Tax Freedom Day® 2012 arrives on April 17 this year, four days later than last year, due to higher federal income and corporate tax collections. That means Americans will work 107 days into the year, from January 1 to April 17, to earn enough money to pay this year’s combined 29.2% federal, state, and local tax bill.

If the federal government raised taxes enough to close the budget deficit—an additional $1.014 trillion—Tax Freedom Day would come on May 14 instead of April 17. That’s an additional 27 days of government spending, currently financed by borrowing. This year’s federal budget deficit remains high, though it has declined slightly over the past two years.

As the economic recovery continues, the growth in individual incomes and corporate profits will increase tax revenues and push Tax Freedom Day ever later into the year. The latest-ever Tax Freedom Day was May 1, 2000, meaning Americans paid 33.0% of their total income in taxes. A century earlier, in 1900, Tax Freedom Day came on January 22, with Americans paying only 5.9% of their income in taxes.

Tax Freedom Day is a vivid, calendar-based illustration of the cost of government, giving Americans an easy way to gauge the overall tax take. Conceived by Florida businessman Dallas Hostetler in 1948, he deeded the concept to the Tax Foundation upon his retirement in 1971. In 1990 sufficient data became available to calculate a separate Tax Freedom Day for each state.

We assume that the nation starts working on January 1, earning the same amount each day and spending nothing. When the nation has finally earned enough to pay all the taxes that will be due for that year, Tax Freedom Day has arrived. This year, Americans will pay $2.62 trillion in federal taxes and $1.42 trillion in state and local taxes, for a total tax bill of 29.2 percent.

The total tax burden borne by residents of different states varies considerably, not only due to differing state tax policies, but also because of the steep progressivity of the federal tax system. This means higher-income states celebrate Tax Freedom Day later: Connecticut (May 5), New Jersey (May 1), and New York (May 1) residents face a significantly higher total federal tax burden than lower-income states.

Residents of Tennessee will bear the lowest average tax burden in 2012, with Tax Freedom Day arriving for them on March 31. Also early are Louisiana (April 1), Mississippi (April 1), South Carolina (April 3), and South Dakota (April 4).

*Tax Freedom Day is based on a 365 day calendar year, so 2012’s leap day is not figured into the calculation in order to maintain comparability from year to year.
Tax Freedom Day has not always been this late in the year. World War I tax increases led to a jump in Tax Freedom Day from 1917’s January 24 to 1918’s February 8 to 1921’s February 22. In the 1920s, when Justice Oliver Wendell Holmes described taxes as the price of civilized society, Tax Freedom Day was arriving in February.

The Great Depression and the Hoover/Roosevelt tax increases led not only to a later Tax Freedom Day but a shift in who was collecting. In 1932, Americans spent 10 days paying federal taxes and 46 days paying state and local taxes. By 1940, Americans worked 33 days to pay each. World War II brought increased federal spending and borrowing, with Tax Freedom Day arriving in April for the first time in 1943.

The federal tax burden never returned to pre-war levels. The 1950s and 1960s also saw a rise in state-local tax burdens and a boost in economic growth following the 1964 Kennedy/Johnson tax cut. Vietnam War-era tax increases and the “stagflation” of the 1970s pushed personal incomes into higher tax brackets, and by 1981, Tax Freedom Day arrived on April 24.

The Reagan tax cut signed into law that year ushered in an economic boom; federal revenues grew but the economy grew even faster. Despite pressure on state and local taxes following taxpayer revolts like Proposition 13 in California, the strong economic growth led to increased tax collections, and in 1989, Tax Freedom Day arrived on April 22. That year, federal income tax revenues as a share of the economy were higher than they had been in nearly all years prior, and higher than all but one year (1952) of the 1940s, 1950s, and early 1960s, when the top rate exceeded 90 percent.

A string of record-setting federal tax burdens followed, and the latest ever Tax Freedom Day occurred on May 1, 2000. With federal revenue routinely exceeding forecasts, there was strong popular pressure for a major tax cut.

The new president delivered on his tax cut promises, which, combined with a recession in 2001, caused the tax burden to fall considerably. In 2003, Tax Freedom Day arrived on April 14, more than two weeks earlier than it had in 2000. Since 2007, stimulus tax cuts and a weakening economy have pushed Tax Freedom Day earlier still. In 2009, Tax Freedom Day was on April 10, earlier than any year since Lyndon Johnson was in the White House. Meanwhile, government spending rose, leading to a large gap between revenue and spending. This year marks the fourth year in a row of the federal budget deficit exceeding $1 trillion.

Methodology

We count in the denominator every dollar that is officially part of national income according to the Department of Commerce’s Bureau of Economic Analysis, and in the numerator every payment to the government that is officially considered a tax.

Taxes at all levels of government are included, whether levied by Uncle Sam or state and local governments. In calculating Tax Freedom Day for each state, we look at taxes borne by residents of that state, whether paid to the federal government, their own state or local government, or governments of other states. Where possible, we allocate tax burdens to the taxpayer’s state of residence. Leap days are excluded to allow comparison across years, and any fraction of a day is rounded up to the next calendar day.

For a more detailed description of Tax Freedom Day’s methodology and some questions relating to the timing of tax burdens and income, please see “Tax Freedom Day: How It’s Calculated and Addressing Some Methodological Issues.”
Mission
The mission of the Tax Foundation is to educate taxpayers about sound tax policy and the size of the tax burden borne by Americans at all levels of government.

Since our founding in 1937, we have believed that the dissemination of basic information about government finance is the foundation of sound policy in a free society.

Visit us online at www.TaxFoundation.org.