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Volume Author/Editor: C. Harry Kahn

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Chapter Author: C. Harry Kahn

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INCOME TAX LIABILITY ON WAGES AND SALARIES

Share of Income Tax Revenue Contributed by Wages and Salaries

How large a share of total income tax yield can be attributed to wages and salaries? Total individual income tax liability and the amount attributable to wages and salaries¹ are shown in Table 28 for a period of thirty-six years, 1929-64. The share of wages and salaries is found to have risen sharply over that period, from less than one-third of total tax liability to 75 per cent in recent years. Average effective tax rates on total wages and salaries, as defined by statute, rose from less than 1 per cent in the period 1929-39 to over 10 per cent in the years 1955-64. What factors account for the relative share of wages and salaries in total tax liability?

The mere size of employee compensation, always more than one-half of personal income since inception of the federal income tax, has of course had a powerful influence on its relative contribution to total income tax yield. But, the definition of taxable compensation and the prevailing rate structure have also played an important part. Thus, since the Second World War, the relationship between share in total tax yield and share in total personal income has been altered radically (Table 29). In 1929 nearly three-fifths and in 1939 almost two-thirds of estimated personal income² originated in employee com-

¹ The method of attributing tax liability to functional types of income is given in Appendix C.

² For consistency with the concept of total employee compensation adopted in this study, it was necessary to make some adjustments in the Commerce Department's personal income estimates. Total employee compensation here includes employer and employee contributions to social insurance. Commerce personal income excludes both of these items, but includes, under transfer payments, the benefit payments resulting from employer and employee contributions. In Tables 29 and 31, therefore, personal income was adjusted to include contributions to social

pensation, but in both years such compensation contributed less than one-third of personal income tax liability. In 1964, 72 per cent of the personal income estimate was employee compensation, but 74 per cent of tax liability was attributable to it. What accounts for this divergence, and the extreme changes in it, over time?

The tax burden on employee compensation, as indeed on the other functional shares, depends essentially on (1) the statutory provisions governing the extent to which it is included in the tax base and the level of applicable tax rates; (2) the extent to which employee compensation, as defined under the income tax, is reported accurately by taxpayers; and (3) the income level distribution of employee compensation in contrast to that for other income.

Because of differences in income level distribution alone, one would expect the average effective tax rate on employee compensation to be lower than that on other income. The distributions by AGI groups of reported wages and salaries and reported other income for 1964 are shown in Table 30. About 66 per cent of wages and salaries, but only 37 per cent of all other income, is reported on returns with AGI of less than \$10,000. Conversely, only a small fraction of wages and salaries, but four-tenths of other income, is reported on returns with AGI over \$20,000. Estimated average effective rates on the reported amounts are therefore also different. The effective rate for 1964 on total reported wages and salaries, was 10.9 per cent. On all other reported income, it was 16.2 per cent. The considerably higher estimated average rate on other income is entirely the result of the distributional difference between the two income categories. The distributional difference is somewhat understated, for the rates cited are the *actual* effective rates and therefore are after tax credits and limits, such as the dividend credit and the effective rate limitation on long-term capital gains. If gross rates, i.e., rates before credit adjustments, are compared, 10.9 per cent is again obtained for wages and salaries³ and 17.1 per

insurance but to exclude old-age and survivors' insurance benefits and unemployment insurance benefits. As a result, the personal income figure in Table 31 is \$506.7 billion rather than the unadjusted Commerce figure of \$496.0 billion (Table A-1).

³ On 1964 returns, the only items that might be considered in the credit category as regards wages and salaries are the exclusions of sick-pay, and employee moving expenses and business expenses. They amounted to \$522 million, \$93 million, and \$2,238 million respectively, and only lowered the average effective rate on wages and salaries from 10.86 per cent to 10.76 per cent.

TABLE 28

Tax Liability Attributable to Wages and Salaries as Percentage of Total Tax Liability and as Percentage of Wages and Salaries, 1929-64
(dollars in billions)

Year	Tax Liability			Wages and Salaries		Effective Tax Rate on Wages and Salaries	
	Total (1)	Attributable to Wages and Salaries (2)	Col. 2 ÷ Col. 1 Per Cent (3)	Total Reported (4)	Estimated Total (Tax Concept) (5)	Reported Col. 2 ÷ Col. 4 (6)	Estimated Total Col. 2 ÷ Col. 5 (7)
1929	1.00	.12	12.0	11.4	46.5	1.1	.3
1930	.47	.11	23.4	10.2	42.0	1.1	.3
1931	.24	.07	29.2	8.6	35.0	.8	.2
1932	.33	.14	42.4	8.4	26.7	1.7	.5
1933	.37	.13	35.1	7.6	25.2	1.7	.5
1934	.51	.15	29.4	8.7	29.6	1.7	.5
1935	.65	.18	27.7	10.0	32.2	1.8	.6
1936	1.21	.27	22.3	11.7	37.9	2.3	.7
1937	1.14	.29	25.4	14.2	41.8	2.0	.7
1938	.77	.24	31.2	13.3	38.5	1.8	.6
1939	.93	.29	31.2	16.5	45.7	1.8	.6
1940	1.50	.52	34.7	27.7	49.5	1.9	1.1
1941	3.91	1.90	48.6	47.1	60.0	4.0	3.2
1942	8.93	5.19	58.1	65.6	75.9	7.9	6.8
1943	14.58	8.98	61.6	82.8	92.4	10.8	9.7
1944	16.35	10.41	63.7	91.1	98.1	11.4	10.6
1945	17.22	10.38	60.3	91.7	98.0	11.3	10.6
1946	16.28	9.18	56.4	99.2	105.1	9.3	8.7
1947	18.24	11.28	61.8	114.8	119.6	9.8	9.4
1948	15.62	9.63	61.7	125.9	132.0	7.6	7.3
1949	14.68	9.39	64.0	124.9	133.4	7.5	7.0
1950	18.58	11.49	61.8	139.1	145.2	8.3	7.9
1951	24.44	16.21	66.3	160.5	166.7	10.1	9.7
1952	28.04	19.57	69.8	174.3	180.8	11.2	10.8
1952 ^a	27.81	19.61	70.5	174.3	180.8	11.2	10.8
1953	29.43	21.55	73.2	187.7	194.7	11.5	11.1
1954	26.66	19.15	71.8	186.0	192.9	10.3	9.9
1955	29.61	21.23	71.7	200.7	208.0	10.6	10.2
1956	32.73	23.64	72.2	215.6	224.7	11.0	10.5
1957	34.40	25.35	73.7	228.1	235.7	11.1	10.8
1958	34.34	25.28	73.6	227.6	236.7	11.1	10.7
1959	38.65	28.34	73.3	247.4	255.4	11.5	11.1
1960	39.46	29.65	75.1	257.9	266.8	11.5	11.1
1961	42.22	31.12	73.7	266.9	273.7	11.7	11.4
1962	44.90	33.70	75.1	283.4	291.4	11.9	11.6
1963	48.20	36.23	75.2	299.4	306.3	12.1	11.8
1964	47.15	34.81	73.8	320.4	328.9	10.9	10.6

Source: Col. 1 and col. 4, *Statistics of Income*; col. 2, see Appendix C; col. 5, see Appendix Table A-2.

^a 1952 and all years thereafter exclude fiduciaries.

TABLE 29

*Share of Employee Compensation in Personal Income and
Total Income Tax Liability, Selected Years, 1929-64*
(dollars in billions)

Year ^a	Personal Income ^b	Employee Compensation in Personal Income ^b	Tax Liability		Col. 2	Col. 4
			Total	On Wages and Salaries	Col. 1 ÷ Col. 1	Col. 3 ÷ Col. 3
	(1)	(2)	(3)	(4)	Per Cent (5)	(6)
1929	86.1	51.0	1.00	.12	59.2	12.0
1939	74.5	48.0	.93	.29	64.4	31.2
1949	210.5	141.2	14.68	9.39	67.1	64.0
1962	450.5	322.1	44.90	33.70	71.5	75.1
1963	475.5	339.4	48.20	36.23	71.4	75.2
1964	506.7	363.7	47.15	34.81	71.8	73.8

Source: Col. 1: 1929, 1939, and 1949.

Personal income (Table A-1, line 1).

+ Personal contributions for social insurance (*SCB*, August 1965, line 20, Table 5).

+ Employer contributions for social insurance (*ibid.*, line 8, Table 3).

- Old-age and survivors' insurance benefits (*ibid.*, line 16, Table 5).

- State unemployment insurance benefits (*ibid.*, line 17).
1962, 1963, and 1964

Personal income (Table A-1, line 1).

+ Discounts on company goods and services (Table A-3, line 5).

+ Miscellaneous payments (Table A-3, line 6).

+ Total contributions to social insurance (*SCB*, July 1966, Table 3.8).

- Old-age and survivors' insurance benefits (*ibid.*).

- State unemployment benefits (*ibid.*).

- Railroad unemployment benefits (*ibid.*).

Col. 2: Table A-3, line 9.

Col. 3: Table 28, col. 1.

Col. 4: Table 28, col. 2.

^a 1929-49 includes fiduciaries. 1962-64 excludes fiduciaries.

^b The figures for personal income differ from the Commerce Department total by the inclusion of all contributions to social insurance and estimated discounts on company goods and services and miscellaneous payments to employees. They exclude benefit payments from OASI and unemployment insurance.

TABLE 30

*Wages and Salaries and All Other Income Reported,
by Broad AGI Groups, 1964*
(dollars in billions)

AGI (thousand dollars)	Wages and Salaries	All Other Income	Percentage of Total in AGI Group	
			Wages and Salaries	Other Income
Under 5	64.4	12.3	20.1	16.1
5-10	148.3	16.2	46.3	21.2
10-20	86.1	17.0	26.9	22.3
20 and over	21.6	30.8	6.7	40.4
Totals	320.4	76.3	100.0	100.0
Estimated average effective rate				
Net	10.9	16.2		
Gross ^a	10.9	17.1		

Source: see Appendix C.

^a Computed with tax liability before credits for dividends received, retirement income, investment, and foreign taxes.

cent for other income. Thus, clearly, distributional factors alone lead to a lower effective rate on wages and salaries than on the rest of income. If wages and salaries had the same income size distribution as all other income, they would be subject to an average effective rate of no less than 17.1 rather than 10.9 per cent.

But these rates are computed on reported amounts of income. Differences in the extent to which income from employment and other income is reported on tax returns must of course affect the differences in effective rates shown in Table 30. Wages and salaries, as defined for tax purposes, appear to be more fully reported than the rest of income. This was suggested by a comparison of the figures in Chapter 2, Tables 4 and 8, repeated on lines 1 and 2 of Table 31. If all income recipients were required to file a return and if all reported their income accurately, the reported figures should correspond closely to the amounts shown on line 2. Actually, about 97 per cent of estimated total wages and salaries, but only 72 per cent of estimated other income, was reported

TABLE 31

Average Effective Rates on Employee Compensation and All Other Income, by AGI Concept and Personal Income Concept, 1964
(dollars in billions)

	Employee Compensation (1)	All Other Income (2)	Total (3)
1. Reported amounts (AGI)	320.4	76.3	396.7
2. Estimated total reportable (AGI)	328.9	105.7	434.6
3. Personal income (Commerce)	363.7	143.0	506.7
4. Tax liability attributable	34.8	12.4	47.2
5. Average effective rate on			
a) Reported amounts	10.9	16.2	11.9
b) Totals to be reported	10.6	11.7	10.9
c) Amounts in personal income	9.6	8.7	9.3

- Sources: 1. Treasury Department, *Statistics of Income*, 1964.
2. Appendix Tables A-1 and A-2, lines 27 and 8 respectively.
3. See Table 29, cols. 1 and 2.
4. See Appendix C for method of calculation.
5. a) col. 4 ÷ col. 1.
 b) col. 4 ÷ col. 2.
 c) col. 4 ÷ col. 3.

for 1964. Accordingly, if attention is shifted from reported income figures to estimated total income, the average effective rate on wages and salaries is little affected, dropping only from 10.9 to 10.6 per cent. The rate on other income drops from 16.2 to 11.7 per cent, thus eliminating most of the difference in average effective rates that arises from the difference in income level distribution in the reported amounts.

The gap between the reported amounts of income and the estimated total amounts reportable arises, aside from possible estimating errors, from inaccurate reporting on the part of some taxpayers and nonreporting on the part of some others who are not required to report because their income was below the legal filing requirement. It is of course important to know the extent to which each of these causes contributes to the gap. If all, or most, of the gap were explained by the existence of incomes too low to require filing a return, only the average effective rates on total *reportable* incomes would truly reflect distributional dif-

ferences between wages and salaries and other income. As has been seen,⁴ there are strong indications that most of the gap between the reported amounts and the estimated total reportable is not explained by incomes below the filing level. Moreover, it appears that the proportion so explained is smaller for "other income" than for wages and salaries.⁵ This study's estimate of wages and salaries for 1961 attributes roughly \$1.3 billion of a \$7.5-billion gap to the existence of incomes below the filing level.

So far, effective rates within the concept of income established by tax law have been discussed. To appraise the effect of statutory provisions and exemptions on the share in income tax revenue of wages and salaries, one must go beyond the confines of the legal income concept. The results obtained will of course be determined by the income concept substituted for AGI. Ideally, a measure of accretion in spending power, such as that formulated by Haig and Simons, might now be called for. But, as explained in Chapter 2, statistics sufficiently accurate to permit use of an accretion concept are not available, and therefore the Commerce Department's personal income measure is used as the closest available approximation. The major difference between AGI and Commerce personal income is the inclusion in the latter of such non-money income as the imputed net rent on owner-occupied homes, the income in kind of employees, food and fuel produced and consumed on the farm, interest paid to individuals by banks and insurance companies in the form of services; money income such as various government transfers to individuals, employer contributions to pension and welfare plans, and tax-exempt interest; and accruals such as interest on government savings bonds. On the other hand, capital gains and losses, which are in part included in AGI when realized, are not part of Commerce personal income.

In this way, expansion of the income concept lowers the effective rate on employee compensation from 10.6 per cent under the AGI concept to 9.6 per cent (line 5c, Table 31). The difference arises mostly from the inclusion of employer contributions to private and social insurance

⁴ Chapter 2, pp. 21-22.

⁵ For unincorporated enterprise, see Kahn, *Business and Professional Income Under the Personal Income Tax*, Princeton for NBER, 1964, pp. 40-41; for dividends, see Daniel M. Holland, *Dividends Under the Income Tax*, Princeton for NBER, 1962, p. 65.

systems for old age and illness and other wage supplements (\$28 billion). For all other income, the average effective rate falls considerably more, i.e., from 11.7 to 8.7 per cent. The average effective rate on other income thus drops below that on employee compensation when personal income serves as the measure. In this case the difference arises mainly from the inclusion in personal income of imputed, accrued, and tax exempt interest (\$15.8 billion), imputed rent on owner- and tenant-occupied homes (\$11.6 billion), veterans' benefits and other transfer payments (\$18.2 billion), and the inclusion in AGI, but not in personal income, of realized net capital gains (\$7.9 billion).

As has been seen, effective rates can vary considerably, depending on what income concept is chosen, but this appears to have been less so for employee compensation than for other income. Tables 30 and 31 should help to explain the greater relative contribution to tax liability than to personal income of employee compensation in recent years in contrast to earlier times. Other things being equal, distributional differences cause a lower average effective rate on employee compensation than on other income (Table 30). Differences in coverage, for both administrative and statutory reasons, have had the opposite effect (Table 31). Before World War II, when exemptions were high and rates relatively progressive, coverage played a less important part in determining effective rates than distributional differences, and employee compensation was a less important source of income tax liabilities than of personal income. Since then, distributional differences have been more than offset by coverage factors, and employee compensation has contributed a share of tax liability in excess of its share in personal income.

The effective rates shown for employee compensation are, however, not necessarily those applying to employees. The former are computed on a functional type of income; the latter state the effective rate on individuals with income from employment. To the extent that these individuals also have other income, their effective rate depends on the composition of their total income as well as its size. Yet many appear to have only income from employment, or only relatively small amounts from other sources. As was shown in Chapter 3, more than half of the 1963 taxpayers with wages and salaries reported them as their only income source. On all returns with wages and salaries, reported other

income was only 8 per cent of AGI. These figures may be influenced by many omissions, but they nevertheless suggest that for many taxpayers employment is the sole source of income.

*Relative Share of Wages and Salaries
in Income After Taxes*

The effect of the personal income tax on the relative share of employment income, however measured, has been small, especially in recent years. Table 32, which uses figures from preceding tables, shows that the share of employee compensation in personal income was slightly lowered in 1963, and remained unchanged in 1964. Even when the computation is with reported AGI, where the difference in average

TABLE 32

Relative Share of Employment Income, Before and After Personal Income Tax Liability, 1929, 1939, 1963, and 1964
(dollars in billions)

Year	Amounts Reported			Wages and Salaries as Percentage of Total Col. 1 ÷ Col. 3 (4)	Personal Income			Employee Compensation as Per Cent of Total Col. 5 ÷ Col. 7 (8)
	Wages and Salaries (1)	Other (2)	Total (3)		Employee Compensation (5)	All Other (6)	Total (7)	
Before Tax								
1929	11.4	15.8	27.2	41.9	51.0	35.1	86.1	59.2
1939	16.5	8.7	25.2	65.5	48.0	26.5	74.5	64.4
1963	299.4	69.3	368.8	81.2	339.4	136.1	475.5	71.4
1964	320.4	76.3	396.7	80.8	363.7	143.0	506.7	71.8
After Tax								
1929	11.3	14.9	26.2	43.1	50.9	34.2	85.1	59.8
1939	16.2	8.1	24.3	66.7	47.7	25.9	73.6	64.8
1963	263.2	57.3	320.6	82.1	303.2	124.1	427.3	71.0
1964	285.6	64.0	349.6	81.7	329.9	130.7	459.6	71.8

Source: Col. 1 from Table 4; col. 2 from Appendix C; cols. 3 and 4 from Table 5.

After-tax figures are the before-tax figures minus estimated tax liabilities as shown for wages and salaries and total income in Table 28, and for all other income in Appendix C. Cols. 5 and 7 from Table 29; col. 6 equals cols. 7-5.

effective rates between wages and salaries and other income is larger—5.3 points compared to 0.9 in personal income (Table 31)—as well as in favor of wages and salaries, relative shares are not greatly altered. The share of wages and salaries in reported AGI for 1964 rose from 80.8 per cent before tax to 81.7 per cent after tax.

The explanation for this modest effect of the personal income tax on relative shares is twofold. To begin with, the share of employee compensation in total personal income, however measured, is very large. The larger the relative share of a component of income, the less will this share be altered by any given difference in effective rates. Second, the difference in the effective rates applicable to wages and salaries and other income was not great enough to exert a marked effect on their relative shares in total income.

The data in Table 32 bear out the first point strikingly. In 1929 and 1939, when income taxation was at a much lower rate, the relative share of wages and salaries in AGI after tax rose more than for 1963 and 1964. In 1929, the share of wages and salaries rose from 41.9 per cent of reported AGI to 43.1 per cent after tax. The effective rate on reported wages and salaries was then 1.1 per cent and that on other income 5.6,⁶ so that both the level and the difference in effective rates were less than in 1963 and 1964. Similar results were obtained for 1939.

Effective Marginal Rates

The average effective rates shown above tell little about the tax rate applicable to additions to income of employees. The spread between average marginal and average effective tax rates can be large or small, depending on the steepness of the progression in bracket rates in the income range in which wages and salaries are concentrated.

In recent years, the mean marginal rate for wages and salaries reported on all individual returns has been near 22 or 23 per cent, or about twice the average effective rate. The weights used in computing the means for each year are dollar amounts of wages and salaries. In other words, the rates shown in the two right-hand columns of Table 33 are the change in tax liability divided by the change in wages and salaries when the latter rises (falls) by a small percentage. More weight

⁶ See Tables 28 and D-1.

TABLE 33

*Mean Effective Marginal Tax Rate on Wages and Salaries
for Taxable and All Returns, 1954-64*

Year	Mean Marginal Rate on \$1 Change in Wages and Salaries Per Taxpayer		Mean Marginal Rate on 1% Change in Wages and Salaries	
	Taxable Returns	All Returns	Taxable Returns	All Returns
1954	20.9	16.4	22.8	20.9
1955	20.9	16.8	22.8	21.1
1956	21.1	17.2	22.9	21.5
1957	21.2	17.3	23.3	21.9
1958	21.3	17.2	23.5	22.0
1959	21.5	17.7	23.8	22.5
1960	21.6	17.8	23.9	22.6
1961	21.7	17.7	23.8	22.6
1962	21.7	18.1	24.1	23.0
1963	21.8	18.3	24.3	23.2
1964	20.1	16.5	22.9	21.9

Source: See Appendix C.

is thereby given to employees with large than to those with small amounts of wages or salaries. This procedure is consistent with computing mean effective tax rates by dividing aggregate tax liability by the appropriate amount of income, as was done in Tables 28-31.

Mean marginal rates, obtained by using frequencies rather than dollar amounts as weights, are shown in the first two columns of Table 33. This is equivalent to changing each employee's wages by \$1 rather than 1 per cent as before. The procedure is akin to the popular technique of showing tax rates on an additional dollar of income. It assigns to each taxpayer, whether his income is large or small, the same weight.

Both measures have relevance in answering some questions, and are therefore presented together. Marginal tax rates are of interest in connection with measuring the incentives offered individuals to obtain income through employment in the labor market as compared to outside the market (work in the home, leisure). They may affect the path, if

TABLE 34

Effective Marginal and Average Tax Rates Applicable to Wages and Salaries, by Income Group, 1964

AGI (thousand dollars)	All Returns				
	Percentage Distribution of:			Marginal Rate Weighted by:	
	Wages & Salaries (1)	Returns with Wages & Salaries (2)	Average Rate (3)	Dollar Amounts (4)	Fre- quencies (5)
Negative AGI	.08	.19	0.0	0.0	0.0
0-.6	.36	5.97	0.0	0.0	0.0
.6-1.0	.61	4.36	0.2	3.6	3.1
1.0-2.0	2.49	9.95	3.3	11.7	11.4
2.0-3.0	3.78	8.89	5.4	13.4	13.2
3.0-4.0	5.56	9.30	6.9	15.3	15.1
4.0-5.0	7.22	9.36	7.9	16.3	16.2
5.0-6.0	8.73	9.24	8.6	17.5	17.5
6.0-7.0	9.89	8.86	9.2	18.5	18.5
7.0-8.0	10.26	7.96	9.8	19.2	19.1
8.0-9.0	9.30	6.39	10.5	19.5	19.5
9.0-10.0	8.10	4.99	11.1	20.9	20.9
10.0-15.0	21.23	10.69	12.6	23.8	23.7
15.0-20.0	5.65	2.15	15.1	31.8	31.8
20.0-50.0	5.23	1.49	20.3	45.5	45.5
50.0-100.0	1.13	.18	30.3	62.9	62.8
100.0-500.0	.37	.04	36.5	73.7	74.0
500.0-1,000.0	.01	^a	37.7	73.4	73.6
1,000.0 or more	.01	^a	34.7	74.0	73.0
Total	100.00	100.01	10.9	21.9	16.5

Source: See Appendix C.

^a Less than 0.05 per cent.

not the magnitude, of economic growth. We may wish to know how, with each increase in market-produced national product, the relative rewards for work inside and outside the market are affected.⁷ On the assumption that the relative share of labor in the national product remains unchanged, a 1 per cent increase in national product also involves a 1 per cent increase in wages and salaries. The rate of income tax on this increase in wages and salaries is shown in the last two columns of Table 33. It weights each taxpayer's marginal rate by his contribution to a small increase in national product.⁸

This approach does not satisfy the question: What is the mean of the marginal rates that confront employees? To answer it, the first two columns of Table 33 should be consulted. Using equal weights per employee, the mean marginal rate for wages and salaries of all employees covered on tax returns has been 16.5 per cent (1964). On average, a rational, informed⁹ individual, when given the choice, would allocate additional time to work in the market only when his productivity in the latter exceeded his productivity in the home by 20 per cent.

The summary measures presented and discussed thus far hide wide variations in rates. Approximately how important these variations are can be seen from Table 34. Effective marginal and average rates applicable to wages and salaries are shown by income groups for 1964. Somewhat less than nine-tenths of the wages and salaries reported were in the \$3,000–\$25,000 income range, subject to average rates ranging from less than 7 to more than 15 per cent and marginal rates ranging from 15 to 32 per cent. But nearly one-third of the returns with wages and salaries were subject to average rates of less than 7 per cent, and marginal rates of less than 15 per cent.

⁷ In general, only earnings from work in the market are taxable. Goods and services produced and consumed at home have for practical reasons not been part of taxable income under the federal tax.

⁸ In essence, this is the marginal rate of tax on labor's share in a change in output, assuming a Cobb-Douglas production function.

⁹ "Informed," in this context, can have no precise, quantifiable meaning. Since an individual's productivity outside the market may depend largely on subjective valuations, it requires merely that he be conscious of his alternatives and have taken them into account in making his decision. He may in effect be his own source of information.