This PDF is a selection from an out-of-print volume from the
National Bureau of Economic Research

Volume Title: The Income Tax Burden on Stockholders

Volume Author/Editor: Daniel M. Holland

Volume Publisher: Princeton University Press

Volume URL: http://www.nber.org/books/holl58-1

Publication Date: 1958

Chapter Title: Introduction to "The Income Tax Burden on Stockholders"

Chapter Author: Daniel M. Holland

Chapter URL: http://www.nber.org/chapters/c2605

Chapter pages in book: (p. 1 - 18)

THE INCOME-TAX BURDEN ON STOCKHOLDERS

Introduction

STATEMENT OF THE PROBLEM

OUR composite system of corporate and personal taxation has been for some years the target of criticism from opposite directions. Some critics contend that it results in excessively heavy "double taxation;"* others argue that it enables the rich, by corporate retention of earnings, to avoid high upper-bracket personal tax rates and thereby to lower their tax burden. This study attempts to assess the quantitative evidence that bears on these contentions.

Such questions of equity inevitably arise from differences in tax treatment, and it is a fact that the federal tax laws treat a stockholder's corporate earnings differently from other sources of income. A brief historical review will clarify the problem.

At no time since 1913 has our income tax structure (corporate and personal combined) provided for complete equivalence of tax liability between corporate earnings and other categories of income. But an initial attempt at income tax equivalence was made for the distributed component of corporate earnings. The personal income tax act of 1913 exempted dividends from normal tax. Both the tax rate on corporate income and the normal tax rate on personal income were set at 1 per cent; thus for distributed earnings the corporate tax operated as a withholding feature of the personal levy. This treatment continued through 1918, as increases in the personal normal rate were matched by increases in the corporate rate,[1] with these exceptions: a corporate rate greater than the personal normal rate in 1917, and on the first $4,000 of normal tax income in 1918. But from 1919 on, the corporate rate exceeded the personal normal rate and thus the corporate tax became, in part, a separate and distinct levy on distributed corporate earnings.[2] The rate gap widened gradually until 1936 when the bridge

* See footnote 1, page xi of Preface.

[1] But even during this period, failure to include the corporate tax payment as part of the personal income surtax base led to a slight measure of differential taxation of distributed corporate earnings. For example, in 1916, corporate earnings of $1,000 were subject to a 2 per cent corporate tax and when the remaining $980 was received by a taxpayer in the 5 per cent surtax bracket, a personal income tax of $49 was due, making a total tax liability of $69. Coming from another source, the same sum would have been subject to $70 of personal income tax (2 per cent normal and 5 per cent surtax). Again, in this same year, corporate earnings of $1,000 in the 10 per cent surtax bracket were subject to a corporate tax of $20 and a personal tax of $98 (i.e. 10 per cent of the $980 distributed as dividends), or $118 in all. On the same amount from other sources the levy was $120 ($20 of normal tax and $100 of surtax).

[2] In some years between 1919 and 1936, at the higher income levels this led, how-

between the two taxes was removed completely by the abolition of the dividend exemption. A return to something like the 1919-1936 procedure was instituted by the Internal Revenue Code of 1954 in the form of a tax credit based on dividends received.[3] But, here too, a substantial gap exists between the personal income tax credit and the rate of corporate tax. Therefore, since 1919 the distributed earnings of corporate enterprises have been treated differently from the other sources of income for federal income tax purposes:[4] from 1919 to 1936, because the corporate rate was higher than the personal normal rate; from 1936 through 1953, because corporate earnings were taxed at the corporate level when earned with no allowance at the personal level when distributed; and from 1954 on, because the personal income tax relief accorded distributed earnings falls short of the corporate tax rate.

As for the undistributed component, non-equivalence has always been the rule. The personal marginal rates that would have applied if retained earnings had been distributed were progressive, and the corporate rate actually levied on retained earnings was, in general, proportional, so that at all but one particular level of stockholder income they were dissimilar. In addition, capital gains taxation tended either to aggravate this discrepancy at the lower income levels or to moderate it, albeit very imperfectly, for stockholders with high taxable incomes. The adjustment on this score was at best very loosely geared to the stockholder's personal income status. For retentions do not show up systematically in share prices; not all such increments are realized in taxable form; and even when so realized, they have been subject, over the period of the income tax, to a variety of special rate provisions.

The present study is an attempt to develop a measure of the "unequal" burden on stockholders caused by the different tax treatment accorded the net corporate earnings component of their incomes.

ever, to undertaxation of distributed corporate earnings. Because the corporate tax liability was not included in the personal surtax base, ". . . the deduction of the corporation tax from the reportable dividends reduced the surtax payable below what it would be were no tax collected at source. The corporation income tax rates were usually somewhat higher than the top normal tax rates, so that this advantage was usually offset; nevertheless, in some years the net result was still that in the highest brackets the dividend recipient was more lightly taxed than the salary or interest recipient, even including the burden of the corporation income tax and assuming all earnings to be currently distributed" (William Vickrey, *Agenda for Progressive Taxation*, Ronald, 1947, p. 153).

[3] The Internal Revenue Code of 1954 established an exclusion from taxable income of the first $50 of dividends ($100 for joint returns) and a credit against personal income tax of 4 per cent of dividends in excess of the excluded amount.

[4] Differential taxation before 1918, because of the failure to include the corporate tax in the personal income tax base, was very small.

Its purpose is not to examine all the features of our tax system that may lead to differential levies on various sources of personal income, such as, for example, the social security taxes which are levied on wages and salaries, or tax-exempt interest. The study is limited to the analysis of the differential burden on stockholders caused by the existence of one income tax at the corporate level and another at the personal level. (But it leaves out of account the tax on intercorporate dividends.) The magnitudes here are large, and thus a matter of continuing concern in tax policy. While concentrating on the period 1940-1952 (primarily because it is the most recent for which data are available), the relevant changes made by the Internal Revenue Code of 1954 will be examined in Chapter 7.

Statistical measurement of the differential rates involved is a formidable enterprise and can be ventured only with the aid of assumptions whose relevance and reliability must be examined in detail later. The main aim can be put very simply by two questions: How heavily, compared with other sources of income, have corporate earnings been taxed? How heavily, compared with other taxpayers, have stockholders been taxed? These questions may be put in a somewhat different way: How much greater (or less) was the tax liability on the stockholder's share of corporate earnings and his total income than the tax that would have been due had his pro rata portion of net corporate earnings been reached fully and promptly by the personal income tax alone?

We shall find, for example, using one possible measure (the measure that, despite many qualifications to be considered in the chapters that follow, was judged most appropriate to the problem at hand) that, in 1950, a married stockholder with an income of $5,000 from all sources, of which $975 was from corporate earnings,[5] had a combined corporate-personal income tax liability $304 greater than he would have paid had the $975 been income from other sources subject only to the personal income tax. This differentially heavier tax load represented 31.2 per cent of the corporate earnings component of his income and 6.1 per cent of his total income. So at this income level, on average, corporate earnings were taxed almost one-third more heavily than income from other sources; and the income tax for stockholders was six percentage points heavier than it would have been had their pro rata share of net corporate earnings been subject in full to the personal income tax alone.

In the same year, but at the $500,000 stockholder income level, the

[5] Defined as his pro rata share of pre-tax corporate net income, i.e. the sum of corporate tax, dividends, and retained earnings.

findings are very different. Here the typical married stockholder paid a tax $70,055 *lower* than he would have paid had an increment to his income the size of his pro rata share of corporate earnings ($440,500) been subject to the personal income tax alone. He received a differential tax advantage equal to about 16 per cent of the corporate earnings component of his income and about 14 per cent of his total income.

These results are cited here to show the type of measures used rather than as representative of the findings. Nor should they be accepted without an examination of the qualifications discussed in Chapters 2 and 4, and Appendix B. If the corporate income tax is shifted, wholly or in part, the extra burdens just cited are too high. If corporate income is defined to allow for current costs of maintaining inventories and replacing depreciable assets, they are too low. How accurately the underlying basic assumptions of this study reflect the complex nature of our tax system is, of course, a matter each reader will wish to assess for himself. These assumptions and a number of alternatives which would change the findings are examined in Chapter 4.

In deriving the basic measures it is assumed that corporation income taxes are not shifted but constitute a burden on the stockholders, i.e., that the corporate income tax reduces by an equivalent amount what could otherwise have been distributed to stockholders. There is, of course, no unanimity of opinion about where the corporation income tax falls. If shifted, it rests on the purchasers of finished commodities, or the suppliers of raw materials and productive services, or both, rather than on corporate earnings. That the corporate income tax rests on profits is probably still the most prevalent view among students of public finance (though other opinions are also strongly held). It is, of course, the incidence assumption usually implicit in the contention that corporate earnings are overtaxed or differentially taxed.

So, at best, this study is a partial job. In the main it is based on that assumption about incidence which, if valid, makes either double- or overtaxation a meaningful charge. While the results under an alternative shifting assumption are also investigated, most of the study's findings must be interpreted in the light of the non-shifting assumption. The complex problem of incidence is examined in greater detail in Chapter 4.

The study is shaped by the view that any evaluation of the relative tax load on net corporate earnings must take into account both the distributed and undistributed portions of these earnings. Investigations of the weight of the corporate-personal tax system have usually been focused upon one or the other, with different conclusions resulting.

Those who focus on distributed earnings (dividends) argue that because such income is subject to two sets of income taxes it is taxed more heavily than income from other sources. For example, only one tax is assessed on the interest paid to owners of corporate bonds—the tax paid by the owner himself; the corporation is permitted to deduct the interest payments from its income tax base; but no such deduction is permitted for dividend payments.[6] This is the reasoning behind the charge phrased variously as the double-taxation of dividends, distributed earnings, or corporate earnings. It was one of the reasons for the relief provisions recently incorporated in the Internal Revenue Code of 1954. As President Eisenhower summarized it in his Budget Message to Congress for the fiscal year 1955: "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."[7]

Those who concentrate on the undistributed part of corporate earnings argue differently. They contend that because the corporate rate is below the personal rate at high income levels, upper-bracket taxpayers can, through corporate retention of earnings, avoid high personal surtax rates (paying, at most, only the lower capital gains tax). Such was the emphasis behind President Roosevelt's initial proposal of an undistributed profits tax in 1936: "The accumulation of surplus in corporations controlled by taxpayers with large incomes is encouraged by the present freedom of undistributed corporate income from surtaxes. Since stockholders are the beneficial owners of both distributed and undistributed corporate income, the aim, as a matter of fundamental equity, should be to seek equality of tax burden on all corporate income, whether distributed or withheld from the beneficial owners."[8]

To remedy the omissions inevitable in either of these points of view, the position is adopted, for purposes of this tax burden comparison, that earnings, both distributed and undistributed, should be considered as allocable to the individual taxpayers in the various income brackets who actually own the stock of United States corporations, in proportion to their holdings as measured by their dividend receipts.

[6] Exceptions: Dividends paid out of capital (i.e. disbursements in excess of accumulated profits and earnings) are not taxed as income to the stockholder. Dividends paid on the preferred stock of public utilities issued prior to 1942 are exempt from a portion of the corporate tax.

[7] *The Budget of the United States Government for the Fiscal Year Ending June 30, 1955*, 1954, p. M18.

[8] *Congressional Record*, 74th Cong., 2d sess., 1936, p. 3146.

It follows that the tax which these corporations pay on their earnings should also be considered as a part of the tax burden of the individual stockholders. These are the assumptions behind the basic method employed, which imputes all corporate earnings (dividends, corporate savings, and corporate taxes) to individual stockholders, and correlatively adds corporate taxes to their income tax liability. Use of that method for analytical purposes carries no implication as to the desirability or feasibility of treating the owners of corporations as members of a partnership and imputing both corporate earnings and corporate taxes to them annually as part of their taxable personal income. The sole reason for using the device of imputation is the belief that the quantitative weight of the special tax treatment of corporate earnings can best be measured by relating this income share to the income level of its claimants.

A number of factors—particularly legislated tax rates, variations in the ebb and flow of economic fortune, and corporate distribution practices—enter into the determination of the differential tax load on stockholders. By an appropriately judicious choice of illustrative data, either over- or undertaxation can be demonstrated. This being the case, it seemed sensible to use the most realistic data available, the annual Internal Revenue Service tabulations from tax returns as published in *Statistics of Income.*

The measures developed in this study are directed to a comparison of the combined federal corporate-personal income tax on the net corporate earnings component of stockholders' income with the tax that would have been due if this income share had been subject promptly and in full to the personal income tax alone. If the sum of the personal income tax on dividends and the corporate tax on net corporate earnings exceeds the potential personal income tax on an increment of taxable income the size of net corporate earnings, the conclusion is that the stockholder was overtaxed. The findings do not refer to specific stockholders but to typical stockholders representing the aggregate experience at a number of income levels, 19 in all, ranging from $1,000 to $500,000.

To take account of the wide variability in the important underlying factors—tax rates, profit levels, and dividend pay-out ratios—comparisons were made for every one of the years in the period 1940 through 1952 (except 1942 and 1943 as noted previously). This period covers the years from the earliest to the most recent (at the time of writing) for which sufficiently detailed data were available. Wide differences encountered over the period of the study include: effective rates of corporate tax (calculated on a net basis for the earnings of income and deficit corporations combined) varying from about 37 per cent in 1947 to around 60 per cent in 1944; net corporate earnings (before corporation income taxes) imputable to taxable stockholders ranging from about $5 billion in 1940 to $31 billion in 1951; dividends reported by personal income taxpayers of $3.1 billion in 1940 and $6.8 billion in 1950; dividends as a per cent of net corporate earnings (before corporation income taxes) of 19 per cent in 1944 to 59 per cent in 1940; personal income tax rates starting at 4 per cent at the first bracket and reaching 79 per cent at the top in 1940 compared with the 1944 (and 1945) rate schedule which spanned a range from 23 per cent to 94 per cent.

But the values for these years do not, in some cases, reach the extremes of earlier years. In particular, there is nothing in the years 1940-1952 like the corporate earnings experience of the early thirties. In 1930, 1931, and 1932, corporate earnings as a whole were negative, but taxes were levied on the income of net income corporations and the dividend receipts of individuals. Without performing any elaborate calculations, it can be concluded that in those three years the differentially heavier taxation of stockholders was more severe than in any of the years covered by this study. About its comparative level in other years not covered by our study no simple a priori statement can be made.

WHAT ARE THE MAGNITUDES INVOLVED?

The aggregate data that follow cast little light on the issues of tax liability equality that arise from the existence of the corporation income tax. Findings germane to such issues will be examined in the chapters that follow. But the data in Tables 1 and 2 provide background information on the magnitudes involved in the problem to be studied.[9]

Typically, for the period covered by the study, about three million dividend recipients annually were subject to personal income tax, and therefore, in some sense, double taxed.[10] These are the stockholders enumerated in Table 1, line 1. Crediting to them their pro rata share

[9] The entries in these tables are estimates for the "double-taxed" segment, i.e., stockholders who paid personal income taxes. More precisely, these "stockholders" are taxpayers who receive some or all of their income from dividends; throughout, the phrases "dividend recipients" and "stockholders" are used synonymously (see Appendix B for an explanation of the methods used in estimating the entries in the tables).

[10] The data on this score are not completely homogeneous. Starting in 1948 with the introduction of permissive income splitting for joint returns, a number of married dividend recipients who had filed separately to minimize liabilities now filed jointly, thus reducing the number of stockholders (as the term is here used). This is apparent from a comparison of 1947 and 1948, lines 1 and 14.

TABLE 1

Basic Data on Taxable Stockholders, 1940 through 1952

	1940	*1941*	*1944*	*1945*	*1946*	*1947*	*1948*	*1949*	*1950*	*1951*	*1952*
1. Number of dividend returns (*thousands*)	2,015	2,889	3,048	3,114	3,156	3,245	2,925	3,175	3,297	3,681	3,862
Adjusted gross income of stockholders:											
2. Total (*$ in millions*)	$11,495	$14,779	$17,516	$19,778	$22,486	$23,885	$27,360	$27,684	$32,628	$36,143	$37,435
3. Average (2) ÷ (1)	5,705	5,116	5,747	6,351	7,125	7,361	9,354	8,719	9,896	9,819	9,693
Imputed gross income of stockholders:[a]											
4. Total (*$ in millions*)	$13,654	$22,534	$32,239	$30,654	$34,963	$40,953	$45,931	$41,924	$55,992	$60,598	$57,398
5. Average (4) ÷ (1)	6,776	7,800	10,577	9,844	11,078	12,620	15,703	13,204	16,983	16,462	14,862
Tax on stockholders (*$ in millions*):											
6. Personal[b]	1,164	2,310	4,898	5,455	5,693	5,935	5,543	5,249	7,012	8,286	8,754
7. Corporate[c]	1,959	5,721	10,822	7,796	6,068	8,129	8,841	7,506	13,025	16,746	14,057
8. Combined corporate personal tax (6) + (7)	3,123	8,031	15,720	13,251	11,761	14,064	14,384	12,755	20,037	25,032	22,811
Effective tax rates (*per cent*):											
9. Personal income tax (6) ÷ (2)	10.1%	15.6%	28.0%	27.6%	25.3%	24.8%	20.3%	19.0%	21.5%	22.9%	23.4%

Table 1, *concluded*

	1940	*1941*	*1944*	*1945*	*1946*	*1947*	*1948*	*1949*	*1950*	*1951*	*1952*
10. Combined corporate personal tax (8) ÷ (3)	22.9%	35.6%	48.8%	43.2%	33.6%	34.3%	31.3%	30.4%	35.8%	41.3%	39.7%
11. Total corporate earnings of stockholders[d] (*$ in millions*)	$5,302	$11,302	$18,087	$14,243	$16,555	$21,867	$23,906	$19,903	$30,202	$31,220	$26,506
Corporate earnings (*$ in millions*):											
12. For distribution	4,289	6,454	7,922	6,905	6,183	7,323	8,167	8,593	11,655	13,843	13,073
13. For retention	1,013	4,848	10,165	7,338	10,372	14,544	15,739	11,310	18,547	17,377	13,433
14. Taxable dividends[e] (*$ in millions*)	3,127	3,565	3,368	3,367	4,078	4,793	5,405	5,778	6,840	6,766	6,543

Source: Estimated from data in *Statistics of Income for 1940* through *for 1952*, Part 1, Bureau of Internal Revenue.

[a] Equals line 2 plus the excess of corporate earnings (before tax) over dividends.

[b] Estimated by assuming in each adjusted gross income class that the personal income tax liability of dividend recipients is the same as the average taxpayer's in that class.

[c] Equals that proportion of corporate income taxes allocated to personal income taxpayers on the basis of their proportion of total net dividend payments of all corporations.

[d] Equals that proportion of net corporate earnings imputed to personal income taxpayers on the basis of their proportion of total net dividend payments of all corporations.

[e] Includes dividends reported as such plus an estimate of the dividend component of income from estates and trusts.

of net corporate earnings leads to a considerable increase in income.[11] This is demonstrated by the aggregate figures (lines 2 and 4) and by the derived averages (lines 3 and 5). In 1950, for example, the average income as reported for personal income tax (adjusted gross income) of stockholders was $9,896; after full imputation of net corporate earnings the average was $16,983.

Not only were net corporate earnings a much larger total than dividends; they were also considerably more volatile. Dividends received by taxable stockholders ranged from $3.1 to $6.8 billion; net corporate earnings from $5.3 to $31.2 billion; between 1948 and 1949 dividends went up by around 7 per cent, but net corporate earnings fell by over 17 per cent (lines 11 and 14).

For analytical purposes net corporate earnings have been broken down into two components—earnings for distribution and earnings for retention. Earnings for distribution are defined here as the amount of pre-corporate tax earnings required for payment of dividends. For example, with the corporate rate at 50 per cent, two dollars must be earned for every dollar of dividends paid. Similarly, earnings for retention are the pretax counterpart of retained earnings. Earnings for distribution are clearly double-taxed (but, of course, not twice as heavily)—once at the corporate level and again when received as dividends. Earnings for retention, while not double taxed, may be over- or undertaxed depending on what would have been the rate applicable to this income share had it been taxed as part of the personal income of stockholders. Both earnings for distribution and earnings for retention represent sizeable additions to stockholders' income. (With dividends already included in stockholders' income, only the corporate tax on earnings for distribution constituted a net addition.) It is apparent, however, that the latter constituted (in all but the earliest two years of our period) a larger sum annually (compare lines 12 and 13). This suggests that simple, a priori conclusions about the overtaxation of stockholders are not easily drawn. Different results will characterize stockholders at various income levels. Careful analysis is in order.

Crediting stockholders with their full pro rata share of net corporate earnings also calls for inclusion of the corporate tax in their income

[11] While in every year covered by the study there were net retained earnings (after corporation income taxes), for imputed gross income to be greater than adjusted gross income it is necessary, merely, that the algebraic sum of retained earnings and corporation income taxes be positive. For, as the term is here used, net corporate earnings equal the sum of dividends, undistributed earnings, and corporate income taxes. This usage, though it departs from the customary definition, is the most logical and useful for the present purposes.

tax load. The corporate income tax is significant, involving a considerable adjustment. In all the years investigated, the total imputed corporate tax outweighs the personal income tax for stockholders (see lines 6 and 7). Thus, assuming the incidence of the corporate income tax to be on shareholders, it appears that when full account is taken of corporate earnings and federal income taxes thereon, stockholders, in the aggregate, were subject to effective rates of income taxation considerably higher than those of the personal income tax (compare lines 9 and 10). Indeed, in some years the combined corporate-personal rate was more than twice the personal rate and it never was less than 30 per cent greater.

But useful as they are for indicating that ours is no insignificant question, these aggregate data do not get at the heart of the problem. For assessing the equality or inequality of the income tax load on stockholders and other taxpayers with similar incomes, the aggregate data of Table 1 have two primary faults. They fail to make allowance for the progressive nature of the personal income tax structure, and they overstate the burden of the corporate income tax.

We should expect larger incomes, i.e., those which include fully imputed net corporate earnings as part of personal income, to be taxed at higher rates than those which include only dividends, for the standard of comparison—the personal income tax—is progressive. Thus the question as to whether (and, if so, to what extent) stockholders are overtaxed is not answered by the statistics in Table 1. To answer this question the aggregates must be broken down and the tax burden on stockholders at specific income levels analyzed. More particularly, to determine the difference in burden (positive or negative) on stockholders, their actual tax liability under the combined corporate-personal income tax is compared with the tax they would have been liable for had their pro rata share of net corporate earnings, along with the rest of their income, been subject promptly and in full to the personal income tax alone.

In this procedure it is recognized that the corporate tax constitutes a net levy on stockholders smaller than its face amount. If it is assumed to rest on profits, shareholders are deprived of income (either actual or potential). But if no such tax existed, and instead all of corporate earnings were includible in the personal income of stockholders for tax purposes, there would be an increase in personal income tax liability due to the inclusion in the personal income tax base of that portion of net corporate earnings that presently goes to meet corporate tax payments.[12] Similarly, personal income tax liability would increase

[12] The interrelation of the corporate and personal income tax has been lucidly

because of the imputation of retained earnings. Therefore, in deriving the measures of the differential tax burden on stockholders, the potential personal income tax on retained earnings is also taken into account.

Further information on the significant changes in incomes of stockholders that follow from considering all of corporate earnings and not merely the distributed portion is furnished in Table 2. The year 1950 was chosen as the most recent for which data were available when this analysis was made. The data for stockholders have been classified and worked up on two bases: first, in terms of the personal income tax income concept, adjusted gross income, which includes dividends reported on personal returns as the measure of personal income from

TABLE 2

Distribution of Adjusted Gross Income and Imputed Gross Income, Dividend Returns, Dividends, and Net Corporate Earnings, 1950

ADJUSTED GROSS INCOME BASIS					
ADJUSTED GROSS INCOME CLASS (*$000's*)	*Total number taxable returns* (1)	*Number taxable returns reporting dividends* (2)	*Dividend returns as % of all returns* (3)	*Per cent of dividend returns* (4)	*Cumulative % of dividend returns* (5)
Under 1	1,570,113	29,419	1.9	0.89	0.89
1 and under 2	5,996,778	211,605	3.5	6.42	7.31
2 and under 3	8,717,908	351,286	4.0	10.66	17.97
3 and under 4	8,668,606	437,463	5.0	13.27	31.24
4 and under 5	5,740,400	428,272	7.5	12.99	44.23
5 and under 10	6,114,699	1,055,136	17.3	32.01	76.24
10 and under 25	1,074,970	550,460	51.2	16.70	92.94
25 and under 50	220,107	159,918	72.7	4.85	97.79
50 and under 500	82,259	72,127	87.7	2.19	99.98
500 and over	842	838	99.5	0.03	100.00
Total	38,186,682	3,296,524	8.6	100.00	100.00

For source, see below.

corporate activity; and secondly, in terms of an income concept, imputed gross income, in which the full pro rata share of net corporate earnings, instead of dividends,[13] is used as a measure of personal income from corporate activity and as the basis for classification.

Note how the center of gravity of the whole distribution moves

demonstrated by Richard B. Goode in *The Corporation Income Tax* (Wiley, 1951, pp. 90-91).

[13] This procedure is explained in Chapter 2 and in Appendix B.

Table 2, *continued*

ADJUSTED GROSS INCOME BASIS, *continued*

ADJUSTED GROSS INCOME CLASS ($000's)	*Amount of dividends ($000's)* (6)	*Per cent of total dividends* (7)	*Cumulative % of total dividends* (8)	*Adjusted gross income of stockholders ($000's)* (9)	*Per cent of AGI[a] of stockholders* (10)	*Cumulative % of AGI of stockholders* (11)
Under 1	10,232	0.15	0.15	24,565	0.08	0.08
1 and under 2	90,837	1.33	1.48	331,448	1.02	1.09
2 and under 3	180,943	2.65	4.12	887,481	2.72	3.81
3 and under 4	216,677	3.13	7.29	1,521,934	4.66	8.48
4 and under 5	224,822	3.29	10.58	1,906,667	5.84	14.32
5 and under 10	877,308	12.83	23.41	7,076,665	21.69	36.01
10 and under 25	1,445,631	21.14	44.55	8,017,450	24.57	60.58
25 and under 50	1,180,820	17.26	61.81	5,394,994	16.53	77.12
50 and under 500	2,184,657	31.94	93.75	6,621,792	20.29	97.41
500 and over	427,587	6.25	100.00	844,953	2.59	100.00
Total	6,839,514	100.00	100.00	32,627,949	100.00	100.00

[a] Adjusted gross income.
For source, see below.

Table 2, *continued*

ADJUSTED GROSS INCOME BASIS, *concluded*

ADJUSTED GROSS INCOME CLASS ($000's)	*Dividends as % of AGI[a]* (12)	*Average AGI[a] of stockholders* (13)	*Average imputed gross income per AGI class* (14)
Under 1	41.7	$ 835	$ 2,023
1 and under 2	27.4	1,566	3,033
2 and under 3	20.4	2,526	4,286
3 and under 4	14.2	3,479	5,171
4 and under 5	11.8	4,452	6,245
5 and under 10	12.4	6,707	9,547
10 and under 25	18.0	14.565	23,536
25 and under 50	21.9	33,736	58,959
50 and under 500	33.0	91,807	195,280
500 and over	50.6	1,008,297	2,751,206

[a] Adjusted gross income.
For source, see below.

Table 2, *continued*

IMPUTED GROSS INCOME CLASS ($000's)	IMPUTED GROSS INCOME BASIS: *Number taxable returns reporting dividends* (15)	*Per cent of dividend returns* (16)	*Cumulative % of dividend returns* (17)
Under 1	9,766	0.30	0.30
1 and under 2	93,379	2.83	3.13
2 and under 3	224,976	6.82	9.95
3 and under 4	279,278	8.47	18.43
4 and under 5	438,489	13.30	31.73
5 and under 10	1,100,845	33.39	65.12
10 and under 25	745,337	22.61	87.73
25 and under 50	235,316	7.14	94.87
50 and under 500	164,773	5.00	99.87
500 and over	4,362	0.13	100.00
Total	3,296,521[a]	100.00	100.00

[a] Differs from Column 2 because of rounding.
For source, see below.

Table 2, *continued*

IMPUTED GROSS INCOME CLASS ($000's)	IMPUTED GROSS INCOME BASIS, *continued*: *Amount of corporate earnings ($000's)* (18)	*Per cent of net corporate earnings* (19)	*Cumulative % of net corporate earnings* (20)
Under 1	1,709	0.06	0.01
1 and under 2	31,312	0.10	0.11
2 and under 3	128,982	0.43	0.54
3 and under 4	183,620	0.61	1.15
4 and under 5	389,636	1.29	2.44
5 and under 10	1,945,637	6.44	8.88
10 and under 25	4,395,388	14.55	23.43
25 and under 50	4,417,861	14.63	38.06
50 and under 500	13,614,454	45.08	83.14
500 and over	5,093,281	16.86	100.00
Total	30,201,880	100.00	100.00

For source, see below.

Table 2, *concluded*

IMPUTED GROSS INCOME BASIS, *concluded*			
IMPUTED GROSS INCOME CLASS (*$000's*)	*IGI*[b] *of stockholders* (*$000's*) (21)	*Per cent of IGI* (22)	*Cumulative % of IGI* (23)
Under 1	9,483	0.02	0.02
1 and under 2	161,448	0.29	0.31
2 and under 3	599,478	1.07	1.38
3 and under 4	1,001,241	1.79	3.16
4 and under 5	1,987,254	3.55	6.71
5 and under 10	7,692,079	13.74	20.45
10 and under 25	11,582,389	20.69	41.14
25 and under 50	8,422,958	15.04	56.18
50 and under 500	19,179,004	34.25	90.43
500 and over	5,356,544	9.57	100.00
Total	55,991,878	100.00	100.00

[b] Imputed gross income.

Source: Columns 1-14, except columns 2 and 9, *Statistics of Income for 1950* Part I, Bureau of Internal Revenue; Column 2 figures are the numbers of returns reporting dividends plus estimated numbers reporting income from estates and trusts derived in part from dividends; Column 9 is computed with the assumption that, in each income class, stockholders (dividend recipients) and other taxpayers have the same average income; Columns 15-23 are derived from *Statistics of Income, op. cit.*, by a series of procedures explained in Chapter 2, and Appendix B.

upward when all of corporate earnings are included. (Compare columns 2 and 15, 8 and 20, and 11 and 23.) The distributions arrayed by imputed gross income are considerably more concentrated than the adjusted gross income distributions. Interesting too is the wide gap between the average imputed gross income and the average adjusted gross income in each adjusted gross income class (see columns 13 and 14). The figures in column 14 are not rearrayed by imputed gross income classes but are listed according to the adjusted gross income classes from which they were derived. The imputed gross income counterpart is, of course, higher in every adjusted gross income class, but the differences become increasingly pronounced as adjusted gross income increases. This is a reflection of the fact that, except for the four lowest income classes, dividends account for a constantly increasing proportion of adjusted gross income as that income rises.[14]

One further point stands out from the data of Table 2. For 1950 (and there is nothing unusual about this year), over half of all divi-

[14] At the lower income levels there are relatively few dividend returns. The high proportion of dividends to total income in these classes may be explained by the high proportion of pensioners and other non-working persons for whom property income, including dividends, would be a major source of income.

dends and over three quarters of corporate earnings fall in the income classes over $25,000. Likewise, about 40 per cent of adjusted gross income and nearly 60 per cent of imputed gross income is found in the $25,000 and over segment of the income array. The number of stockholders here, however, is small—7 per cent on an adjusted gross and 12 per cent on an imputed gross income basis. This means that we shall have to pay more attention to the upper income ranges and examine the upper tail of this distribution more thoroughly and with more detailed income class breakdowns than is either usual or necessary in more general studies of income distribution or tax burden.

As noted earlier, this introductory section was not designed to discuss the findings of the study. It proposes merely to set forth the problem and suggest the framework in which it will be analyzed. In view of disparate opinions regarding the equity of the income tax structure as it bears on stockholders, because of the complexities underlying the concepts of overtaxation and undertaxation, and because the magnitudes involved are large, it is clear the problem is significant. Answers to the questions formulated here are needed.