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TAX FOUNDATION'S REPORT: "TAX FREEDOM DAY 1997"

HEARING

BEFORE THE

COMMITTEE ON FINANCE UNITED STATES SENATE

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

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TAX FOUNDATION'S REPORT: "TAX FREEDOM DAY 1997"

MONDAY, APRIL 14, 1997

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 1:30 p.m., in Room SD-215, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Also present: Senator Grassley.

OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S. SENATOR FROM DELAWARE, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will please be in order. Let me begin by welcoming everyone, particularly you, Dr. Foster, Executive Director and Chief Economist of the Tax Foundation.

As you well know, the annual report of the Tax Foundation has come somewhat to be a milestone in the ongoing debate surrounding tax reform and the burden the current tax code places on the American people. I appreciate your work, Dr. Foster, as well as your, Mr. Patrick Fleenor, who I understand plays a very key role in the analysis formulation of this year's report.

I think you know I am quite vocal when it comes to tax policy, and frankly, I share the unhappiness; the frustration that too many Americans feel when it comes to the current tax system. Our code is too complex, it is expensive and it is counter productive to economic growth and family security.

The annual report by the Tax Foundation points out just how much of a burden it imposes on the family, and your measurement shows how many days an average tax payer must work each year just to pay local, State and Federal taxes.

It has demonstrated over the past few years that the time Americans spend working to pay the government has been growing consistently, and I will be interested, of course, in hearing what your findings are for this year.

As you share your report with us, however, I would like those listening, as well as the media covering this hearing, to consider the impact of taxes on individual families. Often the names, the faces, get lost in the data when we discuss these most important issues.

Last week I was very interested to read an editorial in USA Today that showed how an average family is affected by high taxes.

Particularly how those high taxes eat away at the income and contribution of a working spouse.

Now, according to USA Today, this working mother, after taxes and other work related expenses, was bringing home less than $1,000 a year, despite the fact that her income was $40,000. A $1,000 take home. And while the family presented in the newspaper was a fictitious representative of what many families are confronting, it reminded me of the Mertin family, a real family living in Iowa.

Their story was first told in the New Yorker, and then it was picked up by James Glassman, who examined the impact that taxes have on the family.

Kenny Mertin, age 52, and his wife, Bonita, 50, have two children. Kenny works as a laborer for a barricade company and Bonita works for a nursing home, and together the Mertins earn roughly $35,000 a year. And of that income, 25 percent goes to taxes.

Frankly, this leaves the family in a horrible situation where they are forced to buy powdered milk instead of real milk, beans instead of meat, just to make ends meet. As if that was not enough, in addition to the money they had to pay the Federal, State and local government, the complexities of the tax system forced them to pay over $100 to H&R Block to get assistance in preparing their tax return.

Well, today, as we listen to the report from the Tax Foundation, I want us to consider the Mertins. I want us to think of the countless men and women—warm, living actual human beings just like them—who are struggling to make ends meet; to do the best they can after the government has taken a huge bite out of their resources.

And we need to change the trends that the Tax Foundation has shown us these last 4 years, four straight years of increasing the tax burden of the American people.

The time has come to stop increasing taxes, to start increasing jobs, opportunity and growth for Americans everywhere. The time has come to reward hard work and risk taking, to restore fairness, to create an environment where the economy can grow and bring real security to all families.

America's past has proven that the right kind of tax reform can be a boom for economic growth. This is the mindset we need as we work to build a bipartisan consensus on the very important issue of tax reform.

It is now my pleasure to call upon our panelists.J.D. Foster, as I said earlier, he is chief economist and executive director of the Tax Foundation, and he has appeared many times before this committee. We look forward to your testimony. Please proceed.

STATEMENT OF J.D. FOSTER, PH.D., EXECUTIVE DIRECTOR AND CHIEF ECONOMIST, THE TAX FOUNDATION, WASHINGTON, DC

Dr. FOSTER. Thank you very much, Mr. Chairman. It is indeed a pleasure to be back before the finance committee. You clearly understand, as well as anyone, how difficult it is to explain to every day tax payers how much in taxes they actually pay.

Some are so confused as to think that the fact that they might get a refund in the coming weeks is somehow indicative of their total tax burden, ignoring the thousands of dollars of taxes they paid in order to reveive that refund. They do not know, perhaps, the payroll taxes they pay, nor the payroll taxes their employer pays on their behalf. They see the sales taxes they pay at the State and local level, 15 cents here and a few dollars there, and they do not know how much it adds up to in the course of a year. Certainly it is hard for any one to make much sense out of the taxes that their employers pay, business taxes and profit taxes and so forth.

That is the value of Tax Freedom Day. It is a summary statistic measureing the total taxes paid at the Federal, State and local level. It captures, in one statistic, what this total tax burden is relative to national income.

Tax Freedom Day for 1997 is estimated to fall on May 9th. This is latest Tax Freedom Day has ever fallen. It is the fifth year in a row that taxes have risen.

As you can see from the chart, there has been a very steady pattern in recent years of rising Tax Freedom Days, translating into ever higher total Federal, State and local tax burdens.

Just to be clear, the paradigm that Tax Freedom Day works on is that all of one's income goes to pay Federal, State and local taxes, beginning January 1st. On Tax Freedom Day, the tax bill is marked "Paid in full," and the average taxpayer is allowed to keep his income for the balance of the year.

At May 9th, Tax Freedom Day now falls one week later than it did just 4 years ago. It fell on May 5th, 1981, the year of the Roth-Kemp tax cuts.

The CHAIRMAN. Let me make sure I understand.

Dr. FOSTER. Yes.

The CHAIRMAN. What you are saying is that today the typical American family, the average American family, has to work one additional week to pay the taxes before he can begin to pocket his earnings for his family?

Dr. FOSTER. Yes. That is essentially correct. We are not necessarily referring to the average family because we are not breaking it up by family. But the average taxpayer, in the sense of total taxes in the numerator, total income in the denominator has risen by that amount.

The CHAIRMAN. Please proceed.

Dr. FOSTER. Thank you.

One of the values of Tax Freedom Day is that it does provide a guide over time of how the total tax burden changes. At the turn of the century, Tax Freedom Day fell on January 31st, the end of the very first month of the year.

At the end of the second World War, it fell two months later, March 31st. Following the ramp up to the Vietnam War and a the Great Society, it fell on or about the tax filing date, still well earlier than it does today.

At May 9th, as I said, Tax Freedom Day is the latest it has ever fallen. But this does not mean that are necessarily too high, nor does it mean they are necessarily too low, nor does it mean that they are just right. It is a datum that we have to interpret as citizens and as policy makers and determine for ourselves whether taxes are too high, too low or just right.

These are matters for our political leaders, the chairman of this committee, members of this committee and the public at large to decide. But to make these decisions, you need information, and that is where Tax Freedom Day comes in.

The good news about Tax Freedom Day is its growing recognition by the public. For example, Americans deal with complicated issues, difficult issues, through humor. A few years ago the cartoon The Fusco Brothers used Tax Freedom Day in one of their cartoons. Last year the comic Steiner did so. This year, the cartoon Kathy used Tax Freedom Day to make a point about tax burdens.

This year we decided to further spread the word by coming up with bumper stickers, of which this is obviously a blow up and obviously what we tried to do is put a little humor in it as well. The point is that we use these devices to explain to the American people what the tax burden is.

Clearly, as the first chart showed, the total tax burden is rising, and it is rising steadily. There is no single cause for this increase in the total tax burden. State and local taxes have been rising, Federal taxes have been rising.

Of course, part of the increase in the Federal tax burden is due to the 1990 and 1993 tax increases. But a big portion of the rising Federal tax burden is a combination of two factors. One is that, overall, the Federal tax system is progressive, primarily due to the graduated rate income tax. The second is the fact that we have been blessed with economic growth ever since 1992. Not as strong as some might like, but economic growth nonetheless.

The combination of a progressive tax system and economic growth produces a rising average tax burden as people move from one tax bracket into a higher tax bracket. If I am paying taxes at a 15 percent rate, and I get a real wage increases that pushes me to a 28 percent bracket, my average tax rate is going to rise.

This happens for towards millions of taxpayers every year. Over time, the total tax burden going to the Federal Government goes up. That, unfortunately, is one of the side effects of economic growth and a progressive tax system.

There are a couple of issues in regard to Tax Freedom Day that perhaps the committee should be aware of. First of all, the Tax Freedom Day calculation is a simple one, and it is not the only conceivable presentation of the issue.

For example, in the past we received an annual letter from Milton Friedman telling us we should look at government spending, rather than total taxes, as a better measure of the total burden of government on the economy. And, as usual, Milton Friedman was right, and so now we include that in our report as well. But we do not use that as our main presentation of Tax Freedom Day.

We could also include the total compliance costs in the calculation. We estimate that the compliance cost for the Federal tax code is about $230 billion, which is in the mid-range of most estimates. We use a very conservative estimate of total compliance costs for State and local taxes.

The CHAIRMAN. That is $230 billion?

Dr. FOSTER. Yes, sir. Annually. We use a $10 billion figure for State and local taxes, which we regard as being low by a factor of perhaps 10 or 20. But since we have not had the opportunity yet to generate a firmer number, we would rather be conservative.

But if we were to look at a more comprehensive measure of Tax Freedom Day, it would be natural to include total spending and compliance costs in that total burden. Similarly, we could look at regulatory burdens, estimated at about $500 billion annually.

Like compliance costs, the cost of regulation is a bill that is paid every year, paid by the citizens of the United States, imposed by the government. It is equivalent to a tax. And if we are really rigorous about it, we would include the value of the lost output due to the myriad powerful tax distortions in our tax system to which the chairman referred.

These cost the economy jobs. They cost businesses not being started; they cost wages and salary increases that do not happen; they cost opportunities that are missed because the tax code eliminates the incentive. These costs, the lost output due to our tax system, are costs borne by our citizens, imposed by the government, and are equivalent to a tax.

So we could have a much broader measure of the total tax burden, of the total burden of government on the economy. We choose to stick with a narrower measure for a number of reasons.

First, personally, it might be too depressing to calculate such a figure. For example, if we were to add the compliance costs and government spending, we would move Tax Freedom Day 19 days further into the year. If we added the regulatory burden to the total, Tax Freedom Day would fall another month later in the year.

Second, all of our figures that we use——

The CHAIRMAN. Let me ask you, that would bring you up to what? The end of May.

Dr. FOSTER. The regulatory burden would push you into June.

The CHAIRMAN. Into June.

Dr. FOSTER. And the compliance costs and the others, if we totaled them all up, not counting the lost output, which I would not hazard to guess on, we are talking probably the end of June.

The CHAIRMAN. Every year?

Dr. FOSTER. Every year. All of these figures though involve rough estimations that we would have to perform or somebody else would perform.

The data we use for calculating Tax Freedom Day is hard data out of the National Income and Product Accounts. We do not manipulate the data. We take the ratio of two figures, comprehensive figures, provided by the government, as hard a data as we have in economics.

As a result, our Tax Freedom Day calculation is relatively immune from disputes over methodological issues. This is a very clean calculation.

Finally, the reason we do not go to the broader measure is that the purpose of the exercise is to give Americans a clear sense—as clear as we can—of their total tax burden. Most taxpayers do not see government spending personally. Only those subject to regulation can really grasp what those costs are like.

We all have a certain sense of compliance costs, but lost output is something that would be very difficult to measure or for any of us to have a real sense of.

Taxation is the one area where we all have a direct involvement with our government that we can all grasp. That is why we released Tax Freedom Day on the 15th. Frankly, that is when the American people are most focused on their taxes.

Mr. Chairman, you may be happy to note that Delaware is ranked as having the 10th lowest total tax burden in the State, Tax Freedom Day falling on May 2nd. Unfortunately for the ranking member, New York State, ranks number one in terms of total tax burden. Interestingly, however, this is primarily due to high State and local taxes. Their Federal tax burden is actually just below the national average.

And I am sorry Senator Breaux is not here. He would be interested to learn that Louisiana has the lowest tax burden, as measured by Tax Freedom Day. The residents of the Pelican State enjoy Tax Freedom Day on April 26th.

If we could, just for a moment, I would like to address some of the critiques of Tax Freedom Day. One of the consequences of greater notoriety is people start taking pot shots at you. I would note, however, that on a technical basis, these criticisms are uniformly either baseless or pointless.

More fundamentally, however, the criticism of Tax Freedom Day, of such a relatively clean calculation, by certain groups in society, must indicate that they fear that when taxpayers understand the burden of government, they might not like it, and so they are afraid that so many taxpayers might be aware of it.

Tax Freedom Day is not intended as a measurement to be a rigorous guide to the formulation of public policy. It is a simple barometer of the total tax take. No one, to my knowledge, has yet proposed that anything in the Federal tax code be indexed to Tax Freedom Day.

Now, that is important because some of the criticisms of the Tax Freedom Day calculation almost imply that we are trying to make a calculation on which some critical aspect of Federal policy would be determined. This is simply a barometer of the total tax take.

One criticism, for example, is that we should use medium family income, or some measure of medium income. The implication of that is that it is somehow misleading to use a ratio of total taxes to national output as an average. We do not object to using medium family income. We just do not see much benefit to be gained from that.

In fact, if we use the definition of medium family, as defined by the Census Department, Tax Freedom Day would be moved 12 days further back into the calendar year, to about May 21st of this year.

A similar criticism, and one related to that of medium family income, is that when we look at total tax payments, we are including the tax payments of the very rich. Now, I always found this interesting. They criticize that we include the tax payments of the very rich, the very people that they most often argue do not pay enough in taxes, because suddenly the critics are very concerned about how much taxes the rich are paying.

And again, by releasing Tax Freedom Day on April 15th, we are sometimes accused of misleading people into thinking that that is the day when they are done with their Federal income taxes, when, in fact, we try very hard to repeat, over and over again—probably more than you would care to hear, Mr. Chairman—that this refers to total taxes, Federal, State and local.

In conclusion, I will point out that the strength and usefulness of Tax Freedom Day as an educational tool is its simplicity and that it is based solely on hard data provided by the Census Department that we do not play games with. We do not add things; we do not subtract things.

In a city where spin has become such an olympic event, there are very few statistics more susceptible to spin than Tax Freedom Day. We find, however, that if we avoid games with spinning Tax Freedom Day, we do not degrade the message. The message is what the total tax burden is and that it has been rising.

We would much rather let the facts speak for themselves, and the fact is, as Tax Freedom Day indicates, the total tax burden is rising steadily. Right now it promises to continue to rise, day by day, year after year, as long as the economic expansion continues.

The only way to halt this or reverse it is to suffer a recession or to legislate a tax cut. I suggest that if we are concerned that Tax Freedom Day is moving too fast too late in the year, that a tax cut would be far preferable. Thank you, sir.

[The prepared statement of Dr. Foster appears in the appendix.]

The CHAIRMAN. Thank you, Dr. Foster. And let me congratulate you and your organization for making these calculations in a manner that is easily understood by all of us who are not economists.

I have two or three questions I would like to ask you. Your report indicates that payroll taxes use up about 38 days of a workers year. And one proposal for a broad based tax relief—and I am a strong believer in tax cuts—is directed at the payroll tax burden. That proposal would permit a deduction for workers for their share of Federal payroll taxes.

It is my understanding that joint tax scores that proposal at losing something like $276 billion over 5 years. So the large revenue loss tell us that this proposal is a broad based tax relief measure.

Do you care to comment on this form of tax relief? Do you favor it?

Dr. FOSTER. Well, I would say if we start, which I do, with the proposition that the payroll tax is, in fact, a tax and not a contribution into some sort of retirement system, then imposing an income tax on a payroll tax violates tax neutrality.

That is, we have a tax on a tax, double taxation. That is bad. And that is sort of a universal bad in tax policy.

So, on that basis alone, even if I was not looking to cut taxes, I would have to say allowing that deduction is appropriate. It is a non-neutral aspect of our tax system that we double tax labor income, once at the payroll tax level, once at the income tax level.

Now, if we are going to go beyond revenue neutrality and look for a tax cut, it strikes me that that is going to be a tax cut that is going to benefit working people the most. It is obviously tied to payroll taxes, which are tied to wages, and therefore, it is probably going to have the most progressive distribution of any single tax provision. So that might, too, be to the good.

So I find that deduction for payroll taxes is good tax policy, in and of itself, and, as a means of cutting taxes, is probably going to have as fair a distribution, if one is seeking a distribution that somewhat mimics our current tax system, as any that we could have, other than perhaps a sort of proportional reduction in rates.

The CHAIRMAN. Your report indicates a worker spends 128 days a year working to pay Federal, State and local taxes. Now, one way to provide relief would be through a across the board tax rate. Do you favor this form of relief?

Dr. FOSTER. That, obviously, has many things in its favor. First of all, you are avoiding the process of picking and choosing winners by giving some folks tax cuts and others not, perhaps because they have children or do not have children, or on whatever basis you might have.

Further, it goes right at the heart of the non-neutralities, the distortions of our tax system. Whatever distortions arise by defining the base improperly, are magnified by the tax rate and increase as the tax rate goes up.

So if you have a tax cut that reduces the tax rate, it is obviously going to reduce the non-neutralities, the distortion of our tax system on the economy. That, in fact, gets to the heart of the matter.

A critical aspect, I think, of tax reform or any tax cuts that might be made in the next few years is they ought to be targeted towards improving economic performance. And both of the possibilities you have mentioned, the payroll tax deduction or rate cuts, would do that.

The CHAIRMAN. Dr. Foster, CBO estimates the fiscal dividend from a balanced budget will yield a savings of $77 billion over 5 years. Considering your report's conclusion, that the tax burden has grown for yet another year, do you think taxpayers should get the benefit of the fiscal dividend in the form of a tax cut?

Dr. FOSTER. Well, I think they probably should, and for an additional reason. As I mentioned, the combination of a progressive tax system and economic growth means that Tax Freedom Day, if nothing else changes, will move later and later in the year. That is, again, if nothing else changes, no other changes to public policy occur and the economy grows, the combination of that growth and our progressive tax system means Tax Freedom Day will fall later and later in the year.

Consequently, the only way to prevent taxes from rising is to cut taxes. They will rise automatically if we do not cut them because we have a progressive system. The only alternative is to suffer a recession.

So, for both of these reasons, that it would be a savings to the economy to balance the budget, and because if we do not do so, taxes will rise, I think a tax cut is probably appropriate.

We have estimated that for this year, for example, looking at the growth in the Federal burden alone, we would have to have a $10 to $12 billion tax cut for fiscal 1997 to prevent Tax Freedom Day from rising.

The CHAIRMAN. My final question deals with the flat tax. As you know, under the flat tax, the deduction for State and local income and real property taxes is eliminated. According to your report, it shows a number of States where these taxes are a very, very substantial burden.

Are you worried that a flat tax, with the loss of State and local income and real property tax deduction, may further enhance the burden of taxpayers in high tax States?

Dr. FOSTER. I think that is clearly one of the consequences of the loss of that deduction in a flat tax system. It is obviously going to hurt those States which have higher State and local taxes. More than those which have lower State and local taxes.

Frankly, I have always thought that the non-deductibility of State and local taxes in a flat tax system was a mistake. The whole point of a flat tax is to have as neutral a tax system as one can devise, and then we go ahead and suggest a system which has a tax on a tax, which is, again, wrong.

So, as a matter of policy, that is a mistake. But it clearly would have a harmful effect on higher tax States.

The CHAIRMAN. That is all the questions that I have.

Senator Grassley is here.

Senator GRASSLEY. I have to apologize that I did not get here in time to hear your testimony. Thank you very much. I do not have any questions.

The CHAIRMAN. Thank you, Senator Grassley.

Let me thank each of you gentlemen for being here today. I think your effort is indeed most helpful. I think it puts, in an understandable term, the burden that is today being borne by the American taxpayer. The fact that it is simple and understandable I think is particularly important. I just wanted to thank you again for what you are doing.

Dr. FOSTER. Thank you, sir.

The CHAIRMAN. Gentlemen, thank you for being here today. The committee is in recess.

[Whereupon, at 2:03 p.m., the hearing was concluded.]

APPENDIX

Additional Material Submitted for the Record

Prepared Statement of Dr. J.D. Foster

My name is J.D. Foster, I am Executive Director and Chief Economist of the Tax Foundation. I am very pleased to appear before the Committee to discuss this year's release of Tax Freedom Day. I am joined today by Patrick Fleenor, an economist with the Tax Foundation and the person responsible for the number crunching and analysis included in this year's report.

The Tax Foundation is a non-profit, non-partisan research and education organization based in Washington, D.C. For 60 years the Tax Foundation has sought to educate the public and policy makers about developments in national fiscal policy. The Tax Foundation does not advocate particular policies or policy changes. Rather, we assess fiscal policy by combining what we hope is sound economics and a strict adherence to certain basic principles of public finance.

Tax Freedom Day 1997

Tax Freedom Day for 1997 is estimated to fall on May 9. This is the latest Tax Freedom Day has ever fallen. This means that the total tax burden in America will be higher in 1997 than at any time in the Nation's history. It is one day later than in 1996, and marks the fifth year in a row that Tax Freedom Day has fallen later in the calendar year.

Tax Freedom Day is a simple barometer of the national tax burden. It is intended to capture in a single statistic what can otherwise be a very complicated issue—the total tax load borne by America's taxpayers. The Tax Freedom Day paradigm is as follows: Suppose every dollar of the average taxpayer's income went to pay taxes beginning on January 1. By May 9th of this year, Tax Freedom Day, all Federal, state, and local taxes will have been paid and the average taxpayer will be able to keep all his or her income for the balance of the year.

Tax Freedom Day has a remarkable history. At May 9, it now falls one week later than it did just four years ago. It fell on May 5 in 1981, the year of the Roth-Kemp tax cuts. At the turn of the century, if fell on January 31. At the end of the Second World War, it fell on March 31, over five weeks earlier than today. Before the ramp up to the Vietnam War and the Great Society, Tax Freedom Day fell on or about tax filing day, April 15.

Why Does Tax Freedom Day Keep Rising?

Clearly, the total tax burden is rising. It is rising steadily. And it is rising fairly quickly. But there is no single cause for the increase in the tax burden. State and local taxes have been rising, as has the Federal tax burden. And, of course, part of the increase in the Federal tax burden is due to the 1990 and 1993 tax bills.

A large source of the increase at all levels of government is the combination of two factors. One factor is the inherently progressive nature of the overall Federal tax system. Of course, the Federal government collects many taxes, some of them progressive, some not. On balance, however, the system is progressive thanks to the graduated-rate income tax. The same can be true of the combined state and local taxes.

The other factor is our sustained economic expansion coming out of 1992. Every year, thanks to increases in their real wages and salaries, millions of taxpayers find themselves pushed into ever higher tax brackets. Someone once paying at a top marginal tax rate of 15 percent enjoys an inflation-adjusted raise and is rewarded by being bumped into the 28 percent bracket. Consequently, their average tax rate increases. As this happens for millions of taxpayers each year, moving from one bracket to a higher tax bracket, the share of income taken in taxes rises nationally. And Tax Freedom Day falls even one day later in the year.

Alternatives To Tax Freedom Day

Before I turn to our Tax Freedom Day analysis on a state-by-state basis, there are a couple issues the Committee should be aware of with regard to Tax Freedom Day. Above all, the Tax Freedom Day calculation is not the only conceivable presentation of the burden of government. In the past we received an annual missive from Milton Friedman suggesting that we consider the ratio of total government spending to national income, because this is a much better representation of the total burden of government on the economy. He was right, of course, and so we make this calculation, which is reported in Figure 2 of our report.

In the same vein, we could fairly include an estimate of the total cost of the regulatory burden on the economy. One popular estimate of this cost is $500 billion annually. This burden is a bill that is paid every year. It is paid by the citizens of the United States. It is imposed by the government. It is equivalent to a tax.

We could also, quite fairly, include in the measure of total taxes the total compliance costs to all taxpayers for the hundreds of taxes collected at all levels of government. We conservatively estimate the cost of complying with the Federal tax code to be about $230 billion each year. And we are currently using a very conservative estimate of $10 billion as the costs of complying with state and local taxes. (We regard this figure as being low by a factor of as much as 10 or 20. The Tax Foundation is currently working to develop a more comprehensive analysis of total compliance costs.) Figure 2 also includes the effect of adding compliance costs to the overall Tax Freedom Day estimate.

If we were completely rigorous, we would also include the cost of the lost output due to the myriad of powerful distortions our tax system imposes on the economy. All the businesses that are not started. All the jobs that not created. All the opportunities missed because the tax code eliminates the incentive. These, too, are costs. They are borne by all our citizens. They are imposed by the government. They are also equivalent to a tax.

We could go in another direction entirely. For example, Tax Freedom Day represents an apportioned ratio of total taxes to national income. The basis for comparison, therefore, is the total income earned by Americans. An alternative approach would be to calculate the average tax take by measuring the per capita inflation-adjusted total tax burden. There is, in fact, real merit to this approach. As we often say, businesses don't pay taxes, people do. Well, income doesn't pay taxes, income earners do; that is, people do. It is appropriate then, to consider how the per capita tax burden changes each year.

With so many thoroughly defensible alternatives, why do we continue emphasizing the narrower measure of Tax Freedom Day? First, it could be too depressing to look at the broader measures. Adding the conservative measure of compliance costs and government spending would move Tax Freedom Day back 19 days, to May 28. Adding the regulatory burden to the total tax bill would add about another month.

Second, other than government spending, these alternative measures all involve rough estimations performed by us or by others. Tax Freedom Day is derived entirely from a simple manipulation of hard data drawn from the National Income and Product Accounts. Thus it is difficult for the message to be lost in distracting methodological disputes.

And, finally, the purpose of the exercise is to give Americans and policy makers a better sense of the magnitude of their government. Most taxpayers see little government spending, personally. Only those subject to the regulations can comprehend the burden. The magnitude of the compliance costs can be grasped, but the lost output, while certain, is too theoretical for many. Taxes, however, they understand. Which is why we release Tax Freedom Day on April 15. Because that is when most taxpayers are the most focused on their tax bills.

Tax Freedom Day by State

The variance in Tax Freedom Days by state is quite striking. Mr. Chairman, you may be happy to learn that Delaware ranks as having the tenth lowest total tax burden of any state in the union. Tax Freedom Day in Delaware falls on May 2.

Unfortunately, New York State ranks number one in terms of total tax burden, with a Tax Freedom Day falling on May 23. Interestingly, however, this is largely due to high state and local taxes. New York's Federal tax burden is actually just below the national average.

Senator Breaux would no doubt be interested to learn that Louisiana has the earliest Tax Freedom Day in the nation. The lucky residents of the Pelican State are done with their tax bills on April 26, nearly a full month earlier than the citizens of New York state. The Tax Foundation Special Report details the balance of the states' Tax Freedom Days.

Critiques of Tax Freedom Day

Finally, let me address some of the criticisms that have been leveled against Tax Freedom Day and the methodology we use. On a technical basis, these criticisms are either baseless or pointless. But on a more fundamental level, they demonstrate how nervous certain groups in our society become when they fear the true size of government is put in layman's terms. Tax Freedom Day is not intended to be a rigorous guide to the formulation of public policy; it is a simple barometer of the total tax take.

One criticism is that Tax Freedom Day should be calculated using median family income, the implication being that it is somehow misleading to refer to the ratio of total taxes to national output as an average. While we do not object to using median family income, we see little gain to the enormous additional complexity in the calculation and we see a real loss in the intuitive appeal of the concept. If we were to use median family income, however, Tax Freedom Day would fall about 12 days later, on May 21.

A similar criticism is that, by looking at total taxes paid, our analysis is misleading because we include the very large tax payments of the very rich. It is interesting that the very people who most often argue that the rich don't pay enough in taxes are concerned by how much tax they pay. Further, their criticism is in itself outrageous, as it suggests that somehow the rich do not really count as full citizens by virtue of their higher incomes.

By releasing Tax Freedom Day on or about April 15, the Tax Foundation has been accused of attempting to give the impression that it takes the average taxpayer until May 9 to pay their Federal income taxes. The Tax Foundation, in fact, goes to great lengths to be clear that the Tax Freedom Day calculation includes all tax receipts by all levels of government.

Conclusion

The strength and usefulness of Tax Freedom Day as an educational tool is its simplicity, and that it is based solely on hard data provided by the Census Department. In a city where "spin" has become an Olympic event, few statistics are more susceptible to being spun. We eschew such tactics as much as humanly possible, because spin would degrade the message. We would much rather present the facts, and then let the facts speak for themselves.

The fact is, as Tax Freedom Day indicates, the total tax burden is rising steadily. And right now it promises to continue to rise day by day, year after year, as long as the economic expansion continues. The only way to halt this progress, or even to move Tax Freedom Day back a day, is to suffer a recession or to cut taxes legislatively. The latter, I submit, is far, far preferable.

TAX FOUNDATION

SPECIAL REPORT

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No. 69

Tax Freedom Day® 1997 is May 9

Moderate Growth, Progressive Tax System Combine to Add a Day

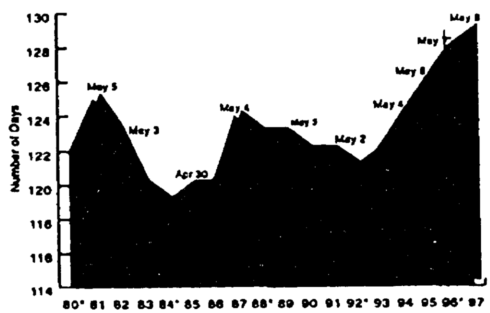
By Patrick Fleenor
Economist
Tax Foundation

Tax Freedom Day for the average American will arrive on May 9 this year. As of this day the average American will have earned enough money to pay the taxes levied by Uncle Sam and his counterparts at the state and local levels. May 9 is the latest national Tax Freedom Day ever and is the result of steady growth in the economy coupled with the progressive tax system.

This trend is illustrated in *Figure 1*, which shows changes in Tax Freedom Day since 1980, and *Table 1*, which shows the trend over most of the 20th century. *Figure 1* shows that after some volatility during the later half of the last decade, the average American's tax burden remained relatively constant during the first three years of the 1990s. During both 1990 and 1991 the national Tax Freedom Day arrived 122 days into the year on May 2. In 1992 the national Tax Freedom Day arrived one day earlier, 121 days into the year, but because of the leap year arrived on April 30.

Since 1992 the tax burden borne by the average American has risen rapidly. In 1993 the national Tax Freedom Day arrived 122 days into the year on May 2. Over the next

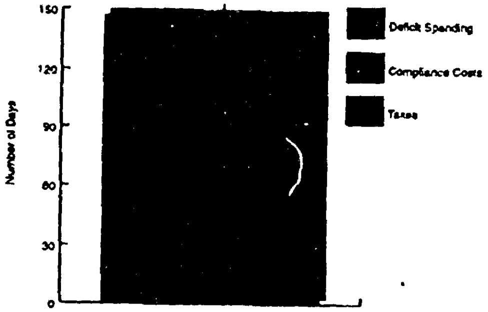
Figure 1
Tax Freedom Day, 1980-1997



*Leap Year makes Tax Freedom Day appear a day early
Source: Tax Foundation.

SPECIAL REPORT

Figure 2
Tax, Compliance Costs, and Deficit-Spending Freedom Days, 1997



Source: Tax Foundation.

three years the average American experienced a marked increase in his tax burden. By 1996 he had to work a week longer than in 1992 to pay his tax bill. This year national Tax Freedom Day is expected to arrive 129 days into the year on May 9, one day later than last year.

This steady rise in the proportion of Americans' incomes that goes to pay taxes is primarily attributable to two factors. The first is the tax increases that were enacted as part of the 1993 budget agreement passed by Congress and signed into law by President Clinton. The second factor is the continued economic expansion which, because of the structure of the current tax system, tends to fill government coffers faster than Americans' pocketbooks.

Analysis of various forecasts shows that the average American's tax burden will continue to rise through the end of the decade. Possible relief could come from two sources. The first and most obvious of these are federal, state, and local legislators who can lighten the tax burden directly by lowering taxes. Relief would also come if Americans' incomes grew more rapidly than taxes. This is unlikely though, given the structure of the current tax system. The current combination of federal, state, and local taxes is essentially progressive, meaning that as national income rises, the tax burden rises more than proportionally. As a result, economic contractions tend to reduce

Table 1
Tax Freedom Day and Total Effective Tax Rate, 1902-1997

Year	Tax Freedom Day	Taxes as % of NNP
1902	January 31	8.5%
1913	January 30	8.2
1922	February 17	13.2
1925	February 6	10.1
1930	February 13	12.1
1940*	March 8	18.5
1941	March 17	20.5
1942	March 19	21.1
1943	April 6	26.0
1944*	March 30	24.3
1945	April 1	24.7
1946	March 31	24.4
1947	April 3	25.2
1948*	March 28	23.8
1949	March 24	22.5
1950	April 3	25.2
1951	April 10	27.1
1952*	April 10	27.5
1953	April 10	27.1
1954	April 6	26.0
1955	April 9	26.8
1956*	April 11	27.6
1957	April 13	27.9
1958	April 10	27.1
1959	April 13	28.2
1960*	April 16	29.2
1961	April 17	29.2
1962	April 17	29.5
1963	April 19	29.8
1964*	April 13	28.4
1965	April 14	28.3
1966	April 16	29.1
1967	April 18	29.6
1968*	April 24	31.2
1969	April 30	32.7
1970	April 26	31.7
1971	April 24	31.1
1972*	April 28	32.5
1973	April 29	32.4
1974	May 2	33.2
1975	April 27	31.9
1976*	April 29	32.6
1977	April 30	33.1
1978	April 30	32.8
1979	May 1	32.9
1980*	May 1	33.3
1981	May 3	34.1
1982	May 3	33.6
1983	April 30	32.7
1984*	April 28	32.4
1985	April 30	32.7
1986	April 30	32.9
1987	May 4	33.8
1988*	May 2	33.9
1989	May 3	33.4
1990	May 2	33.2
1991	May 2	33.2
1992*	April 30	32.9
1993	May 2	33.3
1994	May 4	33.8
1995	May 6	34.4
1996*	May 7	34.9
1997	May 9	35.2

* Leap year makes Tax Freedom Day appear a calendar day earlier.
Source: Tax Foundation

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America's tax burden while economic expansions tend to increase it. Therefore, a peculiar feature of the current tax system is that Tax Freedom Day tends to creep forward during economic expansions.

Tax Freedom Day by State

The tax burden borne by residents of different states varies considerably. This occurs not only because residents of different states pay different amounts of state and local taxes, but also because they pay dissimilar federal taxes, based on their level of affluence. *Table 2* compares the 1996 and 1997 State Tax Freedom Days while *Table 3* presents data on per capita taxes and income by state. *Table 4* divides State Tax Freedom Days up by the number of days it takes residents of each state to pay taxes for different levels of government.

The residents of New York will bear the nation's heaviest tax burden in 1997. This year the federal government will collect $7,188 in tax revenue for every man, woman and child in the state. An additional $4,671 will be collected by state and local governments for a total per capita tax bill of $11,859. As a result, all of the income earned by the typical taxpayer in the Empire State during the first 142 days of the year (until May 23) will have to go toward paying taxes. Income earned during the first 86 of these days will be used to pay federal taxes. Income earned during the balance of this period will be used to pay state and local taxes.

Residents of Connecticut will bear the nation's second heaviest tax burden in 1997. During this year the federal government will collect $9,091 in taxes for each resident of the Constitution State while state and local governments will collect another $4,618. Tax collections will therefore total $13,709 per capita. During 1997 the average resident of Connecticut will have to devote all of the income earned during the first 141 days of the year (until May 22) to pay their total tax bill. Income earned during 94 of these days will be used to pay federal taxes. Income earned during the balance of this time will be used to pay state and local taxes.

At the other end of the tax burden spectrum are states with relatively early Tax Freedom Days. Residents of Louisiana will bear the lowest average tax burden in 1997. During this year the federal government will collect a relatively modest $4,660 in taxes from the average taxpayer in the state while state and local governments will collect another $2,090 for a total tax bill of $6,750. The typical resident of the state will have to devote all of the

Table 2
Tax Freedom Day by State, 1996 & 1997*

	1996*	1997
United States	May 7	May 9
New York	May 21	May 23
Connecticut	May 19	May 22
District of Columbia	May 13	May 14
Wisconsin	May 12	May 14
Washington	May 13	May 14
Oregon	May 12	May 13
Minnesota	May 12	May 13
Hawaii	May 11	May 13
Illinois	May 11	May 13
Montana	May 9	May 13
Wyoming	May 10	May 11
New Jersey	May 10	May 11
Kansas	May 9	May 11
Maryland	May 9	May 11
Nevada	May 11	May 11
North Dakota	May 8	May 11
Michigan	May 9	May 10
Rhode Island	May 8	May [illegible]
Pennsylvania	May 7	May 9
Iowa	May 7	May 9
Colorado	May 8	May 9
Maine	May 7	May 9
Virginia	May 6	May 8
Ohio	May 6	May 8
Massachusetts	May 7	May 8
Florida	May 6	May 7
Nebraska	May 5	May 7
Utah	May 6	May 6
Alaska	May 5	May 6
California	May 4	May 6
Indiana	May 4	May 6
Missouri	May 5	May 6
Arizona	May 6	May 5
Kentucky	May 4	May 5
Vermont	May 5	May 5
New Mexico	May 5	May 5
Idaho	May 4	May 4
Mississippi	May 2	May 4
Texas	May 4	May 3
New Hampshire	May 2	May 3
Delaware	May 1	May 2
North Carolina	May 1	May 1
Georgia	May 1	May 1
South Carolina	Apr 30	May 1
West Virginia	Apr 29	May 1
Oklahoma	Apr 28	May 1
South Dakota	Apr 29	Apr 30
Arkansas	Apr 28	Apr 30
Alabama	Apr 27	Apr 28
Tennessee	Apr 27	Apr 27
Louisiana	Apr 24	Apr 26

* Leap Year makes Tax Freedom Day appear a day earlier

Source: Tax Foundation

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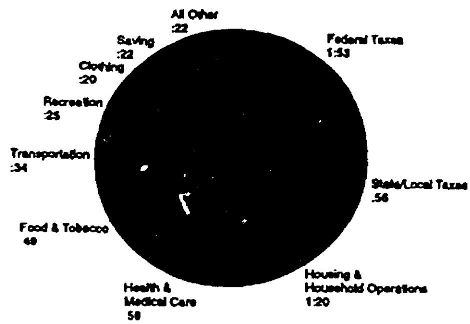
Table 3
Taxes Per Capita and as a Percent of Income, 1997

	Per Capita Taxes			Per Capita	Taxes as a Percent of Income		
	Total	Federal	State and Local	Income (NNP)	Total	Federal	State and Local
United States	$9,205	$6,127	$3,078	$26,187	35.2%	23.4%	11.8%
Alabama	6,983	4,923	2,060	21,732	32.1	22.7	9.5
Alaska	8,922	6,780	2,142	25,954	34.4	26.1	8.3
Arizona	8,114	5,239	2,875	23,709	34.2	22.1	12.1
Arkansas	6,780	4,523	2,257	20,766	32.6	21.8	10.9
California	9,321	6,287	3,034	27,117	34.4	23.2	11.2
Colorado	9,705	6,521	3,184	27,624	35.1	23.6	11.5
Connecticut	13,709	9,091	4,618	35,341	38.8	25.7	13.1
Delaware	9,939	6,798	3,141	29,752	33.4	22.8	10.6
Florida	9,172	6,286	2,886	26,438	34.7	23.8	10.9
Georgia	8,393	5,666	2,727	25,370	33.1	22.3	10.8
Hawaii	9,609	6,070	3,539	26,504	36.3	22.9	13.4
Idaho	7,389	4,861	2,529	21,779	33.9	22.3	11.6
Illinois	10,271	7,042	3,229	28,390	36.2	24.8	11.4
Indiana	8,243	5,717	2,526	24,005	34.3	23.8	10.5
Iowa	8,295	5,286	3,009	23,611	35.1	22.4	12.7
Kansas	8,780	5,742	3,038	24,520	35.8	23.4	12.4
Kentucky	7,324	4,757	2,568	21,415	34.2	22.2	12.0
Louisiana	6,750	4,660	2,090	21,321	31.7	21.9	9.8
Maine	7,811	5,063	2,747	22,247	35.1	22.8	12.3
Maryland	10,476	7,044	3,431	29,297	35.8	24.0	11.7
Massachusetts	11,027	7,600	3,427	31,617	34.9	24.0	10.8
Michigan	9,533	6,409	3,124	26,934	35.4	23.8	11.6
Minnesota	9,997	6,338	3,658	27,312	36.5	23.1	13.2
Mississippi	6,397	4,084	2,313	18,324	35.0	21.6	12.2
Missouri	8,421	5,674	2,747	24,556	34.3	23.1	11.2
Montana	7,355	4,809	2,546	20,502	35.9	23.5	12.4
Nebraska	8,518	5,528	2,991	24,611	34.6	22.5	12.2
Nevada	10,440	6,975	3,465	29,237	35.7	23.9	11.9
New Hampshire	9,643	6,944	2,699	28,805	33.5	24.1	9.4
New Jersey	11,942	8,282	3,660	33,342	35.8	24.8	11.0
New Mexico	7,011	4,647	2,365	20,614	34.0	22.5	11.5
New York	11,859	7,188	4,671	30,461	38.9	23.6	15.3
North Carolina	8,158	5,419	2,739	24,640	33.1	22.0	11.1
North Dakota	7,387	4,908	2,479	20,741	35.6	23.7	12.0
Ohio	8,829	5,818	3,010	25,222	35.0	23.1	11.9
Oklahoma	6,835	4,630	2,206	20,775	32.9	22.3	10.6
Oregon	9,062	5,799	3,263	24,918	36.4	23.3	13.1
Pennsylvania	9,239	6,216	3,015	26,194	35.2	23.7	11.5
Rhode Island	9,317	6,300	3,017	26,362	35.3	23.9	11.4
South Carolina	7,067	4,832	2,235	21,407	33.0	22.6	10.4
South Dakota	7,371	4,976	2,396	22,516	32.7	22.1	10.6
Tennessee	7,574	5,460	2,114	23,740	31.9	23.0	8.9
Texas	8,118	5,536	2,580	24,145	33.6	22.9	10.7
Utah	7,341	4,699	2,642	21,298	34.5	22.1	12.4
Vermont	8,164	5,460	2,704	23,878	34.2	22.9	11.3
Virginia	9,421	6,365	3,056	26,900	35.0	23.7	11.4
Washington	9,881	6,372	3,509	27,086	36.5	24.3	12.2
West Virginia	6,425	4,305	2,119	19,518	32.9	22.1	10.9
Wisconsin	9,165	5,825	3,340	25,105	36.5	23.2	13.3
Wyoming	8,119	5,896	2,223	22,659	35.9	26.0	9.8
District of Columbia	13,219	8,608	4,611	36,142	36.6	23.8	12.8

Note: Totals may not add up due to rounding.
Source: Tax Foundation.

Figure 3
U.S. Tax Bite in the Eight-Hour Day, 1997



Source: Tax Foundation calculations using Department of Commerce consumption data.

income earned during the first 115 days of the year to paying his or *her* total tax bill. The income earned during 80 of these days will go to pay federal taxes. Income earned during the remaining 35 days will be used to pay state and local taxes.

The state with the second earliest Tax Freedom Day in 1997 will be Tennessee where per capita taxes are expected to total $7,574. In order to pay these levies the average resident of Tennessee will have to devote all of the income earned during the first 116 days of the year to pay his or her total tax bill. Income earned during 84 of these days will go to paying federal taxes. Income earned during the balance of the days will be used to pay state and local levies.

Americans living in states between the two extremes also face widely differing tax burdens. The average taxpayer in Wyoming, the state with the 10th latest Tax Freedom Day of May 11, will have to work 10 days longer than his counterpart in North Carolina, the state with the 10th earliest Tax Freedom Day, until he is finished working to pay taxes. Even within the middle quintile of states a disparity exists. The average resident of Maine, residing in the state with the 21st latest Tax Freedom Day, will have to work 3 days longer than his counterpart in Indiana, the state with the 21st earliest Tax Freedom Day, until he can begin working *for himself*.

Tax Freedom Day Including Compliance Costs and Deficit Spending

The funds extracted from Americans' incomes each year are not the only costs of the current tax system. The Tax Foundation estimates that in 1997 Americans will spend $230.4 billion complying with the federal tax code. Another $10.3 billion will be spent complying with state and local taxes. In order to give the reader some idea as to the magnitude of these compliance costs, they exceed the value of all of the vehicles produced by the Ford Motor Company last year. As *Figure 2* illustrates, if these costs had been included in the 1997 Tax Freedom Day calculation they would have pushed the date forward 13 days.

Tax Freedom Day measures Americans' tax burdens during one period of time. Because of this, it does not capture the costs of government that have essentially been transferred to future years through deficit spending. While many state and local governments are constitutionally required to balance their budgets each year, the federal government has engaged in deficit spending during virtually every year of

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Table 4
Average Number of Days Worked to Pay Taxes by State, 1997

			Number of Days		
		Rank	Total Taxes	Federal Taxes	State/Local Taxes
United States	May 5		128	85	43
New York	May 23	1	142	86	56
Connecticut	May 22	2	141	94	47
Wisconsin	May 14	3	133	85	48
Washington	May 14	4	133	88	45
Oregon	May 13	5	132	85	47
Minnesota	May 13	6	132	84	48
Hawaii	May 13	7	132	83	49
Illinois	May 13	8	132	91	41
Montana	May 11	9	130	85	45
Wyoming	May 11	10	130	95	35
New Jersey	May 11	11	130	90	40
Kansas	May 11	12	130	85	45
Maryland	May 11	13	130	88	42
Nevada	May 11	14	130	87	43
North Dakota	May 11	15	130	86	44
Michigan	May 10	16	129	87	42
Rhode Island	May 9	17	128	87	41
Pennsylvania	May 9	18	128	86	42
Iowa	May 9	19	128	82	46
Colorado	May 9	20	128	86	42
Maine	May 9	21	128	83	45
Virginia	May 8	22	127	86	41
Ohio	May 8	23	127	84	43
Massachusetts	May 8	24	127	88	39
Florida	May 7	25	126	86	40
Nebraska	May 7	26	126	82	44
Utah	May 6	27	125	80	45
Alaska	May 6	28	125	95	30
California	May 6	29	125	84	41
Indiana	May 6	30	125	87	38
Missouri	May 6	31	125	84	41
Arizona	May 5	32	124	80	44
Kentucky	May 5	33	124	81	43
Vermont	May 5	34	124	83	41
New Mexico	May 5	35	124	82	42
Idaho	May 4	36	123	81	42
Mississippi	May 4	37	123	79	44
Texas	May 3	38	122	83	39
New Hampshire	May 3	39	122	88	34
Delaware	May 2	40	121	83	38
North Carolina	May 1	41	120	80	40
Georgia	May 1	42	120	81	39
South Carolina	May 1	43	120	82	38
West Virginia	May 1	44	120	80	40
Oklahoma	May 1	45	120	81	39
South Dakota	Apr 30	46	119	80	39
Arkansas	Apr 30	47	119	79	40
Alabama	Apr 28	48	117	83	34
Tennessee	Apr 27	49	116	84	32
Louisiana	Apr 26	50	115	80	35
District of Columbia	May 14	-	133	87	46

Source: Tax Foundation.

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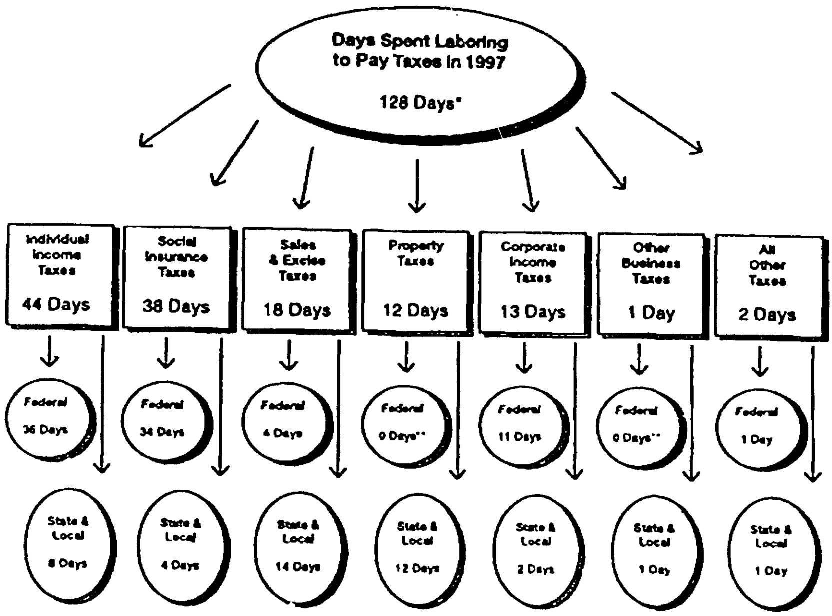
Figure 4
Average Number of Days Worked to Pay Taxes by Type of Tax and Level of Government, 1997



* The average American will have to work 128 days to pay his or her tax bill off. His or her Tax Freedom Day will arrive on May 9.
** Less than half a day.
Note: Due to rounding, components may not always add up to totals.
Source: Tax Foundation estimates based on National Income and Product Account definitions.

the post-war period. If in 1997 the federal government was prohibited from engaging in this type of activity and were forced to close its budget shortfall through tax increases, Tax Freedom Day would move forward 6 days. This is illustrated in *Figure 2*.

The Tax Bite in the Eight-Hour Work Day

The Tax Bite in the Eight-Hour Day is an alternative measure of the tax burden facing Americans. It measures the fraction of each eight-hour day that must be spent working to pay federal, state, and local taxes.

Figure 3 illustrates the fraction of each eight-hour day that the average American will spend working to finance the purchase of various goods and services in 1997. It shows that, on average, Americans will spend 2 hours and 49 minutes of each working day laboring to pay taxes. Most of this time, 1 hour and 53 minutes, will be spent working to pay federal taxes — one minute longer than in 1996. The remainder, 56 minutes, will be spent working to pay state and local taxes.

Table 5 presents a similar breakdown for each state. In order to put the total tax bite into perspective, note in *Figure 3* that the average American will spend more working to pay their total tax bill than they will spend working to provide for food, clothing, and shelter combined.

Income and Payroll Taxes Represent the Largest Components of the Total Tax Burden

Americans face a plethora of different taxes in their day-to-day lives. *Figure 4* presents a breakdown of the time that the average American must spend laboring to pay each type of tax. Arguably the most visible of these taxes are the two levies that are directly subtracted from Americans' paychecks, namely income and payroll taxes. Income taxes represent the single largest component of the average American's tax bill. In 1997 the average taxpayer will have to work roughly 44 days to pay their personal income taxes. Another 38 days will be spent working to pay payroll taxes, which fund social insurance programs such as Social Security and Medicaid. In addition to these more visible taxes, the prices of nearly all goods and services are raised by sales and excise taxes. On average, Americans will work 18 days to pay these types of taxes. Another 12 days will be spent working to pay property taxes, which are primarily levied by local governments. The average American will then have to work an additional 13 days to pay his share of corporate income taxes. These taxes, while invisible to many Americans, are ultimately borne by consumers, employees, and shareholders. Finally, another 3 days will be spent working to pay miscellaneous taxes.

Tax Freedom Day Over the Years

The United States has traditionally been a low tax country. From the founding of the Republic in 1776 until the early part of this century, total government spending at the federal, state, and local levels rarely exceeded 10 percent of national income, except during wartime. Tax Freedom Day in 1913, for example, was January 20 (see *Table 1*).

This situation began to change in the aftermath of World War I, and by 1925, Tax Freedom Day had moved to February 6. By the dawn of the Great Depression in 1930, Tax Freedom Day had increased one week to February 13. Revenue demands caused by the massive expansion of government called for by President Roosevelt's New Deal resulted in Tax Freedom Day being pushed forward to March 8 in 1940. America's entry into World War II caused Tax Freedom Day to move forward to April 1 in 1945.

In the years since World War II, the date at which average Americans can claim their tax freedom has gradually moved further into the year. In 1950, Tax Freedom Day was April 3. A decade later in 1960 it had moved almost two weeks further into the year to April 16. The Vietnam War, coupled with the Great Society programs of the 1960s, helped move Tax Freedom Day to April 26 by 1970. Throughout the 1970s, Tax Freedom Day gradually crept forward and by 1980 it had reached May 1.

Americans got some tax relief, albeit temporary, during the mid-eighties. The Economic Recovery Tax Act of 1981, coupled with tax relief efforts at the state and local levels that were spurred on by the passage of Proposition 13 in California, caused Tax Freedom Day to recede back into April between 1983 and 1986. Such tax relief was short-lived, however, and by 1987 Tax Freedom Day had pushed back into May. By the end of the decade it had moved to May 5.

Tax Freedom Day Methodology

Tax Freedom Day is a concept used by the Tax Foundation to illustrate the share of Americans' incomes that goes to pay federal, state, and local taxes. For illustrative purposes it assumes that income is earned evenly through-

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Table 5
Tax Bite in the Eight-Hour Day by State, 1997
(Hours:Minutes)

	Total Taxes	Federal Taxes	State/Local Taxes
United States	2:49	1:53	0:56
Alabama	2:34	1:49	0:45
Alaska	2:45	1:46	0:58
Arizona	2:44	1:41	0:56
Arkansas	2:37	1:45	0:52
California	2:45	1:51	0:54
Colorado	2:49	1:53	0:55
Connecticut	3:06	2:03	1:03
Delaware	2:40	1:50	0:51
Florida	2:47	1:54	0:52
Georgia	2:39	1:47	0:52
Hawaii	2:54	1:50	1:04
Idaho	2:43	1:47	0:56
Illinois	2:54	1:59	0:55
Indiana	2:45	1:54	0:51
Iowa	2:49	1:47	1:01
Kansas	2:52	1:52	0:59
Kentucky	2:44	1:47	0:58
Louisiana	2:32	1:45	0:47
Maine	2:49	1:49	0:59
Maryland	2:52	1:55	0:56
Massachusetts	2:47	1:55	0:52
Michigan	2:50	1:54	0:56
Minnesota	2:54	1:51	1:03
Mississippi	2:42	1:44	0:59
Missouri	2:45	1:51	0:54
Montana	2:52	1:53	1:00
Nebraska	2:46	1:48	0:58
Nevada	2:51	1:55	0:57
New Hampshire	2:41	1:56	0:45
New Jersey	2:52	1:59	0:53
New Mexico	2:43	1:48	1:14
New York	3:07	1:53	1:17
North Carolina	2:39	1:46	0:53
North Dakota	2:51	1:54	0:57
Ohio	2:48	1:51	0:57
Oklahoma	2:38	1:47	0:51
Oregon	2:55	1:42	1:05
Pennsylvania	2:49	1:54	0:55
Rhode Island	2:50	1:55	0:55
South Carolina	2:38	1:48	0:50
South Dakota	2:37	1:46	0:51
Tennessee	2:33	1:50	0:43
Texas	2:41	1:50	0:51
Utah	2:45	1:46	1:00
Vermont	2:44	1:50	0:54
Virginia	2:48	1:54	0:55
Washington	2:55	1:56	0:59
West Virginia	2:38	1:46	0:52
Wisconsin	2:55	1:51	1:04
Wyoming	2:52	2:05	0:47
District of Columbia	2:56	1:54	1:01

Note: Numbers may not add up due to rounding.
Source: Tax Foundation

Table 6
U.S Tax Bite in the 8-Hour Day, 1902-1997
(Hours:Minutes)

Year	Tax Bite
1902	0:41
1913	0:40
1922	1:03
1925	0:48
1930	0:58
1940	1:28
1941	1:38
1942	1:41
1943	2:05
1944	1:57
1945	1:59
1946	1:57
1947	2:01
1948	1:54
1949	1:48
1950	2:01
1951	2:10
1952	2:11
1953	2:10
1954	2:05
1955	2:09
1956	2:12
1957	2:14
1958	2:10
1959	2:15
1960	2:20
1961	2:20
1962	2:21
1963	2:23
1964	2:16
1965	2:16
1966	2:20
1967	2:22
1968	2:30
1969	2:37
1970	2:32
1971	2:29
1972	2:35
1973	2:35
1974	2:39
1975	2:33
1976	2:37
1977	2:39
1978	2:3[illegible]
1979	2:38
1980	2:40
1981	2:44
1982	2:41
1983	2:37
1984	2:36
1985	2:37
1986	2:38
1987	2:42
1988	2:40
1989	2:40
1990	2:39
1991	2:39
1992	2:38
1993	2:40
1994	2:42
1995	2:45
1996	2:48
1997	2:49

Source: Tax Foundation

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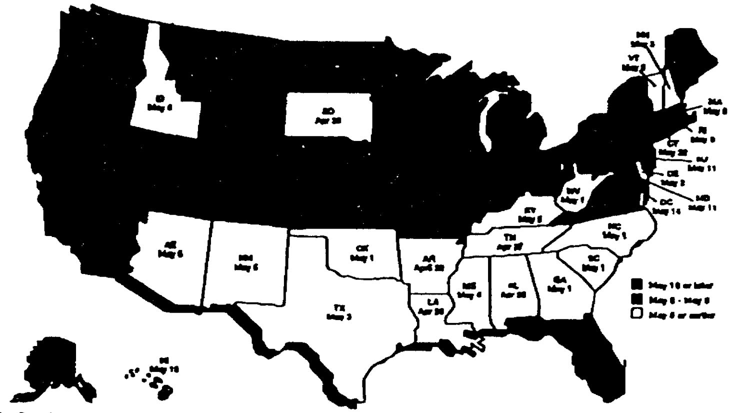
Figure 5
Tax Freedom Day by State, 1997



Source: Tax Foundation.

out the year and that individuals initially devote all of their earnings to paying their taxes. The day that the average American becomes "free" to spend their income on other goods and services is Tax Freedom Day.

Determining the national Tax Freedom Day involves calculating an overall effective tax rate for the nation. This is done by dividing the per capita tax burden by per capita income. The following formula presents this calculation for 1997:

$$\frac{\text{Per capita federal, state \& local taxes}}{\text{Per capita income}} = \frac{\$9,205}{\$26,187} = 35.2\% = \frac{128 \text{ days}}{365 \text{ days}} = \text{May 9}^{*}$$

*The average American works 128 days, or until May 8, to pay off his or her taxes. May 9, the next day, is her or her Tax Freedom Day.

The income figure used in this formula is Net National Product (NNP), a component of the National Income Product Accounts (NIPA). These accounts are computed and compiled annually by the Commerce Department's Bureau of Economic Analysis. The Tax Foundation has used NNP for decades in its Tax Freedom Day calculations and believes that it is the most appropriate measure of income available. In order to maintain consistency, federal, state and local tax collection totals are also based on NIPA definitions.

Tax Freedom Day is calculated for the current year. This necessitates forecasting both the current year's per capita tax burden and income. The 1997 projections were based on the most current NIPA data available and used the economic assumptions contained in the Congressional Budget Office's January 1997 report on the economy and the federal budget.

In the past corporate income and severance taxes collected by state governments were included as part of a state's total tax burden. This presented a problem since it is likely that the incidence of many of these taxes fell outside the states' borders. In order to correct this problem all state corporate income and severance taxes are allocated nationwide using a methodology developed by the Tax Foundation. The Foundation feels that this adjustment is appropriate since the goal of calculating Tax Freedom Day by state is to illustrate the tax burden *borne* by the residents of different states rather than simply measuring per capita tax collections.

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