

SPECIAL REPORT

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Distribution of the Federal Individual Income Tax

Top-Earning Five Percent Pays Over Half, Top One Percent Nearly a Third

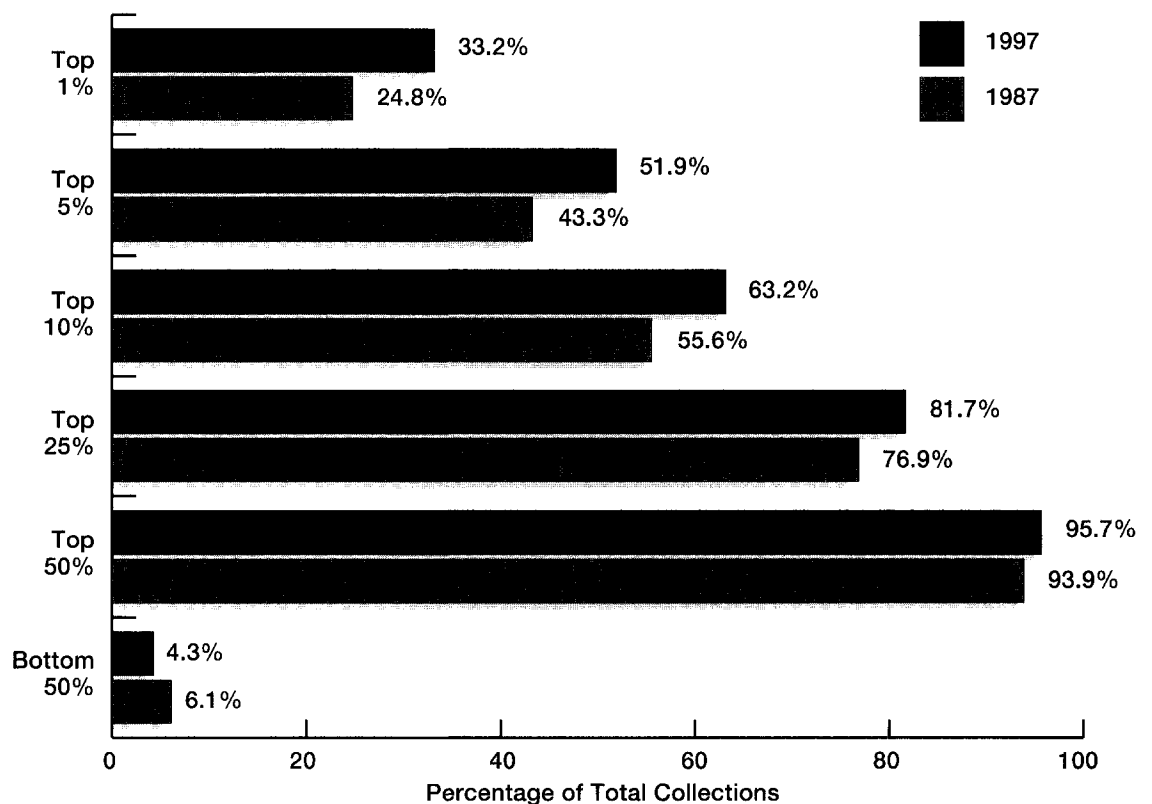
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The latest data from the Internal Revenue Service show that in 1997 the five percent of taxpayers who earned the most paid more than half of all federal individual income taxes, 51.9 percent. This top five percent consisted of 6.1 million earners whose adjusted gross

incomes (AGI) were higher than \$108,048. (See Figure 1 and Table 1.)

A time series analysis of the data shows that since 1980 the share of federal individual income taxes borne by the top five percent has increased markedly. In 1980 this prosper-

Figure 1
 Percentage of Individual Income Taxes Paid by Income Group
 1997 and 1987



Source: Tax Foundation

ous group paid 36.8 percent of federal individual income taxes, a hefty share but significantly less than its 51.9 percent share in 1997. Naturally, this has resulted in a corresponding decline in the share of the tax burden should-

The shift in the tax burden onto the top five percent has lightened the relative load on lower-income filers. In 1987 individuals in the bottom half of income earners paid 6.1 percent of total federal individual income taxes. By 1997 this figure had dropped to just 4.3 percent.

dered by the remaining 95 percent of the nation's taxpayers.

Even among the top five percent, the highest earners paid the lion's share. The top one percent of earners in the country are paying almost a third of all the taxes collected. That's approximately 1.2 million earners—whose AGIs are higher than \$250,736—paying 33.2 percent of 1997's federal individual

income taxes. This is a considerably larger share than the 24.8 percent paid by the top one percent in 1987.

Figure 1 and Table 1 also show that in 1997, 63.2 percent of federal individual income taxes was collected from individuals in the top 10 percent of income earners—those with adjusted gross incomes higher than \$79,212. In 1987, 51.6 percent of all federal individual income taxes were collected from filers in this percentile.

Dividing all tax returns in half by AGI, the vast majority of 1997's federal individual income tax burden, 95.7 percent, was borne by the top half—individuals with AGIs over \$24,393. In 1987, the top half paid 93.9 percent of total collections.

The shift in the tax burden onto the top five percent has lightened the relative load on lower-income filers. Figure 1 shows that in 1987 individuals in the lower half of income earners paid 6.1 percent of total federal individual income taxes. By 1997 this figure had dropped to just 4.3 percent.

Income Earned vs. Taxes Paid By Income Group

The fraction of total collections paid by different parts of the income spectrum is only

Table 1
Federal Individual Income Tax Return Data
1997 & 1987

Income Group	Number of Returns (000)	AGI (\$000,000)	1997				Income Split Point	Average Tax Rate
			Income Taxes Paid (\$000,000)	Group's Share of Total AGI	Group's Share of Total Taxes			
All Taxpayers	121,506	\$ 5,023,492	\$ 727,303	100.0%	100.0%	-	14.5%	
Top 1%	1,215	872,834	241,241	17.4%	33.2%	above \$250,736	27.6%	
Top 5%	6,075	1,597,124	377,244	31.8%	51.9%	above \$108,048	23.6%	
Top 10%	12,151	2,151,426	459,643	42.8%	63.2%	above \$79,212	21.4%	
Top 25%	30,377	3,267,638	594,008	65.0%	81.7%	above \$48,173	18.2%	
Top 50%	60,753	4,328,031	696,165	86.2%	95.7%	above \$24,393	16.1%	
Bottom 50%	60,753	695,461	31,138	13.8%	4.3%	below \$24,393	4.5%	

Income Group	Number of Returns (000)	AGI (\$000,000)	1987				Income Split Point	Average Tax Rate
			Income Taxes Paid (\$000,000)	Group's Share of Total AGI	Group's Share of Total Taxes			
All Taxpayers	106,155	\$ 2,813,728	\$ 369,046	100.0%	100.0%	-	13.1%	
Top 1%	1,062	346,635	91,559	12.3%	24.8%	above \$139,289	26.4%	
Top 5%	5,308	722,221	159,642	25.7%	43.3%	above \$68,414	22.1%	
Top 10%	10,615	1,038,221	205,230	36.9%	55.6%	above \$52,921	19.8%	
Top 25%	26,539	1,709,389	283,857	60.8%	76.9%	above \$33,983	16.6%	
Top 50%	53,077	2,373,869	346,655	84.4%	93.9%	above \$17,768	14.6%	
Bottom 50%	53,077	439,859	22,391	15.6%	6.1%	below \$17,768	5.1%	

Source: IRS

instructive when compared to each group's income share. *Figure 2* and *Table 1* present the shares of AGI claimed and the shares of

While the highest-earning one percent of tax filers earned 17.4 percent of the nation's total adjusted gross income in 1997, they paid 33.2 percent of federal individual income taxes during that year.

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 the top one percent of tax filers earned 17.4 percent of total AGI in 1997, they paid 33.2 percent of federal individual income taxes during that year. Their average effective fed-

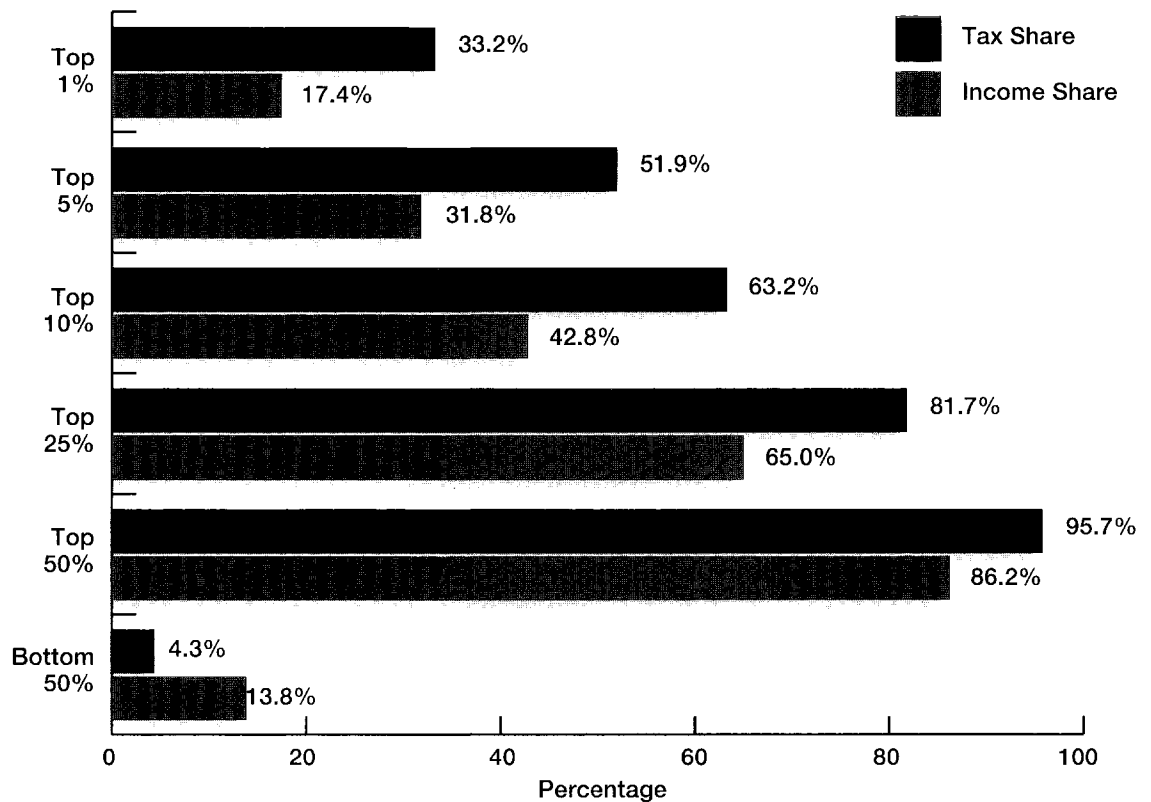
eral individual income tax rate was 27.6 percent. Similarly, while tax filers in the top five percent of income earners earned 31.8 percent of total AGI during 1997, they paid 51.9 percent of total federal individual income taxes. The average effective federal income tax rate for this group was 23.6 percent.

Figure 2 also shows that the top 50 percent earning 86.2 percent of total AGI paid 95.7 percent of total federal individual income taxes. The average effective federal individual income tax rate for this group was 16.1 percent. Taxpayers in the lower half of filers, on the other hand, earned 13.8 percent of total AGI but paid just 4.3 percent of total federal individual income taxes. The average effective federal individual income tax rate of this group was 4.5 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 our tax system.

Figure 2
Percentages of Total Income Earned and Federal Individual Income Taxes Paid by Income Group 1997



Income Patterns

Table 2 and Figure 3 show 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 1997. 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 three years it once again began to climb upward, reaching 17.4 percent in 1997.

The share of total income earned by the next four percent of filers also rose during this period. In 1980 this group earned 12.5 percent of total income. This percentage rose to 13.6

Table 2
Shares of Adjusted Gross Income by Income Group
1980-1997

	Top 1 Percent	Next 4 Percent	Top 5 Percent	Next 5 Percent	Top 10 Percent	Next 15 Percent	Top 25 Percent	Next 25 Percent	Top 50 Percent	Bottom 50 Percent
1980	8.46%	12.55%	21.01%	11.12%	32.13%	24.57%	56.70%	25.62%	82.32%	17.68%
1981	8.30	12.48	20.78	11.20	31.98	24.69	56.67	25.59	82.25	17.75
1982	8.91	12.32	21.23	11.03	32.26	24.53	56.79	25.50	82.29	17.71
1983	9.29	12.45	21.74	11.04	32.78	24.44	57.22	25.30	82.52	17.48
1984	9.66	12.53	22.19	11.06	33.25	24.31	57.56	25.00	82.56	17.44
1985	10.03	12.64	22.67	11.10	33.77	24.21	57.97	24.77	82.74	17.26
1986	11.30	12.81	24.11	11.02	35.12	23.92	59.04	24.30	83.34	16.66
1987	12.32	13.35	25.67	11.23	36.90	23.85	60.75	23.62	84.37	15.63
1988	15.16	13.35	28.51	10.94	39.45	22.99	62.44	22.63	85.07	14.93
1989	14.19	13.65	27.84	11.16	39.00	23.28	62.28	22.76	85.04	14.96
1990	14.00	13.62	27.62	11.15	38.77	23.36	62.13	22.84	84.97	15.03
1991	12.99	13.84	26.83	11.37	38.20	23.65	61.85	23.01	84.87	15.13
1992	14.23	13.79	28.01	11.21	39.23	23.25	62.47	22.61	85.08	14.92
1993	13.79	13.98	27.76	11.29	39.05	23.40	62.45	22.63	85.08	14.92
1994	13.80	14.05	27.85	11.34	39.19	23.45	62.64	22.48	85.11	14.89
1995	14.60	14.21	28.81	11.35	40.16	23.21	63.37	22.09	85.46	14.54
1996	16.04	14.32	30.36	11.23	41.59	22.73	64.32	21.60	85.92	14.08
1997	17.38	14.42	31.79	11.03	42.83	22.22	65.05	21.11	86.16	13.84

Source: IRS

Table 3
Shares of Total Federal Individual Income Tax Payments by Income Group
1980-1997

	Top 1 Percent	Next 4 Percent	Top 5 Percent	Next 5 Percent	Top 10 Percent	Next 15 Percent	Top 25 Percent	Next 25 Percent	Top 50 Percent	Bottom 50 Percent
1980	19.05%	17.79%	36.84%	12.44%	49.28%	23.74%	73.02%	19.93%	92.95%	7.05%
1981	17.58	17.48	35.06	12.90	47.96	24.33	72.29	20.26	92.55	7.45
1982	19.03	17.11	36.13	12.45	48.59	23.91	72.50	20.15	92.65	7.35
1983	20.32	16.95	37.26	12.44	49.71	23.39	73.10	19.73	92.83	7.17
1984	21.12	16.87	37.98	12.58	50.56	22.92	73.49	19.16	92.65	7.35
1985	21.81	16.97	38.78	12.67	51.46	22.60	74.06	18.77	92.83	7.17
1986	25.75	16.83	42.57	12.12	54.69	21.33	76.02	17.52	93.54	6.46
1987	24.81	18.45	43.26	12.35	55.61	21.31	76.92	17.02	93.93	6.07
1988	27.58	18.04	45.62	11.66	57.28	20.57	77.84	16.44	94.28	5.72
1989	25.24	18.70	43.94	11.85	55.78	21.44	77.22	16.94	94.17	5.83
1990	25.13	18.51	43.64	11.73	55.36	21.66	77.02	17.16	94.19	5.81
1991	24.82	18.56	43.38	12.45	55.82	21.46	77.29	17.23	94.52	5.48
1992	27.54	18.34	45.88	12.12	58.01	20.47	78.48	16.46	94.94	5.06
1993	29.01	18.35	47.36	11.88	59.24	20.03	79.27	15.92	95.19	4.81
1994	28.86	18.66	47.52	11.93	59.45	20.10	79.55	15.68	95.23	4.77
1995	30.26	18.65	48.91	11.84	60.75	19.62	80.36	15.03	95.39	4.61
1996	32.31	18.66	50.97	11.54	62.51	18.80	81.32	14.36	95.68	4.32
1997	33.17	18.70	51.87	11.33	63.20	18.47	81.67	14.05	95.72	4.28

Source: IRS

in 1990 and then to 14.4 in 1997.

The increasing income shares of these two income groups are illustrated by the two topmost 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 three years it once again began to rise, reaching 31.8 percent in 1997.

Tax Payment Patterns

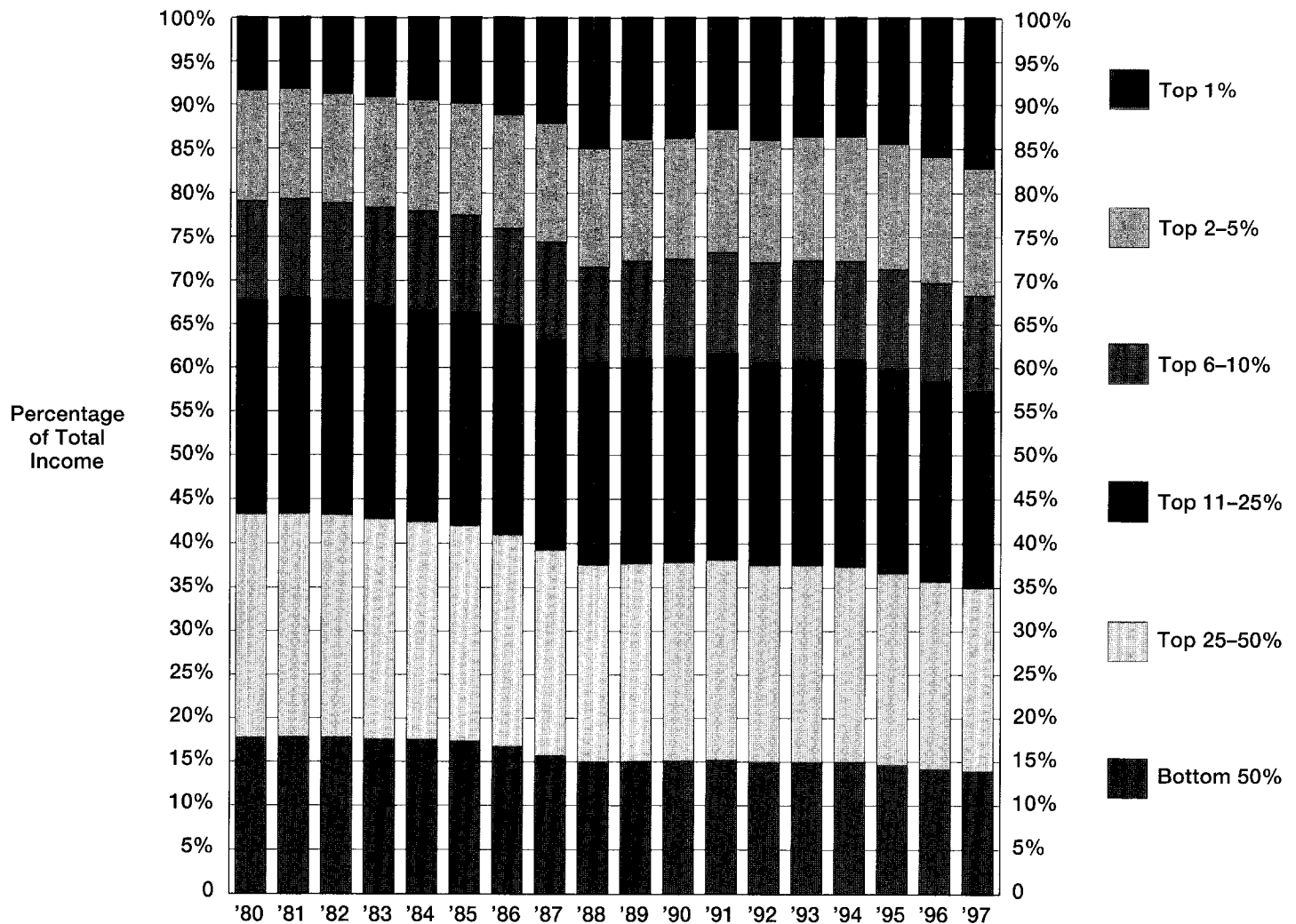
Table 3 and *Figure 4* show that the only segment of the income spectrum paying a

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 1997. 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 45.6 percent in 1988. Over the next three years the burden declined slightly, reaching 43.4 percent in 1991. Over the next eight years it increased by more than 8 points to 51.9 percent in 1997.

Just as income gains in the top five per-

Figure 3
Shares of Adjusted Gross Income by Income Group
1980-1997



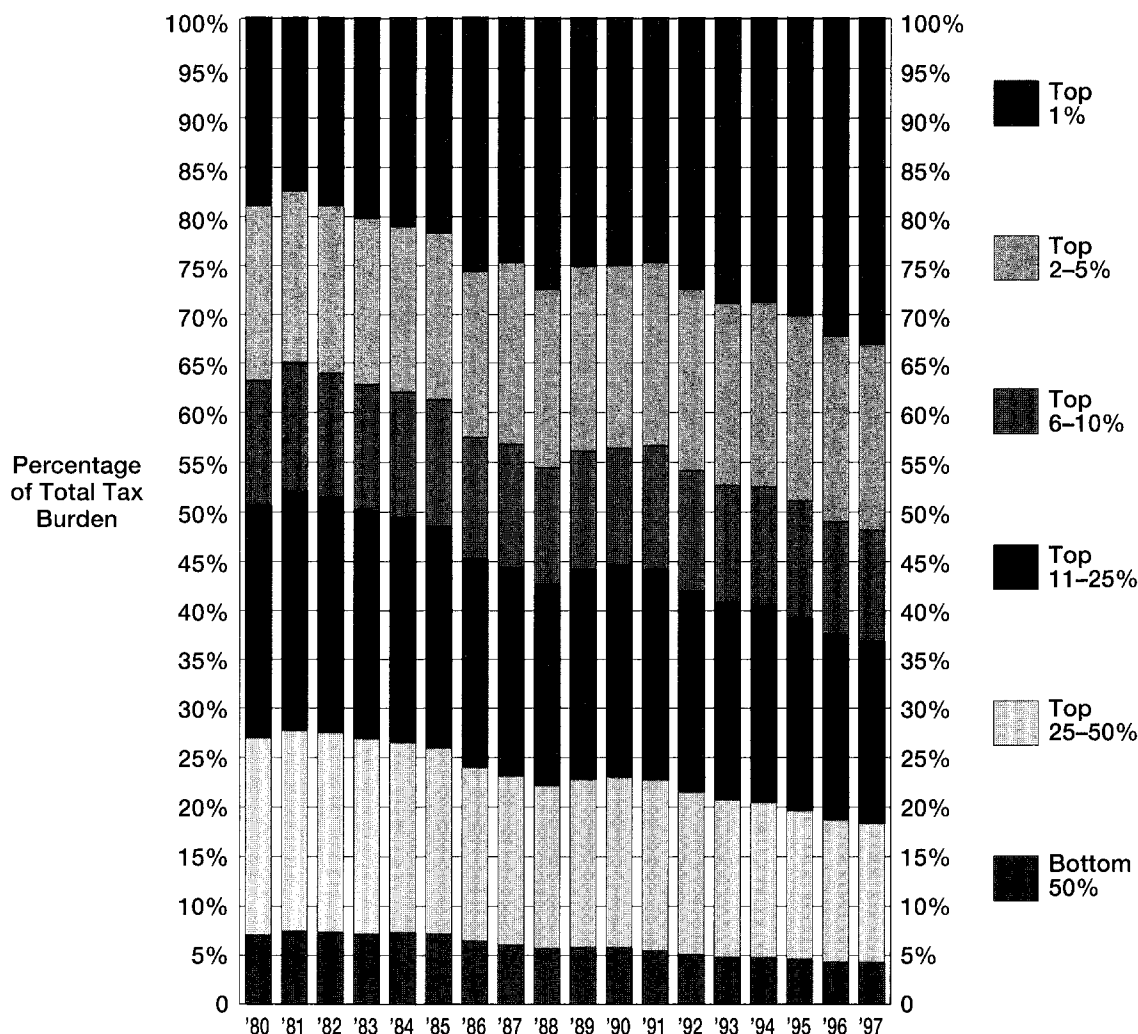
cent were dominated by the gains of the top one percent, so was the increasing tax burden. The top one percent's share of the total tax burden rose from 19.1 percent in 1980 to 27.6 percent in 1988. After falling to 24.8 percent in 1991 it rose to 33.2 percent in 1997.

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 11.3 percent in 1997.

Similarly, the share paid by those in the top 11 to 25 percent fell from 23.7 percent in 1980 to 18.5 percent in 1997. The share paid by individuals in the top 26 to 50 percent fell from 19.9 percent in 1980 to 14.0 percent in 1997. Finally, the share paid by the bottom 50 percent fell from 7.0 percent in 1980 to just 4.3 percent in 1997. ●

Figure 4
Shares of Federal Individual Income Taxes Paid by Income Group 1980-1997



Source: Tax Foundation



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