

Part 3: Role of Taxes and Transfers in Post Tax-Transfer Outcomes

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Inequality in What? Alternative Measures of Inequality and Social Mobility

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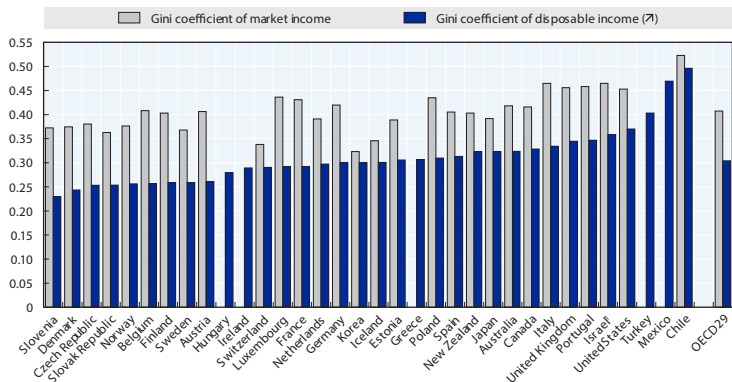
Part 3: Role of Skills & Skill Prices

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Market incomes are distributed much more unequally than net incomes

Inequality (Gini coefficient) of market income and disposable (net) income in the OECD area, working-age persons, late 2000s



Note: Income refers to **household** income. Late 2000s refers to a year between 2006 and 2009. The OECD average excludes Greece, Hungary, Ireland, Mexico and Turkey (no information on market income available). Working age is defined as 18-65 years old. Countries are ranked in increasing order of disposable income inequality.

1. Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

Source: Chapter 6, Figure 6.1, OECD (2013).

Understanding Tax and Transfer Programs for Low- and Middle-Income Families

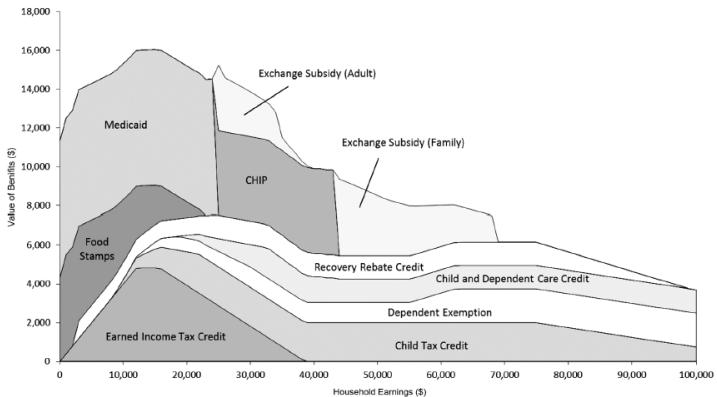
Are Tax Rates Flat?

Poverty Line Uses Income Concept

- Wages, salaries, and self-employment income (excludes health care contributions, borrowed money, gifts, inheritance, insurance payments, money from relatives living in house)
- Investment income (interest, dividends, rentals, royalties, income from estates and trusts); capital gains and money from selling property excluded
- Includes supplemental security and government railway plans, SSI, public assistance, welfare, retirement pensions, food stamps, public housing subsidies, and medical care, also excludes tax refunds

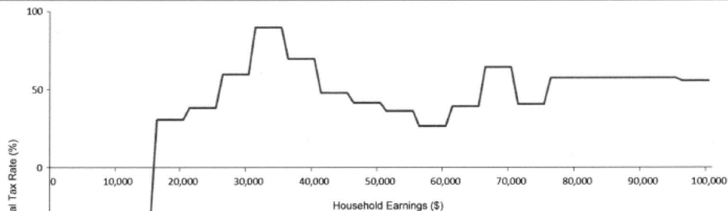
Figure 1: Universally Available Tax and Transfer Benefits (Single Parent with Two Children in Colorado, 2008)

Figure 1
Universally Available Tax and Transfer Benefits
(Single Parent with Two Children in Colorado, 2008)



Notes: Value of tax and value transfer benefits for a single parent with two children living in Colorado. Tax and transfer rules are for 2008 with hypothetical exchange plans in 2014 added in. Health value estimates are based on Medicaid spending and insurance premiums as reported by the Kaiser Family Foundation. Coverage varies by source: Medicaid and CHIP benefits are more comprehensive and have less cost-sharing than those in the exchange. Medicaid and CHIP also pay providers for services at lower rates than private insurers.

Figure 2: Effective Marginal Tax Rates (Single Parent with Two Children in Colorado, 2008)



Notes: Average effective marginal tax rates facing a single parent with two children living in Colorado. The effective marginal rate is the marginal tax rate faced in the formal tax system (federal, state, and payroll), in addition to the rates arising from the reduction in disposable income from the loss of transfer benefits. The tax rules used for federal and state income taxes are for CY2008. Hypothetical exchange values were calculated to display the eventual impact of the Affordable Care Act for a worker without employer provided coverage based on insurance premium data reported by the Kaiser Family Foundation.

Tax Rates by Poverty Status

Figure 3: Effective Marginal Tax Rates (%) Moving from Various Earnings Levels (Single Parent with Two Children; TANF and Food Stamps; Equal Earnings in All Months)

	\$0 Earnings to Half Poverty	Half-Poverty to Poverty	Poverty to 150 Percent of Poverty	150 Percent of Poverty to Twice Poverty	\$0 to Poverty	\$0 to Twice Poverty
Alabama	-18.7	9.0	40.1	46.8	-4.9	19.3
Alaska	5.7	36.4	81.6	51.3	21.1	43.8
Arizona	14.7	5.2	44.8	44.1	9.9	27.2
Arkansas	0.9	7.9	49.7	47.9	4.4	26.6
California	5.3	40.1	53.3	41.5	22.7	35.0
Colorado	-2.3	23.0	46.5	46.1	10.3	28.3
Connecticut	-18.9	-1.7	104.7	44.4	-10.3	32.1
Delaware	-18.6	28.7	51.6	51.2	5.0	28.2
District of Columbia	-16.5	26.6	56.2	55.9	5.0	30.5
Florida	6.4	9.2	42.5	41.5	7.8	24.9
Georgia	6.8	9.0	48.1	47.6	7.9	27.9
Hawaii	5.4	45.5	88.2	48.6	25.5	46.9
Idaho	11.0	5.2	45.1	47.7	8.1	27.2
Illinois	3.4	25.9	46.6	45.5	14.6	30.3
Indiana	-2.7	18.0	47.2	46.2	7.7	27.2
Iowa	2.0	24.1	51.2	49.7	13.0	31.7
Kansas	-1.1	22.7	50.1	53.1	10.8	31.2
Kentucky	0.0	11.5	55.6	47.3	5.8	28.6
Louisiana	-20.3	30.2	47.5	48.3	5.0	26.4
Maine	-2.2	35.3	43.7	48.1	16.6	31.2
Maryland	13.2	16.9	52.0	48.8	15.0	32.7
Massachusetts	4.3	34.0	50.4	49.9	19.2	34.7
Michigan	17.7	13.6	48.7	48.0	15.7	32.0
Minnesota	8.2	25.6	46.2	57.0	16.9	34.3
Mississippi	-2.2	6.1	46.5	46.5	2.0	24.2
Missouri	-4.2	19.5	47.5	47.5	7.7	27.6
Montana	26.7	6.8	46.6	46.9	16.8	31.8

Figure 4: Effective Marginal Tax Rates (%) Moving from Various Earnings Levels (Single Parent with Two Children; TANF and Food Stamps; Equal Earnings in All Months), Cont'd

	\$0 Earnings to Half Poverty	Half-Poverty to Poverty	Poverty to 150 Percent of Poverty	150 Percent of Poverty to Twice Poverty	\$0 to Poverty	\$0 to Twice Poverty
Montana	26.7	6.8	46.6	46.9	16.8	31.8
Nebraska	2.7	13.7	47.6	47.0	8.2	27.8
Nevada	-18.9	5.2	26.6	41.5	-6.9	13.6
New Hampshire	16.1	30.6	42.5	41.5	23.3	32.7
New Jersey	-27.9	1.3	34.6	47.9	-13.3	14.0
New Mexico	6.8	19.1	46.8	46.6	13.0	29.8
New York	-1.3	35.2	50.8	53.8	16.9	34.6
North Carolina	6.0	6.3	49.1	48.8	6.1	27.6
North Dakota	-2.7	21.2	58.2	43.6	9.2	30.1
Ohio	4.1	23.0	45.5	45.2	13.5	29.5
Oklahoma	8.8	5.6	47.9	48.0	7.2	27.6
Oregon	24.2	8.8	52.7	51.7	16.5	34.4
Pennsylvania	20.1	5.2	45.1	51.0	12.6	30.3
Rhode Island	6.5	31.4	43.9	46.6	19.0	32.1
South Carolina	-18.9	30.6	42.5	42.9	5.9	24.3
South Dakota	30.2	8.2	42.5	41.5	19.2	30.6
Tennessee	-19.0	23.1	42.5	41.5	2.1	22.0
Texas	-12.9	12.1	53.3	41.5	-0.4	23.5
Utah	5.6	26.6	47.6	47.9	16.1	31.9
Vermont	6.4	27.7	52.3	51.7	17.0	34.5

Maag et al. (2012)

Figure 4: Effective Marginal Tax Rates (%) Moving from Various Earnings Levels (Single Parent with Two Children; TANF and Food Stamps; Equal Earnings in All Months)

	\$0 Earnings to Half Poverty	Half-Poverty to Poverty	Poverty to 150 Percent of Poverty	150 Percent of Poverty to Twice Poverty	\$0 to Poverty	\$0 to Twice Poverty
Virginia	-18.9	5.0	84.5	51.5	-6.9	30.5
Washington	16.1	24.5	42.5	41.5	20.3	31.1
West Virginia	14.0	5.2	50.5	45.8	9.6	28.9
Wisconsin	36.3	6.0	52.0	52.1	21.1	36.6
Wyoming	14.0	5.2	42.5	41.5	9.6	25.8
Simple Average	2.4	17.9	50.5	47.3	10.2	29.5
High	36.3	45.5	104.7	57.0	25.5	46.9
Low	-27.9	-1.7	26.6	41.5	-13.3	13.6

Notes: The data include TANF, food stamps, federal and state income taxes, and the employee portion of payroll taxes. Calculations were performed using the Urban Institute's Net Income Change Calculator (NICC).

Maag et al. (2012)

Figure 5: Effective Marginal Tax Rates (%) Moving from Various Earnings Levels (Single Parent with Two Children; TANF and Food Stamps, and Medicaid; Equal Earnings in All Months)

	50 Earnings to Half Poverty	Half-Poverty to Poverty	Poverty to 150 Percent of Poverty	150 Percent of Poverty to Twice Poverty	50 to Poverty	50 to Twice Poverty
Alabama	12.0	9.0	40.1	96.6	10.5	39.4
Alaska	5.7	36.4	112.3	101.2	21.1	63.9
Arizona	14.7	5.2	44.8	94.0	9.9	39.7
Arkansas	0.9	7.9	49.7	97.7	4.4	39.0
California	5.3	40.1	84.0	41.5	22.7	42.7
Colorado	-2.3	53.7	46.5	46.1	25.7	36.0
Connecticut	-18.9	-1.7	104.7	44.4	-10.3	32.1
Delaware	-18.6	28.7	82.3	101.0	5.0	48.3
District of Columbia	-16.5	26.6	56.2	55.9	5.0	30.5
Florida	6.4	39.9	42.5	91.4	23.2	45.0
Georgia	6.8	39.8	48.1	47.6	23.3	35.6
Hawaii	5.4	45.5	118.9	48.6	25.5	54.6
Idaho	41.7	5.2	45.1	97.6	23.4	47.4
Illinois	3.4	25.9	46.6	126.1	14.6	50.5
Indiana	-2.7	18.0	47.2	46.2	7.7	27.2
Iowa	2.0	24.1	51.2	99.5	13.0	44.2
Kansas	29.7	22.7	50.1	103.0	26.2	51.4
Kentucky	0.0	42.2	55.6	97.2	21.1	48.8
Louisiana	10.5	30.2	47.5	48.3	20.3	34.1
Maine	-2.2	35.3	43.7	98.0	16.6	43.7
Maryland	13.2	16.9	82.7	48.8	15.0	40.4
Massachusetts	4.3	34.0	81.1	49.9	19.2	42.3
Michigan	17.7	44.3	48.7	97.8	31.0	52.1
Minnesota	8.2	25.6	46.2	57.0	16.9	34.3
Mississippi	28.6	6.1	46.5	96.3	17.3	44.4
Missouri	26.5	19.5	47.5	47.5	23.0	35.2
Montana	26.7	37.5	46.6	96.7	32.1	51.9
Nebraska	2.7	44.5	47.6	96.9	23.6	47.9
Nevada	-18.9	5.2	26.6	91.4	-6.9	26.1
New Hampshire	16.1	61.3	42.5	41.5	38.7	40.3
New Jersey	-27.9	1.3	34.6	47.9	-13.3	14.0
New Mexico	61.8	19.1	46.8	101.0	13.0	29.8
New York	-1.3	35.2	50.8	84.5	16.9	42.3
North Carolina	6.0	37.0	49.1	98.7	21.5	47.7
North Dakota	-2.7	51.9	108.1	43.6	24.6	50.2
Ohio	4.1	53.7	45.5	95.1	28.9	49.6
Oklahoma	8.8	5.6	47.9	97.8	7.2	40.0
Oregon	24.2	8.8	83.4	101.6	16.5	54.5
Pennsylvania	20.1	5.2	45.1	51.0	12.6	30.3
Rhode Island	6.5	31.4	43.9	77.3	19.0	39.8
South Carolina	-18.9	61.3	42.5	92.7	21.2	44.4
South Dakota	30.2	38.9	42.5	91.4	34.6	50.7
Tennessee	-19.0	23.1	73.2	41.5	2.1	29.7
Texas	17.8	12.1	53.3	91.4	14.9	43.6
Utah	5.6	26.6	47.6	128.4	16.1	52.0
Vermont	6.4	27.7	52.3	82.5	17.0	42.2

Figure 5: Effective Marginal Tax Rates (%) Moving from Various Earnings Levels (Single Parent with Two Children; TANF and Food Stamps, and Medicaid; Equal Earnings in All Months)

	\$0 Earnings to Half Poverty	Half-Poverty to Poverty	Poverty to 150 Percent of Poverty	150 Percent of Poverty to Twice Poverty	\$0 to Poverty	\$0 to Twice Poverty
Virginia	11.8	5.0	84.5	101.3	8.4	50.7
Washington	16.1	24.5	42.5	41.5	20.3	31.1
West Virginia	44.7	5.2	50.5	45.8	24.9	36.5
Wisconsin	36.3	6.0	52.0	52.1	21.1	36.6
Wyoming	14.0	35.9	42.5	91.4	24.9	45.9
Simple Average	7.8	26.4	56.3	76.7	17.1	41.8
High	44.7	61.3	118.9	128.4	38.7	63.9
Low	-27.9	-1.7	26.6	41.5	-13.3	14.0

Notes: The data include TANF, food stamps, federal and state income taxes, and the employee portion of payroll taxes. Calculations were performed using NICC.

Maag et al. (2012)

Figure 6: Effective Marginal Tax Rates (%) Moving from Various Earnings Levels (Married Couple with Two Children; TANF and Food Stamps; Equal Earnings in All Months)

	\$0 Earnings to Half Poverty	Half-Poverty to Poverty	Poverty to 150 Percent of Poverty	150 Percent of Poverty to Twice Poverty	\$0 to Poverty	\$0 to Twice Poverty
Alabama	-78.8	22.8	51.2	61.4	-28.0	6.5
Alaska	-44.8	49.9	75.0	55.8	2.5	29.3
Arizona	-40.9	18.5	57.1	63.7	-11.2	16.0
Arkansas	-59.7	19.2	64.1	59.9	-20.3	13.8
California	-32.0	53.6	59.7	66.4	10.8	27.5
Colorado	-55.3	34.5	57.1	61.8	-10.4	16.9
Connecticut	-65.1	69.2	55.0	62.9	2.0	22.7
Delaware	-71.4	42.0	61.8	56.6	-14.7	17.1
District of Columbia	-66.1	44.2	68.4	52.0	-10.9	21.7
Florida	-46.9	18.5	54.1	66.4	-14.2	13.1
Georgia	-49.9	20.6	59.8	60.4	-14.7	15.7
Hawaii	-71.0	55.9	102.9	59.5	-7.6	29.3
Idaho	-52.9	18.5	56.0	60.4	-17.2	13.5
Illinois	-48.9	34.6	58.0	62.3	-7.2	18.7
Indiana	-58.9	30.9	58.7	61.8	-14.0	15.4
Iowa	-49.7	38.1	61.9	58.2	-5.8	21.3
Kansas	-52.7	34.7	62.7	59.0	-9.0	19.6
Kentucky	-53.8	21.9	68.3	60.6	-15.9	16.9
Louisiana	-78.8	42.0	58.2	61.7	-18.4	13.0
Maine	-48.8	47.7	55.3	60.4	-0.6	22.0
Maryland	-32.4	31.7	62.8	55.7	-0.3	25.0
Massachusetts	-38.9	44.4	62.1	57.8	2.7	25.9
Michigan	-27.6	23.4	60.3	59.9	-2.1	22.5
Minnesota	-47.2	31.7	64.3	50.9	-7.7	22.7
Mississippi	-65.5	19.1	57.9	61.3	-23.2	10.5
Missouri	-59.2	29.3	59.3	60.4	-14.9	15.4
Montana	-24.4	20.4	58.6	60.6	-2.0	22.0
Nebraska	-47.7	23.5	58.4	60.7	-12.1	16.6
Nevada	-72.1	18.6	36.8	66.4	-26.7	2.6
New Hampshire	-29.2	36.4	54.1	66.4	3.6	22.5
New Jersey	-79.7	21.2	41.6	60.0	-29.3	4.0
New Mexico	-45.7	34.7	57.7	61.3	-5.5	19.8
New York	-40.5	46.7	64.8	55.4	3.1	27.4
North Carolina	-55.5	19.8	60.7	59.2	-17.8	14.5
North Dakota	-86.9	18.5	55.5	64.3	-34.2	3.5
Ohio	-44.8	33.6	57.5	62.7	-5.6	19.3
Oklahoma	-47.7	19.7	60.2	59.8	-14.0	16.2
Oregon	-25.6	23.5	64.3	56.1	-1.1	24.9
Pennsylvania	-32.2	18.5	54.1	54.2	-6.9	20.0
Rhode Island	-38.9	38.9	55.3	59.5	0.0	22.6
South Carolina	-76.4	42.9	54.1	64.9	-16.7	12.2
South Dakota	-21.5	18.5	54.1	66.4	-1.5	19.8
Tennessee	-79.4	35.9	54.1	66.4	-21.7	9.2
Texas	-70.9	35.6	54.1	66.4	-17.7	11.3
Utah	-42.0	34.7	57.9	60.0	-3.7	21.1
Vermont	-33.8	35.8	63.3	56.2	1.0	25.7

Figure 6: Effective Marginal Tax Rates (%) Moving from Various Earnings Levels (Married Couple with Two Children; TANF and Food Stamps; Equal Earnings in All Months)

	\$0 Earnings to Half Poverty	Half-Poverty to Poverty	Poverty to 150 Percent of Poverty	150 Percent of Poverty to Twice Poverty	\$0 to Poverty	\$0 to Twice Poverty
Virginia	-72.0	53.3	59.7	56.3	-9.4	19.4
Washington	-30.0	34.4	54.1	66.4	2.2	21.7
West Virginia	-44.7	19.7	61.5	62.0	-12.5	16.8
Wisconsin	-23.3	20.4	62.7	56.0	-1.5	24.3
Wyoming	-49.5	18.5	54.1	66.4	-15.5	12.4
Simple Average	-51.2	31.8	59.2	60.6	-9.7	18.1
High	-21.5	69.2	102.9	66.4	10.8	29.3
Low	-86.9	18.5	36.8	50.9	-34.2	2.6

Notes: The data include TANF, food stamps, federal and state income taxes, and the employee portion of payroll taxes. Calculations were performed using NICC.

Maag et al. (2012)

Figure 7: Effective Marginal Tax Rates (%) Moving from Various Earnings Levels (Single Parent with Two Children; TANF and Food Stamps; No Employment January-June; Employed July-December)

	\$0 Earnings to Half Poverty	Half-Poverty to Poverty	Poverty to 150 Percent of Poverty	150 Percent of Poverty to Twice Poverty	\$0 to Poverty	\$0 to Twice Poverty
Alabama	-22.8	7.5	32.8	46.8	-7.7	16.0
Alaska	9.0	30.0	9.9	41.5	11.3	22.6
Arizona	-2.1	13.2	4.5	44.1	-6.5	15.0
Arkansas	-9.0	6.1	19.3	47.9	-8.5	16.1
California	10.7	29.3	-8.4	41.5	2.6	18.3
Colorado	-1.7	13.9	5.6	46.1	-6.3	16.0
Connecticut	-22.3	-18.9	66.0	44.4	-1.3	17.3
Delaware	-7.0	4.5	15.7	51.2	-6.7	16.1
District of Columbia	-14.1	17.2	10.3	55.9	-13.7	17.3
Florida	-4.2	10.2	5.2	41.5	-7.5	13.2
Georgia	-4.9	10.7	12.5	47.6	-6.8	16.5
Hawaii	11.6	54.4	-8.2	48.6	12.5	26.6
Idaho	-4.0	10.6	7.4	47.7	-7.4	15.5
Illinois	1.0	21.3	0.5	45.5	-3.8	17.1
Indiana	-6.2	11.7	11.0	46.2	-7.3	15.6
Iowa	-1.1	20.1	5.4	49.7	-5.3	18.5
Kansas	-6.2	20.3	5.9	53.1	-6.9	18.3
Kentucky	-6.2	7.4	21.2	47.3	-8.5	17.4
Louisiana	-8.7	7.7	14.6	48.3	-8.9	15.5
Maine	4.5	22.8	-6.1	48.1	-3.1	17.3
Maryland	-1.5	27.5	-3.3	48.8	-6.6	17.9
Massachusetts	5.0	30.3	-8.7	49.9	-3.7	19.2
Michigan	0.9	24.7	-1.4	48.0	-4.1	18.1
Minnesota	1.8	22.2	-6.9	57.0	-6.4	18.5
Mississippi	-10.5	2.0	18.4	46.5	-10.2	14.1
Missouri	-4.8	10.3	11.0	47.4	-7.4	16.0
Montana	3.9	23.5	-2.3	46.9	-2.6	18.0
Nebraska	-5.1	13.2	6.1	47.0	-8.6	15.3
Nevada	-18.9	-18.7	52.6	41.5	-18.8	14.1
New Hampshire	11.3	32.5	-17.0	41.5	0.2	17.1
New Jersey	-28.5	-21.5	63.9	47.9	-25.1	15.4
New Mexico	-0.6	19.9	-0.4	46.6	-5.8	16.4
New York	0.3	32.0	-13.3	53.8	-7.8	18.2
North Carolina	-7.1	9.2	14.0	48.8	-8.4	16.2
North Dakota	-2.8	9.3	14.9	43.6	-3.3	16.3
Ohio	0.9	18.7	0.9	45.2	-4.4	16.4
Oklahoma	-5.3	9.9	11.4	48.0	-7.9	16.0
Oregon	1.5	25.4	3.8	51.7	-2.9	20.6
Pennsylvania	0.6	17.1	0.9	51.0	-5.1	17.4
Rhode Island	6.5	27.0	-10.7	46.6	-2.4	17.4
South Carolina	-6.2	7.4	8.0	42.9	-8.5	13.0
South Dakota	7.2	26.5	-11.1	41.5	-1.8	16.0
Tennessee	-10.0	2.1	13.4	41.5	-10.4	11.7
Texas	-12.5	-3.8	24.6	41.5	-9.0	12.5
Utah	4.1	22.0	-1.5	47.9	-3.4	18.1
Vermont	0.5	31.5	-10.0	51.7	-7.0	18.4

Figure 7: Effective Marginal Tax Rates (%) Moving from Various Earnings Levels (Single Parent with Two Children; TANF and Food Stamps; No Employment January-June; Employed July-December)

	\$0 Earnings to Half Poverty	Half-Poverty to Poverty	Poverty to 150 Percent of Poverty	150 Percent of Poverty to Twice Poverty	\$0 to Poverty	\$0 to Twice Poverty
Virginia	-19.0	-18.7	57.3	51.5	-5.5	17.8
Washington	8.3	28.1	-12.7	41.5	-1.3	16.3
West Virginia	-2.4	12.8	10.7	45.8	-6.6	16.7
Wisconsin	5.9	33.5	-7.7	52.1	-2.0	21.0
Wyoming	-2.4	12.8	2.7	41.5	-6.6	13.6
Simple Average	-3.2	15.1	8.5	47.1	-5.7	16.9
High	11.6	54.4	66.0	57.0	12.5	26.6
Low	-28.5	-21.5	-17.0	41.5	-25.1	11.7

Notes: The data include TANF, food stamps, federal and state income taxes, and the employee portion of payroll taxes. Calculations were performed using NICC.

Maag et al. (2012)