mental figure, that is, the increase in the interest cost that would have occurred on the gross issues of a single year if the issues had been sold at the alternative (absence-of-exemption) yields. The revenue consequences of tax exemption are stated in terms of this incremental figure.

This technique is applied to determine the increase in interest costs that would have occurred on gross issues of State and local government securities issued in 1965 if the issues had been sold at the yields which would have prevailed in the absence of the exemption. On the basis of the yields which would have prevailed in the absence of the exemption. On the basis of the yields prevailing at the time of sale, aggregate total interest payments over the life of the debt issued during the year are estimated at $5 billion. If net interest cost for each issue were increased by a minimum of 133 and a maximum of 186 basis points, the aggregate interest payments by State and local governments over the life of the debt would have risen by an estimated range of 37.8 to 52.8 percent or $1.9 billion in the case of the minimum estimated rise in interest costs and $2.6 billion in the case of the maximum estimated rise in interests costs.[8]

D. The Added Federal Tax Yield in Relation to Additional Interest Payments

The revenue consequences of tax exemption to the Federal Treasury Department and dependent upon the distribution of holdings of State and local securities among various investor groups and the average marginal tax rates applicable to the interest receipts of the holders. Table 2 shows the estimated distribution of holdings of State and local government obligations in 1965 by value of total obligations and the percentage held by each investor group.

Table 2.—*Ownership of State and local government securities, 1965*

[In billions of dollars]

Investor group	Amount held	Percentage distribution
Individuals	$35.0	35.8
Nonprofit corporations [1]		
State and local funds	5.3	5.4
Commercial banks	36.6	37.4
Mutual savings banks	0.4	.4
Life insurance companies	4.7	4.8
Nonlife insurance companies	10.9	11.1
Pension funds	1.8	1.8
Other	3.1	3.2
Total	97.8	100.0

[1] Included in pension funds.

In order to determine the potential revenue yield, the approximate average marginal tax rate for each investor group on the basis of present income tax law was estimated and a weighted average marginal

[8] More crudely, the interest saving from tax exemption for State and local bonds in 1965 could be estimated as between 37.8 percent and 52.8 percent of the interest paid on all State and local securities in that year or $1.14 to $1.60 billion. The inaccuracy in this estimate is that some of the bonds on which interest was being paid in 1965 were issued in past years. Depending on market conditions, the value of tax exemption was somewhat different in each year. The differential has not changed greatly, however, as a percentage of the current rate after 1946 so this crude calculation of a single year's interest saving is reasonably satisfactory.