MONTHLY TAX FEATURES

Volume 26, Number 4, April 1982

Tax Foundation, Incorporated

1875 Connecticut Avenue, N.W. ☐ Washington, D.C. 20009 ☐ 202-328-4500 ☐

Top 50% of Earners Pay 94% of Taxes Going to Uncle Sam —Up 77% in Decade

New data released by the Treasury Department show that in 1980 the top 50 percent of earners paid 94.0 percent of the Federal income tax bill—up for the decade due to inflation and bracket creep. By comparison, in 1975 the richer half of taxpayers carried 92.9 percent of the Federal income tax burden, Tax Foundation economists report.

The Federal individual income tax bill for calendar year 1980 came to $248.4 billion. Over $233 billion of this was paid by the 47 million taxpayers with incomes at or above the median level ($12,815 or more). Moreover, more than half the tax bill was shouldered by just 9 million taxpayers comprising the upper 10 percent income bracket.

Those earning $34,103 or more in 1980 paid 51.8 percent of all U.S. personal income taxes. Five years earlier, earners in the top 10 percent were footing 48.6 percent of the Federal income tax bill.

By contrast, the lower half of U.S. earners (those making $12,814 or less) paid just 6.0 percent of all Federal income taxes in 1980—down from 7.1 percent in 1975. Earners in the lowest 25 percent income group—those making $5,899 or less—paid just 0.3 percent of the Federal income taxes in 1980.

The 1970s brought about a notable increase in the progressivity of the Federal income tax. The average tax for all taxpayers in 1980 was $2,653—an increase of 75 percent from 1975. For the top 10 percent of earners, the tax in 1980 came to $13,748 on the average, or 87 percent more than five years earlier.

For the richer half of the taxpayers, the average tax of $4,985 in 1980 represented an increase of 77 percent over 1970. For the lower half, the average tax bill in 1980 came to $314—just 47 percent over 1975.

Other trends in the past five years included a leap in the number of millionaires—more than tripling in number. In 1980, persons reporting income of $1,000,000 or more numbered 4,112—up by 2,988 from a total of 1,124 millionaires in 1975. This group paid an average tax of $984,349 in 1980 (or 63 percent of taxable income).

For the same five-year period, U.S. population rose by less than 6 percent, numbers of tax returns by 14 percent, adjusted gross income by 69 percent, and total income tax collec-

(Continued on page 4)

Tax Freedom Day—May 5!

May 5 is Tax Freedom Day. Economists at the Tax Foundation annually compute how long the average worker would have to labor to finish paying taxes—Federal, state, and local—if every dollar earned from January 1 went directly to satisfy tax obligations to all units of government.

This year, the trend for this date to come ever later is reversed, as Tax Freedom Day falls three days earlier than 1981's May 8 date and only a day later than it did in 1980.

Selected dates for Tax Freedom Day, computed by Tax Foundation researchers, are shown in the following table:

Year	Tax Freedom Day
1930	February 14
1940	March 9
1950	April 4
1960	April 18
1970	April 28
1975	April 29
1976	May 2
1977	May 3
1978	May 3
1979	May 4
1980	May 4
1981	May 8[a]
1982	May 5[b]

[a]Revised.
[b]Forecast.

The Economic Recovery Tax Act of 1981 (ERTA) enacted last summer accounts for this year's three-day respite for taxpayers. As subsequent portions of the program come into effect over the next few years, Tax Freedom Day may move even closer to the date on which Americans traditionally file their 1040s with Uncle Sam. However, Tax Foundation economists say they can hold out no hope that tax day (April 15) and Tax Freedom Day will coincide in the foreseeable future.

The Front Burner

By Robert C. Brown
Executive Vice President
Tax Foundation, Incorporated

"What's in a Name?"

Juliet couldn't have been more wrong when she tossed that question at Romeo. Everything is in a name. In Washington, names can make or break the prospects of a piece of legislation.

Labeling the severance tax on oil a "windfall profits" tax helped that bill sail through Congress. Calling provisions by which Uncle Sam leaves money in taxpayers' pockets "tax expenditures" has justified repeated raids on the private sector in the name of "closing tax loopholes," raids which were really designed to finance ever expanding public spending.

The latest potential casualty in the name game are the leasing provisions under the Economic Recovery Tax Act of 1981 (ERTA). So poorly is this concept understood that the staff of one Congressman who sits on the Merchant Marine and Fisheries Committee called the Tax Foundation to see if he should attend a seminar we were holding on "safe harbor leasing."

Safe harbor leasing was a late-blooming idea in last summer's chaotic tax debate. The usual educational process—for the Congress, for the media, and for the general public—did not occur. As a result, this part of ERTA is now being attacked as reverse Robin Hoodism, welfare for the rich corporations, and an irrelevant afterthought cooked up by corporate lobbyists. It is none of the above.

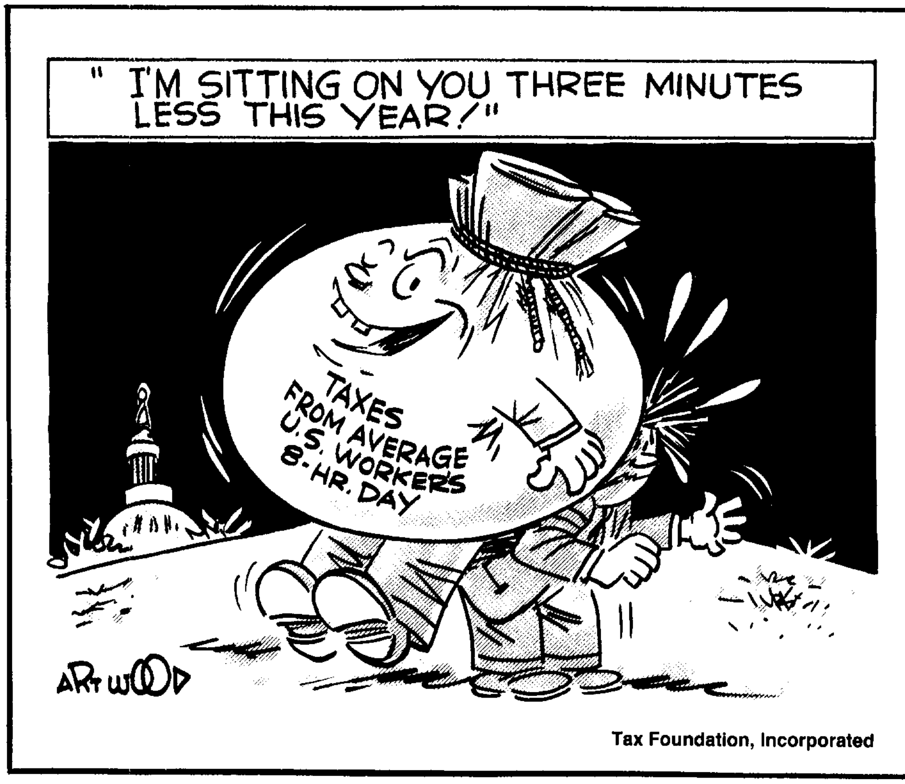
Safe harbor leasing simply seeks to insure that many firms—large and small, rich and poor, profitable and unprofitable—can make equal use of ERTA's capital formation provisions.

Certain leaders in Congress, content to judge from partial and early returns, have already condemned the leasing provisions of ERTA and called for their repeal. Poorly understood and caught with an unfortunate name, safe harbor leasing is a good idea without a constituency, as popular as tainted apple pie or sour mother's milk.

That's too bad. As tax attorney Ernest Christian, Jr., a former Treasury official, said recently, "The Accelerated Capital Cost Recovery System is a revolution in capital cost recovery, and leasing is an integral part of it. Leasing is thoughtful, intelligent tax policy at its best. The controversy surrounding it is politics at its worst."

Leasing is not quite dead, however. Evidence of its effectiveness is beginning to mount. Farmers have used leasing to acquire much needed new equipment without being crushed under current high interest rates. Airlines have ordered energy-efficient jets they could not have afforded otherwise. The word is spreading.

Safe harbor leasing deserves to stand on its merits, not its name. I hope it receives the opportunity.



U.S. Workers Receive 3-Minute Respite In Bite Taxes Take from 8-Hour Workday

Taxes will take a smaller bite from the U.S. worker's daily earnings this year—three minutes smaller than last year, to be precise—according to Tax Foundation economists. And the entire three minutes' savings is on the Federal side of the tax ledger.

Each year, economists at the Washington-based tax watchdog organization compute how much of the average worker's daily earnings on the job go to pay Federal, state, and local taxes. This year, the time needed to earn dollars for the tax collector is estimated to total 2 hours and 44 min-

(Continued on page 4)

Tax Bite in the 8-Hour Day
1982

Item	Hours and Minutes	
Tax, total	2 hours	44 minutes
Federal	1 hour	51 minutes
State and local		53 minutes
Housing and household operation	1 hour	30 minutes
Food and beverages	1 hour	5 minutes
Transportation		42 minutes
Medical care		30 minutes
Clothing		22 minutes
Recreation		20 minutes
All other[a]		47 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 12, 1982.

ERTA Slows Federal Tax Growth; CA, NY, TX, IL, and PA Gain; VT, ND, SD, WY and AK Get Least

While Federal taxes will increase by $63 billion over the next two fiscal years, the rate of growth will be much slower than it has been in the recent past, thanks largely to the tax cuts enacted under the Economic Recovery Tax Act of 1981 (ERTA), Tax Foundation economists report. (See March 1982 *Monthly Tax Features* for details.)

On a per capita basis, income tax reductions for 1982 under ERTA are estimated at approximately $163—$122 in individual income tax cuts and $40 in corporate tax cuts. For 1983, these reductions are estimated at $381, or $324 in individual income taxes and $56 in corporate taxes.

The bulk of the expected $28.2 billion reduction in individual income taxes in 1982 and $75.4 billion in 1983 will come from cuts in marginal tax rates and the various savings incentives included in ERTA. In effect, the major provisions of last year's tax bill are expected to lower individual income tax revenues from the levels which would have prevailed without ERTA by 8.6 percent in 1982 and 19.8 percent in 1983.

The Accelerated Cost Recovery System (ACRS) and other provisions in the law are expected to reduce corporate income tax payments by $9.3 billion in 1982 and $13.1 billion in 1983.

In the aggregate, income tax receipts are estimated to reach $345.3 billion in 1982 and $369.8 billion in 1983. In fiscal 1981, these taxes provided the Federal government with $347.0 billion. Individual income taxes are estimated to rise to $298.6 billion in 1982, an increase of $12.7 billion over the 1981 level, and to $304.5 billion in 1983. Corporate income taxes are expected to decline by $14.4 billion from their 1981 level to $46.7 billion in 1982 and then to reach $65.3 billion in 1983.

In [Federal] fiscal year 1982, Californians will enjoy a reduction in Federal income tax burdens of $4.4 billion—$3.3 billion in individual income taxes, and $1.1 billion in corporate income taxes. In 1983, the reduction in income tax burdens of the residents of the Golden State is expected to be approximately $10.3 billion—$8.7 billion in individual taxes and $1.6 billion in corporate taxes.

Other large recipients of the reduction in income tax burdens are the residents of New York State, Texas, Illinois, and Pennsylvania. In 1982, the residents of these states will enjoy a reduction in income tax burdens of $9.8 billion ($7.4 billion in individual income taxes and $2.4 billion in corporate income taxes). The corresponding figures for 1983 are: $23.2 billion, $19.8 billion, and $3.4 billion, respectively.

(Continued on page 4)

Federal Income Tax Reductions Due to Economic Recovery Tax Act of 1981, by State
Fiscal Years 1982 and 1983
(Millions)

	1982			1983		
State	Total income tax	Individual	Corporate	Total income tax	Individual	Corporate
TOTAL	$37,500	$28,200	$9,300	$88,500	$75,400	$13,100
Alabama	451	340	111	1,064	908	156
Alaska	106	88	18	259	234	25
Arizona	401	295	106	939	789	150
Arkansas	243	172	71	560	460	100
California	4,390	3,252	1,138	10,297	8,695	1,602
Colorado	520	398	122	1,236	1,065	171
Connecticut	736	568	168	1,756	1,519	237
Delaware	111	84	27	263	225	38
Florida	1,663	1,227	436	3,895	3,280	615
Georgia	700	531	169	1,656	1,419	237
Hawaii	159	118	41	372	315	57
Idaho	114	80	34	261	214	47
Illinois	2,270	1,732	538	5,387	4,630	757
Indiana	870	668	202	2,071	1,786	285
Iowa	470	333	137	1,084	891	193
Kansas	407	300	107	952	801	151
Kentucky	436	326	110	1,027	873	154
Louisiana	632	489	143	1,508	1,307	201
Maine	134	95	39	309	254	55
Maryland	785	607	178	1,875	1,624	251
Massachusetts	1,011	760	251	2,386	2,032	354
Michigan	1,552	1,179	373	3,678	3,153	525
Minnesota	671	496	175	1,572	1,326	246
Mississippi	244	182	62	575	487	88
Missouri	764	560	204	1,785	1,497	288
Montana	113	80	33	260	213	47
Nebraska	245	171	74	564	459	105
Nevada	160	124	36	382	331	51
New Hampshire	151	115	36	359	309	50
New Jersey	1,514	1,176	338	3,620	3,144	476
New Mexico	165	123	42	388	329	59
New York	3,105	2,260	845	7,233	6,043	1,190
North Carolina	712	535	177	1,681	1,432	249
North Dakota	95	64	31	214	171	43
Ohio	1,791	1,365	426	4,250	3,650	600
Oklahoma	464	344	120	1,090	921	169
Oregon	411	305	106	964	815	149
Pennsylvania	1,895	1,430	465	4,479	3,825	654
Rhode Island	148	109	39	346	290	56
South Carolina	341	258	83	807	690	117
South Dakota	86	58	28	194	154	40
Tennessee	587	444	143	1,387	1,186	201
Texas	2,569	1,993	576	6,141	5,330	811
Utah	171	126	45	401	338	63
Vermont	65	47	18	150	125	25
Virginia	871	673	198	2,078	1,800	278
Washington	797	615	182	1,899	1,643	256
West Virginia	248	190	58	589	507	82
Wisconsin	718	529	189	1,679	1,414	265
Wyoming	99	77	22	237	205	32
District of Columbia	143	109	34	341	292	49

Source: Office of Management and Budget, Department of the Treasury; and Tax Foundation calculations.

New Federalism

At the invitation of Senator William F. Roth, Chairman of the Senate Committee on Governmental Affairs, TF's Executive Vice President, Robert C. Brown, testified before the Committee as it began hearings on President Reagan's proposed New Federalism. An over-crowded schedule made it impossible for Brown to deliver his testimony and answer questions, but Senator Roth entered the testimony into the Committee's recorded proceedings and invited Brown to return at a later date for more detailed discussions. Single copies of the testimony are available from the Tax Foundation.

Tax Bite

(Continued from page 2)

utes, 3 fewer minutes than were required in 1981. State and local taxes will claim 53 minutes of that work time, the same as last year. Federal taxes, however, will be satisfied by "only" 1 hour and 51 minutes, compared to last year's Federal tax bite of 1 hour and 54 minutes.

Tax Foundation economists attribute the three-minute respite to the beneficial impact of ERTA (Economic Recovery Tax Act of 1981) which was passed by the Congress and signed into law by President Reagan last summer.

Other major expenditures from a worker's 8-hour earnings are shown in the table on page 2.

About Tax Features

Tax Foundation, Incorporated, is a nonprofit organization engaged in nonpartisan research and public education on the fiscal and management aspects of government. It is supported by voluntary contributions from corporate and individual sponsors, nationwide.

Original material in *Monthly Tax Features* is not copyrighted and may be reproduced freely. Please credit Tax Foundation, Incorporated. Members of Tax Foundation are urged to pass their copies of *Tax Features* along to editors of their House publications.

For additional information, write to Tax Foundation, Incorporated, 1875 Connecticut Avenue, N.W., Washington, D.C. 20009, or call (202) 328-4500.

ERTA

(Continued from page 3)

On the other side of the coin, the residents of Vermont, North and South Dakota, Wyoming, and Alaska are expected to have their income tax burdens reduced by a total of $451 million in 1982 and $1.1 billion in 1983. Of these amounts, $334 million will be individual income tax reduction and $117 million corporate income tax reduction for 1982. In 1983, the reduction in individual and corporate income tax burdens on the residents of these states will be $899 million and $164 million, respectively.

It should come as no surprise to find that the states with the largest overall tax burdens will receive the largest share of tax reductions while those with the smallest aggregate tax burdens reap the smallest portion of the enacted tax cuts. However, on a per capita basis, the residents of Alaska will receive reductions in their income tax burdens of $251 in 1982 and $595 in 1983. In 1983, it is estimated that, on the average, the residents of Connecticut, the District of Columbia, New Jersey, and Wyoming will enjoy reductions in their per capita income tax burdens of $554, $536, $481, and $469, respectively. Conversely, the residents of Mississippi will benefit by $221 on the average in 1983. The residents of Arkansas, South Carolina, Alabama, and Kentucky can expect to enjoy lower income tax burdens per capita in 1983 of $240, $251, $268, and $270, respectively.

These estimates of the reduction in Federal tax burdens by state are derived from a Tax Foundation formula designed to show where the tax dollars originate, rather than where they are collected. In contrast, Treasury Department figures are designed to show the area in which the taxes are collected, and thus do not indicate the area in which the final incidence of the taxes falls.

For example, tobacco taxes are collected in only a few southern states, but the burden of the tax falls on smokers in all states. The Tax Foundation formula, which has been in use for more than two decades, is updated annually.

The table on page 3 shows the reduction in income tax burdens—total, individual, and corporate—for the residents of the 50 states and the District of Columbia for fiscal years 1982 and 1983.

Now Available

"Unemployment Insurance: Trends and Issues," Research Publication No. 35, 1982, 88 pages, $5.00. Summary free.

"Allocating Tax Burdens and Government Benefits by Income Class, 1972-73 and 1977," GFB No. 31, 31 pages, $2.50.

"Reducing Government Expenditures: Overcoming the Obstacles," GFB No. 30, 14 pages, $1.00.

High/Low Taxpayers

(Continued from page 1)

tions by 99 percent. Federal income taxes claimed 13.1 percent of adjusted gross income in 1975, and 15.5 percent in 1980.

The table below supplies details on Federal income tax payments by earners at various levels.

Federal Income Taxes Paid by High- and Low-Income Taxpayers 1975 and 1980

Adjusted gross income class	Income level 1975	Income level 1980	Percent of tax paid 1975	Percent of tax paid 1980	Average tax 1975	Average tax 1980
Highest 10 percent	$23,425 or more	$34,103 or more	48.6	51.8	$7,367	$13,748
Highest 25 percent	15,895 or more	21,423 or more	66.4	77.5	4,359	8,228
Highest 50 percent	8,930 or more	12,815 or more	92.9	94.0	2,815	4,985
Lowest 50 percent	8,929 or less	12,814 or less	7.1	6.0	214	314
Lowest 25 percent	4,044 or less	5,899 or less	.4	.3	22	30
Lowest 10 percent	1,525 or less	2,331 or less	(a)	(a)	2	9

(a) Less than .1 percent.
Source: Tax Foundation computations based on Treasury Department data.