

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 20, 1937

To Chairman Eccles

Subject: British and American Income

From Malcolm H. Bryan

Tax Rates

MHB

Attached is a table showing, for certain selected levels of income, the British income tax in contrast with the American. These figures have been calculated on the basis of single persons with earned income allowances. The comparative situation would not be materially altered by selecting other classes of income taxpayers.

The rates used are for 1935-36. The recent rise in the individual income tax in Great Britain is from 4s 9d to 5s in the pound. This is an increase of slightly more than 5 per cent in standard rate, which roughly corresponds to our normal rate.

The British rate structure is very much heavier than the American in the lower and middle brackets of the income tax and tends to become lighter in the highest brackets. The break occurs at approximately the \$500,000 level, after which the American tax is the heavier. The London Economist, in its "Budget Supplement" of April 10, directs attention to the fact that there has been a tendency in recent years to lighten the load on the lowest income tax brackets.

A point of interest in comparing income tax burdens in the United States and Great Britain is the purchasing power of equal money incomes. In the preparation of this memorandum, no formal inquiry has been made into that particular question. But costs of living studies indicate that equal money incomes will secure a higher standard of living in Great Britain than in the United States. Practically speaking, therefore, the British rates in the lower brackets are not so high as they appear.

Another point to be noticed is that the British national government has a large hand in many functions that in the United States are chiefly state and local affairs. It is thus necessary to add to the American Federal income tax some allowance at least for state income taxes. In states having such taxes, the range of rates is between 5 and 10 per cent.

British and American Individual Income Taxes
for
Selected Income Levels : 1936

Total Income	T O T A L		T A X	
	British	Per Cent	American	Per Cent
\$ 612	Exempt	—	—	—
980	\$ 22	2.3	Exempt	—
1,960	142	7.3	\$ 28	1.4
3,920	496	12.7	101	2.6
7,350	1,113	15.2	329	4.5
24,500	6,624	27.0	2,699	11.0
39,200	13,029	33.2	6,154	15.7
245,000	132,775	54.2	125,984	51.4
490,000	288,962	59.0	296,664	60.5
735,000	445,150	60.6	479,104	65.2

*Single persons with earned-income allowances.
Pound Sterling calculated at 4.90*