

# CRS Report for Congress

Received through the CRS Web

## Recent Trends in the Federal Tax Burden

Gregg A. Esenwein  
Specialist in Public Finance  
Government and Finance Division

In FY1999, federal tax revenue measured as a percentage of Gross Domestic Product (GDP) was at a record high level; it is projected to remain at high levels into the future. Yet at the same time, the average federal tax rate within each income group has not risen. That these two seemingly contradictory trends can occur simultaneously is primarily the result of the rapid income growth concentrated at the high end of the income distribution where marginal income tax rates are at their highest, coupled with tax reductions enacted in the Taxpayer Relief Act of 1997. This report discusses these trends and will be updated as newer data become available.

Table 1 shows the level of federal tax revenue as a percentage of GDP for selected fiscal years from 1965 through 2005.

1965	1970	1975	1980	1985	1990	1995	1999	2000	2005
17.0%	19.0%	17.9%	18.9%	17.7%	18.0%	18.5%	20.0%	20.3%	19.8%

Source: Congressional Budget Office.

The primary contributor to the recent growth in overall federal tax revenue has been the increase in federal individual income tax receipts. While the increase in federal individual income tax receipts can be traced to several factors, the most important has been the across-the-board increase in real incomes which has put proportionately more income into the higher marginal income tax brackets.

Of greatest significance has been the rapid growth in income concentrated at the high end of the income spectrum, where marginal income tax rates are the highest. Table 2 shows the change in the shares of adjusted gross income (AGI) and taxes for high income taxpayers in 1993, 1997, and 1998.

The data in table 2 indicate that the share of AGI accruing to high income taxpayers grew dramatically between 1993 and 1998. Taxpayers with AGIs in excess of \$200,000 saw their share of AGI increase from 14% to over 21% of the total while taxpayers with AGIs in excess of \$1 million experienced an increase from close to 5% to over 9% of total AGI. As high income taxpayers' share of total AGI increased so did their share of total

	1993	1997	1998*
Share of AGI			
\$200,000 and above	14.5%	20.3%	21.6%
\$1 million and above	4.9%	8.6%	9.3%
Share of tax liability			
\$200,000 and above	29.8%	37.7%	39.8%
\$1 million and above	11.4%	16.9%	18.3%

Source: Congressional Budget Office

\*preliminary

federal taxes. This has been the mechanism that has fueled the increase in federal tax revenues. A larger percentage of total income is now earned by taxpayers at the top of the income distribution where marginal income tax rates are the highest which, in turn, has significantly increased federal revenues.

Yet at the same time the average federal tax rate in each income bracket has not increased. Moreover, as shown in table 3, average federal tax rates were projected to decrease between 1995 and 1999. The decrease in average federal tax rates over this period is the result of tax reductions enacted in the Taxpayer Relief Act of 1997 including the child tax credit, educational related tax reductions, changes in individual retirement accounts, and reductions in taxes on capital gains income.

Income (thousands of dollars)	1995	1999
10 to 20	11.6%	9.5%
20 to 30	17.0%	15.4%
30 to 40	20.0%	17.8%
40 to 50	22.1%	20.5%
50 to 75	23.9%	22.4%
75 to 100	25.9%	24.6%
100 to 200	27.8%	26.7%
200 plus	35.3%	33.0%

Source: Congressional Budget Office.

As a consequence of the rapid growth in real incomes, especially the growth in real incomes for higher income taxpayers, the federal government will likely see revenues increase while, within each income bracket, average federal tax rates will remain stable or actually decrease over the next few years.