PERSONAL INCOME TAXATION
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THE DEFINITION OF INCOME AS A PROBLEM OF FISCAL POLICY

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PREFACE

THIS book perhaps combines strangely the characteristics of an academic treatise and a tract for the times. Attempting to serve both purposes, it may serve neither of them well. In any case, since several sections are addressed mainly to special students, some suggestions may be offered to other readers.

Much can be said for beginning with chapter x, which summarizes the argument and outlines a program for tax reform. Those who must read in haste may consult other chapters on a few topics of their own selection. No one should hesitate to skip parts of chapters i and iii which he finds tedious and unrewarding (pp. 6–15, 63–79, 90–96 esp.); and many readers, with a distaste for academic discussion, may simply omit these chapters.

I am somewhat apprehensive lest readers should find in this book an undue emphasis upon distributional considerations. ‘Taxation is the proper means for mitigating inequality; and, confining attention to this field of economic policy,’ one naturally places more emphasis upon that objective than would be appropriate in a less restricted discussion. Besides, the reader may wisely make some allowance for the fact that several of these chapters were prepared originally with regard for prevailing opinions which, in both popular and academic circles, have since changed markedly. In spite of endless
revising and re-writing, there are still some passages, notably in the introduction, which would have been more useful as contributions to discussion in the New Era than they will be now. When Republicans were the leading disseminators of economic fallacies, it was proper for the academic person to stress the problem of inequality. Nowadays, however, there is no issue as to the need for lesser concentration of wealth and income. Indeed, we tend now toward relative overemphasis, both in our talk and in our action, upon this particular objective.

On the other hand, there are now momentous issues as to the means by which inequality may properly or actually be mitigated—as to how we may diminish economic inequality without creating a greater inequality or monopoly of political power. A political discussion which has produced keen awareness of a problem has also rendered the community dangerously uncritical and undiscriminating as regards possible solutions. Almost any crank, mercantilist scheme can now be sold as a cure for excessive inequality; and the most naïve and preposterous "purchasing-power" arguments are employed by good people who, like our President, are ordinarily not unsophisticated. Fine sentiments about economic justice are now employed mainly in support of schemes which, in spite of all good intentions, must serve to aggravate inequality, to make poorer a community which at best will be poor enough, and to undermine a political system which we overwhelmingly prefer to the authoritarian alternatives. Thus, I would suggest, as the now significant interpretation of the argu-
ment in chapter i, not merely that progressive taxation is a sound and promising method for mitigating inequality but that it is the only sound and promising method which has seriously been proposed and that other currently popular schemes are unsound technically and incompatible with the kind of total arrangements which we wish to preserve against the recently prevailing world-trend.

Just as the Republican party consolidated its power by dispensing gigantic subsidies in the form of protective-tariff duties, so now the Democrats have been purchasing allegiance by endless restraints upon internal trade. Our politicians, having quietly and passively encouraged the proliferation of monopoly arrangements in many areas, now seek to promote and glorify these arrangements elsewhere. Thus, in the name of justice (fair wages, fair prices, parity prices, and other derivatives of the medieval conception), we are perverting and destroying the free enterprise, free markets, and competitive free trade which are essential to representative government and to orderly political life on a vast national scale. We are deliberately displacing competition within economic groups, which is essentially peaceful, orderly, productive, and mutually advantageous, by organized economic and political action which is inherently exploitative, destructive, and violent. Thus we move toward the politician's millennium where politics has crowded competition entirely out of the picture—toward the economy of organized negotiation which, once achieved, would immediately necessitate the induction of a supreme negotiator who, in turn, would either
liquidate the organizations or utilize them to consolidate
his own dictatorial powers. Along the same lines, of
course, we are also moving directly away from the con-
ditions which permit of peaceful and orderly relations
among the nations of the world.

We need, at the present time, not greater awareness
of inequality but greater awareness of the dangers in-
volved in trying to mitigate it by methods which in-
volve restraint of trade. Tax reform, with displacement
of sales taxes, customs duties, excise taxes, and payroll
levies by progressive personal taxes, would enable us to
move gradually but steadily toward better distribution.
Such reform can be accomplished within the framework
of a democratic, competitive, free-enterprise system. It
involves no threat of fundamental change in our institu-
tions; and, instead of restriction of production, it prom-
is­es increase in employment and in our total national
income. In principle, much could be accomplished by
more effective governmental spending, especially for ed-
ucation and other welfare services. In fact, however, it
is hard to devise new spending schemes that will do
more good than harm; and it is easy to impose or retain
taxes which more than offset, by their regression and
their augmenting of unemployment, any benefits which
the expenditures may yield. In a world of large unem-
ployment, it seems hard to mention any new govern-
mental services which are worth the cost of the excise
or payroll taxes that might be avoided or repealed if
the services in question were withheld. Moreover, if it
is hard to avoid bad forms of taxation, it is also hard to
get enough taxes of any kind to protect against the in-
flation dangers of new spending schemes. Our economy can be rendered vastly more productive by the restoration of effective price competition; it can be rendered much more stable by movement toward a real monetary system; and, for the significant future, our attack upon inequality may properly be concentrated on changes in the taxes by which present expenditures are financed.

I regret that two recent books, which should be used and cited generously in a study of this kind, became available only after my manuscript was in its final form. The first of these is Roswell Magill's excellent legal study, *Taxable Income* (New York, 1936). This book covers admirably a phase of the subject which is only touched upon in my chapters, and one which, as the reader will discover for himself, I am both indisposed and incompetent to discuss systematically. The other book is a recent Twentieth Century Fund publication, *Facing the Tax Problem* (New York, 1937)—a very useful book which, by virtue of the contributions of Professors Haig and Shoup, is of first-rate importance for its discussion of income-tax problems. My opinions regarding the central points of that discussion have been summarized in a recent review (*Journal of Political Economy*, XLV [August, 1937], 532-35).

The following persons have each made large and generous contributions to the improvement of my manuscript at various stages: Professors Jacob Viner, Frank H. Knight, Simeon E. Leland, and Carl Shoup, and Mr. Aaron Director. I trust that this bare acknowledgment will not obscure my great indebtedness to these men; and I must apologize for not naming the many
graduate students who have markedly influenced my thinking and helped to overcome my inhibitions about publication. (I cannot name them without risking errors of omission which would plague me afterward.) Professor Harry A. Millis has read the manuscript and made several excellent suggestions for change. Both he and Professor Gordon Laing have been helpful and encouraging as regards the arrangements of publication. Miss Gladys Hamilton contributed excellent stenographic services and discovered many errors which might otherwise have survived careful reading of the proof sheets.

For the protection of those who have helped me, be it said that each of them has suggested some changes which I was too indolent or too stubborn to make.

HENRY C. SIMONS

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December 1, 1937
<table>
<thead>
<tr>
<th>CHAPTER</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>II. THE DEFINITION OF INCOME</td>
<td>41</td>
</tr>
<tr>
<td>III. OTHER DEFINITIONS AND THEIR LIMITATIONS</td>
<td>59</td>
</tr>
<tr>
<td>IV. PREFACING DISCUSSION OF SPECIAL PROBLEMS</td>
<td>103</td>
</tr>
<tr>
<td>V. INCOME IN KIND</td>
<td>110</td>
</tr>
<tr>
<td>VI. GRATUITOUS RECEIPTS</td>
<td>125</td>
</tr>
<tr>
<td>VII. CAPITAL GAINS</td>
<td>148</td>
</tr>
<tr>
<td>VIII. TAX-EXEMPT SECURITIES</td>
<td>170</td>
</tr>
<tr>
<td>IX. UNDISTRIBUTED CORPORATE EARNINGS</td>
<td>185</td>
</tr>
<tr>
<td>X. SUMMARY AND STATEMENT OF GENERAL POSITION</td>
<td>205</td>
</tr>
<tr>
<td>SUPPLEMENTARY NOTE, SOME COMMENTS ON PROFESSOR FISHER'S PROPOSALS</td>
<td>225</td>
</tr>
<tr>
<td>INDEX</td>
<td>233</td>
</tr>
</tbody>
</table>
INDEX

Ability to pay, 5, 17, 31, 41 n., 62, 139
Accountants, meaning of income to, 80 ff., 200 f.
Accrual: notation of, as to income, 83, 99 f.; procedures, 105 n.
Accumulation, 24, 26, 95, 97, 145 f.; and personal income, 49 ff., 89 ff.
Adams, H. C., 16 n.
Ad rem taxation, 5, 31 ff., 128, 131, 151, 161, 163, 167, 168, 187, 188, 205
Allix et Lecercle, 7 n.
Ammon, A., 48 n., 58 n.
Australian income tax, 117
Averaging devices, 153 f., 212 f.
Avoidance: capital gains, special treatment of, and, 172; and community property, 214 n.; and corporate form, 185; systematic versus fortuitous, 107 f.; and tax-exempt securities, 172; trusts, use of for, 214 n. See also Evasion
Bauckner, A., 56 n., 60 n., 75
Benefit, taxation according to, 3 ff.
Benefit levies, 34 ff., 205
Bequests. See Gifts, Gratuitous receipts, and Inheritance taxation
Budgetary policy, income taxation and, 221–24
Cannan, Edwin, 94 n.
Canning, J. B., 91 n., 98 n., 129
Capital accumulation: effect of government debt reduction on, 27 n.; effect of progression on, 21 ff.; and government ownership of utilities, 27 n.; government as saver and, 27 ff. See also Accumulation
Capital gains, 148–69, 207–12; in American legislation, 158 ff.; ap-
portionment of undivided profits and calculation of, 103 f.; and avoidance opportunities, 152 f., 185; constitutional problems as to, 203 f.; English law as to, 148, 150, 210 n.; French law as to, 148; German law as to, 149 f.; gift, inheritance, or bequest, property acquired by, and, 147 n., 162 ff., 207 ff.; irregularity of income and, 151 ff.; and maximum-revenue criterion, 156; partnerships, corporations treated as, and, 185; and price-level changes, 155 ff.; real versus nominal, 155; special treatment of, case against, 155 ff., 210 n.; and undivided corporate profits, 157, 185
Capital losses, limitation upon deduction of, 20 n., 159 f., 162, 209. See also Capital gains
Cassel, Gustav, 45 n.
Centralization, fiscal, 214 ff.
Clark, J. B., 12
Cohen-Stuart, A. J., 6
Cohn, Gustav, 65
Colm, G., 104 n., 105 n.
Colwyn Committee, 137 n., 141
Committee, Joint, on Internal Revenue Taxation, 147 n., 157 n., 160 ff.
Committee on National Debt and Taxation. See Colwyn Committee
Commodity taxes, 34, 38, 39
Community property, 214 n.
Compensation, in kind, 122 ff.; versus gifts, as income, 134 f.
Competitive free trade, vii
Constitutional questions, 171, 173 n., 196–204
Consumer capital, income to owner from, 112 ff.; Australian practice
234 PERSONAL INCOME TAXATION

as to, 117; durability of, 118 f.;

furniture and fixtures as, 120 f.

See also Income in kind

Consumption: accumulation versus,

54; competitive, 9 f.; definition of

income as, 86 ff. (See also Fisher,

Irving, and Konsumtionsfonds-

theorie); expense versus, 54, 74;

and income definition, 49 f.; in-

vestment in training as, 54

Corke v. Fry, 123 n.

Corporations: capital gains problem

and, 157, 185; family, 186 ff.;

and monopoly problem, 189 n., 196 n.;

partnerships, treatment as, 189 ff., 194; and personal

income, 196 ff.; and realization or

separation of income, 196 ff.; un-

distributed earnings of, 185-204

Credits for dependents. See Dependents

Death duties. See Inheritance taxation

Dependents, 137, 140 ff., 143 n.,

145 f., 220

Depreciation, 86, 88; and income of

homeowners, 117; and personal-

service incomes, 55, 73 f., 142

Discrimination. See Equity among persons

Distributional considerations: ver-

sus other, v; productional versus,

39, 25. See also Inequality and

Justice in taxation

Double-counting arguments, 57, 134,

138

Earned income in kind, 52, 111, 113,

210

Earnings. See Compensation and

Fisher, Irving

Edgeworth, F. Y., 5, 7, 10

Ersmar v. Macomber, 183, 198 ff., 203

Ely, R. T., 45 n.

England: capital gains taxation in,

148, 149 f., 155, 159, 153, 158;

laws relating to undistributed earnings in, 186, 190; treatment

of income in kind in, 104, 111,

116, 117

Equal sacrifice, taxation according to,

6, 9 f.

Equimarginal sacrifice, 6 ff.

Equity among persons, 30, 41, 106 f.,

205; and capital gains provisions,

163 ff., 210 n.; and constitutional

interpretation, 203 f.; and con-

sumer capital, 114 f.; and earned

income in kind, 113; and tax-

exempt securities, 175 ff.; and taxpayer morality, 108 f.; versus

maximum revenue, 158, 175;

versus mitigation of objective in-

equality, 31, 138 ff.

Ertragstheorie, 65, 68 ff.

Estate taxes. See Gratuitous re-

ceipts and Inheritance taxation

Evasion, 113, 114, 115, 124, 162 f.,

168 f., 172, 175, 179 ff., 185 ff.,

195 f., 208, 214. See also Avoidance

Excise taxes, viii, 34, 38, 39, 40, 220

Exemption: of certain capital gains

proposed, 162; of earned income in

kind, 51 f., 110 f., 206; of gains on

property bequeathed, 162, 164 f., 185;

of governmental salaries and wages, 172; of gratuitous receipts under income

tax, 125 ff.; of minor gifts, 135 f.,

146; personal, 147, 218 ff. See also

Dependents and Tax-exempt securities

Expenditure, governmental, vii, 27,

233

Expense, consumption distinguished from, 54, 74

Facing the Tax Problem, ix

Faculty, taxation according to, 5,

16 f., 31, 139

Families. See Dependents

Family corporations, 186 f.

Federal revenues, sharing of, 214 ff.,

220, 224 n.

Fiscal policy, and general economic

policy, 1 ff., 2 n.

Fisher, Irving, 58, 64, 89 f., 94, 98 f.,

225-31

Flugel, Felix, 115 n.
INDEX

France: capital gains taxation in, 148; use of presumptions in, 105 n.
Free enterprise, vii, 28, 31 f.
Fuisting, B., 68
Gain, 59 f., 78 ff., 83 f., 87, 88, 98, 212
"Gain from transactions," income usage and, 44
Gambling. See Lottery winnings
Gasoline tax, 38, 39, 220
Gerloff, W., 71, 76
Germany: capital gains taxation in, 148 n., 149, 150, 152, 158; literature of income definition in, 60-80
Gifts: gains and losses on property acquired by, 147 n., 162 ff., 165, 166 n., 167, 207 ff.; as income, 56 f., 134 ff., 207, 211; in kind, 135 f., 145 f., 207; unrealized losses on property transferred by, 209 f. See also Gratuitous receipts
Government: and administration of industry, 29; and budgetary provision for capital accumulation, 26; expenditures by, viii, 16, 32, 222; investment by, in private industry, 27 f.
Governmental bodies, tax exemption of interest and salary payments of, 170 ff., 210
Gratuitous receipts, 56 ff., 125-47, 207. See also Gifts
Haig, R. M., ix, 61, 62, 80, 148 n., 149 n., 206
Hardy, C. O., 174 f., 177
Heckel, M. von, 77 n.
Hedonism, 10; and ethics, 10-15; and welfare economics, 14 f.
Held, A., 58 n., 63, 70 f., 75, 100
Hermann, F. B. V. von, 48 n., 51 n., 63, 64, 75, 100
Hewett, W. W., 42 n., 51 n.
Hirnrichs, A. F., 174 n.
Holding companies, personal, 186 ff.
Household economy, 52, 110 f.
Impersonal taxes. See Ad rem taxation
Income: accrual of, 99 f.; accountant's conception of, 86 ff., 200; in analytical economics, 47 f.; capital gains as, 150 ff.; double-counting as to, 57, 134; Fisher's double usage of, 90; as flow, 51; as gain from transactions, 44, 80 ff.; as income from things, 44; as net accretion of economic power, 61 f., 206; as Reinvomgenzug, 60 f.; savings as, 97 f.; as social or national income, 44 ff.; as tax base, 42, 105 ff., 206 f.; and theory of interest, 90 ff.; and time period, 59, 82 f.; various usages of, 43 ff.; as yield or rent, 44, 90. See also Realization criterion and below
Income, definition of, 41-58, 59-102, 206; need for clear, 105, 139
Income, distribution of. See Inequality and Justice in taxation
Income in kind, 110-24, 211; in case of gifts, 135 f., 145 f., 207
Income, personal: ambiguities of conception of, 51 ff.; compensation in kind as, 55, 122 f.; connotations of, 49 ff.; definition of, author's, 49 f., 206; and distinction between consumption and accumulation, 54 f.; earned income in kind as, 51 f., 110 ff.; and expense versus consumption, 54 f.; as gain to a person, 50 f., 84; gratuitous receipts as, 56 f., 125-47, 207; leisure as an item of, 52, 111; and the money unit, 55 f., 155, 155 f., 206; need for ideal conception of, 105 f.; as share in social income, 47 ff., 77; social income as more ambiguous than, 49. See also other headings under Income
Income taxation: ad rem anomalies in, 151, 161, 163, 167, 170, 187; and ad rem taxes, 127 ff.; and budgetary policy, 221 ff.; and in-
PERSONAL INCOME TAXATION

Inheritance, See Gifts and Gratuitous receipts

Inheritance taxation, 39, 125-47, 207, 211 ff.

Interest, income concept and theory of, 89 ff., 225; on governmental obligations, tax exemption of, 170 ff., 210

Justice in taxation, 1-40, 205 ff.; as administrative consideration, 108 f.; maximum-revenue criterion versus, 156 f., 175; and offsetting effects of different taxes, 126 ff.; vested interests and, 32 ff., 183 f. See also Ad rem taxation, Equity among persons, and Sacrifice doctrines

Keynes, J. M., 23 n., 192

Kleinwächter, F., 43 n., 52, 53, 110, 123, 135

Konsumentionsfondstheorie, 64 f., 100 ff.

Leisure and income, 52, 111, 113, 207

Lexis, W., 69 f., 77

License taxes, 40, 220

Lion, Max, 80 n.

Liquor taxes, 39

Losses. See Capital losses, limitations upon deduction of

Lottery winnings, 70, 72, 128

Lotz, Walther, 47 n., 71 f., 74

Magill, Roswell, ix

Malthus, T. R., 63, 101

Mangoldt, H. von, 63, 100

Married persons, personal exemptions of, 220. See also Dependents

Maximum-revenue criterion, 156 f., 175

Mellon, Andrew, 171, 175 n., 180, 187

Meyer, Robert, 48 n., 58 n., 63 n., 78 n., 100 ff., 118 n.

Mill, J. S., 6

Mills, Ogden, 226

Minimum-sacrifice theory, 6 ff.

Moll, Bruno, 41 n., 43 n., 60 n., 75, 76, 78, 120 n., 150

Moll, W., 41 n.

Money and monetary considerations, viii, 23 n., 55 f., 131, 155 f., 206, 221 ff.

Monopoly problem, viii, 193 n., 196 n.

Montgomery, R. H., Son., 122 n., 180 n.

Morgenthau, Henry, Jr., 171

Murray and Carter, 122 n.

National income, meaning of, 45 ff.


Newport, C. A., 112 n.

Offsetting effects among taxes, 126 ff.

Organized negotiation, vii

Oversaving doctrines as argument for progression, 23 n.

Paton, W. A., 82 n., 84 n.

Payment of taxes, postponement of, 168 f.

Payroll taxes, viii

Peck v Lowe, 203

Periodisitatslheorie, 65, 68, 71. See also Recurrence criterion

Personal earning capacity: investment in, as consumption, 54, 74; and inheritance taxation, 141 f.

Personal income. See Income, personal

Personal property, income in kind from, 128 f., 130

Personal taxation. See Income taxation
INDEX

Philippovich, E. von, 6 n., 68, 72
Pigou, A. C., 7 n., 8, 10, 11, 228
Pistorius, T. von, 60 n., 150
Pleasure machines, individuals as, 11, 13
Plehn, C. C., 74 f.
Political controls, vii, 29
Popitz, J., 60 n., 69, 75, 78, 101, 104 n., 112 n., 120 n., 127 n., 150
Postponement of tax payments, 168 f.
Powell, T. R., 82 n.
Powell, T. R., 82 n.
Presumptions, use of, 104 f., 122
Price-level changes. See Money and monetary considerations
Production, effects of progression upon, 10 f.
Productivity ethics, 12 ff.
Progressive taxation: argument for, 17 ff., 205 f.; effects on production, 19 f.; effects on saving, 21 f.; in our federal legislation, 218 f.; and incentives, 20 f.; and monetary policy, 23 f., 221 f.; and socialism, 27 f.; and venturesome enterprises, 20 n. See also Averaging devices. Justice in taxation, and Sacrifice doctrines
Property taxes, 33 f., 39 f., 117 f., 205
Proportional sacrifice, 6
Public expenditures. See Expenditure, governmental
Public utilities: governmental investment in, 27 n., 29; special assessments for, 35 f.
Quellentheorie, 65 ff., 71, 76, 126 f.
Rates of tax, 218 ff. See also Progressive taxation
Rau, K. H., 63
Realization criterion, 56, 80 ff., 153, 162 f., 164 ff., 168 ff., 108 f., 207 f.; constitutional aspects of, 203 f.; modifications proposed, 165 ff., 212; and postponement
of tax payments, 198 ff.; and provisional income measurement, 200 f.; stock dividends and proper application of, 198 ff.; versus gain connotations, 84, 88
Rebates. See Averaging devices
Receipts in kind. See Income in kind
Recurrence criterion, 65 ff., 74 ff., 79 f., 101
Regelmässigkeit. See Recurrence criterion
Reinvestmögenschung, income as, 50 ff.
Rent, deduction of, by tenants, 115 f.; under Civil War taxes, 115 n.
Renters, discrimination against, 112 f.
Restraint of trade, vii ff.
Retirement of public debt, 27, 28 n.
Revenue criterion, 156 f., 175
Revenue, federal, sharing of, 215 ff., 220, 224 n.
Ricardo, David, 73
Rodbertus, J. K., 101
Roscher, W., 68 f., 120
Rules, need for simple and general, 138 f., 206
Sacrifice doctrines, 5-16
Salaries, government, tax exemption of, 179, 172
Saving. See Accumulation, Capital accumulation, and Oversaving doctrines as argument for progression
Sax, Emil, 63
Schaffie, A. E. F., 51, 68, 78
Schanz, Georg, 60, 61, 63, 68, 69, 74, 75, 112 n., 115 n., 118 n., 120 n., 122 n., 126 n., 149 n., 150
Schmoller, G., 22 n., 48, 58 n., 60, 65, 73, 74, 97, 101
Schuster, E., 77 n.
Securities, tax-exempt, 170-84
Seligman, E. R. A., 6 n., 15 ff., 85 ff., 175 n., 199, 203
Seligman, Eustace, 198 n.
Separation doctrine, 85 ff., 196 ff.
Shoup, Carl, ix.
Single persons, exemptions for, 220
Single tax, 30
Smith, Adam, 17, 47, 48 n., 63, 100, 107
Social income, meaning of, 44 ff., 48 ff.
Sociopolitical theory, 15 f.
Special assessments, 34 ff., 39
Speculative ventures, effect of progression upon, 20 n. See also Capital gains
Spending tax, 226 ff.
States: as income-tax jurisdictions, 214 f.; sharing federal revenues with, 215 ff., 220, 224 n.
Stock dividends as income, 85 ff., 183, 198 ff., 203
Strutz, G., 60 n.
Surtaxes. See Rates of tax
Tariff duties, viii, 39, 220
Tax-exempt salaries, 170, 172
Tax-exempt securities, 170-84, 210; and constitution amendment, 171, 183 ff.; constitutional aspects of, 171 n., 173 n., 181, 183 f., 192 f.; diseconomies resulting from, 175; and equity among persons, 175 ff., 178; interest paid to carry, 179 ff.; as a problem of political tactics, 183 f.; regressive burdens involved, 177; and revenue criterion, 175 ff.; vested interests as to, 183 ff.
Tax payments, postponement of, 168 ff.
Tax reform, summary of proposals for, 210 ff., 220
Tennant v. Smith, 123 n.
Teschemacher, H. G., 104 n.
Tobacco, taxation of, 39 n.
Trusts, legal, as avoidance devices, 214 n.
Undistributed corporate earnings, 185-204; apportionment possibilities in case of, 186 ff.; and capital-gains problem, 157, 185; capital-gains calculation with apportionment of, 193; of family corporations, 186 ff.; penalties for unreasonable accumulation of, 186 ff.
Undistributed-profits tax, 188, 189 n., 195, 196 n.
Unemployment, tax reform and, viii
Utility. See Sacrifice doctrines
Valuation, 56, 69, 90, 94, 100, 213. See also Realization criterion
Vested interests. See Justice in taxation
Viner, Jacob, 55 n.
Vocke, N., 69, 104 n.
Wagner, Adolph, 15 f., 65, 101
Walton, V., 111 n.
Wives, allowance for earned income of, 111. See also Community property and Dependents