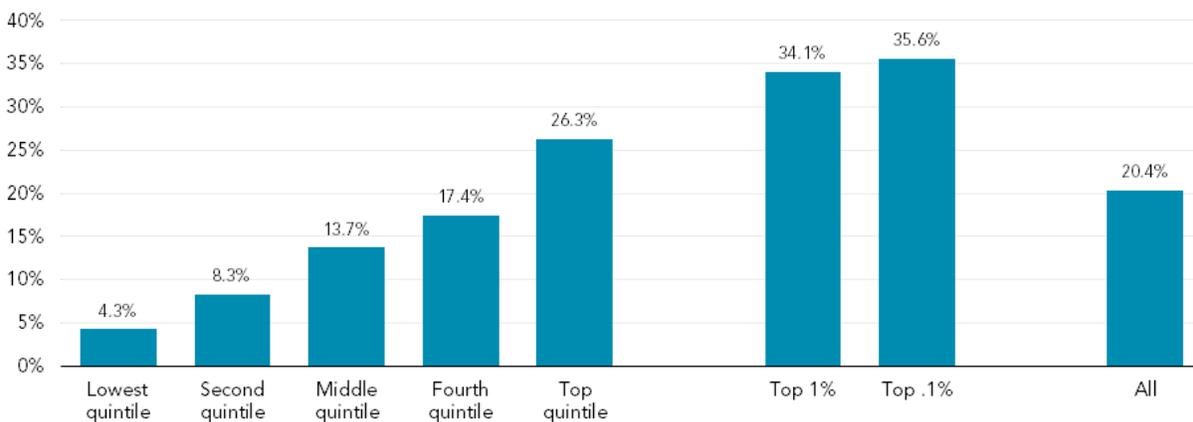


# Are federal taxes progressive?

Overall, yes. But that's not the case for each tax.

**FIGURE 1**

Average Effective Tax Rates by Expanded Cash Income Group  
All federal taxes, 2016<sup>a</sup>



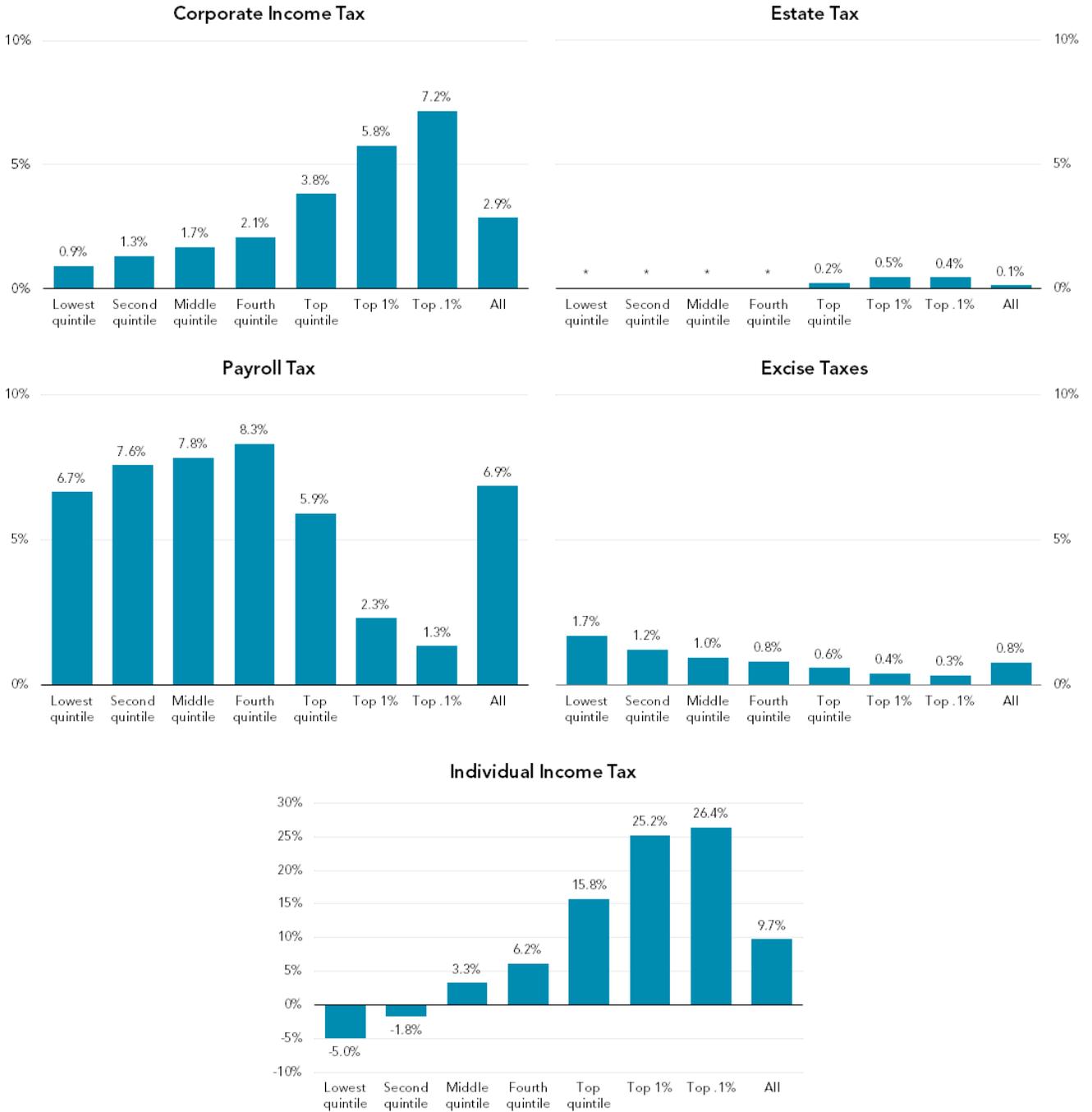
Sources: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-1)  
(a) Taxes included are individual income, payroll, corporate income, estate, and excise.

Although the overall federal tax system is progressive, with total federal tax burdens a larger percentage of income for higher-income households than for lower-income households, not all taxes within the federal system are equally progressive. Some federal taxes are actually regressive as they are a larger percentage of income for lower-income than for higher-income households.

The individual and corporate income taxes and the estate tax are all progressive. By contrast, payroll taxes for Social Security and Medicare and excise taxes are regressive (figure 2).

FIGURE 2

Average Effective Tax Rates for Each Federal Tax  
By expanded cash income group, 2016



Sources: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-1).

INDIVIDUAL INCOME TAX

The individual income tax is progressive, thanks to the impact of refundable credits for lower-income households (average tax rates are negative for the two lowest income quintiles), the standard deduction and personal exemptions (which exempt a minimum level of income from the tax), and a graduated rate structure (rates on ordinary income rise from 10.0 to 39.6 percent, with an additional 3.8 percent marginal tax on certain investment income of high-income households).

## **CORPORATE INCOME TAX**

The corporate income tax is progressive because most of its burden falls on income from dividends, capital gains, and other forms of capital income that are disproportionately received by high-income households.

## **ESTATE TAX**

The estate tax is only imposed on households with high levels of wealth (only wealth in excess of an exemption amount is subject to the tax, and that amount for those who die in 2016 is about \$5.5 million and effectively double that for married couples). High-wealth is almost always commensurate with high income, so, when households are classified by income, virtually the entire estate tax burden falls on the very highest income households.

## **PAYROLL TAXES**

The regressive nature of payroll taxes stems from two factors. First, the Social Security portion of payroll taxes is subject to a cap: in 2016, individuals will pay the tax on only their first \$121,800 in earnings. Second, as a group, higher-income households receive relatively more of their income from sources other than wages, such as capital gains and dividends, which are not subject to the payroll tax. However, because wages rise as a share of income over the first four quintiles of the distribution, payroll taxes are slightly progressive until high-income levels are reached.

## **EXCISE TAX**

An excise tax increases the price of the taxed good or service relative to the prices of other goods and services. So households that consume more of the taxed good or service as a share of their total consumption face relatively more of the tax burden from this change in relative prices. The regressivity of excise taxes is primarily the

result of this relative price effect, because, on average, alcohol and tobacco represent a declining share of consumption as household income rises.

## DATA SOURCES

Urban-Brookings Tax Policy Center. [Table T15-0050. "Effective Federal Tax Rates—All Tax Units, by Expanded Cash Income Percentile, 2016."](#)

———. [Table T15-0045. "Average Effective Federal Tax Rates—All Tax Units, by Expanded Cash Income Level, 2016."](#)

## FURTHER READING

Burman, Leonard E. 2007. "[Fairness in Tax Policy: Testimony Before the Subcommittee on Financial Services and General Government, House Appropriations Committee.](#)" Washington, DC: Urban Institute.

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