impute a rate of return to cash holdings. To provide for the exemption proposed earlier, the imputation might be set at the rate of 5 per cent on net worth up to eight times the minimum allowance and 15 per cent above this point. This method has the additional virtue that the form filed by the family would require only two items of information—total family earnings and net worth—whereas the other method would require the family to report property income as well. On balance, there is little to choose between the two.

E. *Fluctuating Incomes*

It is well known that a progressive income tax based on a one-year accounting period imposes a heavier tax burden on persons with fluctuating annual incomes than on those with stable incomes. For example, under present law, the federal income taxes on a single person with an income of $25,000 in each of two successive years total $17,060; if the individual receives $50,000 in one year and has no income in the second year, his two-year tax would be $22,500, or almost a third higher. To reduce this inequity, sections 1301-04 of the *Internal Revenue Code of 1954* allow a measure of "income averaging" in federal taxation. Under these provisions, taxpayers are generally permitted to average their income for individual income tax purposes if "averageable income" (current year income minus 133⅓ per cent of the average of the four prior years' income) exceeds $3,000.[2]

Similar inequities could arise under negative income taxation. But here the rate structure benefits rather than penalizes recipients of fluctuating incomes. Fluctuations in and out of the NIT income range are advantageous. Consider an individual at the tax-break-even income level, with a regular marginal tax rate of 20 per cent and an NIT rate of 50 per cent. If his income exceeds that level by $1,000 he is taxed $200. If his income falls short by $1,000, he gains $500. Over a two-year cycle he is $300 better off than if he had received the same total in equal installments.

Under plan H-50 a family of four which earns a *total* of $10,000 spread evenly over a three year period will receive $2,800 in NIT benefits. The same family, if it earned $10,000 in one year and nothing in the two following years, would pay $1,114 in positive tax and

2. INT. REV. CODE OF 1954, § 1301, provides:
. . . the tax imposed by Section 1 for the computation year which is attributable to averagable income shall be 5 times the increase in tax under such section which would result from adding 20 per cent of such income to . . . 133⅓% of [the average income of the previous four years].