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What Will A Worker's Tax Dollars Buy?

Who is John Q. Taxpayer and how much will he pay the Federal government in taxes this year?

John Q. Taxpayer, a proto-typical U.S. worker, is the sole source of support for himself, his wife, and his two children. He earns $20,000 a year, the estimated median income of a full-time, year-round worker.

Mr. Taxpayer will pay an estimated $5,451 in total taxes to the Federal government this year, according to Tax Foundation researchers. Of this total, Federal income taxes will claim $2,114; social security taxes, $1,226; and indirect taxes, $2,111. Indirect taxes include such items as employer's share of social security taxes, corporate income taxes, excise taxes on liquor, gasoline, tobacco, and air travel. In one way or another, these indirect taxes are paid by people in the form of higher prices, lower earnings, or smaller returns on investments.

How and where the Federal government spends Mr. Taxpayer's dollars is shown in the table on page 3. Nearly one-third of J. Q. Taxpayer's contribution to Federal expenditures will go to income security—that is, social security benefits such as retirement, disability and other payments—and welfare. National defense has the second highest claim

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Half-Trillion $ Tax Bill

The half-trillion dollar Federal tax bill has arrived.

Using the data from the Administration's new Federal Budget, Tax Foundation economists estimate that the total Federal tax burden will reach $506.3 billion in the current fiscal year (1980). The total burden for FY 1979 was $450.8 billion, while 1981's is projected at $580.9 billion.

Federal Tax Collection by Type of Tax Fiscal Years 1979-1981[a]
(Billions)

Tax	1979	1980	1981
Individual income	$217.8	$238.7	$274.4
Corporation income	65.7	72.3	71.6
Employment[b]	120.1	138.6	161.6
Unemployment[c]	15.4	16.8	18.6
Estate and gift	5.4	5.8	5.9
Excise[d]	18.7	26.3	40.2
All other taxes	7.7	7.7	8.5
Total	$450.8	$506.3	$580.9

[a] For 1979, data are actual; for 1980 and 1981, as estimated in the budget presented in January 1980.
[b] Includes social security (OASDHI) and railroad retirement taxes.
[c] State payroll taxes deposited in Treasury and Federal unemployment taxes.
[d] Includes $7.7 billion in 1980 and $20.9 billion in 1981 for the proposed new "windfall profits" excise tax.
Source: Office of Management and Budget.

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

- California—$58.8 billion
- New York—$42.5 billion
- Illinois—$31.9 billion
- Texas—$30.9 billion
- Pennsylvania—$26.7 billion
- Ohio—$25.5 billion
- Michigan—$23.6 billion
- New Jersey—$19.9 billion
- Florida—$19.4 billion
- Massachusetts—$13.3 billion

Vermont had the lowest total tax burden of any state ($0.9 billion), followed by Wyoming ($1.16 billion), South Dakota ($1.2 billion), North Dakota ($1.3 billion), and Alaska ($1.47 billion).

Citizens in the top paying states turned over to the national government more than $292 billion, accounting for about 58 percent of all Federal taxes collected.

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 FY 1980 are:

- Alaska—$3,652
- District of Columbia—$3,061
- Connecticut—$2,845
- Illinois—$2,779
- New Jersey—$2,716
- Nevada—$2,705
- Delaware—$2,619
- Maryland—$2,599
- Michigan—$2,562
- California—$2,557

Mississippians, per capita, sent the fewest tax dollars to Washington ($1,450), followed by citizens of Ar-

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The Front Burner

By **Robert C. Brown**
Executive Vice President
Tax Foundation, Inc.

"The New Federal Budget—the Numbers Behind the Numbers"

President Jimmy Carter's Budget has been on the front burner since it was presented to Congress on January 28. Large as the totals are, they fail to show the true size of either revenues or spending by the Federal government for Fiscal Year 1981.

The White House estimates receipts of $600 billion, outlays of $615 billion, and a deficit of $15.8 billion for FY81; but viewed under a different budgetary approach—the gross transactions concept developed by Tax Foundation economists—the numbers are significantly higher.

The Gross Transactions Budget Concept factors into budget totals the "off-budget" items, certain types of funds or transactions shown only on a "net" basis in the current budget, and billions of dollars in "off-setting receipts" which are treated as offsets against outlays—or negative expenditures—in the unified budget.

Simply put, the gross transactions concept eliminates these technical accounting practices so that everything paid to the government by the public is counted as budget receipts, and everything paid out by the government to the public is counted as outlays. On that basis, FY81 receipts total $719.1 billion; outlays, $763.2 billion; and the deficit rises to $41.7 billion.

Why the discrepancy? Presidential budgets now conform to the unified budget concept adopted by Congress in 1969. This sought to provide a comprehensive Federal budget, with exclusions held to a minimum; but starting in 1971, its validity was eroded as certain transactions and entities were placed off budget by law and excluded from budget totals.

Recently, efforts have been made to restore some agencies to on-budget status, but progress has been slow and sporadic. A number of exclusions endure, and their existence distorts the picture of the Federal government presented in the President's budget.

There may be little or no malice in this distortion, but it does tend to camouflage the true dimensions and nature of the Federal government's economic involvement, in terms of transactions with the public. Clearing up that picture is a big step toward knowing where we are headed and how much it will cost to get there.

Knowledge is, indeed, power. And the Gross Transactions Budget helps furnish an important kind of knowledge to the taxpaying public.

Byrd Calls For Balanced Budget

The following remarks on the Federal budget and spending levels may be of interest to readers of Monthly Tax Features. *They were delivered by Senator Harry F. Byrd, Jr., (I-Va.) on the floor of the Senate, January 29, 1980.*

MR. HARRY F. BYRD, JR.: Mr. President, Public Law 95-435, approved October 10, 1978, decrees that "Beginning with fiscal year 1981, the total budget outlays of the Federal Government shall not exceed its receipts."

Yesterday, President Carter submitted to the Congress his budget for fiscal year 1981, which begins on October 1 of this year. His proposals include an increase of $16 billion in spending for the current year and a further increase of $52 billion for 1981, for a total spending increase of $68 billion.

His budget projects a deficit for the current year of $40 billion and a deficit for 1981 of $16 billion.

Mr. President, I think an overwhelming majority in the Congress and the Nation agree that increased outlays for defense are essential, but three-quarters of the spending increases proposed by the President are outside of the defense area.

News accounts indicate that huge budget increases have been in the defense area. That is not correct. Three-quarters of the increases have been outside of the defense area.

As a matter of fact, the President's budget document asserts that he recommends $20 billion in new and expanded domestic programs.

Mr. President, I think the time has come for the Congress and the President, acting together, to put this Government's financial house in order.

The people of our Nation are suffering under an inflation of 13 percent.

The new budget by the President projects revenues which are approximately double the revenues taken in by the Government since President Carter became President.

The only reason the deficit is not higher is due to the huge amounts of taxes that the Government is collecting from the American people.

In my judgment, it is the duty of Congress to get hold of these spending programs and bring them under control, in the name of fiscal responsibility. If Congress and the President are to obey the law, the law now on the books, the 1981 budget must be balanced. The law requires it.

I conclude as I began: Public Law 95-435, approved October 10, 1978, decrees that "Beginning with fiscal year 1981, the total budget outlays of the Federal Government shall not exceed its receipts." There are only 18 words in that piece of legislation. Will Congress comply?

Nondefense Spending

Expenditures for the elderly now claim nearly a quarter (23.3 percent) of all nondefense dollars spent by Federal, state, and local governments, while aid to education ranked second, with 15.8 percent of nondefense funds, analysis of 1978 data shows.

Tax Equity Needed To Bolster Savings

The House Ways and Means Committee held hearings on the general subject of tax incentives for savings on January 29, 30, and 31 of this year. The following comments were submitted by Professor C. Lowell Harriss, economic consultant to the Tax Foundation and Professor of Economics at Columbia University, New York, N.Y.

INTEREST EXCLUSION PROPOSALS: AN ASPECT OF EQUITY AND FAIRNESS

Recipients of interest income are being taxed inequitably because of the law's failure to recognize inflation. Some relief from such unfairness seems to me to deserve support on grounds of equity and elementary justice.

Without an offsetting decline in government spending to prevent a rise in the deficit, would the interest exclusion proposals before Congress in fact induce much net addition to the total saving in the economy? Doubts are in order. I defer to others more experienced in measurement while recording a willingness to take the risk without hope for much net increase in funds for capital formation. The equity aspect, in contrast, seems strikingly clear.

Tax laws, in my view, should recognize the loss of purchasing power of the dollar. Assets expressed in dollars—savings accounts and government bonds, for example—have declined in real worth by more than trivial amounts. For at least a decade, inflation has been more than just incidental. Yet for purposes of taxing people on interest received, the measure of "income" continues to ignore the loss of worth of the source, i.e., the capital.

A saver who receives 8 percent in a year when the worth of the dollar drops 10 percent has *negative* real yield. Congress says, however, that if he or she has income above the zero bracket figure, tax must be paid on the 8 percent. Elementary equity, basic fairness and justice in taxation, call for some recognition of economic reality.

A per capita exclusion of $200 or some such amount would at best be crude. It would be grossly incomplete for suppliers of larger amounts of capital—perhaps a household which over the years has put enough into savings and loan shares to permit two other families to buy houses. Budget conditions will prevent full justice at once. Many suppliers of capital whose real assets are eroding in worth but who must pay Federal and state income taxes on monetary interest will not get full relief from harsh treatment under current proposals. Nevertheless, even a small reform might start the process toward more reasonably adequate tax equity.

(The views expressed are the author's and not necessarily those of any organization with which he is associated.)

Mr. Taxpayer

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(22 percent of the total) and interest on the Federal debt (11 percent) comes third.

After collecting billions in revenues from the earnings of J. Q. Taxpayer and many others, Washington will spend $39.8 billion more than it takes in before 1980 ends. So, in addition to his $5,451 Federal tax bill, John Q. will "inherit" a $428 share of the deficit, say Tax Foundation economists.

Even after Mr. Taxpayer has given the U.S. 27 percent of his paycheck for 1980, he isn't finished paying his taxes yet. State and city income, property and sales taxes have yet to take their share. But that's another story . . .

How the Federal Government Will Spend a Worker's Tax Dollars in Fiscal 1980[a]

Function	Worker's share: Amount	Worker's share: Percent of total	Total amount (millions)
Income security	$1,777	32.60%	$190,948
National defense	1,213	22.26	130,368
Interest	589	10.81	63,330
Health	527	9.66	56,563
Education, training, employment, and social services	285	5.23	30,654
Veterans' benefits and services	193	3.55	20,766
Transportation	183	3.35	19,631
Natural resources and environment	119	2.18	12,776
International affairs	97	1.78	10,401
General purpose fiscal assistance	81	1.48	8,670
Community and regional development	79	1.45	8,467
Energy	72	1.32	7,751
General science, space, and technology	55	1.01	5,889
Commerce and housing credit	51	.93	5,476
General government	45	.83	4,885
Agriculture	43	.79	4,636
Administration of justice	42	.77	4,530
Total	$5,451	100.00%	$563,583[b]

[a] In this example, the worker is the sole source of support for himself, his wife, and two dependent children; he earns $20,000 a year, the estimated median income of a family with one earner who is employed full-time, year-round.

[b] After deducting from the above $122,158 million in allowances for contingencies and undistributed offsetting receipts, not classified by function.

Source: Total spending as estimated in the budget presented in January 1980; worker's share computed by Tax Foundation.

About Tax Features

Tax Foundation, Inc., is a publicly supported, non-profit organization engaged in non-partisan research and public education on the fiscal and management aspects of government. Members of Tax Foundation are urged to pass their copies of *Tax Features* along to editors of their house publications.

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Federal Tax Burden

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kansas ($1,595), Maine ($1,701), South Carolina ($1,713), and Utah ($1,728). The average per capita tax burden for FY 1980 was estimated by Foundation economists at $2,286.

Over the two-year period, 1979 to 1981, total tax payments to the Federal government are estimated to rise by $130 billion, or almost 29 percent. At the same time, the average per capita tax payment will go up by $547, or close to 27 percent.

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.

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 and family-by-family 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 accompanying table gives Tax Foundation estimates for the total and per capita Federal tax burdens for all the states and the District of Columbia for fiscal years 1979, 1980, and 1981.

The table on page 1 gives the Federal tax collections by type of tax for fiscal years 1979, 1980, and 1981.

Estimated Total and Per Capita Federal Tax Burdens by State
Fiscal Years 1979-1981

State	Total burden (millions)			Per capita burden			State rank-1980	
	1979	1980	1981	1979	1980	1981	Total	Per capita
U.S. Total	$450,816	$506,288	$580,852	$2,053	$2,286	$2,600	—	—
Alabama	5,906	6,582	7,551	1,571	1,732	1,966	24	45
Alaska	1,533	1,468	1,684	3,766	3,652	4,243	47	1
Arizona	4,238	5,012	5,750	1,744	1,998	2,220	31	34
Arkansas	3,291	3,493	4,008	1,512	1,595	1,820	33	50
California	51,573	58,780	67,437	2,282	2,557	2,886	1	10
Colorado	5,545	6,430	7,377	2,013	2,278	2,553	26	22
Connecticut	8,250	8,860	10,165	2,648	2,845	3,266	20	3
Delaware	1,443	1,519	1,743	2,474	2,619	3,015	46	7
Florida	16,906	19,391	22,247	1,919	2,152	2,414	9	29
Georgia	8,430	9,569	10,978	1,651	1,858	2,114	18	37
Hawaii	2,029	2,228	2,556	2,224	2,408	2,725	37	14
Idaho	1,443	1,671	1,917	1,605	1,810	2,026	44	41
Illinois	27,274	31,187	35,780	2,428	2,779	3,192	3	4
Indiana	11,045	12,404	14,231	2,047	2,293	2,625	11	20
Iowa	5,951	6,683	7,667	2,049	2,304	2,647	23	17
Kansas	4,914	5,417	6,215	2,080	2,271	2,582	29	23
Kentucky	5,680	6,480	7,435	1,615	1,823	2,070	25	40
Louisiana	6,852	7,797	8,945	1,706	1,922	2,184	22	36
Maine	1,758	1,873	2,149	1,604	1,701	1,945	43	49
Maryland	9,602	10,784	12,372	2,315	2,599	2,982	13	8
Massachusetts	12,172	13,265	15,218	2,110	2,300	2,641	10	19
Michigan	20,737	23,644	27,126	2,254	2,562	2,932	7	9
Minnesota	8,340	9,417	10,804	2,059	2,304	2,621	19	17
Mississippi	3,246	3,493	4,008	1,350	1,450	1,660	33	51
Missouri	9,512	10,430	11,965	1,956	2,135	2,440	14	30
Montana	1,398	1,620	1,859	1,783	2,051	2,335	45	32
Nebraska	3,066	3,443	3,950	1,949	2,182	2,497	35	28
Nevada	1,623	1,975	2,265	2,342	2,705	2,946	41	6
New Hampshire	1,713	1,975	2,265	1,942	2,191	2,465	41	26
New Jersey	18,168	19,948	22,886	2,480	2,716	3,110	8	5
New Mexico	1,984	2,228	2,556	1,607	1,767	1,986	37	43
New York	39,266	42,528	48,792	2,222	2,420	2,792	2	13
North Carolina	9,061	10,176	11,675	1,619	1,807	2,061	15	42
North Dakota	1,217	1,316	1,510	1,855	1,994	2,274	48	35
Ohio	22,541	25,517	29,275	2,101	2,378	2,730	6	15
Oklahoma	5,139	5,924	6,796	1,785	2,022	2,281	28	33
Oregon	5,094	6,025	6,912	2,031	2,331	2,596	27	16
Pennsylvania	24,074	26,681	30,611	2,051	2,279	2,623	5	21
Rhode Island	1,893	2,025	2,323	2,036	2,185	2,517	39	27
South Carolina	4,418	5,063	5,808	1,511	1,713	1,947	30	48
South Dakota	1,172	1,215	1,394	1,701	1,766	2,029	49	44
Tennessee	7,168	8,202	9,410	1,641	1,858	2,109	21	37
Texas	26,733	30,985	35,548	2,010	2,271	2,542	4	23
Utah	2,164	2,430	2,788	1,598	1,728	1,910	36	47
Vermont	766	861	987	1,561	1,732	1,959	51	45
Virginia	10,324	11,695	13,418	1,988	2,244	2,566	12	25
Washington	8,701	9,873	11,327	2,236	2,450	2,718	17	12
West Virginia	3,201	3,493	4,008	1,708	1,847	2,102	33	39
Wisconsin	9,332	10,075	11,559	1,981	2,122	2,417	16	31
Wyoming	992	1,164	1,336	2,234	2,478	2,688	50	11
District of Columbia	1,938	1,975	2,265	2,937	3,061	3,596	41	2

Source: U.S. total taxes are as shown in the Federal budget submitted in January 1980; computations of total and per capita tax burdens by state were made by Tax Foundation.