

SPECIAL REPORT

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Taxes Force American Family to Tighten Belt

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Total taxes on the median two-income American family continue to climb, reaching a record high level in 1995. As *Figure 1* shows, a median-income family with two income earners can expect to pay 38.2 percent of its income in federal, state, and local taxes. A median-income family with a single earner can expect to pay 36.2 percent, the highest percentage since 1975.

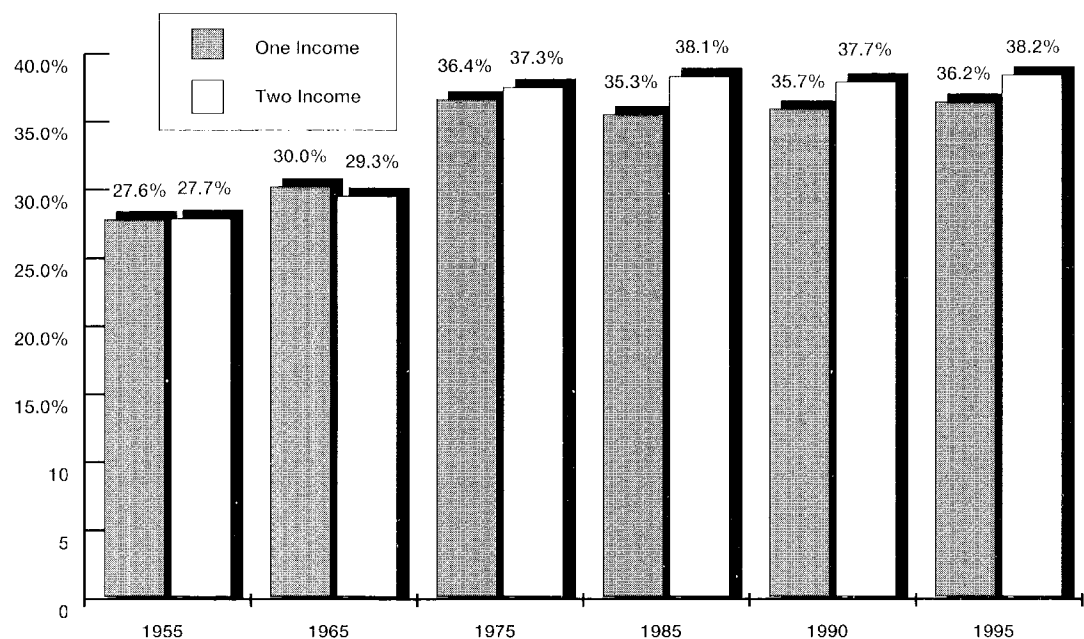
This year's Tax Foundation report on the typical American family documents income and tax levels of both single- and dual-income families. According to the Bureau of Census, the two-income married couple family is the highest earn-

ing type of family in the U.S., as well as the most common. Two-income married couples account for around 46 percent of all American families, while married couples with one spouse not working represent another third of all families.

In 1995, the typical two-income family's record-high taxes as a percent of income will also result in another record: the dollar amount of inflation-adjusted tax payments, \$21,320.

However, the \$10,795 of tax payments for a typical single-earner family is below the inflation-adjusted \$11,746 it paid in 1975. The single-income family's 1995 taxes will also fall below the

Figure 1
Taxes as Percentage of Income for the Median One- and Two-Income Families, 1955-1995



Source: Tax Foundation.

\$11,602 it paid in 1989, because inflation-adjusted median income for this type of family has been on a general decline since 1989.

Tables 1 and 2 show the trend in the tax burden on double- and single-earning median-income families. The trend is illustrated decade-by-decade from 1955 through 1985. Thereafter, each year from 1985 through 1995 is presented. For two-income families the tax burden as a percent of income has grown 10.5 percentage points since 1955; though most of the increase occurred between 1965 and 1975. For single-income families the tax burden has grown 8.6 percentage points since 1955.

As Table 1 shows, after adjusting for inflation total taxes have doubled since 1955 for the typical single-income family, from \$5,443 to \$10,795. While inflation-adjusted taxes on this family group have fallen five percent since 1990, as a percentage of income they have risen from 35.7 percent to 36.2 percent.

Table 2 notes that real total taxes have more than tripled since 1955 for the typical two-income family, from \$7,046 to \$21,320. Since 1990 inflation-adjusted total taxes have climbed nine percent for this family group. As a percentage of income they have risen from 37.7 percent to 38.2 percent.

As Figure 2 shows, the two categories of taxation most responsible for this increase are the upward trend in state and local taxation and the increase in the federal payroll tax used to fund social insurance schemes. State and local taxes combined have, as a share of income, grown about 5 percentage points from 1955 to 1995. Federal payroll taxes as a share of total family income have grown about 5.6 percentage points from 1955 to 1995. Moreover, economists are in general agreement that the employer's share of the federal payroll tax reduces wages by the amount of the tax, so that a median-income family's gross wages are about 7.5 percent lower than they would be at 1955 payroll tax levels.

The growth in the tax burden for median-income families over the past decade has come as a result of the general increase in state and local taxation. This fact is presented for a double-income family by a comparison of Figures 3 and 4. The result is almost identical for a single-income family.

Figures 3 and 4 also shows that taxation continues to dominate the family budget. For a median two-income family, the tax burden will exceed the combined expenditures for housing and household operations, medical care, food, and clothing.

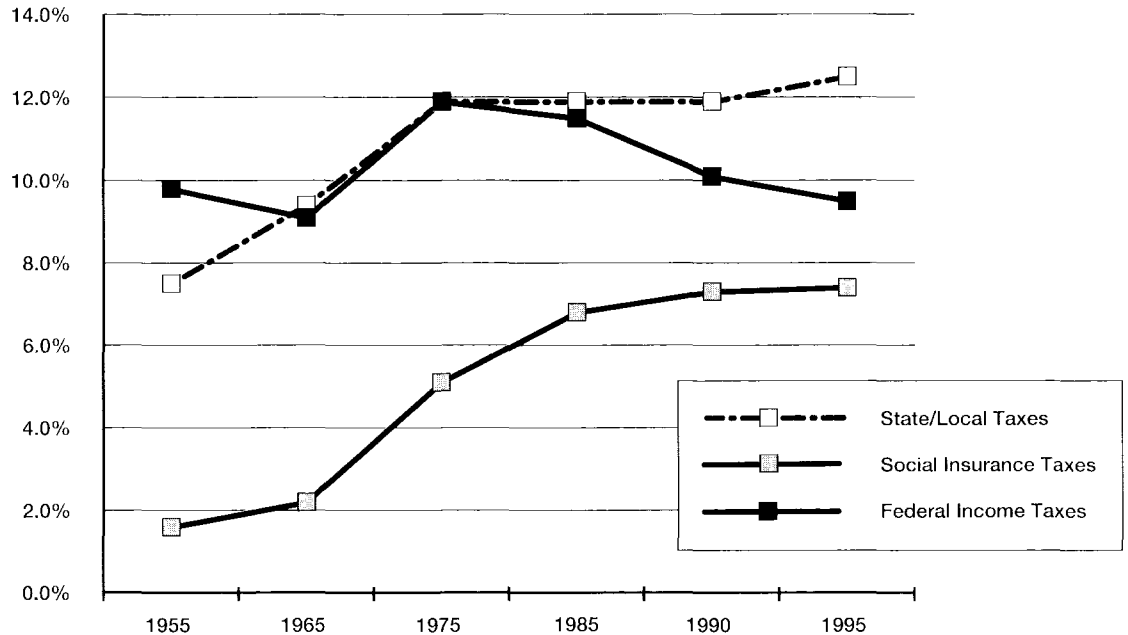
Table 1
Taxes and the American Family (Single Income)
Selected Years, 1955-1995

	1955	1965	1975	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Median Family Income	\$4,069	\$6,060	\$11,568	\$21,190	\$22,310	\$23,111	\$23,872	\$25,226	\$25,878	\$25,960	\$26,292	\$26,193	\$26,989	\$27,788
Federal Income Tax	366	526	1,177	1,790	1,802	1,622	1,681	2,023	2,027	1,952	1,891	1,884	1,941	1,999
Payroll Taxes:														
Employee Portion	79	174	656	1,449	1,547	1,603	1,739	1,838	1,920	1,926	1,951	1,944	2,003	2,062
Employer Portion	79	174	656	1,449	1,547	1,603	1,739	1,838	1,920	1,926	1,951	1,944	2,003	2,062
Other Federal Taxes	315	426	582	791	800	905	947	999	961	967	984	994	1,137	1,198
Total Federal Taxes	839	1,300	3,072	5,479	5,697	5,732	6,105	6,698	6,829	6,771	6,777	6,766	7,084	7,321
Total State/Local Taxes	304	570	1,380	2,522	2,722	2,810	2,838	3,008	3,087	3,185	3,264	3,251	3,347	3,474
Total Taxes	1,143	1,870	4,452	8,001	8,419	8,543	8,943	9,706	9,916	9,956	10,041	10,017	10,431	10,795
After-Tax Income	3,005	4,364	7,773	14,638	15,438	16,171	16,668	17,358	17,883	17,930	18,202	18,120	18,561	19,055
Total Taxes as a Percent of Income	27.6%	30.0%	36.4%	35.3%	35.3%	34.6%	34.9%	35.9%	35.7%	35.7%	35.6%	35.6%	36.0%	36.2%
Inflation-Adjusted Total Taxes (1995\$)	\$5,443	\$8,539	\$11,746	\$10,993	\$11,269	\$11,080	\$11,164	\$11,602	\$11,361	\$10,962	\$10,835	\$10,520	\$10,720	\$10,795

Note: The burden of federal and state corporate income taxes are included. After-tax income does not deduct employer's share of payroll taxes because the burden of the payroll tax is assumed to reduce income before the "gross" seen on paychecks. "Total taxes as a percent of income" is calculated by adding the employer's share of the payroll tax to the median family income.

Source: Tax Foundation, using Census Bureau median income data.

Figure 2
Taxes as a Percentage of Median Two-Income Family's Income, 1955-1995



Source: Tax Foundation.

Table 2
Taxes and the American Family (Double Income)
Selected Years, 1955-1995

	1955	1965	1975	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995c
Median Family Income	\$5,250	\$7,983	\$16,058	\$33,411	\$35,108	\$36,799	\$38,702	\$40,658	\$42,146	\$43,623	\$45,779	\$47,424	\$49,678	\$52,039
Federal Income Tax	513	727	1,918	3,853	3,906	3,367	3,519	4,216	4,261	4,280	4,334	4,490	4,703	4,926
Payroll Taxes:														
Employee Portion	84	174	825	2,261	2,410	2,526	2,790	2,931	3,095	3,204	3,362	3,483	3,648	3,822
Employer Portion	84	174	825	2,261	2,410	2,526	2,790	2,931	3,095	3,204	3,362	3,483	3,648	3,822
Other Federal Taxes	407	562	808	1,247	1,259	1,441	1,535	1,610	1,565	1,624	1,713	1,800	2,093	2,244
Total Federal Taxes	1,088	1,636	4,376	9,623	9,985	9,860	10,634	11,688	12,017	12,312	12,770	13,255	14,092	14,813
Total State/Local Taxes	392	751	1,915	3,977	4,284	4,474	4,601	4,848	5,028	5,352	5,684	5,887	6,162	6,506
Total Taxes	1,480	2,387	6,291	13,600	14,269	14,334	15,235	16,536	17,044	17,664	18,454	19,142	20,254	21,320
After-Tax Income	3,854	5,770	10,592	22,072	23,249	24,991	26,257	27,053	28,197	29,163	30,687	31,765	33,073	34,541
Total Taxes as a Percent of Income	27.7%	29.3%	37.3%	38.1%	38.0%	36.5%	36.7%	37.9%	37.7%	37.7%	37.6%	37.6%	38.0%	38.2%
Inflation-Adjusted Total Taxes (1995\$)	\$7,046	\$10,900	\$16,598	\$18,685	\$19,099	\$18,591	\$19,018	\$19,767	\$19,529	\$19,448	\$19,913	\$20,103	\$20,815	\$21,320

Note: The burden of federal and state corporate income taxes are included. After-tax income does not deduct employer's share of payroll taxes because the burden of the payroll tax is assumed to reduce income before the "gross" seen on paychecks. "Total taxes as a percent of income" is calculated by adding the employer's share of the payroll tax to the median family income.

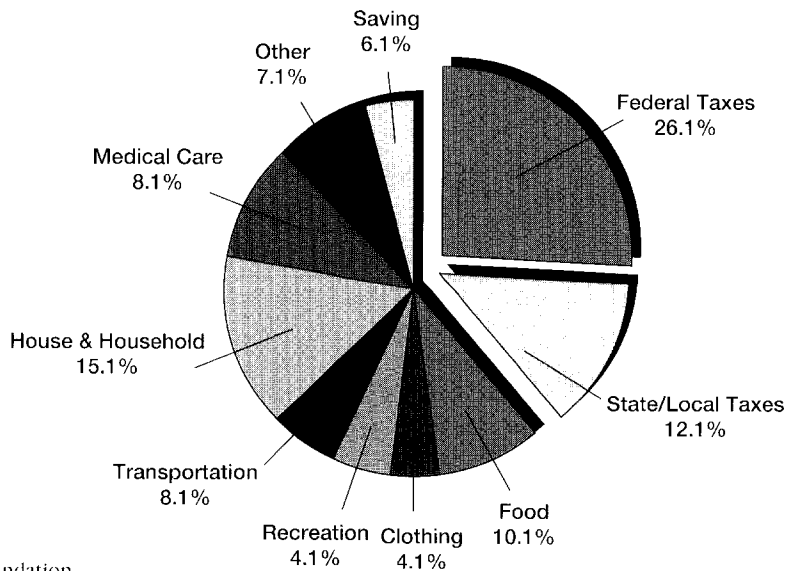
Source: Tax Foundation, using Census Bureau median income data.

The families represented in *Tables 1 and 2* adhere to the Census Bureau's broad definition of family — two or more related people living in the same residence. In the past, the Tax Foundation has specified a two-earner married couple with two children. Despite the change in procedure, approximately 90 percent of the families represented in this report are married couples with an average of about one child per family.

In the past, the Foundation has also assumed that the typical family took the standard deduc-

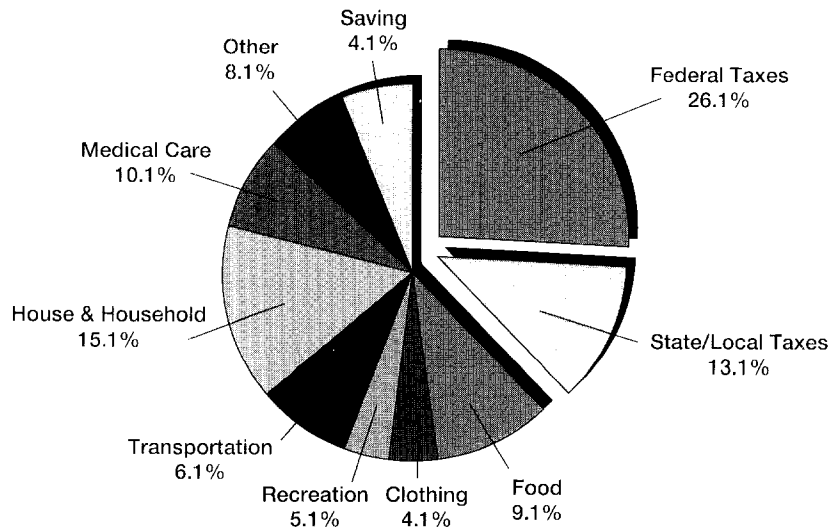
tion rather than itemizing its deductions. This report takes a weighted average of standard deduction filers and itemizers based on the reported family income level, and also takes tax credits into consideration. For payroll tax calculations, it is assumed that wage income for a double-earner family represents 96 percent of its total income while for a single-earner family wages represent 97 percent of total income. All other taxes are calculated using formulas derived from national averages.

Figure 3
Representative Budget of Two-Income Family, 1985



Source: Tax Foundation.

Figure 4
Representative Budget of Two-Income Family, 1995



Source: Tax Foundation.

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