

MONTHLY TAX FEATURES

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Federal Tax Growth Shows Sharp Decline As ERTA Takes Hold

Although Federal tax receipts, as reported in the Budget, are expected to increase by \$63.3 billion over the next two fiscal years, this represents a sharp decline in the growth trends of Federal tax collections, according to economists at the Tax Foundation.

In fiscal 1981, Federal tax receipts were \$581.6 billion; for fiscal years 1982 and 1983, they are projected to be \$606.4 billion and \$644.9 billion, respectively—an average annual increase of 5.3 percent over 1981. During the prior decade, Federal tax receipts grew at an average rate of 12.4 percent per year.

To a large extent, the reduction in the rate of growth of Federal tax receipts is due to the tax cuts enacted last year under the Economic Recovery Tax Act of 1981. All told, it is estimated that these tax cuts will leave in the hands of the nation's taxpayers \$38.3 billion in 1982 and \$91.6 billion in 1983, which would have been collected under prior law. Of these amounts, individual and corporate income taxes are expected to be reduced by \$37.5 billion and \$88.5 billion in 1982 and 1983, respectively.

Individual income taxes, the largest source of Federal tax revenues, are estimated to increase from \$285.9 billion in 1981 to \$304.5 billion in 1983—or 3.2 percent per year. According to OMB estimates, had these tax cuts not been enacted, individual

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U.S. Will Take \$6,916 in Taxes From Ordinary Taxpayer in FY 1982

Tell the ordinary taxpayer that Uncle Sam will spend \$725 billion in fiscal year 1982, and it may not mean very much. Tell that worker that this translates into a total Federal tax bill of \$6,916 for him and his family, and the numbers start to take on a recognizable shape.

In order to translate vast budget figures into comprehensible amounts, Tax Foundation economists computed what one worker's share of the Federal government's spending would be for fiscal year 1982 and how that burden gets broken down among the various functions in the Federal budget.

The worker they singled out is the sole source of support for a wife and two dependent children. He earns \$25,000 a year, close to the median U.S. family's income.

The largest single bite from the nearly \$7,000 in Federal taxes he pays goes for what is known as income security payments. These outlays cover retirement, disability, and other social security payments and welfare. These claim just over 33 percent of this worker's tax bill, a total of \$2,291. The nation as a whole spends more than \$250 billion for income security.

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How the Federal Government Will Spend A Worker's Tax Dollars in Fiscal 1982^a

Function	Worker's Share		Total amount (millions)
	Amount	Percent of total	
Income security	\$2,291	33.12	\$250,870
National defense	1,712	24.75	187,497
Interest	905	13.08	99,095
Health	670	9.69	73,437
Education, training, employment, and social services ..	254	3.67	27,770
Veterans' benefits	220	3.19	24,155
Transportation	194	2.80	21,228
Natural resources and environment	115	1.67	12,626
International affairs	101	1.46	11,074
Agriculture	79	1.14	8,633
Community and regional development	76	1.10	8,366
General science, space, and technology	63	.92	6,392
General purpose fiscal assistance	59	.85	6,417
Energy	59	.85	6,413
General government	47	.68	5,146
Administration of justice	41	.60	4,521
Commerce and housing credit	30	.43	3,265
Total	\$6,916	100.00	\$725,331 ^b

^aIn this example, the worker is the sole source of support for his wife and two dependent children; he earns \$25,000 per year.

^bAfter deducting \$32,126 million for allowances and undistributed offsetting receipts not classified by function. Source: Office of Management and Budget, and Tax Foundation computations.

The Front Burner

By Robert C. Brown

Executive Vice President
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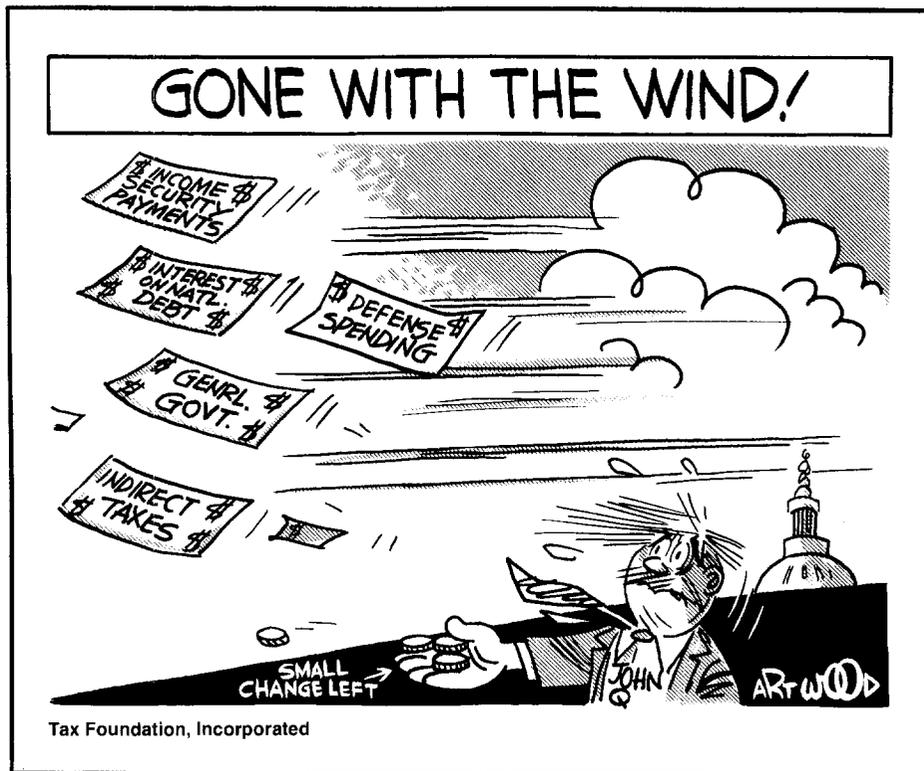
“Hang tough, Mr. President!”

The “summer soldiers” are at it again, counseling everything from outright rejection of the President’s 1983 economic program to dismantling, in whole or in part, the Economic Recovery Tax Act of 1981 (ERTA). In the face of so much cutting and running, some points need to be made:

- ERTA is barely six months old. Only 5 percent of the personal income tax relief has been delivered, and most of the capital formation and work incentive portions won’t come on stream until FY 1985 and FY 1986. This hardly justifies calling the program a failure.

- The severe downturn we are now experiencing may indeed be called the “Reagan Recession”—but only in the sense that President Reagan has been willing to take the heat for correcting two decades of bandaid approaches in tax and fiscal policy. Nobody—certainly not the President or the Chairman of the Fed—ever promised that the turnaround would be quick or painless. People on Capitol Hill would do well to remember this as they look for an easier, pain-free way to restore the economy.

- Despite all the naysaying, no solid, comprehensive alternative has yet been offered for the Reagan program. Many suggestions—the proposed minimum tax, the rollback of leasing provisions, the deferral of the 1983 personal tax cut, the canceling of indexing, to name some major areas—would be outright counterproductive. Such moves would send a signal to the financial markets and to corporate planners that Congress was only kidding when it spoke of the need to reindustrialize America, to bolster corporate research and development and long-range planning, to bring down inflation, and to dramatically reduce the share of the nation’s goods and services and credit



being preempted by the Federal government.

- There is at least as much a case of election-year jitters as there is concern for widows and orphans in the hue and cry being raised over the next round of budget cuts. Politicians are always bullish on compassion during election years.

In the face of such strong reasons against changing the economic recovery plan so recently put in place, I hope President Reagan will “hang tough.” This surfing term implies

enough coolness and clearheadedness to wait for the big wave, the right wave, before committing yourself. It is not an approach for the weak or timid.

By insisting that ERTA be adhered to, calling for further cuts—including cuts in the politically popular entitlement programs—the President may just succeed in helping the Congress to excel itself. By hanging tough, he may just get the country moving on the healthiest surge it has known in a long time.

Ordinary Taxpayer

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Next comes defense spending, which absorbs 25 cents out of every dollar paid—\$1,712 per year. An additional 13 cents of each tax dollar goes just to pay the interest on the national debt. This debt servicing will take \$905 from the ordinary worker’s household budget this year.

General government—the price tag for running the government which taxes him—costs the American worker slightly less than 0.7 cents of every tax dollar. That’s \$47 of his total tax bill paid to Uncle Sam.

The government collects most rev-

enues through the Federal income
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CA and NY Carrying Lion's Share of \$606 Billion Federal Tax Load

The Federal tax burden will hit \$606.4 billion in the current fiscal year (1982), Tax Foundation economists estimate, using data from the Administration's new Federal Budget. In fiscal 1981, the Federal tax burden totaled \$581.6 billion, and it is projected at \$644.9 billion for fiscal 1983.

State-by-state Federal tax burdens show corresponding increases, although the ten highest paying states in 1982 remain unchanged from last year:

- California—\$72.6 billion
- New York—\$50.1 billion
- Texas—\$39.8 billion
- Illinois—\$35.7 billion

- Pennsylvania—\$31.2 billion
- Ohio—\$29.0 billion
- Michigan—\$25.7 billion
- Florida—\$25.0 billion
- New Jersey—\$24.1 billion
- Massachusetts—\$16.3 billion.

Vermont had the lowest total tax burden of any state (\$1.0 billion), followed by South Dakota (\$1.4 billion), North Dakota (\$1.5 billion), Wyoming (\$1.5 billion), and Alaska (\$1.6 billion).

Citizens in the top ten paying states accounted for about 58 percent of all Federal taxes collected, turning over to the national government nearly \$350 billion.

Citizens in the ten states with the lowest tax burden will pay about 2.83 percent of all Federal taxes—a total of \$17.2 billion—in 1982.

Predictably, the total dollar amounts of the Federal tax burden tend to be highest in states with the largest populations. Per capita tax burdens, on the other hand, are generally highest in areas where average incomes are greatest. The ten states with the highest estimated per capita Federal tax burdens for 1982 are:

- Alaska—\$3,871
- District of Columbia—\$3,528
- Connecticut—\$3,467
- New Jersey—\$3,223
- Illinois—\$3,090
- Wyoming—\$3,075
- Nevada—\$3,064
- Maryland—\$3,039
- California—\$2,994
- Washington—\$2,992.

Mississippians, per capita, sent the fewest tax dollars to Washington (\$1,650), followed by citizens of Arkansas (\$1,805), South Carolina (\$1,907), Alabama (\$1,937), and Kentucky (\$1,972).

Nationwide, the average per capita tax burden for 1982 was estimated by Foundation economists at \$2,631. Over the two-year period, 1981 to 1983, total tax payments to the Federal government are estimated to rise by \$63 billion, or almost 11 percent. At the same time, the average per capita tax payment will go up by \$231, or more than 9 percent.

**Estimated Total and Per Capita Federal Tax Burdens, by State
Fiscal Years 1981-1983**

State	Total burden (millions)			Per capita burden			State rank-1982	
	1981	1982	1983	1981	1982	1983	Total	Per capita
TOTAL	\$581,595	\$606,449	\$644,914	\$2,542	\$2,631	\$2,773	—	—
Alabama	7,444	7,641	8,126	1,898	1,937	2,045	24	48
Alaska	1,512	1,637	1,741	3,670	3,871	4,003	47	1
Arizona	6,107	6,610	7,030	2,200	2,339	2,439	29	35
Arkansas	4,129	4,184	4,450	1,792	1,805	1,907	33	50
California	68,570	72,592	77,196	2,859	2,994	3,145	1	9
Colorado	7,619	8,187	8,706	2,577	2,715	2,825	23	16
Connecticut	10,236	10,916	11,608	3,267	3,467	3,661	19	3
Delaware	1,687	1,759	1,870	2,802	2,897	3,051	46	11
Florida	22,973	25,046	26,635	2,311	2,475	2,582	8	30
Georgia	11,167	11,583	12,318	2,022	2,080	2,190	18	38
Hawaii	2,559	2,729	2,902	2,609	2,743	2,873	37	14
Idaho	1,919	1,941	2,064	2,003	1,999	2,097	44	44
Illinois	34,779	35,659	37,921	3,026	3,090	3,268	4	5
Indiana	14,133	13,827	14,704	2,551	2,478	2,615	12	29
Iowa	7,386	7,459	7,932	2,524	2,544	2,697	25	25
Kansas	6,456	6,489	6,901	2,711	2,712	2,866	30	17
Kentucky	7,503	7,399	7,868	2,022	1,972	2,072	26	47
Louisiana	9,306	10,067	10,706	2,188	2,346	2,470	21	33
Maine	2,152	2,305	2,451	1,896	2,016	2,125	42	42
Maryland	12,097	12,917	13,737	2,854	3,039	3,219	13	8
Massachusetts	15,180	16,253	17,284	2,638	2,823	2,996	10	13
Michigan	26,521	25,713	27,344	2,842	2,740	2,895	7	15
Minnesota	10,469	10,916	11,608	2,541	2,627	2,769	19	22
Mississippi	4,129	4,245	4,514	1,619	1,650	1,736	32	51
Missouri	12,155	12,190	12,963	2,458	2,455	2,599	16	31
Montana	1,803	1,880	1,999	2,268	2,344	2,471	45	34
Nebraska	3,955	3,942	4,192	2,505	2,489	2,635	35	28
Nevada	2,326	2,608	2,773	2,820	3,064	3,158	39	7
New Hampshire	2,326	2,426	2,580	2,488	2,564	2,690	41	23
New Jersey	22,566	24,076	25,603	3,038	3,223	3,403	9	4
New Mexico	2,733	2,729	2,902	2,074	2,049	2,153	37	41
New York	47,749	50,093	53,270	2,724	2,868	3,059	2	12
North Carolina	11,632	12,311	13,092	1,957	2,053	2,160	15	40
North Dakota	1,512	1,455	1,548	2,302	2,212	2,342	49	36
Ohio	28,556	29,049	30,891	2,627	2,661	2,814	6	19
Oklahoma	7,270	7,399	7,868	2,372	2,388	2,510	26	32
Oregon	6,805	6,914	7,352	2,537	2,537	2,651	28	26
Pennsylvania	30,243	31,232	33,213	2,543	2,627	2,792	5	21
Rhode Island	2,385	2,547	2,709	2,500	2,653	2,804	40	20
South Carolina	5,758	6,064	6,449	1,826	1,907	2,007	31	49
South Dakota	1,396	1,395	1,483	2,011	2,004	2,122	50	43
Tennessee	9,538	9,824	10,448	2,047	2,083	2,186	22	37
Texas	36,350	39,783	42,306	2,510	2,705	2,830	3	18
Utah	2,850	3,032	3,225	1,911	1,998	2,084	36	45
Vermont	1,047	1,031	1,096	2,025	1,983	2,088	51	46
Virginia	13,493	13,948	14,833	2,491	2,547	2,677	11	24
Washington	11,806	12,614	13,414	2,827	2,992	3,150	14	10
West Virginia	3,955	4,124	4,385	2,000	2,064	2,168	34	39
Wisconsin	11,806	11,947	12,705	2,489	2,504	2,644	17	27
Wyoming	1,396	1,516	1,612	2,890	3,075	3,193	48	6
District of Columbia	2,152	2,244	2,386	3,373	3,528	3,752	43	2

Source: U.S. total taxes as shown in the Federal budget submitted February 1982; computations of total and per capita burdens were made by Tax Foundation.

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Tax Growth

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income tax revenues would be \$28.2 billion higher in fiscal 1982 and \$75.4 billion higher in fiscal year 1983. From a different angle, these cuts are estimated to lower individual income taxes by 8.6 percent and 19.8 percent in fiscal years 1982 and 1983, respectively.

The Accelerated Cost Recovery System and other provisions in the recently enacted tax cuts are expected to reduce corporate income taxes by \$9.3 billion in 1982 and \$13.1 billion in 1983. Due to the combination of changing economic conditions and the enacted tax cuts, corporate income taxes are projected to decline \$14.4 billion in fiscal 1981 to \$46.7 billion in 1982 and then increase to \$65.3 billion in 1983.

Other provisions of the Economic Recovery Tax Act of 1981 are expected to lower tax receipts by \$.7 billion in 1982 and \$2.9 billion in 1983. Receipts from estate and gift taxes are expected to be \$.2 billion and \$2.3 billion lower in 1982 and 1983, respectively; and excise tax receipts are projected to be \$.9 billion and \$1.2 billion lower for these years. Social insurance contributions are expected to increase by \$.4 billion and \$.5 billion in 1982 and 1983, respectively.

The full picture regarding recent statutory reductions is not all rosy. The "windfall profits" tax on petroleum and the scheduled increases in both tax rates and bases of OASDHI are estimated to increase Federal tax collections by \$32.2 billion and \$39.2 billion in fiscal years 1982 and 1983, respectively, above the amounts that would have been received in the absence of legislative changes. Under previously enacted legislation (1980), the crude oil windfall profits tax is estimated to increase net revenues by \$10.9 billion in 1982 and \$10.0 billion in 1983. Due to the rate and base increases in social security taxes which went into effect January 1, 1981, revenues from these taxes are

Federal Tax Collections by Type of Tax Fiscal Years 1981-1983^a

	(Billions)		
Tax	1981	1982	1983
Individual income	\$285.9	\$298.6	\$304.5
Corporation income	61.1	46.7	65.3
Employment ^b	163.0	185.5	199.5
Unemployment ^c	15.8	16.4	18.5
Estate and gift	6.8	7.2	5.9
Excise	40.8	43.0	41.7
All other taxes ^d	8.2	9.0	9.5
Total	\$581.6	\$606.4	\$644.9

^aFor 1981, data are actual; for 1982 and 1983, as estimated in the budget presented February 1982.
^bIncludes OASDHI and railroad retirement taxes.
^cIncludes state payroll taxes deposited in Treasury and Federal unemployment taxes.
^dIncludes customs duties and miscellaneous taxes.
 Source: Office of Management and Budget.

CA and NY

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Total taxes make up about 97 percent of all receipts included in the Federal budget; the largest nontax receipts are from deposits of Federal Reserve System earnings and Federal employee contributions to retirement plans, which will total \$19.4 billion for FY 1982.

The Tax Foundation formula for deriving these tax estimates has been in use for more than two decades. Updated annually, it is designed to show where the tax dollars actually originate. By contrast, U.S. Treasury figures, which show where taxes are collected, do not give as accurate a picture of the state-by-state impact of Federal taxation.

For example, tobacco taxes are collected in only a few southern states, but the burden of the tax falls on smokers in all states. Tax Foundation figures would reflect the national picture, while Treasury data would not.

The table on page 3 gives Tax Foundation estimates of the total and per capita Federal tax burdens for all the states and the District of Columbia for fiscal years 1981, 1982, and 1983.

expected to rise by \$19.3 billion and \$21.9 billion in 1982 and 1983, respectively.

The table above shows Federal tax receipts by type of tax for fiscal years 1981, 1982, and 1983.

Ordinary Taxpayer

(Continued from page 2)

tax system—\$2,771 from the worker's annual earnings. Social security takes another \$1,675.

Tax Foundation economists also list a number of indirect taxes, such as the employer's share of social security taxes, corporate income taxes, excise taxes on liquor, tobacco, and air travel. These claim another \$2,470 of his pay.

The table on page 1 shows a complete breakdown of how the Federal government spends the taxes paid by a worker earning \$25,000 a year in 1982.

New Study Available

Tax Foundation's Research Publication No. 35, "Unemployment Insurance: Trends and Issues," is now available. This 88-page study, including 16 tables, covers the historical background of unemployment insurance programs in the United States and abroad, long-run trends in the magnitude of the program, financing and benefit provisions of the state programs, experience during the business cycle, financing problems of the 1970s, and the pros and cons of major unresolved issues in the system.

The study is available at a cost of \$5.00 from the Foundation. The 8-page summary is available free.