96,500.00	496.25	1,411.00	16,265.00	15,768.75	14,854.00	914.75	3.0	8.7
110,000.00	106,500.00	496.25	1,411.00	18,765.00	18,268.75	17,354.00	914.75	2.6	7.5
120,000.00	116,500.00	496.25	1,411.00	21,265.00	20,768.75	19,854.00	914.75	2.3	6.6
150,000.00	146,500.00	496.25	1,411.00	28,765.00	28,268.75	27,354.00	914.75	1.7	4.9
250,000.00	246,500.00	496.25	1,411.00	53,765.00	53,268.75	52,354.00	914.75	.9	2.6
500,000.00	496,500.00	496.25	1,411.00	116,265.00	115,768.75	114,854.00	914.75	.4	1.2
1,000,000.00	996,500.00	496.25	1,411.00	241,265.00	240,768.75	239,854.00	914.75	.2	.6

13. COMPARISON OF THREE PREFERABLE METHODS AS TO ADEQUACY.

From the preceding discussion it is apparent that three methods have been developed which are entitled to serious consideration in respect to the determination of earned income relief.

The adequacy of these methods can most readily be compared by means of a chart showing the net tax by each of the three methods as well as the tax by the present method. The difference between these taxes and the theoretical tax without an earned-income provision will indicate the relief granted under each method.

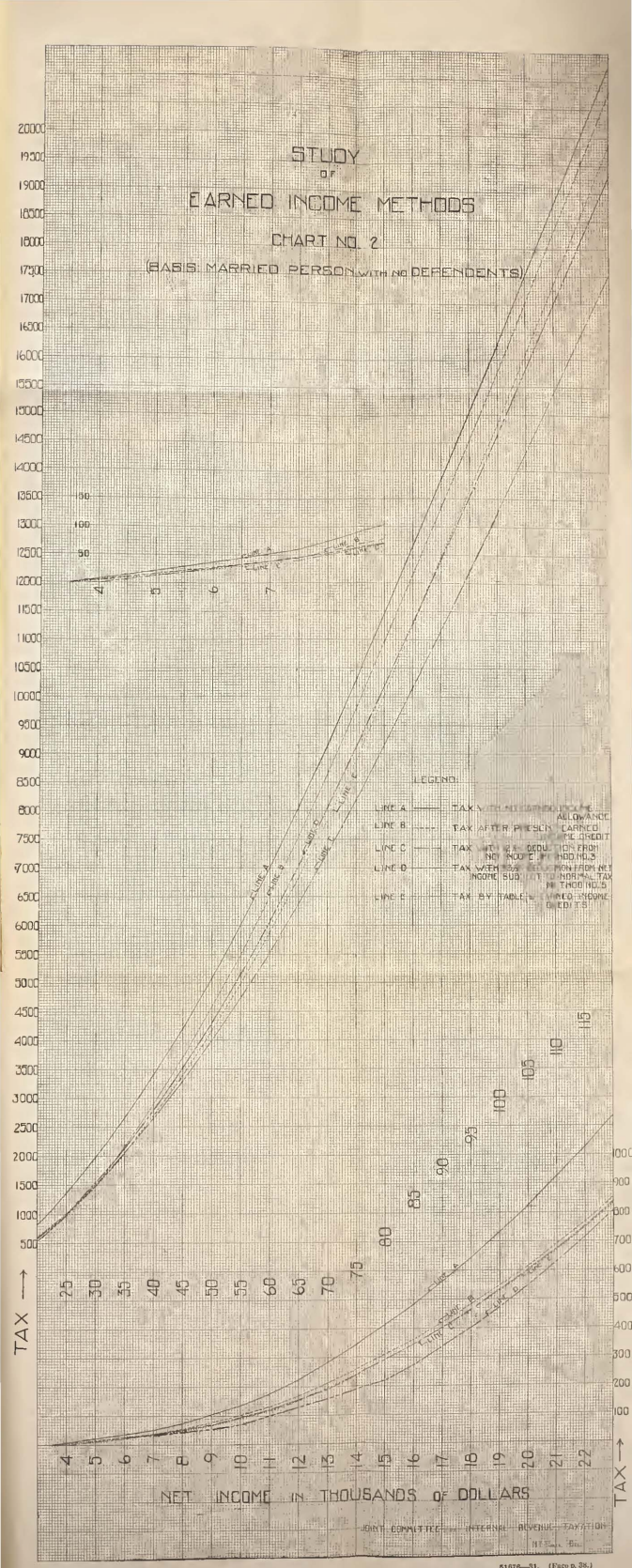
It will be remembered that the three methods selected as preferable were:

Method No. 3: 12½ per cent deduction from net income.

Method No. 5: 33⅓ per cent deduction from net income subject to normal tax.

Table of constants method.

The tax resulting from these methods is shown by lines C, D, and E, respectively, on Chart No. 2, which is shown facing this page.


STUDY
OF
EARNED INCOME METHODS
CHART NO. 2
(BASIS: MARRIED PERSON WITH NO DEPENDENTS)
LEGEND:
LINE A —— TAX WITH NO EARNED INCOME ALLOWANCE
LINE B —— TAX AFTER PRESENT EARNED INCOME CREDIT
LINE C —— TAX WITH 25% DEDUCTION FROM NET INCOME, METHOD NO. 5
LINE D —— TAX WITH 50% DEDUCTION FROM NET INCOME SUBJECT TO NORMAL TAX, METHOD NO. 5
LINE E —— TAX BY TABLE (EARNED INCOME CREDITS)
TAX
NET INCOME IN THOUSANDS OF DOLLARS
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

A study of Chart 2 results in the following relative conclusions:

Method No. 3 (line C) gives slightly greater relief than the present method on net incomes up to $30,000 and very much greater relief beyond that point. In relation to method No. 5, it gives less relief on net incomes of less than $25,000 and more relief on incomes in excess of that amount. In relation to the table of constants method, it gives slightly less relief up to net incomes of $25,000 and more relief in excess of that amount.

Method No. 5 (line D) gives greater relief on net incomes of all sizes than the present method except on incomes from about $28,000 to $31,000 where the relief is very slightly less. In relation to method No. 3, this method gives greater relief on incomes below $25,000 and less relief on incomes above that amount. In relation to the table of constants method, the same statement holds good.

Table of constants method (line E) gives greater relief than the present method in all cases, but it approximates the relief given by method No. 3 up to net incomes of $30,000 and beyond that point it approximates the relief given by method No. 5.

In general it appears that any one of these three methods is reasonably adequate and that the choice will rest largely on practical considerations, such as revenue requirements, liberality to the small taxpayers, and simplicity.

14. Refinement of Methods to Meet Other Requirements.

Inasmuch as it is felt that any one of the methods may be selected with propriety by the committee, it is necessary more carefully to refine and describe each method so that intelligent selection may be made.

It is believed that each of these methods if actually used should be limited and restricted as follows:

First, all amounts of income subject to the normal tax up to and including $5,000 should be recognized and treated as earned whether actually earned or not.

Second, when the earned net income of a taxpayer exceeds $75,000 only $75,000 should be recognized as earned net income.

With these refinements, the results of the application of each of these methods in comparison with the result of the present method may be seen from the following simple table:

Net income	Present earned income relief	Relief by 12½ per cent deduction from net income	Relief by 33⅓ per cent deduction from net income subject to normal tax	Relief by table of constants
$3,500.00	----------	----------	----------	----------
4,000.00	$1.87	$7.50	$2.50	$2.50
5,000.00	5.62	9.37	7.50	7.50
7,000.00	13.12	13.12	17.50	17.00
10,000.00	33.75	37.50	65.00	46.00
15,000.00	103.75	122.50	185.00	121.00
20,000.00	206.25	220.00	275.00	229.00
25,000.00	341.25	352.50	358.33	349.00
30,000.00	496.25	470.00	441.67	517.00
40,000.00	496.25	740.00	608.33	711.00
50,000.00	496.25	1,080.00	775.00	911.00
75,000.00	496.25	2,112.50	1,191.67	1,411.00
100,000.00	496.25	2,240.00	1,191.67	1,411.00
200,000.00	496.25	2,343.75	1,191.67	1,411.00

From the above comparison it can be said in a general way that from the theoretical point of view the 12½ per cent method seems preferable; that from the point of view of the small taxpayer the 33⅓ per cent method seems best; and, finally, from a combined point of view, that the table of constants method seems most desirable.

It should also be noted that if it is considered that the relief given by the 12½ per cent method is too large on net incomes of more than $50,000, this can be remedied by adopting a $50,000 limit instead of the $75,000 limit. In this case the tax relief on an earned income of $75,000 would be $1,425 and on an earned income of $100,000, $1,500.

15. Test for Complexity.

It has been shown that one admittedly serious objection to the present method is its complexity. It will now be necessary to test the new methods in this respect.

The first method (the 12½ per cent deduction) requires simply one entry on the return and eliminates therefore 13 out of 14 items. It is ideal as far as simplification is concerned.

The second method (the 33⅓ per cent deduction for normal tax purposes) will require at most not over 3 items, and also meets this test, as it eliminates 11 items from the return.

The table of constants method eliminates the same 11 items from the return and adds a table in the instructions.

It is evident, therefore, that all three methods meet the test for the simplification of the earned income computation—the first method being somewhat preferable on this point.

16. Probable Loss of Revenue by Proposed Methods.

The next question which arises is a practical one, namely, what will be the cost of each method to the Government?

While the answer to this question would appear simple, this is not the case, on account of a lack of properly detailed statistics. A preliminary estimate, however, is as follows as to the annual loss of revenue that would be occasioned by the application of each method:

Method No. 3: 12½ per cent, estimated loss	$34, 000, 000
Method No. 5: 33⅓ per cent, estimated loss	24, 000, 000
Table of constants method: Estimated loss	20, 000, 000

One important difference which affects the revenue should be noted in regard to the first two methods in comparison with the table of constants method. The first method, called method No. 3, from its nature as a deduction from income, affects the higher surtax brackets. For instance, a man with a $5,000 earned income and with investment income of $1,000,000 will get a relief of about $156 in tax on account of his earned income of $5,000. On the other hand, a man with a $5,000 salary and no other income will get a tax relief of only $9.37. As far as equity is concerned, we believe this is a proper result, because the man with a big income pays a 25 per cent rate of tax, while the man with the small income pays a rate of only 1½ per cent. In the case of method No. 2 a similar situation exists to a lesser degree. In the example given the tax relief to the first man would be $7.50 and to the second $25. However, the third method suggested, the table of constants method, results in the earned income-tax credit being the same in all cases where the earned net income is the same. This is one reason for the lower cost of the last method.

D. Recommendation

It is respectfully recommended that the committee consider the three methods proposed for the determination of the earned income allowance in three respects:

First, as to which general method is preferable.

Second, as to the limit to be set for the recognition of earned income.

Third, as to the increase of the present 20 per cent limit on business profits in ascertaining the amount to be allowed as earned income.

It is recommended further that this report be printed for public examination and analysis, as provided for by section 1203 of the revenue act of 1926, in order that the suggestions and comments of the taxpaying public may be had on this question. This is deemed the more important because of the fact that the majority of the taxpayers are affected by the earned income allowance.

E. Conclusion

In conclusion, it is proper to review the principal points which this report has attempted to establish.

In the first place, differentiation between earned income and investment income appears justified.

In the second place, the present method of giving relief is inadequate and complex.

In the third place, both inadequacy and complexity can be remedied by any one of three proposed methods.

In regard to these three methods, it should be said that the choice will be largely a matter of judgment depending on the particular point of view which is accepted as proper.

If the strict theoretical view is taken, it appears that the first method selected, consisting of a deduction from net income of 12½ per cent of the earned net income for both normal and surtax purposes, will probably most nearly meet the requirements.

If a practical viewpoint is taken with the thought that the small taxpayer should receive the greater part of the relief and that the loss of revenue should be limited, then, it is probable that the second method, allowing a deduction of 33⅓ per cent of the earned net income in excess of personal exemptions from the net income for normal tax purposes only, will be considered superior.

On the other hand, if it is desired to take a middle course where the relief can be readily fixed for each amount of earned income and thus allow both theory and practical considerations to have due weight, it is probable that the table of constants method will offer the most advantages.

In any event, it is concluded that the present method should be abandoned as soon as possible on account of its complexity and that it should not be extended by raising the present $30,000 limit on account of the resulting excessive relief that would be granted on net incomes above that amount.

Attention is drawn to the fact that in England the first method suggested has been followed for a number of years, and recently the

rate at which the deduction is allowed has been increased from 10 to 16⅔ per cent. It is true that the maximum limit placed on earned income is much lower than that placed on such income in this country. In fact, their limit is $7,500 against our present limit of $30,000. However, it is well known that the purchasing power of money is much greater in England than in the United States and economic conditions are far different. It should also be remembered that in Great Britain on the lower incomes up to $10,000 their taxes are about fourteen times as heavy as ours. On the other hand, their taxes on the millionaire are about twice as heavy as our own.

It seems certain that adequate relief on earned income should be given, especially to that class of taxpayers who now receive an inconsequential reduction in tax from this source. Individuals of this class who have incomes of from $30,000 to $60,000 are probably captains of industry, professional men, and business executives. It would appear that when we consider the amount of tax-exempt securities, the fact that dividends received are not subject to the normal tax, and the relief afforded in the case of capital gains, the man with earned income is at a disadvantage in comparison with the man living on his investment income. It is believed that any one of the three methods suggested for consideration would result in much deserved relief to the earned income class as a whole, when the requirements of the revenue permit of further earned income allowances.

Respectfully submitted.

L. H. Parker,
Chief of Staff.

Appendix I

Comparison of local and Federal taxes paid by individuals, 1927

Income class	Number of returns	Total local taxes	Federal income tax	Total income	Per cent of total income "earned"	Per cent of total income from "investments"
Under $10,000	3, 755, 650	$600, 388, 409	$32, 416, 729	$12, 376, 657, 051	74. 78	25. 22
$10,000 to $25,000	252, 079	137, 782, 109	74, 225, 906	3, 748, 057, 507	53. 69	46. 31
$25,000 to $50,000	60, 123	65, 339, 160	119, 475, 301	2, 051, 770, 684	39. 77	60. 23
$50,000 to $100,000	22, 573	47, 647, 370	156, 674, 952	1, 535, 387, 374	31. 07	68. 93
$100,000 to $150,000	5, 261	18, 597, 521	87, 397, 904	636, 018, 520	25. 80	74. 20
$150,000 to $300,000	3, 873	21, 598, 895	123, 775, 837	787, 270, 255	22. 85	77. 15
$300,000 to $500,000	1, 141	10, 276, 283	73, 750, 177	431, 121, 727	19. 39	80. 61
$500,000 to $1,000,000	557	8, 784. 992	64, 265, 391	378, 166, 589	13. 77	86. 23
Over $1,000.000	290	13, 014, 063	98, 657, 237	600, 640, 846	16. 26	83. 74
Total	4, 101, 547	923, 428, 802	830, 639, 434	26, 208, 560, 568		

Statistics pertinent to the study of earned income

YEAR 1916

Income class	Number of returns	Wages and salaries	Business	Partnerships	Total wages, business, and partnerships	Total income	Net income
$10,000 to $25,000	90,[illegible]	$575,328,292.00	$136,432,874.00	$1,185,788,552.00	$1,897,550,318.00	$3,685,126,449.00	$1,235,015,786.00
$25,000 to $50,000	25,734						522,661,658.00
$50,000 to $100,000	10,452						722,735,474.00
$100,000 to $150,000	2,900	43,254,989.00	4,414,287.00	142,300,013.00	189,969,289.00	431,166,064.00	357,355,318.00
$150,000 to $300,000	2,437	40,248,310.00	5,046,865.00	197,878,464.00	243,173,642.00	604,829,810.00	505,459,466.00
$300,000 to $500,000	714	17,115,760.00	809,072.00	118,450,523.00	136,375,361.00	326,075,341.00	271,938,017.00
$500,000 to $1,000,000	376	11,629,173.00	1,747,824.00	94,301,312.00	107,678,309.00	307,514,923.00	276,771,325.00
Over $1,000,000	206	8,327,254.00	1,057,000.00	152,832,366.00	162,216,620.00	519,204,617.00	464,263,644.00
Total (over $10,000)	121,000	695,904,378.00	149,507,931.00	1,891,551,230.00	2,736,963,539.00	5,874,007,404.00	4,636,060,628.00
Total (under $10,000 taxable)	-	-	-	-	-	-	-
Total (under $10,000 nontaxable)	-	-	-	-	-	-	-
Grand total	437,098	1,478,346,372.00	368,141,539.00	2,642,263,385.00	4,488,751,296.00	8,349,601,983.00	6,298,577,620.00
$5,000 to $10,000 (taxable and nontaxable)	150,553	424,690,444.00	128,276,084.00	495,354,234.00	1,048,270,762.00	1,519,664,682.00	1,037,247,977.00

YEAR 1917

Income class	Number of returns	Wages and salaries	Business	Partnerships	Total wages, business, and partnerships	Total income	Net income
$10,000 to $25,000	112,502						$1,657,165,619.00
$25,000 to $50,000	30,391	$970,382,162.00	$449,183,444.00	$297,427,677.00	$1,717,473,283.00	$3,897,999,018.00	1,042,320,083.00
$50,000 to $100,000	12,439						846,894,335.00
$100,000 to $150,000	3,302	63,003,841.00	27,130,787.00	40,098,356.00	130,232,984.00	419,284,705.00	400,492,049.00
$150,000 to $300,000	2,347	50,413,918.00	25,066,878.00	55,381,089.00	137,491,885.00	500,799,157.00	474,651,960.00
$300,000 to $500,000	556	21,355,802.00	11,006,191.00	25,682,632.00	58,044,625.00	222,771,072.00	209,905,969.00
$500,000 to $1,000,000	315	13,720,917.00	13,322,105.00	17,751,519.00	44,794,541.00	233,342,352.00	214,631,270.00
Over $1,000,000	141	8,459,242.00	5,662,376.00	16,487,239.00	30,608,859.00	333,168,752.00	306,835,914.00
Total (over $10,000)	161,996	1,133,905,882.00	532,001,783.00	452,738,512.00	2,118,646,177.00	5,517,335,056.00	5,182,896,190.00
Total (under $10,000 taxable)	-	-	-	-	-	-	-
Total (under $10,000 nontaxable)	765,658	-	-	-	-	-	-
Grand total	3,472,890	3,648,437,902.00	2,865,412,746.00	775,096,995.00	7,288,937,313.00	12,077,009,284.00	13,652,383,207.00
$5,000 to $10,000 (taxable and nontaxable)	270,696	690,884,433.00	530,770,290.00	128,909,629.00	1,320,624,332.00	1,951,366,709.00	1,827,508,088.00

YEAR 1918

$10,000 to $25,000	116,569	$657,981,403.00	$272,408,162.00	$214,231,463.00	$1,144,621,328.00	$2,020,616,205.00	$1,736,548,050.00
$25,000 to $50,000	28,542	302,686,773.00	98,890,271.00	141,262,445.00	542,838,489.00	1,132,230,498.00	978,042,710.00
$50,000 to $100,000	9,996	170,275,537.00	56,849,549.00	115,093,738.00	342,219,124.00	798,122,622.00	679,720,737.00
$100,000 to $150,000	2,358	52,375,847.00	20,939,429.00	57,029,852.00	130,345,128.00	328,988,727.00	284,106,740.00
$150,000 to $300,000	1,514	44,126,810.00	28,616,593.00	70,176,124.00	140,919,527.00	366,052,353.00	305,024,817.00
$300,000 to $500,000	382	16,296,115.00	9,536,741.00	38,484,329.00	64,317,185.00	169,352,174.00	144,545,428.00
$500,000 to $1,000,000	178	6,455,180.00	10,134,435.00	21,421,553.00	38,011,168.00	147,736,316.00	119,075,548.00
Over $1,000,000	67	4,161,617.00	2,882,467.00	18,615,132.00	25,659,216.00	176,734,605.00	137,486,892.00
Total (over $10,000)	159,606	1,254,359,282.00	498,258,247.00	676,314,636.00	2,428,932,165.00	5,139,853,500.00	4,584,550,922.00
Total (under $10,000 taxable)	3,233,257	5,616,211,885.00	2,248,863,408.00	491,274,050.00	8,356,349,343.00	10,406,013,451.00	9,508,225,068.00
Total (under $10,000 nontaxable)	1,032,251	1,396,820,383.00	377,233,541.00	47,325,736.00	1,821,379,660.00	2,199,894,522.00	2,031,863,365.00
Grand total	4,425,114	8,267,391,550.00	3,124,355,196.00	1,214,914,422.00	12,606,661,168.00	17,745,761,473.00	15,924,639,355.00
$5,000 to $10,000 (taxable and nontaxable)	319,356	849,459,472.00	650,038,458.00	237,538,657.00	1,737,036,587.00	2,532,389,970.00	2,145,690,016.00

YEAR 1919

$10,000 to $25,000	162,485	$905,678,970.00	$453,654,773.00	$350,506,493.00	$1,709,840,236.00	$2,813,079,505.00	$2,412,275,737.00
$25,000 to $50,000	37,477	599,039,580.00	175,233,276.00	229,071,061.00	803,343,917.00	1,507,889,921.00	1,277,364,635.00
$50,000 to $100,000	13,320	217,870,161.00	104,097,562.00	197,986,406.00	519,954,124.00	1,058,385,138.00	896,497,209.00
$100,000 to $150,000	2,983	67,169,894.00	38,733,081.00	100,930,752.00	206,983,727.00	436,232,176.00	358,392,923.00
$150,000 to $300,000	1,864	52,778,512.00	34,926,999.00	119,124,928.00	206,830,439.00	455,561,400.00	371,148,536.00
$300,000 to $500,000	425	16,188,724.00	16,034,923.00	50,128,712.00	82,372,359.00	197,171,852.00	159,070,948.00
$500,000 to $1,000,000	189	8,721,504.00	7,146,895.00	34,453,930.00	50,322,329.00	162,041,598.00	128,260,396.00
Over $1,000,000	65	3,230,446.00	5,498,276.00	22,053,776.00	30,762,488.00	187,248,828.00	152,650,245.00
Total (over $10,000)	218,808	1,670,677,791.00	835,345,785.00	1,104,296,058.00	3,610,319,634.00	6,818,110,415.00	5,755,660,649.00
Total (under $10,000 taxable)	4,012,373	7,581,074,964.00	2,625,350,289.00	673,146,743.00	10,879,571,966.00	13,246,596,248.00	11,935,928,011.00
Total (under $10,000 nontaxable)	1,101,579	1,503,939,896.00	416,854,380.00	53,987,442.00	1,974,781,718.00	2,372,979,162.00	2,167,871,788.00
Grand total	5,332,760	10,755,692,651.00	3,877,550,454.00	1,831,430,243.00	16,464,673,348.00	22,437,685,825.00	19,859,491,448.00
$5,000 to $10,000 (taxable and nontaxable)	438,861	1,277,328,172.00	908,454,138.00	321,776,001.00	2,507,558,311.00	3,490,300,242.00	2,964,137,253.00

Statistics pertinent to the study of earned income—Continued

YEAR 1920

Income classes	Number of returns	Wages and salaries	Business	Partnerships	Total wages, business, and partnerships	Total income	Net income
$10,000 to $25,000	171,830	$1,085,738,882.00	$407,505,923.00	$361,974,905.00	$1,855,219,710.00	$3,123,136,634.00	$2,547,904,786.00
$25,000 to $50,000	38,548	460,576,370.00	160,172,058.00	230,254,300.00	851,002,728.00	1,631,447,023.00	1,307,785,113.00
$50,000 to $100,000	12,093	221,374,648.00	85,046,972.00	180,048,180.00	486,469,800.00	1,039,710,832.00	810,386,333.00
$100,000 to $150,000	2,191	52,260,875.00	23,113,109.00	71,730,051.00	147,104,035.00	347,574,942.00	265,511,505.00
$150,000 to $300,000	1,063	33,317,696.00	22,011,576.00	55,592,850.00	110,922,122.00	287,424,492.00	215,138,673.00
$300,000 to $500,000	239	10,212,605.00	6,873,168.00	25,591,050.00	42,706,823.00	124,194,846.00	89,313,552.00
$500,000 to $1,000,000	123	5,641,099.00	5,633,596.00	15,432,518.00	26,707,213.00	101,881,908.00	79,962,894.00
Over $1,000,000	33	3,649,542.00	5,039,754.00	5,884,989.00	14,574,285.00	104,948,035.00	77,078,139.00
Total (over $10,000)	226,120	1,872,801,717.00	715,396,156.00	946,408,843.00	3,534,706,716.00	6,760,318,712.00	5,293,080,995.00
Total (under $10,000 taxable)	5,292,190	10,636,111,053.00	2,058,390,870.00	692,553,107.00	13,386,955,030.00	16,133,040,623.00	14,935,878,380.00
Total (under $10,000 nontaxable)	1,741,634	2,761,460,584.00	431,768,361.00	62,267,482.00	3,255,496,427.00	3,796,910,518.00	3,506,669,808.00
Grand total	7,259,944	15,270,373,354.00	3,205,555,387.00	1,701,229,432.00	20,177,158,173.00	26,690,269,853.00	23,735,629,183.00
$5,000 to $10,000 (taxable and nontaxable)	455,442	1,494,713,942.00	682,673,071.00	315,390,492.00	2,492,777,505.00	3,615,243,756.00	3,068,330,963.00

YEAR 1921

Income classes	Number of returns	Wages and salaries	Business	Partnerships	Total wages, business, and partnerships	Total income	Net income
$10,000 to $25,000	132,344	$907,990,716.00	$247,707,126.00	$271,664,773.00	$1,427,362,615.00	$2,437,916,590.00	$1,958,156,206.00
$25,000 to $50,000	28,946	349,004,656.00	92,849,081.00	166,597,378.00	608,451,115.00	1,238,149,517.00	979,629,305.00
$50,000 to $100,000	8,717	162,734,678.00	44,265,440.00	121,665,007.00	328,665,125.00	752,093,442.00	582,230,218.00
$100,000 to $150,000	1,367	35,031,445.00	11,686,903.00	37,751,740.00	84,470,088.00	220,714,510.00	163,520,999.00
$150,000 to $300,000	739	24,100,659.00	9,004,623.00	33,994,318.00	67,099,600.00	193,947,051.00	145,948,047.00
$300,000 to $500,000	162	5,624,235.00	3,090,472.00	13,493,482.00	22,208,189.00	91,905,110.00	61,342,550.00
$500,000 to $1,000,000	63	1,873,412.00	4,249,156.00	9,592,904.00	15,715,472.00	57,056,517.00	42,780,426.00
Over $1,000,000	21	2,731,979.00	1,024,825.00	3,032,268.00	6,789,072.00	62,193,924.00	49,411,329.00
Total (over $10,000)	172,359	1,489,091,780.00	413,877,626.00	657,791,870.00	2,560,761,276.00	5,053,976,661.00	3,983,019,080.00
Total (under $10,000 taxable)	3,417,626	7,006,414,035.00	1,148,040,762.00	496,085,413.00	8,650,540,210.00	10,613,191,305.00	9,426,665,490.00
Total (under $10,000 nontaxable)	3,072,191	5,317,663,350.00	804,400,222.00	187,309,025.00	6,309,372,597.00	7,661,613,966.00	6,167,527,958.00
Grand total	6,662,176	13,813,169,165.00	2,366,318,610.00	1,341,186,308.00	17,520,674,083.00	23,328,781,932.00	19,577,212,528.00
$5,000 to $10,000 (taxable and nontaxable)	353,247	1,342,428,026.00	402,162,409.00	245,779,077.00	1,990,369,512.00	2,860,658,253.00	2,378,759,237.00

YEAR 1922

$10,000 to $25,000	151,329	$911,137,593.00	$299,200,643.00	$266,067,496.00	$1,476,405,732.00	$2,687,121,117.00	$2,255,871,780.00
$25,000 to $50,000	35,478	369,682,216.00	123,331,020.00	163,602,383.00	656,615,619.00	1,461,147,789.00	1,208,273,932.00
$50,000 to $100,000	12,000	182,432,450.00	60,177,014.00	119,612,452.00	362,251,946.00	971,060,578.00	805,223,854.00
$100,000 to $150,000	2,171	45,572,191.00	14,724,503.00	43,671,026.00	103,967,720.00	321,950,242.00	260,203,553.00
$150,000 to $300,000	1,323	31,298,425.00	11,695,805.00	41,303,339.00	87,297,569.00	330,055,749.00	266,814,381.00
$300,000 to $500,000	309	8,720,980.00	4,076,334.00	17,783,868.00	30,581,182.00	141,618,352.00	116,672,075.00
$500,000 to $1,000,000	161	4,480,244.00	2,530,653.00	8,738,103.00	15,749,000.00	130,681,281.00	107,670,678.00
Over $1,000,000	67	4,970,866.00	2,480,150.00	7,197,370.00	14,648,386.00	168,095,441.00	141,386,993.00
Total (over $10,000)	202,838	1,558,294,965.00	518,216,152.00	671,006,037.00	2,747,517,154.00	6,211,730,549.00	5,162,117,246.00
Total (under $10,000 taxable)	3,478,411	7,061,625,521.00	1,374,072,132.00	555,101,212.00	8,990,798,739.00	11,137,063,258.00	9,881,397,193.00
Total (under $10,000 nontaxable)	3,106,232	5,074,072,305.00	947,482,860.00	201,020,098.00	6,222,575,389.00	7,523,114,547.00	6,292,698,091.00
Grand total	6,787,481	13,693,992,791.00	2,839,771,144.00	1,427,127,347.000	17,960,891,282.00	24,871,908,354.00	21,336,212,530.00
$5,000 to $10,000 (taxable and nontaxable)	391,373	1,375,158,897.00	494,223,754.00	247,177,019.00	2,116,559,670.00	3,127,162,162.00	2,641,904,702.00

YEAR 1923

$10,000 to $25,000	171,801	$1,049,088,266.00	$342,403,807.00	$297,610,667.00	$1,689,102,740.00	$3,060,945,346.00	$2,558,361,589.00
$25,000 to $50,000	39,832	410,302,509.00	137,018,164.00	178,060,337.00	725,381,010.00	1,630,971,585.00	1,350,680,468.00
$50,000 to $100,000	12,452	190,627,723.00	62,043,591.00	108,261,501.00	360,932,815.00	1,013,160,890.00	833,898,237.00
$100,000 to $150,000	2,339	49,185,212.00	13,135,229.00	38,528,186.00	100,848,657.00	349,042,129.00	280,656,213.00
$150,000 to $300,000	1,301	33,663,760.00	10,377,528.00	29,299,189.00	73,340,477.00	320,822,772.00	260,584,012.00
$300,000 to $500,000	327	12,767,225.00	4,399,391.00	10,176,483.00	27,343,099.00	156,855,329.00	124,569,194.00
$500,000 to $1,000,000	141	6,601,660.00	2,986,037.00	5,259,832.00	14,817,529.00	121,599,034.00	95,107,209.00
Over $1,000,000	74	4,420,476.00	3,189,564.00	1,111,843.00	8,721,883.00	178,954,543.00	152,071,881.00
Total (over $10,000)	228,267	1,756,656,861.00	575,553,311.00	668,308,038.00	3,000,518,210.00	6,832,351,628.00	5,655,928,803.00
Total (under $10,000 taxable)	4,041,854	7,085,329,545.00	2,451,278,495.00	746,109,200.00	10,282,717,240.00	13,534,272,258.00	11,841,454,616.00
Total (under $10,000 nontaxable)	3,428,200	5,388,222,420.00	1,706,201,601.00	267,566,710.00	7,361,990,731.00	8,952,303,917.00	7,342,753,945.00
Grand total	7,698,321	14,230,208,826.00	4,733,033,407.00	1,681,983,948.00	20,645,226,181.00	29,318,927,803.00	24,840,137,364.00
$5,000 to $10,000 (taxable and nontaxable)	397,630	1,410,310,370.00	494,186,718.00	260,382,324.00	2,164,879,412.00	3,183,407,871.00	2,717,991,529.00

Statistics pertinent to the study of earned income—Continued

YEAR 1924

Income classes	Number of returns	Wages and salaries	Business	Partnerships	Total wages, business, and partnerships	Total income	Net income
$10,000 to $25,000	191,216	$1,116,300,629.00	$404,709,347.00	$343,097,029.00	$1,864,107,005.00	$3,356,760,555.00	$2,855,396,811.00
$25,000 to $50,000	47,061	466,063,003.00	155,308,812.00	189,426,806.00	810,798,621.00	1,848,294,489.00	1,599,848,363.00
$50,000 to $100,000	15,816	235,659,387.00	68,511,274.00	130,101,038.00	434,271,699.00	1,245,097,171.00	1,066,783,643.00
$100,000 to $150,000	3,065	67,391,354.00	13,871,732.00	46,272,132.00	127,535,218.00	439,293,800.00	377,644,950.00
$150,000 to $300,000	1,876	19,663,538.00	13,006,161.00	45,343,586.00	108,013,285.00	442,138,340.00	374,609,374.00
$300,000 to $500,000	457	17,550,352.00	2,470,074.00	15,769,402.00	35,789,828.00	203,996,574.00	171,248,552.00
$500,000 to $1,000,000	242	12,482,658.00	1,986,078.00	8,114,975.00	22,583,711.00	184,262,919.00	158,462,179.00
Over $1,000,000	75	4,033,484.00	1,249,700.00	10,331,445.00	15,614,629.00	190,337,268.00	155,974,475.00
Total (over $10,000)	259,808	1,969,144,405.00	661,114,178.00	788,456,413.00	3,418,713,996.00	7,910,181,116.00	6,759,968,347.00
Total (under $10,000 taxable)	4,229,890	7,569,641,827.00	2,582,451,902.00	773,053,988.00	10,925,147,717.00	14,369,471,198.00	12,708,755,222.00
Total (under $10,000 nontaxable)	2,880,090	4,078,876,394.00	1,511,918,011.00	248,503,339.00	5,839,297,744.00	7,299,344,261.00	6,187,429,885.00
Grand total	7,369,788	13,617,662,626.00	4,755,483,091.00	1,810,013,740.00	20,183,159,457.00	29,578,996,575.00	25,656,153,454.00
$5,000 to $10,000 (taxable and nontaxable)	437,330	1,521,771,286.00	629,608,578.00	324,253,191.00	2,475,633,055.00	3,500,579,702.00	2,991,187,905.00

YEAR 1925

Income classes	Number of returns	Wages and salaries	Business	Partnerships	Total wages, business, and partnerships	Total income	Net income
$10,000 to $25,000	236,779	$1,298,966,148.00	$517,489,993.00	$110,047,565.00	$2,226,503,706.00	$4,175,943,404.00	$3,544,898,379.00
$25,000 to $50,000	59,721	545,360,006.00	195,321,060.00	235,470,532.00	976,151,598.00	2,363,270,375.00	2,032,239,284.00
$50,000 to $100,000	20,958	283,812,274.00	95,445,972.00	167,946,728.00	547,204,974.00	1,625,448,239.00	1,418,948,285.00
$100,000 to $150,000	4,759	86,168,225.00	24,337,037.00	68,041,057.00	178,546,319.00	650,391,795.00	572,859,982.00
$150,000 to $300,000	3,223	70,236,871.00	22,504,462.00	85,689,422.00	178,430,755.00	746,625,638.00	655,300,217.00
$300,000 to $500,000	892	27,491,594.00	8,884,825.00	37,572,541.00	73,948,960.00	387,180,420.00	339,773,657.00
$500,000 to $1,000,000	479	16,738,652.00	3,323,500.00	28,444,679.00	48,506,831.00	368,998,511.00	327,367,523.00
Over $1,000,000	207	7,807,217.00	1,836,949.00	28,134,880.00	37,779,046.00	465,002,745.00	422,456,852.00
Total (over $10,000)	327,018	2,336,580,987.00	869,143,798.00	1,061,347,404.00	4,267,072,189.00	10,782,861,127.00	9,313,844,179.00
Total (under $10,000 taxable)	2,174,148	4,659,910,803.00	1,634,077,752.00	591,447,292.00	6,885,435,847.00	9,260,935,188.00	8,157,375,183.00
Total (under $10,000 nontaxable)	1,669,885	2,745,668,075.00	1,185,582,913.00	174,230,794.00	4,105,481,782.00	5,228,238,376.00	4,423,357,041.00
Grand total	4,171,051	9,742,159,865.00	3,688,804,463.00	1,827,025,490.00	15,257,989,818.00	25,272,034,691.00	21,894,576,403.00
$5,000 to $10,000 (taxable and nontaxable)	503,652	1,697,229,899.00	754,494,500.00	361,451,875.00	2,813,176,274.00	4,044,266,136.00	3,463,852,012.00

YEAR 1926

$10,000 to $25,000	246,730	$1,408,251,977.00	$548,433,643.00	$394,905,493.00	$2,351,591,113.00	$4,274,759,968.00	$3,660,622,482.00
$25,000 to $50,000	57,487	546,882,765.00	179,918,628.00	211,800,790.00	938,602,183.00	2,270,913,704.00	1,954,653,219.00
$50,000 to $100,000	20,520	281,312,483.00	89,292,649.00	153,043,104.00	526,648,236.00	1,599,865,245.00	1,389,339,134.00
$100,000 to $150,000	4,724	89,137,434.00	25,880,635.00	55,549,274.00	170,567,343.00	661,940,611.00	570,189,915.00
$150,000 to $300,000	3,267	87,112,702.00	20,645,692.00	74,715,398.00	182,473,792.00	763,547,678.00	661,411,549.00
$300,000 to $500,000	892	29,580,524.00	8,765,382.00	24,708,556.00	63,054,462.00	389,256,735.00	340,214,162.00
$500,000 to $1,000,000	468	16,892,188.00	5,367,627.00	22,670,211.00	44,930,026.00	364,075,596.00	317,881,202.00
Over $1,000,000	231	16,248,068.00	2,431,885.00	14,668,639.00	33,348,592.00	552,524,052.00	494,393,917.00
Total (over $10,000)	334,319	2,478,418,141.00	880,736,141.00	952,061,465.00	4,311,215,747.00	10,876,883,589.00	9,388,705,580.00
Total (under $10,000 taxable)	2,136,671	4,754,717,277.00	1,501,421,103.00	577,811,392.00	6,833,949,772.00	9,061,392,477.00	8,033,926,992.00
Total (under $10,000 nontaxable)	1,667,102	2,761,179,112.00	1,190,738,464.00	202,708,176.00	4,154,625,752.00	5,509,159,765.00	4,535,873,077.00
Grand total	4,138,092	9,994,314,530.00	3,572,895,708.00	1,732,581,033.00	15,299,791,271.00	25,447,435,831.00	21,958,505,649.00
$5,000 to $10,000 (taxable and nontaxable)	560,549	1,884,976,423.00	857,786,703.00	377,724,834.00	3,120,487,960.00	4,491,073,129.00	3,838,953,366.00

YEAR 1927

$10,000 to $25,000	252,079	$1,444,538,961.00	$532,212,938.00	$366,105,914.00	$2,342,857,813.00	$4,363,623,434.00	$3,748,057,507.00
$25,000 to $50,000	60,123	560,174,834.00	181,009,651.00	201,983,447.00	943,167,932.00	2,371,603,688.00	2,051,770,684.00
$50,000 to $100,000	22,573	304,104,134.00	89,833,580.00	157,337,372.00	551,275,086.00	1,774,030,092.00	1,535,387,374.00
$100,000 to $150,000	5,261	97,321,437.00	23,024,909.00	68,416,091.00	188,762,437.00	731,690,299.00	636,018,520.00
$150,000 to $300,000	3,873	92,017,552.00	23,667,847.00	89,966,764.00	205,652,163.00	899,820,382.00	787,270,255.00
$300,000 to $500,000	1,141	35,564,477.00	8,478,299.00	50,477,551.00	94,520,327.00	487,372,963.00	431,121,727.00
$500,000 to $1,000,000	557	21,092,199.00	7,057,054.00	31,669,649.00	59,818,902.00	434,571,272.00	378,166,589.00
Over $1,000,000	290	17,191,474.00	2,583,156.00	36,683,917.00	110,458,547.00	679,502,429.00	600,640,846.00
Total (over $10,000)	345,897	2,572,005,068.00	867,867,434.00	1,002,640,705.00	4,496,513,207.00	11,742,214,559.00	10,168,433,502.00
Total (under $10,000 taxable)	2,095,044	7,646,444,712.00	2,419,553,860.00	752,504,330.00	10,818,502,902.00	14,466,346,009.00	7,921,631,297.00
Total (under $10,000 nontaxable)	1,660,606						4,455,025,754.00
Grand total	4,101,547	10,218,449,780.00	3,287,421,294.00	1,755,145,035.00	15,315,016,109.00	26,208,560,568.00	22,545,090,553.00
$5,000 to $10,000 (taxable and nontaxable)	567,700	1,952,270,811.00	836,307,833.00	351,780,955.00	3,140,359,599.00	4,517,769,731.00	3,895,759,157.00

Statistics pertinent to the study of earned income

YEAR 1916

Income classes	Total tax	Per cent wages and salaries to total income	Per cent wages, business, and partnerships to total income	Per cent total tax to net income	Average wage per individual	Average wages, business, and partnerships income per individual	Per cent of tax paid, by class, to total individual tax	Average tax per individual	Average net income per individual
$10,000 to $25,000	$11,637,014.00			0.94			6.712	$143.88	$15,270.00
$25,000 to $50,000	11,602,681.00	15.61	51.49	1.41	$5,000.00	$16,491.00	6.692	488.86	34,662.00
$50,000 to $100,000	16,298,587.00			2.25			9.400	1,559.37	69,154.00
$100,000 to $150,000	12,423,481.00	10.03	44.06	3.48	14,916.00	65,507.00	7.165	4,283.96	123,225.00
$150,000 to $300,000	24,007,267.00	6.65	40.21	4.75	16,516.00	99,784.00	13.846	9,851.16	207,575.00
$300,000 to $500,000	17,951,410.00	5.25	41.82	6.00	23,972.00	191,002.00	10.354	25,142.03	380,866.00
$500,000 to $1,000,000	20,901,911.00	3.66	35.02	8.14	30,929.00	286,378.00	12.055	55,590.19	682,902.00
Over $1,000,000	51,487,356.00	1.60	31.24	11.09	40,424.00	787,459.00	29.695	249,938.62	2,253,707.00
Total (over $10,000)	156,309,707.00	1.18	46.59	3.37	5,718.00	22,890.00	90.15	128.44	38,099.00
Total (under $10,000 taxable)									
Total (under $10,000 nontaxable)									
Grand total	173,386,694.00	17.70	53.73	2.75	3,383.00	10,271.00	100	396.73	14,412.00
$5,000 to $10,000 (taxable and nontaxable)	6,301,183.00	27.94	68.98	.61	2,821.00	6,963.00	3.63	41.85	6,890.00

YEAR 1917

Income classes	Total tax	Per cent wages and salaries to total income	Per cent wages, business, and partnerships to total income	Per cent total tax to net income	Average wage per individual	Average wages, business, and partnerships income per individual	Per cent of tax paid, by class, to total individual tax	Average tax per individual	Average net income per individual
$10,000 to $25,000	$80,695,149.00			4.78			12.25	$717.27	$14,997.00
$25,000 to $50,000	76,593,344.00	25.50	45.10	7.34	$6,250.00	$11,057.00	11.34	2,520.26	34,297.00
$50,000 to $100,000	85,027,556.00			10.04			12.58	6,835.56	68,084.00
$100,000 to $150,000	55,766,236.00	15.05	31.06	13.92	19,108.00	39,441.00	8.26	16,888.62	121,288.00
$150,000 to $300,000	86,718,157.00	11.26	27.45	18.27	24,036.00	58,582.00	12.85	36,948.51	202,238.00
$300,000 to $500,000	50,227,598.00	9.59	26.06	23.93	38,204.00	103,837.00	7.14	89,852.59	375,501.00
$500,000 to $1,000,000	59,349,187.00	5.88	19.20	27.63	43,558.00	142,205.00	8.79	188,410.12	681,369.00
Over $1,000,000	109,424,990.00	2.54	9.19	35.65	59,995.00	217,084.00	16.21	776,063.82	2,176,141.00
Total (over $10,000)	603,802,217.00	20.55	38.39	11.65	7,000.00	13,078.00	89.42	3,727.27	31,994.00
Total (under $10,000 taxable)									
Total (under $10,000 nontaxable)									
Grand total	675,249,450.00	30.21	60.35	4.95	1,051.00	2,099.00	100	194.43	3,960.00
$5,000 to $10,000 (taxable and nontaxable)	44,066,389.00	33.87	67.68	2.41	2,442.00	4,879.00	6.53	162.80	6,752.00

YEAR 1918

$10,000 to $25,000	$142, 448, 579. 00	32. 56	56. 65	8. 20	$5, 645. 00	$9, 814. 00	12. 63	$1, 222. 01	$14, 897. 00
$25,000 to $50,000	130, 240, 648. 00	26. 73	47. 94	13. 32	10, 605. 00	19, 019. 00	11. 55	4, 563. 12	34, 267. 00
$50,000 to $100,000	147, 428, 655. 00	21. 33	42. 88	21. 69	17, 034. 00	34, 236. 00	13. 07	14, 748. 76	60, 008. 00
$100,000 to $150,000	95, 680, 064. 00	15. 92	39. 62	33. 68	22, 212. 00	55, 278. 00	8. 48	40, 576. 79	120, 486. 00
$150,000 to $300,000	136, 155, 916. 00	12. 05	38. 50	44. 64	29, 146. 00	93, 078. 00	12. 07	89, 871. 89	201, 469. 00
$300,000 to $500,000	79, 164, 847. 00	9. 62	37. 98	54. 77	42, 660. 00	168, 370. 00	7. 03	207, 237. 82	378, 391. 00
$500,000 to $1,000,000	69, 834, 148. 00	4. 37	25. 73	58. 65	36, 265. 00	213, 546. 00	6. 19	393, 326. 67	668, 964. 00
Over $1,000,000	88, 885, 249. 00	2. 35	14. 52	64. 65	62, 114. 00	382, 973. 00	7. 89	1, 326, 645. 51	2, 052, 043. 00
Total (over $10,000)	889, 838, 106. 00	24. 40	47. 26	20. 29	7, 859. 00	15, 217. 00	78. 91	5, 575. 22	27, 471. 00
Total (under $10,000 taxable)	237, 883, 729. 00	53. 97	80. 30	2. 50	1, 737. 00	2, 584. 00	21. 09	73. 57	2, 941. 00
Total (under $10,000 nontaxable)		63. 49	82. 79		1, 353. 00	1, 764. 00			1, 968. 00
Grand total	1, 127, 721, 835. 00	46. 59	71. 04	7. 08	1, 858. 00	2, 849. 00	100. 00	254. 85	2, 548. 00
$5,000 to $10,000 (taxable and nontaxable)	93, 057, 963. 00	33. 55	68. 60	4. 34	2, 660. 00	5, 439. 00	8. 25	291. 39	6, 719. 00

YEAR 1919

$10,000 to $25,000	$164, 832, 523. 00	32. 20	60. 78	6. 83	$5, 574. 00	$10, 523. 00	12. 98	$1, 014. 45	$14, 846. 00
$25,000 to $50,000	154, 946, 343. 00	26. 46	53. 28	12. 13	10, 648. 00	21, 436. 00	12. 20	4, 134. 44	34, 084. 00
$50,000 to $100,000	186, 357, 608. 00	20. 59	49. 13	20. 79	16, 357. 00	39, 036. 00	14. 68	13, 990. 81	67, 305. 00
$100,000 to $150,000	118, 705, 303. 00	15. 40	47. 43	33. 12	22, 518. 00	69, 358. 00	9. 35	39, 793. 93	12, 015. 00
$150,000 to $300,000	163, 095, 349. 00	11. 59	45. 40	43. 94	28, 315. 00	101, 961. 00	12. 85	87, 497. 50	199, 114. 00
$300,000 to $500,000	86, 031, 032. 00	8. 19	41. 67	54. 08	38, 091. 00	193, 817. 00	6. 78	202, 425. 96	374, 285. 00
$500,000 to $1,000,000	76, 228, 132. 00	5. 38	31. 06	59. 42	46, 146. 00	236, 256. 00	6. 00	403, 323. 45	578, 785. 00
Over $1,000,000	99, 026, 996. 00	1. 73	16. 43	64. 87	49, 699. 00	473, 269. 00	7. 79	1, 523, 492. 25	2, 348, 465. 00
Total (over $10,000)	1, 049, 223, 286. 00	24. 50	52. 95	18. 23	7, 535. 00	16, 500. 00	82. 64	4, 795. 17	26, 305. 00
Total (under $10,000 taxable)	220, 406, 818. 00	57. 23	82. 13	1. 85	1, 889. 00	2, 712. 00	17. 36	54. 93	2, 975. 00
Total (under $10,000 nontaxable)		63. 38	83. 21		1, 365. 00	1, 793. 00			1, 968. 00
Grand total	1, 269, 630, 104. 00	79. 94	73. 38	6. 39	2, 017. 00	1, 074. 00	100. 00	238. 08	3, 724. 00
$5,000 to $10,000 (taxable and nontaxable)	91, 537, 910. 00	36. 60	71. 85	3. 10	2, 911. 00	5, 714. 00	7. 21	208. 59	6, 732. 00

Statistics pertinent to the study of earned income—Continued

YEAR 1920

Income classes	Total tax	Per cent wages and salaries to total income	Per cent wages, business, and partnerships to total income	Per cent total tax to net income	Average wage per individual	Average wages, business, and partnerships income per individual	Per cent of tax paid, by class, to total individual tax	Average tax per individual	Average net income per individual
$10,000 to $25,000	$172, 259, 321. 00	34. 76	59. 40	6. 76	$6, 319. 00	$10, 797. 00	16. 02	$1, 002. 50	$14, 828. 00
$25,000 to $50,000	154, 265, 276. 00	28. 23	52. 16	11. 80	11, 948. 00	22, 076. 00	14. 35	4, 001. 90	33, 917. 00
$50,000 to $100,000	163, 717. 719. 00	21. 29	46. 79	20. 20	18, 306. 00	40, 227. 00	15. 23	13, 538. 22	67, 013. 00
$100,000 to $150,000	86, 587, 694. 00	15. 04	42. 33	32. 61	23, 853. 00	67, 000. 00	8. 05	39, 519. 71	121, 183. 00
$150,000 to $300,000	92, 604, 423. 00	11. 59	38. 59	43. 04	31, 343. 00	10, 435. 00	8. 61	87, 116. 11	202, 388. 00
$300,000 to $500,000	47, 043, 461. 00	8. 25	34, 39	52. 67	42, 856. 00	178, 689. 00	4. 38	196, 834. 56	373, 697. 00
$500,000 to $1,000,000	45, 641, 005. 00	5. 54	26. 21	57. 08	45, 863. 00	217, 131. 00	4. 25	371, 065. 08	650, 105. 00
Over $1,000,000	49, 185, 085. 00	3. 48	13. 89	63. 81	11, 059. 00	441, 645. 00	4. 57	1, 490, 457. 12	2, 335, 701. 00
Total (over $10,000)	903. 891, 678. 00	27. 70	52. 29	17. 08	827, 924. 00	1, 563. 00	84. 08	3, 997. 40	23, 408. 00
Total (under $10,000 taxable)	171, 162, 008. 00	65. 93	82. 98	1. 15	2, 010. 00	2, 530. 00	15. 92	32. 34	28, 222. 00
Total (under $10,000 nontaxable)		72. 73	85. 74		1, 586. 00	1, 869. 00			2, 013. 00
Grand total	1, 075, 053. 686. 00	57. 21	75. 60	4. 53	2, 103. 00	2, 779. 00	100. 00	148. 08	3, 269. 00
$5,000 to $10,000 (taxable and nontaxable)	97, 886, 033. 00	41. 34	68. 96	3. 19	3, 282. 00	5, 473. 00	9. 11	214. 92	6, 737. 00

YEAR 1921

Income classes	Total tax	Per cent wages and salaries to total income	Per cent wages, business, and partnerships to total income	Per cent total tax to net income	Average wage per individual	Average wages, business, and partnerships income per individual	Per cent of tax paid, by class, to total individual tax	Average tax per individual	Average net income per individual
$10,000 to $25,000	$126, 886, 410. 00	37. 24	58. 55	6. 48	$6, 861. 00	$10, 785. 00	17. 64	$958. 76	$14, 796. 00
$25,000 to $50,000	112, 909, 840. 00	28. 18	49. 14	11. 53	26, 371. 00	21, 020. 00	15. 70	3, 900. 71	33, 800. 00
$50,000 to $100,000	115, 711, 635. 00	21. 64	43. 70	19. 87	18, 669. 00	37, 704. 00	16. 08	13, 274. 25	66, 792. 00
$100,000 to $150,000	52, 330, 056. 00	15. 87	38. 27	32. 00	25, 627. 00	61, 792. 00	7. 27	38, 280. 95	119, 620. 00
$150,000 to $300,000	61, 495, 988. 00	12. 43	34. 60	42. 14	32, 613. 00	90, 798. 00	8. 55	83, 215. 14	197, 494. 00
$300,000 to $500,000	31, 859, 630. 00	6. 12	24. 16	51. 94	34, 718. 00	137, 088. 00	4. 43	196, 664. 38	378, 658. 00
$500,000 to $1,000,000	25, 112, 090. 00	3. 28	27. 55	58. 70	29, 737. 00	249, 452. 00	3. 49	398, 604. 60	679, 054. 00
Over $1,000,000	31, 419, 726. 00	4. 39	10. 92	63. 59	130, 094. 00	323, 289. 00	4. 37	1, 496, 177. 43	2, 352. 920. 00
Total (over $10,000)	557, 725, 375. 00	29. 46	50. 67	14. 00	8, 639. 00	14, 857. 00	77. 53	3, 235. 83	23, 109. 00
Total (under $10,000 taxable)	161, 661, 731. 00	66. 02	81. 51	1. 71	2, 050. 00	2, 531. 00	22. 47	4, 730. 23	2, 758. 00
Total (under $10,000 nontaxable)		69. 41	82. 35		1, 731. 00	2, 054. 00			2, 008. 00
Grand total	719, 387, 106. 00	59. 21	75. 10	3. 67	2, 073. 00	2, 630. 00	100. 00	107. 98	2, 939. 00
$5,000 to $10,000 (taxable and nontaxable)	68, 871, 422. 00	46. 93	69. 58	2. 90	3, 800. 00	5, 634. 00	9. 57	194. 97	6, 734. 00

YEAR 1922

$10,000 to $25,000	$123,575,960.00	33.91	54.94	5.48	$6,021.00	$9,756.00	14.35	$816.60	$2,222.00
$25,000 to $50,000	125,697,249.00	25.30	44.95	10.40	10,420.00	18,508.00	14.60	3,542.96	34,057.00
$50,000 to $100,000	144,092,555.00	18.79	37.31	17.89	15,203.00	30,188.00	16.73	12,007.71	67,102.00
$100,000 to $150,000	71,337,246.00	14.15	32.29	27.42	20,991.00	47,889.00	8.29	32,859.16	119,854.00
$150,000 to $300,000	98,810,408.00	9.48	26.44	37.03	23,657.00	65,985.00	11.47	74,686.63	201,674.00
$300,000 to $500,000	43,488,227.00	6.16	21.59	37.27	28,223.00	98,968.00	5.05	140,738.60	377,580.00
$500,000 to $1,000,000	38,559,344.00	3.42	12.05	35.81	27,828.00	97,820.00	4.48	239,499.03	668,762.00
Over $1,000,000	49,517,639.00	2.95	8.71	35.02	74,192.00	218,633.00	5.75	739,069.24	2,110,254.00
Total (over $10,000)	695,078,628.00	25.08	44.23	13.46	7,682.00	13,545.00	80.72	3,426.77	2,545.00
Total (under $10,000 taxable)	165,978,680.00	63.41	80.73	1.68	2,030.00	2,585.00	19.28	47.72	2,841.00
Total (under $10,000 nontaxable)		67.45	82.71		1,634.00	2,003.00			2,026.00
Grand total	861,057,308.00	55.06	72.22	4.04	2,018.00	2,646.00	100.00	126.86	3,143.00
$5,000 to $10,000 (taxable and nontaxable)	70,387,912.00	43.97	67.67	2.66	3,514.00	5,408.00	8.17	179.85	6,750.00

YEAR 1923

$10,000 to $25,000	$103,865,711.00	34.27	55.18	4.06	$6,106.00	$9,832.00	15.65	$604.57	$14,891.00
$25,000 to $50,000	103,600,750.00	25.16	44.48	7.67	10,301.00	18,211.00	15.61	2,600.94	33,909.00
$50,000 to $100,000	108,878,597.00	18.81	35.62	13.06	15,309.00	28,986.00	16.41	8,743.86	66,969.00
$100,000 to $150,000	55,719,390.00	14.09	28.89	19.85	21,028.00	43,116.00	8.40	23,821.89	119,990.00
$150,000 to $300,000	62,104,203.00	10.49	22.86	23.83	25,875.00	56,372.00	9.36	47,735.75	200,295.00
$300,000 to $500,000	31,668,552.00	8.14	17.43	25.42	39,044.00	83,618.00	4.77	96,845.72	380,946.00
$500,000 to $1,000,000	25,498,434.00	5.43	12.22	26.81	46,820.00	105,302.00	3.84	180,839.96	674,519.00
Over $1,000,000	35,788,475.00	2.47	4.87	23.53	59,736.00	117,863.00	5.39	483,628.04	2,055,025.00
Total (over $10,000)	527,124,112.00	25.71	43.92	9.32	7,696.00	13,145.00	79.43	2,309.24	24,778.00
Total (under $10,000 taxable)	136,527,393.00	52.35	75.98	1.15	1,753.00	2,531.00	20.57	33.78	2,930.00
Total (under $10,000 nontaxable)		60.19	82.23		1,571.00	2,147.00			2,142.00
Grand total	663,651,505.00	48.53	70.41	2.67	1,849.00	2,682.00	100.00	86.21	3,227.00
$5,000 to $10,000 (taxable and nontaxable)	55,480,078.00	44.30	68.00	2.04	3,547.00	5,444.00	8.36	139.53	6,835.00

Statistics pertinent to the study of earned income—Continued

YEAR 1924

Income classes	Total tax	Per cent wages and salaries to total income	Per cent wages, business, and partnerships to total income	Per cent total tax to net income	Average wage per individual	Average wages, business, and partnerships income per individual	Per cent of tax paid, by class, to total individual tax	Average tax per individual	Average net income per individual
$10,000 to $25,000	$78,068,669.00	33.25	55.53	2.73	$5,838.00	$9,749.00	11.09	$408.27	$14,933.00
$25,000 to $50,000	109,359,811.00	25.22	43.87	6.84	9,903.00	17,228.00	15.53	2,323.79	33,995.00
$50,000 to $100,000	136,636,004.00	18.93	34.88	12.81	14,900.00	27,458.00	19.40	8,639.10	61,017.00
$100,000 to $150,000	75,677,735.00	15.34	29.03	20.04	21,987.00	41,610.00	10.75	24,690.94	123,212.00
$150,000 to $300,000	92,480,898.00	11.23	24.43	24.69	26,473.00	57,576.00	13.13	49,296.85	199,685.00
$300,000 to $500,000	45,771,131.00	8.60	17.54	26.73	38,403.00	78,315.00	6.50	100,155.65	374,723.00
$500,000 to $1,000,000	42,585,301.00	6.77	12.25	26.87	51,581.00	93,000.00	6.05	175,972.32	654,802.00
Over $1,000,000	47,207,203.00	2.12	8.21	30.27	53,780.00	208,195.00	6.70	629,429.37	2,079,660.00
Total (over $10,000)	627,786,752.00	24.89	43.22	9.29	7,579.00	13,159.00	89.14	2,416.35	26,019.00
Total (under $10,000 taxable)	76,478,638.00	52.68	76.03	.60	1,790.00	2,583.00	10.86	18.08	3,005.00
Total (under $10,000 nontaxable)		55.88	80.00		1,416.00	2,027.00			2,148.00
Grand total	704,265,390.00	46.04	68.24	2.74	1,848.00	2,739.00	100.00	95.56	3,481.00
$5,000 to $10,000 (taxable and nontaxable)	28,827,944.00	43.47	70.72	.96	3,480.00	5,661.00	4.09	65.92	6,035.00

YEAR 1925

$10,000 to $25,000	$74,171,952.00	31.11	53.32	2.09	$5,486.00	$9,403.00	10.10	$313.26	$14,971.00
$25,000 to $50,000	120,688,692.00	23.08	41.30	5.94	9,132.00	16,345.00	16.43	2,020.85	34,029.00
$50,000 to $100,000	147,842,780.00	17.46	33.66	10.42	13,542.00	26,110.00	20.13	7,054.24	67,704.00
$100,000 to $150,000	79,471,792.00	13.25	27.45	13.87	18,106.00	37,518.00	10.82	16,699.26	120,374.00
$150,000 to $300,000	103,058,819.00	9.41	23.89	15.73	21,792.00	55,362.00	14.03	31,976.05	203,220.00
$300,000 to $500,000	55,721,982.00	7.10	19.09	16.40	30,820.00	82,902.00	7.58	62,468.59	380,912.00
$500,000 to $1,000,000	53,674,188.00	4.54	13.15	16.39	34,945.00	101,267.00	7.31	112,054.67	683,440.00
Over $1,000,000	66,867,521.00	1.68	8.13	15.83	37,716.00	182,507.00	9.10	323,031.50	2,040,854.00
Total (over $10,000)	701,497,726.00	21.67	39.57	7,53	7,145.00	13,048.00	95.50	2,145.13	28,481.00
Total (under $10,000 taxable)	33,057,457.00	50.32	74.35	.41	2,143.00	3,167.00	4.50	15.20	3,752.00
Total (under $10,000 nontaxable)		52.52	78.53		1,644.00	2,459.00			3,790.00
Grand total	734,555,183.00	38.55	60.38	3.35	2,336.00	3,658.00	100.00	176.11	5,249.00
$5,000 to $10,000 (taxable and nontaxable)	19,149,177.00	41.96	69.56	.55	3,370.00	5,586.00	2.61	38.02	6,877.00

YEAR 1926

$10,000 to $25,000	$72,464,803.00	32.94	55.01	1.98	$5,708.00	$9,531.00	9.89	$293.70	$14,837.00
$25,000 to $50,000	112,796,680.00	24.08	41.33	5.77	9,513.00	16,327.00	15.40	1,962,.12	34,002.00
$50,000 to $100,000	140,946,589.00	17.77	32.92	10.14	13,855.00	25,665.00	19.24	6,868.74	67,707.00
$100,000 to $150,000	77,900,137.00	13.46	25.76	13.66	18,869.00	36,106.00	10.63	16,490.26	120,701.00
$150,000 to $300,000	103,997,156.00	11.41	23.89	15.72	26,664.00	55,854.00	14.20	31,832.61	202,452.00
$300,000 to $500,000	55,255,627.00	7.60	16.20	16.24	33,162.00	70,689.00	7.54	61,945.77	381,406.00
$500,000 to $1,000,000	53,665,366.00	4.64	12.34	16.88	36,094.00	96,004.00	7.33	114,669.58	679,233.00
Over $1,000,000	81,893,331.00	2.94	6.04	16.56	70,338.00	144,366.00	11.18	354,516.58	2,140,233.00
Total (over $10,000)	698,919,689.00	22.79	39.64	7.44	7,413.00	12,896.00	95.41	2,090.58	28,083.00
Total (under $10,000 taxable)	33,551,101.00	52.47	75.42	.41	2,225.00	3,198.00	4.58	15.70	3,760.00
Total (under $10,000 nontaxable)		50.12	75.41		1,656.00	2,492.00			2,705.00
Grand total	732,470,790.00	39.27	60.12	3.33	2,415.00	3,697.00	100.00	177.00	5,306.00
$5,000 to $10,000 (taxable and nontaxable)	20,272,195.00	41.97	69.48	2.77	3,362.00	5,567.00	.52	36.16	6,849.00

YEAR 1927

$10,000 to $25,000	$74,225,906.00	33.10	53.69	1.88	$5,731.00	$9,294.00	8.94	$294.00	$14,869.00
$25,000 to $50,000	119,475,301.00	23.62	39.77	5.82	9,317.00	15,687.00	14.38	1,987.00	34,126.00
$50,000 to $100,000	156,674,952.00	17.14	31.07	10.20	13,472.00	24,422.00	18.87	6,941.00	68,019.00
$100,000 to $150,000	87,397,904.00	13.30	25.80	13.74	18,499.00	35,044.00	10.52	16,612.00	120,073.00
$150,000 to $300,000	123,775,837.00	10.23	22.85	15.72	23,759.00	53,099.00	14.90	31,959.00	203,271.00
$300,000 to $500,000	73,750,177.00	7.30	19.39	17.11	31,170.00	82,840.00	8.88	64,636.00	377,846.00
$500,000 to $1,000,000	64,265,391.00	4.85	13.77	16.99	37,868.00	107,395.00	7.73	115,378.00	678,935.00
Over $1,000,000	98,657,237.00	2.53	16.26	16.43	59,281.00	380,892.00	11.87	340,197.00	2,071,175.00
Total (over $10,000)	798,222,705.00	21.90	38.29	7.85	7,436.00	13,000.00	96.09	2,308.00	29,397.00
Total (under $10,000 taxable)	32,416,729.00	52.86	74.78	.41	2,036.00	2,881.00	3.91	15.00	3,781.00
Total (under $10,000 nontaxable)									2,683.00
Grand total	830,639,434.00	38.98	58.22	3.68	2,491.00	3,734.00	100.00	203.00	5,496.00
$5,000 to $10,000 (taxable and nontaxable)	20,664,502.00	43.21	69.51	.53	3,439.00	5,532.00	2.49	36.00	6,862.00

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