

# MONTHLY TAX FEATURES



**Tax Foundation, Inc.**

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## Property Tax Rise Slowest Since 1974

Alabama not only has one of the winningest football teams in the nation. The state that gave the U.S. "Bear" Bryant and the Crimson Tide also has the lowest property taxes in the country. In 1978, the latest data available, Alabamans paid \$69 per capita in property taxes, just over twice what they were paying a decade earlier.

By contrast, Alaska, more famous for oil fields than football fields, owns the distinction of having the highest per capita property taxes in the nation—\$808, up 788 percent since 1968.

Measured another way, in terms of property tax collections per \$1,000 of personal income, Alabamans look even better. Their \$12 per \$1,000 of personal income in 1978 represents a 25 percent drop from what they were paying in 1968. Alaskans, on the other hand, despite the North Slope oil bonanza, suffered a 204 percent jump in property taxes during that ten-year period, from \$25 to \$76 per \$1,000 of personal income.

On the average, Americans paid \$305 per capita in property taxes in 1978, an increase of 119 percent over their 1968 bills. In both 1968 and 1978, property taxes came to \$44 per \$1,000 of personal income.

The table on page 4 provides details on U.S. property tax collections.

The top paying states, all of whom exceeded the average per capita tax

(Continued on page 4)

## Taxflation Wipes Out Pay Gains

U.S. workers are losing the battle against "taxflation"—even those rare persons lucky enough to get a pay hike equal to the projected 14.5 percent inflation rate for 1980, according to Tax Foundation economists.

"Taxflation" is a term coined to describe what happens as inflationary pressures push workers into higher salary brackets which are, in turn, subjected to higher tax rates. Among other things, this process brings the Federal government an unlegislated revenue boost each year. But while inflation may be filling the government's pockets, it is emptying the taxpayer's, according to the Foundation's researchers.

Anyone who received a 14.5 percent pay boost for calendar year 1980 would, at first blush, seem to be at least staying even. Not so, say Tax

Foundation economists. True, the \$10,000-a-year family (married couple, one earner, two children) would have an annual salary of \$11,450, a net "paper" gain of \$1,450. But his Federal income tax would go up by \$224 and his social security tax by \$89, leaving him with only \$10,202, a rise of \$1,137 in after-tax income. At a 14.5 percent inflation rate, the 1980 dollar would be worth only 87 cents as compared to the 1979 dollar. In 87-cent dollars, the \$10,202 in 1980 would have the purchasing power of only \$8,910 in 1979 dollars—a loss to inflation of \$1,292. In sum, the losses due to higher taxes and inflation exceed this worker's salary increase by \$155. His apparent gain translates to a net loss in purchasing power of 1.7 percent.

(Continued on page 3)

### Effect of a 14.5 Percent Increase in Income at Selected Levels, 1979 to 1980<sup>a</sup> (Married couple, one earner, two children)

Adjusted gross income		Change, 1979 to 1980			Loss in 1980 purchasing power due to:		
1979	1980	Before- tax income	Current dollars	1979 dollars	Federal income tax	Social security tax	Inflation
\$10,000	\$11,450	+\$1,450	+\$1,137	-\$ 155	-\$ 224	-\$ 89	-\$1,292
15,000	17,175	+ 2,175	+ 1,677	- 173	- 365	- 133	- 1,850
20,000	22,900	+ 2,900	+ 2,120	- 270	- 602	- 178	- 2,390
25,000	28,625	+ 3,625	+ 2,585	- 343	- 856	- 184	- 2,928
30,000	34,350	+ 4,350	+ 3,051	- 432	- 1,115	- 184	- 3,483
35,000	40,075	+ 5,075	+ 3,317	- 668	- 1,574	- 184	- 3,985
50,000	57,250	+ 7,250	+ 4,209	- 1,150	- 2,857	- 184	- 5,359

<sup>a</sup>14.5 percent is the currently projected rate of inflation in 1980.

<sup>b</sup>Deductions are made for Federal individual income tax and social security tax only.

Source: Tax Foundation computations based on Treasury Department data.

# The Front Burner

By Robert C. Brown  
Executive Vice President  
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## "Reflections on a Trip to New Orleans"

My job affords me the pleasure of traveling this nation and speaking—and listening—to Americans who do not view our nation with the "company-store" bias so prevalent in our capital city. There is a freshness of outlook, an optimism, in heartland America that frequently gets brushed aside as Washington's "movers and shakers," inside and outside the government, rush to put out one brushfire after another.

A recent trip to New Orleans, unfortunately, revealed a less rosy side of our national mood. I detected a growing concern about the present condition of the United States and its long-term ability to survive. Business leaders in the Crescent City raised some fundamental issues: They spoke of a Congress too paralyzed by political considerations to make any tough decisions; of an Administration vacillating almost daily from one side to another on major questions of policy; of a continued weakening of the U.S. trade posture abroad and a steady erosion of our domestic industrial base; of pressure groups—from wild-eyed liberals to ultra-conservatives—more interested in their share of the collective pie than the good of the nation as a whole.

Implicit—and occasionally explicit—in the businessmen's concerns were some fundamental questions: Can a nation as large and as complex as ours be governed at all? Can a Congress subjected to pressure by a myriad of special interest groups make laws for the common good? Can one man any longer manage the job of President of the United States?

All I could offer these men was a sympathetic ear and a promise to carry their message back to Washington. It is a message that crosses party lines and transcends the debate over labor and management consider-

## Government Outlays Near \$1 Trillion; \$11,715 Spent Per U.S. Household Unit

Fiscal 1980 spending by governmental units in the nation will take another giant step toward the \$1 trillion level, rising by more than \$100 billion or 12.6 percent over 1979, according to Tax Foundation economists. Current projections place the fiscal 1980 total for Federal, state, and local governments at \$926.7 billion, up from \$823.3 billion a year earlier.

This year's increase will raise spending per U.S. household to \$11,715—from \$10,647 in 1979—and the equivalent of \$4,189 per man, woman, and child in the nation (\$3,756 in 1979).

Examining trends over the past five years, Tax Foundation researchers project a rise in total government spending of about 64 percent from 1975 to 1980. Federal expenditures, estimated at \$607.6 billion in 1980,

will account for almost two-thirds of all spending by government at every level and will account for an even larger share of the five-year increase. Between fiscal years 1975 and 1980, Federal spending will grow by 78 percent, whereas state and local spending will rise by 45 percent.

In 1980, it is estimated, the U.S. government alone will spend more than \$47 billion above what all units of government spent in 1975. Viewed in longer perspective, total government spending today is more than 13 times the amount spent thirty years ago, in 1950.

The table below charts the growth of total per household and per capita spending for all levels of government for selected fiscal years since 1950.

**Federal, State, and Local Government Expenditures<sup>a</sup>**  
**Selected Fiscal Years, 1950-1980**

Fiscal year	Amount (billions)			Total expenditures	
	All governments	Federal	State and local	Per household	Per capita
1980 <sup>b</sup>	\$926.7	\$607.6	\$319.1	\$11,715	\$4,189
1979 <sup>b</sup>	823.3	527.3	296.0	10,647	3,756
1978	745.4	477.8	267.6	9,804	3,416
1977	682.5	432.0	250.5	9,205	3,166
1976	625.1	389.9	235.2	8,579	2,922
1975	560.1	340.5	219.6	7,871	2,639
1970	333.0	208.2	124.8	5,252	1,643
1965	205.7	130.1	75.6	3,581	1,069
1960	151.3	97.3	54.0	2,866	846
1950	70.3	44.8	25.5	1,614	468

<sup>a</sup>Grants-in-aid are counted as expenditures of the first disbursing unit.

<sup>b</sup>Tax Foundation estimates.

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

ations. These men know that to power our economy we must have a strong work force, a solid capital base, a vigorous free market, and stable tax and fiscal policy. What worries them is that these elements for the survival of our nation seem to be slipping through the fingers of our leaders.

There is serious concern for the future, if my trip to New Orleans accurately reflects the mood of our people. Yet, there is optimism, too. We are finally beginning, as a nation, to ask the right questions; we are beginning to see that a healthy economy is

a sine qua non for a viable future.

This summer the political parties will nominate presidential candidates. They will formulate party platforms. However clumsily, the voice of the people will be heard through the collective wisdom of the convention delegates.

Pulling out of the current economic slump and rebuilding for the 80s and beyond will be a slow, bumpy process. But as a free people, freely governed, who do care to make the system work, I am confident we can succeed.

After all, if we don't, who will?

## MARK YOUR CALENDAR

Tax Foundation's 32nd National Conference and 43rd Annual Dinner will be held this year on Wednesday, December 3rd at the Plaza Hotel in New York City. Details will follow in future issues of *Monthly Tax Features*.

## Taxflation

(Continued from page 1)

Those earning at a comparatively high level fare no better, according to Foundation calculations. The \$35,000-a-year family (married couple, one earner, two children) would be making \$40,075 before taxes with a 14.5 percent pay hike, an increase of \$5,075 per year. After taxes, in current dollars, this would shrink to \$3,317, and in 1979 constant dollars it would actually represent a \$668 decline in after-tax income, a loss of 2.4 percent in purchasing power. Inflation would induce a decline in purchasing power of \$3,985—while social security payroll deductions claimed another \$184 and Federal income taxes took \$1,574.

None of the above calculations, according to Foundation economists, include the extra bite which would be taken from these earnings by state and local taxes. Also, the 14.5 percent pay boost is admittedly unrealistic in the case of most U.S. earners. According to a recent report by the Bureau of Labor Statistics, "median family weekly earnings from wage and salary employment rose by 8 percent between the first quarter of 1979 and 1980." Meanwhile, the President's Council on Wage and Price Stability continues to ask industry and labor to limit wage increases to between 7.5 and 9.5 percent per year.

The table on page one gives income data for selected levels and the effect of a 14.5 percent increase on those earnings.

## Top Half of Earners Pay 90% of Tax Bill; Number of Millionaires Up in 1978

Those who earn more pay higher tax rates. That the Federal income tax system is sharply progressive should surprise no one. However, Tax Foundation economists say that the price for some taxpayers can get very high indeed. Based on Treasury data for 1978, just released, Foundation researchers find that the top 50 percent of earners pay 93.5 percent of the Federal income tax bill, and this concentration of the tax burden in the upper end of the income spectrum is on the increase, the Foundation reports. In 1973, the richer half of the taxpayers carried 91.6 percent of the Federal income tax burden.

The Federal income tax bill for calendar year 1978 came to \$188.6 billion. Over \$176 billion of the total was picked up by the 45 million taxpayers with incomes at or above the median level. Moreover, a large part of the tax bill—nearly half—was shouldered by the 9 million taxpayers who comprise the richest 10 percent.

Those earning \$29,414 or more in 1978 paid 49.7 percent of all U.S. income taxes. Five years earlier, earners in the top 10 percent were footing 47.5 percent of the Federal income tax bill.

By contrast, the lower half of U.S. earners (those making \$10,959 or less in 1978) paid 6.5 percent of all Federal income taxes in 1978. Earners in the lowest 25 percent income group—those making \$5,039 or less

per year—paid 0.4 percent of the Federal income taxes in 1978.

Tax Foundation economists also detect an increase in the progressivity of the Federal income tax. The average tax for all taxpayers in 1978 was \$2,098, an increase of 57 percent from 1973. For the top 10 percent of earners, the tax in 1978 came to \$10,430, or 64 percent more than five years earlier.

For the richer half of the taxpayers, the average tax of \$3,924 in 1978 increased slightly less, by 60 percent. For the lower half, however, there was an average tax increase of only 21 percent—from \$225 in 1973 to \$272 in 1978.

Other trends in the past five years included:

The number of "millionaires"—those reporting income of \$1,000,000 and over—increased by 1,189—from 903 returns in 1973 to 2,092 in 1978. This group paid an average tax of \$934,863 in 1973 and \$998,144 in 1978, or 64.7 percent of taxable income in 1973 and 65.4 percent in 1978.

Population at the same time rose by less than 4 percent, adjusted gross income by 58 percent, and total income tax collections by 74 percent. Federal income taxes claimed 13.1 percent of adjusted gross income in 1973 and 14.5 percent in 1978.

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  
1973 and 1978**

Adjusted gross income class	Income level		Percent of tax paid		Average tax	
	1973	1978	1973	1978	1973	1978
Highest 10 percent	\$20,138 or more	\$29,414 or more	47.5	49.7	\$6,362	\$10,430
Highest 25 percent	13,929 or more	19,860 or more	70.5	73.8	3,777	6,208
Highest 50 percent	8,081 or more	10,959 or more	91.6	93.5	2,454	3,924
Lowest 50 percent	8,080 or less	10,959 or less	8.4	6.5	225	272
Lowest 25 percent	3,594 or less	5,039 or less	.6	.4	32	32
Lowest 10 percent	1,348 or less	1,988 or less	(a)	(a)	3	6

(a). Less than 0.1 percent.

Source: Tax Foundation computations based on Treasury Department, *Statistics of Income, Individual Income Tax Returns, 1973 and (preliminary) 1978*.

## Property Taxes

(Continued from page 1)

rate, were: Alaska (\$808); Massachusetts (\$522); California (\$494); New Jersey (\$477); New York (\$471); Wyoming (\$466); Connecticut (\$436); New Hampshire (\$394); Montana (\$393); and Oregon (\$362).

Lowest property taxes prevailed in Alabama (\$69); Louisiana (\$98); Arkansas (\$118); West Virginia (\$120); Kentucky (\$121); New Mexico (\$123); Mississippi (\$128); Oklahoma (\$134); South Carolina (\$139); and Delaware (\$146).

Total property taxes collected in all 50 states in 1978 came to \$66.4 billion, a jump of 139 percent in 10 years.

State and local property tax collections rose from \$62.5 billion in fiscal 1977 to \$66.4 billion in 1978, for a gain of 6.2 percent, the smallest increase recorded since the recession year 1974. On a per capita basis, the latest year's rise was 5.5 percent. These totals do not reflect the full impact of California's Proposition 13, approved in 1978, which, according to preliminary data, will result in a decline nationally in property tax collections in fiscal 1979, according to Tax Foundation economists.

Viewed over the past decade, all states have experienced significant increases in per capita property taxes by amounts ranging from 58 percent

in North Dakota and Oklahoma to 788 percent in Alaska. Per capita hikes in excess of 150 percent also occurred in South Carolina, Virginia, Massachusetts, Vermont, and Georgia.

Contrary to some popular impressions, property taxes have not taken successively larger bites out of the personal income dollar in recent years. In 1978, when property tax collections rose by 6.2 percent, the corresponding rise in personal income was 10.9 percent. Expressed

another way, property tax payments amounted to about \$44 for each thousand dollars of personal income in 1978, down from \$46 in 1977. Although property taxes rose more rapidly than incomes during the late 1960s and early 1970s, these trends were reversed in the last five years. By 1978 property taxes claimed the same share of income nationally as in 1968. But during the decade the effective rate of property taxes against income actually declined in 33 states.

### Property Tax Collections by State Per Capita and Per \$1,000 of Personal Income Fiscal Years 1968 and 1978

State	Per capita property tax			Property tax per \$1,000 of personal income			
	Amount 1968	Amount 1978	Percent increase	Rank 1978	Amount 1968	Percent change	Rank 1978
U.S. AVERAGE .....	\$139	\$305	119	—	\$44	\$44	0
Alabama .....	34	69	103	51	16	12	-25
Alaska .....	91	808	788	1	25	76	+204
Arizona .....	151	341	126	15	57	54	-5
Arkansas .....	52	118	127	49	26	22	-15
California .....	226	494	119	3	62	64	+3
Colorado .....	159	315	98	20	53	45	-15
Connecticut .....	186	436	134	7	48	54	+12
Delaware .....	73	146	100	42	20	19	-5
Florida .....	115	228	98	32	41	35	-15
Georgia .....	76	194	155	38	30	32	+7
Hawaii .....	82	173	111	39	27	23	-15
Idaho .....	119	215	81	34	47	37	-21
Illinois .....	151	325	115	18	41	42	+2
Indiana .....	146	245	68	30	46	36	-22
Iowa .....	172	303	76	22	55	44	-20
Kansas .....	166	334	101	16	55	47	-15
Kentucky .....	60	121	102	47	25	21	-16
Louisiana .....	55	98	78	50	23	17	-26
Maine .....	129	290	125	25	49	51	+4
Maryland .....	137	281	105	27	41	37	-10
Massachusetts .....	204	522	156	2	58	72	+24
Michigan .....	151	348	130	14	45	46	+2
Minnesota .....	173	301	74	23	57	43	-25
Mississippi .....	55	128	133	45	29	26	-10
Missouri .....	108	195	81	37	36	30	-17
Montana .....	192	393	105	9	68	66	-3
Nebraska .....	186	350	88	13	61	52	-15
Nevada .....	180	315	75	21	51	41	-20
New Hampshire .....	165	394	139	8	55	62	+13
New Jersey .....	200	477	138	4	55	60	+9
New Mexico .....	62	123	98	46	25	21	-16
New York .....	192	471	145	5	51	62	+22
North Carolina .....	63	150	138	40	26	26	0
North Dakota .....	152	240	58	31	60	39	-35
Ohio .....	136	247	82	29	43	35	-19
Oklahoma .....	85	134	58	44	32	22	-31
Oregon .....	152	362	138	10	50	53	+6
Pennsylvania .....	94	223	137	33	30	22	-27
Rhode Island .....	146	361	147	11	45	53	+18
South Carolina .....	45	139	209	43	21	25	+19
South Dakota .....	182	322	77	19	68	54	-21
Tennessee .....	64	147	130	41	27	26	-4
Texas .....	111	253	128	28	41	38	-7
Utah .....	124	206	66	36	48	36	-25
Vermont .....	138	353	156	12	50	61	+22
Virginia .....	80	212	165	35	29	31	+7
Washington .....	121	287	137	26	37	39	+5
West Virginia .....	63	120	90	48	27	20	-26
Wisconsin .....	160	326	104	17	51	48	-6
Wyoming .....	208	466	124	6	69	64	-7
District of Columbia ..	137	291	112	24	33	32	-3

### About Tax Features

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