

Our task, then, is to devise a method for recouping the allowance from those whom it is not intended to benefit. In effect this suggests a "vanishing allowance," one that declines in value to the recipient at a substantially more rapid rate than can be accomplished simply by substituting the allowance for the dependents' exemption and subjecting it to ordinary income tax rates. If, however, we are to retain some differentiation for size of family in tax liabilities, the allowance should not be permitted to decline to zero.

One way in which this feature can be built into the children's allowance plan is by requiring that the taxpayer add to his tax liability as ordinarily computed (after including children's allowances received in income) an amount equal to an increasing proportion of children's allowances received as income rises. In developing the rate schedule to be used for this purpose two objectives conflict. The more steeply progressive we make it the smaller will be the proportion of net benefits accruing to the non-poor and the lower the total net cost. On the other hand, the steeper the progression the higher are the implied marginal tax rates on earned income. Clearly any suggested schedule must reflect the author's judgment and his own subjective terms of trade between minimizing disincentive effects and maximizing the share of benefits going to the poor while keeping costs within tolerable limits.

Before setting up an illustrative schedule and testing its impact upon families at various income levels, a decision must be made as to the concept of income to which rates are to relate. My own preference is to relate them to taxable income, including children's allowance, since this concept presumably reflects the family's welfare more precisely than adjusted gross income, because it offers the advantage of being the concept to which taxpayers are accustomed to applying tax rates, and because it would give full effect to the progression effected by the minimum standard deduction and exemptions for taxpayer and spouse. Alternative concepts of income are ruled out because their use would involve the disadvantage of losing the convenient tie-in with the income tax and the gain in administration and compliance ease that it offers.

I should propose, therefore, that under the individual income tax children's allowances be included in income, that exemptions for children eligible for the allowance be disallowed, and that taxpayers be required to add to their tax liabilities as otherwise computed an amount equal to a proportion of children's allowances received.

For convenience and simplicity it might seem appropriate to adopt the taxable income brackets to which the regular income tax rates apply for purposes of our schedule of children's allowance recoupment rates. But these brackets are too wide to permit avoidance of large increments in these rates. Thus I should prefer \$500 brackets up to \$4,000, \$1,000 brackets up to \$8,000, and use of the regular income tax brackets thereafter. A suggested rate schedule is presented in Table 2.

TABLE 2.—SUGGESTED CHILDREN'S ALLOWANCE RECOUPMENT RATE SCHEDULE, MARRIED TAXPAYERS¹

Taxable income		Children's allowance recoupment rate	Taxable income		Children's allowance recoupment rate
Over—	But not over—		Over—	But not over—	
0.....	\$500	0	\$4,000.....	5,000	40
\$500.....	1,000	0	\$5,000.....	6,000	45
\$1,000.....	1,500	10	\$6,000.....	7,000	50
\$1,500.....	2,000	15	\$7,000.....	8,000	55
\$2,000.....	2,500	20	\$8,000.....	12,000	60
\$2,500.....	3,000	25	\$12,000.....	16,000	65
\$3,000.....	3,500	30	\$16,000.....	² 20,000	² 90
\$3,500.....	4,000	35	Over \$20,000 ²		² 90

¹ Separate schedules would be required for single taxpayers and taxpayers filing as "heads of households."

² At these levels of taxable income the CARR declines as the individual marginal income tax rate increases, thus avoiding combined marginal rates in excess of 90 percent.

³ Minus marginal tax rate.