

# MONTHLY TAX FEATURES



**Tax Foundation, Inc.**

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## Tax Freedom Day Is May 11

### *American Workers Now Spending 3 Hours A Day to Earn Money for Tax Payments*

Americans spend more time earning money to pay taxes than for any other item in the household budget, say Tax Foundation economists. Taking the eight-hour workday of the average wage earner, the Foundation's researchers calculate that 2 hours and 52 minutes are spent earning the money for Federal, state, and local taxes.

By contrast, the average American spends 1 hour and 29 minutes earning the money for housing and household operation; 1 hour and 1 minute, for food and beverages; 41

minutes, for transportation; 29 minutes, for medical care; 22 minutes, for clothing; and 19 minutes, for recreation. Consumer expenditures (such items as personal care, personal business, and private education) and savings claim the remaining 47 minutes' worth of his day.

Tax Foundation economists say that Federal taxes ate up the lion's share of each citizen's tax dollars, demanding 1 hour and 55 minutes, while state and local taxes took 57 minutes from the worker's time on the job.

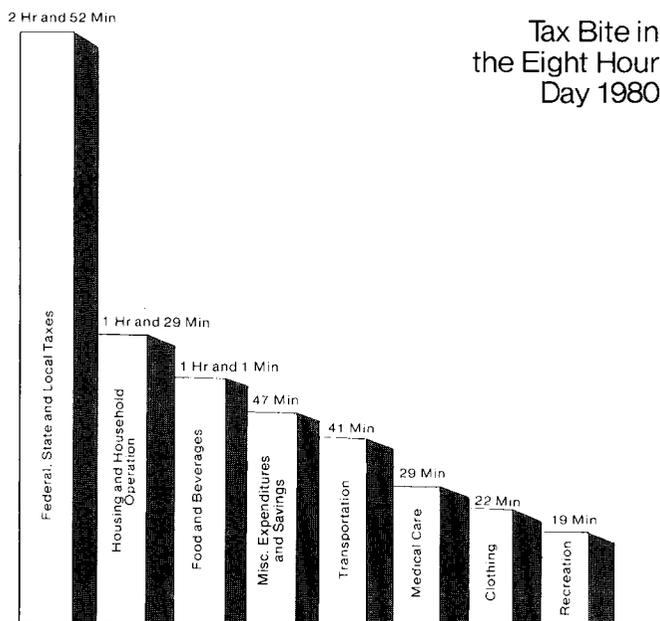
The average American worker will spend three more days this year earning the money to pay Federal, state, and local taxes than he did last year, according to Tax Foundation economists.

Each year, the Foundation computes Tax Freedom Day—the day all taxes would be paid if every dollar earned from January 1 went directly to satisfying the average earner's tax obligations. For 1980, Tax Freedom Day is calculated to fall on May 11. Last year, May 8 was Tax Freedom Day, and in 1978 it was May 6. This means that the American taxpayer is now working five days longer for some unit of government than he did just two years ago, and eleven days longer than he worked as recently as 1975, according to Tax Foundation researchers.

Total taxes for calendar year 1980 are estimated at \$820 billion, up from \$738 billion in 1979. At the same time, the share of the average paycheck claimed by taxes will rise from 34.7 percent to 35.8 percent. A half century ago, say the Foundation's economists, a worker could earn the money to pay his tax bills in only 42 days. Today he must work more than three times as long—131 days—to achieve that result.

Over the years, tax payments have gradually increased more than incomes, with the result that Tax Free-

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## The Front Burner

by Robert C. Brown  
Executive Vice President  
Tax Foundation, Inc.

### “Balancing the Budget by Juggling the Books”

The budget crunch is on, and politicians of every coloration have embraced budgetary restraint with all the fervor of a profligate undergoing a deathbed conversion. At last, 18 percent inflation, 20 percent prime rate, and the near collapse of the bond and mortgage markets have sent a message that even the White House and the Congress can no longer ignore.

Remember, though, as we pointed out last month, part of the balance promised for FY 1981 has been done with mirrors—the “cuts” were taken from upward “revisions” of the costs for 1980 and 1981 given in the original January budget. The new budget, assuming projections hold, will show a 15 percent increase in actual spending from FY 1979 through 1980, and a 7½ percent increase from 1980-1981.

Remember, too, that Congress, which now promises a balanced budget, has routinely hiked the ante between the first and second budget resolutions in each of the past five years. Twice, it even went beyond the second resolution to allow still larger deficits. This year the leadership is committing itself to hold to the first resolution. The rapid flood of money out of the Federal treasury has once again shown how little substance such promises have.

One lesson regarding the “balanced” budget: Any “surplus” will come almost completely through tax increases—some subtle and some not so subtle—not through spending cutbacks. Taxes on oil, proposed nuisance taxes, and inflation tax penalties would furnish \$95.6 billion of the \$99 billion revenue increase needed

## Federal Paperwork Program “In Trouble,” GAO Report Says

“In trouble.” That’s how the Comptroller General of the United States describes the program designed to follow up on the Federal Paperwork Commission’s recommendations. In a report issued by the General Accounting Office, Comptroller General Elmer B. Staats says that the program, entrusted to the Office of Management and Budget, “needs to be redesigned and given stronger leadership.”

“Periodic program reports to the President and the Congress,” according to Staats, “do not show actions taken on the recommendations or reasons for rejections, and overstate progress.”

GAO’s chief cites a wide range of deficiencies in the follow-up effort to reduce the paperwork burden imposed by the Federal government, a burden which the Presidential Commission claimed is costing the private and public sectors “over \$100 billion annually.” Among the “fundamental program problems” cited by GAO are:

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to show a small surplus in FY 1981 under the House Budget Resolution.

The “windfall profits” tax will bring in \$18.2 billion. The oil import fee, \$10.3 billion. The Joint Tax Committee, basing its estimate on “only” a 9.3 percent rate of inflation, tallies the inflation tax penalty at \$21.0 billion for individuals; and a conservative estimate of the inflation tax penalty on the corporate sector is \$15.0 billion.

These are harsh realities to be kept in mind when the President and the Congress talk about fiscal restraint and balanced budgets. If the American public forgets them, the price will be a juggling act instead of a truly balanced budget.

## Tax Freedom Day

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dom Day has come later each year. From 1930 to 1970, for example, Tax Freedom Day advanced from February 13 to April 30. In the first half of the seventies, however, taxes generally rose in tandem with earnings, and Tax Freedom Day was still computed as April 30 in 1975. That lull has faded in the last five years, with the extension of the day to May 11 for 1980.

“This relentless gnawing away at the earnings of the average American cannot continue,” said Robert C. Brown, Executive Vice President of the Tax Foundation, in announcing this year’s Tax Freedom Day. “It is based on the fallacious assumption that the government knows how to spend our money and define our needs better than we do. The 18 percent inflation level, 20 percent prime rate, and the serious decline in the stock market and automotive and housing industries show just how wrong that assumption is.”

“Lenin is supposed to have said, ‘The way to crush the bourgeoisie is to crush them between the millstones of taxation and inflation,’” Brown noted. “He could have been reading yesterday’s *Wall Street Journal*.”

Year	Tax Freedom Day
1930	February 13
1940	March 8
1950	April 4
1960	April 18
1970	April 30
1975 <sup>a</sup>	April 30
1976 <sup>a</sup>	May 3
1977 <sup>a</sup>	May 5
1978 <sup>a</sup>	May 6
1979 <sup>b</sup>	May 8
1980 <sup>c</sup>	May 11

<sup>a</sup>Revised.

<sup>b</sup>Preliminary.

<sup>c</sup>Forecast.

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Tax Freedom Day was begun in 1948 by a Florida businessman named Dallas L. Hostetler. Tax Foundation has calculated the date since 1974.

# Average Cost of \$1 Federal Aid Was \$1.18 for 23 "Paying" States

There's no such thing as a free lunch runs the old saw. For 23 "paying" states in FY 1979, there was also no such thing as "free" Federal aid. Each of those states sent more money to the nation's capital than it received back in the form of grants-in-aid to state and local government, say Tax Foundation economists.

For the third straight year, Indiana received the smallest return on its Federal tax dollars. Hoosiers gave Washington \$1.41 for each \$1 returned to the state or local government units by Uncle Sam. (However, that was three cents less per dollar of aid than in FY 1978, according to the Foundation's researchers.)

Texas ranked second with a tax burden per aid dollar of \$1.36. Then came Ohio (\$1.31), Connecticut and Illinois (\$1.30), and Florida (\$1.28). The average cost per \$1 of aid for the "paying" states was \$1.18.

In comparing the Federal tax burden with Federal grants-in-aid by state, Tax Foundation economists include general revenue sharing and trust fund aids, but do not count "shared revenues," e.g., payments in lieu of taxes on Federal lands in certain states.

Foundation researchers point out that the estimated Federal tax burden for aid payments per \$1 of assistance do not tell the whole story. Most grants involve administrative costs to run the programs for which aid is granted and matching funds which the state and local government must make available out of their own revenues in order to qualify for the grants. In the last few years, Foundation economists point out, state and local governments provided about \$1 in matching funds for each \$3 of Federal aid.

States and localities spend this money in a variety of ways. More than 100 separate programs are covered, the largest of which include Medicaid (\$12.4 billion), general revenue sharing (\$6.8 billion), highway

construction (\$6.8 billion), welfare maintenance assistance (\$6.3 billion), employment and training assistance (\$5.4 billion), and construction of wastewater treatment facilities (\$3.8 billion).

The 23 "paying" states sent Wash-

ington a total of \$52.8 billion and received about \$44.9 billion back. The remaining \$7.9 billion went to the District of Columbia and the 27 states who paid less than \$1 in taxes for each \$1 of Federal aid.

Tax Foundation researchers use a special formula to determine each state's tax costs for all grant programs. The tax costs, in turn, are related to actual amounts each state re-

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**Federal Grants-in-Aid to State and Local Governments and Estimated Federal Tax Burden for Federal Grants Fiscal Year 1979**

State	Millions		Tax burden per dollar of aid	State rank
	Grants <sup>a</sup>	Estimated tax burden for grants <sup>b</sup>	Amount	
TOTAL	\$79,802.6	\$79,802.6	\$1.00	—
Alabama	1,341.9	1,037.4	.77	35
Alaska	379.9	231.4	.61	47
Arizona	795.5	790.1	.99	24
Arkansas	839.4	550.6	.66	43
California	8,165.4	9,265.1	1.13	12
Colorado	915.3	1,013.5	1.11	15
Connecticut	1,074.6	1,396.5	1.30	4
Delaware	232.4	239.4	1.03	22
Florida	2,392.9	3,056.4	1.28	6
Georgia	2,176.2	1,508.3	.69	42
Hawaii	407.7	351.1	.86	31
Idaho	315.4	263.4	.83	32
Illinois	3,781.5	4,915.8	1.30	4
Indiana	1,390.8	1,955.2	1.41	1
Iowa	877.1	1,053.4	1.20	7
Kansas	720.7	853.9	1.18	8
Kentucky	1,340.9	1,021.5	.76	38
Louisiana	1,509.3	1,229.0	.81	33
Maine	503.1	295.3	.59	48
Maryland	1,600.1	1,699.8	1.06	20
Massachusetts	2,725.5	2,090.8	.77	35
Michigan	3,565.4	3,726.8	1.05	21
Minnesota	1,512.0	1,484.3	.98	26
Mississippi	1,035.5	550.6	.53	50
Missouri	1,509.1	1,643.9	1.09	16
Montana	406.4	255.4	.63	45
Nebraska	473.3	542.7	1.15	11
Nevada	263.7	311.2	1.18	8
New Hampshire	291.6	311.2	1.07	18
New Jersey	2,715.4	3,144.2	1.16	10
New Mexico	535.4	351.1	.66	43
New York	8,870.3	6,703.4	.76	38
North Carolina	1,785.7	1,604.0	.90	28
North Dakota	292.5	207.5	.71	41
Ohio	3,070.1	4,022.1	1.31	3
Oklahoma	945.7	933.7	.99	24
Oregon	877.1	949.7	1.08	17
Pennsylvania	4,096.5	4,205.6	1.03	22
Rhode Island	412.2	319.2	.77	35
South Carolina	983.9	798.0	.81	33
South Dakota	311.4	191.5	.62	46
Tennessee	1,442.3	1,292.8	.90	28
Texas	3,588.2	4,883.9	1.36	2
Utah	433.0	383.1	.88	30
Vermont	241.3	135.7	.56	49
Virginia	1,715.6	1,843.4	1.07	18
Washington	1,381.3	1,556.2	1.13	12
West Virginia	770.1	550.6	.72	40
Wisconsin	1,723.4	1,588.1	.92	27
Wyoming	163.5	183.6	1.12	14
District of Columbia	905.1	311.2	.34	51

<sup>a</sup>Excludes shared revenues and payments in lieu of taxes; includes general revenue sharing and trust fund aids.

<sup>b</sup>The total tax burden for grants is assumed to equal grant payments.

Source: Tax Foundation computations based on data from U.S. Treasury Department and Office of Management and Budget.

# GAO Report

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- Top managers are not participating in the program, although the Commission recommendations were addressed to agency heads.
- Multiagency recommendations were mishandled. Instead of naming "lead" agencies to manage responses for cross-agency recommendations, OMB asked for separate responses from each individual agency, causing "confusion, superficial evaluation, delay, and incorrect status reporting."
- Actions taken to implement the Commission's recommendations were either not disclosed, or not taken. A check of 12 recommendations marked "implemented" by

## Now Available

"Proposed Federal Budget for Fiscal Year 1981"—a three-part series of Tax Foundation special reports—is currently available, single copies free of charge:

I. Summary Analysis and An Alternative Concept;

II. Payments to Individuals and to State-Local Governments;

III. Federal Employment and Personnel Costs.

"A Value-Added Tax for the United States? Selected Viewpoints." (Special Report), 19 pp., \$2.00.

"Federal Employee Retirement Systems," Research Publication No. 34, 57 pp., \$3.00.

"Value-Added Taxation," Research Bibliography No. 69, October 1979, 12 pp., single copies free.

"Memorandum on Allocation of the Federal Tax Burden by Standard Metropolitan Statistical Area, Fiscal Year 1977," 9 pp., single copies free.

OMB revealed that in 11 cases the label was "either questionable, wrong, or misleading." This absence of specific disclosure and tracking requirements means, according to GAO, that "the Congress, the President, and the public have not been accurately informed of actions taken on the recommendations."

- Alternative ways of implementing the Commission's recommendations have not been explored, although ways exist to meet the intent of the Commission even when the recommendation could not be met "exactly as written."

- Recommendations were rejected by mid- or low-level personnel, even though they affected agency policy. This lack of proper management review, according to the Comptroller General, is evident in the sample cases spot-checked by GAO. "All rejection decisions in the sample," Staats reports, "stem from misunderstandings, misassignments of recommendations, premature decisions, limited reviews or . . . overlooked alternatives."

- Many recommendations have been excluded from follow-up, the report notes, "even though the Commission legislation requires OMB to formulate views on *all* [italics in original report] of them."

- Although OMB has "statutory responsibilities to submit legislative proposals to the Congress," the report observes, "OMB has not done so or encouraged legislative proposals from the agencies."

- Finally, although OMB is "required to keep the Congress and the President informed on results," Staats says, "the follow-up program is eliciting such poor information that OMB reports overstate program success and provide inaccurate status claims."

The Department of Health, Education, and Welfare comes under especially severe criticism in the Comptroller General's report. In his response, Richard B. Lowe, III, HEW's Acting Inspector General, wrote that the Department had reviewed GAO's criticisms and "we can now report that we have accepted 65 of the Com-

mission's 71 recommendations which apply to HEW. We have implemented the vast majority of these and work is underway on the remainder."

GAO's chief called the response "highly questionable," pointing out that follow-up analysis showed that "additional actions are needed and reported status is either questionable or wrong."

Among the Comptroller General's recommendations to the Director of OMB were that leadership be strengthened, the reporting system be revised, and Congress enact legislation to extend the period during which OMB was required to follow up on the Commission's recommendations.

Copies of the report, GGD-80-36, dated March 14, 1980, may be obtained from: United States General Accounting Office, Washington, D.C. 20548.

## Grants-in-Aid

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ceives in grants, as reported by the U.S. Treasury.

The table on page 3 gives details for all 50 states and the District of Columbia. Single copies of the full "Memorandum on the Allocation of the Federal Tax Burden and Federal Grants-in-Aid by State, Fiscal Year 1980" are available free from the Tax Foundation.

## About Tax Features

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