TAX FOUNDATION'S VOL. 32, NO. 3 APRIL/MAY 1988

TAX·FEATURES

Tax Freedom Day 1988 Is May 5; Two Days Later Than 1987

Workers Lose Two More Minutes Of a Day's Pay to Tax Bite

Another perspective on the tax burden is revealed by the tax bite in the typical worker's 8-hour day. In 1988, that worker will spend 2 hours and 45 minutes on the job for the tax collector, two minutes more than in 1987, and the largest tax bite since U.S. tax statistics began to be recorded early in this century. Of that period,

(Continued on page 2)

Tax Freedom Day and Tax Bite in 8-Hour Day

Year	Tax Freedom Day	Tax Bite in the Eight-Hour Day: Total	Federal	State/ Local
1955	April-9	2:09	1:34	0:35
1956	April-11	2:13	1:37	0:36
1957	April-13	2:14	1:37	0:37
1958	April-10	2:12	1:32	0:40
1959	April-14	2:16	1:36	0:40
1960	April-17	2:22	1:40	0:42
1961	April-18	2:22	1:38	0:44
1962	April-18	2:21	1:38	0:43
1963	April-19	2:23	1:39	0:44
1964	April-15	2:18	1:33	0:45
1965	April-15	2:17	1:33	0:44
1966	April-18	2:21	1:36	0:45
1967	April-20	2:24	1:37	0:47
1968	April-25	2:32	1:39	0:53
1969	May-1	2:38	1:48	0:50
1970	April-28	2:34	1:40	0:54
1971	April-25	2:31	1:36	0:55
1972	April-29	2:36	1:39	0:57
1973	April-29	2:36	1:41	0:55
1974	May-3	2:41	1:45	0:56
1975	April-28	2:35	1:38	0:57
1976	May-1	2:40	1:42	0:58
1977	May-3	2:41	1:43	0:58
1978	May-3	2:41	1:45	0:56
1979	May-3	2:41	1:48	0:53
1980	May-1	2:39	1:48	0:51
1981	May-4	2:43	1:52	0:51
1982	May-3	2:41	1:48	0:53
1983	April-30	2:38	1:43	0:55
1984	April-28	2:36	1:42	0:54
1985	April-30	2:38	1:44	0:54
1986	April-30	2:38	1:43	0:55
1987	May-4	2:43	1:48	0:55
1988	May-5	2:45	1:50	0:55

Source: Department of Commerce, Bureau of Economic Analysis; and Tax Foundation computations.

The bad news is that Tax Freedom Day 1988 is May 5. The worse news is that, although Tax Freedom Day last year was May 4th, this year's date is two days later than 1987 because 1988 is leap year.

Economists at the Tax Foundation announced today that the average American would work from January 1 through May 4 to furnish Federal, state and local tax collectors with the funds to pay all taxes, if every cent earned from the first of the year went for taxes. On May 5, Americans finally start working for themselves.

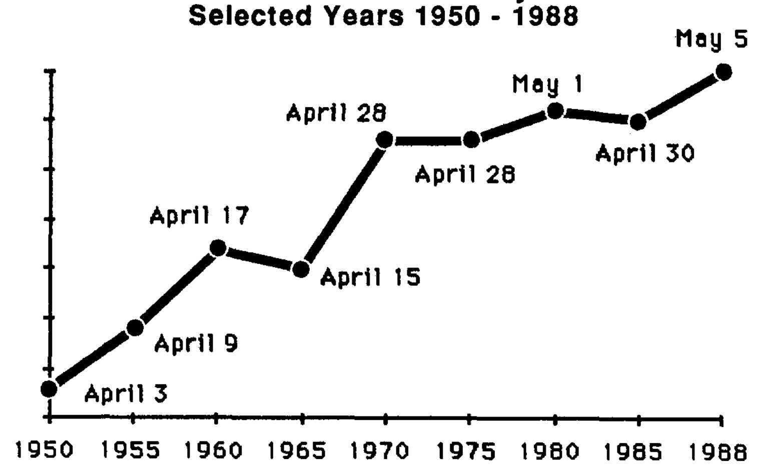
Put another way, it will take 126 days to satisfy the tax man this year, two days longer than were required last year. This way of expressing the tax load is calculated on the assumption that, sooner or later, the American "worker" ultimately pays the total tax burden — including business taxes which are passed on to individuals — in his or her capacity as an employee, proprietor, or investor.

Uncle Sam did it, counsel economists at the Washington-based tax watchdog organization.

(Continued on page 2)

THIS ISSUE:

Tax Freedom Day
Selected Years 1950 - 1988



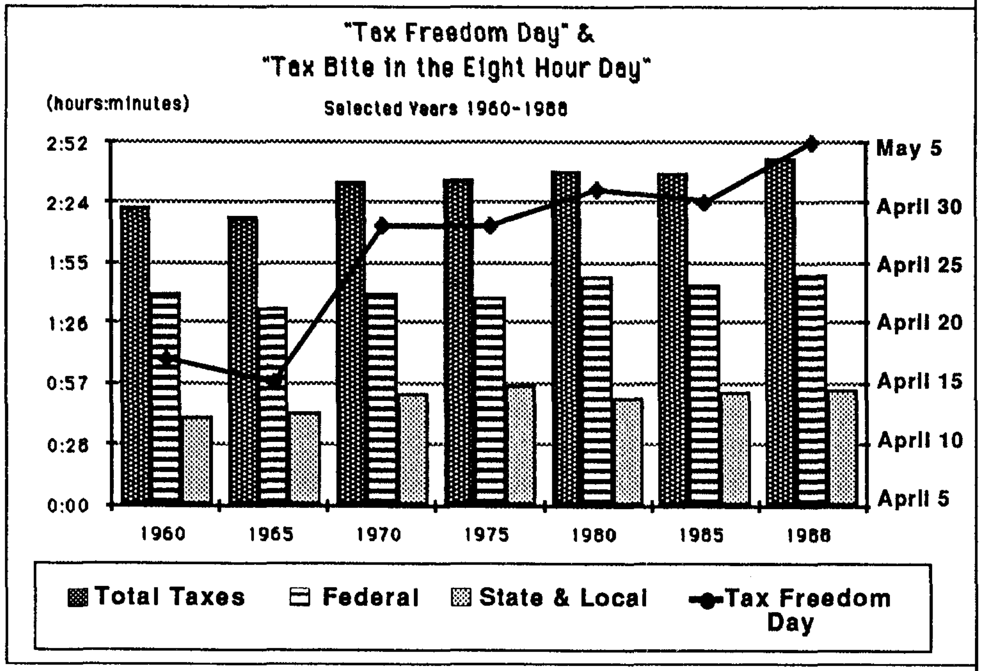
(TAX FREEDOM DAY, *from page 1*)

Increases in the corporate income tax passed in the Tax Reform Act of 1986 (TRA86) are continuing to kick in; the Omnibus Budget Reconciliation Act of 1987 has loaded an estimated $9.1 billion on taxpayers; a large increase in social insurance taxes has taken hold; and the Continuing Resolution for 1988 increased Federal receipts an estimated $2.4 billion this year, taking an additional $1 billion from individual income taxes alone. Combined, the '87 Reconciliation Act and the '88 Continuing Resolution have boosted the 1988 Federal take by $11.5 billion.

The U.S. taxpayer has now lost all the ground gained through the major cuts of the Economic Recovery Tax Act of 1981 (ERTA). Since ERTA, large revenue raisers in 1982, 1983, and 1984, plus the 1987 omnibus bill and the 1988 continuing resolution, have lopped off big chunks of the '81 cuts and social security hikes have made further inroads, until, like the Cheshire Cat in Alice in Wonderland, nothing remains but the smile.

State/local taxes will increase in 1988, but not faster than the economy as they did over the previous six years. Also, the states receive an ongoing windfall as the effects of TRA86 continue to make state levies generally more progressive. Although some states changed their laws to avoid such windfalls, others opted to keep revenue gains, and they will rake in an estimated $1.1 billion extra this year.

Tax Freedom Day grows later. In 1930, it fell on February 13. By 1940, it had moved to March 8, and to April 3 by 1950. In 1980, it coincided with May Day, and after a few years of relief under the 1981 tax cuts, it renewed its march further intoMay.

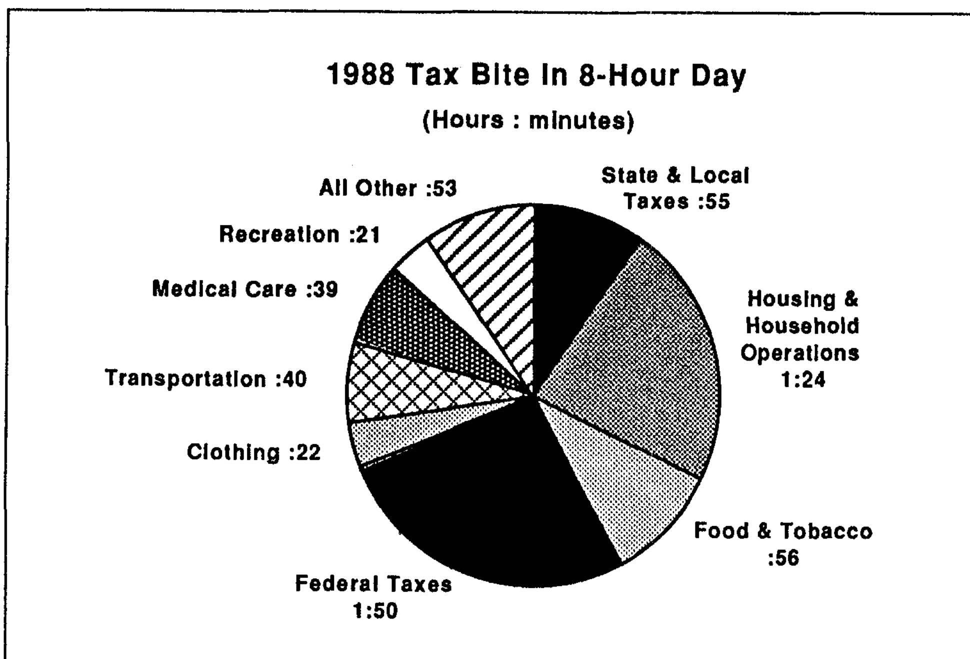


(TAX BITE, *from page 1*)

1hour 50 minutes goes to Washington, and 55 minutes go to states and municipalities, say economists at the Foundation.

As the accompanying table shows, the extra allocation for the two minute tax boost comes from the "Food and Tobacco" and "Clothing" categories, which lost 2 minutes and 1 minute, respectively, while the "All Other" category (personal care, personal business, private education, religious and welfare activities, net foreign travel, and net savings) will require an additional minute's labor.

In sum, what the average consumer managed to save on the price of clothes, food and smokes, was gobbled up by the tax collector.



"Tax Bite In the Eight-Hour Day"
1987 - 1988
(hours:minutes)

	1987	1988
Total Taxes	2:43	2:45
Federal	1:48	1:50
State and Local	:55	:55
Personal Consumption Expenditures	5:17	5:15
Housing and Household Operations	1:24	1:24
Food and Tobacco	:58	:56
Transportation	:40	:40
Medical Care	:39	:39
Clothing	:23	:22
Recreation	:21	:21
All Other	:52	:53
8-Hour Day	8:00	8:00

Budget Watch By Allen Schick

The Defense Roller Coaster

Budgeting has never been a calm, stable activity for the Pentagon. More than any other federal agency, its budget goes through wide swings. In the past, the defense budget cycle usually reflected changes in military conditions. War brought an escalation in defense spending; peace led to a decline. In the 1980s, however, the cycle has been influenced more by political than military factors.

The vicissitudes in the defense budget are starkly displayed in the table that accompanies this article. Between 1979 and 1985, the money provided for national defense (including some funds spent outside the Pentagon) soared from $126 billion to $294 billion, making this the biggest peacetime buildup in U.S. history. Since then, however, defense spending has been virtually frozen; in real (inflation-adjusted) dollars, national defense will get $35 billion less in fiscal 1989 than it received four years earlier.

These zigzags correspond to shifts in public opinion. Most Americans (58% in a Gallup Poll) favored the defense buildup at the start of the 1980s; most (80% in a recent poll) now think that defense spending should remain about the same or be decreased.

What the Money Bought

When the political cycle swings in favor of defense, the Pentagon goes on a buying spree, acquiring as many new weapons and forces as possible. The early 1980s conformed to this pattern. During the buildup phase of the cycle, the portion of the defense budget allocated to procurement rose from 25% to 33%. This behavior has often been criticized as wasteful, but it is mostly due to defense's boom and bust budgets. There are three main reasons why this cycle skews spending in favor of big ticket purchases.

When defense spending is depressed, the research phase is stretched out because the Defense Department doesn't have sufficient funds to acquire the weapons it has been developing. Then, when spending moves upward, it faces pent-up demand for procurement;

The Pentagon knows that if it does not obtain additional funds when support is high, it will not be able to do so when the cycle turns. Investing in weapons is its characteristic way of adjusting to the instability of the process.

Adjusting to the Downturn

Although it cannot know how long the current downturn will persist, the Defense Department must now adapt to more austere circumstances. The adjustment has been eased by the accumulation of more than $250 billion in carryover balances, funds appropriated in prior years but not yet spent. These balances have made it possible to maintain high production levels. But they also have made the defense budget more rigid: 40% of defense outlays now result from obligations incurred in previous years. When personnel and related costs are included, about 85 cents out of every defense dollar is locked into hard-to-control expenses.

If the downtrend in spending is prolonged, the Pentagon will not be able to count on carryover funds to tide it over until better times return. The typical way of adjusting to this situation has been to stretch out military procurement (buying fewer tanks, planes, and ships), to draw down on ordinance and spare parts, and to cutback on training and military readiness. This approach has the advantage of enabling the Department

(Continued on page 8)

The Defense Budget
Fiscal Years
Dollar Figures in Billions

	1979	1985	1989 est.
New budget authority	$ 126.5	$ 294.7	$ 299.5
Real (inflation-adjusted budget authority)	208.9	325.5	290.8
Total outlays	116.3	252.7	294.0
Defense Spending by Category (percent)			
Military personnel	29.7%	23.0%	26.2%
Operations and maintenance	30.1	26.4	28.6
Procurement	24.8	32.8	26.7
Research and development	9.8	10.6	12.8
Other	5.3	7.1	5.7

Major weapons have long lead-times stretching to as much as a decade. Despite the long lead times, Congress makes annual budget decisions for defense. Each year's appropriations depend on that year's political mood. It is difficult, therefore, to plan an orderly research-development-acquisition process, because the Pentagon does not know how much support it will have in Congress when the weapons are ripe for procurement.

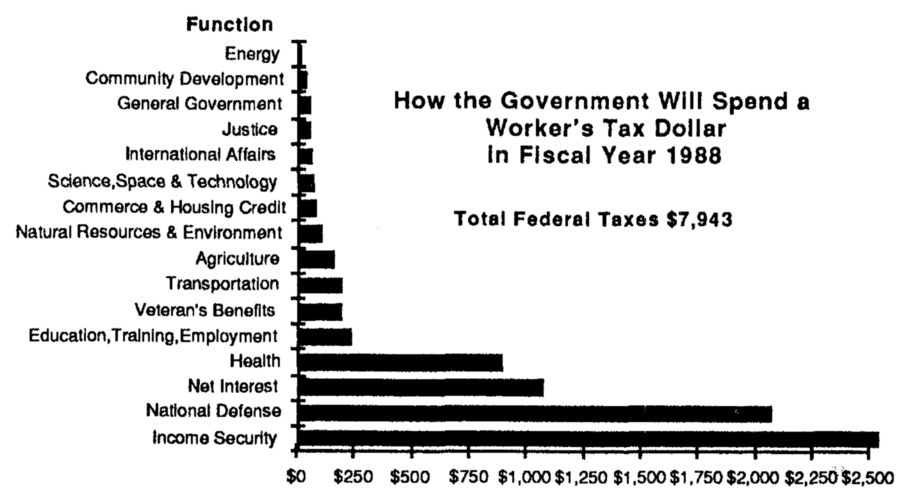
Because of these cyclical factors, the share of defense spending allocated to research and development declined during the early years of the Reagan buildup. In recent years, however, R & D has substantially increased its share. This suggested that the Pentagon is developing a new generation of weapons which will be ready when the next escalation in spending occurs.

Moderate Income American Family Will Pay Total Federal Taxes of $7,943 in Fiscal 1988

How the Federal Government Will Spend a Worker's Tax Dollar in Fiscal Year 1988(a)

Function	Worker's Share: Amount	Worker's Share: Percent of Total	Total Spending ($Millions)
Income Security (b)	$ 2,540	31.98	$ 349,277
National Defense	2,076	26.14	285,423
Net Interest	1,075	13.54	147,871
Health (c)	897	11.29	123,336
Education, Training, Employment, and Social Services	245	3.08	33,652
Veterans' Benefits and Services	202	2.54	27,748
Transportation	198	2.49	27,237
Agriculture	163	2.05	22,352
Natural Resources and Environment	110	1.39	15,139
Commerce and Housing Credit	90	1.13	12,364
General Science, Space, and Technology	79	0.99	10,903
International Affairs	72	0.91	9,926
Administration of Justice	65	0.82	8,970
General Government	64	0.81	8,796
Community and Regional Development	46	0.58	6,321
Energy	20	0.25	2,713
Total (d)	$ 7,943	100.00	$ 1,055,904
Exhibit:			
Payments for Individuals	$ 3,628	45.68	$ 498,867

(a) In this example, the worker is the sole source of support for a spouse and two dependent children earning $ 30,000 per year.
(b) Includes social security, Federal employee retirement, unemployment compensation, housing assistance, and food and nutrition assistance; excludes veteran's income security.
(c) Includes Medicare, Medicaid, and others; excludes veterans' hospital and medical care.
(d) After deducting $ 36,123 million in undistributed offsetting receipts not classified by function.
Source: Tax Foundation computations, based on Fiscal Year 1989 U.S. Budget presented February 18, 1988 and tax laws for 1988 from the Treasury Department.



A moderate-income family—one worker earning $30,000 with a spouse and two dependent children faces a tax bill of $7,943 for fiscal year 1988. That covers the family's direct as well as indirect Federal taxes. Add to this their $1,316 share of the Federal deficit, and the family will pay $9,259 to support the estimated $1.06 trillion Uncle Sam plans to spend in fiscal year 1988.

Economists at the Tax Foundation use this prototypical family to show where the average American household's tax dollars will go. Assuming that the $7,943 tax bill is allocated to cover the family's whole share of Federal spending, the following expenditures stand out.

Income security costs the most at $349.3 billion. This comprises Social Security, Federal retirement, unemployment compensation, housing assistance and nutrition assistance. The Federal government will pay out 32 cents for income security programs for each $1 this taxpayer sends to Washington, a total of $2,540.

National Defense will cost $285.4 billion-or 26 cents out of each tax dollar. For the moderate-income taxpayer described here, this amounts to $2,076.

Interest on the public debt ranks third at $147.9 billion, costing this worker over 13 cents of his tax dollar or a whopping $1,075.

Health outlays, mainly Medicare and Medicaid, will take over 11 cents of each tax dollar. This earner will send Uncle Sam $897 to pay for the $123.3 billion national health bill.

These four programs alone will claim almost 83 percent of all Federal spending and will cost this moderate-income taxpayer $6,588 in taxes.

However, direct levies do not explain the whole tax picture, accounting for only about three-fifths of the total Federal tax take. To these must be added such indirect taxes as

(Continued on page 5)

(WORKER'S TAX DOLLAR, *from page 4*)
employer's share of Social Security taxes; corporate income taxes; excise taxes on such items as gasoline, liquor and tobacco; and miscellaneous levies. These will take another $3,069 from the moderate-earner's paycheck.

Direct and indirect Federal taxes claim over 26 percent of this family's annual income. But even that does not tell the whole story. All told, current Federal taxes and borrowing add up to nearly 31 percent of this moderate-income family's earnings.

The accompanying table and chart provide further details.

Tax Features

Tax Features (ISSN 0883-1335) is published by the Tax Foundation. Original material is not copyrighted and may be reproduced. Please credit Tax Foundation.

Tax Foundation
One Thomas Circle, N.W., Suite 500
Washington, D.C. 20005
(202) 822-9050

THE FRONT BURNER

By Robert C. Brown
President, Tax Foundation

"Capital Gains Aren't Just for the Rich"

The following guest "Front Burner" first appeared as a Letter to the Editor in the Washington Post, March 26, 1988. It is reproduced with permission.

Your March 15 editorial on "Capital Gains and Fairness" sure made me mad! A Friend in Washington called and read the editorial to me, and I put this response to you in a purple airplane the next day so that he could drop it at your office while it was still hot.

Your statement that 50 percent of the capital gains go to upper-income people may be true, but that means that the other 50 percent goes to those of us in lower brackets. It doesn't take much of a tax increase to put us out of business. If we are going to talk fairness, it shouldn't matter whether you're rich or poor when it comes to how capital gains are taxed.

I just did my taxes, and your comments about millionaires hit me like salt on a sunburnt blister. I finally made a sale on some trees that I've been growing half a lifetime, and the new tax rates are taking 71 percent more of my income than under the old rules. That's a lot of money to me. It would replace my old pickup truck. It would reforest 150 acres of land. It would more than pay for the forestry consultant I hire to make sure my forest is in good shape. The topping on this bitter cake is that the paper work required to complete the process of being fleeced has more than doubled.

In spite of what the tax laws have done to me, I'm going to plant trees to replace those I've cut, and I'm going to hire foresters to keep my forest in prime condition. This farm goes back in my family a long time, and I want it to go forward for my family and others into the future.

I'll continue to take care of my land and send my money to Washington, but I'll feel like I've been treated badly. I've been planting and growing trees for 50 years now, and I've been through forest fires and tornadoes and droughts and ice storms, but the new tax laws are the biggest mess I've ever seen and the most discouraging to tree farmers. If the trend continues, we will eventually do all the work and take all the risks and then send all the money to Washington.

You mention that a bargain was stuck on taxes less than two years ago and that the bargain should not be broken. The deal you speak of is no bargain. It broke an implied commitment made to forest landowners more than 40 years ago, when the tax rates for long-term investments were lowered.

The more than 4 million American who own important tracts of forest land are unfairly treated under the new rules. These are ordinary folks, who sometimes wait a lifetime for some income from their forests. Many of them established their forests more than 40 years ago under that first "bargain" struck with Congress. The agreement at that time recognized that private forestry operations were risky, long-term investments, deserving of lower rate taxation of capital gains. There was also recognition that tax policy sets land-use policy and that if the nation approved of the conservation of private forests, a tax system that encouraged long-term investments would "put our money where our mouth was."

I think we landowners have kept our side of the long-term commitment. Although some forests certainly aren't as well cared for as I would like to see, overall we have planted billions of trees and constantly improved the application of forestry to the land. Most of us have done this work because we care about the land, but it sure helped to know that we got to keep some of our gains after years of work.

You use a lot of trees in putting out your paper, but your editorial ignored what it takes to grow those trees. Look outside Washington and the law books if you want to know what the system does.

C. M. Stripling
Camilla, GA

Sales Taxes Rake in Revenue for States

Sales taxes produce more revenue for the states than any other source, according to recent analysis by the Tax Foundation. Economists at the Washington-based tax watchdog organization say that in the 45 states which levy general sales taxes, $79.8 billion was brought in to state treasuries in fiscal year 1987 — almost a third (32.3%) of the $247.1 billion total state tax collections for that year.

The personal income tax ranked second, bringing in $76 billion during fiscal 1987 for 30.8% of total tax receipts, a hefty 12.7% increase over 1986's take. Corporate income taxes, the third largest single tax source, also showed a sizeable jump, amounting to $20.7 billion, 8.4% of the total. Only five states (Nevada, South Dakota, Texas, Washington, and Wyoming) have neither a corporate nor a personal income tax, and only seven states (the previous five plus Alaska and Florida) have no individual income tax.

All states tax gasoline and motor fuels; this source netted $15.7 billion, 6.3% of their total taxes in fiscal 1987.

Local property taxes are levied in all 50 states, and 39 have state property taxes; 39 states have both general sales and income taxes; and 33 states have general sales, income, and property taxes, Tax Foundation economists say.

State Sales Taxes

Connecticut led the list for top rates with its 7.5% sales and use tax rate, followed by: Washington (6.5%); Minnesota, Mississippi, New Jersey, Pennsylvania, Rhode Island, Florida and Texas (6%); and Nevada (5.75%). No state general sales tax is levied in Alaska, Delaware, Montana, New Hampshire, or Oregon, although municipalities in Alaska do impose sales tax.

The state sales tax is lowest — 3% — in four states: Colorado, Georgia, North Carolina, and Wyoming. Localities in 28 states levy sales taxes, generally in addition to those shown in the accompanying table.

Income Tax Rates

Minnesota (14%) and Iowa (13%) have the highest marginal individual income tax rates. The rate schedules are progressive (i.e., rise as income brackets go up) in all but five states. Illinois, Indiana, Massachusetts, Michigan, and Pennsylvania apply a flat rate, regardless of income level. In three states, income taxes are levied as a percentage of Federal individual income tax obligations — Nebraska, Rhode Island, and Vermont.

The maximum corporate income tax rates are highest in Iowa and Minnesota (12%); Connecticut (11.5%); Arizona and North Dakota (10.5%); and California (9.3%).

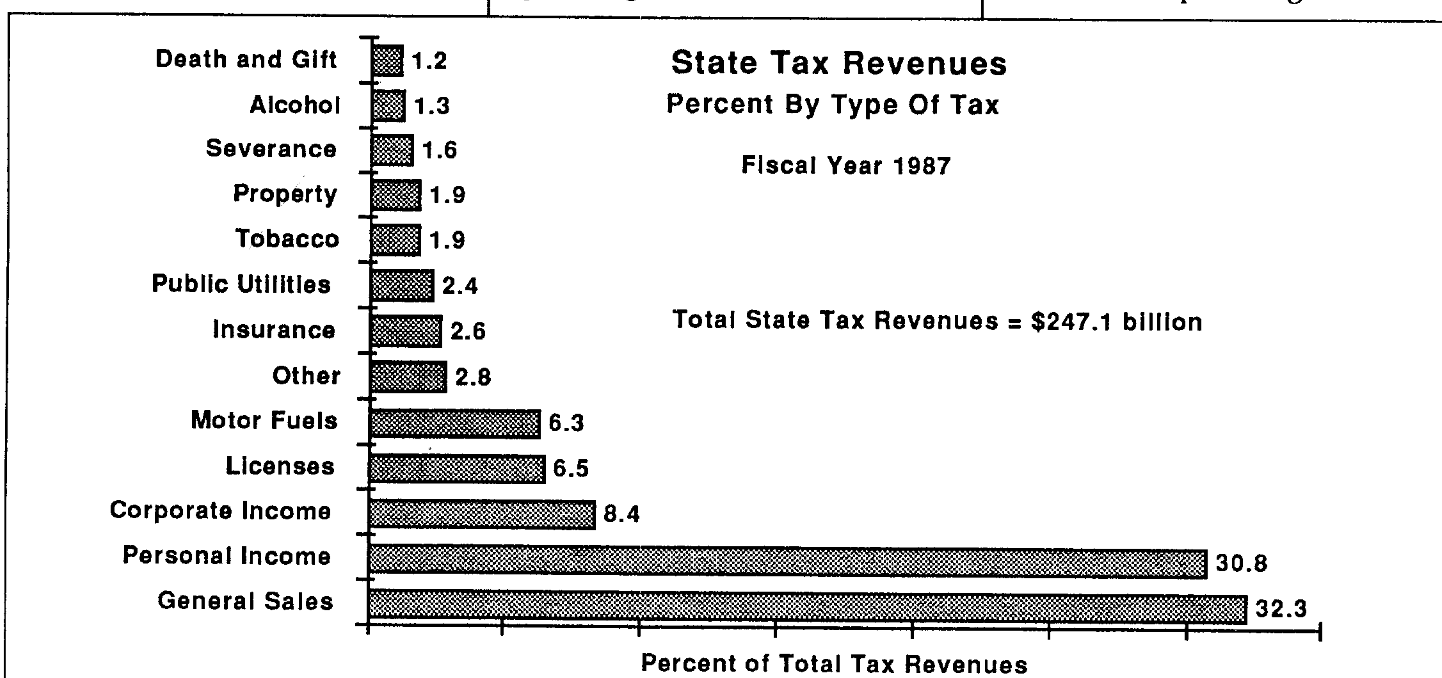
Gasoline Tax

Gasoline taxes are highest in Montana and Wisconsin (20 cents a gallon), Connecticut and Utah (19 cents) and Hawaii (where combined state-local rates range from 16 to 22.5 cents a gallon). The lowest rate — 4 cents — is levied in Florida, where gasoline is also subject to the general sales tax. The next lowest rate — 8 cents — applies in Alaska, New Jersey, New York, and Wyoming.

Cigarette Tax

Cigarette Taxes also make a notable contribution to state tax revenues, Tax Foundation economists report. In fiscal 1987, the states collected $4.6 billion, 2% of their total taxes, from tobacco products excises. Rates range from a high of 31 cents a pack in Washington to 2 cents in North Carolina.

The accompanying table gives details, as of April 1, 1988, for major taxes and rates prevailing in the states.



MAJOR STATE TAXES AND RATES, Reported through April 1, 1988

State	Income Taxes: Corporate	Income Taxes: Individual	General Sales and Use Tax	Gasoline Tax (per gallon)	Cigarette Tax (per pack of 20)	Property Tax
Alabama	5%(F)	2 to 5%(F)	4%(a)	11 cents	16.5 cents	X
Arizona	2.5 to 10.5(F)	2 to 8(F)	5(a)	16	15	X
Arkansas	1 to 6	1 to 7	4(a)	13.5	21	X
California	9.3(q)	1 to 9.3(q)	4.75(a)	9	10	X
Colorado	5.5 to 6(b)	5(q)	3(a)	18(b)	20	X
Connecticut	11.5(c)	1 to 12(d)	7.5	19(e)	26	X
Georgia	6	1 to 6	3(a)	7.5 + 3% of retail	12	X
Hawaii	4.4 to 6.4	2.25 to 10(b)	4	15 to 22.5	40% wholesale	
Idaho	8	2 to 8.2	5	18	18	X
Illinois	4(p)	2.5	5(a)	13	20	X
Indiana	3.4(f)	3.4	5	15	15.5	X
Iowa	6 to 12(F,h,q)	.5 to 13(F)(q)	4(a)	18(e)	34(b)	
Kansas	4.5(g)	2 to 9(F)	4(a)	11	24	X
Kentucky	3 to 7.25	2 to 6(F,r)	5(a)	15(i,l)	3.001	X
Louisiana	4 to 8(F)	2 to 6(F)	4(a)	16	16	
Maine	3.5 to 8.93(q)	1 to 10	5	14	28	X
Maryland	7	2 to 5	5	18.5	13	X
Massachusetts	8.33(j)	5(k)	5	11	26	X
Michigan	2.35	4.6	4	15	25	X
Minnesota	9.5(q)	6 to 8(o,q)	6(a)	17	38	X
Mississippi	3 to 5	3 to 5	6	17(e)	18	X
Missouri	5(F)	1.5 to 6(F)	4.225(a,b)	11	13	X
Nebraska	4.75 to 6.65	2 to 5.9	4(a)	17.3(l)	27	
New Jersey	9(g)	2 to 3.5	6	8(e)	27	X
New Mexico	4.8 to 7.6	1.8 to 8.5	4.75(a)	14	15	X
New York	9(c)	3 to 8.375(b,s)	4(a)	8	21	
North Carolina	7	3 to 7	3(a)	15.8(l)	2	X
North Dakota	3 to 10.5(F)	2.67 to 12(F,m)	5.5(b)	17	27	X
Ohio	5.1 to 8.9(c)	.743 to 6.9	5(a)	14.7(l)	18	X
Oklahoma	5	.5 to 6(F,r)	4(a)	16	23	
Pennsylvania	8.5	2.1	6	12	18	X
Rhode Island	8(c)	22.96% of Federal income tax	6	15(i,l)	25	X
South Carolina	5.5(b)	3 to 7	5	15(e)	7	X
Tennessee	6	6(d)	5.5(a)	17	13	
Utah	5	2.75 to 7.75	5.094(a,b)	19	23	X
Vermont	5.5 to 8.25	25% of Federal income tax	4	13	17	X
Virginia	6	2 to 5.75	3.5(a)	17.5	2.5	X
West Virginia	9.75(b)	3 to 6.5(q)	5	10.5	17	
Wisconsin	7.9	4.9 to 6.93(q)	5(a)	20.9(l)	30	X
Florida	5.5(q)		6(a)	4	24	X
Nevada	These 5 states	These 7 states	5.75(a)	14.25(e)	20(b)	X
South Dakota	have no	have no	4(a)	18	23	
Texas	corporate income tax	individual income tax	6(a)	15	26	
Washington			6.5(a)	18	31	X
Wyoming			3(a)	8	8	X
Alaska	1 to 9.4(q)		These	8	16	X
Delaware	8.7	3.2 to 7.7(F,h)	5 states	16	14	
Montana	6.75(g,t)	2 to 11(F,n)	have no	20	16	X
New Hampshire	8	5(d)	general	14	17	X
Oregon	6.6	5 to 9(F,h)	sales tax	14(e)	27	X

(X) Indicates state levies a property tax.
(F) Allows Federal income tax as a deduction.

(a) Local taxes are additional.
(b) Future reduction scheduled under current law.
(c) Alternative methods of calculation may be required.
(d) In Connecticut, New Hampshire, and Tennessee, tax applies to income from intangibles only, at various rates according to type. In Connecticut, capital gains are taxed at 7%.
(e) Future increases scheduled under current law.
(f) A supplemental net income tax is imposed at 4.5%.
(g) Corporate surtax imposed: Kansas, 2.25%; Montana, 4%; New Jersey's rate is computed annually.
(h) Deductions limited.
(i) Tax imposed at percent of wholesale value.
(j) A 14% surtax is imposed on the sum of the income tax and a tax on net worth or tangible property not taxed locally.
(k) Tax of 10% on income derived from intangibles, and 5% on all other income.
(l) Tax rate is periodically adjusted administratively.
(m) Optional tax of 14% of taxpayer's adjusted Federal income tax liability.
(n) Additional 10% surtax is imposed for 1987.
(o) Plus 10% of Federal 15% rate and personal exemption phaseout for taxpayers above certain income levels.
(p) Additional 2.5% personal property replacement tax.
(q) Alternative minimum tax is imposed.
(r) Qualified taxpayers may elect to pay alternative taxes at varying rates.
(s) Separate tax is imposed on unearned income through 1988.
(t) 7% rate for corporations using water's edge apportionment.

Source: Compiled by Tax Foundation from data reported by Commerce Clearing House.

(BUDGET WATCH, *from page 3*)

to hold on to its force structure in the face of financial adversity. Fewer "buys" and a lower state of readiness come at a high price, however. Low rates of procurement drive up the cost per plane or tank; fewer flying hours and lower stocks of material leave the country unprepared if international conditions worsen.

The latest (fiscal 1989) budget deviates from the typical defense cutback. While it contains some stretchouts and savings, it adjusts to financial stringency by reducing force levels. Despite his strong support for defense, President Reagan's budget calls for deactivating several air wings, early retirement of ships, and a reduction in the number of military personnel. As a symbol of this retrenchment, the Navy has been compelled to surrender its objective of a 600-ship fleet.

Stabilizing the Defense Budget

There is widespread agreement that instability leads to inefficiency during both the up and down phases of the defense cycle. Surprisingly, the defense budget appears to be remarkably stable if the time frame is shifted from a single fiscal year to a generation or longer. Over an extended period, real defense rises about 1% a year, less than the growth rate of the economy or the federal budget.

To take advantage of this long-term stability, the Department has urged Congress to budget for defense on a multiyear basis. Thus far, Congress has shown no inclination to abandon annual appropriations, but it has taken a few modest steps to stabilize the defense budget.

In 1986, Congress directed the Pentagon to submit 2-year budgets. Congress has also authorized the Department to write multiyear procurement contracts for designated weapons, and to test an innovation known as "milestone budgeting" which provides for congressional review when predetermined stages in the development or the procurement process are reached. While these innovations help a bit, their application has been limited to only a small part of the defense budget.

Congress likes to keep the Pentagon on a short leash, and to exercise tight control through annual authorizations and appropriations. If it can't get relief from Congress, the Pentagon looks to the Bible for guidance. Remembering Joseph's dream of sevenfat years followed by sevenlean ones, the Department has adjusted to instability and carried on.

Tax Freedom Day Idea Was the Brainstorm Of a Florida Businessman

Dallas L. Hostetler, Executive Director of the Florida State Retailers Association, devised the idea of Tax Freedom Day in 1948. He was the first to come up with a way to indicate how long Americans had to work for the tax collector before they could begin to work for themselves.

The idea caught on. In 1950, the U.S. House of Representatives and the Senate passed concurrent resolutions resolving that, "Tax Freedom Holiday [as it was then known] be symbolized as a day of relief throughout the land, with such demonstrations as may seem appropriate, including prayer for deliverance." The Freedoms Foundation gave Hostetler its George Washington Honor Medal Award in 1950.

Hostetler retired in 1974, at the age of 72, and assigned the Tax Freedom Day concept to the Tax Foundation. The Foundation's economists were delighted to accept the offer, and to receive transmittal of the idea which Hostetler had registered with the U.S. Copyright Office in 1953.

It has turned out to be one of the most widely known information releases produced by the Foundation.

Toward better government Founded 1937
TAX FOUNDATION
One Thomas Circle, N.W., Suite 500, Washington, D.C. 20005