



DON'T BE AN APRIL FOOL TAKEN IN BY A MAKE-BELIEVE DAY

Every April, the Tax Foundation releases a report celebrating "Tax Freedom Day." The Tax Foundation was founded in 1937 by the top leadership of General Motors, Standard Oil, and Johns-Manville Corporation. Its focus is to keep taxes low irrespective of the need for taxes in maintaining public infrastructure to support our economy and quality of life. "Tax Freedom Day" is a make-believe day based on disingenuous reasoning that has serious methodological flaws.

Disingenuous Reasoning

The report claims to calculate the number of days Americans spend working to pay their taxes, and compares this to the cost of other goods and services they purchase the rest of the year. But it is make believe to say that we work part of the year to pay our taxes before we pay ourselves. Nor is it possible to calculate the cost of consumer goods and services independent from the public infrastructure necessary to produce them. Consumer goods and services would not be available without the support of public structures and systems paid for by taxes. **To separate the private from the public in this way is to pull apart the threads making up the fabric of our society.**

Every day Americans benefit from the vital support of public structures maintained for the common good through taxes. Our water is safe to drink because our city water department monitors its quality. Our air is clean to breathe because enforcement of clean air laws limits pollution. Our mail arrives in our mailbox because a government employee delivers it directly to our mailbox from across the city or across the country. Our prescription drugs are safe and effective because the Food and Drug Administration has tested them. Our money is still in our bank when we go to the ATM because of government's banking regulations and its guarantee of deposits. In virtually every facet of our lives, whether we're brushing our teeth with clean water or walking our dog in the park, public structures—laws, regulations, and systems—paid for by taxes, make our activities possible and safer.

Methodological Flaws

With complete disregard for these shared benefits that are a direct result of taxes, the Tax Foundation projects "Tax Freedom Day," which purports to be the day when families have "earned enough money to pay this year's tax obligations at a federal, state, and local level." This year the foundation calculates "Tax Freedom Day" in Texas as April 12. But the calculation is rigged to push the day as far into the year as possible.

The calculation is based on the share of total national income paid in taxes, but this number does not accurately represent the share of income that a typical family pays in taxes. While measuring revenue as a share of the economy or as a share of national income is the most reliable way to make comparisons over time or between countries for the economy as a whole, it does not show what a typical family pays in taxes.

Consider this illustration. Suppose four families with incomes of \$40,000 each pay \$2,000 in taxes—5 percent of their income—while one wealthy family with an income of \$240,000 pays \$72,000 in taxes—30 percent of its income. The total income of these five families is \$400,000, and the total amount paid in taxes is \$80,000—20 percent of the total income of the families.

But it would be highly misleading to represent this 20-percent figure as an indicator of the typical tax burden for families in this group. Yet, that is how the Tax Foundation calculates Tax Freedom Day.

Because the federal tax system is progressive—assessing higher tax rates on higher incomes—the share of income most families pay in federal taxes is much lower than the overall percentage of national income paid in taxes. The Congressional Budget Office (CBO) estimates that even many upper-income households pay less of their income in federal taxes than the “average” tax burden reported by the Tax Foundation. **In fact, some 80 percent of households pay less in federal taxes than alleged by the Tax Foundation.** As for state and local taxes, the Tax Foundation uses estimates, even though these are speculative projections. **Over the years, the Tax Foundation has often had to make substantial revisions when actual state and local taxes are subsequently published by the Census Bureau.**¹

We discuss these methodological flaws only to expose the Tax Foundation’s bias. There is actually no point in arguing about the exact date of a make-believe day.

Conclusion

When citizens wisely and effectively raise and spend taxes it contributes to our freedom. Asking whether we have the right taxes and whether we are spending the money the right way is always appropriate. Calculating make-believe days with rigged numbers never is.

¹ For a detailed analysis of these and other methodological flaws, see this report by the Center on Budget and Policy Priorities: <http://www.cbpp.org/3-26-08tax.htm>

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