

Model B: A Tax Cut Stimulating Investment

In Model B, we make quite different assumptions about the tax cuts made possible by a reduction in expenditures, though we again try to cast our assumptions in a plausible form from a political point of view. We assume that 50 per cent of the reduction will be taken by reducing the rate structure of the personal income tax. Rather than assume a new rate schedule, we assume that it is the objective of the rate changes to reduce the tax bill of each taxpayer in the same proportion. Income tax payments represent a larger percentage of the income in higher brackets; therefore, such a tax cut would produce a more than proportionate increase in after-tax incomes in the higher-income classes and would, therefore, reduce the degree of progression of the personal tax structure. The remaining 50 per cent of the reduction is assumed to take the form of a cut in corporate income taxes, distributed among corporations in proportion to their tax liability. Combining the interest rates applicable to each of these tax cuts, we derive our over-all estimate for Model B as follows:

	<i>Per cent</i>
Proportionate reduction of personal income taxes	5.29
Proportionate cut in corporation taxes	5.59
Weighted Average for Model B	5.44

REDUCING PERSONAL INCOME TAX
LIABILITIES PROPORTIONATELY

Much of the method applied in Model A can be used for the personal income tax cut favoring upper-income families. Let us first look at the distribution of tax savings among income classes, given in Table 10. Comparing the incidence of this tax cut with the incidence of an increase in the exemption, we find that much more of it accrues to high-income classes, 59 per cent of it to incomes over \$7,500. Where Model A emphasized the asset-debt position of families with low and middle incomes, for whom the Survey of