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Volume Author/Editor: Lawrence Howard Seltzer

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The Appropriate Levels of the Personal Exemptions

1. COMPETING CONSIDERATIONS COMPLICATE THE QUESTION OF APPROPRIATE LEVELS

The levels of the personal exemptions prevailing at any time inevitably reflect compromises among competing objectives. On the one hand, because the exemption levels vitally affect the revenue yield of the income tax, the desire to protect a liberal standard of living through high exemptions conflicts with the need to limit them to modest amounts if the income tax is to function as a major source of the government's revenues. Liberal exemptions are likely to be of illusory value to the mass of the public if their practical effect is to cause offsetting reliance upon sales and excise taxes on goods and services of wide consumption.

Larger exemptions would be possible at only moderate sacrifice of revenue, if we were willing to confine them to low incomes or to restrict them to dependents when income exceeds a stipulated modest level. On the other hand, as previously noted, allowing the same exemptions at all levels of income is technically simpler and has the political advantage of appearing to soften the impact of the income tax for all—though at the cost of higher nominal tax rates.

Similarly, the needs of workable administration compete with other objectives. Thus an unqualified intention only to protect some minimum standard of living from tax would require changes in the exemption or exclusion levels whenever "the cost of living" shifted up or down. But continuity in these levels is strongly desirable on administrative grounds. This consideration argues against frequent small changes, though it would merit little weight if significant changes were indicated.

2. *ONLY ROUGH DIFFERENTIATION BY FAMILY RESPONSIBILITY IS FEASIBLE*

For practical reasons, it is difficult to achieve more than very rough equity by using the personal exemptions to differentiate among persons according to their family status. A social worker or a physician may provide highly individualized diagnosis and treatment for particular individuals, but the income tax law necessarily deals uniformly with large *categories* of persons. Thus, in the interests of administrative simplicity, the present law provides the same amount of exemption for an infant or small child as for an adolescent, though the cost of supporting the latter is generally much greater; and an equal allowance for a fourth child as for a first, though the fourth usually adds less to a family's needs.[1] Even countries that vary the allowance for children according to age, such as the United Kingdom and Canada, distinguish between only two or three age groups. Similarly, the presumed administrative convenience of uniform treatment rather than equal need explains why the amount of exemption for a dependent adult in the United States is the same as that for a small child.

The present equal per capita exemption for the taxpayer, his spouse, and each of his dependents gives no recognition to the fact that the cost of living for single persons living alone is generally higher than for a member of a married couple or for a dependent child living at home.[2]

[1] On the basis of extended budget studies, the State of New Jersey's Division of Welfare established a schedule of allowances for basic requirements of families eligible for public assistance, in which the monthly allowance for a child under four years of age in a family of four or more persons is $21.30, as compared with $27.90 for a child between 4 and 10, $35.60 for one between 10 and 12, $39.80 for a girl between 13 and 18, and $43.70 for a boy between 13 and 18. The allowances range between $3.55 and $7.25 more per month per child when the family consists of two persons rather than four, and between $1.70 and $3.50 more per month when the family consists of three persons rather than four. Gertrude Lotwin, *A State Revises Its Assistance Standard*, Public Assistance Report No. 37, U.S. Department of Health, Education, and Welfare, Social Security Administration, 1959, p. 39.

[2] See Table 35 below; U.S. Treasury Department, "Individual Income Tax Exemptions," mimeograph, 1947; U.S. Bureau of Labor Statistics, *Workers'*

At various times since 1913, single persons have been allowed a personal exemption greater than one-half of that of a married couple (1913–16), less than one-half (1920–40 and 1942–43), and exactly one-half (1917–20, 1941, and 1944 to date). None of these relationships can provide exact justice for the whole category of single persons. While budget studies would support a larger allowance for single persons living alone than for each member of a married couple, many thousands of single persons do not live alone but reside with their parents or other relatives or friends. For such single persons, the comparison is not fully relevant. Indeed, to provide a higher relative exemption for all single persons in order to do justice to those who live alone would create a discrimination in favor of single persons who do not live alone, though it may also be argued that such a discrimination would entail less hardship than the present one.

A relatively higher exemption for a single person than for a member of a married couple would appear to discriminate against married persons, an appearance that Congress consistently avoided between 1916 and 1963.[3] On the other hand, the smaller exemption for a single person than one-half that of a married couple, which was in force in all but one year between 1920 and 1943, gave a tax advantage to marriage and discriminated correspondingly against single persons, particularly against those who lived alone. It is to be noted that the current system of income-splitting for married couples and equal per capita exemptions for all persons covered by a tax return is conspicuously favorable to marriage and the family, especially for married taxpayers with incomes larger than about $10,000, while the minimum standard deduction is more favorable to single persons than to married couples with low incomes.

Budgets in the United States: City Families and Single Persons, 1946 and 1947, Bulletin 927, pp. 49–51; *Monthly Labor Review,* May 1952, p. 157; and Carl S. Shoup, "Married Couples Compared with Single Persons under the Income Tax," *Bulletin of the National Tax Association,* February 1940, p. 134.

[3] With the introduction of the minimum standard deduction in 1964—$300 for a single person and $400 for a married couple—the effective exclusion limit and minimum allowance became $900 for single persons and $1,600 for married couples filing joint returns.

3. WIDE REGIONAL AND LOCAL VARIATIONS EXIST IN THE MINIMUM TOLERABLE STANDARD OF LIVING AND ITS COST

Although the protection from income tax of some minimum standard of living is widely regarded as a primary objective of the personal exemptions, there is no nationally accepted measure of what that minimum is. The minimum level of living that each community or area appears to regard as tolerable tends to be drawn from its prevailing consumption patterns. It differs from the minimum *physical* requirements for food, shelter, and clothing as a physical scientist might determine them. Even the extremely poor, particularly in urban communities, cannot depart far from the prevailing consumption patterns and still remain a part of the community: e.g., wear blankets instead of contemporary styles of clothing, sleep in caves instead of in houses, etc. In practice, the kinds of goods and services they require are determined by the kinds readily available and in common use. While usually lacking in definiteness and precision, the minimum standard of living that a community regards as tolerable finds reflection in the choice of cases aided by private and public charitable agencies and in the kinds and levels of assistance they provide.

In a country as large and diverse as the United States, substantial regional and local variations can be expected in the minimum standard of living that is deemed tolerable and in its cost. In our large northern cities, for example, even families supported entirely by public assistance commonly live in houses or apartments with inside plumbing and central heating, whereas some relatively prosperous residents of many rural areas do not yet enjoy these amenities. Because of economies in costs of food and housing, farm families have been estimated to require only 60 per cent as much money income as nonfarm families of the same size and composition to remain above the poverty level.[4] Indicative of substantial differences among the states in both minimum living standards and in living costs are the reports submitted to the Social

[4] Mollie Orshansky, "Counting the Poor: Another Look at the Poverty Profile," *Social Security Bulletin,* January 1965.

Security Administration from time to time by state agencies administering federal-state public assistance plans. Such differences are revealed most sharply by the reports on the monthly cost standards for basic needs that the states employ in determining the amounts of assistance to be granted to eligible individuals under joint federal-state programs. As of January 1965, the state cost standards for total basic needs for an elderly woman living alone and keeping house in rented quarters ranged from $63 per month in West Virginia and $76 in South Carolina to $151 in California and $221 in Alaska. The median of the fifty states and the District of Columbia was $102, while the amount exceeded $130 in five states and fell below $80 in three. For a family consisting of a mother and three children, the median was $199, the low, $124 (in Arkansas) and the high, $376 (in Alaska).[5] Ten states reported amounts of $230 or more; and ten, amounts of $165 or less.

If an attempt were made to relate the personal exemptions closely to the cost of living, such regional and local differences in standards and living costs would logically call for geographical differences in the amounts of exemptions. But the lower living costs in many areas reflect primarily a lower *standard* of living. The residents of such areas might well object to lower exclusion limits or to paying higher income taxes than persons with equal incomes who live in communities with higher living standards. Moreover, to measure the cost of living in the different types of areas and communities from time to time, and to vary the amount of the personal exemptions for the different areas in accordance with these measurements, would involve serious technical and administrative problems, as well as political ones. The definition of each type of community or area would be difficult. The small suburbs of a large city and even its unincorporated environs often derive their living standards and costs from the core city—and are sometimes divided among two or more states. The few European countries that have at-

[5] Bureau of Family Services, Division of Program Statistics and Analysis, Social Security Administration, *Monthly Cost Standards for Basic Needs Used by States for Specified Types of Old-Age Assistance Cases and Families Receiving Aid to Families with Dependent Children, January 1965,* August 1965. The District of Columbia is treated as a state and is included as such in the figures cited on this page and elsewhere in this chapter, but Puerto Rico and the Virgin Islands, which are also treated as states in the source document, are excluded from our figures.

tempted to vary the personal allowances by the taxpayer's place of residence have limited the differentiation to a few categories of places.[6] It is noteworthy that in the United States, differences in living costs are important even among large cities. They were conspicuous between 1948 and 1951 each time that the Bureau of Labor Statistics published annual estimates of the cost of living for a city worker's family in thirty-four large cities. In October 1950, for example, when New Orleans was at the bottom of the list, Milwaukee, at the top, was 14 per cent above it.[7] In revised estimates for twenty large cities in the autumn of 1959, Chicago was the highest-cost city—some 22 per cent above Houston, the lowest.[8] In new estimates for thirty-nine individual metropolitan areas and four nonmetropolitan regions in the autumn of 1966, the cost of living for the specified city worker's family was 27 per cent greater in the New York-Northeastern New Jersey metropolitan area (the highest-cost on the mainland of the United States) than in Austin, Texas, and the average for all urban areas was 10 per cent greater than that for small cities.[9] A given exemption or exclusion limit would seem to have a significantly larger value in some areas than in others, though such an inference would assume that the same bundle of goods and services had the same relevance in all. Moreover, as some of the preceding examples indicate, conspicuous shifts occur from time to time in relative living costs in different cities.

Because of regional and local variations in living standards and living costs, among other reasons, nationwide uniformity in the personal exemptions permits only a loose connection between living costs and the exemption levels. Nevertheless, the connection is important for the more essential purposes of the personal exemptions: the exclusion of the poor from income tax and the provision of suitable allowances for dependents, the aged, and the blind. The appropriateness of the levels of the personal exemptions at any time for these purposes largely turns on their relation to "the cost of living," particularly at the minimum ac-

[6] See Sidney Borden, "Cost of Living Variations and the Personal Exemptions from the Income Tax," *National Tax Journal,* June 1949, and our reference to Sweden and Belgium in Chapter 6.

[7] *Monthly Labor Review,* February 1951.

[8] *Monthly Labor Review,* August 1960.

[9] U.S. Department of Labor, *City Worker's Family Budget, Autumn, 1966,* Bulletin No. 1570-1.

ceptable level compatible with prevailing standards, a level below which are the "poor" or those in "poverty."

4. THEIR LARGE AND DIFFUSE EFFECTS ARE A DETERRENT TO INCREASES IN "CONTINUING" EXEMPTIONS

In view of this logical relationship, it seems paradoxical that exemptions for single persons and married couples are lower than in 1939, despite a rise of 134 per cent in the Consumer Price Index in 1939–66, and that they should have remained stationary in 1948–66 in the face of a rise of 35 per cent in consumer prices. (The drastic erosion in their purchasing power that occurred in this period was portrayed, for selected family sizes in Tables 19 and 20, and in Chart 7.)

Further, if the expression, "the cost of living," were interpreted to mean not merely the level of consumer prices but the cost of the changing bundle of goods and services purchased by the families of low-paid workers and by the lower income groups generally, the rise in the cost of living since World War II would be found to be significantly greater than that measured by consumer prices alone, and the decline in the relative level of the personal exemptions would be correspondingly more pronounced. In the eighteen years following 1948, the country's gross national product was not only multiplied by 2.87 times in current dollars but also doubled in real terms (constant 1958 dollars).[10] Studies of the U.S. Department of Labor indicate that substantial improvements took place in the standard of living prevailing among wage- and salary-workers' families during this period.[11]

Much potential criticism of the inadequacy of the exemption levels as devices to exclude the poor from income tax has doubtless been

[10] U.S. Department of Commerce, National Income Division, *Survey of Current Business,* national income numbers and supplements.

[11] Phyllis Groom, "A New City Worker's Family Budget," *Monthly Labor Review,* November 1967; Helen M. Lamale and Margaret S. Stotz, "The Interim City Worker's Family Budget," *Monthly Labor Review,* August 1960; Faith M. Williams, "Standards and Levels of Living of City-Worker Families," *Monthly Labor Review,* September 1956; U.S. Department of Labor, *How American Buying Habits Change,* Washington, 1959.

muted by the growth of federal-state social insurance and welfare systems under the Social Security Act. These have greatly reduced the exposure to income tax of large numbers of the aged, the temporarily unemployed, persons limited to part-time employment by physical, mental, or emotional handicaps, and those so limited by responsibility for the care of dependent children. Their receipts from old-age and unemployment insurance systems and from assistance payments are excluded by law from income reportable for income tax, and these receipts also reduce their dependence on, and incentive to obtain, taxable earnings.[12]

But the poor are by no means limited to those receiving pensions or assistance checks. Census studies indicate that almost four-fifths of the poor families in 1963, as defined by the indexes of the Social Security Administration, had a head under 65 years of age, more than one-half of whom had been employed full time for a year or more when interviewed.[13] Despite the greater incidence of poverty in the nonwhite population, the studies indicated that one in six of the 7.2 million poor families in 1963 was that of a white male worker who had been in full-time employment for one year or more.[14]

But the resistance of the exemptions to upward change is less paradoxical than it seems. The exclusion of the very poor from income tax has been only a part, and in recent years a relatively minor part, of the role actually played by the personal exemptions in the United States. The present "continuing" exemptions not only determine the proportions of the population and of total personal income that are excluded from the tax at the lower end of the income scale, but they also fix the amount of income at all higher levels for which a zero rate of tax is substituted in place of each taxpayer's highest bracket or marginal rate. In consequence, alterations in the exemption levels characteristically produce important changes in tax revenue and in the scale of effective tax rates. As we have previously observed, these effects are so substantial that the levels of the personal exemptions in the United States from the beginning have been strongly influenced by the amount of revenue sought.

[12] Theoretical analysis and empirical data bearing upon the disincentive effects of social security pension payments to the aged are presented by Lowell E. Gallaway in "Negative Income Taxes and the Elimination of Poverty," *National Tax Journal,* September 1966, pp. 298–307.

[13] Mollie Orshansky, in *Social Security Bulletin,* January 1965.

[14] *Ibid.*

And the periods when the largest revenues have been sought—periods of hot or cold wars—have generally coincided with those of rising prices.

The major obstacle to a readier use of increases in the personal exemptions to protect a minimum standard of living against rising prices is to be found precisely in the wide and profound effects of seemingly modest increases in them. In Tables 32 and 33 we apply the 1965–67 tax rates to the tax returns filed by eight major income groups in 1965, and compare their tax liabilities assuming alternative per capita exemptions of $600, $700, and $800. An increase in the per capita exemptions from $600 to $700 would have reduced total tax liabilities by $2.8 billion, of which only 6.1 per cent would have gone to those with adjusted gross incomes under $3,000, while 80 per cent would have gone to those with $5,000 or over, and 32.5 per cent to those with $10,000 or over. Almost one-half of the total reduction would

TABLE 32

Comparison of Total Individual Income Tax Liability Under Three Alternate Levels of the Personal Exemptions, with 1965–67 Tax Rates Applied to 1965 Tax Returns, by Income Groups

Adjusted Gross Income Groups (thousand dollars)	Amount of Tax Liability [a] (million dollars)		
	$600 Per Exemption	$700 Per Exemption	$800 Per Exemption
Under 3	1,097	924	761
3–5	3,251	2,876	2,487
5–10	15,415	14,045	12,692
10–15	10,644	10,100	9,556
15–20	4,200	4,042	3,896
20–50	7,307	7,132	6,927
50–100	3,709	3,671	3,632
100 and over	3,735	3,725	3,715
Total	49,357	46,514	43,666

NOTE: Individual items may not add to totals because of rounding.

SOURCE: Estimated from the distribution of returns and income in *Statistics of Income*, 1965.

[a] Tax liabilities under 1965–67 tax rates, with 1965 distribution of income.

TABLE 33
Distribution Among Income Groups of Tax Savings from Increases of Per Capita Exemptions, with 1965–67 Tax Rates Applied to 1965 Tax Returns

	Tax Savings from Raising the Exemptions to			
	$700		$800	
Adjusted Gross Income Group (thousand dollars)	Dollar Amount (millions)	Percentage of Total Tax Saving	Dollar Amount (millions)	Percentage of Total Tax Saving
Under 3	173	6.10	336	5.91
3–5	374	13.17	764	13.42
5–10	1,370	48.19	2,723	47.85
10–15	544	19.13	1,088	19.11
15–20	158	5.55	304	5.33
20–50	175	6.15	380	6.67
50–100	38	1.35	77	1.36
100 and over	10	0.36	20	0.35
Total	2,843	100.00	5,691	100.00

NOTE: Individual items may not add to totals because of rounding.
SOURCE: Table 32.

have gone to those with adjusted gross incomes between $5,000 and $10,000, reflecting the heavy concentration of returns and exemptions in this group. A $200 increase in the per capita exemption to $800 would have produced a roughly similar percentage distribution of the tax benefits by income groups, and would have caused a revenue loss of about $5.7 billion. Yet even this heavy revenue loss would have left single persons whose incomes averaged $23 a week subject to income tax, as well as married couples whose incomes averaged anything over $41 a week *before* social security (F.I.C.A.) taxes.

It should be noted that, although the lowest taxable income groups would obtain the smallest shares of the total tax savings resulting from an increase in the per capita exemptions, they would nevertheless obtain greater *percentage* reductions in their tax liabilities than those with larger incomes because the added exemption would constitute larger fractions of their previously taxable incomes. Hence an increase in the continuing exemptions would increase the progressivity of the effective rate structure. But it would give medium and upper income taxpayers a greater absolute reduction in their tax liabilities because the effective marginal rates of tax of these groups are higher; and it would give them most of the aggregate tax relief both because of this fact and because the lowest income groups account for only a small fraction of total tax liabilities.

An alternative means often proposed to ease the tax burden on the lower income groups is to reduce the tax rates on the lower brackets of taxable incomes. Such a reduction was incorporated in the Revenue Act of 1964. Like raising per capita exemptions, however, such action reduces tax liabilities at all income levels, not only the lowest, and for this reason is costly in revenue and diffused in effects. The percentage distribution of the resulting tax savings among the different income groups is strikingly similar to that resulting from an increase in per capita exemptions.

It would appear, therefore, that sizable increases in the effective personal allowances at the lower levels of income require, as a practical matter, that these allowances be separated in some fashion from the continuing exemptions at other levels of income.

5. CENTRAL IMPORTANCE OF THE EXCLUSION LIMITS IN DETERMINING THE APPROPRIATE EXEMPTION LEVELS

In many respects the central problem in determining the appropriate exemption levels is that of choosing the amounts of income below which individuals and families of different size are to be completely excluded from tax. This problem goes to the heart of the most essential purpose of the personal exemptions—the exclusion of the poor from the income tax. In the process of choosing these amounts, moreover, consideration is necessarily given to the allowances reasonably required for dependents at these income levels. Various considerations reviewed in previous chapters, as well as past United States practice, indicate that similar, though not necessarily identical, allowances for dependents will be found acceptable for *taxable* incomes moderately above the exclusion limits or for all taxable incomes.

An important reason why an acceptable allowance for dependents at taxable income levels is likely to be no larger or to be even smaller than the implicit allowance that may be embodied in exclusion limits is that the former are not intended to cover the full support of a dependent. The prevailing view is that the support of a man's dependents is primarily his own responsibility, even though the health and education of children are of such high public interest as to warrant various kinds of public aid. In effect, exemptions for dependents transfer tax burdens among persons with equal incomes from those with more to those with fewer dependents, and they may also do so among persons with unequal income. How much some taxpayers should, in effect, be called upon to pay others towards the support of the latter's dependents is a question that can have no conclusive objective answer, but an allowance at taxable income levels not far from the amount used in determining the exclusion limits is likely to be most acceptable.

On the other hand, it is not essential that the amount of the exemption on taxable returns for the taxpayer on his own account be identical, or nearly so, with the exclusion limit chosen for single individuals, nor need it be larger than or even as large as the exemption for a dependent. We have noted that such countries as Australia, Belgium, and the Netherlands grant no exemption on his own account to a person with income above the exclusion limit, and that the vanishing exemption technique provides a smaller exemption for taxpayers than for excluded individuals. Substantively, we have several times noted that the taxpayer's exemption on his own account, superficially explained by the need of an allowance for the essential expenses of all taxpayers, is largely illusory. It is not truly an exemption for those who remain taxable because it forces Congress to impose higher bracket tax rates than would otherwise be needed to raise a given amount of revenue, and these rates can be made such as to impose substantially the same effective tax burden upon each income class whether the taxpayer's exemption on his own account is larger or smaller.[15]

The minimum standard deduction enacted in 1964 demonstrated

[15] Except that, if the exclusion limit is altered by an increase in the taxpayer's exemption on his own account, this will shift to those who remain taxpayers the share of the total tax burden previously borne by the newly excluded income class, and vice versa, assuming that an unchanged amount of revenue is sought and other things remain equal.

one method by which it is technically feasible under the existing United States income tax to raise the levels at which incomes are excluded from tax, and to raise the effective allowances for persons with smaller taxable incomes (including the amounts for dependents and the extra ones for the aged and the blind), without altering the amounts of the continuing per capita exemptions. This was done, it will be recalled, by establishing for all taxpayers a minimum standard deduction of $200 plus $100 additional for each exemption to which a taxpayer is entitled. One result was to raise the effective exclusion limit for single individuals (previously $600 plus standard deduction of 10 per cent of adjusted gross income) from $660 to $900; for a childless married couple or aged or blind person, from $1,320 to $1,600; and for each dependent, from $600 to $700 additional, up to certain maxima (as detailed in Table 34). Another result was to raise the effective personal allowance of all *taxable* persons in the lower taxable income groups whose minimum standard deduction exceeds both their actual nonbusiness deductions and 10 per cent of their adjusted gross incomes, without raising the personal allowance for those with larger incomes.

Conceivably, by the same or other methods (some of which will be illustrated presently), and without change in the present per capita exemptions for persons who remain taxable, higher exclusion limits could be provided under which all persons with incomes less than specified amounts would be excluded from income tax liability.

The British Royal Commission on the Income Tax, facing the question of the appropriate exclusion limits in 1920, called attention to three alternative points at which

> . . . it may be argued that taxable capacity arises: after provision of
>
> (a) an actual minimum income, i.e., an income sufficient for bare subsistence or
>
> (b) an income not merely sufficient for bare subsistence but large enough to equip and sustain a healthy and efficient citizen or
>
> (c) an income sufficient not only for healthy subsistence, but for the provision of conventional comforts and luxuries usually enjoyed by what are commonly called the "working classes." [16]

[16] *Report of the Royal Commission on the Income Tax,* H.M. Stationery Office, 1920, p. 55.

TABLE 34

Effective Exclusion Limits of Federal Income Tax, 1967 [a]

Marital Status of Taxpayer [b]	Exclusion Limit
Single person	$ 900
Married couple, no dependents, or head of household, 1 dependent	1,600
Married couple, 1 dependent, or head of household, 2 dependents	2,300
Married couple, 2 dependents, or head of household, 3 dependents	3,000
Married couple, 3 dependents, or head of household, 4 dependents	3,700
Married couple, 4 dependents, or head of household, 5 dependents	4,400
Married couple, 5 dependents, or head of household, 6 dependents	5,100
Married couple, 6 dependents, or head of household, 7 dependents	5,800

[a] For married couples with up to six dependents and heads of households with up to seven dependents. The minimum standard deduction is limited to $1,000: hence the exclusion limit for taxpayers with more than six and seven dependents, respectively, is increased further only by the additional personal exemptions.

[b] Each spouse of a couple filing separate returns may elect to take a minimum standard deduction of $200 each plus $100 for each dependent, in lieu of the standard deduction of 10 per cent of adjusted gross income. This would make each subject to an exclusion limit of $800 plus $100 for each dependent. If either spouse elects to take the 10 per cent standard deduction in lieu of the minimum standard deduction, the other must also.

The Commission refrained from expressing its own opinions in the matter, and did not seek to give empirical or other specific content to these alternative minimum standards for income tax liability.

6. *THE CITY WORKER'S FAMILY BUDGET AS A GUIDE TO EXCLUSION LIMITS*

An approach to the second or third of the Commission's alternatives is provided for the United States by the cost of the "modest but adequate" budget developed by the Bureau of Labor Statistics for a city worker's family of four persons in large cities and their suburbs. This budget was originally developed in 1946–47 at the request of Congress and with the assistance of a Technical Advisory Committee.[17] It was designed to estimate the dollar amount required to maintain a family consisting of an employed husband aged 38, a wife not employed outside the home, a daughter aged 8, and a son aged 13, living in a rented five-room house or apartment in a large city, or a suburb of such a city, "at a level of living in accordance with the prevailing standards of what is needed for health, efficiency, the nurture of children, and for participation in social and community activities." Estimates were published for thirty-four large cities once each year until 1951, when they were discontinued on the ground that the prewar patterns and standards of living on which they were based had altered materially after World War II.[18]

A revision of this budget, designed for the same family, but incorporating a new list of goods and services reflecting the standards prevailing in the 1950's was priced as of Autumn 1959 and published in 1960 for twenty large cities and their suburbs.[19] Because it did not include changes contemplated for a more comprehensive revision in the future, it was termed an "interim revision." The most recent revision, issued in October 1967, reflects extensive advances in the standard of living during the 1960's over that of the 1950's, as well as adjustments for the rise in prices and in social security and state and local taxes between the fall of 1959 and the fall of 1966. Also, as previously noted, in place of twenty cities, it covers thirty-nine individual metropolitan areas and four nonmetropolitan regions. For the eighteen cities that were included in both the 1959 and 1966 studies, the total annual cost of the new budget averaged $9,283 as against $6,100 in 1959, an increase of 52 per cent. The aggregate of family consumption components (the total budget less federal, state, and local income taxes, social security taxes, occupational expenses, life insurance, and gifts) is estimated to have increased by 48 per cent, of which 32 percentage

[17] A detailed description of this budget is contained in Bulletin 927, *Workers' Budgets in the United States: City Families and Single Persons, 1946 and 1947*, Bureau of Labor Statistics, 1948.

[18] Helen H. Lamale and Margaret S. Stotz, "The Interim City Worker's Family Budget," *Monthly Labor Review*, August 1960.

[19] *Ibid.*

points are attributed to the rise in living standards, and 16 to price advances.[20] Personal income taxes constituted 12 per cent, and social security taxes, 3 per cent of the budget in 1966 as against 11 and 2 per cent, respectively, in 1959. A summary of the total budget requirements and the principal components for each of the cities and regions is presented in Table 35.

The new budget assumes the same family composition as the previous ones; the husband has no dependents other than his wife and two children, and there are no lodgers or cotenants. The husband is presumed to be an experienced worker, and well-advanced in his trade or profession. The wife does all the cooking, cleaning, and laundry without paid help. The family group is well-established and has average inventories of clothing, house furnishings, major home appliances, and other equipment.

Besides the inclusion of a sample of medium-sized and small cities, a notable difference in the new budget as compared with the earlier ones is that homeownership costs, including interest, mortgage principal repayment, property taxes, and other costs of owning a home are included in the new budget for 75 per cent of the budget-type families, whereas only the costs of rental housing were included in the previous budgets. In addition, auto ownership is now specified for 80 per cent of the budget-type families in New York, Philadelphia, Boston, and Chicago, and for 95 to 100 per cent of such families in other areas, as against 48 per cent and 76 per cent, respectively, in the 1959 budget. Significant upgrading was also provided for in the food and medical care components of the budget.

It may be seen in Table 35 that the total average annual cost of the 1966 budget, including personal taxes, was $9,191 in urban areas as a whole, $9,376 in metropolitan areas, and $8,366 in nonmetropolitan areas.

Accompanying the release of the new City Worker's Family Budget in October 1967, the Bureau issued a revised equivalence scale containing the percentages of the standard budget (exclusive of personal and social security taxes, life insurance premiums, occupational expenses, and gifts) estimated to be needed to provide an equivalent level of living for families of different age, size, and composition from

[20] U.S. Department of Labor, *City Worker's Family Budget,* Autumn 1966, Bulletin No. 1570-1, p. 4.

TABLE 35

Annual Costs of the City Worker's Family Budget [a] by Major Components, Urban United States: Thirty-Nine Metropolitan Areas and Nonmetropolitan Areas by Regions, Autumn 1966

(dollars)

	Urban United States			Northeast
Item	Total	Metropolitan Areas [b]	Nonmetropolitan Areas [c]	Boston, Mass.
Food	2,143	2,173	2,005	2,317
Food at home	1,824	1,840	1,754	2,010
Food away from home	319	333	251	307
Housing: total	2,214	2,286	1,894	2,732
Renter families	1,736	1,776	1,557	1,875
Homeowner families	2,374	2,457	2,006	3,018
Shelter: total [d]	1,733	1,808	1,402	2,245
Rental costs [e]	1,255	1,298	1,065	1,388
Homeowner costs [f]	1,893	1,978	1,514	2,531
Housefurnishings	265	266	258	260
Household operations	216	212	234	227
Transportation: total [g]	815	815	813	812
Automobile owners [h]	860	870	813	964
Nonowners of automobiles	151	184	—	206
Clothing	756	767	709	756
Husband	174	174	179	174
Wife	187	191	169	191
Boy	168	169	164	153
Girl	154	159	132	169
Clothing materials and services	72	74	66	69
Personal care	214	218	194	210
Medical care: total	468	481	411	471
Insurance [h]	219	225	191	259
Physician's visits	89	94	69	91
Other medical care	284	290	259	269
Other family consumption	719	734	654	746
Reading	65	70	41	73
Recreation	306	310	291	297
Education	55	60	35	60
Tobacco	134	133	139	143
Alcoholic beverages	72	72	69	78
Miscellaneous expenses	87	89	79	95
Cost of family consumption: total [i]	7,329	7,474	6,681	8,045
Renter families	6,850	6,964	6,343	7,188
Homeowner families	7,488	7,643	6,793	8,331
Other costs	413	419	391	438
Gifts and contributions	253	259	231	278
Life insurance	160	160	160	160
Occupational expenses	80	80	80	80
Social security and disability payments	289	291	280	277
Personal taxes: total [i]	1,080	1,112	935	1,300
Renter families	961	985	852	1,065
Homeowner families	1,119	1,155	962	1,379
Cost of budget: total [i]	9,191	9,376	8,366	10,141
Renter families	8,594	8,739	7,946	9,049
Homeowner families	9,390	9,588	8,506	10,505

(continued)

Northeast							
Buffalo, N.Y.	Hart-ford, Conn.	Lan-caster, Pa.	New York–North-eastern New Jersey	Phila-delphia, Pa.–N.J.	Pitts-burgh, Pa.	Port-land, Maine	Non-metro-politan Areas [c]
2,209	2,377	2,286	2,380	2,289	2,225	2,264	2,179
1,883	2,015	1,951	1,996	1,957	1,887	1,970	1,904
326	362	335	384	332	338	294	275
2,378	2,538	1,945	2,655	2,130	1,966	2,197	2,131
1,765	1,949	1,651	1,780	1,534	1,561	1,659	1,511
2,581	2,734	2,043	2,945	2,329	2,100	2,377	2,338
1,891	2,083	1,503	2,181	1,655	1,507	1,704	1,653
1,279	1,494	1,209	1,307	1,059	1,102	1,166	1,033
2,095	2,279	1,601	2,472	1,854	1,641	1,884	1,860
272	260	247	266	270	253	266	256
215	195	195	207	205	207	227	222
878	909	773	731	739	790	819	820
878	909	773	874	873	820	819	820
202	204	186	159	203	229	194	—
791	783	755	789	766	758	815	730
171	175	166	176	169	167	180	175
202	186	184	197	186	190	202	173
169	171	159	174	171	162	164	176
179	170	170	175	169	164	191	140
70	80	75	68	71	75	78	65
218	224	201	217	213	214	203	193
461	481	413	497	449	433	466	440
233	203	167	210	229	208	268	226
88	109	68	119	81	78	94	79
273	285	273	288	270	266	256	264
722	774	730	763	732	729	727	672
73	73	63	73	73	76	80	42
291	340	319	308	299	306	291	304
60	60	60	60	60	60	60	35
134	129	129	154	138	128	131	142
73	76	75	73	75	75	76	64
91	96	84	95	87	84	89	85
7,657	8,086	7,104	8,031	7,319	7,117	7,491	7,166
7,045	7,497	6,809	7,157	6,722	6,712	6,953	6,546
7,861	8,282	7,202	8,322	7,518	7,251	7,670	7,373
425	440	406	438	413	406	419	408
265	280	246	278	253	246	259	248
160	160	160	160	160	160	160	160
80	80	80	80	80	80	80	80
293	277	277	295	277	277	277	290
1,269	1,117	1,023	1,351	1,104	1,039	990	1,041
1,101	992	958	1,105	969	949	879	891
1,326	1,159	1,045	1,433	1,149	1,069	1,027	1,091
9,724	10,000	8,890	10,195	9,193	8,919	9,257	8,985
8,943	9,286	8,530	9,075	8,462	8,424	8,608	8,214
9,985	10,239	9,010	10,568	9,437	9,084	9,473	9,242

(*continued*)

TABLE 35 (*continued*)

Item	North Central				
	Cedar Rapids, Iowa	Champaign–Urbana, Ill.	Chicago, Ill.–Northwestern Ind.	Cincinnati, Ohio–Ky.–Ind.	Cleveland, Ohio
Food	2,078	2,113	2,153	2,098	2,091
Food at home	1,773	1,812	1,835	1,782	1,751
Food away from home	305	302	318	316	340
Housing: total	2,337	2,480	2,549	2,170	2,466
Renter families	1,941	2,218	1,961	1,616	1,731
Homeowner families	2,469	2,567	2,744	2,355	2,713
Shelter: total [d]	1,824	2,002	2,075	1,701	1,988
Rental costs [e]	1,428	1,740	1,488	1,147	1,252
Homeowner costs [f]	1,956	2,089	2,271	1,886	2,234
Housefurnishings	277	268	258	261	256
Household operations	237	211	215	208	222
Transportation: total [g]	842	794	770	832	822
Automobile owners	842	794	913	832	854
Nonowners of automobiles	193	193	201	222	209
Clothing	777	764	770	758	781
Husband	178	175	183	171	174
Wife	189	196	189	191	194
Boy	171	155	164	168	172
Girl	162	164	156	156	165
Clothing materials and services	77	74	77	72	76
Personal care	227	211	229	193	215
Medical care: total	435	480	484	401	429
Insurance [h]	212	255	255	170	257
Physician's visits	73	85	86	76	86
Other medical care	271	286	289	252	233
Other family consumption	748	726	729	721	719
Reading	65	56	71	76	76
Recreation	331	324	307	310	309
Education	60	60	60	60	60
Tobacco	137	128	133	117	117
Alcoholic beverages	67	68	67	73	68
Miscellaneous expenses	88	90	91	85	89
Cost of family consumption: total [i]	7,446	7,568	7,685	7,173	7,525
Renter families	7,050	7,306	7,098	6,619	6,789
Homeowner families	7,577	7,655	7,881	7,357	7,771
Other costs	418	422	426	408	420
Gifts and contributions	258	262	266	248	260
Life insurance	160	160	160	160	160
Occupational expenses	80	80	80	80	80
Social security and disability payments	277	277	277	277	277
Personal taxes: total [i]	1,201	1,003	1,038	1,038	994
Renter families	1,101	949	916	912	842
Homeowner families	1,234	1,021	1,079	1,080	1,044
Cost of budget: total [i]	9,421	9,350	9,506	8,976	9,297
Renter families	8,926	9,034	8,797	8,295	8,409
Homeowner families	9,586	9,445	9,743	9,203	9,593

(*continued*)

North Central									
Dayton, Ohio	Detroit, Mich.	Green Bay, Wis.	Indianapolis, Ind.	Kansas City, Mo.–Kans.	Milwaukee, Wis.	Minneapolis–St. Paul, Minn.	St. Louis, Mo.–Ill.	Wichita, Kans.	Nonmetropolitan Areas [c]
2,063	2,149	1,997	2,099	2,139	2,064	2,058	2,199	2,123	1,994
1,778	1,796	1,722	1,796	1,827	1,728	1,764	1,865	1,838	1,767
286	353	276	304	313	336	294	334	285	227
2,045	2,076	2,101	2,336	2,083	2,508	2,286	2,202	2,074	2,064
1,798	1,588	1,545	1,819	1,738	1,787	1,813	1,719	1,745	1,721
2,127	2,239	2,286	2,509	2,199	2,748	2,444	2,363	2,183	2,179
1,585	1,605	1,630	1,844	1,583	2,039	1,828	1,709	1,586	1,565
1,338	1,116	1,074	1,326	1,236	1,318	1,354	1,226	1,257	1,222
1,667	1,767	1,815	2,016	1,698	2,279	1,985	1,870	1,695	1,680
259	262	260	272	277	243	248	265	270	260
201	210	211	221	225	226	211	228	218	239
819	817	826	887	871	829	834	839	848	790
819	850	826	887	871	829	834	872	848	790
186	199	172	196	198	186	199	225	191	–
764	776	765	784	762	758	759	760	747	731
177	177	177	181	175	170	175	170	175	193
194	194	198	192	190	184	187	189	186	174
173	171	159	177	173	161	160	165	164	155
149	157	151	155	155	165	157	162	151	137
70	78	80	79	69	78	81	74	71	71
198	223	198	219	234	213	226	222	208	199
402	465	427	431	441	443	446	443	445	398
170	278	199	241	207	238	291	217	248	204
77	87	69	84	80	79	76	85	85	66
251	258	272	244	272	262	244	264	253	245
726	735	744	747	741	732	720	710	745	642
70	76	70	74	67	74	71	67	66	40
325	311	328	318	319	303	293	303	330	289
60	60	60	60	60	60	60	60	60	35
119	131	138	129	142	142	136	131	135	129
69	71	64	77	67	64	73	62	69	68
83	86	84	89	86	89	87	87	85	81
7,016	7,241	7,057	7,503	7,272	7,547	7,329	7,376	7,189	6,819
6,769	6,753	6,502	6,985	6,926	6,827	6,856	6,894	6,861	6,475
7,098	7,404	7,243	7,676	7,387	7,787	7,487	7,537	7,298	6,933
403	410	404	419	412	421	413	415	409	396
243	250	244	259	252	261	253	255	249	236
160	160	160	160	160	160	160	160	160	160
80	80	80	80	80	80	80	80	80	80
277	277	277	277	277	277	277	277	277	277
935	972	1,262	1,114	1,148	1,415	1,395	1,092	1,097	963
883	868	1,098	992	1,008	1,198	1,247	979	1,015	881
953	1,007	1,316	1,155	1,195	1,487	1,444	1,130	1,125	991
8,711	8,981	9,080	9,394	9,189	9,740	9,495	9,241	9,052	8,535
8,411	8,388	8,361	8,754	8,703	8,803	8,874	8,645	8,642	8,109
8,811	9,178	9,320	9,608	9,351	10,052	9,702	9,440	9,189	8,677

(*continued*)

TABLE 35 (*continued*)

Item	South			
	Atlanta, Ga.	Austin, Tex.	Baltimore, Md.	Baton Rouge, La.
Food	2,016	1,995	2,026	2,028
Food at home	1,717	1,700	1,702	1,724
Food away from home	299	295	324	305
Housing: Total	1,808	1,676	1,997	1,882
Renter families	1,596	1,462	1,859	1,490
Homeowner families	1,878	1,748	2,043	2,013
Shelter: Total [d]	1,312	1,205	1,491	1,431
Rental costs [e]	1,100	991	1,353	1,038
Homeowner costs [f]	1,382	1,277	1,537	1,561
Housefurnishings	267	249	262	258
Household operations	229	222	244	194
Transportation: Total [g]	826	806	810	896
Automobile owners	826	806	842	896
Nonowners of automobiles	213	167	204	189
Clothing	714	703	722	686
Husband	170	158	173	161
Wife	185	178	181	176
Boy	161	164	168	154
Girl	137	133	137	130
Clothing materials and services	62	71	63	65
Personal care	227	195	211	221
Medical care: Total	437	420	450	426
Insurance [h]	174	135	222	172
Physician's visits	87	84	87	89
Other medical care	275	278	267	263
Other family consumption	746	710	709	723
Reading	70	64	70	70
Recreation	299	301	297	302
Education	60	60	60	60
Tobacco	144	143	127	139
Alcoholic beverages	93	65	72	71
Miscellaneous expenses	80	77	82	81
Cost of family consumption: Total [i]	6,774	6,505	6,924	6,863
Renter families	6,563	6,291	6,785	6,470
Homeowner families	6,845	6,577	6,970	6,994
Other costs	394	385	399	397
Gifts and contributions	234	225	239	237
Life insurance	160	160	160	160
Occupational expenses	80	80	80	80
Social security and disability payments	277	277	277	277
Personal taxes: Total [i]	908	780	1,118	920
Renter families	856	736	1,082	831
Homeowner families	925	795	1,130	950
Cost of budget: Total [i]	8,434	8,028	8,798	8,538
Renter families	8,170	7,769	8,624	8,056
Homeowner families	8,522	8,114	8,856	8,699

(*continued*)

South						
Dallas, Tex.	Durham, N.C.	Houston, Tex.	Nash-ville, Tenn.	Orlando, Fla.	Washing-ton, D.C.–Md.–Va.	Nonmetro-politan Areas [c]
2,021	1,961	2,039	1,964	1,988	2,135	1,925
1,700	1,687	1,710	1,677	1,687	1,819	1,675
321	275	329	287	302	316	250
1,891	2,016	1,794	2,021	1,961	2,325	1,676
1,714	1,628	1,535	1,604	1,696	1,841	1,452
1,951	2,145	1,880	2,160	2,050	2,487	1,751
1,421	1,549	1,310	1,529	1,477	1,833	1,188
1,243	1,161	1,051	1,112	1,212	1,349	964
1,480	1,678	1,397	1,668	1,566	1,995	1,263
254	267	263	263	269	255	254
217	200	221	229	215	237	234
821	804	860	832	827	823	810
821	804	860	832	827	856	810
187	162	199	183	198	204	–
702	715	686	741	696	733	671
162	169	157	171	165	170	169
180	181	176	192	178	186	162
162	165	161	166	155	163	156
131	133	128	147	131	142	123
67	68	64	66	68	71	60
214	207	216	207	199	221	187
478	444	466	427	433	464	394
190	213	166	173	165	204	169
88	89	89	78	94	93	65
309	263	306	274	269	283	256
734	690	733	736	716	718	648
66	66	69	68	68	70	40
304	314	306	299	300	321	282
60	60	60	60	60	60	35
150	97	149	142	134	113	143
73	72	68	85	73	66	73
81	81	81	82	81	88	75
6,861	6,838	6,794	6,928	6,820	7,419	6,310
6,683	6,450	6,534	6,511	6,555	6,935	6,086
6,921	6,967	6,880	7,067	6,908	7,581	6,385
397	396	395	400	396	417	378
237	236	235	240	236	257	218
160	160	160	160	160	160	160
80	80	80	80	80	80	80
277	277	277	277	277	277	277
856	1,115	841	867	843	1,188	810
819	1,005	788	781	789	1,061	757
868	1,152	859	896	861	1,231	827
8,472	8,707	8,387	8,552	8,416	9,381	7,855
8,257	8,209	8,074	8,049	8,097	8,770	7,578
8,544	8,873	8,491	8,719	8,523	9,585	7,947

(*continued*)

TABLE 35 (*concluded*)

Item	West		
	Bakersfield, Calif.	Denver, Colo.	Honolulu, Hawaii
Food	2,073	2,111	2,551
Food at home	1,761	1,797	2,216
Food away from home	312	314	335
Housing: Total	1,916	2,208	2,848
Renter families	1,525	1,775	2,376
Homeowner families	2,046	2,352	3,005
Shelter: Total [d]	1,430	1,709	2,256
Rental costs [e]	1,039	1,276	1,784
Homeowner costs [f]	1,560	1,853	2,413
Housefurnishings	293	267	314
Household operations	193	232	278
Transportation: Total [g]	894	860	993
Automobile owners	894	860	993
Nonowners of automobiles	193	204	170
Clothing	769	787	737
Husband	173	183	171
Wife	189	191	190
Boy	178	180	169
Girl	155	156	134
Clothing materials and services	75	77	73
Personal care	218	220	222
Medical care: Total	542	476	469
Insurance [h]	262	247	224
Physician's visits	91	84	90
Other medical care	338	286	282
Other family consumption	691	701	806
Reading	61	64	70
Recreation	305	297	354
Education	60	60	60
Tobacco	107	125	137
Alcoholic beverages	74	69	83
Miscellaneous expenses	84	87	102
Cost of family consumption: Total [i]	7,103	7,363	8,626
Renter families	6,712	6,930	8,155
Homeowner families	7,233	7,507	8,783
Other costs	406	415	458
Gifts and contributions	246	255	298
Life insurance	160	160	160
Occupational expenses	80	80	80
Social security and disability payments	351	277	277
Personal taxes: Total [i]	981	1,100	1,748
Renter families	890	990	1,578
Homeowner families	1,011	1,137	1,805
Cost of budget: Total [i]	8,921	9,235	11,190
Renter families	8,439	8,692	10,548
Homeowner families	9,082	9,416	11,404

West				
Los Angeles–Long Beach, Calif.	San Diego, Calif.	San Francisco–Oakland, Calif.	Seattle–Everett, Wash.	Nonmetropolitan Areas[c]
2,100	2,032	2,188	2,268	2,037
1,739	1,686	1,824	1,900	1,786
361	346	364	367	251
2,164	2,211	2,408	2,314	2,023
1,862	1,715	2,092	1,993	1,698
2,265	2,377	2,513	2,420	2,132
1,698	1,736	1,919	1,811	1,508
1,396	1,240	1,603	1,491	1,182
1,799	1,902	2,024	1,918	1,616
280	289	286	266	274
186	186	203	236	242
873	900	896	923	847
910	900	936	923	847
172	238	148	205	–
794	766	819	827	782
172	164	177	183	193
198	191	201	195	178
179	180	180	188	192
159	158	168	173	142
86	72	93	89	77
231	215	253	236	209
626	579	550	495	441
262	262	207	203	205
118	100	110	96	72
395	367	351	312	281
725	702	745	758	669
72	73	72	69	46
324	301	333	304	307
60	60	60	60	35
107	107	114	157	134
73	73	73	76	64
89	88	93	93	83
7,514	7,405	7,860	7,821	7,008
7,212	6,909	7,544	7,501	6,683
7,615	7,571	7,965	7,928	7,117
420	416	432	430	402
260	256	272	270	242
160	160	160	160	160
80	80	80	80	80
351	351	351	277	277
1,080	1,054	1,164	1,057	1,158
1,010	938	1,090	991	1,066
1,104	1,092	1,188	1,079	1,188
9,445	9,307	9,886	9,665	8,925
9,072	8,694	9,496	9,279	8,508
9,569	9,511	10,017	9,794	9,065

Notes to Table 35 on following page.

those of specified budget-type family. The revised scale, which is based upon the Bureau's Survey of Consumer Expenditures, 1960–61, is presented in Table 36.[21] Like a number of preceding such scales, it is based primarily on the inference drawn from repeated field studies that families spending the same proportion of income on food have attained equal levels of living. The Bureau had found the same relation between food expenditures and income in the eight preceding consumer-expenditure surveys it had conducted since 1888.[22] In Table 37

[21] See "Estimating Equivalent Incomes or Budget Costs by Family Type," *Monthly Labor Review,* November 1960.

[22] *Ibid.; Workers' Budgets in the United States: City Families and Single Persons, 1946 and 1947,* Bureau of Labor Statistics, Bulletin 927, 1948. See also Dorothy S. Brady, "Family Saving, 1888–1950," in *A Study of Saving in the United States,* Princeton University Press, 1956, Part II, pp. 149–156; Eleanor M. Snyder, "The Impact of Long-Term Structural Changes on Family Buying and Saving: 1888–1950," in *Consumer Behavior,* New York, 1958; Milton Friedman, "A Method of Comparing Incomes of Families Differing in Composition," *Conference on Research in Income and Wealth,* Vol. 15, NBER, 1952; S. J. Prais and S. H. Houthakker, *The Analysis of Family Budgets,* New York, 1955; and Robert Morse Woodbury, "Economic Consumption Scales and Their Uses," *Journal of the American Statistical Association,* December 1944, pp. 455–468.

Notes to Table 35

NOTE: Because of rounding, sums of individual items may not equal totals.

SOURCE: Bureau of Labor Statistics, *City Worker's Family Budget for a Moderate Living Standard,* Autumn 1966.

[a] The family consists of an employed husband, aged 38, a wife not employed outside the home, an 8-year-old girl, and a 13-year-old boy.

[b] For a detailed description, see the 1967 edition of the *Standard Metropolitan Statistical Areas,* prepared by the Bureau of the Budget.

[c] Places with population of 2,500 to 50,000.

[d] The average costs of shelter were weighted by the following proportions: 25 per cent for families living in rented dwellings, 75 per cent for families living in owned homes.

[e] Average contract rent plus the cost of required amounts of heating fuel, gas, electricity, water, specified equipment, and insurance on household contents.

[f] Interest and principal payments plus taxes; insurance on house and contents; water, refuse disposal, heating fuel, gas, electricity, and specified equipment; and home repair and maintenance costs.

[g] The average costs of automobile owners and nonowners were weighted by the following proportions of families: Boston, Chicago, New York, and Philadelphia, 80 per cent for automobile owners, 20 per cent for nonowners; Baltimore, Cleveland, Detroit, Los Angeles, Pittsburgh, San Francisco, St. Louis, and Washington, D.C., with 1.4 million of population or more in 1960, 95 per cent for automobile owners and 5 per cent for nonowners; all other areas, 100 per cent for automobile owners.

[h] The average costs of hospitalization and surgical insurance (as a part of total medical care) were weighted by the following proportions: 30 per cent for families paying full cost of insurance; 26 per cent for families paying half cost; 44 per cent for families covered by noncontributory insurance plans (paid for by employer).

[i] The total represents the weighted average costs of renter families (25 per cent) and owner families (75 per cent).

TABLE 36

Scale of Equivalent Income for City Families of Different Size, Age, and Composition (per cent of base-family income)[a]

Size and Type of Family	Age of Head: Under 35	35–54	55–64	65 or Over
One person	35	36	32	28
Two persons:				
Husband and wife	49	60	59	51
One parent and child	40	57	60	58
Three persons:				
Husband, wife, child under 6	62	69	–	–
Husband, wife, child 6–15	62	82	88	81
Husband, wife, child 16–17	–	83	88	–
Husband, wife, child 18 and over	–	82	85	77
One parent, 2 children	67	76	82	75
Four persons:				
Husband, wife, 2 children (older under 6)	72	80	–	–
Husband, wife, 2 children (older 6–15)	77	100	105	95
Husband, wife, 2 children (older 16–17)	–	113	125	–
Husband, wife, 2 children (older 18 or more)	–	96	110	89
One parent, 3 children	88	96	–	–
Five persons:				
Husband, wife, 3 children (oldest under 6)	87	97	–	–
Husband, wife, 3 children (oldest 6–15)	96	116	120	–
Husband, wife, 3 children (oldest 16–17)	–	128	138	–
Husband, wife, 3 children (oldest 18 or over)	–	119	124	–
One parent, 4 children	108	117	–	–
Six or more persons:				
Husband, wife, 4 or more children (oldest under 6)	101	–	–	–
Husband, wife, 4 or more children (oldest 6–15)	110	132	140	–
Husband, wife, 4 or more children (oldest 16–17)	–	146	–	–
Husband, wife, 4 or more children (oldest 18 or over)	–	149	–	–
One parent, 5 or more children	125	137	–	–

SOURCE: Bureau of Labor Statistics, "Revised Equivalence Scale: For Estimating Income and Budget Costs by Family Type," 1967.

[a] The scale values shown in this table are the percentages of the income of the base family (4 persons—husband, age 35–54, wife, 2 children, older 6–15 years) required to provide the same level of living for city families of different size, age, and composition.

TABLE 37

Equivalent Income Scales from Five Studies
(specified 4-person family = 100)

Size and Type of Family	BLS 1967 Scale [a] (1)	BLS 1960 Scale [a] (2)	WPA Mainte-nance Budget [b] (3)	Adequacy of Diets 1935–36 [c] (4)	Amounts of Savings, 1935–36, 1941, 1944 [d] (5)
One person	36	50	–	–	46
Two persons		–	–	65	66
Married couple	60	66	67	–	–
Three persons		–	–	84	84
Married couple, 1 child 6–15	82	87	–	–	–
Married couple, boy 13		–	87	–	–
Four persons		–	–	100	100
Married couple, 2 children, older 6–15	100	100	–	–	–
Married couple, boy 13, girl 8		–	100	–	–
Five persons		–	–	115	114
Married couple, 3 children, oldest 6–15	116	120	–	–	–
Married couple, boy 13, girl 8, child 6		–	114	–	–
Six persons		–	–	129	127
Married couple, 4 or more children, oldest 6–15	132	137	–	–	–
Married couple, boy 13, girl 8, 2 children 4 and 6		–	128	–	–

SOURCE: Bureau of Labor Statistics, "Estimating Equivalent Income or Budget Costs by Family Type," *Monthly Labor Review*, and *Revised Equivalence Scale: for Estimating Income and Budget Costs by Family Type*, 1967.

[a] Age of head, 35–54 years.

[b] Lelia M. Easson and Edna C. Wentworth, "Techniques for Estimating the Cost of Living at the WPA Maintenance Level for Families of Different Composition," in *Social Security Bulletin*, March 1947, p. 12. Scales calculated from costs of WPA Maintenance Budget in St. Louis, June 15, 1941; age of head, 36–47 years.

[c] BLS Bull. 927, *op. cit.*, p. 51. Scale used in connection with the original City Worker's Family Budget. Based on per cent of families with adequate diets by income, 1935–36; age of head and family composition not specified.

[d] *Ibid.* Based on per cent of income saved by families of different size; age of head and family composition not specified.

the scale values of the Bureau's most recent study are compared with those of four earlier studies that differ in varying degree and methodology and in criteria of equivalents. The five scales show considerable similarity, except that the most recent one shows sharply lower relative values for smaller families than its immediate predecessor.

As may be seen in Tables 36 and 37, the most recent scale of equivalent income for city families of different types indicates that the total cost of family consumption components (but not including income and social security taxes, occupational expenses, gifts, and life insurance premiums, which could be calculated separately) for a married couple headed by a man aged 35 to 54 years, would be about 60 per cent of that for the four-person budget-type family; for a three-person family consisting of parents in this age range and a child between 6 and 15 years, 82 per cent; and for a five-person family with the eldest child between 6 and 15, 116 per cent. A comparable budget for a single person aged 35 to 54 was estimated at 36 per cent of that for the four-person budget-type family, and for one under 35, at 35 per cent. These costs are for families with one earner.

Although the standard version of the City Worker's Family Budget offers a useful approach to empirical content for one or both of the Royal Commission's concepts of more generous exclusion limits, it is not designed to provide such a limit directly. Rather it is designed for an adequate level of living, by prevailing standards, for the family of a worker who is well-advanced in his trade or profession, probably close to the peak of his earning capacity, a relatively successful participant in his community's economic and social life, one who is able to pay his share of a widely based income tax. Such taxpaying ability is presumably also true of individuals and families whose age and family composition differ from those of the budget-type family, but who have relatively equivalent incomes according to the scale of equivalence developed by the BLS.

The gross money income of its average budget-type family in 1966 was estimated at $11,000 by the BLS. This may be compared with a median money income of $8,700 for all families in the United States with heads working full-time, according to the Census Bureau.[23] The median income of families with one earner, the head working full-time, was $7,463; families with two earners, including a head working full-time,

[23] *Current Population Reports,* Series P-60, No. 2, August 1967.

had a median income of $9,219; it took three or more earners to produce a median family income exceeding $11,000.[24]

Acknowledging that its new standard budget was not currently appropriate for governmental programs designed to maintain minimum satisfactory income levels, the BLS announced its intention to develop and publish a family budget "representing the minimum of adequacy . . . without compromising the family's physical health or self respect as members of the community.[25] Pending the appearance of this minimum budget, it may be of interest to assume that its general character (though not necessarily its details) may well resemble that of the 1959 *standard* budget, with costs adjusted upward to reflect the rise in consumer prices between 1959 and 1966. In a period of rapid economic growth, it does not seem unreasonable to suppose that a "modest but adequate" level of living for a successful city worker and his family in one decade may become one "representing a minimum of adequacy" a decade or more later. A summary of the total budget requirements and the principal components for each of the twenty cities covered in the 1959 standard budget, unadjusted for the rise in consumer prices and social security tax rates, is shown in Table 38.

For individuals and families differing in age and family composition from the specified budget-type family, a scale of equivalent incomes reflecting the consumption levels embodied in the 1959 standard budget would appear to be more relevant than the scale appropriate for the 1966 revision. As may be seen in column 2 of Table 37, the 1960 scale of equivalent incomes for a family consisting only of husband and wife aged 35 to 55 years, would be about 66 per cent of that for the four-person budget-type family; for a three-person family consisting of parents in this age range and a child between 6 and 15 years, 87 per cent, and for a five-person family with the eldest child between 6 and 15, 120 per cent. A comparable budget for a single person aged 35 to 55 was estimated at 50 per cent of that for a four-person budget-type family, and for one under 35, at 42 per cent. These costs are for families with one earner.

The difficulties of closely relating the personal exemptions to the cost of living, which were discussed earlier in this chapter, apply no less to exclusion limits. The 1959 cost of the "modest but adequate"

[24] *Ibid.*

[25] *City Worker's Family Budget for a Moderate Living Standard,* Autumn 1966, p. vii.

scale of living of the city worker's family, exclusive of personal taxes, was nearly $1,000 greater in Chicago than in Houston. Basing the exclusion limit on an average, though no doubt defensible on practical grounds, would not allow workers' families in high-cost cities to attain the standard sought, and would be overgenerous to those living in low-cost places. Nevertheless, it should be of interest to estimate the limits that would be needed, and some of the revenue consequences, to exclude from income tax all persons with adjusted gross incomes less than or only equal to those required, on the basis of the average for the twenty cities and for the standard of living described (with costs adjusted for 1966 consumer prices and personal taxes). The required exclusion limits for different-sized family units may be very roughly approximated by (1) removing the average amount allocated for personal and social security taxes from the twenty-city average budget requirement for the four-person family,[26] (2) applying the 1960 scale of the Bureau of Labor Statistics for deriving the analogous budget requirements of families of different size,[27] (3) adding the assumptions that the same scale may be applied to costs other than for goods, services, and personal taxes, and to families whose members differ in age from the ages given, (4) raising the amounts so derived by the rise in the Consumer's Price Index between 1959 and 1966, and (5) adding an amount for social security taxes at 4.2 per cent. Rounding the figures to the nearest $50, the exclusion limits would be: for a single individual, $2,850; for the joint return of a married couple without dependents, $4,050 ($2,025 each for separate returns); for persons with dependents, an additional $1,300 for the first dependent and $800 each for others.[28]

[26] In effect this procedure implies that the average amount allocated for personal taxes was solely for federal income tax, whereas some of it represented state and city personal taxes.

[27] Except that, for single persons, we use 46 per cent, the average of the three age scales for single persons under 65 years of age.

[28] The 1960 BLS scale actually indicates that, although a couple's second child or other dependent would add only about 62 per cent as much to a family's living costs as the first, a third child, because of a change in the assumed age distribution of the children, would add about 54 per cent more than the second. We have assumed that a couple's third and succeeding dependents would add only the same amount as a second. We have also assumed that an unmarried head of a household would be entitled to the same exclusion limits as a married couple with one less dependent.

TABLE 38

Components of Annual Costs of the City Worker's Family Budget,[a] Twenty Large Cities, Autumn 1959
(dollars)

Item	Atlanta	Baltimore	Boston	Chicago	Cincinnati	Cleveland	Detroit	Houston	Kansas City	Los Angeles
Food and beverages [b]	1,514	1,525	1,857	1,751	1,734	1,695	1,761	1,486	1,631	1,747
Food at home	1,261	1,294	1,601	1,498	1,463	1,431	1,506	1,256	1,413	1,487
Food away from home	176	174	191	197	212	205	193	173	168	191
Housing	1,402	1,259	1,478	1,632	1,448	1,440	1,300	1,192	1,370	1,445
Rent, heat, and utilities [c]	1,151	1,004	1,240	1,386	1,203	1,191	1,040	941	1,117	1,176
Housefurnishings	200	203	189	195	195	199	209	201	203	213
Household operation	51	52	49	51	50	50	51	50	50	54
Clothing	532	571	549	584	540	598	570	506	560	545
Husband	136	133	139	143	135	144	141	131	136	133
Wife	158	166	151	168	155	167	161	145	160	156
Boy	93	107	96	100	93	105	96	86	99	94
Girl	102	118	111	116	103	125	115	95	109	105
Clothing materials and services	43	47	52	57	54	57	57	49	56	57
Medical care	269	278	322	314	265	349	353	309	299	424
Transportation [d]	459	524	417	568	484	511	486	467	525	501
Automobile owners	563	638	714	696	584	628	586	569	637	620
Nonowners of automobiles	129	163	143	164	168	141	167	144	171	124
Other goods and services	664	693	711	758	692	712	731	662	705	663
Reading and recreation	207	213	226	239	219	235	232	199	215	214
Personal	130	125	125	148	131	133	138	122	137	138
Tobacco	89	93	91	85	86	85	86	98	84	81
Public school expense	10	10	10	20	20	15	35	20	35	10
Communications	78	102	94	92	76	80	79	80	77	55
Gifts and contributions	113	113	124	130	120	123	121	107	118	124
Miscellaneous	37	37	41	44	40	41	40	36	39	41
Total cost of goods and services	4,840	4,850	5,334	5,607	5,163	5,305	5,201	4,622	5,090	5,325
Other costs [e]	258	258	258	258	258	258	258	258	258	294
Personal taxes	544	610	725	702	679	636	613	490	616	666
Estimated total cost of budget	5,642	5,718	6,317	6,567	6,100	6,199	6,072	5,370	5,964	6,285

Item	Minneapolis	New York	Philadelphia	Pittsburgh	Portland, Oregon	St. Louis	San Francisco	Scranton	Seattle	Washington, D.C.
Food and beverages [b]	1,647	1,853	1,825	1,889	1,746	1,694	1,795	1,758	1,844	1,684
Food at home	1,400	1,594	1,583	1,603	1,472	1,465	1,533	1,513	1,548	1,447
Food away from home	187	198	179	231	208	176	193	185	227	181
Housing	1,393	1,260	1,203	1,275	1,306	1,543	1,348	1,127	1,568	1,470
Rent, heat, and utilities [c]	1,150	1,013	954	1,012	1,046	1,298	1,079	871	1,293	1,226
Housefurnishings	193	197	197	209	209	193	213	208	220	195
Household operation	50	50	52	54	51	52	56	48	55	49
Clothing	580	551	546	567	565	542	570	558	567	554
Husband	139	137	131	135	139	129	137	140	144	137
Wife	163	154	152	162	160	156	164	152	160	160
Boy	98	94	92	95	100	92	97	100	97	97
Girl	120	112	113	119	106	107	110	122	107	109
Clothing materials and services	60	54	58	56	60	58	62	44	59	51
Medical care	382	282	316	321	321	297	397	250	365	304
Transportation [d]	484	404	384	523	553	531	537	478	517	517
Automobile owners	591	715	650	634	675	646	672	588	636	634
Nonowners of automobiles	145	117	139	174	165	168	110	132	142	148
Other goods and services	679	698	696	689	691	664	694	663	741	670
Reading and recreation	207	225	221	216	212	194	225	227	219	212
Personal care	130	118	133	135	136	131	150	122	144	127
Tobacco	87	92	88	88	68	85	85	87	94	75
Public school expense	20	15	20	10	35	10	10	10	20	10
Communications	75	92	80	77	80	80	59	68	90	85
Gifts and contributions	120	117	116	122	120	123	124	112	130	121
Miscellaneous	40	39	38	41	40	41	41	37	44	40
Totat cost of goods and services	5,165	5,048	4,970	5,264	5,182	5,271	5,341	4,834	5,602	5,199
Other costs [e]	258	273	258	258	258	258	294	258	258	258
Personal taxes	758	649	670	677	782	737	669	601	702	690
Estimated total cost of budget	6,181	5,970	5,898	6,199	6,222	6,266	6,304	5,693	6,562	6,147

SOURCE: U.S. Bureau of Labor Statistics, *Monthly Labor Review*, August 1960.

[a] The family consists of an employed husband, aged 38, a wife not employed outside the home, an 8-year-old girl and a 13-year-old boy.

[b] Includes alcoholic beverages.

[c] Average contract rent for tenant-occupied dwellings that conform to the housing standards specified for the budget plus the cost of required amounts of heating fuel, gas, electricity, water, and specified equipment.

[d] Weighted average costs of automobile owners and nonowners.

[e] Includes allowances for life insurance, occupational expenses, federal old-age and survivors' insurance, and employee contributions to disability insurance as required by state law in California and New York.

The tabulations of data from tax returns by adjusted gross income classes, marital status, and number of dependents in the Treasury Department's *Statistics of Income* for 1965, enable us to estimate some of the effects of introducing these exclusion limits while retaining the existing personal exemptions for those with incomes above the exclusion limits. In the absence of any other changes, the number of taxable returns would have been reduced by about 17.5 million, or about 32.5 per cent, and the total amount of adjusted gross income on taxable returns by close to 15 per cent. Although the direct loss in revenue from the returns newly made nontaxable would have been less than might be supposed, it would nevertheless have been substantial: about $3.3 billion. Unlike an increase in the personal exemptions proper, which would reduce tax liabilities at all income levels, an enlargement of the exclusion limits alone would not diminish the tax liabilities of persons with incomes exceeding the new limits. Hence the direct revenue cost of raising the exclusion limits would be much smaller than that of a similar increase in the "continuing" personal exemptions. The *total* revenue costs of raising the exclusion limits to the levels noted above would doubtless have exceeded this figure materially. Congress would have found it necessary to make substantial downward adjustments, presumably through "notch" provisions, in the effective tax rates and tax liabilities of persons with incomes moderately above the exclusion limits because the regular tax rates would otherwise have reduced the after-tax incomes of many of them below the exclusion limits and would have imposed very high marginal tax rates on others. Without such "notch" provisions, for example, a single person with an adjusted gross income of $3,000 would have had his after-tax income reduced below the $2,850 exclusion limit, and one with $3,300 adjusted gross income would have ended up, after paying his income tax, with only $64 more income than if he had received $450 less before tax, assuming the minimum standard deduction in each case. In other words, the latter individual would have been subject to an effective tax rate of 86 per cent on the $450 he received in excess of the exclusion limit, unless Congress provided relief through some form of "notch" provision. Because of the large differences between the amount of the personal exemptions and the exclusion limits needed to protect the cost of the "modest but adequate" city worker's budget from tax, and because of the heavy concentration of tax returns and income in this area, "notch" adjustments that would provide a reasonable degree of relief to the taxpayers moderately above such exclusion limits would have entailed a significant revenue cost.

For illustrative purposes we might assume that the notch relief took the form of a provision that the maximum tax payable by any taxpayer with an adjusted gross income less than $9,300 shall in no case exceed one-half of the difference between his adjusted gross income and the exclusion limit applicable for the number of his ordinary exemptions. The effects of these exclusion limits coupled with this notch provision for various incomes and family sizes are shown in Table 39. It will be noted that, despite the 50 per cent marginal rate of tax on increments of income within the range of the notch adjustment, a smooth graduation of the total effective tax rates—tax liability as a percentage of adjusted gross income—is maintained, starting at less than 1 per cent. The revenue cost of this notch relief would have added about $1.3 billion to the revenue cost of the exclusion limits, bringing the total cost to $4.6 billion.

7. STANDARDS USED IN PUBLIC ASSISTANCE TO THE NEEDY AS A GUIDE TO EXCLUSION LIMITS

Quite different from the standard of living contemplated by the "modest but adequate" city worker's budget is that suggested by the Royal Commission's first alternative of "one sufficient for bare subsistence," which we may amend to read, "the minimum standard tolerable in the eyes of the community." For, as previously observed, the appropriate tests of minimum requirements in this connection are not physical ones, but are those that find expression in a community's behavior. For example: What level of living is so low relative to the prevailing social standards as to call forth remedial action by private and public charitable agencies?

A close approach to an objective, empirical measure of what American states currently regard as the minimum essentials of a tolerable standard of living is to be found in the budgets for basic needs used by public agencies in providing assistance to needy individuals and fam-

TABLE 39

Example of Notch Adjustment for Integrating Separate Exclusion Limits Based on BLS Budget with 1965–67 Tax Rates [a]

Adjusted Gross Income (dollars)	Amount of Tax Without Notch Adjustment (dollars)	Amount of Tax Under Notch Adjustment (dollars)	Effective Rate of Tax (per cent)
A. *Single Person (notch adjustment cut-off point: $3,772.05)*			
2,850	304	0	0
2,900	312	25	0.86
3,000	333	75	2.50
3,100	350	125	4.03
3,200	367	175	5.47
3,300	385	225	6.82
3,400	402	275	8.09
3,500	419	325	9.29
3,600	436	375	10.42
3,700	453	425	11.49
3,800	470	470	12.37
3,900	487	487	12.49
B. *Married Couple (notch adjustment cut-off point: $5,074.92)*			
4,050	365.00	0	0
4,100	372.00	25.00	.61
4,200	386.00	75.00	1.79
4,300	401.00	125.00	2.91
4,400	415.00	175.00	3.98
4,500	430.00	225.00	5.00
4,600	444.00	275.00	5.98
4,700	459.00	325.00	6.91
4,800	479.00	375.00	7.81
4,900	490.00	425.00	8.67
5,000	501.00	475.00	9.50
5,100	516.30	516.30	10.12
5,200	531.60	531.60	10.22

(*continued*)

TABLE 39 (*continued*)

Adjusted Gross Income (dollars)	Amount of Tax Without Notch Adjustment (dollars)	Amount of Tax Under Notch Adjustment (dollars)	Effective Rate of Tax (per cent)
C. *Couple with One Dependent (notch adjustment cut-off point, $6,665.66)*			
5,350	0	0	0
5,400	460.20	25.00	0.46
5,500	475.50	75.00	1.36
5,600	490.80	125.00	2.23
5,700	506.10	175.00	3.07
5,800	521.40	225.00	3.88
5,900	536.70	275.00	4.66
6,000	552.00	325.00	5.42
6,100	567.30	375.00	6.15
6,200	582.60	425.00	6.85
6,300	597.90	475.00	7.54
6,400	613.20	525.00	8.20
6,500	629.50	575.00	8.85
6,600	646.60	625.00	9.47
6,700	663.70	663.70	9.91
6,800	680.80	680.80	10.01
D. *Couple with Two Dependents (notch adjustment cut-off point, $7,534.96)*			
6,150	0	0	0
6,200	480.60	25.00	0.40
6,300	495.90	75.00	1.19
6,400	511.20	125.00	1.95
6,500	526.50	175.00	2.69
6,600	541.80	225.00	3.41
6,700	557.10	275.00	4.10
6,800	572.40	325.00	4.78
6,900	587.70	375.00	5.43
7,000	603.00	425.00	6.07
7,100	618.30	475.00	6.69
7,200	635.20	525.00	7.29
7,300	652.30	575.00	7.88
7,400	669.40	625.00	8.44
7,500	686.50	675.00	9.00
7,600	703.60	703.60	9.26
7,700	720.70	720.70	9.36

(*continued*)

TABLE 39 *(continued)*

Adjusted Gross Income (dollars)	Amount of Tax Without Notch Adjustment (dollars)	Amount of Tax Under Notch Adjustment (dollars)	Effective Rate of Tax (per cent)
E. *Couple with Three Dependents (notch adjustment cut-off point, $8,404.26)*			
6,950	0	0	0
7,000	501.00	25.00	0.36
7,100	516.30	75.00	1.06
7,200	531.60	125.00	1.74
7,300	546.90	175.00	2.40
7,400	562.20	225.00	3.04
7,500	577.50	275.00	3.67
7,600	592.80	325.00	4.28
7,700	618.10	375.00	4.87
7,800	623.80	425.00	5.45
7,900	640.90	475.00	6.01
8,000	658.00	525.00	6.56
8,100	675.10	575.00	7.10
8,200	692.20	625.00	7.62
8,300	709.30	675.00	8.13
8,400	726.40	725.00	8.63
8,500	743.50	743.50	8.75
8,600	760.60	760.60	8.84

(continued)

ilies. Under the Social Security Act, the federal government makes grants-in-aid to the states for the assistance of needy persons of specified types—the aged, the blind, the disabled, and children deprived of parental support or care. Each state determines the level of living that it will recognize as appropriate for determining an individual's eligibility for assistance. This is usually done on the basis of quantity-quality cost standards for specified consumption items. All states recognize food, clothing, shelter, fuel, and utilities as "basic" consumption items that are needed by every applicant for assistance. Most states also include among the basic requirements other items, such as per-

TABLE 39 (*concluded*)

Adjusted Gross Income (dollars)	Amount of Tax Without Notch Adjustment (dollars)	Amount of Tax Under Notch Adjustment (dollars)	Effective Rate of Tax (per cent)
F. *Couple with Four Dependents (notch adjustment cut-off point, $9,273.56)*			
7,750	0	0	0
7,800	518.00	25.00	0.32
7,900	535.00	75.00	0.95
8,000	552.00	125.00	1.56
8,100	567.30	175.00	2.16
8,200	582.60	225.00	2.74
8,300	597.90	275.00	3.31
8,400	613.20	325.00	3.87
8,500	629.50	375.00	4.41
8,600	646.60	425.00	4.94
8,700	663.70	475.00	5.46
8,800	680.80	525.00	5.96
8,900	697.90	575.00	6.46
9,000	715.00	625.00	6.94
9,100	732.10	675.00	7.42
9,200	749.20	725.00	7.88
9,300	766.30	766.30	8.24
9,400	783.40	783.40	8.33

NOTE: Based on 1965–67 tax rates and minimum standard deduction or 10 per cent standard deduction, whichever results in a smaller tax. Effect of a rule that tax on gross incomes of less then $9,300 not to exceed one-half the difference between the taxpayer's AGI and his exclusion limit.

sonal care, medicine chest supplies, and household supplies.[29] Some states recognize local price differentials, while others establish uniform costs for the specified items for use throughout the state. The difference between the amount of money needed to provide the level of living established under the state's standard and the amount of income

[29] Social Security Administration, *Monthly Cost Standards for Basic Needs Used by States for Specified Types of Old Age Assistance Cases and Families Receiving Aid to Families with Dependent Children, January 1965,* August 1965.

or other resources currently available to the applicant is defined as the latter's need; but in many states a maximum, or some other device, limits the actual amount of assistance payments to less than the determined need.[30]

This indicates that the budgeted figures provide a standard of living that is in some sense higher than "the tolerable mimimum." On the other hand, it may be contended that the minimum budgets arrived at by the responsible officials in a state's assistance programs constitute a more reliable measure of the "tolerable minimum" standard of living in the state than the sums actually made available by the state's legislature in any year, because the latter sums are greatly affected by the ups and downs of revenue receipts. Beyond this, it may be contended, of course, that the minimum standard of living appropriate for determining the amounts of public assistance to needy individuals is lower than that appropriate for fixing the minimum incomes to be subject to income tax.

In 1965, the Social Security Administration published a summary of data received in response to its request to all state public assistance agencies to provide information on the maximum amounts they budgeted for basic needs, as defined by the state, as of January 1965, for five specified types of cases. These cases, all of which were defined as eligible persons living by themselves in rented quarters, with no special needs and no income from sources other than public assistance, consisted of two from the old-age assistance program and three from the aid to families with dependent children program. The former included: (1) an aged woman living alone and keeping house, and (2) a couple keeping house alone. The aid to families with dependent children cases were (1) a family consisting of a mother aged 35, a boy aged 14, a girl aged 9, and a girl aged 4; (2) a family consisting of a mother aged 35 and a boy aged 5; and (3) a family consisting of an incapacitated father aged 40, a mother aged 35, a boy aged 11, and a girl aged 5.

We have summarized in Table 40 the annual amounts required to provide for basic needs as estimated by the states for each of the five types of cases. We show the average for fifty-one states, treating the

[30] Social Security Administration, *Initial Effects of the Public Assistance Amendments of Assistance Payments to Recipients, June 1959.*

TABLE 40

Annual Cost Standards for Basic Needs Used by States in Providing Assistance to Qualified Persons Under Federal-State Programs, Specified Types of Cases, January 1965

(dollars)

	State Cost Standards for Basic Needs			
Type of Case [a]	Average of 51 States [b]	Average of 17 Lowest States	Average of 17 Highest States	Average of 34 Highest States
Aged woman keeping house [c]	1,254	1,013	1,522	1,375
Aged couple keeping house [c]	1,864	1,495	2,301	2,049
Mother and 1 child [d]	1,570	1,281	1,902	1,715
Mother and 3 children [e]	2,432	1,939	2,944	2,678
Couple and 2 children [f]	2,418	1,931	2,931	2,662

NOTE: Figures have been rounded to nearest whole dollar.

SOURCE: Social Security Administration, *Monthly Cost Standards for Basic Needs Used by States for Specified Types of Old-Age Assistance Cases and Families Receiving Aid to Families with Dependent Children, January 1965*, August 1965. The monthly figures were multiplied by 12 to give annual figure.

[a] All types were for persons living in rented quarters.

[b] The District of Columbia is treated as a state.

[c] Old-age assistance program.

[d] Aid to dependent children program: mother age 35 and boy age 5.

[e] Aid to dependent children program: mother age 35, boy age 14, two girls of 9 and 4 years.

[f] Aid to dependent children program: incapacitated father age 40, mother age 35, boy of 11, and girl of 5.

District of Columbia as a state. We also show the averages for the seventeen lowest, the seventeen highest, and the thirty-four highest states.

Because of substantial variations among the states, cost standards for the basic needs of persons receiving public assistance can be used only as rough measures of the adequacy of the existing uniform nationwide exclusion limits for income tax liability. There is some presumption in favor of the average cost standards used by the most liberal, but sizable, group of states, since any lower exclusion limit would be inadequate by their standards. For a similar reason, there is some presumption against using an average of all fifty-one states because it would be depressed by the influence of the states with the lowest cost standards. To give some weight to these considerations and yet obtain conservative and widely representative figures, we have included in Table 40 the average of the thirty-four states with the highest cost standards, and have emphasized these somewhat over the other averages as criteria. An additional limitation of the figures for our purpose is that they represent the costs of the "basic needs" of highly specific types of individuals and families as respects age, family composition, and dependence upon public assistance, whereas we seek figures applicable to the general self-supporting population under 65 years of age. Hence, in applying the state cost standards for basic needs to the question of appropriate exclusion limits, we shall make some modest adjustments for employment-related expenses and social security taxes.

Married Couples Without Dependents

For an *aged* couple without dependents, keeping house in rented quarters, the state cost standards for basic needs ranged from an average of $1,495 in the seventeen lowest states to $2,301 in the seventeen highest states; the fifty-one-state average was $1,864. The present personal exemption of $2,400 for a man and wife, both of whom are 65 or more, coupled with the $600 minimum standard deduction applicable to them, provides an exclusion limit that is well in excess of any of these measures of basic needs.

But what about married couples under 65? The effective exclusion limit provided by their personal exemption of $1,200, plus $400 minimum standard deduction, is well below the state cost standards for basic needs of an aged couple. Does the available evidence indicate that the money income needed to meet the "basic needs" of married couples under 65 is significantly less than that for older couples, in the opinion of the state authorities that establish and administer the assistance program? The table does not deal directly with this question but it supplies indirect evidence that age itself is not a major influence in determining the basic needs of adults. Thus, the fifty-one-state average of $1,570 for the annual basic needs of a mother aged 35 and a son aged 5 is only $294 less than that for an aged couple; and the difference in the average for the thirty-four highest-cost states is only $334. Much or all of the difference in each case is reasonably attributable to the presumably larger requirements of an adult than of a boy of 5.[31] Similarly, the fifty-one-state average for a family consisting of an incapacitated man of 40, his wife, and two children, is only $554 greater than that for an aged couple without dependents; and in the average of the thirty-four highest-cost states, only $613 greater.

It may be observed in Table 36 that the most recent scale of equivalent income for city workers' families of different sizes, age, and composition, as developed by the Bureau of Labor Statistics from its survey of consumers' expenditures, indicates that married couples headed by a man between 35 and 64 years of age require *more* income for a similar level of living than couples headed by a man of 65 or over, and that couples headed by a man under 35 years of age require little less than those headed by a man of 65 years or over.

Evidence indicating that the basic needs of married couples under 65 are greater than those of aged couples, in the judgment of the public assistance authorities of at least one state, is to be found in the practices of New Jersey.[32] In revising its budgets for public assistance in 1956 and the years following, New Jersey divided adults into three activity groups for the purpose of determining monthly allowances for basic requirements exclusive of shelter. It established lower monthly allowances for adults with minimal activity than for those engaged in either moderate or strenuous activity. A married couple with minimal activity, presumably including most needy couples aged 65 or more, was allotted a monthly allowance of $96.80 for basic requirements exclusive of shelter; a couple engaged in moderate activity, a monthly allowance of $107.80; and one engaged in strenuous activity, a monthly allowance of $123. Adding the average monthly rent of $37, estimated by the authorities to be required in that state for an aged couple, and multiplying the monthly total by 12, we arrive at $1,606 as the annual amount needed for basic requirements for a couple engaged in minimal activity, $1,738 for one engaged in moderate activity, and $1,920 for

[31] In the schedule of "monthly allowances for basic requirements," exclusive of shelter, for public assistance cases in the state of New Jersey, the allowance for an adult is about 13 per cent greater than for a child of 9 in a two-person family. See Gertrude Lotwin, *A State Revises Its Assistance Standard,* Public Assistance Report No. 37, U.S. Department of Health, Education, and Welfare, 1959.

[32] *Ibid.*

one engaged in strenuous activity. It seems reasonable to conclude from the figures in Table 36 and the practices of New Jersey that the money income needed to meet the basic needs of married couples under 65, by the standards employed in the federal-state assistance programs, is, at the least, not notably less than that for older couples.

If this conclusion is reasonable, it would follow that, by the standards of the public assistance authorities in more than two-thirds of the states, the present personal exemption plus the minimum standard deduction (totaling $1,600) for married couples under 65 provides an exclusion limit lower than the income they need for their basic needs. It is $701 less than the average requirements for basic needs of aged couples in the seventeen highest-cost states, $449 less than these requirements in the average of the thirty-four highest-cost states, and $264 less than the fifty-one-state average for these requirements.

Further, a self-supporting family incurs some expenses that are absent from the budget for basic needs designed for a family receiving public assistance. At the minimum, provision must be made for social security tax deductions, and such employment expenses as union dues, transportation costs of getting to and from work, work clothes, etc. While absent or minor in many places, the cost of getting to and from work is a substantial item in populous urban areas. If we raised the average cost standard for basic needs of the thirty-four highest-cost states by 8.54 per cent for the rise in the Consumer Price Index in 1961–66, added $125 a year for transportation expense (50¢ a day, five days a week, fifty weeks a year), $100 for other employment-connected expenses, and then allowed for the 1966 social security tax on employees at the rate of 4.2 per cent, we would arrive at an aggregate amount of $2,556. It can be reasonably contended, therefore, that the average cost standards for basic needs employed by two-thirds of the states in providing public assistance for the needy, adjusted upward for work-related expenses and social security taxes, would support an exclusion limit of about $2,550 for married couples without dependents, without any allowance for a somewhat higher level of living for self-supporting couples than for those on relief.

Single Individuals

For a single aged woman keeping house and doing her own cooking in rented quarters, the state cost standards for basic needs ranged from an average of $1,013 in the seventeen lowest-cost states to $1,522 in the seventeen highest-cost states, with the fifty-one-state average at $1,254, and the average of the thirty-four highest-cost states at $1,375.

It may be observed in Table 36 that single persons under 65 years of age require substantially *more* income than older single persons. Similarly, as previously noted, the budget studies of the public assistance authorities of New Jersey indicate that the basic needs of more active adults are greater than those of less active ones, including the aged. It would appear, therefore, that the costs of supplying the basic needs of active single adults under 65 years of age are at least as great as, and probably somewhat greater than, those of older single persons. The present $900 effective exclusion limit for single persons under 65 is less than the average requirements for basic needs of an aged single woman by $622 in the seventeen highest-cost states, $475 in the thirty-four highest ones, and $354 as compared with the fifty-one-state average.

As in the case of married couples, self-supporting single persons must incur some expenses that are absent from the basic needs budget of a person receiving public assistance. If, to the average cost standards for basic needs of the thirty-four highest-cost states for an aged individual receiving public assistance, we added 8.54 per cent for the rise in the Consumer Price Index in 1961–66, $125 a year for transportation expense, $100 for other expenses directly or indirectly related to employment, and then allowed for social security taxes, we would arrive at $1,793. An exclusion limit of $1,800 for a single individual would be in keeping with these figures, without allowance for any higher level of living for a self-supporting person than for one on relief.

Three-Person Families

Cost standards for the basic needs of three-person families receiving public assistance were not included in the 1965 state reports to the Social Security Administration. Such standards may be crudely estimated from the figures supplied for other family units. Thus, measured by the average cost standards of the highest-cost thirty-four states, the basic requirements for two children of 11 and 5 years of age can be approximated by deducting the requirements of an aged couple from those of the four-person family headed by an incapacitated father, the amount derived in this fashion being $613. New Jersey's experience indicates that a first child adds about 10 per cent more to a family's basic requirements (other than shelter) than a second.[33] On this basis, $321 can be said to approximate the basic requirements of a single dependent in a three-person family—waiving differences arising from age and sex of the dependent. By adding this sum to the basic requirements of an aged couple (average of thirty-four highest-cost states), we arrive at $2,370 as an approximation of the needs of a three-person family before upward adjustments to take account of the rise in prices, employment-related costs, and social security taxes. Making these adjustments in the same manner as was detailed for married couples and single persons, we get $2,920 as the amount needed for the basic requirements of a three-person family by the average standards of the public assistance authorities in the thirty-four highest-cost states. This figure compares with the present effective exclusion limit of $2,300 for a three-exemption family.

Married Couple with Two Children

It will be observed (Table 40) that, for a four-person family consisting of an incapacitated father aged 40, a mother aged 35, and two children of 11 and 5, the state cost standards for basic needs ranged from an average of $1,931 in the seventeen lowest-cost states to $2,931 in the seventeen highest, with the fifty-one-state average at $2,418 and the average for the thirty-four highest-cost states at $2,662. Making the same adjustments as in the preceding cases to the thirty-four-state average of basic costs, we arrive at $3,250. The ordinary personal exemptions plus the minimum standard deduction amount to $3,000, or $250 less.

Other Family Sizes

For families of more than four persons, we surmise that the present effective exclusion limits provided by the personal exemptions and minimum standard deduction exceed the amounts required for basic needs, as reflected in the average state cost standards for public assistance in the thirty-four highest-cost states. Figures bearing directly on families composed of more than four persons were not included in the 1965

[33] *Ibid.*, p. 37.

report on state standards of the Social Security Administration. It may be seen in Table 40, however, that the average cost standards for basic needs in the thirty-four most liberal states are only $674 larger for an aged couple than for an aged single woman, and only $963 larger for a mother with three children than for a mother with one child—the additional costs being less in each case than the additional exclusion limit of $700 per exemption now provided (after the first and up to a total of eight). Further, the budgeting standards of public assistance authorities generally provide for smaller basic costs per person for larger than for smaller families.[34] It would appear, therefore, that no higher exclusion limits than those automatically provided by the present personal exemptions and the minimum standard deduction would be needed for families of more than four persons under present conditions, by the criterion of the average cost standards for public assistance cases in the thirty-four most liberal states.

The minimum requirements of self-supporting individuals and families as we have estimated them on the basis of the standards of basic needs employed by the states in their assistance programs for the needy fall between two alternative weighted average "indexes of poverty" in process of development by the Division of Research and Statistics of the Social Security Administration. Both these poverty indexes are based upon the costs of minimum but adequate food plans compatible with the food preferences of American families, as determined from field studies by the U.S. Department of Agriculture. The "low-cost plan" is adapted to the food consumption patterns of families in the lowest third of the income range; the "economy plan," costing 20 to 25 per cent less, is for "temporary or emergency use when funds are low." [35] An income less than three times the cost of the economy plan or, alternatively, the low-cost plan, for a family of three or more persons is designated a poverty income; for families of two, less than 3.7 times; and for a single person, less than 80 per cent of the required income of a couple under the economy standard and 72 per cent under the low-cost standard.[36] Separate poverty line incomes are computed for various combinations of adults and children, for the sex and age of the head in each family size, and for farm and nonfarm fam-

[34] *Ibid.*, for example.

[35] Mollie Orshansky, in *Social Security Bulletin*, December 1960.

[36] *Ibid.*

TABLE 41

Social Security Administration Poverty Income Criteria Compared with Exclusion Limits Based on State Assistance Standards, Nonfarm Families of One to Four Persons (dollars)

Number of Family Members [a]	Low-Cost Poverty Income Criterion [b]	Economy Criterion [b]	State Assistance Basis
1	1,970	1,650	1,793
2	2,740	2,065	2,556
3	3,170	2,455	2,920
4	4,010	3,130	3,251

SOURCE: Mollie Orshansky, "Counting the Poor: Another Look at the Poverty Profile," *Social Security Bulletin,* January 1965.

[a] Headed by a male under 65 years of age.

[b] Weighted average for families of different age composition.

ilies. In Table 41, the weighted averages of the poverty income criteria under each of the two plans for nonfarm families of one to four persons headed by a male under 65 are compared with the figures developed above from state assistance standards.

8. REVENUE EFFECTS OF EXCLUSION LIMITS APPROXIMATING THE BUDGET STANDARDS USED IN PUBLIC ASSISTANCE PROGRAMS

From the foregoing analysis it seems reasonable to conclude that the present per capita personal exemptions plus the minimum standard deduction do not exclude from income tax four classes of family units whose incomes are significantly lower than the amounts necessary to meet the average standards for basic needs employed by two-thirds of the states in providing assistance to needy individuals. These units include single persons with adjusted gross incomes of less than about $1,800; married couples with adjusted gross incomes of less than about $2,550; couples with one dependent and adjusted gross incomes less than about $2,900; and couples with two dependents and less than $3,250. In other words, the present effective exclusion limits are too low, by this standard, by $900 for single individuals, $950 for married couples, $600 for couples with one dependent, and about $250 for couples with two dependents.

These figures may well be regarded as too conservative because, as previously mentioned, the minimum standard of living for income tax liability may properly be higher than that used in determining the amounts of public assistance for the needy. For example, the basic costs from which these figures were derived do not include medical or dental expenses other than those for "medicine chest supplies," nor do they provide for even minimal church and other contributions. In fact, the exclusion limits that were derived from them would not affect the bulk of full-time workers. They would remove from the taxrolls single persons whose incomes average less than about $36 a week, married couples with incomes averaging less than about $51 a week, couples with three exemptions and less than about $58 a week, and couples with four exemptions and less than $65 a week. Probably the most important groups benefited would consist of some workers in unusually low-paid jobs, others who lose substantial working time through illness or unemployment, teenagers working part time, and persons living on modest amounts of investment income.

That some such exclusion limits would, in fact, be highly conservative, as compared with various other means of liberalizing the tax treatment of low-income groups (reviewed earlier in this chapter), is indicated by the relatively moderate revenue loss that they would have entailed had they been in force in 1965. We have estimated that, if complete exclusion from income tax liability had been enacted for single persons with adjusted gross incomes of $1,800 or less,[37] married couples with $2,550 or less, couples with one dependent and $2,900 or less, and couples with two dependents and $3,250 or less, without other change in the exemption provisions, the number of taxable returns would have been reduced by about 5.2 million out of the total of 54 million, and the amount of tax revenue, by about $349 million. Additional revenue loss would have resulted from the "notch" adjustment that

[37] Except that the exclusion limit would be $1,275 each for the separate returns of spouses who are living together, plus $350 extra for either (but not both) of such spouses who claim a dependent, and $350 more for each additional dependent. We have also assumed that an unmarried head of a household would be entitled to the same exclusion limit as a married couple with one less dependent.

TABLE 42

Example of Notch Adjustment for Integrating Separate Exclusion Limits Based on Public Assistance Standards with 1965–67 Tax Rates

Adjusted Gross Income (dollars)	Amount of Tax Without Notch Adjustment (dollars)	Amount of Tax Under Notch Adjustment (dollars)	Effective Rate of Tax (per cent)
A. *Single Person (notch adjustment cut-off point, $2,179.40)*			
1,800	132.00	0	0
1,825	136.00	12.50	0.68
1,850	139.00	25.00	1.35
1,875	143.00	37.50	2.00
1,900	147.00	50.00	2.63
1,925	151.00	62.50	3.25
1,950	155.00	75.00	3.85
1,975	159.00	87.50	4.43
2,000	163.00	100.00	5.00
2,025	167.00	112.50	5.56
2,050	171.00	125.00	6.10
2,075	175.00	137.50	6.63
2,100	179.00	150.00	7.14
2,125	183.00	162.50	7.65
2,150	187.00	175.00	8.13
2,175	191.00	187.50	8.62
2,200	195.00	195.00	8.86
2,225	199.00	199.00	8.94

(continued)

Congress would doubtless have found desirable for incomes moderately above the exclusion limits. Such an adjustment could conceivably take the form of a provision that the tax liability of a person with an adjusted gross income of less than $3,400 should not, in any event, exceed one-half of the difference between his adjusted gross income and the exclusion limit applicable to the number of his ordinary exemptions. The notch adjustment could be incorporated directly into the present tax tables for taxpayers not claiming exemptions for age, blindness, or

TABLE 42 *(continued)*

Adjusted Gross Income (dollars)	Amount of Tax Without Notch Adjustment (dollars)	Amount of Tax Under Notch Adjustment (dollars)	Effective Rate of Tax (per cent)
B. *Married Couple (notch adjustment cut-off point, $2,928.57)*			
2,550	135.00	0	0
2,575	138.00	12.50	0.48
2,600	142.00	25.00	0.96
2,625	146.00	37.50	1.43
2,650	149.00	50.00	1.89
2,675	153.00	62.50	2.34
2,700	157.00	75.00	2.78
2,725	161.00	87.50	3.21
2,750	164.00	100.00	3.64
2,775	168.00	112.50	4.05
2,800	172.00	125.00	4.46
2,825	176.00	137.50	4.87
2,850	179.00	150.00	5.26
2,875	183.00	162.50	5.65
2,900	187.00	175.00	6.03
2,925	191.00	187.50	6.41
2,950	194.00	194.00	6.58
2,975	198.00	198.00	6.66

(continued)

head of family status, thereby avoiding additional calculations for the vast majority of the affected taxpayers; separate tables would be needed for the others.

Such a notch provision would prevent incomes moderately above the exclusion limits from being reduced below them by the income tax, and would reduce the effective tax rates on such incomes so as to graduate the integration of the exclusion limits with the regular tax schedule. Thus, as is shown in Table 42, the tax of a single person with adjusted gross income of $1,825, or of a couple with $2,575, or of one with a dependent and $2,925, or of one with two dependents and $3,275, for

TABLE 42 (*concluded*)

Adjusted Gross Income (dollars)	Amount of Tax Without Notch Adjustment (dollars)	Amount of Tax Under Notch Adjustment (dollars)	Effective Rate of Tax (per cent)
C. *Couple with One Dependent (notch adjustment cut-off point, $3,133.33)*			
2,900	86.00	0	0
2,925	89.00	12.50	0.43
2,950	93.00	25.00	0.85
2,975	96.00	37.50	1.26
3,000	102.00	50.00	1.67
3,025	102.00	62.50	2.07
3,050	109.00	75.00	2.46
3,075	109.00	87.50	2.84
3,100	116.00	100.00	3.22
3,125	116.00	112.50	3.60
3,150	123.00	123.00	3.90
3,175	123.00	123.00	3.87
D. *Couple with Two Dependents (notch adjustment cut-off point, $3,347.22)*			
3,250	39.00	0	0
3,275	39.00	12.50	0.38
3,300	46.00	25.00	0.76
3,325	46.00	37.50	1.13
3,350	53.00	53.00	1.58
3,375	53.00	53.00	1.57

NOTE: Based on 1965–67 tax rates and minimum standard deduction or 10 per cent standard deduction, whichever results in a smaller tax. Effect of a rule that tax liability on an AGI of less than $3,400 shall not exceed one-half of the difference between the taxpayer's AGI and his exclusion limit.

example, could not then exceed $12.50. The tax relief provided by the illustrative notch provision would rapidly but smoothly diminish until it vanished at adjusted gross incomes above $2,179 for a single person, $2,929 for a married couple, $3,133 for a couple with one dependent, and $3,347 for a couple with two dependents. We have estimated that such a notch adjustment would have added about $117 million to the revenue loss, making the total about $466 million.

Exclusion limits of the kind just illustrated, based upon adjusted gross income, have the merit that their scope and rationale are easily understood, and their coverage is restricted to persons for whom state assistance standards, conservatively interpreted, provide strong ground for relief. But other forms of possible exclusion limits also offer attractive features. Such limits could be defined in terms of *taxable* income, so called—the amount remaining after the personal exemptions and nonbusiness deductions are subtracted from adjusted gross income. In that case they could be so set as to cover precisely the same range of adjusted gross incomes in relation to family size, for persons subject to the minimum standard deduction, that we derived from state public assistance standards; and, in addition, to cover persons with larger adjusted gross incomes whose itemized nonbusiness deductions, perhaps because of abnormally heavy medical expenses, are sufficient to bring their taxable incomes down within the range of the taxable income exclusion and notch adjustment limits. For example, the exclusion from income tax of all single persons with AGI of $1,800 or less could be accomplished by a rule excluding single persons with *taxable* income of $900 or less: a single person's AGI of $1,800 is reduced to $900 of *taxable* income by the subtraction of his personal exemption of $600 and his minimum standard deduction of $300. Similarly, an exclusion limit of $950 of *taxable* income for married couples without dependents, of $600 for those with one dependent, and of $250 for those with two dependents, would free from tax all who would be freed by AGI exclusion limits of $2,550, $2,900, and $3,250, respectively, for these groups. Some additional persons in each of these family-size groups would be brought into the range of affected incomes by itemized nonbusiness deductions in excess of their minimum standard deductions. A notch adjustment, designed for the purposes previously explained, might take some such form as that previously illustrated.

The absence of an exclusion limit for married couples with more than two dependents, and the provision of lower limits for couples with two dependents than for those with one or none, would reflect the relatively more generous personal exemptions and minimum standard deduction that they already enjoy. Nevertheless the rationale of this treatment might not be widely understood, and many persons would doubtless regard the treatment as perverse and unwarranted.

A form of possible exclusion limits that would lessen or avoid this difficulty and yet achieve substantially the same ends would be one based upon adjusted gross income minus only the nonbusiness deductions, including the minimum standard deduction. This form could be made applicable to families of all sizes by giving larger families the same exclusion limit as that of couples with two dependents. The perverse-appearing provision of lower exclusion limits for larger families than for smaller would be avoided. In this form, exclusion limits corresponding to those at which we arrived from the standards used in state public assistance programs would be $1,500 for single persons, $2,150 for married couples, $2,400 for couples with one dependent, and $2,650 for couples with two or more dependents. These figures assume a minimum standard deduction of $300, $400, $500, and $600, respectively, for these classes of taxpayers. The effective, though not the nominal, exclusion limits would be somewhat higher for taxpayers with itemized deductions exceeding their minimum standard deduction and for couples with more than two dependents; the latter enjoy an extra $100 minimum standard deduction for each dependent.

9. THE MINIMUM STANDARD DEDUCTION AS AN EXCLUSION DEVICE

As a means of taking account of the rise in the cost of living and in the living standards of the lowest income groups, the use of formal exclusion limits somewhat higher than the personal exemptions offers some advantages over increases in the latter. These advantages are: the concentration of tax relief in the lowest income groups; minimum revenue costs for achieving any given level of exclusion; and a minimum reduction of aggregate taxable income, or the so-called tax base, for any level of exclusion. These are advantages, be it noted, only if the purpose is to confine the relief to the lowest income groups.

As we have seen, however, the use of exclusion limits significantly higher than the exemption levels is subject to the need, in practice, of providing more or less awkward "notch" arrangements in order to minimize abrupt discontinuities in the progression of marginal tax rates for incomes somewhat higher than the exclusion limits. An alternative means of achieving some of the advantages of higher exclusion limits without raising the continuing exemptions, and yet avoiding the need for "notch" provisions, is to increase the minimum standard deduction substantially, perhaps to as much as $1,200 or more for a single individual, and an additional sum for each added exemption. At the same time, the standard deduction maximum might be raised above its present limit of $1,000—perhaps to $2,000.

Whether one believes that a minimum standard deduction can be used to advantage in this way depends, in part, upon one's opinion of the desirability of any standard deduction at all. The device was introduced in 1941 to simplify the income tax at a time when it was in the process of being transformed into a mass tax. It was well known that few persons with small or moderate incomes kept adequate records to support itemized deductions if challenged to do so. Moreover, the administrative burden of auditing itemized deductions on the many millions of tax returns in the lower income groups would be heavy and costly, if at all feasible. These considerations were primarily responsible both for the original adoption of the standard deduction and for its enlargement in 1944 and 1948. However, although the standard deduction was chosen on 83 per cent of all individual returns in 1948, this proportion fell each year until 1965, when it was used on 39 million returns, comprising 58 per cent of the total. Enlarging the standard deduction substantially could be expected to increase its use and could be supported on administrative grounds as well as on the ground of easing taxpayer compliance.[38]

The administrative advantages of the optional standard deduction are purchased at the price of some loss in equity, because the standard deduction eliminates any tax distinction between taxpayers who actually

[38] The Audit Control Program of 1948 uncovered major errors in personal deductions on one out of three returns with itemized deductions, but on only one out of 250 returns using the standard deduction. See Marius Farioletti, "Some Results from the First Year's Audit Control Program of the Bureau of Internal Revenue," *National Tax Journal*, March 1952, pp. 75–76.

incur deductible expenses within the limit of the standard deduction and those who do not or who incur them in smaller amounts. The larger the standard deduction, including the minimum standard deduction, the greater is the loss of this equity. If, for example, to achieve an effective exclusion limit of $1,800 for single persons, the minimum standard deduction were raised to $1,200, whether or not it was made correspondingly higher for taxpayers with two or more exemptions, all tax distinction would be eliminated for the great majority of taxpayers, between those who incurred deductible expenses and those who did not. In effect, all the personal or nonbusiness deductions, including those for interest paid, taxes, medical expenses, etc., would cease to be of any importance for all but a small minority of taxpayers.

This result would probably be welcomed by those who believe that most of the personal deductions are undesirable.[39] Joseph A. Pechman, a close student of the income tax, has contended that the standard deduction may actually result in a net gain in equity "because most personal deductions are not justifiable in principle, and a high standard deduction eliminates a major share of the differential benefits which they bestow on those who can itemize them." [40] Pechman also notes that in the United Kingdom, which does not provide for a standard deduction, the tax assessors have been forced to resort to a cumbersome system in which all taxpayers are divided into 100 groups, depending upon their deductions and exemptions, for the purpose of computing withholding taxes and final tax liability, with doubtful results as to whether the gain in equity is worth the additional burdens on employers and tax assessors. Pechman's preference would be to eliminate most or all of the nonbusiness deductions.[41]

The issues involved in each of the various personal deductions would seem to be better debated and resolved on their own merits than disposed of summarily as a by-product of one means of raising the effective exclusion limits. But a possible compromise solution might be

[39] Joseph A. Pechman, "Erosion of the Individual Income Tax," *National Tax Journal,* March 1957, p. 11. See also: C. Harry Kahn, *Personal Deductions in the Federal Income Tax,* pp. 170–172; and Melvin I. White, "Deductions for Nonbusiness Expenses and an Economic Concept of Net Income," *Federal Tax Policy for Economic Growth and Stability,* pp. 364–365.

[40] *Ibid.*

[41] *Ibid.*

to couple a substantial increase in the standard deduction with a provision that a taxpayer who elects it may nevertheless claim, in addition, an itemized deduction for certain outlays, such as medical expense and philanthropic contributions, that exceed a stipulated high proportion of adjusted gross income.

When we look forward to a future in which fiscal policy considerations will permit a generous rise in the exclusion limits below which incomes will not be subject to the ordinary federal income tax (though subject to the F.I.C.A. tax on income from personal services), and in which significant reductions will be possible in income tax rates generally, exclusion limits approaching those suggested by the city workers' budget, coupled with "notch" provisions or some other form of diminishing or vanishing exemption appear to offer attractive combinations of flexibility, adequacy, and economy of revenue cost. Such changes would not preclude either accompanying or subsequent reductions in bracket rates nor increases in some or all of the "continuing" exemptions.

Techniques, however, are only tools for furthering policy objectives. While we have reviewed in detail various considerations bearing upon the competing policy objectives that may be sought by different forms of the personal exemptions and their levels, we stop short of policy prescriptions. The distribution of absolute and relative tax burdens among the different income classes and among individuals of differing family and personal situations within each income class, a distribution which is greatly affected by the personal exemption provisions that are chosen, represents an important political decision and one which may properly be based in part upon wider considerations than those covered in this study.