

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**Office Correspondence**Date February 17, 1936To Mr. CurrieSubject: Joint returns required for allFrom Miss Burrhusbands and wives

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If husbands and wives were all required to file joint returns, about \$150,000,000 of additional revenue would be raised during the calendar year 1937 at the tax rates now in effect. The additional revenue would come almost entirely from individuals who reported incomes for 1934 in excess of \$10,000. About \$90,000,000 of the additional revenue would come from individuals who had net incomes of \$50,000 and over for 1934 and the remainder of the revenue, except about \$15,000,000, would come from individuals with net incomes from \$10,000 to \$50,000.

This increase in revenue would not require an upward revision in the normal and surtax rates applied to individual incomes nor a change in the personal exemption. It would merely require an appropriate change in the law affecting the administration of returns, that is elimination of the privilege now given husbands and wives of filing separate returns.

From the point of view of ability to pay taxes, there is no reason why a man and his wife should not pay an income tax determined by their joint income. The ability of married individuals to pay taxes depends on the combined net income rather than on the fact that income may come from sources belonging legally to two individuals.

The present law permits a wife with independent sources of income to pay a tax on the basis of a return separate from her husband; also in western States where community property laws exist, husbands and wives are permitted to separate income into two returns for computing the income tax. This privilege of using separate returns has a very definite advantage when the combined income of the husband and wife would be subject to the higher progressive rates. For example, a wife and husband, each with \$20,000 of net income, would pay an income tax on a joint return which would be about 50 percent larger than the combined taxes computed in two separate returns. As a result, the small number of returns of wives now filed separately reduce income tax receipts materially.

There is a possibility that the additional revenue ~~anticipated~~ ^{less than the anticipated amount} might be somewhat ~~less~~ due to the fact that sources of income now legally belonging to the wife would be turned over to other members of the family in order to avoid higher surtax rates. It is believed that this kind of evasion would ~~be resorted to in only~~ ^{result in the majority of} ~~a small number of the~~ cases of wives filing separate returns.

One of the reasons for separate sources of income between husband and wife now, that of avoiding income taxes, would be eliminated but it is believed that there would remain substantial other reasons for a wife holding her own property or being given a part of her husband's.

It may be suggested that such a revision in the income tax law would ~~present~~^{cause} hardship in the cases where two separate establishments are maintained. If this seemed likely, an appropriate revision could be made, according to the general plan of the income tax law, by broadening the provisions applying to personal exemptions in the case of ~~maintenance of~~ an establishment. In other words, it would not be impossible to broaden the provision for head or heads of families to meet this situation.