

TABLE 15. *Summary of Derivation of Interest Rate Applicable to Proportionate Reduction of Personal Income Tax Payments*

Income class (\$ thousand)	(1) Interest rate applicable to debtors (per cent)	(2) Interest rate applicable to investors (per cent)	(3) Average rate for class (per cent)	(4) Per cent distribution of tax cut
0 to 3	—	—	7.0	3.6
3 to 5	—	—	5.8	13.2
5 to 7.5	6.2	5.00	5.8	24.0
7.5 to 10	5.6	4.93	5.4	14.4
10 to 15	4.9	5.03	5.0	10.3
15 to 20	—	4.56	4.6	5.0
20 to 30	—	4.64	4.6	6.5
30 to 50	—	4.58	4.6	7.8
50 to 100	—	4.56	4.6	7.7
Over 100	—	4.63	4.6	7.5
Average applicable interest rate				5.29

Source: See text.

REDUCING THE CORPORATION INCOME TAX PROPORTIONATELY

In order to discover the interest rate applicable to a cut in the corporation income tax, we must first analyze its incidence. To what extent is it passed on to consumers through lower prices and to workers through higher wages? There is little evidence on these questions. Colm argues²⁷ that the benefit of the reductions after World War II accrued primarily to profits and, to some extent, to wages, but that under less inflationary conditions more of the tax cut would be passed on to consumers. Musgrave,²⁸ in his study of the incidence of taxation, assumes that 33 per cent of the tax is passed on to consumers and 12 per cent to wage and salary earners, leaving 55 per cent as the increase in corporate earnings. We adopt his assumption for our tax cut.

estimate is increased by .61 percentage points to 5.9 per cent. This probably overstates the effect, since the return to the investor is identical with the return to the saver on a large part of the property incomes.

²⁷ Gerhard Colm, "The Corporation and the Corporation Income Tax in the American Economy," *American Economic Review*, May 1954, p. 493.

²⁸ Musgrave, Carroll, Cook, and Frane, *op. cit.*, p. 16.