Despite the important consequences of differential tax treatment of families of different sizes and types, this issue has received little systematic attention. Differentiation between different types of families for purposes of the income tax has been accomplished via personal exemptions and differential rate structures for different types of families. But even these changes have not been consistent.

For example, the personal exemption remained constant at $600 from 1948 through 1969, and its real value was heavily eroded due to inflation. Over the next ten years, it was gradually increased to $1000 where it again remained constant until indexing of the personal exemption began in 1985. During the period from 1948 to 1984, the personal exemption lost 63 percent of its purchasing power. Even the increase to $2000 in 1989 was insufficient to restore the original value of the exemption, which currently has a real value 38 percent smaller than its 1948 level. Obviously, its value as a fraction of per capita income is even smaller.

The increases in personal exemptions in 1986 were designed, along with the standard deductions, to remove families below the poverty line from the tax roles. But the issue of the proper treatment of families of different sizes at higher income levels was largely unaddressed, even though there were dramatic changes in the rate structure. Indeed, in the course of pronounced changes in the rate structure in 1981, tax treatment of families was not even discussed. The relative tax treatment of these families was simply the result of the combination of tax rate schedules and the personal exemption.

Other changes occurred over the years. While the income tax was originally applied on an individual rather than a family basis, income splitting for married couples was adopted in 1948. The motivation for this change had little to do with a theory of taxation of the family. Rather, individuals in community property states were successfully claiming the right to divide their income evenly for income tax purposes. Income splitting for married couples was adopted to equalize treatment across the states and forestall a major tax induced disruption in state property laws. This income splitting approach created a tax benefit to marriage; this benefit was, however, little discussed at the time. Shortly after, a
head of household schedule was introduced which allowed half the benefits of income splitting.

Criticism from singles arguing that their taxes were too high relative to married persons resulted in a lower rate schedule for them in 1969. The difference in rate schedules also created a marriage penalty for certain types of families. If both spouses worked, tax bills could increase with marriage. While there had been little attention devoted to the marriage bonus, which could encourage marriage, considerable concern about the marriage penalty developed. Here, ironically, was a tax rule which encouraged individuals to "live in sin". Coupled with increasing female labor participation and a changing social structure, the potential effect of taxation in discouraging marriage was considered a serious concern.

Moreover, economic evidence suggested that married women had a very elastic labor supply and the cumulation of income for tax purposes could lead to very high marginal tax rates, making the family taxation approach inefficient as well as encouraging a departure from previous social norms. Interest developed in returning to an individual based tax system (see Brazer 1980, Munnell 1980).

The tax incentive to live together without benefit of matrimony created a stir, and led to a capped deduction for the secondary earner. This was an imperfect device, which partially alleviated the problem of the marriage penalty and, for families below the cap reduced the marginal tax rate on the secondary earner.

Other provisions of the tax law also proceeded in a somewhat ad hoc fashion. Virtually from its inception, the law allowed deductions for certain expenditures such as interest, charitable contributions, and taxes. In 1944, a standard deduction as a percentage of income with a ceiling was adopted as an alternative to these itemized deductions. This change was motivated in part on the grounds of simplicity, to reduce the number of itemizers. A minimum standard deduction was introduced in 1964, which varied with family size, but it was quickly converted into a flat allowance. Over the years the minimum or low income allowance began to approach the maximum and was eventually converted into a single exempt amount which varied by filing status rather than family size.

Some provisions were directed at dependents (primarily children). In addition to personal exemptions, child care deduction/credit is phased out for higher income families. There is also an earned income credit which was introduced in 1975 which is available only to families with a dependent and which is refundable. At least initially, this credit was thought of as a relief for social security taxes which have no exemption levels. The credit is phased out as income rises and essentially functions as a negative income tax. Both of these provisions are largely directed at low income families. Tax laws also limited the ability to reduce taxes by splitting income with minor children through the so called "kiddie tax," where most income of children under 14 is taxed at the parent(s) marginal tax rate.

Although there are other nuances of the tax law, these provisions reflect the major structural features of the law. They have created certain important consequences over the years.

-- The relative tax burden in the post World War II period shifted towards larger families relative to smaller ones. Steuerle (1984) estimates that the effective tax rate of the married couple with no children earning the median income