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Trends in The Distribution of Household Income, 1979–2009

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This presentation provides information published in *Trends in the Distribution of Household Income Between 1979 and 2007* (October 25, 2011) and updated in *The Distribution of Household Income and Federal Taxes, 2008 and 2009* (July 10, 2012).

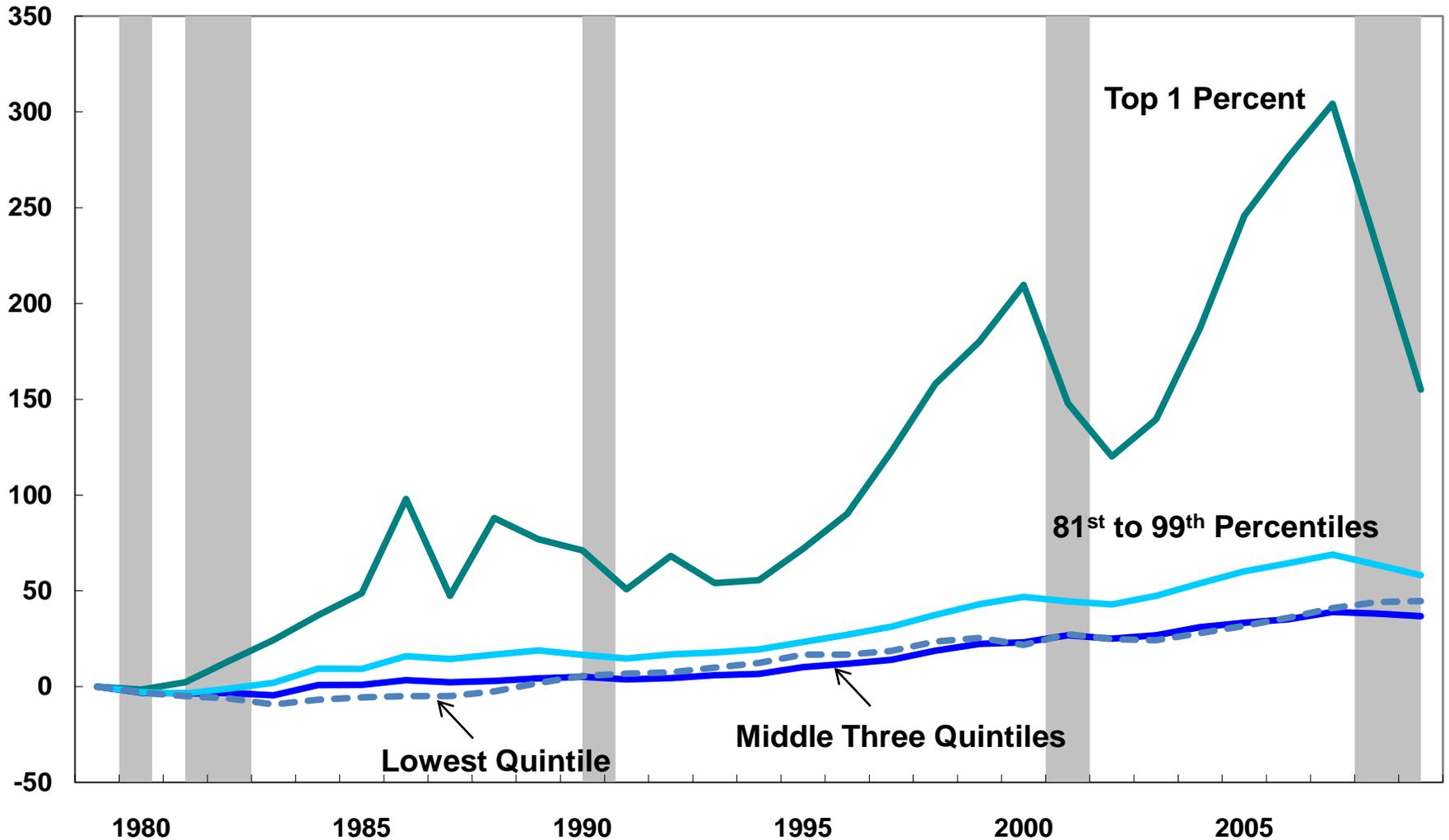
See www.cbo.gov/publication/42729 and www.cbo.gov/publication/43373.

Uneven Growth in After-Tax Income

- Households in the top 1 percent experienced very rapid growth in after-tax income over the 1979–2009 period
 - Peak to peak (1979-2007), their after-tax income grew by over 300 percent
 - Recent recession disproportionately affected highest income households in 2008 and 2009, causing their income to fall by over one-third
 - Capital gains fell by 75 percent between 2007 and 2009
 - Other capital income also fell substantially
 - Some evidence exists of a rebound in 2010 for high-income households
- Rest of the top quintile has also fared better than the lower four quintiles
- After-tax income for the middle three quintiles grew by almost 40 percent over the 31 years, a little over 1 percent per year
- Lowest income quintile tracked the middle three
 - Their income didn't fall as much in 2008–2009

Cumulative Growth in Average Income After Transfers and Federal Taxes, by Income Group

Percentage Change in Income Since 1979, Adjusted for Inflation



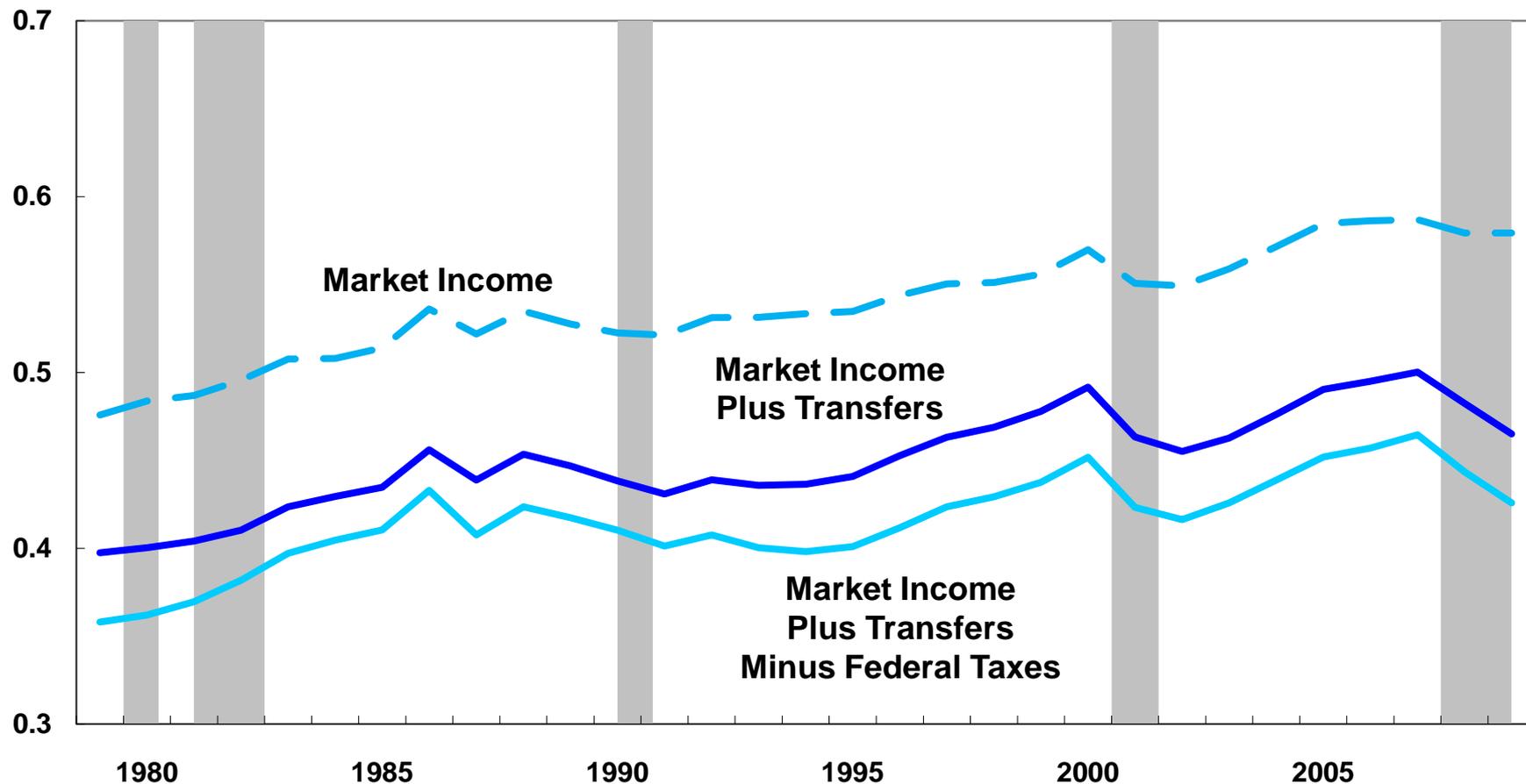
Increasing Market Income Inequality Caused the Increases in After-Tax Income Inequality

- Market income inequality rose almost continually over the period
 - Some pauses around three most recent recessions
 - In the early years, change in inequality was driven by increased inequality within income sources, especially labor income
 - By the later years, a shift among sources of income had become a more important factor

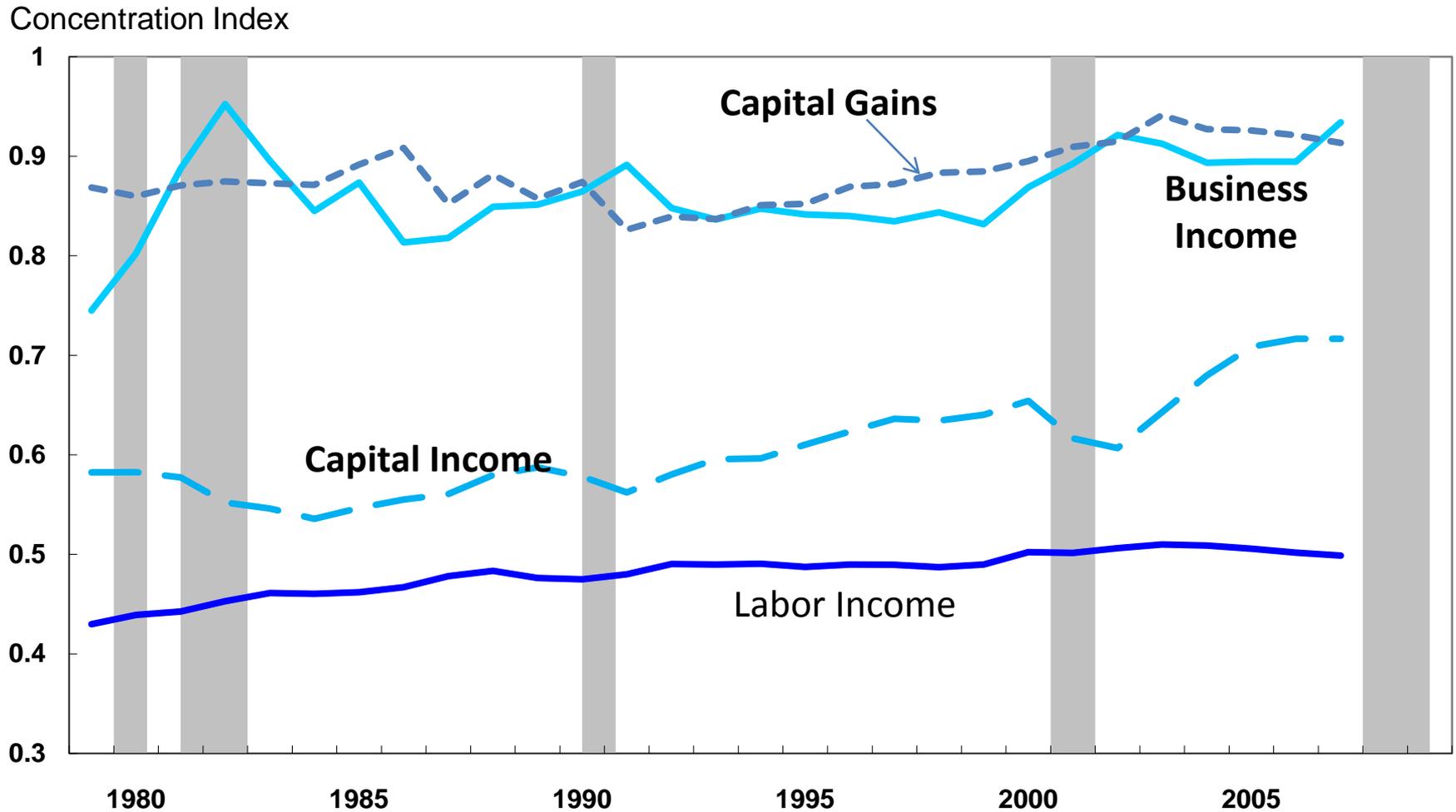
- Taxes and transfers did not offset increasing market income inequality
 - Peak to peak (1979–2007), the gap between market income inequality and after-tax income inequality changed little
 - In 2008 and 2009 the equalizing effect of the tax and transfer system grew, driven by cyclical and policy factors
 - Legislated increases in UI and SNAP benefits
 - 2008 stimulus payments, 2009 ARRA tax reductions

Summary Measures of Income Inequality, With and Without Transfers and Federal Taxes

Gini Index

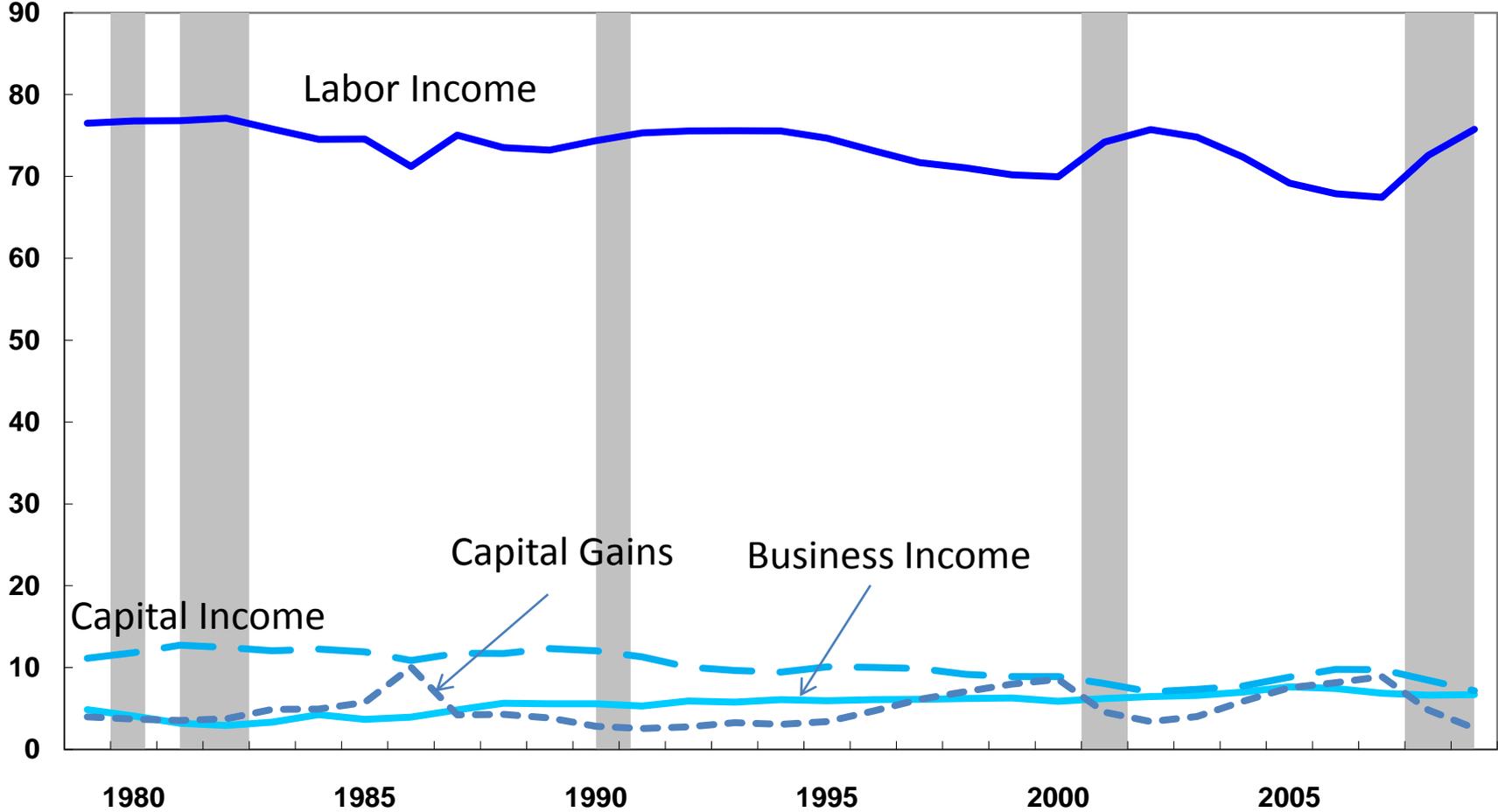


Income Concentration, by Source



Shares of Market Income, by Source

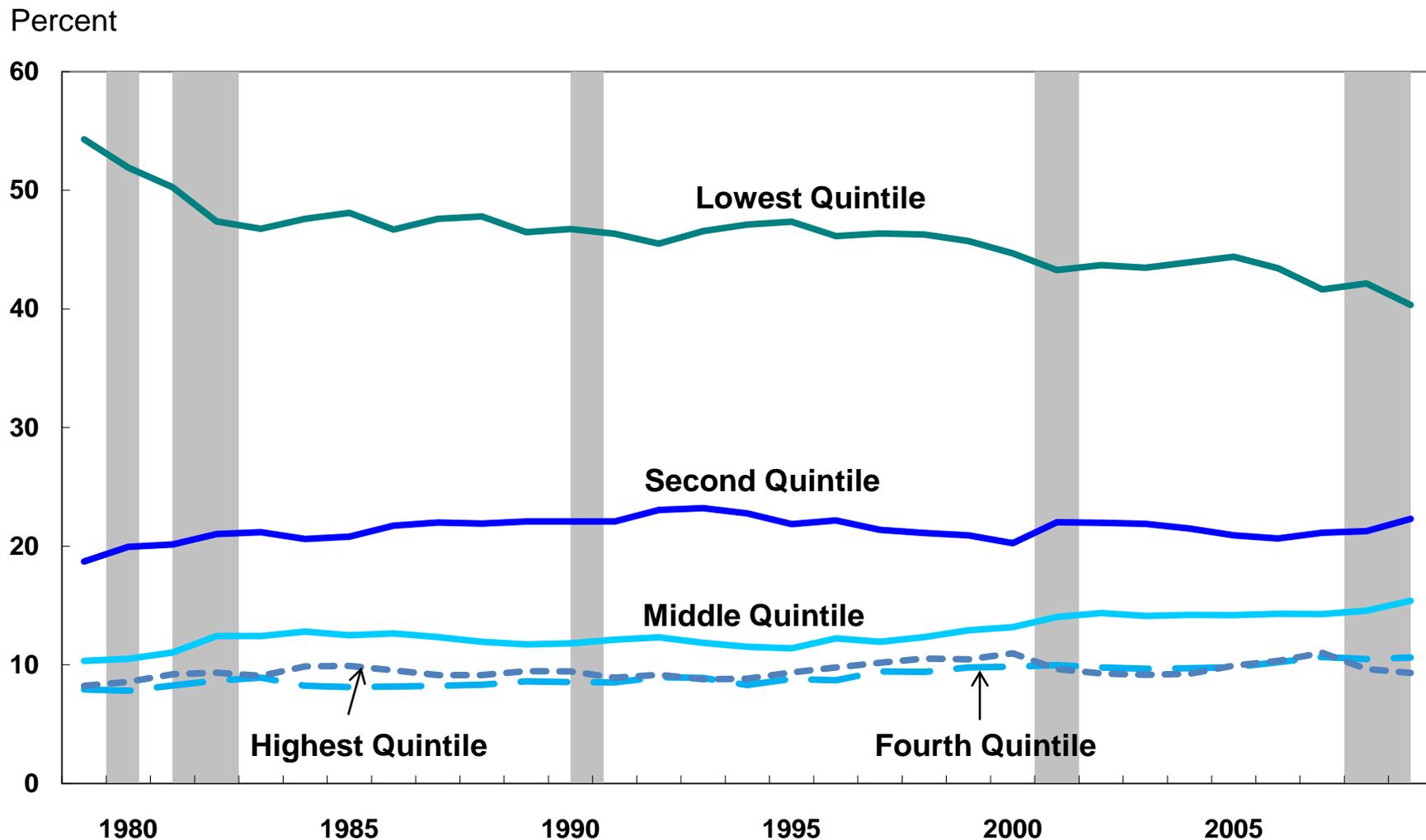
Percent



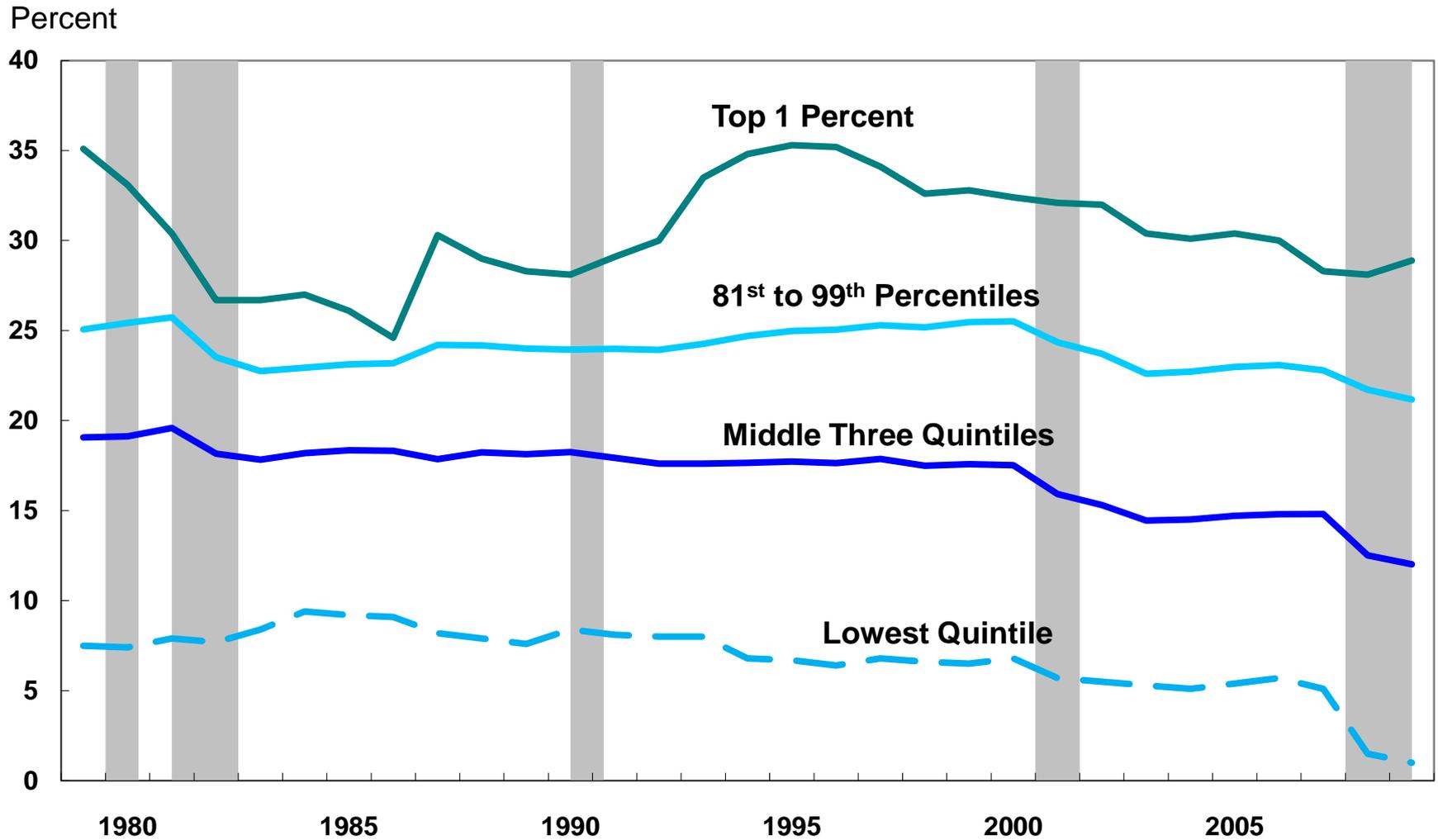
Changing Progressivity of Transfers and Federal Taxes

- Taxes and transfers both equalize the income distribution
 - Transfers provide bigger boosts to income at the bottom of the distribution, taxes claim a larger portion of household income as income rises
 - Amount of equalization depends on:
 - The size of the tax/transfer system relative to market income
 - The distribution of transfers and taxes across the income distribution
- Transfers
 - Have fluctuated from 10 percent to 13 percent of market income in the 1979–2007 period, generally rising in recessions but falling in expansions
 - Jumped to 18 percent in 2009, as transfers rose and market income fell
 - Have steadily become less concentrated in the bottom of the income distribution
- Taxes
 - As shares of before-tax income earned by the top income groups have grown, shares of taxes those households pay have grown even more rapidly
 - Overall average tax rates fell from 22.0 percent in 1979 to 19.9 percent in 2007 and to 17.4 percent in 2009
 - Differences between before- and after-tax income inequality are little changed since the mid-1990s

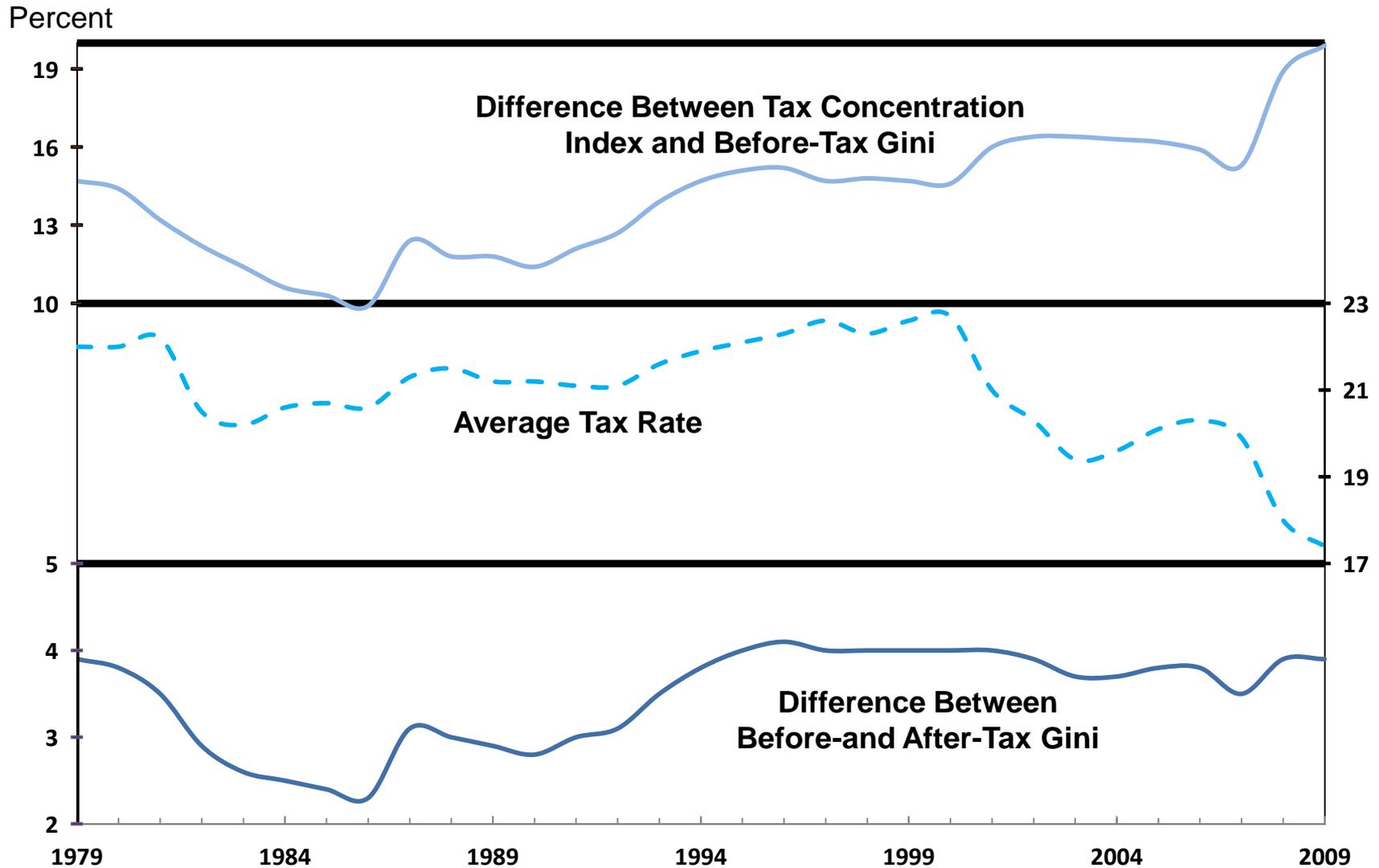
Share of Total Transfers, by Market Income Group



Federal Taxes as a Percentage of Household Income, by Income Group



Progressivity Measures: All Federal Taxes



Methodology Overview

- Statistically combined data from a sample of income tax returns and household survey data
 - Statistics of Income (SOI) individual income tax file
 - Provides core income data used in the estimates
 - March Current Population Survey, Annual Social and Economic Supplement (CPS)
 - Provides transfers and other nontaxable income, income for people who do not file a tax return
- Used a broader measure of income than AGI or money income, though not as broad as personal income
- Adjusted income for household size by dividing by the square root of household size
- Incidence of federal taxes
 - Individual income taxes borne by households that pay the tax
 - Employer’s and employee’s shares of payroll tax borne by employees
 - Corporate income tax allocated in proportion to income from capital (75%) and labor (25%)
 - Excise tax in proportion to consumption of goods subject to tax

Statistical Match Procedure

- Construct tax filing units from CPS families and subfamilies
- Create demographic “partitions”
 - Based on marital status, age, number of dependents
 - Records are generally only matched within a partition
- Estimate the variable to match on
 - In the SOI, regression of total income on all income items common to both files
 - Coefficients then applied to both files to create a predicted income score
- Match the records
 - Records in each cell sorted in descending order by the predicted income values
 - Corresponding records from the SOI and the CPS are then matched
 - The record with the higher weight is “split” and matched with the next record in the other file
 - For each matched record, income from taxable sources comes from the SOI; transfer and other nontaxable income from the CPS
 - Once all SOI records are used, residual CPS records are considered to be nonfilers, and their income comes directly from the CPS
- Reconstruct households from tax-filing units

Income Definition Used for the CBO Study

Market Income

- Labor Income
 - Cash wages
 - Employer’s contributions for health insurance
 - Employer’s payroll taxes
 - Share of the corporate income tax borne by workers
- Business Income
 - Sole proprietorship, farm, partnership, S corporation
 - Realized capital gains
- Capital income
 - Taxable and tax-exempt interest
 - Dividends
 - Positive rental income
 - Share of corporate income tax borne by owners of capital
- Other Income
 - Pension distributions

Transfers

- Social Security
- Medicare, Medicaid, CHIP
- SNAP/Food Stamps
- Unemployment insurance
- TANF/AFDC
- Everything else in CPS (SSI, housing, LIHEAP, etc.)

Federal Taxes

- Individual income (including refundable credits)
- Social insurance (payroll)
- Corporate income
- Excise

Corresponding Income Measures in the National Income and Product Accounts

Market Income

- Personal income minus personal transfer receipts plus contributions for government social insurance

Transfers

- Government social benefits minus refundable tax credits

Federal Taxes

- Federal government current tax receipts plus contributions for government social insurance minus refundable tax credits

Income Measures Used in the Study as a Share of Corresponding NIPA Income Measures

