Federal Income Taxation of Individuals

in a nutshell®

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FEDERAL INCOME TAXATION OF INDIVIDUALS
IN A NUTSHELL

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SIXTH EDITION

WEST GROUP

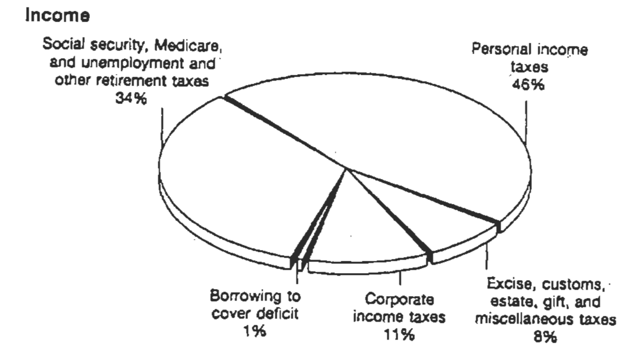
ST. PAUL, MINN.
1999

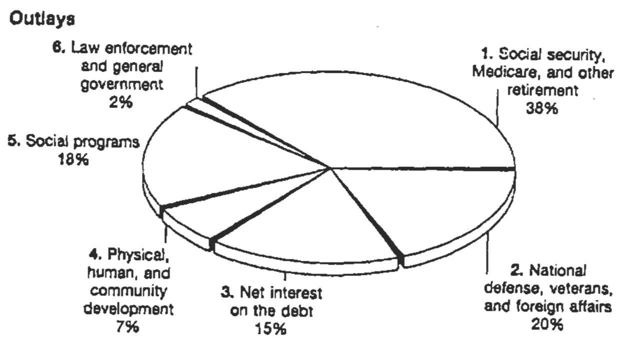
CHAPTER I

INTRODUCTION

§ 1. Role of the Income Tax

The Federal Income Tax serves a number of purposes. Of course, it is first viewed as a revenue collector, the largest in the Federal budget. In 1997, for example, the Federal government received total "income" of $1,579 billion. Of the 1997 receipts, $737 billion (46%) were taken from the private sector of the economy, for disposition by the public sector, by the Federal Income Tax on individuals, compared to $334.5 billion in 1985. Another $182 billion (11%) were raised in 1997 by the Federal Income Tax on corporations, compared to $61.3 billion in 1985. Social security and other insurance and retirement contributions raised $539 billion (34%). Excise taxes raised $57 billion (4%). The remaining $63 billion of receipts (4%) in 1997 came from customs duties, estate and gift taxes, Federal Reserve deposits, and other miscellaneous receipts. Since 1997 federal spending totalled $1,601 billion, the Government was left with a deficit of $22 billion, an amount the Government was forced to borrow. Figure 1 shows the sources from which the Government's 1997 receipts derived, and Figure 2 shows for what purposes they were expended. Figure 2 shows how the Government spent the money.





The income tax serves several functions in addition to financing federal government expenditures. It also allocates resources, subsidizes some persons or activities, encourages or discourages certain kinds of economic and social behavior, redistributes wealth, stimulates or stabilizes economic growth, helps maintain our federalism, and helps solve some specific social problems such as pollution and urban

decay. Further, the income tax shapes and preserves the fundamental influences that a free market economy presupposes.

§ 2. Taxpayers and Tax Returns

The Federal Income Tax applies to all residents and all citizens of the United States. Not everyone must file a return, however. The requirements for filing are found in I.R.C. §§ 6011–17.[1] Filing requirements generally have been keyed to the amounts of income a taxpayer can receive without having to pay any income tax. Each taxpayer is allowed to receive, tax free, an amount equal to a "personal exemption,"[2] [set by the statute at $2,000, an amount that is indexed after 1988 for inflation; *see* I.R.C. § 151(d)(4)]. The 1999 amount is $2,750. He or she also is entitled to a so-called "standard deduction". The statutory amount of standard deduction is $3,000 for a single, unmarried taxpayer, $4,400 for a head of a household, $5,000 for a married couple filing jointly or for a surviving spouse, and $2,500 for a married individual who files separately, also indexed for inflation. However, if the individual may be claimed as a dependent on another taxpayer's return (such as a parent's re-

1. The federal income tax is part of the Internal Revenue Code, embedded in the United States Code (U.S.C.) and the United States Code Annotated (U.S.C.A.). Section numbers of the Internal Revenue Code (I.R.C.) cited in this book correspond to sections of Title 26, U.S.C. and Title 26, U.S.C.A.

2. The benefits of the personal exemption are phased out for taxpayers with taxable income exceeding certain amounts. *See* I.R.C. § 151(d)(3).