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This work embodies work undertaken for the staff of the Joint Committee on Taxation, but as members of both parties and both houses of Congress comprise the Joint Committee on Taxation, this work should not be construed to represent the position of any member of the Committee.
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
Top Federal Statutory Rates Have Declined Over Time

Top Statutory Rates Since 1960

- Ordinary
- Corporate
- Capital Gains
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Tax Shelters: Repealed and made unprofitable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

<table>
<thead>
<tr>
<th>Taxes Included:</th>
<th>Incidence:</th>
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<td>Individual Income Taxes:</td>
<td>Individual Taxpayers</td>
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<td>Federal, State and Local</td>
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<td>Fiduciary Income Taxes</td>
<td>By taxable fiduciary income</td>
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<td>Corporate Income Tax</td>
<td>25% wages (JCT &amp; CBO) have some corporate capital &amp; interest-bearing assets</td>
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<td>households: 75% dividends/25% capital gains</td>
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<td>retirement accounts: by retirement income</td>
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<td>corporate bonds: taxable interest</td>
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<td>Property Taxes:</td>
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<td>Owner occupied housing</td>
<td>Top10%: deductions for real estate taxes</td>
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<td>Rest to bottom 90%</td>
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<td>Business property taxes</td>
<td>Business income (dividends, capital gains, interest &amp; pass-thru income)</td>
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<td>Sales tax and other taxes</td>
<td>Disposable income less savings (based on SCF)</td>
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<td>Payroll taxes (considered with SS benefits)</td>
<td>Individual Taxpayers</td>
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Top 1%: taxes as share of pre-tax income

42% 43%
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

Federal income tax
Corp. income tax
Property tax
State/Local income tax
Sales and other taxes
Top 1%: payroll taxes & transfers

- Top 1% payroll taxes
- Top 1% social insurance transfers
Top 1% & Bottom 90%: payroll taxes & transfers
Top 1% shares of After-tax income

- 20.3 Piketty-Saez (with cap gains)
- Consistent Market
- Pre-Tax Income
- After-tax


9.0
8.6
Top 10% income shares

- 28.2
- 32.2
- 48.8

- Piketty-Saez (with cap gains)
- Consistent market
- Pre-tax
- After-tax
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

Piketty-Saez (with cap gains)

Pre-tax

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

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<td>65%</td>
<td>29%</td>
<td>21%</td>
<td>10%</td>
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**Not meaningful because:**
- Not the same individuals in top 1% from year to year
- ⅓ in top 1% drop out in 1 year
- ⅔ 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)