

# Tax Analysis Center

## Average Remaining Lifetime Net Tax Rates

**Preliminary Results -- Not for Citation or Further Distribution**

By Alan Auerbach, Laurence Kotlikoff and Darryl Koehler

Cohort (Age of Head of Household)	Quintile (Remaining Lifetime Resources)					Population Represented
	Lowest	Second	Third	Fourth	Highest	
20 to 29	-46.8%	-9.4%	3.6%	10.9%	21.7%	11,664,443
30 to 39	-69.1%	-11.0%	3.4%	11.4%	31.4%	18,641,357
40 to 49	-107.2%	-18.4%	-2.6%	11.9%	38.6%	21,431,593
50 to 59	-237.8%	-57.4%	-20.9%	6.0%	39.5%	21,902,308
60 to 69	-594.0%	-151.7%	-61.0%	-2.1%	30.7%	15,894,544
70 to 79	-778.5%	-234.8%	-96.8%	-27.7%	31.0%	11,149,379
						<b>100,683,623</b>

(By Quintile of Remaining Lifetime Resources)

Is the current tax system progressive? Some would say no, that the rich don't pay their fair share. Others would say the system is progressive, but not progressive enough. Still, others argue that the burden of taxes falls largely on the poor, and that the system is actually regressive.

Laurence Kotlikoff, director of the Tax Analysis Center, finds that the current U.S. tax system is, in fact, quite progressive. Using a dynamic model that includes a variety of data sources, Kotlikoff, along with co-authors Alan Auerbach and Darryl Koehler, calculate the lifetime tax burden for U.S. households of different age and income levels. They include federal and state income taxes (Ohio is used in the above results), payroll taxes, capital gains and dividends taxes. He also includes any transfer benefits (food stamps, Medicaid, TANF) and Medicare benefits. The results:

- The U.S. tax system is highly progressive.
- Within all age groups, the lowest and second-lowest quintiles of earners have an average negative lifetime tax burden. This means that over their lifetimes, they receive more in transfer benefits than they pay in taxes.
- The highest quintile of earners for each age group pay fairly high average lifetime tax rates, ranging from 21.7 percent for today's 20-to-29 year olds to nearly 40 percent for today's 50-to-59 year olds.

Within each age group, there is a vast difference between the highest and lowest income earners, particularly for middle-aged earners. For instance, for 50-to-59 year olds [see chart below]:

- The aggregate spending power (assuming all income is consumed) of the lowest income quintile more than triples after taxes, due to the tax credits and transfer benefits received by this group.
- The aggregate spending power for the highest quintile falls by nearly half after taxes.

In other words, considering the vast differences in distribution of pre-tax resources among individuals, our current tax and income redistribution system significantly reduces spending inequality.

