come as defined for tax purposes, r is the (single) rate of tax, and C is the annual credit per person.[1]

According to this plan each person domiciled in the United States is liable to income tax and each person is also entitled to the credit. The tax liability of people whose income times the tax rate is less than the credit will be paid the difference by the Treasury and those whose income times the rate is greater than the credit will pay the difference to the Treasury. The credit income tax design consists of a proportional income tax and flat sum credits.

From the point of view of public policy, the critical issues in the practical administration of a credit income tax are the definition of income for tax purposes, the tax rate, and the size of the credit. On the assumption that the tax base has been properly defined—a big assumption—the tax rate and the credit must be made consistent. This feature means that the tax rate r must be set so as to recover the total credit Σ C and provide the desired net yield to the Treasury R, given the total of personal income, Σ Y.

To illustrate, if R=\$80 billion, C=500 per capita, and Σ Y=\$600 billion, than r=80+100/600 or .3—in other words, the tax rate is 30 percent—when the population is taken at the round number of 200 million people.

One of the most important issues in connection with a credit income tax is the restructuring of the definition of adjusted gross income in the tax code. There are certain obvious types of incomes that would have to be included, such as veterans' benefits, unemployment insurance benefits, and old-age retirement benefits, to make the credit income tax equitable and also to hold down the rate.

In addition, the much discussed problem of broadening the tax base would need to be tackled anew. Many people with large incomes are presently paying little or no tax. In fact, for a person with a large property income, payment of the Federal individual income tax has become almost a voluntary contribution. Over the years tax shelters have multiplied and the number of people with high incomes who are comfortably ensconced in them has been increasing. To eliminate these tax shelters we should stop the pretense that high-income groups can be taxed at high marginal rates. It is mainly for this reason that I suggest one rate be applied to all income no matter how large. Not only must the notorious percentage depletion allowances be eliminated, but all capital gains must be brought into the tax base and taxed at full rates. Constructive realization is imperative if high-income groups are to pay the same rate of tax as many middle-income families. I personally would favor full inclusion of transfers at death in the income tax base of recipients, recognizing, however, that this is a much disputed question.

The credit income tax could be labeled simply a progressive income tax. It has the effect of being progressive from the first dollar of income and approaches proportionality at the limit as does existing law. Unlike the present law that taxes incomes below the exemption limit at a zero rate, it would, however, be progressive in the regions of low income.

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[1] For a family, the tax liability (plus or minus) is $T=\Sigma Yr-\Sigma C$, where ΣY is the total income of the family, and ΣC is the sum of the family credits.