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Which Taxes Weigh Most Heavily on Americans with Different Incomes?

by Andrew Chamberlain and Gerald Prante

Fiscal Fact No. 80

With the April 17 tax deadline looming, Americans are focused on federal income taxes. But what's often overlooked in the rush toward the filing deadline is that income taxes, while important, are just one of many taxes borne by American households each year.

Payroll, property, sales, excise, estate and other taxes also add to Americans' tax burdens. And for Americans with low and middle incomes, these non-income taxes commonly make up a bigger slice of their annual tax bill than the federal income taxes they pay to the IRS each April.

Federal Income Taxes: Just One Among Many

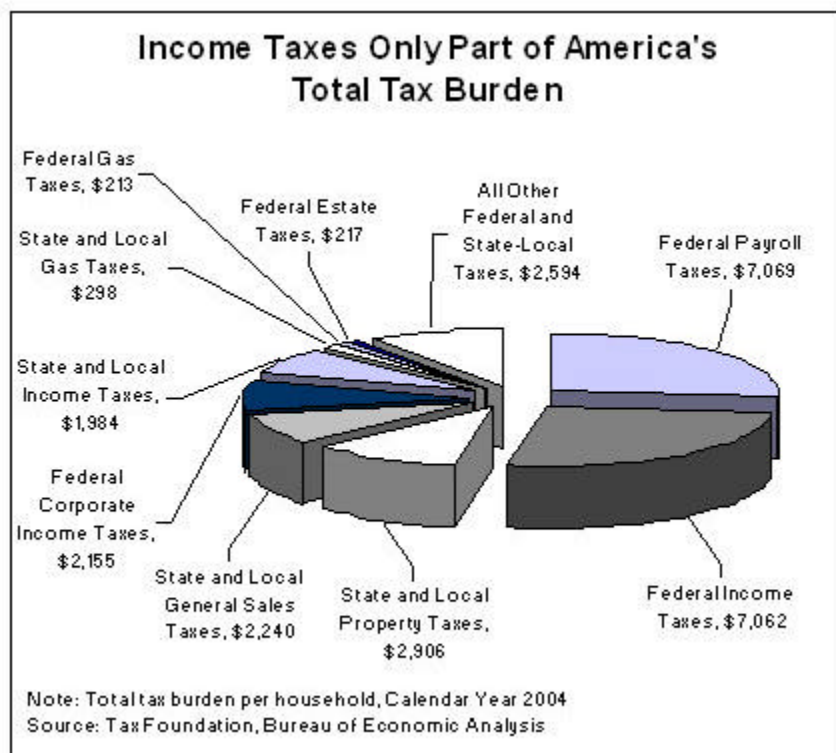
In 2004, Americans paid about \$3 trillion in taxes. That's \$26,738 per household. Of that, \$17,338 was paid to the federal government in Washington, and \$9,400 went to state and local governments at home.

While the media spotlight shines on federal income taxes each April, many Americans may be surprised to learn that federal income taxes make up only 26 percent of the nation's total tax bill. The remaining 74 percent--nearly three-fourths of the U.S. economy's total tax burden--is comprised of the other federal, state and local taxes paid by American households every year.

How do federal income taxes stack up to other taxes? Figure 1 gives some perspective. It shows every major type of tax in the United States that is recorded by the U.S. Commerce Department's Bureau of Economic Analysis. To make the numbers easy to understand, we've presented them on a per-household basis. That is, we've divided total collections for each type of tax by the number of American households, which was about 113.5 million in 2004.

As Figure 1 clearly illustrates, while federal income taxes consume a sizable part of the nation's tax bill, they're not the only drain on households' finances.

Figure 1. Only About One-Fourth of the Nation's Tax Bill Goes to Federal Individual Income Taxes (Figures are Per Household, 2004)



On average, federal payroll taxes per household actually outweighed personal income taxes in 2004--\$7,069 per household compared to \$7,062. Perhaps more surprisingly, the total of all households' property taxes, sales taxes, and state-local income taxes was \$7,130 per household, actually outweighing the average federal income tax bill by \$68 per household.

Which Taxes Are Most Burdensome?

While Figure 1 answers the question, "How big are taxes in America?" it doesn't tell us how households with different incomes are affected by those taxes. Some taxes, such as income and estate taxes, fall heavily on upper-income households, while others--such as cigarette, payroll and sales taxes--fall more heavily on low incomes.

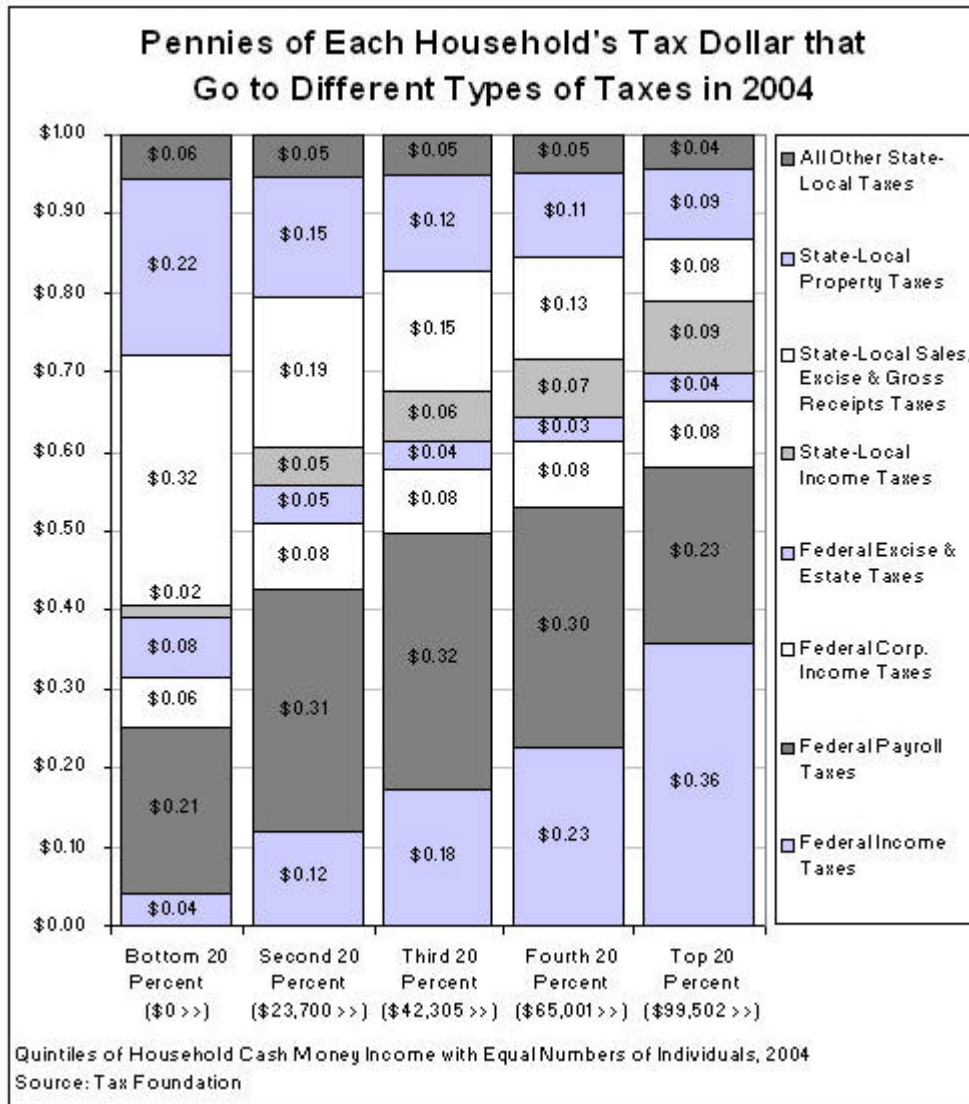
One way of showing how important different taxes are to different Americans is to group everyone into five equal groups known as "income quintiles" and show how much in taxes each pays.¹ Each one of those groups contains 20 percent of the U.S. population, or about 58 million Americans. If a household earned less than \$23,700 in 2004 it fell into the bottom 20 percent of incomes. A household that earned between \$42,305 and \$65,000 was in the middle 20 percent of incomes. And someone with a household income above \$99,502 was in the top 20 percent of earners.

Using those five income groups, Figure 2 asks the following question: "Out of every dollar of tax paid by households, how many pennies go to each type of tax-federal, state and local?" Federal

income taxes are listed at the bottom of Figure 2. Above them are federal payroll taxes, federal corporate income taxes, and the other major types of taxes paid to federal, state and local governments.

As is clear from the figure, the composition of Americans' tax bills varies widely among those in the lowest, middle and top income groups.

Figure 2. Some Taxes Are More Burdensome to Lower-Income Americans, and Some Fall Heavily on Upper Incomes



Source: Andrew Chamberlain and Gerald Prante, "Who Pays Taxes and Who Receives Government Spending? An Analysis of Federal, State and Local Tax and Spending Distributions, 1991-2004." *Tax Foundation Working Paper*, No. 1.

Overall, sales and gross receipts taxes, property taxes, excise taxes, and the federal payroll tax consume the vast majority of each tax dollar from lower-income households. In contrast, federal income taxes and federal payroll taxes dominate the tax bills of Americans in upper-income groups.

For households in the bottom fifth of income, the single most burdensome tax is the type that falls on purchases: state and local sales and gross receipts taxes. Those make up 32 cents of their tax bill. Property taxes follow close behind (22 cents), followed by federal payroll taxes (21 cents). These three non-income taxes combined make up 75 cents of every tax dollar paid by the bottom income group, while federal income taxes account for just 4 pennies.²

The "Middle-Income" Tax Burden

For households in the often-discussed middle fifth of the income scale, by far the most burdensome tax is the federal payroll tax. Payroll taxes withdraw 15.3 percent of workers' pay below \$97,500,³ and those dollars are used to fund federal government transfer payments to today's senior citizens through Social Security and Medicare.⁴

For those in the middle fifth of incomes, 32 cents of every tax dollar goes to federal payroll taxes-more than any other income group. That compares to 18 cents for federal income taxes, 15 cents for sales and gross receipts taxes, and 12 cents for property taxes.

By a wide margin, the Americans most heavily burdened by the federal income tax are those in the top income group. Thirty-six cents of every tax dollar paid by households earning over \$99,502 in cash money income went to federal income taxes in 2004. That's compared to 23 cents for payroll taxes, 9 cents for state and local income taxes, and 9 cents for property taxes.

How Much is Every Federal, State and Local Tax in America?

Table 1 shows the full impact in dollars of every major federal, state and local tax in the United States. As above, we've presented the figures on a per-household basis to make them easier to understand. As is clear from the table, different types of taxes have vastly different impacts on Americans with different levels of household income.

Table 1. Some Taxes Fall More Heavily on Some American Households than Others (Figures are Per Household, 2004)

Quintiles of Household Cash Money Income, Calendar Year 2004						
	U.S. Total	Bottom 20 Percent (\$0 >>)	Second 20 Percent (\$23,700 >>)	Third 20 Percent (\$42,305 >>)	Fourth 20 Percent (\$65,001 >>)	Top 20 Percent (\$99,502 >>)
Number of Individuals	291,166,198	58,217,357	58,246,236	58,414,918	58,058,486	58,229,201
Number of Households	113,475,724	30,377,708	24,520,544	21,249,055	19,265,699	18,062,718
Total Tax	\$26,738	\$4,325	\$11,932	\$21,194	\$35,288	\$81,933

Burden						
Federal Taxes						
Payroll	\$7,069	\$917	\$3,656	\$6,788	\$10,737	\$18,470
Income	\$7,062	\$171	\$1,431	\$3,720	\$7,973	\$29,257
Corporate Income	\$2,155	\$271	\$999	\$1,734	\$2,894	\$6,597
Estate & Gift	\$217	\$0	\$0	\$0	\$0	\$1,362
Gasoline	\$213	\$69	\$138	\$202	\$286	\$493
Customs, Duties, etc.	\$205	\$96	\$147	\$200	\$279	\$396
Air Transport	\$107	\$22	\$51	\$81	\$147	\$312
Other Excise	\$92	\$43	\$66	\$89	\$124	\$177
Diesel Fuel	\$81	\$10	\$38	\$65	\$109	\$248
Alcoholic Beverages	\$74	\$34	\$52	\$75	\$102	\$141
Tobacco	\$63	\$51	\$67	\$73	\$68	\$59
Total Federal	\$17,338	\$1,684	\$6,644	\$13,028	\$22,719	\$57,512
State and Local Taxes						
Property	\$2,906	\$961	\$1,773	\$2,580	\$3,839	\$7,104
General Sales and Gross Receipts	\$2,240	\$853	\$1,498	\$2,188	\$3,211	\$4,606
Income	\$1,984	\$75	\$583	\$1,341	\$2,598	\$7,197
Other Production Taxes	\$425	\$53	\$197	\$342	\$571	\$1,300
Corporate Income	\$380	\$48	\$176	\$306	\$510	\$1,163
Gasoline	\$298	\$97	\$192	\$283	\$399	\$689
Other Selective Sales	\$258	\$121	\$185	\$252	\$350	\$498
Public Utilities	\$190	\$123	\$167	\$199	\$234	\$280
Insurance Receipts	\$129	\$66	\$105	\$131	\$166	\$223
Motor Vehicle License	\$120	\$66	\$106	\$134	\$156	\$175
Tobacco	\$108	\$87	\$116	\$126	\$118	\$102
Motor Vehicle (Business)	\$67	\$8	\$31	\$54	\$90	\$205
Severance	\$61	\$22	\$40	\$57	\$79	\$139
Special	\$57	\$19	\$35	\$51	\$76	\$140

Assessments						
Personal Property	\$50	\$16	\$36	\$49	\$69	\$108
Estate & Gift	\$50	\$0	\$0	\$0	\$0	\$316
Alcoholic Beverages	\$41	\$19	\$28	\$41	\$56	\$77
Other Personal Taxes	\$36	\$8	\$19	\$32	\$48	\$99
Total State and Local	\$9,400	\$2,642	\$5,288	\$8,166	\$12,570	\$24,421

Source: Andrew Chamberlain and Gerald Prante, "Who Pays Taxes and Who Receives Government Spending? An Analysis of Federal, State and Local Tax and Spending Distributions, 1991-2004." *Tax Foundation Working Paper*, No. 1.

Here are some interesting facts about the total tax burdens in Table 1:

- State-local sales and gross receipts taxes cost households in the bottom 40 percent of earners more than federal income taxes sent to Washington each year.
- For households in the bottom 20 percent, state-local sales and gross receipts taxes and property taxes (\$1,814) are larger than all the federal taxes they pay each year combined (\$1,684).
- For households in the bottom 80 percent of earners, federal payroll taxes make up a larger slice of the annual household tax bill than federal income taxes.
- For households in the bottom 20 percent of incomes, the burden of federal corporate income taxes--paid in the form of lower wages and lower stock returns--is greater than federal income taxes.
- U.S. households on average spend \$511 per year on federal, state and local gas taxes. For households in the middle 20 percent of incomes, federal payroll tax burdens are about 14 times higher than federal gas tax burdens. Federal corporate income tax burdens are about 3.6 times higher than gas taxes for that group.
- Despite earning much lower incomes, households in the second 20 percent pay more dollars of cigarette excise taxes per household than those in the top income group. The largest per-household tobacco taxes are paid by the middle 20 percent of earners.

For more information about how the nation's tax burden falls on Americans with different incomes, see the Tax Foundation study, "Who Pays Taxes and Who Receives Government Spending? An Analysis of Federal, State and Local Tax and Spending Distributions, 1991-2004" by Andrew Chamberlain and Gerald Prante, available at <http://www.taxfoundation.org/publications/show/2282.html>.

Notes

1. In this analysis, we present quintiles of household cash money income with equal numbers of individuals, and unequal numbers of households. "Cash money income" is defined by the U.S. Census Bureau. It is broader than adjusted gross income (AGI) as defined by the IRS for income tax purposes. It consists of earned income such as wages and salaries, as well as unearned

income such as the value of various government transfer payments such as unemployment compensation and Social Security payments. For a full discussion of the methodology of the figures in this analysis, see Andrew Chamberlain and Gerald Prante, "Who Pays Taxes and Who Receives Government Spending? An Analysis of Federal, State and Local Tax and Spending Distributions, 1991-2004." *Tax Foundation Working Paper*, No. 1 (2007).

2. These figures exclude the refundable portion of the Earned Income Tax Credit (EITC) and the Child Tax Credit. These refundable credits are sometimes considered a "negative" tax. However, because the Bureau of Economic Analysis treats them as a direct spending outlay to households, they are not counted in the tax figures here. Instead, they are counted as government spending in the full study these figures are derived from. For more details, see Chamberlain and Prante, *op. cit* at footnote 1.

3. The payroll tax cap is \$97,500 for tax year 2007. In 2004-the year the data in this analysis are from-the cap was \$87,900.

4. Legally, half of payroll taxes are paid by employers and half by employees. However, economists agree the full burden is shifted onto workers in the form of lower compensation.

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