

from the Tax Policy Center

The Distribution of Federal Taxes

By Jeffrey Rohaly

Overall, the federal tax system is highly progressive: On average, households with higher incomes pay taxes that are a larger share of their income. The 2007 average effective federal tax rate — tax paid as a percentage of cash income — rises from 3.4 percent for the bottom quintile — or fifth — of the income distribution to 25.9 percent for the top fifth.¹ Within the top quintile, average rates climb from 30.4 percent for the top 1 percent to 32.8 percent for the top one-tenth of 1 percent.

Of the major revenue sources, the individual income tax is the most progressive. Refundable credits lead to negative effective rates for the bottom two quintiles.

¹Our estimates exclude excise taxes and customs duties, which accounted for about 4 percent of federal revenue in 2006.

Rates increase from 2.8 percent to 14.5 percent for the three higher quintiles and to more than 19 percent for the top 1 percent of tax units. The corporate income tax is also progressive: The lowest four quintiles all face an effective rate of about 1 percent, while the top quintile, which gets much more of its income from capital, incurs a 4 percent rate. The top 1 percent has a 12 percent rate. The estate tax is the most progressive federal tax, but its effective rate is low. Virtually all of the tax is borne by the top quintile, with an effective rate of 0.3 percent.

In sharp contrast, payroll taxes for Social Security and Medicare are regressive. The average rate rises from 7.3 percent for the bottom quintile to 10.8 percent for the fourth quintile, but it then falls to 6.9 percent for the top fifth. That regressivity occurs because the taxes affect a smaller share of the income of higher-income households, in part because they get more income from non-wage sources such as capital gains and dividends that are not subject to payroll taxes, and in part because wages subject to the Social Security tax are capped (at \$97,500 in 2007).

Average Effective Tax Rates Under Current Law by Type of Tax and Cash Income Percentile, 2007^a

Cash Income Percentile ^b	Individual Income Tax ^c	Payroll Taxes ^d	Corporate Income Tax	Estate Tax	All Federal Taxes ^e
Lowest Quintile	-5.0	7.3	1.2	0.0	3.4
Second Quintile	-2.8	8.9	1.1	0.0	7.3
Middle Quintile	2.8	10.7	0.9	0.0	14.4
Fourth Quintile	6.8	10.8	1.2	0.0	18.8
Top Quintile	14.5	6.9	4.2	0.3	25.9
All	10.2	8.3	3.0	0.2	21.7
Addendum					
Top 10 Percent	16.3	5.6	5.1	0.4	27.4
Top 5 Percent	17.7	4.1	6.2	0.5	28.5
Top 1 Percent	19.2	2.0	8.6	0.6	30.4
Top 0.1 Percent	19.3	0.9	11.9	0.7	32.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-1).

^aCalendar year.

^bTax units with negative cash income are excluded from the lowest quintile but are included in the totals. Includes both filing and nonfiling units but excludes those that are dependents of other tax units.

^cAfter tax credits (including refundable portion of earned income and child tax credits).

^dIncludes both the employee and employer portion of Social Security and Medicare tax.

^eExcludes excise taxes and customs duties.



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