

Comment: Income Inequality and Campaign Contributions: Evidence from the 1986 Reagan Tax Cut

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Abstract

This paper comments on a study by Larcinese and Parmigiani (2026) suggesting that the Tax Reform Act of 1986 disproportionately increased high-income campaign contributions in the United States. Their treatment measure implies large aggregate tax decreases, even though real federal individual income-tax receipts and total federal tax receipts increased. This sign error results from applying statutory marginal tax-rate changes to market income while ignoring tax-base changes and differences between market and taxable income. This comment also argues that real campaign contributions did not surge after the reform, that TRA86 increased measured tax progressivity, and that campaign-contribution patterns following later high-income tax increases contradict the proposed mechanism.

Larcinese and Parmigiani (2026, LP) study how statutory tax-rate reductions in the Tax Reform Act of 1986 (TRA86) may be associated with changes in U.S. campaign contributions across income groups. However, the estimates consider only one part of the tax reform: the statutory marginal individual income tax-rate changes. This fails to account for substantial tax-base changes, which particularly affected the higher-income groups central to LP’s analysis. The estimates also confuse *market* income for *taxable* income by ignoring exclusions and deductions. LP ignores contradictory evidence from cleaner comparisons: when high-income taxes increased in the early 1990s, high-income tracts’ campaign contributions also increased—opposite the paper’s suggested inverse relationship.

This comment reviews these and other issues. LP’s estimates and claims do the following: (1) imply that income taxes decreased when they actually increased, (2) apply tax rates to the wrong tax base, and (3) mischaracterize TRA86, which was a progressive reform. LP also (4) refers to a “surge” in campaign contributions despite medium-term real contributions staying flat or decreasing, (5) overstates the connection between TRA86 and top income shares, which continued prior trends around the tax reform, (6) provides a one-sided summary of the political-influence literature, and (7) misrepresents TRA86 as a presidential tax cut, despite its Congressional design and its increase in high-income average tax rates.

1. LP estimates income taxes decreased, but they increased

LP’s estimated tax decreases are constructed using the differences in statutory marginal income tax rates before and after TRA86. But the estimates are inconsistent with aggregate tax amounts and imply the wrong sign. LP’s Table A1 reports an average 1989 tax reduction “treatment” of \$3.6 million per tract. It is unclear how much of a total decrease this implies because the table lists 289,820 Census tract-level observations, although there were only 84,000 tracts in the 2020 Census.¹ Even if one uses the smaller tract count, LP’s reported average treatment implies a real federal individual income-tax *decrease* of about \$300 billion, or about 40% of these taxes. In the national accounts, however, from 1986 to 1988 real federal individual income-tax receipts *increased* by \$116 billion, a 15-percent increase.²

One source of error is straightforward. The authors confound survey-reported *market* income with *taxable* income. But taxable income is much lower than market income because of exclusions and deductions. These include accelerated depreciation and other tax

¹ As of this version, LP have not responded to my clarifying question asked one month ago: “How many tracts should one multiply your average tract-level tax change by in order to obtain the total estimated tax change?”

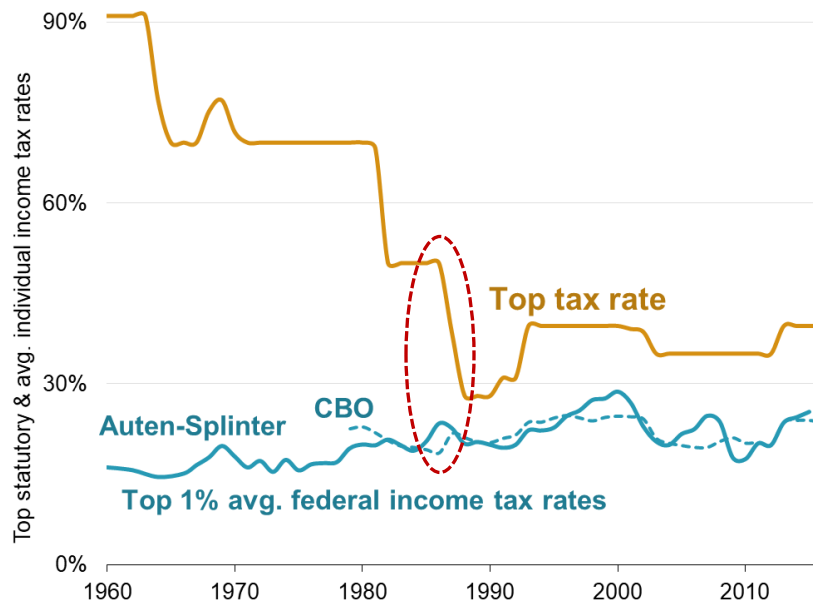
² The PCE index between 1987 and 2022 (ratio of 2.2) is used here: \$404 – \$351 billion nominal = \$53 billion*2.2 = \$116 billion real federal individual income taxes increase. Total federal tax revenue had a real increase of \$317 billion. See NIPA table 3.2.

shelters, Social Security income exclusions, standard deductions, and itemized deductions. For 1988, IRS data show that deductions alone reduce gross income by nearly one-third, from \$3,300 billion of adjusted gross income to \$2,200 billion of *taxable* income. When appropriately accounting for exclusions and deductions, taxpayers move below the higher tax brackets into which LP incorrectly places them. This is one source of the paper’s exaggerated treatment amounts. Another issue is ignoring TRA86’s tax-base changes.

2. Tax bases and the confusion of statutory marginal and average tax changes

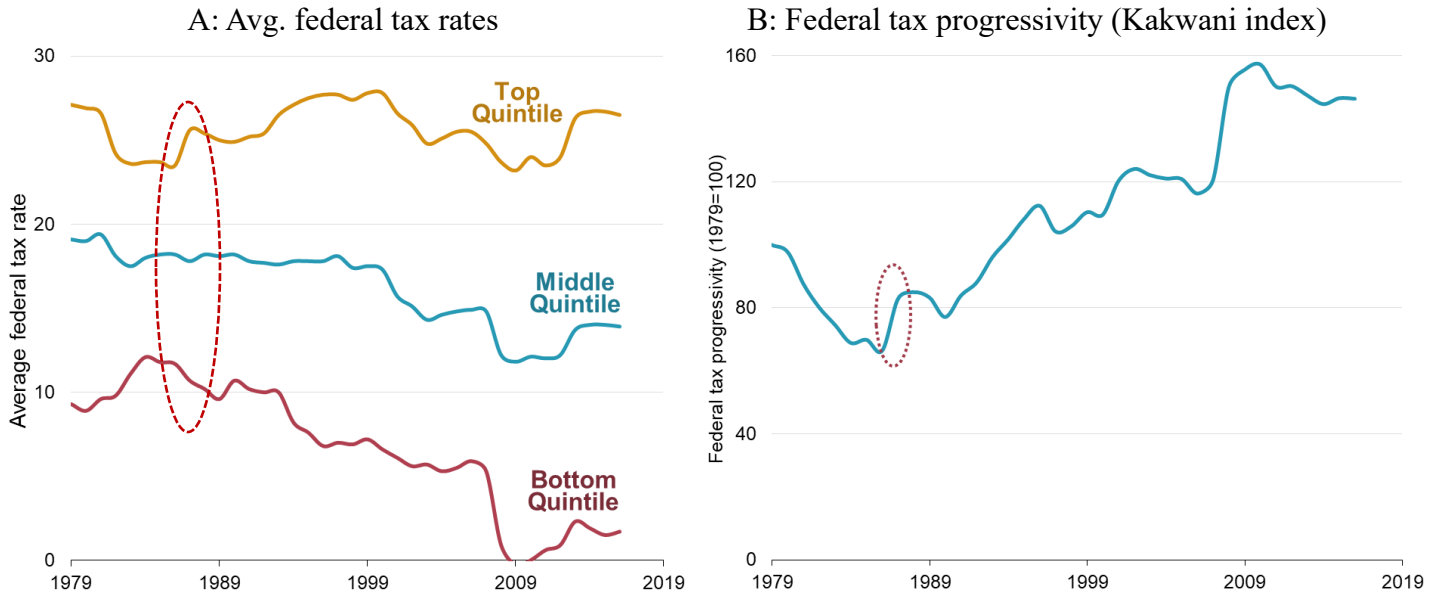
Despite TRA86’s high-income statutory *marginal* tax rate decreases, *average* high-income tax rates increased. The statutory tax-rate changes used by LP can differ dramatically from the average tax changes, which are the relevant measure for campaign-contribution effects because they capture changes in after-tax disposable income. This is because of widespread base broadening (the elimination of many high-income tax shelters), base narrowing (the near doubling of personal exemptions, which benefited lower-income groups), business entity-type changes (Gordon and Slemrod 2000), and behavioral responses (Feldstein 1995; Auten, Splinter, and Nelson 2016). Figure 1 shows that levels and trends in top 1% average tax rates differ significantly from those of the top statutory tax rate. Unfortunately, the survey income data used by LP cannot capture these base changes other than personal exemptions. LP even ignores personal exemptions because, as discussed above, they fail to convert market income into taxable income. Moreover, LP does not capture tax-base changes because their 1986 income measure comes from interpolating incomes between 1980 and 1990, meaning it mixes pre-reform and post-reform income.

Figure 1: Statutory tax rates do not correspond to average tax rates



Notes: Average tax rates are federal individual income taxes divided by income. Source: Splinter (2020).

Figure 2: Federal tax rates and progressivity, 1979–2016



Sources: CBO estimates as presented in Splinter (2020).

3. TRA86 modestly increased measured tax progressivity

LP focuses on statutory marginal tax-rate changes, but those are not the relevant measures to back out changes in disposable after-tax income (which LP suggests affects campaign contributions). Marginal tax-rate changes often differ substantially from average tax-rate changes, which do capture changes in after-tax income. From 1986 to 1989, Congressional Budget Office estimates show that average tax rates increased two percentage points for the top quintile, were flat for the middle quintile, and decreased nearly two percentage points for the bottom quintile (Figure 2A). Thus overall estimates of tax progressivity increased. Figure 2B suggests TRA86 increased federal tax progressivity by 25%.

4. There was no surge in campaign contributions

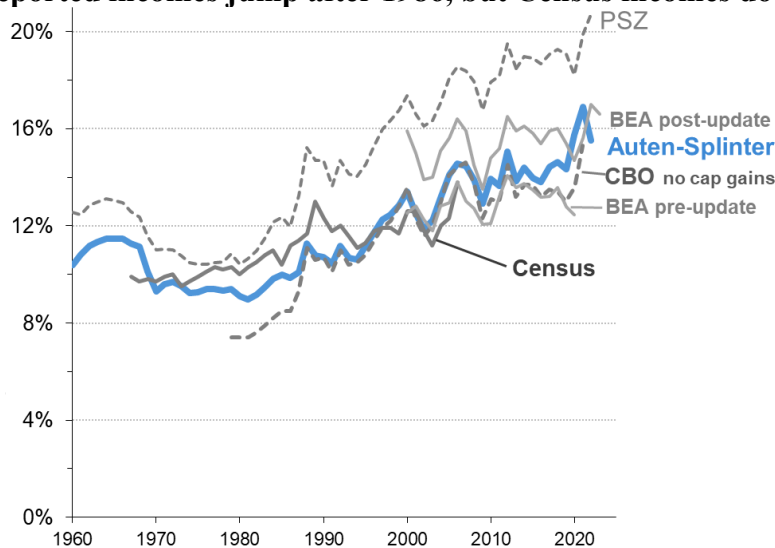
LP claims that there was a “surge” in campaign contributions after the 1986 tax reform. Yet LP’s summary statistics show contributions decreased, with average real contributions per tract falling from \$4.7 million to \$4.0 million between the 1980s and 1990s (Table A1). LP also claims that “there is a clear divergence starting in 1987” for campaign contributions by tract income group. Figure 5 instead shows a one-time spike that is roughly proportional in high-tax-cut and other tracts, with both increasing about 70% between 1986 and 1988, and then both returning to their pre-reform levels for the next three years. A temporary and proportional election-cycle spike in all tracts is not evidence of a persistent and disproportionate increase among high-tax-cut tracts.

Campaign contributions did increase in the early 1990s, but after high-income tax *increases*. This is opposite the paper’s hypothesized effect. CBO estimates show the top 1% average tax rate increased from 28% to 34% between 1990 and 1994, while bottom-half income groups’ tax rates fell. Unlike TRA86, these reforms changed top statutory rates without comparably large base-broadening and organizational-form changes. These tax changes are therefore a better natural experiment for the paper’s hypothesis, but they contradict it: high-income tax burdens and contributions both increased, instead of moving inversely.

5. Pre-tax top income shares continue longer-run trend around TRA86

In suggesting that TRA86 was related to inequality changes, LP fails to mention the relevant patterns around the reform. Figure 3 shows that Auten and Splinter’s (2024) pre-tax top 1% share increased only one percentage point around TRA86 (1985-1989). But the top share increased the same amount in the five-year period just before, so the TRA86 change appears to have just continued the longer-run trend. Census data, which avoid changes in how income was reported on tax returns, also show little sustained impact of TRA86 on top income shares (Burkhauser et al. 2012). The Piketty, Saez, and Zucman (2018, PSZ), which does not adjust for TRA86 reporting changes, shows increases that are about three times as large, though LP suggests the differences with other studies are inconsequential.³ Instead, Figure 3 shows that PSZ estimates are an outlier.

**Figure 3: Top 1% income shares:
Tax-reported incomes jump after 1986, but Census incomes do not**



Notes: All estimates exclude capital gains realizations. Sources: Auten and Splinter (2025b).

³ Nearly half of the increase in PSZ’s and CBO’s top 1% shares occurred in the two years after the 1986 tax reform. These series span two radically different tax-reporting regimes and do not correct for this mid-series change. This results in CBO’s top 1% share in 1979 being underestimated by more than two percentage points (Auten and Splinter 2019). Top shares in other countries are also highly sensitive to tax reporting changes, sometimes misestimating top 1% shares by about one-third (Wolfson et al. 2016; Alstadsæter et al. 2025).

6. One-sided literature summary

LP's summary of studies on political influence does not adequately summarize prior work or more recent follow-up studies, which suggest that U.S. policy changes are not clearly correlated with income-group preferences, but instead with political party. This matters because LP interpret campaign-contribution responses as evidence of unequal political influence, but the literature does not support such a simple interpretation. For example, average citizens' preferences tend to be highly aligned with affluent citizens' preferences across issues (Bashir 2015; Branham, Soroka, and Wlezien 2017; Lax, Phillips, and Zelizer 2019). This matters because LP interprets campaign-contribution responses as reinforcing unequal political influence, despite more recent studies challenging that view. In particular, LP relies on problematic estimates in Gilens and Page (2014) suggesting that U.S. policy outcomes were highly correlated with high-income preferences. But the effect size is small and high-income and middle-class preferences were highly correlated, with a 90% overlap of support for bills (Bashir 2015; Matthews 2016). Enns (2026, p. 530) explains that by "only analyzing data when different income groups express different levels of support" and ignoring when they have similar preferences, the Gilens and Page approach inflates the estimated high-income policy responsiveness. When accounting for this restriction and related intercept differences, the evidence for differential responsiveness by income group disappears or cannot be substantiated.

7. Was TRA86 a "Reagan Tax Cut"?

LP's title refers to the Tax Reform Act of 1986 as a "Reagan Tax Cut." This label is misleading because TRA86 was a bipartisan tax reform that increased average tax rates for high-income taxpayers. Federal tax legislation is enacted by Congress and signed by the president; TRA86's main legislative framework and details were decided in Congress (Birnbaum and Murray 1987).

8. Conclusion

The central problem is that LP's treatment measure does not measure after-tax changes in resources caused by TRA86. LP applies statutory marginal rates to an income concept that is not taxable income and omits the base-broadening provisions central to the reform. As a result, the implied aggregate treatment is inconsistent with observed tax receipts and with evidence that TRA86 increased tax progressivity. The campaign-contribution patterns after later high-income tax increases contradict LP's proposed mechanism.

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