

# SPECIAL REPORT

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## Who Pays the Federal Individual Income Tax?

*New Data Show Top-Earning 25 Percent Pay 5 Out of Every 6 Dollars; Top Five Percent Pay Over Half; Top One Percent Pay Over a Third*

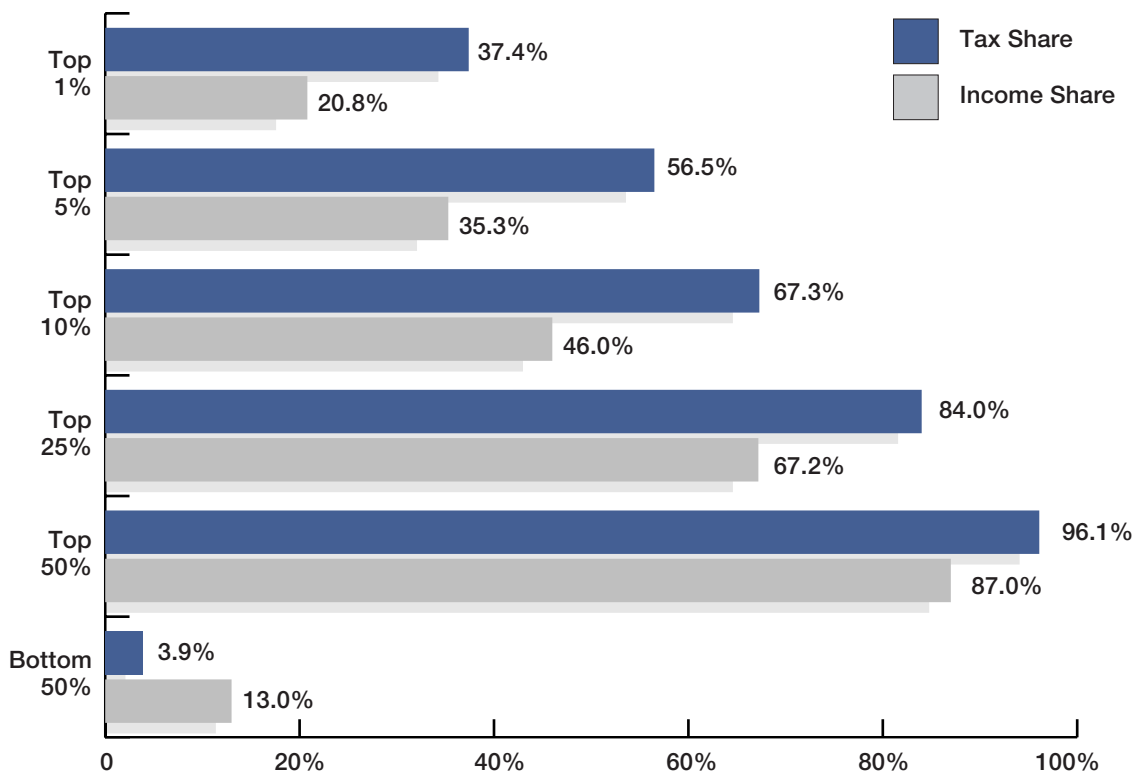
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The latest income tax data from the Internal Revenue Service show that in 2000, the 25 percent of taxpayers who earned the most paid more than five out of every six dollars collected, or 84.0 percent. This top 25 percent consisted of 32 million tax returns showing

adjusted gross incomes (AGI) of higher than \$55,225.

A time series analysis of the data shows that since 1980, the share of federal individual income taxes paid by the top 25 percent has increased markedly. Table 1 compares two

*Figure 1*  
*Percentages of Total Income Earned and Federal Individual Income Taxes Paid by Income Group 2000*



Source: Preliminary data, IRS

snapshots from that series: 2000, the latest data available, and 1990, a decade earlier. In 1990, the top 25 percent of taxpayers paid 77 percent of federal individual income taxes, a hefty share but significantly less than its 84 percent share in 2000. Naturally, this has

*While the highest-earning one percent of tax filers earned 20.8 percent of the nation's total adjusted gross income in 2000, they paid 37.4 percent of federal individual income taxes during that year.*

resulted in a corresponding decline in the share of the tax burden shouldered by the remaining 75 percent of the nation's taxpayers.

Even among the top 25 percent, the highest earners paid the lion's share. The top ten percent paid over two thirds of the total collected, 67.3 percent. And even further up the income ladder, the top one percent of earners in the country paid well over a third. That is fewer than 1.3 million tax returns whose payments constituted 37.4 percent of 2000's federal individual income taxes. This is a considerably larger share than the 25.1 percent

paid by the top one percent in 1990.

Dividing all tax returns in half, based on AGI, the vast majority of 2000's federal individual income tax burden, 96.1 percent, was borne by individuals in the top half — those with AGIs over \$27,682. In 1990, the top half paid 94.2 percent of total collections.

The shift in the tax burden onto the top 25 percent has lightened the relative load on lower-income filers. In 1990, individuals in the lower half of the income spectrum paid 5.8 percent of total federal individual income taxes. By 2000 this figure had dropped to just 3.9 percent. The fact that this percentage has dropped steadily since 1980 does not mean that low-income taxpayers have paid less in income taxes each year, just that their tax payments have not increased as quickly as those of high-income taxpayers.

### Income Earned vs. Taxes Paid by Income Group

The fraction of total collections paid by different parts of the income spectrum is only instructive when compared to each group's income share. Figure 1 and Table 1 present the shares of AGI claimed and the shares of federal individual income taxes paid by each group.

While high-income earners claim relatively large shares of total income, they pay even greater shares of the federal individual income

Table 1  
Federal Individual Income Tax Return Data  
2000 & 1990

Income Group	Number of Returns (000)	AGI (\$000,000)	1990				
			Income Taxes Paid (\$000,000)	Group's Share of Total AGI	Group's Share of Total Taxes	Income Split Point	Average Tax Rate (Payment/AGI)
All Taxpayers	112,812	\$ 3,451,237	\$ 447,061	100.0%	100.0%	–	13.0%
Top 1%	1,128	\$ 483,252	\$ 112,338	14.0%	25.1%	above \$167,427	23.2%
Top 5%	5,641	\$ 953,337	\$ 195,088	27.6%	43.6%	above \$79,064	20.5%
Top 10%	11,281	\$ 1,338,032	\$ 247,514	38.8%	55.4%	above \$60,287	18.5%
Top 25%	28,203	\$ 2,144,177	\$ 344,340	62.1%	77.0%	above \$38,080	16.1%
Top 50%	56,406	\$ 2,932,537	\$ 421,075	85.0%	94.2%	above \$19,767	14.4%
Bottom 50%	56,406	\$ 518,700	\$ 25,986	15.0%	5.8%	below \$19,767	5.0%
Income Group	Number of Returns (000)	AGI (\$000,000)	2000				
			Income Taxes Paid (\$000,000)	Group's Share of Total AGI	Group's Share of Total Taxes	Income Split Point	Average Tax Rate (Payment/AGI)
All Taxpayers	128,227	\$ 6,423,977	\$ 980,521	100.0%	100.0%	–	15.3%
Top 1%	1,282	\$ 1,336,773	\$ 366,929	20.8%	37.4%	above \$313,469	27.4%
Top 5%	6,411	\$ 2,267,403	\$ 553,670	35.3%	56.5%	above \$128,336	24.4%
Top 10%	12,822	\$ 2,955,386	\$ 660,150	46.0%	67.3%	above \$92,114	22.3%
Top 25%	32,057	\$ 4,313,786	\$ 823,706	67.2%	84.0%	above \$55,225	19.1%
Top 50%	64,114	\$ 5,589,755	\$ 942,179	87.0%	96.1%	above \$27,682	16.9%
Bottom 50%	64,114	\$ 834,222	\$ 38,342	13.0%	3.9%	below \$27,682	4.6%

Source: Preliminary data, IRS

tax burden. For example, while individuals in the top one percent of tax filers earned 20.8 percent of total AGI in 2000, they paid 37.4 percent of federal individual income taxes during that year. Their average effective fed-

eral individual income tax rate was 27.4 percent. Similarly, while tax filers in the top five percent earned 35.3 percent of total AGI during 2000, they paid 56.5 percent of total federal individual income taxes. The average

*Table 2*  
*Shares of Adjusted Gross Income by Income Group*  
*1980-2000*

	Top 1 Percent	Top 2-5 Percent	Top 5 Percent	Top 6-10 Percent	Top 10 Percent	Top 11-25 Percent	Top 25 Percent	Top 26-50 Percent	Top 50 Percent	Bottom 50 Percent
1980	8.5%	12.5%	21.0%	11.1%	32.1%	24.6%	56.7%	25.6%	82.3%	17.7%
1981	8.3	12.5	20.8	11.2	32.0	24.7	56.7	25.6	82.3	17.7
1982	8.9	12.3	21.2	11.0	32.3	24.5	56.8	25.5	82.3	17.7
1983	9.3	12.5	21.7	11.0	32.8	24.4	57.2	25.3	82.5	17.5
1984	9.7	12.5	22.2	11.1	33.2	24.3	57.6	25.0	82.6	17.4
1985	10.0%	12.6%	22.7%	11.1%	33.8%	24.2%	58.0%	24.8%	82.7%	17.3%
1986	11.3	12.8	24.1	11.0	35.1	23.9	59.0	24.3	83.3	16.7
1987	12.3	13.3	25.7	11.2	36.9	23.9	60.8	23.6	84.4	15.6
1988	15.2	13.4	28.5	10.9	39.5	23.0	62.4	22.6	85.1	14.9
1989	14.2	13.7	27.8	11.2	39.0	23.3	62.3	22.8	85.0	15.0
1990	14.0%	13.6%	27.6%	11.1%	38.8%	23.4%	62.1%	22.8%	85.0%	15.0%
1991	13.0	13.8	26.8	11.4	38.2	23.6	61.9	23.0	84.9	15.1
1992	14.2	13.8	28.0	11.2	39.2	23.2	62.5	22.6	85.1	14.9
1993	13.8	14.0	27.8	11.3	39.1	23.4	62.5	22.6	85.1	14.9
1994	13.8	14.0	27.8	11.3	39.2	23.4	62.6	22.5	85.1	14.9
1995	14.6%	14.2%	28.8%	11.4%	40.2%	23.2%	63.4%	22.1%	85.5%	14.5%
1996	16.0	14.3	30.4	11.2	41.6	22.7	64.3	21.6	85.9	14.1
1997	17.4	14.4	31.8	11.0	42.8	22.2	65.0	21.1	86.2	13.8
1998	18.5	14.4	32.9	10.9	43.8	21.9	65.6	20.7	86.3	13.7
1999	19.5	14.5	34.0	10.8	44.9	21.6	66.5	20.3	86.7	13.3
2000	20.8%	14.5%	35.3%	10.7%	46.0%	21.1%	67.2%	19.9%	87.0%	13.0%

Source: IRS

*Table 3*  
*Shares of Total Federal Individual Income Tax Payments by Income Group*  
*1980-2000*

	Top 1 Percent	Top 2-5 Percent	Top 5 Percent	Top 6-10 Percent	Top 10 Percent	Top 11-25 Percent	Top 25 Percent	Top 26-50 Percent	Top 50 Percent	Bottom 50 Percent
1980	19.1%	17.8%	36.8%	12.4%	49.3%	23.7%	73.0%	19.9%	93.0%	7.0%
1981	17.6	17.5	35.1	12.9	48.0	24.3	72.3	20.3	92.5	7.5
1982	19.0	17.1	36.1	12.5	48.6	23.9	72.5	20.2	92.7	7.3
1983	20.3	16.9	37.3	12.4	49.7	23.4	73.1	19.7	92.8	7.2
1984	21.1	16.9	38.0	12.6	50.6	22.9	73.5	19.2	92.6	7.4
1985	21.8%	17.0%	38.8%	12.7%	51.5%	22.6%	74.1%	18.8%	92.8%	7.2%
1986	25.7	16.8	42.6	12.1	54.7	21.3	76.0	17.5	93.5	6.5
1987	24.8	18.4	43.3	12.4	55.6	21.3	76.9	17.0	93.9	6.1
1988	27.6	18.0	45.6	11.7	57.3	20.6	77.8	16.4	94.3	5.7
1989	25.2	18.7	43.9	11.8	55.8	21.4	77.2	16.9	94.2	5.8
1990	25.1%	18.5%	43.6%	11.7%	55.4%	21.7%	77.0%	17.2%	94.2%	5.8%
1991	24.8	18.6	43.4	12.4	55.8	21.5	77.3	17.2	94.5	5.5
1992	27.5	18.3	45.9	12.1	58.0	20.5	78.5	16.5	94.9	5.1
1993	29.0	18.3	47.4	11.9	59.2	20.0	79.3	15.9	95.2	4.8
1994	28.9	18.7	47.5	11.9	59.4	20.1	79.6	15.7	95.2	4.8
1995	30.3%	18.6%	48.9%	11.8%	60.7%	19.6%	80.4%	15.0%	95.4%	4.6%
1996	32.3	18.7	51.0	11.5	62.5	18.8	81.3	14.4	95.7	4.3
1997	33.2	18.7	51.9	11.3	63.2	18.5	81.7	14.0	95.7	4.3
1998	34.8	19.1	53.8	11.2	65.0	17.6	82.7	13.1	95.8	4.2
1999	36.2	19.3	55.5	11.0	66.5	17.1	83.5	12.5	96.0	4.0
2000	37.4%	19.0%	56.5%	10.9%	67.3%	16.7%	84.0%	12.1%	96.1%	3.9%

Source: IRS

effective federal income tax rate for this group was 24.4 percent.

Figure 1 also shows that the top 50 percent, who earned 87 percent of total AGI, paid 96.1 percent of total federal individual income taxes. The average effective federal individual income tax rate for this group was 16.9 percent. Taxpayers in the lower half of filers, on the other hand, earned 13.0 percent of total AGI but paid just 3.9 percent of total federal individual income taxes. The average effective federal individual income tax rate of this group was 4.6 percent.

### Comparing Income and Tax Shares Over Time

Comparing shares of income earned to income taxes paid over time sheds light on the progressive structure of the United States' individual income tax system.

#### Income Patterns

Table 2 shows that from 1980 to 1988, the top five percent of filers earned a steadily higher fraction of total income, but the trend line leveled off from 1989 to 1994 before starting up again from 1995 to 2000. Most of the rise was attributable to income growth by the top one percent of filers.

Looking just at the top one percent, the percentage of total income these taxpayers earned gradually rose from 8.5 to 15.2 percent between 1980 and 1988, fell to 13.0 percent by 1991, then leveled off at around 13.9 percent from 1992 to 1994. During the next six years it once again began to climb upward, reaching 20.8 percent in 2000.

The share of total income earned by the next four percent of filers also rose between 1995 and 2000. In 1980 this group earned 12.5 percent of total income. This percentage rose to 13.6 in 1990 and then to 14.5 in 2000.

Combining the top one percent with the next four percent would show that the share of income earned by the top five percent of filers gradually rose from 21.0 percent in 1980 to 28.5 percent in 1988. It then leveled off at around 27.8 percent from 1988 to 1994. During the next five years it once again began to rise, reaching 35.3 percent in 2000.


#### Tax Payment Patterns

Table 3 shows that the only segment of the income spectrum paying a steadily higher fraction of individual income tax collections is the top five percent of filers.

The share of federal individual income taxes paid by this segment of the income spectrum rose even more rapidly than their share of income from 1980 to 2000. In 1980 the top five percent of income earners paid 36.8 percent of total individual income taxes. This percentage rose steadily to 43.6 percent in 1990. Over the next decade it increased by more than 13 percentage points to 56.5 percent in 2000.

Just as income gains in the top five percent were dominated by the gains of the top one percent, so was the increasing tax burden. The top one percent's share of the total tax burden rose from 19.1 percent in 1980 to 25.1 percent in 1990. After falling to 24.8 percent in 1991 it rose to 37.4 percent in 2000.

The rise in the percentage of federal individual income taxes paid by the top five percent of income earners has led to a corresponding decline in the share borne by the remaining 95 percent. This reduction has been felt across the board. The share of federal income taxes paid by individuals in the top six to ten percent of income earners fell from 12.4 percent in 1980 to 10.9 percent in 2000.

Similarly, the share paid by those in the top 11 to 25 percent fell from 23.7 percent in 1980 to 16.7 percent in 2000. The share paid by individuals in the top 26 to 50 percent fell from 19.9 percent in 1980 to 12.1 percent in 2000. Finally, the share paid by the bottom 50 percent fell from 7.0 percent in 1980 to just 3.9 percent in 2000. 



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