

income tax, individuals would receive the basic allowance if they had no other income, and in this sense the basic allowance is a guaranteed minimum. Some guaranteed minimum income plans implicitly impose a tax rate of 100 percent on any income the family might receive, but this is not an essential feature of such plans.

THE DEFINITION OF INCOME

One obvious difference between the negative and the positive income taxes should be the definition of income. I happen to believe that the nation would be better off if we were able to tax all incomes under the positive income tax, and I hope that we will be able to approach this ideal in the not-too-distant future. The inequity of having a definition of income which is less than comprehensive is all too clear when we consider the negative income tax. For example, I doubt that anybody would agree that a recipient of \$10,000 of tax exempt interest annually should be eligible for a negative income tax payment.

Although it will be important to use a comprehensive definition of income to avoid such obvious anachronisms, most of the poor will not be affected by the degree of comprehensiveness since they ordinarily have little or no other income and do not benefit from the well-known "tax loopholes." The one exception—and this is a major policy issue—is the treatment of imputed rent from owner-occupied homes. Suppose A does not own his home but pays rent with \$1,000 of taxable income he receives from \$25,000 worth of securities, while B sold his securities and purchased a home which does not provide any cash income. If they received no other income, and the rental value of owner-occupied homes were not taken into account, B would receive a larger negative income tax payment than A, even though they were in economically identical circumstances. Similarly, two families with identical cash incomes would receive the same negative income tax payments even if one owned his own home while the other paid rent out of his income. In both cases, the home owner would be much better off.

The same inequity arises under the positive income tax, and it may be that it can be tolerated under the negative income tax. My view is that we should impute income to the home owner for negative income tax purposes, because it would provide fairer treatment between home owners and renters and also lower the cost of the income maintenance program. However, this is a close question and will need to be given serious consideration by the Congress. If imputed rent is to be included in income, a relatively simple method is to apply a flat rate of return, say, 4 or 5 percent, to the net equity in the home, that is, its market value less the outstanding principal of the mortgage.

Capital in other forms occasionally yields low cash returns and this might also lead to anomalous situations. For example, an individual owning \$100,000 worth of IBM stock receives cash dividends of less than \$1,000 annually. Such an individual is likely to have enough other income to disqualify him for negative income tax payments, but the mere possibility that this could happen might discredit the program. The remedy is to require an individual to offset against the negative income tax a modest percentage, say, 10 percent, of the value of any capital he may own above an allowance, say, \$25,000. Thus, an individual with a net worth of \$50,000 would offset 10 percent of \$25,000, or \$2,500, against the negative income tax payment to which he would otherwise be entitled. It would be appropriate to set the exemption at something like \$25,000 in order to relieve the poor from reporting furniture, automobiles, and other personal property, and to avoid imposing hardships on those who own modest homes.

DEFINITION OF THE FAMILY UNIT

Another feature of the positive income tax that cannot be carried over to the negative income tax is the definition of the family unit. The unit under the positive tax is the individual; the appropriate unit for the negative income tax is the family, since the family provides the basic economic support for its members. The easy cases are married couples with children and adults living alone. Difficulties arise in other situations—broken families, married teenagers, college students, self-supporting minors, etc.

I believe that the family unit should consist of the adult nucleus, plus any non-married children in the same household. The adult nucleus might be defined as (a) any married couple; (b) any unmarried person 21 years of age or older; and (c) 19- and 20-year olds who do not live with their parents and do not receive