

# TAX FEATURES

## Boosted by Strong U.S. Economy, Tax Freedom Day<sup>®</sup> Moves Up a Day: May 10

If, starting January 1, all national income were withheld from Americans' collective paychecks to pay for federal, state, and local taxes, the Tax Foundation estimates that on average U.S. citizens this year would be free to spend as they please starting May 10. That makes Tax Freedom Day<sup>®</sup> 1998 the latest on record — a day later than last year, and a full week later than 1994.

Announced by the Tax Foundation each year for over a quarter of a century, Tax Freedom Day is used to illustrate the portion of the nation's annual income that goes to pay for government services and programs. Once Tax Foundation economists project the nation's average tax rate for the year — 35.4 percent in 1998 — it is applied to a calendar year to provide a graphic illustration of the national tax bite. Thus, 35.4 percent of 365 days is 129 days — which means that the 130th day is Tax Freedom Day.

Economists Patrick Fleenor and Scott Moody and Research Fellow Stephen Shelby observe in their 1998 report that, while the country's tax burden remained relatively constant during the early 1990s, a rapid increase in the overall level of taxation has occurred in recent years. (See Chart 1 on page 2.)

While the Tax Foundation includes every



*Executive Director J.D. Foster points out how many days it takes to pay various kinds of taxes at the April 15 news conference.*

federal, state, and local levy that the federal government's National Income and Product Account (NIPA) defines as a "tax," it does not include the cost of complying with the tax system — which many economists view the same as a surcharge. If these costs were included in the calculation, it would push Tax

*Tax Freedom Day continued on page 2*



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## From Destruction to Creation: Developing the New Tax Paradigm

*Rep. Newt Gingrich (R-Ga.), Speaker of the House*

## Tax Freedom Day

*Continued from page 1*

Freedom Day back 13 more days (see Chart 2.)

The Tax Foundation attributes the steady rise in Tax Freedom Day to several factors, including the 1990 and 1993 tax increases, continued economic expansion, and the progressive nature of the current tax system — which, as national income rises, causes the tax burden to rise more than proportionally.

(Separate articles on Tax Freedom Day by type of tax and by state appear on pages 3 and 6, respectively.)

### Tax Bite in the Eight-Hour Day

The Foundation's analysis also reveals the Tax Bite in the Eight-Hour Day, an alternative measure of the tax burden facing Americans that the Tax Foundation has calculated since the early 1960s. It measures the fraction of each eight-hour day that must be spent working to pay federal, state, and local taxes.

Chart 3 on page 8 illustrates the fraction of each eight-hour day that Americans will spend working to finance the purchase of various government goods and services in 1998. It shows that, on average, Americans will spend 2 hours and 50 minutes of each working day laboring to pay taxes. Most of this time, 1 hour and 55 minutes, will be spent working to pay federal taxes — two minutes longer than in 1997. The remainder, 55 minutes, will be spent working to pay state and local taxes.

The 2 hours and 50 minutes total is greater than the time that the nation works to pay for housing and household (1 hour, 20 minutes), food and tobacco (49 minutes), and clothing (20 minutes) combined.

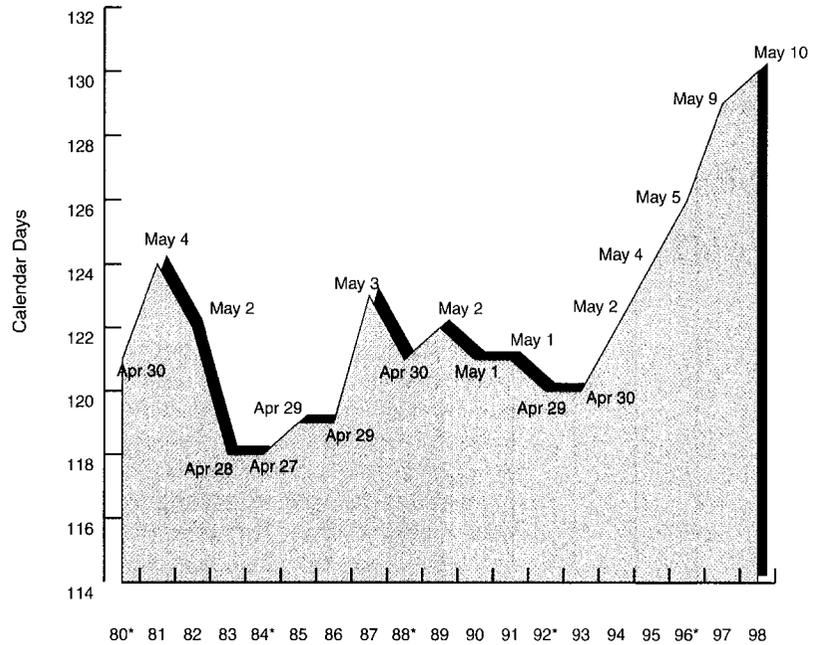
### Tax Freedom Day Methodology

Tax Freedom Day is a concept used by the Tax Foundation to illustrate the share of Americans' annual income that goes to pay federal, state, and local taxes. For illustrative purposes it assumes that income is earned evenly throughout the year and that individuals initially devote all of their earnings to paying their taxes. The day that Americans on average are "free" to spend their income on other goods and services is Tax Freedom Day.

Determining the national Tax Freedom Day involves calculating an overall average tax rate for the nation. This is done by dividing per

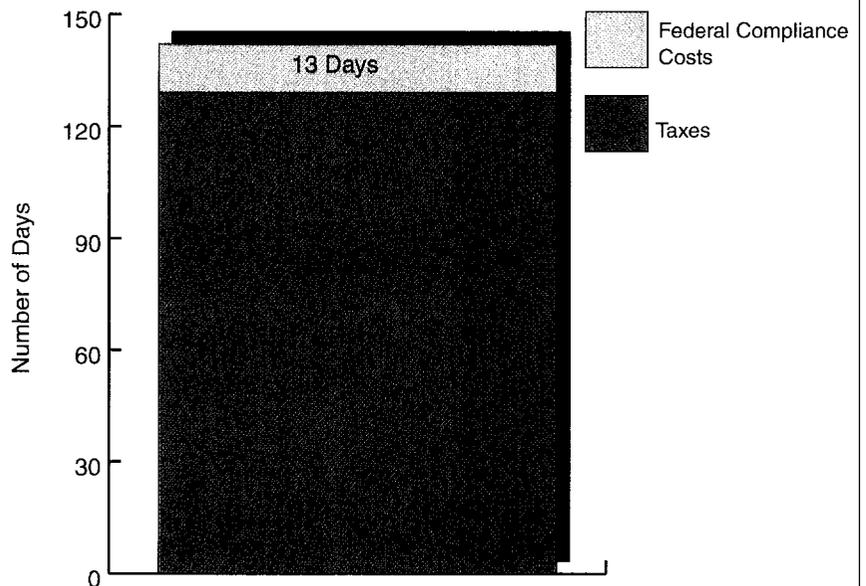
*Tax Freedom Day continued on page 8*

Chart 1: Tax Freedom Day, 1980–1998



\* Leap year makes Tax Freedom Day appear a day earlier.  
Source: Tax Foundation.

Chart 2: Tax Freedom Day and Federal Tax Compliance Freedom Days, 1998



Source: Tax Foundation.

# Income and Payroll Taxes Dominate Tax Load But Other Taxes Still Contribute Significantly to Tax Burden

While Tax Freedom Day 1998 falls on the 130th day of the year, the majority of that tax burden — 83 days, or roughly two-thirds of the total — stems from individual income taxes and social insurance taxes.

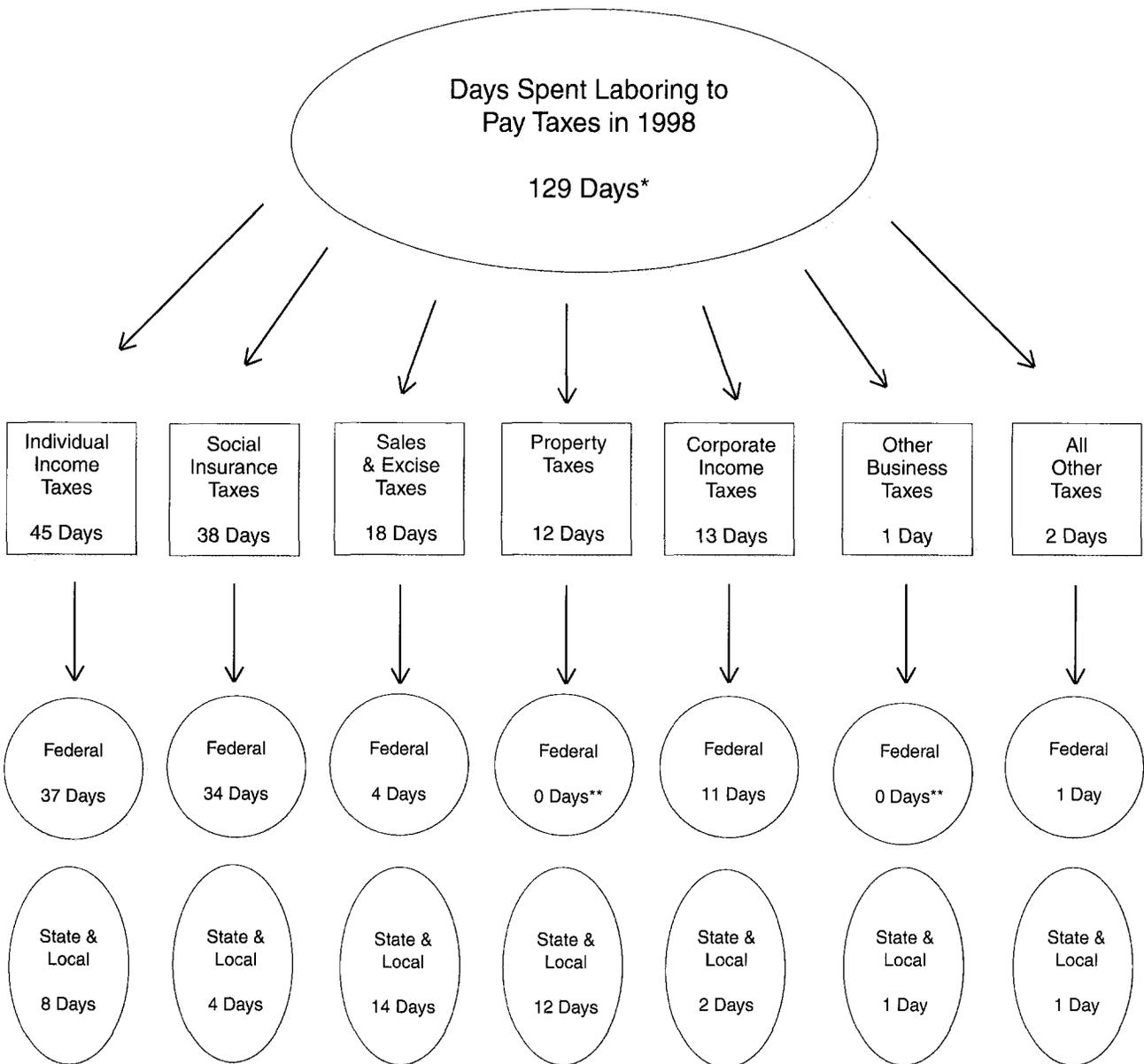
Still, as the flow chart below shows, that means one-third of the 129

days must be dedicated to paying off an assortment of other, smaller taxes.

Sales and excise taxes, which are levied primarily at the state and local levels, make up the next largest component of the total tax burden, requiring some 18 days to overcome.

Property taxes and corporate

income taxes comprise most of the remaining tax burden for Americans. The latter are borne by Americans when businesses pass their tax burden on to shareholders (in the form of lower dividends), employees (in the form of lower wages), or consumers (in the form of higher prices). ●



\* Americans on average will work 129 days to pay off the national tax bill. Tax Freedom Day will arrive on the 130th day.

\*\* Less than half a day.  
Source: Tax Foundation.

## From Destruction to Creation: Developing the New Tax Paradigm

By Rep. Newt Gingrich (R-Ga.),  
Speaker of the House

As a new millennium approaches, we must take a long-term view to identify the issues that confront the nation and develop solutions guaranteeing our long-term health. I call these four issues "Goals of a Generation": creating a drug-free America; developing a world class education system; true retirement security and setting a limit of 25 per-

***The more taxes that the federal government receives, the more it expands and spends, requiring even more taxes, therefore, to feed new bureaucracies. It is a vicious cycle.***

cent of combined federal, state and local taxes — with a government to match.

Though taxes are listed last, they should not be considered least in importance. Over a century and a half ago, the famous American orator Daniel Webster made this stern declaration before the Supreme Court: "The power to tax necessarily involves the power to destroy." It is a warning which all Americans, but particularly politicians, must never forget. Conservatives and Republicans understand a truth that liberals and Democrats do not: Taxes take away the fruits of labor, killing incentives and stifling risk-taking. The power to tax is the power to seize, penalize, and imprison.

Last year, taxes required the average person to work 128 days for the

government. It was not until their 129th workday that they began earning money for their own family. In the past, this was rightly called indentured servitude. After all, each dollar in taxes on our hard-working citizens' income reduces that citizen's ability to provide for their family, to be prepared for future crises and to enjoy what they have worked so hard to achieve. In other words, it limits their freedom.

The current complex system also corrupts our priorities. Currently, the U.S. has more than 110,000 IRS agents. Conversely, we have only 54,000 DEA agents and 4,700 Border Patrol troops. In other words there are nearly twice as many individuals detailed to investigate the lives of law-abiding Americans than there are safeguarding our borders from those who would sell poison to our children. Do we need any other reason to see that it is morally imperative that we reform the tax code in this country?

America was born as a country de-

spising excessive taxation. This is a fact brought dramatically home to me while reviewing author Paul Johnson's remarkable new book *History of the American People*. Johnson observes that the United States was the lowest-taxed country in the world in 1770 — and Americans still resented every penny they had to pay.

Americans in the 18th century felt wronged and imposed upon. They felt that it was morally wrong to not only levy taxes without allowing representation, but also to levy oppressive and arbitrary taxes. They had a point then — just as overtaxed citizens have a point now. Although there is a justification for limited and reasonable taxes if they serve the common good or, if the current burden is too high, there need to be limits. We need to decide what

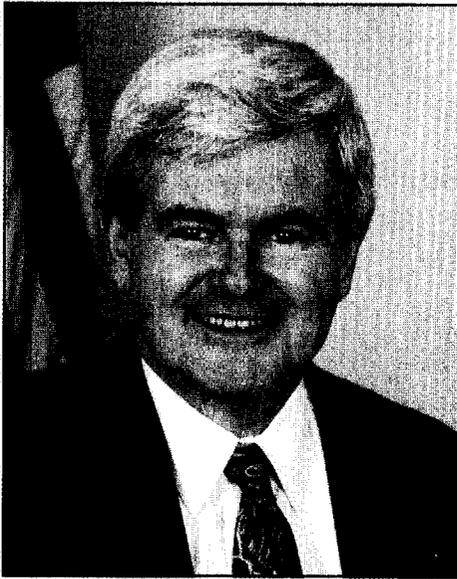
## FRONT & CENTER

amount the state has a right to confiscate and what the moral limit is.

In other words, we need to have a national conversation about how best to limit taxes and permanently reform the tax code. This is a discussion that Republicans have already begun while Democrats continue to defend the status quo. From the resolution to sunset the tax code by 2001 to the lively forums hosted by Rep. Dick Armey (Texas) and Rep. Billy Tauzin (La.), debating whether the flat tax or the national sales tax is the proper vehicle for reform, Republicans have aggressively encouraged an exchange of ideas. There may be disagreement right now about how to achieve the "common good," yet our balanced political system will eventually resolve the issue. Even more important, the fact that we are having this debate is part of the common good and strengthens our democracy. Ultimately, this conversation will revolve around how we can replace the current system that emphasizes the power to destroy freedom with one which recognizes that low taxation enhances the power to create wealth.

The more taxes that the federal government receives, the more it expands and spends, requiring even more taxes, therefore, to feed new bureaucracies. It is a vicious cycle. In 1957, the typical two-income family paid 27.8 percent of their income for state, local and federal taxes combined. In 1997, the typical two-income family paid 38 percent of their income to all levels of government. That means that last year the median family paid more in total taxes than it spent on food, shelter and transportation combined.

In the end, of course, it is a duty of citizenship to pay limited taxes (as taxes are, after all, delineated in the Constitution). But in America, where we tend to define ourselves by our labor, our occupation, taxes eat at the very heart of who we are because they confiscate a part of our selves (the hard-



earned results of our life's work. Therefore, today's many and widespread complaints deserve to be heard and resolved. After all, today:

- IRS horror stories, always suspected, became front-page stories in 1997 thanks to Senator Roth's Finance Committee Hearings on the abusive tactics of IRS agents;
- In a two-income family, almost the entire second income goes to pay taxes — meaning one spouse basically works for the government instead of their family; and
- All working citizens pay 15.6 percent of their hard-earned wages in Social Security and other payroll taxes, including the very poorest among us.

Despite all of these evils, most people agree that taxes are legitimate with-in reason. However, when the tax code ends up as overly complicated and incomprehensible as it is today, then the moral duty to pay taxes loses its legitimacy. Our tax system today fails because not only are our taxes patently unfair and burdensome, the system is intrusive and destructive to things far more precious to Americans than money — their time and their freedom. Time spent working to pay taxes, understand the tax code, and prepare the tax return is time forever lost. The freedom to spend time with one's family, or in volunteering, or in building a busi-

ness, is taken away. The present tax structure destroys these options.

A tax-and-spend, big-government produces only long lines, social ills and great unhappiness. Our Founding Fathers were correct to limit government in the desire to let citizens pursue their own opportunities and their own happiness. In fact, there originally was no income tax (that only came about in 1913 with the passage of the 16th Amendment. And, unfortunately for us, Congress decided against specifying a 10 percent cap in the amendment although some members had argued for it because they were worried that taxes would eventually rise to that amount.

Now that taxes have reached almost four times that amount, it is time to recognize that we need to return to our roots of freedom. The Republican view is that federal taxes should be reduced to the lowest level possible. This is necessary to reduce the government's growing power and the temptations presented by that power. It is also important because it allows families to use more of their own money to provide for themselves. A recent *Reader's Digest* poll demonstrated that, across-the-board, Americans of all backgrounds support a total level of taxation of no more than 25 percent. Elected officials at every level should strive to attain that goal. We must bring government into 21st century in a manner that delivers essential services to the American people with maximum efficiency — under the 25 percent taxation umbrella. This can be done. All we need is the will.

Republicans recognize that this system won't be changed overnight. The current tax code has been around for almost the entire 20th century. A new millennium is the perfect time to rid ourselves of outworn modes and creatively design a fairer, flatter, more flexible system better suited for the wealth creation of the information age.

While that day is still a few years off, today's Republicans are committed to producing tax cuts from the resources that are available. Republicans believe in giving the money from the first budget surplus in thirty years back to the people who earned it. Thus, every year that Republicans are in control of

the Congress, we will produce a tax cut. This year: We are looking at further cuts in the capital gains tax — perhaps the most singly destructive tax in the code. Cutting this tax will give further fuel to the remarkable economic boom that has occurred since Republicans took office. The "marriage penalty" tax and the estate or "death" tax are examples of taxes that destroy not merely financial resources, but the quality of family interaction.

The former places a "surcharge" on couples who believe marriage is an institution worth protecting. The death tax allows decades of work and "sweat-investment" in the family-owned business or farm to be wasted through having to pay taxes so high that the property often has to be sold. These stories mock the American Dream. And so, within the parameters of the current surplus, this year we will move to further reduce these particularly onerous taxes — toward their eventual elimination. Morally, we can't accept the status quo. Indeed, it is a moral duty to limit our onerous tax burden, reform the tax code and put back into the hands of the American people — right now — as much of their hard-earned money as possible.

Following that, we will begin the concrete steps to transform our system for the new millennium. It is a time of unlimited possibilities and promise of the current economic boom spreading across the world. America cannot allow itself to be shackled at this significant moment by the outworn, obsolete systems of the past century. Rather than a complicated system that destroys, we must develop a fairer, simpler one that encourages inventiveness, rewards hard work and enhances wealth creation. This is the way which guarantees that the next one hundred years will be as deserving of the title "American Century" as have the last one hundred. ●

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*The Tax Foundation invites a national leader to provide a "Front and Center" column each month in Tax Features. The views expressed in these columns are not necessarily those of the Tax Foundation.*

## State Tax Freedom Days Vary From April 25 to May 26

While Tax Freedom Day will arrive on May 10 for the nation, due to various levels of affluence and differing state and local tax systems, residents of each state have their own State Tax Freedom Days.

The residents of Connecticut will bear the nation's heaviest overall tax burden in 1998, with Tax Freedom Day falling on May 26 in that state. (See accompanying chart.) That means Connecticut residents on average will have to work 46 days to pay state and local taxes, and 99 days to pay their federal taxes.

At the other end of the spectrum are residents of New Hampshire, which bears the lowest average tax burden in 1998: Tax Freedom Day arrives on April 25 in the Granite State. Residents on average there will devote all of the income earned during the first 114 days of the year to pay their tax bills. The income earned during 91 of these days will go to pay federal taxes, while the income earned during the remaining 23 days will go used to pay state and local taxes.

The average number of days nationwide needed to pay off federal taxes this year is 88. While Connecticut's 99 days for federal taxes is the most in the nation, Hawaii's 77 days is the least. The difference is primarily due to each state's level of affluence; because of the progressivity of the federal tax code, wealthier states bear a proportionately greater portion of the federal tax load.

The average number of days that the nation as a whole will require to pay off state and local taxes is 41. Hawaii's 51 days for state and local taxes is the most in the nation, while Alaska's 22 days for state and local taxes is the least.

If the District of Columbia were a state, it would claim top honors for state and local taxes — residents on average will have to work 66 days this year to pay these off — and for the latest Tax Freedom Day: May 30. ●

## State Tax Freedom Days, 1998

	Tax Freedom Day	Rank	Number of Days		
			Total Taxes	Federal Taxes	State/Local Taxes
Total	May 10	-	129	88	41
Connecticut	May 26	1	145	99	46
Wisconsin	May 17	2	136	87	49
Minnesota	May 16	3	135	88	47
New York	May 16	4	135	86	49
New Jersey	May 16	5	135	94	41
Massachusetts	May 14	6	133	92	41
Illinois	May 13	7	132	92	40
Washington	May 13	8	132	90	42
Michigan	May 13	9	132	92	40
Nevada	May 13	10	132	91	41
Utah	May 12	11	131	85	46
Rhode Island	May 12	12	131	88	43
Maine	May 11	13	130	82	48
California	May 11	14	130	87	43
Kansas	May 10	15	129	87	42
Florida	May 9	16	128	90	38
Hawaii	May 9	17	128	77	51
Georgia	May 9	18	128	87	41
Maryland	May 9	19	128	88	40
New Mexico	May 9	20	128	83	45
South Carolina	May 9	21	128	86	42
Ohio	May 8	22	127	86	41
Nebraska	May 8	23	127	86	41
Idaho	May 8	24	127	85	42
Missouri	May 8	25	127	85	42
Colorado	May 8	26	127	88	39
Vermont	May 8	27	127	84	43
Arizona	May 8	28	127	87	40
Indiana	May 8	29	127	87	40
Oregon	May 7	30	126	85	41
Mississippi	May 7	31	126	81	45
Pennsylvania	May 7	32	126	87	39
Kentucky	May 7	33	126	83	43
Texas	May 5	34	124	86	38
Virginia	May 5	35	124	87	37
Arkansas	May 5	36	124	82	42
Delaware	May 5	37	124	84	40
North Carolina	May 5	38	124	85	39
Iowa	May 3	39	122	81	41
Montana	May 3	40	122	83	39
Wyoming	May 2	41	121	93	28
West Virginia	May 1	42	120	81	39
Alabama	May 1	43	120	86	34
South Dakota	May 1	44	120	82	38
Tennessee	April 30	45	119	88	31
Louisiana	April 30	46	119	82	37
North Dakota	April 30	47	119	80	39
Oklahoma	April 28	48	117	79	38
Alaska	April 26	49	115	93	22
New Hampshire	April 25	50	114	91	23
District of Columbia	May 30	-	149	83	66

Source: Tax Foundation

## FOUNDATION MESSAGE

## Timing Really Is Everything

April 15, as millions of taxpayers struggled with their tax forms, the Tax Foundation made its annual announcement of Tax Freedom Day: May 10, the latest ever.

In past years, the country received our announcement of Tax Freedom Day with a mixture of surprise and frustration. Most taxpayers have no idea how much total tax they pay because they pay so many different taxes — many they don't even see, like half their payroll tax. Tax Freedom Day provides a sense of the nation's tax load and most people are surprised to learn that it is so high.

But a new reaction has occurred the last three years. Recently, left-of-center organizations have made great efforts to refute the Tax Freedom Day calculation and similar Tax Foundation analyses that attempting to convey the growth and size of the national fisc. They issue their own reports, hold their own press conferences, and apparently work carefully with some kindred spirits in the media, all to argue that taxes really aren't that high.

As a matter of public relations, we rather enjoy the disagreement. We're delighted to have the extra attention a good data spat provides. Another reason the attacks are so welcome is that, to paraphrase James Carville's book of a couple years ago, "We're right, their wrong, and that's that." The attacks on Tax Freedom Day and similar Tax Foundation reports grossly misrepresent these reports' contents. They grossly overstate the consequences of those few areas where there are legitimate areas of disagreement. And on the main areas of dispute they are simply and demonstrably incorrect.

The really interesting aspect of the dispute, however, is not its details but its motivation. However one calculates the figures, the nation's tax burden is high and rising. This first fact may be disputed, the second cannot be.



*J.D. Foster, Ph.D.  
Executive Director &  
Chief Economist  
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The tax burden is rising primarily because we have a highly progressive federal income tax and a strong economy. Thanks to steep marginal personal income tax rates, as real wages increase taxpayers find not only their tax bills rising, but their average tax rates rising as well. In other words, taxes are rising more than proportionately with income. It is this combination that has shifted the federal budget from deficits for as far as the analysts dared to project only two years ago, to a sizable surplus in 1998.

We have a high and rising tax burden, and we have a highly progressive tax system. These are two main fiscal goals of the political Left. Why doesn't the Left respond by simply declaring victory with a rousing "hallelujah"?

Because its members haven't yet sealed their victory with the third leg of their fiscal program — more social spending. The political Left wants a progressive tax system to redistribute income and wealth. But it doesn't want high taxes just to have high taxes. It wants high taxes to support a full array of social spending initiatives. The problem is, the combination of progressive tax rates and a strong economy has produced tax revenues faster than the Left could get Washington to spend them. Without the expenditures, there are no groups fighting to preserve the spending, and therefore no one effectively fighting against tax relief. The Left is suffering from premature, partial fiscal success.

The normal order of things goes like this: A need is identified. Core groups form a political alliance, establish legislative goals, and develop an initial program

to act as the proverbial camel's nose under the tent. They find revenues to pay for the new program. As the program grows it develops a wider array of vested interests from legislators, administrators, recipients, and fellow travelers. At this point, the program represents a well-functioning politico-economic system able to orchestrate program expansions and fend off proposed reductions.

Because the revenues have come in unexpectedly fast the past couple years, the Left generally hasn't had time to get organized to spend the windfall. There is no ready public mandate for expanded government health care. Welfare reform was just enacted. Education spending is already rising. With Superfund up in the air and the Kyoto agreement recently signed, additional environmental spending is unlikely.

There are a couple exceptions, of course, one being the highway bill, but this is a mixed blessing to the Left, at best. Another possible exception is the tobacco legislation if the tax hike goes through along with the many new spending programs. Aside from these two programs, there seems little hope of significantly ratcheting up social spending in the next year or two.

In Washington as in life, major victories are rare commodities, and so even partial victories are celebrated and appreciated by those involved. Why then, when they've achieved a high tax burden and a highly progressive tax system, are our friends on the Left disputing these results rather than dancing in the streets? Because they need time. Time to develop new spending programs and new justifications. Time to ramp up spending to match government receipts. Otherwise, lacking a political infrastructure for more spending, Congress may actually respond to historically high taxes by enacting significant tax relief. To buy time, the Left doesn't dare celebrate its victory. It must, instead, insist that taxes really aren't that high lest the victory that seems so close slip through their fingers and end up back in the taxpayers' wallets and purses. ●

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capita tax burden by per capita income, as determined by NIPA's data on Net National Product:

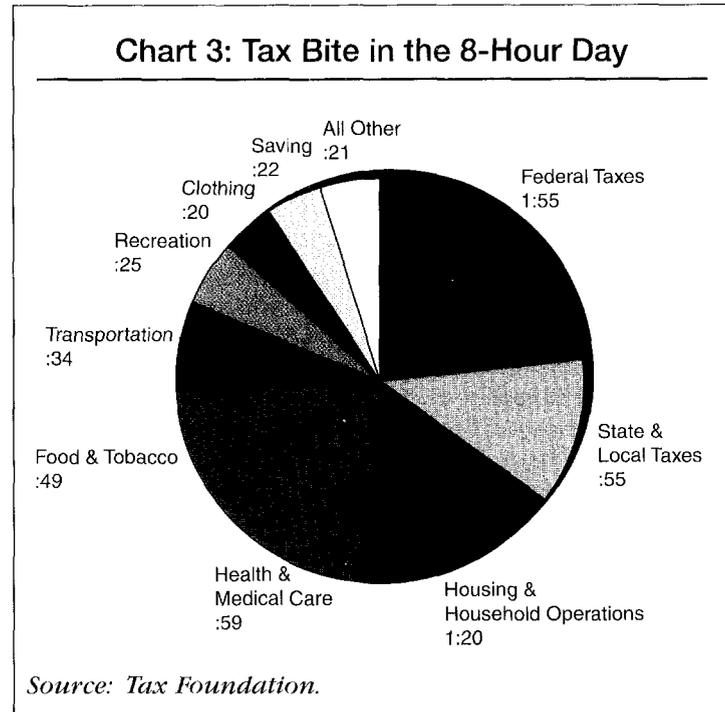
	Per Capita Taxes	Per Capita Income	Average Tax Rate
United States	\$9,881	\$27,876	35.4%

The Tax Foundation also does this calculation for all 50 states in the country, breaking out the federal taxes from the state and local taxes. The states with the heaviest tax burdens in 1998 are:

	Per Capita Taxes			Average Tax Rate
	Total	Federal	State/Local	
Connecticut	\$15,525	\$10,518	\$5,007	39.8%
Wisconsin	9,897	6,313	3,584	37.3
Minnesota	11,081	7,168	3,913	37.2
New York	12,439	7,876	4,564	37.1
New Jersey	13,165	9,112	4,053	37.0

The states which, on average, have the lightest tax burdens in 1998 are:

	Per Capita Taxes			Average Tax Rate
	Total	Federal	State/Local	
New Hampshire	\$9,421	\$7,462	\$1,959	31.4%
Alaska	8,120	6,563	1,557	31.7
Oklahoma	7,152	4,787	2,365	32.3
North Dakota	7,824	5,269	2,554	32.7
Louisiana	7,241	4,984	2,257	32.7



The breakdown shows the disparate ways that residents of the states are affected by taxes. Residents of Connecticut have the highest average level of federal taxes (\$10,518) and state and local taxes (\$5,007). While on average their federal taxes as a percent of income (27 percent) is higher than that found next door in New York (23.5 percent), New Yorkers' state and local taxes as a percent of income (13.6 percent) is higher than that found in Connecticut (12.9 percent).

New Hampshire, with a higher average federal tax rate (24.8 percent) than New York, has a dramatically lower average state and local tax rate (6.5 percent).



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