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ABSTRACT

Senator George McGovern recently proposed that the present public assistance program be replaced by some form of yearly minimum income grant for every person in the United States and that it be supported by an extensive reform of the federal income tax system. The impact of a credit income tax plan, similar in design to one discussed by McGovern, has been calculated in order to provide an understanding of who would benefit and who would pay, and in what amounts. It appears that about 150 million persons would gain some tax relief and/or transfer benefit. The total amount of such gain, which is equivalent to the "cost" of the program, is in the neighborhood of $55 billion to $60 billion for 1972. The gains and losses vary in interesting ways by family size, income level, and by type of income. In general, persons in large families would be better off under a credit income tax at the levels suggested by McGovern than those in small families. Those with income excluded from the present tax base would experience greater loss than others. Certain high income taxpayers would benefit.

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Senator George McGovern recently proposed that the public assistance program be replaced by some form of yearly minimum income grant for every person in the United States and that it be supported by an extensive reform of the federal income tax system.[1] The genesis of this credit income tax or "demogrant" concept is to be found in the work of Earl Rolph[2] and James Tobin.[3]

Considerable dispute arose during the 1972 Democratic Presidential primaries concerning the cost and distributional impact of McGovern's tax and welfare reform proposals. This paper analyzes and evaluates a credit income tax scheme similar in design to that suggested by McGovern.

In the text, the plan which is examined is referred to as a credit income tax plan. Senator McGovern stressed that he was not irrevocably wedded to the numbers and details contained in his New York Review article of May 4, 1972. Consequently it would be inappropriate to label it the McGovern plan. However, the guarantees and tax rates of the plan analyzed here correspond closely to those discussed by McGovern.

Data on 1970 consumer income from the Current Population Reports, October 1971, were combined with tax projections for 1972 to develop an evaluation, assuming the program would have been in effect

in 1972. These and other recent materials are used to make rough estimates of the costs and of the distributional impact of the credit income tax concept.

This article contains a description of a credit income tax plan. Assumptions required for the analyses are elaborated. The distribution among income groups, and later by income class and family size, of the benefits and burdens are indicated for the year 1972. Lastly, some issues raised during the analysis of these proposals are discussed.

I. Description of a Credit Income Tax and Assumptions Made in the Analysis

One possible reform discussed by Senator McGovern involves an income tax credit or a maximum payment from the federal government of $1000 per person, regardless of need. In case income tax liability is less than the grant, a family would receive a payment or negative tax from the federal government. Since the size of the per capita credit does not depend on family size, a single individual would qualify for $1000, a family of two for $2000, and so on. The program would be financed by replacing the existing individual income tax with a uniform tax of 33.3 percent on income, broadly defined. The credit or grant would not be included in income for tax purposes, so that it would be tax free. That means that a family of four with no other income would receive a $4000 benefit. As that family's other income increased, its gross tax liability would rise from zero, and at $12,000 of other income the family's gross tax liability would equal the grant. Short of $12,000 and for a range beyond it, the family of four would enjoy relief from all or some of the income taxes they would pay under present law.

The uniform tax of 33.3 percent is the marginal tax rate confronting a taxpaying unit. The tax liability to a unit rises by 33.3 cents as its income rises by one dollar. Many economists feel that high marginal tax rates (those of 80 percent or greater) such as those confronting certain low income beneficiaries under several alternative income maintenance programs, or those in excess of 90 percent which at one time applied to units in the highest tax brackets, should be avoided because of the work disincentive which they may induce. A uniform marginal tax rate at the 33.3 percent level is sufficiently low to bypass this concern. Many, if not most, individuals judge the impact of a tax change by looking at the change in their average tax rate or their net tax liability, rather than the marginal tax rate. The average tax rate is the net tax liability divided by gross income. Under a credit income tax, the net tax liability to a taxpaying unit is the gross tax liability, i.e., the product of the marginal tax rate times gross income, less the product of the transfer of $1000 times the number of members of the taxpaying unit. For all taxpaying units the average tax rate under a credit income tax is less than the marginal tax rate of 33.3 percent because the $1000 transfer per taxpaying unit member lowers the net tax liability below the gross tax liability. For families that receive positive transfers, the average tax rate is negative. As gross income rises, the average tax rate approaches the marginal tax rate, since the $1000 transfer reflects a smaller percentage of the increased gross income.

The accompanying figure illustrates some basic principles of the credit income tax (Figure 1). Below $12,000 of gross income the family qualifies for a positive transfer. This positive transfer diminishes

from $4000 to $0 as the family's income rises from $0 to $12,000; the decrease in the transfer is illustrated by the smaller vertical segment connecting the 45° line to the credit income tax schedule as income increases to $12,000. When income rises above $12,000 the family has a positive net tax liability; this liability, represented by a vertical segment connecting the credit income tax schedule to the 45° line, increases as the family's gross income rises. The 33.3 percent tax rate is

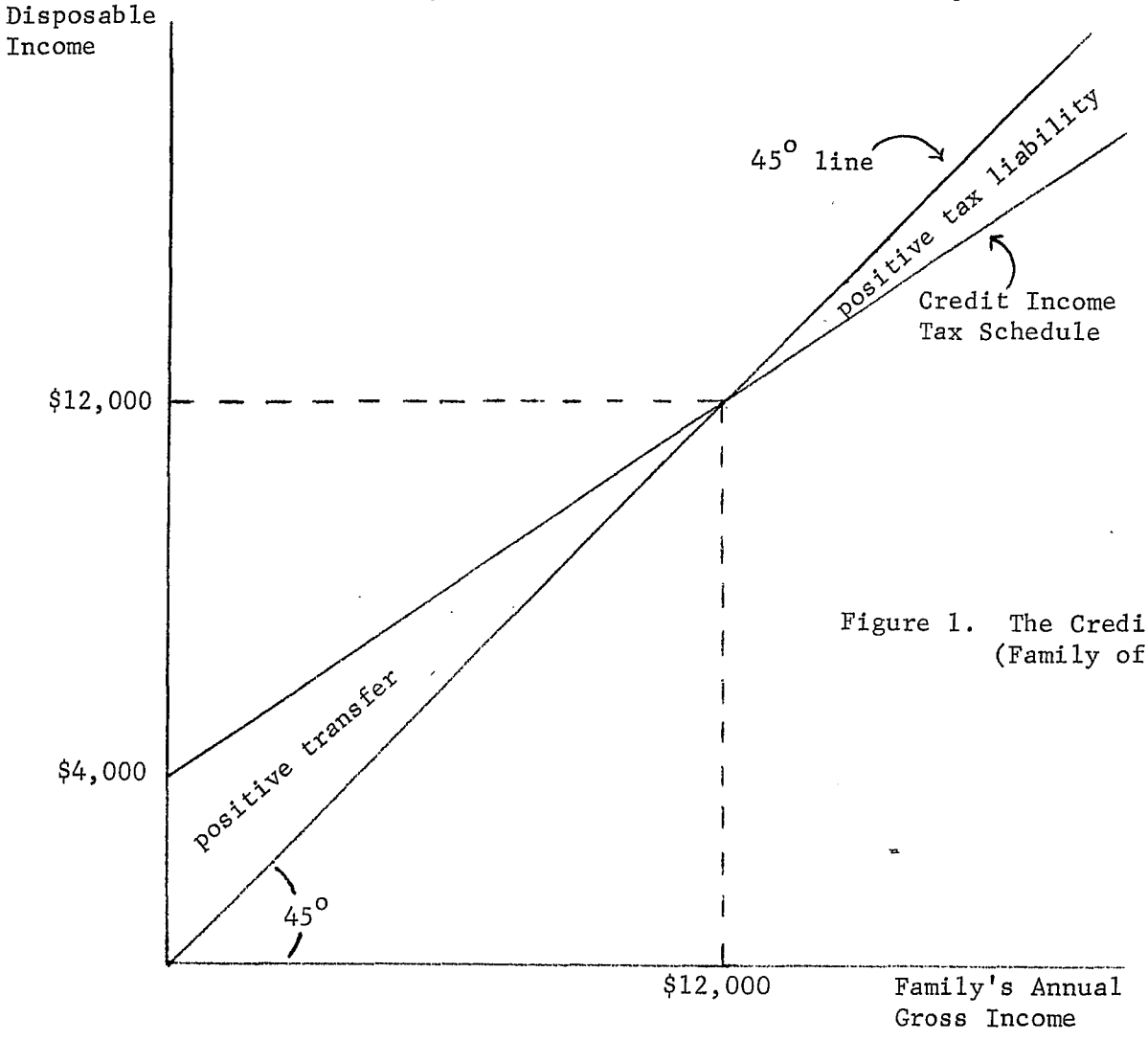

Figure 1. The Credit Income Tax (Family of Four)

one minus the slope of the credit income tax schedule. For each increase of $3 along the horizontal axis this line indicates that there will be only a $2 increase in disposable income; that is, 33.3 percent of the increase in gross income would be taxed away. The average tax rate at any gross income is one minus the slope of a line from the origin to the point on the credit income tax schedule at that gross income.

The credit income tax plan can provide considerable revenue. In fact, depending on the definition of income for tax purposes, it can even provide sufficient revenue to underwrite the minimum income grant and fully replace the revenues provided by current individual income taxation.

In this paper it is assumed that the credit income tax proposal is intended to be a replacement for both the individual income tax and the current welfare system. Although it is not a perfectly true reading of McGovern's proposal, this interpretation is shown below as both reasonable and possible.

A second major assumption made relates to the income base on which the 33.3 percent tax rate is to be applied. Pechman and Okner[4] estimate from a sample of taxpayer records and observations from the Survey of Economic Opportunity that under the present law the 1972 taxable income base will be $478 billion. This could be increased to $644 billion if major deductions and exclusions were eliminated. If the whole of adjusted gross income (AGI) were to be used after these exemptions, deductions, and exclusions were added back into the tax base, the base could be as large as $914 billion at 1972 income levels. When the 33.3 percent rate is applied to the two most different bases, the difference in revenues is $145 billion. This is a sizable difference and compares to total projected collections of about $100 billion under the current individual income tax.

In this analysis of the credit income tax, it is assumed that the income tax base is the whole of Pechman and Okner's estimate of what they term "expanded AGI" for 1972, or $914 billion. Their Table 3 (see footnote 5) demonstrates how this base is developed.[5]

One other important assumption in making the following estimates has been made: namely, that no one changes his pre-tax, pre-transfer income in response to the new program. It is, of course, unrealistic to assume that no change in work effort or investment behavior would accompany such a program. However, data are not yet available to make more than qualitative judgments on the impact in these areas of a program such as that analyzed presently.

II. Distribution of Burden and Benefits by Income Class

The distributional impact by income class of the credit income tax program for calendar 1972 is shown in Table 1. Using Pechman and Okner's estimate of the distribution of expanded AGI as the starting point, the gross tax liability for each income class is calculated as 0.333 of the income (column 2 is .333 of column 1). The net tax liability of each income class is obtained by subtracting from the gross tax liability the $1000 transfer times the number of persons occupying each income stratum. (Column 5 = column 2 − $1000 x column 4). The resulting distribution is then compared with Pechman and Okner's estimates of the individual income tax liability under the present statutes.[6]

Table 1 illustrates broadly some of the principal features of the credit income tax proposal. The credit income tax applied to the expanded AGI base provides sufficient funding for the grants and, in addition, provides an amount of revenue very close to Pechman and Okner's estimate of 1972 individual income tax collections.[7] Table 1 indicates a net tax liability under the credit income tax discussed by McGovern of $95.521 billion and an estimated 1972 tax revenue under

current statutes of $102.888 billion. A partial equilibrium calculation, in which adjustments are made for the termination of welfare, brings these two magnitudes closer. About $10 billion in public assistance payments would not be paid out in 1972. This reduces expanded AGI by $10 billion and the estimate of net tax liability under the credit income tax by $3.33 billion. The credit income tax plan would thus raise $91.92 billion in revenue. This is to be compared with the projected 1972 tax revenue under current statutes, net of the federal share of public assistance (about 55 percent). The resulting amount is $97.39 billion. Thus, under an expanded base the credit income tax can raise, net of the transfers, all but about $5.5 billion of the amount raised by the current individual income tax.

It should be stressed that this $5.5 billion shortfall on the federal level is somewhat balanced by a $4.5 billion savings on the part of the states. This latter quantity is the reduction in state share of welfare payments (45 percent of $10 billion). For the state and federal treasuries combined, this program would cost only $1 billion, if the same level of all other public goods and services expenditures were to be maintained.

It is interesting to note the distributional effects by income class of the credit income tax proposal (See Table 1). The first four income classes gain under this proposal; that is, income classes earning up to $15,000 are the beneficiaries of the programs. The net transfer to these classes is $26.6 billion or about $202 per person. Income classes above $15,000 bear the burden of the program. The added tax, as a percent of what they otherwise would have paid in 1972, under Pechman and Okner's hypothetical incomes, varies from as low as 3.3 percent for those earning above $1 million annually to 47.6 percent of those in the $25-50,000 income class (See column 8).

The substantial increase in tax liability among the $25-50,000 income classes would be expected to elicit from some part of these ten million families considerable opposition to this variant of a credit income tax, although certainly not all members of these income strata would oppose this reform. It is shown below that many high income families, those with predominantly wage and salary income, would experience tax relief under this program; furthermore, not all families which experience tax increases would necessarily oppose this direction in tax and welfare reform. However, many high income earners would experience a considerable increase in their tax liability and would act out of self-interest. The self-interest involved is significant. It can be calculated from Table 1 that under the credit income tax the increase in average tax rates (decrease in annual net incomes) to those earning $20-25,000 and $25-50,000 would be about four and seven percentage points respectively.

Other political opposition would arise from those in all strata who might in the future or who at present earn or obtain a substantial part of their income from sources which receive special tax treatment. Consequently, expanding the AGI base to the level recommended by Pechman and Okner would be most difficult. A formidable item to include in the tax base would be social security payments (over $30 billion annually). Eliminating the exemptions on state and local bond interest would also pose difficulties. Although it probably would be possible to do away with this item, which reduce by about $2 billion the AGI base, it is likely that federal transfers to the states would have to increase by a like amount to compensate the states. Preferential treatment of homeowners, which reduces the AGI

base by an additional $15.5 billion, would be difficult both to eliminate and to administer. Fully eliminating homeowners preferences would require taxing the imputed rent on owner-occupied housing. Estimating this magnitude certainly poses difficulties at least as great as local assessment problems because there would have to be a national standard. Homeowners preferences also include deductibility of interest payments on mortgages. These, too, would be difficult to eliminate. (Taxing homeowners preferences would require a considerable departure from the prevailing legislation in this country which, through various financial incentives, has tended to encourage home ownership.)

Adding interest on life insurance policies to the tax base would also pose considerable difficulty, considering both the political power and the ingenuity of that industry. Almost $10 billion could be added to the tax base were this not a deduction from income.

If AGI cannot be increased through the addition of these items, then the tax base would be $107 billion below the fully expanded AGI base of $914 billion (see Table 2). This would imply a loss of revenue of 33.3 percent of $107 billion, or $35.67 billion. That is to say, this additional amount of revenue would have to come from some other source if all other federal expenditures were to be maintained at projected 1972 levels. The point of this is that a credit income tax at the guarantees and tax rates discussed by McGovern hinges on some very specific requirements for a tax base. If these items cannot be included, then the program becomes "costly" in terms of the burden that would have to be borne by other taxes. On the other hand, if the $107 billion were not included in the tax base, it would be possible

to make up the loss by raising the tax rate to 38 percent.[8] Note that this would change the distribution of benefits and burdens considerably.

III. Distribution of Benefits by Income Class and Family Size: The Cost of the Credit Income Tax

The concept of cost has been quite elusive in discussions of the McGovern program. In determining the cost, estimations are made of the sum of the gains to all those families which have more on net--that is, after both the transfer and the tax--of earned and unearned income under the credit income tax than they would have under current tax and welfare policy.

There are three types of families which would gain under the credit income tax discussed by McGovern. Some families, who are not paying taxes under the present system, would receive only positive transfers. A second group which is paying taxes under the present system would receive both transfers and tax relief under the credit income tax. A third group, with incomes above the breakeven or tax exemption level, would receive only tax relief.

The sum of gains to all gainers cannot be determined from the data Pechman and Okner reproduce in their study. The principal defect of the data is that the distribution of families among income classes is not also broken down by family size. Looking at the benefits of the credit income tax by income class, as in Table 1, provides an underestimate of the total of the benefits. Within any but the lowest income classes (less than $3000) there are both gainers and losers from a credit-income-tax proposal. The estimate of benefits one generates by working with income classes, unadjusted for family size, is thus a low estimate, since the losses to the smaller-sized families are netted from the gains accruing to the larger.

The calculation of the cost of the credit income tax is done in two steps: (1) determination of the positive transfers; (2) estimation of the magnitude of tax relief.

Step 1. The net transfer is the negative of the net tax liability. The net tax liability of each money income-family size cell is determined by multiplying the population of the cell by the estimate of the net tax liability of the mean family (Tables 3, 4, and 6). With one exception, the tax is calculated assuming the mean family's income is at the midpoint of the particular income range. The net tax liability equals .333 times the midpoint income minus $1000 times the family size. For the above $50,000 income class, the mean is assumed to be $200,000.[11]

Step 2. The tax relief was estimated for the mean family in each cell. An estimate of the present 1972 tax liability, assuming all income derived from wages and salaries, was constructed for these midpoint families.[12] The assumption that all income comes from wages and salaries is reasonable for families earning less than $50,000. The tax relief for each midpoint family (shown in Table 5) was calculated by subtracting from the 1972 tax liability the net tax liability under the credit income tax (the positive amounts, that is, the net positive transfers, in Table 4 were treated as zeroes in this calculation). The resulting positive amounts were multiplied by the cell counts to determine the distribution of the total tax relief (See Table 7).

The program discussed would provide tax relief for very high wage and salary earners (See Tables 9, 10, and 11). This result arises because the highest marginal tax rate under the McGovern

program is but 33 percent, while in 1972 very high income receivers would be in or near the 50 percent marginal tax bracket. The tax relief to these persons is probably an unintended feature of McGovern's reform. Since it is likely that this feature would not be incorporated in the final version of a credit income tax plan, Table 7 is calculated excluding tax relief to families with incomes exceeding $50,000. Excluding this tax relief is further warranted since much of the total income accruing to these upper income families does not result from wages and salaries.

Use of 1970 money income data yields an estimate of the transfer cost of the credit income tax of $52.2 billion (see Table 6). The total tax relief is estimated to be $22.9 billion (see Table 7). This yields a total cost for the program of $74.3 billion (see Table 8). It should be emphasized that this figure is probably a considerable overestimate for 1972. Taking into account rises in money income since 1970 would reduce this by 10 percent or so. Removing the upward bias due to the underreporting of transfers and nonreporting of homeowners preferences and capital gains should reduce the cost of the program by about 10 percent, also. Adjusting for all of these would reduce the cost of the credit income tax suggested by McGovern to the neighborhood of $55 to $60 billion dollars. This appears to be a fair estimate of the cost of the program in 1972.

It can be calculated from Table 8 and Table 3 that about 176 million persons would gain from the proposed schemes. Again, this is probably an overestimate, for the same reasons as those given for the original cost estimate; 150 million persons is probably a fair estimate for 1972. The cost would be borne by the remaining 60 million people.

IV. Three Critical Issues in the Credit Income Tax Suggested by McGovern

In this section fundamental questions such as the desirability of guaranteeing incomes without work requirements will not be discussed. Rather, the discussion will be confined to three more technical problems raised within the context of a credit income tax at the levels suggested by Senator McGovern.

1. Foremost is the cost of the program. The $55-60 billion figure is sufficiently high to set many wondering whether this could be financed in 1972 at a 33 percent tax rate. A credit income tax program could be functional at that rate for 1972, but to be so the tax base must be expanded to approximate Pechman and Okner's concept of expanded AGI. Some of the issues related to this point have been discussed in Part II above.

2. Another important question is how benefits are to vary by family size. The maximum transfer under the credit income tax does not meet the poverty line of one-, two-, and three-person families. Moreover, public assistance benefits exceed these benefits for such families in many states. On the other hand, the maximum credit income tax benefits exceed the poverty line for families with more than four members.[13] The intent behind Rolph's plan of paying an invariant amount per family member regardless of family size presumably was to avoid a payment schedule which encourages family splitting. The intent is certainly laudable, but one must question whether the program does not err on the other side. Specifically, a $1000 credit per person may prove to be a strong incentive to fertility or household unit formation.

Further, the relatively high credit levels to larger families mean that considerable benefits will accrue under McGovern's suggested

credit income tax to the larger families. One could say that, in fact, the credit income tax with a constant $1000 payment rate for each family member introduces very serious inequities between families of different sizes. The proposed $1000 tax credit for each family member and one-third tax rate translates into a $3000 tax exemption for each family member. Consequently, a single-person family earning $5000 would be taxed the same amount as a six-person family earning $20,000. Under the credit income tax, both would pay $666, or 33.3 percent of $2000. It is difficult to believe that any reasonable ability-to-pay criterion would deem these two units of identical ability.

This generosity to the larger families contributes significantly to the cost of this credit income tax. Families of five or more members would receive $29.2 billion in positive transfers and $10.8 billion in tax relief. This represents $40 billion, or about 54 percent of the total first-stage estimate ($74.3 billion) of the cost. Of this $40 billion in benefits, $11.5 billion would accrue to families earning between $10,000 and $15,000 annually and $6.5 billion to families earning above $15,000 (see Table 8). Only 39 percent of all persons in the United States are in families with five or more members, yet 54 percent of the benefits would go to these larger families.

Tables 9, 10, and 11 compare the impact of the credit income tax with that of 1972 tax rates on various family sizes. For families of one, four, and eight, the difference in the tax liability is quantified, assuming that all income is from wages and salaries. (Further, the assumption is made that personal income = money income = AGI.) These tables show that a one-person family between incomes of about $4000 and $45,000 is worse off under the McGovern plan. At an income

of $37,500, the tax liability rises about $328. An eight-person family has a lower tax liability at every level of income under the McGovern plan. Table 12 assumes that a family derives one-half of its income from long-term capital gains. It shows that a family of four with income beyond about $16,000 is worse off under the McGovern plan. The added liability under the program reaches about $5000 $5000 at $100,000 of income from the sources assumed.

One way to deal with this inequity across family sizes is to offer larger credits to adults and smaller credits to children. A feature of this type of modification is that, like the original proposal, it does not encourage family splitting or the shifting around of dependents, since an individual has the same value in terms of the income tax credit regardless of where or with whome he resides. An example can illustrate this system. In testimony before the Democratic National Platform Committee, Harold Watts proposed credits for aged and disabled adults of $1560 annually, for other adults of $1320, for children ten or above of $660, for children below ten of $420.[14] With this schedule the average maximum grant to smaller sized families would be greater than the level suggested by McGovern. In addition, the maximum grants to larger sized families would decline. Professor Tobin, as noted above, one of the early advocates of a credit income tax, has indicated his preference for this type of redesign of the Rolph scheme.[15]

3. Tables 9, 10, and 11 illustrate a second peculiarity of the proposed reform. Many of the upper income receivers would actually be better off under this program. Again the simplicity of the Rolph design leads to a property which is difficult to justify: It undercuts progressivity for high income wage and salary earners. On the

other hand, because the variant of the credit income tax proposed by McGovern would include in the tax base all capital gains and, for the first time, include such items as state and local bond interest, it enhances up to a point actual progressivity for the upper income classes as a whole (see Table 12).

It would be desirable to present data indicating the extent of tax relief among high income families. There is, however, no published source which presents the distribution of expanded AGI by source. To construct such a distribution would require the use of a data file similar to that employed by Pechman and Okner, and no resource of that kind was available for this purpose. However, data from the U. S. Bureau of the Census for 1968, published by Herman Miller, reveals that 12 percent of the families with money income in excess of $50,000 received it entirely from wages and salaries.[16] Some number of the remaining 88 percent most assuredly receive the vast proportion of their income from wages and salaries also. At least the top 12 percent, but probably two or three times that percentage, of the 150,000 top income earners, then, rely almost entirely on wages and salaries. Expanded AGI, of course, includes more than money income, and top wage and salary earners would derive some income from such things as homeowners preferences. Nonetheless, a not inconsiderable percentage of these earners would still derive the greatest part of their income from wages and salaries, and these earners would experience tax relief under the credit income tax.

It would be possible to reduce whatever tax relief there is to higher income families by making the tax rate attached to the credit income tax progressive. In his testimony, Harold Watts suggested a surtax of 6.67 percent on any income over $50,000; an additional 10

percent would be levied on amounts in excess of $100,000.[17] The resultant schedule of marginal tax rates would be 33.3 percent on incomes below $50,000, 40 percent between $50,000 and $100,000, and 50 percent above $100,000. This progressive schedule has the additional advantage of raising, based on a calculation from the data in Table 1, additional revenue of about $5 billion--almost the very deficit in the federal budget under the credit income tax suggested by McGovern (see Part II, above). However, a progressive schedule does have administrative drawbacks in comparison with a flat schedule. For example, a progressive schedule requires a legal definition of family unit or taxpaying unit and, further, that a legal stance be taken on the permissibility of income splitting. Under the progressive schedule a couple with $150,000 in income would obtain considerable advantage if each member were to pay tax on $75,000. By such splitting, $50,000 is taken out of the percent bracket and effectively put into the 33.3 percent bracket. Under a flat rate no advantage is obtained by splitting income or by any similar subterfuge, such as artificially shifting the income out of the household or acquiring dependents for tax purposes.

In summary, the three critical issues that need to be considered in evaluating a credit income tax plan at the levels suggested by Senator McGovern seem to be: (1) defining the tax base; (2) varying the tax credit by family size; and (3) determining the amount of tax relief for high income wage or salary earners.

Table 1

IMPACT BY INCOME CLASS OF MCGOVERN'S SUGGESTED CREDIT INCOME TAX, 1972

Income Class ($ 1000)	(1) Expanded AGI ($ Million)	(2) C.I.T. Gross Tax Liability for 1972 ($ Million)	(3) Total # of Families (1000's)	(4) Total # of Individuals (1000's)	(5) C.I.T. Net Tax Liability ($ Million)	(6) Estimated 1972 Tax Liability ($Millions)	(7) Col (5) - Col (6) ($ Million)	(8) Col (7) ÷ Col (6) x 100%, Where Positive	(9) Benefit (-) or Liability (+) per Capita ($)
Total	914262	304449	70445	209200	95251	102888	-7637		
<3	7968	2653	5923	8810	-6157	36	-6193		-703
3- 5	27610	9194	6874	12645	-3451	475	-3926		-310
5- 10	145033	48296	19387	52358	-4062	7655	-11717		-224
10- 15	216483	72089	17535	57994	14095	18843	-4748		-82
15- 20	180340	60053	10486	38170	21883	19354	2529	13.1	66
20- 25	109886	36592	4954	18905	17687	13301	4386	33.0	232
25- 50	142941	47599	4463	17032	30562	20707	9860	47.6	579
50-100	41178	13712	625	2495	11217	9672	1545	16.0	619
100-500	31355	10441	189	754	9687	9241	446	4.8	592
500-1000	4360	1452	6	23	1429	1324	105	7.9	4565
> 1000	7109	2367	3	12	2355	2279	76	3.3	6333

Table 1 (continued)

*Sources: Col. 1, Pechman and Okner, "Individual Income Tax Erosion, by Income Classess," Table 2.
Col. (3) Pechman and Okner, Table 8
Col. (4) In the first stage obtained by multiplying column (3) by the approximate average family size in each income class. The average family sizes by income class were obtained from U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 75, "Income in 1969 of Families and Persons in the United States," U.S. Government Printing Office, Washington, D.C., 1970, p. 35. Since both the census money income and expanded AGI definitions and the base years of the data do not agree I approximated the average family size by expanded AGI class by assuming a correspondence of family percentiles in each class. That is, I assumed that the mean family size of, say, the 10% of families ranked by money income corresponded to the bottom 10% of families ranked by expanded AGI, etc. This first stage estimate produced a total 1972 population estimate of 213.8 million people. Assuming the same rate of growth in population between 1972 and 1971 as between 1971 and 1970, the population in 1972 should be approximately 209.2 million. I multiplied by 209.2/213.8 the first stage estimate of the population of each income class to obtain the approximately correct figure for the total population.
Col. (6) Pechman and Okner, Table 6

TABLE 2

SELECTED ITEMS THAT MIGHT BE SUBTRACTED FROM EXPANDED AGI

Item	Subtraction from Expanded AGI ($ million)
Tax exempt state and local bond interest	1,916
Interest on life insurance policies	9,917
Homeowners' preferences	15,545
Transfer payments	79,750
	107,128

TABLE 3

NUMBER OF FAMILIES (IN 1000'S) BY MONEY INCOME AND FAMILY SIZE

Money Income Class ($1000)	Family Size 1	2	3	4	5	6	≥ 7	Total
< 1	1827	420	161	109	65	27	41	
1-1.499	1735	366	107	59	39	20	25	
1.5-1.999	1720	585	139	99	52	24	31	
2-2.499	1275	695	182	99	39	24	44	
2.5-2.999	906	658	236	119	59	37	53	
3.0-3.499	829	768	225	139	91	47	60	
3.5-3.999	706	713	214	139	85	64	56	
4.0-4.999	1182	1426	504	307	222	118	147	
5.0-5.999	983	1353	654	445	248	139	201	
6.0-6.999	891	1298	665	505	307	193	166	
7.0-7.999	814	1115	761	624	398	210	185	
8.0-8.999	614	1207	783	742	431	216	207	
9.0-9.999	461	1060	729	723	470	250	229	
10.0-11.999	568	1901	1416	1445	979	426	414	
12.0-14.999	399	1956	1587	1693	1071	578	461	
15.0-24.999	353	2176	1909	2099	1554	795	661	
25.0-49.999	61	512	408	495	372	203	132	
> 50	15	91	43	59	52	14	25	
Total	15357	18282	10724	9899	6534	3385	3133	67319

Source: Current Population Reports, "Income in 1970 of Families and Persons in the United States," Tables 17 and 18.

TABLE 4

NET TAX LIABILITY PER MIDPOINT-FAMILY BY FAMILY SIZE AND INCOME BRACKET UNDER MCGOVERN'S SUGGESTED CREDIT INCOME TAX*

	Family Size						
Money Income Class ($1000)	1	2	3	4	5	6	≥ 7[1]
< 1	-833	-1833	-2833	-3833	-4833	-5833	-7833
1-1.499	-583	-1583	-2583	-3583	-4583	-5583	-7583
1.5-1.999	-417	-1417	-2417	-3417	-4417	-5417	-7417
2.0-2.499	-250	-1250	-2250	-3250	-4250	-5250	-7250
2.5-2.999	-83	-1083	-2083	-3083	-4083	-5083	-7083
3.0-3.499	+83	-917	-1917	-2917	-3917	-4917	-6917
3.5-3.999	250	-750	-1750	-2750	-3750	-4750	-6750
4.0-4.999	500	-500	-1500	-2500	-3500	-4500	-6500
5.0-5.999	833	-167	-1167	-2167	-3167	-4167	-6167
6.0-6.999	1167	+167	-883	-1883	-2883	-3883	-5883
7.0-7.999	1500	500	-500	-1500	-2500	-3500	-5500
8.0-8.999	1833	833	-167	-1167	-2167	-3167	-5167
9.0-9.999	2167	1167	+167	-833	-1833	-2833	-4833
10.0-11.999	2667	1667	667	-333	-1333	-2333	-4333
12.0-14.999	3500	2500	1500	+500	-500	-1500	-3500
15.0-24.999	5667	4667	3667	2667	1667	+667	-1333
25.0-49.999	11500	10500	9500	8500	7500	6500	+4500
> 50	65666	64666	63666	62666	61666	60666	58666

*The liability is calculated assuming the mean family earns at the midpoint of the income range. Exceptions are noted in the text. Net transfers = -; net taxes = +.

[1]Assumed to be a family of eight for Tables 4-8.

TABLE 5

TAX RELIEF PER CELL MEAN FAMILY ($); CALCULATED ASSUMING ALL INCOME IS FROM WAGES AND SALARIES; 1972.

Money Income Class ($1000)	1	2	3	4	5	6	≥ 7
< 1	0	0	0	0	0	0	0
1.0-1.999	0	0	0	0	0	0	0
1.5-1.999	0	0	0	0	0	0	0
2.0-2.499	28	0	0	0	0	0	0
2.5-2.999	100	0	0	0	0	0	0
3.0-3.499	92	63	0	0	0	0	0
3.5-3.999	9	133	28	0	0	0	0
4.0-4.999		245	133	28	0	0	0
5.0-5.999		402	282	170	63	0	0
6.0-6.999		402	442	322	208	98	0
7.0-7.999		253	612	484	362	245	28
8.0-8.999		110	800	658	527	402	170
9.0-9.999			818	842	700	564	317
10.0-11.999			563	1087	945	802	528
12.0-14.999			180	1014	1353	1209	926
15.0-24.999				343	1156	1968	2260
25.0-49.999					380	1088	2582

Source: Calculated from 1972 Schedules X and Y and Table 4. See footnote 12.

TABLE 6

NET TAX LIABILITY TO ALL FAMILIES UNDER MCGOVERN'S SUGGESTED CREDIT INCOME TAX BY FAMILY SIZE AND MONEY INCOME*

$ Million
Family Size

Money Income Class ($1000)	1	2	3	4	5	6	≥7	Total: (Sum of minuses)
< 1	-1522	-770	-456	-418	-314	-157	-321	-3958
1.0-1.499	-1012	-579	-276	-211	-179	-112	-190	-2559
1.5-1.999	-717	-829	-336	-338	-230	-130	-230	-2810
2.0-2.499	-319	-869	-409	-322	-166	-126	-319	-2530
2.5-2.999	-75	-713	-492	-367	-241	-188	-375	-2451
3.0-3.499	69	-704	-431	-405	-356	-231	-415	-2542
3.5-3.999	177	-535	-374	-382	-319	-304	-378	-2292
4.0-4.999	591	-713	-756	-768	-777	-531	-956	-4510
5.0-5.999	838	-226	-763	-964	-785	-579	-1239	-4556
6.0-6.999	1040	217	-587	-951	-885	-749	-976	-4148
7.0-7.999	1221	558	-381	-936	-995	-755	-1017	-4064
8.0-8.999	1125	1005	-131	-866	-934	-684	-1069	-3684
9.0-9.999	998	1237	122	-603	-862	-708	-1107	-3280
10.0-11.999	1515	3139	944	-483	-1306	-994	-1794	-4577
12.0-14.999	1397	4890	2115	564	-714	-963	-1690	-3367
15.0-24.999	2000	10155	6998	5596	2589	529	-882	-882
25.0-49.999	702	5376	3876	4207	2790	1319	594	0
> 50	985	5885	2738	3697	3207	849	1467	0
Total: (Sum of Minuses)	-3645	-5938	-5392	-8014	-9063	-7190	-12958	-52201

*Net transfers = -; net taxes = +.

Source: Calculated from Tables 3 and 4.

TABLE 7

TAX RELIEF TO FAMILIES EXPERIENCING TAX RELIEF; ASSUMING ALL INCOME IS WAGES AND SALARIES; 1972.

($ Million)

Money Income Class ($1000)	Family Size 1	2	3	4	5	6	≥ 7	Total
<1	0	0	0	0	0	0	0	0
1.0-1.499	0	0	0	0	0	0	0	0
1.5-1.999	0	0	0	0	0	0	0	0
2.0-2.499	36	0	0	0	0	0	0	36
2.5-2.999	91	0	0	0	0	0	0	91
3.0-3.499	76	48	0	0	0	0	0	124
3.5-3.999	6	95	6	0	0	0	0	107
4.0-4.999		349	67	8	0	0	0	424
5.0-5.999		544	184	76	16	0	0	820
6.0-6.999		522	294	163	64	19	0	1062
7.0-7.999		282	466	302	144	51	5	1250
8.0-8.999		133	626	488	227	81	35	1590
9.0-9.999			596	609	329	141	72	1747
10.0-11.999			797	1571	925	342	218	3853
12.0-14.999			286	1717	1449	699	427	4578
15.0-24.999				720	1796	1564	1494	5574
25.0-49.999					141	221	341	703
Total	209	1973	3322	5654	5091	3118	2592	21959

Source: Calculated from Tables 3 and 5

TABLE 8

TOTAL NET TRANSFER* AND TAX RELIEF UNDER MCGOVERN'S SUGGESTED CREDIT INCOME TAX TO FAMILIES BETTER OFF UNDER THE PROGRAM; 1972

($ Million)

Money Income Class ($1000)	Family Size 1	2	3	4	5	6	≥ 7	Total
<1	1522	770	456	418	314	157	321	3958
1.0-1.499	1012	579	276	211	179	112	190	2559
1.5-1.999	717	829	336	338	230	130	230	2810
2.0-2.499	355	869	409	322	166	126	319	2566
2.5-2.999	166	713	492	367	241	188	375	2542
3.0-3.499	76	752	431	405	356	231	415	2666
3.5-3.999	6	630	380	382	319	304	318	2339
4.0-4.999	0	1062	823	776	777	531	956	4925
5.0-5.999	0	770	947	1040	801	579	1239	5376
6.0-6.999	0	522	881	1114	949	768	976	5210
7.0-7.999	0	282	847	1238	1139	786	1022	5314
8.0-8.999	0	133	757	1354	1161	945	1104	5454
9.0-9.999	0	0	596	1212	1191	849	1179	5027
10.0-11.999	0	0	797	2054	2231	1336	2012	8430
12.0-14.999	0	0	286	1717	2163	1662	2117	7945
15.0-24.999	0	0	0	720	1796	1564	2376	6456
25.0-49.999	0	0	0	0	141	221	341	703
>50	0	0	0	0	0	0	0	0
Total	3854	7911	8714	13668	14154	10489	15490	74300

*The net transfer is the negative of the net tax liability. A zero is entered where, on net, the families are not better off under the program.

Source: Calculated from Tables 6 and 7.

TABLE 9

TAX LIABILITY IN 1972 UNDER CURRENT LAW
AND UNDER THE CREDIT INCOME TAX FOR A FAMILY OF 1
WITH ALL INCOME FROM WAGES AND SALARIES

Pretax Income	Tax Liability in 1972[1]	Net Tax Liability under the C.I.T. Proposal[2]
$	$	$
0	0	0
2250	28	0
2750	100	0
3250	175	83
3750	259	250
4500	396	500
6500	784	1167
8500	1218	1833
11000	1768	2667
13500	2322	3500
20000	4255	5667
27500	6790	8167
37500	10790	11500
50000	16415	15667
100,000	38915	32333
200,000	83915	65667

[1]Calculated from schedule X. It is assumed that the low income allowance is used up to $8500. Between $11,000 and $20,000 the 14% deduction is applied. After $20,000 it is assumed that the family itemizes deductions and these deductions total 10% of pretax income.

[2]A zero is entered where the net tax liability is negative, that is, where on net the family qualifies for a transfer.

TABLE 10

TAX BURDEN IN 1972 UNDER CURRENT LAW
AND UNDER THE CREDIT INCOME TAX FOR A FAMILY OF 4
WITH ALL INCOME FROM WAGES AND SALARIES

Pretax Income	Tax Liability in 1972[1]	Net Tax Liability under the C.I.T Proposal[2]
$	$	$
0	0	0
3750	0	0
4500	28	0
6500	322	0
8500	658	0
11000	1087	0
13500	1514	500
20000	3010	2667
27500	4940	5167
37500	8172	8500
50000	13100	12667
100,000	35560	29333
200,000	80560	62667

[1]Calculated from schedule Y (joint return). It is assumed that the low income allowance is used up to $8500. Between $11,000 and $20,000 the 14% dedcution is applied. After $20,000 it is assumed that the family itemizes deductions and these deductions total 10% of pretax income.

[2]See note 2 of Table 9.

TABLE 11

TAX LIABILITY IN 1972 UNDER CURRENT LAW
AND UNDER THE CREDIT INCOME TAX FOR A FAMILY OF 8
WITH ALL INCOME FROM WAGES AND SALARIES

Pretax Income	Tax Liability in 1972[1]	Net Tax Liability under the C.I.T. Proposal[2]
$	$	$
0	0	0
6500	0	0
7500	28	0
8500	170	0
9500	317	0
11000	528	0
13500	926	0
20000	2260	0
27500	4030	1167
37500	7082	4500
50000	10790	8667
100,000	34060	25333
200,000	79060	58667

[1]See note 1 of Table 10.

[2]See note 2 of Table 9.

TABLE 12

TAX LIABILITY IN 1972 UNDER CURRENT LAW AND UNDER THE CREDIT INCOME TAX FOR A FAMILY OF 4 WITH HALF OF ITS INCOME FROM WAGES AND SALARIES AND HALF OF ITS INCOME FROM CAPITAL GAINS

Pretax Income	Tax Liability in 1972[1]	Net Tax Liability under the C.I.T. Proposal[2]
$	$	$
0	0	0
3750	0	0
4500	0	0
6500	80	0
8500	302	0
11000	612	0
13500	944	500
20000	1820	2667
27500	3151	5167
37500	5120	8500
50000	8172	12667
100,000	24310	29333
200,000	58060	62667

[1]It is assumed that the family pays at 1972 schedule Y rates on its tax base (which is $3/4 of its pretax income). It is further assumed that the low income allowance is used up to $8500 of the tax base. Between $11,000 and $20,000 the 14% deduction is applied. After $20,000 it is assumed that the family itemizes deductions and these deductions total 10% of the tax base.

[2]See note 2 of Table 9.

FOOTNOTES

1. George McGovern, "How the Economy Should be Changed," New York Review of Books 18 (May 4, 1972): 7-11. Also in slightly different form in U.S. Congress, Senate, Congressional Record, 92nd Cong., 2nd Sess., 19 January 1972, 118.

2. Earl Rolph, "A Credit Income Tax," in Poverty Policy, ed., Theodore Marmor. (Chicago: Aldine · Atherton, Inc., 1971).

3. James Tobin, "Raising the Incomes of the Poor," in Agenda for the Nation, ed., Kermit Gordon. (Washington, D.C.: The Brookings Institution, 1968), pp. 77 ff.

4. Joseph Pechman and Benjamin Okner, "Individual Income Tax Erosion by Income Classes," in The Economics of Federal Subsidy Programs, a compendium of papers submitted to the Joint Economic Committee, May 8, 1972, (Washington, D.C.: U.S. Government Printing Office, 1972), p. 23.

5. Ibid.

TABLE 3.—COMPARISON BETWEEN ADJUSTED GROSS INCOME, TAXABLE INCOME, AND TAX LIABILITY UNDER PRESENT LAW AND UNDER A COMPREHENSIVE INCOME TAX, 1972 INCOME LEVELS

[In millions]

Item	Adjusted gross income [1]	Taxable income [1]	Tax liability
Present law [2]	$776,146	$478,230	$102,888
Elimination of rate advantages of income splitting [3]			21,565
Plus:			
½ realized capital gains	17,149	16,491	9,334
Constructive realization of gain on gifts and bequests	10,403	9,544	4,374
Tax-exempt State and local bond interest	1,916	1,892	1,193
Other preference income [4]	1,235	1,089	560
Dividend exclusion	2,200	1,924	673
Interest on life insurance policies	9,917	9,093	2,685
Homeowners' preferences [5]	15,545	28,700	9,642
Transfer payments	79,750	55,075	13,074
Personal exemptions and deductions [6]		42,165	14,158
Equals: Comprehensive income tax	914,262	644,205	180,145

[1] The increase in taxable income is greater than the change in adjusted gross income because the elimination of certain exemptions and deductions increases taxable income but does not affect adjusted gross income.
[2] Revenue Act of 1971 applied to 1972 incomes. The tax liability figures differ from those published in the U.S. Budget because of different estimating procedures, particularly those related to capital gains.
[3] Includes $113,000,000 revenue effect of eliminating the 50 percent maximum tax on earned income.
[4] Excess of percentage over cost depletion and accelerated over straight-line depreciation.
[5] Includes effects of adding net imputed rent and disallowing itemized deductions for mortgage interest and real estate taxes.
[6] Includes effect of eliminating the retirement income credit.

Note: Details may not add to totals because of rounding.

6. The distribution of expanded AGI and consequently the tax burden under the credit income tax is somewhat inaccurate for present purposes. Expanded AGI includes transfer payments, among which is public assistance. There do not appear to be data on the distribution of public assistance payments by income class for any year after 1966. Distributional data from the SEO file are inappropriate for use with 1972 public assistance payments. For example, background data from the SEO file developed in connection with Irene Lurie's study, "The Distribution of Transfer Payments Among Households" (The President's Commission on Income Maintenance Programs, Technical Studies [n.d.], pp. 143-158) can be employed to determine the percent of public assistance payments received by income classes. In 1966 families with income under $1500, excluding public assistance, received 73% of public assistance payments. This group received an average of about $1000 per family. Assume that the percent of public assistance received by those with incomes under $2500 (including public assistance) in 1966 is equal to that received in 1972 by families with expanded AGI less than $3000. This assumption then means that 73% of about $10 billion in estimated 1972 public assistance payments would accrue to the lowest income class. The expanded AGI of the below $3000 class is but $8.0 billion; certainly less than 91% is attributable to welfare payments. The expansion of welfare rolls must be associated with a shift of benefits among income classes. With existing data, the present distribution cannot be determined.

7. Their estimate of 102 billion dollars is considerably above the estimate of individual income taxes of the Council of Economic Advisers. The latter estimates $86.5 billion for FY 1972 and $93.9 billion for FY 1973. Economic Report of the President (January, 1972), p. 271.

8. 807,134 times X minus 209,200 = 97,388
   X = .38

9. U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 80, "Income in 1970 of Families and Persons in the United States," (Washington, D.C.: U.S. Government Printing Office, 1971).

10. The Bureau of the Census' concept of income is definitionally different from that of Pechman and Okner; the former excludes capital gains and homeowners' preferences. The income concept is operationally different as well, in that the Bureau makes no effort at adjusting upward the considerable underreporting of transfer income. Pechman and Okner adjusted all the components of income which in the aggregate were deemed too low. Homeowners' preferences and underreported transfer payments probably constitute the Census' two most serious omissions for families with incomes below $20,000. In addition, the Census definition does not include imputed rent nor gifts and inheritances--items included in expanded AGI. Finally, another major difference between the Pechman and Okner data and that of the Current Population Reports is the former's income data was updated by an estimating procedure to 1972;