Notes and References

1. MEET THE FEDERAL INCOME TAX

The *Declaration of Independence* is on display in the main lobby of the National Archives in Washington, D.C.

Standard sources of tax forms, laws, and regulations include *Marten's Law of Federal Income Taxation*, which consists of eighteen loose-leaf volumes of tax forms and laws and eight volumes of accompanying regulations; Commerce Clearing House, Inc., some sixteen volumes of forms and laws and six volumes of regulations; and West Publishing Company's annual or biannual reports on "Acts Amendatory of the Internal Revenue Code" published as *Internal Revenue Acts: Text and Legislative History*.

The following journals can be found in the Law Library of Stanford University and in the offices of many tax practitioners: *American Federal Tax Reports, Journal of Corporate Taxation, Journal of Taxation, Major Tax Planning, Monthly Digest of Tax Articles, National Tax Association Proceedings, National Tax Journal, New York University Institute on Federal Taxation, Practical Tax Lawyer, Prentice Hall Federal Tax Handbook, The Review of Taxation of Individuals, Tax Adviser, Taxation, Taxation for Lawyers, Tax Court Digest, Tax Court Memorandum Decisions, Taxes, Tax Facts, Tax Guide, Tax Law Review, Tax Lawyer, Tax Notes, Tax Planning*

Tips, *U.S. Tax Cases*, *U.S. Tax Court Reports*, and *U.S. Tax Week*.

A comprehensive review of all the studies that attempt to measure the costs associated with the federal income tax appears in James L. Payne, *Costly Returns: The Burdens of the U.S. Tax System* (San Francisco: Institute for Contemporary Studies Press, 1993). Payne summarizes the estimates of compliance costs that appear in the following studies: Joel Slemrod and Nikki Sorum, "The Compliance Cost of the U.S. Individual Income Tax System," *National Tax Journal* 37 (December 1984): 462–65; Arthur D. Little, Inc., *Development of Methodology for Estimating the Taxpayer Paperwork Burden* (Washington, D.C.: Internal Revenue Service, 1988), pp. III–23; James T. Iocozzia and Garrick R. Shear, "Trends in Taxpayer Paperwork Burden," in Internal Revenue Service, *Trend Analyses and Related Statistics, 1989 Update* (Washington, D.C.: U.S. Government Printing Office, 1989), p. 56; *Annual Reports* of the commissioner of the Internal Revenue Service; and a variety of other IRS memoranda.

The following studies attempt to estimate the disincentive costs of the U.S. federal income tax: Edgar K. Browning, "On the Marginal Welfare Cost of Taxation," *American Economic Review* 77 (March 1987): 21; Jerry A. Hausman, "Labor Supply," in Henry J. Aaron and Joseph A. Pechman, eds., *How Taxes Affect Economic Behavior* (Washington, D.C.: Brookings Institution, 1981), p. 61; Charles Stuart, "Welfare Costs per Dollar of Additional Tax Revenue in the United States," *American Economic Review* 74 (June 1984): 358; Roger H.

Gordon and Burton G. Malkiel, "Corporation Finance," in Aaron and Pechman, eds., *How Taxes Affect Economic Behavior*, p. 178; Jane G. Gravelle and Laurence J. Kotlikoff, "The Incidence and Efficiency Costs of Corporate Taxation When Corporate and Noncorporate Firms Produce the Same Good," *Journal of Political Economy* 97 (August 1989): 774, table 6; Charles L. Ballard, John B. Shoven, and John Whalley, "General Equilibrium Computations of the Marginal Welfare Costs of Taxes in the United States," *American Economic Review*, March 1985, p. 135, table 3; Dale W. Jorgenson and Kun-Young Yun, "The Excess Burden of Taxation in the U.S." (paper prepared for presentation at the Coopers & Lybrand Foundation symposium U.S. Tax Policy for the 1990s, New York, November 7–8, 1990), p. 18; Michael J. Boskin, "Efficiency Aspects of the Differential Tax Treatment of Market and Household Economic Activity," *Journal of Public Economics* 4 (1975): 12; Martin Feldstein and Joel Slemrod, "Inflation and the Excess Taxation of Capital Gains on Corporate Stock," *National Tax Journal* 31 (1978): 107–18; Michael J. Boskin, "Taxation, Saving, and the Rate of Interest," *Journal of Political Economy* 86 (1978):S3–S27; Martin Feldstein, "Tax Rules and Business Investment," in Martin Feldstein, ed., *Taxes and Capital Formation* (Chicago: University of Chicago Press, 1987), pp. 63–72; and Roger H. Gordon and Joel Slemrod, "Do We Collect Any Revenue from Taxing Capital Income?" in Lawrence H. Summers, ed., *Tax Policy and the Economy* 2 (Cambridge, Mass.: MIT Press, 1988), p. 120.

Official and unofficial estimates exist on the extent of tax evasion. Official estimates include *Estimates of Income Unreported on Individual Tax Returns,* Department of the Treasury, Internal Revenue Service, Publication 1104 (9-79); *Internal Revenue Service's 1988 Report on the "Tax Gap"* (hearing before the Subcommittee on Oversight of the Committee on Ways and Means, U.S. House of Representatives, 100th Congress, 2d Session, March 17, 1988); and General Accounting Office, *Who's Not Filing Income Tax Returns? IRS Needs Better Ways to Find Them and Collect Their Taxes* (Washington, D.C., July 11, 1979). Academic and popular accounts are contained in Vito Tanzi, ed., *The Underground Economy in the United States and Abroad* (Lexington, Mass.: D.C. Heath, 1982); Dan Bawly, *The Subterranean Economy* (New York: McGraw-Hill, 1982); and Carl P. Simon and Ann D. Witte, *Beating the System: The Underground Economy* (Boston: Auburn House, 1982).

To determine the extent of tax avoidance, we recommend careful examination of the annual Internal Revenue Service publication titled *Statistics of Income, Individual Income Tax Returns* (Washington, D.C.). It lists the value of every deduction taxpayers declare on their returns by category. It provides evidence on the overall size of tax shelters in published information on itemized deductions, partnership returns, and other business tax returns. The quarterly *Statistics of Income Bulletin*, published by the IRS, contains detailed analyses of tax returns. The total aggregate value of all tax subsidy items in the economy is enumerated by category in each year's federal budget in *Special Analysis G. Tax Expenditures: The Budget of the United States Government*, Office of Management and Budget, Executive Office of the President, annual report.

The history of U.S. income taxes appears in Joseph A. Pechman, *Federal Tax Policy*, 4th ed. (Washington, D.C.: Brookings Institution, 1983), pp. 290–92; Bill Bradley, *The Fair Tax* (New York: Pocket Books, 1984), pp. 68–89; and John F. Witte, *The Politics and Development of the Federal Income Tax* (Madison: University of Wisconsin Press, 1985). Details of recent tax increases are found in the various conference reports of the U.S. Congress published by the U.S. Government Printing Office.

2. WHAT'S FAIR ABOUT TAXES?

Two general all-purpose references for calculating the size and growth of government taxes and spending are the *Economic Report of the President*, published each January, and the quarterly *Treasury Bulletin*, published by the Treasury Department.

A history of tax rates in all the world's main civilizations is found in Charles Adams, *For Good and Evil: The Impact of Taxes on the Course of Civilization* (London, New York, Lanham, Md.: Madison Books, 1993).

Statistics on the distribution of the tax burden by income categories are published annually by the Tax Foundation. The IRS publication *Statistics of Income, Individual Income Tax Returns*, analyzes the distribution of taxes by adjusted gross income categories for all sources of income and most major deductions.

The distributional effects of Secretary of the Treasury Andrew Mellon's 1920s tax cuts are analyzed in James Gwartney and Richard Stroup, "Tax Cuts: Who Shoulders the Burden," *Economic Review*, March 1982, pp. 19–27. The distributional effects of President John F. Kennedy's tax cuts in the early 1960s are analyzed in Lawrence B. Lindsey, *The Growth Experiment: How the New Tax Policy Is Transforming the U.S. Economy* (New York: Basic Books, 1990), pp. 28–40. The distributional effects of President Ronald Reagan's marginal tax rate cuts in the 1980s are analyzed by the Statistics of Income Division, Internal Revenue Service, Washington, D.C.

3. THE POSTCARD TAX RETURN

Sources for table 3.1 are: line 1: *Economic Report of the President*, table B-1; line 2: Table B-23; line 3: Gross domestic product arising from households and institutions, table B-10; line 4: Table B-25; line 5: Nonresidential fixed investment plus portion of residential investment for nonowner occupied, table B-1; line 8: Family allowances are calculated as the difference between the revenue that would be generated by a 19 percent rate applied to the business tax base, line 6 plus wages, salaries, and pensions, line 4, and the actual tax revenue, line 14, all divided by .19. This guarantees that the revenue from the flat tax is exactly the same as actual revenue.; line 12: Table B-78; line 13: Table B-78.

Calculation of the number and value of the personal allowances proceeded in the following way: Based on data in *Statistics of Income Basic Tables*, 1991, table 2.4, we inferred the number of allowances as follows:

Type of Allowance	*Number in 1991 (millions)*	*Number in 1995 (millions)*	*Relative Amount*
Single	52	54	1.00
Married	49	51	1.75
Head of household	14	14	1.50
Dependent	78	81	0.50

The relative amount is our judgment about the relative dollar values of the allowances. By weighting each type of allowance by its relative weight, we calculate that there will be 204 million allowance units in 1995. Dividing this number into the total value of allowances from line 8 of table 1, we calculate that each allowance unit is $9,377. The calculations of the allowances for Form 1 are as follows:

Type of Allowance	*Relative Amount*	*Extra Calculated Value*	*Rounded Value*
Single	1.00	9,377	9,500
Married	1.75	16,410	16,500
Head of household	1.50	14,066	14,000
Dependent	0.50	4,689	4,500

Operating data for General Motors, Intel, and the First National Bank of Rocky Mount came from their annual reports for 1993.

Total depreciation deductions under the personal and corporate income taxes in 1992 appear in *Statistics of Income Bulletin*, summer 1994, pp. 124–28.

The calculation of alternative allowances permitted by alternative tax rates is based on the logic set forth above for the calculation of the revenue-neutral total amount of allowances corresponding to a given tax rate:

Allowances = business tax base + wages, salaries, and pensions − (required revenue/flat-tax rate)

The alternative combinations of investment write-offs and tax rates that would all raise the same revenue are calculated by modifying the tax base so that only a portion of investment is subtracted. The modified base is divided by the required revenue to obtain the necessary tax rate.

4. THE FLAT TAX AND THE ECONOMY

Data on labor force participation are from table A-13, Employment Status of the Civilian Noninstitutional Population by Age, Sex, and Race, *Employment and Earnings*, winter 1993/94.

On taxes and labor supply, see the *Journal of Human Resources*, Special Issue on Taxation and Labor Supply 25, no. 3 (summer 1990), and Jerry Hausman, "Taxes and Labor Supply," in Alan J. Auerbach and Martin Feldstein, eds., *Handbook of Public Economics*, vol. 1, chap. 4 (Amsterdam: North Holland, 1985), pp. 213–63.

On the effect of a flat-rate tax on capital formation, see Alan J. Auerbach, Laurence J. Kotlikoff, and Jonathan Skinner, "The Efficiency Gains from Dynamic Tax Reform," *International Economic Review* 24, no. 1 (February 1983): 81–100, and Auerbach and Kotlikoff, *Dynamic Fiscal Policy* (Cambridge: Cambridge University Press), 1987.

Data on taxes and exemptions by income category come from *Statistics of Income*, table 1.2.

Data on nonwage income reported on personal income tax forms come from *Statistics of Income*, Individual Returns 1991, table 1.4, All Returns: Sources of Income, Adjustments, and Tax Items, by Size of Adjusted Gross Income.

Data on charitable contributions are from the American Association of Fund-Raising Counsel, Inc., *Giving USA*, 1994. Data on deductions of charitable contributions come from *Statistics of Income*, various issues.