The President's Advisory Panel on

Federal Tax Reform

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Distribution Tables
Staff Presentation
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Distribution Tables

- Distributional analysis shows how the economic burden of taxes are distributed among individuals, families, or households
  - Widely used to inform subjective judgments about the fairness of a tax system

- Distributional analysis is used to study --
  - The existing distribution of tax burdens
  - How the distribution has changed over time
  - How tax policy changes will impact the distribution of tax burdens, including who will gain and who will lose

- Government organizations, non-profit organizations, academics, among others, produce distributional analyses.
  - Not all analyses use the same assumptions
  - Just like there are different views of fairness, there are different views on how best to present distributional tables
  - Ideally one would use a variety of approaches to evaluate equity.

Treasury Department Distribution Tables

- Taxpayers are ranked by a measure of economic well-being to approximate "ability to pay." This ranking is common to all distribution tables.

- The unit of analysis is the family.

- The measure of economic well-being is cash income.
  - Cash income consists of wages and salaries, net income from a business or farm, taxable and tax-exempt interest, dividends, rental income, realized capital gains, cash transfers from the government, and retirement benefits. Employer contributions for payroll taxes and the federal corporate income tax are added back to place cash on a pre-tax basis.

  - Cash incomes of all members of a family are added to arrive at a family's cash income.

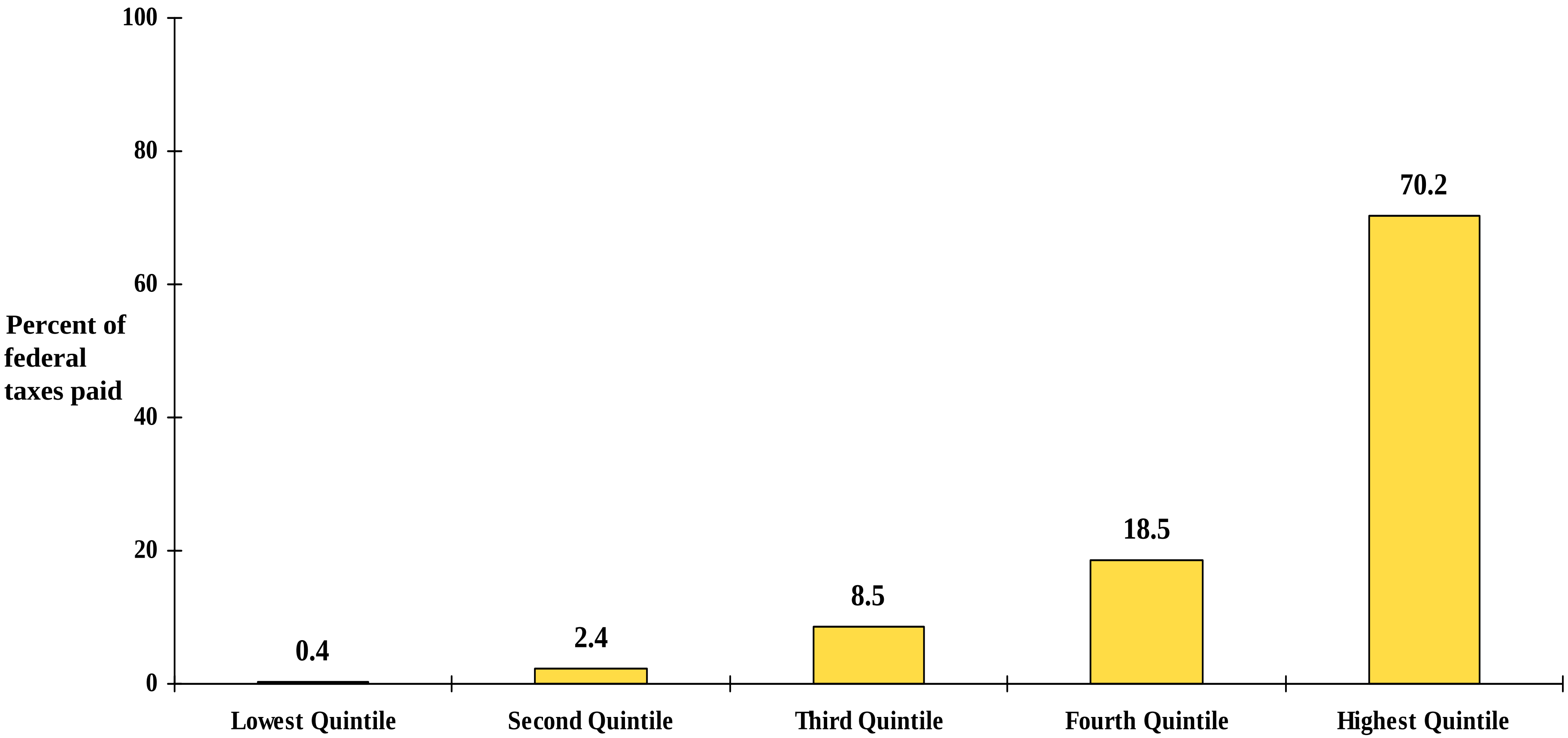
Treasury Department Distribution Tables

- Taxpayers can be grouped into percentiles ("quintiles, deciles, etc.") or cash income classes ("$10,000-$20,000", "$20,000-$30,000", etc).
- At 2004 income levels, cash income quintiles were--

Bottom	0 - $11,884
Second	$11,884 - $25,558
Third	$25,558 - $45,083
Fourth	$45,083 - $78,589
Highest	$78,589 +

- The following charts show how the share of the tax burden is borne by taxpayers in and across the income distribution under current law and the Tax Reform Act of 1986 (TRA86).
- See Appendix for more detail on Treasury distribution analysis.

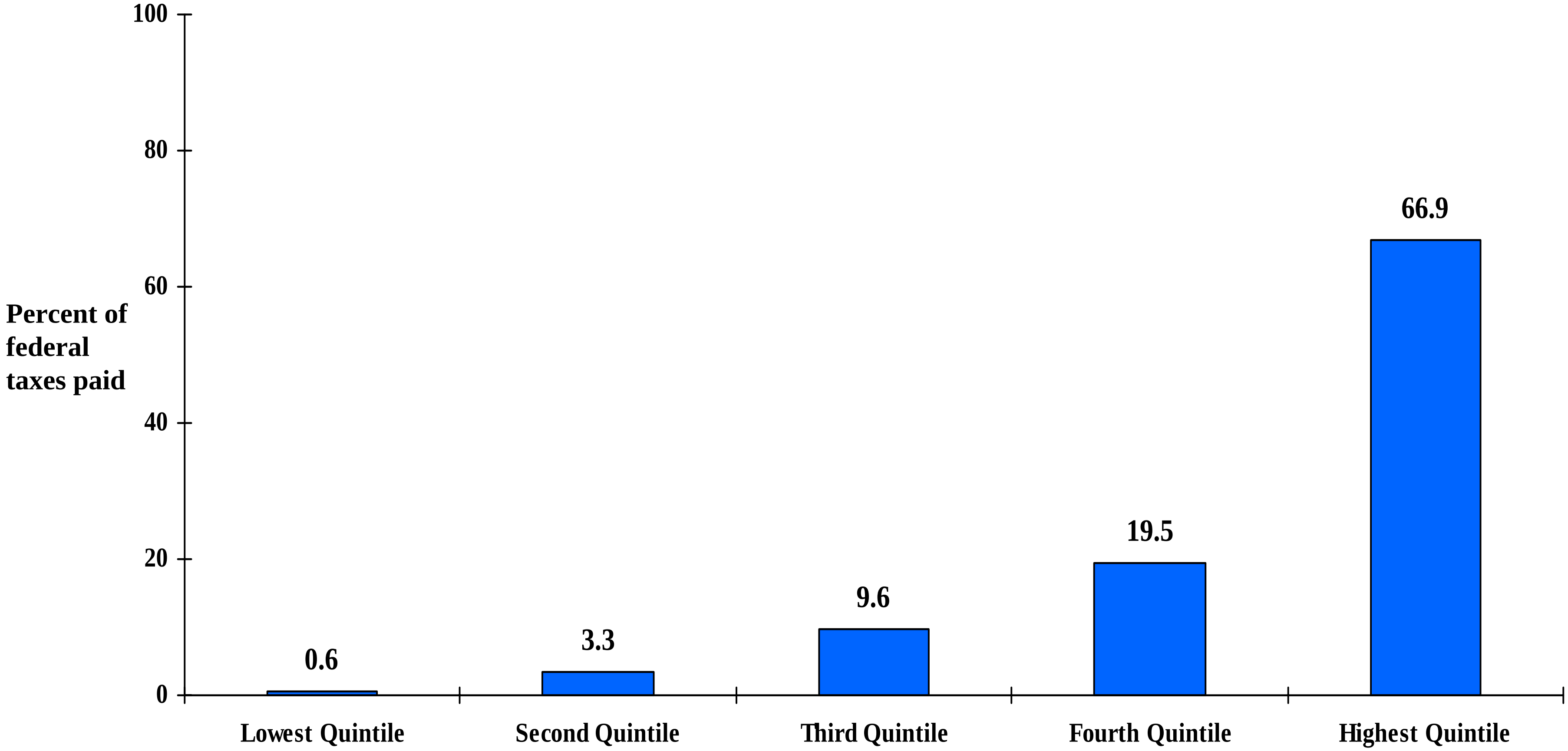
Distribution of Tax Burden: Current Policy Baseline Law



Source: Department of the Treasury, Office of Tax Analysis

Note: Estimates of 2006 law at 2004 income levels.

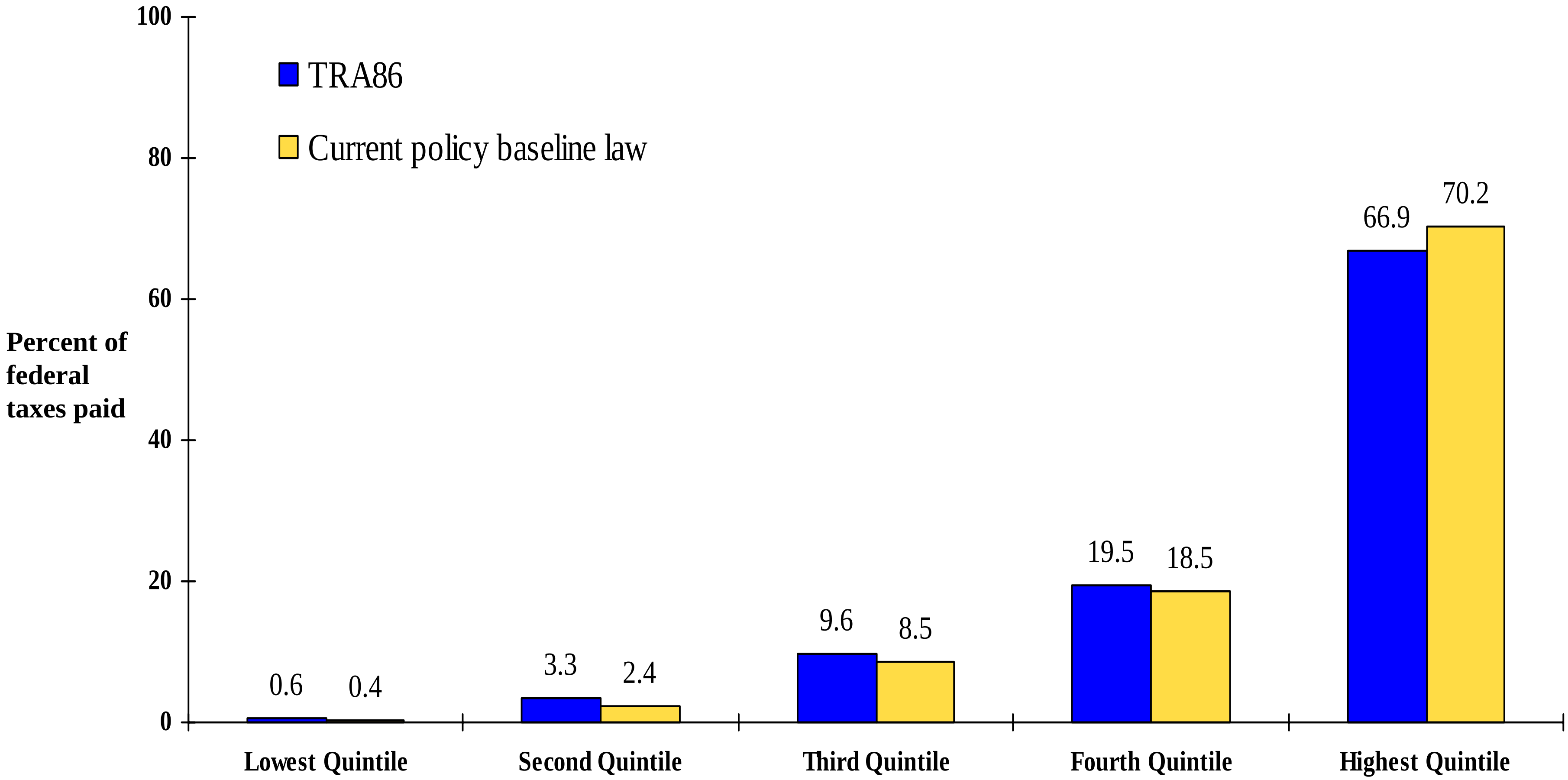
Distribution of Tax Burden: TRA86 Law



Source: Department of the Treasury, Office of Tax Analysis

Note: Estimates of TRA86 at 2004 income levels.

Distribution of Tax Burden: TRA86 and Current Law



Source: Department of the Treasury, Office of Tax Analysis

Note: Estimates of TRA86 and 2006 law at 2004 income levels.

Tax Thresholds

- Progressivity in our code is furnished, in part, through the standard deduction, personal exemption and refundable credits
- For lower-income taxpayers, these provisions exempt most earnings from individual income tax and, in some cases, provide an additional credit amount to offset other taxes paid.
  - Approximately 2/3 of taxpayers take the standard deduction
- For families with children, exemptions and credits, along with the standard deduction, shield a significant amount of income from tax
  - The structure of existing tax provisions for low-income workers and children is exceedingly complex.
    - Some of these tax benefits are refundable (the EITC) or partly refundable (the child credit).
    - Many of the provisions are phased-out with income.
    - Many of the provisions are duplicative, for example, the personal exemption and child credit are both intended to adjust for ability to pay.
    - Definitions of qualifying children differ across some of the tax provisions.

Individual Income Tax Thresholds for Family of Four in 2006

	Income Tax Threshold	Percent of Families with No Positive Income Tax Liability
TRA86 Law	$25,690	32.9
Pre-EGTRRA Law	$30,230	36.3
2006 Policy Baseline Law	$41,550	39.6

Source: Department of the Treasury, Office of Tax Analysis

Appendix

- Detail on Treasury distributional analysis
  - Families are ranked by cash income
    - ★ Cash income consists of wages and salaries, net income from a business or farm, taxable and tax-exempt interest, dividends, rental income, realized capital gains, cash transfers from the government, and retirement benefits. Employer contributions for payroll taxes and the federal corporate income tax are added to place cash on a pre-tax basis. Cash income is calculated on a family rather than on a tax return basis. The cash incomes of all members of a family are added to arrive at a family's cash income used in the distributions.
  - Incidence assumptions
    - ★ The taxes included are individual and corporate income, payroll (Social Security and unemployment), excises, customs duties, and estate and gift taxes. The individual income tax is assumed to be borne by payers, the corporate income tax by capital generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals in proportion to relative consumption of the taxed good and proportionately by labor and capital income and excises on purchases by businesses and customs duties proportionately by labor and capital income, and the estate and gift taxes by decedents. Individual income taxes are estimated at 2004 income levels under 2006 law (unless otherwise specified), adjusted for the effects of unindexed parameters and ignoring the EGTRRA, JGTRRA and WFTRA sunsets.
  - Individuals with negative incomes are excluded from the lowest income deciles.