

SPECIAL REPORT

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America Celebrates Tax Freedom Day®

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Tax Freedom Day® will arrive on April 30 this year, the 120th day of 2007. That means Americans will work four months of the year, from January 1 to April 30, before they have earned enough money to pay this year's tax obligations at the federal, state and local levels.

Americans work a significant number of days each year to pay for things other than government, but nothing else is so expensive. Figure 1 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.

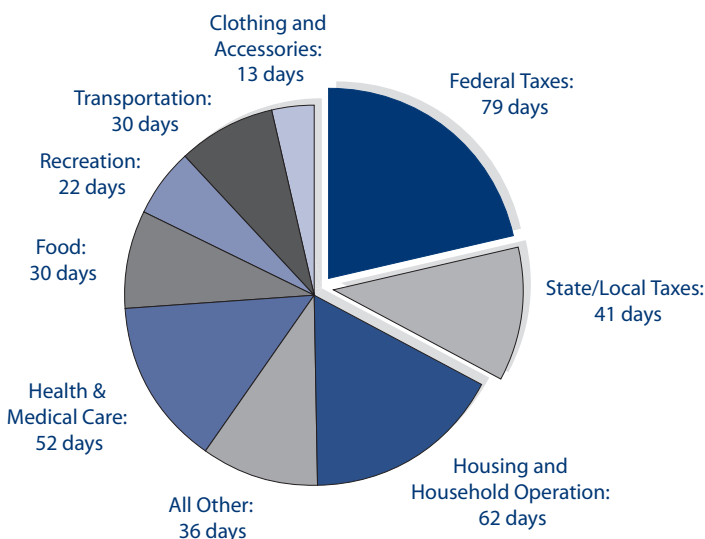
Americans will work longer to pay for government (120 days) than they will for food, clothing and housing combined (105 days). Since 1986 taxes have cost more than these basic necessities. In fact, Americans will work longer to afford federal taxes alone (79 days) than they will to afford housing (62 days).

Figure 2 uses a standard eight-hour workday to make the same comparison.

Although government is by far the most expensive thing Americans buy, there is one category of spending that has grown faster

Figure 1

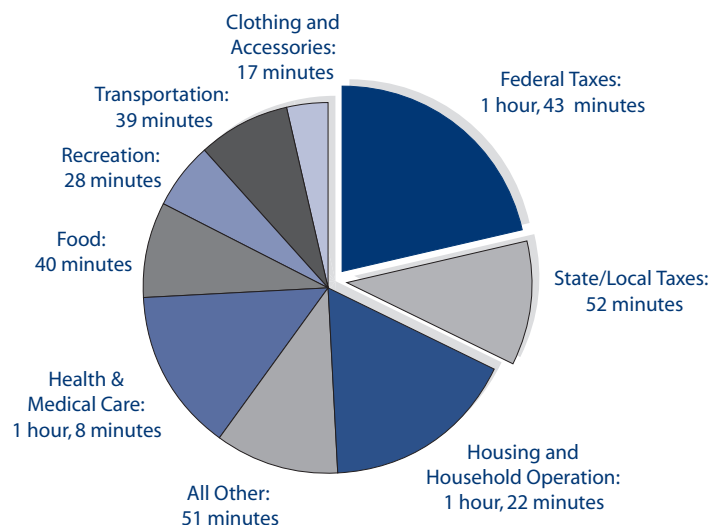
How Long America Works to Pay Taxes in Days Compared to Other Major Spending Categories Calendar Year 2007



Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis.

Figure 2

How Long America Works to Pay Taxes in an Eight-Hour Day Compared to Other Major Spending Categories Calendar Year 2007



Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis.

Table 1

*Tax Freedom Day & Total Effective Tax Rate
Calendar Years 1900–2007
Significant Tax Legislation Noted with First-Year Impact on Tax Burden*

	Tax Freedom Day	Numer of Days Spent Working to Pay Taxes	All Taxes as a Percentage of Income
1900	January 22	22	5.9%
1901	January 21	21	5.8%
1902*	January 21	21	5.6%
1903*	January 20	20	5.3%
1904*	January 21	21	5.7%
1905	January 20	20	5.4%
1906	January 19	19	5.1%
1907*	January 19	19	5.1%
1908*	January 21	21	5.7%
1909	January 19	19	4.9%
1910*	January 19	19	5.0%
1911*	January 20	20	5.3%
1912*	January 19	19	5.0%
1913*	January 19	19	5.2%
1914*	January 23	23	6.1%
1915	January 25	25	6.7%
1916	January 24	24	6.5%
1917	January 24	24	6.4%
1918*	February 08	39	10.5%
1919*	February 07	38	10.2%
1920*	February 13	44	12.0%
1921*	February 22	53	14.5%
1922	February 11	42	11.4%
1923*	February 04	35	9.5%
1924*	February 07	38	10.3%
1925	February 04	35	9.6%
1926*	February 06	37	10.0%
1927*	February 08	39	10.7%
1928	February 09	40	10.8%
1929*	February 09	40	10.7%
1930*	February 12	43	11.6%
1931*	February 15	46	12.4%
1932*	February 25	56	15.3%
1933*	March 05	65	17.6%
1934	February 28	59	16.0%
1935	February 27	58	15.7%
1936	February 27	58	15.9%
1937*	March 03	63	17.2%
1938*	March 07	66	17.9%
1939	March 05	64	17.3%
1940	March 07	66	18.0%
	<i>The Revenue Act of 1940 (+1.3% of NNP)</i>		
	<i>The Second Revenue Act of 1940 (+1.0% of NNP)</i>		
1941	March 16	75	20.4%
	<i>The Revenue Act of 1941 (+3.1% of NNP)</i>		
1942	March 18	77	21.1%
	<i>The Revenue Act of 1942 (+6.7% of NNP)</i>		
1943	April 06	96	26.1%
	<i>The Current Tax Payment Act of 1943 (+1.4% of NNP)</i>		
	<i>The Revenue Act of 1943 (+0.5% of NNP)</i>		
1944	April 01	91	24.7%
	<i>The Individual Income Tax Act of 1944 (-0.3% of NNP)</i>		
1945*	April 03	93	25.4%

Continued

than taxes: health care. The number of days Americans worked to pay for medical service jumped from 29 days in 1982 to 52 this year, a 23-day increase in 25 years. That's almost an extra day of work each year.

Of course, the growing cost of health care is in part due to the growth of Medicare and Medicaid, which are funded by taxes. Ultimately, Americans get more taxes and more expensive medical care. As taxes and health care have absorbed more of the nation's income, the category that has taken the biggest hit is savings, which has plummeted from 35 days in 1982 to negative 4 days this year.¹

Tax Freedom Day in Recent Years

Tax Freedom Day has arrived later each year for four years running. In 2003, the Bush administration enacted its biggest tax cuts, and Tax Freedom Day arrived April 18, matching 1984 for the earliest Tax Freedom Day in the last three decades. See Table 1 and Figure 3.

The steadily later arrival of Tax Freedom Day these last four years is not surprising. No major tax cuts have been enacted at the federal level since 2003, and the economy has been growing rapidly. The nation's tax burden tends to rise as income rises because thriving taxpayers are pushed into higher income tax brackets at the federal and state levels. Also, the federal government raises the income cap on Social Security taxes each year, and local governments have been collecting much more in property taxes.

Business taxes have also risen rapidly. Corporate tax receipts increased more than 20 percent from 2005 to 2006, and they are expected to continue rising along with the economy in 2007.

In percentages, government at all levels now takes 32.7 percent of the nation's income. The highest ever was in 2000 when it took 34.0 percent, and the lowest tax burden in recent years was 29.5 percent of income in 2003.

If current tax laws stay in effect, and the economy grows, taxes will continue growing as a percentage of income, and Tax Freedom Day will arrive later in the next few years. A particular year to watch is 2011 when all the federal

¹ In this context, "savings" does not include the increased value of homes or other non-monetary assets.

Table 1 (continued)

Tax Freedom Day & Total Effective Tax Rate

Calendar Years 1900–2007

Significant Tax Legislation Noted with First-Year Impact on Tax Burden

	Tax Freedom Day	Numer of Days Spent Working to Pay Taxes	All Taxes as a Percentage of Income
	<i>The Revenue Act of 1945 (-2.9% of NNP)</i>		
1946	April 03	93	25.5%
1947	April 04	94	25.5%
1948*	March 27	86	23.5%
	<i>The Revenue Act of 1948 (-2.1% of NNP)</i>		
1949*	March 23	82	22.4%
1950	April 01	91	24.9%
	<i>The Revenue Act of 1950 (+1.7% of NNP)</i>		
	<i>The Excess Profits Tax of 1950 (+1.2% of NNP)</i>		
1951	April 08	98	26.6%
	<i>The Revenue Act of 1951 (+1.8% of NNP)</i>		
1952	April 08	98	26.6%
1953*	April 07	97	26.4%
1954*	April 02	92	25.1%
	<i>(The Excise Tax Reduction Act of 1954 (-0.3% of NNP)</i>		
	<i>The Internal Revenue Code of 1954 (-0.1% of NNP)</i>		
1955	April 05	95	25.8%
1956	April 07	97	26.5%
1957*	April 07	97	26.6%
1958*	April 05	95	26.0%
1959	April 09	99	26.9%
1960*	April 12	102	27.9%
1961*	April 12	102	27.9%
1962	April 12	102	27.9%
	<i>The Revenue Act of 1962 (0.0% of NNP)</i>		
1963	April 14	104	28.4%
1964	April 09	99	27.1%
	<i>The Revenue Act of 1964 (-1.9% of NNP)</i>		
1965	April 09	99	27.0%
1966	April 12	102	27.7%
	<i>The Tax Adjustment Act of 1966 (+0.7% of NNP)</i>		
1967	April 13	103	28.1%
1968	April 19	109	29.7%
	<i>The Revenue and Expenditure Control Act of 1968 (+1.9% of NNP)</i>		
1969*	April 24	114	31.1%
	<i>The Tax Reform Act of 1969 (+0.4% of NNP)</i>		
1970*	April 20	110	29.9%
1971	April 17	107	29.2%
	<i>The Revenue Act of 1971 (-0.4% of NNP)</i>		
1972	April 21	111	30.3%
1973*	April 21	111	30.4%
1974*	April 24	114	31.0%
	<i>The Employee Retirement Income Security Act of 1974</i>		
1975*	April 18	108	29.4%
	<i>The Tax Reduction Act of 1975 (-0.7% of NNP)</i>		
1976	April 20	110	30.1%
	<i>The Tax Reform Act of 1976 (-0.9% of NNP)</i>		
1977	April 21	111	30.4%
	<i>The Tax Reduction and Simplification Act of 1977 (-1.0% of NNP)</i>		
1978	April 21	111	30.4%
	<i>The Revenue Act of 1978 (-0.6% of NNP)</i>		
1979	April 22	112	30.4%
1980*	April 22	112	30.7%
	<i>The Crude Oil Windfall Profit Tax Act of 1980 (+0.5% of NNP)</i>		

Continued

tax cuts enacted since 2001 are scheduled to expire.

Tax Freedom Day in History

The United States has traditionally been a low-tax nation. From the founding of the country until the early part of the twentieth century, the United States was in part defined by its mistrust of government power and its correspondingly low taxes.

In 1900, as Table 1 shows, Americans paid only 5.9 percent of their income in taxes and Tax Freedom Day arrived on January 22. It was at this time in our tax history that Justice Holmes famously called taxes the price of civilized society, and a low price it was, too. Between 1900 and 1917 the nation's tax burden was steady, never going over 6.7 percent, and the latest date for Tax Freedom Day was January 25.

World War I more than doubled the nation's tax burden. From 1917's January 24, Tax Freedom Day jumped to February 8 in 1918 and February 22 in 1921. Taxes were cut somewhat after the war but never to pre-war levels.

Tax Freedom Day arrived in February throughout the twenties. In 1933, trying to free the country from the Great Depression, President Roosevelt embarked on a massive federal government expansion. His New Deal programs required higher taxes and pushed Tax Freedom Day into March. The tax burden lightened in the mid-thirties, and Tax Freedom Day arrived in February again from 1934 through 1936. But as World War II loomed, spending and taxing surged again, and Tax Freedom Day never saw February again.

World War II was the catalyst that pushed Tax Freedom Day into April in 1943, and it dipped back into March for the last time in 1949. In 1950, Tax Freedom Day fell on April 1, and after a decade of modest government growth, it arrived on April 12 in 1960. The "Kennedy tax cut" pushed through by President Johnson in 1964 helped stem the tide of rising taxes, pushing Tax Freedom Day back to April 9 in both 1964 and 1965.

Under Johnson and Nixon, the Vietnam War combined with Johnson's Great Society programs to force taxes up in the late sixties

and seventies, adding 16 days' work to the price of government. Tax Freedom Day in 1981 arrived on April 25 — the latest date ever at that point.

Table 1 (continued)

*Tax Freedom Day & Total Effective Tax Rate
Calendar Years 1900–2007*

Significant Tax Legislation Noted with First-Year Impact on Tax Burden

	Tax Freedom Day	Numer of Days Spent Working to Pay Taxes	All Taxes as a Percentage of Income
1981*	April 25	115	31.3%
	<i>The Economic Recovery Tax Act of 1981 (-1.4% of NNP)</i>		
1982*	April 22	112	30.7%
	<i>The Tax Equity and Fiscal Responsibility Act of 1982 (+0.6% of NNP)</i>		
	<i>The Highway Revenue Act of 1982 (+0.1% of NNP)</i>		
1983	April 19	109	29.7%
	<i>The Social Security Amendments of 1983 (+0.2% of NNP)</i>		
	<i>The Interest and Dividend Tax Compliance Act of 1983 (-0.1% of NNP)</i>		
1984	April 18	108	29.4%
	<i>The Deficit Reduction Act of 1984 (+0.3% of NNP)</i>		
1985	April 19	109	29.8%
	<i>The Consolidated Omnibus Budget Reconciliation Act of 1985 (0.0% of NNP)</i>		
1986	April 20	110	29.9%
	<i>The Tax Reform Act of 1986 (+0.5% of NNP)</i>		
1987	April 24	114	31.0%
	<i>The Omnibus Budget Reconciliation Act of 1987 (+0.2% of NNP)</i>		
1988	April 23	113	30.7%
1989	April 24	114	31.0%
	<i>The Omnibus Budget Reconciliation Act of 1989 (+0.1% of NNP)</i>		
1990*	April 23	113	30.8%
	<i>The Omnibus Budget Reconciliation Act of 1990 (+0.5% of NNP)</i>		
1991*	April 22	112	30.7%
1992	April 22	112	30.5%
1993	April 22	112	30.7%
	<i>The Omnibus Budget Reconciliation Act of 1993 (+0.4% of NNP)</i>		
1994	April 24	114	31.2%
1995	April 26	116	31.6%
1996	April 27	117	32.0%
	<i>The Small Business Job Protection Act of 1996 (+0.0% of NNP)</i>		
1997	April 29	119	32.5%
	<i>The Tax Relief Act of 1997 (-0.1% of NNP)</i>		
1998	May 02	122	33.2%
1999	May 02	122	33.3%
2000	May 05	125	34.0%
2001*	May 01	121	33.0%
	<i>The Economic Growth and Tax Reform Reconciliation Act of 2001 (-0.8% of NNP)</i>		
2002*	April 21	111	30.3%
	<i>The Job Creation and Worker Assistance Act of 2002 (-0.6% of NNP)</i>		
2003	April 18	108	29.5%
	<i>The Jobs and Growth Tax Relief and Reconciliation Act of 2003 (-0.6% of NNP)</i>		
2004	April 19	109	29.7%
2005	April 26	116	31.5%
2006	April 28	118	32.3%
2007	April 30	120	32.7%

* Year in which the economy shrank during at least one quarter.

Note: Leap Day is omitted.

Source: Tax Foundation calculations based on data from Office of Management and Budget; Internal Revenue Service; Congressional Research Service; and National Bureau of Economic Research.

Just as the Kennedy tax cut had done in 1964, the Reagan tax cut in 1981 — the Economic Recovery Tax Act — restrained the tax burden. At the same time, downward pressure on state and local taxes spurred by California's Proposition 13 brought Tax Freedom Day earlier, and in 1984 it arrived on April 18. But a surge in economic growth during the late eighties, unaccompanied by tax cuts, raised the tax burden and in 1989, Tax Freedom Day arrived on April 24, one day short of its record high.

The next significant change in the tax burden came during the mid-to-late nineties. New higher tax brackets were added to the federal code in 1993, and the nation's tax burden rose considerably as income surged, pushing people into those higher brackets. By 1997 Tax Freedom Day came later than ever, April 29, and despite a targeted federal tax cut that year, the nation was in for a string of record-setting tax burdens.

The tax burden reached a new high in 1998 and 1999, and Tax Freedom Day arrived in May for the first time. The next year, at the turn of the new millennium, Tax Freedom Day arrived 125 days into the year, on May 5, 2000, and that still stands as the latest date ever.

Predictably, following such a tax surge, American opposition to taxes grew, and President Bush was narrowly elected on a tax-cut platform. At the same time, income was slowing, and in 2001, before most of the Bush tax cuts had taken effect, Tax Freedom Day arrived on the 121st day of the year, May 1. The tax burden fell again the next year by a whopping 10 days' work, and Tax Freedom Day arrived on April 21.

As more federal tax cuts were enacted during 2002 and 2003, the tax burden continued falling, and Tax Freedom Day arrived on April 18 in 2003, the earliest date in 20 years.

Income and Payroll Taxes Dominate the Tax Burden

Americans face an array of different taxes in their day-to-day lives. Figure 4 presents a breakdown of the nation's tax bill for 2007 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. All workers have a portion of their paychecks withheld to pay federal, state and in some cases local income taxes. Each worker then needs to file the famous Form 1040 with the IRS by April 15 of each year so the government can find out if too much or too little was withheld over the year.

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 43 days' worth of work for Americans in 2007.

Payroll Taxes

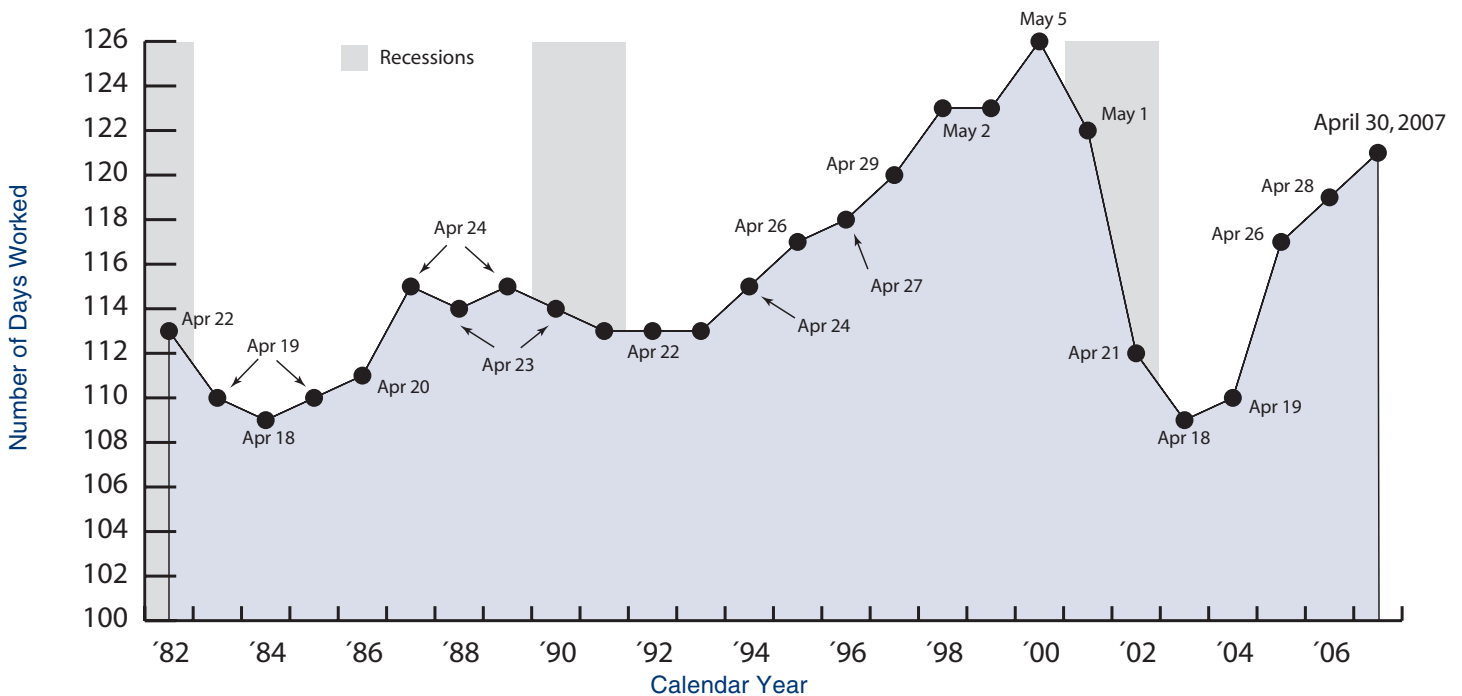
Americans will spend another 30 days working to afford their payroll taxes, or social insurance taxes — those taxes dedicated to funding social

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. Economists consider it a tax on labor because companies could hire more people or pay their current employees more if the tax were not collected, and so it is counted with the other payroll taxes in the Tax Freedom Day calculation.

Hidden Taxes

Some taxes are less apparent to the taxpayer than income and payroll taxes because they are difficult to total 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 12 days will be spent working to pay property taxes, which are primarily levied by local governments but increasingly by states as well. Property taxes have been the hot tax topic on the state and local

Figure 3
Tax Freedom Day
1982–2007



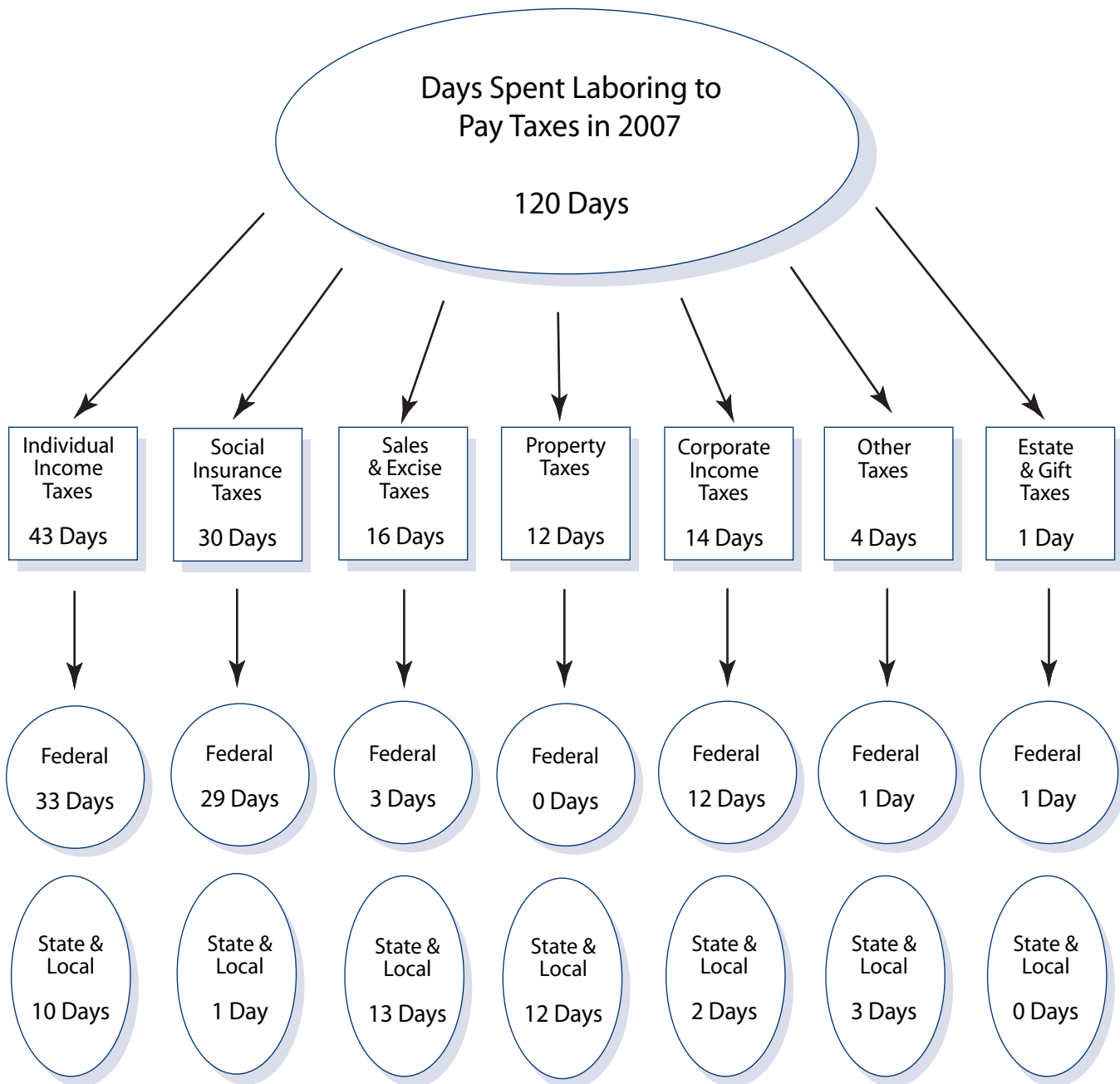
Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis and Congressional Budget Office.

level since the beginning of the latest real estate boom as many taxpayers have complained of rising tax bills. They will continue to be a big story in 2007 as several states look to lower property taxes by increasing other taxes.

This year Americans will have to work an additional 14 days to pay their share of corpo-

rate 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

Figure 4
Average Number of Days Worked to Pay Taxes by Type of Tax and Level of Government
Calendar Year 2007



Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis.

hours working to pay other business and miscellaneous taxes.

Tax Freedom Day by State

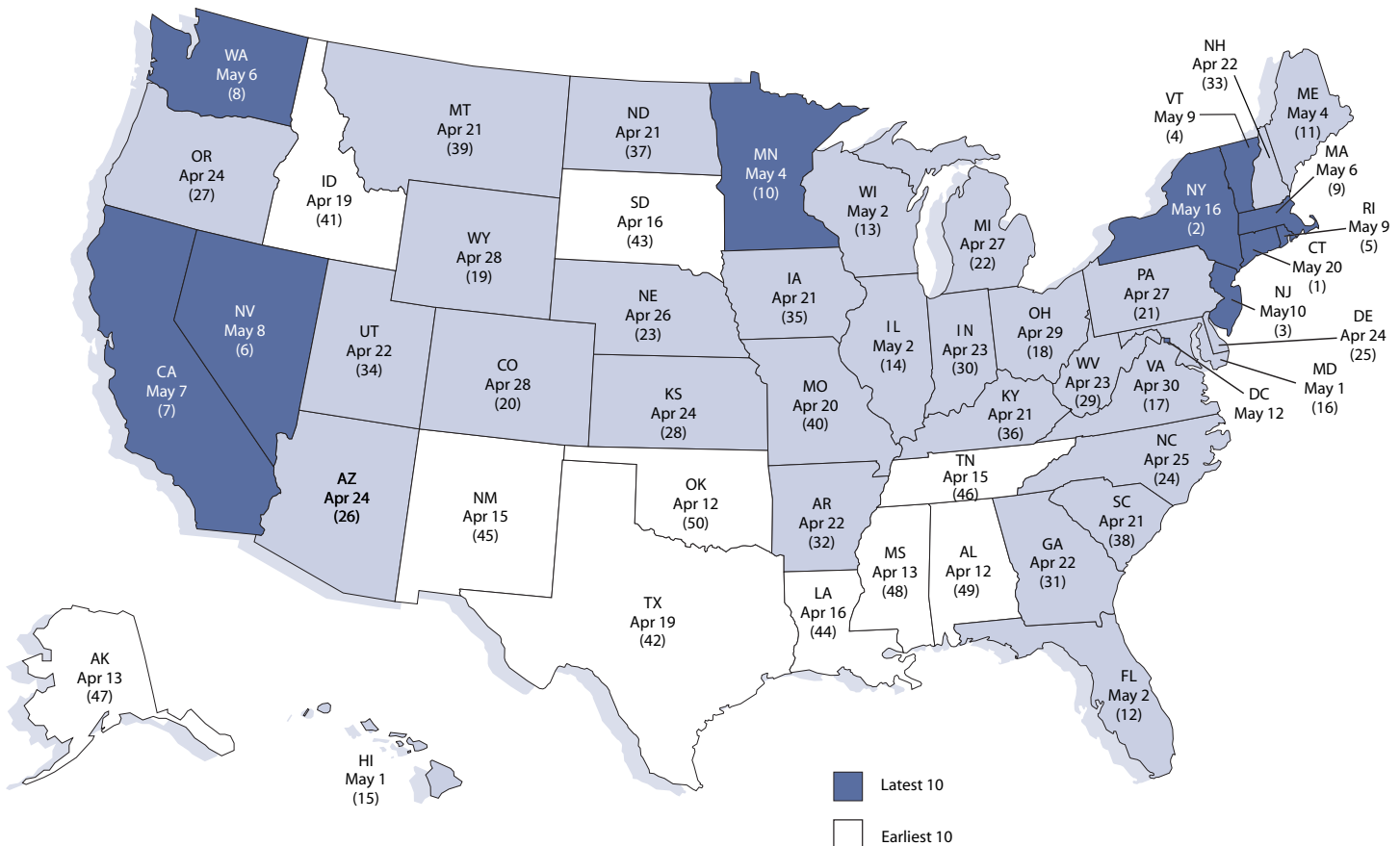
The total tax burdens borne by residents of different states vary considerably, as illustrated by Figure 5. This occurs not only because residents of different states pay different amounts of state and local taxes, but also because their federal tax payments can vary dramatically. Table 2 and Figure 5 rank each state on its Tax Freedom Day and days spent working to pay for government.

Residents of Oklahoma will bear the lowest average tax burden in 2007. Because of low average income, Oklahomans' income taxes make up a much smaller fraction of their tax burden, and their overall burden is lower. The state also has a modest state-local burden.

Therefore, the average resident of Oklahoma will celebrate Tax Freedom Day first in the nation, on April 12, after having devoted the first 102 days of 2007 to paying taxes. Alabama, Mississippi, Alaska and Tennessee are the four low-tax states that celebrate Tax Freedom Day soon after Oklahoma.

At the other end of the tax burden spectrum are states with comparatively late Tax Freedom Days. The residents of Connecticut will celebrate last, working until the 140th day of the year, from January 1 to May 20, before earning enough to pay all their taxes. Because Connecticut's per capita income is higher than in any other state, its residents pay extraordinarily high federal income taxes. Nearby states New York, New Jersey, Vermont and Rhode Island join Connecticut as the last states to celebrate Tax Freedom Day.

Figure 5
Tax Freedom Day by State and Rank
Calendar Year 2007



Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis.

Table 2
Tax Freedom Day and Days Worked in Each State Calendar Year 2007

	Days Spent Working to Pay Taxes	Tax Freedom Day	Rank
United States	120	April 30	–
Alabama	102	April 12	49
Alaska	103	April 13	47
Arizona	114	April 24	26
Arkansas	112	April 22	32
California	127	May 07	7
Colorado	118	April 28	20
Connecticut	140	May 20	1
Delaware	114	April 24	25
Florida	122	May 02	12
Georgia	112	April 22	31
Hawaii	121	May 01	15
Idaho	109	April 19	41
Illinois	122	May 02	14
Indiana	113	April 23	30
Iowa	111	April 21	35
Kansas	114	April 24	28
Kentucky	111	April 21	36
Louisiana	106	April 16	44
Maine	124	May 04	11
Maryland	121	May 01	16
Massachusetts	126	May 06	9
Michigan	117	April 27	22
Minnesota	124	May 04	10
Mississippi	103	April 13	48
Missouri	110	April 20	40
Montana	111	April 21	39
Nebraska	116	April 26	23
Nevada	128	May 08	6
New Hampshire	112	April 22	33
New Jersey	130	May 10	3
New Mexico	105	April 15	45
New York	136	May 16	2
North Carolina	115	April 25	24
North Dakota	111	April 21	37
Ohio	119	April 29	18
Oklahoma	102	April 12	50
Oregon	114	April 24	27
Pennsylvania	117	April 27	21
Rhode Island	129	May 09	5
South Carolina	111	April 21	38
South Dakota	106	April 16	43
Tennessee	105	April 15	46
Texas	109	April 19	42
Utah	112	April 22	34
Vermont	129	May 09	4
Virginia	120	April 30	17
Washington	126	May 06	8
West Virginia	113	April 23	29
Wisconsin	122	May 02	13
Wyoming	118	April 28	19
Dist. of Columbia	132	May 12	–

Note: Leap day is omitted.
Source: Tax Foundation calculations based on data from the Department of Commerce, Bureau of Economic Analysis.

Tax Freedom Day: Origin and Methodology

Tax Freedom Day was conceived by Florida businessman Dallas Hostetler in 1948. He performed the calculation himself and promoted his copyrighted concept until his retirement in 1971. He deeded the intellectual property to the Tax Foundation, and since then the Tax Foundation has used historical data to calculate Tax Freedom Day back to the beginning of the 20th century, and in 1990 sufficient data became available to calculate a separate Tax Freedom Day for each state.

Tax Freedom Day is a vivid, calendar-based illustration of government’s cost, and it gives Americans an easy way to gauge the overall tax take. Every dollar that is 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 included, whether levied by Uncle Sam or state and local governments.

We assume that the nation starts working on January 1, earning the same amount each day and spending nothing. When the nation has finally earned enough to pay all the taxes that will be due for that year, Tax Freedom Day has arrived.

Determining the national Tax Freedom Day involves calculating an overall effective tax rate for the nation. This is done by dividing the nation’s total tax payments by the nation’s income. The following formula presents this calculation for 2007:

$$\frac{\text{Federal, state \& local taxes}}{\text{Total income}} = \frac{\$3,988 \text{ billion}}{\$12,199 \text{ billion}} = 32.7\%$$

$$32.7\% \times 365 \text{ days} = 120 \text{ days} = \text{April 30}$$

The source for income and tax data is the National Income and Product Accounts published by the Bureau of Economic Analysis in the Department of Commerce. For a more detailed description of Tax Freedom Day’s methodology please see *Tax Foundation Working Paper, No. 3* at www.taxfoundation.org.



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