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Distributional Analysis of President Obama's Fiscal Year 2011 Budget Policies

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This *Tax Foundation Fiscal Fact* takes a preliminary look at the distributive effects of President Obama's budget, released last week. Using the Tax Foundation's Fiscal Incidence Microsimulation Model, we are able to estimate the level of income redistribution in both existing and proposed federal fiscal policies and thereby estimate the change in income redistribution that would come about as a result of a given policy change.

Even though Pres. Obama's budget is titled "Fiscal Year 2011 Budget," it includes estimates for his policy proposals over the next ten years (2011-2020). Therefore, this *Fiscal Fact* looks at fiscal year 2012 so as to avoid complications that come about as a result of the fiscal-calendar year split of the Bush tax cuts set to expire on Dec. 31, 2010. For simplicity, the baseline used in this *Fiscal Fact* is the same baseline used in Pres. Obama's budget. Also, due to uncertainty regarding the specifics involved, we exclude from this analysis three "allowance" categories in the president's budget: jobs initiative allowance, health care reform allowance, and climate change allowance.

Our measure of income redistribution is relatively simple as we ask two hypothetical questions:

- (1) How much in federal taxes does a given income group pay under a given set of tax policies?
- (2) How much in federal taxes would that income group pay under a benefit principle system of taxation whereby a given family's tax share was equal to its share of the benefits from government spending?

The difference between the answers to these two questions is our measure of income redistribution. Before we present the results, we should answer two commonly asked questions pertaining to the methodology. First, we assume that national defense benefits each family in proportion to its share of cash income received. Second, we assume that the deficit is borne by today's families and is financed by a combination of proportional tax increases and proportional

spending reductions (entitlements weighted more heavily). For a further discussion of the methods used in this report, see our [Special Report](#) released on last year's budget.

Results

Our results are presented in the three tables below. Table 1 summarizes the average change in income redistribution from Obama's policies. Table 2 provides somewhat more detail, including a tax and spending breakdown, while Table 3 shows the aggregate effects of federal fiscal policies on the distribution of income.

Overall, the results show Pres. Obama increasing the level of income redistribution to low-and-middle income families, while families in the top 1 percent of the income spectrum would face higher taxes and therefore more redistribution. The primary driver of this result is Pres. Obama's expiration of the Bush tax cuts for high-income families, as well as his proposed 28 percent value limitation on itemized deductions.

Table 1: Summary of Income Redistribution in Fiscal Year 2012 Pre- and Post-Obama Budget Policies

Market Income Percentile	Average Income Redistribution (OMB Baseline)	Average Income Redistribution (Obama Policy)	Change in Income Redistribution
0-10%	17,467	17,962	494
10-20%	10,299	11,148	850
20-30%	8,759	9,597	838
30-40%	6,105	6,721	616
40-50%	5,331	5,766	435
50-60%	3,172	3,694	522
60-70%	-203	475	678
70-80%	-3,897	-2,952	946
80-90%	-10,720	-9,172	1,548
90-95%	-16,864	-14,316	2,548
95-99%	-48,649	-48,404	245
99-100%	-407,943	-509,257	-101,314
ALL	0	0	0
Exhibit:			
Top 20%	-39,965	-43,643	-3,678
Top 10%	-69,279	-78,195	-8,916
Top 5%	-121,345	-141,648	-20,304
Top 1%	-407,943	-509,257	-101,314

Table 2: Distributional Impact on Average Families of Proposed Policies in President Obama's Budget, Fiscal Year 2012

Market Income Percentile	Average Market Income	Obama Policy			Change from OMB Baseline		
		Average Tax	Average Spending	Average Income Redistribution	Average Tax	Average Spending	Average Income Redistribution
0-10%	5,356	1,804	19,766	17,962	-35	459	494
10-20%	19,591	4,066	15,215	11,148	-55	795	850
20-30%	33,244	6,691	16,288	9,597	-126	711	838
30-40%	47,103	9,818	16,538	6,721	-234	382	616
40-50%	63,517	13,052	18,818	5,766	-364	71	435
50-60%	83,606	17,544	21,238	3,694	-539	-17	522
60-70%	107,555	22,929	23,405	475	-758	-80	678
70-80%	136,622	29,757	26,805	-2,952	-1,094	-148	946
80-90%	182,188	41,271	32,099	-9,172	-1,797	-249	1,548
90-95%	254,912	57,174	42,858	-14,316	-2,901	-352	2,548
95-99%	443,197	113,145	64,741	-48,404	-968	-723	245
99-100%	2,311,279	778,178	268,921	-509,257	97,570	-3,744	-101,314
ALL	99,575	24,312	24,312	0	189	189	0
Exhibit:							
Top 20%	360,377	96,948	53,305	-43,643	3,131	-547	-3,678
Top 10%	538,985	152,756	74,561	-78,195	8,071	-845	-8,916
Top 5%	821,166	247,701	106,053	-141,648	18,970	-1,334	-20,304
Top 1%	2,311,279	778,178	268,921	-509,257	97,570	-3,744	-101,31

Table 3: Distributional Impact on Family Income Groups (Aggregate) of Proposed Policies in President Obama's Budget, Fiscal Year 2012

Market Income Percentile	Market Income (millions)	Share of Income	Income After Redistribution				Aggregate Change in Redistribution from Policies (millions)
			OMB Baseline		OMB Policy		
			Total Income (millions)	Share of Income	Total Income (millions)	Share of Income	
0-10%	94,011	0.7%	400,608	2.8%	409,286	2.8%	8,678
10-20%	344,024	2.4%	524,864	3.6%	539,788	3.7%	14,924
20-30%	555,082	3.9%	701,340	4.9%	715,326	5.0%	13,986
30-40%	736,851	5.1%	832,348	5.8%	841,987	5.8%	9,638
40-50%	932,215	6.5%	1,010,459	7.0%	1,016,839	7.1%	6,381
50-60%	1,090,963	7.6%	1,132,357	7.9%	1,139,166	7.9%	6,809
60-70%	1,269,713	8.8%	1,267,317	8.8%	1,275,325	8.8%	8,008
70-80%	1,532,643	10.6%	1,488,924	10.3%	1,499,531	10.4%	10,608
80-90%	1,994,960	13.8%	1,877,571	13.0%	1,894,527	13.1%	16,956
90-95%	1,387,724	9.6%	1,295,917	9.0%	1,309,789	9.1%	13,871
95-99%	1,937,473	13.4%	1,724,802	12.0%	1,725,872	12.0%	1,070
99-100%	2,562,874	17.8%	2,110,524	14.6%	1,998,182	13.9%	-112,343
ALL	14,412,829	100.0%	14,412,829	100.0%	14,412,829	100.0%	0
Exhibit:							
Top 20%	7,883,031	54.7%	7,008,814	48.6%	6,928,369	48.1%	-80,445
Top 10%	5,888,071	40.9%	5,131,244	35.6%	5,033,842	34.9%	-97,401
Top 5%	4,500,347	31.2%	3,835,326	26.6%	3,724,054	25.8%	-111,273
Top 1%	2,562,874	17.8%	2,110,524	14.6%	1,998,182	13.9%	-112,343