

THE FEDERAL INCOME TAX

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The federal income tax by Various

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VARIOUS

**THE FEDERAL
INCOME TAX**

Columbia University Lectures

THE FEDERAL INCOME TAX

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BY

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INTRODUCTION

THE PROBLEM IN GENERAL

BY

EDWIN R. A. SELIGMAN, Ph.D, LL.D.

The taxation of income is a relatively new phenomenon in American fiscal life. Only within a decade has the Federal Constitution been amended so as to make a national income tax possible; and this amendment came in the nick of time. It is appalling to think of the situation into which we should have been plunged had we not been in a position to alient our revenues during the Great War from this source. The very newness, combined with the hugeness, of this fresh device has, however, naturally engendered all sorts of difficulties from which we are slowly trying to extricate ourselves.

In every new fiscal project there are three stages which must be traversed. The first is for the legislator to decide as to the fundamental principles on which the bill is to be constructed. These principles are primarily economic in character. Inasmuch as fiscal science is still a youthful discipline in America and in view of the comparative insignificance of the income tax in the public finance of foreign countries, the economists have not yet addressed themselves, with complete success in achieving unanimity of results, to many of the problems which must guide the legislator. Some of these questions have indeed received a fairly careful study, such as that of exemptions and abatements for the minimum income, the justification of progressive taxation, and the position that ought to be occupied by an income tax in the general fiscal scheme. But other and equally fundamental problems still await a searching examination at the hands of economists and students of public finance.

At the very outset we are confronted by the question of

what income really means. To this many answers have been given. But no thoroughgoing fiscal analysis of the conception has yet been made, and as a consequence no two countries agree in the law on the subject. Among the fundamental points at issue here are questions like the following:

Is income to be conceived of in terms of money, of money's worth, or of mere psychic benefit? If income is a flow and capital a fund of wealth, between what periods of time is the flow realized, and when does the flow congeal into a fund? Are both realization and separation necessary to the concept of income? Does income include the appreciation of capital? Are gifts to be considered income? The decision as to these and many other similar questions waits upon a far more thorough analysis than is found in the ordinary books.

After this basic question is settled other difficult problems present themselves. The general rate of taxation is indeed primarily a political question and, as such, one for the statesmen to ponder and decide. But the question of the effects of a drastic progression and of the influence of high surtaxes involves an economic analysis. Again, while there is substantial unanimity among students of public finance as to the desirability of differentiating incomes according to the sources from which they are derived, there is great diversity of opinion as to the more recent proposition of differentiating incomes according to the purpose to which they are to be devoted. In other words, while the distinction between earned and unearned income is generally accepted, this is far from being the case as to the distinction between income saved and income spent.

A similar lack of unanimity is manifest in the treatment of losses, as contrasted with gains, in the problem of wasting assets, and in the domain, so important in modern industrial society, of business reorganizations. On every side, in fact, we are confronted with problems bristling with difficulties, into which the economist has thus far put scarcely more than an entering wedge and without a successful treatment of which the legislator must necessarily founder. It is the purpose of these addresses to attempt a beginning at least in the contribution to a more thoroughgoing economic analysis. Until fis-