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Submitted to the Senate Committee on Finance
"Can the Middle Class Make Ends Meet?
Economic Issues for America's Working Families"
May 10, 2007

Mr. Chairman, I'm honored to have the opportunity to speak with the members of the Finance Committee about the economic challenges facing working families in America today.

The Tax Foundation is the nation's oldest tax research organization. This year, we are celebrating our 70th anniversary. The Tax Foundation is non-profit, non-partisan and accepts no government funding. Our mission is to educate taxpayers about sound tax policy and the size of the tax burden borne by Americans at all levels of government.

Before we can consider what measures the Congress should take to help working families, we must first understand how different today's families are from those of 40 or 50 years ago and how demographic changes have affected the notions of who is "middle-class" and who is upper-income in America.

Next, we also need to understand who is benefiting from government tax and spending policies and who is not. I think the results of this assessment will surprise the members of this committee and the general public.

Lastly, the pending expiration of the so-called Bush tax cuts has prompted many discussions about the relative progressivity and distribution of the nation's tax burden. As we'll see, allowing those tax cuts to expire will effectively raise taxes on the same people we're talking about today, working families. If members of Congress believe our fiscal system should be more progressive, there are less economically damaging ways to achieve that goal. Indeed, progressivity and tax simplicity are not necessarily contradictory concepts.

Not Your Father's Middle Class

Most tax discussions begin with the premise that tax policies should either help or at least protect the "middle class." However, we must be careful about mistaking middle-income taxpayers or the median taxpayer with the "middle class."

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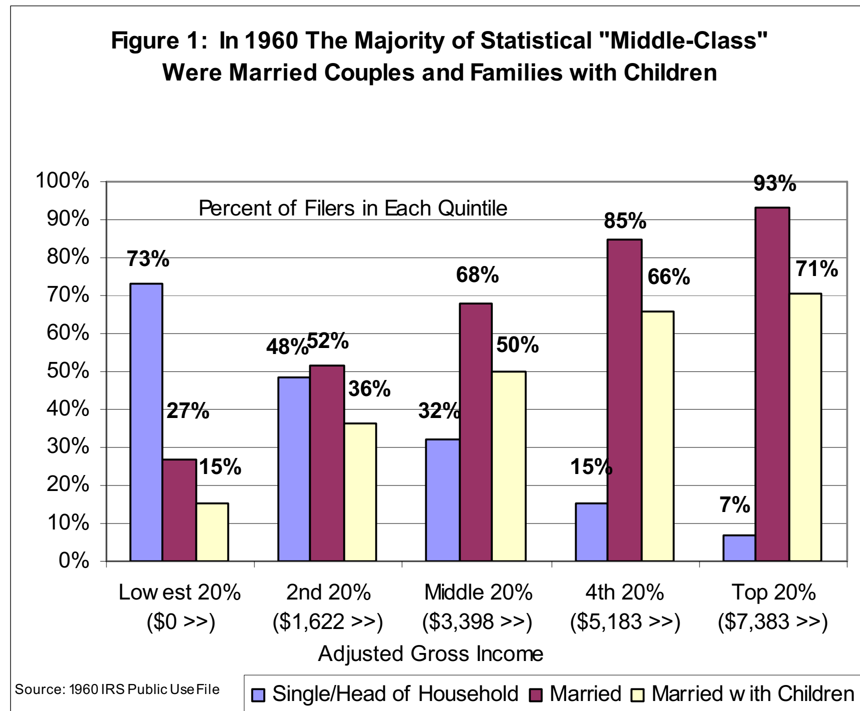
If by "middle class" we mean intact families with children (the stereotypical family of four), then these families no longer comprise the majority of the statistical middle 20 percent of taxpayers. The majority of families with children now populate the wealthiest 40 percent of Americans, in part because of the growth in dual-earner households. So if members of Congress focus too much on the "median family" or "median taxpayers" they will not be accurately portraying the economic status of today's working families.

Figure 1 below looks at the composition of taxpayers in 1960, back in the days of "Leave it to Beaver." The population of taxpayers is divided evenly into five equal parts, or quintiles, each with 20 percent of taxpayers. Focusing specifically on the middle quintile, we can see that the stereotype was true: nearly 70 percent were married couples, most of whom were raising children. Indeed, in 1960, married couples comprised the majority of every group of taxpayers except for the lowest 20 percent. Of that low-income group, 73 percent were single filers.



Over the past four decades, demographic changes have dramatically altered the picture of the statistical middle and contributed to the perception of widening income disparity in America. One of the biggest of these changes has been the rise of dual-income families. In the mid-1960s, less than half of all working-age families – 38 percent – had both spouses in the workforce. Today, some 67 percent of families have both spouses in the workforce and only 21 percent have only one spouse working.

As Figure 2 shows, three things are immediately clear about today's society:

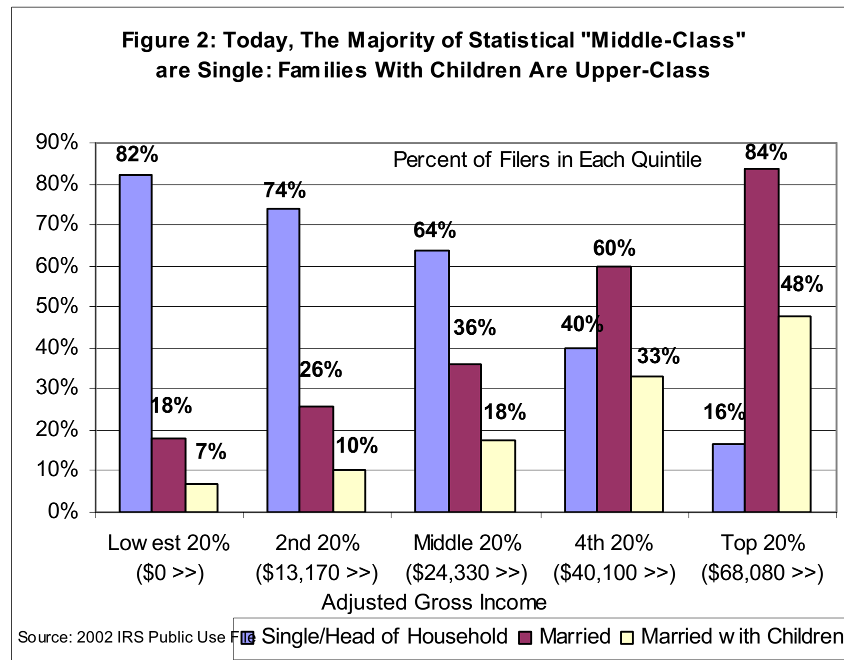
(1) There are vastly more single taxpayers than ever before and they comprise the majority of the populations of the first three quintiles.
(2) Because of the rise in dual-earner families, married couples are mostly found in the two highest quintiles.
(3) A greater percentage of taxpayers in the top two quintiles are married couples without dependents; no doubt many are "empty-nest" Baby Boomers in their peak earning years.

Phoebe and Joey Have Replaced Ozzie and Harriet

Today, the composition of taxpayers in the statistical "middle class" is completely reversed from what it was in 1960. More than two-thirds of modern middle-income taxpayers are single, or single-headed households, while just 36 percent are married. In other words, the statistical middle now looks more like the cast of the TV program “Friends,” not the “June and Ward Cleaver” notion that many of us grew up with.

Moreover, while half of the middle-income taxpayers in 1960 were couples with children, today only 18 percent of these taxpayers are couples with children. The majority of couples with children are now clustered in the top two quintiles.

These demographic shifts have no doubt contributed to the perception of rising income inequality. When the so-called rich are increasingly couples with two incomes, they will naturally look wealthier than the vast number of single taxpayers who now populate the statistical middle.



However, when two single workers get married, they may immediately move from the statistical middle to the so-called “rich” simply by saying, “I do.”

For example, a young school teacher earning $40,000 per year clearly falls into the statistical middle. But if she marries a man earning the same amount as a computer technician, their combined income of $80,000 is enough to qualify them to be in the top 20 percent of tax returns. Thus a family can have two “middle-class” jobs with two middle-income salaries, but still be considered statistically high-income according to sterile IRS data.

Taxes are stressing these dual-earner families from all sides. Many of these families live in high-cost urban and suburban areas and have incomes commensurate with the cost of living. Because of the progressive rate structure of the federal tax code, these couples end up facing the highest federal income tax rates even though they live distinctly "middle-class" lifestyles. For example, a couple earning $150,000 may be considered rich in

Lincoln, Nebraska, but are considered middle-income in Westchester, New York. They both, however, are theoretically taxed at the same marginal tax rate.

These dual-income couples also tend to live in communities with high state and local taxes – especially property taxes. As a result, they are increasingly subjected to the Alternative Minimum Tax, which increases their federal tax bills.

As lawmakers look for solutions to the economic challenges facing today's "middle-class" but upper-income families, they would do well to consider the way in which taxes – federal and local – are contributing to their economic problems.

America's Growing Entrepreneurial Class

One other important characteristic of these high-income families is that they are fast becoming the nation's entrepreneurial class. Over the past 25 years, the number of individual taxpayers reporting business activity on their tax returns has grown at a rapid rate. When we look carefully at the distribution of these tax returns a clear picture emerges: as taxpayers' incomes rise, so too does the likelihood that they have some form of business income (schedule C, E or F) reported on their tax return.

Between 1980 and 2004, for example, the total number of sole proprietorships, partnerships, farms, and S-Corporations doubled, from 13.3 million in 1980 to 27.5 million in 2004. S-Corps alone grew 560 percent, from 545,389 in 1980, to roughly 3.5 million in 2004, and now far exceed the number of conventional C-Corporations.

Overall, 43 percent of taxpayers in the top quintile have business income – twice the percentage of business activity in the middle-income group. Of those taxpayers subject to the highest marginal tax rate of 35 percent, 77 percent have business income.[2]

The lesson here is that today's so-called "rich" are the nation's entrepreneurs and business owners. In part, the explosion in non-corporate business forms has been made possible by tax law changes that Congress has made since the 1980s expanding pass-through business entities such as S-Corporations and Limited Liability Corporations. As a result, more and more business income is now being taxed under the individual tax code rather than the traditional corporate tax code.

Forty years ago, the income from these entrepreneurial endeavors would have been taxed under the traditional corporate tax code. Some scholars have suggested that "the observed growth in the income of the richest individuals relative to the rest of the population may, at least in part, be a fiction, reflecting simply a shift in their form of compensation."[3]

[2] Tax Policy Center, Table T07-0131, April 27, 2007.
[3] Roger H. Gordon and Joel Slemrod, "Are 'Real' Responses to Taxes Simply Income Shifting Between Corporate and Personal Tax Bases?" National Bureau of Economic Research, *Working Paper 6576*, May 1998, http://www.nber.org/papers/w6576.

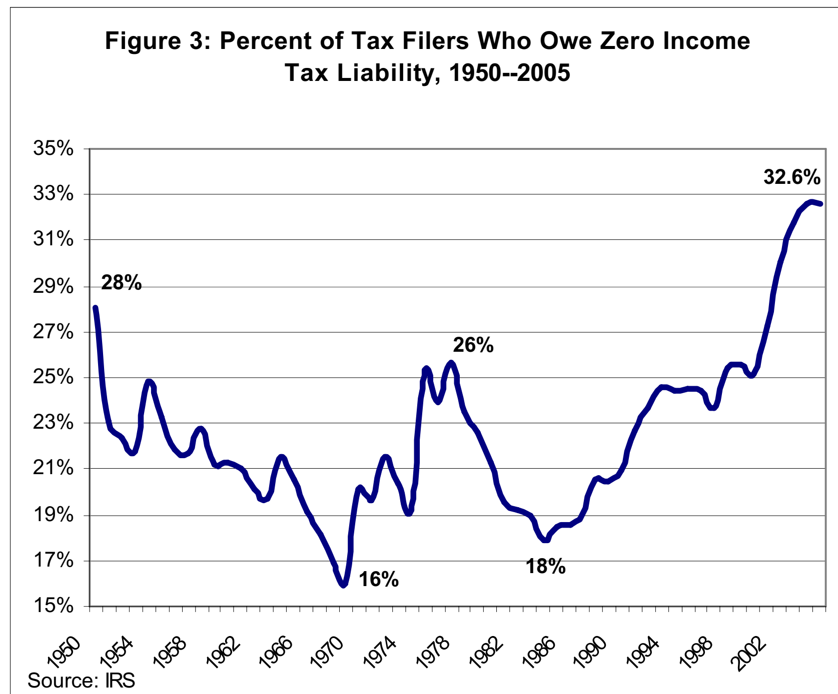
Working Families Bear the Nation's Tax Burden

One of the most important things that Washington can do for today's working families is to demand less of them. Upper-income working families are now paying the lion's share of the nation's tax burden and getting little in return. Indeed, a new Tax Foundation study shows that these taxpayers are not only paying their share of the tax burden but they are pulling the wagon for millions of their fellow Americans.

Over the past quarter-century, federal tax policy – and income tax policy in particular – has shifted the burden of taxation to upper-income Americans even as overall tax rates have been cut substantially. While cutting top rates, lawmakers enacted numerous measures that have effectively knocked millions of taxpayers off the rolls entirely.

Today, some 44 million Americans, one-third of all tax filers, file a tax return but have no income tax liability after taking advantage of credits and deductions such as the Earned Income Tax Credit and the $1,000 child credit. The number of non-payers has increased by 50 percent since 2000 when the number of filers with zero tax liability stood at 29 million. Added to these non-payers are 15 million people who have some income but not enough to file a tax return. This brings the total of households outside of the income tax system to 58 million.

Moreover, lawmakers are increasingly involving the IRS in the distribution of benefits to low-income taxpayers. Last year, the IRS sent out $50 billion in refundable credits through the Earned Income Tax Credit program ($35 billion) and the child credit ($15 billion). These payments effectively offset other taxes that these low-income families pay, such as payroll and excise taxes.

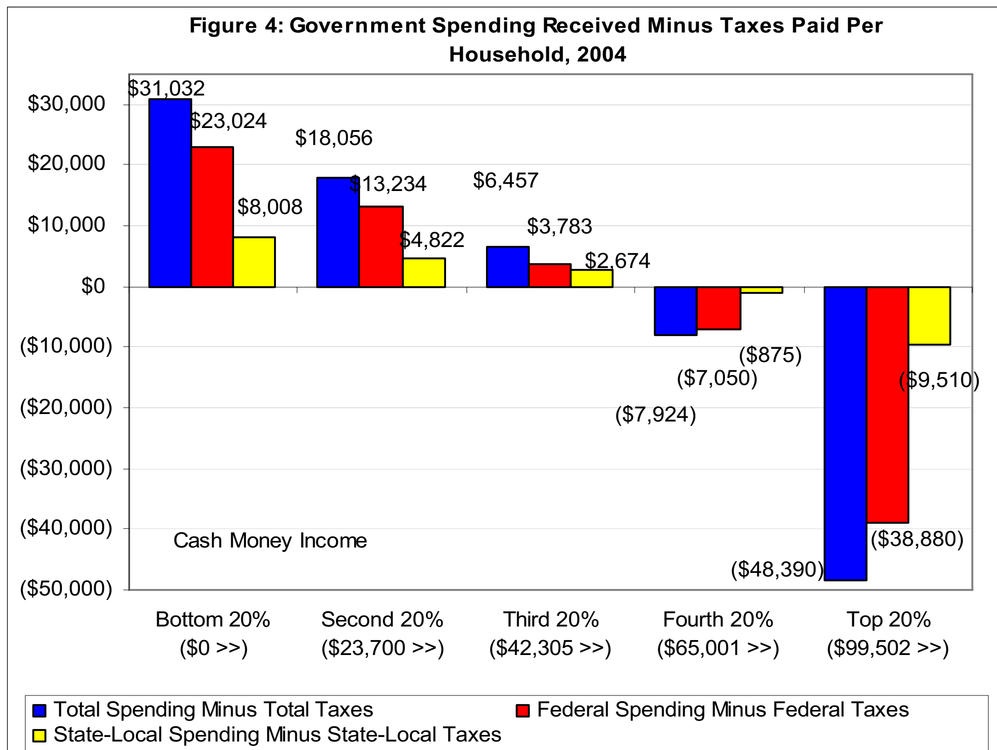


As the result of so many taxpayers being knocked off the bottom, the top 20 percent of taxpayers – which is largely composed of dual-income families – now pay 84 percent of the federal income tax burden. The top 10 percent (those earning over roughly $99,000) pay about 68 percent of income taxes.

Indeed, the income tax code has become so progressive that the top 1 percent of taxpayers alone – largely the nation's entrepreneurs – now pay 37 percent of income taxes even though they comprise 19 percent of the nation's income. This is a greater share of the income tax burden than is borne by the bottom 90 percent, representing about 115 million taxpayers. This means that the top 1.5 million taxpayers pay a greater share of income taxes than everyone earning under $100,000 per year combined.

Who Pays and Who Receives?

What is more surprising is the amount of income that is being redistributed from upper-income households to lower-income households. A new Tax Foundation study, "Who Pays America's Tax Burden, and Who Gets the Most Government Spending?" compares the amount of taxes paid by households to the amount of spending they receive from government.[4]



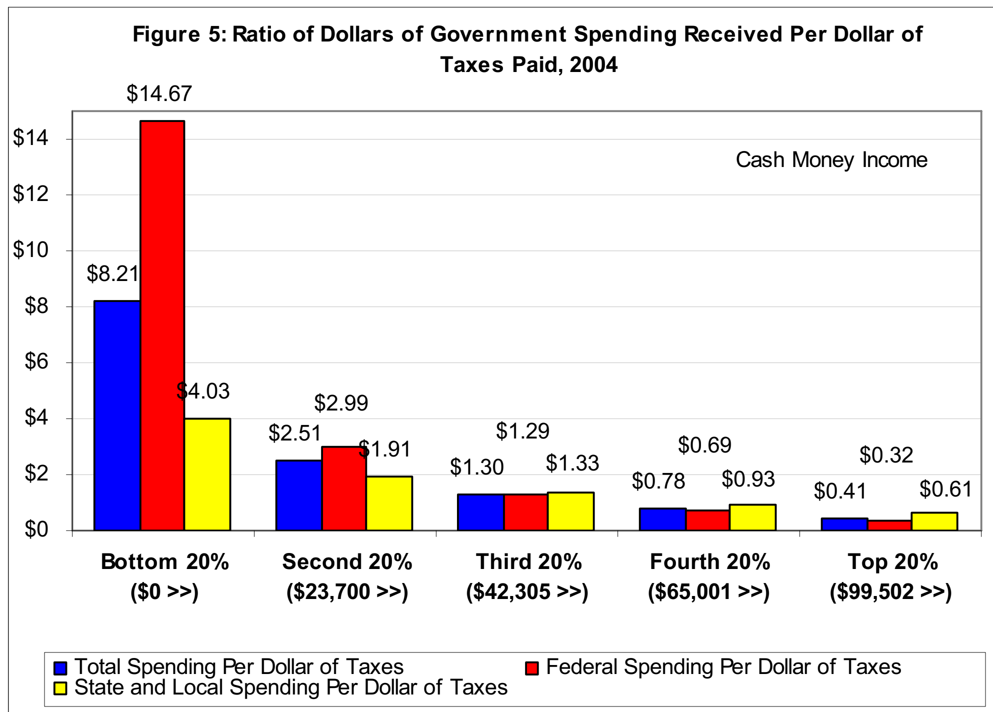
The Tax Foundation study shows that the spending side of the government ledger, especially federal spending, is also quite progressive or "pro-poor." In 2004, governments at all levels spent roughly $3.5 trillion on American households – or roughly $31,108 for every household in the country. Of that amount, $2.2 trillion was spent by the federal government and $1.3 trillion was spent by state and local lawmakers.

[4] Andrew Chamberlain and Gerald Prante, "Who Pays Taxes and Who Receives Government Spending? An Analysis of Federal, State and Local Tax and Spending Distributions, 1991 – 2004," *Tax Foundation Working Paper, No. 1*, March 2007. http://www.taxfoundation.org/files/wp1.pdf

Just as taxes fall more heavily on some Americans, dollars of government spending don't flow to all Americans equally. Government transfer payments such as aid to needy families, veterans' benefits and Social Security payments benefit some Americans and not others. Similarly, government spending on public universities, airports and highways routinely benefit some Americans more than others.

Using official survey data from the federal government, Tax Foundation economists were able to determine which households in America are most likely to use all the different government programs on the books – from local roads to federal tuition subsidies – and allocate the costs to those who use them.

The spending received by each household was then compared to the total amount of taxes it paid – from local property taxes to federal income taxes. If a household receives more in government spending than it pays in taxes it is considered a net consumer of government, while households who pay more in taxes than they receive in spending are considered to be net payers.



The result of this comparison may surprise many on this committee. Figure 4 shows the net amount of spending households receive compared to the taxes they pay. Overall, households in the bottom 20 percent receive $31,032 more in government spending than they pay in taxes. Households in the middle 20 percent, or middle-income households, receive $6,457 more in spending than they pay in taxes, while households in the top 20 percent pay an average of $48,390 more in taxes than they get in government spending.

Figure 5 displays the ratio of how much government spending households receive compared to the amount of taxes they pay. Looking specifically at the ratio of federal taxes and spending shows that the lowest 20 percent of Americans receive $14.67 in spending for each $1 they pay in taxes. Households in the middle-income range receive $1.29 per tax dollar, and America's highest earning households receive $0.32 per tax dollar.

Clearly, the bottom 60 percent of households on average get more government spending than they pay in taxes. And this is funded entirely by households in the top 40 percent. In all, government in 2004 redistributed $1 trillion to $1.5 trillion from the top 40 percent to the bottom 60 percent of households through taxes and spending. That's between 9 percent and 13 percent of the total GDP in that year.

The fact that the majority of Americans are now net consumers of government spending while a minority are net funders of government should be a cause for alarm, especially since that tax-funding minority is largely comprised of dual-income working families and entrepreneurs. Not only are we asking too much of them, but we are setting the stage for social conflict between those who consume government and those who pay for government.

Help Working Families by Doing Less

While it is tempting for lawmakers to try to do more for working families through new tax and spending initiatives, Washington can actually do more for them by doing less. Frankly, we are already asking too much of the IRS and the tax system and neither one is functioning very well.

Lawmakers are increasingly asking the tax code to direct all manner of social and economic objectives, such as encouraging people to: buy hybrid vehicles, save more for retirement, purchase health insurance; buy a home, adopt children, put them in daycare, take care of Grandma, hire the unemployed, spend more on research, purchase school supplies, take out huge college loans, invest in historic buildings, and the list goes on. The point is that we have so carved up the tax base that trying to accomplish more social goals via the tax code will be like pushing on a string.

Interestingly, the issues that are most troubling for working families – health care, housing, education, and property taxes – are the areas in which government is already the most involved.

For example, the tax preference for employer-provided health insurance creates a classic third-party payer problem in which patient-consumers are disconnected from the cost of service. The cost of health care is soaring because we have an unlimited demand for health care because someone else is paying the bills. The market forces that deliver quality goods at low prices for everything from toasters to automobiles have been disrupted in the health care system because it is tax preferred.

Higher education suffers a similar problem because of the plethora of tax and spending subsidies for college costs. Universities don't have an incentive to control costs because they know students aren't bearing the full cost. And efforts to help students with tax credits backfire because the credits ultimately get capitalized into the price of tuition in the same manner that the Mortgage Interest Deduction gets capitalized into the price of homes.

The deduction for state and local taxes allows local governments to raise taxes and pass as much as one-third of those costs to Uncle Sam. This is especially true for high-cost, high-tax suburban communities. Ironically, the state and local tax deduction is the primary reason more and more taxpayers in these high-tax urban areas – largely in so-called Blue States – are being ensnared in the Alternative Minimum Tax. The AMT is not an issue for taxpayers in lower-tax states and communities.

For those who are concerned with equity issues, these tax preferences tend to benefit upper-income taxpayers, not those in the middle or bottom. For example, IRS data indicates that 64.5 percent of the benefits of the state and local tax deduction are claimed by taxpayers earning more than $100,000 per year, while 37 percent of the benefits of the Mortgage Interest Deduction are claimed by these taxpayers. The state and local tax deduction effectively subsidizes high-tax communities at the expense of low-tax communities while the Mortgage Interest Deduction subsidizes home owners at the expense of renters.

As an aside, the state and local deduction may also contribute to the inequality of local education spending. Since the majority of taxpayers who take the state and local tax deduction live in upper-income communities and the majority of local property taxes are for education spending, it is logical to conclude that these communities can spend disproportionately more on education than lower-income communities.

Taxpayers Support Simple System and Low Rates

Progressivity and tax simplification are not necessarily contradictory goals. Indeed, simplifying the tax system and broadening the tax base by eliminating preferences in the tax system that disproportionately benefit higher-income taxpayers will achieve both goals. Moreover, the benefits of eliminating the economic distortions caused by these tax preferences will not only accrue to the overall economy but also to the working families that lawmakers want to help.

Ideally, eliminating these preferences should be accompanied by an across-the-board reduction in tax rates. A bit of sugar always helps the medicine go down and polls show that taxpayers are largely supportive of this approach to tax reform.

The most recent Tax Foundation *Annual Survey of U.S. Attitudes on Taxes and Wealth*, conducted by Harris Interactive®, finds that the majority of U.S. adults believe the federal tax code is complex, the federal income tax taxes they pay are too high, and the

federal tax system needs major changes or a complete overhaul. Surprisingly, half of those surveyed would give up some tax deductions in exchange for lower tax rates.

As a thought experiment, Tax Foundation economists used our microsimulation model to calculate how low tax rates could be cut by broadening the tax base through the elimination of various tax preferences. These include the preference for state and local bonds, the Mortgage Interest Deduction, the state and local tax deduction, and the tax exclusion for employer-provided health care. While seemingly painful, eliminating these preferences allows for a 32 percent across-the-board cut in every marginal tax rate. This means the 10 percent rate would fall to 6.79 percent and the top rate would fall to 23.76 percent.

Avoid Policies that Are Harmful to Working Families

The so-called Bush tax cuts expire at the end of 2010 and many in Washington are of the opinion that most of the provisions – especially the top tax rates – should be allowed to expire and return to their higher 2000 levels. For example, the top individual rate of 35 percent would increase to 39.6 percent. Our research suggests that raising the top income tax rates would be a very poor way to increase progressivity.

First, raising the top tax rates will not likely stop the vast demographic changes that are affecting the distribution of income and taxes in America. We know that taxpayers affected by the highest tax rates are largely dual-income, college educated, older and in their peak earning years, and have business income. Are these not qualities we want to encourage, not discourage?

One could make the case that boosting the top rates would, at the margin, discourage high-income people from marrying, encourage Baby Boomers to retire early, and encourage entrepreneurs to reform their businesses as traditional C-Corps. All of these consequences would cause a reduction, not an increase, in overall tax revenues and would have severe economic consequences.

Similarly, there is growing sentiment that the lower rates on capital gains and dividend income should be raised to the level of the individual rates. Proponents of this view argue that (1) capital income should be taxed a the same rate as wage income and (2) the wealthy disproportionately benefit from the lower rates on capital income.

But the evidence suggests that boosting capital gains and dividend income would harm American competitiveness and well as the growing number of retirees who depend upon this income.

Those who maintain that capital income and wage income are not taxed at the same rate forget that capital income is taxed twice, once at the corporate level – at which the top corporate rate of 35 percent is the same as the top personal rate for the first time in the history of the tax code – and then again at 15 percent at the individual level. Capital taxes at the state level add yet another layer.

Data from the OECD shows that the U.S. has a combined rate of 50.8 percent on dividend income, ranking our rate as the eighth highest among developed countries and six percentage points higher than the OECD average. Boosting our rate not only flies in the face of global trends in capital taxation, but it will make U.S. companies less competitive in the global capital market by encouraging investors to put their money in lower-tax countries.[5]

While upper-income Americans currently earn the bulk of dividend and capital gains income, America's investor class – those claiming dividends or capital gains income – is becoming increasingly middle-class. Based on IRS data, Tax Foundation economists estimate that more than 80 percent of taxpayers who claim dividend income earn less than $100,000 and 76.4 percent of those who claim capital gains earn less than $100,000.

Among taxpayers with dividend income, roughly 23 percent are over age 65 while nearly 36 percent are over age 55. Among taxpayers with capital gains income, nearly 26 percent are over age 65 and more than 38 percent are over age 55.

Within these figures lies a more interesting story of how dependent older Americans are on capital gains and dividend income. The data shows that capital gains realizations clearly increase with age. Some 30.2 percent of taxpayers between age 65 and 74 claim capital gains income, while 27.6 percent of taxpayers over age 75 have capital gains income. The percentage of taxpayers over age 65 with capital gains income is higher than any other age group, and is more than twice the national average of 12.9 percent.

Older Americans are even more reliant on dividend income than capital gains. Among taxpayers between age 65 and 74, a remarkable 51.3 percent claim dividend income while 50.4 percent above age 75 have dividend income.[6]

Considering America's demographic changes, raising the capital gains and dividend taxes at this time would have a severe impact on the soon-to-be-retiring Baby Boom generation in addition to current retirees.

Lastly, some are suggesting that the revenue generated by increasing the rates on capital gains and dividend income could be used to offset the cost of fixing the Alternative Minimum Tax. It is interesting to note, however, that the majority of taxpayers affected by the AMT also claim capital gains or dividend income, meaning that such a measure would not make these taxpayers any better off in the long-run.[7]

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[5] http://www.oecd.org/dataoecd/26/51/33717596.xls

[6] Scott A. Hodge, "Majority of Seniors Benefit from Reduced Capital Gains and Dividend Rates," *Tax Foundation Fiscal Fact, No. 42*, December 6, 2005. http://www.taxfoundation.org/research/show/1236.html See also: Gerald Prante, "The Importance of Dividend Income for Low-Income Seniors," *Tax Foundation Fiscal Fact, No. 50*, February 8, 2005. http://www.taxfoundation.org/research/show/1354.html

[7] Gerald Prante, "Majority of Taxpayers Affected by AMT Also Claim Capital Gains or Dividend Income," *Tax Foundation Fiscal, Fact No. 51*, February 26, 2006. http://www.taxfoundation.org/research/show/1372.html

Cut the Corporate Tax Rate

To the surprise of many, our research shows that cutting the corporate tax rate will help the poor. Most economists agree that the economic burden of corporate taxes is eventually borne by either workers (through lower wages), shareholders (through lower dividends), or consumers (through higher prices). Therefore, lowering corporate income taxes should benefit each of these groups.

When Tax Foundation economists estimated the distribution of the federal corporate income tax, they used two different approaches to see what the outcomes would be. First, based on the findings of a Congressional Budget Office study, they assumed that 70 percent of corporate income taxes are ultimately borne by workers. Next, they conducted the same calculation but assumed that shareholders bear the ultimate cost of corporate income taxes.

Interestingly, in both cases they found that the bottom 20 percent of Americans pay more in corporate income taxes than they do in personal income taxes. In the first case, they found that low-income workers pay $171 in personal income taxes and $271 in corporate income taxes. Even more remarkably, when we assumed that shareholders bear the burden of the corporate tax, the results hardly changed. This demonstrates the extent of stock ownership among low-income seniors.

Since 44 million tax filers pay no income taxes at all and millions pay next to nothing, this profound finding suggests that cutting the corporate income tax will do more to help low-income Americans than any additional cuts in the individual income tax.

Such a move would also make the U.S. vastly more competitive in the global economy. Currently, the U.S. has the second-highest overall corporate tax rate among OECD countries, at 39.3 percent. Only Japan, with an overall rate of 39.4 percent, has a higher rate among industrialized countries. Indeed, the average corporate tax rate among European Union countries is roughly 25 percent, putting our rate way out of step with our major economic competitors.

Thus, cutting the corporate tax rate would be a twofer – it would help the poor and American competitiveness.

Conclusion

Public opinion polls universally indicate that the vast majority of Americans view themselves as “middle-class.” Indeed, a recent Tax Foundation public opinion survey found that only 2 percent of adults identified themselves as “upper-class.” These surveys make it clear that most Americans see the concept of “middle-class” as a value system, not a point on the income scale.

The key to helping the so-called middle-class while solving the inequality problem is to implement policies that make all Americans richer, not try to bring the top back down to the middle. Our attempts to promote equality should not produce mediocrity.

Today's middle-class families are not our fathers' middle class. Today's working couples with children are increasingly dual-income, educated, older, and business owners – all traits we should value and not punish through punitive tax rates and redistribution.

Our government's attempt to use tax policy to promote certain sectors of the economy over others has not only produced a Byzantine tax system, but it has also created economic distortions in the very areas we have tried to help, such as housing, health care, and education.

The way to help middle-class families is to do less. Greatly simplifying the tax code while cutting tax rates across the board would boost economic growth and, most likely, also boost the progressivity of the nation's fiscal system. This is an outcome that should have bi-partisan support.

Thank you very much Mr. Chairman. I look forward to answering any questions you may have.

Appendix

Average Dollar Tax Burdens by Type of Tax Per Household, Calendar Year 2004

	Quintiles of Household Cash Money Income, Calendar Year 2004				
	Bottom 20 Percent	Second 20 Percent	Third 20 Percent	Fourth 20 Percent	Top 20 Percent
Total Tax Burden	$4,325	$11,932	$21,194	$35,288	$81,933
Federal Taxes					
Income	$171	$1,431	$3,720	$7,973	$29,257
Payroll	$917	$3,656	$6,788	$10,737	$18,470
Corporate Income	$271	$999	$1,734	$2,894	$6,597
Gasoline	$69	$138	$202	$286	$493
Alcoholic Beverages	$34	$52	$75	$102	$141
Tobacco	$51	$67	$73	$68	$59
Diesel Fuel	$10	$38	$65	$109	$248
Air Transport	$22	$51	$81	$147	$312
Other Excise	$43	$66	$89	$124	$177
Customs, Duties, etc.	$96	$147	$200	$279	$396
Estate & Gift	$0	$0	$0	$0	$1,362
Total Federal	$1,684	$6,644	$13,028	$22,719	$57,512
State and Local Taxes					
Income	$75	$583	$1,341	$2,598	$7,197
Corporate Income	$48	$176	$306	$510	$1,163
Personal Property	$16	$36	$49	$69	$108
Motor Vehicle License	$66	$106	$134	$156	$175
Other Personal Taxes	$8	$19	$32	$48	$99
General Sales	$853	$1,498	$2,188	$3,211	$4,606
Gasoline	$97	$192	$283	$399	$689
Alcoholic Beverages	$19	$28	$41	$56	$77
Tobacco	$87	$116	$126	$118	$102
Public Utilities	$123	$167	$199	$234	$280
Insurance Receipts	$66	$105	$131	$166	$223
Other Selective Sales	$121	$185	$252	$350	$498
Motor Vehicle (Business)	$8	$31	$54	$90	$205
Severance	$22	$40	$57	$79	$139
Property	$961	$1,773	$2,580	$3,839	$7,104
Special Assessments	$19	$35	$51	$76	$140
Other Production Taxes	$53	$197	$342	$571	$1,300
Estate & Gift	$0	$0	$0	$0	$316
Total State and Local	$2,642	$5,288	$8,166	$12,570	$24,421

Source: Tax Foundation

Detail of All Federal Government Spending Received Per Household, Calendar Year 2004

	Quintiles of Household Cash Money Income, Calendar Year 2004				
	Bottom 20 Percent	Second 20 Percent	Third 20 Percent	Fourth 20 Percent	Top 20 Percent
Federal Spending					
General Public Service					
Executive and Legislative	$506	$506	$506	$506	$506
Tax collection and financial management	$109	$109	$109	$109	$109
Interest payments	$159	$327	$572	$1,067	$3,662
Other	$0	$0	$0	$0	$0
National defense	$4,295	$4,295	$4,295	$4,295	$4,295
Public order and safety					
Police	$219	$219	$219	$219	$219
Fire	$3	$3	$3	$3	$3
Law courts	$61	$61	$61	$61	$61
Prisons	$41	$41	$41	$41	$41
Economic affairs					
Transportation					
Highways	$2	$5	$7	$9	$16
Air	$29	$69	$109	$196	$417
Water	$85	$85	$85	$85	$85
Transit and railroad	$5	$10	$14	$24	$47
Space	$135	$135	$135	$135	$135
Other economic affairs					
General economic and labor affairs	$17	$69	$131	$209	$437
Agriculture	$7	$80	$148	$249	$741
Energy	$44	$80	$114	$159	$278
Natural resources	$152	$152	$152	$152	$152
Postal service	$0	$0	$0	$0	$0
Housing and community services					
Disaster relief	$175	$175	$175	$175	$175
Other	$613	$137	$40	$12	$4
Health					
Medicaid	$3,151	$1,494	$962	$584	$378
Medicare	$4,262	$3,321	$2,205	$1,557	$1,387
Veteran's health benefits and services	$116	$235	$270	$385	$293
Other miscellaneous health	$585	$585	$585	$585	$585
Recreation and culture	$41	$41	$41	$41	$41
Education					
Elementary and secondary	$225	$277	$321	$343	$335
Higher	$117	$127	$174	$213	$313
Other	$124	$124	$124	$124	$124
Income security					
Disability	$484	$882	$1,271	$1,277	$1,426
Retirement	$4,780	$4,676	$3,346	$2,435	$2,226
Welfare and social services	$2,929	$1,064	$384	$171	$54
Other	$1,390	$505	$182	$81	$26
Total Federal Spending	$24,860	$19,889	$16,781	$15,502	$18,573

Source: Tax Foundation

Overall Effective Statutory Tax Rate on Dividend Income (CIT + PIT)

Country	2005	2000	Percentage Point Change 2000 to 2005
Japan	63.7	64.5	-0.8
Denmark	59.0	59.2	-0.2
Canada	56.1	62.5	-6.4
France	55.9	63.2	-7.2
Switzerland	54.7	56.5	-1.8
Germany	52.4	60.9	-8.5
Netherlands	52.1	74.0	-22.0
United States	50.8	58.9	-8.1
Spain	50.0	52.7	-2.7
Sweden	49.6	49.6	0.0
Ireland	49.3	57.4	-8.2
Korea	48.7	44.6	4.1
Australia	48.5	48.5	0.0
United Kingdom	47.5	47.5	0.0
Hungary	45.4	55.7	-10.3
Italy	44.8	45.9	-1.1
Turkey	44.0	65.0	-21.0
Luxembourg	44.0	52.2	-8.3
Belgium	43.9	49.1	-5.3
Austria	43.8	50.5	-6.8
Portugal	42.0	51.4	-9.4
New Zealand	39.0	39.0	0.0
Finland	37.8	29.0	8.8
Czech Republic	37.1	41.4	-4.3
Poland	34.4	44.0	-9.6
Greece	32.0	40.0	-8.0
Mexico	30.0	35.0	-5.0
Norway	28.0	28.0	0.0
Iceland	26.2	37.0	-10.8
Slovak Republic	19.0	39.7	-20.7
Average	**44.3**	**50.1**	**-5.8**
Source: http://www.oecd.org/dataoecd/26/51/33717596.xls			