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Preliminary Estimates of Effective Tax Rates

The attached tables were prepared by the Congressional Budget Office (CBO) at the request of the House Committee on Ways and Means. The tables provide *preliminary* estimates for the 1977-1995 period and projections for 1999 of effective tax rates (Table 1), shares of family income and taxes paid by income category (Table 2), average pretax and post-tax adjusted family income by income category (Table 3), and the income cutoffs used to define income categories (Tables 4 and 5). The projections for 1999 are based on actual data for 1995. The estimates are based on data from the Internal Revenue Service, Census Bureau, and the Bureau of Labor Statistics.

The estimates of effective tax rates shown in Table 1 have been published previously, but the methodology used to estimate them has changed over time. In particular, CBO has changed its method of allocating corporate taxes from one that splits the corporate income tax between workers and owners of capital to one that assigns the whole tax to owners of capital. As a result of the changed methodology, a table of effective tax rates derived from previously published numbers would be inconsistent. The values in the attached tables were all calculated using the newer methodology and thus provide comparable information across the period. Those numbers should be used in place of the previously published numbers, especially when making comparisons over time.

The data in the tables are preliminary because CBO is still making adjustments to its databases and methodology. In particular, CBO is reviewing the measure of income it uses to classify families. As indicated in the table footnotes, families are classified by adjusted family income—which equals total cash income, the employer share of Social Security and federal unemployment insurance payroll taxes, and the corporate income tax—adjusted for differences in family size by the equivalence scale implicit in the official federal poverty thresholds. The income measure excludes all income received in kind. Any changes to CBO's measure of income, its basis for ranking families, or its calculation of effective tax rates would lead to values different from those shown in the tables. Anyone citing these numbers should therefore do so with caution. The preliminary tables are provided only to ensure the availability of comparable historical values in lieu of the inconsistent values published over the past 10 years.

Taxes are defined and distributed as follows: Federal taxes include individual and corporate income taxes, payroll taxes, and excise taxes. Individual income taxes are distributed directly to families paying those taxes. Payroll taxes are distributed to families paying those taxes directly, or indirectly through their employers. Federal excise taxes are distributed to families according to their consumption of the taxed good or service. Corporate income taxes are distributed to families according to their share of capital income.

Table 1. Preliminary Estimates of Effective Tax Rates by Income Category, 1977-1995 and Projected for 1999

Income Category	1977	1979	1981	1983	1985	1987	1989	1991	1993	1995	Projected 1999
Number of Families (In millions)											
Lowest Quintile	16.7	17.6	17.6	17.1	18.5	19.4	19.5	19.9	20.2	21.2	22.7
Second Quintile	15.2	16.7	17.2	18.1	18.6	19.5	20.5	20.8	21.3	21.8	23.3
Middle Quintile	14.7	16.0	16.6	17.5	18.3	18.9	19.6	20.4	21.2	21.2	22.5
Fourth Quintile	15.6	16.5	17.4	17.8	18.7	19.3	19.9	20.5	20.9	21.2	22.6
Highest Quintile	17.4	18.2	19.1	19.6	20.0	20.3	21.1	21.4	21.7	22.2	23.6
All Families	80.4	86.1	89.3	91.8	95.7	98.7	102.1	104.7	107.2	109.6	116.8
Top 10 Percent	8.8	9.3	9.8	10.1	10.2	10.4	10.6	10.9	10.9	11.3	11.9
Top 5 Percent	4.5	4.6	5.0	5.1	5.1	5.2	5.4	5.4	5.5	5.6	5.9
Top 1 Percent	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.2
Average Pretax Family Income (In 1995 dollars)											
Lowest Quintile	10,000	9,600	8,900	8,100	8,700	8,700	9,000	8,400	7,800	8,100	8,400
Second Quintile	23,700	23,200	21,700	19,800	21,300	21,600	21,400	20,600	19,600	20,100	21,200
Middle Quintile	36,400	36,200	34,600	32,800	34,200	34,900	35,000	33,600	32,300	33,300	35,400
Fourth Quintile	49,300	50,400	48,400	48,000	49,600	51,100	50,900	49,300	49,000	49,600	53,000
Highest Quintile	94,300	98,300	95,900	99,500	109,000	113,000	118,000	111,000	114,000	120,000	132,000
All Families	42,900	43,500	42,000	42,000	44,500	45,800	46,800	44,600	44,100	45,700	49,500
Top 10 Percent	125,000	130,000	125,000	132,000	148,000	153,000	166,000	153,000	158,000	168,000	188,000
Top 5 Percent	166,000	179,000	168,000	182,000	207,000	216,000	236,000	217,000	225,000	244,000	276,000
Top 1 Percent	356,000	389,000	367,000	435,000	524,000	544,000	635,000	547,000	584,000	660,000	719,000

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Table 1. Continued

Income Category	1977	1979	1981	1983	1985	1987	1989	1991	1993	1995	Projected 1999
Effective Individual Income Tax Rate (In percent)											
Lowest Quintile	-0.6	-0.8	-0.2	-0.5	-0.2	-1.3	-1.9	-2.9	-3.4	-5.6	-6.8
Second Quintile	3.6	3.9	4.6	3.5	3.9	3.2	3.3	2.7	1.8	1.8	0.9
Middle Quintile	7.1	7.5	8.3	6.8	6.8	6.1	6.5	6.3	5.9	6.1	5.4
Fourth Quintile	9.7	10.4	11.3	9.5	9.3	8.7	8.9	8.7	8.5	8.7	8.4
Highest Quintile	15.8	16.3	17.1	14.5	14.3	15.1	15.1	14.8	15.5	16.2	16.1
All Families	11.1	11.6	12.6	10.7	10.7	10.8	10.9	10.5	10.9	11.3	11.1
Top 10 Percent	17.6	18.0	18.7	15.9	15.6	16.9	16.6	16.3	17.4	18.2	18.0
Top 5 Percent	19.3	19.7	20.0	17.1	16.8	18.5	18.0	17.6	19.3	20.0	19.6
Top 1 Percent	23.1	22.6	22.0	19.3	18.7	20.9	19.7	19.9	22.8	23.4	22.2
Effective Total Federal Tax Rate (In percent)											
Lowest Quintile	8.7	8.4	8.0	8.5	10.2	9.0	8.8	7.9	7.8	6.0	4.6
Second Quintile	14.7	14.9	15.0	14.2	15.5	15.2	15.3	15.1	14.3	14.6	13.7
Middle Quintile	18.5	19.2	19.5	18.2	18.8	18.5	18.9	18.9	19.1	19.7	18.9
Fourth Quintile	20.9	22.1	22.9	21.0	21.3	21.2	21.5	21.6	22.0	22.5	22.2
Highest Quintile	28.2	28.5	27.9	24.6	24.5	26.4	25.9	26.2	27.6	29.6	29.1
All Families	22.8	23.4	23.5	21.4	21.8	22.6	22.5	22.6	23.5	24.7	24.2
Top 10 Percent	30.7	30.5	29.0	25.2	25.1	27.6	26.8	27.2	29.0	31.3	30.6
Top 5 Percent	33.4	32.6	30.1	25.7	25.5	28.5	27.4	27.9	30.2	33.0	31.8
Top 1 Percent	39.7	37.3	31.7	26.9	26.2	30.2	28.1	29.1	32.5	36.5	34.4

SOURCE: Congressional Budget Office.

NOTES: Pretax family income is the sum of wages, salaries, self-employment income, rents, taxable and nontaxable interest, dividends, realized capital gains, and all cash transfer payments. Income also includes the corporate income tax and the employer share of Social Security and federal unemployment insurance payroll taxes. For purposes of ranking by adjusted family income, income for each family is divided by the poverty threshold for a family of that size. Quintiles contain equal numbers of people. Families with zero or negative income are excluded from the lowest income category but are included in the total.

Individual income taxes are distributed directly to families paying those taxes. Payroll taxes are distributed to families paying those taxes directly, or indirectly through their employers. Federal excise taxes are distributed to families according to their consumption of the taxed good or service. Corporate income taxes are distributed to families according to their share of capital income.

Table 2. Preliminary Estimates of Shares of Family Income and Taxes Paid by Income Category, 1977-1995 and Projected for 1999 (In percent)

Income Category	1977	1979	1981	1983	1985	1987	1989	1991	1993	1995	Projected 1999
Share of Total Family Income											
Lowest Quintile	5	5	4	4	4	4	4	4	3	3	3
Second Quintile	10	10	10	9	9	9	9	9	9	9	9
Middle Quintile	16	15	15	15	15	15	14	15	15	14	14
Fourth Quintile	22	22	22	22	22	22	21	22	22	21	21
Highest Quintile	47	48	49	50	51	51	52	51	52	53	54
All Families	100	100	100	100	100	100	100	100	100	100	100
Top 10 Percent	32	32	33	35	35	35	37	36	37	38	39
Top 5 Percent	22	22	22	24	25	25	27	25	26	27	28
Top 1 Percent	9	10	10	11	12	12	13	12	13	14	15
Share of Total Individual Income Taxes											
Lowest Quintile	0	0	0	0	0	0	-1	-1	-1	-2	-2
Second Quintile	3	4	4	3	3	3	3	2	2	1	1
Middle Quintile	10	10	10	10	9	8	9	9	8	8	7
Fourth Quintile	20	20	20	20	19	18	17	18	17	16	16
Highest Quintile	68	67	66	68	68	72	72	72	75	77	79
All Families	100	100	100	100	100	100	100	100	100	100	100
Top 10 Percent	50	50	49	51	52	56	56	55	59	61	63
Top 5 Percent	38	37	36	38	39	43	44	42	46	49	50
Top 1 Percent	20	19	17	20	21	24	24	23	27	29	29

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Table 2. Continued

Income Category	1977	1979	1981	1983	1985	1987	1989	1991	1993	1995	Projected 1999
Share of Total Federal Taxes											
Lowest Quintile	2	2	1	1	2	2	1	1	1	1	1
Second Quintile	7	7	6	6	7	6	6	6	5	5	5
Middle Quintile	13	13	13	13	13	12	12	12	12	11	11
Fourth Quintile	20	21	22	22	21	21	20	21	20	19	19
Highest Quintile	59	58	58	58	57	60	60	60	61	64	65
All Families	100	100	100	100	100	100	100	100	100	100	100
Top 10 Percent	43	42	41	41	41	43	44	43	45	48	49
Top 5 Percent	32	31	29	29	29	32	32	31	34	36	37
Top 1 Percent	16	16	13	14	15	16	17	16	18	20	21

SOURCE: Congressional Budget Office.

NOTES: Pretax family income is the sum of wages, salaries, self-employment income, rents, taxable and nontaxable interest, dividends, realized capital gains, and all cash transfer payments. Income also includes the corporate income tax and the employer share of Social Security and federal unemployment insurance payroll taxes. For purposes of ranking by adjusted family income, income for each family is divided by the poverty threshold for a family of that size. Quintiles contain equal numbers of people. Families with zero or negative income are excluded from the lowest income category but are included in the total.

Individual income taxes are distributed directly to families paying those taxes. Payroll taxes are distributed to families paying those taxes directly, or indirectly through their employers. Federal excise taxes are distributed to families according to their consumption of the taxed good or service. Corporate income taxes are distributed to families according to their share of capital income.

Table 3. Preliminary Estimates of Average Pretax and Post-Tax Adjusted Family Income by Income Category, 1977-1995 and Projected for 1999

Income Category	1977	1979	1981	1983	1985	1987	1989	1991	1993	1995	Projected 1999
Average Pretax Adjusted Family Income											
Lowest Quintile	0.96	0.94	0.88	0.78	0.86	0.86	0.88	0.83	0.77	0.81	0.85
Second Quintile	2.09	2.12	1.99	1.86	2.00	2.06	2.08	1.99	1.89	1.96	2.08
Middle Quintile	3.16	3.23	3.12	3.03	3.19	3.29	3.33	3.24	3.13	3.21	3.42
Fourth Quintile	4.46	4.61	4.51	4.50	4.71	4.89	4.91	4.78	4.72	4.80	5.15
Highest Quintile	9.20	9.65	9.58	9.95	10.81	11.30	11.85	11.17	11.34	11.91	13.20
All Families	4.01	4.12	4.04	4.07	4.32	4.47	4.60	4.40	4.34	4.49	4.89
Top 10 Percent	12.27	12.88	12.70	13.34	14.83	15.45	16.64	15.42	15.82	16.77	18.79
Top 5 Percent	16.50	17.71	17.13	18.40	20.75	21.79	23.79	21.84	22.51	24.18	27.37
Top 1 Percent	35.93	39.39	37.67	43.74	51.79	54.61	62.80	54.66	57.96	63.69	70.45
Average Post-Tax Adjusted Family Income											
Lowest Quintile	0.88	0.86	0.81	0.72	0.78	0.79	0.80	0.76	0.71	0.76	0.80
Second Quintile	1.79	1.81	1.71	1.61	1.70	1.76	1.77	1.70	1.63	1.67	1.80
Middle Quintile	2.58	2.62	2.53	2.49	2.60	2.68	2.71	2.63	2.54	2.58	2.78
Fourth Quintile	3.52	3.58	3.48	3.56	3.71	3.85	3.86	3.75	3.69	3.72	4.00
Highest Quintile	6.58	6.86	6.89	7.50	8.15	8.30	8.76	8.24	8.22	8.38	9.38
All Families	3.08	3.14	3.09	3.20	3.38	3.46	3.56	3.40	3.32	3.38	3.70
Top 10 Percent	8.48	8.91	8.98	9.97	11.09	11.16	12.16	11.23	11.25	11.53	13.08
Top 5 Percent	10.96	11.87	11.94	13.68	15.44	15.55	17.24	15.77	15.76	16.24	18.75
Top 1 Percent	21.59	24.54	25.65	32.06	38.18	38.07	45.06	38.84	39.23	40.47	46.49

SOURCE: Congressional Budget Office.

NOTES: Pretax family income is the sum of wages, salaries, self-employment income, rents, taxable and nontaxable interest, dividends, realized capital gains, and all cash transfer payments. Income also includes the corporate income tax and the employer share of Social Security and federal unemployment insurance payroll taxes. For purposes of ranking by adjusted family income, income for each family is divided by the poverty threshold for a family of that size. Quintiles contain equal numbers of people. Families with zero or negative income are excluded from the lowest income category but are included in the total.

Federal income, payroll, and excise taxes are subtracted from pretax family income to derive post-tax family income.

Table 4. Preliminary Estimates of the Maximum Adjusted Pretax Family Income by Income Category, 1977-1995 and Projected for 1999 (As a multiple of the appropriate poverty threshold)

Income Category	1977	1979	1981	1983	1985	1987	1989	1991	1993	1995	1999
Lowest Quintile	1.552	1.548	1.439	1.311	1.429	1.462	1.483	1.402	1.323	1.368	1.448
Second Quintile	2.624	2.676	2.559	2.424	2.586	2.669	2.691	2.598	2.497	2.565	2.737
Middle Quintile	3.714	3.829	3.726	3.663	3.842	3.968	4.000	3.911	3.813	3.886	4.163
Fourth Quintile	5.344	5.551	5.475	5.532	5.770	6.022	6.057	5.860	5.872	5.925	6.400
81-90 Percent	7.014	7.265	7.236	7.341	7.792	8.068	8.186	7.940	7.961	8.236	8.923
91-95 Percent	9.005	9.319	9.310	9.616	10.280	10.530	10.890	10.600	10.550	11.040	12.060
96-99 Percent	17.570	18.340	18.410	19.440	21.330	22.500	25.020	23.110	23.970	25.780	28.510

SOURCE: Congressional Budget Office.

NOTE: Pretax family income is the sum of wages, salaries, self-employment income, rents, taxable and nontaxable interest, dividends, realized capital gains, and all cash transfer payments. Income also includes the corporate income tax and the employer share of Social Security and federal unemployment insurance payroll taxes. For purposes of ranking by adjusted family income, income for each family is divided by the poverty threshold for a family of that size. Quintiles contain equal numbers of people. Families with zero or negative income are excluded from the lowest income category but are included in the total.

Poverty Thresholds by Family Size (In dollars)

Family Size	1977	1979	1981	1983	1985	1987	1989	1991	1993	1995	1999
1	2,954	3,460	4,213	4,658	5,029	5,313	5,797	6,368	6,760	7,125	7,873
2	3,780	4,427	5,392	5,960	6,435	6,798	7,419	8,149	8,651	9,118	10,075
3	4,627	5,419	6,599	7,295	7,876	8,321	9,080	9,974	10,589	11,160	12,332
4	5,933	6,948	8,462	9,354	10,099	10,670	11,643	12,789	13,577	14,310	15,812
5	7,017	8,218	10,007	11,063	11,944	12,619	13,770	15,125	16,057	16,924	18,700
6	7,921	9,276	11,296	12,488	13,483	14,244	15,544	17,073	18,126	19,104	21,109
7	8,970	10,505	12,793	14,142	15,268	16,131	17,602	19,334	20,526	21,634	23,905
8	9,984	11,692	14,239	15,740	16,994	17,954	19,592	21,520	22,847	24,079	26,607
9 or more	11,927	13,968	17,010	18,804	20,302	21,449	23,406	25,709	27,294	28,767	31,786

Table 5. Preliminary Estimates of the Maximum Adjusted Family Income by Income Category and Family Size, Projected for 1999 (In dollars)

Income Category	Family Size								
	1	2	3	4	5	6	7	8	9 or more
Lowest Quintile	11,400	14,600	17,850	22,900	27,100	30,550	34,600	38,550	46,050
Second Quintile	21,550	27,600	33,750	43,300	51,200	57,800	65,450	72,800	87,000
Middle Quintile	32,800	41,950	51,350	65,850	77,850	87,900	99,500	110,750	132,350
Fourth Quintile	50,400	64,500	78,900	101,200	119,700	135,100	153,000	170,300	203,450
81-90 Percent	70,250	89,900	110,050	141,100	166,850	188,350	213,300	237,400	283,650
91-95 Percent	94,950	121,500	148,700	190,700	225,500	254,550	288,300	320,900	383,350
96-99 Percent	224,450	287,250	351,600	450,800	533,150	601,800	681,550	758,550	906,200

SOURCE: Congressional Budget Office.

NOTES: Pretax family income is the sum of wages, salaries, self-employment income, rents, taxable and nontaxable interest, dividends, realized capital gains, and all cash transfer payments. Income also includes the corporate income tax and the employer share of Social Security and federal unemployment insurance payroll taxes. For purposes of ranking by adjusted family income, income for each family is divided by the poverty threshold for a family of that size. Quintiles contain equal numbers of people. Families with zero or negative income are excluded from the lowest income category but are included in the total.

Dollar values for maximum adjusted family income for a given income category and family size are calculated by multiplying the poverty threshold for the appropriate family size (see table below) by the maximum adjusted family income for the appropriate income category from Table 4. Thus, for example, the maximum dollar income for a four-person family in the lowest quintile in 1999 is \$15,812 x 1.448, or \$22,896.

Projected 1999 Poverty Thresholds by Family Size (In dollars)

Family Size	
1	7,873
2	10,075
3	12,332
4	15,812
5	18,700
6	21,109
7	23,905
8	26,607
9 or more	31,786