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Foreword

TAXATION is an important subject. It is also a complicated subject. Objective description and analysis of the complex features of the tax system should therefore be helpful to all persons concerned with the economic effects of taxation, whatever their views on public policy. It is for this reason that the National Bureau of Economic Research has engaged in studies of the economics of taxation. As with all National Bureau studies, the findings of the tax studies are issued in the form of scientific reports, entirely divorced from recommendations on policy.

This volume by C. Harry Kahn, the latest in the series of tax studies by the National Bureau, is such an objective analysis. It falls into two of the National Bureau's current programs of research in this field. One program, under the direction of Lawrence H. Seltzer, is concerned with various features of the federal individual income tax. The studies already published include: *Interest as a Source of Personal Income and Tax Revenue*, by Seltzer (1955); *Personal Deductions in the Federal Income Tax*, by Kahn (1960); and *Dividends under the Income Tax*, by Holland (1962). The studies now close to publication include: "Personal Exemptions in the Federal Income Tax," by Seltzer; and "The Treatment of Income from Employment Under the Individual Income Tax," by Kahn.

The second research program of the National Bureau in the taxation field is concerned with tax policies in relation to economic growth. This program, which is under the direction of Norman B. Ture, focuses on the effects of the federal individual and corporate income tax structure on business and personal saving and investment, on the amount and character of personal effort, on innovation, and on resource mobility.

The present volume is the first of a two-part study by Kahn concerned with the impact of the individual income tax on unincorporated business enterprises and professional practitioners. Its chief purpose is to provide a detailed examination of the general characteristics of unincorporated business income and its individual income tax treatment. The enterprises considered here represent nine-tenths of the total business population and account for more than a fifth of total business receipts.

The capacity and incentives of unincorporated business and professional practice for survival, assumption of risk, and growth have an important bearing on the growth of the entire economy. In turn, in a number of important respects, various features of the federal income tax on individuals are significant in relation to such capacity and incentives. For this reason, the present report affords background for the second phase of Kahn's study, which is being directed to the problem of economic growth. In particular, it is concerned with the adequacy of the

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income-averaging provisions in the federal income tax as applied to income from unincorporated business and professional practice.

In the planning and conduct of its studies of the individual income tax the National Bureau has benefited from the advice and guidance of its Committee on Fiscal Research. Similar assistance, in the studies of tax policies for economic growth, is being provided by the National Bureau's Advisory Committee on Tax Policies for Economic Growth. This help is gratefully acknowledged.

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