

Background

What is the difference between marginal and average tax rates?

DISTRIBUTION OF TAX BURDENS
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Q. What is the difference between marginal and average tax rates?

A. Average tax rates measure tax burden, while marginal tax rates measure the impact of taxes on incentives to earn, save, invest, or spend.

The *average* tax rate is the total amount of tax divided by total income. For example, if a household has a total income of \$100,000 and pays taxes of \$15,000, the household's average tax rate is 15 percent. The *marginal* tax rate is the incremental tax paid on incremental income. If a household were to earn an additional \$10,000 in wages on which they paid \$1,530 of payroll tax and \$1,500 of income tax, the household's marginal tax rate would be 30.3 percent.

Average tax rates are a measure of a household's tax burden; that is, how taxes affect the household's ability to consume today or (through saving) in the future. Marginal rates measure the degree to which taxes affect household (or business) economic incentives such as whether to work more, save more, accept more risk in investment portfolios, or change what they buy. Higher marginal rates reduce incentives to engage in a particular activity (such as work) or (in the case of sales taxes) consume a particular item.

Data Sources

Urban-Brookings Tax Policy Center. Table [T18-0082](#). "Average Effective Federal Tax Rates—All Tax Units by Expanded Cash Income Level, 2018."

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———. Table [T18-0106](#). "Effective Marginal Tax Rates on Wages, Salaries, and Capital Income, by Expanded Cash Income Level, 2018."

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Further Reading

Joint Committee on Taxation. 2015. "[Fairness and Tax Policy](#)." JCX-48-15. Washington, DC: Joint Committee on Taxation.

Maag, Elaine, C. Eugene Steuerle, Ritadhi Chakravarti, and Caleb Quakenbush. 2012. "[How Marginal Tax Rates Affect Families at Various Levels of Poverty](#)." *National Tax Journal* 65 (4): 759–82.