Some Background

How are federal taxes distributed?

Q. How are federal taxes distributed?

A. Although enterprises (e.g., retailers, employers) are legally obligated to pay certain taxes, the burden of all taxes ultimately falls on households.

Individuals, businesses, and other entities may have the legal obligation to pay certain taxes, but the economic burden (or incidence) of all taxes ultimately falls on households. Households may feel this burden through a reduction in their income or higher prices for goods and services.

The incidence of taxes has been studied for decades, and experts now broadly agree on how the burden is distributed across households. The Urban-Brookings Tax Policy Center (TPC), in preparing standard distribution tables, assumes the following about federal taxes:

INDIVIDUAL INCOME TAX

Taxpayers (who either pay the tax directly or receive a refundable credit) bear the entire burden of the individual income tax.

PAYROLL TAXES

Employees (or self-employed people who pay both shares of the tax) bear both the employer and the employee shares of the Social Security and Medicare payroll taxes in the form of lower take-home income.

CORPORATE INCOME TAX

The corporate income tax reduces both wages and returns to capital. The allocation between the two is uncertain and differs in the short and long terms. TPC assumes that in the long-term, income from capital (e.g., dividends, rents, interest, and capital gains) bears four-fifths of the burden, with wages and other sources of labor income bearing the remaining fifth. TPC assumes that corporate shareholders bear the entire burden of a short-term corporate income tax change before investors have a chance to react.

ESTATE TAX

Estate tax costs are borne entirely by decedents.

Some Background

How are federal taxes distributed?

EXCISE TAXES

Excise taxes also are assumed to reduce wages and returns to capital. They also increase the relative price of taxed goods and services, so households that consume more of the taxed items bear a higher burden.

The Joint Committee on Taxation (JCT), the US Department of Treasury's Office of Tax Analysis, and the Congressional Budget Office make similar incidence assumptions in their analyses, but with a few differences. For instance, JCT assumes that the tax on individual income that represents a return to capital from noncorporate businesses, like partnerships, is borne in the same manner as the corporate income tax. Moreover, each group follows slightly different incidence assumptions for the corporate income tax, reflecting the uncertainty over its incidence.

Updated May 2020

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, March 5.

Congressional Budget Office. 2018. "The Distribution of Household Income, 2014." Washington DC: Congressional Budget Office.

Cronin, Julie-Anne. 1999. "US Treasury Distributional Analysis Methodology." OTA paper 85. Washington, DC: US Department of the Treasury.

Joint Committee on Taxation. 1993. Methodology and Issues in Measuring Changes in the Distribution of Tax Burdens. JCS-7-93. Washington, DC: Joint Committee on Taxation.

———. 2013. "Modeling the Distribution of Taxes on Business Income." JCX-14-13. Washington, DC: Joint Committee on Taxation.

———. 2015. "Fairness and Tax Policy." JCX-48-15. Washington, DC: Joint Committee on Taxation.

Nunns, Jim. 2012. "How TPC Distributes the Corporate Income Tax." Washington, DC: Urban-Brookings Tax Policy Center.

Toder, Eric, Jim Nunns, and Joseph Rosenberg. 2011. "Methodology for Distributing a VAT." Washington, DC: Pew Charitable Trusts and Urban-Brookings Tax Policy Center.
