

# Chapter 17

## Personal Income Tax PIT

Amend. 16 US Constitution 1913

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Haig - Simons 1926

↳ Henry

Base  $\longrightarrow$  Year over year gain in wealth

Rate structure

All sources of income. {  
W+5  
Interest  
Dividends  
Capital Gains  
Rent  
Royalties

Exemptions - expenses to earn income

Deductions

(gain in human capital.)

Basic exempt

- living  
- medical/health

## Sched. C - Profit loss business

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Should be in taxable income

non-taxed benefits {  
- health insurance premiums  
- housing  
- car (lease)

↳ reduce labor mobility.  
"golden chains"

Equity - Rate structure. (AGI)

Base  $\rightarrow$  Adjusted Gross Income line 37

Marginal utility of income declining.

$$MU \propto \frac{1}{\text{Income}}$$

$$I_0 = 30,000 \quad MU_{1000} = x \quad x > y$$

$$I_1 = 100,000 \quad MU_{1000} = y$$

tax rate  $\uparrow$  in AGI - progressive rate structure

Base - tax unit?  
 individual or household? ]

Household production

consume good  $Z$

$$Z = f(x, t)$$

↑  
 market goods

→ time

meal - grow food  
 do all prep self  
 - restaurant

H-S definition tax  $X$  relative to  $t$

Home prod -  $t$  intensive

Market "  $X$  intensive

$$U = U(Z)$$