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FEDERAL TAX BURDENS IN HISTORICAL PERSPECTIVE

By Aviva Aron-Dine

With the income-tax filing deadline approaching and many people focusing on how much they owe in taxes, it may come as a surprise that federal tax burdens for most income groups— and, in particular, for middle-income households — are at their lowest levels in decades, and were low by historical standards even *before* the 2001 and 2003 tax cuts.

Overall Federal Tax Burdens Are Low By Historical Standards

- Congressional Budget Office data that cover the period from 1979 to 2004 show that most income groups paid a smaller share of their income in federal taxes in 2003 and 2004 than in any previous year for which data are available, back to 1979.¹
- Tax burdens on middle income households are at their lowest level in decades. Households in the middle fifth of the income spectrum paid an average of 13.9 percent of their income in federal taxes in 2004, virtually the same percentage as in 2003 and lower than in any other year since 1979.
- In 2000, *before the 2001 and 2003 tax cuts*, households in the middle fifth of the income scale paid a smaller share of their income in federal taxes than in any year since 1979, and tax burdens for most income groups were lower than their average for the 1979-1999 period.

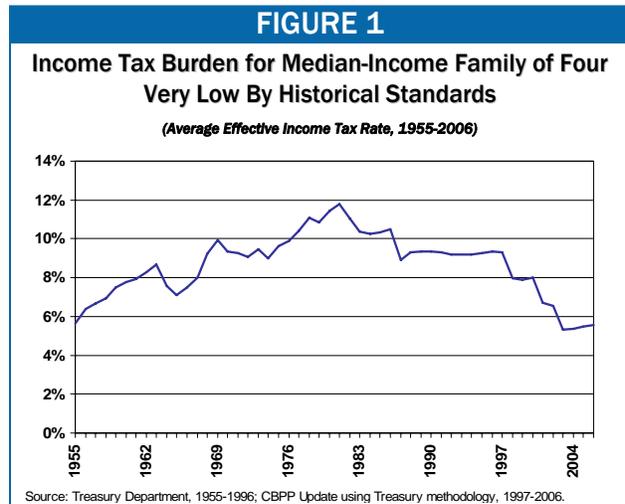
Federal *Individual Income Tax* Burdens Have Fallen Significantly

The drop in overall federal tax burdens has been driven in large part by a pronounced decline in individual income tax burdens.

- For most income groups covered by the CBO study, federal individual-income tax burdens in 2003 and 2004 were at their lowest level since 1979. For the top 1 percent of households, federal individual income tax burdens were at their lowest level since 1986. (Overall federal tax burdens were at their lowest level since 1992 and were lower than in the first years covered by the CBO study, before the tax cuts of the 1980s.)

¹ The CBO study covers the 1979-2004 period and includes federal income, payroll, and excise taxes. Congressional Budget Office, “Historical Effective Tax Rates, 1979-2004,” December 2006.

- Updating a Treasury Department study, the Center finds that the median-income family of four paid only 5.6 percent of its income in federal individual income taxes in 2006, roughly the same percentage as in 2003-2005 (see Figure 1). This “effective tax rate” for the median-income family represents the lowest level on record, with data going back to 1955.²
- Here, too, the downward trend began before the 2001 tax cut. In 2000, the median-income family of four paid a smaller percentage of its income in individual income taxes than in any year since 1966, except for 1998 and 1999.



New Study Finds Tax Burdens Have Dropped Most Sharply for Highest-Income Households

In a new study, Thomas Piketty and Emmanuel Saez, leading economists who have done groundbreaking work on the historical evolution of income inequality in the United States, examine how the progressivity of the federal tax system has changed over time. Their data, like CBO’s, show that tax burdens for most groups of households are low by historical standards. But unlike the CBO study, Piketty and Saez examine tax burdens for groups up to the top one-hundredth of one percent (0.01 percent) of the population. They conclude that “the progressivity of the U.S. federal tax system at the top of the income distribution has declined dramatically since the 1960s.” That is, the very highest-income households have seen the sharpest drops in the percentage of income that they pay in federal taxes.³

Piketty and Saez point to recent tax cuts as one major reason that federal tax burdens have dropped most sharply for the highest-income households. This is hardly surprising given other evidence that these tax cuts were skewed to the top.

² The Center’s estimates were derived by updating (using Treasury’s methodology) a 1998 Treasury Department analysis that examined changes since 1955 in the percentage of income that the median-income family of four pays in federal income taxes.

³ Since CBO does not provide data on income groups above the top 1 percent, it is only possible to compare the CBO and Piketty/Saez series for groups up to the top 1 percent. According to the Piketty Saez data — which are based on a somewhat different methodology than CBO’s and which, unlike the CBO data, include federal estate taxes — recent tax cuts have reduced tax burdens for the top 1 percent of households to a little below their 1980s levels. As noted above, the CBO data show tax burdens for these households a little above their 1980s levels. *Both* data series show that since the late 1970s, the top 1 percent of households have seen considerably larger percentage-point reductions in their federal tax rates than have low- or middle-income households. The comparison with the late 1970s takes into account the combined effects of the tax cuts of the 1980s, the tax increases of the 1990s, and the tax cuts of recent years.

For further discussion of the Piketty and Saez study, see Aviva Aron-Dine, “New Study Finds ‘Dramatic’ Reduction Since 1960 in the Progressivity of the Federal Tax System: Largest Reductions in Progressivity Occurred in 1980s and Since 2000,” Center on Budget and Policy Priorities, March 29, 2007, <http://www.cbpp.org/3-29-07tax.htm>.

According to estimates by the Urban Institute-Brookings Institution Tax Policy Center, in 2010, when the tax cuts all are fully in effect, households with annual incomes of more than \$1 million a year will receive tax cuts averaging \$158,000, which will boost their after-tax incomes by an average of 7.6 percent. Households in the middle fifth of the income distribution, in contrast, will receive tax cuts averaging \$810, which will increase their after-tax incomes by an average of 2.3 percent. More than one fifth of the total value of the tax cuts will go to the 0.3 percent of households with incomes of more than \$1 million per year. In contrast, only one eighth of the total value of the tax cuts will go to the bottom 60 percent of households.