TAX FOUNDATION
Since 1937

TAX FEATURES

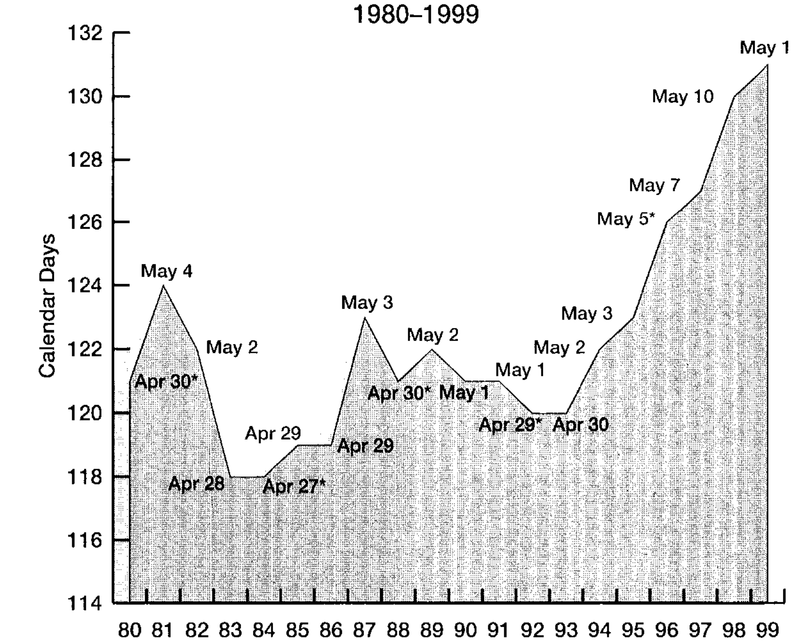
www.taxfoundation.org *April 1999 Volume 43, Number 4*

Tax Freedom Day® 1999 Hits May 11, Latest Ever

Government Coffers Overflow with Surplus Tax Collections

How much does America pay to support its government? With its annual calculation of Tax Freedom Day®, the Tax Foundation answers that question every April 15th in a way that everyone can understand.

Figure 1: Tax Freedom Day
1980–1999



Source: Tax Foundation

We do so by looking at the calendar and asking, "What if the government had started withholding every penny of Americans' collective paychecks on January 1, 1999? How long would it have to keep all our earnings until it had collected enough to pay all federal, state and local taxes?"

This year, the Tax Foundation estimates that on average U.S. citizens will be free to start keeping their money on May 11. That makes Tax Freedom Day 1999 the latest on record—a day later than last year, and 11 days later than its low point this decade in 1993 when Tax Freedom Day was April 30.

Economists Patrick Fleenor and Scott Moody observe in their 1999 report (see Publication Summary on page 2) that while the country's tax burden remained relatively constant during the early 1990s, a rapid increase in the overall level of taxation has occurred in recent years (see Figure 1 at left.)

The Tax Foundation attributes the steady rise in Tax Freedom Day to several factors, including the 1990 and 1993 tax increases, continued economic expansion, and the progressive nature of the current tax system — which, as national income rises, causes the tax burden to rise more than proportionally.

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Tax Freedom Day *from page 1*

Tax Freedom Day by Type of Tax

Americans face a plethora of different taxes in their day-to-day lives. Figure 2 presents a breakdown of the nation's tax bill for 1999 by type of tax.

Individual income taxes are the largest component of Americans' tax bills, and in 1999, Americans on average will have to work 49 days to pay them. It will take 37 days to earn enough for payroll taxes, which fund social insurance programs such as Social Security and Medicare.

The prices of nearly all goods and services are raised by sales and excise taxes, and on average, Americans will work 17 days to pay these types of taxes. Another 11 days will be spent working to pay property taxes, which are primarily levied by state and local governments. Americans will then have to work an additional 12 days to pay their share of corporate income taxes. While largely unnoticed, corporate income taxes are ultimately paid by consumers, employees, and shareholders. Finally, Americans will spend another five days working to pay other business and miscellaneous taxes.

Tax Freedom Day Methodology

Tax Freedom Day is a concept used by the Tax Foundation to illustrate the share of Americans' annual income that goes to pay federal, state, and local taxes. (See history of the concept on page 3.) For illustrative purposes it assumes that income is earned evenly throughout the year and that individuals initially devote all of their earnings to paying their taxes. The day that Americans on average are "free" to spend their income on other goods and services is Tax Freedom Day.

Determining the national Tax Freedom Day involves projecting an overall average tax rate for the nation, which Foundation economists do by consulting data from the federal government's National Income and Product Accounts (NIPA) published by the Department of Commerce's Bureau of Economic Analysis.

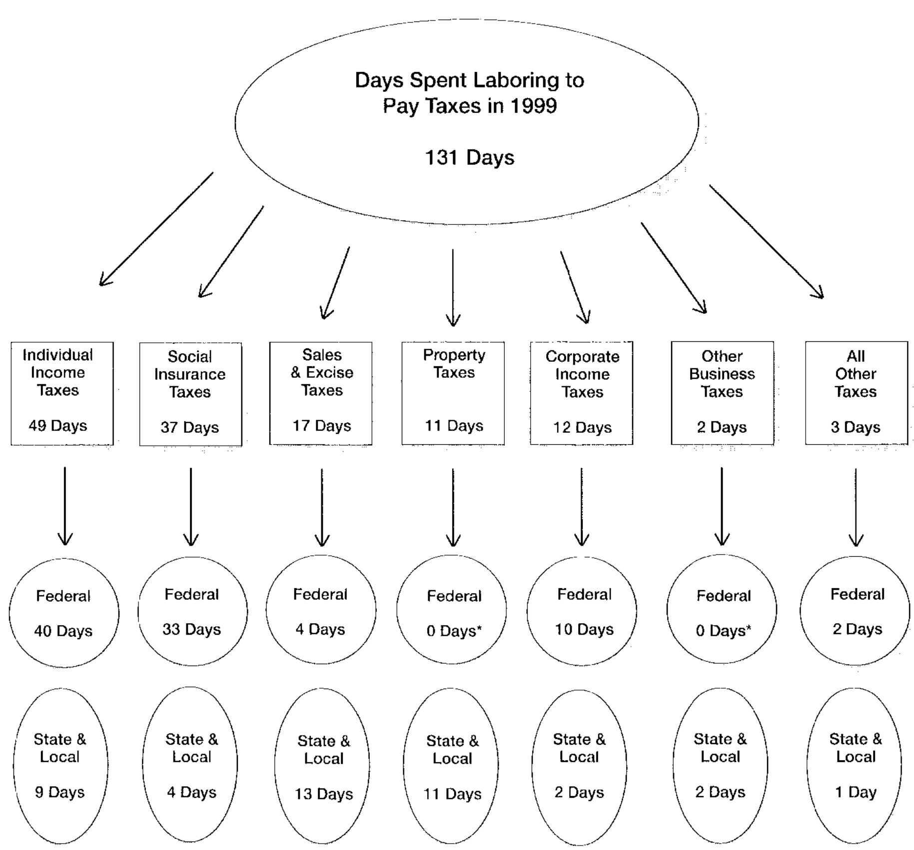
Dividing the nation's per capita tax burden ($10,298) by per capita income ($28,878), the nation's average tax rate for the year is determined—35.7 percent in 1999. That percentage is then applied to a calendar year to provide a graphic illustration of the national tax burden. Thus, 35.7 percent of 365 days is 131 days—which means that the 131st day of the year, May 11, is Tax Freedom Day.

Complying with the Tax Code

While the Tax Foundation includes every federal, state, and local levy that NIPA defines as a "tax," it does not include the cost of complying with the tax system. If the cost of complying with just the federal code were included, Fleenor and Moody estimate that Tax Freedom Day would be pushed back another 12 days.

Figure 2: Average Number of Days Worked to Pay Taxes by Type of Tax and Level of Government

1999



Source: Tax Foundation

Publication Summary

General: Special Report No. 87; ISSN 1068-0306; 8pp.; $10 or $50/yr. for 10 Special Reports on varied fiscal issues

Title: Tax Freedom Day to Arrive May 11 in 1999

Authors: Patrick Fleenor & J. Scott Moody

Date: April 1999

Subject: Calculation of the total effective tax rate for the United States, and for each of the 50 states plus the District of Columbia

Tables: Tax Freedom Day & Total Effective Tax Rate, Selected Years 1902–1999; Tax Freedom Day by State, Selected Years 1970–1999; Taxes Per Capita and as a Percentage of Income, 1999; Average Number of Days For State Residents to Earn Enough Income to Pay Tax Bill, 1999; Tax Bite in the Eight-Hour Day, Selected Years 1902–1999; Tax Bite in the Eight-Hour Day by State, 1999

Tax Concepts that Made a Difference

"Tax Freedom Day" and "Tax Bite in the Eight Hour Day" Help Americans Understand Level of Taxation

Since 1937, the Tax Foundation has relied on a variety of analyses and symbols to help Americans better understand the role taxes play and the changing level of taxation in society — all with varying levels of success.

One of the first such efforts revolved around the story of "Henry Suburban" (seen at right), introduced in 1948 and featured every few years for a quarter-of-a century. Henry's role was to demonstrate the many ways that ordinary Americans encounter direct and hidden taxes on a daily basis.

Yet no Tax Foundation creation has had a greater long-term impact on public perceptions than that of "Tax Freedom Day" and the "Tax Bite in the Eight-Hour Day."

The Tax Bite was first introduced in 1954 (see box below), to provide a way for Americans to better visualize that portion of the budget dedicated to taxes. The Foundation has updated the Tax Bite in the Eight-Hour Day annually since then. (In recent years the Tax Bite analysis has been included within the annual Tax Freedom Day study.)

Monthly Tax Features, Vol. 1, Number 1
August 1954

THE TAX BITE IN THE 8-HOUR DAY

Are you shocked by the fact that all government—Federal, state and local—will collect about $90 billion in taxes this year? Probably not, because that figure is just too big for most of use even to understand.

How about this one: would you be shocked to discover that you work much longer to pay taxes than you do to buy food; that you work nearly twice as long for taxes as you do for your housing costs, and four times as long for taxes as for your clothing or your transportation?

Putting the tax burden on a daily work basis for the first time, the Tax Foundation (a private research organization) has discovered that it takes a $4,500-a-year man 2 hours and 35 minutes of his eight-hour work day to earn enough to pay for taxes. The taxes included are both direct and indirect, not forgetting the taxes hidden in the cost of many things we buy.

In contrast to this heavy tax burden, the same man works only 1 hour and 37 minutes to pay for food for his family. He works 1 hour and 24 minutes of each day for housing costs, 36 minutes for clothing, and 42 minutes for transportation.

Here is how his eight-hour work day is divided:

To earn money for	Needed Time
Taxes	2 hr. 35 min.
Food	1 hr. 37 min.
Clothing	2 hr. 24 min.
Transportation	36 min.
Medical and personal care	23 min.
Reading and recreation	20 min.
Other goods and services	23 min.
TOTAL	8 hr.

If you wonder where thee recent Federal tax reductions fit into the picture, here is the answer: last year this man worked 2 hours and 40 minutes to pay for his taxes. On that basis we might guess that he saves about two minutes of the time spent working for taxes whenever the government knocks a billion off its tax take.

Tax Freedom Day's Originator

The concept of Tax Freedom Day actually precedes the Tax Bite by six years: Its origin can be traced to Florida businessman Dallas Hostetler, who devised the idea in 1948 and registered it with the U.S. Copyright Office in 1953. When he retired in the early 1970s, he assigned the concept to the Tax Foundation, which started publicizing the date in 1972 (see article below).

Monthly Tax Features, Vol. 16, Number 4
April 1972

Taxes Take More Bread Than Food, Clothing and Shelter

Tax Freedom Day, something less than a national holiday, will come earlier this year, on April 27, says Tax Foundation.

By that date the average American will have earned enough to pay his Federal, state and local tax bills for 1972.

On a daily basis, the Foundation calculates the average taxpayer this year is putting in 2 hours and 34 minutes of his eight hour day to pay for government, about three minutes longer than he works to pay for food, clothing and shelter combined.

On a weekly basis the bite on the average American through withholding taxes, sales taxes and hidden taxes in the price of most things he buys, as well as his weekly share of property and other taxes, takes 12 hours and 30 minutes worth of his 40-hour pay.

For the man who likes to get the heavy job out of the way fast, he can, suggests Tax Foundation, work straight through until April 27. By the end of the first 117 calendar days of the year, his pay will cover his 1972 tax bill.

FRONT & CENTER

To Be Fair and Effective, Tax Cuts Must Be Broad-Based

U.S. Senator Spencer Abraham (R-MI)

Republicans in Congress have agreed to use 62 percent of our projected $2.6 trillion budget surplus to shore up Social Security. The Clinton Administration wants to spend the rest. But the American people agree with Republicans that it should be used to reduce the tax burden. At a recent town meeting in Macomb County, I asked almost 500 Michiganians whether middle class Americans should have a tax cut. Almost all of them raised their hands.

American middle class families need a tax cut. They are now taxed at a higher rate than at any time since World War II. Not even at the height of the Vietnam War have the American people seen such a large part of their pay taken away from them in the form of taxes.

Since the current Administration came into office in 1993, federal taxes have gone up by over 54 percent, or over $600 billion. The typical family now pays more in total taxes than it spends on food, clothing and shelter combined—spending more than 38 percent on taxes and only 28 percent on food, clothing and housing.

Tax cuts should affect as many people as possible so that their benefits may be felt throughout our nation and economy. Tax cuts should not tell people how to spend their own money, and they should not complicate the tax code, which is already 5.6 million words long.

Washington currently takes 21 percent of the national income in taxes. That's $6,810 for every man, woman and child in this country. The real question, then, is not whether tax cuts are needed, but what kind.

Some people propose tax cuts that reward people for doing certain, highly specific things with their money. For example, while raising overall taxes and fees $162 billion, the Clinton Administration also wants to provide a 15 percent credit for rooftop solar water heating systems, but only if used for purposes other than heating swimming pools. And the Administration would give tax credits to companies teaching English to their immigrant workers. These may be laudable actions, but don't all Americans deserve a break?

Some people even try to paint the Clinton Administration's "USA Accounts" as a tax cut. The Administration would subsidize Americans who invest in specific savings accounts. People should save for their future, but giving money to people who make particular savings choices is not a tax cut.

What, then are the proper principles for cutting taxes? I believe tax cuts should be broad-based. What does that mean? First, they should affect as many people as possible so that their benefits may be felt throughout our nation and economy. Second, tax cuts should not tell people how to spend their own money. Third, they should not complicate the tax code, which is already 5.6 million words long. Finally, they should eliminate disincentives already in the code.

I have advocated an across-the-board cut in income tax rates because it is the most broad-based tax cut available. Every taxpayer would see the same percentage rate cut, with no additional rules or regulations. Families could save, spend or invest the money as they see fit. Along these same lines, I would expand the lowest, 15 percent tax bracket. Currently, a married couple with taxable income just over $43,000 per year is forced into the 28 percent tax bracket. More middle-class people should remain in the 15 percent bracket, allowing them to keep more of what they earn.

In addition, I believe Washington

must cut taxes in ways that directly remove disincentives from the tax code. For example, the marriage penalty, which taxes couples at a higher rate if they are married than if they are not, is unfair and should be eliminated. We also should repeal the Clinton Administration's hike in the tax on Social Security benefits. This hike discourages seniors from preparing for security in old age.

Likewise, the estate tax discourages Americans from working and investing to pass on savings or the family business to their children and should be reformed. Our tax code's double taxation of interest and dividends also discourages saving. Roth IRAs and other tax exemptions for interest and dividends should be expanded.

Some people, particularly in the Clinton Administration, have complained that broad-based tax cuts disproportionately benefit the rich. This is not true. Presidents Kennedy and Reagan cut taxes across the board during the 1960s and 1980s. In both instances lower rates lessened the incentive to hide income and produced an increase in the proportion of taxes paid by the rich. After the Kennedy tax cuts, the share of income tax paid by those making over $100,000 per year climbed from 5.1 percent to 7.6 percent between 1963 and 1965. After the Reagan cuts, the share of income taxes paid by the top 10 percent of earners increased from 48 percent in 1981 to 57.2 percent in 1988.

Clinton Administration complaints that broad-based tax cuts disproportionately benefit the rich are not true. Presidents Kennedy and Reagan cut taxes across the board during the 1960s and 1980s, lessening the incentive to hide income and producing an increase in the proportion of taxes paid by the rich.

Broad-based tax cuts are good for all Americans. For example, the 10 percent across-the-board income tax rate cut would allow a single person earning $35,000 per year to save $455 per year. A married two earner couple earning $60,000 per year would save $780. A small business owner with typical earnings of $42,000 would save $651.

And this broad-based tax cut would be a much-needed economic insurance policy against a future economic slowdown. According to Dr. Lawrence Lindsey, a former governor of the Federal Reserve, "a 10 percent across-the-board income tax cut would put about $70 billion in the hands of consumers, maintaining both consumption growth and personal savings."

For people concerned about the national debt, I will propose adding a box to federal tax forms, similar to the Presidential election campaign box, which taxpayers can check if they prefer to use their tax cut to reduce the debt. They also could keep the tax cut for their families. Both options are important enough that I believe Americans should make the choice.

The Tax Foundation invites a national leader to provide a "Front and Center" column each month in Tax Features. *The views expressed are not necessarily those of the Tax Foundation.*

State Tax Freedom Days Differ Widely, Reflecting Local Economies and Tax Systems

Alabama To Celebrate First on April 30; Connecticut's May 22 is Last

The tax burden borne by different states varies considerably, not only because residents of different states face different state and local taxes, but also because they pay dissimilar federal taxes. The map below shows how many days, on average, each state's residents must work until they have earned enough to pay their federal, state and local tax bills.

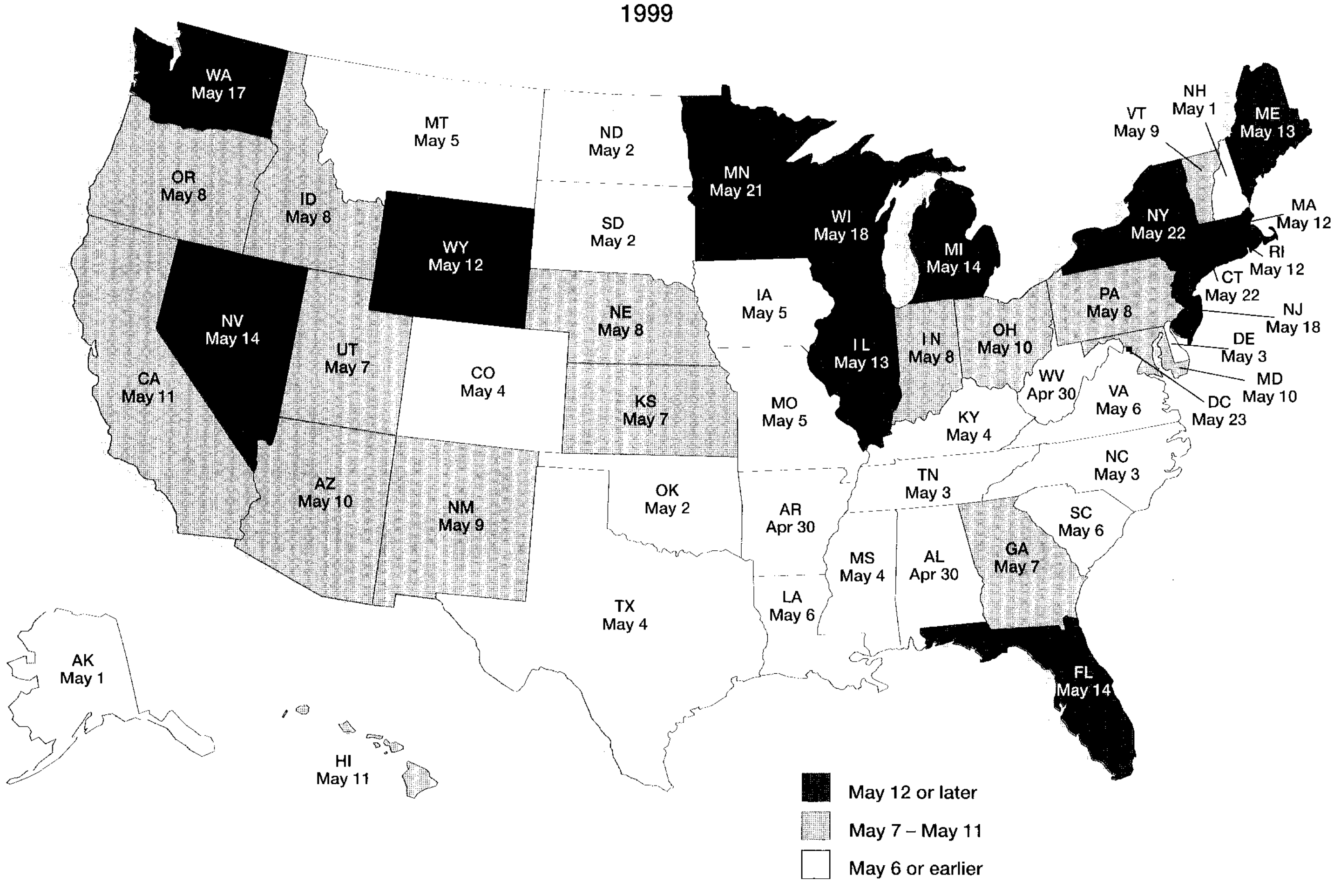
Connecticut's total tax burden is the heaviest among the 50 states, so taxpayers there can't celebrate Tax Freedom Day until May 22. This year the federal government will collect $11,395 in tax revenue for every man, woman and child in the state. An additional $4,744 will be collected by state and local governments for a total per capita tax bill of $16,139. Put in terms of "tax freedom," all of the income earned during the first 100 days of the year will be used to pay federal taxes, then 41 more days will be necessary to cover state and local taxes.

New York is the only other state that will celebrate Tax Freedom Day on that late date.

At the other end of the tax burden spectrum are states with relatively early Tax Freedom Days. Residents of Alabama will bear the lowest average tax burden in 1999. While the federal government will collect an average of $5,357 in taxes for every resident, state and local governments will collect $2,264 for a total per capita tax bill of $7,621. On average, therefore, Alabamans can expect to devote 84 days' worth of income to federal taxes. Income they earn during the next 35 days will be used to pay state and local taxes. That brings the total days worked for government to 119, which makes April 30th Tax Freedom Day in Alabama.

Only two other states will celebrate Tax Freedom Day in April, Arkansas and West Virginia, both on the 30th.

Tax Freedom Day by State
1999



FOUNDATION MESSAGE

Where's the Tax Revolt?

J.D. Foster, Ph.D.
Executive Director & Chief Economist
Tax Foundation

Reporters and Republicans are united in asking the question: Why don't Americans demand a tax cut?

Nearly every day, economists at the Tax Foundation are asked this question. With the tax burden rising year after year, the question has taken on an almost metaphysical dimension, not unlike the title of that popular book,"Why Do Bad Things Happen to Good People?"

This year's increase in Tax Freedom Day to May 11th underscores the paradox. Tax Freedom Day has now risen for seven consecutive years. For 26 years between 1969 and 1994, Tax Freedom Day varied in a fairly narrow range between April 28 and May 4. It is now 7 days above its previous cyclical peak. The source of the increase remains the same as it was last year and the year before: the combination of a growing economy and a progressive federal personal income tax. Even the 1997 tax cut bill barely slowed its rise.

Nor is the increase in the tax burden as measured by Tax Freedom Day anomalous. An alternative presentation, the per capita tax burden, shows a similar pattern. It rose to $9,939 in 1998, an increase of $1,679 in real terms since 1990.

Common government statistics give the same result. For example, taxes as a share of Gross Domestic Product rose to 20.7 percent. This was the second highest ever, exceeded only in 1944 at the height of World War II spending.

The good news associated with this soaring tax burden is the demise of the Federal budget deficit. Revenues have accelerated faster than the Congress and the President have been able to spend them. Revenues have grown so fast, in fact, that huge surpluses are projected for the next ten years or longer.

To be sure, millions of Americans may be clamoring for a tax cut, but the vast bulk of the body politic seems disinterested. The story goes that in the days when Wilbur Mills ran the powerful House Ways and Means Committee his Chief of Staff would come up to the Chairman whenever the tax burden started pushing 20 percent of GDP and tell him it's time for a tax cut. Conventional wisdom had it that tax compliance would plummet, taxpayer resistance would erupt, and the economy would falter whenever taxes got above that magic figure. What has changed?

No doubt much has changed. One change may simply be that wages are rising steadily and strongly and so taxpayers don't feel overtaxed. A worker with $20,000 in after-tax income is more interested in a $1,000 wage hike than he is in a $500 tax credit. As long as their wages and standards of living are rising, taxpayers are unlikely to bridle much at a higher tax bill.

Another factor is the evolution of the income tax. Through the reforms of past years the federal personal income tax has become a true class tax. Low-income workers are likely to be subject to a negative income tax through various refundable tax credits. Middle-income workers are likely to pay little income tax and what they do pay is at a marginal rate of 15 percent. In contrast, the top 5 percent of taxpayers by income are paying over half the total income tax burden. Thus many lower-income taxpayers probably don't feel the pinch of the higher tax bite, and many qualify for the newly effective per child tax credit.

Also, while the top income earners bear most of the income tax, government statistics suggest they also have tended to earn proportionately more of the income increases in recent years. Thus, even though they face a marginal tax rate approaching 40 percent, their incomes may well be rising fast enough to guarantee a satisfactory year-to-year increase in living standards. Thus they, too, may not be overly exercised about their rising tax burden.

The huge increase in the stock market may also play a role here. Even while incomes have been rising, middle- and upper-income taxpayers—the folks paying the bulk of the heavy income tax burden—have also been receiving the bulk of the wealth appreciation. This may further deaden any natural tax revolt zeal.

Fiscal prudence may also play a role. For example, while economists may confidently predict large budget surpluses for years to come, taxpayers can be excused for having their doubts. And most taxpayers probably strongly prefer budget surpluses to deficits, so they are loath to risk having the government drop back into deficits due to a tax cut right now.

Tax cuts are part and parcel of the political debate, and President Clinton's influence cannot be denied. He has effectively and appropriately elevated saving Social Security and Medicare to national priorities. These two critical programs are projected to go bankrupt. Unless something better comes along to replace them, most taxpayers probably want to see these programs sustained. The President has argued that Social Security and Medicare must be saved before we can consider tax cuts. This seems to strike the American people as a reasonable proposition.

While elevating the issues, the President's lack of serious proposals to address them is inexcusable. It is also calculated. Lacking leadership in the form of specific proposals from the President, Members of Congress are worried about putting forth their own ideas in any detail. Without proposals they can price out to save Social Security and Medicare, Republicans have been unable to argue effectively that there would be money left over for income tax cuts.

Americans have become accustomed to a strong economy. The last recession is now eight years past. As long as the economy continues strong, many changes may be needed before a rising tax burden triggers a tax revolt. If the economy starts to choke, however, taxpayers may quickly shift their attention to the government's share of their income. When that happens they may again discover their tax revolt roots.

The Tax Foundation

A Long and Distinguished History

Founded in 1937, the Tax Foundation is an independent group of economic researchers who publish information about public finance in an objective, unbiased fashion for the benefit of government, industry and the citizenry.

The Tax Foundation's research record has made it an oft-quoted source in Washington and state capitals, not as the voice of left or right, not as the voice of an industry or even of business in general, but as an advocate of a principled approach to tax policy, based on years of professional research.

The Tax Foundation's Principles of Taxation

- **Well Informed Citizenry.** People must know who and what is being taxed and how legislation is enacted.
- **Simplicity.** An overly complex tax system makes accurate tax compliance needlessly expensive and punitive.
- **Stability.** Frequent change lessens citizen understanding of the tax code and complicates long-range planning.
- **No Retroactive Changes.** Taxpayers must have confidence in the law as it exists when they make business decisions.
- **Neutrality.** The purpose of taxes is to raise revenue, not to micromanage the economy with subsidies and penalties. The tax system should favor neither consumption nor saving and investment.
- **Economic Growth.** The U.S. tax system should not impede the free flow of goods, services, and capital, domestically or internationally.

Serious Business

Tax policy—whether at the federal, state or local level—isn't fun and games. It's serious business. Farsighted individuals, businesses, and charitable foundations understand that "close" isn't good enough when it comes to the need for accurate information. As a nonprofit, tax exempt 501(c)(3) organization, the Tax Foundation relies solely on their voluntary contributions for its support.

The sponsors of the Tax Foundation realize that their tax-deductible contributions are an investment in an informed public, and ultimately in a better economy for themselves, for their companies, and for the next generation of Americans. We invite you to join their ranks.

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