

"1946" is incorrect; should be "1942"

G.G.

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Statement of Randolph E. Paul,
General Counsel of the Treasury Department,
before the Senate Finance Committee
in Executive Session
in support of the recommendations of
the Secretary of the Treasury
for an additional war-time revenue program

In his statement Secretary Morgenthau emphasized the need for additional taxes to increase Treasury receipts out of current income by an amount far in excess of his previous recommendations and to exercise a strong restraining influence on consumer spending in order to furnish an effective weapon for combatting inflationary increases in prices.

The Secretary has indicated the broad outlines of the Treasury's recommendations. It is my purpose to discuss these recommendations in detail. The proposed spendings tax is in two parts -- a flat rate tax to be refunded after the war, and a progressive surtax.

The Refundable Part of the Spendings Tax

The refundable part of the spendings tax would be imposed at a flat rate of 10 percent on the total spendings of individuals for consumer goods and services. In general, it would apply to all individuals who had income subject to the individual income tax, and also to individuals subject to the spendings surtax whether or not they had income subject to the income tax.

It is suggested that single persons be entirely outside the scope of the tax only if their income is less than \$500, and married couples only if their income is less than \$1,000. The exclusion would be increased by an additional \$250 for each dependent. The test for determining liability to file a refundable spendings tax return would therefore be stated in terms of income, even though the tax itself would be assessed on the basis of spendings. The reason for using the income test is to facilitate the administration of the refundable spendings tax by collecting it in conjunction with the individual income tax.

Tax base

The tax would be levied on total spendings of persons filing returns and reporting total spendings in excess of \$500 for a single person, \$1,000 for a married couple, and an additional \$250 for each dependent. The tax would be imposed on the taxpayer's total spendings, not merely on that part of his spendings above these amounts.

The amount of spendings would be computed indirectly. From the total amount of funds at the disposal of the taxpayer, derived either from current income or by drawing on capital, there would be subtracted the amount of savings. "Savings" would be defined to include, chiefly, repayment of debt, premiums paid on life insurance, expenditures for the purchase of bonds or other capital assets, gifts and contributions, payment of taxes and increases in bank balances. The items needed to determine the tax base are shown in the attached schedule (Exhibit 1).

Method of collection

The refundable part of the spendings tax would be collected in the same manner and at the same time as the individual income tax. A tentative tax would be collected at source on wages, salaries, and dividends in the same manner as it is proposed to collect part of the regular income tax. A spendings tax return would be made part of the annual income tax return. The amount of spendings and the tax thereon would also be computed on the same return. The total of the income tax and the spendings tax payable would be ascertained by deducting the income tax and the spendings tax already collected at source. If the amount collected at source exceeded the combined tax liability, the excess would be promptly repaid to the taxpayer.

Short income and spendings tax form

The great majority of taxpayers would be eligible to file a simplified refundable spendings tax return which would be a supplementary part of their simplified income tax return.

Tax rate and amount of tax

The refundable part of the spendings tax would be levied at a rate of 10 percent on the taxpayer's total spendings. An individual with an income of \$5,000, for example, who spent \$3,200, would pay a tax of \$320. If he increased his savings and spent only \$2,400, the tax liability would be reduced to \$240.

Special provision would be required to avoid large differences between the tax on persons just below and just above the exclusion limits -- that is, the limits at which the tax becomes applicable. For a single person without dependents, for instance, the exclusion amount is \$500. Those with spendings in excess of \$500 would be liable to a tax of 10 percent on all their spendings. In some cases, in the absence of a special provision, the tax would be greater than the excess of their spendings over the exclusion limits. An individual spending \$510, for example, would be subject to a tax of \$51, whereas if he spent only \$500, he would not be subject to tax. To provide for a gradual transition between non-taxable and taxable individuals, it is proposed that the tax on persons just above the exclusion limits shall not exceed the excess of their spendings over the exclusion limits. In the illustration cited, the tax on the single individual spending \$510 would be \$10.

Refunding of spendings tax

It is suggested that this flat-rate spendings tax be made refundable without interest after the war. The amount collected in the first year of operation of the tax might be refunded in the first year following the close of the war; the amount collected in the second year might be refunded in the second year following the close of the war; and so on. It might also be desirable to provide for earlier refunding after the close of the war at the discretion of the Secretary of the Treasury. Provision should in any event be made for the earlier refunding of the tax even prior to the close of the war in cases of proven distress.

The Treasury proposes that the entire amount of the flat-rate tax be refunded. However, if the Committee should desire to do so, it is technically feasible to refund the entire tax only to the lower income groups.

The Individual Spendings Surtax

I turn now to a discussion of the second part of the spendings tax, the spendings surtax. This tax would be imposed at progressive rates on expenditures in excess of an exemption of \$1,000 for a single person, \$2,000 for a married couple, and an additional \$500 for each dependent. In contrast to the exclusions under the flat rate tax, these exemptions provide a minimum of spendings that is free from surtax for everyone, regardless of the total amount spent.

The spendings would be calculated in the same manner as in the case of the refundable spendings tax -- that is, they would not include such items as debt repayment, insurance premiums and bond purchases -- except that you may want to consider allowing some extraordinary expenditures also to be deducted.

Method of collection

The tax would be collected currently by requiring individuals to report the approximate amount of spending at short intervals, say quarterly, with a final adjustment after the close of the year. The quarterly report might contain no more than a single item -- the approximate amount of spending during the preceding quarter.

Tax rates

The tax rates would be progressive. The following surtax rate schedule is suggested:

Spendings (Brackets)	:	Tax rate (Brackets)
\$ 0 - \$ 1,000	:	10%
1,000 - 2,000	:	20
2,000 - 3,000	:	30
3,000 - 5,000	:	40
5,000 - 10,000	:	50
Over \$10,000	:	75

This schedule would apply to a single person in the usual manner. However, direct application of this progressive spendings tax schedule to a family as a unit would be unduly harsh on large families and would favor single persons. This follows from the fact that the larger the

family, the greater is the necessary amount of spendings and the higher the rate at which the spendings would be taxed. This difficulty can be overcome by putting the family's tax on a per capita basis. The family's total spendings would be divided by the number of persons in the family. The progressive rate schedule would then be applied to the resulting per capita spendings. The per capita tax computed in this way would be multiplied by the number of persons in the family to get the total family tax. For this purpose, a dependent child would be counted as equivalent to one-half a person.

For example, a married couple with one dependent would comprise 2.5 taxable persons. If this family spent \$5,000, spendings in excess of the exemption of \$2,500 would be \$2,500 or \$1,000 per taxable person. According to the above rate schedule, the surtax would be \$100 per person, or \$250 for the family (2.5 times \$100). Married couples would be permitted to file either joint returns or separate returns, since discrimination would be avoided by the method of computing spendings per taxable person. The amounts and effective rates of tax under the above rate schedules are shown in Exhibits 2, 2a, 2b and 2c.

Effective date of surtax

The spendings surtax should be made effective as of September 1, 1942. It is essential that this be done in order to prevent large scale buying and hoarding of consumers' goods in anticipation of the enactment of the spendings tax. In addition, unless the spendings tax is made effective as of the date on which it is announced, individuals would be given an opportunity to convert their bank deposits into currency, hoping thereby to set aside spendable funds upon which an adequate check could not be made. These and similar dangers can be prevented only by making the spendings surtax effective as of September 1, 1942. The corresponding difficulties are not of great importance with respect to the refundable part of the spendings tax and this could go into effect January 1, 1943.

Reduction of exemptions for the regular income tax

In addition to the spendings tax, the Treasury recommends a reduction in the personal exemptions under the individual income tax.

The exclusions of \$500, \$1,000, and \$250 for the refundable spendings tax are believed to be desirable in order that a very large volume of consumer spendings may be brought into the tax base. For purposes of simplicity the income tax exemptions and the refundable spendings tax exclusions should be the same amounts of income. Accordingly, it is suggested that the personal income tax exemptions be lowered to \$500 for single persons, \$1,000 for married couples, and \$250 for each dependent. This step will need to be taken in any event as the impact of the war increases. It represents a \$200 reduction in a married couple's exemption and a \$50 reduction in the amount of the dependent credit, from the exemptions tentatively adopted by your Committee.

The proposal would increase the number of taxpayers to some five million above the estimated number under the exemptions tentatively adopted by your Committee. Under the rates of H. R. 7378, the lowering of exemptions would increase the tax liability of a married person without dependents having an income of \$2,000 from \$140 to \$178; for one with an income of \$10,000 from \$2,152 to \$2,220. A married person with two dependents having an income of \$2,000 would pay a tax of \$83, whereas with the exemptions under H. R. 7378, he would pay no tax. For a \$10,000 income, the tax liability would be increased from \$1,880 to \$2,050. The amounts of tax and the effective rates for taxpayers with selected net incomes under present law, under the rates of H. R. 7378, with the proposed lowered exemptions, are shown in Tables 3, 3a, 3b, and 3c.

The proposed reductions in personal exemptions and credit for dependents will increase substantially the tax load of those in the lowest taxable income groups and you may want to consider revising the surtax rate schedule to reduce the impact on these groups. We should be glad to submit such schedules for your consideration.

Effect of the Treasury program

The total yield of the proposed program at 1942 levels of income is estimated to be \$6.5 billion. Of this amount, \$4.5 billion would be refundable to taxpayers after the war.

Examples illustrating the combined effects of the refundable part of the spendings tax, the spendings surtax and the reduced individual income tax exemptions for individuals with selected amounts of income are shown in Exhibits 4 through 4d. For example, a married couple with two dependents having an income of \$5,000 would have an income tax liability of \$680. If their spendings amount to \$3,800 the spendings surtax would be \$80 and the refundable spendings tax, \$380. If their spendings were only \$3,100 the spendings surtax would be reduced to \$10 and the refundable spendings tax to \$310. Their combined tax would be \$1,140 in the first case and \$1,000 in the second case. Of these amounts, however, \$380 or \$310, respectively, would be refunded after the war.

Effect of the Treasury proposals on
the anti-inflation program

The spendings tax will raise very substantial amounts of revenue and will accordingly be valuable in financing the war. More important, it will be particularly helpful as an anti-inflation measure in two ways: (1) by withdrawing consumer purchasing power and thus reducing the demand for goods, and (2) by creating an obstacle to spending, thus checking spending and encouraging saving. Because it will apply only to individual spendings and not to business spendings, it will not interfere with price ceilings. On the contrary, it will greatly facilitate the exercise of direct price controls, rationing, and other methods of combating inflation.

The refundable part of the spendings tax and the spendings surtax differ in the emphasis placed on these two methods of reducing spending. The refundable tax, applying to the bulk of total individual spending at a 10 percent rate, will be effective primarily by withdrawing purchasing power. The spendings surtax, on the other hand, is intended primarily to discourage spending directly, rather than to absorb large amounts of purchasing power. For this reason it is imposed only on spending above a fairly adequate living level, but at increasingly heavy rates. Insofar as spendings are not checked, the tax will bring substantial payments into the Treasury; insofar as they are checked, inflationary pressure on the price level will be reduced.

For these reasons, these taxes should provide a powerful instrument for combating inflation. Moreover, they provide an adjustable instrument which, once put in operation, can be increased or decreased as the current economic situation requires.

Like any new tax, and perhaps more than some taxes, a spendings tax necessarily involves administrative and compliance problems. These problems are reduced by the fact that a spendings tax can be administered in conjunction with the individual income tax. As a consequence, the refundable tax will require no additional returns, and the collection of the refundable tax at source will impose no additional burden on either withholding agents or the Bureau of Internal Revenue. Nevertheless, the spendings tax will create an administrative problem in checking on information not now required on income tax returns, in familiarizing the public with a new type of tax, and in helping the public to fill out the forms that they will be required to submit. Compared with other measures of like importance in meeting the inflation and revenue problems, the administrative difficulties should not prove disproportionately large. In time of war, administrative difficulties cannot be allowed to stand in the way of measures vital to the Nation's welfare.

Exhibit 1

The Individual Spendings Tax Schedule

(To be used by persons subject to the spendings surtax and by persons not eligible to use simplified income tax return. A simplified spendings tax schedule will be available to all other persons subject to the spendings tax.)

Funds at the disposal of the individual

1. Salaries, wages, and other compensation for personal services...	\$
2. Dividends and interest received, including government interest..	
3. Rents, royalties, annuities, pensions	
4. Withdrawals from business, professions, partnerships, trusts....	
5. Cash receipts from gifts, bequests, and insurance.....	
6. Receipts from sale of capital assets	
7. Receipts from repayment of loans made to others	
8. Receipts from borrowing, including debts incurred on installment purchases.....	
9. Cash and bank balances at beginning of year.....	
10. Other receipts.....	
11. Total disposable funds (items 1 to 10).....	\$

Deductions: Non-taxable use of funds

12. Cash and bank balances at end of year.....	\$
13. Cash gifts and contributions.....	
14. Interest and taxes paid, except on owner-occupied homes.....	
15. Expenditures on the purchase of capital assets.....	
16. Life insurance premiums, annuity, and pension payment.....	
17. Outlays for repayment of debt, including installment debt.....	
18. Loans made to others.....	
19. Other nontaxable disbursements.....	
20. Total deductions (items 12 to 19).....	\$
21. Expenditures subject to tax (item 11 minus item 20).....	\$

Exhibit 2. Individual Spendings Surtax: Rates and amount of surtax

Expenditure per taxable person (Bracket)	Surtax rate (Bracket)	Cumulative surtax per taxable person at upper limit of bracket
\$ 0 - \$1,000	10%	\$ 100
1,000 - 2,000	20	300
2,000 - 3,000	30	600
3,000 - 5,000	40	1,400
5,000 - 10,000	50	3,900
Over 10,000	75	-

Exhibit 2a

Refundable spendings tax and spendings surtax:
Amount of tax and tax as per cent of spendings

Single person - No dependents

Exclusion for refundable tax -\$ 500
Exemption for surtax - 1,000

Total spendings: before exemption	Amount of tax			Surtax as percent of spendings	Total tax as percent of spendings
:	Refundable: tax	Surtax:	Total tax	:	:
500	\$ 0	\$ 0	\$ 0	0%	0%
800	80	0	80	0	10.0
1,000	100	0	100	0	10.0
1,200	120	20	140	1.7	11.7
1,500	150	50	200	3.3	13.3
2,000	200	100	300	5.0	15.0
2,500	250	200	450	8.0	18.0
3,000	300	300	600	10.0	20.0
3,500	350	450	800	12.9	22.9
4,000	400	600	1,000	15.0	25.0
5,000	500	1,000	1,500	20.0	30.0
6,000	600	1,400	2,000	23.3	33.3
8,000	800	2,400	3,200	30.0	40.0
10,000	1,000	3,400	4,400	34.0	44.0
15,000	1,500	6,900	8,400	46.0	56.0
20,000	2,000	10,650	12,650	53.3	63.3
25,000	2,500	14,400	16,900	57.6	67.6
50,000	5,000	33,150	38,150	66.3	76.3

Exhibit 2b

Refundable spendings tax and spendings surtax:
Amount of tax and tax as per cent of spendings

Married person - No dependents

Exclusion for refundable tax - \$1,000
Exemption for surtax - 2,000

Total spendings: before exemption	Amount of tax			:Surtax as :percent of :spendings	: Total tax : as percent :of spendings
	:Refundable : tax	: Surtax	: Total : tax		
\$ 1,000	\$ 0	\$ 0	\$ 0	0%	0%
1,500	150	0	150	0	10.0
2,000	200	0	200	0	10.0
2,500	250	50	300	2.0	12.0
3,000	300	100	400	3.3	13.3
3,500	350	150	500	4.3	14.3
4,000	400	200	600	5.0	15.0
5,000	500	400	900	8.0	18.0
6,000	600	600	1,200	10.0	20.0
8,000	800	1,200	2,000	15.0	25.0
10,000	1,000	2,000	3,000	20.0	30.0
15,000	1,500	4,300	5,800	28.7	38.7
20,000	2,000	6,800	8,800	34.0	44.0
25,000	2,500	10,050	12,550	40.2	50.2
50,000	5,000	28,800	33,800	57.6	67.6

Exhibit 2c

Refundable spendings tax and spendings surtax: Amount
of tax and tax as percent of spendings

Married person - Two dependents

Exclusion for refundable tax - \$1,500
Exemption for surtax - 3,000

Total spendings: before exemption	Amount of tax			Surtax as percent of spendings	Total tax as percent of spendings
	Refundable tax	Surtax	Total tax		
\$ 1,500	\$ 0	\$ 0	\$ 0	0 %	0 %
2,000	200	0	200	0	10.0
2,500	250	0	250	0	10.0
3,000	300	0	300	0	10.0
3,500	350	50	400	1.4	11.4
4,000	400	100	500	2.5	12.5
5,000	500	200	700	4.0	14.0
6,000	600	300	900	5.0	15.0
8,000	800	700	1,500	8.8	18.8
10,000	1,000	1,200	2,200	12.0	22.0
15,000	1,500	3,000	4,500	20.0	30.0
20,000	2,000	5,200	7,200	26.0	36.0
25,000	2,500	7,700	10,200	30.8	40.8
50,000	5,000	24,450	29,450	48.9	58.9

Exhibit 3

Comparison of individual surtax rate schedule under
present law and H. R. 7378

Surtax net income (000)	Bracket rate				Total surtax cumulative	
	Present		H.R. 7378		Present	H.R. 7378
	law				law	H.R. 7378
\$ -	2	6	13	120	260	
2 -	4	9	16	300	530	
4 -	6	13	20	560	980	
6 -	8	17	24	900	1,460	
8 -	10	21	28	1,320	2,020	
10 -	12	25	32	1,820	2,660	
12 -	14	29	36	2,400	3,380	
14 -	16	32	40	3,040	4,180	
16 -	18	35	43	3,740	5,040	
18 -	20	38	46	4,500	5,960	
20 -	22	41	49	5,320	6,940	
22 -	26	44	52	7,080	9,020	
26 -	32	47	55	9,900	12,320	
32 -	38	50	58	12,900	15,800	
38 -	44	53	61	16,080	19,460	
44 -	50	55	63	19,380	23,240	
50 -	60	57	66	25,080	29,840	
60 -	70	59	69	30,980	36,740	
70 -	80	61	72	37,080	43,940	
80 -	90	63	75	43,380	51,440	
90 -	100	64	77	49,780	59,140	
100 -	150	65	79	82,280	98,640	
150 -	200	66	81	115,280	139,140	
200 -	250	67	82	148,780	180,140	
250 -	300	69	82	183,280	221,140	
300 -	400	71	82	254,280	303,140	
400 -	500	72	82	326,280	385,140	
500 -	750	73	82	508,780	590,140	
750 -	1,000	74	82	693,780	795,140	
1,000 -	2,000	75	82	1,443,780	1,615,140	
2,000 -	5,000	76	82	3,723,780	4,075,140	
5,000 and over		77	82	-	-	

Exhibit 3a. Amount of individual income tax and effective rates under present law, H. R. 7378, and H. R. 7378 **with** lowered exemptions.

Single person - No dependents

Personal exemption: Present law - \$750
 H. R. 7378 - 500
 Treasury proposal- 500

Net income before personal exemption <u>1/</u>	Amount of tax			Effective rates		
	Present law	H. R. 7378	H. R. 7378 with lowered exemptions	Present law	H. R. 7378	H. R. 7378 with lowered exemptions
				Percent	Percent	Percent
500	-	-	-	-	-	-
600	- \$	15 \$	15	-	2.5	2.5
700	-	34	34	-	4.9	4.9
800	\$ 3	52	52	.4	6.5	6.5
900	11	71	71	1.2	7.8	7.8
1,000	21	89	89	2.1	8.9	8.9
1,200	40	126	126	3.3	10.5	10.5
1,500	69	181	181	4.6	12.1	12.1
2,000	117	273	273	5.9	13.7	13.7
2,500	165	365	365	6.6	14.6	14.6
3,000	221	472	472	7.4	15.7	15.7
4,000	347	686	686	8.7	17.2	17.2
5,000	483	920	920	9.7	18.4	18.4
6,000	649	1,174	1,174	10.3	19.6	19.6
8,000	1,031	1,742	1,742	12.9	21.8	21.8
10,000	1,493	2,390	2,390	14.9	23.9	23.9
15,000	2,994	4,366	4,366	20.0	29.1	29.1
20,000	4,929	6,816	6,816	24.6	34.1	34.1
25,000	7,224	9,626	9,626	28.9	38.5	38.5
50,000	20,882	25,811	25,811	41.8	51.6	51.6
100,000	53,214	64,641	64,641	53.2	64.6	64.6
500,000	345,654	414,616	414,616	69.1	82.9	82.9
1,000,000	733,139	854,616	854,616	73.3	85.5	85.5
5,000,000	3,923,124	4,374,616	4,374,616	78.5	87.5	87.5

Normal tax rate (percent) 4 6 6 4 6 6

1/ Maximum earned income assumed.

Exhibit 3b

Amount of individual income tax and effective rates under present law, H. R. 7378, and H. R. 7378 with lowered exemptions

Married person - No dependents

Personal exemption: Present law -\$1,500
 H. R. 7378 - 1,200
 Treasury proposal- 1,000

Net income before personal exemption 1/	Amount of tax			Effective rate		
	Present law	H. R. 7378	H. R. 7378 with lowered exemptions	Present law	H. R. 7378	H. R. 7378 with lowered exemptions
				Percent	Percent	Percent
\$ 1,000	-	-	-	-	-	-
1,100	-	-	\$ 13	-	-	1.2
1,200	-	-	31	-	-	2.6
1,300	-	\$ 13	49	-	1.0	3.8
1,400	-	30	68	-	2.1	4.9
1,500	-	48	86	-	3.2	5.7
1,600	\$ 6	66	104	0.4	4.1	6.5
1,800	23	103	141	1.3	5.7	7.8
2,000	42	140	178	2.1	7.0	8.9
2,500	90	232	270	3.6	9.3	10.8
3,000	138	324	362	4.6	10.8	12.1
4,000	249	532	576	6.2	13.3	14.4
5,000	375	746	790	7.5	14.9	15.8
6,000	521	992	1,044	8.7	16.5	17.4
8,000	873	1,532	1,592	10.9	19.2	19.9
10,000	1,305	2,152	2,220	13.1	21.5	22.2
15,000	2,739	4,052	4,136	18.3	27.0	27.6
20,000	4,614	6,452	6,556	23.1	32.3	32.8
25,000	6,864	9,220	9,336	27.5	36.9	37.3
50,000	20,439	25,328	25,466	40.9	50.7	50.9
100,000	52,704	64,060	64,226	52.7	64.1	64.2
500,000	345,084	414,000	414,176	69.0	82.8	82.8
1,000,000	732,554	854,000	854,176	73.3	85.4	85.4
5,000,000	3,922,524	4,374,000	4,374,176	78.5	87.5	87.5

Normal tax rate (percent) 4 6 6 4 6 6

1/ Maximum earned income assumed.

**Exhibit 3c. Amount of individual income tax and effective rates
under present law, H. R. 7378, and H. R. 7378
with lowered exemptions**

Married person - two dependents

Personal exemption:	Present law	- \$1,500
	H. R. 7378	- 1,200
	Treasury proposal	- 1,000
Dependent credit:	Present law	- \$ 400
	H. R. 7378	- 400
	Treasury proposal	- 250

Net income before personal ex- emption <u>1/</u>	Amount of tax			Effective rate		
	Present law	H.R. 7378 with low- ered exemp- tions	H.R. 7378 with low- ered exemp- tions	Present law	H.R. 7378 with low- ered exemp- tions	H.R. 7378 with low- ered exemp- tions

				Percent	Percent	Percent
\$ 1,500	-	-		-	-	-
1,600	-	-	\$ 13	-	-	0.8
1,700	-	-	28	-	-	1.6
1,800	-	-	46	-	-	2.6
1,900	-	-	65	-	-	3.4
2,000	-	-	83	-	-	4.2
2,100	-	\$ 13	101.	-	0.6	4.8
2,200	-	26	120	-	1.2	5.5
2,300	-	43	138	-	1.9	6.0
2,400	\$ 6	62	157	0.3	2.6	6.5
2,500	12	80	175	0.5	3.2	7.0
3,000	58	172	267	1.9	5.7	8.9
4,000	154	356	466	3.9	8.9	11.7
5,000	271	570	680	5.4	11.4	13.6
6,000	397	784	914	6.6	13.1	15.2
8,000	717	1,292	1,442	9.0	16.2	18.0
10,000	1,117	1,880	2,050	11.2	18.8	20.5
15,000	2,475	3,716	3,926	16.5	24.8	26.2
20,000	4,287	6,036	6,296	21.4	30.2	31.5
25,000	6,480	8,756	9,046	25.9	35.0	36.2
50,000	19,967	24,776	25,121	39.9	49.6	50.2
100,000	52,160	63,396	63,811	52.2	63.4	63.8
500,000	344,476	413,296	413,736	68.9	82.7	82.7
1,000,000	731,930	853,296	853,736	73.2	85.3	85.4
5,000,000	3,921,884	4,373,296	4,373,736	78.4	87.5	87.5

Normal tax						
rate (percent)	4	6	6	4	6	6

1/ Maximum earned income assumed.

Exhibit 4. Illustration of the combined effect of the
income tax, spendings surtax, and refundable spendings tax

Income \$2,500

		: Single person:	Married couple:	Married couple		
		: No dependents:	No dependents :	Two dependents		
Assumed spending on consumer goods and services	\$1,700	\$1,300	\$1,900	\$1,500	\$2,100	\$1,700
Income tax (H. R. 7378 with lowered exemptions) <u>1/</u>	365	365	270	270	175	175
Spendings surtax	<u>70</u>	<u>30</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income tax and spendings surtax:						
Amount	435	395	270	270	175	175
As a percent of income	17.4%	15.8%	10.8%	10.8%	7.0%	7.0%
Refundable tax	<u>170</u>	<u>130</u>	<u>190</u>	<u>150</u>	<u>210</u>	<u>170</u>
Total, income tax, spendings surtax and refundable tax:						
Amount	605	525	460	420	385	345
As a percent of income	24.2%	21.0%	18.4%	16.8%	15.4%	13.8%

1/ Exemptions: Single person, \$500; Married couple, \$1,000; each dependent, \$250.

Exhibit 4a. Illustration of the combined effect of the
income tax, spendings surtax, and refundable spendings tax

Income \$5,000

	: Single person : No dependents	: Married couple : No dependents	: Married couple : No dependents	: Married couple : Two dependents		
Assumed spending on consumer goods and services	\$3,200	\$2,500	\$3,500	\$2,800	\$3,800	\$3,100
Income tax (H.R. 7378 with lowered exemptions <u>1/</u>)	920	920	790	790	680	680
Spendings surtax	<u>360</u>	<u>200</u>	<u>150</u>	<u>80</u>	<u>80</u>	<u>10</u>
Income tax and spendings surtax:						
Amount	1,280	1,120	940	870	760	690
As a percent of income	25.6%	22.4%	18.8%	17.4%	15.2%	13.8%
Refundable tax	<u>320</u>	<u>250</u>	<u>350</u>	<u>280</u>	<u>380</u>	<u>310</u>
Total, income tax, spendings surtax, and refundable tax:						
Amount	1,600	1,370	1,290	1,150	1,140	1,000
As a percent of income	32.0%	27.4%	25.8%	23.0%	22.8%	20.0%

1/ Exemptions: Single person \$500, married couple \$1,000, each dependent \$250.

Exhibit 4b. Illustration of the combined effect of the
income tax, spendings surtax and refundable spendings tax

Income \$10,000

	: Single person : No dependents :		: Married couple : No dependents :		: Married couple : Two dependents :	
Assumed spending on consumer goods and services	\$ 5,500	\$ 4,000	\$ 6,000	\$ 4,500	\$ 6,500	\$ 5,000
Income tax (H. R. 7378 with lowered exemptions <u>1/</u>)	2,390	2,390	2,220	2,220	2,050	2,050
Spendings surtax	<u>1,200</u>	<u>600</u>	<u>600</u>	<u>300</u>	<u>400</u>	<u>200</u>
Income tax and spendings surtax:						
Amount	3,590	2,990	2,820	2,520	2,450	2,250
As a percent of income	35.9%	29.9%	28.2%	25.2%	24.5%	22.5%
Refundable tax	<u>550</u>	<u>400</u>	<u>600</u>	<u>450</u>	<u>650</u>	<u>500</u>
Total, income tax, spendings surtax, and refundable tax:						
Amount	4,140	3,390	3,420	2,970	3,100	2,750
As a percent of income	41.4%	33.9%	34.2%	29.7%	31.0%	27.5%

1/ Exemptions: Single person, \$500; Married couple, \$1,000; each dependent, \$250.

Exhibit 4c. Illustration of the combined effect of the
income tax, spendings surtax and refundable spendings tax

Income \$25,000

	Single person No dependents	Married couple No dependents	Married couple Two dependents
Assumed spending on consumer goods and services	\$10,000	\$ 6,000	\$ 8,000
Income tax (H.R. 7378 with lowered exemptions ^{1/})	9,626	9,336	9,046
Spendings surtax	3,400	2,400	700
Income tax and spendings surtax:			
Amount	13,026	11,736	9,746
As a percent of income	52.1%	46.9%	39.0%
Refundable tax	1,000	1,100	800
Total, income tax, spendings surtax, and refundable tax:			
Amount	14,026	12,836	10,546
As a percent of income	56.1%	51.3%	42.2%

^{1/} Exemptions: Single person \$500, married couple \$1,000, each dependent \$250

Exhibit 4d. Illustration of the combined effect of the income tax, spendings surtax and refundable spendings tax

Income \$100,000

	: Single person		: Married couple		: Married couple	
	: No dependents		: No dependents		: Two dependents	
Assumed spending on consumer goods and services	\$16,000	\$11,000	\$18,000	\$13,000	\$20,000	\$15,000
Income Tax (H.R. 7378 with lowered exemptions ^{1/})	64,641	64,641	64,226	64,226	63,811	63,811
Spendings surtax	<u>7,650</u>	<u>3,900</u>	<u>5,800</u>	<u>3,300</u>	<u>5,200</u>	<u>3,000</u>
Income Tax and Spendings Surtax:						
Amount	72,291	68,541	70,026	67,526	69,011	66,811
As a percent of Income	72.3%	68.5%	70.0%	67.5%	69.0%	66.8%
Refundable Tax	1,600	1,100	1,800	1,300	2,000	1,500
Total, income tax, spendings surtax, and refundable tax:						
Amount	73,891	69,641	71,826	68,826	71,011	68,311
As a percent of Income	73.9%	69.6%	71.8%	68.8%	71.0%	68.3%

^{1/} Exemptions: Single person, \$500; Married couple, \$1,000; Each dependent, \$250.