Notes and References

1. MEET THE FEDERAL INCOME TAX

The Declaration of Independence is on display in the main lobby of the National Archives in Washington, D.C.

Standard sources of tax forms, laws, and regulations include Marten’s Law of Federal Income Taxation, which consists of eighteen loose-leaf volumes of tax forms and laws and eight volumes of accompanying regulations; Commerce Clearing House, Inc., some sixteen volumes of forms and laws and six volumes of regulations; and West Publishing Company’s annual or biannual reports on “Acts Amendatory of the Internal Revenue Code” published as Internal Revenue Acts: Text and Legislative History.

The Flat Tax


Notes and References


To determine the extent of tax avoidance, we recommend careful examination of the annual Internal Revenue Service publication titled *Statistics of Income, Individual Income Tax Returns* (Washington, D.C.). It lists the value of every deduction taxpayers declare on their returns by category. It provides evidence on the overall size of tax shelters in published information on itemized deductions, partnership returns, and other business tax returns. The quarterly *Statistics of Income Bulletin*, published by the IRS, contains detailed analyses of tax returns. The total aggregate value of all tax subsidy items in the economy is enumerated by cate-
Notes and References


2. WHAT’S FAIR ABOUT TAXES?

Two general all-purpose references for calculating the size and growth of government taxes and spending are the *Economic Report of the President*, published each January, and the quarterly *Treasury Bulletin*, published by the Treasury Department.


Statistics on the distribution of the tax burden by income categories are published annually by the Tax Foundation. The IRS publication *Statistics of Income, Individual Income Tax Returns*, analyzes the distribution
of taxes by adjusted gross income categories for all sources of income and most major deductions.


### 3. THE POSTCARD TAX RETURN

Sources for table 3.1 are: line 1: *Economic Report of the President*, table B-1; line 2: Table B-23; line 3: Gross domestic product arising from households and institutions, table B-10; line 4: Table B-25; line 5: Nonresidential fixed investment plus portion of residential investment for nonowner occupied, table B-1; line 8: Family allowances are calculated as the difference between the revenue that would be generated by a 19 percent rate applied to the business tax base, line 6 plus wages, salaries, and pensions, line 4, and the actual tax revenue, line 14, all divided by .19. This guarantees that the revenue from the flat tax is exactly the same as actual revenue.; line 12: Table B-78; line 13: Table B-78.
Notes and References

Calculation of the number and value of the personal allowances proceeded in the following way: Based on data in *Statistics of Income Basic Tables*, 1991, table 2.4, we inferred the number of allowances as follows:

<table>
<thead>
<tr>
<th>Type of Allowance</th>
<th>Number in 1991 (millions)</th>
<th>Number in 1995 (millions)</th>
<th>Relative Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>52</td>
<td>54</td>
<td>1.00</td>
</tr>
<tr>
<td>Married</td>
<td>49</td>
<td>51</td>
<td>1.75</td>
</tr>
<tr>
<td>Head of household</td>
<td>14</td>
<td>14</td>
<td>1.50</td>
</tr>
<tr>
<td>Dependent</td>
<td>78</td>
<td>81</td>
<td>0.50</td>
</tr>
</tbody>
</table>

The relative amount is our judgment about the relative dollar values of the allowances. By weighting each type of allowance by its relative weight, we calculate that there will be 204 million allowance units in 1995. Dividing this number into the total value of allowances from line 8 of table 1, we calculate that each allowance unit is $9,377. The calculations of the allowances for Form 1 are as follows:

<table>
<thead>
<tr>
<th>Type of Allowance</th>
<th>Extra Calculated Value</th>
<th>Rounded Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>9,377</td>
<td>9,500</td>
</tr>
<tr>
<td>Married</td>
<td>16,410</td>
<td>16,500</td>
</tr>
<tr>
<td>Head of household</td>
<td>14,066</td>
<td>14,000</td>
</tr>
<tr>
<td>Dependent</td>
<td>4,689</td>
<td>4,500</td>
</tr>
</tbody>
</table>


Total depreciation deductions under the personal

The calculation of alternative allowances permitted by alternative tax rates is based on the logic set forth above for the calculation of the revenue-neutral total amount of allowances corresponding to a given tax rate:

\[
\text{Allowances} = \text{business tax base} + \text{wages, salaries, and pensions} - (\text{required revenue/flat-tax rate})
\]

The alternative combinations of investment write-offs and tax rates that would all raise the same revenue are calculated by modifying the tax base so that only a portion of investment is subtracted. The modified base is divided by the required revenue to obtain the necessary tax rate.

4. THE FLAT TAX AND THE ECONOMY


On the effect of a flat-rate tax on capital formation, see Alan J. Auerbach, Laurence J. Kotlikoff, and Jona-

Data on taxes and exemptions by income category come from *Statistics of Income*, table 1.2.
