

The Distribution of Household Income, 2022



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January 2026

Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress





Introduction

What Is in This Report?

The Congressional Budget Office regularly analyzes how income is distributed among households in the United States to provide Congress with information about the effects of federal taxes and government spending on households in that distribution. In this report, the agency examines the distribution of income—and of the means-tested transfers and federal taxes that affect it—from 1979 (the earliest year for which relevant data from tax returns are available) to 2022 (the most recent year for which such data are available). The report places a particular emphasis on the distributions of those three measures in 2022 and how they differed from the distributions in 2019, 2020, and 2021—the years immediately surrounding the onset of the COVID-19 pandemic.

Terms Used in This Report

Income before transfers and taxes. Consists of market income (which includes labor income, business income, capital income, and realized capital gains) plus social insurance benefits (which include benefits from Social Security, Medicare, unemployment insurance, and workers' compensation).¹

Means-tested transfers. Cash payments and in-kind services provided through federal, state, and local government assistance programs, such as Medicaid and the Children's Health Insurance Program (CHIP), the Supplemental Nutrition Assistance Program (SNAP), and Supplemental Security Income. Eligibility to receive such transfers is determined primarily on the basis of income, which must be below certain thresholds. This analysis focuses on the average means-tested transfer rate, which is average means-tested transfers for a given group expressed as a percentage of that group's average income before transfers and taxes.

Federal taxes. Consist of individual income taxes, payroll taxes, corporate income taxes, and excise taxes. The average federal tax rate is calculated by dividing total federal taxes for an income group by that group's total income before transfers and taxes.

Income after transfers and taxes. Income before transfers and taxes plus means-tested transfers minus federal taxes.

Gini coefficient. A measure of income inequality that summarizes how equally income is distributed across the population. It ranges from zero (the most equal distribution) to 1 (the least equal distribution).

1. For detailed definitions of income measures, see Congressional Budget Office, *The Distribution of Household Income in 2021* (September 2024), Appendix D, www.cbo.gov/publication/60341.

Summary of CBO's Main Findings for the 2019–2022 Period

In 2022, average income before transfers and taxes grew for all income groups except the highest quintile (or fifth), whereas average income after transfers and taxes fell for all groups. (All measures of growth in this report are presented in real terms—that is, they have been adjusted to remove the effects of inflation.) From 2019 to 2022, income before transfers and taxes grew for the top quintile, remained stable for the middle three quintiles, and fell for the lowest. Over the period, income after transfers and taxes increased for all income groups.

Average means-tested transfer rates fell in 2022, especially for households in the lowest quintile, after the temporary expansion of unemployment compensation during the pandemic expired at the end of 2021. Nonetheless, means-tested transfer rates remained higher than they were in 2019.

Average federal tax rates rose across the income distribution in 2022 after the pandemic-era recovery rebate credits and the expanded child tax credit expired at the end of 2021. This increase was largest among households in the lowest quintile. For most income groups, tax rates in 2022 were about the same as those in 2019.

In 2022, income inequality decreased, in large part because income from realized capital gains—which mainly accrues to high-income households—fell from a record high in 2021. From 2019 to 2022, however, inequality *increased*.

Summary of CBO's Main Findings for the 1979–2022 Period

Average income, both before and after transfers and taxes, grew for all quintiles of the income distribution, but it increased most for households in the highest quintile.

Means-tested transfers' contribution to income grew, especially for households near the bottom of the income distribution. As a percentage of income before transfers and taxes, means-tested transfers rose over time, driven primarily by an increase in Medicaid spending and especially for households near the bottom of the income distribution.

Households with higher income typically paid a higher average federal tax rate than households with lower income. Average federal tax rates fell over the past four decades for all income groups, especially the lowest quintile.

Income inequality, whether measured in terms of income before transfers and taxes or income after transfers and taxes, rose. The degree to which transfers and taxes reduced income inequality increased over the past four decades.

Notes About This Document

All dollar amounts are expressed in 2022 dollars. They were adjusted by using the Bureau of Economic Analysis's price index for personal consumption expenditures. Growth rates were calculated after converting amounts to 2022 dollars.

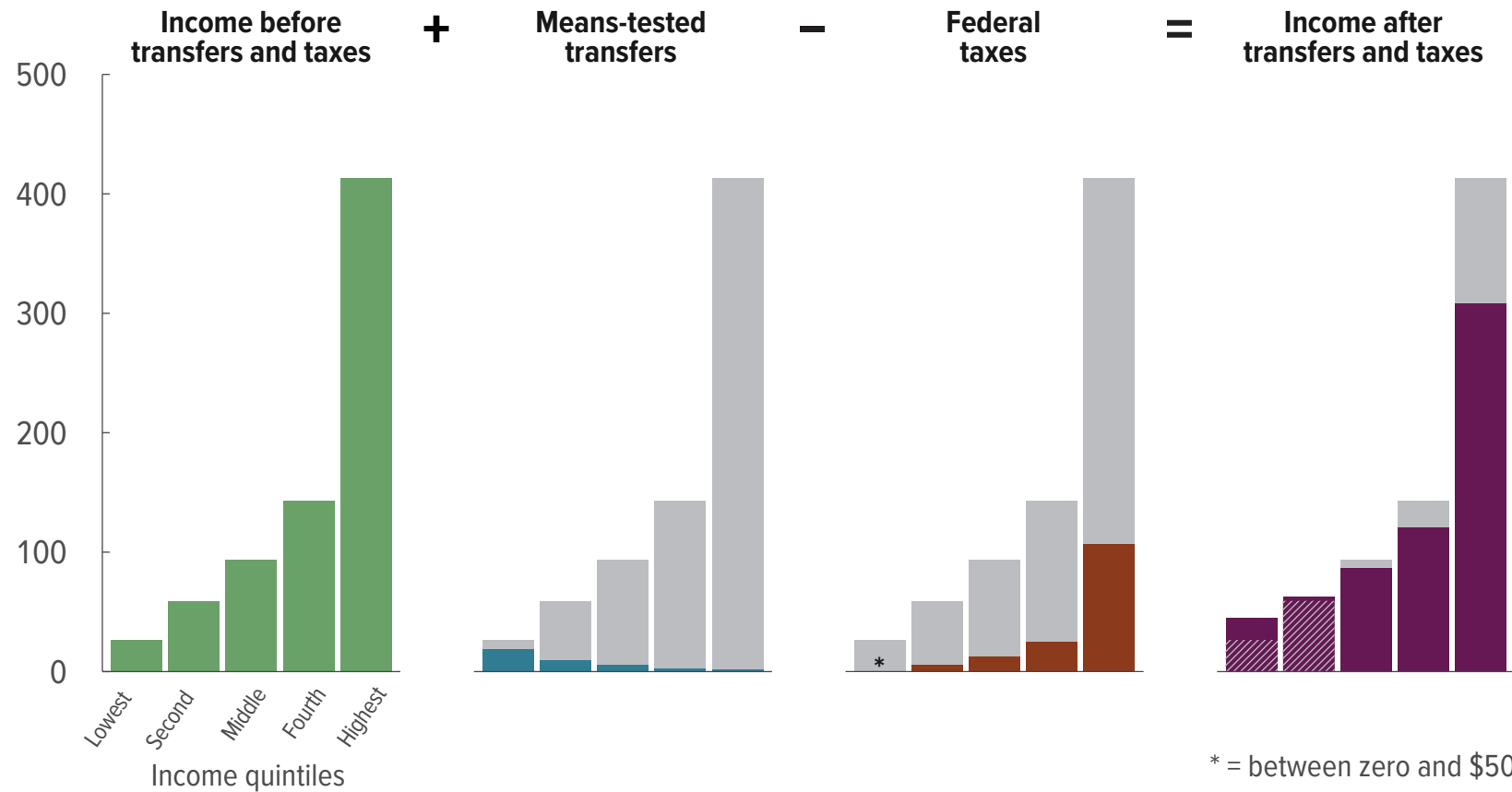
Some of the figures have shaded vertical bars that indicate the duration of recessions. (A recession begins just after a peak in economic activity and runs through the subsequent trough.)

For details about the methods CBO uses for its analysis of the distribution of household income, see Congressional Budget Office, *The Distribution of Household Income in 2021* (September 2024), Appendix A, www.cbo.gov/publication/60341, and Bilal Habib, *How CBO Adjusts for Survey Underreporting of Transfer Income in Its Distributional Analyses*, Working Paper 2018-07 (Congressional Budget Office, July 2018), www.cbo.gov/publication/54234.

Overview of the Distribution of Income From 2019 to 2022

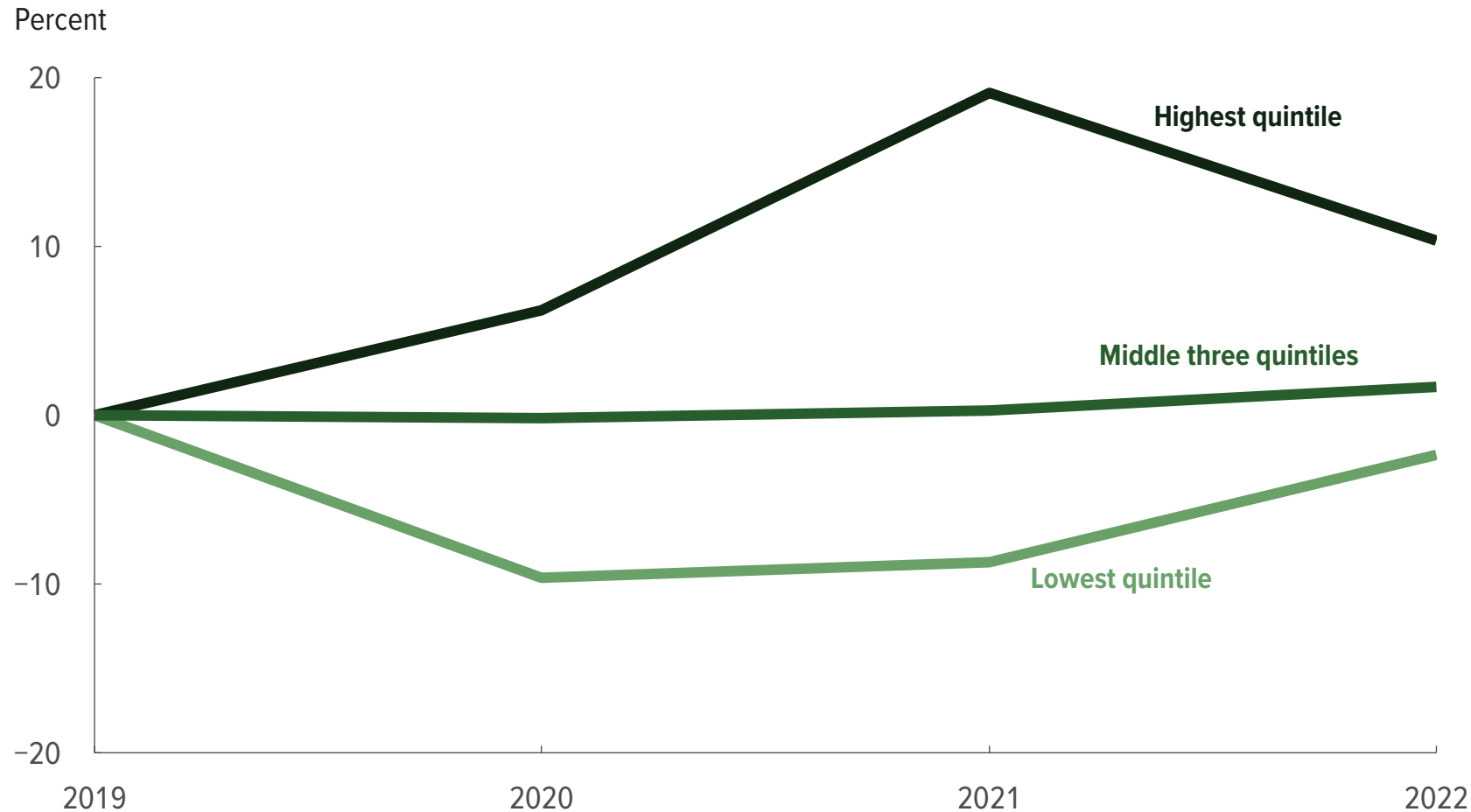
Average Income, Means-Tested Transfers, and Federal Taxes in 2022

Thousands of 2022 dollars



Before and after the effects of means-tested transfers and federal taxes are accounted for, household income was unequally distributed in 2022, but it was more evenly distributed after accounting for those effects.

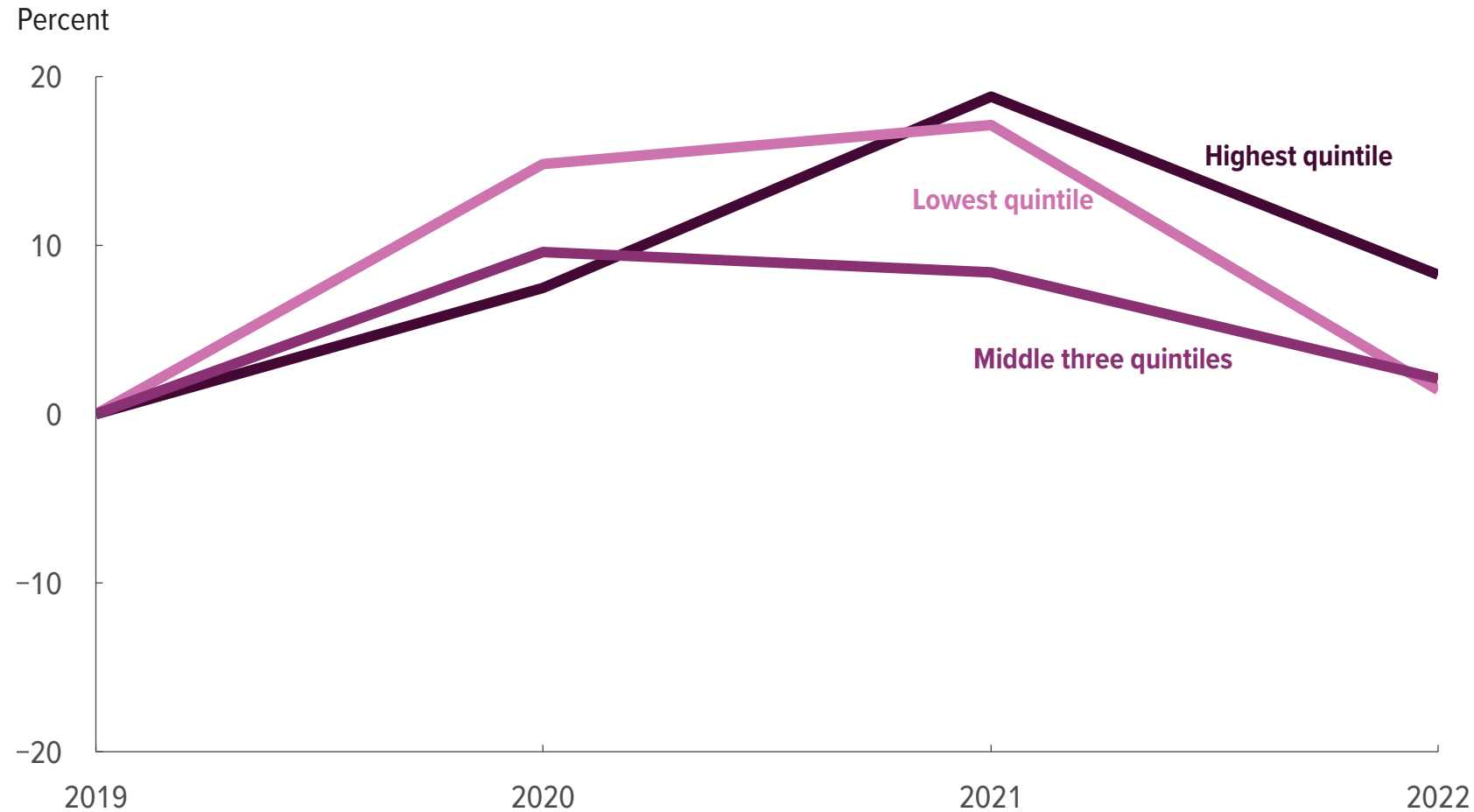
Cumulative Growth in Average Household Income Before Transfers and Taxes, 2019 to 2022



After increasing from 2019 to 2021, the average income before transfers and taxes for households in the highest quintile fell in 2022. Still, it remained more than 10 percent higher than it was in 2019.

By contrast, the average income before transfers and taxes for households in the lowest quintile, which fell in 2020 and was relatively stable in 2021, rebounded in 2022 but remained below its 2019 level.

Cumulative Growth in Average Household Income After Transfers and Taxes, 2019 to 2022



Over the 2019–2022 period, all groups' average income after transfers and taxes first rose and then fell. For households in the highest quintile, the decrease in average income in 2022 is largely attributable to realized capital gains' falling from a record high in 2021. For households in the lowest quintile, the drop in average income in 2022 followed the end of temporary policies enacted in response to the pandemic.



Income Before Transfers and Taxes

Income Before Transfers and Taxes

Income before transfers and taxes consists of market income plus social insurance benefits.

Market income comprises wages and other forms of labor income (including cash wages, employers' contributions for health insurance premiums, and payroll taxes paid by employers), business income, capital income (including capital gains), and other income.

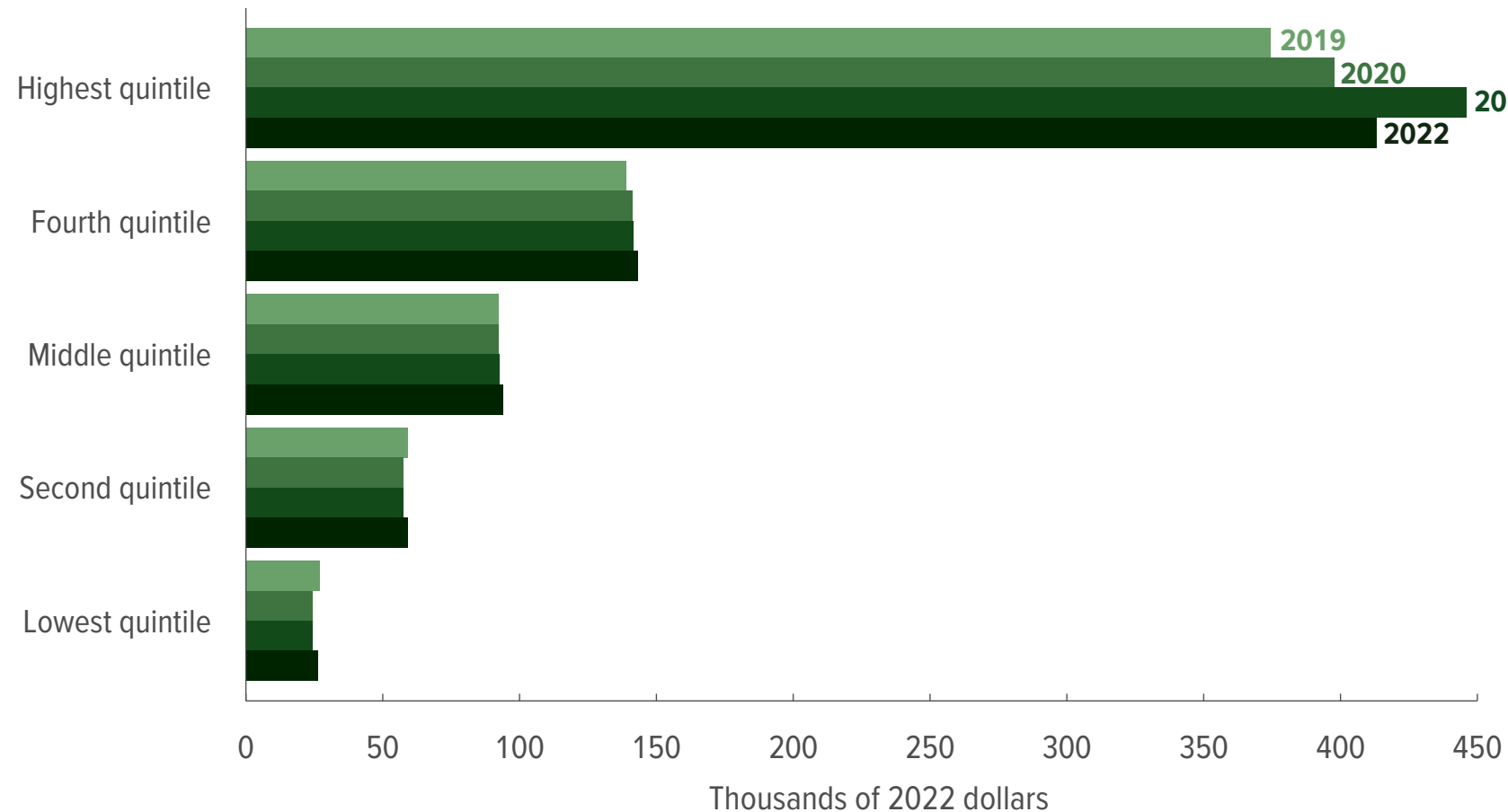
Social insurance benefits consist of Social Security and Medicare benefits, regular unemployment insurance (but not the expanded unemployment compensation provided during the pandemic), and workers' compensation.²

The effects of government policies carried out through means-tested transfer programs or the federal tax system are *not* reflected in income before transfers and taxes.

The composition of income before transfers and taxes varies across the income distribution. For example, realized capital gains constitute a greater portion of income for households at the top of the income distribution than for other households. For the average household in each income quintile, labor income makes up the bulk of income.

2. In this analysis, regular unemployment insurance is categorized as a social insurance benefit, whereas expanded unemployment compensation is grouped with means-tested transfers. CBO chose that categorization because expanded unemployment compensation lacked certain characteristics of social insurance programs, such as mandatory contributions from workers or employers, dedicated revenue sources, and benefit eligibility based on contributions.

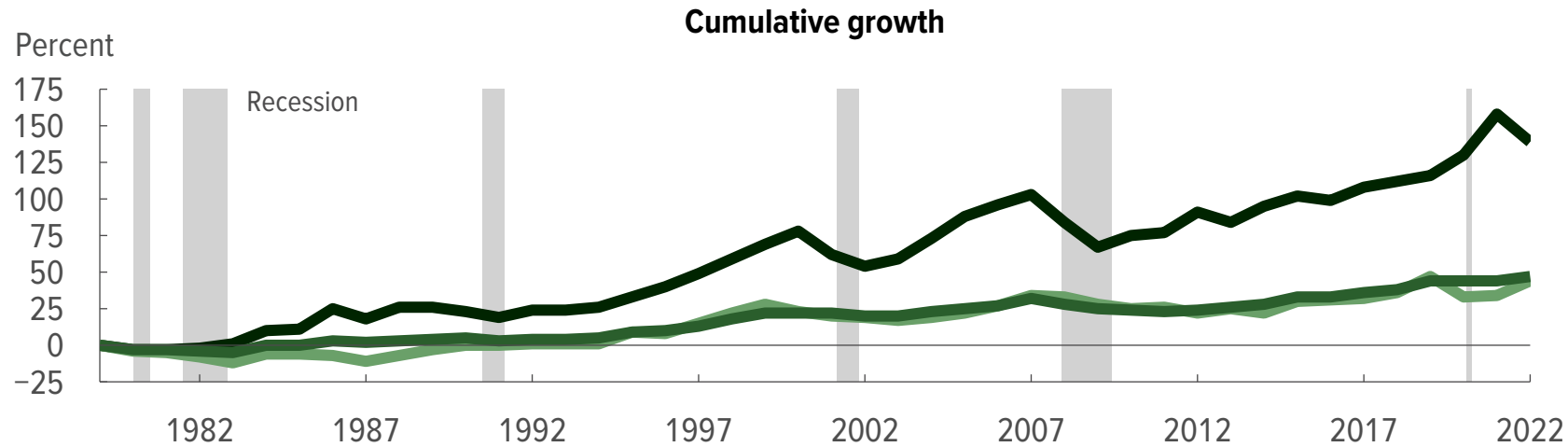
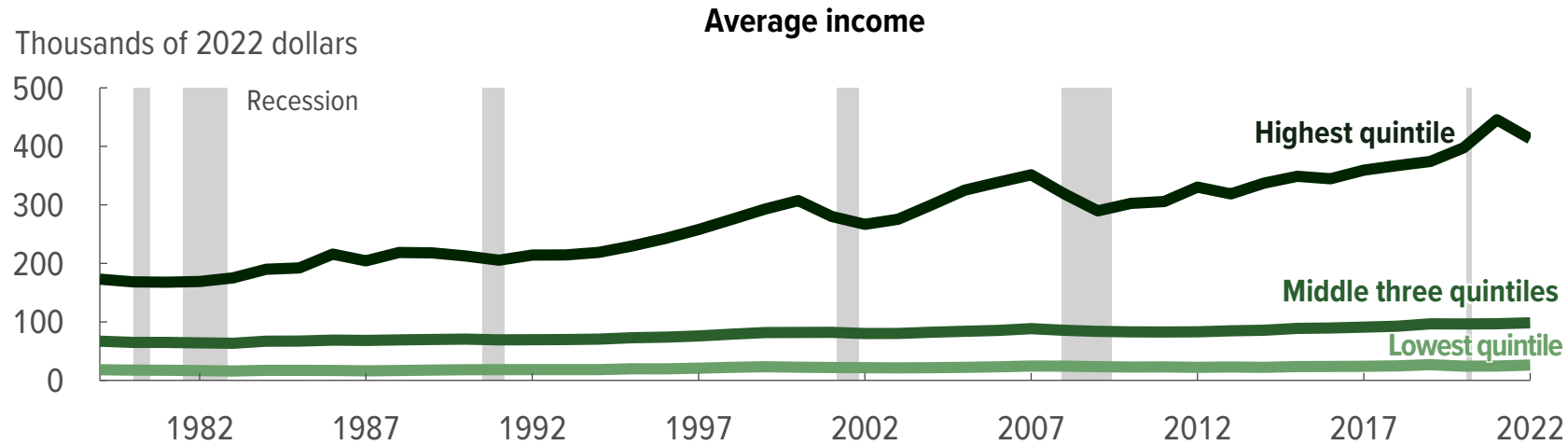
Average Income Before Transfers and Taxes, 2019 to 2022



From 2019 to 2021, average income before transfers and taxes grew for households in the highest quintile. Those households' average income fell in 2022 but remained higher than it was in 2019 and 2020.

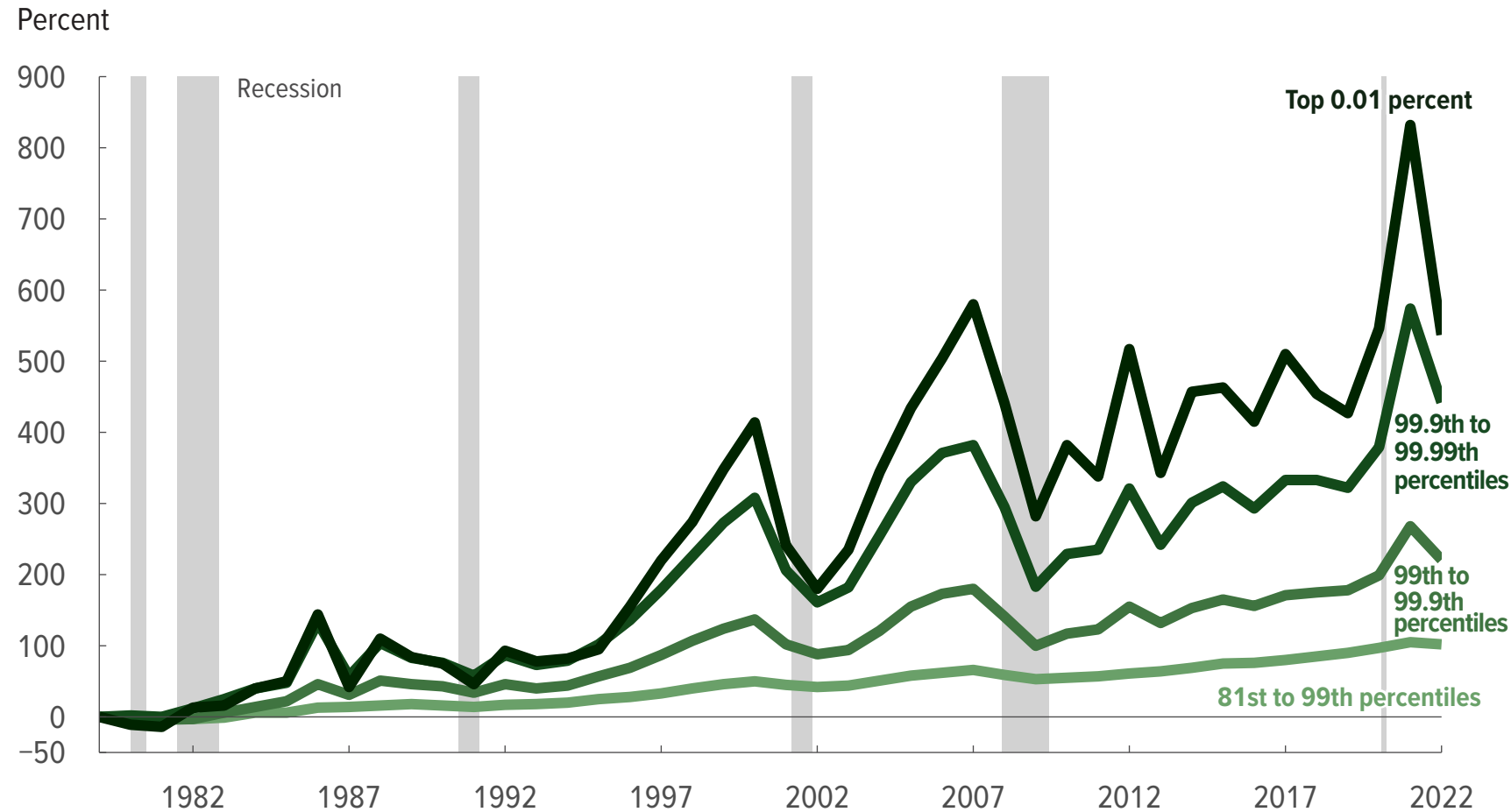
For households in all other quintiles, average income before transfers and taxes rose in 2022. The average income of households in the middle three quintiles rose from 2019 to 2022, whereas the average income of households in the lowest quintile fell over that period.

Average Income Before Transfers and Taxes and Its Growth, 1979 to 2022



For households in each quintile, average income before transfers and taxes grew from 1979 to 2022. That growth was unevenly distributed: For households in the highest quintile, average income before transfers and taxes more than doubled over the period; the increase for households in the other quintiles was much smaller.

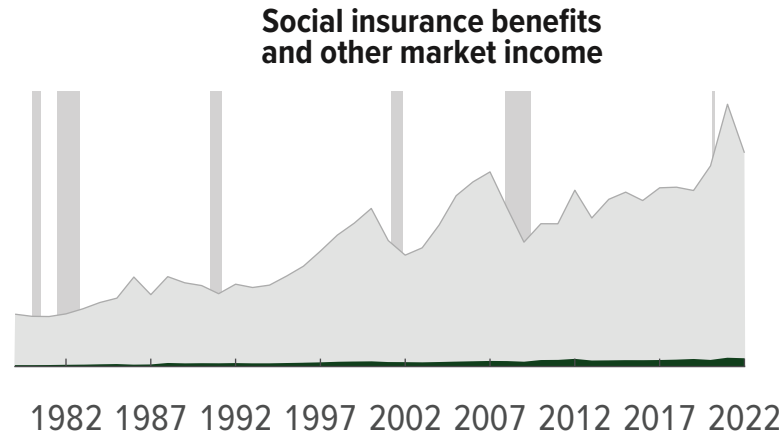
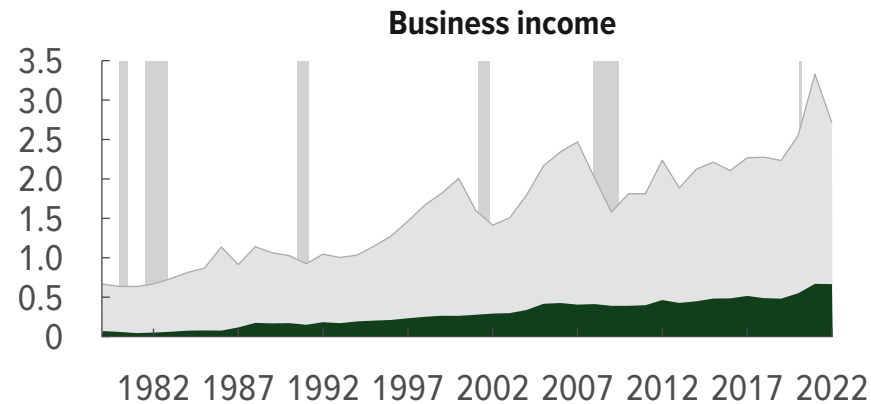
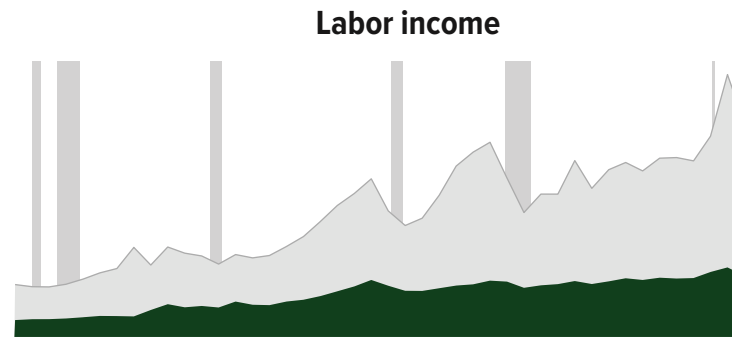
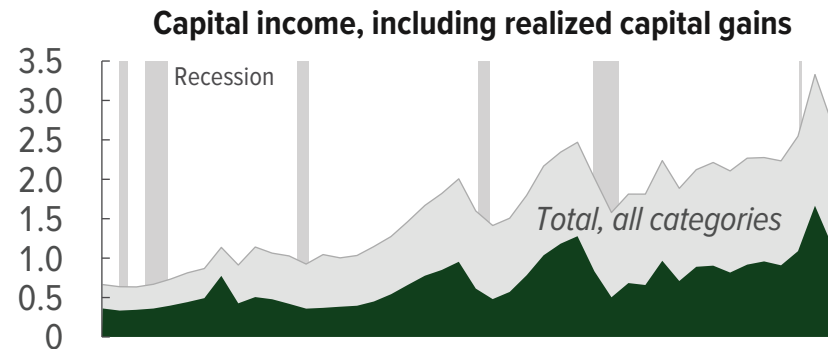
Cumulative Growth in Average Income Before Transfers and Taxes for Households in the Highest Quintile, 1979 to 2022



Average income before transfers and taxes grew faster for households in the top 0.01 percent of the distribution than for other households in the highest quintile.

Composition of Income Before Transfers and Taxes for Households in the Top 1 Percent, 1979 to 2022

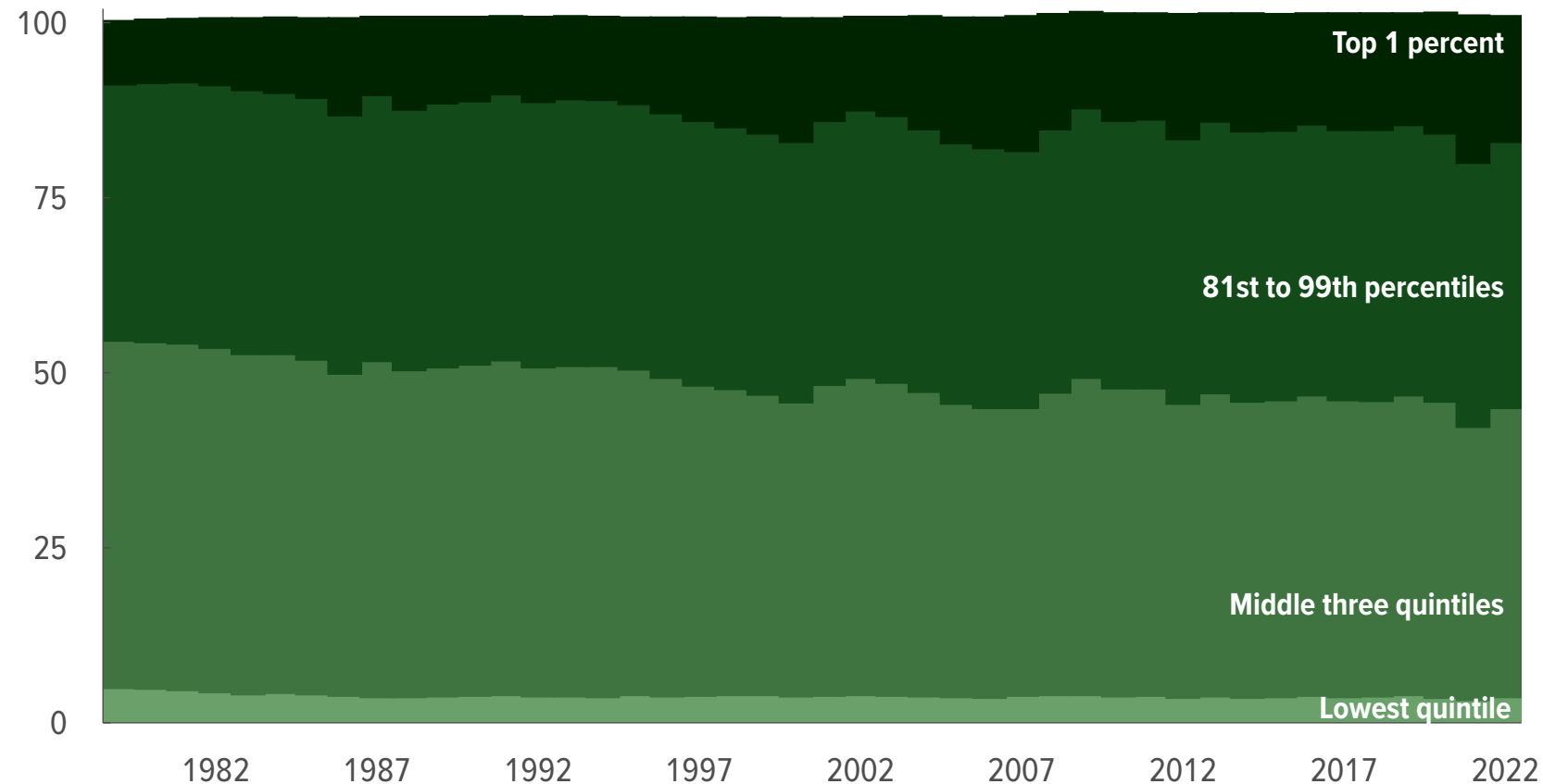
Millions of 2022 dollars



From 1979 to 2022, different forms of income grew at different rates. Average capital income (including realized capital gains) fluctuated the most from year to year, reflecting cyclical movements in economic activity. As a result of those fluctuations in capital income, households in the top 1 percent experienced larger swings in their average income before transfers and taxes than households in other income groups because capital income accounted for a larger share of their income. For example, when their average capital income increased substantially from 2019 to 2021 and fell in 2022, their average income before transfers and taxes rose and fell accordingly.

Income Groups' Shares of Income Before Transfers and Taxes, 1979 to 2022

Percent



From 1979 to 2022, the share of income before transfers and taxes going to households in the top 1 percent of the distribution increased from 9 percent to 18 percent, while the share going to households in the lowest quintile decreased from 5 percent to 4 percent.

Means-Tested Transfers

Means-Tested Transfers

Means-tested transfers are cash payments and in-kind benefits from federal, state, and local governments that are designed to assist people who have low income and few assets. Most means-tested transfers go to households in the bottom two quintiles of the income distribution.

In this analysis, CBO divided means-tested transfers into four categories: Medicaid and CHIP, SNAP, Supplemental Security Income, and other transfers.

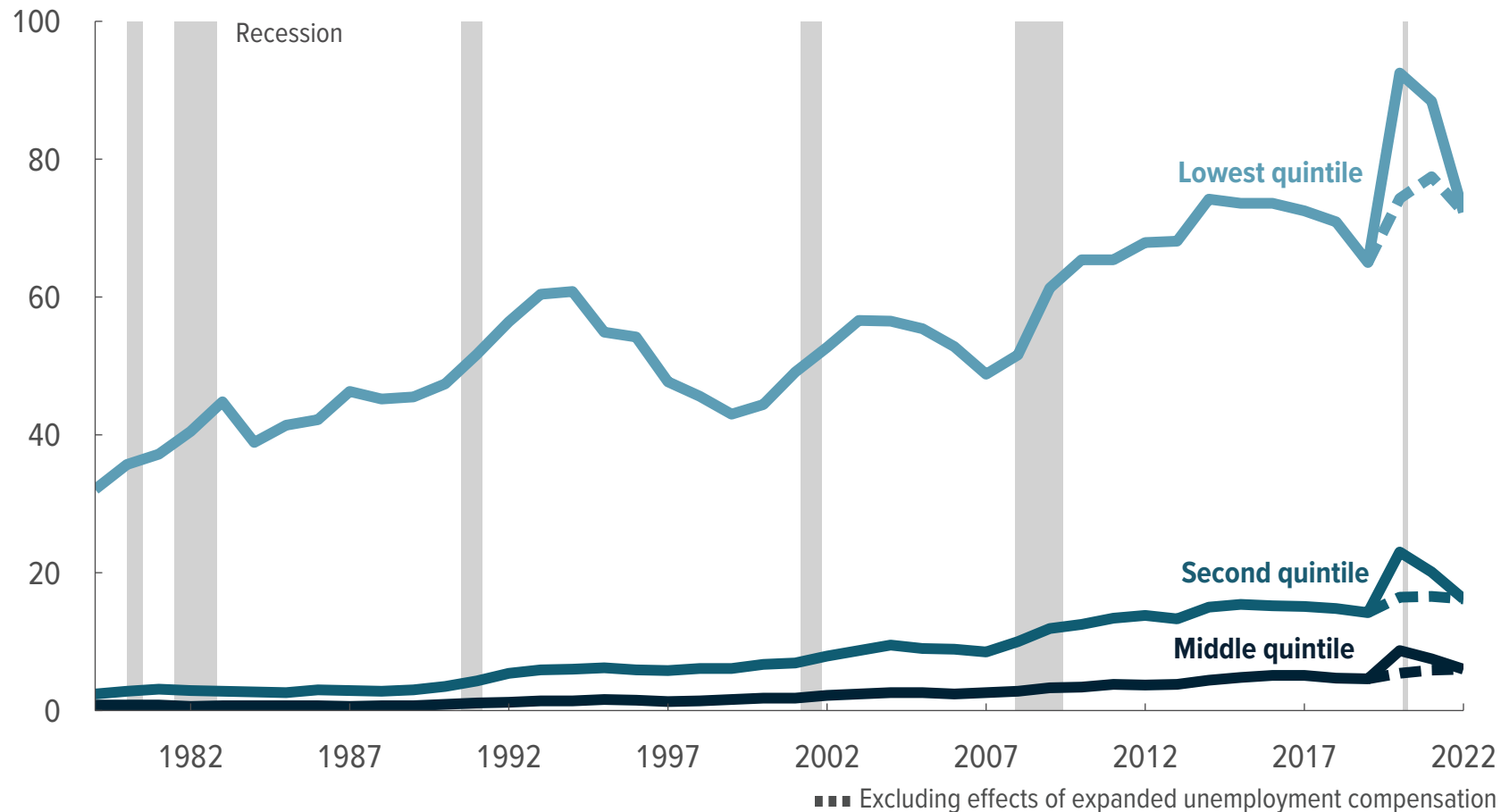
One large component of “other transfers” in 2020 and 2021 is the expanded unemployment compensation that was in effect in those years. Congress authorized the expanded unemployment compensation, which was funded through the general fund rather than through a dedicated tax like regular unemployment insurance, to temporarily assist households during the economic disruption brought on by the pandemic.

The category other transfers also includes low-income subsidies for Part D of Medicare (which covers prescription drugs), cost-sharing subsidies established by the Affordable Care Act, Temporary Assistance for Needy Families, and benefits from housing assistance programs, child nutrition programs, the Low Income Home Energy Assistance Program, and state and local governments’ general assistance programs.

This analysis focuses on the average means-tested transfer rate, which is average means-tested transfers for a given group measured as a percentage of that group’s average income before transfers and taxes.

Average Means-Tested Transfer Rates for Selected Income Groups, 1979 to 2022

Percent

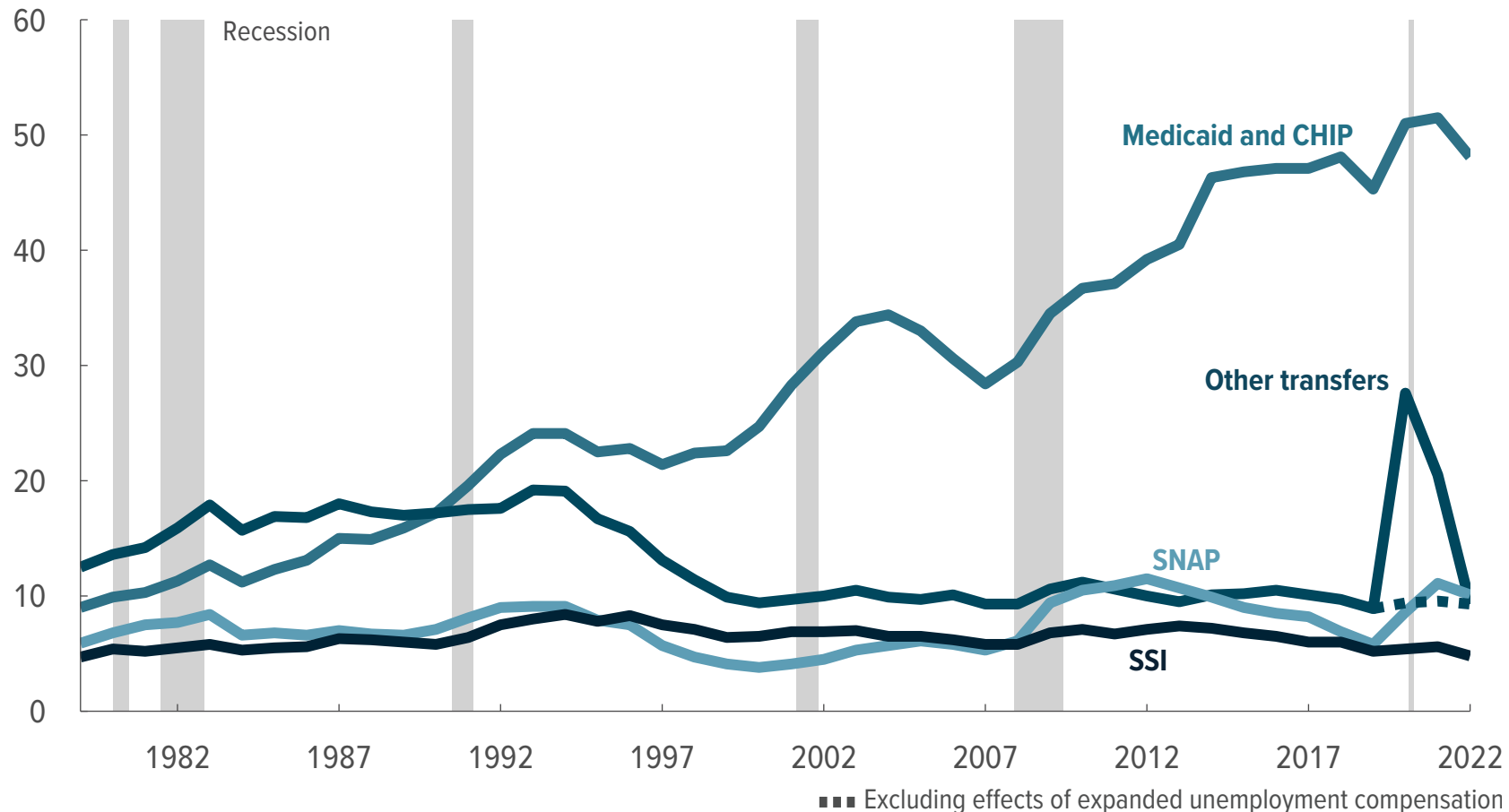


In 2022, means-tested transfer rates fell, largely because the expanded unemployment compensation provided in 2020 and 2021 expired.

Despite falling in 2022, means-tested transfer rates remained higher than they were in 1979, particularly for households in the lowest income quintile.

Average Means-Tested Transfer Rates for Households in the Lowest Quintile, by Type of Transfer, 1979 to 2022

Percent



For low-income households, over the 1979–2022 period, the growth of means-tested transfers measured as a percentage of income before transfers and taxes varied by program.

Medicaid and CHIP benefits grew the most, rising from 9 percent of income in 1979 to 48 percent in 2022.

“Other transfers” rose in 2020 and 2021 because of expanded unemployment compensation.



Federal Taxes

Federal Taxes

In this analysis, federal taxes consist of individual income taxes, payroll taxes, corporate income taxes, and excise taxes. The average federal tax rate is calculated by dividing total federal taxes for an income group by that group's total income before transfers and taxes. Average federal tax rates are progressive—that is, they are generally higher for households with higher income.

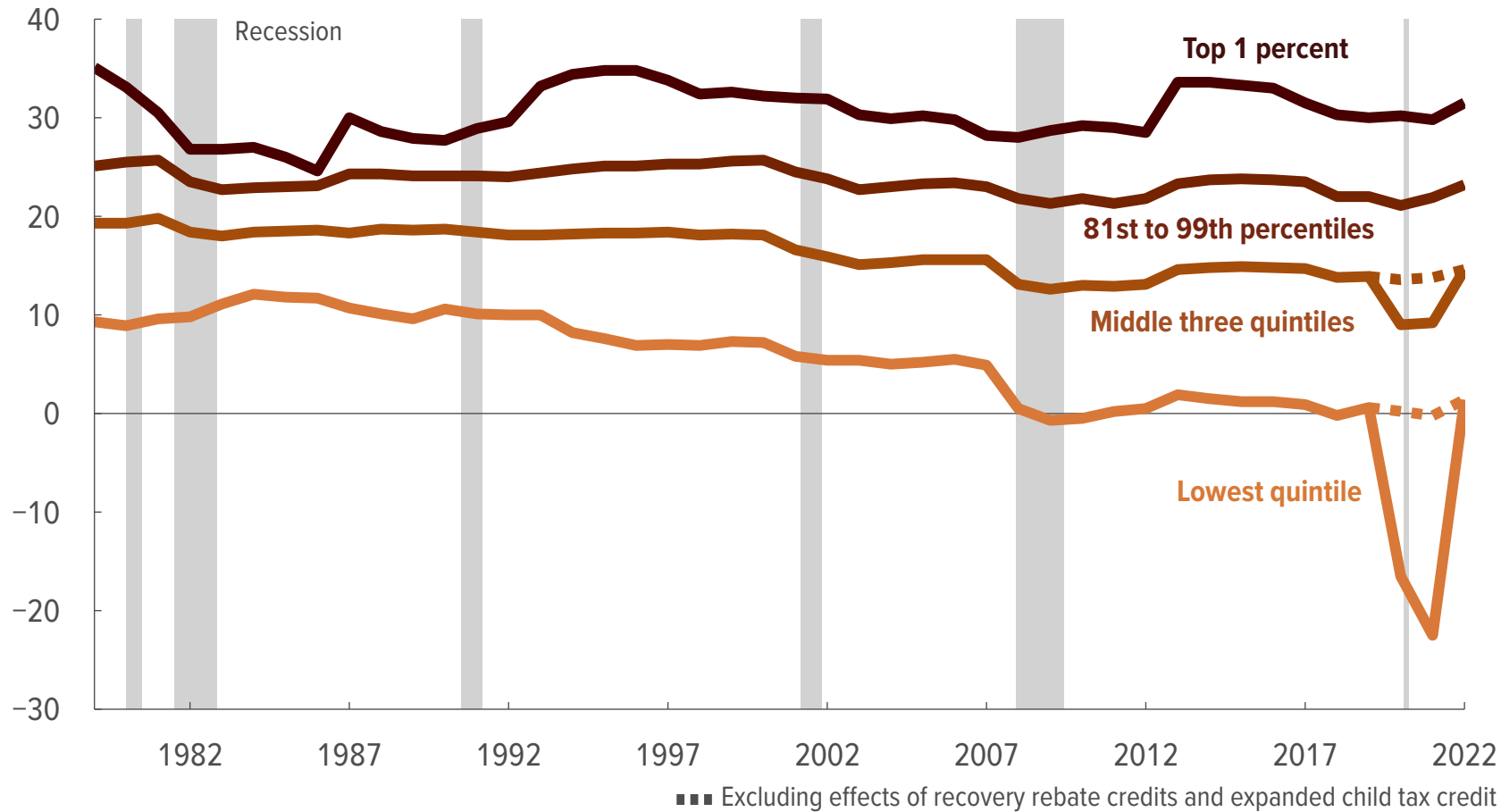
The values for individual income taxes shown in this report incorporate the effects of refundable tax credits (including premium tax credits, which subsidize the purchase of health insurance through the marketplaces established by the Affordable Care Act). If the total amount of the refundable tax credits that a household receives exceeds its tax liability before the credits are applied, the household's tax rate is negative. Such cases result in a net payment from the federal government to the household.

Some temporary changes were made to the tax system in 2020 and 2021 in response to economic disruptions caused by the pandemic:

- Recovery rebate credits provided three refundable payments to taxpayers whose income was below specified limits: a payment of up to \$1,200 per qualifying adult and \$500 per qualifying child in April 2020, a second payment of up to \$600 per qualifying adult and child in December 2020 and January 2021, and a third payment of up to \$1,400 per qualifying adult and child in March 2021.
- The child tax credit was expanded for one year in 2021 to increase the amount of the credit for certain taxpayers, expand eligibility, make the credit fully refundable, and provide advance payments for part of the credit.

Average Federal Tax Rates, 1979 to 2022

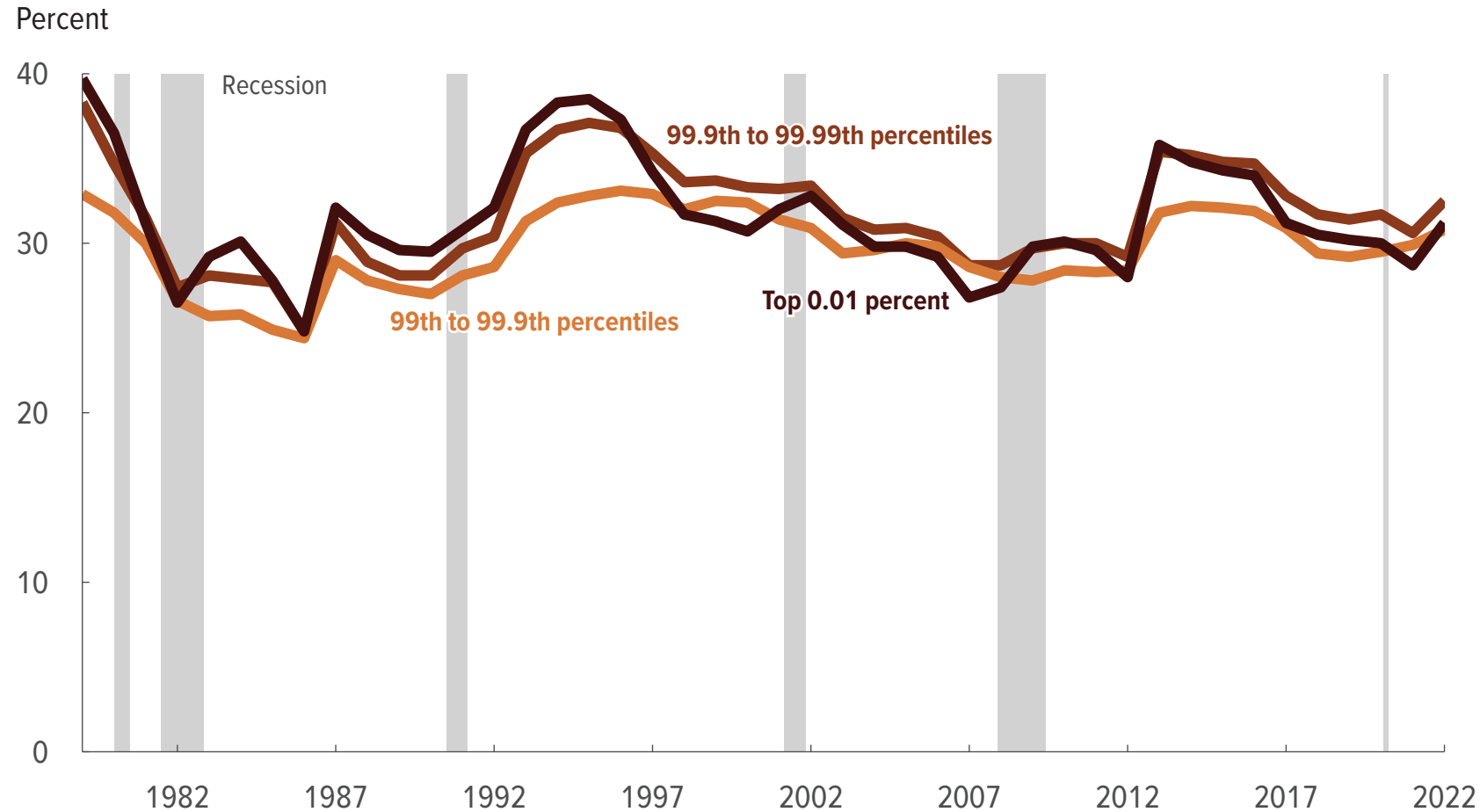
Percent



The average federal tax rate for households in the lowest four income quintiles increased in 2022, largely because of the expiration of two policies—the recovery rebate credits and expanded child tax credit—that reduced average tax rates in 2020 and 2021 for all quintiles (though households in the top quintile were generally less affected). Without those two policies, federal tax rates would have remained more stable from 2019 to 2022.

Despite increasing in 2022, the average federal tax rate for each income group declined over the 1979–2022 period. The decline was largest for households in the lowest quintile and smallest for households in the highest quintile.

Average Federal Tax Rates for Households in the Top 1 Percent, 1979 to 2022

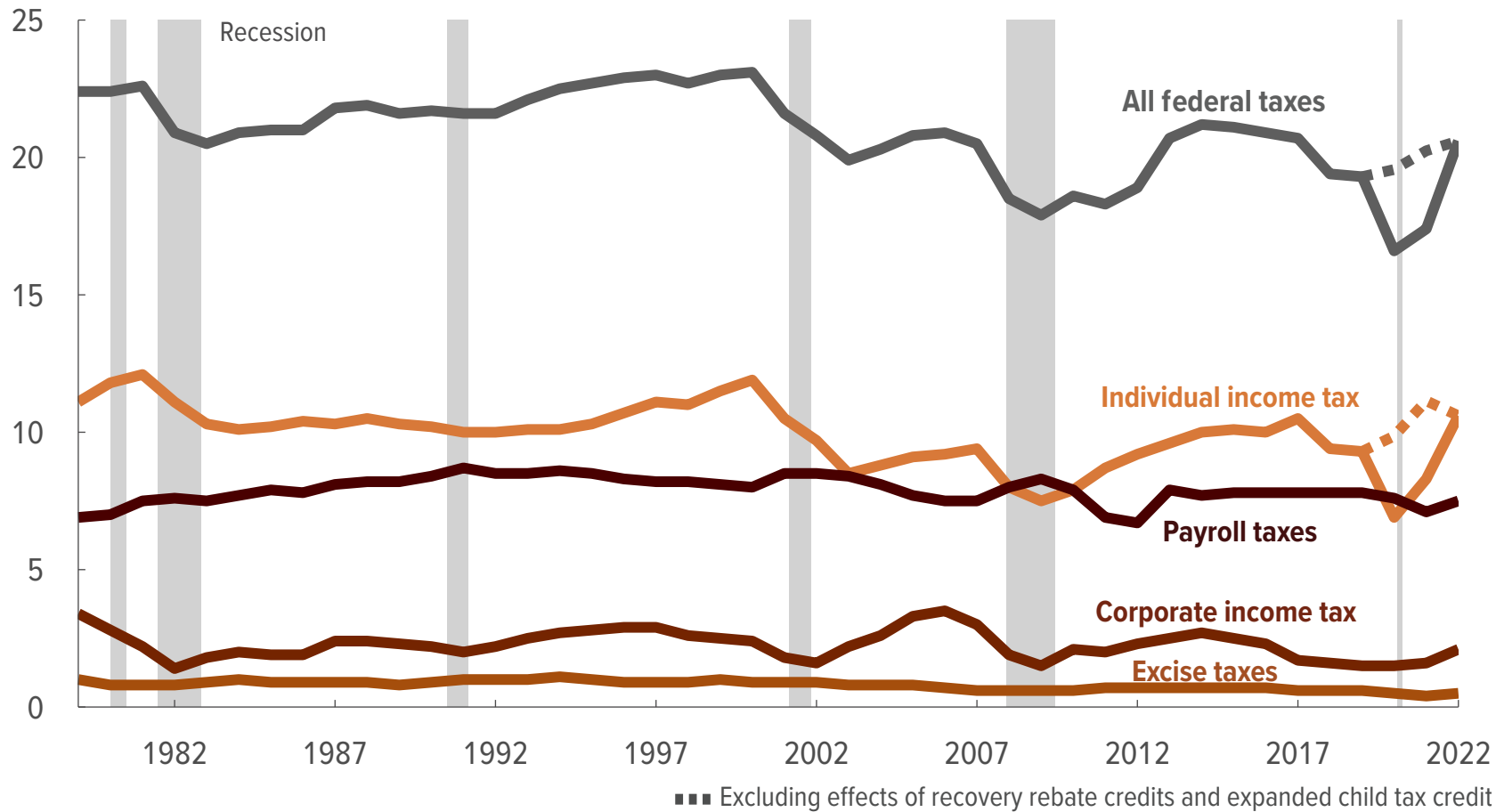


The average federal tax rate for households in the top 1 percent of the income distribution has fluctuated over time.

The average federal tax rates for the three subgroups of the top 1 percent generally moved in tandem from 1979 to 2022.

Average Federal Tax Rates, by Type of Tax, 1979 to 2022

Percent

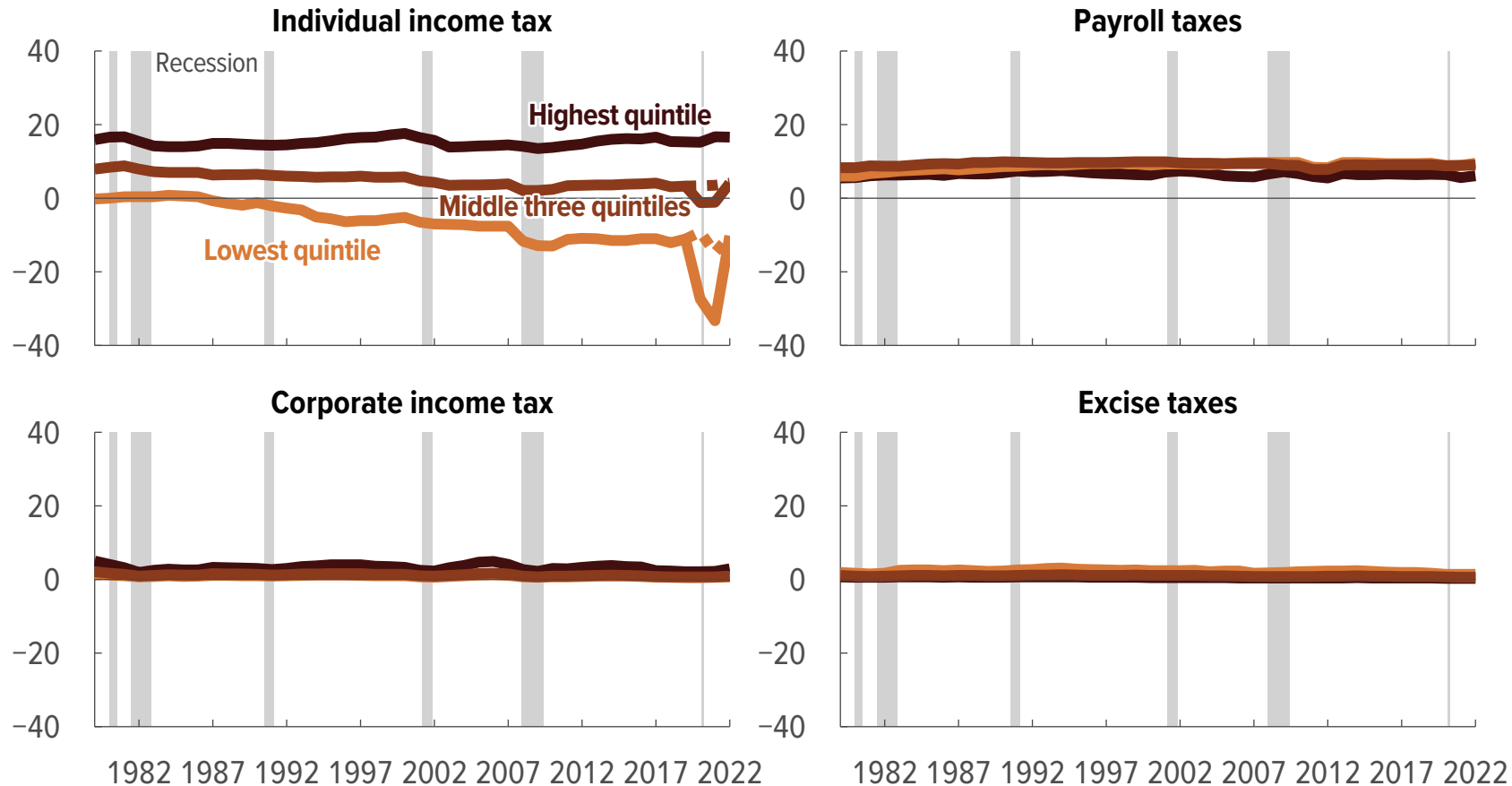


In 2022, the average federal tax rate for all households in the United States was 20.6 percent, slightly lower than the average for the 1979–2022 period of 20.9 percent.

In most years, the average individual income tax rate was higher than the average rates for the other types of federal taxes. That rate also tended to change the most from year to year.

Average Federal Tax Rates, by Type of Tax and Income Group, 1979 to 2022

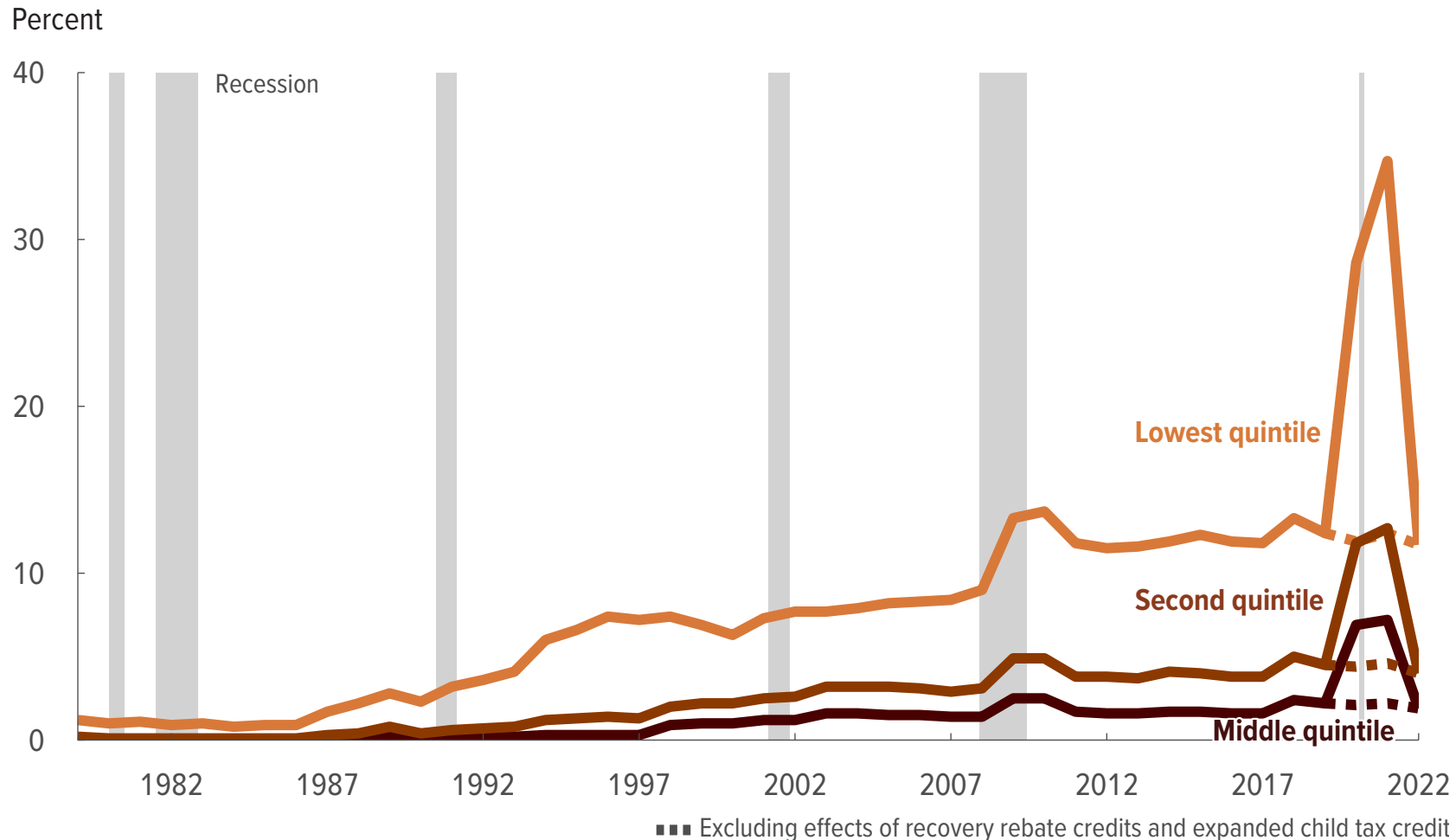
Percent



■ ■ ■ Excluding effects of recovery rebate credits and expanded child tax credit

Of the four types of federal taxes included in this analysis, the average rate for the individual income tax varied the most among income groups over the 1979–2022 period. In 2022, average individual income tax rates ranged from –10 percent in the lowest quintile to 17 percent in the highest quintile. The difference between the highest and lowest quintiles’ average rates increased over the period.

Average Refundable Credits Measured as a Percentage of Income Before Transfers and Taxes for Selected Income Groups, 1979 to 2022

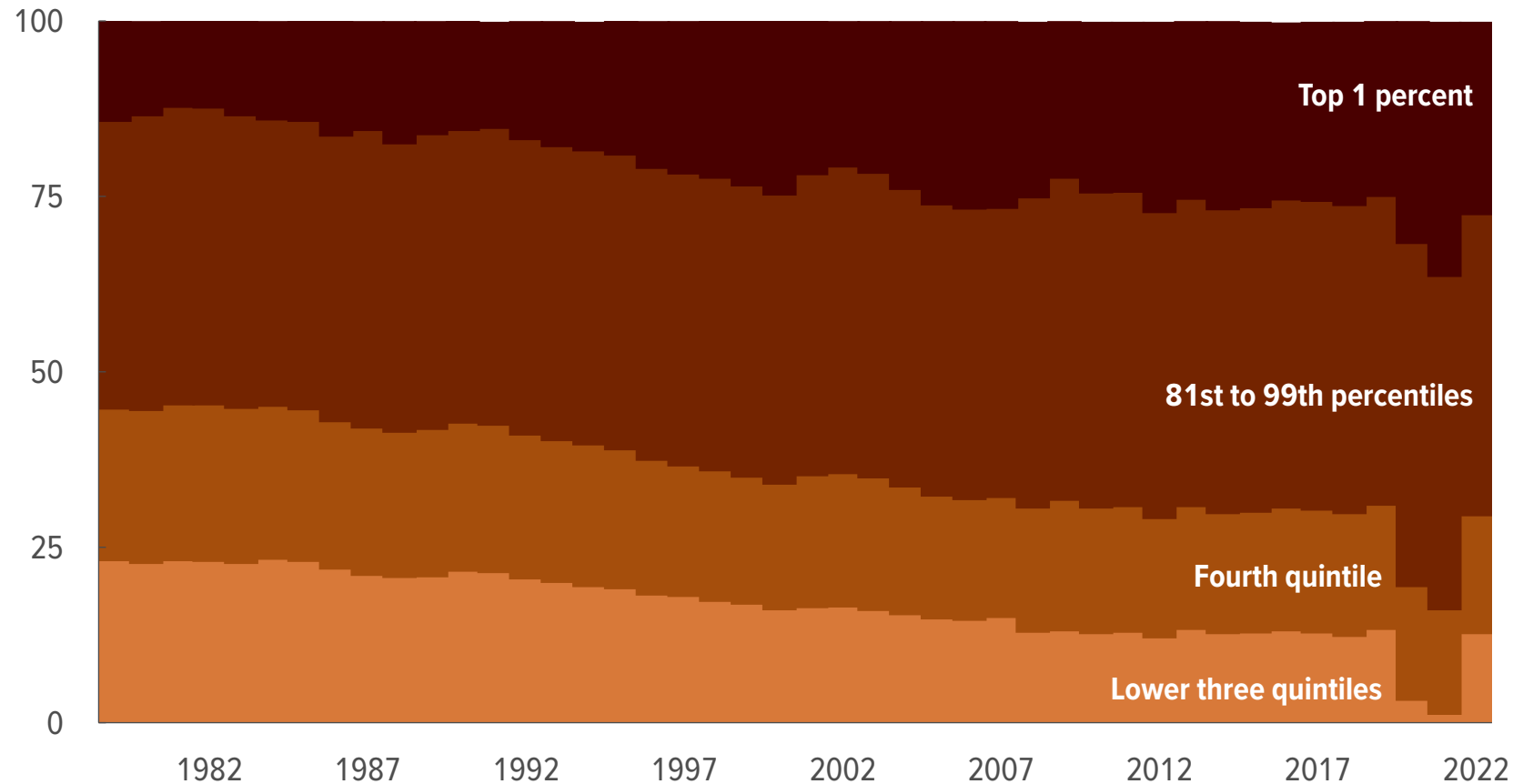


The introduction and expansion of refundable tax credits lowered the average individual tax rate for households in the bottom three income quintiles from 1979 to 2022. For the lowest quintile, the average value of refundable tax credits increased from 1 percent of income before transfers and taxes in 1979 to 12 percent in 2022.

As a percentage of income before transfers and taxes, the average refundable credits received by households in the bottom three quintiles dropped significantly in 2022—reverting to their 2019 levels—after the recovery rebate credits ended and the expanded child tax credit expired.

Income Groups' Shares of Federal Taxes, 1979 to 2022

Percent



The share of federal taxes paid by households in the top quintile increased from 55 percent in 1979 to 70 percent in 2022. Most of that increase is attributable to the change in the share of federal taxes paid by the top 1 percent of the income distribution, which grew by 13 percentage points—from 14 percent in 1979 to 27 percent in 2022.

Income After Transfers and Taxes

Income After Transfers and Taxes

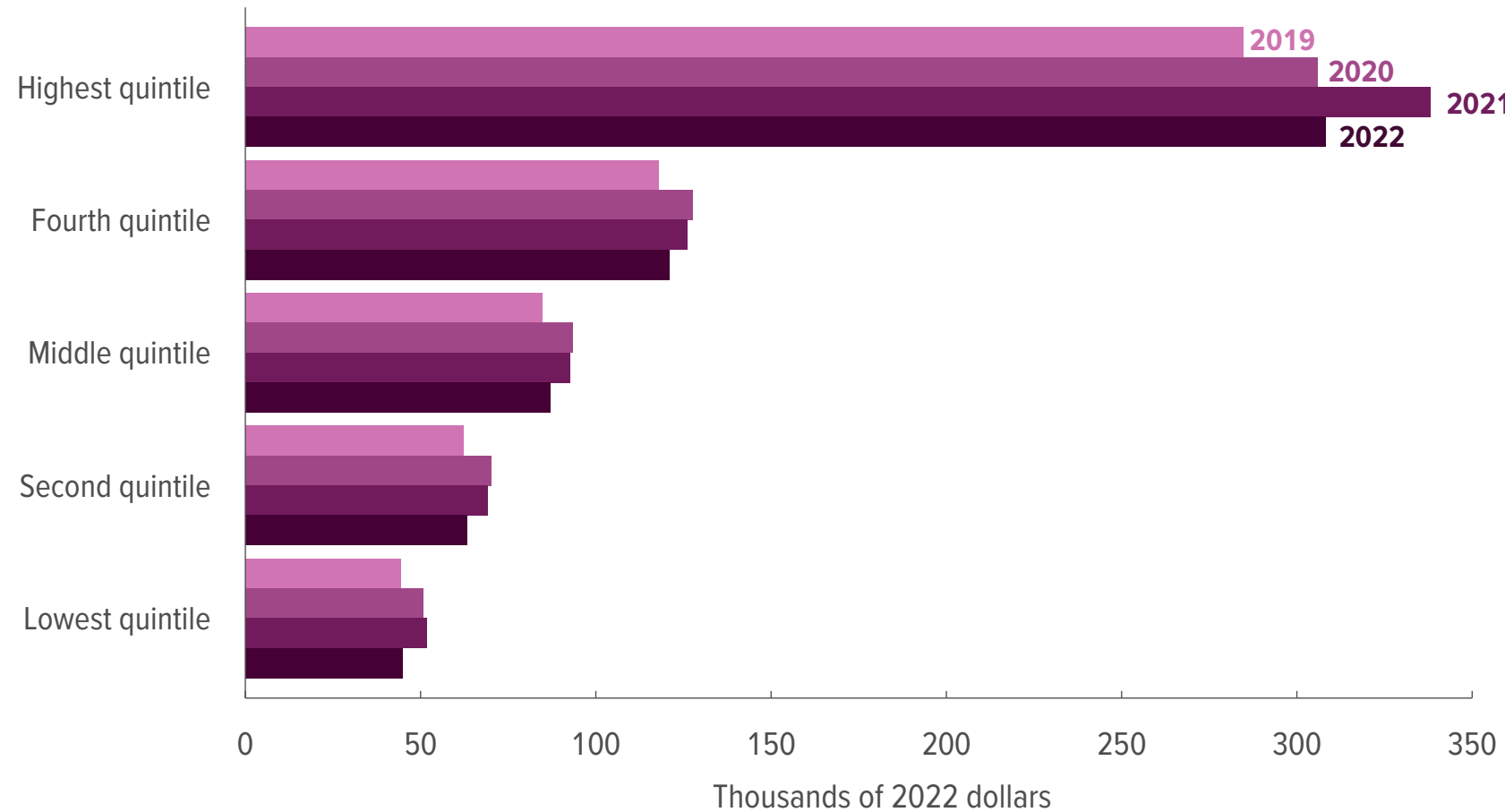
Income after transfers and taxes is income before transfers and taxes plus means-tested transfers minus federal taxes.

Because means-tested transfers account for a larger share of low-income households' income and because higher-income households pay a larger share of their income in federal taxes, income after transfers and taxes is less skewed toward households at the top of the distribution than income before transfers and taxes.

Means-tested transfers and federal taxes played a larger role in reducing the extent to which income was skewed toward the top of the distribution in 2020 and 2021 than in all other years analyzed. That is mainly because of the temporary policies that were implemented in response to the economic downturn caused by the pandemic—the recovery rebate credits, expanded unemployment compensation, and the expanded child tax credit.

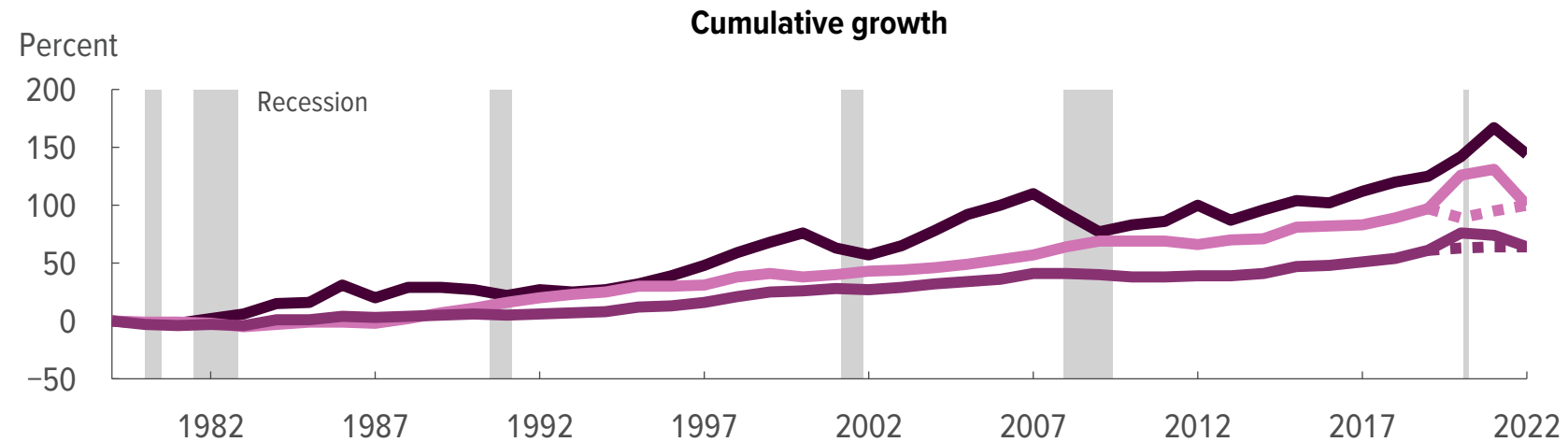
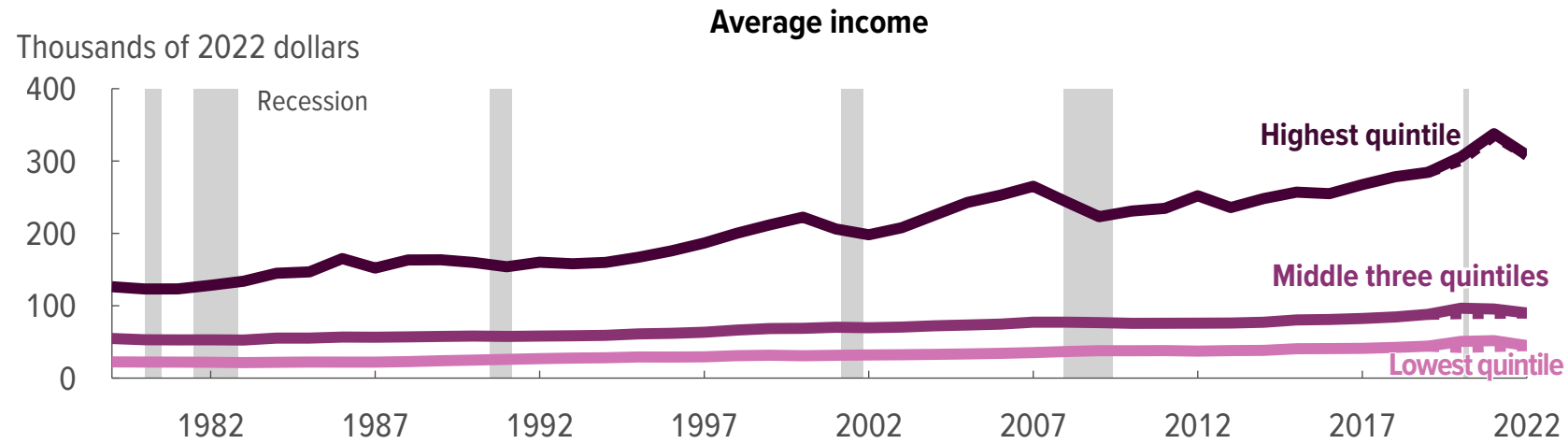
A smaller role was played by other legislative changes (including legislation that expanded Medicaid enrollment and increased SNAP benefits for many households) and by changes in the amounts of transfers and taxes that automatically occur in response to widespread shifts in household income.

Average Income After Transfers and Taxes, 2019 to 2022



Average income after transfers and taxes for households in the top and bottom quintiles fell in 2022 after rising in the two previous years. For households in the highest quintile, the fluctuations were driven by changes in realized capital gains. For households in the lowest quintile, the decrease resulted from the expiration of temporary policies that increased means-tested transfers and reduced federal taxes in 2020 and 2021.

Average Income After Transfers and Taxes and Its Growth, 1979 to 2022

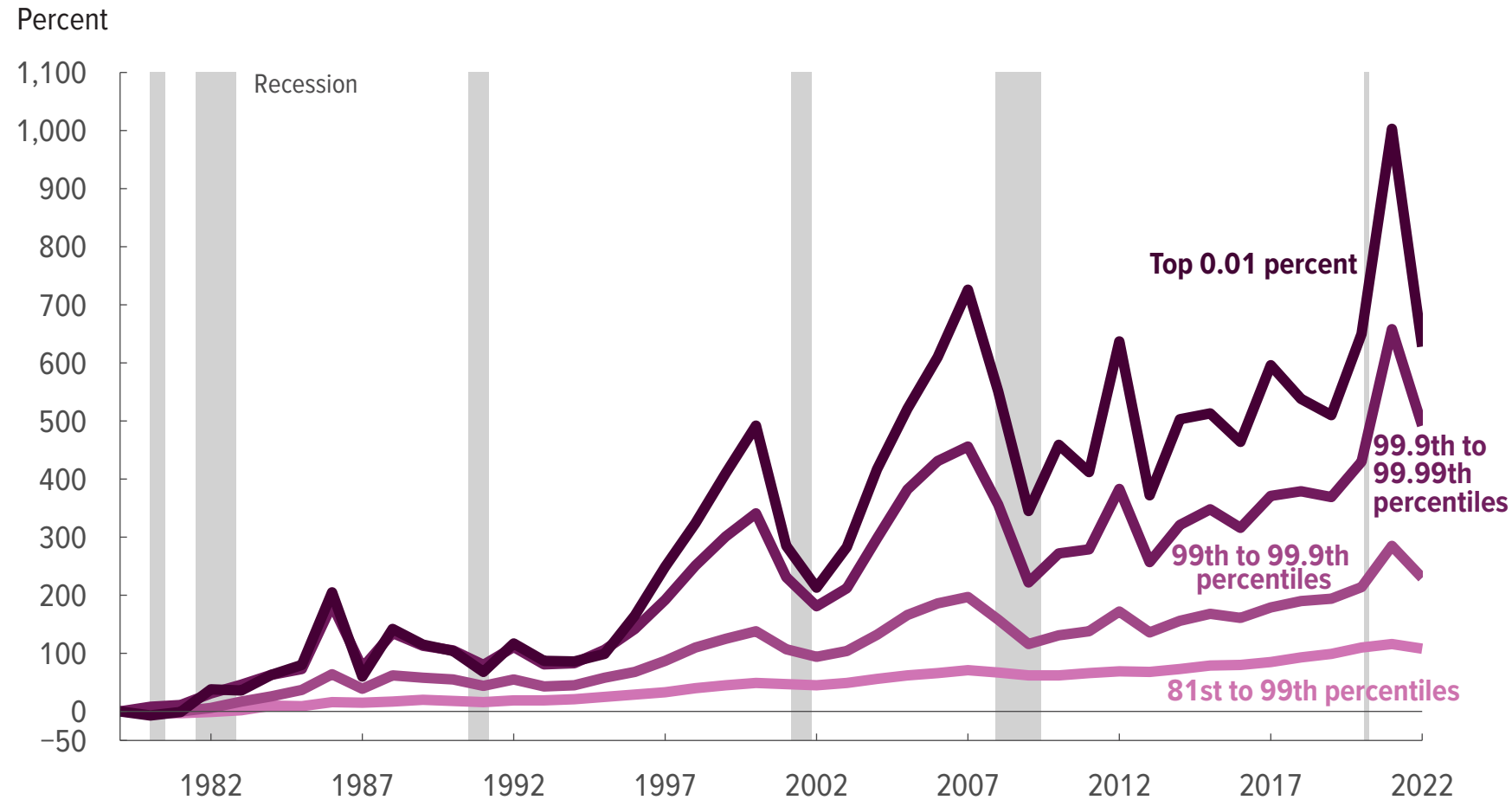


■ ■ ■ Excluding effects of recovery rebate credits, expanded unemployment compensation, and expanded child tax credit

From 1979 to 2022, income after transfers and taxes grew fastest for households at the top of the income distribution.

Still, that growth was more evenly distributed across the quintiles than the growth of income before transfers and taxes.

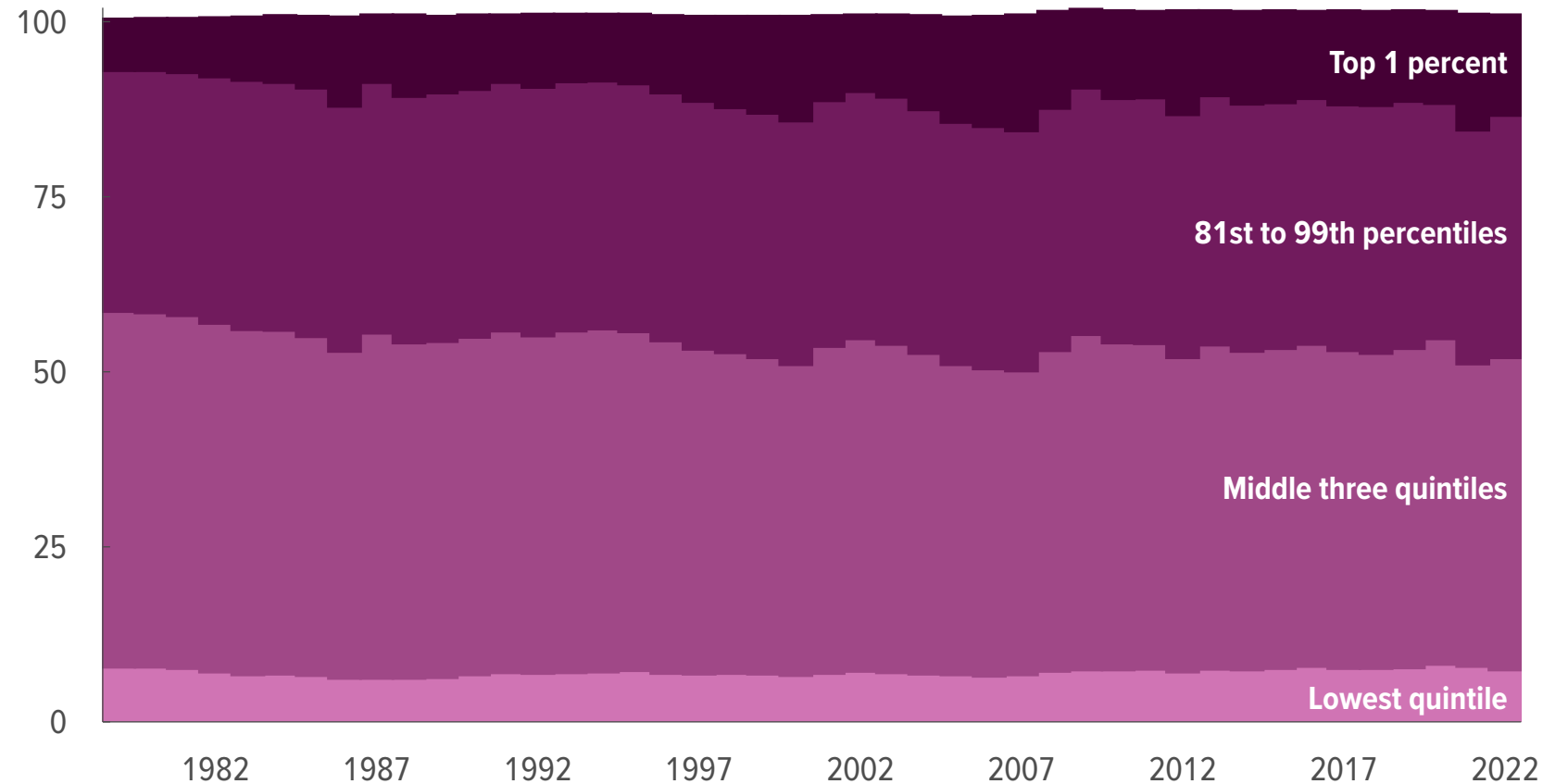
Cumulative Growth in Average Income After Transfers and Taxes for Households in the Highest Quintile, 1979 to 2022



From 1979 to 2022, income after transfers and taxes grew most quickly for households in the top 0.01 percent of the distribution. Spurred by strong growth in income before transfers and taxes and by a reduction in average federal tax rates, that group's income after transfers and taxes grew more than sevenfold over the period.

Income Groups' Shares of Income After Transfers and Taxes, 1979 to 2022

Percent



The share of income after transfers and taxes going to households in the top 1 percent of the distribution grew from 7 percent in 1979 to 14 percent in 2022—an increase of 7 percentage points.

By contrast, the middle three quintiles' share decreased by 6 percentage points over the period.



Income Inequality

Income Inequality

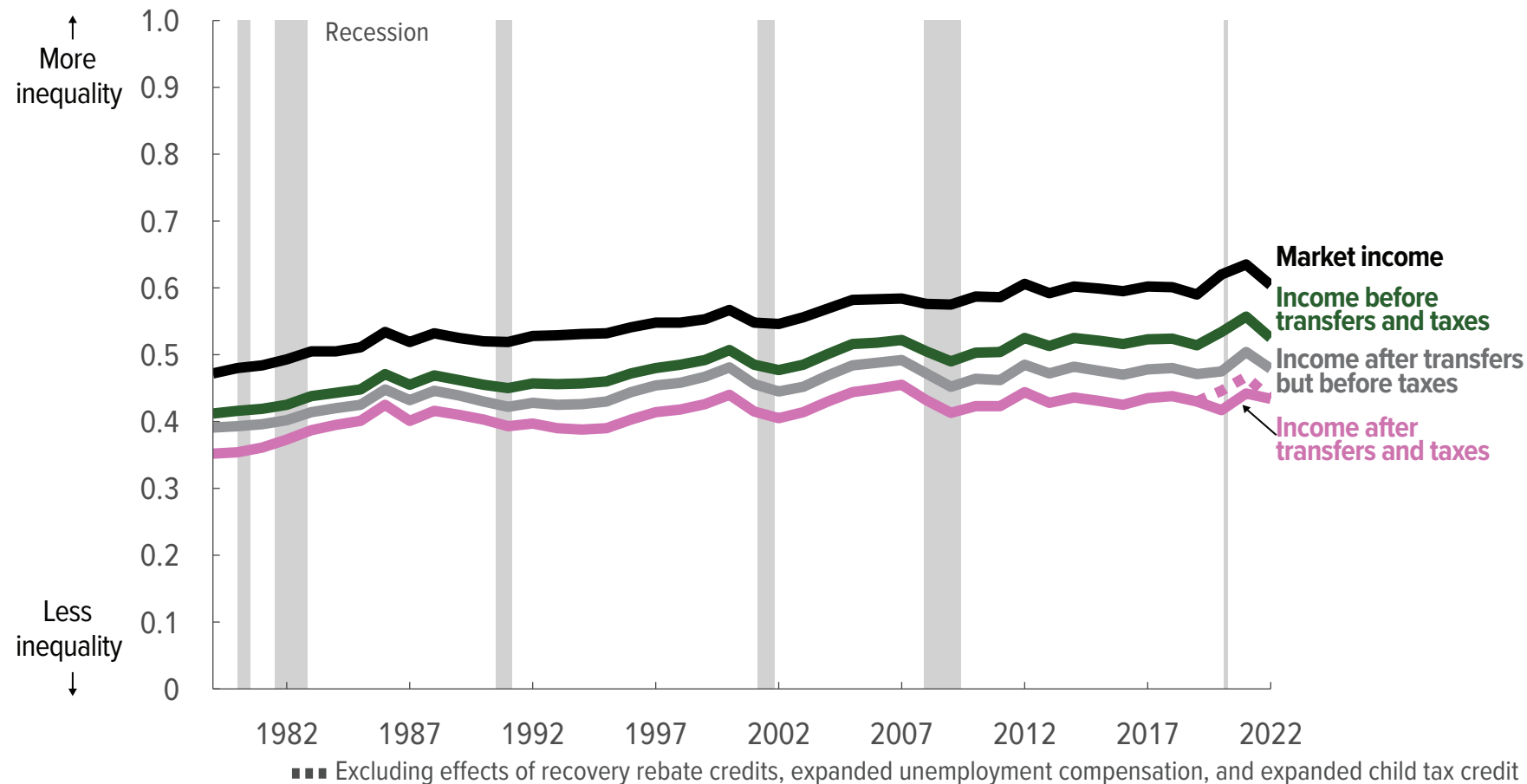
The Gini coefficient summarizes how equally income is distributed across the population in a single number that ranges from zero to one. At the theoretical extremes, a value of zero means that income is distributed equally among all households, whereas a value of one indicates that all income went to a single household.

This analysis compares Gini coefficients for four different income measures: market income, income before transfers and taxes, income after transfers but before taxes, and income after transfers and taxes.

Those Gini coefficients indicate that income inequality increased from 1979 to 2022. Increases in market income at the top of the distribution drove much of that increase in income inequality.

Income Inequality, as Measured by the Gini Coefficient, 1979 to 2022

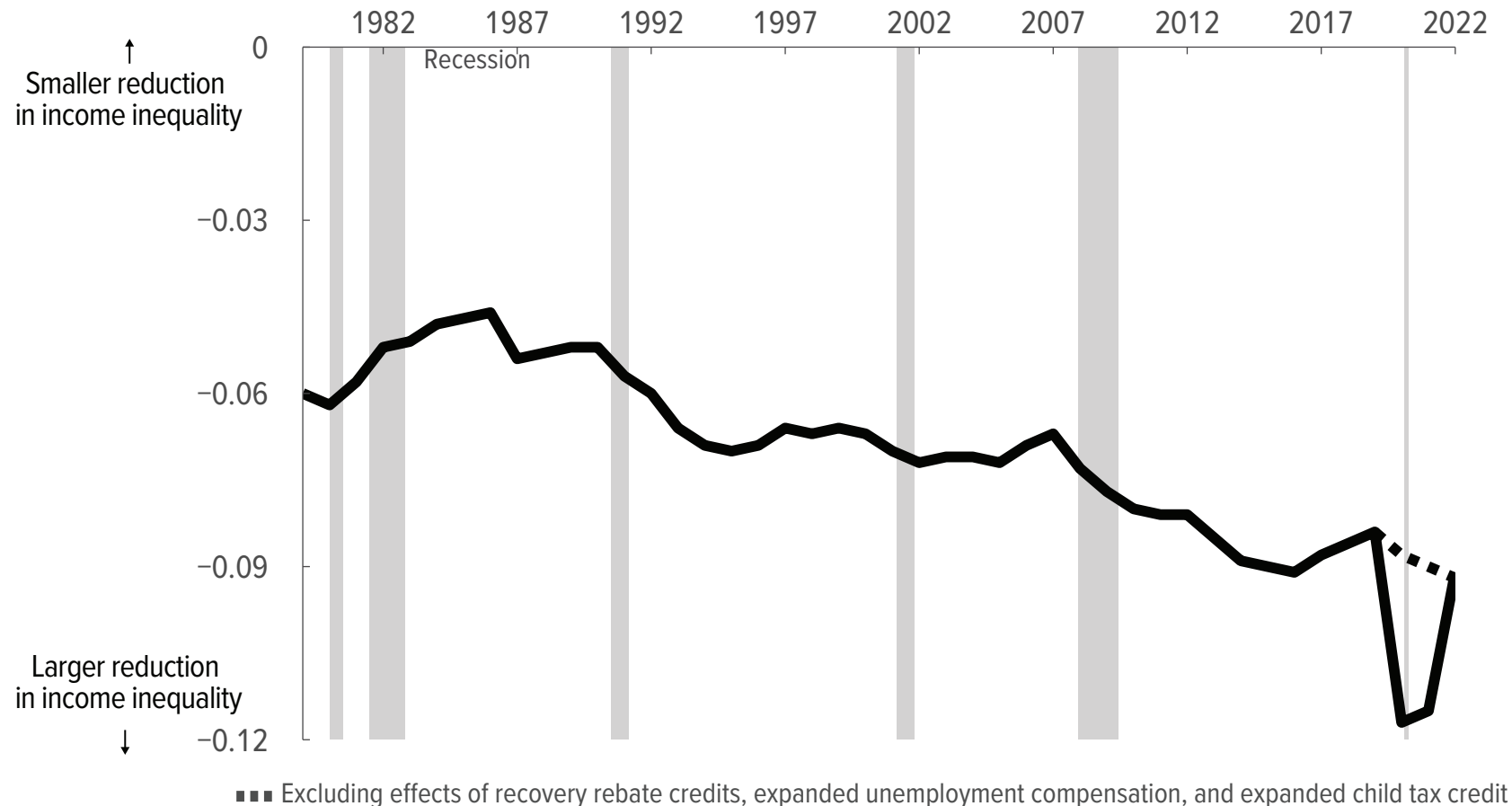
Gini coefficient



The Gini coefficients for all four income measures indicate that income inequality rose from 1979 to 2022. Much of that rise in income inequality was driven by growth in market income for households at the top of the distribution.

Reduction in Income Inequality Stemming From Means-Tested Transfers and Federal Taxes, 1979 to 2022

Change in Gini coefficient



Income after transfers and taxes is more evenly distributed than income before transfers and taxes because households with lower income receive a larger portion of their income in the form of means-tested transfers and because households with higher income are subject to higher federal tax rates.

Transfers and taxes did less to reduce inequality in 2022 than in 2020 or 2021, but they nevertheless did more than in most years since 1979.

To measure the effect of means-tested transfers and federal taxes on income inequality in each year, CBO subtracted the Gini coefficient for income before transfers and taxes from the Gini coefficient for income after transfers and taxes. A Gini coefficient value of zero indicates complete income equality, and a value of one indicates complete inequality; thus, the negative changes in the Gini coefficient shown in the figure indicate that inequality was reduced in each year of the period. The more negative the change, the greater the reduction in income inequality.

Additional Files Related to the Distribution of Household Income

The following additional resources are posted along with this document:

- Data underlying the figures—an Excel file containing the data used to make each figure in this document;
- Supplemental data—an Excel file containing 12 additional tables of data related to the distribution of household income;
- Additional data for researchers—a zipped archive of CSV files containing the supplemental data, with household rankings based on alternative definitions of income and with each ranking disaggregated by household type; and
- A table builder—an interactive Excel-based tool that allows users to create customized tables.

About This Document

This document was prepared at the request of the Ranking Member of the Senate Committee on Finance. In keeping with the Congressional Budget Office's mandate to provide objective, impartial analysis, the document makes no recommendations.

Daniel Page prepared the document with guidance from Bilal Habib, Ed Harris, John McClelland, and Ellen Steele. Kurt Seibert and Naveen Singhal contributed to the analysis, and James Pearce and Robert Sunshine (a consultant to CBO) provided comments. Tyler Van Patten fact-checked the document.

Jeffrey Kling reviewed the document, Brett Kessler and Bo Peery edited it, and Jorge Salazar created the graphics. The document is available at www.cbo.gov/publication/61911.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.



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