

A much more equitable approach would be to impose an offsetting tax on capital as well as on income, though not at the same rate. The offsetting tax on capital would in effect require the family to use a portion of its wealth to maintain its consumption. The capital tax would be a flat percentage, say 10 per cent, of the family's net worth above an exemption, most simply stated as some multiple of the basic allowance. Thus, for example, if the minimum allowance for a family of four is \$3,000, an exemption of eight times the allowance would be \$24,000. A family with a net worth of \$50,000 would have to pay 10 per cent of \$26,000 or \$2,600 as offset against the NIT allowance to which it would otherwise be entitled.

There is room for difference of opinion on how large the exemption should be. The arguments are qualitatively the same as those for and against imposing any capital tax at all. Our own balance of these considerations leads us to suggest an exemption between four and eight times the basic allowance.

Net worth should be comprehensively calculated, with the family's debts deducted from its total assets. Valuations should be made on a current market basis; where market valuations are not available, they should be approximated by expert appraisers. As observed above, the value of owner-occupied homes may be estimated in most parts of the country by reference to the average ratio of market values to assessed values in the community.

Including the value of the equity in owner-occupied homes in net worth may be regarded as too strict. This rule might force some poor people to sell or mortgage their homes. But it would be highly inequitable to require a capital offset on the part of families with other types of assets and to exclude homes altogether. Since in any case the proposal would exempt a substantial amount of wealth for each family unit, any hardship that might be imposed on poor homeowners would be minimal. If further protection against the danger of forced sales is desired, the value of the home might be reckoned, not as market value, but as the maximum first mortgage for which it would stand as collateral.

An alternative method of dealing with wealth is to disregard property income in defining taxable income and to impose an appropriately larger offsetting tax on capital. For example, a total of 15 per cent might be imputed to the family's net worth and taxed as income. The 15 per cent equals the sum of a 5 per cent rate of return plus the 10 per cent capital offset discussed above. This procedure has the advantage of correcting for differential yields on assets; it would even