allowed. In addition to these obvious changes from the positive income tax base, a number of other modifications seem to be necessary:

(1) The simplest procedure is not to allow any exemptions for dependents or deductions (standard or itemized) in computing income subject to the offsetting tax. The basic allowance schedule already reflects the size of unit and the standard costs of living for units of different sizes. Therefore, further refinement of the income concept seems unnecessary. The only exception might be to allow deductions for certain unusual but unavoidable expenditures, *e.g.*, medical expenses greater than some function of the unit's basic allowance.

(2) Exclusion of the value of the services of owner-occupied homes from the offsetting tax would create the same inequities as it does under the positive income tax. Mr. A does not own his home but pays rent with the $1,000 of taxable income he receives from $25,000 worth of securities; Mr. B, having sold his securities and bought a home with the proceeds, has no taxable income to report. To put these individuals on a par, the net value of the services provided by B's home should be imputed as taxable income to him. For this reason we would favor inclusion of the value of the services of owner-occupied homes under the positive as well as the negative income tax. But general reform of income taxation is not our present purpose, and it is not necessary to make the definition of taxable income the same for both the positive and negative income taxes. The reason for taxing this type of income under the negative income tax is to gear net benefits more accurately and equitably to the true economic need of the family.

The problem of calculating the imputed net rental value of owner-occupied homes is admittedly difficult. However, most persons should be able to estimate the market value of their homes by correcting their property tax assessments for the generally known rate of underassessment in their locality. The rate of return on this market value must be imputed on an arbitrary basis. At recent interest and dividend levels, a 5 per cent rate would seem fair. As under the ordinary income tax, actual interest paid on a home mortgage would be deductible from income. Alternatively, at the taxpayer's option, the canonical 5 per cent rate of return could be applied to his equity in the home—that is, its market value less the outstanding principal of the mortgage.

(3) The value of food grown and consumed on the farm should also be imputed as income. The federal income tax law and most state tax laws omit this imputation, but it would be undesirable to extend this omission to a negative income tax. It should be possible to settle on a flat per capita amount for each state (if not for each region) to be added