

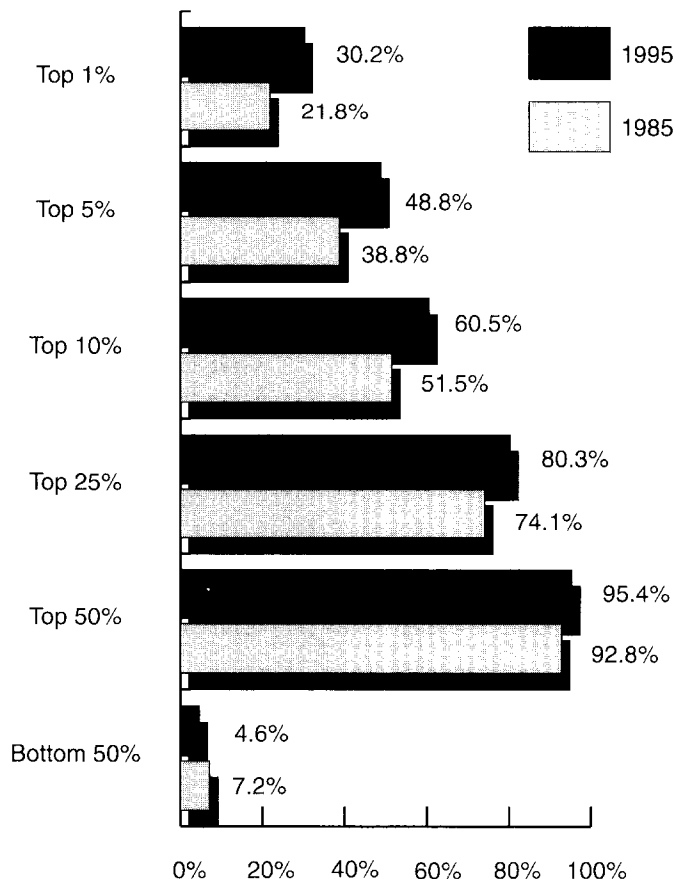
SPECIAL REPORT

REPORT

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Latest Tax Data Shows Top 1% Paying Over 30% of Total Federal Individual Income Taxes

Figure 1
Percent of Federal Individual Income Taxes Paid by Income Group, 1985 and 1995



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The latest data from the Internal Revenue Service shows that the top 1 percent of income earners in the country are paying close to a third of all federal individual income taxes. Preliminary data from the IRS on who pays federal income taxes, released to the Tax Foundation, shows that in 1995 (the latest year for which data is available) 30.2 percent of federal individual income taxes were paid by the top 1 percent of income earners — approximately 1.17 million filers.

Furthermore, a time series analysis of the data shows that since 1980 the share of federal individual income taxes borne by the top 5 percent of income earners has increased markedly. In 1980 these individuals paid 36.8 percent of federal individual income taxes. By 1995 their share had risen to almost half of the burden. This has led to a corresponding decline in the share of the tax burden shouldered by the remaining 95 percent of filers.

Federal Individual Income Taxes Paid by Income Group

Figure 1 presents a breakdown of total federal individual income tax payments by income percentile. It shows that in 1995 the top 1 percent of income earners — those with adjusted gross incomes (AGIs) in excess of \$209,105 (see Table 1) — paid 30.2 percent of federal individual income taxes. This was considerably higher than the 21.8 percent paid by the top 1 percent in 1985.

Similarly, the chart shows that in 1995 almost half of federal individual income taxes

— 48.8 percent — were paid by the top 5 percent of income earners, or those 5.8 million filers with AGIs in excess of \$96,104. This was 10 percentage points higher than the share of taxes paid by the same percentile of filers in 1985. Likewise, the chart shows that in 1995, 60.5 percent of federal individual income taxes were collected from individuals in the top 10 percent of income earners, or those with incomes in excess of \$72,092. In 1985 just over half of all federal individual income taxes were collected from filers in this percentile. The chart also shows that in 1995, 95.4 percent of the federal individual income tax burden was borne by individuals in the top half of income earners, or those with AGIs in excess of \$22,361. In 1985 this group bore 92.8 percent of this burden.

This shift in the tax burden has lightened the load on lower-income filers. *Figure 1* shows that in 1985 individuals in the lower half of income earners paid 7.2 percent of total

federal individual income taxes. By 1995 this figure had dropped to just 4.6 percent.

Income and Federal Individual Income Tax Shares of Different Income Groups

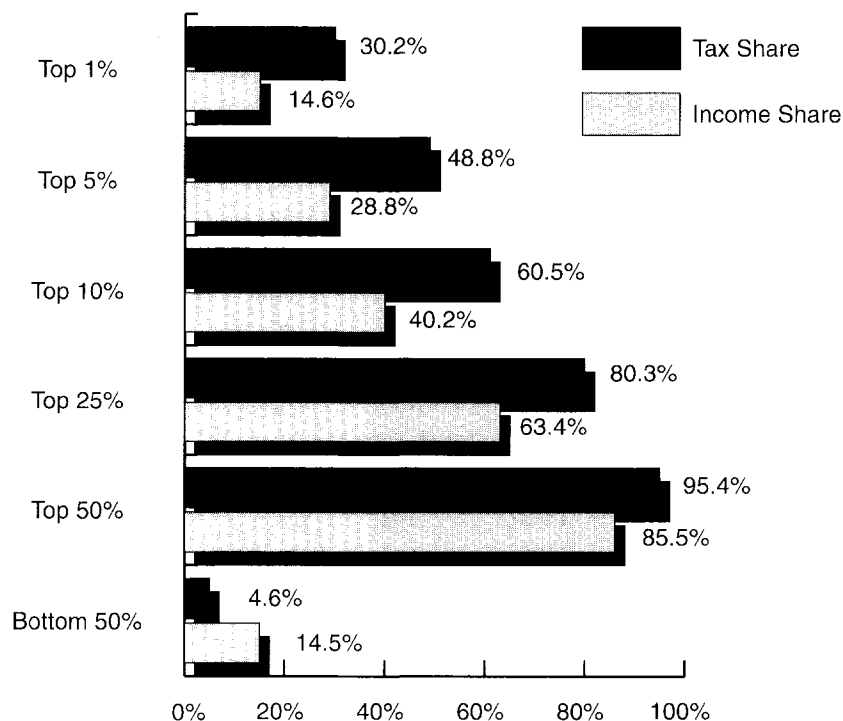
Figure 2 presents the income (as measured by AGI) and federal individual income tax shares of the different income groups. It shows that while high-income earners claim relatively large shares of total income, they pay even greater shares of the federal individual income tax burden. The chart shows that while individuals in the top 1 percent of tax filers earned 14.6 percent of total AGI in 1995, they paid 30.2 percent of federal individual income taxes during that year. *Table 1* shows that the average effective federal individual income tax rate for this group was 28.5 percent. Similarly, the chart shows that while tax filers in the top 5 percent of income

Table 1
Who Pays Federal Individual Income Taxes, 1985 and 1995

	1985						
	Number of Returns (000)	AGI (\$000,000)	Income Taxes Paid (\$000,000)	Group's Share of Total AGI	Group's Share of Total Taxes	Income Split Point	Average Tax Rate
All Taxpayers	100,625	2,343,989	321,916	100.0%	100.0%	-	13.7%
Top 1%	1,006	235,095	70,209	10.0%	21.8%	above \$108,134	29.9%
Top 5%	5,031	531,372	124,850	22.7%	38.8%	above \$58,883	23.5%
Top 10%	10,063	791,481	165,652	33.8%	51.5%	above \$46,322	20.9%
Top 25%	25,156	1,358,860	238,419	58.0%	74.1%	above \$30,928	17.5%
Top 50%	50,313	1,939,351	298,842	82.7%	92.8%	above \$16,688	15.4%
Bottom 50%	50,313	404,638	23,074	17.3%	7.2%	below \$16,688	5.7%
	1995						
	Number of Returns (000)	AGI (\$000,000)	Income Taxes Paid (\$000,000)	Group's Share of Total AGI	Group's Share of Total Taxes	Income Split Point	Average Tax Rate
All Taxpayers	117,274	4,244,607	586,128	100.0%	100.0%	-	13.8%
Top 1%	1,173	619,651	176,836	14.6%	30.2%	above \$209,105	28.5%
Top 5%	5,864	1,222,682	285,904	28.8%	48.8%	above \$96,104	23.4%
Top 10%	11,727	1,704,512	354,747	40.2%	60.5%	above \$72,092	20.8%
Top 25%	29,319	2,689,803	470,560	63.4%	80.3%	above \$44,147	17.5%
Top 50%	58,637	3,627,540	559,045	85.5%	95.4%	above \$22,361	15.4%
Bottom 50%	58,637	617,067	27,083	14.5%	4.6%	below \$22,361	4.4%

Source: Internal Revenue Service.

Figure 2
Income and Federal Individual Income Tax Shares of Income Groups, 1995



Source: Tax Foundation calculations based on preliminary IRS data.

earners earned 28.8 percent of total AGI during 1995, they paid 48.8 percent of total federal individual income taxes. The average effective federal income tax rate for this group was 23.4 percent.

The figure also shows that while the top 50 percent income group earned 85.5 percent of total AGI, this group paid 95.4 percent of total federal individual income taxes. The average effective federal individual income tax rate for this group was 15.4 percent. Income earners in the lower half of filers, on the other hand, earned 14.5 percent of total AGI, but paid just 4.5 percent of total federal individual income taxes. The average effective federal individual income tax rate of this group was 4.4 percent.

Income and Tax Shares Overtime

Figures 3 and 4 show both the cumulative and marginal income and tax shares of the various income groups since 1980. The bottom-most section of the bars in these

figures represent the income and tax shares of the top 1 percent of income earners. The section above this one shows the share of the next 4 percent of filers. Together these two sections show the share of the top 5 percent of income earners in each of the years. The third section of each bar shows the share of the next 5 percent of income earners. Therefore, combined, the bottom three sections of each bar show the share of the top 10 percent of income earners in any given year. The remaining sections of the bars can be read in an analogous manner for the other income groups. The bold line in each of these graphs delineate the share of the top 5 percent of income earners from the other 95 percent of filers. The data used to construct these figures is presented in *Tables 2 and 3*.

Figure 3 shows that the percent of total income earned by the top 5 percent of filers rose steadily from 1980 to 1988 and then leveled off from 1989 to 1995. From 1980 to 1988 the percent of total income earned by the top 1 percent of filers gradually rose from 8.5 to 15.2 percent. This figure then declined

Table 2
Shares of Adjusted Gross Income by Income Group, 1980 - 1995

	Top 1%	Next 4%	Top 5%	Next 5%	Top 10%	Next 15%	Top 25%	Next 25%	Top 50%	Bottom 50%
1980	8.5%	12.6%	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	17.8
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	33.3	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	13.4	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	11.2	38.8	23.4	62.1	22.8	85.0	15.0
1991	13.0	13.9	26.8	11.4	38.2	23.7	61.9	23.0	84.9	15.1
1992	14.2	13.8	28.0	11.2	39.2	23.3	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	23.5	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

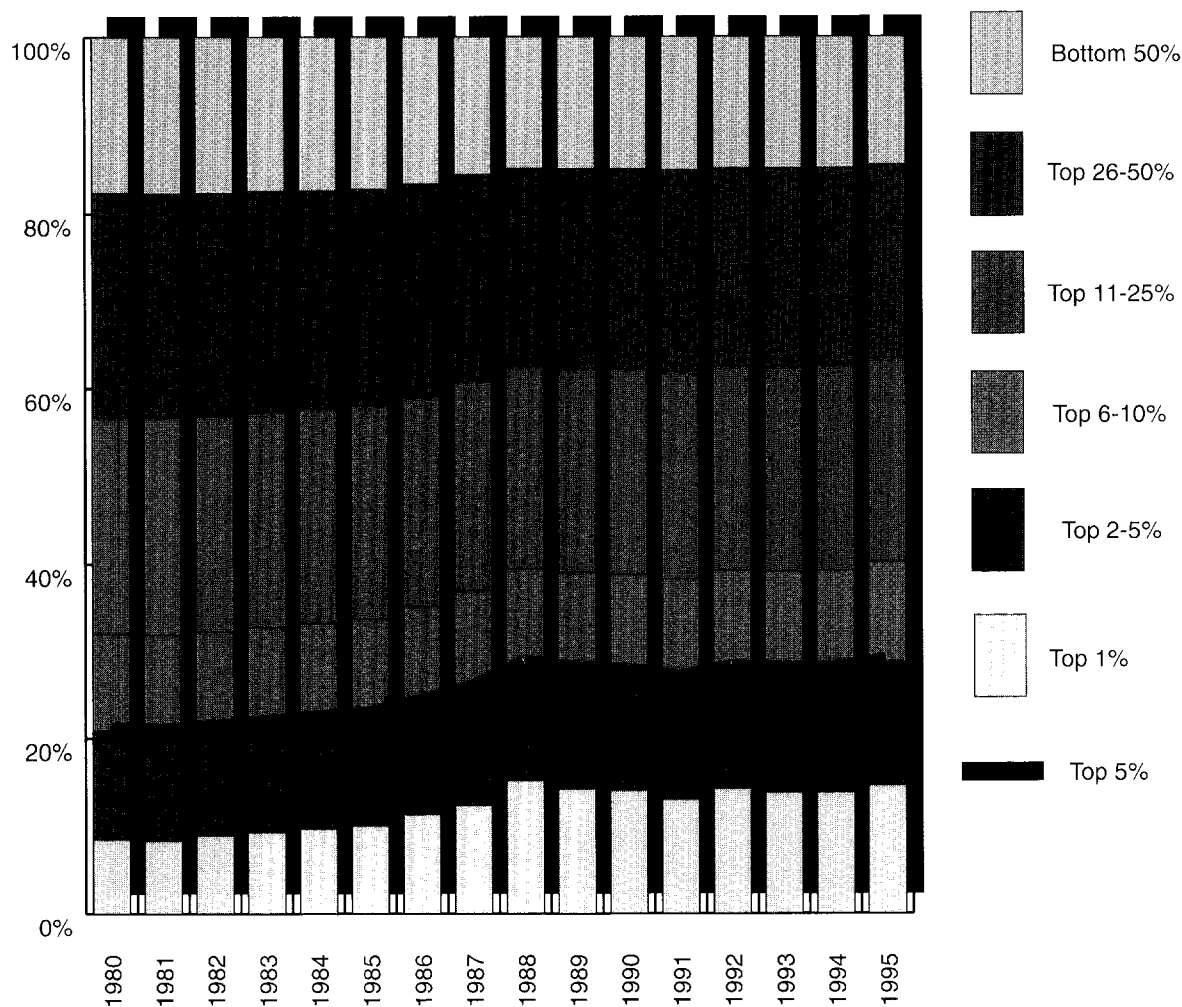
Source: Tax Foundation.

Table 3
Federal Individual Income Tax Shares by Income Group, 1980 - 1995

	Top 1%	Next 4%	Top 5%	Next 5%	Top 10%	Next 15%	Top 25%	Next 25%	Top 50%	Bottom 50%
1980	19.1%	17.8%	36.8%	12.4%	49.3%	23.7%	73.0%	19.9%	93.0%	7.1%
1981	17.6	17.5	35.1	12.9	48.0	24.3	72.3	20.3	92.6	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	12.5	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	92.7	7.3
1985	21.8	17.0	38.8	12.7	51.5	22.6	74.1	18.8	92.8	7.2
1986	25.0	16.8	41.8	12.2	54.0	21.6	75.6	17.8	93.4	6.6
1987	24.6	18.5	43.1	12.4	55.5	21.4	76.8	17.1	93.9	6.1
1988	27.5	18.0	45.5	11.7	57.2	20.6	77.8	16.5	94.3	5.7
1989	25.2	18.7	43.9	11.9	55.7	21.5	77.2	17.0	94.2	5.8
1990	25.1	18.5	43.6	11.7	55.3	21.7	77.0	17.2	94.2	5.8
1991	24.6	18.9	43.4	11.9	55.3	21.9	77.2	17.3	94.5	5.5
1992	27.4	18.6	45.9	11.6	57.5	20.9	78.4	16.5	94.9	5.1
1993	28.8	18.6	47.3	11.5	58.8	20.4	79.2	16.0	95.2	4.8
1994	28.7	18.7	47.4	11.7	59.1	20.4	79.5	15.7	95.2	4.8
1995	30.2	18.6	48.8	11.7	60.5	19.8	80.3	15.1	95.4	4.6

Source: Tax Foundation.

Figure 3
Shares of Adjusted Gross Income by Income Group, 1980- 1995



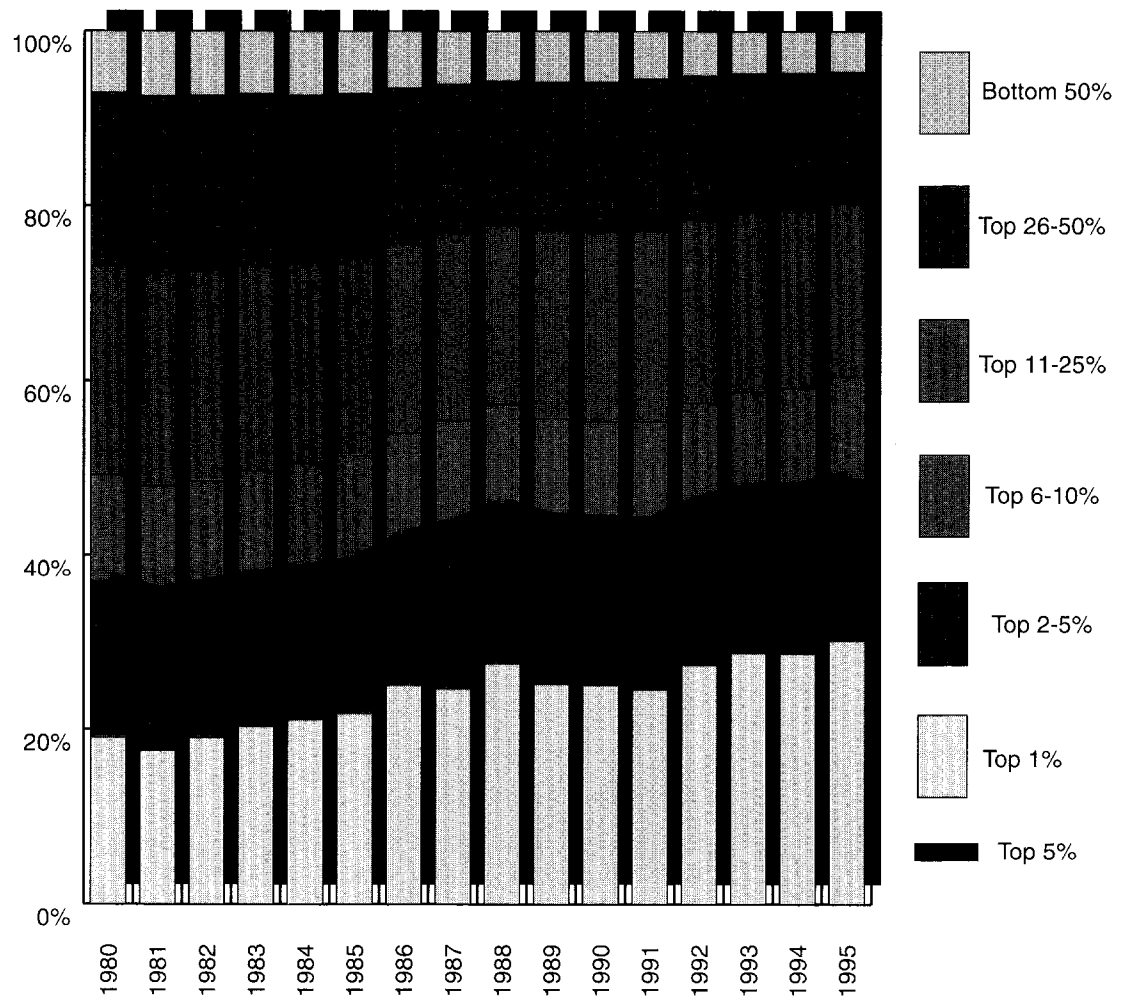
Source: Tax Foundation.

to 13.0 percent in 1991 and then leveled off at around 14.0 percent from 1992 to 1995. The share of total income earned by the next 4 percent of filers also rose during this period. In 1980 this group earned 12.6 percent of total income. This figure rose to 13.4 percent in 1988 and then to 14.2 percent in 1995. As a result, the two bottommost sections of the bars in Figure 3 show that the share of total income earned by the top 5 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 1989 to 1995.

The share of federal individual income

taxes paid by the top 5 percent of income earners rose markedly over this period, even after their share of total income leveled off during the late 1980s. In 1980 the top 5 percent of income earners paid 36.8 percent of total individual income taxes. Figure 4 shows that this figure steadily rose to 45.5 percent in 1988. From 1989 to 1991 the share of the total burden borne by this group remained constant at around 43.6 percent. It then increased more than 5 points to 48.8 percent 1995. The data in Table 3 shows that most of this rise was attributable to an increased share of the overall burden being

Figure 4
Federal Individual Income Tax Shares of Income Groups, 1980-1995



Source: Tax Foundation.

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shouldered by the top 1 percent of earners. Their share of the total tax burden rose from 19.1 percent in 1980 to 27.5 percent in 1988. After falling to 24.6 percent in 1991 it rose to 30.2 percent in 1995. Meanwhile, the share of the tax burden borne by the next 4 percent of income earners climbed only slightly during this period, from 17.8 percent in 1980 to 18.6 percent in 1995.

The rise in the percent of federal individual income taxes paid by the top 5 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 individual income taxes paid by the individuals in the top 6-10 percent of income earners fell from 12.4 percent in 1980 to 11.7 percent in 1995. Similarly, the share paid by earners in the top 11-25 percent fell from 23.7 percent in 1980 to 19.8 percent in 1995. Likewise, the share paid by individuals in the top 26-50 percent of income earners fell from 19.9 percent in 1980 to 15.1 percent in 1995. Finally, the share paid by the bottom 50 percent fell from 7.0 percent in 1980 to just 4.6 percent in 1995.