



# tax facts

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## Income Tax Burden Peaked in 1980s

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The figure shows one way to assess the federal income tax burden—federal income taxes as a share of income—for a family of four in the middle of the income distribution, and for similar families at twice and half that income level from 1955 to 2001. In 2001, the median family earned \$63,278. By comparison, in 1955, the median family earned \$4,919 (worth about \$32,500 in 2001 dollars).

From the 1950s through the 1970s, average income tax rates tended to rise, broken only by the 1964 Kennedy tax cuts. Much of the rise was attributable to inflation-induced “bracket creep” — people’s taxes increased even if their income just kept up with inflation. In 1981, Congress decided to index tax brackets for inflation, beginning in 1984. Congress also cut rates in 1981, and again in 1986.

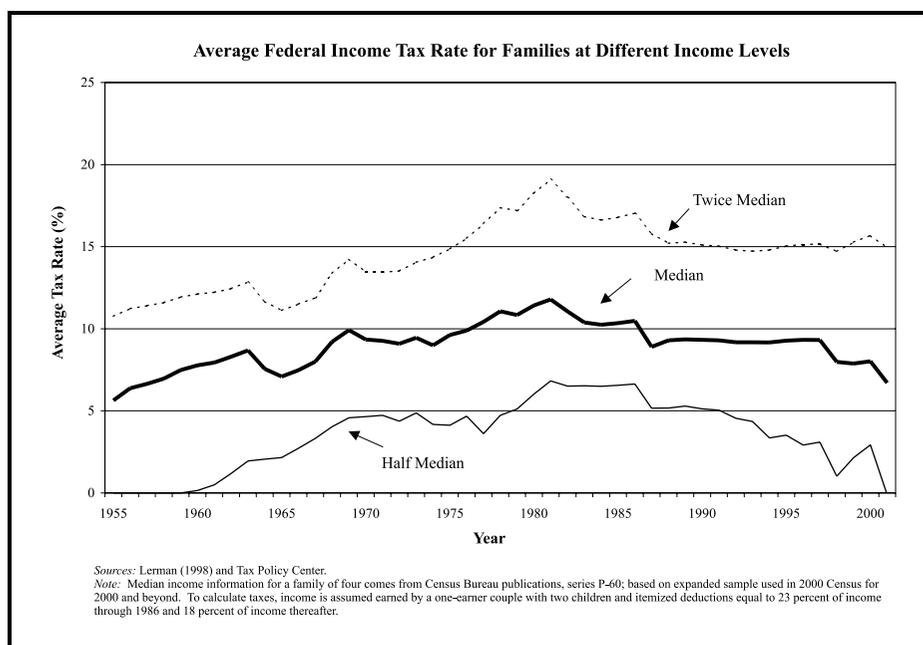
Average tax rates for the median-income family fell from 11.8 percent in 1981 to 8.9 percent in 1987. By 2001, median-income families paid an average rate of 6.7 percent, the lowest level in 44 years.

The pattern for a family at twice the median income level (\$126,556 in 2001) is similar, but tax increases in 1993 and 1997 pushed the effective rate up from the comparatively low 1993 level. In 2001, such a family faced an average tax rate of 14.9 percent.

A family at one-half median income (\$31,639 in 2001) did not

owe any federal income tax until 1960. After that, its effective tax rate followed a pattern similar to families with higher incomes, except that the introduction of the Earned Income Tax Credit (EITC) in 1975 and its subsequent expansions, as well as the Child Tax Credit in 1998 significantly lightened lower-income families’ tax burdens. By 1999, the family at half median income was starting to face higher tax rates because growing incomes translated into a loss of EITC benefits. That trend reversed in 2001, primarily because of the \$600 rebate enacted that year. In 2001, the lower-income family faced an average tax rate of -0.1 percent.

This analysis is based on Allen Lerman, “Average and Marginal Federal Income, Social Security and Medicare, and Combined Tax Rates for Four-Person Families at the Same Relative Positions in the Income Distribution, 1955-1999,” Office of Tax Analysis, Department of the Treasury, January 15, 1998, which the Tax Policy Center updated from 1997-2001. The updated version is available at <http://www.taxpolicycenter.org>.



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