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SPECIAL REPORT

Who Pays the Federal Individual Income Tax?

New Data Show Payments Even More Lopsided; Top-Earning 25 Percent Pay 5 Out of Every 6 Dollars; Top One Percent Pays Over a Third

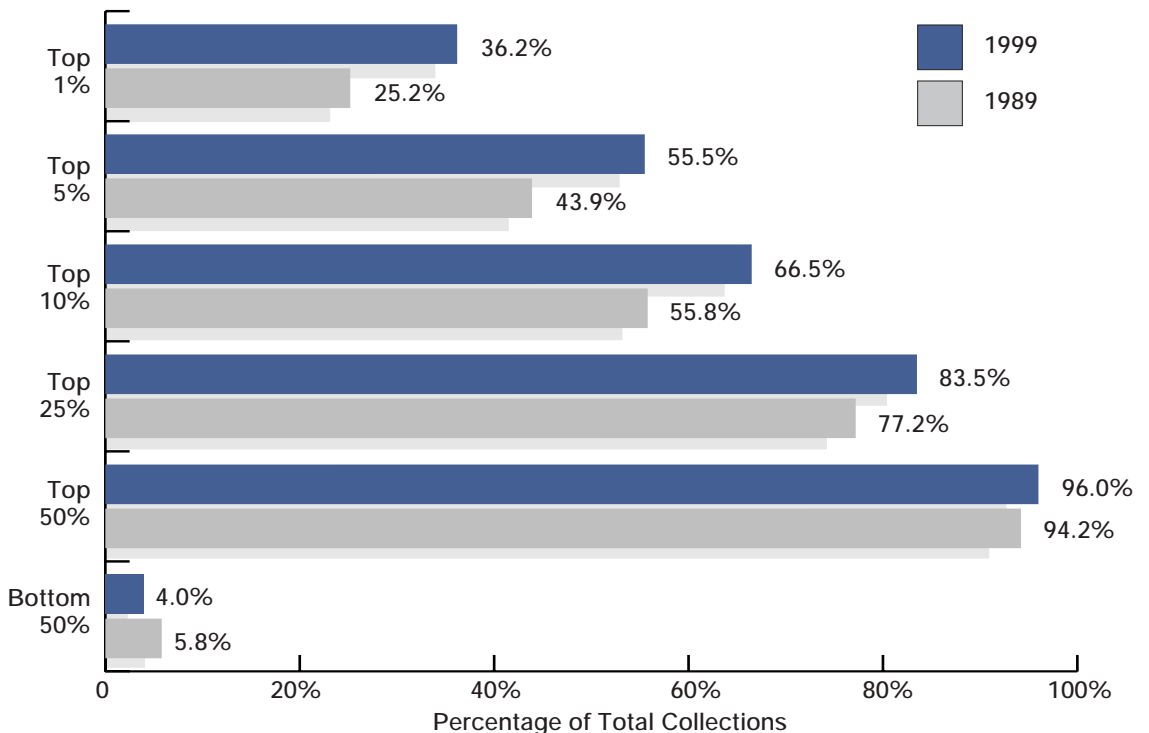
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The latest income tax data from the Internal Revenue Service show that in 1999, the 25 percent of taxpayers who earned the most paid more than five out of every six dollars collected, or 83.5 percent. This top 25 percent consisted of 31.5 million tax returns showing adjusted gross incomes (AGI) of higher than

\$52,965 (see Table 1 on page 2).

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. Figure one below presents two snapshots from that series: 1999, the latest data available, and 1989, a decade ear-

Figure 1
Percentage of Individual Income Taxes Paid by Income Group
1999 and 1989



Source: IRS

lier. In 1989, the top 25 percent of taxpayers paid 77.2 percent of federal individual income taxes, a hefty share but significantly less than its 83.5 percent share in 1999. Naturally, this has resulted in a corresponding decline in the

That is fewer than 1.3 million tax returns whose payments constituted 36.2 percent of 1999's federal individual income taxes. This is a considerably larger share than the 25.2 percent paid by the top one percent in 1989.

By 1999 the bottom half of the income spectrum was paying just 4.0 percent of the income tax. The steady drop in this percentage since 1980 does not mean that low-income taxpayers are paying less, just that their tax payments have not increased as quickly as those of high-income taxpayers.

Dividing all tax returns in half, based on AGI, the vast majority of 1999's federal individual income tax burden, 96.0 percent, was borne by individuals in the top half — those with AGIs over \$26,415. In 1989, 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. Figure 1 shows that in 1989 individuals in the lower half of the income spectrum paid 5.8 percent of total federal individual income taxes. By 1999 this figure had dropped to just 4.0 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.

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 almost two thirds of the total collected, 66.5 percent. And even further up the income ladder, the top one percent of earners in the country paid well over a third.

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

Table 1
Federal Individual Income Tax Return Data
1999 & 1989

Income Group	Number of Returns (000)	AGI (\$000,000)	Income Taxes Paid (\$000,000)	1999			
				Group's Share of Total AGI	Group's Share of Total Taxes	Income Split Point	Average Tax Rate (Payment/AGI)
All Taxpayers	126,009	\$ 5,909,329	\$ 877,292	100.0%	100.0%	–	14.8%
Top 1%	1,260	\$ 1,152,820	\$ 317,419	19.5%	36.2%	above \$293,415	27.5%
Top 5%	6,300	\$ 2,011,763	\$ 486,464	34.0%	55.5%	above \$120,846	24.2%
Top 10%	12,601	\$ 2,652,835	\$ 583,002	44.9%	66.5%	above \$87,682	22.0%
Top 25%	31,502	\$ 3,927,308	\$ 732,890	66.5%	83.5%	above \$52,965	18.7%
Top 50%	63,004	\$ 5,126,164	\$ 842,168	86.7%	96.0%	above \$26,415	16.4%
Bottom 50%	63,004	\$ 783,165	\$ 35,124	13.3%	4.0%	below \$26,415	4.5%

Income Group	Number of Returns (000)	AGI (\$000,000)	Income Taxes Paid (\$000,000)	1989			
				Group's Share of Total AGI	Group's Share of Total Taxes	Income Split Point	Average Tax Rate (Payment/AGI)
All Taxpayers	111,313	\$ 3,298,858	\$ 432,838	100.0%	100.0%	–	13.1%
Top 1%	1,113	\$ 468,079	\$ 109,259	14.2%	25.2%	above \$163,869	23.3%
Top 5%	5,566	\$ 918,421	\$ 190,188	27.8%	43.9%	above \$76,933	20.7%
Top 10%	11,131	\$ 1,286,539	\$ 241,458	39.0%	55.8%	above \$58,263	18.8%
Top 25%	27,828	\$ 2,054,478	\$ 334,258	62.3%	77.2%	above \$36,839	16.3%
Top 50%	55,656	\$ 2,805,235	\$ 407,599	85.0%	94.2%	above \$18,993	14.5%
Bottom 50%	55,656	\$ 493,623	\$ 25,239	15.0%	5.8%	below \$18,993	5.1%

Source: IRS

income share. Figure 2 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 tax burden. For example, while individuals in

during 1999, they paid 55.5 percent of total federal individual income taxes. The average effective federal income tax rate for this group was 24.2 percent.

Figure 2 also shows that the top 50 percent, who earned 86.7 percent of total AGI, paid 96.0 percent of total federal individual income taxes. The average effective federal individual income tax rate for this group was 16.4 percent. Taxpayers in the lower half of filers, on the other hand, earned 13.3 percent of total AGI but paid just 4.0 percent of total federal individual income taxes. The average effective federal individual income tax rate of this group was 4.5 percent.

While the highest-earning one percent of tax filers earned 19.5 percent of the nation's total adjusted gross income in 1999, they paid 36.2 percent of federal individual income taxes during that year.

the top one percent of tax filers earned 19.5 percent of total AGI in 1999, they paid 36.2 percent of federal individual income taxes during that year. Their average effective federal individual income tax rate was 27.5 percent. Similarly, while tax filers in the top five percent earned 34.0 percent of total AGI

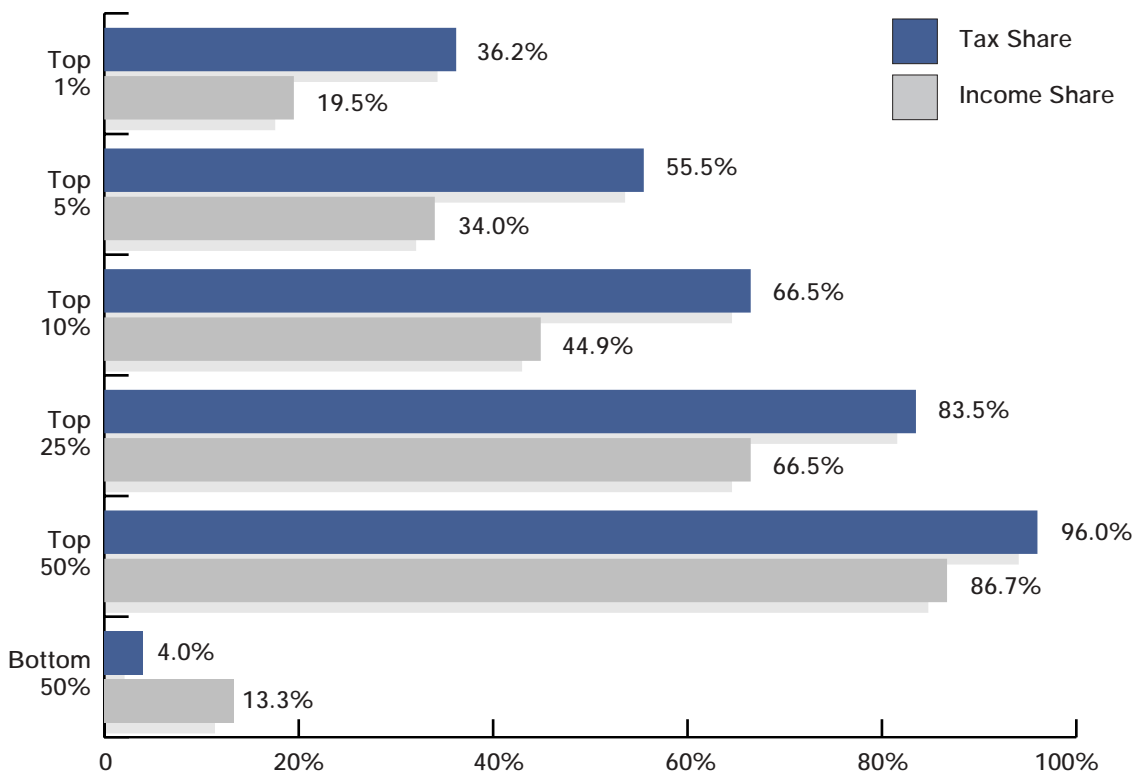
Comparing Income and Tax Shares Over Time

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 and Figure 3 show that from 1980 to 1988, the top five percent of filers earned a

Figure 2
Percentages of Total Income Earned and Federal Individual Income Taxes Paid by Income Group 1999



Source: IRS

steadily higher fraction of total income, but the trend line leveled off from 1989 to 1994 before starting up again from 1995 to 1999. 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 five years it once again began to climb upward,

Table 2
Shares of Adjusted Gross Income by Income Group 1980–1999

	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

Source: IRS

Table 3
Shares of Total Federal Individual Income Tax Payments by Income Group 1980–1999

	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

Source: IRS

reaching 19.5 percent in 1999.

The share of total income earned by the next four percent of filers also rose between 1995 and 1999. 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 1999.

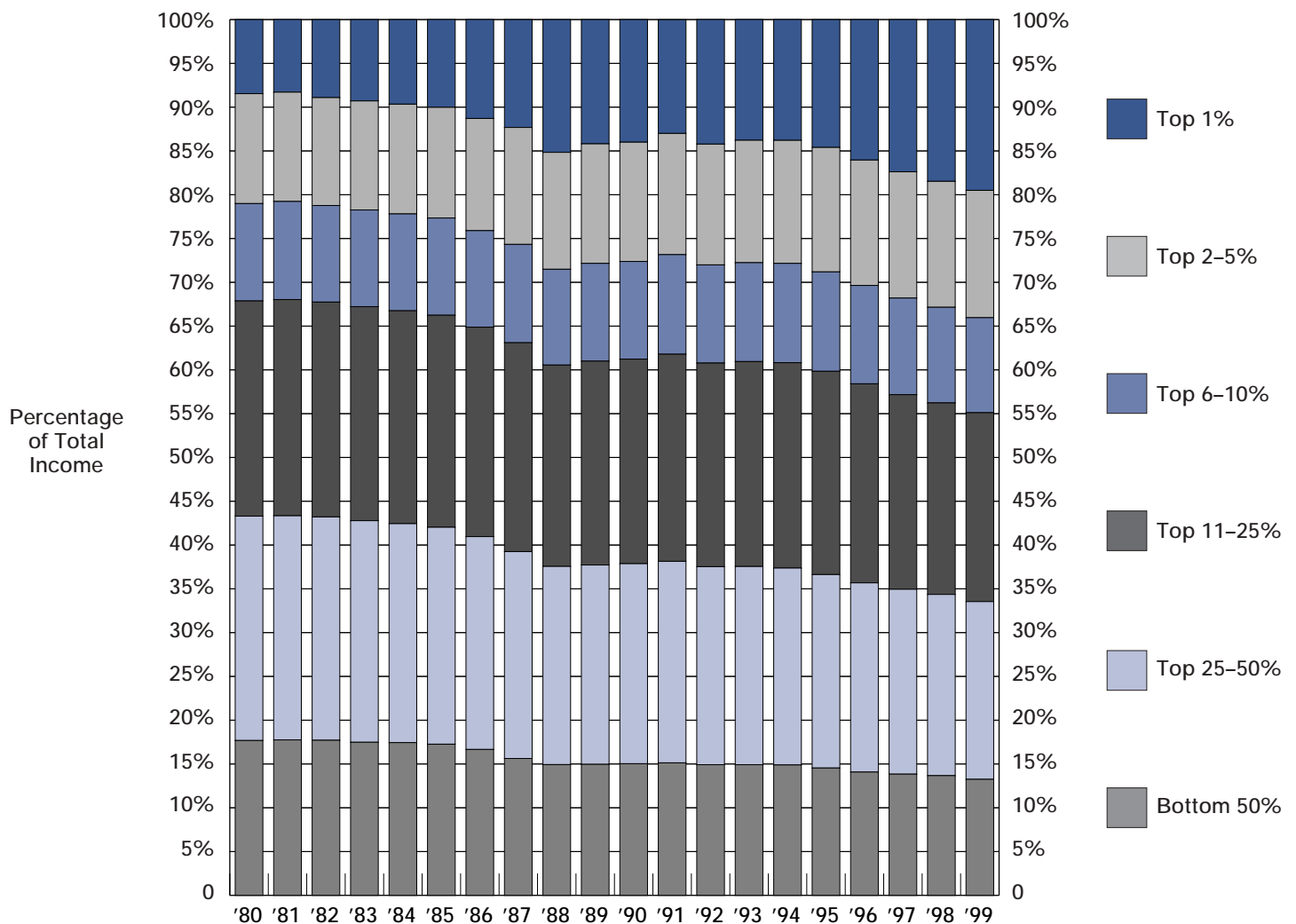
The increasing income shares of these two income groups are illustrated by the two top most segments of the bars in Figure 3. Combined, they show that the share of income earned by the top five percent of filers gradually rose from 21.0 percent in 1980 to 28.5 percent in 1988. It then leveled off at around 27.8 percent from 1988 to 1994. During the next five years it once again began to rise, reaching 34.0 percent in 1999.

Tax Payment Patterns

Table 3 and Figure 4 show 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 1999. In 1980 the top five percent of income earners paid 36.8 percent of total individual income taxes. Figure 4 shows that this percentage rose steadily to 43.9 percent in 1989. Over the next two years the burden declined slightly, reaching 43.4 percent in 1991. Over the next nine years it increased by more than 12 percentage

Figure 3
Shares of Adjusted Gross Income by Income Group
1980-1999



Source: IRS

points to 55.5 percent in 1999.

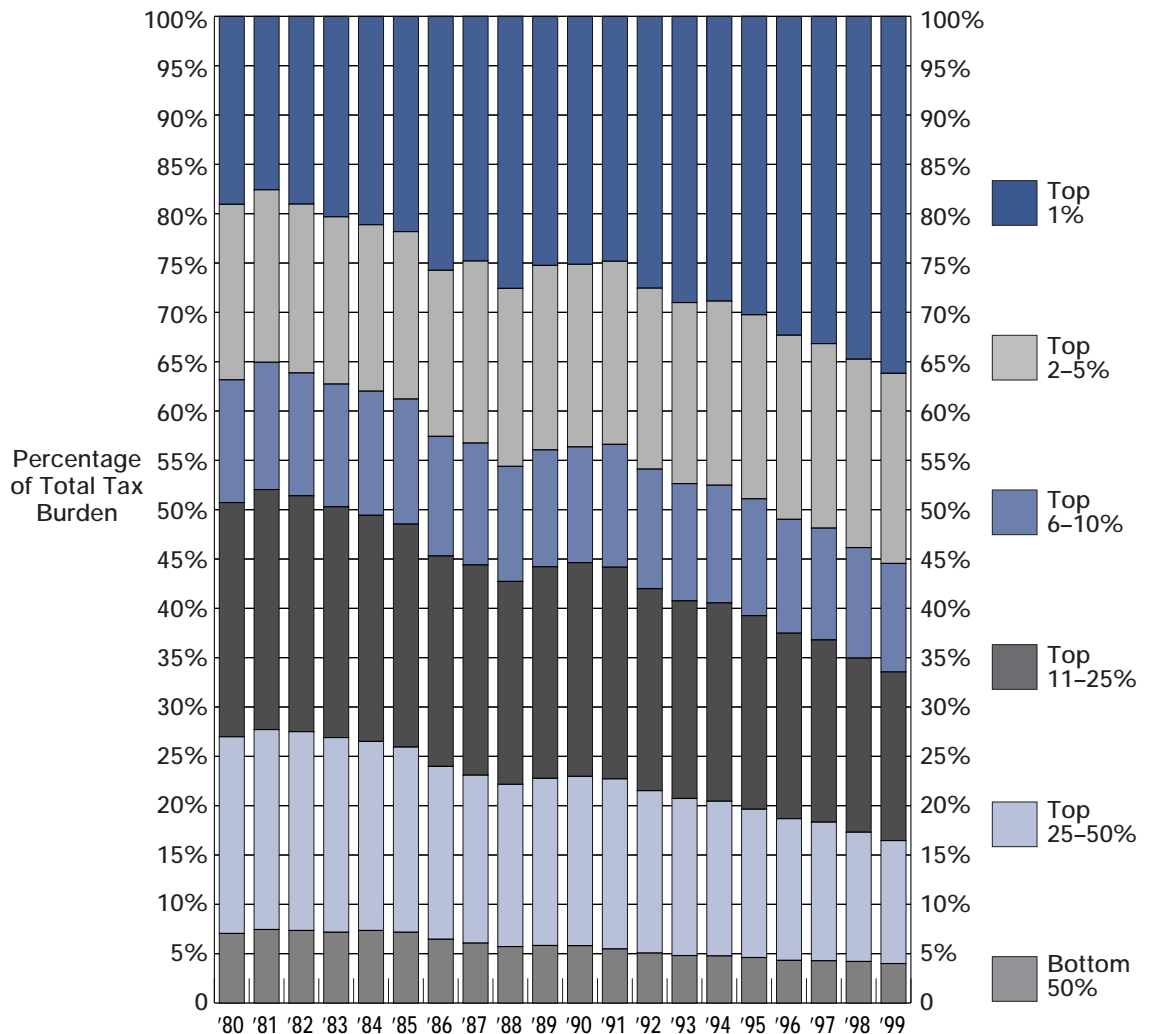
Just as income gains in the top five percent were dominated by the gains of the top one percent, so was the increasing tax burden. The top one percent's share of the total tax burden rose from 19.1 percent in 1980 to 25.2 percent in 1989. After falling to 24.8 percent in 1991 it rose to 36.2 percent in 1999.

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 11.0 percent in 1999.

Similarly, the share paid by those in the top 11 to 25 percent fell from 23.7 percent in 1980 to 17.1 percent in 1999. The share paid by individuals in the top 26 to 50 percent fell from 19.9 percent in 1980 to 12.5 percent in 1999. Finally, the share paid by the bottom 50 percent fell from 7.0 percent in 1980 to just 4.0 percent in 1999. ●

Figure 4
Shares of Federal Individual Income Taxes Paid by Income Group 1980-1999



Source: IRS



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