for it. If they do not stop the payments, they would be subject to a 50-percent withholding rate. If they do stop the payments, they would be subject to the present withholding rates.

The alternative method is to design the system on the present system of declaration of estimated tax. That is, an individual would make a declaration once a year estimating his total income and claiming, in effect, a negative amount of tax. He would receive this negative amount of tax prorated monthly or twice a month until he amended his declaration and, of course, at the end of the year, there would be a final reconciliation.

All of this may sound difficult, but we are doing exactly this with respect to some 75 million people who file tax returns in the United States today and I do not see any reason why the addition of people who do not file would make matters much more unmanageable.

Another important question is the question of integration of public assistance. I do not agree that there is any inconsistency between negative income tax and public assistance. Suppose, for example, you started out modestly and took a $3,000 break-even level and a $1,500 basic allowance for a family of four. It is true that this $1,500 basic allowance would be substantially smaller than the AFDC payments that are paid in some of the more generous States.

The States could be permitted to supplement the negative income tax by whatever payments they deemed desirable, and in order to encourage them to do so, I would have the Federal Government pay, say, 50 percent of the cost of the supplement. This would have to be accompanied, however, by one major constraint; namely, that the State would have to adopt the implicit tax rate that the Federal Government has in its own negative income tax. This is not a terribly important constraint, since they are all going in that direction anyway, and since the Federal Government would be taking the financial load of a large proportion of the public assistance payments that are now made.

I want to add one more point about how you view negative payments to poor people and positive taxpayments to rich people. A lot of people worry about overclaims for basic allowances if you have a generous negative income tax. A lot of people worry about breaking up of families in order to obtain higher negative income-tax payments. I worry about these things, too, but I think we ought to put them in the proper perspective. In the case of the negative income tax for a family of four, the maximum amounts that might be involved are $3,000 or $4,000 a year. The kind of shenanigans that many seem concerned about in this area might yield the family additional negative income-tax payments of a few hundred dollars. In some cases, where there are differential per capita income payments, the amounts might be $500 or $800 if they break up. I do not think many would break up on the basis of the amounts we have been talking about.

In any case, if there is chiseling, I think the committee ought to remember that there is an awful lot of chiseling in the positive income tax that we do not worry about. We have rather conclusive evidence that there is still serious underreporting on Federal income tax returns. In the high brackets, the amounts that people get away with are very much larger on the average than the amounts that people who would be receiving negative income tax payments under some of these plans would get.