

The Distribution of Household Income in 2021

November 21, 2024

Presentation at the Association for Public Policy Analysis and Management
Fall Conference

Bilal Habib

Tax Analysis Division



Overview

At a Glance

- Income before transfers and taxes was more skewed toward the top of the distribution in 2021 than in 2020 or 2019.
 - Real labor income increased only slightly at the bottom of the distribution.
 - Realized capital gains were higher than in any other year in CBO's analysis.
- Among lower-income households, means-tested transfers were nearly as large in 2021 as in 2020, and federal taxes were lower.
 - Benefits from the recovery rebate credit and expanded unemployment compensation were both lower in 2021, but the child tax credit was expanded.
 - Benefits from those three programs constituted a larger share of income for lower-income households.
- Transfers and taxes reduced inequality in 2021 by almost as much as in 2020, but inequality after transfers and taxes increased nonetheless.
 - Inequality *before* transfers and taxes was at an all-time high.
 - Inequality *after* transfers and taxes was at its highest level since 2012.

Real: Adjusted to remove the effects of inflation.

Realized capital gains: The amount gained (or lost) from the sale of assets that year, but not accounting for increases (or decreases) in the value of assets that were not sold in that year.

Means-tested transfers: Cash payments and in-kind services provided through federal, state, and local government assistance programs.

CBO's Income Measures



- Market income consists of the following:
 - Labor income,
 - Business income,
 - Capital income (including realized capital gains),
 - Income received in retirement for past services, and
 - Income from other nongovernmental sources.
- Social insurance benefits consist of benefits provided through the following:
 - Social Security,
 - Medicare,
 - Unemployment insurance, and
 - Workers' compensation.

CBO's Income Measures (Cont.)



- Means-tested transfers are cash payments and in-kind services provided through federal, state, and local government assistance programs. The largest of such programs include:
 - Medicaid,
 - Supplemental Nutrition Assistance Program (SNAP),
 - Supplemental Social Insurance (SSI),
 - Housing assistance programs, and
 - Expanded unemployment compensation programs (in 2020 and 2021).
- Federal taxes consist of:
 - Individual income taxes (including refundable credits),
 - Payroll taxes,
 - Corporate income taxes, and
 - Excise taxes.

Data Sources

CBO's distributional analyses are based on annual cross-sectional data, which are drawn from two sources.

- Administrative tax data from the **Statistics of Income (SOI)** provide information about:
 - Market income and Social Security for tax filers and
 - Federal taxes.

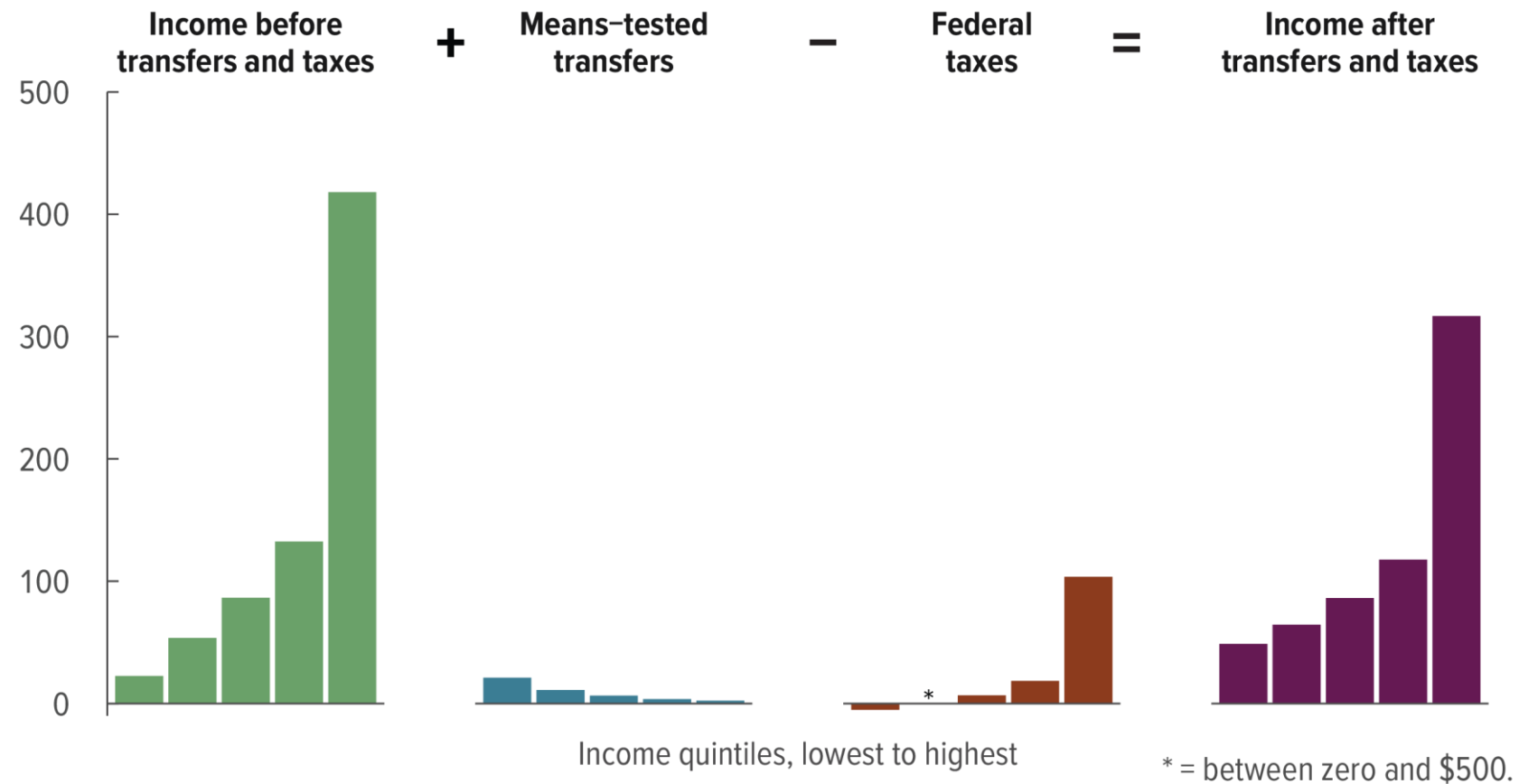
- The **Annual Social and Economic Supplement (ASEC) of the Current Population Survey (CPS)** provides information about:
 - Market income and Social Security for non-filers,
 - Medicare, and
 - Means-tested transfers.

The SOI and CPS are statistically matched to produce a single data set. Tax units are created in the CPS, matched with their counterparts on the SOI on the basis of total income, and then reconstructed into households.

Transfers and Taxes Produced a More Even Distribution of Income

Average Real Income, Means-Tested Transfers, and Federal Taxes in 2021

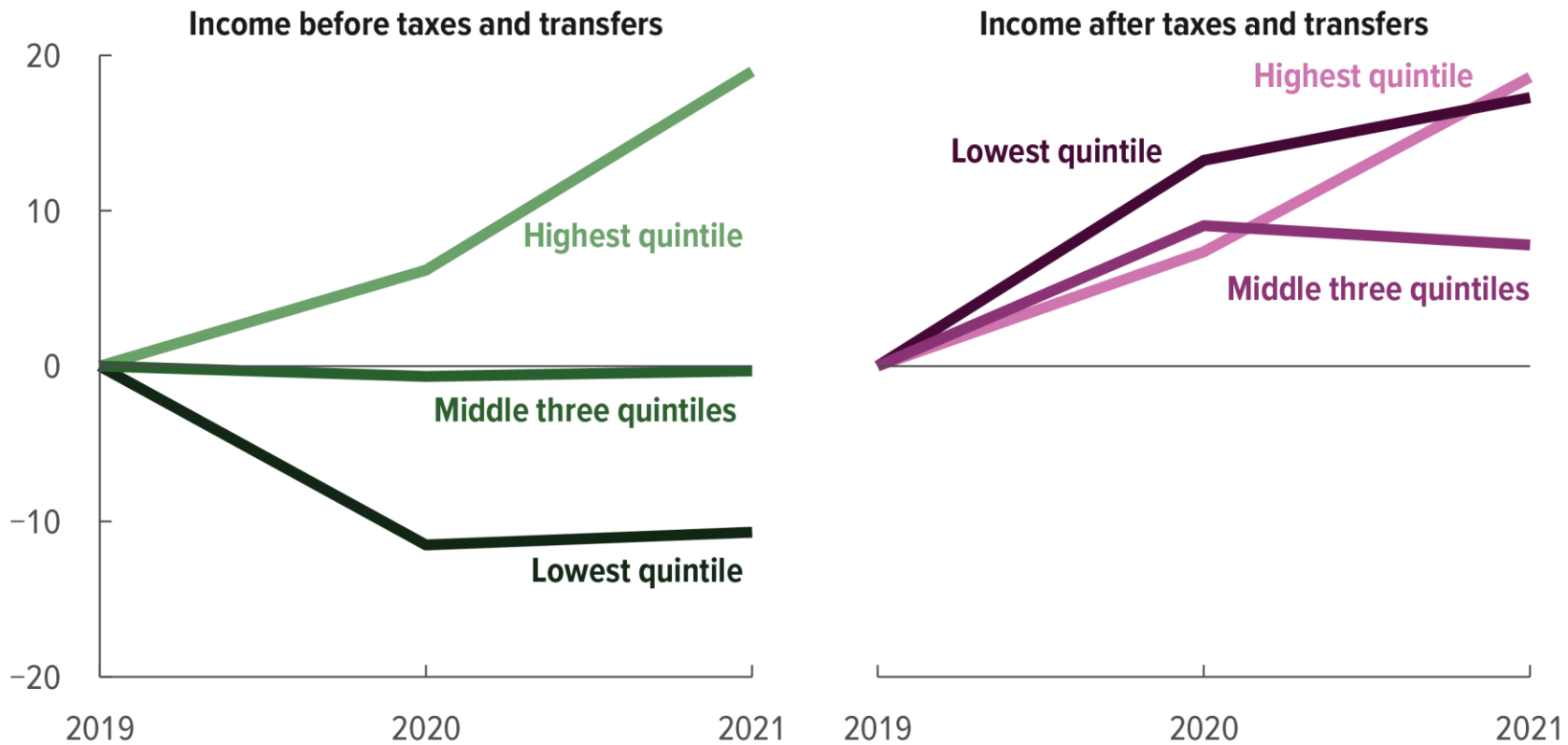
Thousands of 2021 dollars



Income Before Transfers and Taxes Grew Significantly Only for Higher-Income Groups, Whereas Growth in Income After Transfers and Taxes Was More Widespread

Cumulative Growth in Average Household Income, by Income Group

Percent



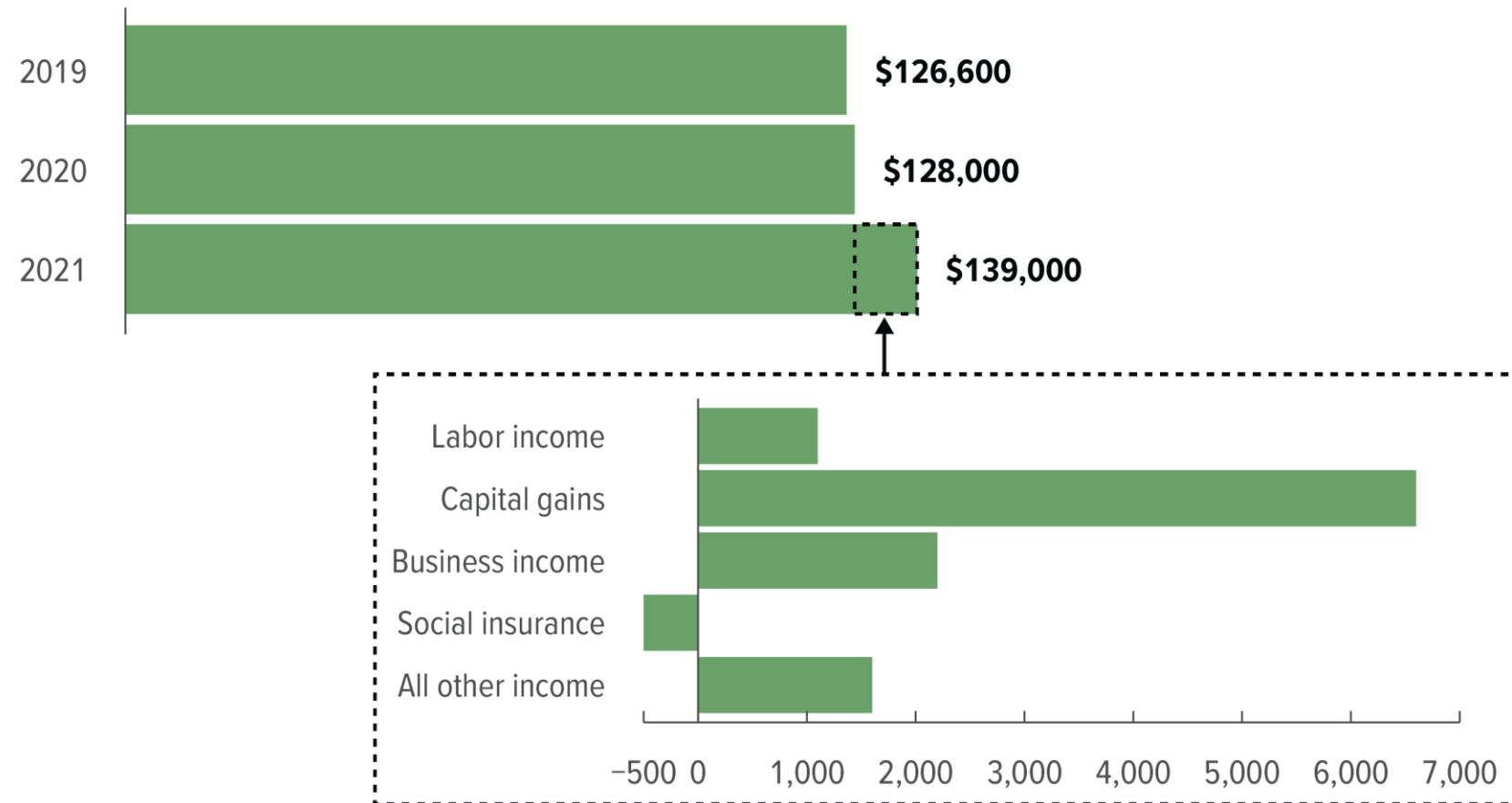


Income Before Transfers and Taxes

Overall Income Growth Was Largely Attributable to Capital Gains

Changes in Average Household Income Before Transfers and Taxes

2021 dollars



Capital Gains Reached a Record High

Average Household Income From Realized Capital Gains

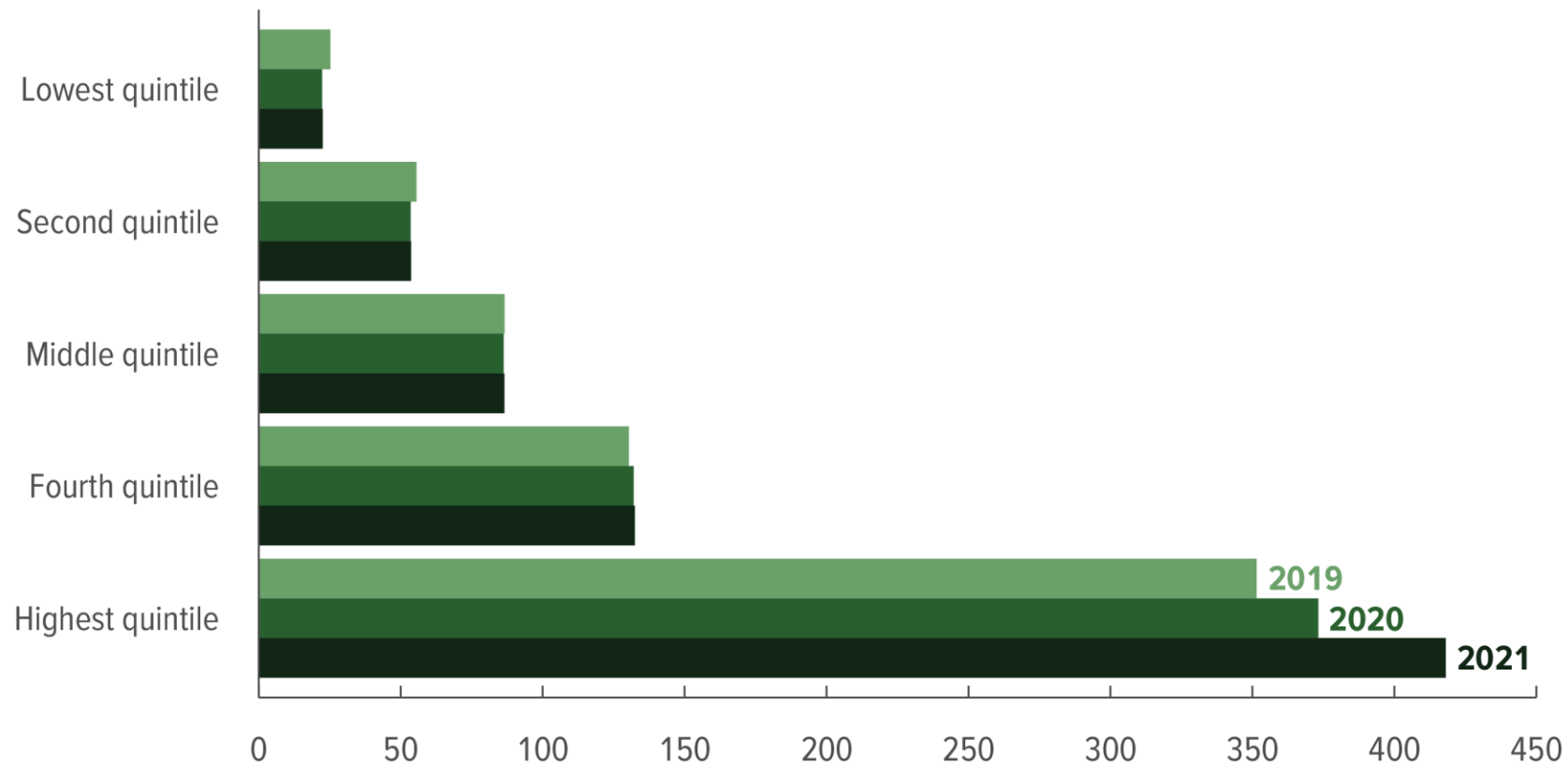
Thousands of 2021 dollars



Income Grew Predominantly Among Households in the Highest Quintile

Average Household Income, by Income Group

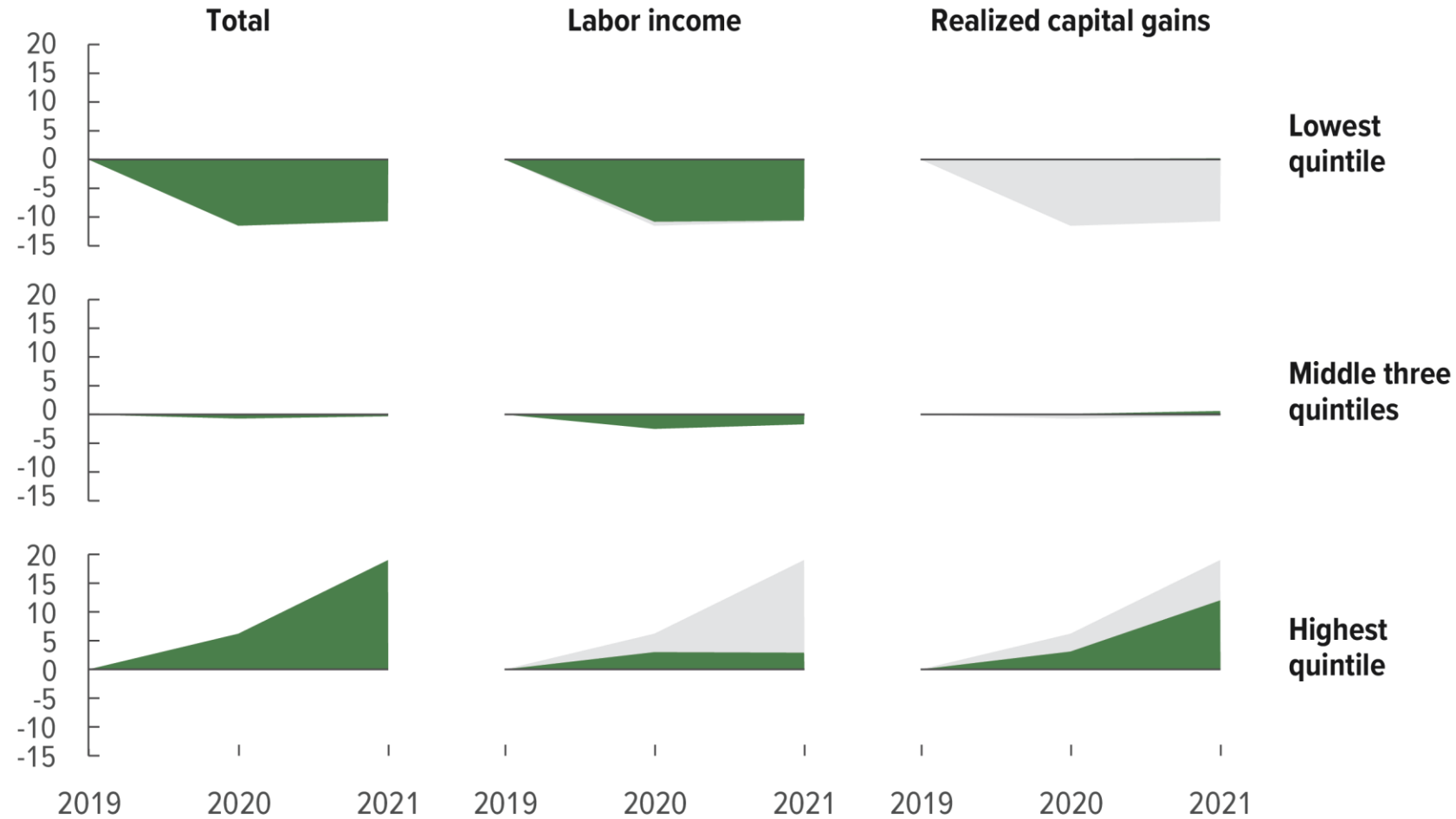
Thousands of 2021 dollars



From 2019–2021, Various Sources of Income Before Transfers and Taxes Contributed to Patterns of Overall Income Growth

Selected Components of Cumulative Growth in Average Household Income, by Income Group

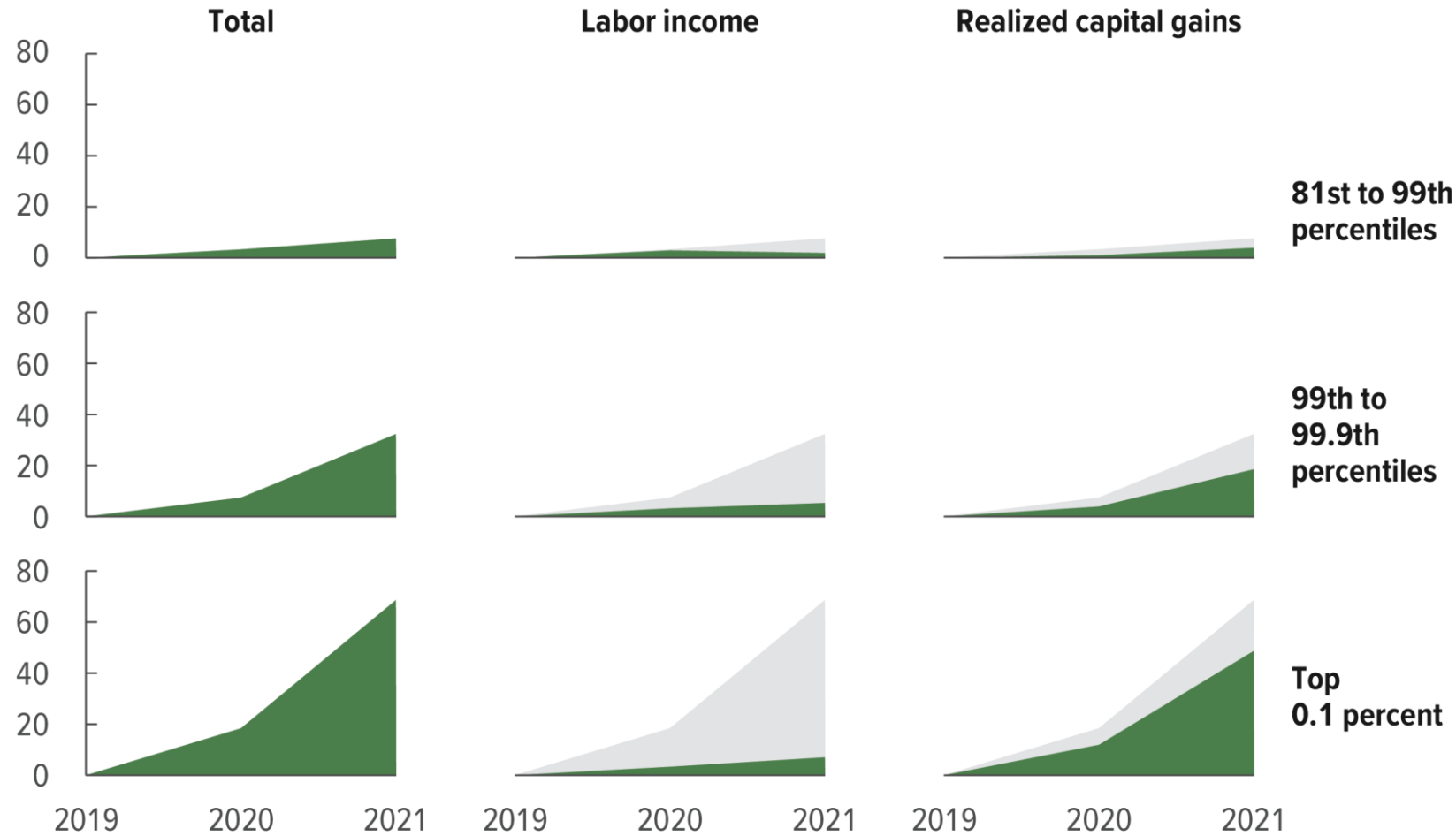
Percent



From 2019–2021, Various Sources of Income Before Transfers and Taxes Contributed to Patterns of Overall Income Growth (Cont.)

Selected Components of Cumulative Growth in Average Household Income
Within the Highest Quintile, by Income Group

Percent



Means-Tested Transfers and Federal Taxes

Pandemic-Related Legislation

- New direct-payment programs:
 - Expanded unemployment compensation (includes PUA, PEUC, and FPUC)
 - Recovery rebate credits (in three rounds, April 2020, December 2020, and March 2021)
 - Expanded child tax credit

- Expansions to existing means-tested transfers:
 - Medicaid
 - SNAP

- Changes to the tax system:
 - Unemployment compensation partially exempt
 - Limits on charitable deductions relaxed

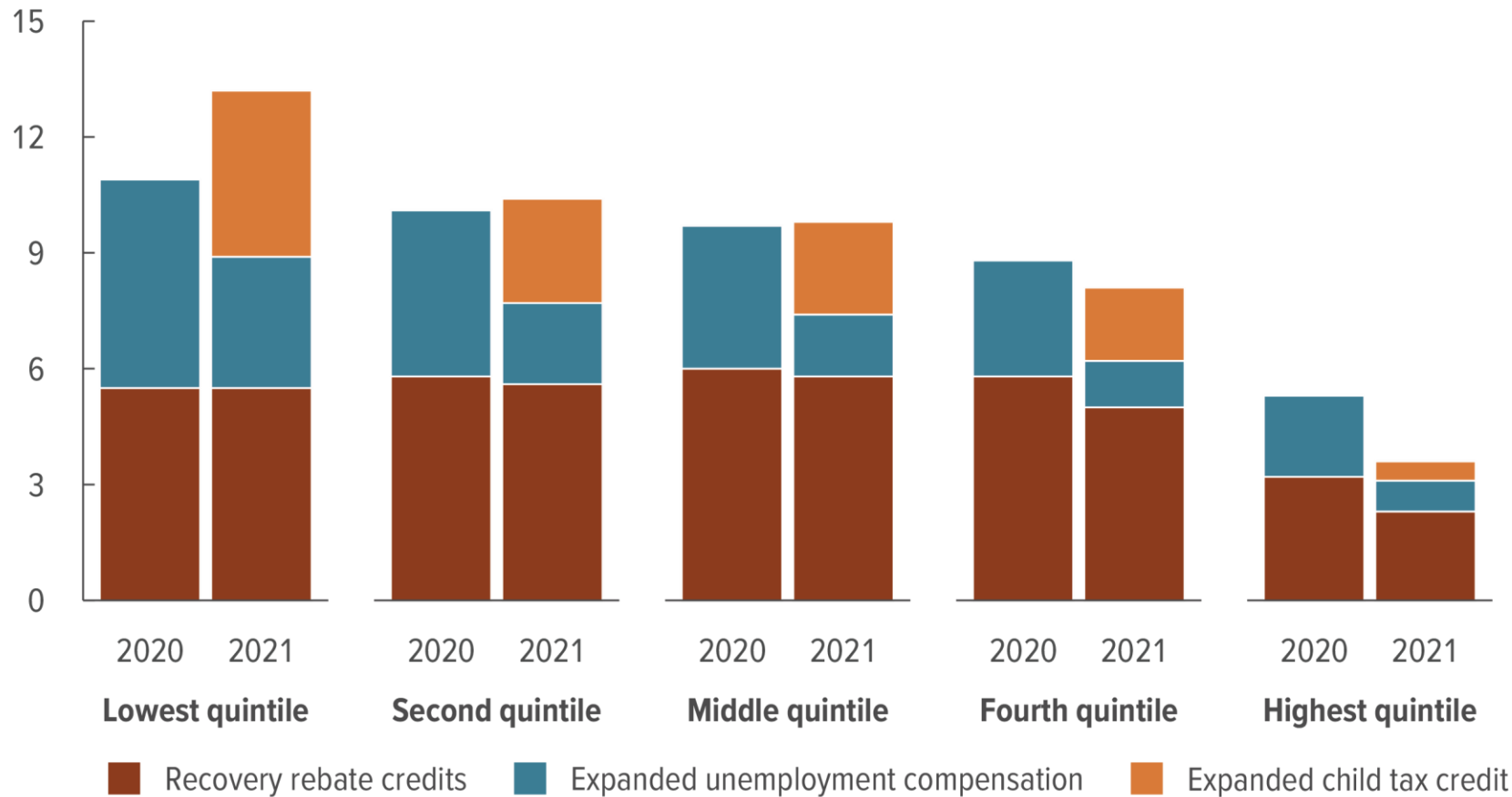
- PPP partially included through effects on market income (\$500 billion program, but incidence is difficult to determine, and benefits are not observed in tax data)

- Suspension of federal student loan payments did not increase income but did increase resources (would have a small effect on distributional results even if included)

Benefits From Temporary Programs Were Lower Than in 2020

Average Amount of Recovery Rebate Credits, Expanded Unemployment Compensation, and the Expanded Child Tax Credit Among Households With Children, by Income Group

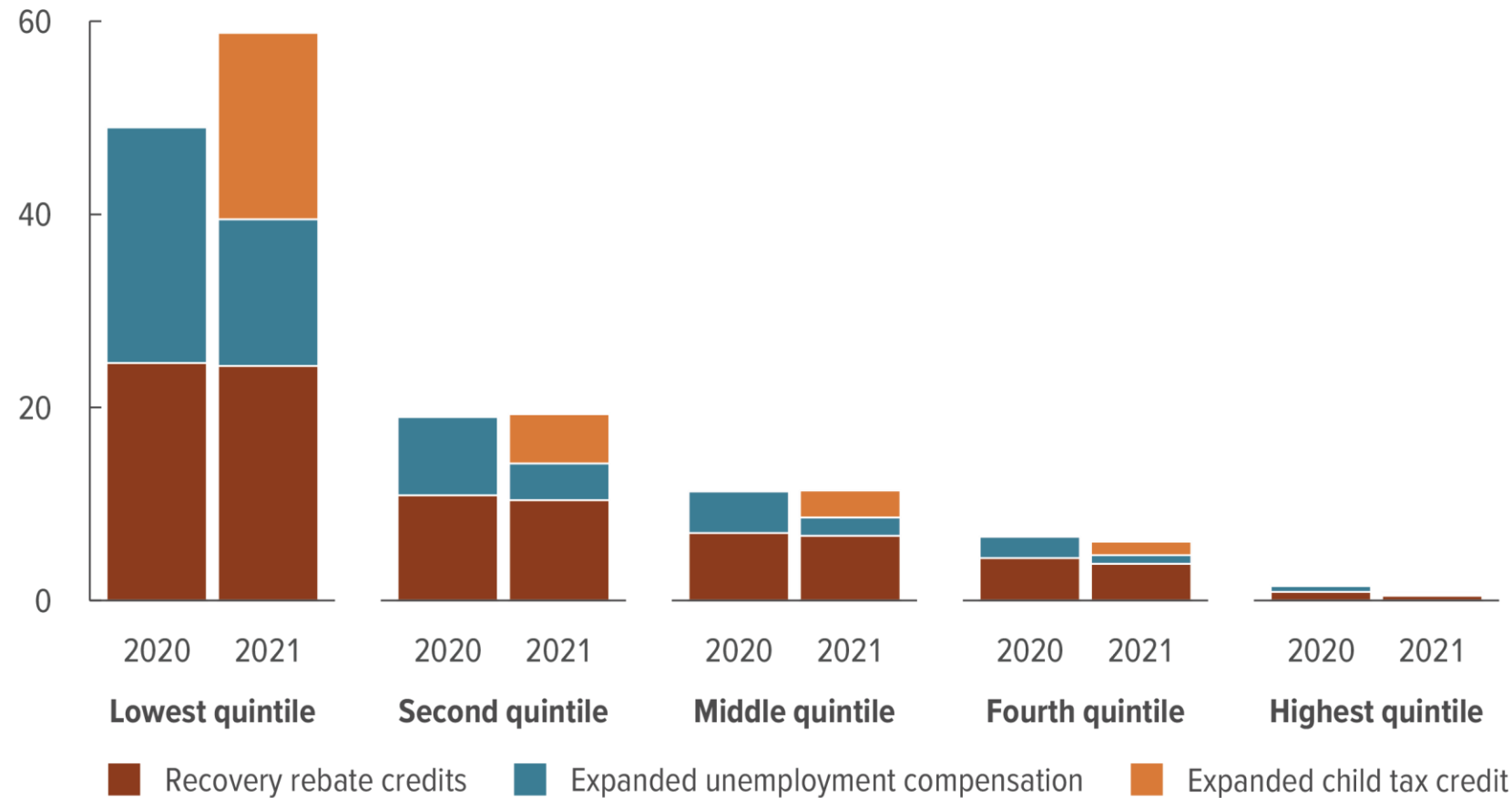
Thousands of 2021 dollars



Benefits From Temporary Programs Were Lower Than in 2020 (Cont.)

Average Amount of Recovery Rebate Credits, Expanded Unemployment Compensation, and the Expanded Child Tax Credit Among Households With Children, by Income Group

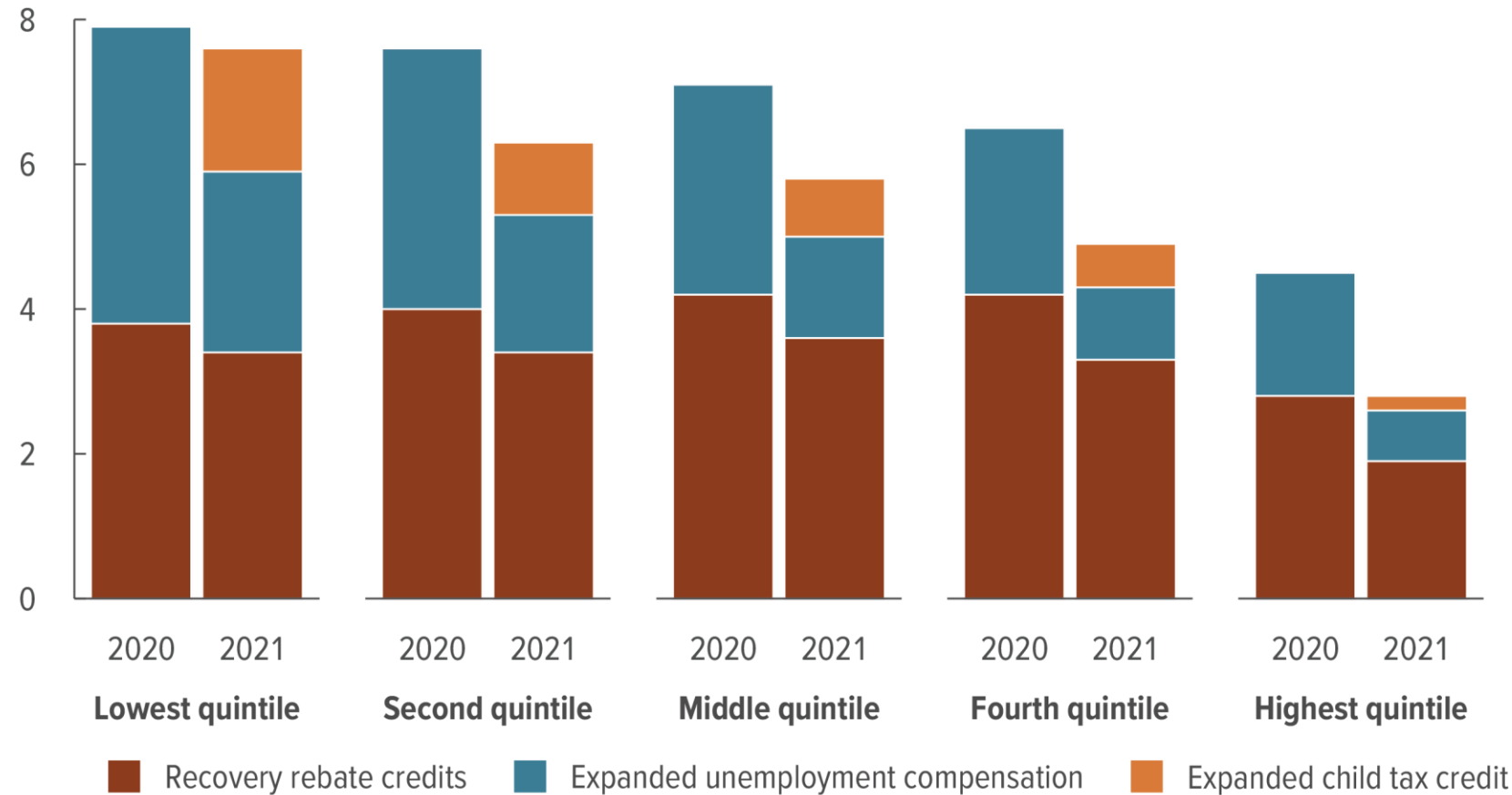
As a percentage of income before taxes and transfers



Benefits From Temporary Programs Were Lower Than in 2020 (Cont.)

Average Amount of Recovery Rebate Credits, Expanded Unemployment Compensation, and the Expanded Child Tax Credit, by Income Group

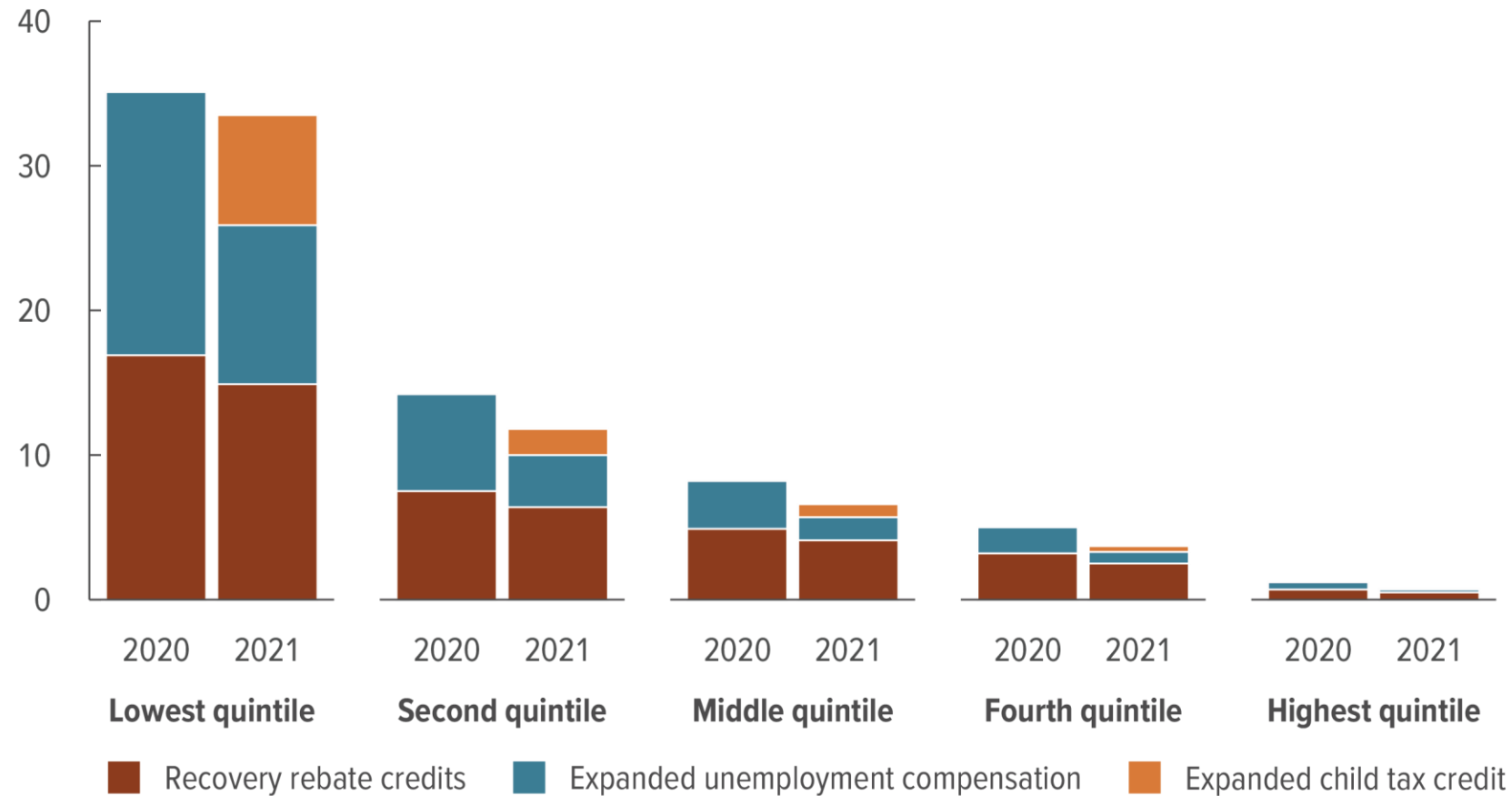
Thousands of 2021 dollars



Benefits From Temporary Programs Were Lower Than in 2020 (Cont.)

Average Amount of Recovery Rebate Credits, Expanded Unemployment Compensation, and the Expanded Child Tax Credit, by Income Group

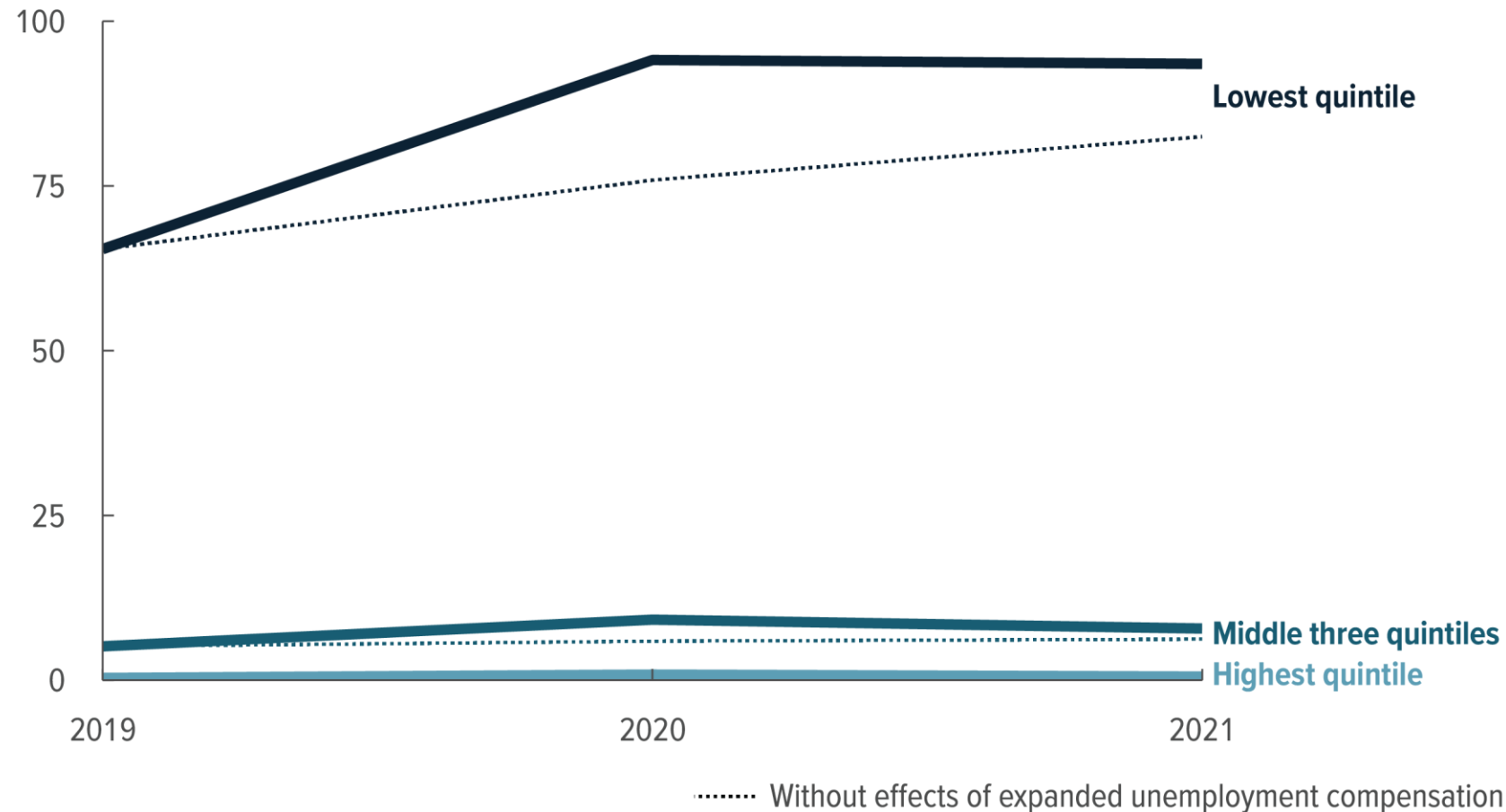
As a percentage of income before taxes and transfers



Means-Tested Transfer Rates Remained at the Historically High Levels They Reached in 2020

Average Means-Tested Transfer Rates, With and Without the Effects of Expanded Unemployment Compensation, by Income Group

Percent

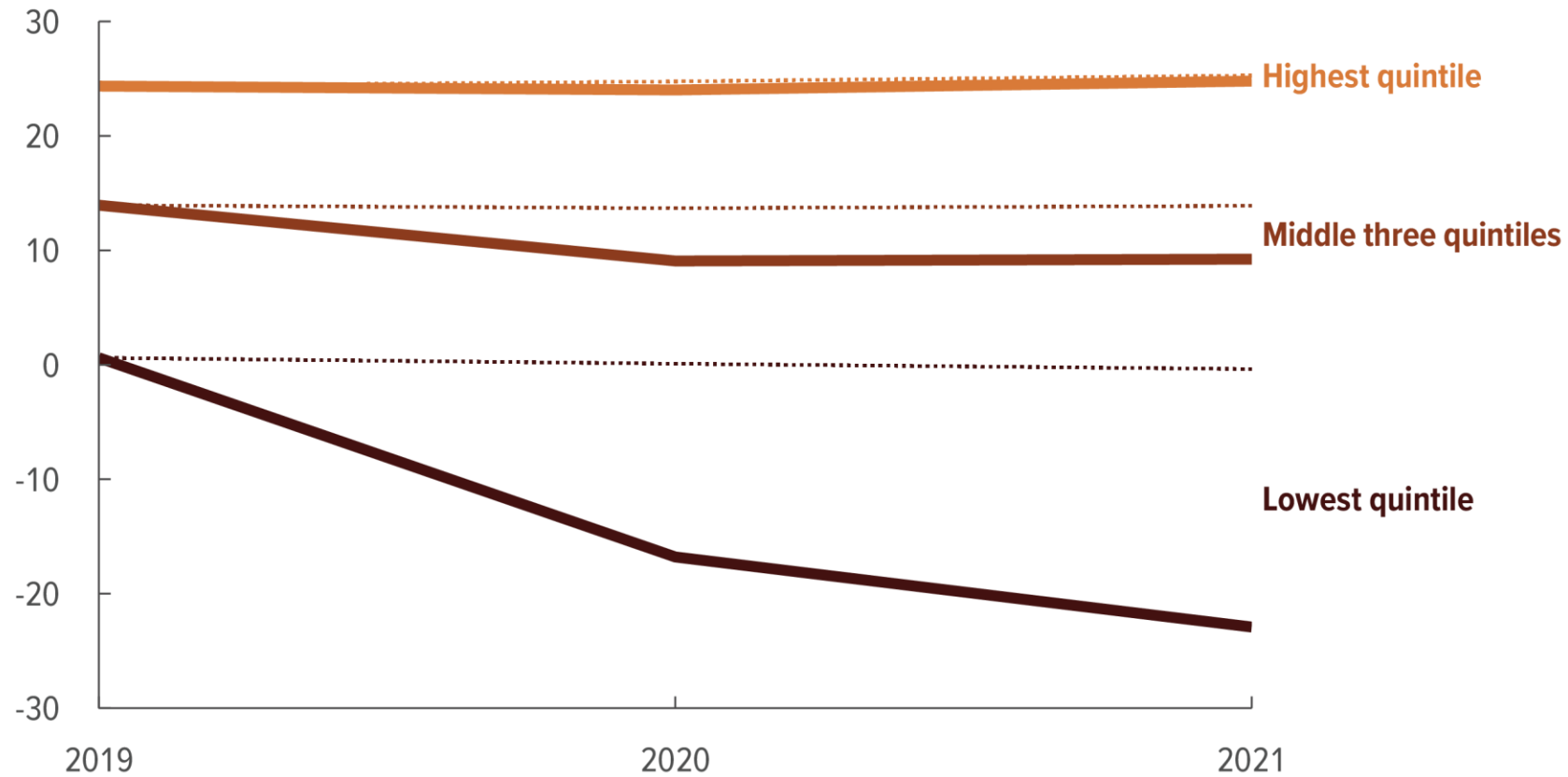




Federal Tax Rates Decreased Further for Low-Income Households

Average Federal Tax Rates, With and Without the Effects of Temporary Tax Credits, by Income Group

Percent



..... Without effects of recovery rebate credits or the expanded child tax credit

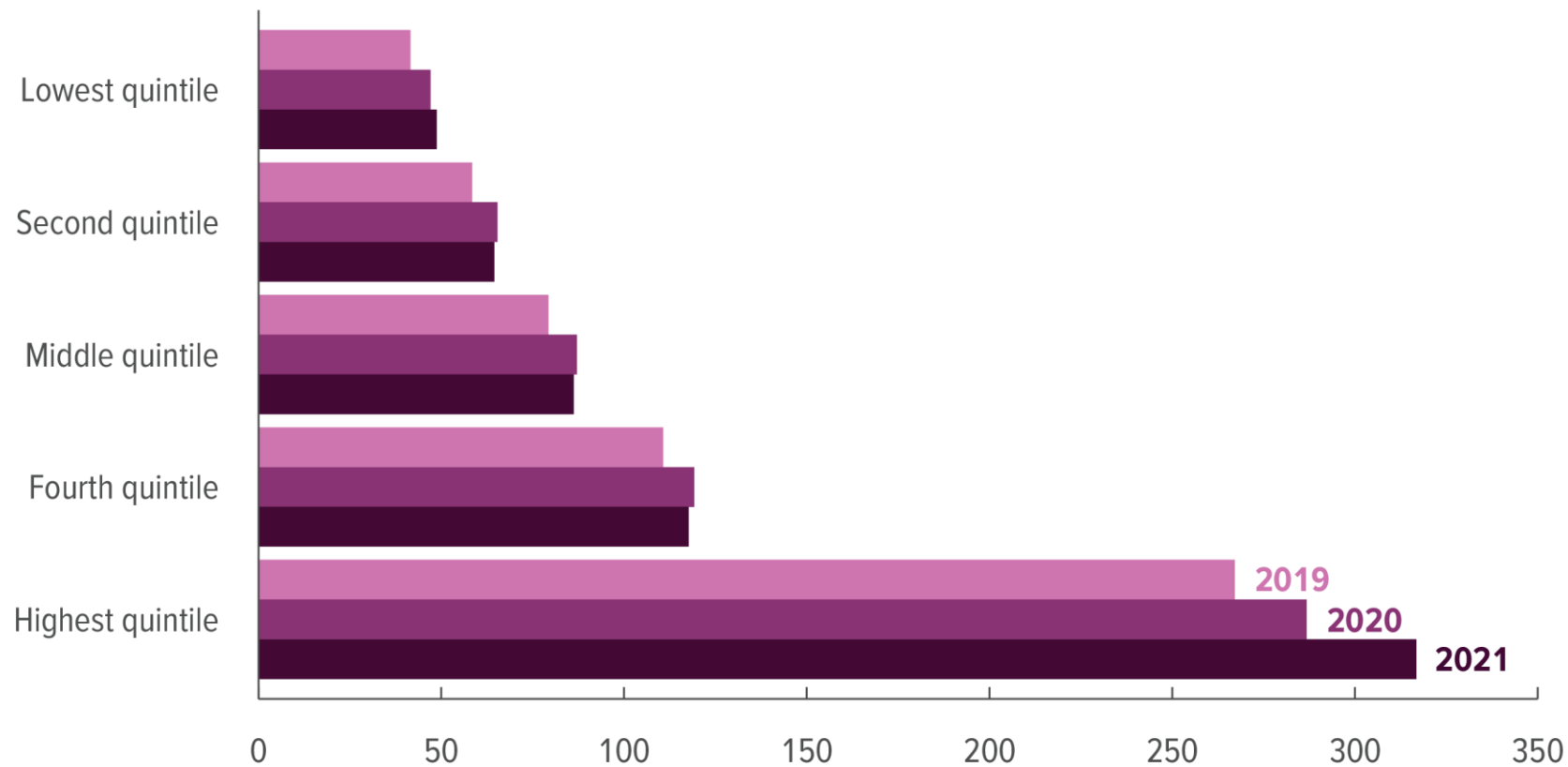
Income After Transfers and Taxes



Income After Transfers and Taxes Increased for All Income Groups

Average Income After Transfers and Taxes, by Income Group

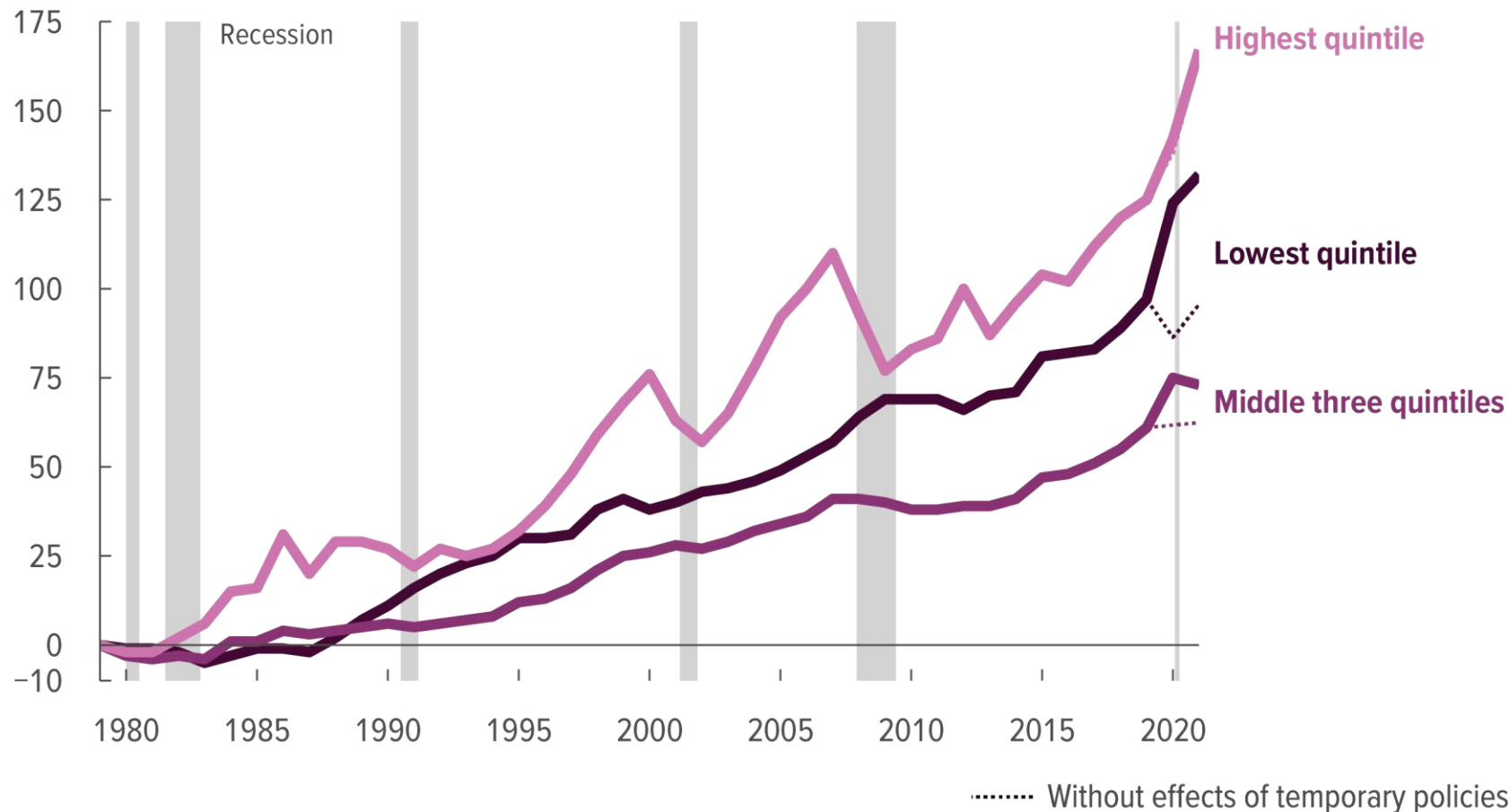
Thousands of 2021 dollars



Among Households in the Lowest Quintile, Income After Transfers and Taxes Grew Significantly Because of Temporary Policies

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

Percent



Income Inequality

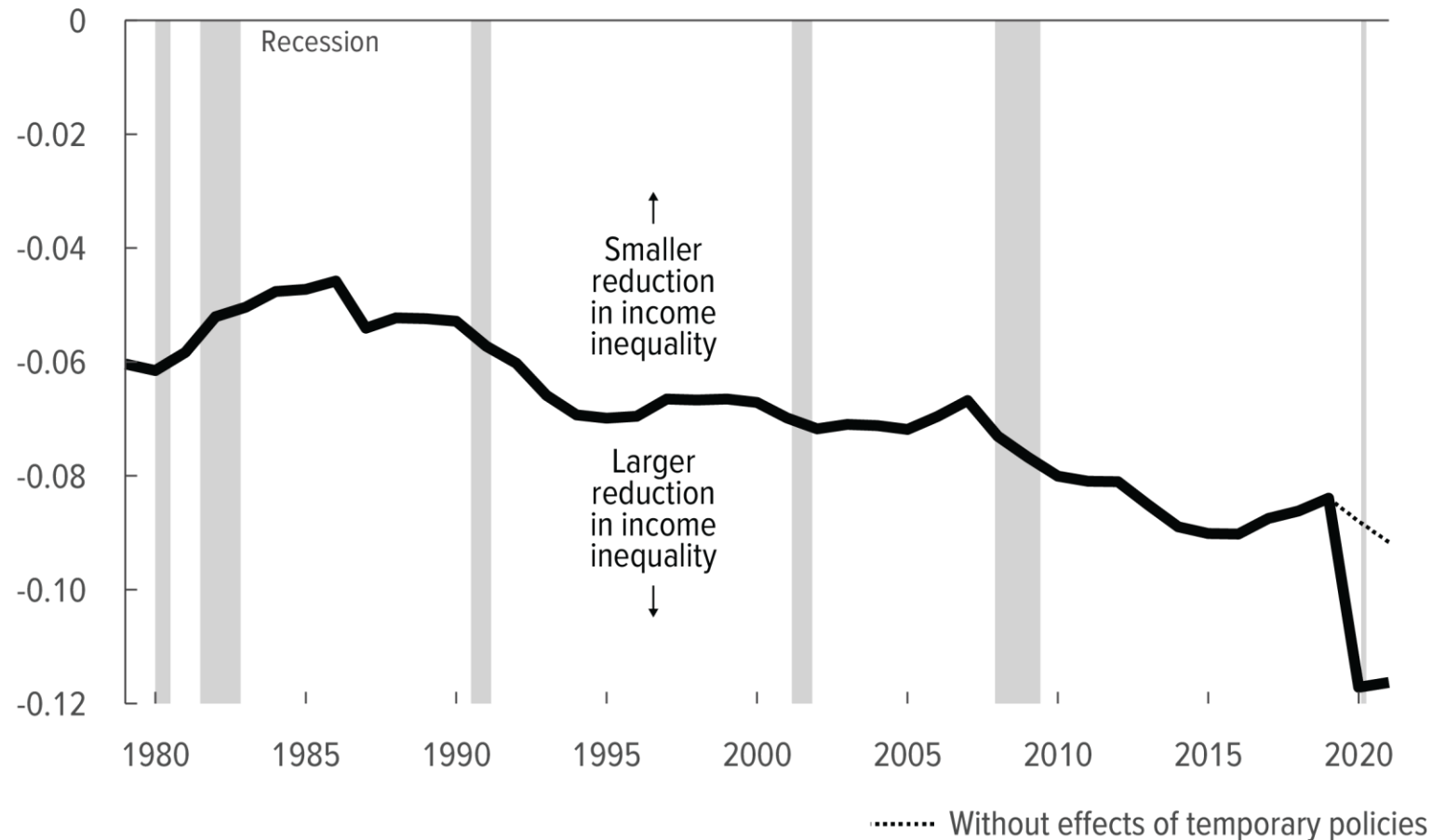
Income Inequality Increased, Both Before and After Transfers and Taxes

Income Inequality as Measured by the Gini Coefficient



Transfers and Taxes Reversed the Growth of Income Inequality

Reduction in Income Inequality Stemming From Means-Tested Transfers and Taxes, as Measured by the Gini Coefficient



Poverty

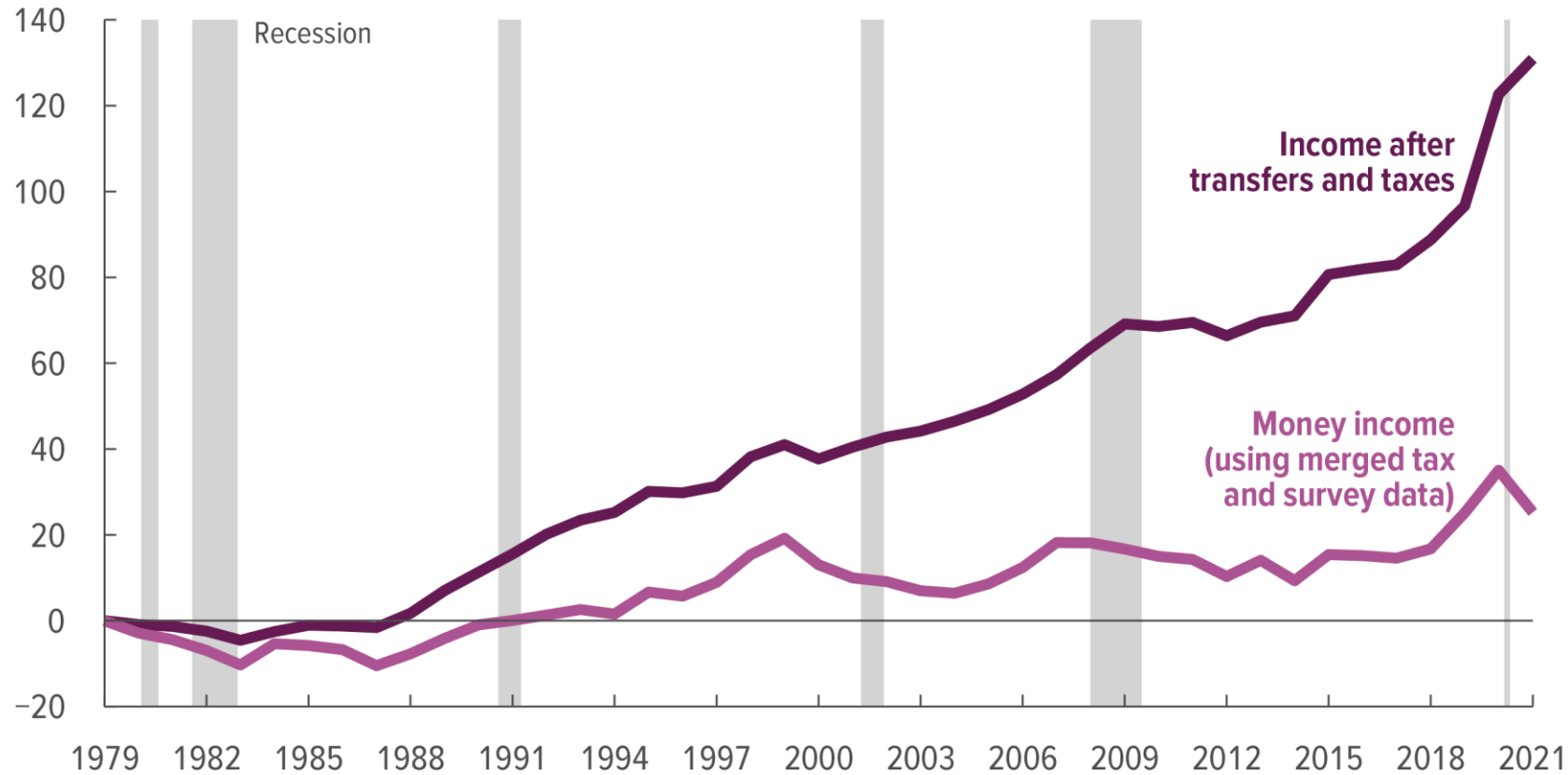
Measuring Poverty Using CBO's Framework for Distributional Analysis

- CBO shows that income after transfers and taxes among households in the lowest quintile has increased significantly from 1979 to 2021.
- But the Official Poverty Measure (OPM) has remained largely constant during that period.
- CBO is working on an analysis to crosswalk from the OPM to the data sources and income measure used in the distribution of household income reports.

Transfers and Taxes Generated More Income Growth at the Bottom Than Would Have Occurred Otherwise

Cumulative Growth of Income Among Households in the Lowest Quintile

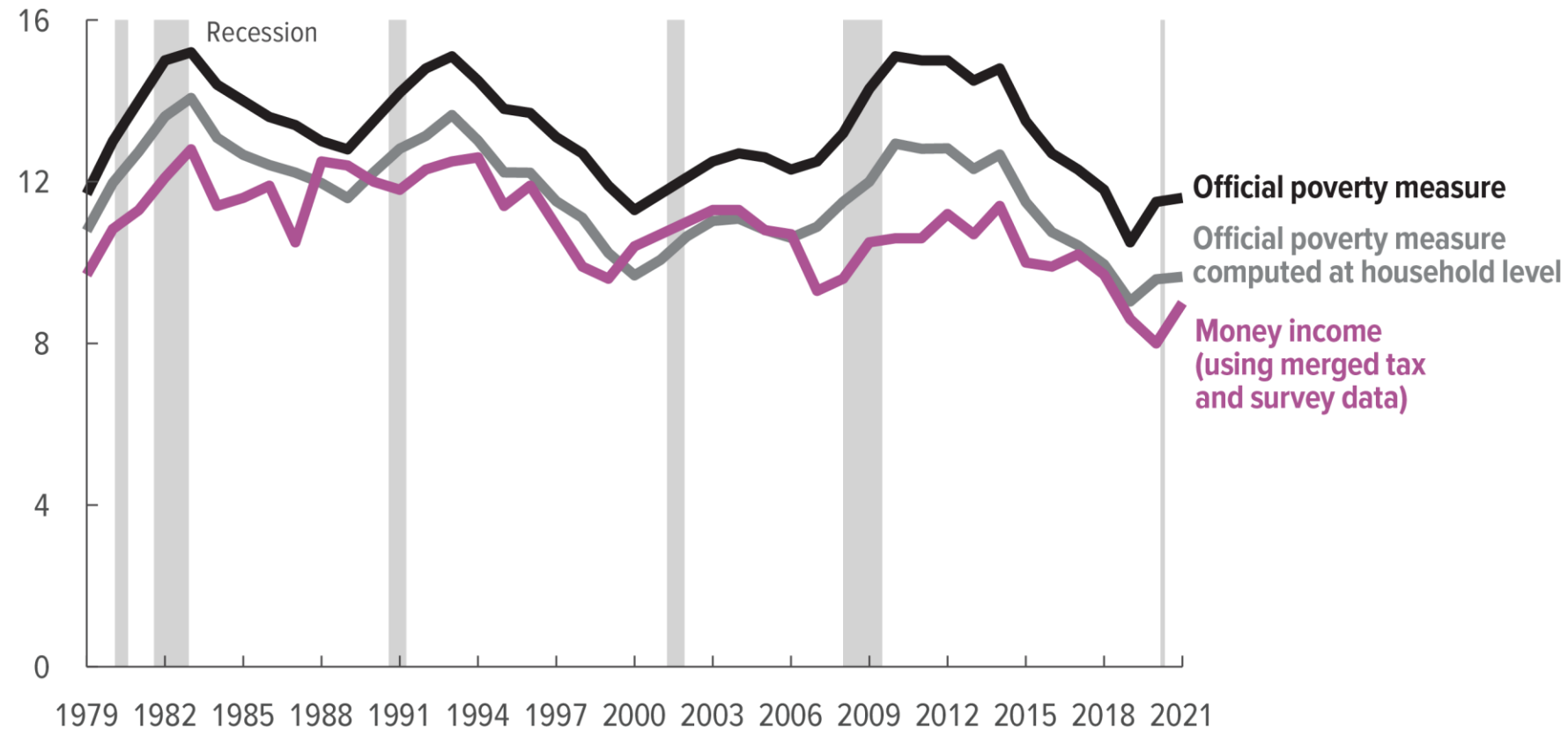
Percent



Moving From the CPS to CBO's Data Set for Poverty Measurement

Proportion of People with Income Below the Poverty Threshold

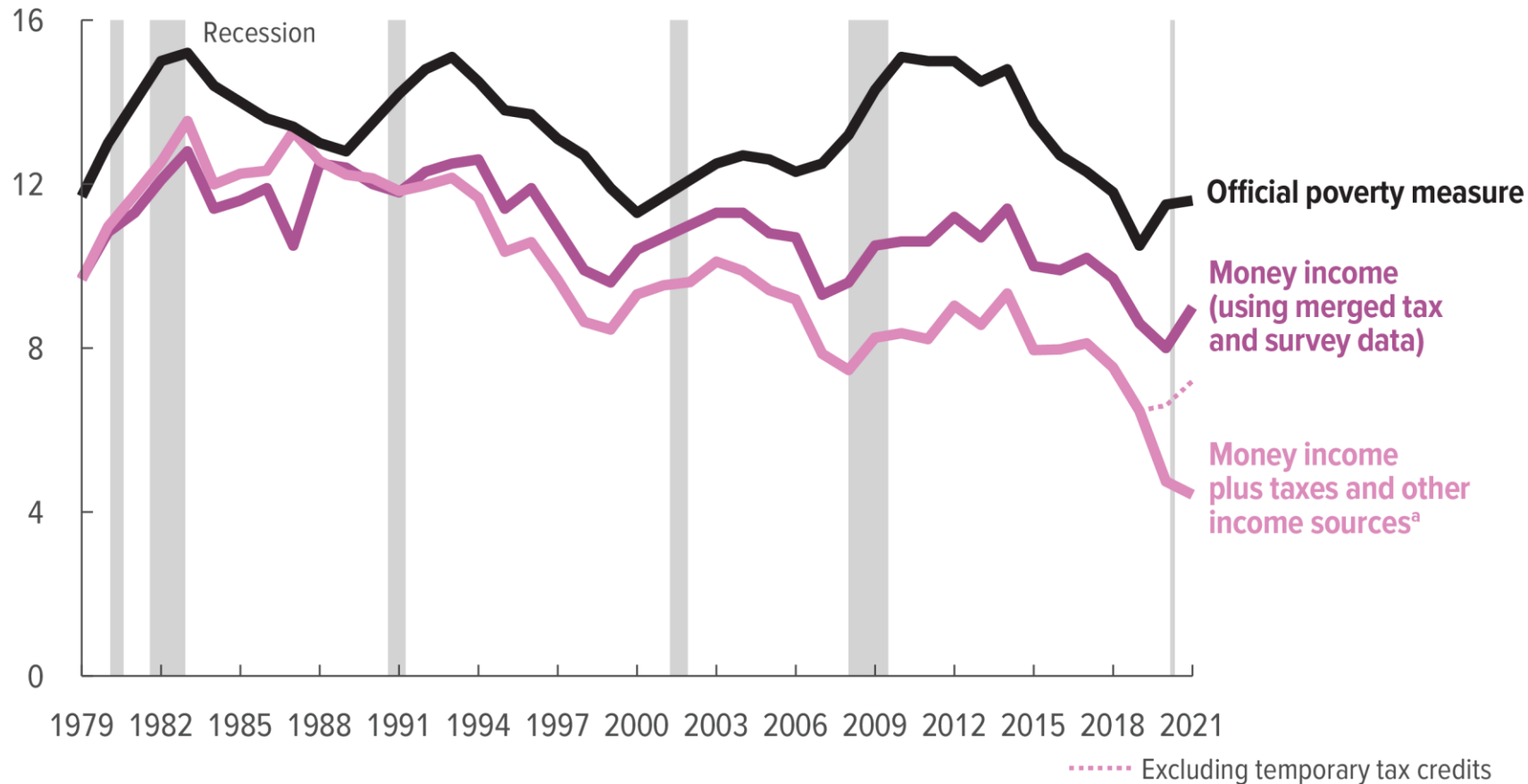
Percent



Adding Federal Taxes and Other Income Sources

Proportion of People with Income Below the Poverty Threshold

Percent



a. Other income sources consist of realized capital gains, employer-sponsored insurance, and adjustments for the underreporting of cash transfers in the Current Population Survey.