

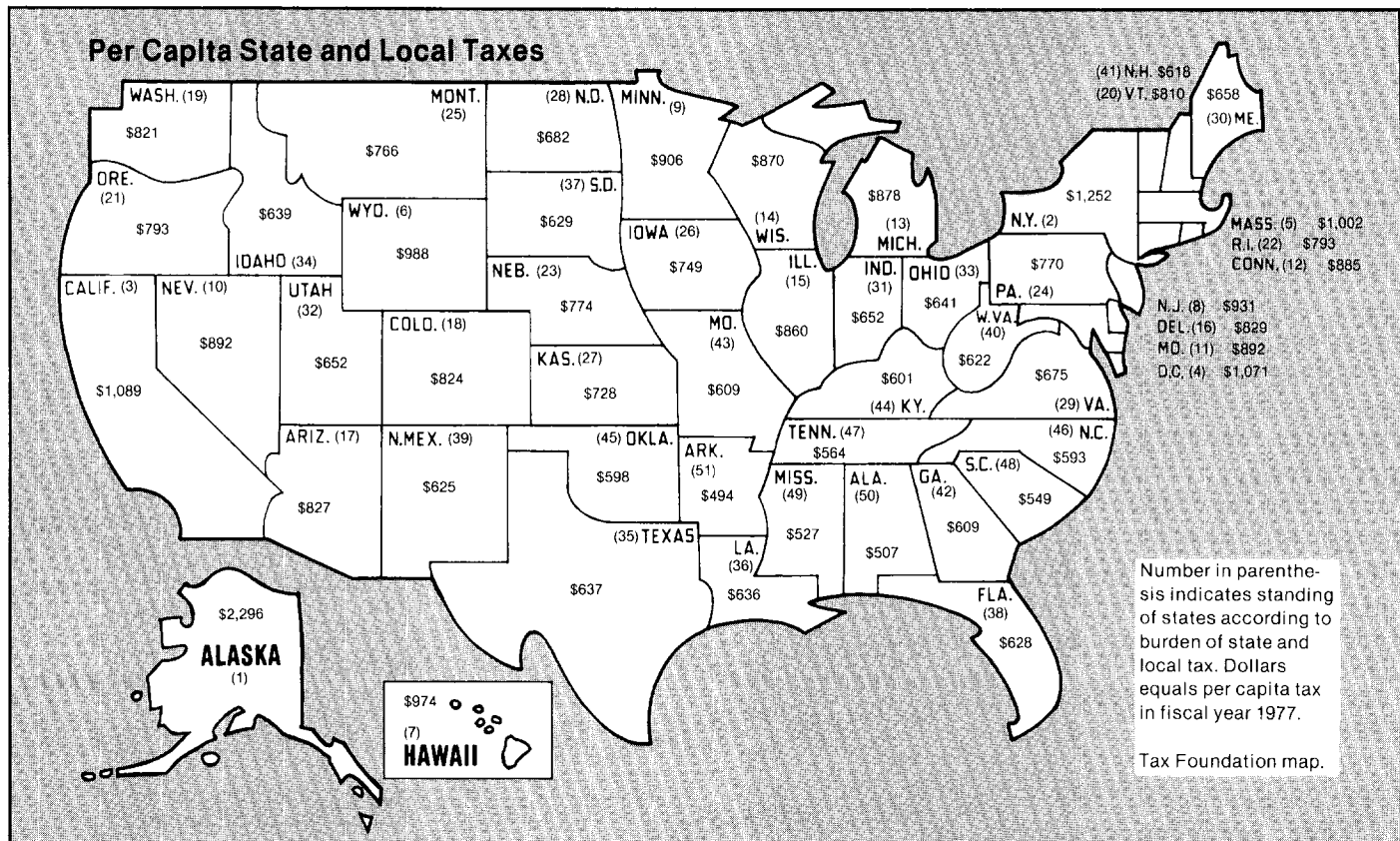
MONTHLY TAX FEATURES

Volume 23, Number 1, January 1979



Tax Foundation, Inc.

1875 Connecticut Ave., N.W. □ Washington, D. C. 20009 □ 202-328-4500 □



State and Local Taxes Exceed \$200 Billion; Per Capita Collections Doubled Over Decade

In fiscal 1978, tax payments to state and local governments passed the \$200 billion mark for the first time, after rising 10 percent over the previous year and 188 percent over the decade, according to Tax Foundation estimates. At \$202.6 billion in 1978, state-local taxes were \$18 billion higher than in 1977 and \$132 billion above their 1968 level.

While full data for 1978 are not yet available, Tax Foundation researchers offered several comparative measures of the growth in tax

burdens over the last decade for which figures are available, 1967 to 1977. During this period state-local taxes rose 188 percent, population 19 percent, consumer prices 82 percent and personal income 137 percent. (Federal tax growth in the decade, incidentally, was almost the same — 136 percent — as the rise in personal income.)

During the decade, state-local tax payments grew 33 percent faster than the combined increases in population and prices, and 22 percent faster than the growth in personal

income. Per capita taxes of \$813 in 1977 had risen 164 percent since 1967. And, while 1977 taxes amounted to \$128 per \$1,000 of personal income, Tax Foundation calls attention to the fact that from every \$1,000 of growth in personal income in the past decade, state and local taxes claimed \$145.

There were wide variations among states in both the levels of state-local taxes and their respective trends over the decade. Per capita taxes more than doubled in
(Continued on page 4)

Government Spending To Hit \$700 Billion For Calendar Year '78

Federal, state and local government spending was at a \$694 billion annual rate in the third quarter of 1978, and will no doubt exceed a \$700 billion annual rate in the fourth quarter, say Tax Foundation economists. Government spending in the second quarter amounted to 32.1 percent of the Gross National Product (GNP) of \$2,088 billion.

Since 1971, GNP has climbed at the rate of over \$100 billion a year. At the same time, the ratio of government expense has fluctuated from 32 percent in 1971 to a high of almost 35 percent in 1975. Government spending has shown a slightly decreasing trend since then to its present level of 32.1 percent.

In 1975, as the accompanying table shows, government expenditures at all levels were \$533 billion, and GNP totaled \$1,529 billion. In 1965, government spent \$188 billion, 27.3 percent of that year's GNP of \$688 billion. Ten years earlier, in 1955, government spent \$98 billion, or 24.5 percent of that year's GNP.

The Federal government spends over twice as much as states and localities. According to the Tax Foundation, in the latest period reported, Federal expenditures were at an annual rate of \$466 billion, while state-local expenditures totaled \$228 billion. In the last full calendar year reported, 1977, Federal spending was equal to 22.4 percent of GNP. Recognizing high government spending as a factor in inflation, the President has recently announced that the Administration plans to reduce Federal spending to 21 percent of GNP by 1980, instead of 1981 as earlier envisaged.

The accompanying table provides data on trends in government spending in relation to GNP from 1960 to date.

Government Expenditures and Gross National Product

Calendar Years 1960-1978

(Dollar Amounts in Billions)

Year	Gross national product	Government expenditures ^a					
		Amount ^b			As a percentage of gross national product		
		Total	Federal	State and local	Total	Federal	State and local
1960	\$506.0	\$136.4	\$ 93.1	\$ 43.3	27.0	18.4	8.6
1961	523.3	149.1	101.9	47.2	28.5	19.5	9.0
1962	563.8	160.5	110.4	50.1	28.5	19.6	8.9
1963	594.7	167.8	114.2	53.6	28.2	19.2	9.0
1964	635.7	176.3	118.2	58.1	27.7	18.6	9.1
1965	688.1	187.8	123.8	64.0	27.3	18.0	9.3
1966	753.0	213.6	143.6	70.0	28.4	19.1	9.3
1967	796.3	242.4	163.7	78.7	30.4	20.6	9.9
1968	868.5	268.9	180.6	88.3	31.0	20.8	10.2
1969	935.5	285.6	188.4	97.2	30.5	20.1	10.4
1970	982.4	311.9	204.2	107.7	31.7	20.8	11.0
1971	1,063.4	340.5	220.6	119.9	32.0	20.7	11.3
1972	1,171.1	370.9	244.7	126.2	31.7	20.9	10.8
1973	1,306.6	404.9	265.0	139.9	31.0	20.3	10.7
1974	1,412.9	458.2	299.3	158.9	32.4	21.2	11.2
1975	1,528.8	532.8	356.8	176.0	34.8	23.3	11.5
1976	1,700.1	570.4	385.2	185.2	33.6	22.7	10.9
1977	1,887.2	621.8	422.6	199.2	33.0	22.4	10.6
1978 I ^c	1,992.0	659.1	448.8	210.3	33.1	22.5	10.6
1978 II ^c	2,087.5	670.1	448.3	221.8	32.1	21.5	10.6
1978 III ^c	2,141.1	693.9	466.1	227.8	32.4	21.8	10.6

^aExpenditures on income and product accounts. They are on an accrual basis, include trust account transactions with the public, and exclude capital transactions that do not represent current production.

^bFederal data include expenditures for grants-in-aid to state and local governments. These amounts have been excluded from state and local expenditures to avoid duplication.

^cSeasonally adjusted at annual rates.

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

State Taxes Show Downturn; 1978 Sales and Income Taxes Most Commonly Reduced

For the first time in four years, 1978 state legislation on major taxes resulted in more reductions than increases, according to Tax Foundation researchers. Taxpayers in 21 states will pay about \$2.5 billion less each year, mostly through reductions in state sales and income taxes. Eight states, however, increased taxes by about \$200 million, mainly through boosts in the levies on motor fuels.

The net result of these actions reduces state-level taxes an estimated \$2.3 billion annually below what they would have reached under previous laws, say Foundation economists. By contrast, statutory increases were enacted in the three previous years: \$476 million in 1977,

\$975 million in 1976, and \$1.6 billion in 1975.

These reductions in state taxes are in addition to the \$7 billion cut in California's local property taxes resulting from the Proposition 13 initiative and to widespread, though for the most part undetermined, amounts of reductions in property tax burdens through legislative action in several other states. Some additional tax or expenditure restraints were approved by voters in 13 states in November. Other limitation proposals were rejected, with voters choosing instead to limit the growth of taxes or expenditures rather than reduce taxes directly.

Copies of "State Tax Action in 1978" are available free of charge from the Foundation.

No End Is in Sight for Boosts In Taxes for Social Security

While the 1978 social security tax hikes may have seemed high for some workers, 1979's bite will be even steeper, and there is no end in sight for further increases, say Tax Foundation economists.

In 1978, because of increases in both the rate and the taxable wage base, the maximum tax per employee rose by 11 percent, from \$965 in 1977 to \$1,071. Employers paid the same amount. The maximum applied to earnings of \$16,500 in 1977 and \$17,700 in 1978.

In 1979, the maximum tax per employee will rise by 31 percent to \$1,404 for those earning \$22,900 or more. This will come about through increases in both the taxable wage base and a hike in the rate from 6.05 to 6.13 percent.

By 1981, the maximum taxable base will rise to \$29,700 due to legislation already enacted. For those workers earning the maximum taxable base, a withholding of \$1,975, or 6.65 percent of their wages, will be made for social security taxes. When the employers' tax is added, the total per employee will come to \$3,950.

After 1981, the base will be increased each year in line with wage levels whenever there has been a cost-of-living benefit rise in the preceding year. Current projections indicate that the maximum taxable base under present law will rise to \$42,600 by 1987, the tax rate to 7.15 and the maximum tax paid by employee and employer each will be \$3,046, for a total of \$6,092 on

behalf of each worker earning the maximum taxable income.

Increases in social security taxes above the levels previously in effect were enacted by Congress in 1977 in order to shore up the financing of the social security system. The 1977 law had the effect of raising social security tax payments by \$6.4 billion in 1979, rising to \$23.9 billion in 1983 and more in later years. Currently, total social security taxes are estimated at \$102.1 billion in fiscal 1978 and \$117.6 billion in 1979.

The table accompanying this article gives figures on the maximum taxable base, tax rate and maximum tax since 1955 for employers, employees and the self-employed.

Guide for Cutting Taxes, Spending Published by NTC

The National Taxpayers Conference has just released a comprehensive guide to tax/spending limitation at the state and local level.

The "Statement on Limitation of Taxes and Expenditures" was prepared by a special Task Force of the National Taxpayers Conference, which is an alliance of state taxpayer executives to facilitate the exchange of information and coordination of problems of common concern.

(Continued on page 4)

Old-age, Survivors, Disability, and Hospital Insurance: Tax Rates and Maximum Tax ^a

Year	Maximum taxable base	Tax rate (percent)			Maximum tax (dollars)		
		Combined employer-employee	Employer or employee alone	Self-employed	Combined employer-employee	Employer or employee alone	Self-employed
1955-1956	\$ 4,200	4.0	2.0	3.0	\$ 168	\$ 84	\$ 126
1957-1958	4,200	4.5	2.25	3.375	189	95	142
1959	4,800	5.0	2.5	3.75	240	120	180
1960-1961	4,800	6.0	3.0	4.5	288	144	216
1962	4,800	6.25	3.125	4.7	300	150	226
1963-1965	4,800	7.25	3.625	5.4	348	174	259
1966	6,600	8.4	4.2	6.15	554	277	406
1967	6,600	8.8	4.4	6.4	580	290	422
1968	7,800	8.8	4.4	6.4	686	343	499
1969-1970	7,800	9.6	4.8	6.9	748	374	538
1971	7,800	10.4	5.2	7.5	811	406	585
1972	9,000	10.4	5.2	7.5	936	468	675
1973	10,800	11.7	5.85	8.0	1,264	632	864
1974	13,200	11.7	5.85	7.9	1,544	772	1,043
1975	14,100	11.7	5.85	7.9	1,650	825	1,114
1976	15,300	11.7	5.85	7.9	1,790	895	1,209
1977	16,500	11.7	5.85	7.9	1,930	965	1,304
1978	17,700	12.1	6.05	8.1	2,142	1,071	1,434
1979	22,900	12.3	6.13	8.1	2,817	1,404	1,855
1980	25,900	12.3	6.13	8.1	3,186	1,588	2,098
1981	29,700	13.3	6.65	9.3	3,950	1,975	2,762
1982 ^b	31,800	13.4	6.70	9.35	4,262	2,131	2,973
1983 ^b	33,900	13.4	6.70	9.35	4,542	2,271	3,170
1984 ^b	36,000	13.4	6.70	9.35	4,824	2,412	3,366
1985 ^b	38,100	14.1	7.05	9.90	5,372	2,686	3,772
1986 ^b	40,200	14.3	7.15	10.0	5,748	2,874	4,020
1987 ^b	42,600	14.3	7.15	10.0	6,092	3,046	4,260

^a Disability insurance not included until 1956; hospital insurance not until 1966.

^b After 1981, the base will be increased annually in line with wage levels whenever there has been a cost-of-living benefit rise in the preceding year.

Source: Department of Health, Education, and Welfare, Social Security Administration.

About Tax Features

Tax Foundation, Inc., is a publicly supported, non-profit organization engaged in non-partisan research and public education on the fiscal and management aspects of government. Members of Tax Foundation are urged to pass their copies of *Tax Features* along to editors of their house publications.

Original material in *Monthly Tax Features* is not copyrighted and may be reproduced freely by the news media and others. Please credit Tax Foundation.

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

State-Local Taxes

(Continued from page 1)

every state, but increases ranged from a low of 108 percent in South Dakota to a high of 627 percent in Alaska. The District of Columbia's 215 percent jump in per capita taxes from 1967 to 1977 ranked second to that of Alaska; New Jersey, with a rise of 191 percent, fell in third place. In the ten states with highest rates of growth, the increase exceeded 175 percent. In the ten states with slowest growth in per capita taxes, the rise fell below 135 percent.

In levels of per capita taxes, Alaska (\$2,296) headed the list of states in 1977, followed by New York (\$1,252), California (\$1,089), District of Columbia (\$1,071) and Massachusetts (\$1,002). Lowest were Arkansas (\$494), Alabama (\$507), Mississippi (\$527), South Carolina (\$549) and Tennessee (\$564).

When taxes for the individual states are measured against personal income, interstate differences are striking, according to Tax Foundation economists. While, on average, state-local taxes rose by 22 percent more than personal income,

Tax Cut Guide

(Continued from page 3)

"Tax expenditure limitation should not be seen simply as a negative reaction by the tax-paying public," the statement says. "It could launch a new era of quality and performance in the public service."

The various sections of the statement summarize reasonable alternative approaches which may be used in designing proposals for limiting state/local taxes and expenditures. The publication seeks to describe the "best practices" currently available, and a special Appendix offers several forms of suggested language for use in drafting expenditure limitation proposals.

Tax Foundation has a limited number of copies of the statement which are available, free of charge, on a first-come, first-serve basis.

the rise in Alaska was 146 percent more than income, and Washington, D.C.'s tax increase was 51 percent above income growth. Other states with increases of 33 percent or more were: Illinois, Nebraska, Massachusetts, Michigan, New Jersey and New York.

On the other hand, taxes in Idaho and South Dakota rose less rapidly than personal income. Florida's tax

growth matched personal income growth exactly; in eight other states the rise in state-local taxes exceeded personal income growth by 5 percent or less.

In 1977, the range of taxes per \$1,000 of personal income was from \$100 in Alabama to \$234 in Alaska. Complete figures and state ranks are given in the accompanying table and map.

State-Local Taxes By State^a
Per Capita and Per \$1,000 of Personal Income
Fiscal Years 1967 and 1977

State	Per capita taxes				Taxes per \$1,000 of personal income			
	Amount		Percent increase	Rank 1977	Amount		Percent increase	Rank 1977
	1967	1977			1967	1977		
U.S. AVERAGE	\$308	\$ 813	164	—	\$105	\$128	22	—
Alabama	191	507	165	50	93	100	8	51
Alaska	316	2,296	627	1	95	234	146	1
Arizona	321	827	158	17	128	144	12	8
Arkansas	199	494	148	51	100	102	2	49
California	406	1,089	168	3	120	155	29	3
Colorado	343	824	140	18	119	130	9	14
Connecticut	336	885	163	12	93	120	29	27
Delaware	340	829	144	16	98	118	20	32
Florida	271	628	132	38	105	105	0	47
Georgia	227	609	168	42	97	112	15	38
Hawaii	407	974	139	7	135	141	4	10
Idaho	293	639	118	34	120	117	-2	34
Illinois	298	860	189	15	85	117	38	33
Indiana	294	652	122	31	97	105	8	46
Iowa	334	749	124	26	111	120	8	25
Kansas	315	728	131	27	110	113	3	36
Kentucky	211	601	185	44	94	113	20	37
Louisiana	262	636	143	36	116	120	3	26
Maine	260	658	153	30	105	124	18	22
Maryland	318	892	180	11	101	129	28	15
Massachusetts	370	1,002	171	5	113	151	34	6
Michigan	316	878	178	13	98	130	33	13
Minnesota	351	906	158	9	121	147	21	7
Mississippi	196	527	169	49	111	118	6	31
Missouri	260	609	134	43	93	103	11	48
Montana	304	766	152	25	116	136	17	11
Nebraska	271	774	186	23	93	128	38	18
Nevada	374	892	138	10	110	129	17	16
New Hampshire	258	618	140	41	93	106	14	44
New Jersey	320	931	191	8	94	126	34	20
New Mexico	271	625	131	39	114	120	5	28
New York	459	1,252	173	2	132	177	34	2
North Carolina	225	593	164	46	100	110	10	39
North Dakota	279	682	144	28	116	118	2	30
Ohio	250	641	156	33	82	100	22	50
Oklahoma	252	598	137	45	103	107	4	43
Oregon	316	793	151	21	110	129	17	17
Pennsylvania	279	770	176	24	94	119	27	29
Rhode Island	297	793	167	22	98	126	29	19
South Carolina	197	549	179	48	96	108	12	41
South Dakota	303	629	108	37	124	123	-1	23
Tennessee	211	564	167	47	95	107	13	42
Texas	227	637	181	35	90	106	18	45
Utah	293	652	123	32	120	126	5	21
Vermont	321	810	152	20	126	152	21	5
Virginia	236	675	186	29	92	109	18	40
Washington	359	821	129	19	113	122	8	24
West Virginia	223	622	179	40	102	116	14	35
Wisconsin	362	870	140	14	122	144	18	9
Wyoming	350	988	182	6	126	155	23	4
District of Columbia	340	1,071	215	4	86	130	51	12

^a Excludes unemployment compensation taxes.

Source: Bureau of the Census, U.S. Department of Commerce, and Tax Foundation computations.