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CHAPTER 7

Relief Provisions of the Internal Revenue Code of 1954

THE Internal Revenue Code of 1954 contains two provisions designed to provide stockholders with some, albeit not full, relief from "double taxation." This chapter analyzes these provisions, using the procedures and findings of earlier chapters for this purpose.

In his Budget Message to Congress for the fiscal year 1955, delivered January 21, 1954, President Eisenhower deplored the existence of two sets of taxes on the income of corporations and proposed changes in the tax law that would constitute a step in the direction of removing double taxation. The proposal and the reasons for it are best described in his own words.

"At present, business income is taxed to both the corporation as it is earned and to the millions of stockholders as it is paid out in dividends. This double taxation is bad from two standpoints. It is unfair and it discourages investment. I recommend that a start be made in the removal of this double taxation by allowing stockholders a credit against their own income taxes as a partial offset for the corporation tax previously paid. This will promote investment which in turn means business expansion and more production and jobs.

"Specifically, I recommend that the credit be allowed on an increasing scale over the next three years. For this year, I recommend that a credit of 5 per cent be allowed; for 1955, a credit of 10 per cent; and, in 1956 and later years, 15 per cent. To avoid shifts in the payment dates of corporation dividends, these credits should apply to dividends received after July 31 of each year. To give the full benefit immediately to small stockholders, I recommend that the first \$50 of dividends be completely exempted from tax in 1954 and that the first \$100 be exempted in 1955 and later years."¹

This proposal proved to be one of the thorniest and most controversial considered in writing the revenue bill. After hearings and debate, Congress followed the outlines of the President's suggestion

¹ *The Budget of the United States Government for the Fiscal Year Ending June 30, 1955*, Bureau of the Budget, 1954, p. M 18.

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³ *Ibid.*

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but set the amounts at a lower level. Marion B. Folsom, then Under Secretary of the Treasury, noted, "Under the new Code each stockholder will be permitted to exclude from his gross income up to \$50 of dividends and will be allowed a credit against tax equal to 4 per cent of the dividends in excess of the exclusion. The amount of the credit is limited to 2 per cent of the stockholder's total taxable income in 1954 and to 4 per cent in later years."²

The relief provisions of the Revenue Code of 1954 apply only to distributed corporate earnings. At various points in this study reasons have been set forth for holding that double taxation of this portion of corporate earnings is only part of the complex problem of differential taxation of stockholders, solution of which requires also taking account of the tax treatment of retained earnings. But waiving this consideration and restricting the analysis to earnings for distribution still leaves open the question of the appropriateness of these particular relief provisions. This is not in reference to their failure to remove double taxation completely, a fact recognized by the proponents of the exclusion and credit provisions who considered them not a definitive solution but "a significant step in the right direction."³ The equity of the relief actually conferred is the matter at issue. To examine this question, three aspects of the relief provisions will be investigated:

1. The absolute amount of relief at different stockholder income levels
2. The unequal degree of relief for stockholders at different income levels
3. What would be accomplished by a higher rate of tax credit and amount of exclusion.

In developing these points, the relief provisions are examined within their setting in the code, i.e., as applicable to distributed earnings. The analysis is conducted first in terms of marginal or incremental dollars of earnings for distribution which serves to isolate certain features of the credit and exclusion. Then with the data developed in this study the variations in amount of earnings for distribution at selected average stockholder income levels are utilized to measure the consequently varying weights of the credit and exclusion in the total amount of relief furnished.

² Remarks by Marion B. Folsom, Under Secretary of the Treasury, before the American Management Association, New York City, August 19, 1954. The \$50 exclusion applies to separate returns. Stockholders filing jointly are permitted an exclusion of \$100, if each has at least \$50 of dividends. See *Internal Revenue Code of 1954*, Public Law 591, Chapter 786, Sections 34 and 116.

³ *Ibid.*

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THE EXTRA BURDEN ON EARNINGS FOR DISTRIBUTION

Dividends paid out are not a deductible expense under the corporation income tax. A dollar of earnings devoted to distribution as dividends is assessed for corporate income tax at a rate of 52 per cent, and the remainder when received as dividends, is subject to personal income tax at, for a particular example, 40 per cent. The total tax on the distributed earnings dollar is therefore 71 cents (52 cents of corporate tax and 19 cents of personal income tax on the remaining 48 cents paid out as dividends), a rate of 71 per cent. On a dollar of income from other sources the tax would be only 40 cents. Out of the corporate earnings dollar only 29 cents is left to the dividend recipient after income taxation; from a dollar of income from other sources 60 cents is left after income tax. The extra tax burden equals 31 cents or 31 per cent of earnings made for distribution.

But notice that, since the degree of over-taxation is a function of the personal rate that would have been applicable had there been no corporation income tax to choke off a portion of the earnings made for distribution to stockholders, the corporation income tax does not constitute the same net burden at every income level. One dollar of corporate tax represents a subtraction of less than one dollar from personal income, for, if the money taken by the corporate tax had been paid out to stockholders, something less than one dollar would have been left to them, unless their total income were below the taxable minimum. The higher the stockholder's income, the higher the relevant marginal rate of personal income tax, and hence the lower the net excess burden of the corporation income tax.⁴ (Of course, so

⁴ This point has been clearly and expertly developed by Richard B. Goode (*The Corporation Income Tax*, Wiley, 1951, p. 90.) Failure to recognize this relation is evident in some of the arguments in support of the relief provisions of the Internal Revenue Code of 1954. Representative is the following statement which deals with a 10 per cent credit, but the same argument applies no matter what the percentage value of the credit may be. "The method of adjustment affords greater relief for the low-income investor than for those at higher income levels. The percentage reduction of tax under the combined dividend exclusion and credit is greatest in the lowest bracket and declines progressively as the income level rises. For example, in the case of a married couple filing a joint return, the 10 per cent credit alone will reduce existing tax liabilities on dividend income in the \$4,000 first bracket (subject to a 20 per cent rate) by 50 per cent; on dividend income in the \$12,000 to \$16,000 bracket (subject to a 30 per cent rate) by 33 per cent; and on dividend income in the \$32,000 to \$36,000 bracket (subject to a 50 per cent rate) by 20 per cent. At very high income levels, the percentage reduction in tax on dividend income will be about 11 per cent." (Marion B. Folsom, "Summary of 27 Principal Provisions of H.R. 8300," in *Hearings before the Senate Committee on Finance on H.R. 8300*, 83rd Cong., 2d sess., Part 1, 1954, pp. 101-102.) This analysis is confined to dividends. It is my opinion that it is more appro-

long as the relevant marginal rate of personal income tax, the corporate tax rate, and the degree of distribution.)

In Table 33 by way of example, the marginal rate bracket for distribution to stockholders is 40 per cent, and the corporate tax rate is 52 per cent.

Net Extra Burden on a Dollar of Personal Income Tax

MARGINAL RATE OF PERSONAL INCOME TAX (1)	Corporate tax (rate 52%) (2)
20%	\$0.520
30	.520
40	.520
50	.520
60	.520
70	.520
80	.520
90	.520

The conceptual significance of the net extra burden on earnings for distribution, where C_c denotes the corporate tax rate for distribution, and C_p denotes the personal income tax rate, the extra burden on earnings for distribution and is equal to $C_c - C_p$. The net extra burden on stockholder income, however, declines with rising personal income. The 1955 corporate and personal income tax rates are 42 per cent at the lowest bracket and 90 per cent at the highest (90 per cent at the highest).

appropriate to analyze the problem on the account of the fact that the net extra burden on taxable income level.

⁵ This top marginal rate is 90 per cent because of the limitation on the amount of dividends that can be distributed to stockholders.

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long as the relevant personal income tax rates fall short of 100 per cent, the corporate income tax will constitute an extra burden to some degree.)

In Table 33 by way of specific illustration are tabulated, for selected marginal rate brackets, the extra burden on a dollar of earnings made for distribution to stockholders, assuming the corporate rate to be 52 per cent.

TABLE 33

Net Extra Burden on a Dollar of Earnings Made for Distribution at Selected Personal Income Tax Marginal Rate Levels with a Corporate Income Tax Rate of 52 Per Cent

MARGINAL RATE OF PERSONAL INCOME TAX (1)	Corporate tax (rate 52%) (2)	Personal tax on dividends $\$0.48 \times (1)$ (3)	Total tax on a dollar of earnings for distribution (2) + (3) (4)	Personal tax on a dollar of income from other sources $\$1.00 \times (1)$ (5)	Extra burden on a dollar of earnings for distribution (4) - (5) (6)
20%	\$.520	\$0.096	\$.616	\$.200	\$.4160
30	.520	.144	.664	.300	.3640
40	.520	.192	.712	.400	.3120
50	.520	.240	.760	.500	.2600
60	.520	.288	.808	.600	.2080
70	.520	.336	.856	.700	.1560
80	.520	.384	.904	.800	.1040
90	.520	.432	.952	.900	.0520

The conceptual scheme for measuring the differential against earnings for distribution, presented in Chapter 1, may be recalled briefly: where C_e denotes the rate of corporate tax, E the amount of earnings for distribution, and P the applicable marginal rate of personal income tax, the extra burden is equal to $C_e E (1 - P)$. The differential is the extra burden computed as a fraction (or per cent) of earnings for distribution and is equal, therefore, to $C_e (1 - P)$. Since P rises with stockholder income, the differential against earnings for distribution declines with rising levels of stockholder income. Computed by the 1955 corporate and personal rate schedule, for example, the differential on an incremental dollar of earnings for distribution ranges from 42 per cent at the lowest personal marginal rate (20 per cent) to 5 per cent at the highest (91 per cent).⁵

appropriate to analyze the problem in terms of earnings for distribution and to take account of the fact that the extra burden is inversely related to the stockholder's taxable income level.

⁵ This top marginal rate is not applicable to the highest stockholder incomes because of the limitation of effective rates to 87 per cent. It should be noted also

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DIVIDEND TAX RELIEF PROVISIONS

Against this background what is the nature of the relief provided in the Internal Revenue Code of 1954? For convenience in exposition the tax credit is discussed first, then the exclusion is analyzed, and finally the two in combination are examined.

Tax Credit Relief per Dollar of Earnings for Distribution

The tax credit feature permits stockholders a personal income tax credit equal to 4 per cent of their dividend receipts. After the corporate tax of 52 per cent, dividends paid amount to 48 cents of every dollar of earnings made for distribution. Therefore the tax credit reckoned per dollar of earnings for distribution is about 2 cents.⁶ This amount of tax relief, 2 cents, is obtained at every income level regardless of the marginal rate of personal income tax the stockholder is subject to; or in terms of one dollar of earnings for distribution, the same number of percentage points of relief, 2 per cent, is afforded all stockholders. Thus, for stockholders at the bottom of the taxable income scale, subject to a 20 per cent marginal rate of personal income tax, the extra burden on earnings for distribution is reduced from 42 to 40 cents, or from 42 to 40 per cent; for stockholders subject to the highest marginal rate of personal income tax, the extra burden is reduced from 5 cents to 3 cents, or from 5 to 3 per cent. The relative reduction of the extra burden at the lowest bracket is slight—about 5 per cent—but it is much greater at the highest bracket, some 40 per cent.

Because the provisions of the 1954 Code admittedly go only part of the way in relieving stockholders, and because the levels finally set were lower than those initially suggested, it is instructive to analyze, in addition to the provisions incorporated in the Code, the effects of a higher level of credit and exclusion. Therefore, in this chapter estimates are presented based on the 15 per cent credit and the exclusion of \$100 for separate returns and (presumably) \$200 for joint returns which would have been in effect in 1956 had the original recommendations been adopted.

Table 34 summarizes the relief from "overtaxation" granted a dollar of earnings made for distribution to stockholders in selected marginal

that for stockholders not subject to the personal income tax, the extra burden is the full amount of the corporate tax, there being no offset via a potential personal income tax liability.

⁶ For simplicity here and in most of what follows, 2 cents, 2 per cent, or 0.02 are used instead of the more accurate 1.96 cents, 1.96 per cent, or 0.0196.

TABLE 34
 Relief from Overtaxation Afforded a Dollar of Earnings Made for Distribution to Stockholders in Selected Marginal Rate Brackets by the 4 Per Cent Tax Credit of the Internal Revenue Code of 1954 and by the 15 Per Cent Tax Credit Originally Proposed

MARGINAL RATE OF PERSONAL INCOME TAX (1)	AFTER 4 PER CENT CREDIT				AFTER 15 PER CENT CREDIT			
	Extra burden on a dollar of earnings for distribution (2)	Net extra burden on earnings for distribution (3)	Absolute reduction in extra burden (2) - (3) (4)	Relative reduction in extra burden (4) ÷ (2) (5)	Net extra burden on earnings for distribution (6)	Absolute reduction in extra burden (2) - (6) (7)	Relative reduction in extra burden (7) ÷ (2) (8)	
20%	\$0.4160	\$0.3968	\$0.0192	4.6%	\$0.3440	\$0.0720	17.3%	
30	.3640	.3448	.0192	5.3	.2920	.0720	19.8	
40	.3120	.2928	.0192	6.2	.2400	.0720	23.1	
50	.2600	.2408	.0192	7.4	.1880	.0720	27.7	
60	.2080	.1888	.0192	9.2	.1360	.0720	34.6	
70	.1560	.1368	.0192	12.3	.0840	.0720	46.2	
80	.1040	.0848	.0192	18.5	.0320	.0720	69.2	
90	.0520	.0328	.0192	36.9	-.0200	.0720	138.5	

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rate brackets by the 4 per cent credit incorporated in the Internal Revenue Code of 1954 and by the 15 per cent credit originally proposed. This much may be granted for the existing credit—the extra burden is moderated for all dividend recipients. As between stockholders and other taxpayers, the equity of the income tax structure is improved. But within the stockholder group alone this is not the case, for the credit is a constant absolute amount at all income (marginal rate) levels making the relief afforded of varying relative effectiveness. At the lower income levels only a small fraction of the “discrimination” against stockholders is removed; at the highest income levels, the “extra” burden is significantly ameliorated (column 5). This effect would have been even more pronounced had the 15 per cent credit been adopted (column 8). The tax credit based on dividends received is too blunt a device. To ameliorate an extra burden that varies in intensity with the level of stockholders income, it applies the same rate of credit at all income levels. (It is also worth noting that for nontaxable stockholders the extra burden is not lowered at all by either the credit or the exclusion.)

Exclusion Relief per Dollar of Earnings for Distribution

The exclusion feature of the relief incorporated in the Internal Revenue Code of 1954, translated into relief per incremental dollar of earnings for distribution, gives a picture substantially similar. Stockholders filing separately and with dividend receipts of \$50 or less and stockholders filing jointly and with no more than \$100 in dividend receipts, would be affected only by the exclusion. Their relief would range from 20 per cent to 91 per cent of their dividends, i.e., from about 10 cents to 44 cents per dollar of earnings for distribution. For stockholders subject to the lowest marginal rate, the extra burden would be reduced from 42 cents to 32 cents, while stockholders at the top of the marginal rate scale would enjoy a tax advantage on corporate earnings made for distribution to them, since the extra burden would fall from 5 cents to -39 cents. Once again we find much greater relative relief at the top of the income scale than at the bottom. Moreover, the exclusion also provides, especially at higher incomes, relief in much higher proportion than the credit does for each dollar of corporate earnings. But, as we shall see, there are generally many more dollars affected by the credit than by the exclusion.

In Table 35 we find measured the degree of relief per dollar of earnings for distribution accomplished by the exclusion. These results must be interpreted in the light of the fact that this relief applies in

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MARGINAL RATE OF PERSONAL INCOME TAX (1)	Extra burden dollar earnings distributed (2)
20%	\$0.416
30	.364
40	.312
50	.260
60	.208
70	.156
80	.104
90	.052

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TABLE 35
Relief Provided by the Exclusion per Dollar of
Earnings for Distribution Subject to It

MARGINAL RATE OF PERSONAL INCOME TAX (1)	Extra burden on a dollar of earnings for distribution (2)	Net extra burden on a dollar of earnings for distribution after exclusion (3)	Absolute reduction in extra burden due to exclusion (2) - (3) (4)	Relative reduction in extra burden due to exclusion (4) ÷ (2) (5)
20%	\$0.4160	\$0.3200	\$0.0960	23.1%
30	.3640	.2200	.1440	39.6
40	.3120	.1200	.1920	61.5
50	.2600	.0200	.2400	92.3
60	.2080	-.0800	.2880	138.5
70	.1560	-.1800	.3360	215.4
80	.1040	-.2800	.3840	369.2
90	.0520	-.3800	.4320	830.8

most cases to only a proportion of the dividend receipts of stockholders (dealt with more directly below).

Combined Effect of Credit and Exclusion

With the corporate tax at 52 per cent, earnings for distribution would be slightly more than twice as great as dividends, and the exclusion limits would then be \$104 (i.e. the pre-tax equivalent of \$50) for separate and \$208 (i.e. the pre-tax equivalent of \$100) for joint returns. For brevity only joint returns (the majority) will be considered. The maximum relief afforded by the exclusion varies from \$20 to \$91, or from 20 to 91 per cent of the excluded amount. With the corporate tax at 52 per cent and dividends equal to 48 per cent of earnings for distribution (designated as *E*), the relief provided by the tax credit equals $0.04 (0.48 E - \$100)$ for all stockholders. Hence the combined relief, i.e. the sum of the credit and exclusion, will cover a span from $0.02 E + \$16$ for stockholders in the 20 per cent rate bracket, to $0.02 E + \$87$ for those subject to a marginal rate of 91 per cent; or, measured as a differential relative to *E*, from $0.02 + \$16/E$ to $0.02 + \$87/E$. When *E* is small, say \$250 (i.e., when dividends are \$120), the fractions $\$16/E$ and $\$87/E$ will be considerably larger than 0.02 and noticeably different from each other. The exclusion feature will outweigh the credit. When *E* is large, say \$100,000, the two fractions and the differences between them become insignificant. The credit predominates; the relief is very close to 2 per cent of earnings for distribution. We cannot, therefore, simply conclude that the same

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patterns of relief as described for the credit and exclusion separately will characterize their combination. The degree of relief will vary with the amount of earnings for distribution.

Net Tax Relief Dependent on Relative Weights of Credit and Exclusion

This directs attention to a consideration hitherto neglected in our discussion, which up to this point has run in terms of a marginal dollar of earnings for distribution. With the exclusion and the credit providing different absolute amounts of relief per dollar of dividends and, consequently, per dollar of earnings for distribution, the net degree of relief will be related to the total amount of earnings for distribution. For this will determine the relative weights of each type of relief in the net total. Hence any assessment of the income class pattern of the degree of relief provided by the Internal Revenue Code of 1954 calls for some specific reference to the proportionate importance of earnings for distribution at each income level. Here the possibilities are legion. Three illustrative types of distribution have been chosen, and another analysis utilizes "typical" distributions based on the "average" stockholder data for 1950 and 1952. In both procedures, results were calculated for the provisions of the 1954 Code and for those of the original proposal.

Table 36 summarizes results for the three illustrative distributions. Consider first the data of section A for which it is assumed that 10 per cent of each stockholder's taxable income comes from corporate earnings for distribution.⁷ The degree of relief afforded by the Internal Revenue Code of 1954 (i.e., the relief relative to the extra burden at each income level) traces a U-shaped pattern, falling from its initial level at the bottom of the income scale, reaching a low point in the middle range of incomes,^a and rising after that point to a high at the top incomes. Close to 25 per cent of the extra burden would be wiped out for stockholders with \$1,000 of taxable income, \$100 of which came from pre-tax distributed corporate earnings. Relief equal to only 10 per cent of the extra burden would accrue to stockholders with \$15,000 of income of which \$1,500 represents earnings made for distribution. While close to 45 per cent of the differential against the \$500,000 stockholder (with \$50,000 from earnings for distribution) would be removed.

Why the U-shaped pattern, when our analysis of relief in terms of a

⁷ Corporate earnings for distribution equal the pre-corporate tax equivalent of dividends received. Since the corporate tax is 52 per cent, it was assumed that close to 5 per cent of stockholder income, at all income levels, consisted of dividends.

Degree of Relief
Credit

TAXABLE INCOME

A. Earnings	
\$1,000	
3,000	
5,000	
10,000	
15,000	
25,000	
50,000	
100,000	
250,000	
500,000	
1,000,000	
5,000,000	
B. Earnings	
\$1,000	
3,000	
5,000	
10,000	
15,000	
25,000	
50,000	
100,000	
250,000	
500,000	
1,000,000	
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C. Earnings for di	
\$1,000	
3,000	
5,000	
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15,000	
25,000	
50,000	
100,000	
250,000	
500,000	
1,000,000	
5,000,000	

^a \$100 exclusion and 4
^b \$200 exclusion and
^c Taking account of eff

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TABLE 36

Degree of Relief Afforded Married Taxpayers by the Exclusion and Credit of the Internal Revenue Code of 1954 and of the Original Proposal

TAXABLE INCOME	Earnings for distribution	PERCENTAGE REDUCTION IN EXTRA BURDEN ON STOCKHOLDERS	
		Internal revenue code of 1954 ^a	Original proposal ^b
A. Earnings for distribution equal 10% of taxable income			
\$1,000	\$ 100	23.8	23.8
3,000	300	17.6	23.2
5,000	500	13.8	24.6
10,000	1,000	10.6	24.4
15,000	1,500	10.1	25.3
25,000	2,500	10.8	29.9
50,000	5,000	10.4	42.0
100,000	10,000	17.9	57.3
250,000	25,000	39.5	136.2
500,000	50,000	44.7	160.3
1,000,000	100,000	42.9	157.1
5,000,000	500,000	29.1 ^c	106.9 ^c
B. Earnings for distribution equal 100% of taxable income			
\$1,000	\$1,000	8.4	19.7
3,000	3,000	5.9	18.1
5,000	5,000	5.4	18.0
10,000	10,000	5.3	18.5
15,000	15,000	5.4	19.2
25,000	25,000	5.9	21.5
50,000	50,000	8.0	29.2
100,000	100,000	11.3	41.7
250,000	250,000	25.0	92.9
500,000	500,000	37.8	141.2
1,000,000	1,000,000	41.2	154.2
5,000,000	5,000,000	28.9 ^c	108.3 ^c
C. Earnings for distribution range from 10% to 90% of taxable income			
\$1,000	\$ 100	23.8	23.8
3,000	600	11.2	21.2
5,000	1,500	7.7	20.1
10,000	4,000	6.2	19.6
15,000	7,500	6.0	20.3
25,000	15,000	6.5	22.8
50,000	35,000	8.7	31.5
100,000	80,000	11.9	43.7
250,000	225,000	26.4	98.1
500,000	450,000	38.4	143.2
1,000,000	900,000	41.2	154.2
5,000,000	4,500,000	28.4 ^c	106.6 ^c

^a \$100 exclusion and 4 per cent tax credit.

^b \$200 exclusion and 15 per cent tax credit.

^c Taking account of effective rate limitation of 87 per cent.

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marginal dollar for both the exclusion and the credit showed a degree of relief rising steadily with stockholder income? This is a matter of weighting. At the lower stockholder incomes where the absolute amount of earnings for distribution is small, the exclusion, which gives more relief per dollar, far outweighs the credit in importance; hence the relatively high degree of relief. Near the top of the income scale, earnings for distribution are large absolutely, and the weight of the exclusion is negligible. Here the strength of the relief is explained by the fact that the differential, being inversely related to the applicable marginal rate of personal income tax, declines as stockholder income rises, while the proportion of relief afforded by the credit is constant.

The initial proposal of a 15 per cent tax credit and an exclusion twice as large as that finally set would have meant more relief for stockholders (see last column of Table 36); so much so, as a matter of fact, that those near the top of the income scale would end up "undertaxed." However, little additional relief would be provided at the lowest income levels where, under our assumption that earnings for distribution are 10 per cent of taxable income, the higher exclusion would have little or no effect. In effect, then, the pattern would be a steady increase in the percentage of relief, compared with the U-shape noted in the case of the relief provisions that were finally incorporated in the law.

Turning now to the illustrative distribution in which, at every income level, all of taxable income is composed of earnings for distribution (section B), we find different magnitudes, particularly at the lower income levels, but the same general pattern of relief with the left-hand side of the U (reading from low to high incomes) much lower. At the lower income levels, the decline in relative importance of the exclusion explains the results, since the absolute amount of corporate earnings at each income level is ten times that in our first example. At the higher income levels, the lesser degree of relief compared with that of section A is due to the higher differential caused by the fact that the marginal personal rate that would have applied to the corporate tax payment was lower.⁸

The income pattern assumed for section C is probably the most realistic of the three, for it is generally true that the proportion of earnings for distribution rises with stockholder income. As in section A, the degree of relief afforded by the two provisions traces a U-shaped pattern, for the same reasons cited above. Once more, also, for the

⁸ In other words, computing the section B differential involved dipping lower down the marginal rate scale, since all stockholder income, not just the top layer, came from corporate earnings.

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RELIEF PROVISIONS OF 1954

original proposal we find that undertaxation would have resulted near the top of the income scale.

To determine how much relief, in terms more representative of actual experience, may be expected from the Internal Revenue Code of 1954, its provisions have been applied to our average stockholder data for 1950 and 1952.⁹ The extra burden has been measured as it was then and as affected by the new code. The results are shown in Table 37.

In columns 6 and 9, tabulating the number of percentage points by which the differential against earnings for distribution is lowered, we find that under either the Code or the original proposal the absolute reduction is greatest in the lower income classes and falls steadily as income rises. This is only an apparent contradiction of our earlier point that relief afforded by the credit is the same at all income levels, while relief traceable to the exclusion rises with stockholder income levels. For the proportion of total relief accounted for by the exclusion, which gives a greater amount of relief at all income levels than the tax credit, declines as the amount of earnings for distribution rises. From the \$50,000 level up the relief obtained is virtually constant. (The exception—\$5,000,000 in both years, and \$1,000,000 as well in 1952—is explained in footnote c of the table.)

But if we appraise the relief relative to the severity of the condition it is designed to ameliorate, the picture that emerges resembles the pattern observed in the illustrative cases of Table 36. Proportionately the greatest relief (1954 Code) occurs at the bottom and top of the income scale, with a lesser degree of easing the extra burden in between (column 7). This was explained above as having a dual cause: At the lower income levels the exclusion has a substantial effect, accounting for the high degree of relief there. Moving up the income scale, the exclusion fades rapidly in importance, and the absolute amount of relief provided tends to be constant. With the differential declining as income rises, after a point the higher the income class the greater the degree of relief provided.

The emphasis on the varying degree of relief afforded at different income levels should not obscure the fact that the Internal Revenue

⁹ These data are limited to the "average" experience, and this is both their strength and their weakness for this purpose: they furnish a "typical" amount of earnings for distribution at each income level and hence permit some evaluation of how stockholders at different income levels are affected; but they cloak the diversity at a given income level in the proportion of total income represented by earnings for distribution which is suggested by the illustrative material in Table 36. The reader is reminded that the stockholder income data for 1950 and 1952 include earnings for retention.

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TABLE 37
Effect on the Differential Against Earnings for Distribution of Relief Provisions of the Internal Revenue Code of 1954 and as Originally Proposed, Estimated from 1950 and 1952 Data
(weighted average of joint and separate returns)

AVERAGE STOCKHOLDER IMPUTED GROSS INCOME (\$000's) (1)	INTERNAL REVENUE CODE OF 1954a				ORIGINAL PROPOSALb				
	Amount (2)	Per cent of stockholders income (2) ÷ (1) (3)	Differential against earnings for distribution (4)	Differential after relief (5)	Absolute reduction in differential (4) - (5) (6)	Relative reduction in differential (6) ÷ (4) (7)	Differential after relief (8)	Absolute reduction in differential (4) - (8) (9)	Relative reduction in differential (9) ÷ (4) (10)
1	\$ 70	7	34.3	24.3	10.0	29.2%	24.3	10.0	29.2%
3	242	8	34.3	27.8	6.5	19.0	24.4	9.9	28.9
5	376	8	33.8	28.3	5.5	16.3	23.7	10.1	29.9
10	1,343	13	32.9	29.3	3.6	10.9	23.3	9.6	29.2
15	2,176	15	32.1	29.1	3.0	9.3	22.9	9.2	28.7
25	4,458	18	29.2	26.4	2.8	9.6	19.9	9.3	31.8
50	11,519	23	24.9	22.3	2.6	10.4	15.8	9.1	36.5
100	27,013	27	19.1	16.6	2.5	13.1	10.1	9.0	47.1
250	73,418	29	13.2	10.8	2.4	18.2	4.3	8.9	67.4
500	169,989	34	10.0	7.6	2.4	24.0	1.1	8.9	89.0
1,000	358,502	36	7.2	4.9	2.3	31.9	-1.3	8.5	118.1
5,000	2,002,824	40	7.2	6.0	1.2c	16.7c	3.1	4.1c	56.9c

(continued on next page)

Table 37, concluded

AVERAGE STOCKHOLDER IMPUTED GROSS INCOME (\$000's) (1)	INTERNAL REVENUE CODE OF 1954a				ORIGINAL PROPOSALb			
	Amount (2)	Per cent of stockholders income (2) ÷ (1) (3)	Differential against earnings for distribution (4)	Differential after relief (5)	Absolute reduction in differential (4) - (5) (6)	Relative reduction in differential (6) ÷ (4) (7)	Differential after relief (8)	Absolute reduction in differential (4) - (8) (9)

RELIEF PROVISIONS OF 1954

100	23	24.9	22.3	2.6	10.4	15.8	9.1	36.5
250	27	19.1	16.6	2.5	13.1	10.1	9.0	47.1
500	29	13.2	10.8	2.4	18.2	4.3	8.9	67.4
1,000	34	10.0	7.6	2.4	24.0	1.1	8.9	89.0
5,000	36	7.2	4.9	2.3	31.9	-1.3	8.5	118.1
	40	7.2	6.0	1.2c	16.7c	3.1	4.1c	56.9c

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Table 37, concluded

AVERAGE STOCKHOLDER IMPUTED GROSS INCOME (\$'000's)	EARNINGS FOR DISTRIBUTION			INTERNAL REVENUE CODE OF 1954a			ORIGINAL PROPOSALb		
	Amount (1)	Per cent of stockholders income (2) ÷ (1)	Differential against earnings for distribution (3)	Differential after relief (4)	Absolute reduction differential (4) - (5)	Relative reduction differential (5) ÷ (4)	Differential after relief (6)	Absolute reduction differential (7) - (8)	Relative reduction differential (8) ÷ (7)
1	\$ 94	9	39.4	28.7	10.7	27.2%	28.7	10.7	27.2%
3	332	11	38.9	33.0	5.9	15.2	28.6	10.3	26.5
5	382	8	38.3	32.4	5.9	15.4	27.9	10.4	27.2
10	1,396	14	37.2	33.8	3.4	9.1	28.3	8.9	23.9
15	2,146	14	34.9	31.7	3.2	9.2	26.1	8.8	25.2
25	5,413	22	31.9	29.4	2.5	7.8	23.7	8.2	25.7
50	14,648	29	25.0	22.8	2.2	8.8	17.2	7.8	31.2
100	32,947	33	16.6	14.4	2.2	13.3	8.8	7.8	47.0
250	94,451	38	11.0	9.0	2.0	18.2	3.4	7.6	69.1
500	220,219	44	6.9	4.9	2.0	29.0	-0.7	7.6	110.1
1,000	468,561	47	4.6	3.0	1.6c	34.8c	-1.3	5.9c	128.3c
5,000	2,500,638	50	6.0a	5.0	1.0c	16.7c	+2.1	3.9c	65.0c

a Exclusion of \$50 for separate and \$100 for joint returns plus tax credit of 4 per cent of dividends in excess of excluded amount, but not to exceed 4 per cent of taxable income.

b Exclusion of \$100 for separate and \$200 for joint returns plus tax credit of 15 per cent of dividends in excess of excluded amount, but not to exceed 15 per cent of taxable income.

c Relatively slight reduction in the differential is due to the fact that dividends exceed normal and surtaxable income by a considerable margin, so the credit, limited to 4 or 15 per cent of taxable income, comprised less than these percentages of dividends.

d Differential higher than at \$1,000,000 because ceiling rate limitation leads to lower effective marginal rate of personal income tax.

RELIEF PROVISIONS OF 1954

Code of 1954 provides substantial relief—running between 20 and 30 per cent of the extra burden—at the bottom and top of the income scale and moderate relief of about 10 per cent in between. The \$100 exclusion (for joint returns) and 4 per cent tax credit were not represented by their proponents as a complete cure, as noted earlier, but rather as a step in the right direction. In this context, the \$200 exclusion and 15 per cent tax credit can be considered a further step in the same direction. What would they accomplish?

It is obvious that the relief would be much more significant (columns 9 and 10). The extra burden would be practically wiped out near the top of the income scale (more than wiped out for very high incomes), and more moderately cut over the rest of the income range.¹⁰ But for stockholders in the lower section of the income scale, the original proposal would not have afforded much more relief than the provisions finally adopted. Therefore, under the higher credit and exclusion, the U-shape of the pattern of relative relief would tend to disappear; over the lower range of incomes the degree of relief would be much the same, and after a point it would rise steadily with income (except at the very top of the range).

This points to a basic difficulty in the present exclusion-tax credit method. It is inflexible, in the sense that any combination of a flat exclusion and constant proportionate credit which provided complete relief at a particular income level, would leave stockholders above and below this level differentially taxed—some would still be overtaxed (primarily those below this point), while others (in the main those with higher incomes) would be undertaxed.¹¹ While this difficulty is inherent in any credit-exclusion scheme of the type instituted in 1954, it follows from this analysis that a goodly portion of the inequality in the relief granted stockholders at different income levels could be removed by switching from a flat-rate credit to one with rates varying inversely with stockholder income. The credit would then be more directly geared to the extra burden.

Finally, returning to the analysis developed in the earlier chapters of this investigation, the double taxation of distributed earnings is only part of the broader problem of the differential taxation of corporate earnings. Viewed in this context, the features of the relief

¹⁰ Except, of course, for those stockholders whose incomes are so low relative to their exemptions, credits, and deductions that they pay no personal income tax. No relief is provided them by the credit and exclusion.

¹¹ It must be recognized as a corollary point that if the results achieved by a particular credit-exclusion combination is deemed satisfactory and "just," any change in either the corporate rate or personal income tax rate schedule would disturb this equilibrium and necessitate a readjustment in the relief provisions.

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RELIEF PROVISIONS OF 1954

provisions of the Internal Revenue Code of 1954, discussed above, stand out even more sharply. Relief is granted to those who need it and also to those who do not. This feature is highlighted by the data of Table 38.

It is apparent that the differential against stockholders (taking account both of distributed and retained earnings), where it exists, is moderated but slightly, something on the order of 5 to 10 per cent for most of them. On the other hand, existing undertaxation is made more pronounced. Compare, for example, the entries in columns 5 and 9 for the \$500,000 average income classes. Had the original proposal been adopted by Congress, this effect would have been still stronger (Table 39). Overtaxation would have been alleviated by between 12 and 15 per cent over the lower part of the income range, and more heavily for stockholders at the higher income levels, while at the top of the income scale undertaxation would have been noticeably accentuated.

Aggregate Relief

Up to this point the discussion of the dividend exclusion and tax credit provisions has run in terms of average or representative stockholders at selected income levels, and the relief they afford has been analyzed in terms of the conceptual scheme and methods developed and applied in Chapters 1 and 2. We turn now to the aggregate experience and consider both the amount and degree of relief provided for all stockholders in relation to the total extra burden. For this analysis the conceptual framework and the magnitudes associated with it, as set forth in Chapter 6, are used.

Two purposes are served by the findings to be presented in this section. First, of course, they indicate in the aggregate, for all stockholders as a single group and also for stockholder income classes, the significance of the relief provided in the Internal Revenue Code of 1954. Secondly, they give an idea of how the picture of differential taxation, developed in connection with the data for years prior to 1954, is modified by the relief provisions. While the data presented earlier for 1950, for example, portray correctly what took place in that year, what they signify for the present status of stockholders will be qualified by these subsequent changes in income tax provisions. Both purposes are conveniently served by use of the material in Chapter 6 that sets out the net extra burden (taking account of both retained and distributed earnings) for all double-taxed stockholders arrayed by income classes.

With regard to data for 1950 and 1952 two questions are raised: What proportion of the extra burden would have been removed if

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TABLE 38
 Estimated Reduction in Differentials against Net Corporate Earnings and Stockholders due to Relief Provisions of the Internal Revenue Code of 1954,^a Using Data for 1950 and 1952
 (weighted average of joint and separate returns)

AVERAGE STOCKHOLDER IMPUTED GROSS INCOME (\$'000's) (1)	DIFFERENTIAL AGAINST NET CORPORATE EARNINGS				DIFFERENTIAL AGAINST STOCKHOLDER INCOME			
	Before relief (2)	After relief (3)	Absolute reduction (2) - (3) (4)	Relative reduction (4) ÷ (2) (5)	Before relief (6)	After relief (7)	Absolute reduction (6) - (7) (8)	Relative reduction (8) ÷ (9) (9)
	1950							
1	31.7	27.8	3.9	12.3%	5.7	5.0	0.7	12.3%
3	31.1	28.6	2.5	8.0	6.5	6.0	0.5	7.7
5	30.7	28.6	2.1	6.8	6.0	5.6	0.4	6.7
10	28.6	27.2	1.4	4.9	9.9	9.5	0.4	4.0
15	25.9	24.7	1.2	4.6	9.7	9.3	0.4	4.1
25	20.1	19.5	1.1	5.3	9.5	9.0	0.5	5.6
50	10.0	8.8	1.2	12.0	5.9	5.3	0.6	10.2
100	0.4	-0.6	1.0	250.0	0.3	-0.4	0.7	233.3
250	-11.4	-12.3	0.9	7.9 ^c	-8.7	-9.4	0.7	8.0 ^c
500	-16.3	-17.2	0.9	5.5 ^c	-14.3	-15.1	0.8	5.6 ^c
1,000	-17.6	-18.5	0.9	5.1 ^c	-16.4	-17.2	0.8	4.9 ^c
5,000	-17.3	-17.7	0.4 ^b	2.3 ^{b c}	-17.9	-18.4	0.5 ^b	2.8 ^{b c}

(continued on next page)

Table 38, concluded

AVERAGE STOCKHOLDER IMPUTED GROSS INCOME (\$'000's) (1)	DIFFERENTIAL AGAINST NET CORPORATE EARNINGS				DIFFERENTIAL AGAINST STOCKHOLDER INCOME			
	Before relief (2)	After relief (3)	Absolute reduction (2) - (3) (4)	Relative reduction (4) ÷ (2) (5)	Before relief (6)	After relief (7)	Absolute reduction (6) - (7) (8)	Relative reduction (8) ÷ (9) (9)

RELIEF PROVISIONS OF 1954

100	0.4	-0.6	1.0	250.0	0.3	-0.4	0.7	255.3
250	-11.4	-12.3	0.9	7.9c	-8.7	-9.4	0.7	8.0c
500	-16.3	-17.2	0.9	5.5c	-14.3	-15.1	0.8	5.6c
1,000	-17.6	-18.5	0.9	5.1c	-16.4	-17.2	0.8	4.9c
5,000	-17.3	-17.7	0.4b	2.3b c	-17.9	-18.4	0.5b	2.8b c

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Table 38, concluded

AVERAGE STOCKHOLDER IMPUTED GROSS INCOME (\$000's)	DIFFERENTIAL AGAINST NET CORPORATE EARNINGS				DIFFERENTIAL AGAINST STOCKHOLDER INCOME			
	Before relief (2)	After relief (3)	Absolute reduction (2) - (3) (4)	Relative reduction (4) ÷ (2) (5)	Before relief (6)	After relief (7)	Absolute reduction (6) - (7) (8)	Relative reduction (8) ÷ (6) (9)
	1952							
1	37.9	32.6	5.3	14.0%	7.2	6.2	1.0	13.9%
3	37.4	34.5	2.9	7.8	8.4	7.7	0.7	8.3
5	36.9	33.7	3.2	8.7	5.7	5.3	0.4	7.0
10	34.7	33.0	1.7	4.9	9.9	9.4	0.5	5.1
15	31.3	29.8	1.5	4.8	9.1	8.6	0.5	5.5
25	24.9	23.6	1.3	5.2	10.9	10.4	0.5	4.6
50	12.3	11.2	1.1	8.9	7.4	6.7	0.7	9.5
100	2.8	1.7	1.1	39.3	1.8	1.1	0.7	38.9
250	-7.7	-8.8	1.1	14.3c	-5.9	-6.7	0.8	13.6c
500	-12.0	-13.0	1.0	8.3c	-10.8	-11.7	0.9	8.3c
1,000	-13.2	-14.0	0.8b	6.1b c	-12.5	-13.2	0.7b	5.3b c
5,000	-10.9	-11.4	0.5b	4.6b c	-11.1d	-11.6	0.5b	4.5b c

a Exclusion of \$50 for separate and \$100 for joint returns plus tax credit of 4 per cent of dividends in excess of excluded amount, but not to exceed 4 per cent of taxable income.

b Relatively slight reduction in the differentials is due to the fact that dividends exceeded normal and surtaxable income by a considerable margin, so the credit, limited to 4 per cent of taxable income, comprised less than 4 per cent of dividends.

c Denotes increase in differentials in favor of net corporate earnings and stockholders.

d Differential in favor of stockholders exceeds differential against net corporate earnings because the latter is more than 100 per cent of stockholders imputed gross income.

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TABLE 39
 Estimated Reduction in Differentials against Net Corporate Earnings and Stockholder Income due to Relief Provisions Originally Proposed,^a Using Data for 1950 and 1952
 (weighted average of joint and separate returns)

AVERAGE STOCKHOLDER IMPUTED GROSS INCOME (\$000's)	DIFFERENTIAL AGAINST NET CORPORATE EARNINGS				DIFFERENTIAL AGAINST STOCKHOLDER INCOME			
	Before relief (2)	After relief (3)	Absolute reduction (2) - (3) (4)	Relative reduction (4) ÷ (2) (5)	Before relief (6)	After relief (7)	Absolute reduction (6) - (7) (8)	Relative reduction (8) ÷ (7) (9)
	1950							
1	31.7	27.8	3.9	12.3%	5.7	5.0	0.7	12.3%
3	31.1	27.3	3.8	12.2	6.5	5.7	0.8	12.3
5	30.7	26.8	3.9	12.7	6.0	5.2	0.8	13.3
10	28.6	24.9	3.7	12.9	9.9	8.7	1.2	12.1
15	25.9	22.2	3.7	14.3	9.7	8.4	1.3	13.4
25	20.1	17.0	3.6	17.5	9.5	7.9	1.6	16.8
50	10.0	6.3	3.7	37.0	5.9	3.8	2.1	35.6
100	0.4	-3.1	3.5	875.0	0.3	-2.2	2.5	833.3
250	-11.4	-14.8	3.4	29.8c	-8.7	-11.3	2.6	29.9c
500	-16.3	-19.6	3.3	20.2c	-14.3	-17.3	3.0	21.0c
1,000	-17.6	-20.9	3.3	18.8c	-16.4	-19.5	3.1	18.9c
5,000	-17.3	-18.9	1.6b	9.2bc	-17.9	-19.5b	1.6b	8.9bc

(continued on next page)

Table 39, concluded

AVERAGE STOCKHOLDER IMPUTED GROSS INCOME (\$000's)	DIFFERENTIAL AGAINST NET CORPORATE EARNINGS				DIFFERENTIAL AGAINST STOCKHOLDER INCOME			
	Before relief	After relief	Absolute reduction	Relative reduction	Before	After	Absolute reduction	Relative reduction
	1950							
1	31.7	27.8	3.9	12.3%	5.7	5.0	0.7	12.3%
3	31.1	27.3	3.8	12.2	6.5	5.7	0.8	12.3
5	30.7	26.8	3.9	12.7	6.0	5.2	0.8	13.3
10	28.6	24.9	3.7	12.9	9.9	8.7	1.2	12.1
15	25.9	22.2	3.7	14.3	9.7	8.4	1.3	13.4
25	20.1	17.0	3.6	17.5	9.5	7.9	1.6	16.8
50	10.0	6.3	3.7	37.0	5.9	3.8	2.1	35.6
100	0.4	-3.1	3.5	875.0	0.3	-2.2	2.5	833.3
250	-11.4	-14.8	3.4	29.8c	-8.7	-11.3	2.6	29.9c
500	-16.3	-19.6	3.3	20.2c	-14.3	-17.3	3.0	21.0c
1,000	-17.6	-20.9	3.3	18.8c	-16.4	-19.5	3.1	18.9c
5,000	-17.3	-18.9	1.6b	9.2bc	-17.9	-19.5b	1.6b	8.9bc

RELIEF PROVISIONS OF 1954

Table 39, concluded

AVERAGE STOCKHOLDER IMPUTED GROSS INCOME (\$1000's)	DIFFERENTIAL AGAINST NET CORPORATE EARNINGS				DIFFERENTIAL AGAINST STOCKHOLDER INCOME			
	Before relief (2)	After relief (3)	Absolute reduction (2) - (3)	Relative reduction (4) ÷ (3)	Before relief (6)	After relief (7)	Absolute reduction (6) - (7)	Relative reduction (8) ÷ (7)
50	10.0	0.3	9.7	875.0	0.3	-2.2	2.5	833.3
100	0.4	-3.1	3.5	29.8c	-8.7	-11.3	2.6	29.9c
250	-11.4	-14.8	3.4	20.2c	-14.3	-17.3	3.0	21.0c
500	-16.3	-19.6	3.3	18.8c	-16.4	-19.5	3.1	18.9c
1,000	-17.6	-20.9	3.3	9.2b c	-17.9	-19.5b	1.6b	8.9b c
5,000	-17.3	-18.9	1.6b					

(continued on next page)

AVERAGE STOCKHOLDER IMPUTED GROSS INCOME (\$1000's)	DIFFERENTIAL AGAINST NET CORPORATE EARNINGS				DIFFERENTIAL AGAINST STOCKHOLDER INCOME			
	Before relief (2)	After relief (3)	Absolute reduction (2) - (3)	Relative reduction (4) ÷ (3)	Before relief (6)	After relief (7)	Absolute reduction (6) - (7)	Relative reduction (8) ÷ (7)
1	37.9	32.6	5.3	14.0%	7.2	6.2	1.0	13.9%
3	37.4	32.3	5.1	13.6	8.4	7.2	1.2	14.3
5	36.9	31.6	5.3	14.4	5.7	4.9	0.8	14.0
10	34.7	30.4	4.3	12.4	9.9	8.6	1.3	13.1
15	31.3	27.0	4.3	13.7	9.1	7.8	1.3	14.3
25	24.9	20.8	4.1	16.5	10.9	9.1	1.8	16.5
50	12.3	8.4	3.9	31.7	7.4	5.1	2.3	31.1
100	2.8	-1.0	3.8	135.7	1.8	-0.7	2.5	138.9
250	-7.7	-11.5	3.8	49.4c	-5.9	-8.8	2.9	49.2c
500	-12.0	-15.8	3.8	31.7c	-10.8	-14.1	3.3	30.6c
1,000	-13.2	-16.1	2.9b	22.0b c	-12.5	-15.3	2.8b	22.4b c
5,000	-10.9	-12.8	1.9b	17.4b c	-11.1d	-13.0	1.9b	17.1b c

^a Exclusion of \$100 for separate and \$200 for joint returns plus tax credit of 15 per cent of dividends in excess of excluded amount, but not to exceed 15 per cent of taxable income.

^b Relatively slight reduction in the differentials is due to the fact that dividends exceeded normal and surtaxable income by a considerable margin, so the credit limited to 15 per cent of taxable income comprised less than 15 per cent of dividends.

^c Denotes increase in differentials in favor of net corporate earnings and stockholders.

^d Differential in favor of stockholders exceeds differential against net corporate earnings because the latter is more than 100 per cent of stockholders' imputed gross income.

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the relief provisions of the Internal Revenue Code of 1954 had been in effect at an earlier date? By how much would the overtaxation of stockholders have been ameliorated by the combination of a credit and exclusion of the size originally proposed in the Budget Message to Congress for the fiscal year 1955 (submitted in January of 1954)? Answers to both questions are given with data for 1950 and 1952 and, therefore, serve to illustrate the current picture rather than to define it precisely. In this connection the 1952 data are probably the more pertinent.

In brief recapitulation: in 1950 and 1952 (as well as in all other years covered by this study except 1940 and 1941) and certainly also since 1952, overtaxation was the lot of most stockholders, but undertaxation was the portion of those near the top of the income array. Thus, after imputation of their full pro rata share of corporate earnings in both 1950 and 1952, on net balance an extra burden prevailed in all imputed gross income classes under \$100,000, while undertaxation resulted over the rest of the income range. With stockholders arrayed on the basis of adjusted gross income—i.e. income before imputation of the excess of corporate earnings over dividends—the division between under- and overtaxation occurred at a lower point on the income scale, below \$25,000 in 1950 and under \$50,000 in 1952.

How effective would the 1954 provisions have been in relieving the extra burden? The answer is summarized by the data of Table 40. While the findings are presented on both an adjusted and an imputed gross income basis, the discussion will follow the procedure used throughout this study and concentrate on the imputed gross income array. Much the same story, but with differences in levels of income, is told by the adjusted gross income tabulations.

If the dividend exclusion and credit of the Internal Revenue Code of 1954 had been in effect in 1950, they would have led to a tax abatement of about \$270 million for double-taxed stockholders. Slightly less than 63 per cent of this relief would have gone to those overtaxed; the rest would have been provided for stockholders in the income classes that were undertaxed.¹² In 1952 about \$281 million of relief

¹² It may be helpful at this point to remind the reader once again of the sense in which the words "overtaxation" and "undertaxation" are used. When the personal income tax that would have been due had stockholders been taxed in full on their pro rata share of net corporate earnings exceeded the combination of corporate and personal tax they actually were liable for, undertaxation prevailed. We use overtaxation to describe those instances where the corporate-personal tax liability was higher than the personal levy that would have applied had corporate earnings been subject to this latter tax alone. Thus, under- and overtaxation are here measured in the same way as the current revenue gain or loss are under the

would have been fallen in the income undertaxed.¹³ Let us find the relief in 1950 it ran from imputed gross income under \$100,000, which had been removed; while at this level, relief from their undertaxation would have prevailed. The relief would have increased in degree for the \$50,000 and above would have increased in 1950.

Compared with the Code, those for the exclusion (\$200 degrees of relief from income classes, we would have moderated over holders in the imputed significantly from under \$100,000 class out. Above the \$100,000 1954 Code, would aggregate, undertaxation would have gone to 33 per cent in 1952.

While it is true that tend to happen as the net result of income taxed), a quick sum taken as a single group classes netted out to

partnership method. Net the future be due from given year.

¹³ As a matter of general *Income for 1955* preliminary credit and exclusion by

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would have been provided, over 25 per cent of which would have fallen in the income classes where, on net balance, stockholders were undertaxed.¹³ Looking more closely at the income class distribution, we find the relief to be moderate over most of the income range. In 1950 it ran from just under 3 to 7 per cent of the extra burden for the imputed gross income classes under \$50,000. In the class \$50,000 and under \$100,000, however, nearly half of the overtaxation would have been removed; while for the already undertaxed income classes above this level, relief would still be provided, accentuating the degree of their undertaxation. In 1952, approximately the same pattern of relief would have prevailed, with these modifications: over 73 per cent of the relief would have gone to the overtaxed income classes, an increased degree for the two lowest income classes and a decreased degree for the \$50,000 and under \$100,000 group; above this level, the relief would have increased undertaxation proportionately more than in 1950.

Compared with these findings for the relief provisions of the 1954 Code, those for the originally proposed 15 per cent credit and \$100 exclusion (\$200 for joint returns) indicate in both years increased degrees of relief from overtaxation. As to the pattern of relief among income classes, we find that in both years the higher provisions would have moderated overtaxation by between 10 and 15 per cent for stockholders in the imputed income classes under \$25,000, and much more significantly from this level to under \$100,000; for the \$50,000 and under \$100,000 class in 1950, the extra burden would have been wiped out. Above the \$100,000 point, relief higher, of course, than under the 1954 Code, would have been accorded income classes already, in the aggregate, undertaxed. In all, over 41 per cent of the total of relief would have gone to the undertaxed income classes in 1950, and almost 33 per cent in 1952.

While it is true that the main matter of interest here is what would tend to happen as among income classes, nevertheless, to point up the net result of income class disparities (some overtaxed, others undertaxed), a quick summary is given of the findings for all stockholders taken as a single group. In 1950, over- and undertaxation by income classes netted out to an extra burden of \$604 million. Thus, the \$270

partnership method. No account is taken of the capital gains tax that might in the future be due from stockholders because of the reinvested earnings of a given year.

¹³ As a matter of general interest we note our estimate (based on *Statistics of Income for 1955* preliminary data, made available late in 1957) that in 1955 the credit and exclusion brought \$300 million of tax relief.

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TABLE 40
Relief as a Per Cent of Extra Burden, 1950 and 1952
(dollar amounts in thousands)

DATA ARRAYED BY IMPUTED GROSS INCOME CLASSES, 1950					
IMPUTED GROSS INCOME CLASS	Extra burden	RELIEF PROVIDED BY INTERNAL REVENUE CODE OF 1954 ^a		RELIEF PROVIDED BY ORIGINAL PROPOSAL ^b	
		Amount	As a per cent of extra burden	Amount	As a per cent of extra burden
\$ 0.6 and under 1	\$ 512	\$ 15	2.9	\$ 15	2.9
1 and under 1.5	2,218	144	6.5	181	8.2
1.5 and under 2	7,144	457	6.4	668	9.4
2 and under 2.5	13,713	928	6.8	1,572	11.5
2.5 and under 3	24,698	1,411	5.7	2,518	10.2
3 and under 4	70,993	3,896	5.5	6,668	9.4
4 and under 5	96,925	7,087	7.3	13,060	13.5
5 and under 7	256,656	13,717	5.3	28,274	11.0
7 and under 10	314,503	13,552	4.3	35,874	11.4
10 and under 25	1,044,297	49,352	4.7	150,105	14.4
25 and under 50	579,963	40,545	7.0	137,580	23.7
50 and under 100	86,756	39,433	45.5	138,182	159.3
100 and under 500	-918,027	74,259	-8.1	272,096	-29.6
500 and under 1,000	-443,428	14,380	-3.2	53,573	-12.1
1,000 and over	-533,030	10,491	-2.0	40,097	-7.5
Total	603,893	269,667	44.7	880,463	145.8

DATA ARRAYED BY IMPUTED GROSS INCOME CLASSES, 1952					
IMPUTED GROSS INCOME CLASS	Extra burden	RELIEF PROVIDED BY INTERNAL REVENUE CODE OF 1954 ^a		RELIEF PROVIDED BY ORIGINAL PROPOSAL ^b	
		Amount	As a per cent of extra burden	Amount	As a per cent of extra burden
\$ 0.6 and under 1	\$ 610	\$ 90	14.8	\$ 90	14.8
1 and under 1.5	2,911	341	11.7	420	14.4
1.5 and under 2	11,946	967	8.1	1,521	12.7
2 and under 2.5	18,741	1,394	7.4	2,322	12.4
2.5 and under 3	28,983	1,927	6.6	3,155	10.9
3 and under 4	87,676	5,891	6.7	10,312	11.8
4 and under 5	119,013	8,145	6.8	14,906	12.5
5 and under 7	299,491	19,254	6.4	35,831	12.0
7 and under 10	448,263	20,453	4.6	50,817	11.3
10 and under 25	1,201,953	56,023	4.7	155,071	12.9
25 and under 50	807,901	43,670	5.4	147,393	18.2
50 and under 100	316,574	45,898	14.5	161,873	51.1
100 and under 500	-482,621	57,259	-11.9	209,028	-43.3
500 and under 1,000	-235,124	10,654	-4.5	39,645	-16.9
1,000 and over	-298,015	9,062	-3.0	33,859	-11.4
Total	2,328,302	281,028	12.1	866,243	37.2

DATA ARR

ADJUSTED GROSS INCOME CLASS
\$ 0.6 and under 1
1 and under 1.5
1.5 and under 2
2 and under 2.5
2.5 and under 3
3 and under 4
4 and under 5
5 and under 8
8 and under 10
10 and under 25
25 and under 50
50 and under 100
100 and under 500
500 and under 1,000
1,000 and over
Total

DATA ARR

\$ 0.6 and under 1
1 and under 1.5
1.5 and under 2
2 and under 2.5
2.5 and under 3
3 and under 4
4 and under 5
5 and under 8
8 and under 10
10 and under 30
30 and under 50
50 and under 100
100 and under 500
500 and under 1,000
1,000 and over
Total

^a Dividend exclusion of \$ equal to 4 per cent of divid
^b Dividend exclusion of \$ equal to 15 per cent of divid

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Table 40, concluded

nd 1952

SES, 1950

DATA ARRAYED BY ADJUSTED GROSS INCOME CLASSES, 1950

RELIEF PROVIDED BY ORIGINAL PROPOSAL ^b		ADJUSTED GROSS INCOME CLASS	RELIEF PROVIDED BY INTERNAL REVENUE CODE OF 1954 ^a		RELIEF PROVIDED BY ORIGINAL PROPOSAL ^b		
Amount	As a per cent of extra burden		Amount	As a per cent of extra burden	Amount	As a per cent of extra burden	
\$ 15	2.9	\$ 0.6 and under 1	\$ 13,325	\$ 338	2.5	\$ 539	4.0
181	8.2	1 and under 1.5	41,360	1,315	3.2	3,175	7.7
668	9.4	1.5 and under 2	74,166	2,623	3.5	6,668	9.0
1,572	11.5	2 and under 2.5	101,909	3,544	3.5	8,963	8.8
2,518	10.2	2.5 and under 3	122,273	4,432	3.6	11,171	9.1
6,668	9.4	3 and under 4	260,349	10,545	4.1	26,537	10.2
13,060	13.5	4 and under 5	251,501	11,196	4.5	28,296	11.3
28,274	11.0	5 and under 8	615,017	27,495	4.5	75,722	12.3
35,874	11.4	8 and under 10	284,655	14,704	5.1	44,472	15.6
150,105	14.4	10 and under 25	752,538	61,316	8.1	201,396	26.8
137,580	23.7	25 and under 50	-119,206	49,732	-41.7	172,873	-145.0
138,182	159.3	50 and under 100	-504,062	38,486	-7.6	137,014	-27.2
272,096	-29.6	100 and under 500	-978,955	36,381	-3.7	134,485	-13.7
53,573	-12.1	500 and under 1,000	-173,340	4,825	-2.8	18,020	-10.4
40,097	-7.5	1,000 and over	-137,637	2,735	-2.0	11,132	-8.1
880,463	145.8	Total	603,893	269,667	44.7	880,463	145.8

ASSES, 1952

DATA ARRAYED BY ADJUSTED GROSS INCOME CLASSES, 1952

\$ 90	14.8	\$ 0.6 and under 1	\$ 15,766	\$ 491	3.1	\$ 1,058	6.7
420	14.4	1 and under 1.5	41,438	1,464	3.5	3,416	8.2
1,521	12.7	1.5 and under 2	84,894	2,987	3.5	7,277	8.6
2,322	12.4	2 and under 2.5	104,345	3,876	3.7	9,483	9.1
3,155	10.9	2.5 and under 3	120,953	4,761	3.9	11,192	9.3
10,312	11.8	3 and under 4	278,264	11,311	4.1	27,565	9.9
14,906	12.5	4 and under 5	255,415	12,306	4.8	27,816	10.9
35,831	12.0	5 and under 8	783,747	35,939	4.6	89,030	11.4
50,817	11.3	8 and under 10	359,088	17,556	4.9	45,507	12.7
155,071	12.9	10 and under 30	1,237,638	80,593	6.5	253,356	20.5
147,393	18.2	30 and under 50	7,502	36,730	489.6	125,993	1,679.5
161,873	51.1	50 and under 100	-221,046	36,860	-16.7	131,308	-59.4
209,028	-43.3	100 and under 500	-563,627	29,261	-5.2	107,482	-19.1
39,645	-16.9	500 and under 1,000	-77,230	3,136	-4.1	11,698	-15.1
33,859	-11.4	1,000 and over	-98,845	3,757	-3.8	14,062	-14.2
866,243	37.2	Total	2,328,302	281,028	12.1	866,243	37.2

^a Dividend exclusion of \$50 (\$100 for joint returns) and a credit against personal income tax equal to 4 per cent of dividends in excess of the excluded amount.

^b Dividend exclusion of \$100 (\$200 for joint returns) and a credit against personal income tax equal to 15 per cent of dividends in excess of the excluded amount.

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million of relief would have removed nearly 45 per cent of aggregate overtaxation. In 1952 when the aggregate extra burden was much heavier—\$2.3 billion—the relief of \$281 million would have cut it by only 12 per cent. Under the higher relief measures originally proposed, substantially greater relief, of course, would have resulted. For 1950 it would have totaled an estimated \$880 million, more than enough to wipe out overtaxation in the aggregate, while in 1952 the relief of \$866 million would have cut the extra burden totaled (algebraically) for all stockholders by 37 per cent.¹⁴

¹⁴ There is an apparent discrepancy in these results, viz., that under the provisions of the Internal Revenue Code of 1954 slightly greater relief would have been forthcoming in 1952 than in 1950, while the opposite would have been the case with the higher credit and exclusion initially proposed. This is explained by the fact that under the original proposal, because of the much higher credit, the relief going to the top income classes would have been over three and a half times greater than under the credit and exclusion actually adopted, whereas, near the bottom of the income scale, the proposal's relief would have been less than twice as great. A higher fraction of total relief would have gone to those near the top of the income scale in 1950 than in 1952.

It is necessary at the caution that tions were used. detail (especially warn the reader following statements to underline the tax equity or as Each must be interpreted of the underlying affecting the income fore, are more equitable. This brief review developed in the country its starting point: holders' pro rata share the extra burden, holders' income, and In arriving at an was broken down earnings for retention level when earned segment of net corporate double taxation. Not for distribution considered and at all full by the personal consistent variations levels. For the different net extra burden cost is an inverse function which a stockholder level of stockholder for distribution. At found from year to on earnings for distribution the corporate and personal reference at various