

# **Trends in Tax Burdens in the United States: 1960 - 2015**

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**This presentation is part of a larger project:**

**Estimate top 1% income shares since 1960 using tax data**

**Starting from Piketty-Saez (2003) market income estimates**

**1. Consistent Market Income**

**Correct # of non-filers**

**Adjust for tax law changes (especially TRA-86)**

**Adjust for decreasing marriage rate**

**Add missing market income**

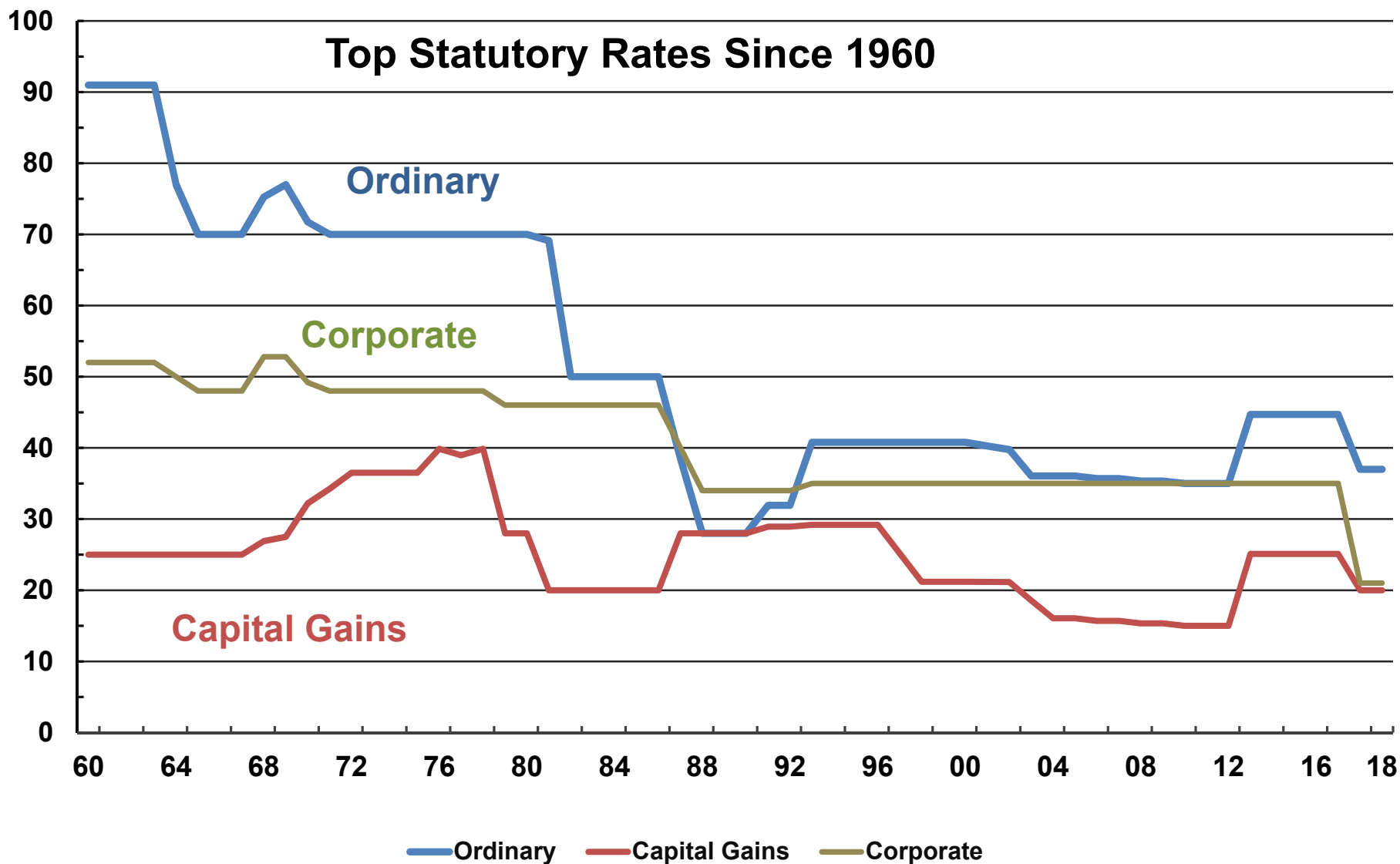
**2. Broad Pre-tax Income**

**Include transfer payments**

**3. After-tax Income & effective tax rates**

**Posted at: [davidsplinter.com](http://davidsplinter.com)**

# Top Federal Statutory Rates Have Declined Over Time



**But: Tax Reforms have affected the tax base.**

**1960s Tax Laws:** “dipping deeply into the incomes of the wealthy with a sieve”

**Tax Reform Act of 1986:**

**Lowered the top rate: 50% to 28%.**

**Lowered the corporate rate: 46% to 34%.**

**Broadened the tax base:**

**Tax Shelters: Repealed and made unprofitable**

Passive loss deductions limited to passive income

Longer depreciation period for real estate

Lower rates and equal capital gains rate

Induced shift from C corps to pass-through business

**Given offsetting changes:  
How have effective tax rates changed?**

**Data:** Cross-section samples of tax returns, 1960-2015

**Need a broader income measure:**

**Pre-tax income (post-TRA basis) =**

**Income on tax returns (certain adjustments)**

**+ Transfer payments**

**+ Tax exempt interest, excluded gains & dividends**

**+ Employer paid benefits & taxes (ESI, payroll taxes)**

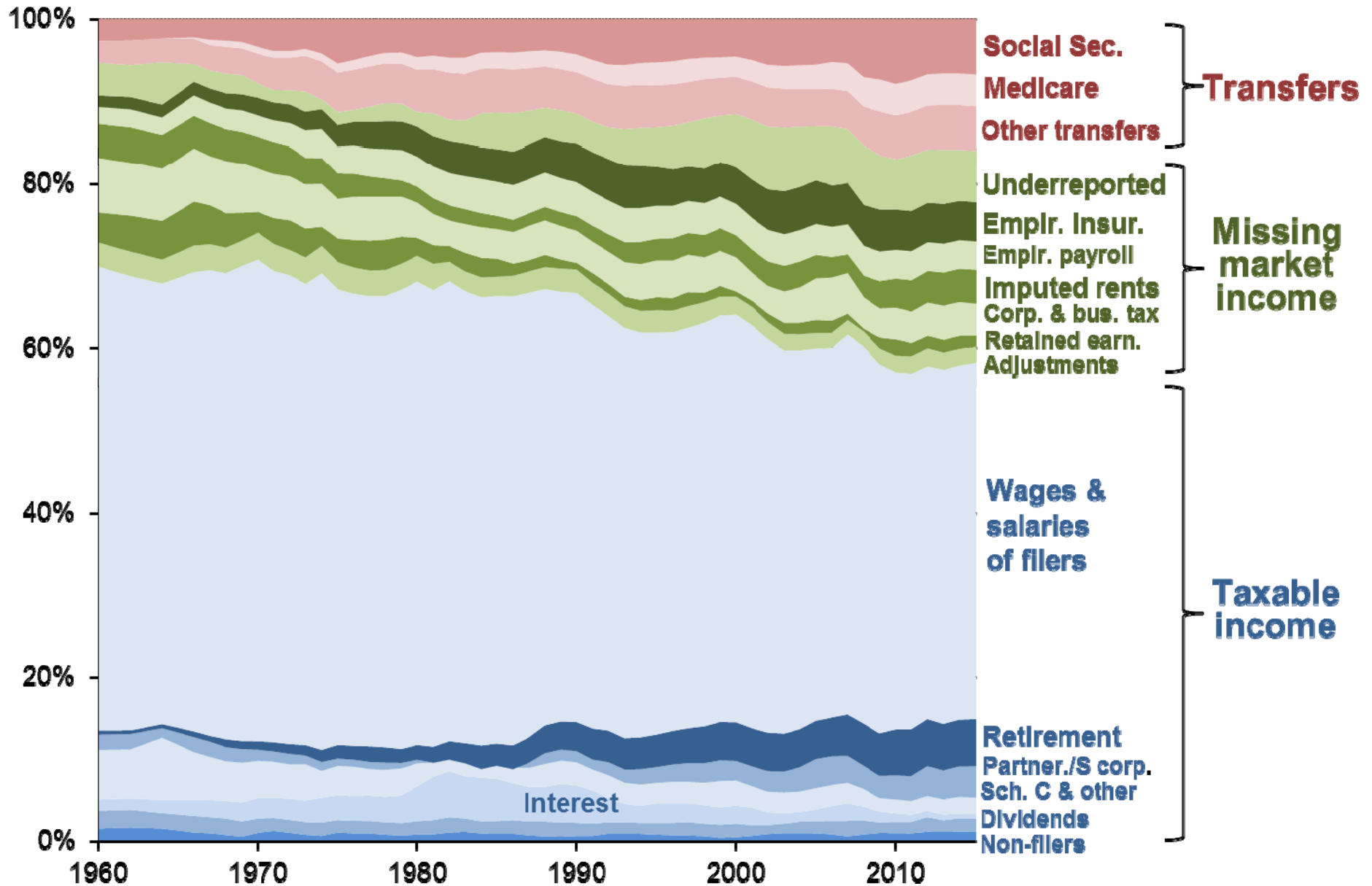
**+ Underreported income (in national income)**

**+ Corporate retained earnings & corporate taxes**

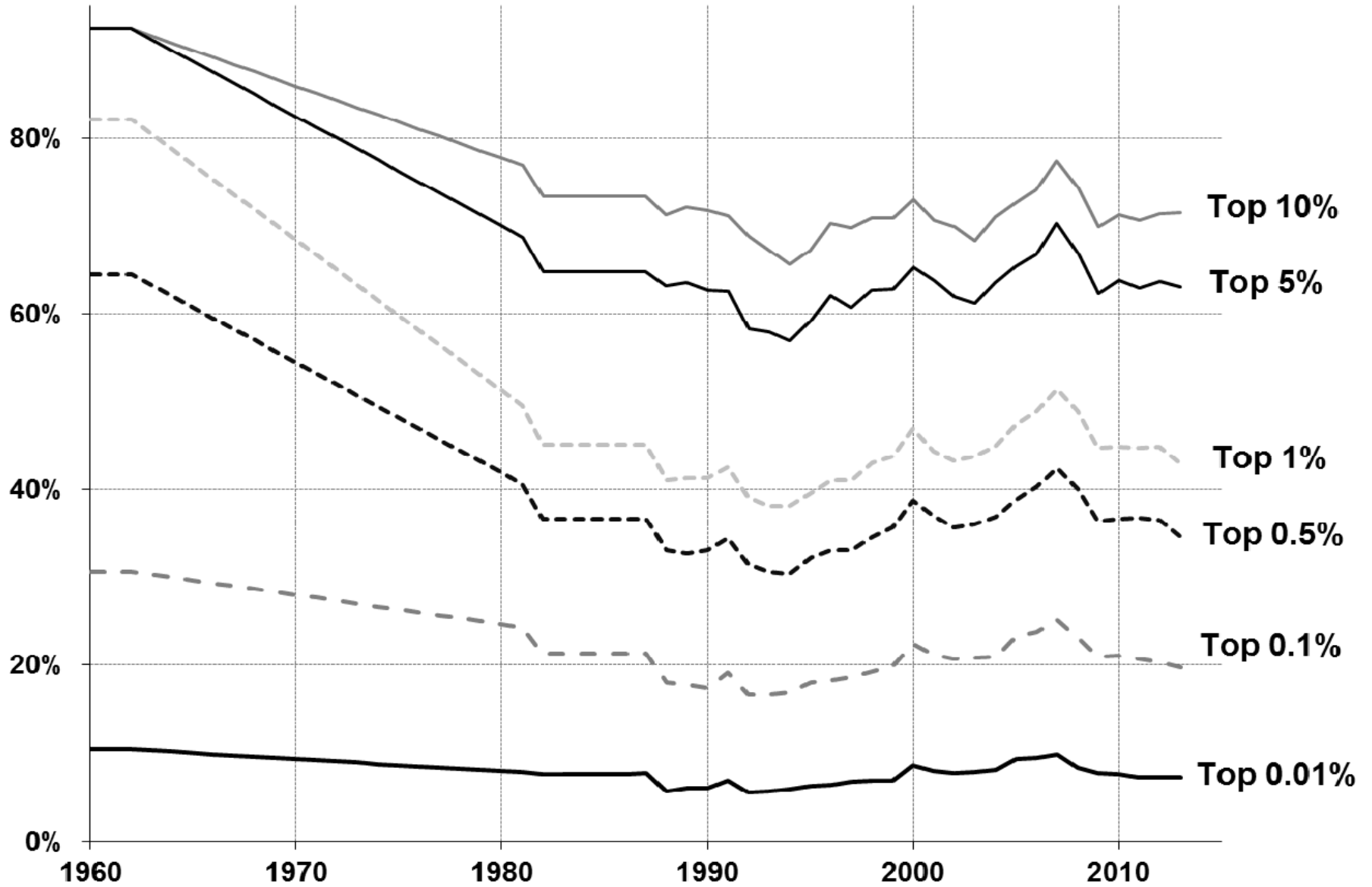
**Capital gains:** accounted for by corporate income.

**Retirement income:** when received.

# Fewer transfers and more retained corporate income in the 1960s



# Tax-exempt interest was more concentrated at the top



Pre-1987 shares based on 1962 and 1983 Fed Surveys of Consumer Finances.

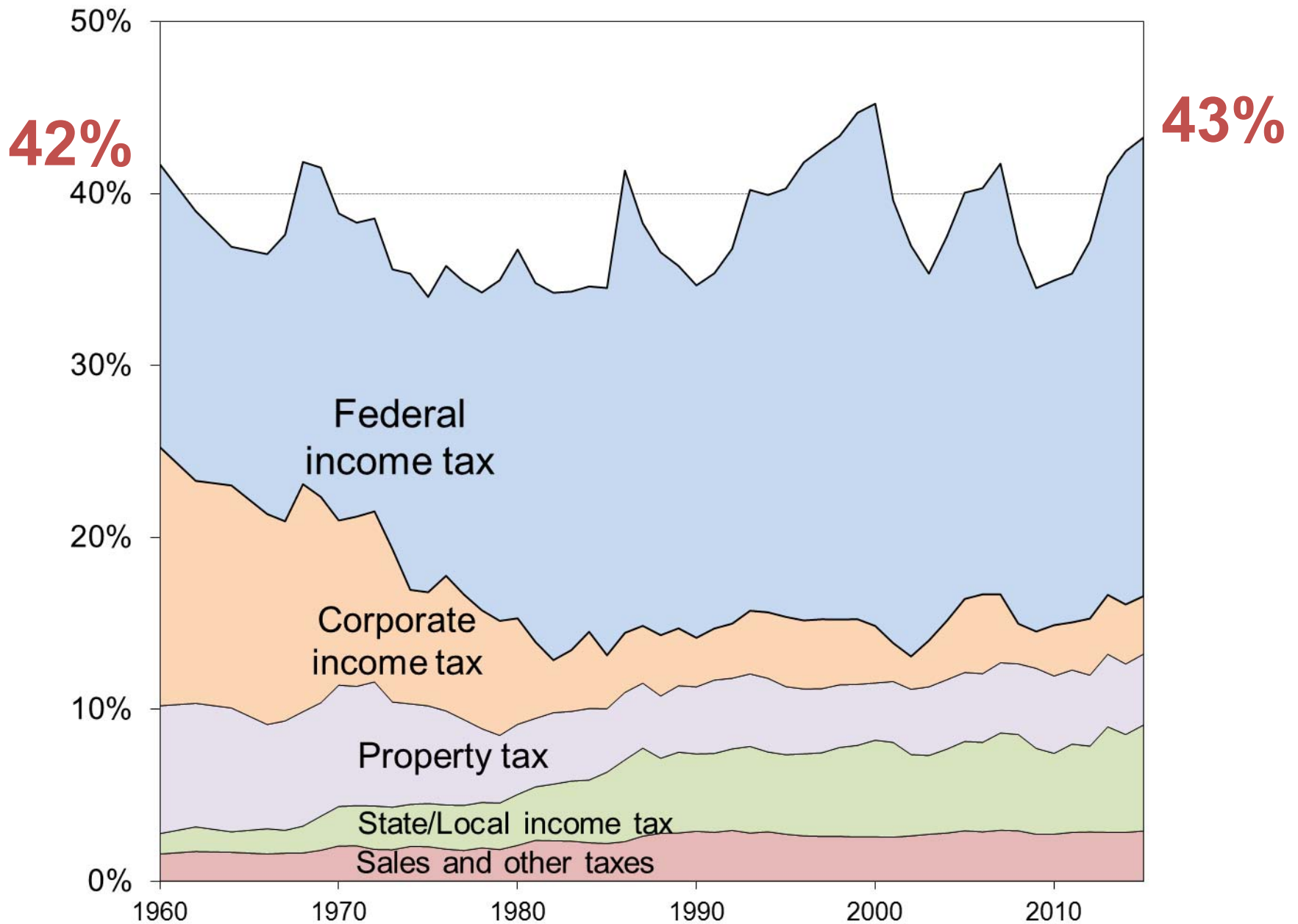
## Taxes Included:

## Incidence:

<b>Individual Income Taxes: Federal, State and Local</b>	<b>Individual Taxpayers</b>
<b>Fiduciary Income Taxes</b>	<b>By taxable fiduciary income</b>
<b>Corporate Income Tax</b>	<b>25% wages (JCT &amp; CBO) 75% corporate capital &amp; interest bearing assets households: 75% dividends/25% cap gains retirement accounts: by retirement income corporate bonds: taxable interest</b>
<b>Property Taxes: Owner occupied housing  Business property taxes</b>	<b>Top10%: deductions for real estate taxes Rest to bottom 90% Business income (dividends, capital gains, interest &amp; pass-thru income).</b>
<b>Sales tax and other taxes</b>	<b>Disposable income less savings (based on SCF)</b>
<b>Payroll taxes (considered with SS benefits)</b>	<b>Individual Taxpayers</b>



# Top 1%: taxes as share of pre-tax income



# Surprising?

## 1960s tax system:

“dipping deeply into the incomes of the wealthy with a sieve” (loopholes & tax expenditures)

Corporate earnings retained in private C corps.

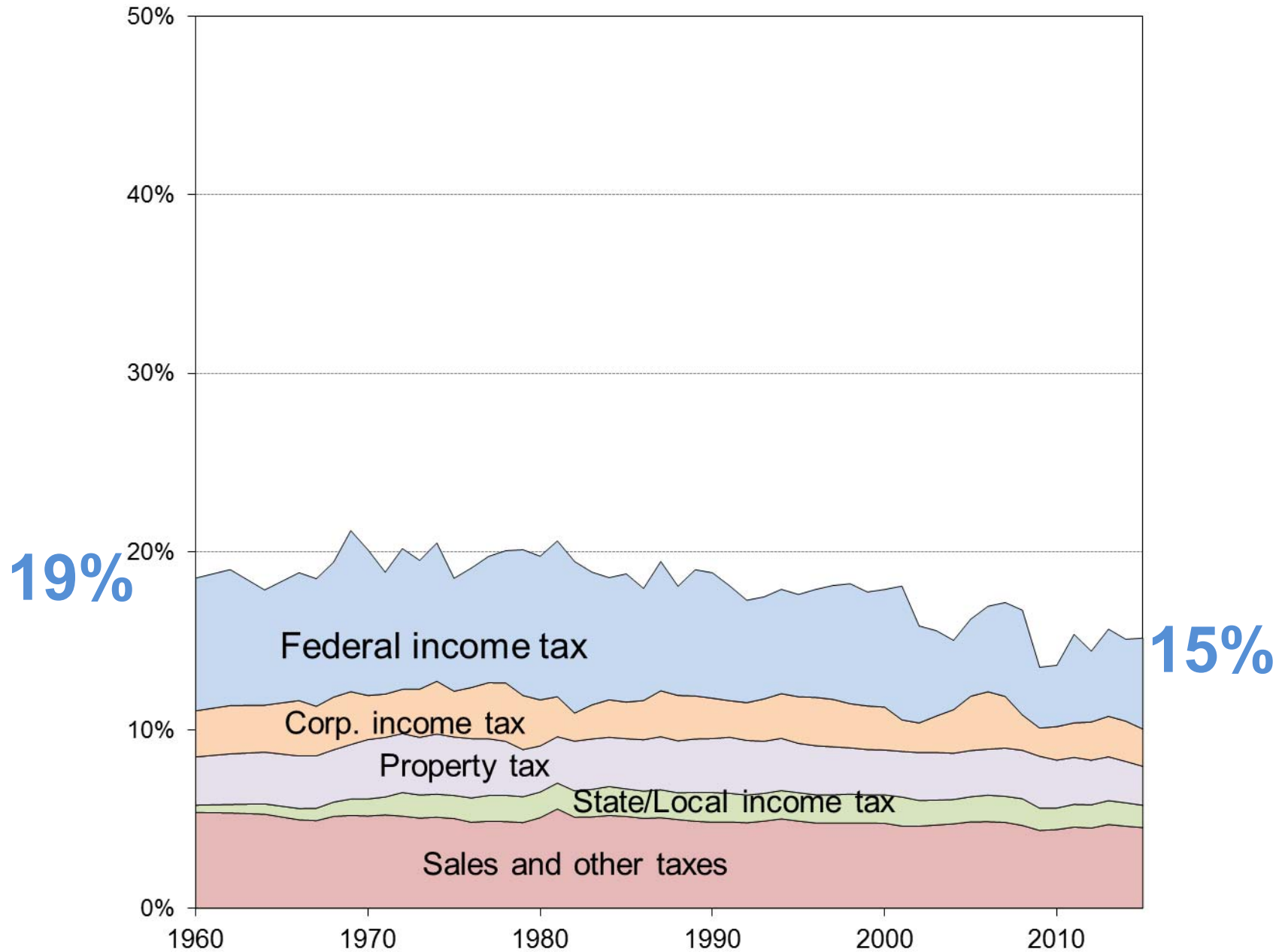
Our 1966 36% estimate ~ Okner (1975) 32-39%

1969-1984 – Some base-broadening reforms

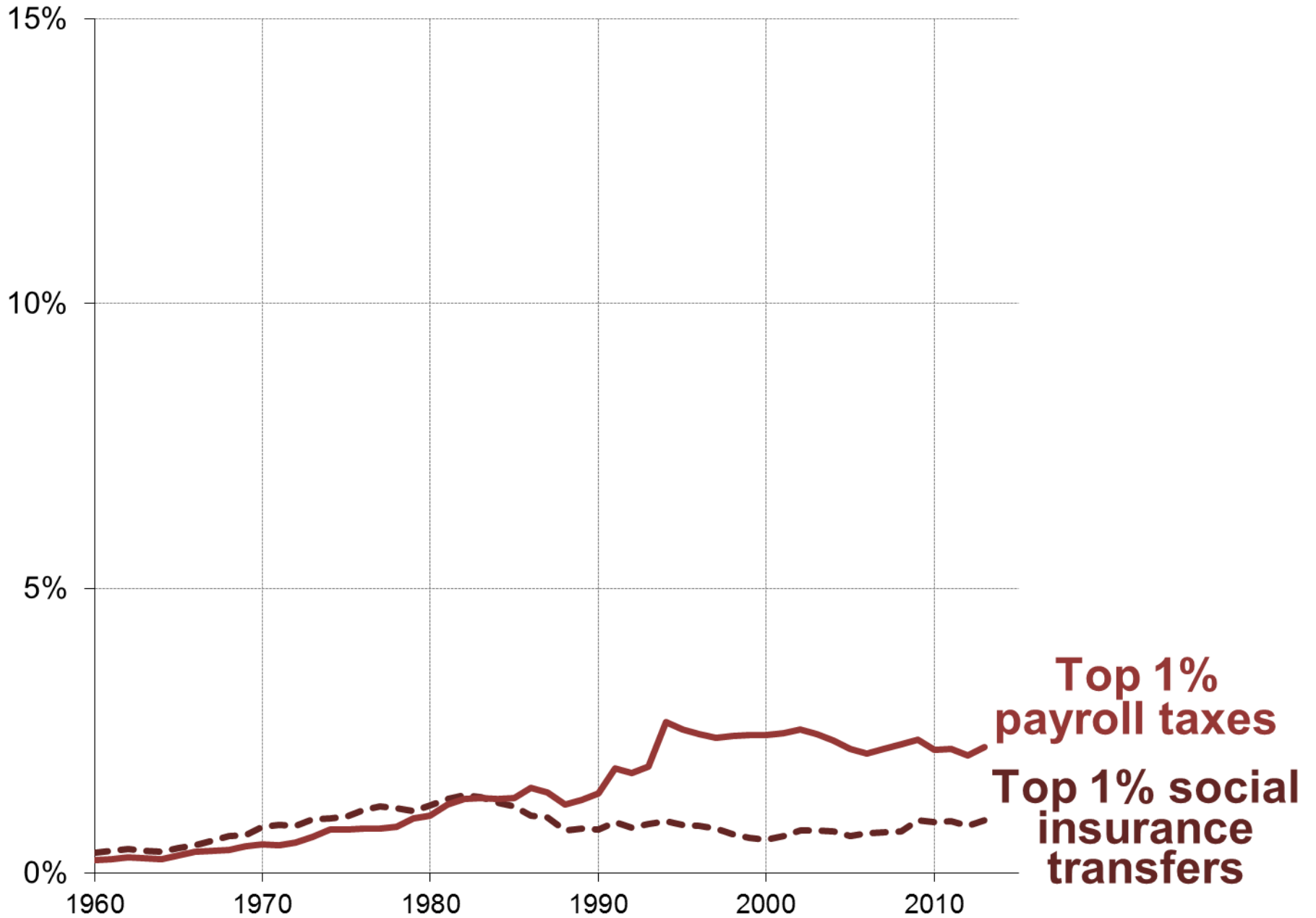
## Tax Reform Act of 1986:

- Limited tax shelter losses
- Lower rates reduced incentive to shelter
- Corp Rate > Individual Rate = Shift to Pass-thru bus

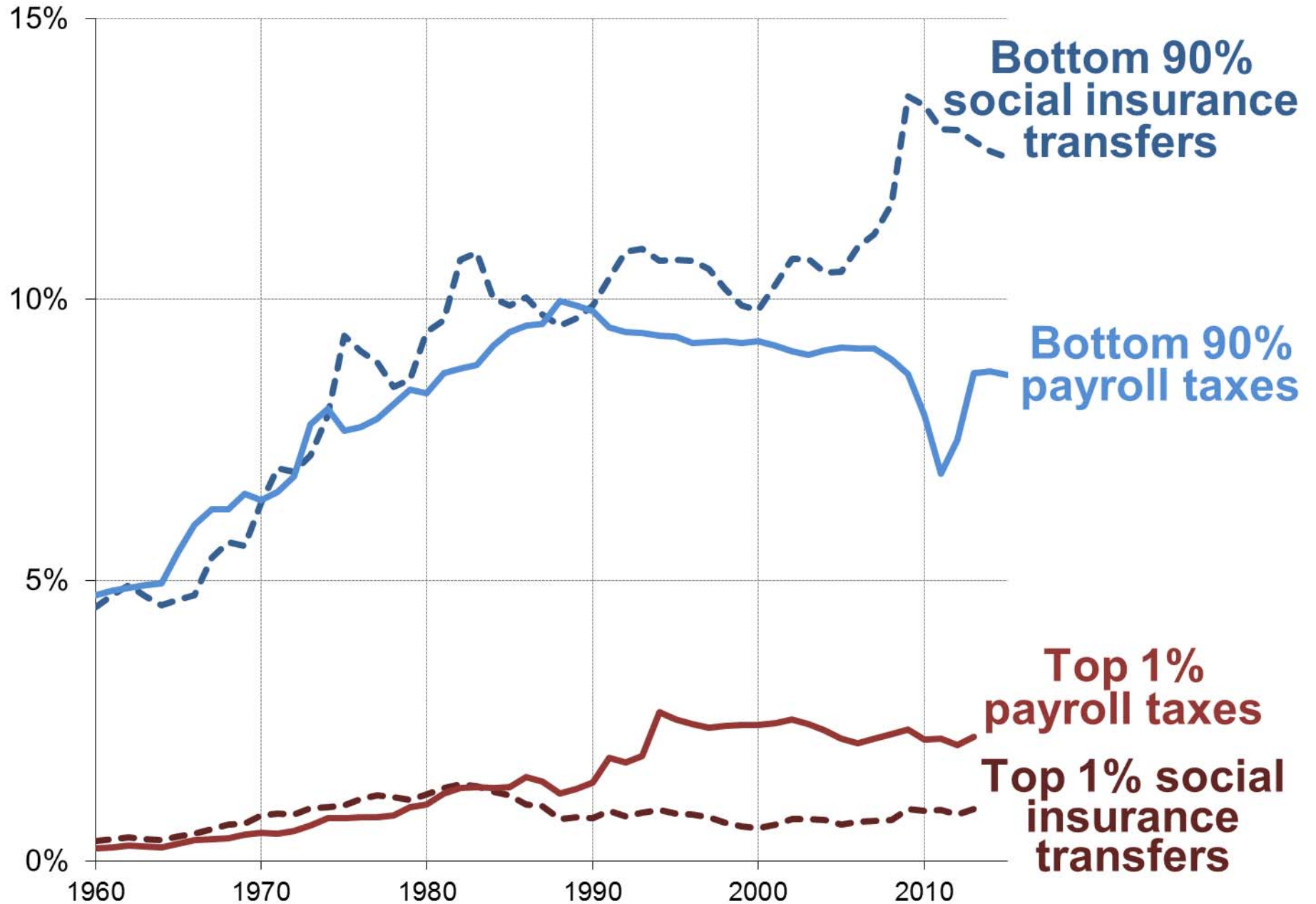
# Bottom 90%: taxes as share of pre-tax income



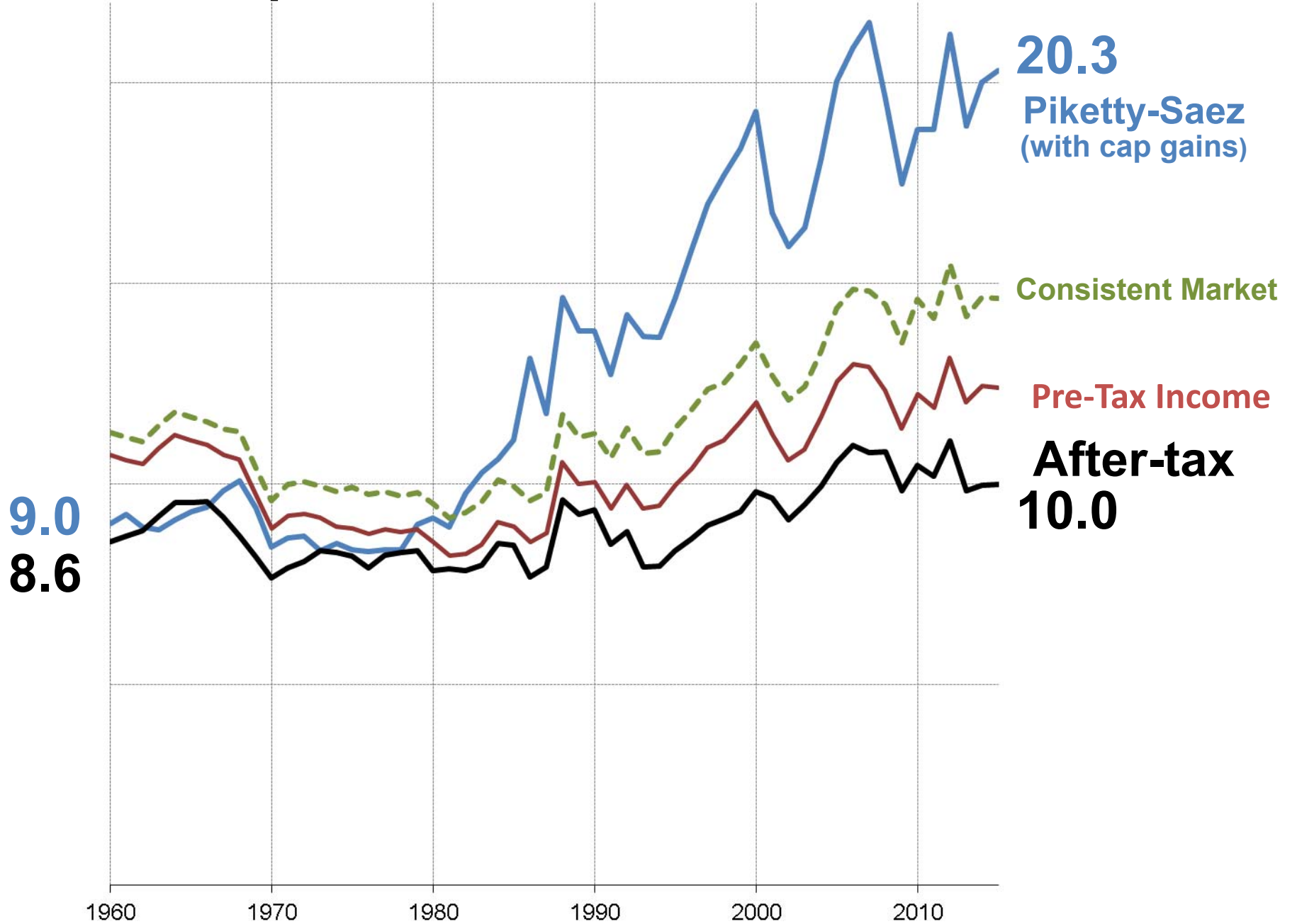
# Top 1%: payroll taxes & transfers



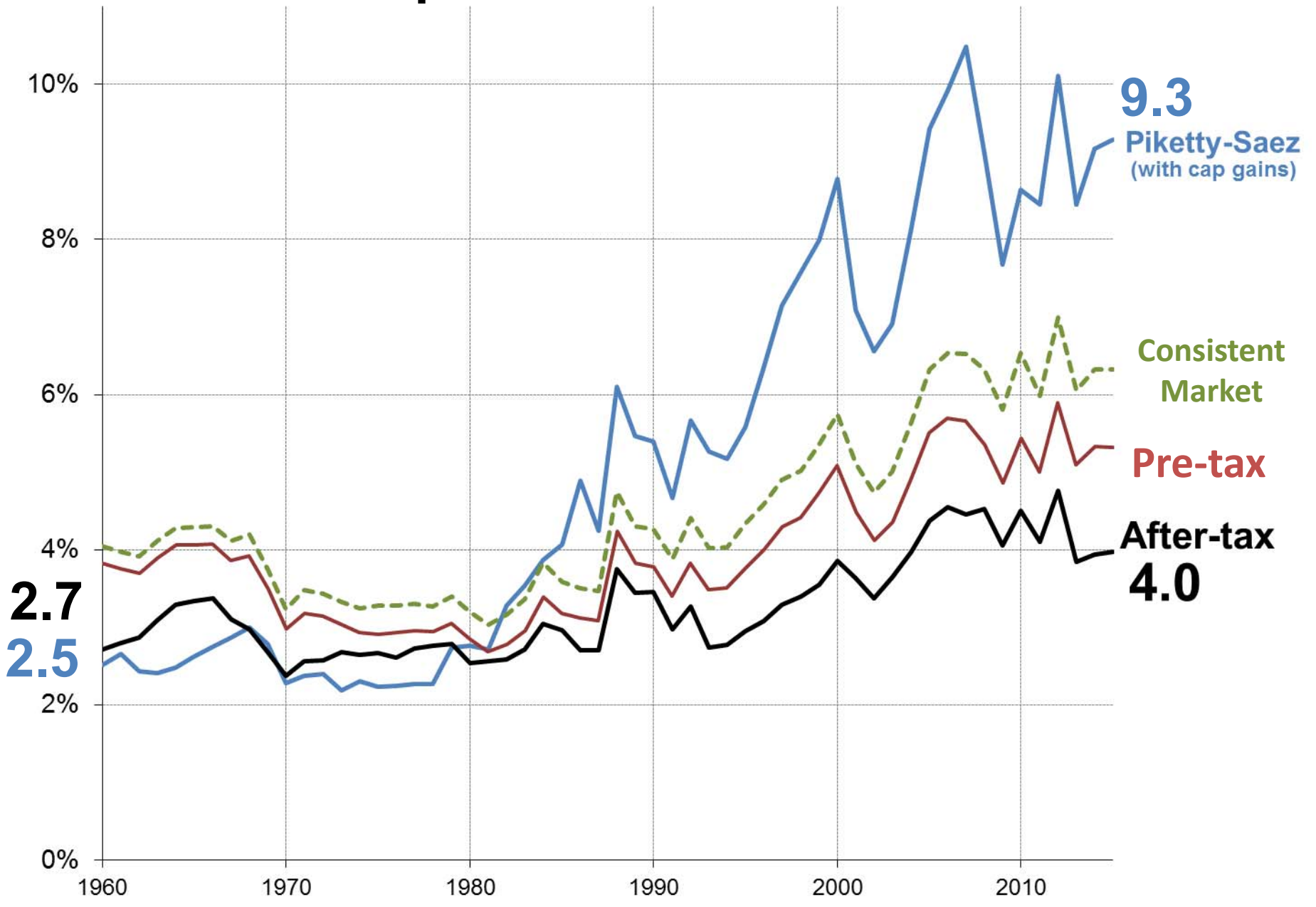
# Top 1% & Bottom 90%: payroll taxes & transfers



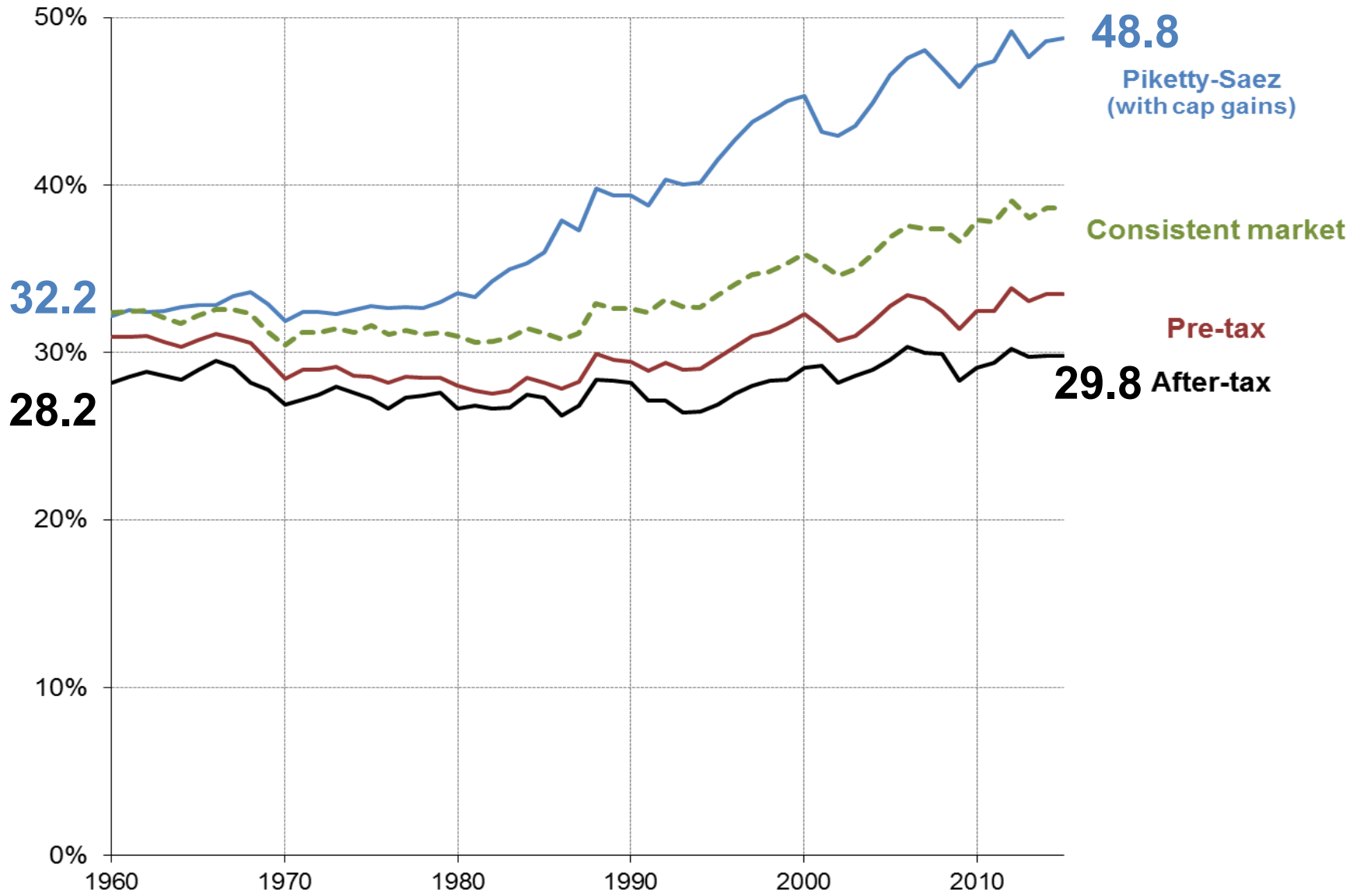
# Top 1% shares of After-tax income



# Top 0.1% income shares



# Top 10% income shares





## **Sensitivity checks:**

**Top 1% share Increase, 1960-2015**

**Corp. tax incidence (pre-tax income)**

**$\frac{1}{4}$  wages and  $\frac{3}{4}$  corp. capital: 1.7**

**All corp. capital : 1.6**

**All capital (non-housing) : 2.1**

**Corp. retained earnings (after-tax income)**

**$\frac{1}{4}$  cap gains and  $\frac{3}{4}$  dividends : 1.4**

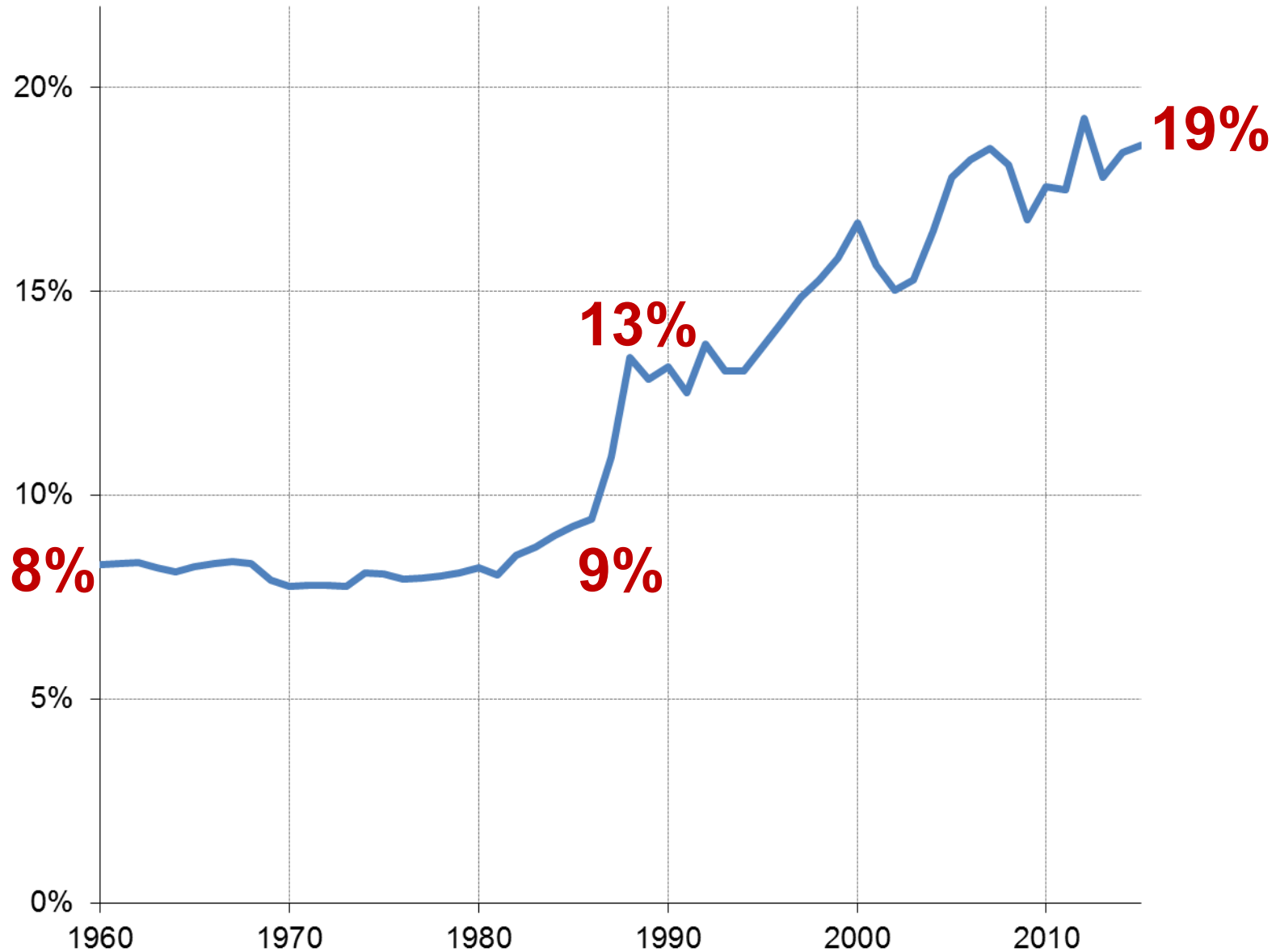
**$\frac{1}{2}$  cap gains and  $\frac{1}{2}$  dividends : 1.4**

**Retirement share (half) to wages : 1.4**

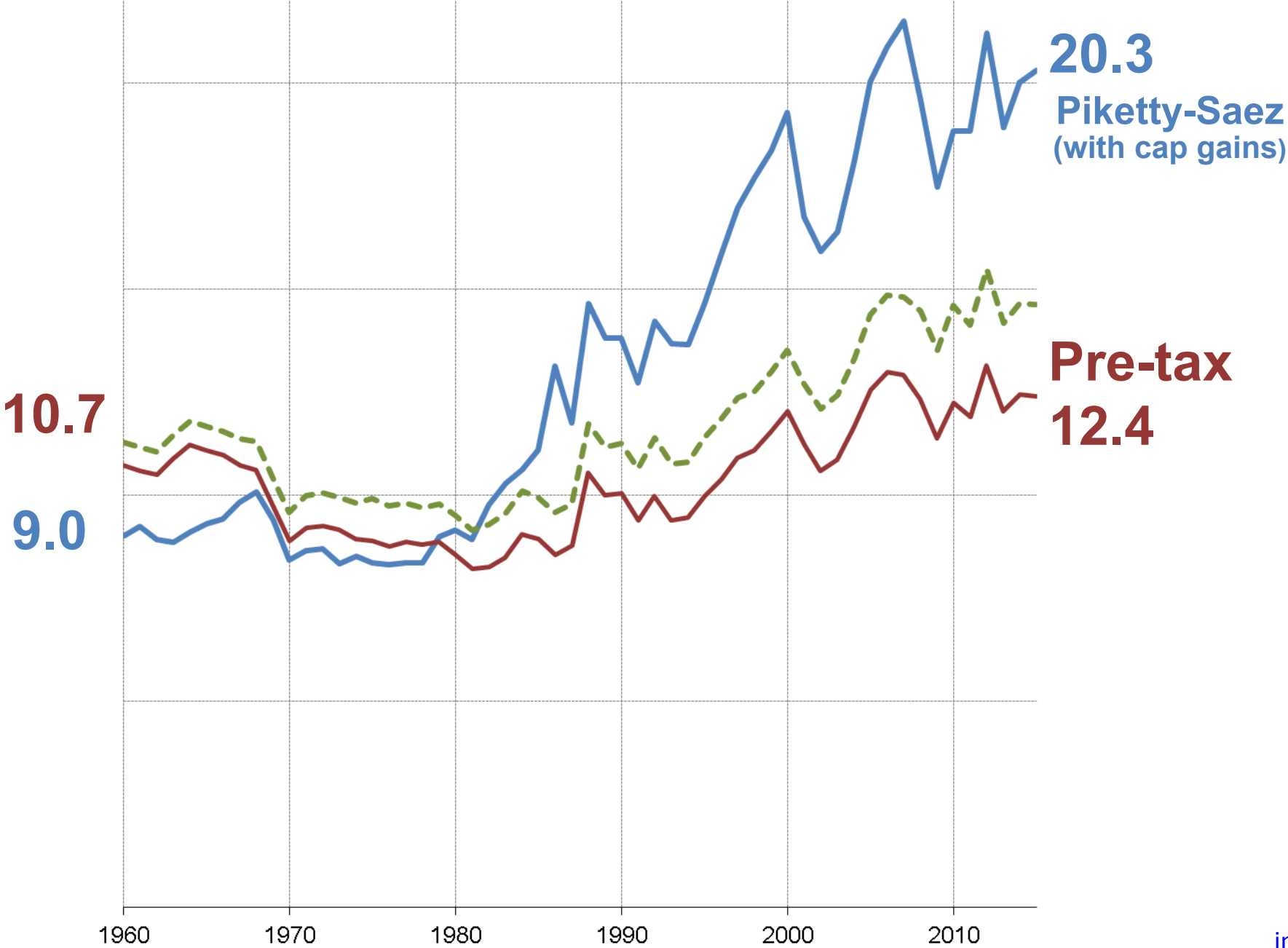
## Conclusions:

- Effective tax rates on the top 1% varied, but about the same in 1960 & 2015:
  - Lower statutory rates offset by base broadening
- Effective tax rates on the bottom 90% decreased between 1960 & 2015.
- The Social Security/Medicare system became more progressive:
  - More generous benefits
  - Uncapping of the HI Tax

**Conventional Story: Top 1% shares rose dramatically**  
**But: 1986-1988 is 40% of PS (2003) tax-based market income increase**



# Top 1% shares: Pre-tax income with transfers



## Other Studies using broader income measures:

**Tax Data:** CBO (2016)

Piketty, Saez & Zucman (2017)

**SCF:** Bricker, Henriques, Krimmel & Sabelhaus (2016)

**Census:** Burkhauser, Feng, Jenkins & Larrimore (2012)

Fixler, Johnson, Craig & Furlong (Rev Inc & Wealth 2017)

***Results:*** Less inequality than PS (2003) & less upward trend

**But** : No adjustments for tax base changes

## Top 1%: Share of economic growth, 1979-2015

PS (2003) Market Income	Consistent Market Income	Pre-tax Income	After-tax Income
65%	29%	21%	10%

### Not meaningful because:

Not the same individuals in top 1% from year to year

$\frac{1}{3}$  in top 1% drop out in 1 year

$\frac{2}{3}$  drop out after 5 years (Auten, Gee and Turner, 2013)

Median incomes of top 1% decreased >30% after 10 years  
(Auten and Gee, 2009)

Avg. incomes of top 0.01% decreased ~50% after 1 year  
(Splinter, Bryant and Diamond, 2009)

# Summary

**Since 1960 top 1% income shares**

**+11 pp: Piketty and Saez market income**

**+3 pp: Consistent market income**

**+2 pp: Pre-tax income**

**+1 pp: After-tax income**

**Main factors in difference:**

**~4 pp: C corp retained earnings & taxes**

**~2 pp: Transfers**

**~1 pp: Employer paid payroll tax & insurance**

**~1 pp: Falling marriage rates**

**~1 pp: Filer demographics and non-filer incomes**

**Inequality increase smaller with consistent measures**

**Transfers/Taxes make increase even smaller**

# TRA-86 increased number of <20 year old filers (millions)

