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May 6 Is Tax Freedom Day

2 Hours 45 Minutes To Cover All Taxes

The bottom line for taxes paid remains the same. Only the minutes change—slightly. So report Tax Foundation economists in analyzing the 1979 tax bite taken from the average worker's earnings in an eight-hour day.

As in 1978, the average American worker will spend two hours and 45 minutes of that day working for some level of government: one hour and 47 minutes to pay Federal taxes; 58 minutes to cover the cost of state and local taxes.

One shift has occurred, however, according to Foundation researchers, in the way these tax revenues are disbursed: It takes one minute less to earn the money for Federal taxes, and one minute more to foot the bill for state and local governments.

Taxes continue to eat up more income than any other item in the typical American's budget. Housing and household operation come in a not-too-close second, at one hour and 27 minutes. Third place is occupied by food and beverage outlays which consume one hour and three minutes' worth of the average U.S. worker's daily earnings.

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Typical Worker Spends 125 Days a Year Earning Enough Money to Pay His Taxes

May 6 marks Tax Freedom Day this year—the day the average American can stop working for the government and start working for himself. Tax Freedom Day is calculated by the Tax Foundation on the basis of how many days the average taxpayer will have to work in 1979 in order to earn enough money to pay all his Federal, state, and local taxes.

According to Foundation economists, a typical worker will spend more than one-third of the year and 34.3 percent of his earnings to pay his share of the total 1979 tax bill: $718 billion, up from $652 billion in 1978.

Although Tax Freedom Day remains the same this year as last, an increasingly later date has been the trend throughout the past decades, as shown below.

Year	Tax Freedom Day	Average worker's taxes as percent of earnings
1929	February 9	10.8
1939	March 5	17.4
1949	March 24	22.7
1959	April 15	28.6
1969	May 3	33.5
1979	May 6	34.3

A half-century ago the average worker could earn enough in only 40 days to pay his tax bills to Federal, state, and local governments. Today it takes more than 125 days.

Although tax payments have steadily increased faster than incomes generally—and Tax Freedom Day has come later and later—the difference has narrowed in recent years. During the decade 1929-1939, average earnings actually declined, while tax payments rose more than 40 percent. In the twenty years from 1939 to 1959, taxes generally grew about 50 percent faster than earnings. Since then the disparity has narrowed, with taxes rising 25 percent more rapidly than incomes in the 1959-1979 period.

In particular, since 1969 the growth in taxes relative to incomes has slowed perceptibly, with taxes rising only about 5 percent faster, pushing Tax Freedom Day up about three days. This recent trend reflects Federal income tax reductions enacted in this period, partially offset by higher social security taxes and bigger state and local taxes relative to earnings, according to Foundation Economists.

Social Security OK, Pickle Says; Sees VAT as Future Possibility

"We now pay out over one-fifth of the money in the Federal budget in social security retirement benefits," Representative J. J. Pickle, chairman of the House Ways and Means Social Security Subcommittee, told a recent Tax Foundation seminar on social security. "It is estimated that at the turn of the century, we may be paying out as much as 40 percent in benefits under this program," Congressman Pickle said.

"The trust fund is in relatively good shape now," he told the participants. "The fact of the matter is...we *are* solvent, we *do* have money, we *have not* missed any payments. We're in a lot better shape than the rest of the Federal government.... The Act [Social Security Amendments Act] which passed in 1977 was responsible, and did change the whole direction [of the program] and kept us in good shape."

Pickle said he favored retaining the social insurance character of the social security program, but emphasized the need for another mechanism "over and above" the current payroll tax to keep the program strong and to meet future needs. "We have about reached the saturation point on payroll tax," he said.

The most important problem facing us on a short-term basis, the Texas Democrat said, is: "Can we avoid the tax increase in 1981?" The current payroll tax stands at 6.13 percent on the first $25,900 of earnings and in 1981 will rise to 6.65 percent of the first $29,700 of earnings. (The employer will pay an equal amount.) "For a wage earner in the $10,000 bracket," he explained, "this will mean, in dollars and cents, an increase of $52. For a wage earner in the maximum bracket, the increase will be $595."

Pickle suggested two points that Congress will have to keep in mind regarding the 1981 tax: First, we cannot increase the budget deficit; and, second, we cannot transfer wholesale the financing of either disability or health insurance to the general revenue. "Anything that we do in the social security picture," he said, "cannot be divorced from the fact that we need to have a balanced budget." If we financed the disability and health programs through general revenue, Pickle predicted, by 1981, the disability program would cost us about $19 billion, and the health trust fund would cost us over $30 billion. He cautioned that either of these transfers would make social security relatively secure, but would essentially just "toss the problem back to general revenue."

To head off a 1981 tax hike, Pickle pointed out that we must raise, from some source, approximately $14 billion. His own "shopping list" of reductions to make up for that tax includes: limit retroactive payments, delay retirement benefits until a month after age 62, restrict further benefits for dependent children, phase out early retirement, expand coverage of Federal workers, offset social security for all pensions received in non-covered employment, and limit cost-of-living increases. These measures, he said, would save $2 to $3 billion a year.

Pickle avoided "advancing" the controversial "value-added tax" to help finance the social security program, but stated that the Ways and Means Committee will consider this as well as other alternatives to the question. "We cannot keep on adding to the payroll tax as a means of financing the social security program," he said. "We should keep and retain what we have, but add some other kind of tax as a source of income. . . . The VAT, whether it's the

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Tax Bite

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The accompanying table shows the length of time per day the average American works to pay for major items in the family budget.

Tax Bite in the Eight-Hour Day
1979

Item	Hours and minutes	
Tax, total	2 hours	45 minutes
Federal	1 hour	47 minutes
State and local		58 minutes
Food and beverages	1 hour	3 minutes
Housing and household operation	1 hour	27 minutes
Clothing		23 minutes
Transportation		42 minutes
Medical care		30 minutes
Recreation		19 minutes
All other [a]		51 minutes
TOTAL	8 hours	

[a]Includes consumer expenditures for items such as personal care, personal business, and private education; and savings.

Source: Tax Foundation estimates as of April 1, 1979.

Would Tax Cuts Boost Revenue? Experts Query

The effect of taxation on revenues recently came under scrutiny by seven tax specialists called together for an informal roundtable by Touche Ross & Co., one of the "Big Eight" accounting firms.

At the discussion, Tax Foundation economists C. Lowell Harriss and Elsie Watters joined with John R. Mendenhall, director of taxes and general tax counsel, Union Pacific Co.; Gerald W. Padwe, associate national director of tax services, Touche Ross & Co.; William L. Raby, national director of tax services, Touche Ross & Co.; Willard C. Rappleye, Jr., editor and publisher, *Financier*; Richard Ravitch, chairman of the City Development Corporation and the New York State Development Board.

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Taxes Down, $ Up

Despite significant tax cuts, Puerto Rico's Treasury expects to collect a record $796 million in income tax after processing an estimated 419,000 returns — also a new high.

"The increases can be attributed to positive public reaction to the tax relief measures approved during 1978 and a crackdown on evaders," said Fred H. Martinez, director of Puerto Rico's Income Tax Bureau.

Last year his office processed 391,000 returns that yielded $738 million.

Although they do not pay Federal taxes, residents of Puerto Rico are subject to a stiffer tax than that imposed in the rest of the United States by the Internal Revenue Service. For example, the maximum amount levied by Puerto Rico on income is 79 percent, against only 50 percent on earned income in the 50 states and 70 percent on other income.

New industries and services, however, receive generous tax exemptions as an incentive to create new jobs.

Martinez added that earlier this year a bill had been submitted to the Puerto Rican Legislature to approve a ten percent across-the-board reduction on all applicable tax rates, to be phased in over a two-year period.

Social Security

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credit, or the additive, or the European, or the Michigan-type, will still be opposed by consumers," Pickle said, "and I can understand that, but it won't be felt individually as much, and I think the Congress would probably find it more appealing than increasing payroll taxes... even in times of tax limitation."

In conclusion, Pickle said, "We have an excellent program now in social security....I believe that the Congress will come up with positive answers to the short-term problem in the social security system and maintain it as a strong supplemental insurance retirement program as it was intended."

People Programs Claim Over Half of 1980 Budget

The decade of the Seventies has seen an explosion of spending on "people" programs, according to a Tax Foundation analysis of the President's 1980 budget.

The second in a series of reports on the new budget, entitled "Proposed Federal Budget for Fiscal Year 1980, II. Payments to Individuals and to State-Local Governments," contrasts the growing share of allocations for human resources programs with the sharply reduced proportion of the Federal budget accounted for by defense spending.

In 1970, say Tax Foundation economists, national defense claimed 40 cents of every dollar spent by the national government; "people" programs accounted for 37 cents. By 1978, the situation had more than reversed itself, with national defense claiming 23 percent of the Federal budget, while human resources had mounted to 52 percent of the total budget.

Outlays for human resource programs will increase by another $48 billion between 1978 and 1980, to $283.2 billion, 53.3 percent of total spending. By comparison, the Foundation says, defense spending is estimated to increase $20.6 billion over the same two-year span, or $125.8 billion in 1980, which will still keep that figure below 24 percent of total budget outlays.

Human resource programs, the Foundation's budget experts point out, included the following functional budget categories: income security; health; education, training, employment, and social services; and veterans' benefits and services. They also note that much of the controversy and criticism of the President's 1980 budget focuses on proposed increases in spending for national defense and alleged "cuts" in outlays for certain human resource programs and aid to state and local governments. There are no real cuts, they say, only a slowdown in the rate of growth.

The Tax Foundation study looks specifically at "transfer payments"

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Transfer Payments in Federal Budget Outlays

(1970-1980; in Billions)

Category	Actual 1970	Actual 1975	Actual 1978	Estimated 1979	Estimated 1980
Total transfer payments to individuals and to state-local units	$ 77.7	$180.1	$254.4	$275.4	$302.4
Payments to individuals, total	62.7	148.9	203.8	223.2	250.6
Direct	53.7	130.4	176.5	193.3	219.5
Through grants-in-aid	9.0	18.5	27.3	29.9	31.1
Other grants-in-aid to state-local units	15.0	31.2	50.6	52.2	51.8
All other budget outlays	118.9	146.1	196.4	218.0	229.2
EXHIBIT: Total grants-in-aid to state-local units	24.0	49.7	77.9	82.1	82.9

Federal Budget

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in the budget, which it describes as "payments for which no current services are rendered, as distinct from purchases of goods and services." Such payments, the study explains, "go to individuals not currently employed by the Federal government, and to state and local governments."

For 1980, transfer payments are estimated by the presidential budget at $302.4 billion, a 289 percent increase over 1970. Looked at another way, transfer payments have grown three times as rapidly as all other budget outlays since the decade began. In 1980, they will consume 57 cents out of every dollar spent by Washington, up from 40 cents in 1970.

Even with the restrained budget submitted by the President to Congress for 1980, transfer payments will rise by 10 percent from 1979 to 1980, nearly twice as rapidly as all other budget outlays, the study reveals. The portion of transfers devoted to "payments to individuals," according to the study, will rise even more—by over 12 percent.

The $250.6 billion which will be spent as transfer payments reach recipients either as payments to or on behalf of individuals or payments which go first to state and local units of government as Federal grants and are then passed on to individuals as transfer payments. More than 37 percent of Federal grants-in-aid to states and localities are passed on to individuals in this way, according to the Foundation.

In 1970, the Foundation says, Federal transfer payments to individuals—directly and through grants-in-aid—totaled $62.7 billion. By 1975, the total had hit $148.9 billion. And in 1980, they are estimated at $250.6 billion, 47 percent of the Federal budget.

Social security retirement benefits claim 46 percent ($115.8 billion) of the total, or 22 percent of all Federal expenditures planned for 1980. When railroad retirement ($4.6 billion) and Federal employee retirement programs ($25.7 billion) are included, the total hits $146.1 billion for 1980. In other words, pension payments will claim 58 cents of every dollar spent as payments to individuals, and nearly 28 cents of every dollar spent by the national government in 1980.

Compounding this situation is the relative uncontrollability of such payments under existing statutes. The government calculates that 76 percent of all spending is uncontrollable, and that payments to individuals constitute 62 percent of the $404.1 billion involved.

It becomes obvious, says the Tax Foundation, that efforts to restrain the year-to-year growth in Federal outlays must in some measure be directed toward these uncontrollable programs.

Another complicating factor, chiefly affecting retirement benefits, is that such programs include automatic cost-of-living esclators. If the inflation rate goes up, so do retirement benefits. Similarly, if employment drops, the unemployment benefits in the budget will cost more. And the Congressional Budget Office, Foundation economists point out, foresees higher inflation and more unemployment than the assumptions upon which the White House budget is based.

"Payments for individuals, including those from grant-in-aid programs, and outlays for other aids to state and local governments will constitute 57 percent of total budget outlays in 1980 ($302.4 billion)," the Tax Foundation budget analysis concludes. "Since such a large proportion of these outlays are relatively uncontrollable in a given year, unless the President and Congress combine forces to make changes in basic statutory requirements, future increases in spending for these programs seem inevitable."

Single copies of "Proposed Federal Budget For Fiscal Year 1980, I. Unified Budget and an Alternative Concept and II. Payments to Individuals and to State-Local Governments" are available free of charge from the Tax Foundation.

About Tax Features

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Roundtable

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The experts addressed themselves to four basic questions touching on tax policy:

- Are we witnessing a genuine tax revolt in this country?
- If so, why now?
- What would happen to the national economy if taxes were broadly forced down?
- What selective changes in the tax law would promote economic growth?

A transcript of the Touche Ross Roundtable on the effect of taxation on revenues is available, single copies free of charge, from the Tax Foundation.