TAX FOUNDATION Since 1937

SPECIAL REPORT

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America Celebrates Tax Freedom Day®

In 2006, Americans Will Work from January 1 to April 26 Before Earning Enough to Pay Taxes; Economic Growth Pushes Federal Collections Up

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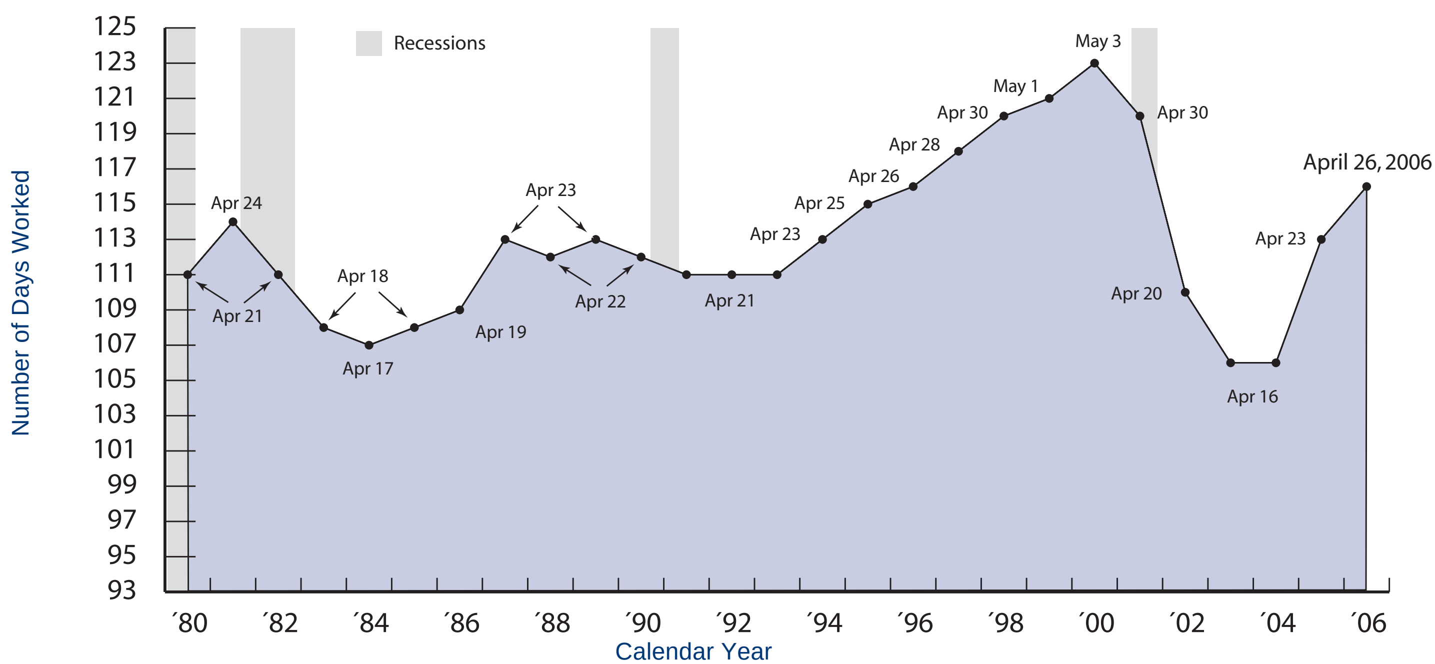
Tax Freedom Day will arrive on the 116th day of 2006 — Wednesday, April 26. Because of the rising tax payments that accompany economic growth, this year's Tax Freedom Day is three days later than it was in 2005 and a remarkable 10 days later than it was in 2004.

Despite the rapid growth of the total tax burden between 2004 and 2006, Tax Freedom Day still shows the effects of the Bush tax cuts in 2001 and 2003. Even as late as April 26, Tax Freedom Day is still celebrated seven days earlier than it was in 2000 when the tax burden reached its peak and Tax Freedom Day was delayed until May 3.

Although a significant tax cut has been enacted in each of the last five years, only two of

Figure 1
Tax Freedom Day, 1980 - 2006



Note: Leap day is omitted so that dates are comparable over time.
Sources: Bureau of Economic Analysis, Congressional Budget Office and Tax Foundation calculations.

Table 1

Tax Freedom Day & Total Effective Tax Rates by Level of Government
Calendar Years 1900–2006
Significant Tax Legislation Noted with First-Year Impact on Tax Burden

	All Governments			Federal Government		State-Local Governments	
Year	Tax Freedom Day	Days Spent Working to Pay Taxes	Total Effective Tax Rate	Days Spent Working to Pay Taxes	Effective Tax Rate	Days Spent Working to Pay Taxes	Effective Tax Rate
1900	January 22	22 days	5.9%	8 days	2.1%	14 days	3.8%
1901	January 22	21	5.8	7	2.0	14	3.8
1902*	January 22	21	5.6	6	1.7	15	3.9
1903*	January 21	20	5.3	5	1.3	15	4.0
1904*	January 21	21	5.7	5	1.4	16	4.3
1905	January 21	20 days	5.4%	4 days	1.2%	16 days	4.2%
1906	January 20	19	5.1	4	1.2	15	3.9
1907*	January 20	19	5.1	4	1.2	15	3.9
1908*	January 21	21	5.7	4	1.2	17	4.5
1909	January 20	19	4.9	4	1.0	15	4.0
1910*	January 20	19 days	5.0%	4 days	1.1%	15 days	3.9%
1911*	January 21	20	5.3	5	1.2	15	4.1
1912*	January 19	19	5.0	4	1.1	15	3.9
1913*	January 20	19	5.2	4	1.2	15	4.0
1914*	January 24	23	6.1	5	1.3	18	4.8
1915	January 26	25 days	6.7%	5 days	1.4%	20 days	5.3%
1916	January 24	24	6.3	5	1.4	19	4.9
1917	January 24	23	6.2	6	1.8	17	4.4
1918*	February 08	38	10.2	24	6.4	14	3.8
1919*	February 07	37	9.9	23	6.1	14	3.8
1920*	February 12	43 days	11.6%	29 days	7.9%	14 days	3.8%
1921*	February 22	52	14.1	32	8.8	20	5.3
1922	February 11	41	11.1	21	5.7	20	5.4
1923*	February 04	34	9.2	15	4.1	19	5.1
1924*	February 06	37	10.0	16	4.4	21	5.7
1925	February 04	34 days	9.3%	13 days	3.7%	21 days	5.6%
1926*	February 06	36	9.7	14	3.9	22	5.8
1927*	February 08	38	10.4	14	4.0	24	6.3
1928	February 08	39	10.5	14	3.8	25	6.6
1929*	February 08	39	10.4	14	3.8	25	6.6
1930*	February 11	42 days	11.2%	13 days	3.4%	29 days	7.9%
1931*	February 13	44	12.0	9	2.6	35	9.4
1932*	February 25	56	15.1	12	3.1	44	12.0
1933*	March 03	63	17.2	19	5.3	44	11.9
1934	February 27	58	15.7	21	5.6	37	10.1
1935	February 25	56 days	15.3%	20 days	5.4%	36 days	9.8%
1936	February 25	56	15.2	21	5.9	35	9.3
1937*	March 01	61	16.6	28	7.8	33	8.9
1938*	March 05	64	17.3	28	7.6	36	9.7
1939	March 03	62	16.7	28	7.5	34	9.2
1940	March 06	65 days	17.6%	32 days	8.8%	33 days	8.8%
	The Revenue Act of 1940 (+1.3%); Second Revenue Act of 1940 (+1.0%)						
1941	March 14	73	19.9	46	12.6	27	7.3
	The Revenue Act of 1941 (+3.1%)						
1942	March 17	76	20.7	54	14.9	22	5.8
	The Revenue Act of 1942 (+6.7%)						
1943	April 05	95	25.8	77	20.9	18	4.9
	The Revenue Act of 1943 (0.5%) and Current Tax Payment Act of 1943 (+1.4%)						
1944	March 30	89	24.3	72	19.8	17	4.5
	The Individual Income Tax Act of 1944 (–0.3%)						

Continued

those were large and long-lasting enough to continue affecting the tax burden in 2006. Those were the Economic Growth and Tax Reform Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA).

However, these tax cuts did little to diminish the progressivity of the federal income tax. Naturally, then, as economic growth has resumed, so has the growth of the tax burden. The tax burden will be higher in 2006 not because of tax increases — none have been passed at the federal level recently and none are expected in 2006 — but rather because of rapid economic growth expected by most economists to continue through the year.

After a recession in 2001 and 2002's nearly stagnant but slowly growing economy, economic conditions improved significantly. The economy is now producing tax revenue commensurate with its impressive growth. The unemployment rate in February 2006 was 4.8 percent, down from 5.4 percent a year earlier in February 2005 (Bureau of Labor Statistics). Additionally, Gross Domestic Product (GDP), the standard measure of an economy's size and strength, grew by a robust 6.5 percent nominally from 2004 to 2005 (Bureau of Economic Analysis). These figures indicate a rapidly growing economy, which is always reflected in a later Tax Freedom Day unless tax rates are cut significantly.

Recently much attention has focused on the growing size of federal budget deficits. In fiscal year 2006 the deficit is projected to be $319 billion. If taxes were increased immediately to pay for this budget shortfall, Tax Freedom Day would experience a significant increase of 10 days from April 26 to May 6, which would set the record high Tax Freedom Day.

What is Tax Freedom Day?

Tax Freedom Day is the day when Americans will finally have earned enough money to pay off their total tax bill for the year. Every dollar that's officially called income by the government is counted, and every payment to the government that is officially considered a tax is counted. Taxes at all levels of government are

Table 1 (continued)

Tax Freedom Day & Total Effective Tax Rates by Level of Government
Calendar Years 1900–2006
Significant Tax Legislation Noted with First-Year Impact on Tax Burden

	All Governments			Federal Government		State-Local Governments	
Year	Tax Freedom Day	Days Spent Working to Pay Taxes	Total Effective Tax Rate	Days Spent Working to Pay Taxes	Effective Tax Rate	Days Spent Working to Pay Taxes	Effective Tax Rate
1945*	April 02	92 days	25.0%	74 days	20.3%	18 days	4.7%
The Revenue Act of 1945 (–2.9%)							
1946	April 02	92	25.0	72	19.6	20	5.4
1947	April 02	92	25.0	71	19.5	21	5.6
1948*	March 26	85	23.1	64	17.4	21	5.7
The Revenue Act of 1948 (–2.1%)							
1949*	March 22	81	22.0	57	15.7	24	6.3
1950	March 31	90 days	24.6%	67 days	18.3%	23 days	6.3%
The Revenue Act of 1948 (–2.1%)							
1951	April 07	97	26.3	75	20.4	22	6.0
The Revenue Act of 1951 (+1.8%)							
1952	April 07	97	26.3	74	20.2	23	6.1
1953*	April 06	96	26.1	73	19.9	23	6.2
1954*	April 01	91	24.8	66	18.2	25	6.6
Internal Revenue Code of 1954 (–0.1%); Excise Tax Reduction Act of 1954 (–0.3%)							
1955	April 03	93 days	25.5%	68 days	18.9%	25 days	6.6%
1956	April 06	96	26.1	70	19.1	26	7.0
1957*	April 06	96	26.1	70	19.0	26	7.1
1958*	April 04	94	25.6	66	18.1	28	7.4
1959	April 07	97	26.5	69	19.0	28	7.5
1960*	April 10	100 days	27.4%	71 days	19.5%	29 days	7.9%
1961*	April 10	100	27.3	70	19.1	30	8.2
1962	April 10	100	27.4	70	19.2	30	8.2
The Revenue Act of 1962 (0.0%)							
1963	April 12	102	27.9	71	19.6	31	8.3
1964	April 07	97	26.5	66	18.1	31	8.4
The Revenue Act of 1964 (–1.9%)							
1965	April 07	97 days	26.4%	66 days	18.1%	31 days	8.4%
1966	April 10	100	27.2	69	18.8	31	8.3
Tax Adjustment Act of 1966 (+0.7%)							
1967	April 11	101	27.6	69	19.0	32	8.6
1968	April 17	107	29.2	74	20.2	33	9.0
Revenue and Expenditure Control Act of 1968 (+1.9%)							
1969*	April 22	112	30.5	77	21.2	35	9.4
Tax Reform Act of 1969 (+0.4%)							
1970*	April 18	108 days	29.4%	72 days	19.5%	36 days	9.8%
1971	April 15	105	28.6	68	18.5	37	10.1
Revenue Act of 1971 (–0.4%)							
1972	April 19	109	29.7	70	19.3	39	10.4
1973*	April 19	109	29.9	71	19.7	38	10.2
1974*	April 22	112	30.6	74	20.4	38	10.2
Employee Retirement Income Security Act of 1974 (0.0%)							
1975*	April 16	106 days	28.9%	68 days	18.8%	38 days	10.2%
Tax Reduction Act of 1975 (–0.7%)							
1976	April 19	109	29.6	71	19.4	38	10.3
Tax Reform Act of 1976 (–0.9%)							
1977	April 20	110	29.9	72	19.6	38	10.2
Tax Reduction and Simplification Act of 1977 (–1.0%)							
1978	April 20	110	30.0	74	20.2	36	9.8
Revenue Act of 1978 (–0.6%)							
1979	April 20	110	30.1	75	20.7	35	9.4

Continued

included, whether levied by Uncle Sam or state and local governments.

Tax Freedom Day gives Americans an easy way to gauge the overall tax take, a task that can be quite daunting due to the multiplicity of taxes at each level of government, especially the "hidden" taxes that are often buried in the cost of living. In effect, Tax Freedom Day provides taxpayers with a tax barometer that measures the total tax burden over time and by state.

The result is a nationwide Tax Freedom Day and a separate Tax Freedom Day for each state, both of which measure taxes paid as a percentage of income. No regulatory costs are included in the calculation. The report discusses tax burdens for each type of tax, compares federal tax burdens to state-local tax burdens, compares taxes to other major consumer expenses, and concludes with a methodology section.

At the beginning of the 20th century, taxes accounted for 5.9 percent of income, and as a result, the nation celebrated Tax Freedom Day on January 22.

Tax Freedom Day Over Time

The United States has traditionally been a low-tax country. From the founding of the republic until the early part of the twentieth century, total government spending at the federal, state, and local levels rarely exceeded 10 percent of national income, except during wartime. As shown in Table 1 and Figure 2, at the turn of the last century, taxes accounted for 5.9 percent of income, and as a result, the nation celebrated Tax Freedom Day on January 22.

1900–1945

The tax burden hardly changed between the turn of the century and World War I, and Tax Freedom Day was celebrated in late January every year. After 1917, federal taxes more than tripled to fund the war effort, and in 1921 the tax burden reached the then all-time high, with

Table 1 (continued)

Tax Freedom Day & Total Effective Tax Rates by Level of Government Calendar Years 1900–2006 Significant Tax Legislation Noted with First-Year Impact on Tax Burden

	All Governments			Federal Government		State-Local Governments	
Year	Tax Freedom Day	Days Spent Working to Pay Taxes	Total Effective Tax Rate	Days Spent Working to Pay Taxes	Effective Tax Rate	Days Spent Working to Pay Taxes	Effective Tax Rate
1980*	April 21	111 days	30.3%	76 days	20.9%	35 days	9.4%
	Crude Oil Windfall Profit Tax of 1980 (+0.5%)						
1981*	April 24	114	31.0	79	21.6	35	9.4
	Economic Recovery Tax Act of 1981 (–1.4%)						
1982*	April 21	111	30.3	75	20.7	36	9.7
	Tax Equity and Fiscal Responsibility Act of 1982 (+0.6%); Highway Revenue Act of 1982 (+0.1%)						
1983	April 18	108	29.4	72	19.7	36	9.7
	Social Security Amendments of 1983 (+0.2%); Interest and Dividend Tax Compliance Act of 1983 (–0.1%)						
1984	April 17	107	29.2	71	19.4	36	9.8
	Deficit Reducation Act of 1984 (+0.3%)						
1985	April 18	108 days	29.6%	72 days	19.7%	36 days	9.9%
	Consolidated Omnibus Budget Reconciliation Act of 1985 (+0.0%)						
1986	April 19	109	29.7	72	19.7	37	10.0
	Tax Reform Act of 1986 (+0.5%)						
1987	April 23	113	30.7	75	20.5	38	10.2
	Omnibus Budget Reconciliation Act of 1987 (+0.2%)						
1988	April 22	112	30.5	74	20.3	38	10.2
1989	April 23	113	30.7	75	20.5	38	10.2
	Omnibus Reconciliation Act of 1989 (+0.1%)						
1990*	April 22	112 days	30.5%	74 days	20.2%	38 days	10.3%
	Omnibus Budget Reconciliation Act of 1990 (+0.5%)						
1991*	April 21	111	30.4	72	19.9	39	10.5
1992	April 21	111	30.2	72	19.6	39	10.6
1993	April 21	111	30.4	72	19.9	39	10.5
	Omnibus Budget Reconciliation Act of 1993 (+0.4%)						
1994	April 23	113	30.9	74	20.4	39	10.5
1995	April 25	115 days	31.3%	76 days	20.8%	39 days	10.5%
1996	April 26	116	31.7	77	21.3	39	10.4
1997	April 28	118	32.2	80	21.8	38	10.3
	Taxpayer Relief Act of 1997 (–0.1%)						
1998	April 30	120	32.8	82	22.4	38	10.4
1999	May 01	121	32.9	83	22.5	38	10.4
2000	May 03	123 days	33.6%	84 days	23.1%	39 days	10.4%
2001*	April 30	120	32.6	81	22.2	39	10.5
	Economic Growth and Tax Reform Reconciliation Act of 2001 (–0.8%)						
2002*	April 20	110	29.9	72	19.7	38	10.3
	The Job Creation and Worker Assistance Act of 2002 (–0.6%)						
2003	April 16	106	28.9	68	18.7	38	10.2
	Job Growth and Tax Relief Reconciliation Act of 2003 (–0.6%)						
2004	April 16	106	28.9	68	18.6	38	10.3
	Working Families Tax Relief Act of 2004 (–0.3%); American Jobs Creation Act of 2004 (0.0%)						
2005	April 23	113 days	30.9%	74 days	20.2%	39 days	10.7%
2006	April 26	116	31.6	77	21.0	39	10.6

Notes: Leap day is omitted to make dates comparable over time. Positive and negative percentages in parentheses after legislation indicate the first-year fiscal impact of the bill, measured as a percentage of NNP. See Methodology for discussion of NNP.

* Year with at least one quarter in which GDP shrank.

Source: Office of Management and Budget; Internal Revenue Service; Congressional Research Service; National Bureau of Economic Research; Tax Foundation

taxpayers working until February 22 before earning enough to pay their taxes.

In the aftermath of World War I, the tax burden fell significantly, especially in 1922 and 1923, but it never reached its pre-war levels. For the rest of the 1920s, Tax Freedom Day fell during February. Beginning in the 1930s, the massive expansion of government called for by President Roosevelt's New Deal in response to the Great Depression pushed Tax Freedom Day later and later on the calendar, reaching March 17 by 1942. America's entry into World War II accelerated the growth of taxes, and during the last three years of the war Tax Freedom Day was postponed by half a month, reaching April 2 in 1945.

In the years right after World War I, America's tax burden fell significantly, but it never reached its pre-war levels.

1945–1990

Just as taxes fell after World War I, so they fell for a few years after victory in Japan and Europe. As a result, Tax Freedom Day moved from April 2 in 1945 to March 22 in 1949. In the decades that followed, the date on which the average American could claim freedom from taxes gradually moved further into the year. During the fifties, Americans added 19 days of work to their tax burden, celebrating Tax Freedom Day on April 10 in 1960. The Revenue Act of 1964, often called the Kennedy tax cut, sent tax burdens down sharply, but subsequent tax hikes associated mostly with the Vietnam War pushed the total tax burden back up to well over a quarter of the nation's income. By 1970, the nation was waiting until April 18 to celebrate Tax Freedom Day. The tax burden remained fairly constant during the 1970s, and in 1980, April 21 was Tax Freedom Day.

Americans got more tax relief during the early 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 during 1982, 1983 and 1984. Such tax relief was short-lived, however, as Tax Freedom Day was pushed to later dates after 1984. By 1989, the tax burden came within a day of the record high set in 1981, and Tax Freedom Day fell on April 23.

The Revenue Act of 1964, often called the Kennedy tax cut, sent tax burdens down sharply, but subsequent tax hikes associated mostly with the Vietnam War pushed the total tax burden back up to well over a quarter of the nation's income.

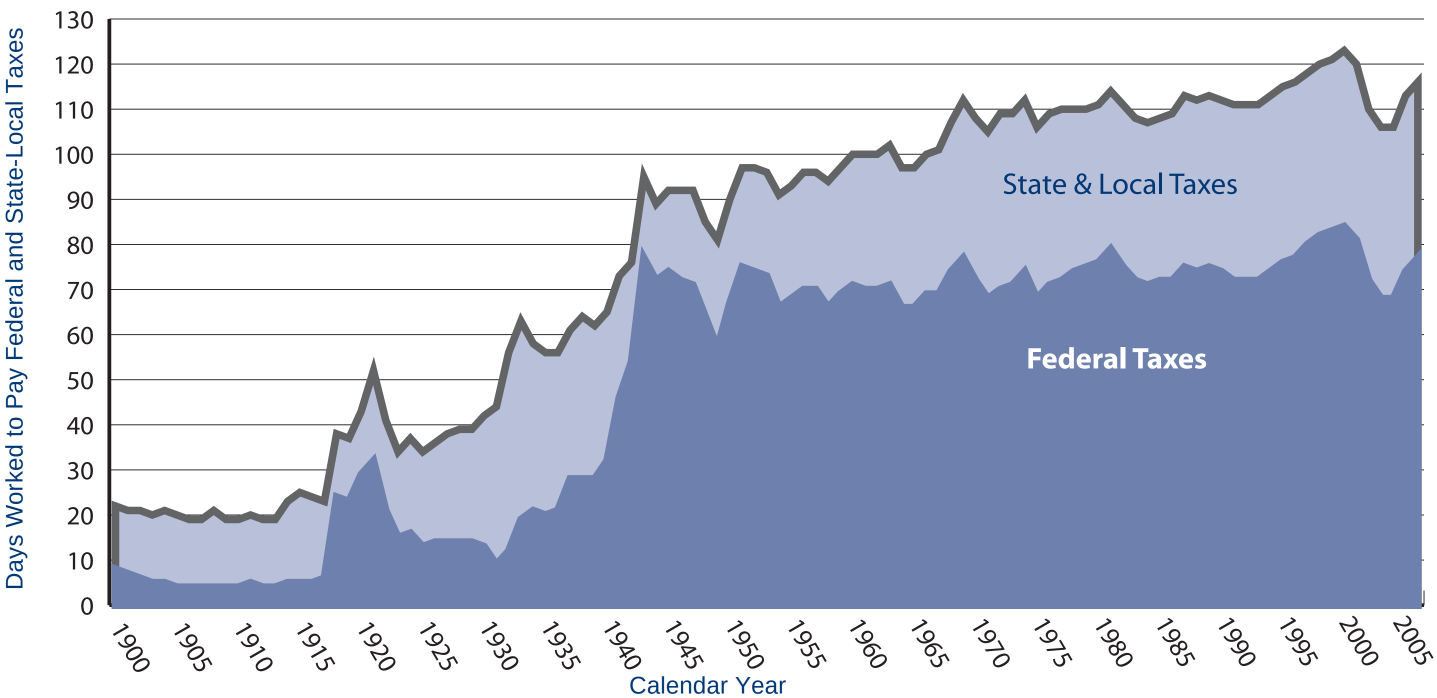
1990–2000

Since the end of the recession in the early 1990s the tax burden borne by Americans has grown markedly and Tax Freedom Day has tracked this trend. In the relatively short span between 1994 and 2000, the time that Americans spent working for government increased 10 days and pushed Tax Freedom Day into May for the first time.

In 1995 the nation's Tax Freedom Day arrived 115 days into the year on April 25. The next year taxes crept up, and Tax Freedom Day fell one day later on April 26. In 1997, Tax Freedom Day jumped two days to April 28, and 1999 added three days' worth of work to the tax burden. Taxes grew again in 2000, and for the first time, the nation's tax burden was 33 percent of national income, pushing Tax Freedom Day to May 3.

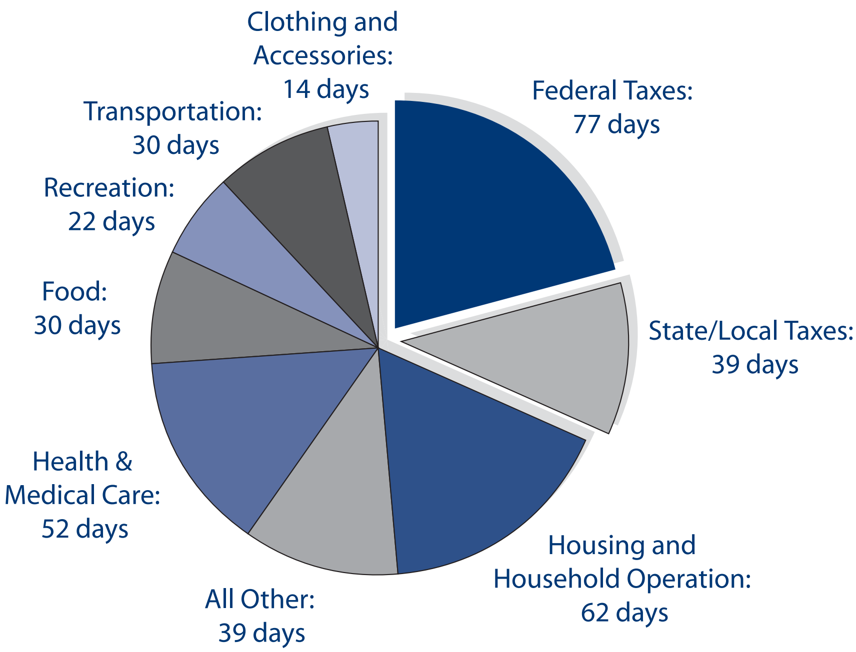
Between 1993 and 2000, the time that Americans spent working for government increased 12 days.

Figure 2
Days Worked to Pay Federal and State-Local Taxes
1900–2006



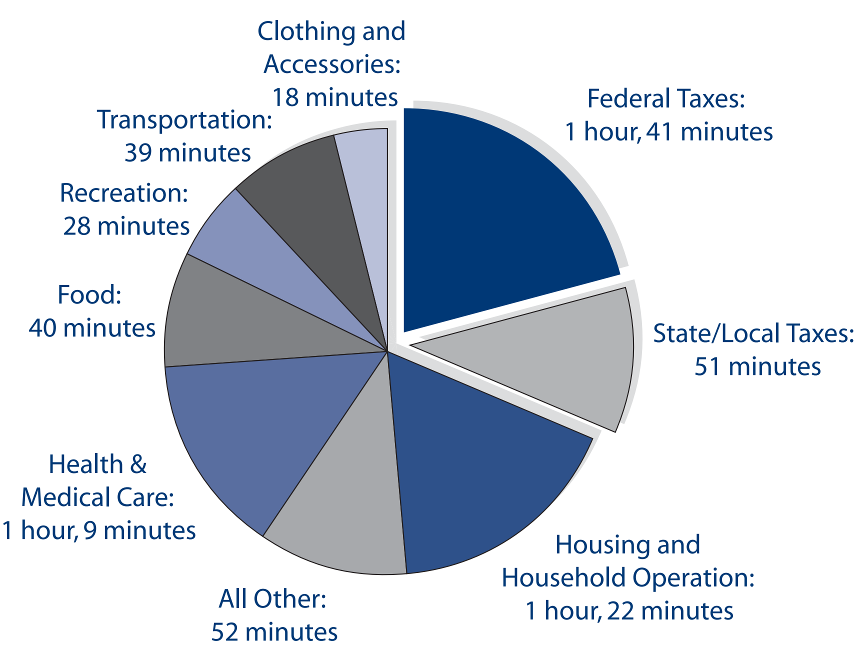
Note: Leap day is omitted so that dates are comparable over time.
Sources: Bureau of Economic Analysis, Congressional Budget Office and Tax Foundation calculations.

Figure 3
How Many Days Per Year America Works to Pay Taxes Compared to Other Major Spending Categories, 2006



Note: The "All Other" category includes a two-day *negative* value for savings.
Sources: Bureau of Economic Analysis and Tax Foundation calculations.

Figure 4
How Many Minutes Per Eight-Hour Day America Works to Pay Taxes Compared to Other Major Spending Categories, 2006



Note: The "All Other" category includes a two-minute *negative* value for savings.
Sources: Bureau of Economic Analysis and Tax Foundation calculations.

Figure 2 and Table 1 also reveal the culprit behind the recently expanding tax burden: federal taxes. After the country came out of the recession in the early 1990s, the federal tax burden grew by 10 days' worth of income between 1990 and 2000. In stark contrast, state and local tax burdens remained virtually unchanged.

Why the difference? From the end of the recession in the early 1990s until 2001, the economy and stock markets boomed, and so did government tax collections. Since the federal tax system is more progressively designed than those of state and local governments, the growth in personal income fills federal coffers at a faster rate.

At the same time, state and local governments were more responsive to constituent demands and legal mandates calling for the return of budget surpluses to the taxpayers. Most states trimmed their surpluses during the boom with tax refunds and rate reductions. While the federal government did enact a modest tax reduction in 1997, nothing noticeably slowed the growth of the federal tax burden in the last years of the decade.

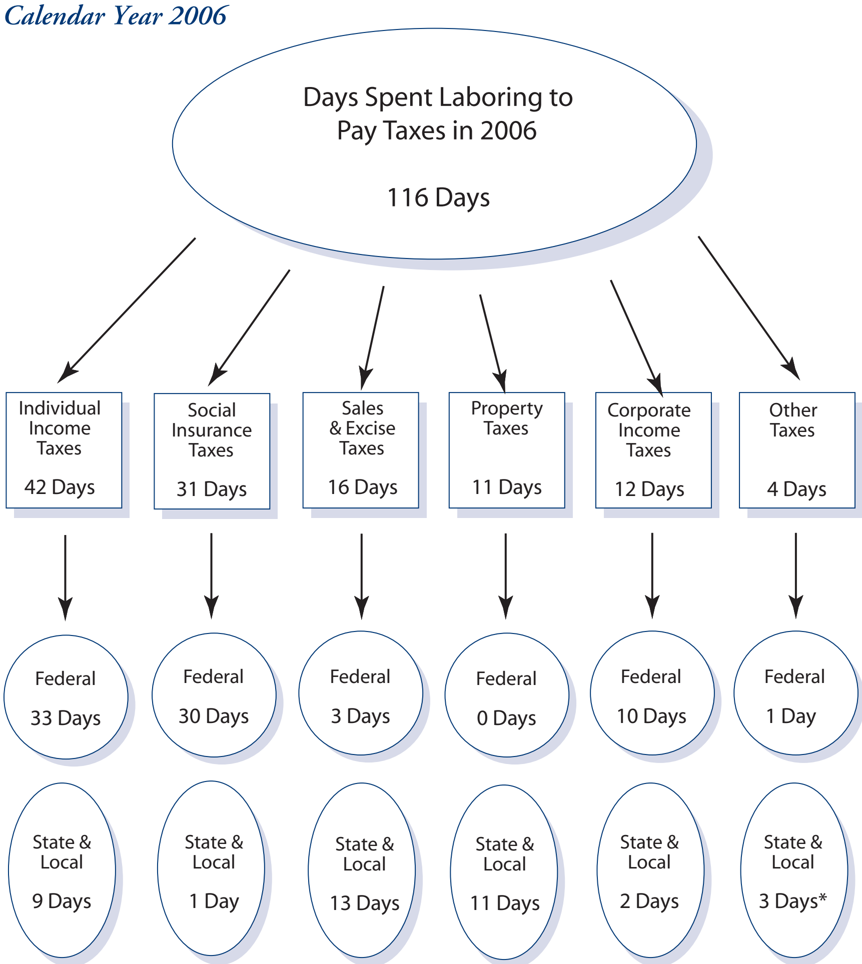
By mid-2001 the economy was in recession for the first time in a decade, and tax collections contracted. Especially hard hit were corporate profits, and corporate income tax collections plunged. ... At the same time, President Bush successfully argued that the tax cut he had campaigned on was doubly necessary to stimulate the lagging economy.

2001–2004: Tax Freedom Celebrated Earlier

Just as the 1990s began with a weakening economy, so did the new century. By mid-2001 the economy was in recession, stock markets were in retreat, and for the first time in a decade tax burdens contracted. Especially hard hit were corporate profits and stock markets, which caused corporate income tax and capital gains collections to nose-dive.

At the same time, President Bush successfully argued that the tax cut he had campaigned on was doubly necessary to stimulate the lagging economy. The Economic Growth and Tax Relief Reconciliation Act passed in May 2001, implementing a phased-in plan of rate reductions and credit increases that reduced taxes by an average of $100 billion a year over a ten-year period.

Figure 5
Average Number of Days Worked to Pay Taxes by Type of Tax and Level of Government
Calendar Year 2006



* Includes two days' worth of other business taxes.
Note: Due to rounding, components do not add up to total.
Sources: Bureau of Economic Analysis and Tax Foundation calculations.

As a result of the recession and tax relief, the nation's tax burden fell sharply after the 2000 peak, causing Tax Freedom Day to arrive much earlier. In 2001, Tax Freedom Day fell on April 30, three days earlier than in 2000. This was followed by the biggest one-year drop in the tax burden since 1922 — 2.7 percent, or 10 days' worth of Americans' work. As a result, 2002's Tax Freedom Day was celebrated on April 20. In 2003, the tax burden continued to fall, thanks largely to another federal tax cut, and Tax Freedom Day fell on April 16. In 2004, Tax Freedom Day was again celebrated on April 16, bringing America's tax burden to levels not seen since 1975.

2005: Nation's Tax Burden Resumed Upward Trend with Growing Economy

Tax receipts soared in 2005. Unemployment stayed low, boosting wage-based tax collections. Increasingly profitable corporations remitted much higher tax payments, and individuals responding to lower tax rates on capital gains and dividends realized higher levels of capital income, which also boosted tax collections despite the lower statutory rates.

Americans will work longer in 2006 to pay for government, 116 days, than they will for food, clothing and housing combined, 106 days.

As a result, Tax Freedom Day was celebrated a remarkable 7 days later in 2005 than in 2004, moving from April 16 to April 23. For the first time since 2001, the nation's total tax burden exceeded 30 percent of national income, jumping from 28.9 percent of income in 2004 to 30.9 percent in 2005.

Tax Burdens vs. Major Spending Categories

Taxes are of course just the price we pay for an array of government services. Figure 3 uses the number of days worked as a yardstick to measure the price of government against the price of other important categories of consumer spending.

The graph reveals that Americans will work longer to pay for government (116 days) than they will for food, clothing and housing combined (106 days). This has not always been the case. In fact, only in the last decade have taxes exceeded spending on these basic necessities. In fact, Americans will work longer to afford federal taxes alone (77 days) than they will to afford housing costs (62 days).

Figure 4 illustrates the same statistics as Figure 3, but it uses an eight-hour workday instead of a calendar year. During each workday, Americans will spend 2 hours and 32 minutes to pay their taxes. In contrast, they will spend 2 hours and 20 minutes providing for food, clothing and housing.

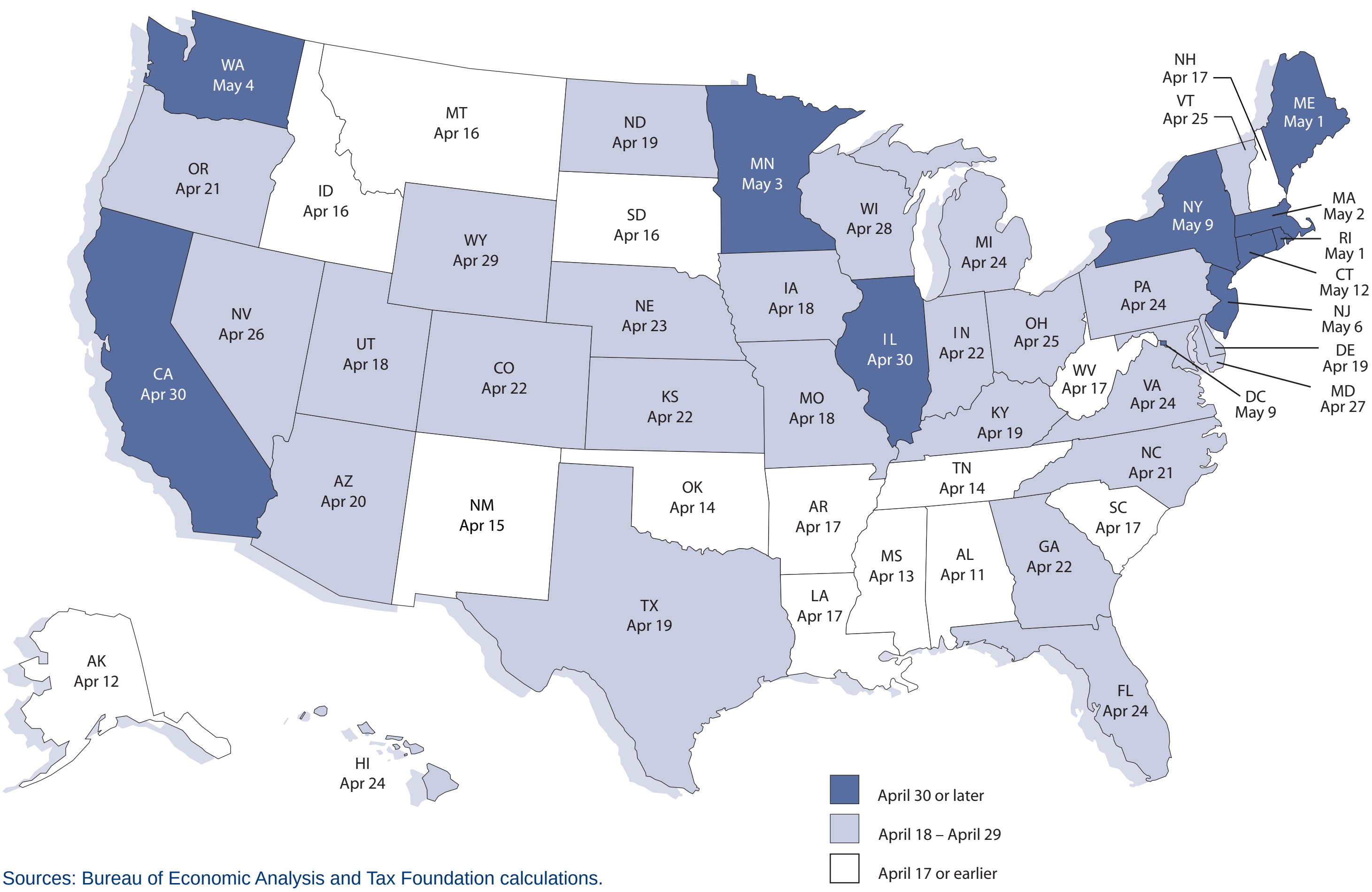
Income and Payroll Taxes Dominate the Tax Burden

Americans face a plethora of different taxes in their day-to-day lives. Figure 5 presents a breakdown of the nation's tax bill for 2006 by type of tax. The largest and most visible of these taxes are directly subtracted from Americans' paychecks — individual income taxes and payroll taxes.

Income Taxes

Individual income taxes represent the largest component of Americans' tax bills, and they are the best known for a number of reasons. Most obviously, every resident with a modicum of income in the previous year is required to declare that income on the IRS's famous

Figure 6
Tax Freedom Day by State, 2006



Sources: Bureau of Economic Analysis and Tax Foundation calculations.

form 1040 by April 15, although for most wage earners, this deadline is mostly an administrative reckoning because all the tax payments they owe have been withheld from their paychecks throughout the year.

For a large and growing number of tax filers, however, tax filing is a profitable event. Thanks largely to the new child tax credit and the earned income tax credit, approximately 43 million taxpayers owe nothing for the entire year. When they file, they get back every tax

Table 2
Tax Freedom Day by State and Rank
Selected Calendar Years, 1970-2006

	1970	1975	1980	1985	1990	1995	2000	2004	2005	2006	2006 Rank
Total	April 18	April 16	April 21	April 18	April 22	April 25	May 03	April 16	April 23	April 26	-
Alabama	April 09	April 08	April 15	April 12	April 12	April 15	April 20	April 03	April 08	April 11	50
Alaska	April 25	May 04	May 02	April 13	April 22	April 14	April 19	April 03	April 09	April 12	49
Arizona	April 26	April 19	April 21	April 19	April 24	April 25	April 30	April 13	April 18	April 20	29
Arkansas	April 11	April 05	April 12	April 09	April 13	April 18	April 25	April 09	April 15	April 17	40
California	April 19	April 20	April 18	April 16	April 21	April 23	May 10	April 19	April 27	April 30	9
Colorado	April 20	April 15	April 20	April 17	April 21	April 22	May 02	April 12	April 20	April 22	23
Connecticut	April 18	April 18	April 25	April 25	April 25	May 07	May 20	April 29	May 08	May 12	1
Delaware	April 16	April 14	April 21	April 14	April 15	April 20	April 26	April 08	April 16	April 19	33
Florida	April 19	April 11	April 17	April 17	April 19	April 24	May 02	April 16	April 21	April 24	21
Georgia	April 14	April 10	April 18	April 18	April 21	April 23	April 30	April 14	April 20	April 22	25
Hawaii	April 18	April 15	April 20	April 16	April 28	April 24	April 30	April 16	April 22	April 24	17
Idaho	April 14	April 09	April 13	April 10	April 18	April 21	April 29	April 11	April 15	April 16	42
Illinois	April 20	April 17	April 26	April 19	April 24	April 27	May 04	April 19	April 27	April 30	10
Indiana	April 18	April 16	April 18	April 16	April 19	April 22	April 26	April 13	April 20	April 22	24
Iowa	April 18	April 16	April 26	April 15	April 22	April 25	April 27	April 08	April 16	April 18	36
Kansas	April 17	April 14	April 24	April 16	April 22	April 24	April 29	April 13	April 20	April 22	26
Kentucky	April 13	April 10	April 13	April 09	April 16	April 21	April 23	April 10	April 17	April 19	31
Louisiana	April 11	April 11	April 19	April 13	April 14	April 13	April 23	April 08	April 15	April 17	37
Maine	April 16	April 18	April 18	April 18	April 21	April 27	May 08	April 20	April 29	May 01	7
Maryland	April 19	April 16	April 23	April 20	April 22	April 24	May 02	April 17	April 25	April 27	13
Massachusetts	April 19	April 21	April 28	April 21	April 22	April 28	May 13	April 20	April 29	May 02	6
Michigan	April 20	April 19	April 22	April 22	April 23	April 24	April 30	April 14	April 22	April 24	19
Minnesota	April 16	April 19	April 23	April 20	April 26	May 02	May 07	April 21	April 30	May 03	5
Mississippi	April 13	April 10	April 14	April 10	April 13	April 18	April 21	April 05	April 11	April 13	48
Missouri	April 14	April 12	April 16	April 11	April 16	April 21	April 25	April 09	April 16	April 18	35
Montana	April 17	April 14	April 23	April 16	April 18	April 23	April 26	April 08	April 14	April 16	43
Nebraska	April 19	April 12	April 26	April 12	April 20	April 25	April 30	April 13	April 21	April 23	22
Nevada	April 27	April 23	April 23	April 23	April 26	April 29	May 05	April 19	April 23	April 26	14
New Hampshire	April 17	April 15	April 15	April 14	April 19	April 22	April 30	April 08	April 15	April 17	39
New Jersey	April 18	April 18	April 25	April 27	April 29	May 02	May 11	April 24	May 02	May 06	3
New Mexico	April 18	April 11	April 18	April 09	April 18	April 20	April 24	April 08	April 13	April 15	45
New York	April 26	April 28	May 04	May 01	May 02	May 04	May 14	April 27	May 05	May 09	2
North Carolina	April 13	April 09	April 17	April 14	April 17	April 19	April 25	April 12	April 18	April 21	27
North Dakota	April 21	April 08	May 02	April 09	April 16	April 24	April 24	April 11	April 17	April 19	30
Ohio	April 11	April 10	April 15	April 14	April 16	April 22	April 28	April 14	April 22	April 25	16
Oklahoma	April 08	April 06	April 15	April 12	April 14	April 16	April 19	April 06	April 12	April 14	47
Oregon	April 19	April 17	April 21	April 18	April 25	April 22	April 30	April 12	April 19	April 21	28
Pennsylvania	April 13	April 12	April 19	April 17	April 17	April 22	April 29	April 15	April 22	April 24	18
Rhode Island	April 14	April 18	April 24	April 20	April 22	April 26	May 07	April 20	April 28	May 01	8
South Carolina	April 10	April 07	April 15	April 13	April 17	April 19	April 23	April 09	April 15	April 17	38
South Dakota	April 19	April 07	April 22	April 09	April 14	April 21	April 24	April 04	April 14	April 16	44
Tennessee	April 16	April 09	April 13	April 12	April 13	April 15	April 19	April 06	April 12	April 14	46
Texas	April 12	April 12	April 21	April 16	April 21	April 22	April 26	April 11	April 16	April 19	32
Utah	April 18	April 13	April 17	April 14	April 20	April 24	April 29	April 11	April 17	April 18	34
Vermont	April 25	April 22	April 22	April 23	April 27	April 28	May 04	April 16	April 24	April 25	15
Virginia	April 16	April 12	April 16	April 14	April 19	April 21	May 02	April 15	April 21	April 24	20
Washington	April 19	April 21	April 26	April 23	May 01	May 03	May 13	April 21	May 01	May 04	4
West Virginia	April 18	April 18	April 20	April 19	April 16	April 17	April 25	April 09	April 15	April 17	41
Wisconsin	April 23	April 20	April 21	April 24	April 27	May 02	May 06	April 18	April 26	April 28	12
Wyoming	April 28	April 24	May 05	May 05	April 25	April 27	May 12	April 19	April 26	April 29	11
District of Columbia	April 19	April 14	May 08	May 05	May 05	May 04	May 19	April 28	May 06	May 09	-

Note: Leap day is omitted.

Sources: Bureau of Economic Analysis and Tax Foundation calculations.

dollar that was withheld from their paychecks during the year and in many cases receive a check on top of that.

All but seven states levy some sort of income tax on top of the federal income tax, and a few localities do as well. When these are added to the federal income tax burden, income taxes will amount to an average of 42 days' worth of work for Americans in 2006.

Table 3
Tax Freedom Day by State, by Rank
Calendar Year 2006

	Tax Freedom Day	Rank
United States	April 26	-
Connecticut	May 12	1
New York	May 09	2
New Jersey	May 06	3
Washington	May 04	4
Minnesota	May 03	5
Massachusetts	May 02	6
Maine	May 01	7
Rhode Island	May 01	8
California	April 30	9
Illinois	April 30	10
Wyoming	April 29	11
Wisconsin	April 28	12
Maryland	April 27	13
Nevada	April 26	14
Vermont	April 25	15
Ohio	April 25	16
Hawaii	April 24	17
Pennsylvania	April 24	18
Michigan	April 24	19
Virginia	April 24	20
Florida	April 24	21
Nebraska	April 23	22
Colorado	April 22	23
Indiana	April 22	24
Georgia	April 22	25
Kansas	April 22	26
North Carolina	April 21	27
Oregon	April 21	28
Arizona	April 20	29
North Dakota	April 19	30
Kentucky	April 19	31
Texas	April 19	32
Delaware	April 19	33
Utah	April 18	34
Missouri	April 18	35
Iowa	April 18	36
Louisiana	April 17	37
South Carolina	April 17	38
New Hampshire	April 17	39
Arkansas	April 17	40
West Virginia	April 17	41
Idaho	April 16	42
Montana	April 16	43
South Dakota	April 16	44
New Mexico	April 15	45
Tennessee	April 14	46
Oklahoma	April 14	47
Mississippi	April 13	48
Alaska	April 12	49
Alabama	April 11	50
District of Columbia	May 06	–

Note: Leap day is omitted.

Sources: Bureau of Economic Analysis and Tax Foundation calculations.

Table 4
Days Spent Working for All Taxes in Each State, Taxes as a Percentage of Income, and Rank
Calendar Year 2006

	Days Spent Working to Pay Taxes	Income Per Capita	Tax Burden Per Capita	Tax Burden as a Percentage of Income	Tax Burden Rank
United States	116 days	$ 38,376	$ 12,122	31.6%	–
Alabama	101 days	$ 32,599	$ 8,977	27.5%	50
Alaska	102	39,499	11,019	27.9	49
Arizona	110	33,156	9,919	29.9	29
Arkansas	107	29,999	8,742	29.1	40
California	120	41,022	13,433	32.7	9
Colorado	112 days	$ 41,987	$ 12,877	30.7%	23
Connecticut	132	53,152	19,097	35.9	1
Delaware	109	40,964	12,155	29.7	33
Florida	114	36,734	11,385	31.0	21
Georgia	112	34,327	10,496	30.6	25
Hawaii	114 days	$ 38,269	$ 11,952	31.2%	17
Idaho	106	31,031	8,995	29.0	42
Illinois	120	39,902	13,045	32.7	10
Indiana	112	34,647	10,622	30.7	24
Iowa	108	35,807	10,518	29.4	36
Kansas	112 days	$ 36,209	$ 11,030	30.5%	26
Kentucky	109	31,639	9,425	29.8	31
Louisiana	107	31,358	9,162	29.2	37
Maine	121	34,935	11,562	33.1	7
Maryland	117	46,562	14,898	32.0	13
Massachusetts	122 days	$ 49,203	$ 16,427	33.4%	6
Michigan	114	36,751	11,431	31.1	19
Minnesota	123	41,363	13,890	33.6	5
Mississippi	103	28,591	7,991	28.0	48
Missouri	108	35,408	10,409	29.4	35
Montana	106 days	$ 32,719	$ 9,479	29.0%	43
Nebraska	113	36,999	11,416	30.9	22
Nevada	116	39,683	12,542	31.6	14
New Hampshire	107	42,707	12,464	29.2	39
New Jersey	126	48,590	16,667	34.3	3
New Mexico	105 days	$ 30,642	$ 8,747	28.5%	45
New York	129	44,571	15,632	35.1	2
North Carolina	111	33,732	10,220	30.3	27
North Dakota	109	34,808	10,379	29.8	30
Ohio	115	36,054	11,271	31.3	16
Oklahoma	104 days	$ 32,661	$ 9,221	28.2%	47
Oregon	111	35,300	10,659	30.2	28
Pennsylvania	114	38,849	12,118	31.2	18
Rhode Island	121	40,331	13,308	33.0	8
South Carolina	107	31,480	9,195	29.2	38
South Dakota	106 days	$ 34,647	$ 10,000	28.9%	44
Tennessee	104	34,568	9,764	28.2	46
Texas	109	35,913	10,665	29.7	32
Utah	108	30,917	9,127	29.5	34
Vermont	115	37,025	11,600	31.3	15
Virginia	114 days	$ 42,642	$ 13,247	31.1%	20
Washington	124	39,705	13,387	33.7	4
West Virginia	107	30,317	8,823	29.1	41
Wisconsin	118	37,115	11,950	32.2	12
Wyoming	119	40,912	13,251	32.4	11
District of Columbia	129 days	$ 63,044	$ 22,132	35.1%	–

Sources: Bureau of Economic Analysis and Tax Foundation calculations.

Payroll Taxes

Americans will spend another 31 days working to afford their payroll taxes, or social insurance taxes — those taxes dedicated to funding social insurance programs such as Social Security and Medicare. Almost all taxpayers are aware of these taxes because they appear as line item deductions on the pay stubs of most Americans. The impact of the matching employer's portion of payroll taxes is less well understood. It is considered a tax on labor because companies could hire more people or pay their current employees more if the tax were not collected, and it is counted in the Tax Freedom Day calculation.

Table 5
Days Spent Working for Federal Taxes in Each State, Taxes as a Percentage of Income, and Rank
Calendar Year 2006

	Days Spent Working to Pay Taxes	Income Per Capita	Tax Burden Per Capita	Tax Burden as a Percentage of Income	Tax Burden Rank
United States	77 days	$ 38,376	$ 8,050	21.0%	–
Alabama	68 days	$ 32,599	$ 6,096	18.7%	45
Alaska	77	39,499	8,420	21.3	14
Arizona	73	33,156	6,569	19.8	28
Arkansas	69	29,999	5,654	18.8	43
California	80	41,022	8,982	21.9	8
Colorado	76 days	$ 41,987	$ 8,779	20.9%	18
Connecticut	90	53,152	13,079	24.6	1
Delaware	78	40,964	8,729	21.3	15
Florida	78	36,734	7,820	21.3	16
Georgia	74	34,327	6,932	20.2	25
Hawaii	71 days	$ 38,269	$ 7,455	19.5%	35
Idaho	68	31,031	5,835	18.8	44
Illinois	80	39,902	8,710	21.8	10
Indiana	72	34,647	6,825	19.7	30
Iowa	70	35,807	6,809	19.0	40
Kansas	72 days	$ 36,209	$ 7,144	19.7%	29
Kentucky	69	31,639	6,043	19.1	39
Louisiana	66	31,358	5,699	18.2	49
Maine	71	34,935	6,843	19.6	33
Maryland	77	46,562	9,902	21.3	17
Massachusetts	84 days	$ 49,203	$ 11,380	23.1%	3
Michigan	74	36,751	7,467	20.3	22
Minnesota	79	41,363	8,960	21.7	11
Mississippi	65	28,591	5,068	17.7	50
Missouri	71	35,408	6,899	19.5	34
Montana	71 days	$ 32,719	$ 6,371	19.5%	36
Nebraska	70	36,999	7,122	19.2	37
Nevada	81	39,683	8,784	22.1	7
New Hampshire	80	42,707	9,328	21.8	9
New Jersey	86	48,590	11,433	23.5	2
New Mexico	68 days	$ 30,642	$ 5,717	18.7%	46
New York	82	44,571	9,899	22.2	6
North Carolina	72	33,732	6,694	19.8	27
North Dakota	73	34,808	6,957	20.0	26
Ohio	71	36,054	6,939	19.2	38
Oklahoma	69 days	$ 32,661	$ 6,092	18.7%	47
Oregon	74	35,300	7,167	20.3	23
Pennsylvania	75	38,849	8,061	20.7	19
Rhode Island	79	40,331	8,679	21.5	13
South Carolina	69	31,480	5,982	19.0	41
South Dakota	72 days	$ 34,647	$ 6,824	19.7%	31
Tennessee	72	34,568	6,785	19.6	32
Texas	74	35,913	7,297	20.3	21
Utah	69	30,917	5,866	19.0	42
Vermont	74	37,025	7,482	20.2	24
Virginia	79 days	$ 42,642	$ 9,191	21.6%	12
Washington	84	39,705	9,053	22.8	4
West Virginia	68	30,317	5,611	18.5	48
Wisconsin	75	37,115	7,661	20.6	20
Wyoming	82	40,912	9,131	22.3	5
District of Columbia	82 days	$ 63,044	$ 14,040	22.3%	–

Sources: Bureau of Economic Analysis and Tax Foundation calculations.

Hidden Taxes

Some taxes are less apparent to the taxpayer than income and payroll taxes because they are difficult to add up. Foremost among these hidden taxes are sales and excise taxes. Americans will work 16 days to pay these add-on taxes that are imposed at all levels of government and that raise the prices of nearly all goods and services. Another 11 days will be spent working to pay property taxes, which are primarily levied by local governments but increasingly by states as well.

Americans will then have to work an additional 12 days to pay their share of corporate income taxes. The reason these taxes are rightly counted as part of the nation's tax burden is that taxes on businesses are ultimately passed on to consumers, employees, and shareholders in the form of higher prices, lower wages or employment levels, and lower share value. Finally, Americans will log a few more hours working to pay other business and miscellaneous taxes.

Tax Freedom Day by State

The total tax burdens borne by residents of different states vary considerably, as illustrated by Figure 6. This occurs not only because residents of different states pay different amounts of state and local taxes, but also because their federal tax payments can vary dramatically. Table 2 presents state-by-state Tax Freedom Days over time; Table 3 ranks the 50 states; and Table 4 gives data on each state's total tax burden as a percentage of income and in dollars per capita.

The residents of Connecticut will bear the nation's heaviest tax burden in 2006 with a total tax burden of $19,097 per capita. As a result, residents of the Constitution State have to work until the 132nd day of the year (until May 12) before earning enough to pay all their taxes. Per capita income in Connecticut is $53,152, far more than in other states. Several states have higher state and local tax burdens than Connecticut, but the extraordinarily high federal tax payments in Connecticut push the total tax burden to the top of the ranking.

At the other end of the tax burden spectrum are states with relatively early Tax Freedom Days. Residents of Alabama will bear the lowest average tax burden in 2006. This year Alabamans total per capita tax bill comes to $8,977. Therefore, the average resident of Alabama can expect to devote all income earned during the first 101 days of 2006 (until April 11) to paying taxes.

The state with the second earliest Tax Freedom Day in 2006 is Alaska. The total per capita tax bill will come to $11,019 which the average Alaskan taxpayer will have to work for 102 days, until April 12, to earn. See Methodology for further discussion of the calculation for Alaska.

Table 6
Days Spent Working for State-Local Taxes in Each State, Taxes as a Percentage of Income, and Rank
Calendar Year 2006

	Days Spent Working to Pay Taxes	Income Per Capita	Tax Burden Per Capita	Tax Burden as a Percentage of Income	Tax Burden Rank
United States	39 days	$ 38,376	$ 4,072	10.6%	–
Alabama	33 days	$ 32,599	$ 2,881	8.8%	46
Alaska	25	39,499	2,598	6.6	50
Arizona	37	33,156	3,350	10.1	32
Arkansas	38	29,999	3,088	10.3	27
California	40	41,022	4,451	10.9	15
Colorado	36 days	$ 41,987	$ 4,098	9.8%	38
Connecticut	42	53,152	6,018	11.3	9
Delaware	31	40,964	3,426	8.4	48
Florida	36	36,734	3,566	9.7	39
Georgia	38	34,327	3,564	10.4	25
Hawaii	43 days	$ 38,269	$ 4,496	11.7%	5
Idaho	38	31,031	3,159	10.2	31
Illinois	40	39,902	4,335	10.9	14
Indiana	40	34,647	3,796	11.0	12
Iowa	38	35,807	3,709	10.4	26
Kansas	40 days	$ 36,209	$ 3,885	10.7%	18
Kentucky	40	31,639	3,383	10.7	20
Louisiana	41	31,358	3,463	11.0	11
Maine	50	34,935	4,719	13.5	1
Maryland	40	46,562	4,996	10.7	19
Massachusetts	38 days	$ 49,203	$ 5,047	10.3%	28
Michigan	40	36,751	3,965	10.8	16
Minnesota	44	41,363	4,930	11.9	4
Mississippi	38	28,591	2,924	10.2	29
Missouri	37	35,408	3,509	9.9	34
Montana	35 days	$ 32,719	$ 3,108	9.5%	42
Nebraska	43	36,999	4,294	11.6	6
Nevada	35	39,683	3,758	9.5	43
New Hampshire	27	42,707	3,136	7.3	49
New Jersey	40	48,590	5,234	10.8	17
New Mexico	37 days	$ 30,642	$ 3,031	9.9%	36
New York	47	44,571	5,734	12.9	2
North Carolina	39	33,732	3,526	10.5	23
North Dakota	36	34,808	3,421	9.8	37
Ohio	44	36,054	4,332	12.0	3
Oklahoma	35 days	$ 32,661	$ 3,129	9.6%	40
Oregon	37	35,300	3,492	9.9	35
Pennsylvania	39	38,849	4,057	10.4	24
Rhode Island	42	40,331	4,629	11.5	8
South Carolina	38	31,480	3,213	10.2	30
South Dakota	34 days	$ 34,647	$ 3,177	9.2%	45
Tennessee	32	34,568	2,979	8.6	47
Texas	35	35,913	3,368	9.4	44
Utah	39	30,917	3,261	10.5	22
Vermont	41	37,025	4,118	11.1	10
Virginia	35 days	$ 42,642	$ 4,056	9.5%	41
Washington	40	39,705	4,334	10.9	13
West Virginia	39	30,317	3,212	10.6	21
Wisconsin	43	37,115	4,289	11.6	7
Wyoming	37	40,912	4,120	10.1	33
District of Columbia	47 days	$ 63,044	$ 8,092	12.8%	–

Sources: Bureau of Economic Analysis and Tax Foundation calculations.

Federal Tax Burdens

As Table 5 shows, the federal tax burden is responsible for two-thirds of the total tax burden. States with the highest federal tax burdens are Connecticut (24.6%), New Jersey (23.5%), Massachusetts (23.1%), Washington (22.8%) and Wyoming (22.3%). On the flip side, states with the lowest federal tax burdens are Mississippi (17.7%), Louisiana (18.2%), West Virginia (18.5%), Oklahoma (18.7%) and New Mexico (18.7%).

Given the highly progressive nature of the federal tax system, federal tax burdens closely track average income. For instance, the average income in the 25 states with the highest federal tax burdens is $40,992, while the average income of the 25 states with the lowest federal tax burdens is $33,328. The three states with the highest incomes per capita — Connecticut, New Jersey and Massachusetts — rank number 1, 2 and 3 in federal tax burden.

State and Local Tax Burdens

A closer look at the total tax burden analysis by state reveals a surprise: many states with high overall tax burdens, relative to other states, actually rank fairly low when judged only by their state and local tax burdens, and vice versa (see Tables 4 and 6).

The total tax burden for residents of Connecticut (35.9%) is the highest in the nation, but just barely; New York is a close second at 35.1 percent. However, when federal taxes are stripped out and only state-local tax burdens are compared, the difference is quite large, and the rankings flip. Connecticut's state-local tax burden (11.3%) ranks ninth highest, while New York's state and local tax burden (12.9%) proves to be as comparatively high as its federal taxes.

Individual income taxes are the largest component of Americans' tax bills... but for most wage earners, the April 15 deadline to file IRS Form 1040 is only an administrative headache because all the tax payments they owe have been withheld from their paychecks during the year.

While the rankings of New York and Connecticut trade places when federal taxes are removed from the analysis, many states move even more. Nevada drops the furthest, 29 slots, all the way from the 14th highest total tax burden to 43rd, when just state and local tax burdens are ranked. Massachusetts drops 22 places in the ranking, from 6th to 28th. Wyoming drops 22 places as well, from 11th to 33rd.

On the other hand, Louisiana* rises most dramatically in the rankings from a low total tax burden, 37th, to the 11th highest state and local tax burden. West Virginia moves up 20 slots from 41st to 21st. Mississippi moves up 19 slots from 48th to 29th. The reason for the dramatic change in the ranking of total versus state-local tax burdens: federal taxes have grown so dramatically over time that they overwhelm state and local taxes when the two are examined together.

Also, federal taxes are markedly more progressive than state and local taxes, so only when they are removed from the calculation is it possible to compare the true levels of state and local tax burdens.

The five states with the highest state and local tax burdens are Maine (13.5%), New York (12.9%), Ohio (12.0%), Minnesota (11.9%) and Hawaii (11.7%). On the flip side, the five states with the lowest state and local tax burdens are Alaska (6.6%), New Hampshire (7.3%), Delaware (8.4%), Tennessee (8.6%) and Alabama (8.8%). See Table 6.

Tax Freedom Day Goes Global

Although the concept of Tax Freedom Day was copyrighted in the U.S. by Florida businessman Dallas Hostetler and later transferred to the Tax Foundation, the concept of Tax Freedom Day is not limited to the United States. Many other organizations in countries throughout the world now produce their own "Tax Freedom Day" analysis. To date, the Tax Foundation is aware of Tax Freedom Day reports being published in eight countries. Due to the different ways that nations collect and categorize public finance data, however, Tax Freedom Days are not comparable from one country to another.

♦ Great Britain's Tax Freedom Day, estimated annually by the Adam Smith Institute (www.taxfreedomday.co.uk/) will fall on the 154th day of 2006, June 3.

♦ Canada's Tax Freedom Day in 2005 fell on the 176th day of the year, June 25, and is estimated annually by the Fraser Institute (www.fraserinstitute.ca). The Fraser Institute also includes a "Personal Tax Freedom Day Calculator" that estimates a customized Tax Freedom Day based on additional variables such as age of household head, sex of household head, marital status and number of children.

♦ South Africa's Tax Freedom Day in 2002 fell on the 112th day of the year, April 22, and is estimated by the Free Market Foundation (www.freemarketfoundation.com/).

♦ Slovakia's Tax Freedom Day in 2002 fell on the 169th day of the year, June 18, as estimated by the Association of Slovak Taxpayers.

♦ The Czech Republic's Tax Freedom Day in 2001 fell on the 158th day of the year, June 7, and is annually estimated by the Liber-

*Income and tax data for Gulf Coast states mostly precede 2005's hurricanes.

alni Institut (www.libinst.cz/english/index.php).

♦ Lithuania's Tax Freedom Day in 2005 fell on the 125th day of the year, May 5, and is annually estimated by the Lithuanian Free Market Institute (www.freema.org/).

Table 7
State and Local Tax Incidence Results by State
Calendar Year 2006
($Millions)

State	Amount Added or (Subtracted)
Alabama	$ 231.9
Alaska	(1,231.0)
Arizona	315.3
Arkansas	223.3
California	(2,664.8)
Colorado	$ 692.4
Connecticut	455.7
Delaware	(821.2)
Florida	1,663.5
Georgia	1,180.4
Hawaii	$ 71.7
Idaho	112.6
Illinois	(465.5)
Indiana	307.7
Iowa	529.5
Kansas	$ 196.7
Kentucky	(393.8)
Louisiana	(415.4)
Maine	95.8
Maryland	751.7
Massachusetts	$ (253.4)
Michigan	(924.4)
Minnesota	302.0
Mississippi	(140.4)
Missouri	887.4
Montana	$ 3.7
Nebraska	166.8
Nevada	71.7
New Hampshire	(357.8)
New Jersey	(1,004.8)
New Mexico	$ (598.6)
New York	(1,595.5)
North Carolina	164.8
North Dakota	(149.5)
Ohio	406.4
Oklahoma	$ (315.9)
Oregon	319.0
Pennsylvania	(686.7)
Rhode Island	147.1
South Carolina	449.8
South Dakota	$ 112.0
Tennessee	(617.7)
Texas	535.2
Utah	195.7
Vermont	33.9
Virginia	$ 1,396.6
Washington	1,495.1
West Virginia	(273.9)
Wisconsin	169.7
Wyoming	(699.9)
District of Columbia	$ (74.9)

Sources: Bureau of Economic Analysis and Tax Foundation calculations.

♦ India's Tax Freedom Day in 2000 fell on the 74th day of the year, March 14, and is estimated by the Centre for Civil Society (www.ccsindia.org/index.asp).

♦ Australia's Tax Freedom Day in 2001 was April 21, the 118th day of the year. The Center for Independent Studies (www.cis.org.au) calculates this date.

Researchers interested in international Tax Freedom Day comparisons should consult data from the Organization for Economic Co-operation and Development (www.oecd.org). It is the most extensive and reliable source of international tax data, but OECD's figures are not easily comparable to the U.S. data used in this Tax Freedom Day report. Neither are they comparable to other national data sources that may be used in similar calculations abroad.

Tax Freedom Day Methodology

Tax Freedom Day is a concept used by the Tax Foundation to illustrate the share of the nation's income that goes to pay federal, state and local taxes. For illustrative purposes it assumes that income is earned evenly throughout the year and that taxpayers initially devote all of their earnings to paying their taxes. The day that Americans are free to spend their income on other goods and services is Tax Freedom Day. The Tax Foundation has calculated Tax Freedom Day every year since the early 1970s, and it has used historical data to calculate dates back to 1900.

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 2006:

$$\frac{\text{Per capita federal, state \& local taxes}}{\text{Per capita income}} = \frac{\$12{,}122}{\$38{,}376} = 31.6\% = 116 \text{ days} = \text{April 26}$$

Defining Income

The two most common measures of economic well-being are gross domestic product (GDP) and personal income (PI). GDP is the overall value of all goods and services produced by the

American economy, $12,487.1 billion in 2005. PI is the amount of income earned by individuals from such sources as salaries and wages, interest, dividends and business income. By this measure, the U.S. generated $10,248.3 billion in 2005.

A growing number of tax filers – more than 43 million – will get back every tax dollar that was withheld from their paychecks during the year.

However, an intermediate measure, net national product (NNP) is a superior measure when calculating tax burdens. It best represents the "spendable" income earned by taxpayers (individuals and businesses).

This is the income that is available to taxpayers for the payment of taxes. In the calculation of GDP, consumption of fixed capital — commonly referred to as depreciation — is not subtracted. Since depreciation is not available to pay taxes, GDP is an overstatement of income for the purpose of measuring tax burdens. Depreciation is netted out of NNP.

On the other hand, PI understates income for this purpose. It does not include all retained corporate earnings, more commonly referred to as profits. Profits are the source income stream for PI such as capital gains, dividends and interest.

Overall, NNP provides the best statistical representation of the common notion of "spendable" resources. In 2005 NNP was $10,946.7 billion.

Like GDP and PI, NNP is 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 (BEA).

In order to maintain consistency, federal, state and local tax collection totals are also based on NIPA definitions. State-specific Tax Freedom Days are calculated in a similar fashion using the Tax Foundation's tax allocation model.

Projections in this report are based on the most current NIPA data available, augmented by the President's Budget and economic forecasts published by the Congressional Budget Office. Because the calculation of Tax Freedom Day requires the use of forecasts, and because NIPA data is frequently revised, prior years' estimates are updated in this report.

It is interesting to note the tight distribution of state and local burdens. For example, the 13th and 33rd highest state and local tax burdens are separated by only .8%. Washington at 10.9% and Wyoming at 10.1% are separated by 20 rankings, but if either's burden is altered slightly, their rankings can experience a dramatic shift. Therefore, relatively small changes in the underlying data, taken from government sources such as the Bureau of Economic Analysis, caused by revisions will alter previous years' rankings.

Tax Freedom Day Incidence Analysis

The Tax Freedom Day model begins with conventional tax collection data — that is, the total collection figures from each state revenue office. But to more accurately represent each state's true tax burden, it incorporates a geographical tax incidence analysis. Put simply, taxes do not respect borders. Depending on demography, geography and the variety of economic activity, states collect either more or less tax revenue from out-of-state residents than their own residents pay to other states.

For example, the state of Alaska levies significant severance taxes on oil extracted from the state. From a tax collection standpoint, Alaska often ranks in the top five in per capita tax collections. (The Bureau of the Census keeps the nation's official records of these collections.) However, it is fairly obvious that the residents of Alaska do not bear much of the actual tax burden imposed by the severance tax. Most of the tax is incorporated into the price of oil, enabling Alaska to collect taxes that are paid by consumers across the nation. These transferred or "exported" tax burdens enable Alaska to manage without an individual income tax or a sales tax. In fact, Alaska's state government sends checks out to its residents at tax time, and as a result, Alaskans celebrate Tax Freedom Day earlier than any other state but Alabama and have the lightest state and local burden.

Other states that export a significant fraction of their severance tax burdens are Texas and New Mexico. States that "import" the largest portions of those taxes are California, Florida and New York.

Severance taxes are not the only tax or activity that the Tax Freedom Day model adjusts for. It also incorporates a tax incidence analysis of taxes on tourism and corporate income.

In the case of taxes imposed on tourism, the model begins with the size of each state's tourism industry as reported in the Bureau of Economic Analysis's Gross State Product data. The model then estimates the amount of tax revenue generated, a task made more complex by the multiplicity of taxes paid by tourists. The most significant are state and local sales taxes. States where tourism constitutes a disproportionately large fraction of economic activity are therefore exporters of tax burdens because they are collecting taxes from many out-of-state residents. Nevada, Florida and Louisiana are the three biggest exporters, while California, Pennsylvania and Texas are the biggest importers.

In the case of corporate income taxes and licenses, the tax burden is passed in equal proportions to consumers, employees and business owners. States that are big importers are Texas, Florida and Washington; while states that are big exporters are California, New York and New Jersey.

Table 7 shows the results of the tax incidence allocations. Overall, the largest importers are Florida (+$1,664 million), Washington (+$1,495 million), Virginia (+$1,397 million) and Georgia (+$1,180 million); and the largest exporters are California (–$2,665 million), New York (– $1,596 million) and Alaska (–$1,231 million). The District of Columbia is a net tax exporter with –$75 million.

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