

**Note:** After publication, we discovered errors related to rollovers from 401(k)s and similar retirement accounts in the tables we used in this report. Please do not cite this report as a source. For more information, please go to: <http://taxvox.taxpolicycenter.org/2011/09/23/retracting-some-recent-estimates/>.

## Variation in Effective Tax Rates

By Katherine Lim and Jeffrey Rohaly

The expansion of refundable tax credits and the proliferation of specialized tax breaks means that households with similar incomes can face wildly different effective federal tax rates. For example, among middle-income households, the median effective income tax rate is 3 percent, but 10 percent of those households face effective rates exceeding 9 percent and another 10 percent receive a net government subsidy greater than 4 percent of their cash income.

All income classes experience this wide variation, even those at the very top. Preferential rates for capital gains and dividends, a myriad of deductions and exemptions, and the progressive tax rate structure itself

cause the vast majority of high-income households to pay an effective rate well below the 35 percent top statutory rate. A quarter of households in the top 1 percent of the income distribution pay less than 11 percent in individual income tax and three-quarters pay less than 25 percent.

Overall, half of all households pay less than 2 percent of their income in individual income tax. Adding in payroll and corporate taxes raises that figure to 13 percent, but the wide variation in tax rates remains for the federal tax system as a whole. Half of households in the bottom fifth of the income distribution pay less than 1 percent of their income in federal taxes, but a tenth pay more than 13 percent; another tenth get a net subsidy exceeding a quarter of their income. Among the richest households, 1 in 10 pays less than 6 percent of income in federal taxes while the median household in the top 1 percent pays 28 percent.

**Distribution of Effective Tax Rates under Current Law with an AMT Patch, 2010**

Cash Income Percentile	Percentiles									
	Individual Income Tax					All Federal Taxes				
	10th	25th	Median	75th	90th	10th	25th	Median	75th	90th
Lowest Quintile	-39.4	-12.2	-4.2	0.0	0.0	-25.9	0.0	1.3	8.5	13.0
Second Quintile	-20.8	-6.0	0.0	3.2	5.9	-7.9	0.0	7.9	16.6	19.9
Middle Quintile	-4.5	-0.1	3.2	7.5	9.0	2.3	8.4	15.5	20.9	22.9
Fourth Quintile	0.5	3.3	6.4	9.3	13.0	9.6	14.6	18.7	22.2	26.3
Top Quintile	3.8	7.1	10.8	14.1	18.6	13.5	18.3	22.2	25.7	28.5
All	-12.8	-2.3	1.5	7.1	11.4	0.0	2.7	13.1	20.0	23.9

*Addendum*

<b>Top 1 Percent</b>	2.6	10.7	18.8	24.4	26.9	5.9	21.5	27.9	30.4	32.3
----------------------	-----	------	------	------	------	-----	------	------	------	------

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-4).

Notes: Tax units with negative cash income are excluded from the lowest income class but are included in the totals. Includes both filing and non-filing units but excludes those that are dependents of other tax units. Effective tax rates are calculated as tax liability divided by cash income (those with zero cash income are excluded from the analysis). All federal taxes include individual and corporate income taxes, and payroll taxes for Social Security and Medicare.