WOMEN AND CHILDREN FI

AN ANALYSIS OF TRENDS IN FEDERAL TAX POLICY

Prepared For The

COALITION OF LABOR UNION WOMEN

MAY 1990

WOMEN AND CHILDREN FIRST:

AN ANALYSIS OF TRENDS IN FEDERAL TAX POLICY

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Introduction

For the first time in many years, Congress seems to be paying attention to the distribution of tax burdens among families of different means. Senator Daniel Patrick Moynihan, in launching his recent broadside against rising payroll taxes (January 1990), declared, "the United States almost certainly now has the most regressive tax structure of any Western nation."

By regressive, Senator Moynihan means unfair – that is, that tax burdens fall too heavily on those individuals with the least ability to pay them. This paper takes a detailed look at the question of who bears the burden of federal taxes in the United States, with a particular emphasis on the burden that women bear, particularly working women and women who must cope with the responsibilities of raising a family alone.

We look at the various federal taxes that all American families pay – income, payroll, and consumer excise taxes – and show how the impact of these taxes vary with the particular economic circumstances of these families.

"Women have a huge stake in the direction of federal tax policy. Indeed, a fair tax system can make a huge and positive difference in the prospects of struggling families with children."

Our findings are detailed in the following pages and we hope that the reader will review them carefully. But the bottom line of our research points to this very important conclusion: not all federal taxes are alike from the point of view of working women, and it is absolutely crucial to understand the differences if women are to get a fair shake from the authors of this nation's tax laws.

We find, for instance, that the much maligned personal income tax is, by leaps and bounds, the fairest of all federal taxes that women pay. Alone among the principal federal taxes, the personal income tax takes into account the unique circumstances of different families – and how those circumstances affect those families' ability to pay. Many lower-income families, headed by women pay no federal income tax at all – and in fact receive a credit to apply against the payroll taxes that they must pay.

For all the grumblings about federal tax reform, (grumblings which accompany any major change in standard operating procedures, grumblings given tremendous amplification by the lobbyists for the well-heeled, and magazines and other publications serving the wealthy investor) the Tax Reform Act of 1986 represented a major step forward for working women and women heads of households.

On the other hand, we find that the sorts of taxes that seem to be the taxes of first resort for many politicians – taxes on consumer products such as gasoline, alcoholic beverages, cigarettes, and telephone calls – place the greatest relative burden on families headed by women specifically, and families of limited means, more generally.

These consumer excise taxes flunk the goals of horizontal and vertical equity, concepts which will be discussed in far greater detail later on. Vertical equity, simply stated, demands that those of greater means pay a greater share of their incomes in taxes than those of lesser means. Horizontal equity asks that persons of equal means bear equal tax burdens. Yet consumer excise taxes extract a far greater share

of the incomes of poor, near-poor, and middle-income families than they do of rich families. And, of course, they result in dramatically different tax burdens for families with equal incomes, depending on the consumption patterns of those families.

Finally, the payroll tax is found to be every bit as regressive as recent accounts suggest, although somewhat less so than consumer excise taxes. The reason: The payroll tax is just what its name suggests, a tax on wages and salaries, but only up to a cap ($51,300 in 1990). Wealthy individuals make, of course, well in excess of $51,300 a year and a good share of their income comes in the form of interest, rent, and capital gains (income not subject to the payroll tax in any event). Thus, as a share of their total incomes, payroll taxes are insignificant. Regressivity at very low income levels is alleviated somewhat by the fact that a substantial share of the income of poor families comes in the form of aid for dependent children, child support, and other types of income that are not subject to the payroll tax.

Women have a huge stake in the direction of federal tax policy. Indeed, a fair tax system can make a huge and positive difference in the prospects of struggling families with children. An unfair tax system can drive these same families deeper into poverty and desperation, and can further isolate them from the mainstream of American life. The shame of recent changes in federal tax law, with the shining exception of the Tax Reform Act of 1986, is that they consistently have led the nation toward the latter outcome.

Three Kinds of American Families

The story of America during the past two decades has been the story of three families – one rich and getting richer; one that is middle-class, with husbands and wives running harder and working more just to stay in place; and one that is struggling, headed by a woman, and falling further and further behind.

It is this last family type, which is becoming more and more the norm for children in the United States today, that deserves the specific attention of tax policy makers.

There certainly is plenty of dispute, among experts and the general public alike, about what constitutes a fair tax. Some believe that the distribution of the tax burden should be *"progressive"* – that is the share of income devoted to taxes should rise as incomes rise. Some believe that the fairest tax is *"proportional"* – that is, the share of income devoted to taxes is equal across incomes. But it would be a particularly hard-hearted, Scrooge-like figure who would stand up and publicly declare a preference for a tax that would pile burdens on needy families – the type of family in which more and more of the nation's children live, and where a disproportionate number of the nation's women are found.

Because of this general consensus on the illogic of taxing female-headed families with children deeper into poverty, it is useful to review recent economic trends among families like these.

Female-Headed Households

First, families that are maintained by women are much more likely to be poor than families generally, even though women who are the heads of households are working more today than they ever have in the past.

The poverty rate for female-headed families is five times greater than it is for families where both the husband and wife are present. Among all individuals in female-headed families, the poverty rate was 33.6 percent in 1987. For the percentage of children in these families, the poverty rate was significantly higher.

This is not for lack of work effort. Nearly half (47 percent) of all poor families headed by women received income from wages, accounting for 25 percent of the total income received by such families. Seventy percent of female-headed families with incomes falling between 75 percent and 100 percent of the official poverty line received wages. In fact, poverty has increased among poor female-headed families where there is "significant work" according to official government data.

It's not too difficult to figure out why this has occurred. Women hold 60 percent of all minimum wage jobs, and the minimum wage has lost one-third of its value since the beginning of the 1980s. Moreover, cuts in low-income assistance have exceeded the benefits of working harder or working longer.

Median Household Income

	Married Couples	Female Householder
All Races	$34,293	$11,400
White	34,989	13,158
Black	28,961	8,452
Hispanic	23,742	8,588

Source: U.S. Census

In addition, the number of families fitting this profile has grown by leaps and bounds in recent years. According to the Census Bureau,

between 1970 and 1987, the number of one-parent families increased by a staggering 142 percent, from 3.8 million to 9.2 million. Over the same period, the number of two-parent families decreased by 3.1 percent, from 25.8 million to 25.0 million.

Statistics can be pretty dry, but it is in data like these that the true challenges our nation faces in the next decade may be found. And it is within these one-parent families that a growing number of our children may be found – children upon whom our nation's economic future rests. The data paint a troubling, but pretty clear picture: The number of children living with one parent (and almost 90 percent of the time that one parent is the mother) jumped by 84 percent between 1970 and 1987, from 8.2 million to 15.1 million. Today, *nearly one-quarter of all of our nation's children live in single-parent families – and more than half of the nation's African-American children live with a single parent.*

Not only are there more and more families that fit this profile, their economic condition is declining both in absolute and relative terms. The chart in the next column, compiled by the U.S. House of Representatives, Committee on Ways and Means, compares the trend in family incomes for single mothers with children with that for all families.

The data show that single mothers with children lost ground in four of five income quintiles between 1979 and 1987. The poorest 20 percent of single mothers with children lost the most ground, as their incomes dropped from 33 percent of the poverty level to 26 percent, *a decline of more than 20 percent.* The second poorest quintile didn't fare much better, dropping almost 19 percent on this measure.

It's worth repeating these findings for emphasis – the poorest 40 percent of families with single mothers, with incomes already well below the poverty line, fell significantly further below the poverty line between 1979 and 1987.

Average Family Cash Income as a Fraction of Poverty
(Adjusted Family Income)
Quintiles Based on Adjusted Family Cash Income
Weighted by Persons, 1979 and 1987

Family Type & Quintile	1979	1987	1979-87 %Change
All Families			
Lowest	0.92	0.83	-9.8
Second	2.09	2.08	-0.5
Middle	3.09	3.25	5.2
Fourth	4.31	4.71	9.3
Highest	7.36	8.51	15.6
Average	**3.55**	**3.88**	**9.3**
Single Mothers With Children			
Lowest	0.33	0.26	-21.2
Second	0.75	0.61	-18.7
Middle	1.22	1.07	-12.3
Fourth	2.01	1.95	-3.0
Highest	3.67	4.03	9.8
Average	**1.60**	**1.58**	**-1.3**

Source: U.S. House of Representatives, Committee on Ways and Means

Two-Parent Family Comparison

The data for all families paint a somewhat better picture. The best-off 60 percent of families generally saw their family incomes increase during this period. The lowest two quintiles, however, watched their family incomes decline as a percentage of the poverty level – if not at the rate witnessed by single mothers, still at a rate which speaks poorly for the overall performance (and fairness) of the American economy. For married couples with

"The poorest 40 percent of families with single mothers, with incomes already well below the poverty line, fell significantly further below the poverty line between 1979 and 1987."

children, four of the five income quintiles enjoyed growth in their incomes as a ratio to the poverty line. In every instance, the fastest growth was enjoyed by the richest members of each of the family types.

Another way of looking at this decline in the relative status of families headed by women is from the point of view of disposable income. Families with a mother and three children experienced a 22 percent decline in disposable income between 1972 and 1988; the decline was 20 percent for those at 75 percent of the poverty level.

The chart to the right shows the number and proportion of adult men and adult women for various income groupings. One number, in particular, virtually leaps from the page: **Women account for almost two-thirds of all adults living in households with incomes below $10,000 a year.**

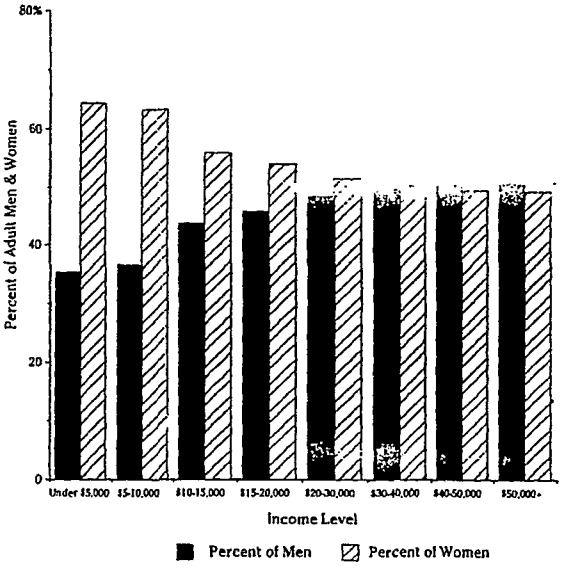
And although we have focused on women with children to this point, we would be remiss if we failed to point out the plight of many elderly women living alone. Although the elderly generally enjoy lower rates of poverty than the nation as a whole, elderly women have not fully shared in the good news.

- More than 72 percent of all elderly women had incomes under $10,000 in 1986, compared to only 43 percent of all elderly men. Indeed, the poverty rate for elderly women is nearly twice that of elderly men.
- More than 40 percent of black elderly women were poor (vs. 6.8 percent of white elderly men).

And the number of elderly women living alone is growing rapidly – between 1970 and 1987, the number of widowed women living alone increased 68 percent, from 3.3 million to 5.6 million.

"The face of poverty is increasingly a female face," say the authors of a recent report by the National Women's Law Center. One cannot begin to analyze the impact of federal taxes on women until one fully appreciates the extent to which that finding reflects all too accurately the real world circumstances of an ever-increasing number of women.

Proportion of Adult Men & Women by Income Group



Note: All numbers in thousands

Source: U.S. Census

The Shrinking Middle Class

Middle-class families, despite significantly increased work effort from spouses, have realized very small real increases in their total incomes over the past decade. These small increases have been dwarfed by huge increases in income enjoyed by the wealthiest ten percent of all Americans – as a result, the share of total income earned by each of the fourth through ninth deciles of the income distribution (spanning the $18,350 to $60,720 a year income range) declined between 1980 and 1990.

Average Income Level in Each Family Decile

Decile	1980	1990	1980-90 % Change
Fourth	$17,400	$18,350	5.5
Fifth	22,630	23,800	5.2
Sixth	28,520	29,840	4.6
Seventh	34,950	37,290	6.7
Eighth	42,860	46,970	9.6
Ninth	54,430	60,720	11.6

Source: U.S. House of Representatives, Committee on Ways and Means

How much harder are these families working? According to data compiled by the Economic Policy Institute, the average woman wage and salary worker was working 118 more hours a year in 1986 than in 1979. Not only is the average woman worker working more hours, but the number and percentage of woman workers in the work force has been on a rapid rise as well. More than ten million women joined the labor force during the 1980s, bringing their total numbers to 56 million, and their share of the total workforce to 45.2 percent.

Despite these trends, middle class family incomes have remained surprisingly stagnant. As the table above shows, the increase in family incomes for the fourth through ninth income deciles – for the entire ten year period – was in the range of 4.6 to 11.6 percent. On an annual basis, this works out to percentage increases of 0.45 to 1.10 percent. By contrast, the average family incomes of the richest one percent of American families rose (after adjusting for inflation) over 47 percent between 1980 and 1990, or an annual real rate of growth of nearly four percent.

Other sets of data confirm these findings. The average annual rate of growth in median family income among married couples in which the wife works was 0.4 percent between 1979 and 1987. Married couples in which the wife did not work actually watched their family incomes decline at a rate of 0.5 percent a year.

The median incomes of families headed by someone aged 25 to 35 declined at a rate of 0.9 percent a year; the median incomes of families headed by persons under the age of 25 declined at a rate of 2.9 percent a year. These declines in the median incomes of families of prime child-bearing age represent more bad news for our nation's children.

The table below shows that for each income decile between $18,350 and $60,720, its slice of the total income pie dropped between 1980 and 1990.

Distribution of Family Income By Family Decile

Decile	1980		1990	
	Before Tax	After Tax	Before Tax	After Tax
Fourth	5.3	5.8	5.0	5.4
Fifth	6.9	7.3	6.4	6.8
Sixth	8.7	8.9	8.1	8.3
Seventh	10.6	10.7	10.1	10.2
Eighth	13.1	12.8	12.7	12.5
Ninth	16.6	16.1	16.4	15.9

Source: U.S. House of Representatives, Committee on Ways and Means

The Rich Get Richer

The 1980s were very, very good to the richest of America's families. The numbers in the tables shown speak for themselves.

In constant (inflation-adjusted) dollars, the average income of a family among the richest one percent rose from $295,000 in 1980 to $435,600 today. A big part of the reason for this increase was the rapid rise in income from capital during the past decade. Income from rent, dividends and interest jumped almost 50 percent between 1979 and 1987, a rate of increase triple that of income from labor. Whereas the average family receives less than 17 percent of its income from capital income, the typical fam-

Average Income Level in Each Family Decile

	1980	1990	1980-90 % Change
Top 10%	$105,700	$130,400	24.2
Top 5%	139,800	181,100	29.6
Top 1%	295,000	435,600	47.6

Source: U.S. House of Representatives, Committee on Ways and Means

ily among the richest one percent receives almost half of its income in this form.

As a result, the share of overall income received by the wealthiest groupings of the income distribution rose rapidly as well. For example, the richest one percent boosted their share of the total after tax income pie from 8.3 percent in 1980 to 11.4 percent today – an increase of nearly 40 percent!

What most Americans know intuitively is borne out by the data. The poor are getting poorer. The middle-class is getting squeezed harder. And the rich are having a field day. And, for the past decade, as this paper will show, federal tax policy has had the effect of exacerbating each of these trends.

Distribution of Family Income By Family Decile

	1980		1990	
	Before Tax	After Tax	Before Tax	After Tax
Top 10%	32.0	30.4	35.2	33.9
Top 5%	21.3	20.0	24.4	23.6
Top 1%	9.0	8.3	11.8	11.4

Source: U.S. House of Representatives, Committee on Ways and Means

Federal Taxes Paid by Individuals

We now move to a consideration of the three major kinds of federal taxes which are paid directly by individuals: Consumer excise taxes, the personal income tax and the payroll or Social Security tax.

Consumer Excise Taxes

Consumer excise taxes are the most unfair of all possible revenue options for women.

This report finds that a family headed by a single mother pays from five to fourteen times as large a share of its income as does a family earning close to $100,000 a year for excise taxes on gasoline, telephone service, and tobacco products. (See Appendix.)

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Consumer excise taxes are sales taxes on selected products and services – the kinds of products and services that people tend to use in their everyday lives. The federal government levies excise taxes on gasoline, telephone calls, beer, wine, liquor, cigarettes, air fare, and more than 10 other products.

Now, at first glance, these kinds of taxes – and sales taxes generally – possess at least the gloss of fairness. It seems fair that all consumers, regardless of income, pay the same tax on each bottle of beer they buy. No loopholes, no questions, no attorneys, no accountants – the same tax, no matter what. That's the beauty of sales and excise taxes, proponents of these sorts of taxes might say.

Moreover, they would be quick to add, these taxes are really optional. A consumer may choose not to pay them by choosing not to consume the products on which the taxes are levied.

Let's examine each of these points for a moment and consider their implications for fairness.

Fairness – when it comes to taxes – is in the eye of the beholder. No one enjoys paying a tax – any kind of tax. But when push comes to shove, most people will state their preference for a tax which is progressive; one in which the share of income devoted to paying the tax rises as income rises. In this view, someone making a million dollars a year should pay a greater share of his income in tax than a person living below the poverty line.

Public opinion survey data will attest to this widely held definition of tax fairness, a definition based on the principle of **progressivity.**

However, a survey of economists might result in a different definition, one based on a **proportional** distribution of the tax burden – that is, a tax in which the share of income devoted to the tax is the same for all income groups.

Few indeed would stand and publicly announce their support for the concept of taxing the poor at a higher rate than the well-to-do. Such a tax simply would not square with most Americans' sense of fair play. As a result, **vertical equity** – that is, equity among the various income groups – has become a well-ingrained standard for tax fairness.

The other widely accepted criterion for tax fairness is horizontal equity – the notion that people of similar incomes and similar means ought to bear similar tax burdens. Why should a family of four making $40,000 a year bear a significantly greater tax burden than their next-door neighbors, also a family of four, also making $40,000 a year?

Indeed it was this principle of horizontal equity, more so perhaps than vertical equity, that was the driving force behind the passage of large-scale federal tax reform in 1986. The whole idea of trading in loopholes for lower rates was an attempt to bring about an end to a tax system where similarly situated individuals could pay wildly different rates depending on their willingness to invest in tax shelters and other tax avoidance schemes.

When applied to the world of business, horizontal equity means a level playing field – and our federal corporate tax code had become so riddled with loopholes and preferences that companies in the same line of business would pay wildly different rates of tax depending on the relative creativity of their tax accountants. The result was the passage of a tougher, stricter minimum corporate tax.

Now let's evaluate consumer excise taxes, which appear to many to be fair, according to these two fundamental principles of tax fairness – vertical and horizontal equity.

The tables in Appendix 1 tell the story. There the reader will find calculations of the relative consumer excise tax burden for different family types. The family types range from the base family, a family earning $92,001 a year (which places it at the bottom of the income range for the richest five percent of all families) to a typical family of three headed by a single mother (the average annual income for that family type is $8,360).

In order to assess the impact of excise taxes on horizontal equity, each family type contains calculations of tax indices for four different spending levels:

- The "All Households" Index – this number shows the relative tax burden for families which spend an average amount of money on taxed items within a given income group. That is, it is an average for all households, lumping together both those households which consume the item and those households which do not.

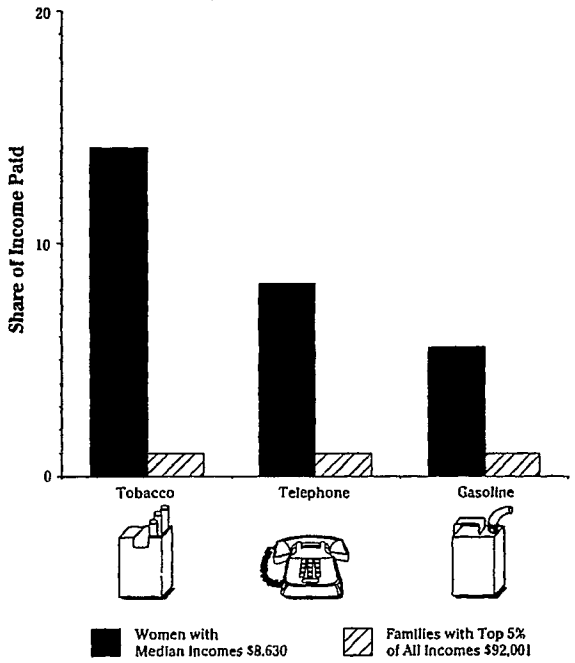
- The "High" Index – this number shows the relative tax burden for those families which are the largest consumers of the taxed item for a given income group. Among all consumers of a given item, there will be those who will consume the item at a higher, a lower, and an average rate. This index reflects an assumption that the largest consumers of these taxed items consume at a rate 10 percent higher than the rate for all consumers.

- The "Low" Index – this index reflects the tax burden for those families which consume the least of the taxed product. When more than a quarter of the people within an income group did not consume the item at all, we assumed a spending level of zero for the "low" consumer. Otherwise, we assumed that the low spending level was 10 percent below the average for all spenders.

- The "Equal Spending" Index – this index reflects the tax burden for those families which spend the average for all spenders on a given item.

The base for all of the various indices is the "All Households" level for the family whose $92,001 a year income places them among the richest five percent of all families. In other words, the starting point for all comparisons of relative tax burdens among income groups and among

Share of Income Paid in Consumer Excise Taxes by Women with Median Incomes Compared to the Richest Five Percent of all Families.



Note: For further information on these figures consult tables in Appendix 1.

spending levels is always the average for all households in the "Top Five Percent" family type.

Now, let us review relative excise tax burdens for a family headed by a single mother, with one or more children under the age of six.

The "All Households" Index for this family yields the number 5.55 for gasoline. This means that the federal excise tax on gasoline takes 5.55 times as great a share of the income of the average family of this type as it does of a family earning close to $100,000 a year.

The "Equal Spending" Index yields an even higher figure, 7.32, for gasoline. Remember, this column provides a calculation of the tax burden for families at a level that is average for families of this type which actually spend money on the taxed product (the numbers for "All Households" represent the average for all families, whether they consume the taxed item or not). This means that the federal excise tax burden for a family with a single mother with preschool children which actually spends money on gasoline is 7.3 times as great as the average for the richest five percent of all families.

The numbers in these charts speak for themselves, but some are worth pointing out nonetheless.

The data show that federal tobacco taxes are by far the most regressive of all federal excise taxes, whether one looks at the data from the point of view of the average across all households or the average for all families which spend money on this product.

For all families headed by a single mother with pre-school children, federal excise taxes on tobacco extract a share of income 14 times as great as they do for families earning close to $100,000 a year.

For all families of this type which spend some money on tobacco products, federal excise taxes on tobacco take more than 33 times as large a chunk out of family income as they do the incomes of the well-to-do.

Because more women than men are poor, and because taxes on tobacco are particularly regressive, cigarette taxes place a particularly harsh burden on women. Women account for nearly two-thirds of the cigarettes consumed by persons living in households with incomes of $10,000 a year or less – not because women smoke at a rate dramatically higher than men, but because so many more women are poor.

Even though males consume more than females by almost a 6 to 1 margin when it comes to beer, female-headed households still devote a significantly larger share of their incomes to federal excise taxes on beer than do wealthy families.

A female-headed household with pre-school children spends, on average, two and a half times as great a share of its income on federal beer taxes as does a family with an income among the richest five percent. The figure jumps to over five times as great for families of this type which actually consume beer.

"The bottom line: middle-class families spend a significantly larger share of their incomes than do the rich on nearly every one of these federal excise taxes."

For female-headed families with children of school age, beer taxes account for a 50 percent greater share of family income than they do for families ranking among the richest five percent. For families of this type which actually spend money on beer, the figure rises to 2.2 times as much.

The federal excise tax on telephone calls also places a disproportionate burden on female-headed households. Families headed by single mothers with pre-school children devote seven times as great a share of their incomes for this tax as does a family with an income close to $100,000 a year. For families headed by single mothers with school-aged children, the federal telephone tax takes close to five times as large a bite.

Clearly, federal excise taxes take a far greater chunk out of the pocketbooks of the poor (and the median incomes of families headed by women are low) than of the rich. But how do middle-class families fare? How do families fare where both spouses live under the same roof?

The bottom line: Middle-class families spend a significantly larger share of their incomes than do the rich on nearly every one of these federal excise taxes.

Let's look first at the "Ozzie and Harriet" couple – the family where the husband works and the wife doesn't. There were approximately 9.4 million families fitting this description in 1988 according to the most recent Census data. The median income for families of this type was just over $34,000. Federal excise taxes on gasoline, beer, and telephone service accounted for approximately twice as great a share of their family income as they did of the income of a family making almost three times as much money every year. The federal excise tax on cigarettes took three times as great a share. Married couples where both spouses work, a description which more accurately depicts the economic circumstances of married couples today (there were 18.9 million such couples in 1988, with a median income of nearly $44,000), also fare less well than the rich. Beer taxes take a 30 percent greater share of family income; gasoline taxes take an 84 percent greater share; telephone taxes take a 59 percent greater share; and tobacco taxes take nearly two and a half times as great a share.

For single women or women heading a household on income derived from full-time employment in an executive, administrative, or man-

Tax Indices for Persons Working Year-Round, Full-Time in Executive, Administrative, and Managerial Positions

Type of Tax	Male	Female
Gasoline	2.13	3.00
Telephone	1.93	3.10
Beer	2.69	1.21
Tobacco	2.83	5.31
Wine	0.79	1.21
Liquor	1.43	1.70
Air Fare	0.69	0.98

Note: 1.00 = the index for families which earn $92,001 a year and which spend an amount on each item equal to the average among all households at that income level.

Source: Computations by The Center for Economic Policy Analysis

agerial position (median income: $23,356), beer taxes take a 21 percent larger share of income than they do of the rich; wine taxes take a 21 percent larger share; liquor taxes take a 70 percent larger share; gasoline and telephone taxes take a 300 percent larger (three times as much) share; and tobacco taxes take more than 500 percent larger share (five times as much).

With the exception of beer, the burden of federal excise taxes on a family headed by a woman in an executive, administrative, or managerial position is greater than that for a family headed by a man in an equivalent position.

This result holds true for any comparison of families headed by men and women, respectively, where incomes are derived from equivalent positions of employment. The reason is simple – women are paid less for the value of their work than are men. The lower the income, the larger the share of income that excise taxes extract. Therefore, women get hit disproportionately hard.

This is a truism which applies to just about any tax based on consumption. The share of income devoted to consumption rises as income falls. It falls as income rises. The reason: The demand for goods and services is not unlimited. One – even a rich person – can only consume so much gasoline or beer or cigarettes. One can only make so many telephone calls. At some point, demand is satisfied and tax payments reach their ceiling. The larger one's income, the greater the amount of money left over after the spending is done and the taxes are paid.

Of course, spending on specific goods and services varies among the income groups. Some products make up a larger share of the spending of the poor than others; some make up a larger share of the spending of the rich. Our own research shows that spending on air fare is an exception to the rule that consumption (as a share of income) falls as income rises. The richer one is, according to our analysis, the greater the share of family income that is devoted to air fare. This stands to reason; poor people don't take a lot of plane rides, to Europe, the Bahamas, or anywhere else.

Citizens for Tax Justice, a labor-backed tax reform group based in Washington, D.C., in a recent publication entitled "Nickels and Dimes," calculated a regressivity index for various goods and services subject to sales and excise taxes at the state level. We have reprinted part of that table on the next page; the figures represent the ratio between the share of income devoted to spending on specific items by the richest one percent of all families to the share of income spent on those items by the poorest 20 percent of all families.

Thus, when you read the number 15 percent only next to the entry for beer, that means that the richest one percent of all families spend 15 percent as much of their incomes on beer as do the poorest one-fifth of all families. Or stated a little differently, the poorest one-fifth of all families spends almost seven times more of their incomes on beer as does a family with an annual income that places it among the richest one percent of the nation's families.

To this point, we have focused on the issue of vertical equity. On this criterion of tax fairness, we have found excise taxes to be sorely lacking. In fact, these taxes, particularly taxes on gasoline, tobacco, beer, and telephone service, result in a distribution of tax burdens that is wholly contrary to what most people would feel is just or reasonable. They place the greatest burden on those persons with the least ability to pay – working families living paycheck to paycheck, households headed by working women, young families with children, and the poor.

Now let's shift gears for a moment and examine the second criterion of tax fairness – horizontal equity, the notion that households with equal abilities to pay should shoulder roughly equal parts of the tax burden. As the tables in Appendix 1 show, excise taxes perform poorly according to this standard as well.

Some products that are subject to excise taxes, specifically gasoline and telephone service, are used by just about everybody and therefore do not run far afield of the goal of horizontal equity. But there are other products such as air fare, tobacco and beer which are used by some and not by others – and thus fail this second test of fairness.

Take for example, the burden of the federal excise tax on air fare for a household headed by the typical woman who works year-round, full-time. The median income for women fitting this description is $18,545. The average tax burden index for such households is 116.3 percent. If the excise tax on air fare were paid equally by all women in this category, they would all face roughly the same burden. But look at the "Equal Spending" index, the index which represents the average tax burden for those who actually spend money on the taxed item. The figure is 629.1 percent; that is, for this family headed by a full-time female worker the excise tax on air fare takes more than 5.4 times as great a share of income as it would under a horizontally equitable tax that spreads the burden equally.

Conversely, just as some households are strapped with an extremely high burden, others pay nothing at all – as the "Low Spenders" index shows.

The range of horizontal inequity is even greater for the tobacco tax on these households. Some of them – those who actually consume tobacco products – pay more than twelve times as great a share of their income for this tax as do average $92,001-a-year households. But other working women households – those who do not consume tobacco products, about half of the total – pay nothing.

"Exactly!" proponents of these excise taxes might respond. These taxes, or at least some of them, are applied to products that may be harmful or even "sinful," which may have significant public health impacts, and which some say people should be urged to avoid.

But one need not love beer or alcoholic beverages or love tobacco in order to oppose taxes on these products. Similarly, it need not follow that all those who find beer, liquor, or tobacco offensive should line up in favor of excise taxes on these products.

The issue that confronts legislators and public policy makers at all levels of government is not whether they like or dislike products like these, but how best to finance the public goods and services that we all enjoy.

Regressivity Index by Item Spending by the Rich as a Share of Income Compared to Spending by the Poor as a Share of Income

Regressive	**Rich/Poor**
Cigarettes	1%
Gasoline	4%
Food (less candy & soft drinks)	5%
Electricity	5%
Natural Gas	6%
Telephone	8%
Cigars, other tobacco	10%
Fuel Oil	11%
Candy & gum	13%
Beer & ale (home)	15%
Meals away (except school)	20%
Beer & ale (away)	31%
Wine (away)	39%
Spirits (away)	42%
Clothing & shoes	46%
Progressive	
Legal fees	100%
Spirits (home)	140%
New cars & trucks	218%
Wine (home)	324%
Lodging out of town	613%

Source: Citizens for Tax Justice

The data are inescapable: These excise taxes are among the most unfair of all possible revenue options, if fairness prescribes a distribution of the tax burden according to the ability to pay. As Richard and Peggy Musgrave write in their seminal textbook on public finance, *Public Finance in Theory and Practice,*

> *With the bulk of selective sales taxes being derived from items of mass consumption, such as liquor, tobacco, and gasoline, incidence tends to be highly regressive. Moreover, such taxes discriminate among consumers of equal income, but with different preferences. They thus rank poorly on the grounds of both horizontal and vertical equity.*

The fact that excise taxes on products like these require hard-pressed households headed by single mothers to shell out many more times as large a share of their incomes than well-heeled households with incomes 10 times as large is a moral issue of some weight. This is particularly true at the federal level, where a good portion of the deficit can be traced to decisions to provide huge tax breaks to the truly wealthy.

Indeed, we should be very careful about the underlying motivation behind proposals for excise tax increases. Is health the principal concern? Or are these sorts of taxes easier targets because the persons on whom they fall don't have the sophisticated lobbying machinery that the wealthy have? Are they easier targets because the tax is hidden in the price of the product and therefore might go unnoticed by the taxpayers?

"Don't tax me – tax that fellow behind the tree," was the favorite saying of Senator Russell Long, mimicking the long line of lobbyists who paraded before his Senate Finance Committee. Proposals to hike excise taxes are, clearly, attempts to tax the fellow behind the tree. But when we go to take a look at who is sitting behind the tree, we find single mothers, young families with children, the working poor, and others living paycheck to paycheck. Should only certain segments of society – even if they are smokers or beer drinkers – foot the bill for a budget deficit that may in part be traced back to a decision to mightily boost defense spending, the most public of public goods? Should we not all bear, particularly the wealthy who have enjoyed such generous tax cuts in recent years, whatever additional burden must be borne to pay for the rebuilding of Europe, funding anti-drug initiatives, or building new homes for the homeless?

These are important questions and go to the heart of the debate that is likely to go on in Congress over the next several months.

One final point with regard to excise taxes and taxes based on consumption generally: Some supporters of these sorts of taxes point to something called the "lifetime income" concept to argue that they may not be as regressive as studies like ours' show.

They argue that spending in any given year reflects not just what one earns in a given year, but also reflects a calculation of what one is likely to earn over an entire lifetime. Thus, a family just starting out is likely to spend more than they might be expected to spend because they have some confidence that their incomes will rise in the future. Moreover, these apologists for consumption taxes argue, since spending declines in one's later years, the burden of consumption taxes, though high in earlier years, falls over time. Therefore, they contend, an analysis that looks at the burden of excise taxes at a specific point in time will overstate the burden of these taxes.

Let's assume for a moment that people know with perfect foresight what their future incomes will be. The fact remains that excise taxes and other consumption taxes still pile on burdens during that part of the lifetime when family resources are stretched to the breaking point. Indeed, the imposition of additional taxes at this particular point may have the effect of closing the door on certain opportunities that might have led to greater earnings down

the line. Conversely, why should we wish, as a matter of policy, to alleviate burdens when family budgets are most flush? By ignoring these very real stage of life concerns, sweeping everything under the construct of "lifetime income," advocates of consumption taxes reveal a disconcerting disconnection from the real world.

But, as Musgrave and Musgrave observe,

> *The proposition that individuals with equal present value incomes are in equal position assumes that future incomes and needs are known, so that an optimal disposition can be made.* ***In fact life is uncertain and preferences change*** *[emphasis added,] which makes it difficult to establish ex ante that people are in equal positions.*

The fact of the matter is that families budget and spend on a much more limited time horizon than this "lifetime income" hypothesis would suggest. The distant future is heavily discounted; the driving considerations are current job, the likelihood of keeping it, the spouse's current job, and so on. The ability to borrow is certainly a factor that comes into play, but it's hard to convince a bank to lend money on the basis of "potential."

People are essentially risk averse. This economist's construct, the lifetime income concept, may have some application to a recent college graduate, or an associate with a law firm, persons who know with some certainty that times will get better. But it is a concept that has little or no relevance to, say, single mothers with three children, or a recent divorcee, or a newly-widowed woman. Indeed, in some ways, the lifetime income concept helps underscore the discriminatory effect of excise taxes on working women, particularly working women who have to serve as the principal provider for their families. For these women, consumption is driven not by dreams for the future but by much more immediate things, like actual earnings – particularly for the types of products which are subject to excise taxes.

1990 Federal Excise Tax Rates

Quintile	All Families	Families With Children
Lowest	2.5%	3.4%
Second	1.4	1.7
Middle	1.0	1.1
Fourth	0.8	0.9
Highest	0.5	0.6
Average	**0.8**	**0.9**

Source: U.S. House of Representatives, Committee on Ways and Means

The data are clear: *Excise taxes hit those people hardest who have the least ability to pay.* As the table above shows, federal excise taxes hit lower-income families and families with children particularly hard. That's just another way of saying that women wind up footing significantly more than their fair share of the bill for federal excise taxes.

The Personal Income Tax

The personal income tax has taken more than its fair share of abuse. That abuse is to be expected from lobbyists for the well-to-do. After all, the federal personal income tax is the only major tax we have that distributes tax burdens in a progressive manner. It is the only major tax which takes into account the ability of different taxpayers to pay. But it's a tax that has come under excessive criticism even from its friends, for whom the search for a perfect income tax has sometimes come at the expense of a defense of its very important positive attributes.

Sometimes the perfect can be the enemy of the good. And let there be no doubt about it, the personal income tax is a very, very good tax from the point of view of working women, women who are heads of households, and the poor.

The Personal Income Tax Index

Family Type	Median Income	Average Index	High Index	Low Index
Richest 5 Percent	$92,001	1.00	1.31	0.89
Median Income	$27,225	0.48	0.51	0.42
Female, Living Alone	$11,622	0.36	0.56	0.11
Female, Head of Household, 2 Children, Ages 0 to 6	$8,360	NM	NM	0.00
Female, Head of Household, 2 Children, Ages 6 to 17	$15,327	NM	0.14	0.00
Male, Head of Household, 2 Children	$28,642	0.60	0.62	0.51
Married Couple, Male Only Works	$34,153	0.53	0.61	0.53
Married Couple, Female Only Works	$26,207	0.46	0.49	0.41
Married Couple, Both Spouses Work	$43,810	0.60	0.69	0.60

Note: 1.00 = the share of income devoted to personal income taxes by a richest five percent family with average sources of income and deductions. NM represents Not Meaningful

Source: Computations by The Center for Economic Policy Analysis

The table above documents the personal income tax liabilities for a variety of family types under different economic assumptions.

A word of explanation about the table: The index numbers represent the ratio between the share of income devoted to the personal income tax by a particular family type and the share of income devoted to the personal income tax by the base family type, the "richest five percent" family. Thus an index number of 0.50 would mean that particular family devotes exactly one-half as large a share of its income to the personal income tax as does the $92,001-a-year family.

The "average" index refers to a family with average sources of income (that is, an average amount of income from wages, interest, dividends, welfare payments, and so on) and average deductions (the average amount among those who itemize, if more than 50 percent of such families do in fact itemize; otherwise, use of the standard deduction is assumed). The "average" index for the richest five percent family is the base for all of the indices.

The "high" index refers to a family which obtains all of its income in the form of wages and always utilizes the standard deduction.

The "low" index refers to families with above-average sources of tax-exempt income, such as welfare payments, child support payments, and so on. Unless fewer than 25 percent of the families within a given family type actually itemize, it is assumed that the taxpayer is an itemizer with an average amount of deductions.

The initials "NM" stand for "not meaningful." The reason these initials appear is that the federal tax payment in these cases is negative;

that is, these families actually receive a net tax refund from the federal government.
There are several obvious findings which emerge from these data:

- While lower- and middle-income families typically pay significantly greater shares of their incomes than the rich in consumer excise taxes, for every single family type surveyed, the share of income that they pay in federal personal income taxes was less than that of the rich.

- The federal personal income tax is a very good deal for women raising families on their own. For the typical single mother with pre-school children, the federal personal income tax results in a net refund of over $500. For the single mother with school-aged children, the average refund is just over $400. Not only are no federal income taxes owed, but the federal government sends a check back to these families as a credit against the payroll taxes they have already paid. The reason is the "earned income tax credit," a feature of the federal tax code which is discussed in greater detail below.

- Middle-income families spend, on the average, about half as large a share of their incomes on personal income taxes as is the case for our base "richest five percent" family.

Value of the Standard Deduction

Filing Status	Pre Tax Reform	Today	Percent of Increase
Married Couple	$3,650	$5,200	42.5%
Head of Household	2,475	4,350	75.7
Single	2,475	3,100	25.2

Source: Internal Revenue Service

A big reason why the federal personal income tax has become such a good deal for women is the much-maligned Tax Reform Act of 1986.

Indeed, a report issued by the National Women's Law Center shortly after the passage of that legislation concluded,

> *The Tax Reform Act marks a critical step forward in tax policy for the vast majority of the nation's women – particularly women at the low and moderate end of the income scale. [It] recognizes the diversity of American women and includes provisions beneficial to women in their myriad roles – women in the work force and women who are homemakers, women who are single heads of household and women who are in two-earner married couples, women who are elderly, and women who are disabled.*

The federal Tax Reform Act of 1986 did three important things to alleviate the tax burden of women:

- First, it doubled the value of the personal exemption, which is $2,000 today, and was $1,040 prior to the passage of tax reform.

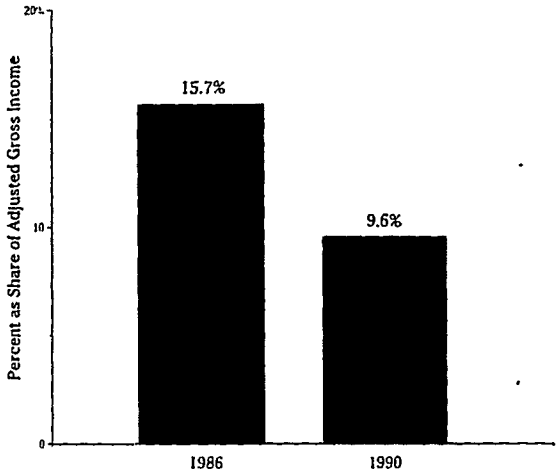
- Second, it vastly expanded the value of the standard deduction, the deduction claimed by taxpayers who do not itemize their deductions, giving a particularly large boost to the standard deduction which may be claimed by single heads of household.

- Third, it dramatically expanded the breadth and depth of the credit provided to poor and near-poor families with children where income is derived from work – the earned income tax credit. Today, a credit of as much as $873 is provided, with benefits phased out at an adjusted gross income of $18,556. Prior to tax reform, the maximum credit was $550, and the phase out level was $11,000.

The Benefits of Tax Reform

Family Type: Female Head of Household, Two Children

	1986	1990
Adjusted Gross Income	$15,327	$15,327
Less Standard Deduction	2,480	4,550
Less Personal Exemption	3,240	6,000
Federal Income Tax	1,311	716
Payroll Tax	1,096	1,151
Less Earned Income Tax Credit		400
Combined Federal Tax	2,407	1,467
As Share of Adjusted Gross Income	**15.7%**	**9.6%**



Source: Computations by The Strategy Group

The Personal Exemption

The personal income tax is a tax that adjusts for a variety of factors that affect the relative ability of families to pay. Suffice it to say, two families with equal incomes and the same filing status, one with no children and one with four children, have significantly differing abilities to pay. Child-rearing is not without cost. The personal exemption was established to try to, at least in part, account for these differences.

The increase in the personal exemption is a step in the right direction for women of all backgrounds, but is of particular benefit to women who are homemakers. Married couples in which the woman stays at home tend to have both more children and lower incomes. A married couple with three children today receives exemptions worth a full $10,000 – a significant reduction in taxable income for middle- and lower-income families.

For low-income families in which single mothers are trying to make ends meet, the benefit of the increased personal exemption should be obvious. The new personal exemption would wipe out almost two-thirds of the taxable income for a single mother trying to support two children on a minimum wage.

During an era in which politicians glibly aspire to the mantle of being "pro-family," *the increase in the personal exemption that was part of the Tax Reform Act of 1986 has turned out to be one of the most honest-to-goodness pro-family measures to come out of any recent Congress.*

The Standard Deduction

The standard deduction was instituted in 1987 to simplify the tax filing process. It provides a fixed level of deductions for persons who don't want to keep or who would gain no financial advantage from keeping a detailed list of itemized deductions. It thus serves as a proxy for expenses which affect the ability to pay, such as state and local taxes paid, medical expenses, charitable contributions, and other deductions. And by providing a floor for deductions, it has the effect of alleviating the tax differential between homeowners, who can and usually do itemize such things as mortgage interest and

real estate taxes (and who may now deduct interest on home equity loans, even as other forms of consumer interest are phased out), and renters.

The large increase in the standard deduction for heads of households that was part of the Tax Reform Act of 1986 was a long overdue recognition of what these sorts of families are actually like. Traditionally, the tax code had treated such families in a manner far closer to single taxpayers than married couple families. Yet, heads of households – this is the filing status for single mothers raising families on their own – generate expenses that are equal to or slightly greater than married couples. The tax reform act narrowed the gap between the value of the standard deductions for these two family types, and provided some badly needed tax relief for hard-pressed single mothers.

Largely due to this boost in the standard deduction, the National Women's Law Center has found that "single heads of household are among the biggest 'winners' under tax reform." A typical single mother with two school aged children, with an income at the median for that family type of just over $15,000, received a net tax cut of around $1,000, thanks to the combination of a higher standard deduction and larger personal exemptions.

The Earned Income Tax Credit

The earned income tax credit is a refundable credit designed to alleviate the combined federal tax burden of income and payroll taxes on the working poor. If the credit is greater than the total federal income tax bill owed by the taxpayer, the federal government mails out a check for the remaining amount. This provides some relief from Social Security taxes – taxes which are, by far and away, the largest of federal tax burdens on the working poor.

Credit is given only for income earned from wages and salaries – and it is given only to families with dependents – and thus provides an

Incentives to Work

Much was made during the early part of the 1980s of a concept called supply-side economics. The promoters of supply-side economics made much ado about the tax rates facing the well-to-do, arguing – with very little or no data to justify their contentions – that a reduction in those rates would unleash a powerful stimulus to work, save, and invest among these individuals..

Unfortunately, there was very little attention paid to lower-income individuals, for whom the choice between work and welfare can mean precious little difference in total family income. Work means loss of welfare benefits. Work means that health benefits under Medicaid would be lost. Work means higher taxes, since payroll and income taxes are deducted from wages, but not from welfare.

The staff of the Ways and Means Committee of the U.S. House of Representatives calculates something that they call "the marginal AFDC tax rate" (AFDC is Aid for Dependent Children). This "tax rate" refers to the loss of benefits related to each additional dollar of income earned from work. For a mother with two children with earned income between 50 and 75 percent of the poverty level, the marginal AFDC tax rate averages out to be 60 percent (this figure represents a weighted average of rates in the fifty states).

What this means is that if this single mother were to raise her earnings by $3,000, benefits would be reduced by $1,800 and her actual disposable income would increase by only $1,200. Thirteen states, according to the Ways and Means report, had marginal AFDC tax rates of 90 percent or more! A marginal tax rate of 60 to 90 percent is in fact likely to alter the choice between work and welfare for an AFDC mother.

important incentive in favor of work. And, as we saw earlier, even most single mothers with pre-school children receive some income from wages.

The earned income tax credit is a good way to reduce the marginal tax rate attached to the decision to work by the poor and near poor. It puts money in the hands of people who need it, many of them single mothers who work. And after having allowed inflation to erode its value since its inception in 1975, the Tax Reform Act of 1986 gave it a solid boost.

It was one of the most pro-family and pro-work pieces of legislation to come out of Congress during the 1980s.

The Tax Threshold

In combination, the new and improved personal exemption, standard deduction, and earned income tax credit have quite an impact on the amount of income which may be earned before the first dollar of federal income tax is paid. This point, the point at which federal income taxes begin to be paid, is sometimes known as the tax threshold.

The relationship between the tax threshold and the poverty level is interesting to watch, for the simple reason that an income tax, a tax based on the ability to pay, ought not to have the effect of taxing poor people deeper into poverty. The table on the right charts the relationship between the tax threshold and the poverty level over time (it assumes full use of the earned income tax credit).

In 1989, a married couple with two children will not pay a dime of federal income tax until family income reaches $15,666.

These facts are of relevance to more than just poor families. The effect of the larger personal exemption and standard deduction is of importance to families throughout the middle-income spectrum. And, to repeat a point that bears repeating, because women are paid less than men for the value of their work, the exemption and deduction have an even greater relative impact on women.

Relationship Between Income Tax Threshold & Poverty Level For A Family Of Four 1975-1990

Year	Income Tax Threshold	Poverty Level	Tax Threshold as a Percent of Poverty Level
1975	$6,692	$5,500	121.7%
1976	6,892	5,815	118.5
1977	7,520	6,191	121.7
1978	7,533	6,662	113.1
1979	8,626	7,412	116.4
1980	8,626	8,414	102.5
1981	8,634	9,287	93.0
1982	8,727	9,862	88.5
1983	8,783	10,178	86.3
1984	8,783	10,610	82.8
1986	9,575	11,203	85.5
1987	13,288	11,611	114.4
1988	15,120	12,091	125.1
1989	15,666	12,674	123.6
1990	16,270	13,297	122.4

Source: U.S. House of Representatives, Committee on Ways and Means

For a woman earning the median income for a woman with four years of college – $36,434 – with two dependents, personal exemptions and the standard deduction reduce taxable income to $25,884.

For a married couple with two children earning the median for all married couples, $36,530, the combination of personal exemptions and the standard deduction subtract $12,550 from adjusted gross income, leaving taxable income of $23,980.

Tax reform has gotten a bad rap. Working women and women who live alone or must raise families on their own are better off today

as a result. These gains must be preserved and broadened as Congress wrestles with ways to close the budget deficit.

The Payroll Tax

Senator Daniel Patrick Moynihan of New York set off a time bomb late in 1989 when he called for rolling back the payroll tax, reestablishing the Social Security program as a pay-as-you-go system, and ending the practice of counting surplus Social Security funds against the federal deficit for the purpose of meeting the Gramm-Rudman-Hollings deficit targets.

In 1983, Congress decided to move the Social Security trust fund to a partially funded basis, beginning a series of payroll tax increases in order to build up a surplus in the fund. That surplus would, the backers of the plan (including Senator Moynihan) hoped, enable the federal treasury to buy down the federal debt: boosting national savings, increasing the amount of capital available for private investment, raising the nation's growth rate, and bringing about a higher standard of living and a larger economic base from which to pay future retirees.

This hope has been completely frustrated by the federal government's unwillingness to reduce its true operating deficit, preferring instead to use the surplus Social Security funds ($65 billion in the current fiscal year) to meet the Gramm-Rudman-Hollings deficit targets.

As a result, revenues from the payroll tax, which absolutely no one disputes is a regressive tax, have begun to play a larger and larger role in underwriting the operating expenses of the federal government – a result not at all in line with the purpose of the payroll tax or the original contract between taxpayers and the government: that these revenues be used for security in old age.

"There is a word for this," Senator Moynihan said in a statement outlining his plan. "The word is thievery."

FICA Rates 1980-1990

Year	Maximum Taxable Earnings	Combined FICA Tax Rate
1980	25,900	12.26%
1981	29,700	13.3
1982	32,400	13.4
1983	35,700	13.4
1984	37,800	13.7
1985	39,600	14.1
1986	42,000	14.3
1987	43,800	14.3
1988	45,000	15.02
1989	48,000	15.02
1990	51,300	15.3

Source: Internal Revenue Service

Among the operating expenses that the Social Security surpluses are helping to underwrite are interest payments on the existing federal debt. This realization caused the Democratic commissioners to the National Economic Commission to write in a report issued in March of 1989,

> *Let no one suppose that a Democratic Congress will much longer allow a payroll tax to be used to service a $2 to $3 trillion dollar debt owned in vastly disproportionate amounts by wealthy individuals and institutions. It already requires nearly one-half the revenues of the income tax to pay the interest. This is surely the largest transfer of wealth from labor to capital in the history of our "political arithmetic."*

"At least," they added, "this [the income tax] is a graduated tax." The payroll tax most assuredly is not. Today the tax is levied at a rate of 15.3 percent on the first $51,300 of wages or salary, one-half of which is deducted directly from take-home pay, the other half "paid" by the business to the federal government. Most

The Payroll Tax Index

Family Type	Median Income	Average Index	High Index	Low Index
Richest 5 Percent	$92,001	1.00	1.00	1.00
Median Income	$27,225	1.66	1.79	1.66
Female, Living Alone	$11,622	1.37	1.79	0.95
Female, Head of Household, 2 Children, Ages 0 to 6	$ 8,360	0.81	1.79	0.00
Female, Head of Household, 2 Children, Ages 6 to 17	$15,327	1.40	1.79	1.13
Male, Head of Household, 2 Children	$28,642	1.67	1.79	1.67
Married Couple, Male Only Works	$34,153	1.68	1.79	1.68
Married Couple, Female Only Works	$26,207	1.66	1.79	1.66
Married Couple, Both Spouses Work	$43,810	1.68	1.79	1.68

Note: 1.00 = the share of income devoted to payroll taxes by a richest five percent family with average sources of income.

Source: Computations by The Strategy Group

economists and employers agree, though, that the entire tax is a tax on labor.

Just how regressive the payroll tax is – now the largest federal tax paid by three-quarters of the American people – may be seen in the table above.

For middle-income families with average sources of income, the payroll tax extracts a share of income that is almost 70 percent larger than the share of income extracted from the $92,001-a-year family (assuming a single wage earner). The real regressivity with the payroll tax comes at much higher income levels, however. Remember, the payroll tax is levied on the first $51,300 a year only – every additional dollar earned is tax-free. Thus, the maximum payroll tax that is paid by any employee in the United States is $7,711.20 – whether that employee is a $60,000 a year accountant or a million-dollar-a-year Fortune 500 executive. As a share of income, the payroll tax shrinks to an insignificant rate for the truly wealthy.

At low-income levels the regressivity of the payroll tax is alleviated somewhat by the fact that non-wage sources of income become increasingly important components of total taxable income. Note that the share of income devoted to the payroll tax by the average single mother with pre-school children is actually less than that of the "richest five percent" family. That's because wages compose, on average, just over 40 percent of the total income of a female-headed household at the poverty level. By contrast, wages account for over 80 percent of the total income of a female-headed household at three-times the poverty level.

The "low" index for the single mother with pre-school children, the index which refers to families with significant sources of non-wage income, falls to zero, because the typical family of this type with some AFDC income receives all of its income from sources other than wages.

The "high" index tells the story from the point of view of families headed by women who get

all of their income from work – and for these families, the payroll tax, at every point, extracts a larger share of their family income than it does of the well-to-do.

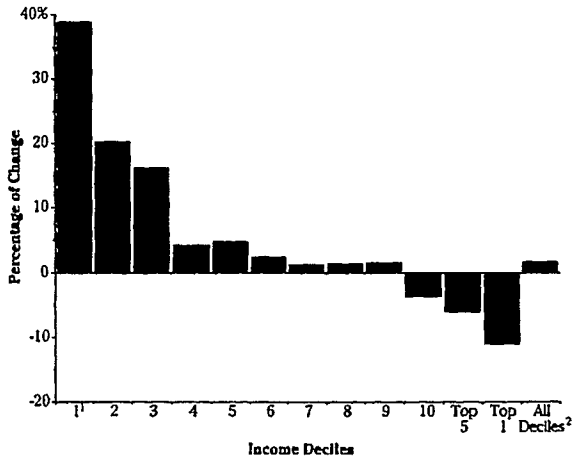
From the point of view of these lower-income families, replacement of the payroll tax with new or higher sales and excise taxes, as some in Congress have urged (most notably, Senator Ernest Hollings of South Carolina), would actually raise taxes. On the other hand, replacement of payroll taxes with, say, a 33 percent income tax bracket for incomes in excess of $200,000, would leave not only these families better off, but the vast majority of Americans better off as well.

But let there be no mistake about the fact that the payroll tax is, when comparing the burden of this tax on middle-income families to much wealthier families, significantly regressive. By raising this tax throughout a period in which taxes on the upper income group have been cut and cut dramatically, **the Reagan and Bush administrations have produced a very large shift in who bears the tax burden in the United States.**

The Shifting Federal Tax Burden

Just how large has this shift been? The Congressional Budget Office provides the most detailed answer to that question. The table below tells the tale:

Percentage of Change in Effective Federal Tax Rates Between 1980 and 1990



1 Excludes families with zero or negative incomes.
2 Includes families with zero or negative incomes not shown separately.

Source: Congressional Budget Office tax simulation models.

This table reveals that, for all the rhetoric about tax cutting that spewed forth from the mouths of politicians in recent years, the vast majority of taxpayers have watched their total federal tax bills go up – not down – as a result of recent federal tax changes.

The reason is simple. For the well-to-do, massive cuts in income tax rates (the top marginal rate on ordinary income dropped from 50 percent to 28 percent during this time period) overwhelmed a series of payroll tax increases. Not so for the non-rich, for whom minor reductions in income taxes were more than outweighed by rising payroll taxes.

Only the richest ten percent of American taxpayers enjoyed a reduction in their overall federal tax rate between 1980 and 1990 – and the largest tax cut of all, not only in absolute amount, but also in percentage terms, was reserved for the richest of the rich – the top one percent of the American income range. For these individuals, with an average income of more than $400,000 a year, the average federal tax cut worked out to an extra $15,200 a year in their pockets.

Effective Federal Tax Rates

Decile	Individual Income Tax		Social Insurance Tax		Combined Tax	
	1980	1990	1980	1990	1980	1990
First	-0.5	-1.0	3.2	5.5	2.7	4.5
Second	0.2	-0.2	3.9	5.9	4.1	5.7
Third	2.4	1.9	6.1	8.3	8.5	10.2
Fourth	5.2	4.1	7.4	9.1	12.6	13.2
Fifth	7.0	6.1	7.9	9.8	14.9	15.9
Sixth	8.9	7.6	8.4	10.1	17.3	17.7
Seventh	10.2	8.8	8.7	10.3	18.9	19.1
Eighth	11.4	9.7	8.9	10.9	20.3	20.6
Ninth	12.9	11.1	8.4	10.6	21.3	21.7
Tenth	18.7	16.9	5.2	6.3	23.9	23.2
Top 5%	20.8	18.6	4.0	4.9	24.8	23.5
Top 1%	25.2	22.1	1.6	2.0	26.8	24.1
All Deciles	**12.3**	**11.1**	**7.2**	**8.8**	**19.5**	**19.9**

Source: U.S. House of Representatives, Committee on Ways and Means

The poorest of the poor experienced the largest percentage increase in their overall federal tax bills, demonstrating that recent payroll tax hikes have had the greatest impact – in relative terms – on this income group.

This would seem to contradict data that are frequently cited by apologists for trickle-down economics – the U.S. Chamber of Commerce, the columnists Rowland Evans and Robert

Novak, and other defenders of the faith – which show that the rich are paying a greater share of federal income taxes than ever before.

And indeed, the data from the Congressional Budget Office show that the share of income taxes paid by the richest 10 percent of taxpayers did in fact grow between 1980 and 1990 – from 48.4 to 53.3 percent of all taxes paid, an increase of just over 10 percent.

"The poorest of the poor witnessed the largest percentage increase in their overall federal tax bills."

This, say people like Evans and Novak, is precisely how Reaganomics was supposed to work. But let's look at this argument a little more closely, because there are big problems with it.

Yes, the share of income taxes paid by the richest 10 percent did go up. But it went up at almost exactly the same rate as did their share of total income. This richest 10 percent group received 32.0 percent of total income in 1980 and 35.2 percent of the total a decade later, an increase of 10 percent.

Thus, these numbers reveal nothing more than the fact that the rich got richer during the past decade. The rate of increase in their share of income taxes paid is almost exactly equal to the rate of increase in their share of total income. In the past, under a progressive rate structure, one would have expected a much more rapid rate of increase in their share of income taxes paid.

Think about this point in this way: If poor people wind up paying a lesser share of the federal tax burden because they earn a lesser share of total income, is this something that we should all feel good about? Of course not.

These numbers, which focus on the federal income tax to the exclusion of other federal taxes, tell only part of the story. When payroll, excise, and corporate income taxes are factored in, the share of total federal taxes paid by the richest 10 percent group rises at a rate almost half as fast as their gain in share of total income. Their share of total federal taxes paid rose from 37.2 to 39.3 percent over the past decade, an increase of 5.6 percent.

By comparison, for the bottom 50 percent of the income distribution, the share of total income has decreased from 19.3 percent to 17.9 percent, a decrease of 7.1 percent. Their share of total federal income taxes paid has fallen at an even faster rate, thanks to tax reform, from 7.1 percent to 6.0 percent, a decrease of 16.3 percent. But once other federal taxes are factored in, the decrease is negligible – their share of total federal taxes paid, which was 12.1 percent in 1980, is still 12.0 percent today.

This result is hardly one worth bragging about. The rate of increase in the share of total federal taxes paid by the rich is significantly less than the rate of increase in their share of the nation's income. The rate of decrease in the share of total federal taxes paid by the bottom 50 percent has been negligible, despite a significant drop in that income group's share of total income.

"During the past ten years, the federal tax system has aided and abetted a significant shift in income and wealth – toward the rich and away from the rest of us."

Thus, what the data really show is something far different from what the apologists for Reaganomics would have us believe. During the past 10 years, the federal tax system has aided

and abetted a significant shift in income and wealth – toward the rich and away from the rest of us. In recent years, the federal tax system has helped broaden the gap between the rich and everyone else, and is helping to close the door on those opportunities by which the sons and daughters of today's middle-class and poor families might someday become millionaires themselves.

Lessons for the Present

The findings of this report show clearly that women have a huge stake in the process by which federal tax policy is made. The way the federal government chooses to raise revenue can have a dramatic impact on the family budgets of middle- and lower- income families. It can have a major impact on the decision to work or not. It can provide greater economic opportunity to families with young children and, thus, improve their chances of becoming full participants in American society. Or it can add to the economic hardship and family stress with which a greater and greater number of American children must cope.

In recent years, with the exception of the Tax Reform Act of 1986, the decisions of the Congress and the President have led to greater tax burdens on middle- and lower-income families with children. *This has meant that women – to a disproportionate extent – have been forced to pick up the tab for tax cuts to the wealthy.*

Reliance on the personal income tax – the fairest of existing revenue sources, fairer now than before due to increases in the personal exemption, standard deduction, and earned income tax credit – has been reduced.

Rising payroll taxes, which are responsible for significant increases in the federal tax burden of poor and middle-class families, are now being used to underwrite the normal operating expenses of the federal budget.

This year, Congress will be addressing two issues which will help determine whether our country continues to choose to pile taxes on women and children.

First, President Bush wants to reinstate a special exemption for capital gains income – the single largest source of income for millionaires, but a negligible source of income for middle-class families (about one percent of family income for a typical married couple) and a less-than-negligible source of income for the working poor.

If the President gets his way, households with incomes in excess of $238,000 a year will receive an additional $25,000 a year tax cut, the gap between the rich and the non-rich will widen, and the federal tax burden will shift even more toward women and families with children.

As the Coalition on Women and Taxes puts it, "A cut in the capital gains tax rate is inimical to every principle that we worked for in tax reform."

Second, Senator Moynihan has called for an immediate reduction in the payroll tax rate and an end to annual surpluses in the Social Security trust fund which allow the government to cover up the true size of the deficit.

The Moynihan proposal has an element of the game of "chicken" to it – an immediate elimination of the surplus would leave legislators with a $50-plus billion hole to fill. This hole could be filled in any number of ways – by strengthening the personal income tax, by the adoption of new or higher sales and consumer excise taxes, or – it might not get filled at all, resulting in damaging budget cuts or a big boost in government borrowing.

Not all of these possible outcomes are positive ones from the point of view of working women,

but even more clear and more certain is the fact that the status quo is not one which works to the advantage of working women.

The Moynihan proposal has had the salutary effect of focusing public attention on the issue of the increasing federal tax burden on the middle-class and the working poor. It is absolutely crucial that advocates for women, particularly working women, become engaged in the debate over the Moynihan proposal – it affords a unique opportunity to reverse the tax shift of recent years.

Lessons for the Future

Whether or not Senator Moynihan had ever surfaced his proposal, ultimately, the federal government would have had to come to grips with the gap between revenues and expenditures.

For all the rhetoric about balanced budgets, and for all the very real cuts in areas such as worker training, education, day care, and other social services, the federal government continues to run a real operating deficit of around $200 billion. The word "real" is used to differentiate between the actual deficit and a deficit calculation that uses the Social Security surplus to hide its true extent.

Nearly everybody that has studied the deficit has a differing opinion about its impact on our economy – some say it has none, others attribute nearly every possible ill to it. But one thing is clear, and this is no doubt the effect that President Reagan hoped for back in the early 1980s, the intentional, persistent federal deficit forecloses new spending initiatives. We can't do more in Eastern Europe, we can't have real welfare reform, we can't have a real day care program, we can't do more to control drugs, we can't do more about the quality of our education system, we can't do any of these things except talk, because the money just isn't there.

The so-called "peace dividend" offers some hope for additional revenues, but early indications are that the armed services and their corporate allies will rapidly deploy new rationales for continued spending.

The deficit is likely to remain at or near the top of the agendas of our nation's elected leadership for some time to come. There are three possible solutions to a deficit that we haven't grown out of despite the longest period of uninterrupted economic growth of the post-World War II era (albeit growth that hasn't exactly been equally shared) – cut spending, raise taxes, or some combination of both.

But if we cut spending and raise taxes, who will be the targets?

For the past decade, the United States has cut certain types of spending dramatically – the kind of domestic spending that is particularly beneficial to women and children. And for the past decade, the United States has raised certain types of taxes – again the very kinds of taxes that ask the most of women and children.

When sacrifices have been made in recent years for "the good of the nation's economy," they have been made at the expense of women and children.

This time around, there will continue to be many so-called "fiscal conservatives" who will continue to ask additional sacrifices of women and children. They will call for additional general cuts in domestic spending. They will call for increases in consumer excise taxes and other sales taxes. Some may even be so bold as to call for the institution of a national value-added tax or some variant thereof. They will call, as President Bush has already done, for further cuts in the taxes of the rich. They will talk about the tough choices that must be made. But somehow the tough choices, if these politicians have their way again, always wind up being made at the expense of people of limited means.

This time around, let's make sure that the needs of women and children come first, not last. Let's find solutions that emerge from a clear understanding of the origins of the deficit – huge tax cuts for the wealthy and an unprecedented peacetime military build-up. Let's find ways to shift the tax burden back toward those with the greatest ability to pay (a greater ability to pay than ever, thanks to the huge increases in wealth and income the rich have enjoyed over the past decade). Let's do what we can to make the "peace dividend" become more than a hope.

Let's do these things because, if we don't, we will be continuing to pursue a course that will make the poorest of our nation's citizens – our children – poorer yet. And there is no way that our nation can succeed economically or any other way in the years to come if we continue our present fiscal policy course.

More Bad News for Women: Value-Added Taxes

Many economists and some in Congress have become enamored of the idea of a value-added tax (VAT), a tax imposed on the value added to a product at each step of the process from which it goes from raw material to final sale.

Some economists have advised that the United States actually go so far as to substitute a national VAT for our existing personal income tax. In Congress, supporters such as Senator Ernest "Fritz" Hollings view it as a supplement to our current system, and a long-term solution to our nation's deficit problem.

In Europe, the VAT has been around for a long time. It is possible, therefore, to derive some lessons from the real world experience these countries have had with these taxes.

Citizens for Tax Justice, a Washington, D.C.-based tax reform group, has analyzed the VATs in nine European countries. They have come up with a "standard" or "composite" European VAT and looked at how tax burdens would be distributed here in this country under such a scheme.

They found that a "composite" European VAT transported over here – and levied at a five percent rate (the rate proposed by Senator Hollings), would ask poor families to pay four and a half percent of their incomes in added taxes; middle-income families would pay three percent. "But rich people," according to the Citizens for Tax Justice report, "would pay only a bit over one percent of their incomes in additional taxes – a third the burden on the poor."

Let there be no mistake about it: A shift from reliance on the income tax to a broad-based consumption tax, like the value-added tax, would severely aggravate the current direction of federal tax policy – a direction which is contrary to the interests of working women.

Appendix 1

The Excise Tax Index

1.00 = Tax burden as a share of income for the "richest five percent family" with average spending on the taxed item.

All Households = A level spending on the taxed item that is the average for all households at that income level. This figure, thus, mixes together both those who spend money on the taxed item and those who do not.

Among households that actually spend money on the taxed item, there are those that spend "high," "low," and "average" amounts.

"High" = Refers to households that spend 10 percent more than the typical spending household at that income level.

"Low" = Refers to households that spend 10 percent less than the typical spending household at that income level.*

"Equal Spending" = Refers to households that spend the average for all spending households at that income level.

* Unless more than 25 percent of the households spend nothing at all on the taxed item, in which case no spending is assumed.

Family Type:
Top Five Percent of All Incomes

Lowest Income $92,001

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	1.00	1.10	0.90	1.00
Airfare	1.00	2.02	0.00	1.84
Telephone	1.00	1.11	0.91	1.01
Beer	1.00	1.20	0.98	1.09
Wine	1.00	1.20	0.98	1.09
Liquor	1.00	1.22	1.00	1.11
Tobacco	1.00	2.19	0.00	1.99

Household Type:
Median Income Household

Median Income $27,225

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	2.66	2.96	2.42	2.69
Airfare	0.86	3.96	0.00	3.60
Telephone	2.62	2.91	2.38	2.64
Beer	2.73	3.74	3.06	3.40
Wine	1.05	1.44	1.18	1.31
Liquor	1.78	2.65	0.00	2.41
Tobacco	4.24	8.57	0.00	7.79

Individual Type:
All Women with Earnings

Median Income $11,096

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	10.82	13.46	11.01	12.23
Airfare	3.62	28.04	0.00	25.49
Telephone	13.26	14.87	12.16	13.52
Beer	10.86	19.21	0.00	17.47
Wine	3.74	6.40	0.00	5.82
Liquor	6.81	13.27	0.00	12.07
Tobacco	22.31	50.46	0.00	45.87

Individual Type:
All Men with Earnings

Median Income $20,612

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	8.53	9.79	8.01	8.90
Airfare	2.73	15.15	0.00	13.77
Telephone	9.12	10.15	8.30	9.23
Beer	8.51	12.58	10.30	11.44
Wine	3.13	4.63	3.79	4.21
Liquor	6.04	10.05	0.00	9.14
Tobacco	14.18	29.53	0.00	26.85

Individual Type:
Woman Working Year-Round, Full-Time, 25 or More Years Old, 4 Years High School

Median Income $16,810

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	9.53	11.27	9.22	10.24
Airfare	2.99	18.47	0.00	16.79
Telephone	10.73	11.97	9.80	10.89
Beer	8.62	13.89	0.00	12.63
Wine	3.24	5.21	0.00	4.74
Liquor	6.76	12.43	0.00	11.30
Tobacco	16.18	34.56	0.00	31.42

Individual Type:
Woman Working Year-Round, Full-Time, 25 or More Years Old, 5 or More Years College

Median Income $30,136

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	2.48	2.75	2.25	2.50
Airfare	0.78	3.34	0.00	3.03
Telephone	2.36	2.61	2.14	2.38
Beer	0.85	1.17	0.96	1.06
Wine	1.01	1.39	1.13	1.26
Liquor	1.24	1.85	0.00	1.68
Tobacco	4.09	8.22	0.00	7.47

Individual Type:
Woman Working Year-Round, Full-Time, 65 or More Years Old

Median Income $19,493

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	3.53	4.10	3.35	3.72
Airfare	1.12	6.47	0.00	5.88
Telephone	3.85	4.28	3.51	3.89
Beer	1.31	1.99	0.00	1.81
Wine	1.30	1.99	0.00	1.81
Liquor	2.02	3.50	0.00	3.18
Tobacco	6.28	13.21	0.00	12.01

Individual Type:
Woman Working Year-Round, Full-Time, Administrative Support, Including Clerical

Median Income $16,676

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	4.00	4.73	3.87	4.30
Airfare	1.26	7.76	0.00	7.06
Telephone	4.51	5.03	4.11	4.57
Beer	1.42	2.28	0.00	2.08
Wine	1.41	2.28	0.00	2.07
Liquor	2.29	4.22	0.00	3.84
Tobacco	7.27	15.53	0.00	14.12

Individual Type:
Woman Working Year-Round, Full-Time, Executive, Administrators, and Managerial

Median Income $23,356

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	3.00	3.38	2.76	3.07
Airfare	0.98	5.02	0.00	4.56
Telephone	3.10	3.44	2.81	3.13
Beer	1.21	1.70	1.39	1.55
Wine	1.21	1.70	1.39	1.54
Liquor	1.70	2.62	0.00	2.39
Tobacco	5.31	10.87	0.00	9.88

Individual Type:
Woman Living Alone

Median Income $11,622

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	4.78	5.84	4.78	5.31
Airfare	1.59	11.44	0.00	10.40
Telephone	5.72	6.41	5.24	5.83
Beer	1.93	3.33	0.00	3.03
Wine	1.75	2.93	0.00	2.66
Liquor	2.53	4.83	0.00	4.39
Tobacco	10.27	22.78	0.00	20.71

Household Type:
Woman Head, No Spouse, 1 or More Children Under 6 Years Old

Median Income $8,360

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	5.55	8.05	6.58	7.32
Airfare	1.95	24.95	0.00	22.68
Telephone	8.26	9.39	7.68	8.54
Beer	2.59	5.93	0.00	5.39
Wine	1.57	3.40	0.00	3.09
Liquor	2.16	5.38	0.00	4.89
Tobacco	14.12	36.88	0.00	33.53

Household Type:
Woman Head, No Spouse, 1 or More Children, All 6-17 Years Old

Median Income $15,327

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	4.16	4.93	4.03	4.48
Airfare	1.33	8.19	0.00	7.45
Telephone	4.72	5.26	4.31	4.79
Beer	1.52	2.45	0.00	2.23
Wine	1.50	2.42	0.00	2.20
Liquor	2.36	4.35	0.00	3.95
Tobacco	7.88	16.83	0.00	15.30

Individual Type:
Man Working Year-Round, Full-Time

Median Income $27,342

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	2.66	2.95	2.42	2.68
Airfare	0.86	3.93	0.00	3.57
Telephone	2.61	2.89	2.37	2.63
Beer	4.42	6.06	4.96	5.51
Wine	1.00	1.37	1.12	1.25
Liquor	2.14	3.18	0.00	2.89
Tobacco	3.92	7.92	0.00	7.20

Individual Type:
Woman Working Year-Round, Full-Time

Median Income $18,545

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	3.69	4.32	3.53	3.93
Airfare	1.16	6.92	0.00	6.29
Telephone	4.08	4.55	3.72	4.13
Beer	1.33	2.08	0.00	1.89
Wine	1.33	2.08	0.00	1.89
Liquor	2.12	3.77	0.00	3.42
Tobacco	6.58	13.93	0.00	12.66

Individual Type:
Man Working Year-Round, Full-Time, 25 or More Years Old, 4 Years of College

Median Income $36,434

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	2.15	2.38	1.94	2.16
Airfare	0.69	2.55	0.00	2.32
Telephone	1.94	2.14	1.75	1.95
Beer	2.72	3.71	3.03	3.37
Wine	0.79	1.08	0.00	0.98
Liquor	1.45	2.12	0.00	1.92
Tobacco	2.86	5.80	0.00	5.27

Individual Type:
Man Working Year-Round, Full-Time, 25 or More Years Old, 4 Years of High School

Median Income $26,045

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	2.75	3.06	2.51	2.78
Airfare	0.89	4.25	0.00	3.86
Telephone	2.74	3.04	6.80	2.77
Beer	4.78	6.55	5.36	5.96
Wine	1.10	1.51	1.24	1.37
Liquor	2.29	3.40	0.00	3.09
Tobacco	4.12	8.35	0.00	7.59

Individual Type:
Man Working Year-Round, Full-Time, 25 or More Years Old, 5 or More Years College

Median Income $43,938

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	1.83	2.03	1.66	1.84
Airfare	0.67	2.37	0.00	2.16
Telephone	1.59	1.75	1.43	1.59
Beer	2.12	2.76	2.26	2.51
Wine	0.67	0.87	0.71	0.79
Liquor	1.12	1.50	1.23	1.37
Tobacco	2.24	4.83	0.00	4.39

Individual Type:
Man Working Year-Round, Full-Time, Administrative Support, Including Clerical

Median Income $24,399

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	2.89	3.18	2.64	2.93
Airfare	0.95	1.04	0.00	4.28
Telephone	2.93	3.23	2.67	2.96
Beer	5.26	5.79	5.91	6.57
Wine	1.09	1.20	1.23	1.37
Liquor	2.47	2.72	0.00	3.35
Tobacco	4.41	4.86	0.00	8.15

Household Type:
Married Couple, Husband Works, Wife Does Not

Median Income $34,153

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	2.27	2.51	2.05	2.28
Airfare	0.70	2.65	0.00	2.41
Telephone	2.08	2.29	1.88	2.09
Beer	1.82	2.51	2.06	2.28
Wine	0.88	1.21	0.99	1.10
Liquor	1.31	1.95	0.00	1.77
Tobacco	3.34	6.66	0.00	6.06

Household Type:
Married Couple, Wife Works, Husband Does Not

Median Income $26,207

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	2.74	3.05	2.49	2.77
Airfare	0.89	4.21	0.00	3.83
Telephone	2.73	3.02	2.47	2.75
Beer	2.90	3.98	3.26	3.62
Wine	1.08	1.48	1.21	1.35
Liquor	1.87	2.79	0.00	2.53
Tobacco	4.42	8.94	0.00	8.13

Individual Type:
Man Working Year-Round, Full-Time, Executive, Administrators, and Managerial

Median Income $36,759

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	2.13	2.36	1.93	2.14
Airfare	0.69	2.54	0.00	2.31
Telephone	1.93	2.12	1.74	1.93
Beer	2.69	3.66	2.99	3.33
Wine	0.79	1.07	0.88	0.97
Liquor	1.43	2.08	1.70	1.89
Tobacco	2.83	5.75	0.00	5.22

Individual Type:
Man Living Alone

Median Income $18,284

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	3.74	4.38	3.59	3.99
Airfare	1.18	7.05	0.00	6.41
Telephone	4.15	4.62	3.78	4.20
Beer	9.62	15.25	12.48	13.87
Wine	1.23	1.94	1.59	1.76
Liquor	3.25	5.81	0.00	5.29
Tobacco	5.77	12.23	0.00	11.12

Household Type:
Male Householder, No Spouse Present

Median Income $28,642

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	2.57	2.85	2.33	2.59
Airfare	0.82	3.64	0.00	3.31
Telephone	2.49	2.76	2.26	2.51
Beer	4.09	5.61	4.59	5.10
Wine	0.96	1.32	1.08	1.20
Liquor	2.01	2.99	0.00	2.72
Tobacco	3.73	7.52	0.00	6.84

Household Type:
Married Couples

Median Income $36,530

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	2.15	2.37	1.94	2.16
Airfare	0.69	2.55	0.00	2.31
Telephone	1.94	2.14	1.75	1.94
Beer	1.66	2.27	1.85	2.06
Wine	0.83	1.12	0.92	1.02
Liquor	1.20	1.75	0.00	1.59
Tobacco	3.07	6.23	0.00	5.67

Household Type:
Married Couples, Both Spouses Work

Median Income $43,810

Type of Tax	All Households	Households That Spend		
		High	Low	Equal Spending
Gasoline	1.84	2.03	1.66	1.85
Airfare	0.67	2.37	0.00	2.16
Telephone	1.59	1.76	1.44	1.60
Beer	1.31	1.70	1.39	1.55
Wine	0.70	0.91	0.74	0.83
Liquor	0.94	1.26	0.00	1.14
Tobacco	2.42	5.22	0.00	4.75

Appendix 2
Data and Methods for Computing the Tax Burden

Data for this report were obtained from the U.S. Census Bureau, the U.S. Bureau of Labor Statistics, Congressional Budget Office, the National Center for Health Statistics, and an alcohol industry trade group. Because none of the data were in a form that permitted a direct estimate of the differential impacts on women of the various federal taxes, several special computations had to be performed. These are explained below.

Excise Taxes

The Census Bureau publishes a series of *Current Population Reports.* The data are extrapolated from periodic sample surveys of only a fraction of the population, unlike the decennial effort to contact all residents. On the other hand, as their name implies, the reports provide information that is relatively current. One of them, *Money Income and Poverty Status in the United States: 1988 (Advance data from the March 1989 Current Population Survey)* (Washington: U.S. Commerce Department, Census Bureau, 1989), provided median incomes for the different types of households and unrelated individuals discussed elsewhere in this document. It did not, however, offer any insight in to the amount of spending by these households on items subject to the federal excise taxes we investigated - beer, wine, hard liquor, cigarettes, gasoline, airfare, and telephone calls.

For this information, we turned first to *Consumer Expenditure Survey Results from 1987* (Washington: U.S. Department of Labor, Bureau of Labor Statistics, 1989), supplemented by unpublished survey data obtained directly from the Bureau of Labor Statistics (BLS). The Consumer Expenditure Survey (CES) yields average spending by households at different income levels for each of the seven consumption items. The data, however, are reported for households, or what BLS calls "consumer units," with no breakdown for possible differences in spending between women and men.

For four of the seven commodities, other publications complement the CES by incorporating data on overall relative consumption by women and men. The four commodities are beer, wine, and hard liquor (from *Impact,* Vol. 19, No. 15, August 1989), and cigarettes (from *Vital and Health Statistics,* Washington: U.S. Department of Health and Human Services, National Center for Health Statistics, September 1989).

Although these documents provide some useful data, they do not cross-tabulate consumption by gender with either household or individual income. For example, they report that 18.5 percent of all beer is consumed by women, but not the proportion of women at different income levels or the extent to which relative consumption varies with income. Furthermore, the data are for individuals, whereas both the Census and CES report information for households.

Each of the data sources just described is insufficient by itself for the purpose of determining the differential impact of excise taxes on women, but each supplies a key piece of information. Together they provide the basis for computations that yield the desired answers. These computations are now briefly explained.

First, we note that total household consumption (C) at each income level, determined from the Consumer Expenditure Survey, can be expressed as the product of a weighted average

of consumption by the women (C_w) and men (C_m) in the household, times the number of consumers in the household (H). In equation form:

$$(1) \qquad C=(C_wW + C_mM)\,H$$

where

W = Fraction of consumers in the average household who are women, and
M = Fraction of consumers in the average household who are men.

Note that, by definition:

$$(2) \qquad M=1-W$$

W and M are not reported in the CES, but they can be derived from computations based on data in the *Current Population Reports* cited above. For example, the number of women in each income group was estimated by counting one woman for each married couple in that group, plus the number of adult women in families with no spouse present, plus the number of unrelated women living alone. The same was done for men. Then the fraction of the total represented by each (i.e., W and M) was computed. We assumed that the CES typical consumer unit for that income group reflected this overall gender composition of the group. Household size, H, is found in the CES publication.

This leaves us with C_m and C_w still to calculate. We assumed that they are proportionate to the share of total consumption by women (S_w) and men (S_m), as reported in *Impact* and *Vital and Health Statistics*. That is:

$$(3) \qquad \frac{C_m}{C_w}=\frac{S_m}{S_w}$$

Solving for consumption by men in terms of that by women:

$$(4) \qquad C_m=\frac{S_m}{S_w}C_w$$

Substituting back into equation (1) and solving for C_w we get:

$$(5) \qquad C=(C_wW+\frac{S_m}{S_w}C_wM)H$$

$$(6) \qquad C_w=\frac{C}{(W=\frac{S_m}{S_w}M)H}$$

Since all the variable to the right of the equals sign in eq. (6) are known, we could solve for Cw. We then used eq. (4) to solve for C_m. These computations were performed separately for each income group in the CES for each of the commodities beer, wine, hard liquor, and cigarettes. Since we did not have data on how consumptions varies by gender for gasoline, airfare, and telephone calls, no adjustment was made for them.

Beginning with the results of the process just described, we performed additional computations to interpolate for consumption at the specific income levels of the household types selected from the Census. For this step, we assumed that consumption from one CES income group to the next changes proportionately with income. Thus:

$$(7) \qquad C_r=C_l = \frac{Y_r-Y_l}{Y_u-Y_l}(C_u-C_l)$$

where

C = consumption for the income group indicated by the subscript.
Y = median income for the income group, and the subscripts R, L, and U indicate, respectively, the income of the reference group from the Census, the CES income closest to this on the low side, and the CES income closest to it on the upper side.

For example, suppose the income of a reference household was $12,000 per year. If the CES reported consumption of a particular commodity at $500 for households with $410,000

income, and at $700 for households with $15,000 income, eq. (7) yielded an estimate of $580 for the reference household. This was done for every commodity for every selected household type.

Because the CES only reports average spending as if all households consume the item in question, we made an additional adjustment to determine how the excise taxes affect only those who purchase the item. This can be done quite simply by beginning with the realization that average consumption for all households can be expressed as a weighted average of the consumption by those who spend (C_s) and by those who do not spend (C_n, which will be zero):

$$(8) \qquad C+C_sS+C_nN$$

where

S = the fraction of the population that spends on the item in questions, and
N = the fraction of non-spenders.

Then, since C_n-O:

$$(9) \qquad C_s=\frac{C}{S}$$

This calculation was performed for each household grouping and each consumption item. The fraction of spenders was obtained from special BLS tabulations, refined and reported in a congressional Budget Office staff working paper, "The Distributional Effects of an Increase in Selected Federal Excise Taxes," by Frank J. Sammartino (January 1987).

In order to permit comparisons among the various household types selected from the Census, we first converted all data to a per capital basis. If the household consisted of only one adult consumer, consumption for a person of that income and gender, as computed above, was used. If it consisted of more than one adult, the average of their individual consumption levels was used. Finally, the tax burden indexes were computed. First, consumption on each item for each household was determined as a percent of income. This was then divided by the consumption ratio for that item for households at the lower bound of the income range for the top five percent of all households in the country, as described in the text.

Personal Income Tax

Calculations of personal income tax liability were performed with the assistance of a software package called "Turbo Tax," a registered trademark of Chipsoft, Inc., and reflect laws in effect for the filing of 1989 returns.

The "average" index refers to a family with average sources of income for a particular income level – that is, a family with an average proportion of wages, interest, dividends, welfare payments, and so on, that together add up to total family income. The "average" index also refers to a family with average deductions for families at a given income level (unless more than 50 percent of the families at that income level utilized the standard deduction; in such cases, we assumed that the "average" family utilized the standard deduction as well).

The "high" index refers to families which obtain all of their incomes from wages and always utilize the standard deduction.

The "low" index represents an attempt to analyze the tax payments of those families which receive above-average sources of tax-exempt income, such as welfare payments, child support payments, and the like. The "average" figure captures tax burdens for families which represent a composite of all families at a certain income level. In other words, the "average" figure mixes together families which receive tax-exempt income such as aid for dependent children and families which do not.

The "low" index reflects the sources of income for those families which receive a significant part of their incomes from these tax-exempt sources. We factored in only those sources of

tax-free income which were received by more than 25 percent of the families at a given income level. We then calculated how large a share of total family income this tax-free income represented for those families and only those families which actually received such income.

The data on sources of income were derived tables prepared by the Congressional Research Service for the 1989 edition of "Background Material And Data On Programs Within The Jurisdiction Of The Committee On Ways And Means," and are based on the 1988 *Current Population Survey.* Data on itemized deductions were obtained from the Internal Revenue Service, "Statistics of Income Bulletin," Spring 1989, Washington, D.C., 1988.

The Payroll Tax

Payroll tax indices follow the same "average," "high," and "low" classifications that were used for the personal income tax. Total wages were multiplied by the payroll tax rate of 7.15 percent (reflecting the employee's share), up to the cap of $51,300.

Biographies

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Helene D. Colvin is the vice president of The Strategy Group, a public policy consulting firm based in Chicago, Illinois. She was the executive assistant to the late Mayor Harold Washington and the founding director of the City of Chicago's Commission on Women. She has served as the legislative director of the Congressional Black Caucus, as administrative assistant to Congressman Mickey Leland, and as legislative assistant to Senator Paul Tsongas and Senator Dick Clark. She is a graduate of Smith College and the University of Massachusetts at Amherst.

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Arthur Lyons is the president and director of the Center for Economic Policy Analysis based in Chicago, Illinois. He is also a research associate with Northwestern University's Center for Urban Affairs and Policy Research. He is the former administrative assistant of the Cook County Board of Tax Appeals and taught urban planning at the University of Illinois' Chicago campus for ten years. He received his doctorate in economics from Northwestern University in 1977.