ment capital, land, securities, etc., are ignored as self cancelling.

If the method of balances were used we would obtain the same result. The procedure would then be virtually to use the methods of the present day income tax laws with the added proviso of deducting all reinvested income.

INCOME TAXATION IN PRACTICE

It is interesting to see how actual experience has forced men's minds toward the realization of the true meaning of income as set forth above. The first examples will be taken from the experience of the United States Government with income taxes.

Ever since the first direct income tax was levied by the Federal Government in 1861, the definition of income as a legal concept has been under-going an evolution at the hands of Congress and the courts, primarily the Supreme Court of the United States.

We find, in the statutes, very few attempts to define income. Rather do they assume the meaning of that term, so puzzling in economic literature, to be self-evident. Consequently the meaning of the statutes themselves is always vague and varying. The growing precision and progress toward a truer concept consists chiefly in the gradual disentangling of income from capital. At first "income" seemed to include a great deal of capital. The law of 1894 included gifts and inheritances of personal property as income but no real estate. The act of 1913 (a section of the Tariff Act) exempted gifts, bequests, and life insurances. The law of 1924 taxes gifts and inheritances but not as income.

The law of June 30, 1864, included under income undivided profits and other unrealized capital gains, as well as realized profits and realized capital gains. This naturally led to litigation (*e. g.* Brainard *vs.* Hubbard, 12 Wall 2).

Professor Hewett says, as to the taxation of realized gains,

> "The Income Tax of 1864 provided for taxation of gains realized from the purchase and sale of property. This provision was omitted with the passage of the Act of 1867, but the Commissioner of Internal Revenue continued to assess and tax realized property value gains, as before."*

The law of 1868 also included as income accrued, unspent capital gain. This led to double taxation, Professor Hewett says:

> "Thus, if a corporation reinvested its earnings, they must *be reported as income by the stockholders* the year they are earned. The fact that the earnings were not distributed, however,"‡

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* Hewett, p. 65.
‡ Hewett, p. 42.