

TAX FEATURES[®]

June 1996 Volume 40, Number 5

Housing Values Largely Unaffected by Flat Tax Without Mortgage Interest Deduction

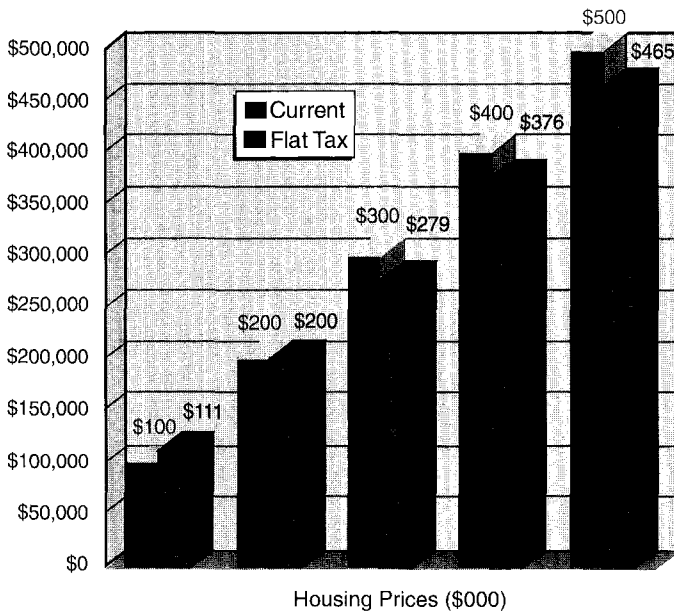
For taxpayers interested in a flat tax but concerned about the effects of losing their mortgage interest deduction, a new Tax Foundation study offers good news: On average, the value of the nation's housing stock is un-

likely to be affected significantly by the flat tax currently under debate.

A major tax reform skirmish occurred earlier this year when a study by DRI/McGraw Hill alleged that a flat tax would reduce housing values, largely because of its elimination of the home mortgage and property tax deductions. The DRI study, which projected a 15 percent decline in housing prices, was challenged in a recent study by Jane Gravelle of the Congressional Research Service, based in part on inter-asset pricing and supply responses. The study concluded that, in the long run, "there are reasons to believe the supply response is such that there would be virtually no price change [in housing]."

The Tax Foundation study employed an alternative methodology based on a model of asset price determination. Unlike the Gravelle study, the Tax Foundation report does not incorporate changes in national savings or investment patterns into the analysis, focusing instead on the actual benefits and expenses involved in home ownership.

Chart 1: Comparison of Housing Values Under Current Tax System and a Pure Flat Tax System



Source: Tax Foundation.

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FRONT & CENTER



Put America's Tax Code on The Side of America's Workers

Senator Byron Dorgan (D - N.D.)

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House Ways & Means Calls on Tax Foundation to Testify on Impact of Federal Gasoline Taxes

The integrity of the federal motor fuels tax system — which originally linked excise collections to transportation projects — has been undermined by both the build-up of huge surpluses in the Federal Highway Trust Fund and the diversion of revenues into the General Fund, Tax Foundation Economist Patrick Fleenor told the House Ways & Means Committee at a May 8 hearing.

"Repeal of the 4.3¢ per gallon gasoline tax would help to restore integrity to the system," Mr. Fleenor observed. By abolishing the 4.3¢ per gallon gasoline tax, he told Committee members, Congress would be acting in accordance with well established principles of public finance. "If these principles had been applied over the past two decades, American households would face a federal gas tax that is substantially lower than the 18.3¢ per gallon tax imposed today."

[The federal gasoline excise stood at 18.4¢ after the 1993 increase, but fell 1¢ per gallon in January 1996 when Congress let the Leaking Underground Storage Tank Fund expire.]

At the hearing, Mr. Fleenor reminded Committee members that during the first 13 years of its life (1956 to 1969), the Federal Highway Trust Fund followed an established tenet of public finance known as the "benefit principle." The principle states that an equitable tax system is one in which the beneficiaries of a public service are taxed in accordance with their use of that service, which provides funds while creating an incentive to conserve on the use of the service.

Users of the nation's transportation infrastructure were assessed a fee, through excise taxes on transportation fuels. These fees were then deposited into a trust fund and were withdrawn to pay for the construction, maintenance, and operation of transportation projects. "Virtually all of the revenue collected from excise taxes on transportation fuels and deposited into the Federal Highway Trust Fund was reinvested in the nation's transportation infrastructure," related Mr. Fleenor.

But the integrity of this user fee

type system first began to break down in the early 1970s when the Federal Highway Trust Fund began to accumulate large balances — an indication that users of the nation's transportation infrastructure were being assessed a fee in excess of the benefit they were receiving. Rather than reduce the motor fuel excise rates to maintain balance between what user payments and the actual costs of operating the system, the taxes were instead regularly increased. As a result, the Federal Highway Trust Fund at the end of fiscal 1995 stood at \$19 billion.

The integrity of this user fee-type system was further undermined, Mr. Fleenor stated, by allowing the amassed surpluses to be used as an offset against shortfalls in other parts of the budget. The last two tax increases — a temporary 2.5¢ per gallon levy on motor fuels in 1990, and the 4.3¢ increase in 1993 — directed the proceeds of the tax hikes into the General Fund rather than the Federal Highway Trust Fund. "For the first time the tradition of using motor fuel taxes to fund transportation projects had been for-



Economist Patrick Fleenor testifies before the House Ways & Means Committee on federal gasoline excises.

mally broken," Mr. Fleenor observed.

Hence, concluded Mr. Fleenor, repeal of the 4.3¢ per gallon gasoline tax would force federal officials to restore balance to the transportation user fee fiscal process, and would help restore integrity to the system.

15% Tax Cut: \$800 Average Tax Reduction

A big question in Washington these days is whether Bob Dole, presumptive Republican nominee, will run on Senator Spencer Abraham's (R-Mich.) proposal to cut federal income tax rates 15 percent across the board. A Tax Foundation analysis shows that such a tax cut would provide the average tax filer an individual income tax cut of almost \$800 in 1997 — and would reduce the average personal income tax rate from 11.9 percent to 10.1 percent.

Such a reduction would initially cost the Treasury close to \$100 billion annually unless offset by spending cuts, but many economists project that the resulting economic growth would make up for some of this loss in subsequent years.

	Current Law			15% Tax Rate Reduction		
	Total Tax Burden (\$Million)	Average Tax Burden	Average Tax Rate	Total Tax Burden (\$Million)	Average Tax Burden	Average Tax Rate
Adjusted Gross Income						
\$1 under \$25,000	\$13,692	\$212	1.5%	\$8,137	\$126	0.9%
\$25,000 under \$50,000	115,331	3,693	8.5	98,017	3,139	7.3
\$50,000 under \$75,000	114,419	7,373	10.1	97,256	6,267	8.5
\$75,000 under \$100,000	82,712	13,318	12.8	70,340	11,326	10.9
\$100,000 under \$200,000	110,480	24,770	15.4	94,854	21,266	13.2
\$200,000 or more	225,687	162,651	25.7	197,077	142,032	22.4
All Taxpayers	\$662,254	\$5,329	11.9%	\$565,616	\$4,551	10.1%

High Fuel Excises Add to Frustration at Gasoline Pump

The recent rise in gasoline prices has focused attention once again on the toll such increases take on the American family's budget. In the process, some policymakers have also observed that gasoline excise taxes are also at an all-time high.

The federal gasoline excise rose from 9¢ to a 18.4¢ per gallon over the past decade, and currently stands at 18.3¢. (In January, Congress allowed the 0.1¢ levy for the Underground Leaking Storage Tank Fund to expire.) Meanwhile, the average state gasoline tax rose from about 13¢ to 19.4¢. The total gasoline tax, then, has risen from 22¢ to 37.7¢ per gallon since 1986 — about a 72 percent hike. For the owner of a mid-sized car with a 15-gallon gasoline tank, a 37.7¢ per gallon tax adds up to \$5.75 in taxes per fill-up.

And what does this tax burden mean for the average household budget? As the chart to the right shows, the average American household will spend \$422 on gasoline taxes this year. Among the states, this level ranges from a high of \$597 in Montana (where consumption is high due to greater traveling distances) and \$544 in Connecticut (which has the highest state excise, at 35¢ per gallon, and thus the highest total gasoline tax burden), to a low of \$307 in Florida (where the state excise is 12.5¢).

The chart also lists the various state gasoline excises, as of March 1996, and the total excises for each state, when combined with the federal rate of 18.3¢ per gallon.

If, as some policymakers have suggested, the 1993 gasoline tax increase were permanently repealed, the average household would save about \$48 over the next 12 months from lower gasoline taxes.

However, the recent vote in the U.S. House of Representatives to suspend the 4.3¢ per gallon increase, if enacted, would not provide permanent tax relief to motorists. The measure only lowers tax rates through the end of 1996. Starting next year, the federal excise would once again be 18.3¢.

Gasoline Tax Burden by Household, by State
Rates as of March 1996

States	1996 Per Household Gas Tax			Savings Per Household From Repeal Of '93 Tax	Excise Tax Rates		
	State Tax Burden	Federal Tax Burden	Total Burden		Federal	State	Combined
Alabama	\$242	\$248	\$490	\$58	18.3¢	18.0¢	36.3¢
Alaska	95	218	313	51	18.3	8.0	26.3
Arizona	205	210	415	49	18.3	18.0	36.3
Arkansas	252	248	499	58	18.3	18.7	37.0
California	190	194	384	45	18.3	18.0	36.3
Colorado	259	216	475	51	18.3	22.0	40.3
Connecticut	357	187	544	44	18.3	35.0	53.3
Delaware	257	206	463	48	18.3	23.0	41.3
District of Columbia	137	126	264	30	18.3	20.0	38.3
Florida	124	183	307	43	18.3	12.5	30.8
Georgia	113	276	389	65	18.3	7.5	25.8
Hawaii	156	179	335	42	18.3	16.0	34.3
Idaho	275	241	516	56	18.3	21.0	39.3
Illinois	200	193	393	45	18.3	19.0	37.3
Indiana	188	230	418	54	18.3	15.0	33.3
Iowa	258	237	495	55	18.3	20.0	38.3
Kansas	216	220	436	52	18.3	18.0	36.3
Kentucky	214	240	455	56	18.3	16.4	34.7
Louisiana	227	209	436	49	18.3	20.0	38.3
Maine	195	189	384	44	18.3	19.0	37.3
Maryland	251	197	448	46	18.3	23.5	41.8
Massachusetts	205	180	385	42	18.3	21.0	39.3
Michigan	173	213	386	50	18.3	15.0	33.3
Minnesota	239	220	458	51	18.3	20.0	38.3
Mississippi	267	267	534	62	18.3	18.4	36.7
Missouri	194	237	431	55	18.3	15.0	33.3
Montana	355	242	597	57	18.3	27.0	45.2
Nebraska	280	201	481	47	18.3	25.7	44.3
Nevada	275	211	485	49	18.3	24.0	42.3
New Hampshire	204	201	405	47	18.3	18.7	37.0
New Jersey	119	209	329	49	18.3	10.5	28.8
New Mexico	252	258	510	60	18.3	18.0	36.3
New York	167	137	304	32	18.3	22.5	40.8
North Carolina	270	226	496	53	18.3	22.0	40.3
North Dakota	253	233	487	55	18.3	20.0	38.3
Ohio	242	202	444	47	18.3	22.0	40.3
Oklahoma	221	239	461	56	18.3	17.0	35.3
Oregon	274	210	484	49	18.3	24.0	42.3
Pennsylvania	211	173	384	41	18.3	22.4	40.7
Rhode Island	244	155	398	36	18.3	29.0	47.3
South Carolina	205	236	442	55	18.3	16.0	34.3
South Dakota	256	261	517	61	18.3	18.0	36.3
Tennessee	268	246	514	58	18.3	20.0	38.3
Texas	232	213	445	50	18.3	20.0	38.3
Utah	273	265	538	62	18.3	19.0	37.3
Vermont	182	209	391	49	18.3	16.0	34.3
Virginia	212	223	435	52	18.3	17.5	35.8
Washington	251	201	452	47	18.3	23.0	41.3
West Virginia	273	198	472	46	18.3	25.4	43.7
Wisconsin	256	201	457	47	18.3	23.4	41.7
Wyoming	147	300	447	70	18.3	9.0	27.3
United States	\$216	\$206	\$422	\$48	18.3¢	19.4¢	37.7¢

Source: Tax Foundation.

Put America's Tax Code on the Side of America's Workers

By Sen. Byron Dorgan (D-N.D.)



It's a little known, perverse twist in the tax code which allows corporations to move their U.S. factories overseas to take advantage of cheap labor and special tax breaks, ship its products back to the U.S. market for sale, and then "defer" taxes on the income from those sales until it gets moved back to the United States as dividends.

While federal programs like Medicare and Medicaid, and investments in education and environmental protection have been marched to the chopping block as Congress reduces the budget deficit, one costly and counterproductive corporate give-away in the federal tax code has escaped unscathed.

It's a little known, perverse twist in the tax code which allows corporations to move their U.S. factories overseas to take advantage of cheap labor and special tax breaks, ship its products back to the U.S. market for sale, and then "defer" taxes on the income from those sales until it gets moved back to the United States as dividends. If the company wants, it can re-invest or park the income from those sales overseas in perpetuity, thus escaping U.S. taxation entirely!

This policy not only encourages U.S. companies to move American jobs overseas, but actually subsidizes them to do so. Experts say the loophole costs taxpayers at least \$2.2 billion over seven years, and contributes to the export of American jobs.

Here is how it works: Assume there are two corporations, making the same product, located on the same city block. They both make the same product, earn the same profit, and sell their products in the United States. One company decides to move overseas to a tax haven country. It will hire foreign workers to make the same product and ship it to the United States for sale. But now the company that moved overseas will not have to pay U.S. income taxes on its profits so long as it keeps those profits overseas. In other words, our tax code rewards the company that moved overseas by giving it a competitive advantage (a tax break) over the company that stayed in the U.S.

This outrageous loophole needs to be closed and the sooner the better. But few in Congress are clamoring to close it, even as they ask students, senior citizens, the poor, farmers, and others to make tough sacrifices.

According to the the Bureau of Labor Statistics, about 3 million U.S.

manufacturing jobs have been lost since 1979. One half of that job loss in manufacturing — 1.5 million — occurred between January 1989 and September 1993. During this time, the United States lost an average of 26,000 manufacturing jobs per month. This is the equivalent to shutting down one Fortune 500 manufacturing firm *per month*, for 56 months. While there was a short period of job growth in manufacturing in late 1993 and 1994, there are new and disturbing signs that employment in manufacturing is again declining.

While the United States was losing manufacturing jobs, many foreign tax havens were seeing significant increases in job creation from U.S.-owned subsidiaries. For example, while the United States was losing 3 million manufacturing jobs, the number of jobs with United States-based companies in Singapore skyrocketed by 46 percent, or 36,800 jobs. In 1992, U.S. firms had hundreds of thousands of manufacturing jobs located in tax haven countries.

The federal government has just started to track data to tell us how many of the U.S. jobs lost through plant closure moved overseas. However, if only half the plant closings involved these runaway

plants moving jobs to other countries, this would account for the elimination of hundreds of thousands of U.S. jobs!

I have introduced legislation in Congress to close this loophole. My bill is carefully targeted to stop this outrageous abuse. It would end tax deferral only where U.S. multinationals produce abroad in foreign tax havens, and then ship those tax-haven produced products back into the United States. It is important to note that this bill does nothing to hinder U.S. multinational companies that produce abroad from competing with foreign firms in foreign markets.

I propose using the \$2.2 billion saved by closing this loophole to provide incentives for those companies that are creating new jobs in the United States. My bill would provide a two-year refundable income tax credit equal to 20 percent of the FICA taxes for the new jobs that employers create in the United States.

We shouldn't be shocked when U.S. companies move jobs overseas — jobs which produce goods for U.S. consumption, no less — when we offer a special tax break giving them an unfair advantage over U.S. competitors to do so. Add the low tax rates and labor costs which foreign governments often use to

entice U.S. firms to move overseas, and it's not surprising at all that many companies find the lure to move U.S. jobs to foreign countries irresistible.

Congress should act now, both to protect American jobs and to prevent any further erosion of our domestic economic base.

It's time to do something about the hemorrhaging of good-paying manufacturing jobs in the United States. It's time America's tax copd stands with America's workers and that we recognize firms which increase America's standard of living by creating and keeping good-paying jobs here at home. America's working families deserve no less.

Some companies may still choose to dislocate thousands of workers in America in search of greater profits abroad. But taxpayers should not be asked to provide billions of dollars in tax subsidies to encourage them to do so.

We shouldn't be shocked when U.S. companies move jobs overseas . . . when we offer a special tax break giving them an unfair advantage over U.S. competitors to do so. Add the low tax rates and labor costs which foreign governments often use to entice U.S. firms to move overseas, and it's not surprising at all . . .

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

Housing Values Largely Unaffected by Flat Tax Without Mortgage Interest Deduction

Mortgage

Continued from page 1

The Foundation analysis — “The Flat Tax and Housing Values,” authored by Executive Director and Chief Economist J.D. Foster and published as a *Background Paper* and in a condensed *Special Report* format — indicates that owners of homes currently priced at around \$100,000 or below actually should expect a significant increase in the price of their asset (see Charts 1 and 2). Dr. Foster observes that owners of homes in the \$200,000 range similarly have little to fear even with a pure flat tax, as the net effect of the various proposed tax changes seems to leave them with little hope of a windfall, but little fear of a significant loss. Only owners of homes that cost in excess of about \$300,000 may see a modest decline in the value of their homes following the enactment of a flat tax.

Dr. Foster’s conclusions have implications both at the economic and political level: Not only has the proposed elimination of the mortgage interest deduction spurred debate over its impact on the economy, it also has demonstrated the political obstacles to creating a neutral tax system. “For many taxpayers, the equity built up in their home represents a large share of their total net worth,” Dr. Foster observes in the report. “If tax reform appeared likely to reduce home values significantly, as some have suggested would occur, it would create a significant political obstacle to enacting tax reform. On the other hand, if it can be shown that tax reform would cause housing prices to rise, this would obviously improve the prospects for tax reform.”

The Arney-Shelby flat tax plan currently in Congress includes a number of changes that would clearly affect the value of the nation’s housing stock, such as scaling back or eliminating the capital gains tax, the home mortgage and property tax deductions, the tax on interest income, and the gift and estate tax. Dr. Foster’s analysis contrasts the impact that the various tax

Chart 2: Estimated Net Changes in Housing Values Under a Pure Flat Tax

Current Value of Home	Value of Home Under Pure Flat Tax	Change in Value	Percent Change in Value
\$100,000	\$111,000	\$11,000	11%
200,000	200,000	0	0
300,000	279,000	-21,000	- 7
400,000	376,000	-34,000	- 6
500,000	465,000	-35,000	- 7

Source: Tax Foundation.

changes generate, in effect deriving a net benefit/cost for different levels of housing values.

As the results presented in Chart 2 indicate, the expected percentage change varies significantly for different priced houses. For homes valued around \$100,000, a flat tax is likely to cause a significant increase in value, which is due entirely to an expected decline in mortgage interest rates.

But Dr. Foster says that other changes in taxation from adopting a flat tax would likely not affect prospective buyers of homes in this price range. For example, homeowners carrying a \$100,000 mortgage are unlikely to have enough itemizable deductions (even with mortgage interest) to benefit much, if at all, from itemizing their deductions under current law. The loss of these deductions, then, would have no effect on the after-tax cost of the home.

For homes currently priced around \$200,000, a flat tax would have little or no net effect because the negative effect from the loss of the property-tax and mortgage-interest deductions is about equal to the positive effects of the decline in mortgage rates and the elimination of anticipated future capital gains tax paid on appreciation.

But for homes priced around \$300,000 and above, Dr. Foster estimates that the net effect is likely to be about a 7 percent decline in value. As homes become more expensive, prospective buyers are likely to have greater amounts of taxable income and therefore face ever higher marginal tax rates. At higher current-law marginal tax rates, the loss of the home mortgage and property tax deductions becomes more costly and so will have a greater negative effect on housing prices. These effects are partially offset by the greater amount of capital gains tax relief provided to owners of more expensive homes in moving to a flat tax.

Based on Dr. Foster’s findings and using data on the distribution of the national private housing stock by price, the report concludes that Americans could anticipate anywhere between a 3 percent increase, on average, to a 2 percent drop in the value of the national housing stock if a flat tax were adopted, with a point estimate of about a 1 percent increase. Overall, however, the safest conclusion to draw from these results is that, once all effects are defined, assessed, and netted out, on average the value of the nation’s housing stock would be unaffected by the adoption of a flat tax.

'96 State Seminars Focus on Federal, State Tax Reform

Five state policy seminars hosted by the Tax Foundation between May and September this year will examine the issue of "Federal and State Tax Policy at the Crossroads." The seminars are part of a series of state conferences the Tax Foundation co-sponsors with local policy groups each year.

The first seminar, held May 17 in Chicago, was co-sponsored with the Heartland Institute. Dr. Robert Genetski, a nationally known economic forecaster, kicked off the event as keynote speaker. The first session, focusing on the federal tax reform movement, featured Kirt Johnson, Chief of Staff to Rep. Phil Crane (R-Ill.); Elizabeth Garrett, Assistant Professor of Law at the University of Chicago and a former top Senate aide; and Stephen Entin, Resident Scholar at the Institute for Research on the Economics of Taxation.

The second session explored a hot election-year issue in Illinois, the financing of state education. Panelists offering insights into this area of tax policy included State Senator Chris Lauzen, Dr. Herbert Walberg, a professor at the University of Illinois at Chicago, and Joseph Bast, President of The Heartland Institute.

The next tax seminar is scheduled for Indianapolis on June 17. The half-day conference will feature Rep. David McIntosh (R-Ind.) as the keynote speaker. In the first session, Alan Reynolds, Research Director at the Kemp Commission, and Megan Gilly, a top aide to Senator Dan Coats (R-Ind.), will discuss where federal tax reform is heading. The second session, exploring the potential for reform in Indiana, will feature Dr. Marilyn Flowers of Ball State University; Patrick Kiely, President of the Indiana Manufacturers Association; and William Styring III of the Hudson Institute.

A third seminar is planned for Austin on July 18, with Texas Citizens for a Sound Economy, and the final two tax seminars are scheduled for September in St. Louis (with the Center for the Study of American Business) and Detroit (with the Mackinac Center).

FOUNDATION MESSAGE

Taking the Tax Cut Challenge



*J.D. Foster
Executive Director
& Chief Economist*

There's just no two ways about it. When Steve Forbes left the race to be the Republican nominee for the presidency, much of the momentum for tax reform left with him, replaced now with talk of tax cuts.

Tax reform has once again been relegated to conferences and to think tanks, and this may not be all bad. Because one thing the Forbes candidacy demonstrated is that all of the tax reform plans need work. They're not quite ready for the big leagues. The proponents need a little time back in Triple A ball to hone their messages and perfect their proposals.

So now the attention is on the tax cut proposals Bob Dole as Republican nominee-apparent will adopt and what kind of response President Clinton can devise. Of course, capital gains as the old war horse of tax relief could be part of the picture. And the family tax credit of Contract with America fame is sure to get a good looking over. But we've also got some new and some nearly new proposals to consider.

In the nearly new category there is the proposal to cut income tax rates 15 percent, recently championed by Sen. Spencer Abraham (R-Mich.). The plan is reminiscent of the income tax cuts Ronald Reagan campaigned on in 1979. That the proposal harkens back to the halcyon days of the early Reagan administration may mean it carries some baggage, but it also means it would probably be immediately accepted by a broad cross-section of Republican voters.

In the truly new category is a proposal by Sen. John Ashcroft (R-Mo.) to allow individuals to deduct their Social Security taxes paid in calculating Adjusted Gross Income, just as businesses can deduct payroll taxes paid on behalf of their employees from their taxable income. This proposal is obviously solid on tax policy grounds — it eliminates an instance of double taxation — and it's solid on economic grounds in the sense that it would encourage economic growth by increasing the size of the work force and reducing labor costs to employers, at least in some instances.

The big question, of course, is how to pay for any of these proposals. Unless we're just talking about moving taxes around from one group to the next, these are big ticket items that mean either big increases in the budget deficit or big increases in spending. How Sen. Dole resolves these issues will say a lot about how he would govern as President. Likewise, how President Clinton responds to these proposals with his own tax and spending ideas should provide as clear a picture as we are likely to get of the policy differences between these two men.

Some would say Sen. Dole's focus on tax cuts is purely political — candidates for the White House either promise tax cuts or they have no chance of winning. There may be some truth to this, but it is also true that the tax burden in America is higher than it's ever been. Hence, there could be a strong desire for tax relief among a broad cross-section of America, in which case any candidate that fails to grasp this fact is likely to be looking for employment come November 6. The question then becomes who will go after federal spending cuts as vigorously as he will tax cuts.

Of course, if President Clinton opposes significant cuts because of the budget deficit, how does he defend himself when reminded that he blocked last winter's budget deal and opposed the balanced budget amendment? But if he proposes cuts of his own, isn't he devaluing what he regards as his major economic policy accomplishment: the 1993 budget deal and its tax increases? Sen. Dole has his own problems with tax cuts. He can push for them without contradicting his long-held support for a balanced budget only if he can convince the voters that he can cut spending enough to make the numbers work. Senator Dole's big challenge is to convince voters he can find the spending cuts, enact real tax relief, and eliminate the deficit, going, as they say, where no man has gone before.

Rising Payroll Taxes Push Federal Tax Load Higher

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Tax Features© (ISSN 0883-1335) is published monthly by the Tax Foundation, an independent 501(c)(3) organization chartered in the District of Columbia. Annual subscriptions to the newsletter are \$15.

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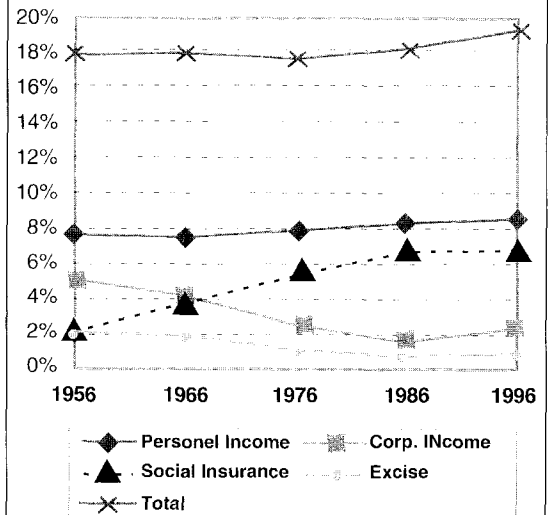
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According to the latest federal data, while personal income taxes as a percent of GDP have risen about 8 percent over the past 40 years, and excise and corporate income taxes have fallen, payroll taxes (also called social insurance taxes) have jumped 204 percent.

In all, federal taxes rose from 17.9 percent of GDP in 1956 to 19.4 percent this year. Federal individual income taxes remained stable in that time, climbing from 7.7 percent to 8.6 percent. Federal corporate income taxes dropped from 5 percent to 2.3 percent of GDP over the last 40 years, and federal excise taxes fell from 2 percent to about 0.9 percent in that time frame.

On the other hand, social insurance taxes—originally earmarked solely for Social Security and Medicare—have gone from 2.2 percent of GDP to 6.9 percent since 1956, and are apparently the driving force behind the climb in federal tax burden.

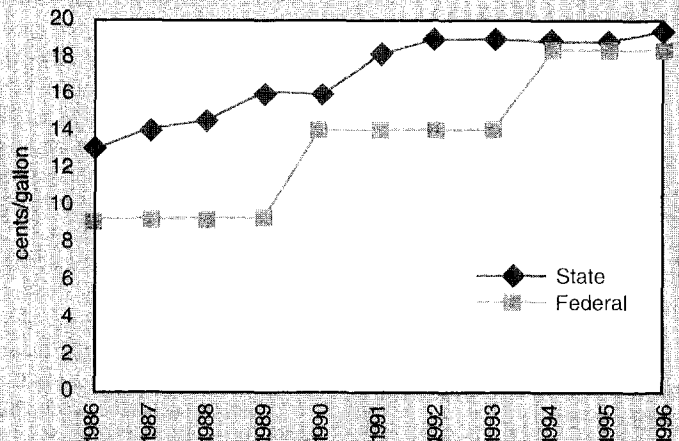
Percent of GDP, 1956-1996



Source: Tax Foundation; OMB.

TAX BITE

Federal and State Gasoline Excise Tax Rates, 1986-1996



Source: Tax Foundation.

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