

SPECIAL REPORT

November 1994
Number 42

Who Pays Federal Income Taxes?

By Chris R. Edwards
Economist
Tax Foundation

Newly released income tax data shows that the top one percent of income earners now pay more than one quarter of all federal individual income taxes, as shown in *Figure 1*. This striking fact is available in tax return statistics for 1992 from the Internal Revenue Service. These statistics are examined in this report to provide an overview of the distribution of federal income tax payments.

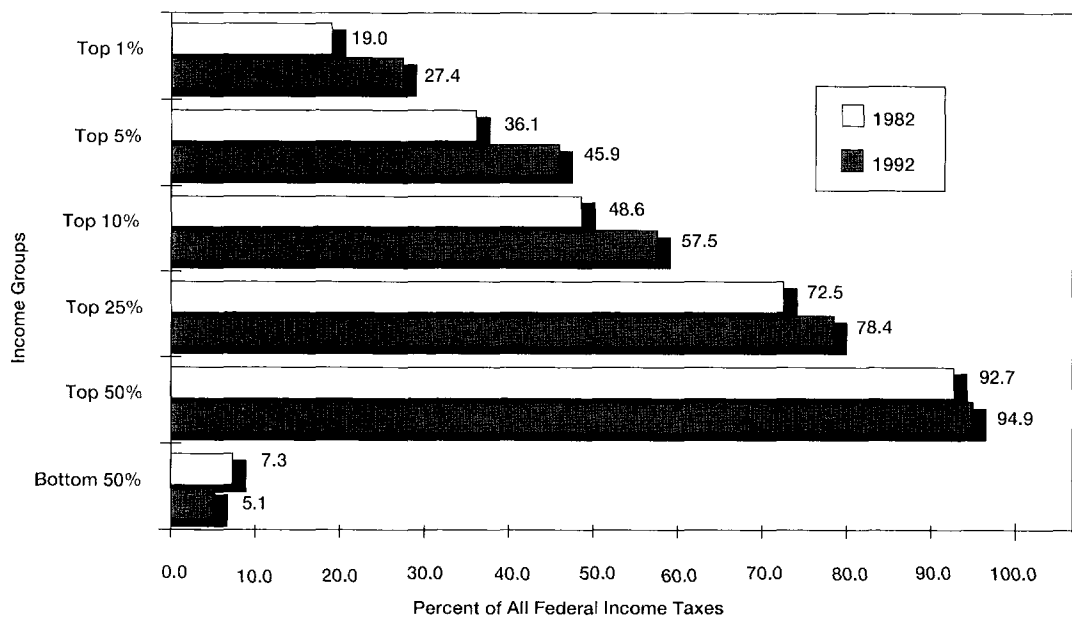
Individual Income Tax Data For 1992

Data from the IRS shows that 112.7 million federal individual income tax returns were filed in 1992, which was down one

percent from 1991. While returns were down, incomes were growing in 1992 after the recession bottomed out in March 1991, and as a result, total Adjusted Gross Income (AGI) on income tax returns rose 4.8 percent in 1992. Total individual income taxes paid, which rose 4.7 percent, grew faster than incomes.

Table 1 shows federal income tax return data for 1992, focusing on the income earned and taxes paid by income groups at the higher end of the income distribution. For example, the top one percent of federal returns included 1.1 million filers earning above \$181,713 in 1992. This relatively small group of taxpayers earned 14.2 percent of all

Figure 1
Percent of Federal Income Taxes Paid by Income Group, 1982 and 1992



income and paid 27.4 percent of all taxes reported on federal individual income tax returns (see *Figure 2*).

The top 10 percent of income earners paid well over half (57.5 percent) of total income taxes and the top 50 percent paid 94.9 percent of the tax load. On the flip side, the 56.3 million filers representing the bottom half of income earners paid only 5.1 percent of all federal individual income taxes. This raises the possibility that it may cost more than it is worth to collect income taxes from this large group since they pay such a small portion of the overall tax load.

1982 Returns vs. 1992 Returns

Figure 1 shows that the proportion of income taxes paid by higher income earners increased dramatically over the past decade. For example, the top one percent of earners paid 19.0 percent of federal individual income taxes in 1982, but paid 27.4 percent in 1992. In fact, the proportion of total income taxes paid by high income earners (whether the top 1, 10, or 25 percent) has been trending upwards since tax year 1970, before which these measures had been falling.

Meanwhile, the top individual income tax rate on high income earners has been falling. The top rate fell from 91 percent in 1963 to 70 percent in 1965 and remained

there until it fell to 50 percent in 1982. The top rate then fell to 28 percent in 1988 and stood there until 1990. Presidents Bush and Clinton then reversed a 30-year downward course that had been initiated by President Kennedy and the top rate rose to 31 percent for 1991 and 1992, and then to 39.6 percent for 1993.

Therefore, tax rates on high earners were lower in 1992 than 1982 while the share of taxes paid by high earners increased substantially. The primary explanation of this result is that high income earners are earning (and reporting) greater shares of AGI. For example, the top one percent earned 8.9 percent of income in 1982 but earned 14.2 percent of income in 1992 and earnings of the top 10 percent rose from 32.3 percent to 39.2 percent of the total.

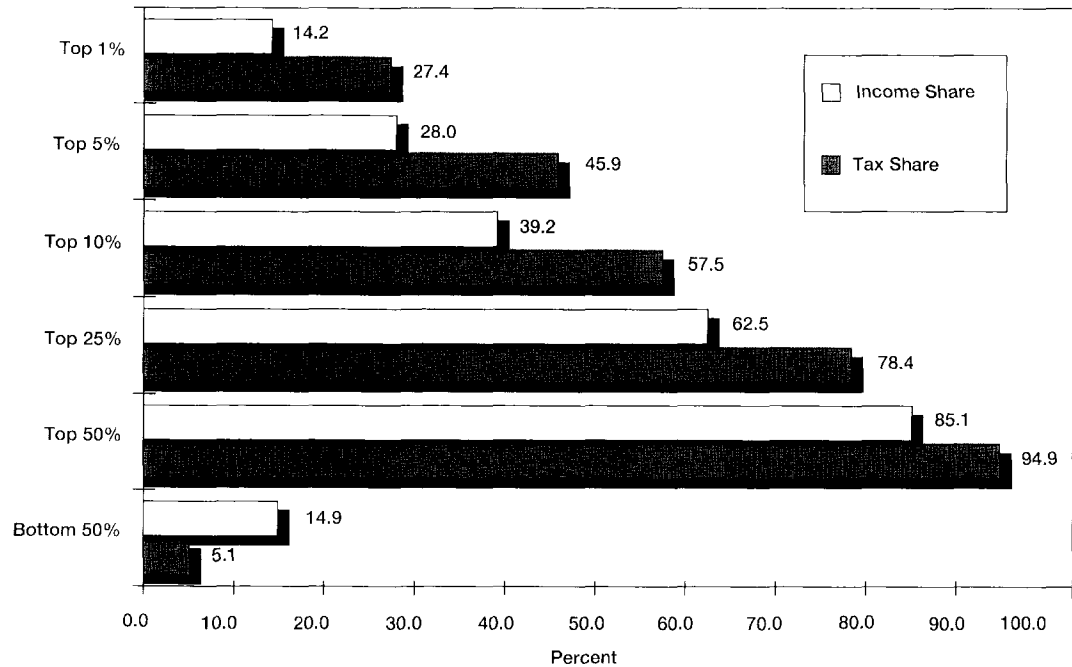
Tax Returns by Income Group

Table 2 shows 1992 income tax return data by income group and provides a similar picture of income tax payments to *Table 1*. The average (or effective) federal income tax rate rises steadily with income from 2 percent for those earning under \$10,000 per year to over 27 percent for those earning over \$1,000,000 per year. Note that this latter group is very small — only 67,044 tax filers in 1992 — but it paid almost 10 percent of the total tax burden.

Table 1
Federal Individual Income Tax Return Data, 1992

	Number of Returns (thousands)	Adjusted Gross Income (\$millions)	Income Taxes Paid (\$millions)	Group's Share of Total AGI	Group's Share of Total Taxes	Income Split Point	Average Tax Rate
All Taxpayers	112,653	\$3,680,552	\$474,868	100%	100%	-	12.9%
Top 1%	1,127	523,618	129,886	14.2	27.4	above \$181,713	24.8
Top 5%	5,633	1,030,825	218,048	28.0	45.9	above \$85,179	21.2
Top 10%	11,265	1,443,643	273,187	39.2	57.5	above \$64,560	18.9
Top 25%	28,163	2,299,400	372,426	62.5	78.4	above \$40,371	16.2
Top 50%	56,326	3,131,400	450,761	85.1	94.9	above \$20,802	14.4
Bottom 50%	56,326	549,152	24,107	14.9	5.1	below \$20,802	4.4

Figure 2
Income Shares versus Tax Shares, 1992



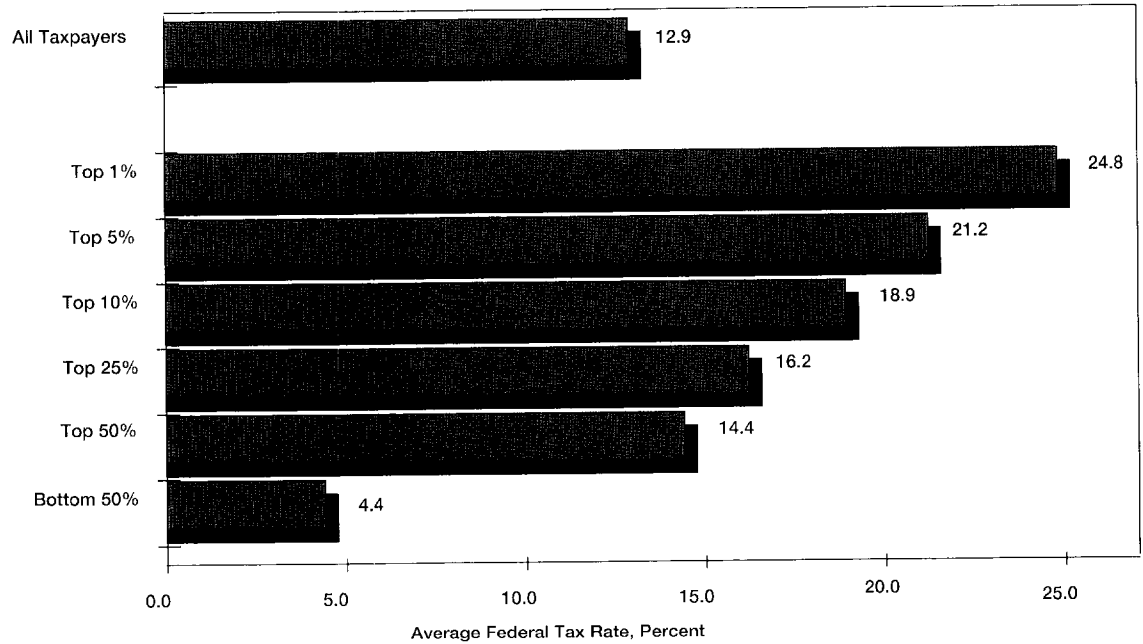
Source: Internal Revenue Service.

Table 2
Federal Individual Income Tax Data, 1992

	Number of Returns (thousands)	Adjusted Gross Income (\$millions)	Income Tax Paid (\$millions)	Group's Share of Total AGI	Group's Share of Total Taxes	Average Tax Rate
All Taxpayers	112,815	\$3,678,241	\$475,910	100.0%	100.0%	13.1%
under \$10,000	29,879	150,012	3,013	4.1	0.6	2.0
\$10,000-\$20,000	24,807	365,927	18,770	9.9	3.9	5.1
\$20,000-\$30,000	17,175	423,124	35,415	11.5	7.4	8.4
\$30,000-\$50,000	21,377	833,362	87,491	22.7	18.4	10.5
\$50,000-\$100,000	15,814	1,054,487	140,413	28.7	29.5	13.3
\$100,000-\$200,000	2,810	367,863	67,503	10.0	14.2	18.4
\$200,000-\$500,000	746	218,419	52,290	5.9	11.0	23.9
\$500,000-\$1,000,000	141	95,313	24,904	2.6	5.2	26.1
over \$1,000,000	67	169,735	46,113	4.6	9.7	27.2

Note: Table does not include 937,000 returns with negative AGI's.
Source: Internal Revenue Service, preliminary data.

Figure 3
Average Federal Income Tax Rate by Income Group, 1992



Source: Internal Revenue Service.

Table 3
Adjusted Gross Income by Source, 1992

AGI Group	Total AGI in Income Group (\$millions)	Item as a Percentage of Adjusted Gross Income							
		Salaries and Wages	Pensions and Annuities	Interest	Dividends	Capital Gains	Business and Professional	Partnership and S Corp	Other
less than \$20,000	\$515,939	74.9%	9.0%	6.9%	1.8%	0.7%	4.3%	0.0%	2.4%
\$20-50,000	1,256,485	82.8	6.0	3.5	1.2	0.8	3.1	0.3	2.4
\$50-100,000	1,054,487	82.6	4.7	3.1	1.7	1.5	3.4	0.9	2.0
\$100-1,000,000	681,595	65.0	2.4	4.6	3.5	6.3	7.8	7.7	2.7
over \$1,000,000	169,735	39.7	0.7	6.5	6.1	20.7	2.7	19.3	4.3
All Taxpayers	3,678,241	76.3	5.1	4.2	2.1	2.9	4.2	2.7	2.4

Note: Capital gains, business and professional, and partnerships and S corps include net income less loss.
Source: Internal Revenue Service, preliminary data.

SPECIAL REPORT
(ISSN 1068-0306) is published at least 10 times yearly by the Tax Foundation, an independent 501(c)(3) organization chartered in the District of Columbia.

4-12 pp.
Annual subscription: \$25.00
Individual issues \$5.

The Tax Foundation, a nonprofit, nonpartisan research and public education organization, has monitored tax and fiscal activities at all levels of government since 1937.

©1994 Tax Foundation

Editor and Communications Director
Stephen Gold

Tax Foundation
1250 H Street, NW
Suite 750
Washington, DC 20005
(202) 783-2760

Income Sources for Federal Taxpayers

Tax return data from the IRS reveals interesting patterns of income earnings in different income groups. For example, at the low end of the income spectrum salary and wage income falls somewhat in importance as pension and interest income becomes more important. At the top end, the over \$1,000,000 income group of 67,044 tax filers received only 39.7 percent of their 1992 income from salaries and wages. Fully 20.7 percent of income earned in this category came from (one-time)

capital gains realized in tax year 1992.

The other large source of income for the top income group came from business earnings. Income from "Business and Professional" plus "Partnership and S Corporations" represented 22 percent of AGI in the highest income group. Who are these business people? IRS data reveals that income earned in these two categories (at all income levels) comes from a huge variety of activities. Some of these activities include doctors, dentists, law offices, construction, real estate, insurance, and a wide range of retail businesses from beauty to auto repair shops.