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Volume Author/Editor: C. Harry Kahn

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Chapter Author: C. Harry Kahn

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APPENDIX G

Note on Cost of Deductions to the Government

(TABLES 15, 25, 32, 33 AND 53)

The estimates of the tax cost of deductions are based on the average marginal rate of tax applicable to taxpayers in each income group. The income groups used are those given in *Statistics of Income* for each year for which estimates were made. Average marginal rates of tax were computed by dividing the change in average tax liability between two income groups by the change in average taxable income between the same two income groups. The amount of income subject to alternative long-term capital gains rate was subtracted before computing average taxable income. Similarly, the amount of long-term capital gains tax was subtracted before computing average tax liability.

Deductions in given income groups were then multiplied by the marginal rate of tax as estimated by the above method, which gave us the tax cost to the government of philanthropic contributions, taxes paid, interest paid, and medical expenditures.

The estimates are obviously rough, since within each income group there are variations in the number of exemptions and the amount of income that taxpayers have.