

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date February 12, 1947

To Chairman Eccles

Subject: Revenue Income Tax Reductions

From Richard A. Musgrave R.A.M.  
Alfred S. Sherrard A.S.

The attached table shows present and reduced income tax liabilities for selected levels of net income resulting from various methods of tax reduction, as follows:

Knutson: Flat reduction in present liability by 20 per cent for first 250,000 dollars of tax liability and 10 per cent thereafter.

Plan A: Reduction in first bracket rate from 20 per cent to 12 per cent without change in exemptions.

Plan B: Increase in present exemptions of 500 dollars per person to 750 dollars, without rate changes.

Plan C: Credit of 50 dollars per exemption against tax liability under present exemptions and rates.

Allen: Graduated reduction in liability ranging from 20 per cent for taxable incomes up to \$2,500 to 10 per cent for incomes over \$10,000.

With the exception of the Allen plan, each proposal would reduce income tax yield by approximately 3.5 billion from the estimated level under present law of 18 billion. Allen estimates his plan to cost about 2.8 billion, but this seems on the low side.

The Knutson, Allen and A plans would leave the number of taxpayers unchanged, while plans B and C would result in some reduction.

Estimated Number of Returns  
(in millions of dollars)

	<u>Taxable</u>	<u>Non-Taxable</u>	<u>Total</u>
Present Law	37	11	48
Knutson	37	11	48
Plan A	37	11	48
Plan B	26	18	44
Plan C	26	22	48
Allen	37	11	48

To: Chairman Eccles

- 2 -

Under plan B where there would be a reduction in filing requirements, total returns as well as taxable returns would be reduced although non-taxable returns would show some increase. Under plan C where an increase in filing requirements would not be feasible, taxable returns only would be cut.

With respect to the distribution of tax relief by income groups, the table shows that the Knutson plan is by far the most favorable to high income recipients. The Allen plan is the same for low net incomes, but thereafter the reduction is less. On the whole, the Allan plan still emphasizes reductions in the upper income groups. Plans A, B and C are rather similar as far as distribution is concerned, reductions in all cases being most significant in the low income groups and negligible for large incomes. Because of the greater reduction in the number of returns and for administrative reasons, plan B appears preferable.

Attachment

Alternative Plans for Reducing  
Personal Income Tax Yield by 3.5 Billion Dollars

(Head of family, 1 dependent)

<u>Selected Levels of Net Income before Exemption</u>	<u>Present Law</u>	<u>Tax Plans</u>					<u>Allen<sup>1/</sup></u>
		<u>Knutson</u>	<u>A</u>	<u>B</u>	<u>C</u>		
(Proposed Liability)							
1,600	19	15	11	--	--	15	
2,000	95	76	57	--	--	76	
3,000	285	228	171	143	135	228	
4,000	485	388	333	333	335	388	
5,000	694	555	542	523	544	561	
10,000	2,024	1,619	1,872	1,791	1,874	1,685	
20,000	6,142	4,914	5,990	5,771	5,992	5,368	
50,000	24,453	19,562	24,301	23,940	24,303	21,848	
100,000	62,714	50,171	62,562	62,094	62,564	56,282	
200,000	147,697	118,158	147,545	147,055	147,547	132,767	
500,000	407,032	341,687	406,880	406,384	406,882	366,169	

(Reduction from Present Liability)

1,600	--	4	8	19	19	4
2,000	--	19	38	95	95	19
3,000	--	57	114	142	150	57
4,000	--	97	152	152	150	97
5,000	--	139	152	171	150	133
10,000	--	405	152	233	150	339
20,000	--	1,228	152	371	150	774
50,000	--	4,891	152	513	150	2,605
100,000	--	12,543	152	620	150	6,432
200,000	--	29,539	152	642	150	14,930
500,000	--	65,345	152	648	150	40,863

<sup>1/</sup> Revenue loss of only 2,750 million dollars.