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Israel Tax Freedom Day falls on July 15 this year, 17 days earlier than in 2007

Israelis have good reason to celebrate this month; Tax Freedom Day (TFD) falls on July 15th, almost 3 weeks earlier than in 2007. A TFD this early, Israelis haven't seen since 1990.

TFD marks the day when the average Israeli stops working for the government, and starts earning money for private consumption (or savings). It answers the question, "What price is the nation really paying for government services?"

Sadly, in 2008, Israelis worked 197 days for the government and only 169 days for themselves. So while Israel's TFD result for 2008 is encouraging, the fact that more of our workdays finance government expenditures than our own private activities serves as a painful reminder that the overall tax burden in Israel is still exceedingly high.

TFD is calculated by taking the ratio of total taxes paid by the Israeli population over Israel's Net National Income (NNI). Total taxes include not just income tax, but VAT, local taxes, import taxes, car and fuel taxes, taxes on corporations and much more.

Since Tax Freedom Day is a ratio of taxes to the NNI, TFD moves backward when tax collection slows down relative to the growth of the economy. In 2008, taxes were indeed lowered somewhat --the top marginal income tax bracket decreased from 48% to 47%, and the corporate tax rate was reduced by 2 points from 29% to 27%. But more significantly, Israel's NNI will grow at a rate of 3% according to the Bank of Israel's latest forecast. This is the main reason that TFD falls out earlier this year.

The Jerusalem Institute for Market Studies (JIMS) has calculated Israel TFD every year since 2004. JIMS also retrospectively calculated Israel TFD going back to 1990. It was found that in all 18 years since 1990, Israeli taxpayers worked more for the government than for themselves.

"In 2008, we will work a total of 197 days just to pay our taxes. To put this in perspective, think about our other household expenditures and how many days we work to cover those. For example, we work 28 days for our food, 60 days to pay for housing costs, and 35 days for transportation and communications," says Corinne Sauer the Director of the Jerusalem Institute for Market Studies.

Which Taxes Are Largest?

TFD is an average for all Israelis. For some individuals, their personal TFD could be earlier (if they pay less taxes than the average) or later (if they pay more taxes than the average). TFD makes it simple for taxpayers to realize just how much of their money is transferred to the government each year.

It is usually quite confusing and daunting for taxpayers to gauge their tax burden. The visible part of taxes taken in the form of income tax can be easily calculated by anyone. However, hidden taxes and fees like customs tax and purchase tax are often overlooked. In fact, individual income taxes represent only 44 days' work, sales tax take another 36 days, work and national insurance contributions account for 31 days of work. Unfortunately, we also have to work 22 days for import taxes, 23 for corporate taxes, 14 days for local taxes, 11 days for health taxes, 9 days for fuel taxes and 8 days for all other taxes.

Why do Israelis have to work so many days to finance government coffers? Israeli government spending is set to reach 310 billion NIS in 2008, which is 41,406 NIS for each individual living in Israel. For a family of four, government spending is more than 165,000 shekels a year.

It is certainly not clear that Israelis receive public services worth this amount of money; in fact 35.6% of the total public budget is earmarked to repay the interest and principal on loans that the government took out in the past. This has little current consumption value to Israelis.

In order to cover past governments' "overdraft", Israelis have to work 70 days each year. *"This is a reminder that when governments take out loans to finance their expenditures, the dubious short-term benefits of such an action usually lead to a substantial increase in the tax burden on future generations,"* says Professor Robert Sauer, President of JIMS.

Interestingly, Israelis work much less to cover the education bill (only 22 days), welfare and social services (19 days) and health expenditures (10 days). Although Israel's high tax burden is often attributed to the security situation, Israelis only work 32 days a year to finance the defence budget.

Even if the defence budget were to drop to zero, Israel's TFD would fall in mid June, almost two months after TFD in the US (April 23rd). This would also be later than TFD in the UK (June 2nd). In fact, when comparing TFD internationally, Israel is most comparable to Sweden and Norway which also celebrate TFD in the middle of the summer.

About the Jerusalem Institute for Market Studies

The Jerusalem Institute for Market Studies (JIMS) is an independent, non-profit economic policy think tank whose mission is to promote social progress in Israel

through economic freedom and individual liberty. JIMS' website is
<http://www.jims-israel.org>.

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