

	<i>Per cent</i>
Increased personal exemption	5.87
Reduced excises	5.49
Weighted average for Model A	5.79

INCREASING THE EXEMPTION OF THE PERSONAL INCOME TAX

A tax cut in the form of a higher exemption frequently has been proposed in Congress. Assuming that the income tax liabilities are not shifted, it is easy to compute the incidence of the tax cut by income classes. Let us suppose the exemption is raised by \$1.00. The tax saving on the typical return in each income class depends upon the marginal tax rate paid; the saving for the income class also depends upon the number of exemptions claimed. It can be seen from Table 4 that most of the tax saving accrues to those with low and middle incomes—those with incomes of \$5,000 or less.

TABLE 4. *Incidence by Income Classes of an Increase in the Personal Exemption*

Income class (\$ thousand)	Number of exemptions ^a (000)	Tax saving per dollar ^b (cents)	Total tax saving (\$ thousand)	Per cent distribution of tax saving
0 to 3	24,472	21	5,139	19.5
3 to 5	44,557	24	10,694	40.6
5 to 7.5	23,066	27	6,228	23.6
7.5 to 10	4,906	33	1,619	6.1
10 to 15	2,705	41	1,109	4.2
15 to 20	984	50	492	1.9
20 to 30	839	59	495	1.9
30 to 50	507	67	340	1.3
50 to 100	223	79	176	.7
Over 100	63	90	57	.2

^a U. S. Treasury Department, Internal Revenue Service, *Statistics of Income for 1951, 1955*, based on returns with taxable income.

^b Marginal tax rates at average income tax liability reported in each class.

Discovery of the rates at which each income class saves or borrows requires examination of its asset and credit position. The