



# tax facts

from the Tax Policy Center

## Distribution of Federal Taxes and Income, 1979-2000

By William G. Gale

The Congressional Budget Office recently released new estimates of the distribution of taxes and income between 1979 and 2000. CBO includes all federal taxes except estate and gift levies; counts as income all cash income, taxes paid by businesses, 401(k) contributions, and in-kind benefits; and uses standard incidence assumptions — for example, capital owners bear the corporate income tax. Income is aggregated across household members and adjusted for household size.

The table shows that the federal tax system was progressive in both 1979 and 2000 — average effective tax rates (ETRs) rose with income. During that time, the ETR rose on an overall basis, but fell in almost every income group. The ETR for the top 1 percent fell by 3.8 percentage points, raising their “after-tax share” — 1 minus the tax rate — by about 5 percent (from

1-.37 to 1-.332). The ETR for the bottom quintile fell by 1.6 percentage points, raising their after-tax share by 2 percent.

The allocation of federal tax payments shifted toward higher-income households because their income rose dramatically. The share of taxes paid by the top quintile rose from 56 percent in 1979 to 67 percent in 2000. Their pretax income share rose commensurately, from 45 percent to 56 percent. The share of taxes paid by the top 1 percent rose by 66 percent, from 15 percent in 1979 to almost 26 percent in 2000, because their share of pretax income almost doubled, from about 9 percent in 1979 to about 18 percent in 2000. The pretax income of high-income groups rose so fast that, despite their increasing share of tax burdens, their after-tax income rose substantially faster than other groups. After-tax income tripled among the top 1 percent, and roughly doubled in the top 5 and 10 percent. After-tax income rose by 15 percent or less in the bottom 60 percent of the distribution. The ratio of after-tax income among the top 1 percent to those in the middle quintile rose from about 8 to 1 in 1979 to more than 20 to 1 in 2000.

Income Group	Effective Tax Rate (percent)		Share of Taxes Paid (percent)		Share of Pretax Income (percent)		Average After-Tax Income (2000 \$)	
	1979	2000	1979	2000	1979	2000	1979	2000
All	22.2	23.1	100.0	100.0	100.0	100.0	40,700	57,000
Lowest 20%	8.0	6.4	2.1	1.1	5.8	4.0	12,600	13,700
Second 20%	14.3	13.0	7.2	4.8	11.1	8.6	25,600	29,000
Middle 20%	18.6	16.7	13.2	9.8	15.8	13.5	36,400	41,900
Fourth 20%	21.2	20.5	21.0	17.4	22.0	19.6	47,700	59,200
Top 20%	27.5	28.0	56.4	66.7	45.5	54.8	84,000	141,400
Top 10%	29.6	29.7	40.7	52.2	30.5	40.6	106,300	201,400
Top 5%	31.8	31.1	29.6	41.4	20.7	30.7	140,100	299,400
Top 1%	37.0	33.2	15.4	25.6	9.3	17.8	286,300	862,700

Source: Congressional Budget Office. 2003. *Effective Federal Tax Rates, 1997-2000*. August. Appendix B.



The Tax Policy Center, a joint venture of the Urban Institute and the Brookings Institution, provides independent, timely, and accessible analysis of current and emerging tax policy issues for the public, journalists, policymakers, and academic researchers.

For more tax facts, see <http://www.taxpolicycenter.org/taxfacts>.