Effective Tax Rates for Different Kinds of Households

By Roberton Williams

One measure of the tax burden imposed on households is their effective tax rate (ETR) — the total taxes they pay measured as a percentage of their pretax income. ETRs vary across types of households because of differences in sources and levels of income and in how the tax system treats taxpayers in different situations.

Each year the Congressional Budget Office estimates ETRs for individual and corporate income taxes, payroll taxes, and excise taxes for different types of households, as well as all households as a group. (The CBO omits estate taxes, tariffs, and other miscellaneous revenues.) In 2005 households paid 9 percent of their income in individual income taxes, 7.6 percent in payroll taxes, 3.1 percent in corporate income taxes, and 0.8 percent in excise taxes, adding up to an overall ETR of 20.5 percent.

Households with children paid below-average income and excise taxes but above-average payroll taxes, in part because more of their income is earnings subject to Social Security and Medicare taxes and in part because their children serve to lower their income taxes. The overall ETR of households with children is slightly below that for all households.

In contrast, elderly childless households have an average ETR more than 3 percentage points below the overall average. Much less of their income comes from earnings, so they face barely one-fourth the payroll tax rate of the average household. Because a disproportionate share of their income is from capital, however, their effective corporate tax rate is twice that for all households. Their lower total income plus tax exemption for most Social Security benefits pulls down their effective individual income tax rate. (More than half of those over 65 owe no income tax at all.)

Nonelderly childless households have the highest ETR, about 2 percentage points above the overall average. Their effective payroll and corporate income tax rates roughly match those for households with children, but they face higher individual income tax rates, both because they have higher average income and because they don’t qualify for child-related tax credits and typically can claim fewer dependent exemptions.

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