

Sept 1942

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

In connection with the formulation of the comprehensive anti-inflation tax program outlined by the Secretary, we have given careful consideration to all possible alternative tax measures. One alternative that deserves special mention because of the widespread attention it has received is the general sales tax.

In our view, the spendings tax is distinctly preferable to a general sales tax for the following reasons:

1. The spendings tax can completely exempt individuals with a low standard of living. The sales tax cannot provide such an exemption, except in an indirect, partial and unsatisfactory fashion by exempting whole classes of goods, such as food. A sales tax will exempt alike, or tax alike, the liberal purchases of a commodity by the well-to-do and the limited purchases of the same commodity by the needy. The exemption of individuals with very low standards of living is important in the interests not only of fairness but also of the war effort. We can ill afford to impose taxes that would so reduce the standard of living of many individuals as to impair their productive efficiency.

2. The proposed spendings tax is imposed at rates graduated according to the amount an individual spends. For this reason it can be truly effective in curtailing consumption at all income levels. A sales tax cannot be graduated, except very crudely in terms of classes of commodities. It is therefore impossible to impose a sales tax at sufficiently high rates to discourage luxury spending without at the same time imposing an intolerable burden on the great masses of the people. In short, a spendings tax can be more selective in its impact on consumption than a sales tax.

3. A sales tax, even if levied at the retail level, would in practice have to be paid by business firms on some types of purchases. It would therefore enter into costs of production with resulting pressure against price ceilings. In addition, it would be difficult to impose a sales tax without affecting parity prices of farm products. A spendings tax would have neither of these effects, since it is collected directly from individuals.

4. The spendings tax proposed will reach as large an amount of consumer spendings as a retail sales tax without exemptions, and a considerably larger amount than a retail sales tax with food exempt. It will do so despite the fact that the spendings tax exempts completely individuals with low standards of living. The reason for this difference between the two taxes is that a spendings tax can include services purchased by consumers while it is administratively extremely difficult to include such services in a retail sales tax. Out of total consumer spendings of \$75 billion, the spendings tax will reach over \$50 billion. A retail sales tax on all tangible commodities will reach about the same amount; a retail sales tax with food exempt will reach only about \$32 billion.

5. Despite the popular belief to the contrary, the retail sales tax is not an easy tax to administer. On a Federal level, it is an entirely new addition to the tax structure, involving the creation of new administrative machinery. The spendings tax will admittedly involve administrative difficulties of its own. But these are no greater than those that would arise under the sales tax and the spendings tax has the great advantage that it can be integrated with the fully developed administration of the individual income tax.

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Table 1.

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

Surtax net income: (000)	Bracket rate			Total surtax cumulative			
	:Present:		:Schedule:	: Present :		: Schedule	
	: law	:H.R. 7378:	A	: law	: H.R. 7378 :	A	
\$ -	.5	6%	13%	9%	\$ 30	\$ 65	\$ 45
.5 -	1	6	13	13	60	130	110
1 -	1.5	6	13	15	90	195	185
1.5 -	2	6	13	17	120	260	270
2 -	3	9	16	19	210	420	460
3 -	4	9	16	21	300	580	670
4 -	6	13	20	23	560	980	1,130
6 -	8	17	24	25	900	1,460	1,630
8 -	10	21	28	28	1,320	2,020	2,190
10 -	12	25	32	32	1,820	2,660	2,830
12 -	14	29	36	36	2,400	3,380	3,550
14 -	16	32	40	40	3,040	4,180	4,350
16 -	18	35	43	43	3,740	5,040	5,210
18 -	20	38	46	46	4,500	5,960	6,130
20 -	22	41	49	49	5,320	6,940	7,110
22 -	26	44	52	52	7,080	9,020	9,190
26 -	32	47	55	55	9,900	12,320	12,490
32 -	38	50	58	58	12,900	15,800	15,970
38 -	44	53	61	61	16,080	19,460	19,630
44 -	50	55	63	63	19,380	23,240	23,410
50 -	60	57	66	66	25,080	29,840	30,010
60 -	70	59	69	69	30,980	36,740	36,910
70 -	80	61	72	72	37,080	43,940	44,110
80 -	90	63	75	75	43,380	51,440	51,610
90 -	100	64	77	77	49,780	59,140	59,310
100 -	150	65	79	79	82,280	98,640	98,810
150 -	200	66	81	81	115,280	139,140	139,310
200 -	250	67	82	82	148,780	180,140	180,310
250 -	300	69	82	82	183,280	221,140	221,310
300 -	400	71	82	82	254,280	303,140	303,310
400 -	500	72	82	82	326,280	385,140	385,310
500 -	750	73	82	82	508,780	590,140	590,310
750 -	1,000	74	82	82	693,780	795,140	795,310
1,000 -	2,000	75	82	82	1,443,780	1,615,140	1,615,310
2,000 -	5,000	76	82	82	3,723,780	4,075,140	4,075,310
over	5,000	77	82	82	-	-	-

Table 1a.

Amount of individual income tax and effective rates under present law, H. R. 7378, and Schedule A.

Single person - No dependents

Personal exemption: Present law - \$750
 H. R. 7378 - 500
 Schedule A - 500

Net income before personal exemption ^{1/}	Amount of tax			Effective rates		
	Present law	H. R. 7378	Schedule A	Present law	H. R. 7378	Schedule A
				Percent	Percent	Percent
\$ 500	-	-	-	-	-	-
600	-	\$ 15	\$ 11	-	2.5	1.8
700	-	34	26	-	4.9	3.7
800	\$ 3	52	40	.4	6.5	5.0
900	11	71	55	1.2	7.8	6.1
1,000	21	89	69	2.1	8.9	6.9
1,200	40	126	106	3.3	10.5	8.8
1,500	69	181	161	4.6	12.1	10.7
2,000	117	273	263	5.9	13.7	13.2
2,500	165	365	375	6.6	14.6	15.0
3,000	221	472	497	7.4	15.7	16.6
4,000	347	686	751	8.7	17.2	18.8
5,000	483	920	1025	9.7	18.4	20.5
6,000	649	1,174	1309	10.8	19.6	21.8
8,000	1,031	1,742	1907	12.9	21.8	23.8
10,000	1,493	2,390	2560	14.9	23.9	25.6
15,000	2,994	4,366	4536	20.0	29.1	30.2
20,000	4,929	6,816	6986	24.6	34.1	34.9
25,000	7,224	9,626	9796	28.9	38.5	39.2
50,000	20,882	25,811	25,981	41.8	51.6	52.0
100,000	53,214	64,641	64,811	53.2	64.6	64.8
500,000	345,654	414,616	414,786	69.1	82.9	83.0
1,000,000	733,139	854,616	854,786	73.3	85.5	85.5
5,000,000	3,923,124	4,374,616	4,374,786	78.5	87.5	87.5

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

^{1/} Maximum earned income assumed.

Table 1b

Amount of individual income tax and effective rates under present law, H. R. 7378, and Schedule A

Married person - No dependents

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

Net income before personal exemption 1/	Amount of tax			Effective rate		
	Present law	H. R. 7378	Schedule A	Present law	H. R. 7378	Schedule A
				Percent	Percent	Percent
\$ 1,000	--	--	--	--	--	--
1,100	--	--	9	--	--	.8
1,200	--	--	23	--	--	1.9
1,300	--	13	37	--	1.0	2.8
1,400	--	30	52	--	2.1	3.7
1,500	--	48	66	--	3.2	4.4
1,600	\$ 6	66	84	0.4	4.1	5.3
1,800	23	103	121	1.3	5.7	6.7
2,000	42	140	158	2.1	7.0	7.9
2,500	90	232	260	3.6	9.3	10.4
3,000	138	324	372	4.6	10.8	12.4
4,000	249	532	616	6.2	13.3	15.4
5,000	375	746	880	7.5	14.9	17.6
6,000	521	992	1,164	8.7	16.5	19.4
8,000	873	1,532	1,752	10.9	19.2	21.9
10,000	1,305	2,152	2,390	13.1	21.5	23.9
15,000	2,739	4,052	4,306	18.3	27.0	28.7
20,000	4,614	6,452	6,726	23.1	32.3	33.6
25,000	6,864	9,220	9,506	27.5	36.9	38.0
50,000	20,439	25,328	25,636	40.9	50.7	51.3
100,000	52,704	64,060	64,396	52.7	64.1	64.4
500,000	345,084	414,000	414,346	69.0	82.8	82.9
1,000,000	732,554	854,000	854,346	73.3	85.4	85.4
5,000,000	3,922,524	4,374,000	4,374,346	78.5	87.5	87.5

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

1/ Maximum earned income assumed.

Table 1c.

Amount of individual income tax and effective rates
under present law, H. R. 7378, and Schedule A

Married person - two dependents

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

Dependent credit: Present law - \$ 400
H. R. 7378 - 400
Schedule A - 250

Net income before personal ex- emption <u>1/</u>	Amount of tax			Effective rate		
	Present: law	H.R. 7378:	Schedule A	Present: law	H.R. 7378	Schedule A
				Percent	Percent	Percent
\$ 1,500	-	-	-	-	-	-
1,600	-	-	\$ 9	-	-	.6
1,700	-	-	20	-	-	1.2
1,800	-	-	34	-	-	1.9
1,900	-	-	49	-	-	2.6
2,000	-	-	63	-	-	3.2
2,100	- \$	13	81	-	0.6	3.9
2,200	-	26	100	-	1.2	4.5
2,300	-	43	118	-	1.9	5.1
2,400	\$ 6	62	137	0.3	2.6	5.7
2,500	12	80	155	0.5	3.2	6.2
3,000	58	172	257	1.9	5.7	8.6
4,000	154	356	491	3.9	8.9	12.3
5,000	271	570	745	5.4	11.4	14.9
6,000	397	784	1,019	6.6	13.1	17.0
8,000	717	1,292	1,597	9.0	16.2	20.0
10,000	1,117	1,880	2,220	11.2	18.8	22.2
15,000	2,475	3,716	4,096	16.5	24.8	27.3
20,000	4,287	6,036	6,466	21.4	30.2	32.3
25,000	6,480	8,756	9,216	25.9	35.0	36.9
50,000	19,967	24,776	25,291	39.9	49.6	50.6
100,000	52,160	63,396	63,981	52.2	63.4	64.0
500,000	344,476	413,296	413,906	68.9	82.7	82.8
1,000,000	731,930	853,296	853,906	73.2	85.3	85.4
5,000,000	3,921,884	4,373,296	4,373,906	78.4	87.5	87.5

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

1/ Maximum earned income assumed.

Sept, 1942

Table A.

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

Surtax net income : (000)	Bracket rate				Total surtax cumulative		
	:Present:		:Schedule:		Present :	: Schedule	
	: law	:H.R. 7378:	B	:	law	: H.R. 7378 :	B
\$ -	.5	6%	13%	10%	\$ 30	\$ 65	\$ 50
.5 -	1	6	13	13	60	130	115
1 -	1.5	6	13	15	90	195	190
1.5 -	2	6	13	17	120	260	275
2 -	3	9	16	19	210	420	465
3 -	4	9	16	21	300	580	675
4 -	6	13	20	23	560	980	1,135
6 -	8	17	24	25	900	1,460	1,635
8 -	10	21	28	28	1,320	2,020	2,195
10 -	12	25	32	32	1,820	2,660	2,835
12 -	14	29	36	36	2,400	3,380	3,555
14 -	16	32	40	40	3,040	4,180	4,355
16 -	18	35	43	43	3,740	5,040	5,215
18 -	20	38	46	46	4,500	5,960	6,135
20 -	22	41	49	49	5,320	6,940	7,115
22 -	26	44	52	52	7,080	9,020	9,195
26 -	32	47	55	55	9,900	12,320	12,495
32 -	38	50	58	58	12,900	15,800	15,975
38 -	44	53	61	61	16,080	19,460	19,635
44 -	50	55	63	63	19,380	23,240	23,415
50 -	60	57	66	66	25,080	29,840	30,015
60 -	70	59	69	69	30,980	36,740	36,915
70 -	80	61	72	72	37,080	43,940	44,115
80 -	90	63	75	75	43,380	51,440	51,615
90 -	100	64	77	77	49,780	59,140	59,315
100 -	150	65	79	79	82,280	98,640	98,815
150 -	200	66	81	81	115,280	139,140	139,315
200 -	250	67	82	82	148,780	180,140	180,315
250 -	300	69	82	82	183,280	221,140	221,315
300 -	400	71	82	82	254,280	303,140	303,315
400 -	500	72	82	82	326,280	385,140	385,315
500 -	750	73	82	82	508,780	590,140	590,315
750 -	1,000	74	82	82	693,780	795,140	795,315
1,000 -	2,000	75	82	82	1,443,780	1,615,140	1,615,315
2,000 -	5,000	76	82	82	3,723,780	4,075,140	4,075,315
over	5,000	77	82	82	-	-	-

Table B

Amount of individual income tax and
effective rates under present law,
H. R. 7378, and Schedule B

Single person - No dependents

Personal exemption: Present law - \$750
H. R. 7378 - 500
Schedule B - 500

Net income before personal exemption ^{1/}	Amount of tax			Effective rates		
	Present law	H. R. 7378	Schedule B	Present law	H.R. 7378	Schedule B
				Percent	Percent	Percent
\$ 500	-	-	-	-	-	-
600	- \$	15 \$	12	-	2.5	2.0
700	-	34	28	-	4.9	4.0
800 \$	3	52	43	.4	6.5	5.4
900	11	71	59	1.2	7.8	6.6
1,000	21	89	74	2.1	8.9	7.4
1,200	40	126	111	3.3	10.5	9.2
1,500	69	181	166	4.6	12.1	11.1
2,000	117	273	268	5.9	13.7	13.4
2,500	165	365	380	6.6	14.6	15.2
3,000	221	472	502	7.4	15.7	16.7
4,000	347	686	756	8.7	17.2	18.9
5,000	483	920	1,030	9.7	18.4	20.6
6,000	649	1,174	1,314	10.8	19.6	21.9
8,000	1,031	1,742	1,912	12.9	21.8	23.9
10,000	1,493	2,390	2,565	14.9	23.9	25.6
15,000	2,994	4,366	4,541	20.0	29.1	30.3
20,000	4,929	6,816	6,991	24.6	34.1	35.0
25,000	7,224	9,626	9,801	28.9	38.5	39.2
50,000	20,882	25,811	25,986	41.8	51.6	52.0
100,000	53,214	64,641	64,816	53.2	64.6	64.8
500,000	345,654	414,616	414,791	69.1	82.9	83.0
1,000,000	733,139	854,616	854,791	73.3	85.5	85.5
5,000,000	3,923,124	4,374,616	4,374,791	78.5	87.5	87.5

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

^{1/} Maximum earned income assumed.

Table C

Amount of individual income tax and effective rates under present law, H. R. 7378, and Schedule B

Married person - No dependents

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

Net income : before personal exemption 1/:	Amount of tax			Effective rate		
	Present law	H. R. 7378	Schedule B	Present law	H. R. 7378	Schedule B

				Percent	Percent	Percent
\$ 1,000	-	-	-	-	-	-
1,100	-	-	\$ 10	-	-	.9
1,200	-	-	25	-	-	2.1
1,300	- \$	13	40	-	1.0	3.1
1,400	-	30	56	-	2.1	4.0
1,500	-	48	71	-	3.2	4.7
1,600	\$ 6	66	89	0.4	4.1	5.6
1,800	23	103	126	1.3	5.7	7.0
2,000	42	140	163	2.1	7.0	8.2
2,500	90	232	265	3.6	9.3	10.6
3,000	138	324	377	4.6	10.8	12.6
4,000	249	532	621	6.2	13.3	15.5
5,000	375	746	885	7.5	14.9	17.7
6,000	521	992	1,169	8.7	16.5	19.5
8,000	873	1,532	1,757	10.9	19.2	22.0
10,000	1,305	2,152	2,395	13.1	21.5	24.0
15,000	2,739	4,052	4,311	18.3	27.0	28.7
20,000	4,614	6,452	6,731	23.1	32.3	33.7
25,000	6,864	9,220	9,511	27.5	36.9	38.0
50,000	20,439	25,328	25,641	40.9	50.7	51.3
100,000	52,704	64,060	64,401	52.7	64.1	64.4
500,000	345,084	414,000	414,351	69.0	82.8	82.8
1,000,000	732,554	854,000	854,351	73.3	85.4	85.4
5,000,000	3,922,524	4,374,000	4,374,351	78.5	87.5	87.5

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

1/ Maximum earned income assumed.

Table D.

Amount of individual income tax and effective rates
under present law, H. R. 7378, and Schedule B

Married person - two dependents

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

Net income before personal ex- emption <u>1/</u>	Amount of tax			Effective rate		
	Present: law	H.R. 7378:	Schedule B	Present: Law	H.R. 7378:	Schedule B
				Percent	Percent	Percent
\$ 1,500	-	-	-	-	-	-
1,600	-	-	\$ 10	-	-	.6
1,700	-	-	22	-	-	1.3
1,800	-	-	37	-	-	2.1
1,900	-	-	53	-	-	2.8
2,000	-	-	68	-	-	3.4
2,100	-	\$ 13	86	-	0.6	4.1
2,200	-	26	105	-	1.2	4.8
2,300	-	43	123	-	1.9	5.3
2,400	\$ 6	62	142	0.3	2.6	5.9
2,500	12	80	160	0.5	3.2	6.4
3,000	58	172	262	1.9	5.7	8.7
4,000	154	356	496	3.9	8.9	12.4
5,000	271	570	750	5.4	11.4	15.0
6,000	397	784	1,024	6.6	13.1	17.1
8,000	717	1,292	1,602	9.0	16.2	20.0
10,000	1,117	1,880	2,225	11.2	18.8	22.2
15,000	2,475	3,716	4,101	16.5	24.8	27.3
20,000	4,287	6,036	6,471	21.4	30.2	32.4
25,000	6,480	8,756	9,221	25.9	35.0	36.9
50,000	19,967	24,776	25,296	39.9	49.6	50.6
100,000	52,160	63,396	63,986	52.2	63.4	64.0
500,000	344,476	413,296	413,911	68.9	82.7	82.8
1,000,000	731,930	853,296	853,911	73.2	85.3	85.4
5,000,000	3,921,884	4,373,296	4,373,911	78.4	87.5	87.5

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

1/ Maximum earned income assumed.

Individual Income Taxes in Great Britain 1/ and Canada 2/

Net income before personal exemptions:	Great Britain						Canada					
	Amounts			Effective rates			Amounts			Effective rates		
	Total	Post-war	Net tax	Total tax	Net tax	Total tax	Post-war	Net tax	Total tax	Net tax	Total tax	

Single person - No dependents

\$ 2,500	\$ 850	\$ 123	\$ 727	34.0%	29.1%	\$ 826	\$ 200	\$ 626	33.0%	25.0%
5,000	1,975	207	1,768	39.5	35.4	2,128	400	1,728	42.6	34.6
10,000	4,625	240	4,385	46.3	43.9	5,112	800	4,312	51.1	43.1
25,000	15,137	240	14,897	60.5	59.6	15,496	800	14,696	62.0	58.8
50,000	36,575	240	36,335	73.2	72.7	35,703	800	34,903	71.4	69.8

Married couple - No dependents

\$ 2,500	\$ 730	\$ 143	\$ 587	29.2%	23.5%	\$ 651	\$ 250	\$ 401	26.0%	16.0%
5,000	1,855	227	1,628	37.1	32.6	1,878	500	1,378	37.6	27.6
10,000	4,505	260	4,245	45.1	42.5	4,762	1,000	3,762	47.6	37.6
25,000	15,017	260	14,757	60.1	59.0	14,846	1,000	13,846	59.4	55.4
50,000	36,455	260	36,195	72.9	72.4	34,553	1,000	33,553	69.1	67.1

Married couple - Two dependents

\$ 2,500	\$ 530	\$ 143	\$ 387	21.2%	15.5%	\$ 435	\$ 217	\$ 218	17.4%	8.7%
5,000	1,655	227	1,428	33.1	28.6	1,662	600	1,062	33.2	21.2
10,000	4,305	260	4,045	43.1	40.5	4,546	1,200	3,346	45.5	33.5
25,000	14,817	260	14,557	59.3	58.2	14,630	1,200	13,430	58.5	53.7
50,000	36,255	260	35,995	72.5	72.0	34,337	1,200	33,137	68.7	66.3

1/ Under Finance Act of 1941. 2/ Converted at \$4.00. Maximum earned net income is assumed.

2/ Under Income War Tax Act of 1942.

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