Tax Foundation Vol. 35, No. 3 March 1991

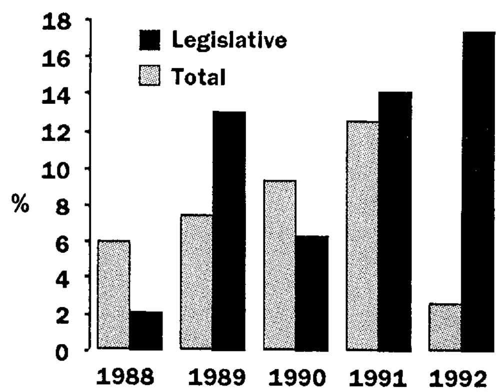
Tax Features

Legislative Branch Spending Will Top $2.5 Billion in FY'91

Pay Raise Helps Hike Congress's Price Tag to $1.2 Billion

On January 1, 1991, Members of the U.S. House of Representatives received a 25 percent increase in salary, pursuant to the Ethics Reform Act of 1989, compounded with a 3.6 percent cost of living adjustment (COLA). The result was a salary boost from $96,600 to $125,100 per year. Senators received a 3.6 percent COLA, increasing their salaries from $98,400 to $101,900. These raises have contributed to the record-setting price that taxpayers will pay to fund the operations of the nation's legislative body during fiscal year 1991.

Total Outlays vs. Legislative Outlays
Percentage Change FY1988 - 1992[a]



[a] Based on FY1992 Budget released February 1991. FY 1991 and 1992 are estimates.

Overall spending on the legislative branch is estimated to rise $317.5 million in FY1991, hitting an all-time high of over $2.5 billion. While total federal spending is estimated to increase 12.6 percent this year, legislative branch spending will increase at an even faster rate of 14.2 percent.

The cost of Congress itself, now over $1.2 billion, has more than doubled since 1980 and

See Cost of Congress on page 5

Tax Foundation

IN THIS ISSUE

FRONT BURNER

Outlaw Retroactive Taxation

Senator David Boren

In our society, we ask the business community to shoulder many burdens. We ask that business comply with health regulations, environmental requirements, labor standards, and countless other measures to benefit society. However, sometimes we ask too much. Out-guessing the IRS is one of those tasks that taxpayers, whether individuals or businesses, can not be expected to do.

Sadly, it has become almost common practice for the IRS to offer what are known as "temporary" regulations, which require taxpayer compliance not from that day forward, but from the date the statute was first enacted. This retroactive taxation puts an unfair burden on business, reduces productivity, eliminates jobs and causes unnecessary confusion throughout the private sector.

For years, the IRS has enjoyed carte blanche authority in its regulation of taxpayer affairs. While the passage of the "taxpayers bill of rights" made some progress in putting taxpayers on an even footing with the IRS, more work remains to be done. The need to eliminate retroactive taxation is part of the taxpayers' unfinished agenda.

Retroactive regulation is unfair to taxpayers because it changes the rules in the middle of the game. Taxpayers who followed the rules are held hostage by the IRS, whose bureaucracy can make retroactive changes and hold the taxpayers responsible for not following standards they could never have been expected to know.

See Boren on page 2

Senator David Boren, Democrat from Oklahoma, serves on the Senate Finance Committee and chairs the Subcommittee on Taxation.

The opinions expressed in the Front Burner are not necessarily those of the Tax Foundation. Editorial replies are encouraged.

Boren from page 1

This year, I have joined with a few of my colleagues in the Senate Finance Committee to prevent the Treasury Department and the Internal Revenue Service from writing retroactive tax regulations. The "Taxpayer Regulatory Relief Act of 1991" (S. 532) would prohibit the IRS from enforcing a regulation during the window between the date the statute was first enacted and the time the agency issued temporary regulations.

"Sadly, it has become almost common practice for the IRS to offer what are known as "temporary" regulations, which require taxpayer compliance not from that day forward, but from the date the statute was first enacted."

I have been joined by Senator David Pryor (D-AR) and Senator Max Baucus (D-MT) in introducing this legislation which is very similar to S. 3161, introduced by Senator Pryor and myself in the 101st Congress.

"The "Taxpayer Regulatory Relief Act of 1991" (S. 532) would prohibit the IRS from enforcing a regulation during the window between the date the statute was first enacted and the time the agency issued temporary regulations."

The legislation requires that as long as taxpayers comply with new tax law in "reasonable good faith," they will be liable only in years after the regulations are issued. Congress will still have the option to grant an exception to this prohibition if we desire to authorize the Treasury Department to issue retroactive regulations with respect to a specific statutory change. The bill would apply with respect to any temporary or proposed regulation published as a final regulation after March 1, 1991.

So far, the measure has received enthusiastic support from the business community and from the grassroots. The U.S. Chamber of Commerce, the National Federation of Independent Businesses, the Small Business Legislative Council, and the National Small Business United all endorsed the measure.

It is clear that the business community realizes that the current IRS method is bad for the economy and has a chilling effect on legitimate business transactions. More money is probably lost to the treasury due to these fears than is gained by the taxes. Many small companies simply will not engage in certain transactions out of fear of retroactive taxation, and given the potential costs of IRS prosecution, this is a reasonable fear.

"More money is probably lost to the treasury due to these fears [of prosecution] than is gained by the taxes."

The average taxpayer is getting tired of unrealistic and arbitrary demands sent down by bureaucrats. I have received dozens of phone calls and letters from across the nation urging the bill's passage, and I have urged all my colleagues to consider the detrimental economic effects of retroactive taxation and to join me as co-sponsors.

"Many small companies simply will not engage in certain transactions out of fear of retroactive taxation, and given the potential costs of IRS prosecution, this is a reasonable fear."

As chairman of the Subcommittee on Taxation in the Finance Committee, I plan to push for hearings on this proposal to press for the bipartisan support needed to enact the measure into law.

Foundation Seminar To Analyze Code's Impact on Corporate Strength and Economic Growth

On May 22, 1991, the Tax Foundation will conduct a seminar in Washington, DC, entitled "Rebuilding the U.S. Industrial Base: The Role of Tax Policy in Economic Growth."

The seminar will feature for its keynote address Lawrence Lindsey, Special Assistant to the President for Policy Development and Associate Director for Domestic Economic Policy. Other panelists will be noted experts from business, government and academia.

Topics to be covered include the economic impact of increasing levels of corporate taxation, tax obstacles to service sector expansion, tax impediments to transborder investment, the level of taxation on foreign source income, and pro-growth tax policies, i.e., R&E tax policies, capital gains tax differential, and capital cost recovery issues.

The seminar will examine our current tax policies and develop a sound pro-growth tax agenda that will help insure economic strength in the long term. For additional information about attending, call Gretchen Geordiadis at 202-863-5454.

Cost of Congress from page 1

costs over seven times more than it did in 1970. The Senate will run $456.3 million ($4.6 million per senator), while the House will require $698.9 million ($1.6 million per representative). Joint activities of the House and Senate will cost an additional $106 million.

Congress maintains a number of legislative agencies, such as the Congressional Budget Office, General Accounting Office, and the Architect of the Capitol, each of which has its own budget. These will cost taxpayers $1.3 billion in 1991, 14.5 percent more than last year.

What does all this money buy? Taxpayers are primarily paying for four things: Congressional leadership, staff and administration; committees and subcommittees; and legislative agency personnel.

The U.S. Office of Personnel Management reports that the legislative branch now employs over 37,388 workers. Congress itself has 19,371 on the payroll — 7,322 in the Senate and 12,049 in the House.

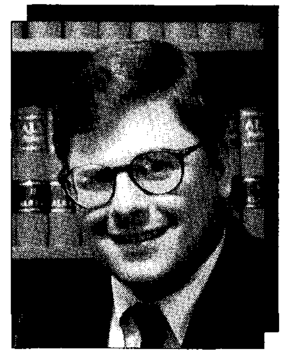
"While this year's $2.5 billion legislative branch spending represents a 14.2 percent increase, 1992 spending is estimated to increase even faster, rising at a 17.5 percent clip for a total cost of $3 billion."

Congress's committee system is comprised of 20 committees and 87 subcommittees in the Senate, employing over 770 professional staff, plus 27 committees and 155 subcommittees in the House, with 1,271 professional staff attached. Adding in the joint committees brings the total to over 50 committees and 250 subcommittees in the congressional bureaucracy, paying a professional staff of over 2,100 people.

While this year's $2.5 billion legislative branch spending represents a 14.2 percent increase, 1992 spending is estimated to increase even faster, rising at a 17.5 percent clip for a total cost of $3 billion. Total federal spending for 1992 is projected to increase only 2.6 percent. See details in table at right.

FOUNDATION MESSAGE

Whose New World Order?



Dan Witt
Vice President

The 1991 edition of *State of the World* is out and Lester R. Brown, its lead author, concludes that during the decade of the '90s, tax policy promises to be the most effective instrument in solving the world's environmental problems. The unofficial bible of the environmental movement, *State of the World* is a compilation of articles on deforestation, global warming, waste disposal, etc. As part of their solutions to almost all these problems, the authors call for "green" taxes to punish environmentally destructive activities. In fact, green taxes are one of the linchpins in the environmentalists' version of the "new world order."

At the top of their list of tax targets is the energy industry, specifically the burning of carbon in coal, oil, and natural gas. At $100 per ton, taxing these fossil fuels is alleged to raise quite a bit of "green," about $130 billion annually. The authors suggest reducing income taxes commensurate with green tax revenue estimates, but practically speaking, green taxes are more likely to be collected on top of income taxes, not in place of them. Furthermore, green taxes would not be reliable revenue sources. Just as with other corporate taxes, the expected revenue is extremely difficult to estimate, making federal budgeting even more problematic than it already is.

A more serious weakness of green taxes than the difficulty they would cause for revenue estimating and federal budgeting is the issue of who would bear the burden of these well-intentioned taxes. The companies the public identifies with energy production are popular tax targets, but the fact is that *people* pay taxes, even corporate taxes. Customers, shareholders, and employees of those companies will do the paying. That's a big problem with corporate taxes in general — they take money out of the private economy, but it's hard to say who bears the burden. A basic principle of sound fiscal policy is that taxpayers should know who is being taxed. Green taxes do not meet that test.

While we are all hopeful of a better environment, tax policy simply cannot be the vehicle to achieve every societal goal. The purpose of taxes is not to micromanage the economy with subsidies and penalties, and restructuring our federal tax system is not the answer to environmental problems. If the "new world order" includes green taxes, we better stick with the old one.

Outlays for the Legislative Branch of the Federal Government by Unit

Selected Fiscal Years 1970-1991[a]

($Thousands)

Unit	1970	1980	1990	1991
Total	$343,147	$1,217,985	$2,230,497	$2,547,961
Congress, total	179,159	581,543	1,107,723	1,261,873
Senate	57,585	183,890	381,250	456,295
House of Representatives	108,279	324,569	585,080	698,945
Joint activities	13,295	73,084	141,393	106,633
Legislative agencies, total	163,988	636,442	1,122,774	1,286,088
Architect of the Capitol	18,797	89,496	128,253	252,716
Botanic Garden	620	1,583	2,475	3,795
Congressional Budget Office	-	12,101	18,266	21,438
General Accounting Office	69,857	201,192	362,254	384,585
Government Printing Office	34,141	115,747	120,440	90,003
Library of Congress	49,804	192,740	479,396	495,208
Office of Technology Assessment	-	11,131	18,329	20,789
U.S. Tax Court	2,972	9,703	26,608	31,790
Other	-	13,675	4,119	5,732
Deductions for offsetting receipts	-12,203	-10,926	-37,366	-19,968

[a] Data for 1991 are estimates from the FY 1992 Budget presented in February 1991.
Source: Office of Management and Budget.

Foundation Members Meet in Washington for Tax Policy Briefing

▲ ***Michael J. Graetz, Deputy Assistant Secretary of the Treasury for Tax Policy, addresses Tax Foundation Program Committee.***

Foundation Co-Chairman James C. Miller III speaks to members assembled at the Old Executive Office Building. ▼

From left at a Capitol Hill Club luncheon: William Dakin, Supervisory Tax Counsel, Mobil Corporation; Robert T. Matsui (D-CA), Member of the Ways and Means Committee; Dan Witt, Vice President of the Tax Foundation; and Byron L. Dorgan (D-ND), Member of the Ways and Means Committee. ▶

▲ ***Congressman Robert T. Matsui, Democrat from California and member of the Ways and Means Committee, speaks at Capitol Hill luncheon.***

Tax Features

Tax Features (ISSN 0883-1335) is published by the Tax Foundation which operates as a separate unit of Citizens for a Sound Economy Foundation. Original material is not copyrighted and may be reproduced. Please credit Tax Foundation.

Tax Foundation
470 L'Enfant Plaza, S.W.
Suite 7112
Washington, D.C. 20024
202-863-5454

470 L'Enfant Plaza, S.W.
Suite 7112
Washington, DC 20024

Non-profit Org.
U.S. Postage
PAID
Washington, DC
Permit No. 2979

Tax Foundation Vol. 35, No. 4 April 1991

Tax Features

Tax Freedom Day 1991 Is May 8 — Latest Date Ever

State Tax Freedom Days Range from April 24 to May 26

As Americans scrambled to comply with the April 15 IRS filing deadline, they may have thought they would be free from the tax collector at the end of the day, but Tax Freedom Day doesn't come until May 8 this year. The Tax Foundation has calculated that to be the day when the American taxpayer will have earned enough money to pay this year's total taxes.

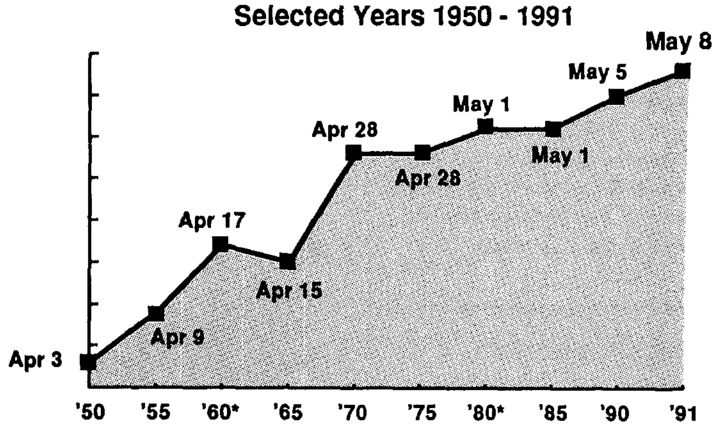
That means the average taxpayer will labor 128 days — from January 1 to May 8 — to satisfy all federal, state and local tax obligations, with every cent earned from the beginning of the year going to the tax collectors. Finally, on May 8, he will heave a sigh of relief and start pocketing some of his hard-earned money.

May 8th is the latest Tax Freedom Day ever. Last year this task required 125 days and Tax Freedom Day fell on May 5th. The three-day lengthening of our labor for government is the largest jump since 1976, and the Tax Foundation attributes it to several important factors:

- Last year's budget agreement, the Om-

See Tax Freedom Day on page 3

Tax Freedom Day
Selected Years 1950 - 1991



* Leap year makes Tax Freedom Day appear one day earlier.
Source: Tax Foundation.

Tax Foundation

IN THIS ISSUE

FRONT BURNER

Give the Average Taxpayer an Even Break

Senator John Breaux

Once again, tax time has come and, as usual, typical American taxpayer have gritted their teeth and written their tax checks to the IRS for 1990's taxes. Taxpayers may have a feeling that they have paid their debt to government, but they would be wrong. Not until Tax Freedom Day on May 8, when average taxpayers have earned enough to pay 1991's taxes, will government be temporarily satisfied.

A Tax Freedom Day of May 8 means that 35.1 percent of each dollar an average taxpayer earns is taken in taxes. That is a sobering reminder of our citizens' growing tax burden, not just from the federal government but at the state and local levels as well. And as bad as a Tax Freedom Day of May 8 is, the Tax Foundation's calculations use total revenues, not total expenditures. Leaving out the deficit makes sense for calculating tax burdens, but it must be taken into account when assessing the overall economy.

While historically massive deficits have been run up during the 1980s, the real average weekly wage for non-supervisory workers, who make up 80 percent of the work force, declined. During this same time, studies show that fewer and fewer middle-class Americans were able to send their children to college or buy a first home.

This encroachment on the American dream is in large measure due to the borrow-and-spend habits of the 1980s. Money which could be used for pressing needs — educating and training workers and students, repairing our infrastructure, cleaning the environment —

See Breaux on page 2

Senator John Breaux, Democrat from Louisiana, serves on the Senate Finance Committee.

The opinions expressed in the Front Burner are not necessarily those of the Tax Foundation. Editorial replies are encouraged.

Breaux from page 1

now goes to the ever-increasing interest on the national debt.

There are many ways we can start reversing this trend and begin helping those Americans who need tax relief the most. Here, I propose just four:

1) Let's get serious about reducing government spending.

Every couple of years, Congress and the President emerge from their negotiations with a landmark deficit reduction plan, but each year the deficit continues to grow. It's no wonder Americans are so cynical about government when their leaders seem to put on a smoke-and-mirrors show for them every year.

"Money which could be used for pressing needs — educating and training workers and students, repairing our infrastructure, cleaning the environment — now goes to the ever-increasing interest on the national debt."

The truth is this: There is no easy way out of this budget mess. Washington must simply set aside the gimmicks and the partisan and parochial interests. We must get down to the business of cutting spending, while insuring that everyone pays his or her fair share. The deficit won't come down until our leaders become courageous enough to make some tough and unpopular choices. Furthermore, the American public won't regain its confidence in Washington until they believe they are getting their money's worth from their government.

"Every couple of years, Congress and the President emerge from their negotiations with a landmark deficit reduction plan, but each year the deficit continues to grow. It's no wonder Americans are so cynical about government."

2) Every government program should be forced to defend its usefulness.

We must recognize that some of the huge government entitlement programs are not necessarily sacred. Why don't we reauthorize these programs every five to ten years? Let's force the administrators and advocates of these programs to prove they are working and are giving the American taxpayer what he's paying for. If a program is a waste of money or is failing to work as intended, why should taxpayers continue to pay for it?

"Every government program should be forced to defend its usefulness. . . . If a program is a waste of money or is failing to work as intended, why should taxpayers continue to pay for it?"

3) We should give taxpayers back the Individual Retirement Account.

I support a measure to create a "Super" Individual Retirement Account which would allow Americans to use the money, not only for retirement, but for buying a first home, a child's college education or for large medical expenses. This legislation would also restore the annual $2,000 IRA deduction for every taxpayer. This was one of the most popular middle-class government programs ever, but one of the first to go during the tax reform debate in 1986.

"We should increase the personal exemption to what it once was — a real tax break for average Americans."

4) We must stop taxing away the funds that average families need to properly raise and educate their children.

We should double the tax deduction for young children of moderate and middle-class families. In addition, we should increase the personal exemption to what it once was — a real tax break for average Americans.

More than forty years ago, families with two children earning the median income received so many tax breaks through the personal exemption that they paid just two percent of their income in federal, state and Social Security taxes. By 1990, those families paid 23 percent of their income in the same taxes. Today, a horse breeder gets more tax breaks on his horses than parents get on their children. Clearly, it's time to rearrange our priorities.

"Forty years ago, families with two children earning the median income paid just two percent of their income in federal, state and Social Security taxes. By 1990, those families paid 23 percent of their income in the same taxes."

Middle-class Americans are paying more and more taxes and are definitely not getting their money's worth. Who can blame them for being angry when they believe that much of their tax money is wasted on inefficient government programs?

Washington had better start listening to the middle-class. They don't have high-powered lobbyists or political action committees, but they do have the most votes.

Tax Freedom Day from page 1

nibus Budget Reconciliation Act of 1990, will extract $164 billion in new revenues over five years.

■ The January 1, 1991, increases in the Social Security taxable earnings base.

■ Many state and local taxes have increased sharply.

■ The slowdown in economic growth and individuals' income growth.

The nation's nominal income is estimated to grow only 3.7 percent while the total tax take is projected to increase 6.6 percent. Stated simply, tax increases will easily outpace the growth in individuals' incomes during 1991.

Tax Freedom Day by State

While Tax Freedom Day is May 8 nationwide, each state has its own specific Tax Freedom Day which falls earlier or later in the year depending on local tax and income circumstances (see table 1 and map).

New Yorkers won't celebrate Tax

See Tax Freedom Day on page 4

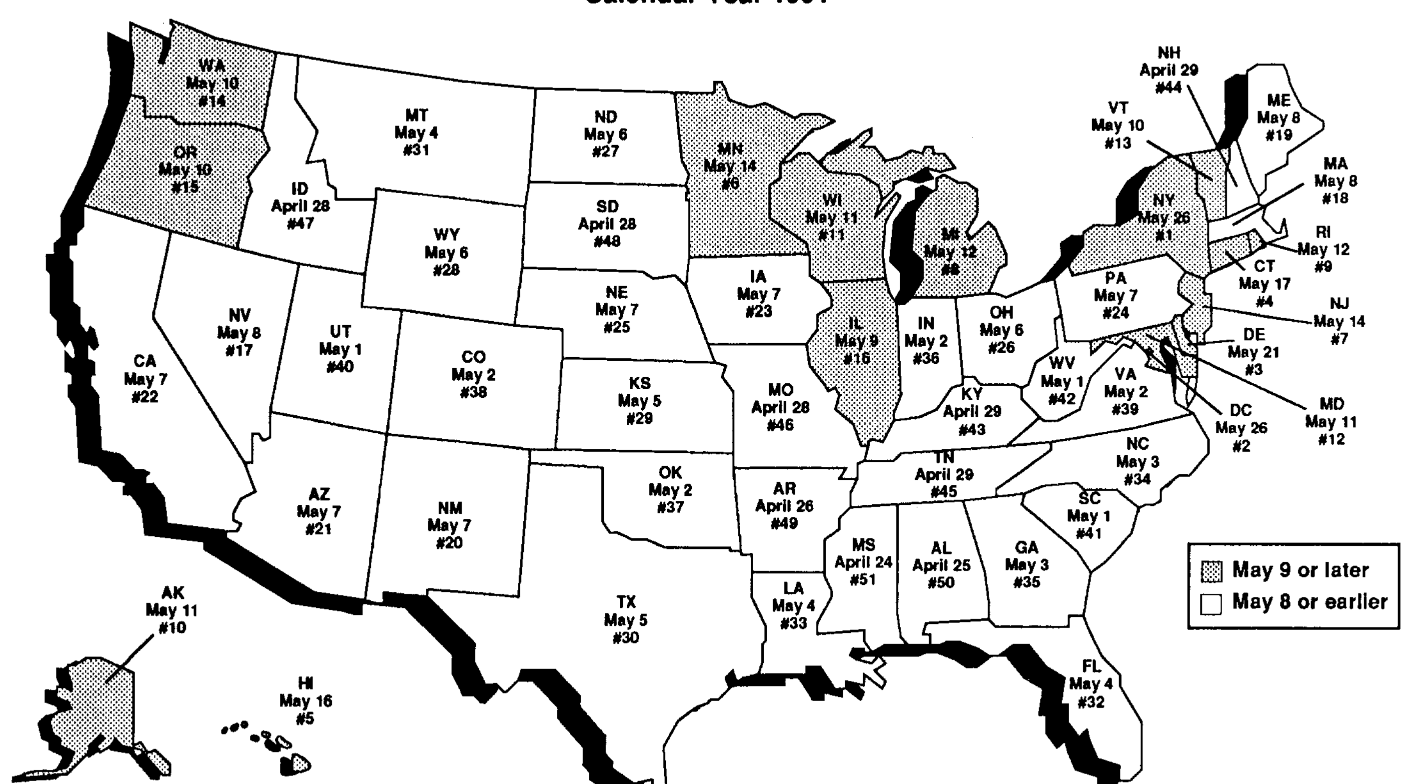
Table 1
Tax Freedom Day by State
Calendar Years 1990 – 1991

	Tax Freedom Day 1990	Tax Freedom Day 1991	Change from 1990 to 1991
U.S. Total	May 5	May 8	3
Alabama	April 21	April 25	4
Alaska	May 11	May 11	0
Arizona	May 2	May 7	5
Arkansas	April 22	April 26	4
California	May 3	May 7	4
Colorado	April 28	May 2	4
Connecticut	May 11	May 17	6
Delaware	May 18	May 21	3
Dist. of Columbia	May 21	May 26	5
Florida	May 2	May 4	2
Georgia	April 27	May 3	6
Hawaii	May 16	May 16	0
Idaho	April 25	April 28	3
Illinois	May 6	May 9	3
Indiana	April 28	May 2	4
Iowa	May 5	May 7	2
Kansas	May 1	May 5	4
Kentucky	April 25	April 29	4
Louisiana	April 28	May 4	6
Maine	May 6	May 8	2
Maryland	May 8	May 11	3
Massachusetts	May 3	May 8	5
Michigan	May 8	May 12	4
Minnesota	May 13	May 14	1
Mississippi	April 19	April 24	5

	Tax Freedom Day 1990	Tax Freedom Day 1991	Change from 1990 to 1991
Missouri	April 25	April 28	3
Montana	May 6	May 4	–2
Nebraska	May 1	May 7	6
Nevada	May 9	May 8	–1
New Hampshire	April 23	April 29	6
New Jersey	May 9	May 14	5
New Mexico	May 4	May 7	3
New York	May 23	May 26	3
North Carolina	May 1	May 3	2
North Dakota	May 5	May 6	1
Ohio	May 1	May 6	5
Oklahoma	April 28	May 2	4
Oregon	May 5	May 10	5
Pennsylvania	May 3	May 7	4
Rhode Island	May 9	May 12	3
South Carolina	April 26	May 1	5
South Dakota	April 28	April 28	0
Tennessee	April 25	April 29	4
Texas	May 2	May 5	3
Utah	May 2	May 1	–1
Vermont	May 11	May 10	–1
Virginia	April 28	May 2	4
Washington	May 9	May 10	1
West Virginia	April 25	May 1	6
Wisconsin	May 8	May 11	3
Wyoming	May 2	May 6	4

Source: Tax Foundation

Tax Freedom Day by State
Calendar Year 1991



Source: Tax Foundation

Tax Freedom Day from page 3

Freedom Day until May 26th this year, later than residents of any other state. The culprit is a combination of a heavy federal tax burden and high state/local taxes. District of Columbia taxpayers shoulder the next heaviest overall tax burden, followed by taxpayers in Delaware, Connecticut and Hawaii.

Mississippi will be the first state to finish paying for government this year—its Tax Freedom Day is April 24th. Alabama and Arkansas will follow on April 25th and 26th, and citizens of South Dakota, Idaho and Missouri will celebrate on April 28th.

Tax Freedom Day Outlook

Although the average American will work until May 8 to afford his tax bill, forfeiting over 35 percent of his total income in 1991, the government will spend all that money and more. It should be noted that Tax Freedom Day does not reflect the estimated $318 billion in federal deficit spending for 1991. That will be felt through future increases in the tax burden and/or a weaker economy.

Working a record 128 days until May 8 to pay off the tax collectors may come as a shock to many Americans. However, the combined pressures of a persistent federal budget deficit, demands to expand funding for new and existing programs, budget crises in numerous states and the slowdown in income growth could easily make Tax Freedom Day even later on our calendars in future years.

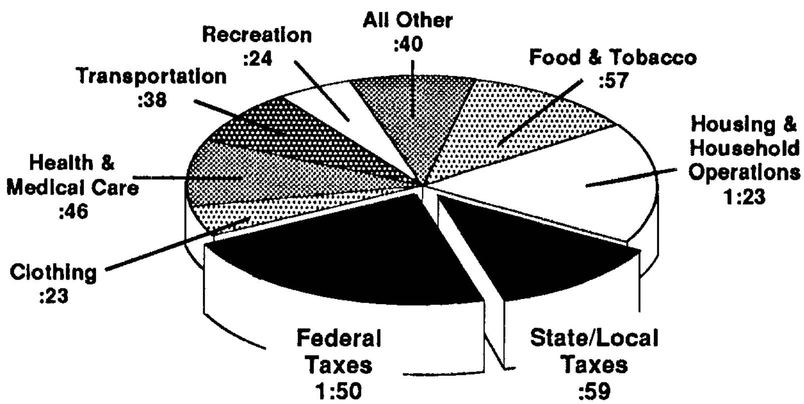
Tax Bite in the 8-Hour Day

Another way to graphically express the tax burden's effect on the average worker's paycheck is the Tax Bite in the Eight-Hour Day. In 1991, Tax Foundation analysts estimate that the average worker will spend 2 hours and 49 minutes of an 8-hour day working to satisfy federal, state and local tax collectors — five minutes more each day than in 1990. One hour and 50 minutes will go towards federal taxes while 59 minutes will be devoted to state and local taxes.

With a record-setting chunk of the day, 2 hours and 49 minutes, spent working for taxes, the average worker has less to spend on the rest of the family budget (see pie chart for breakdown and table 2 for historical data).

1991 Tax Bite in the Eight-Hour Day

(hours:minutes)



Tax Bite in the Eight-Hour Day

1990-1991

(hours:minutes)

	1990	1991
Total Taxes	**2:44**	**2:49**
Federal	1:47	1:50
State and Local	:57	:59
Total Personal Consumption Expenditures	**5:16**	**5:11**
Housing and Household Operations	1:26	1:23
Food and Tobacco	:58	:57
Health and Medical Care	:44	:46
Transportation	:39	:38
Recreation	:24	:24
Clothing	:24	:23
All Other	:41	:40
8-Hour Day	**8:00**	**8:00**

Table 2
Tax Freedom Day and Tax Bite in the 8-Hour Day
Selected Calendar Years 1929 – 1991

Year	Tax Freedom Day	Tax Bite in the Eight-Hour Day (Hours:Minutes)
1929	February 9	:52
1931	February 15	1:00
1933	March 5	1:24
1935	March 1	1:17
1937	March 6	1:24
1939	March 6	1:24
1940*	March 8	1:29
1941	March 17	1:40
1942	March 19	1:43
1943	April 6	2:06
1944*	March 30	1:58
1945	April 1	1:59
1946	March 31	1:57
1947	April 3	2:01
1948*	March 28	1:55
1949	March 24	1:48
1950	April 3	2:02
1951	April 10	2:11
1952*	April 10	2:12
1953	April 10	2:12
1954	April 6	2:05
1955	April 9	2:09
1956*	April 11	2:13
1957	April 13	2:14
1958	April 10	2:12
1959	April 14	2:16
1960*	April 17	2:22
1961	April 18	2:22
1962	April 18	2:21
1963	April 19	2:23
1964*	April 15	2:18
1965	April 15	2:17
1966	April 18	2:21
1967	April 20	2:24
1968*	April 25	2:32
1969	May 1	2:38
1970	April 28	2:34
1971	April 25	2:31
1972*	April 29	2:36
1973	April 29	2:36
1974	May 3	2:41
1975	April 28	2:35
1976*	May 1	2:40
1977	May 3	2:41
1978	May 3	2:41
1979	May 3	2:41
1980*	May 1	2:39
1981	May 4	2:43
1982	May 3	2:41
1983	April 30	2:38
1984*	April 28	2:36
1985	May 1	2:38
1986	May 2	2:40
1987	May 4	2:43
1988*	May 3	2:43
1989	May 4	2:44
1990	May 5	2:44
1991e	May 8	2:49

Source: Tax Foundation.

* Leap year makes Tax Freedom Day appear a calendar day earlier.

Survey Reveals Record State Tax Increases Slated For FY1992

A forthcoming Tax Foundation survey of the 50 states reveals that nearly half of them will wrestle with record deficits in FY1992 and plan to combat them with new and higher taxes. Of the $11.8 billion in new taxes already proposed or passed, five states account for 83 percent of the revenue: California, Connecticut, New Jersey, Pennsylvania and Texas. Since they all have constitutional or statutory balanced budget requirements, the tax-raising and budget-cutting fights of the past several years may prove to have been skirmishes before the battle that's shaping up in FY'92.

Two symptoms of the nationwide recession, low corporate profits and sluggish personal consumption, have made a mockery of state revenue estimates. While some states plan to limp by with measures such as accelerating tax collections, increasing fees, eliminating tax credits and extending temporary tax hikes, the magnitude of anticipated budget shortfalls has caused many to tap the big three state revenue sources — sales, individual and corporate income taxes — with a heavy emphasis in some states on tobacco excises.

Proposed Fiscal 1992 Net Tax Increases by Major Type of Tax

($ Millions)

Tax	Net Amount
Personal Income	$6,487.0
Business	2,459.4
Sales and Use	629.5
Motor Fuel	724.6
Cigarette and Tobacco	423.2
Alcoholic Beverage	205.6
Property	-560.0
Miscellaneous	1,193.5
Total	$11,762.8*

* Includes $200 million from Illinois that will be a combination of personal income and business.
Source: Tax Foundation.

On the personal income tax front, more than a third of the states have tax hikes on the drawing board that will net $6.6 billion. Connecticut and Tennessee, which currently tax primarily interest and dividend income, are eyeing broad-based taxes. Texas, one of only seven states which share the distinction of having no individual income tax, has plans that would reduce this select group to six. New Jersey and Rhode Island enacted increases in June 1990 and February 1991 respectively, effective in FY'92, and two more states, Kansas and Vermont, are seeking rate increases. Arkansas and South Carolina are alone in proposing reductions in personal income taxes by either narrowing the base or lowering the rate.

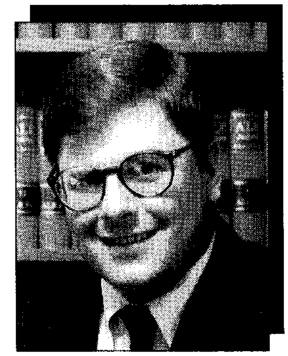
Businesses are the next most popular target for state tax raisers this year as 19 states plan to extract $2.5 billion in FY'92 revenue from them. Five states — Arkansas, Kansas, Kentucky, New Hampshire, Pennsylvania, Minnesota, Oregon, and Wisconsin — are seeking higher rates or broader bases. Rhode Island has imposed an 11 percent business corporation surtax for investment companies in addition to the basic business corporation tax, and New York joins Illinois in considering permanent extensions of expiring increases. Texas would replace the corporate franchise tax with an 8 percent income tax.

On the other hand, Arkansas, Connecticut, and West Virginia are planning reductions in corporate rates. Connecticut would replace the 20 percent corporate surcharge with an 11.5 percent effective rate.

For data on sales taxes, excise taxes and other changes, see accompanying tables at left and on page 6.

FOUNDATION MESSAGE

State Tax Picture Augurs Poorly for Future Tax Freedom Days



Dan Witt
Executive Director

As stories in the *Boston Globe*, the *Detroit Free Press*, on CNN Headline News, ABC's World News This Morning, and CNN's Crossfire attest, the public is interested in a comprehensible measure of our tax burden. That's what Tax Freedom Day is all about.

Due to the way governments at all levels nickle and dime the taxpayer, it is nearly impossible to grasp the extent of all taxes. Most Americans are astonished to hear that they will have to work 128 days — from January 1 to May 8 — just to pay taxes. This labor for government is the longest ever, and Tax Freedom Day's three-day increase over 1990 is the biggest jump since 1976.

Of course, federal taxes play the lead role in the growing tax burden, but I'd like to focus on the sharp increases in state and local taxes.

Everyone knows the old saying that "New York is a nice place to visit, but you wouldn't want to live there." Unfortunately for taxpayers who already live there, Tax Foundation research shows New Yorkers paying the highest taxes in the country. They won't celebrate Tax Freedom Day until May 26th this year — two and a half weeks later than the national average — thanks in great measure to state and local taxes that are higher than any other state's.

Is New York lowering its taxes in recognition of its citizens' heavy burden? Just the opposite: a scheduled personal income tax reduction was cancelled last year due to a budget shortfall. And New York is not the only state facing a budget crisis and reacting by raising taxes. The Tax Foundation's fiscal survey of the 50 states reveals that over half the states are planning new and higher taxes. California, Connecticut, New Jersey, Pennsylvania, and Texas, have all proposed or passed large tax increases for FY'92.

As taxpayers contemplate new state-level taxes, a snapshot of their total tax burden, even as simple as the one that Tax Freedom Day state-by-state provides, enables them to make more informed decisions. And educating taxpayers, helping them make more informed decisions about taxes, is what the Tax Foundation is all about.

Fiscal 1992 Revenue Proposals by Type of Revenue and Net Increase or Decrease

($Millions)

State	Personal Income Taxes	Business Taxes	Sales and Use Taxes	Motor Fuels Taxes	Tobacco Taxes	Alcohol Taxes	Property Taxes	Miscellaneous Taxes	Total Net Revenue
Alabama									
Alaska									
Arizona									
Arkansas	-14.2	12.0	159.0	86.8	3.0				246.6
California*	80.0	290.0	384.0			190.0		823.0	1,767.0
Colorado									
Connecticut	2,073.0	-55.0	-933.0	30.5				-526.0	589.5
Delaware									
Florida									
Georgia	-30.0								-30.0
Hawaii				67.1					67.1
Idaho				36.0					36.0
Illinois*									200.0
Indiana									
Iowa	71.0								71.0
Kansas*	6.5	109.0	13.3						128.8
Kentucky	350.0	45.0	200.0						595.0
Louisiana									
Maine									
Maryland	32.0		45.6		12.5				90.1
Massachusetts									
Michigan									
Minnesota	36.1	2.7			79.7	11.0		-0.1	129.4
Mississippi									
Missouri*		85.0			21.0				106.0
Montana	10.0				2.8				12.8
Nebraska									
Nevada		120.0							120.0
New Hampshire		8.0							8.0
New Jersey*	1,335.0	1,040.0					-560.0		1,815.0
New Mexico	6.3	10.0	11.0						27.3
New York	400.0	45.0	81.0	500.0				90.0	1,116.0
North Carolina*			242.0			4.6			246.6
North Dakota					1.5			1.0	2.5
Ohio*			97.0						97.0
Oklahoma									
Oregon	4.0	8.0							12.0
Pennsylvania		334.0	288.0		300.0			773.0	1,695.0
Rhode Island	101.2	5.0		4.2					110.4
South Carolina*	3.3							1.5	4.8
South Dakota									
Tennessee									
Texas	2,000.0	400.0							2,400.0
Utah									
Vermont	22.8		38.1		2.7				63.6
Virginia									
Washington									
West Virginia*		-2.2						-1.5	-3.7
Wisconsin		2.9	3.5					24.6	31.0
Wyoming									
Dist. of Columbia								8.0	8.0
Totals	$6,487.0	$2,459.4	$629.5	$724.6	$423.2	$205.6	($560.0)	$1,193.5	$11,762.8

California - Some local revenues included. Miscellaneous revenues include revision of license fee depreciation schedule.
Illinois - Proposal plans to indefinitely extend expiring increases in personal and corporate income tax rates.
Kansas - Revenues of $109 million are net of $8.5 million loss in revenues from a change in retirement income taxation.
Missouri - Changes in individual income and sales taxes also proposed.
New Jersey - FY92 revenue impact estimates from tax increase in 1990. Homestead rebates provide property tax relief.
North Carolina - 1/2 cent local options sales tax to replace current state appropriations for local governments. Alcohol revenue due from license fee increase.
South Carolina - Personal income revenue includes a $6.7 million reduction in revenues from phasing down the income tax rate under past legislation. Revenues will increase $9.4 million due to the repeal of the capital gains exclusion.
Ohio - Revenues generated from the elimination of auto sales tax exemptions, capping of revenues distributed to local governments, and the elimination of discounts for early sales tax payments.
West Virginia - Reductions in corporate income tax rate and utility tax are part of a phase down reductions from earlier legislation.
Source: Tax Foundation. Data compiled from state survey of revenue departments, legislative officials, and governors' offices.

Rebuilding the U.S. Industrial Base:
The Role of Tax Policy in Economic Growth

Wednesday, May 22, 1991 at The Washington Court Hotel in Washington, D.C.

Registration/Light Fare	**12:00 p.m.**	**Atrium Room**
Conference Sessions	**12:30 – 5:00 p.m.**	**Atrium Room**
Cocktail Reception	**5:15 p.m.**	**Sagamore Hill**

- Direct any questions about the conference to Gretchen Georgiadis at 202-863-5454. FAX 202-488-8282.
- Reservations should be received by Monday, May 20, 1991.
- The Washington Court is located at 525 New Jersey Ave., N.W., Washington, D.C. 20001-1527. (202)-628-2100.

12:00 Registration (light fare)

12:30 Welcome: Dan Witt, Executive Director, Tax Foundation

Keynote Address: Lawrence B. Lindsey, Special Asst. to thePresident for Policy Development & Assoc. Director for Domestic Economic Policy

1:00 ***Assessing Pro-Growth Tax Policies for 1991 and Beyond***

Moderator: Leif H. Olsen
President
Leif H. Olsen Associates, Inc.
Former Chief Economist – Citibank

Congressman Richard T. Schulze (R-PA)
House Ways and Means Committee

William C. Dunkelberg
Dean of the School of Bus. & Management
Temple University

Van McMurtry
Chief Counsel - Majority
Senate Committee on Finance

Charles Hahn
Assistant Tax Director
Dow Chemical Company

2:15 ***Are U.S. Tax Policies Impeding Transborder Investment?***

Moderator: Catherine Porter
Partner
Miller & Chevalier

Congressman Robert T. Matsui (D-CA)
House Ways and Means Committee

Alan J. Lipner
Sr. Vice President - Corporate Taxes
American Express Company

Marlin Risinger
Associate International Tax Counsel
Department of the Treasury

Edmund K. Harding
Manager, Tax Planning & Litigation
Xerox Corporation

George N. Carlson
Director of the Economic Analysis Group
Arthur Andersen & Co.

3:30 Coffee Break

3:45 ***Rejuvenating Service Sector Strength (Financial/Real Estate/Insurance/Retail)***

Lawrence A. Kudlow
Chief Economist
Bear Stearns & Company

Henry Ruempler
Director of Tax & Accounting
American Bankers Association

Jane G. Gravelle
Senior Specialist in Economic Policy
Congressional Research Service

5:15 Cocktail Reception

Reservation Form

Name: ______________________

Company: ______________________

Address: ______________________

____

City: ____________ State: ______ Zip: ____________

Telephone: ____________ FAX: ____________

Please return reservation form with payment to:

Tax Foundation
470 L'Enfant Plaza, S.W.
Suite 7400
Washington, DC 20024
FAX: 202-488-8282
Attn: Gretchen Georgiadis

Conference Fee: Member/$100, Non-Member/$125

Congressional and Executive Branch Staff and Media complimentary.
A check made payable to the **Tax Foundation** in the amount of $ ____________ is enclosed.

Foundation's Message Heard Across the Nation

St. Louis Membership Briefing Features Foundation Co-Chairman James C. Miller III

Monsanto Company, a Tax Foundation member since 1943, hosted the latest in a series of luncheons for Foundation members and guests at the St. Louis Club on April 2. Tax Foundation co-chairman James C. Miller III spoke to the group of chief financial officers and senior tax executives.

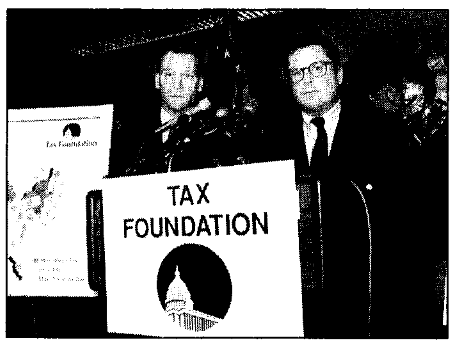
Miller, director of the Office of Management and Budget from 1985 to 1988, gave an interview after the luncheon about his federal budgeting experiences to *St. Louis Post-Dispatch* business reporter David Nicklaus, who featured the interview in his April 5 column on the front page of the business section.

Miller predicted that the five-year budget plan signed into law last October by President Bush would break down in fiscal year 1993. In that year, deep cuts are scheduled to go into effect, after two years of steep increases in federal taxing and spending.

The briefing included representatives from such firms as Emerson Electric, General Dynamics, ITT Financial Corp., The May Cos., Mercantile Bancorporation, Ralston Purina, Southwestern Bell, Union Electric, and United Van Lines.

Tax Freedom Day Press Conference in Washington, DC

Dan Witt uses the Foundation's state-by-state Tax Freedom Day analysis to explain how citizens face different tax burdens.



Dan Witt (r.) and Paul Merski present Tax Freedom Day for 1991. This popular measure of the tax burden shows average taxpayers paying over 35 percent of their income in taxes.

Dan Witt Is Foundation's New Executive Director

Dan Witt, vice president of the Tax Foundation since 1989, will assume the day-to-day leadership of the organization as its executive director.

Prior to joining the Tax Foundation, Mr. Witt was Director of Membership with Citizens for a Sound Economy, a 250,000-member Washington-based public interest group. He received his MBA from Western Michigan University.

Mr. Witt replaces Wayne Gable who has served as the Foundation's president since September 1989.

Tax Features

Tax Features (ISSN 0883-1335) is published by the Tax Foundation which operates as a separate unit of Citizens for a Sound Economy Foundation. Original material is not copyrighted and may be reproduced. Please credit Tax Foundation.

Co-Chairman .... James Q. Riordan
Co-Chairman .... James C. Miller III
Executive Director .... Dan Witt
Director of Fiscal Affairs .... Paul G. Merski
Senior Fellow .... B. Anthony Billings
Editor .... William Ahern
Editorial Asst. .... Gretchen Georgiadis
Research Associate .... Gregory Leong

Tax Foundation
470 L'Enfant Plaza, S.W.
Suite 7112
Washington, D.C. 20024
202-863-5454

470 L'Enfant Plaza, S.W.
Suite 7400
Washington, DC 20024

Non-profit Org.
U.S. Postage
PAID
Washington, DC
Permit No. 2979