Taxes in the Shade of the Raintree

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Some critics assert that the U.S. individual income tax in its current form has never been more intrusive or complex. However, an obscure circumstance that arose 60 years ago suggests otherwise.

In early 1948, Bloomington, Ind., was the focus of the literary world. The book *Sexual Behavior in the Human Male* by Indiana University Prof. Alfred Kinsey was a national sensation, rising to number one on the *New York Times* nonfiction bestseller list. During the same period, the novel *Raintree County* by Bloomington native Ross Lockridge Jr. also reached the top of the *Times* fiction list.

Today *Raintree County* is likely remembered as the flawed 1957 film starring Montgomery Clift and Elizabeth Taylor. The movie was loosely based on the Lockridge novel that tells a complex story of an Indiana native (based on a Lockridge ancestor) from mythical Raintree County (Henry County, Ind.) through flashbacks that occur on a single day on July 4, 1892. It was a serious novel that was also a popular success despite its over 1,000-page length. It has been hailed as a failed but valiant attempt at the illusive ''great American novel'' and is now considered an important work in environmental fiction, becoming a staple in American studies courses.

Lockridge was not the stereotypical dissolute, self-indulgent artist. He was handsome and well-liked and an accomplished scholar and athlete who was devoted to his wife and family.[1] After excelling in his junior year at the Sorbonne, he graduated in 1935 with the highest average in the history of Indiana University. He eventually went on to Harvard University to study for a Ph.D. in English. As a graduate student at Harvard and a teacher at Simmons College, a woman's college in Boston, he wrote the monumental *Raintree County* while supporting his wife and four young children.

Unlike many writers, he was also well informed about business and tax matters. After years spent writing the book and enduring a painful editorial process, the book became a literary and financial success. In addition to the normal royalties from the Houghton Mifflin publishing house, the book won an MGM prize of $150,000 (with $125,000 to Lockridge and $25,000 to the publisher) for the screen rights and became a Book of the Month Club choice, generating an additional $25,000. These values can be multiplied by 10 to provide an estimate of their purchasing power in 2008 dollars.

Lockridge went from an unknown, struggling former graduate student and teacher to a rich and famous author almost overnight. By March 1948 *Raintree County* had become the number one fiction bestseller. On March 6 Lockridge completed and mailed his wife's income tax return, wrote a detailed letter to his lawyer dealing with his own tax matters, and being a true Hoosier, made plans to listen to the radio broadcast of a Bloomington High School regional basketball game.

Later that night, he was found dead in his garage from carbon monoxide poisoning — a suicide victim at age 33. It is now known that he was severely depressed and suffered from anxiety. This problem was not well diagnosed 60 years ago and even less well treated. Clearly his suicide was the result of his depression, but in the last year of his life, his distress focused on both artistic and business problems, including taxes.

In the artistic arena, Lockridge found the editing and especially the cutting of his work very painful. The demands of the MGM prize and the Book of the Month Club selection led to the need for cuts of up to 100,000 words in what he thought was the final version. As with most authors, he was also concerned about the reception of his novel, believing that his work was not being reviewed fairly by many critics.

On the business front, Lockridge became unhappy with Houghton Mifflin, where some smaller disputes and misunderstandings eventually soured the overall relationship. He operated without a literary agent, so many issues that might have been handled at arm's length became the source of personal bitterness. Within this context, taxes also played a major role.

As a person knowledgeable about business affairs, he was also familiar with taxation issues. In 1947 the U.S. income tax was highly progressive with extremely high marginal rates.[2] There were 24 brackets, with marginal rates ranging from 19 percent to 86.45 percent — the highest rate applying to taxable income over $200,000. Also, there was no income splitting available for families

[1]Much of the information about Lockridge comes from the biography written by his son Larry Lockridge: *Shade of the Raintree: The Life and Death of Ross Lockridge, Jr., Author of Raintree County*. New York: Viking Penguin, 1994.

[2]For more detail, see Joseph Pechman, *Federal Tax Policy*, Washington, D.C.: Brookings Institution, 1987.

before 1948 — one year too late for Lockridge and his wife. All taxpayers had to file single returns. Moreover, there was no explicit forward or backward averaging. Income averaging made an appearance in the U.S. income tax laws from 1964 to 1986, but it did not exist in 1947.

Realizing this, Lockridge made an unusual demand when his manuscript was submitted for the MGM prize. He wanted the proceeds of the prize to be paid over several years, not in a lump sum. He believed that this condition had been accepted at the time of submission. When he won the prize, his joy was dampened when he learned that prize was to be paid in one payment in 1947. He was bitterly disappointed about this and felt betrayed by his publisher and MGM.

This was not an inconsequential concern. Arguments for income averaging are usually based on stories similar to Lockridge's situation — a period of long gestation with little or no pay followed by a large lump sum payout. Using the tax tables for 1947, $125,000 of taxable income generated a tax liability of $85,092 for an average tax rate of 68.1 percent and a marginal rate of 84.55 percent.[3] A five-year distribution of $25,000 (or five-year averaging) would have generated a total tax bill (present value considerations aside) of $48,213 with a 38.6 percent average and 56.05 percent marginal rates.

Income splitting with joint returns was introduced in 1948. If full income splitting and a five-year distribution of the $125,000 had been available, the total tax bill would have fallen to $34,343 with a 27.5 percent average and 40.85 percent marginal rate. The overall difference between the tax on the lump sum payment and a five-year distribution with income splitting amounts to $50,749, with the lump sum tax 2.5 times the amount of the smaller tax bill.

Lockridge was deeply troubled that taxes had seriously eroded a payment (well over $1 million in today's dollars) for the best work he might ever produce that could have provided long-term security for him and his family. He spent more than five years working on the book and in 1948 had nothing in the pipeline for future publication. It should be noted that he and his wife did not object to the welfare state and the resultant high levels of taxation. They were ardent supporters of Franklin Roosevelt and were even against Indiana native Wendell Willkie in the 1940 election. Lockridge was not upset with high taxes in general, but he was unhappy with their impact and perceived unfairness on people in his particular situation.

His problems illustrate the effects of high marginal rates with extreme progressivity.[4] Some of these problems were eventually dealt with explicitly through income splitting and averaging provisions in the tax law and ultimately by lowering marginal rates and reducing the number of brackets.

In addition to attempting to spread his income over a longer period, Lockridge also devised an ad hoc splitting arrangement. Lockridge paid his wife, Vernice, $25,000 for her assistance in writing *Raintree County*, which transferred income from his 84.55 marginal rate to her still high 56.05 marginal rate (and a 39 percent average rate). On the day of his death, he was still concerned about how the IRS might view this payment and went to some length to justify the arrangement in a letter to his attorney. He also made deductible charitable contributions to the Indiana University Foundation for an account that would be used by his father, who was active in promoting Indiana history and culture.

No one should conclude that taxes drove Ross Lockridge Jr. to suicide. However, tax concerns were a source of his distress that was magnified by his depression. This also shows that even with all of its defects and problems, the income tax today could be worse and actually was much worse in the past. Think about how intrusive and disruptive the income tax would be today with marginal rates reaching 50 percent at less than $200,000 in 2008 dollars and over 84 percent at $1 million with brackets not indexed for inflation and without income splitting and tax deferred saving options. We may not live in the best of all tax worlds, but we do not live in the worst either.

[3]These tax calculations should be viewed as illustrative in that detailed information about Lockridge's actual situation is not available. In addition to inflation, these results are also not directly comparable to rates today because of differences in the tax base and the availability of avoidance opportunities.

[4]Heavyweight boxing champion Joe Louis was another casualty of this high marginal tax rate era. Bad business advice along with disallowed charitable contributions from the donation of fight purses during World War II resulted in a crushing tax bill and interest charges that wrecked his career.