

MONTHLY TAX FEATURES



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Gov't Spending Hits \$1.2 Trillion; \$5,138 Per Capita

Government spending at all levels is expected to reach nearly \$1.2 trillion in the current fiscal year, according to Tax Foundation economists. This represents an increase of 10.2 percent (\$109.2 billion) over the \$1.08 trillion spent by all units of government in 1981.

To put it another way, Federal, state, and local government spending will be approximately \$5,138 for each man, woman, and child residing in the United States in fiscal year 1982; or, \$14,334 per household. Federal expenditures are expected to top three quarters of a trillion dollars—\$777.1 billion—accounting for about 66 percent of all government spending. State and local spending from their own sources is expected to exceed \$400 billion for the first time in history.

From 1950, when total government spending was about \$70 billion, to 1965, public spending grew at an average annual rate of about 7.4 percent. During this period, Federal spending, including grants to state and local governments, increased at a rate of 7.3 percent per year, while state and local spending from their own sources grew slightly faster, at about 7.5 percent per year. From 1965 to 1975, the average annual rate of growth of government spending was about 10.5 percent: 10.1 percent Federal and 11.3 percent for state and local governments. From 1975 to the current

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Inflation, Federal Taxes Erode Median Income's Buying Power

Many U.S. families may presently be earning more but enjoying it less, according to Tax Foundation economists. Income for a "prototypical" family (one earner employed full-time, year-round with two dependent children) for 1982 is projected to hit \$23,895. That represents a 114 percent increase in current dollars over that family's earnings ten years ago (\$11,152).

However, while the family's income more than doubled over the decade, its direct Federal taxes nearly tripled. Individual income taxes jumped 155 percent, and social security taxes rocketed 242 percent.

Ten years ago, this "prototypical" family had earnings of \$11,152 and

paid \$982 in Federal individual income taxes and \$468 in social security taxes, a total tax burden of \$1,450.

At a 1982 earning level of \$23,895, that family will pay \$2,502 in income taxes and \$1,601 in social security taxes, a total of \$4,103.

In 1972, direct Federal taxes on the income of this family claimed 13 percent of earnings. By 1982 such taxes preempted more than 17 percent of income. As a proportion of income, direct Federal taxes peaked in 1981 at 17.7 percent, prior to the implementation of the tax cuts in the Economic Recovery Tax Act of 1981.

To make matters worse, as the bite of Federal taxes increased, the pur-

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**Median Family Incomes Before and After
Direct Federal Taxes and Inflation
1972-1984**

Year	Median family income ^a	Direct Federal taxes			After-tax income	
		Income tax ^b	Social security	Total	Current dollars	1972 dollars ^c
1972	\$11,152	\$ 982	\$ 468	\$1,450	\$ 9,702	\$9,702
1973	11,895	1,098	632	1,730	10,165	9,569
1974	13,004	1,267	761	2,028	10,976	9,311
1975	14,156	1,172	825	1,997	12,159	9,451
1976	15,016	1,388	878	2,266	12,750	9,370
1977	15,949	1,466	933	2,399	13,550	9,355
1978	17,318	1,717	1,048	2,765	14,553	9,332
1979	19,048	1,881	1,168	3,049	15,999	9,221
1980	20,586	2,163	1,262	3,425	17,161	8,712
1981	22,410 ^d	2,477	1,490	3,967	18,443	8,483
1982	23,895 ^d	2,502 ^e	1,601 ^e	4,103	19,792	8,543
1983	25,329 ^d	2,522 ^e	1,697 ^e	4,219	21,110	8,596
1984	26,848 ^d	2,616 ^e	1,799 ^e	4,415	22,433	8,617

^aMedian income for all families with one earner employed full-time, year-round.

^bMarried couple filing joint return, two children.

^cAdjusted by Consumer Price Index of the Bureau of Labor Statistics.

^dEstimated by Tax Foundation.

^eAssumes no changes in current law.

Source: U.S. Department of Commerce, Bureau of Labor Statistics; Treasury Department, Internal Revenue Service; and Tax Foundation computations.

The Front Burner

By Robert C. Brown

Executive Vice President
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"Unreported Income"

About \$94 billion in taxes go unreported and uncollected each year. That is enough potential tax revenue to wipe out most of the projected 1983 Federal deficit.

Behind these unpaid tax bills stands a wide range of tax cheats: drug dealers and gamblers operating totally outside the law; plumbers, electricians, and carpenters taking on small—and not so small—jobs at cut rates for "off-the-books" cash payments; and "little old ladies and gentlemen in tennis shoes" who regularly omit all mention of interest and dividend income from their tax returns.

Looking to shrink the deficits, the White House and Congressional leaders have targeted on such unreported income. They have promised to beef up IRS enforcement powers, enlarge the Service's computer system, impose withholding on so-called "independent contractors," and require banks and brokerage houses to report interest and dividend income paid to customers.

The financial community has called this last proposal an administrative nightmare which would impose severe compliance costs on them. We can sympathize with their position. However, several factors must be kept in mind.

First, the Federal government ought to go after the billions of dollars siphoned off into the underground economy each year. In doing so, however, our tax enforcers ought to keep in mind that our income tax system is based on the willingness of people to pay what they perceive to be their fair share of the cost of government.

As tax burdens have grown and as Federal largess has come to seem ever more arbitrary and removed from the control of the taxpaying citizen, non-compliance has increased sharply. Enforcement alone won't cure this.



The issue of fairness—both as a perception problem and as a reality—must be seriously addressed.

Secondly, while tightening revenue reporting and collecting procedures may be onerous, Congress does have an obligation to raise the money needed to run the country.

Even from the special perspective of the financial community, a strong case can be made that more rigid

reporting procedures will be far less burdensome than some of the new taxes being bandied about. The corporate minimum tax, for one, comes quickly to mind.

Viewed in terms of equity, it also seems only fair that, if a majority of those whose income comes from wages must report their earnings, those whose income comes from dividends and interest should do no less.

States Spend \$1,007 Per Capita

While current reports from the states suggest that measures are being instituted to hold the line on future spending growth, such restraint has scarcely been evident in trends during the past decade, according to Tax Foundation economists.

From 1970 to 1980 (latest year reported) state general spending from all sources—including Federal grants-in-aid—almost tripled, rising from \$77.6 billion to \$228.2 billion. This represented an average annual increase of 11.4 percent for the decade as a whole, ending with a 14.7 percent rise in the single year from 1979 to 1980. On a per capita basis, state general spending amounted to \$1,007 in fiscal year 1980.

In addition to expenditures in the "general" category, states spent close

to \$30 billion in 1980 for services not supported by general tax funds. These included employee retirement, unemployment compensation, and workmen's compensation—for which trust funds with special financing are provided—and state-owned liquor stores and utilities.

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MARK YOUR CALENDAR

Tax Foundation's 34th National Conference and 45th Annual Dinner will be held this year on Wednesday, December 1st at the Plaza Hotel in New York City. Details will follow in future issues of *Monthly Tax Features*.

Federal, State, and Local Government Expenditures^a
Selected Fiscal Years 1950–1982

Fiscal year	Amount (billions)			Total expenditures	
	All governments	Federal	State and local	Per household	Per capita
1950	\$ 70.3	\$ 44.8	\$ 25.5	\$ 1,614	\$ 466
1960	151.3	97.3	54.0	2,866	847
1965	205.7	130.1	75.6	3,581	1,067
1970	333.0	208.2	124.8	5,252	1,643
1975	560.1	340.5	219.6	7,875	2,612
1976	625.1	389.9	235.2	8,579	2,886
1977	680.3	430.6	249.7	9,176	3,111
1978	745.4	477.8	267.6	9,804	3,373
1979	832.4	535.7	296.7	10,764	3,726
1980	958.7	615.4	343.3	12,119	4,243
1981 ^b	1,075.2	707.4	367.8	13,298	4,709
1982 ^b	1,184.4	777.1	407.3	14,334	5,138

^aGrants-in-aid are counted as expenditures of the first disbursing unit.

^bEstimated by Tax Foundation.

Source: Basic data from U.S. Department of Commerce, Bureau of the Census; computations by Tax Foundation.

Gov't Spending

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year, the relative growth trends have been reversed. Federal spending has grown at an average annual rate of approximately 12.5 percent, while state and local spending has increased at a rate of about 9.2 percent a year. Total spending during this period has risen at an annual rate of 11.3 percent.

On a per capita basis, government expenditures nearly doubled during the period from 1975 onward. In 1975, per capita spending was \$2,612; it is expected to reach \$5,138 this year, 97 percent greater than the 1975 level. Because the size of households has decreased in recent years and the number of households has increased faster than the population at large, spending per household has grown less rapidly than spending per capita. For the 1975-1982 period, per household spending has increased 82 percent—from \$7,875 in 1975 to an estimated \$14,334 for the current year.

The table at the top of the page gives further details.

To Our Readers

Tax Review will not be published in June-July or August, 1982. Publication will resume with the September issue.

Skimming the Cream Would Pay For Eight Days of Uncle Sam's Bills

Income subject to taxation at top Federal rates during income year 1979 accounted for about 3.2 percent of the Federal income tax base that year, but generated 8.3 percent of income tax collections. Despite this incongruity, the difference came to a bare fraction of revenue required to cover total Federal spending for the year.

According to Treasury Department data for calendar year 1979 (latest available), taxpayers above the 50 percent rate filed 1,431,000 returns, 1.9 percent of all taxable returns filed. Income subject to taxation in the top brackets totaled \$29.0 billion, yielding revenues of \$18.2 billion. If the whole \$29 billion had simply been confiscated (by taxing it at 100 percent), the U.S. Treasury would have

gleaned only \$10.8 billion in additional revenue.

Uncle Sam spent \$1.4 billion a day to cover the Federal government's bills totaling \$493.2 billion in 1979. So, taking all the income earned at the over-50 percent tax level, would have bought a little over a week's worth of government in Washington, according to Tax Foundation calculations.

Since 1972, "earned" income has been taxed at a top marginal rate of 50 percent; in 1981, Congress approved a reduction in the top rate on "unearned" income from 70 percent to 50 percent, effective in 1982 and thereafter.

The table below offers details.

Federal Individual Income Tax Generated at Each Tax Rate Income Year 1979

Tax rate ^a	Number of returns with any tax at rate ^b (thousands)	Tax base taxed at rate (millions)	Tax generated at rate (millions)	Percent of total returns	Percent of total tax base	Percent of total tax
14	74,228	\$121,263	\$ 16,977	100.00	13.18	7.72
16	66,775	107,729	17,237	89.96	11.71	7.84
18	60,327	183,926	33,107	81.27	19.99	15.05
21	57,298	156,570	32,327	77.19	17.02	14.70
24	34,937	103,408	24,703	47.07	11.24	11.23
28	22,549	67,784	18,728	30.38	7.37	8.52
32	14,805	52,068	16,439	19.95	5.66	7.48
37	8,325	32,046	11,604	11.22	3.48	5.28
43	4,479	28,083	11,926	6.03	3.05	5.42
49	2,379	19,609	9,503	3.20	2.13	4.32
54	1,013	26,001	13,306	1.36	2.83	6.05
59	399	4,661	2,701	.54	.51	1.23
64	239	4,828	3,079	.32	.52	1.40
68	96	2,527	1,718	.13	.27	.78
70	63	9,379	6,565	.08	1.02	2.99
14-70	74,228	919,883	219,919	100.00	100.00	100.00

^aData for heads of households at intervening rates are combined with data in brackets for next highest rate.

^bMost returns have a tax base taxed at more than one rate.

Source: Treasury Department, and computations by Tax Foundation.

About Tax Features

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Inflation/Taxes

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chasing power of the median income family was dropping. With inflation, a 10-year (1972-1982) increase of \$10,090 in after-tax income becomes a "loss" of \$1,159 when translated into 1972 dollars.

This means that the median income family of 1982 can buy about 12 percent fewer goods and services than its counterpart could purchase ten years ago. On the brighter side, the after-tax income for 1982 represents a \$60 increase over 1981 levels, expressed in constant 1972 dollars.

Looking down the road, if inflation runs 6 percent per year for the next two years and if the median income family's income keeps pace with it, the median income would rise to \$25,329 in 1983 and \$26,848 in 1984; after-tax incomes, unadjusted for inflation, would increase to \$21,110 and \$22,433, respectively, in 1983 and 1984. Adjusted for inflation, these incomes would be \$8,596 and \$8,617, respectively, in 1972 dollars, for those years.

The table on page 1 provides details.

To Our Readers

Due to increased costs, a \$1.00 postage and handling charge will apply to all Tax Foundation publication orders, effective immediately. This will include both free and chargeable items, but not pre-paid orders.

State Spending

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About 37 percent of state general expenditure is classified as "inter-governmental," primarily in the form of financial assistance to local government. In 1980, 62 percent of such aid was earmarked specifically for education.

More than three-fourths of state

general spending supports four major functions: education, public welfare, highways, and health and hospitals. Among these services, the most notable shift in emphasis during the past decade is seen in the decline in the relative weight of highways in total spending (from 17.4 percent of the total in 1970 to 11.0 percent in 1980).

The table below gives further details.

**State Government General Expenditures,
Direct and Intergovernmental, by Function
Fiscal Years 1970 and 1980**

Function	Amount (millions)		Percent increase 1970-80	Percent distribution	
	1970	1980		1970	1980
All functions	\$77,642	\$228,223	194	100.0	100.0
Direct	48,749	143,718	195	62.8	63.0
Intergovernmental	28,892	84,504	192	37.2	37.0
Education	30,865	87,939	185	39.8	38.5
Direct	13,780	35,251	156	17.7	15.4
Intergovernmental	17,085	52,688	208	22.0	23.1
Highways	13,483	25,044	86	17.4	11.0
Direct	11,044	20,661	87	14.2	9.1
Intergovernmental	2,439	4,383	80	3.1	1.9
Public welfare	13,206	44,220	235	17.0	19.4
Direct	8,203	33,242	305	10.6	14.6
Intergovernmental	5,003	10,977	119	6.4	4.8
Health and hospitals	5,355	17,855	233	6.9	7.8
Direct	4,788	15,667	227	6.2	6.9
Intergovernmental	567	2,188	286	.7	1.0
Natural resources	2,223	4,346	96	2.9	1.9
Direct	2,158	4,124	91	2.8	1.8
Intergovernmental	64	221	245	.1	.1
Housing and urban renewal ...	120	601	401	.2	.3
Direct	23	331	1,339	—	.1
Intergovernmental	97	271	179	.1	.1
Air transportation	225	463	106	.3	.2
Direct	178	360	102	.2	.2
Intergovernmental	47	102	117	.1	—
Social insurance administration	767	2,001	161	1.0	.9
Interest on general debt.	1,499	6,763	351	1.9	3.0
Other and combined	9,900	38,992	294	12.8	17.1
Direct	6,310	25,319	301	8.1	11.1
Intergovernmental	3,590	13,673	281	4.6	6.0

Source: U.S. Department of Commerce, Bureau of the Census; and computations by Tax Foundation.



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