TAX FOUNDATION

TAX FEATURES©

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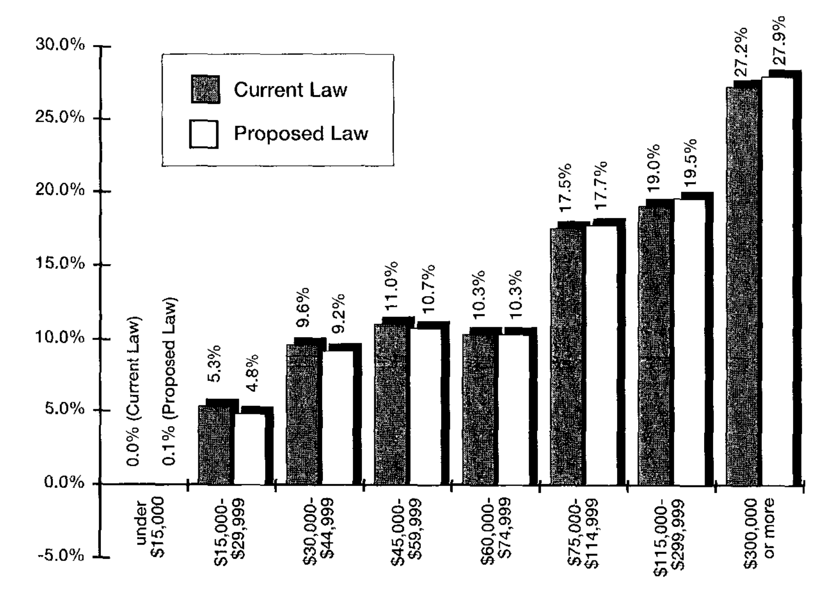
Distribution of "Contract's" Tax Relief Examined by Tax Foundation

Tax Filers in Connecticut Would See Biggest Relief, Alabamans Would See Smallest

The tax provisions in the "Contract With America," if enacted, will reduce American's tax burden by an estimated $188.8 billion over the five-year budget period from 1995 to 2000. At the same time, the provisions will slightly increase the share of the income tax burden borne by those taxpayers with $75,000 or more of adjusted gross income, according to a new study by the Tax Foundation. (See Chart 1.)

Chart 1: Share of Individual Income Taxes Under Current Law and Proposed "Contract" Provisions, by Income Class
1995–2000



Source: Tax Foundation.

In his *Special Report* "Analysis and Summary of the 'Contract with America Tax Relief Act of 1995,'" Senior Economist Arthur Hall reports that the estimated average tax reduction for all income tax filers amounts to $1,552 over the 1995 to 2000 time period (see Chart 2). Tax filers in Connecticut, New Jersey, New York, California, and Massachusetts would see the highest average annual tax savings. (The District of Columbia would rank fourth if it were a state.) Tax filers in Alabama, Alaska, Mississippi, South Dakota, and North Dakota would see the lowest annual average tax savings.

In his report, Dr. Hall shows that the "American Dream Restoration Act" (ADRA) is responsible for the largest chunk (59 percent) of the tax reduction found in the "Contract." Most of ADRA's savings is due to the Family Tax Credit, which provides for a $500 tax credit for each child under the age of 18, which phases out for taxpayers earning over $200,000.

The "Job Creation and Wage Enhancement Tax Act" accounts for another 24 percent of the total tax reduction. Much of

Contract *continued on page 8*

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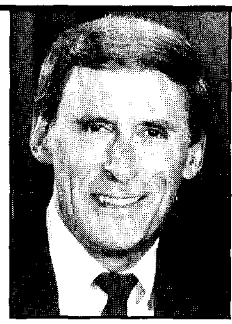

A Less-Taxing Way of Putting America's Families First

Sen. Dan Coats (R-Indiana)

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States Differ on Who Pays For, Receives Medical Benefits

Residents of some states pay far more into Medicare and Medicaid than they get back, according to a new analysis of these federal programs by the Tax Foundation. A state-by-state breakdown, seen in the table on the next page, shows that residents of 20 states pay more per capita into Medicare than they get back, while residents of 29 states pay more per capita into Medicaid than they collect in return.

In Medicare financing, residents of the District of Columbia have the worst taxes-to-benefits difference, paying $1,695 per capita in Medicare payroll taxes while receiving $846 per capita, an $849 deficit per person. Following on the District's heels for worst per capita taxes-to-benefits differences are Alaska, with a $314 per capita deficit, Hawaii, with a $226 deficit, Nevada, with a $145 deficit, and Utah, with a $143 deficit.

On the other hand, residents of North Dakota have the best Medicare taxes-to-benefits deal, paying $302 per capita in Medicare payroll taxes while receiving $623 per capita — a $321 surplus per person. The four states with the next best taxes-to-benefits deals are West Virginia ($321 surplus), Pennsylvania ($258 surplus), Missouri ($205 surplus), and Iowa ($197 surplus).

In terms of Medicaid financing, Wyoming residents have the highest average deficit paying $462 per person in federal taxes for every $286 in benefits per person — a $176 per capita deficit. Virginia is not far behind in this category, with a per capita deficit of $169, followed by Delaware ($169 per capita deficit), Colorado ($156 per capita deficit), and Illinois ($146 per capita deficit).

Louisiana, on the other hand, has the best Medicaid taxes-to-benefits deal. Louisianans on average pay $341 in federal taxes while receiving $794 in benefits — a $453 surplus. Following in Louisiana's path are West Virginia, with a $393 per capita surplus, New York, with a $275 per capita surplus, Maine, with a $246 per capita surplus, and the District of Columbia, with a $242 per capita surplus. •

Per Capita 1995 Medicare, Medicaid Taxes and Benefits by State

	Medicare			Medicaid		
State	Payroll Tax	Benefits	Per Capita Difference	Taxes	Benefits	Per Capita Difference
Alabama	$324	$428	$104	$288	$361	$72
Alaska	$402	$88	-$314	$411	$290	-$122
Arizona	$287	$275	-$12	$233	$254	$21
Arkansas	$286	$455	$169	$277	$414	$137
California	$390	$336	-$54	$320	$246	-$74
Colorado	$394	$296	-$98	$366	$210	-$156
Connecticut	$554	$471	-$82	$523	$437	-$86
Delaware	$464	$337	-$128	$387	$228	-$160
Dist. of Col.	$1,695	$846	-$849	$568	$811	$242
Florida	$300	$443	$144	$276	$214	-$61
Georgia	$367	$256	-$110	$277	$300	$22
Hawaii	$459	$233	-$226	$341	$198	-$143
Idaho	$282	$293	$11	$281	$256	-$24
Illinois	$451	$566	$115	$436	$290	-$146
Indiana	$370	$410	$40	$344	$404	$60
Iowa	$335	$532	$197	$370	$306	-$64
Kansas	$347	$517	$169	$375	$266	-$110
Kentucky	$313	$437	$124	$300	$469	$169
Louisiana	$302	$417	$116	$341	$794	$453
Maine	$325	$465	$140	$280	$525	$246
Maryland	$414	$382	-$32	$381	$244	-$137
Massachusetts	$503	$605	$102	$437	$431	-$6
Michigan	$397	$522	$125	$375	$343	-$32
Minnesota	$419	$368	-$50	$361	$340	-$21
Mississippi	$253	$423	$170	$247	$468	$221
Missouri	$372	$577	$205	$344	$333	-$10
Montana	$260	$407	$147	$327	$374	$47
Nebraska	$357	$485	$128	$356	$288	-$68
Nevada	$343	$199	-$145	$254	$159	-$95
New Hampshire	$358	$333	-$25	$342	$219	-$123
New Jersey	$511	$533	$22	$504	$379	-$125
New Mexico	$275	$258	-$17	$257	$317	$60
New York	$503	$537	$34	$436	$712	$275
North Carolina	$356	$282	-$73	$279	$335	$57
North Dakota	$302	$623	$321	$388	$422	$35
Ohio	$381	$484	$103	$368	$370	$2
Oklahoma	$291	$464	$173	$345	$320	-$25
Oregon	$337	$416	$80	$316	$260	-$56
Pennsylvania	$387	$645	$258	$387	$343	-$44
Rhode Island	$368	$482	$114	$370	$555	$185
South Carolina	$324	$276	-$48	$256	$404	$149
South Dakota	$278	$472	$194	$306	$348	$42
Tennessee	$352	$404	$52	$306	$446	$141
Texas	$335	$311	-$24	$323	$304	-$19
Utah	$307	$164	-$143	$246	$238	-$8
Vermont	$344	$392	$48	$298	$342	$44
Virginia	$408	$289	-$119	$338	$169	-$169
Washington	$375	$274	-$101	$344	$296	-$48
West Virginia	$278	$584	$306	$324	$717	$393
Wisconsin	$366	$449	$84	$345	$326	-$19
Wyoming	$339	$346	$8	$462	$286	-$176
United States	$383	$419	$36	$347	$347	$0

Note: Medicare benefits exceed Medicare payroll taxes because the Medicare Trust Fund receives revenue from other sources. Medicaid figures include administrative costs.

Source: Tax Foundation calculations based on data from the Health Care Financing Administration and the Office of Management and Budget.

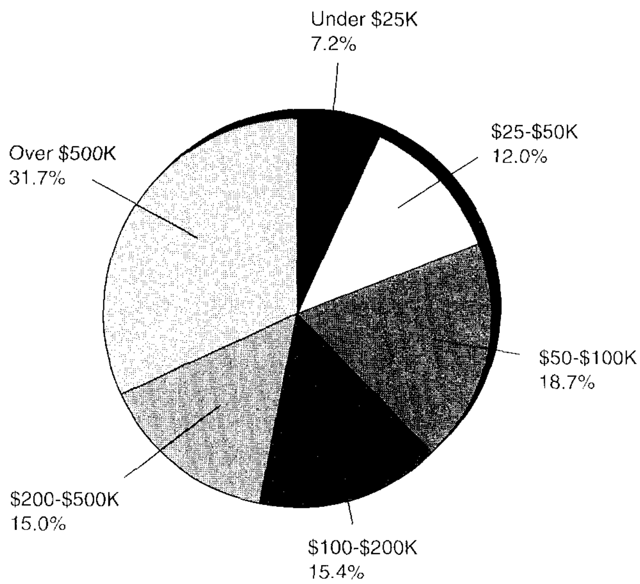
Tax Foundation Study Examines 50 Years of the Federal Capital Gains Tax Burden

In the half-century between 1942 and 1992, over half (53 percent) of all taxable capital gains were reported by taxpayers earning under $200,000 in constant 1992 dollars, according to a new Tax Foundation study.

The analysis, a *Special Report* titled "50 Years of the Federal Capital Gains Tax Burden" by Senior Economist Arthur P. Hall, Ph.D., reveals that well over a third of all taxable capital gains during that period (38 percent) were reported by taxpayers with under $100,000 in annual income (see Chart 1). Dr. Hall's conclusion: America's large middle class has benefited far more than is generally presumed from this form of income—and therefore bear a significant share of the burden of the capital gains tax. Taxpayers earning under $200,000 annually paid two-thirds of the capital gains taxes in the 50 years between 1942 and 1992. Those

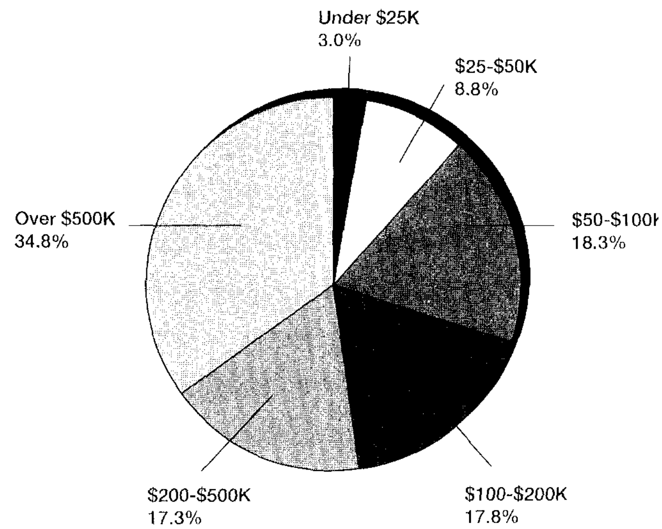
Capital Gains *continued on page 8*

Chart 1: Income Groups' Shares of Total Taxable Capital Gains, 1942–1992



Source: Tax Foundation.

Chart 2: Income Groups' Shares of Total Capital Gains Taxes, 1942–1992



Source: Tax Foundation.

Chart 3: Distribution of Total Estimated Capital Gains Taxes Paid (Constant 1992 Dollars)

Taxable Returns AGI Class ($000s)	1940s	1950s	1960s	1970s	1980s	1990s
Under $25	9.78%	5.59%	3.27%	2.88%	1.98%	2.18%
$25-50	12.26	9.98	7.58	9.94	8.32	8.06
$50-100	15.35	16.33	15.06	22.85	18.60	16.13
$100-200	14.26	23.69	20.01	18.33	16.01	15.72
$200-500	18.33	14.91	16.80	19.47	17.04	15.67
Over $500	30.02	29.51	37.27	26.53	38.05	42.25
Subtotal	100	100	100	100	100	100
Nontaxable Returns	NA	NA	NA	NA	NA	NA
Share Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Dollar Total (Millions)	$34,974.90	$79,777.70	$189,183.10	$220,919.60	$388,460.50	$95,162.90

Source: Tax Foundation.

A Less-Taxing Way of Putting America's Families First

Senator Dan Coats
(R-Indiana)

This month's passage of a pro-family tax cut by the House of Representatives is great news for the hard working families of America. Now the focus of tax reform moves to the Senate, where Senator Rod Grams and I have co-sponsored a measure similar to the one that passed the House. If approved it would provide tax relief for families and control the growth of federal spending.

The federal tax burden on the typical American family has become overwhelming. In 1948, the average American family of four paid just 3 percent of its income to the federal government. By 1992, that tax bill had skyrocketed to 24.5 percent of family earnings.

This dramatically increased burden complicates the family's role—to provide for the social and moral education of children. Family tax reform is more than a matter of money. It would help restore the family to an economic position that allows it to fulfill its most vital responsibilities.

This must be a careful concern of the Republican agenda. But it is balanced with other concerns. We must also have an economy that generates capital and creates jobs. And we must stop the calculated theft of our children's future occurring in $4.7 trillion of national debt.

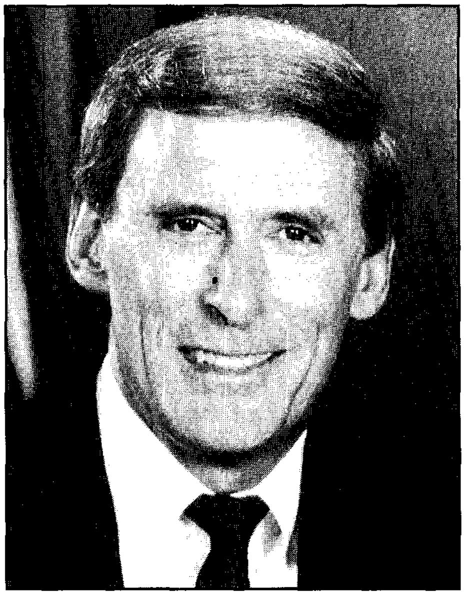
There is no mystery to economic growth and job creation—low taxes, less regulation, incentives to save, and incentives to invest. We will create new jobs by growing the economy, not by growing the government.

These goals are not contradictory. I have introduced Senate legislation designed to address each of these concerns. My bill is called the **F**amily, **I**nvestment, **R**etirement, **S**avings and **T**ax Fairness Act, or FIRST. Its provisions put families first by:

• *Providing each family with a $500 per child tax credit—not a tax deduction or exemption, but a tax credit.* This measure will enable a family of four to have an additional $80 every month for groceries, housing costs, savings and other expenses. Fifty-two million children are eligible for this credit, and 86 percent of this tax relief would go to families making less than $75,000 per year.

• *Reducing capital gains taxes and putting forward a neutral cost recovery plan for investments to generate growth and jobs.* There is no mystery to economic growth and job creation—low taxes, less regulation, incentives to save, and incentives to invest. We will create new jobs by growing the economy, not by growing the government. Strong businesses and a healthy atmosphere for investing mean strong job opportunities for American wage earners.

• *Repealing the retirement earnings test so that older Americans won't jeopardize there Social Security benefits.* We should not penalize productive workers, particularly seniors who have so much to offer.



The federal tax burden on the typical American family has become overwhelming. In 1948, the average American family of four paid just 3 percent of its income to the federal government. By 1992, that tax bill had skyrocketed to 24.5 percent of family earnings.

• *Finally—and crucially—placing a two percent cap on the growth of federal spending.* Our bill exempts Social Security from this restriction.

The pessimists on Capitol Hill insist that the deficit cannot bereduced if taxes are also cut. But that belief is simply false. After eliminating wasteful, redundant and needless spending from the federal budget, remaining expenditures can still be allowed to increase while leading us to a balanced budget.

What's in the House Tax Bill?

The tax bill that passed the House of Representatives in early April included a series of tax cuts for individuals and businesses:

- A $500 per child tax credit for families earning $200,000 or less.
- A 50 percent deduction for net long-term capital gains for individuals and capital gains indexing.
- A capital gains tax rate of 25 percent for corporations.
- A neutral cost recovery system.
- Repeal of the corporate alternative minimum tax (AMT).
- Creation of a new "American Dream Savings Account."
- Rollback of the taxable Social Security earnings limit.
- An increase from $17,500 to $35,000 of small business expensing.
- An increase in the unified estate and gift tax credit.

Here's how it could work. The economic facts, using numbers from the nonpartisan Congressional Budget Office, are simple:

Cap the growth of federal spending at 2 percent each year. Annual inflation, even at 3 or 4 percent, would always be higher than this level of spending increase. In effect, this means that spending would increase in actual dollars, but decrease in real terms when adjusted for inflation. Add the economic growth produced by tax relief, and the budget could be balanced within seven years.

Under my FIRST bill, families would keep more of their own hard-earned money, the economy would enjoy health growth, and the federal budget would finally be balanced.

We must never forget the importance of the American family. Strong families create strong societies. The future of our economy must be built on respect for families, support for the free market system, and fiscal responsibility in Washington.

We owe our families and our future nothing less. •

New Paper Explores Impact of EC Tax Harmonization

A new Tax Foundation/Ernst & Young Visiting Professor paper examines the status of tax harmonization in the European Community and the implications for American tax policy.

The report, "European Community Tax Harmonization and the Implications for U.S. Tax Policy" by Tracy Kaye, Associate Professor of Law at Seton Hall University School of Law, discusses the legislative process, exam-ines the current structure of the EC member states' varied systems of taxation, and discusses the recent agreements with respect to direct taxation and the implications of these agreements to the European Community.

Professor Kaye predicts that, to achieve a coherent system of international taxation, the U.S. must take note of how other countries tax international income. The EC is especially important, she says, because of its membership and the many countries that aspire to join—including, she notes, the European Free Trade Association (EFTA) countries and the Eastern European countries as they develop their own tax systems.

U.S. tax treaty policy should take into consideration the direct tax harmonization accomplished thus far and the proposals for the future, says Professor Kaye. Although the negotiation of a single treaty with the EC would produce significant benefits for the U.S. both substantively and administratively, the EC member states are not yet willing to transfer their sovereignty to conclude tax treaties to the Community. The alternative is to strive towards uniformity in the tax treaty negotiations currently under way with half of the member states. Given appropriate safeguards, administrability, simplicity, and economic efficiency can be improved by treating the EC as a single country for this purpose. •

Who Will Get the "Contract's" $500 Per Child Tax Credit?

If Congress passes the "Contract With America's" $500 per child tax credit, who will get tax relief—and what will the credits be worth?

A Tax Foundation analysis shows that for the nation as a whole, the $500 per child tax credit would provide $26.04 billion in tax relief for 28.6 million American families in 1997, an average tax credit of $910 per family. Taxpaying filers earning between $15,000 and $30,000 annually will receive just under a third of the total amount of tax credits, while taxpaying filers earning between $30,000 and $50,000 will receive just over a third of them. (For a breakdown by income class, see the table below.)

The estimates are for 1997, the first year the tax credits would become fully effective if the measure is enacted into law.

Families earning between $15,000 and $30,000 a year would see an average tax credit of $896 per year, to reduce their estimated average federal income tax liability of $1,590. Families earning between $30,000 and $50,000, with an average federal income tax liability of $4,131, would see an average tax credit of $937. Also, families earning between $50,000 and $75,000, with an average federal income tax liability of $8,111, would see an average tax credit of $948. •

Who Will Receive the "Contract With America's" $500 Per Child Tax Credit?

Income (AGI) Group	Estimated Number of Taxpaying Filers w/ Dependent Children at Home	Estimated 1997 Fed. Income Tax Liability ($Millions)	Avg. Income Tax Liability for Taxpaying Filers w/ Dependent Children at Home	Avg. No. of Exemptions for Children at Home per Taxpaying Filer	Avg. Credit	1997 Total Credits ($Billions)	1995-2000 Total Credits ($Billions)	Share of Credits
Under $15,000	341,035	$196	$574	1.68	$574	$0.20	$0.88	0.8%
$15-30,000	8,336,987	13,258	1,590	1.79	896	7.48	33.71	28.7
$30-50,000	9,692,710	40,043	4,131	1.87	937	9.08	40.97	34.9
$50-75,000	6,340,530	51,429	8,111	1.90	948	6.01	27.12	23.1
$75-100,000	2,069,849	29,861	14,427	1.85	924	1.91	8.63	7.4
$100-200,000	1,401,804	38,397	27,391	1.90	948	1.33	5.99	5.1
Over $200,000	440,297	56,942	129,327	2.05	97	0.04	0.19	0.2

Note: Numbers may not add up due to rounding.
Source: Tax Foundation; Joint Committee on Taxation.

Balanced Budget Amendment Fails

The United States Senate failed to pass the Balanced Budget Amendment when it came to the floor for a vote March 2. After passing the House of Representatives by the necessary two-thirds majority, the amendment garnered only 66 votes in the Senate, missing the two-thirds margin needed by one vote. (One Republican voted against the measure, while 14 Democrats voted for it.) Following is a record for how the senators voted. •

Abraham, R-MI	Yea	Hutchison, R-TX	Yea
Akaka, D-HI	Nay	Inhofe, R-OK	Yea
Ashcroft, R-MO	Yea	Inouye, D-HI	Nay
Baucus, D-MT	Yea	Jeffords, R-VT	Yea
Bennett, R-UT	Yea	Johnston, D-LA	Nay
Biden, D-DE	Yea	Kassebaum, R-KS	Yea
Bingaman, D-NM	Nay	Kempthorne, R-ID	Yea
Bond, R-MO	Yea	Kennedy, D-MA	Nay
Boxer, D-CA	Nay	Kerrey, D-NE	Nay
Bradley, D-NJ	Nay	Kerry, D-MA	Nay
Bryan, D-NV	Yea	Kohl, D-WI	Yea
Burns, R-MT	Yea	Kyl, R-AZ	Yea
Breaux, D-LA	Yea	Lautenberg, D-NJ	Nay
Brown, R-CO	Yea	Leahy, D-VT	Nay
Bumpers, D-AR	Nay	Levin, D-MI	Nay
Byrd, D-WV	Nay	Lieberman, D-CT	Yea
*Campbell, D-CO	Yea	Lott, R-MS	Yea
Chafee, R-RI	Yea	Lugar, R-IN	Yea
Coats, R-IN	Yea	Mack, R-FL	Yea
Cochran, R-MS	Yea	McCain, R-AZ	Yea
Cohen, R-ME	Yea	McConnell, R-KY	Yea
Conrad, D-ND	Nay	Mikulski, D-MD	Nay
Coverdell, R-GA	Yea	Mosely-Braun, D-IL	Yea
Craig, R-ID	Yea	Moynihan, D-NY	Nay
D'Amato, R-NY	Yea	Murkowski, R-AK	Yea
Daschle, D-SD	Nay	Murray, D-WA	Nay
DeWine, R-OH	Yea	Nickles, R-OK	Yea
Dodd, D-CT	Nay	Nunn, D-GA	Yea
**Dole, R-KS	Nay	Packwood, R-OR	Yea
Dorgan, D-ND	Nay	Pell, D-RI	Nay
Domenici, R-NM	Yea	Pressler, R-SD	Yea
Exon, D-NE	Yea	Pryor, D-AR	Nay
Faircloth, R-NC	Yea	Reid, D-NV	Nay
Feingold, D-WI	Nay	Robb, D-VA	Yea
Feinstein, D-CA	Nay	Rockefeller, D-WV	Nay
Ford, D-KY	Nay	Roth, R-DE	Yea
Frist, R-TN	Yea	Santorum, R-PA	Yea
Glenn, D-OH	Nay	Sarbanes, D-MD	Nay
Gorton, D-WA	Yea	Shelby, R-AL	Yea
Graham, D-FL	Yea	Simon, D-IL	Yea
Gramm, R-TX	Yea	Simpson, R-WY	Yea
Grams, R-MN	Yea	Smith, R-NH	Yea
Grassley, R-IA	Yea	Snowe, R-ME	Yea
Gregg, R-NH	Yea	Specter, R-PA	Yea
Harkin, R-IA	Yea	Stevens, R-AK	Yea
Hatch, R-UT	YEa	Thomas, R-WY	Yea
Hatfield, R-OR	Nay	Thompson, R-TN	Yea
Heflin, D-AL	Yea	Thurmond, R-SC	Yea
Helms, R-NC	Yea	Warner, R-VA	Yea
Hollings, D-SC	Nay	Wellstone, D-MN	Nay

* Sen. Campbell switched to the Republican Party a day after the vote.

** Sen. Dole switched his vote before the final tally for procedural reasons. The switch allows the Majority Leader to bring the amendment up for a vote again before the end of the 104th Congress.

FOUNDATION MESSAGE

The "Contract," Act Two

In many respects, the recent passage by the House of Representatives of the "Contract with America" tax provisions was a stunning achievement. To turn this tide the House leadership demonstrated both skill and political muscle in achieving its goal despite great pressure to adopt a less sweeping bill and to concentrate on deficit reduction.

Yet the $188.8 billion tax reduction spread over five years reverses only about 60 percent of the 1993 tax increase, meaning that, in effect, the House has concluded that a lesser tax increase in 1993 of about $70 billion would have been appropriate—or an average annual tax cut of about $38 billion, about 2.7 percent of 1996's projected federal tax receipts, so that whatever its merits, this was no major piece of tax legislation by historical measures.

The debate now shifts to the U.S. Senate, where a slower pace is sure to focus the deficit reduction versus tax reduction debate. Many members of the Finance Committee and much of the Senate Republican leadership have indicated they have some serious reservations about the House bill. Many have also indicated they would prefer to work on tax restructuring first. Thus, whatever passes the Senate could well look quite different from the bill that just passed the House, making the Conference on the bill a high-stakes affair for all concerned.

J.D. Foster
Executive Director and Chief Economist

Once it became clear that tax reductions would be paid for, resistance shifted to a second front, that any and all available spending cuts should be dedicated to deficit reduction. This concern cannot be dismissed lightly. It is, of course, possible to balance the budget and cut taxes if government can shrink federal spending far enough. This is and should be a question of political arithmetic, not budget arithmetic.

Speaking of deficit reduction, perhaps it's time to reconsider this whole debate. Either the budget deficit should be eliminated, or it shouldn't. If it *shouldn't*, then we must decide what level of deficit spending is appropriate. This would leave more room for tax reductions. If the deficit *should* be eliminated, then let's stop calling the process deficit "reduction." If the budget deficit is bad, then we have procrastinated long enough and all budget plans should reflect a near certainty of deficit elimination, a.k.a., a balanced budget.

The shift from deficit reduction to deficit elimination isn't just a matter of semantics. If deficit elimination is the proper goal, then, in Washington parlance, we can "afford" tax reductions if and only if (a) we can demonstrate we have enough extra spending cuts to first balance the budget and then cut taxes, or (b) if we can demonstrate that the tax reductions contemplated will so spur economic growth that their cost in terms of lost revenues is far less than estimated by our friends at the Joint Tax Committee and the Treasury.

Let's consider these in turn. If the political arithmetic is such that we cannot cut spending enough to balance the budget, and if we still pass tax cuts today, then any tax cuts passed will either expand the deficit, be reversed tomorrow, or may possibly create additional pressure to revise the political arithmetic to allow further spending cuts.

Alternatively, the combination of a budget imbalance and tax cut pressures may also put a newfound premium on tax reductions targeted to reducing the tax bias against economically desirable behavior, such as saving and investing. In such an environment, lower marginal tax rates, a capital gains tax cut, or provisions to encourage private saving may take precedence over social policy-oriented tax policies.

TAX FEATURES

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Chart 2: Avg. Tax Reduction Per Tax Filer Under "Contract," by State

State	Avg. Reduction/Filer	Rank
Alabama	$1,114	51
Alaska	1,184	50
Arizona	1,523	19
Arkansas	1,296	44
California	1,761	5
Colorado	1,534	17
Connecticut	1,913	1
Delaware	1,599	14
Dist. of Col.	1,776	4
Florida	1,605	13
Georgia	1,517	20
Hawaii	1,678	9
Idaho	1,376	36
Illinois	1,605	12
Indiana	1,413	33
Iowa	1,357	39
Kansas	1,499	22
Kentucky	1,341	41
Louisiana	1,273	46
Maine	1,487	25
Maryland	1,718	8
Massachusetts	1,741	6
Michigan	1,496	23
Minnesota	1,554	16
Mississippi	1,199	49
Missouri	1,431	31
Montana	1,293	45
Nebraska	1,372	37
Nevada	1,489	24
New Hampshire	1,741	6
New Jersey	1,803	2
New Mexico	1,315	42
New York	1,802	3
North Carolina	1,453	28
North Dakota	1,265	47
Ohio	1,439	29
Oklahoma	1,342	40
Oregon	1,456	27
Pennsylvania	1,477	26
Rhode Island	1,615	11
South Carolina	1,364	38
South Dakota	1,254	48
Tennessee	1,398	35
Texas	1,432	30
Utah	1,405	34
Vermont	1,576	15
Virginia	1,640	10
Washington	1,532	18
West Virginia	1,306	43
Wisconsin	1,512	21
Wyoming	1,421	32
United States	$1,559	

Source: Tax Foundation.

Contract

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these reductions would stem from reform of the individual capital gains tax and the estate and gift tax.

The Senior Citizens' Equity Tax Act, which among other things repeals the 1993 income tax increase on Social Security benefits, accounts for 16 percent of the total tax savings. Finally, the Family Reinforcement Tax Act, which provides tax credits for adoption expenses and home-care of elderly family members, accounts for about 1 percent of the "Contract's" tax reductions. •

Capital Gains

Continued from Page 3

earning under $100,000 paid just under a third (30 percent) of these taxes. (See Chart 2.)

Many inter-related factors influence when a taxpayer will choose to realize a capital gain, notes Dr. Hall. Thus, the 50-year time span analyzed in the report, on a decade-by-decade basis, endeavors to provide a more consistent picture of the taxpayers who pay capital gains taxes.

In Chart 3, Dr. Hall demonstrates how stable the disbribution of the capital gains tax burden has remained across all income groups over the decades. This stability, he observes, is closely linked with the stability of the distribution of taxable gains. Over time, the distribution of both the tax burden and the gains have drifted upwards throughout the income groups. In large measure this upward drift is attributable to the rising real income of the average taxpayer—$22,746 in 1942 compared to $40,182 in 1992, in constant 1992 dollars. •

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