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Nassau-Suffolk, N.Y. Tops in Property Tax

PER CAPITA LOCAL PROPERTY TAXES IN RELATION TO TOTAL LOCAL REVENUES
All Local Governments in Selected Standard Metropolitan Statistical Areas[a]
Fiscal Year 1975-1976

Area[b]	Per capita property tax		Property tax as a percent of local revenue	
	Amount	Rank	Percent	Rank
Total, 74 major SMSA s	$310	–	34.8	–
Anaheim-Santa Ana-Garden Grove, California	366	8	41.8	7
Atlanta, Georgia	256	23	35.3	17
Baltimore, Maryland	196	33	21.4	39
Boston, Massachusetts	483	4	55.0	1
Buffalo, New York	307	18	28.7	30
Chicago, Illinois	319	16	42.3	6
Cincinnati, Ohio-Kentucky-Indiana	197	32	26.0	33
Cleveland, Ohio	286	19	36.5	16
Columbus, Ohio	193	34	32.0	25
Dallas-Fort Worth, Texas	247	25	38.7	11
Denver-Boulder, Colorado	284	22	33.5	21
Detroit, Michigan	352	9	39.6	9
Houston, Texas	286	19	45.7	4
Indianapolis, Indiana	253	24	38.2	13
Kansas City, Missouri-Kansas	241	27	34.7	18
Los Angeles-Long Beach, California	419	7	38.4	12
Louisville, Kentucky-Indiana	142	39	25.1	36
Memphis, Tennessee-Arkansas-Mississippi	174	36	28.3	31
Miami, Florida	245	26	28.8	29
Milwaukee, Wisconsin	331	13	33.9	19
Minneapolis-St. Paul, Minnesota-Wisconsin	316	17	33.1	23
Nassau-Suffolk, New York	609	1	50.3	3
Newark, New Jersey	493	2	53.8	2
New Orleans, Louisiana	93	40	14.7	40
New York, New York-New Jersey	438	5	25.5	34
Philadelphia, Pennsylvania-New Jersey	237	28	31.4	26
Phoenix, Arizona	218	30	29.2	28
Pittsburgh, Pennsylvania	199	31	33.2	22
Portland, Oregon-Washington	328	14	42.9	5
Riverside-San Bernardino-Ontario, California	352	9	33.8	20
Rochester, New York	328	14	32.7	24
Sacramento, California	333	12	31.0	27
St. Louis, Missouri-Illinois	228	29	37.3	15
San Antonio, Texas	148	38	27.3	32
San Diego, California	341	11	37.5	14
San Francisco-Oakland, California	493	2	39.8	8
San Jose, California	435	6	39.4	10
Seattle-Everett, Washington	193	34	24.9	37
Tampa-St. Petersburg, Florida	153	37	25.5	34
Washington, D.C.-Maryland-Virginia	285	21	23.4	38

[a] General revenues only; excludes revenues for insurance trust operations.
[b] These are the 40 most populous Standard Metropolitan Statistical Areas according to estimated population as of July 1, 1975 and contain approximately 10,000 local governments.
Source: Department of Commerce, Bureau of Census, and Tax Foundation computations.

Given the stir raised over property taxes in California this spring, the average American probably has concluded that communities in the Golden Gate State have the highest property taxes in the nation. A Tax Foundation review of data from the Department of Commerce indicates otherwise.

Analyzing Bureau of the Census data for all local governments in the 40 largest Standard Metropolitan Statistical Areas (SMSAs), Tax Foundation economists disclosed that the Nassau-Suffolk area in New York State had the highest per capita property taxes in the nation - $609 a year for fiscal 1975-1976, the last year for which figures are available. Second in the size of its property tax that year, with a figure of $493 per capita, was Newark, New Jersey. The SMSA comprising San Francisco-Oakland, California, tied with Newark for second place.

The remaining top ten SMSAs, according to the Tax Foundation were: Boston, Massachusetts ($483); New York, New York-New Jersey ($438); San Jose, California ($435); Los Angeles-Long Beach, California ($419); Anaheim-Santa Ana-Garden Grove, California ($366); Detroit, Michigan ($352); and tied for ninth place with Detroit, was the SMSA embraced by Riverside-San Bernadino-Ontario, California.

New Orleans, Louisiana, was the

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Inflation KO's 7.4% Pay Boost

Another "more is less" entry (see *Monthly Tax Features* for April and June-July 1978).

Tax Foundation economists looked at what would happen to a married couple (one wage earner, two children) who received a 7.4 percent increase in income from 1977 to 1978. This would peg their income rise to the currently projected rate of inflation, supposedly enabling the family to hold their own in 1978, right?

Wrong, if after-tax income in constant dollars — that is, real purchasing power — is what is measured, say Tax Foundation researchers.

After Federal income and social security taxes, the family's "money" income has grown by about 6 percent, not 7.4 percent. And the family has actually suffered a net loss when after-tax income is adjusted for inflation.

For instance, in the case of a family with an adjusted gross income in 1977 of $10,000, the 7.4 percent income hike raises the AGI to $10,740. Before-tax income has gone up $740. But the family's Federal income tax is $130 higher than last year's, and the social security tax is up by $65. Federal taxes thus eat up $195 of the "raise." And after-tax income has climbed only $545. Moreover, in constant 1977 dollars, the family's income has actually declined $111, according to Tax Foundation computations.

Things work out no better - even a little worse - for those with income at a $35,000 level (one earner, two children). Such a family would get a $2,590 boost in income if it received a 7.4 percent increase from 1977 to 1978 - before taxes, that is. But enter Federal taxes. The income tax bill will be $994 higher, and social security $106 more, for a combined tax increase of $1,100.

Federal taxes, which claimed 23 percent of this family's AGI last year, now claim 25 percent of the higher income - largely because the raise, which just matches projected inflation, also puts the family in a higher tax bracket. Thus, after-tax income measured in current dollars would climb only $1,490. And the family would suffer a net loss of $459 when inflation is taken into account—a percentage decline in real income of 1.7 percent, instead of the nominal 7.4 percent rise.

The computations take into account Federal taxes only; most families would experience a further reduction in after-tax income because their state income taxes would also rise, say Foundation's researchers.

Even when income seems to keep up with inflation, it really doesn't. Here too, under current Federal tax policy, less is more.

Of course, there's always the case of those who get no 7.4 percent upward adjustment. They fall even further behind, simply by staying right where they are.

The accompanying table gives complete figures for other selected income levels.

Effect of a 7.4 Percent Increase in Income at Selected Levels, 1977 to 1978
(Married couple, one earner, two children)

Adjusted gross income		Change, 1977 to 1978		
		Before-tax	After-tax income[b]	
1977	1978	income	Current dollars	1977 dollars
$10,000	$10,740	+$ 740	+$ 545	−$111
15,000	16,110	+ 1,110	+ 774	− 157
20,000	21,480	+ 1,480	+ 1,011	− 195
25,000	26,850	+ 1,850	+ 1,199	− 273
30,000	32,220	+ 2,220	+ 1,329	− 389
35,000	37,590	+ 2,590	+ 1,490	− 459

a. 7.4% is the currently projected rate of inflation in 1978.
b. Deductions are made for Federal income and social security taxes only; income tax based on IRS Tax Table B.
Source: Tax Foundation.

TIP No Solution, Ture Says

"Don't TIP the economy," advises Dr. Norman B. Ture in the current issue of the Tax Foundation's *Tax Review*. The Washington-based economist, who heads his own consulting firm and has served on several Presidential task forces, uses a unique Analysis of Tax Impacts model to analyze and measure the economic and tax revenue effects of changing the tax system along the lines advocated by Arthur Okun of the Brookings Institution and Henry Wallich of the Federal Reserve Board.

In evaluating tax-based income policy (TIP) proposals for the Tax Foundation, Ture focuses on the "carrot" approach recommended by Okun and the "stick" approach proposed by Wallich. The former would give income tax relief to employees and employers for keeping wage hikes at or below some designated percentage. The Wallich plan, on the other hand, would impose tax penalties—in the form of higher corporate income tax rates—on large employers who give their employees wage increases in excess of a given rate.

In his analysis of the proposals, Ture asks and answers two sets of questions: "The first," he says, "is whether there is any substantial evidence that basic fiscal and monetary constraints are ineffectual, too slow, or too costly means for curbing inflation. The second is whether either the carrot or stick approach would *per se* contribute significantly to moderating inflation and what costs each would impose."

Ture answers the first question by charging that fiscal and monetary constraints have not been tried and found wanting—they simply have not been tried. "If fiscal constraints were imposed during the past 12 years," Ture charges, "the evidence will have to be found elsewhere than in the financial records of the Federal government." He calls Washington's fiscal performance since 1965 "extraordinarily expansionary and inflationary," maintaining that "recent experience affords no basis for the assertion that fiscal constraints are ineffectual, too slow or too costly."

There is also little evidence, if any, of the use of monetary restraint to curb inflation during recent years, Ture says. Wallich and Okun may be right in maintaining that fiscal and/or monetary policy alone will not bring

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Weidenbaum Condemns Costly Regulations, Calls for Reforms

Editor's Note: Murray L. Weidenbaum, Director of the Center for the Study of American Business, testified earlier this year before the Joint Economic Committee of the U.S. Congress on the costs and cures of overregulation by the Federal government. These are the reforms Professor Weidenbaum proposed in his testimony.

"1. *A new way of looking at the effects of regulation is needed for public policymaking.* The pertinent question is not whether there are shortcomings in the private sector. . . . The serious question is whether, in view of the many goals of our society, government regulation in a particular instance is doing more good than harm. . . .

"2. *An economic impact statement should be required prior to issuing each new regulation.* . . . Government regulation should be carried to the point where the added costs equal the added benefits, and no further. Overregulation—which can be defined as regulation for which the costs exceed the benefits—should be avoided. The failure to take those costs into account has resulted in the problem of overregulation that faces the United States today.

"3. *The Federal budget process should focus more directly on regulatory activities.* . . . As a start, it would be helpful to include in the Special Analyses volume accompanying the Federal budget, a section on the costs of government regulation similar to the existing special analyses on other extrabudgetary activities, notably "Federal credit programs" and "tax expenditures." Such a special analysis would be an initial step toward incorporating regulatory costs into the Federal government's annual budgetary and program review mechanism.

"4. *All government regulatory activities should be subject to a sunset mechanism.* Each regulatory agency should be reviewed by the Congress periodically to determine whether it is worthwhile to continue it in light of changing circumstances. . . .

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Skimming All the Cream Is No Solution

Federal Individual Income Tax Generated at Each Tax Rate
Income Year 1975

Tax rate (percent)	Number of returns with any tax at rate[a] (thousands)	Tax base taxed at rate (millions)	Tax generated at rate (millions)
All rates	65,853	$592,139	$132,444
14	65,853	53,117	7,436
15	57,846	46,509	6,976
16	58,044	47,243	7,559
17	50,919	41,143	6,994
18	3,138	5,249	945
19	49,676	140,084	26,616
21	9,883	16,430	3,450
22	25,186	76,342	16,795
23	854	1,314	302
24	6,733	10,859	2,606
25	19,124	50,653	12,663
27	2,798	4,349	1,174
28	8,370	24,793	6,942
29	1,497	2,394	694
31	1,082	1,765	547
32	4,741	14,430	4,618
34	636	1,059	360
35	67	116	41
36	3,309	9,826	3,537
38	364	641	244
39	1,854	6,197	2,417
40	255	813	325
41	32	58	24
42	1,352	4,631	1,945
45	1,187	4,350	1,958
48	815	2,870	1,378
50	1,014	12,335	6,167
51	11	20	10
52	9	31	16
53	307	2,379	1,261
55	243	1,745	960
56	4	8	4
58	126	1,045	606
59	2	13	8
60	124	926	556
61	2	11	7
62	99	1,106	686
63	2	12	8
64	65	781	500
66	45	570	376
67	1	13	8
68	33	431	293
69	25	340	235
70	24	3,137	2,196

[a] Most returns have a tax base taxed at more than one rate. For example, a married couple's taxable income (adjusted gross income minus exemptions and deductions) of $3,000 is taxed as follows: first $1,000 is taxed at 14% (=140), second $1,000 at 15% (=150), and third $1,000 at 16% (=160); the total tax is $450.
Source: Basic data from Treasury Department, *Statistics of Income—Individual, 1975.* Computations by Tax Foundation.

What if?

What if a 100 percent marginal rate were imposed by the Federal government on all income now taxed at rates above 50 percent - i.e., if any income on which people now pay rates of 51 to 70 percent were completely confiscated?

How many would be affected? For 1975, latest figures available, Tax Foundation economists reckon that taxpayers above the 50 percent rate filed slightly over 1 million returns, less than 2 percent of the almost 66 million taxable returns filed.

Which taxpayers would be included? Marginal rates above 50 percent applied to taxpayers at and above the following levels of income: Single individuals, $40,200; married persons filing jointly, $55,200; married persons filing separately, $27,600; and heads of households, $40,200.

Examining Treasury Department statistics for the income year 1975, Tax Foundation researchers found that the income tax base (taxable income) in brackets above 50 percent totaled $12.6 billion that year. At existing marginal rates, which averaged 61.5 percent, the tax yield on this income was $7.7 billion. If the income had been taxed at 100 percent instead, the additional yield to the Treasury's coffers would have been $4.8 billion. (This increment is hypothetical, based on the assumption that taxpayers would not change their behavior with regard to investment practices.)

How far would an extra $4.8 billion go toward paying the Federal government's bills? Back in 1975, when Federal spending amounted to *only* $1.2 billion a day, the taxing of all incomes above the 50 percent rate at 100 percent would have provided enough revenue to run the government for less than four days.

With projected Federal spending in 1979 of $1.9 billion a day, the extra tax revenue would take care of only about 2½ days of spending.

The table accompanying this article gives the Federal individual income tax generated at each tax rate for income year 1975.

Property Taxes

(Continued from page 1)

SMSA enjoying the lowest per capita local property taxes ($93) for fiscal 1975-1976. Other "low" areas included Louisville, Kentucky-Indiana ($142); San Antonio, Texas ($148); Tampa-St. Petersburg, Florida ($153); Memphis, Tennessee - Arkansas - Mississippi ($174); Columbus, Ohio and Seattle-Everett, Washington (both $193); Baltimore, Maryland ($196); Cincinnati, Ohio-Kentucky-Indiana ($197); and Pittsburgh, Pennsylvania ($199).

Do areas which rely most heavily on property taxes for their general revenues have the highest property taxes? was one of the questions Tax Foundation economists asked. Study of these 40 areas showed that about half the inter-area variation in per capita property taxes was indeed associated with the extent to which the property tax is used. In the Boston area, for example, where property taxes provide 55 percent of local general revenues, the highest percentage for any of the areas studied, the per capita property tax ranks in fourth place overall. The Newark, New Jersey, area ranks second both in its degree of reliance on the property tax and in the per capita level of the tax. Similarly, the Nassau-Suffolk, New York, area, which derives just over 50 percent of its revenues from property taxes (and ranks in third place in this regard), stands at the top in per capita taxes.

At the other end of the scale, there is also evidence that per capita property tax levels are lower in areas which depend less on this tax to finance local government services. New Orleans, Louisiana, for example, gets less than 15 percent of its local revenues from the property tax, the lowest percentage of any of the 40 SMSAs studied; it also has the lowest per capita property tax. Other areas with relatively low standing in both utilization of the property tax and level of the tax include Baltimore, Cincinnati, Louisville, Memphis, San Antonio, Seattle and Tampa.

The average per capita property tax for the 74 major SMSAs reported by the Census Bureau was $310. This represented an average of 34.8 percent of all local revenues for these areas, which together contain 14,337 local government units. Federal and state grants-in-aid to the localities made up the largest single source of revenues—41.2 percent of the total, or $367 per capita. Other sources were nonproperty taxes (largely sales and income), 9.4 percent of the total and $84 per capita; and charges, fees, and other nontax revenues raised locally, 14.4 percent and $129 per capita.

The accompanying table gives data on per capita property taxes for all local governments in the 40 most populous SMSAs and the proportion of local general revenues derived from the property tax, together with rankings for each series.

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Weidenbaum Reforms

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"5. *Alternatives to regulation should be carefully considered.* Government has available various powers other than regulation. Through its taxing authority, government can provide strong signals to the market; for instance, pollution control taxation may indeed provide a more effective and less costly mechanism than the existing standards approach in achieving desired ecological objectives. . . .

"6. *The role and importance of individual decision making should not be ignored.* We all need to be cognizant of the fact that the massive extent of Federal intervention in the economy—high levels of taxation, expenditures, and regulation—makes it difficult for the private sector to perform its basic functions. In important ways, the major contribution of the Congress could be in the form of reducing those burdens rather than adding to them albeit with the best of intentions."

Professor Weidenbaum's complete testimony was published in the July 1978 issue of *Tax Review,* "Reducing the Hidden Cost of Big Government." Single copies are available free from Tax Foundation, 1875 Connecticut Ave., N.W., Washington, D.C. 20009.

TIP No Solution

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about cost-price stability, he concedes, but their case has not been proved.

Ture's essay for the Tax Foundation explores the possible beneficial effects of a tax-based incomes policy and finds them virtually non-existent. "Neither plan would be likely to have any material effect on curbing wage rate increases," he says, adding that they would be burdensome to administer, would penalize productive and efficient employees and employers and would reward those in low-productivity-gain industries. "Were there no other objections to the TIP proposals," he says, "the increase in administrative and compliance burdens they would impose would boggle the mind."

Okun and Wallich are "simplistic" in their assertion that decelerating the rate of wage increase will reduce inflation, Ture says, because both economists fail to recognize that "wage increases and price increases are results, not causes, of inflation."

"Neither the carrot nor the stick versions of the TIP offer the answer to the question of how to slow inflation," Ture says. In fact, he maintains that they will "result in a slightly larger Federal deficit than projected under present law."

Single copies of "Tax-Based Incomes Policy: Pain or Pleasure in Pursuit of Price-Level Stability" are available free from Tax Foundation, Inc., 1875 Connecticut Avenue, N.W., Washington, D.C. 20009.