

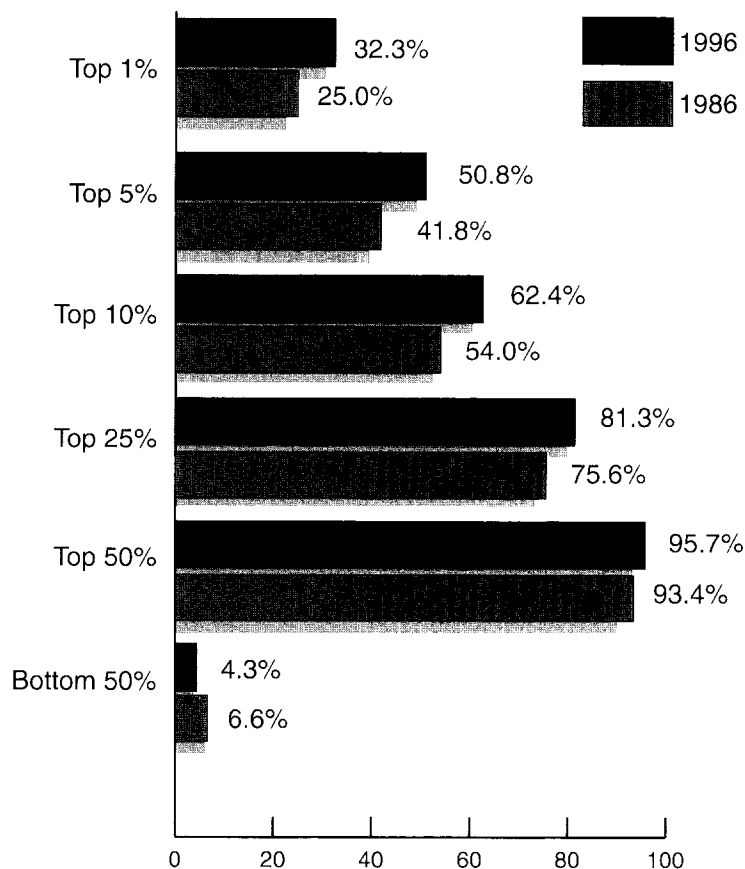
# SPECIAL REPORT

November 1998  
 No. 83

## Top Five Percent of Taxpayers Pay Over Half of Total Federal Individual Income Taxes

*Figure 1*  
 Percent of Federal Individual Income Taxes Paid by Income Group,  
 1986 and 1996

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The latest data from the Internal Revenue Service show that more than half of all federal individual income taxes—50.8 percent—are paid by the five percent of taxpayers who earn the most. In 1996, the latest year for which data are available, this top five percent consisted of 6.0 million earners whose adjusted gross incomes (AGI) were higher than \$101,202.

Even among this prosperous group, the highest earners paid the lion's share. The top one percent of earners in the country are paying close to a third of all the taxes collected. That's approximately 1.2 million earners who paid 32.3 percent of 1996's federal individual income taxes.

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 these individuals paid 36.8 percent of federal individual income taxes, a hefty share but significantly less than their 50.8 percent share in 1996. Naturally, this has resulted in a corresponding decline in the share of the tax burden shouldered by the remaining 95 percent of taxpayers.

### 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 1996 the top one percent of income earners—those with adjusted gross incomes (AGIs) in excess of \$229,230 (see Table 1)—paid 32.3 percent of federal individual income taxes.

This was considerably higher than the 25.0 percent paid by the top one percent in 1986.

Similarly, the chart shows that in 1996 more than half of federal individual income taxes—50.8 percent—were paid by the top five percent of income earners, or those 6.0 million filers with AGIs in excess of \$101,202. This was nine percentage points higher than the share of taxes paid by the same percentile of filers in 1986. Likewise, the chart shows that in 1996, 62.4 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 \$74,978. In 1986 just over half of all federal individual income taxes were collected from filers in this percentile. The chart also shows that in 1996, 95.7 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 \$23,160. In 1986 this group bore 93.4 percent of this burden.

This shift in the tax burden has lightened the load on lower-income filers. Figure 1 shows that in 1986 individuals in the lower half of income earners paid 6.6 percent of total federal individual income taxes. By 1996 this figure had dropped to just 4.3 percent.

## Income and Federal Individual Income Tax Shares of Different Income Groups

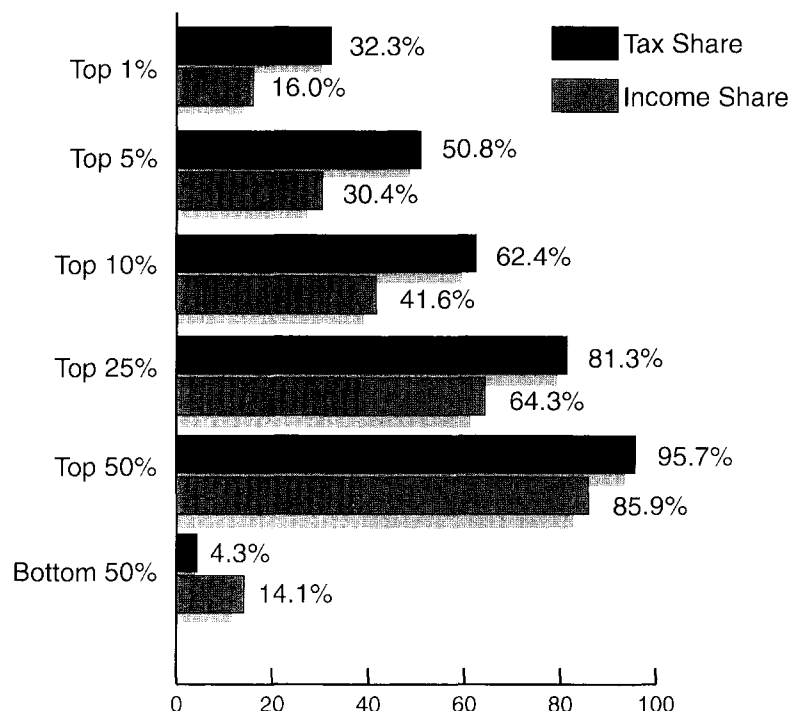
Figure 2 presents the income (as measured by AGI) and federal individual income tax shares of the different income groups. It shows that while high-income earners claim relatively large shares of total income, they pay even greater shares of the federal individual income tax burden. The chart shows that while individuals in the top one percent of tax filers earned 16.0 percent of total AGI in 1996, they paid 32.3 percent of federal individual income taxes during that year. Table 1 shows

*Table 1  
Who Pays Federal Individual Income Taxes, 1986 and 1996*

	1986						
	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	102,088	\$2,524,124	\$360,566	100.0%	100.0%	-	14.3%
Top 1%	1,021	285,197	90,236	11.3%	25.0%	above \$118,818	31.6%
Top 5%	5,104	608,467	150,750	24.1%	41.8%	above \$62,377	24.8%
Top 10%	10,209	886,510	194,821	35.1%	54.0%	above \$48,656	22.0%
Top 25%	25,522	1,490,173	272,748	59.0%	75.6%	above \$32,242	18.3%
Top 50%	51,044	2,103,569	336,926	83.3%	93.4%	above \$17,302	16.0%
Bottom 50%	51,044	420,555	23,640	16.7%	6.6%	below \$17,302	5.6%
	1996						
	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	119,442	\$4,590,527	\$655,420	100.0%	100.0%	-	14.3%
Top 1%	1,194	736,340	211,354	16.0%	32.3%	above \$229,230	28.7%
Top 5%	5,972	1,393,795	332,802	30.4%	50.8%	above \$101,202	23.9%
Top 10%	11,944	1,909,149	408,783	41.6%	62.4%	above \$74,978	21.4%
Top 25%	29,860	2,952,604	532,563	64.3%	81.3%	above \$45,833	18.0%
Top 50%	59,721	3,944,386	626,959	85.9%	95.7%	above \$23,160	15.9%
Bottom 50%	59,721	646,141	28,461	14.1%	4.3%	below \$23,160	4.4%

Source: Internal Revenue Service.

*Figure 2*  
*Income and Federal Individual Income Tax Shares of Income Groups, 1996*



Source: Tax Foundation calculations based on preliminary IRS data.

that the average effective federal individual income tax rate for this group was 28.7 percent. Similarly, the chart shows that while tax filers in the top five percent of income earners earned 30.4 percent of total AGI during 1996, they paid 50.8 percent of total federal individual income taxes. The average effective federal income tax rate for this group was 23.9 percent.

The figure also shows that while the top 50 percent income group earned 85.9 percent of total AGI, this group paid 95.7 percent of total federal individual income taxes. The average effective federal individual income tax rate for this group was 15.9 percent. Income earners in the lower half of filers, on the other hand, earned 14.1 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 4.4 percent.

## Income and Tax Shares Over Time

Figure 3 shows that the percent of total income earned by the top five percent of filers rose steadily from 1980 to 1988. It then leveled off from 1989 to 1994. During 1995 and 1996 it once again began to rise. Most of this rise was attributable to income growth by the top one percent of filers. From 1980 to 1988 the percent of total income earned by the top one percent of filers gradually rose from 8.5 to 15.2 percent. This figure fell to 13.0 percent in 1991 and then leveled off at around 13.9 percent from 1992 to 1994.

During the next two years it once again began to climb upward, reaching 16.0 percent in 1996. The share of total income earned by the next four percent of filers also rose during this period. In 1980 this group earned 12.6 percent of total income. This percentage rose

*Table 2*  
*Shares of Adjusted Gross Income by Income Group, 1980 - 1996*

	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
1996	16.0	14.3	30.4	11.2	41.6	22.7	64.3	21.6	85.9	14.1

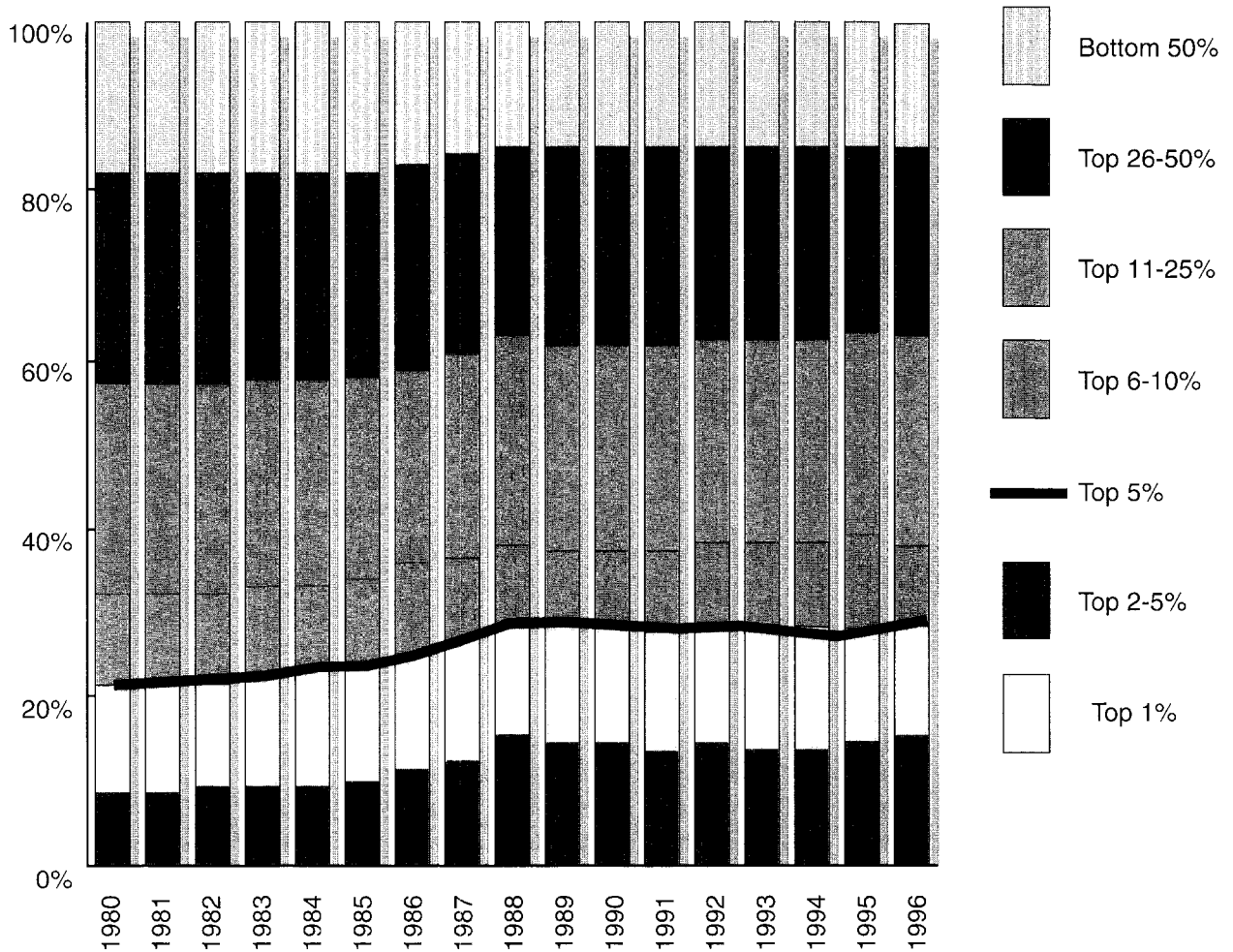
Source: Tax Foundation.

*Table 3*  
*Federal Individual Income Tax Shares by Income Group, 1980 - 1996*

	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
1996	32.3	18.5	50.8	11.6	62.4	18.9	81.3	14.4	95.7	4.3

Source: Tax Foundation.

**Figure 3**  
*Shares of Adjusted Gross Income by Income Group, 1980-1996*



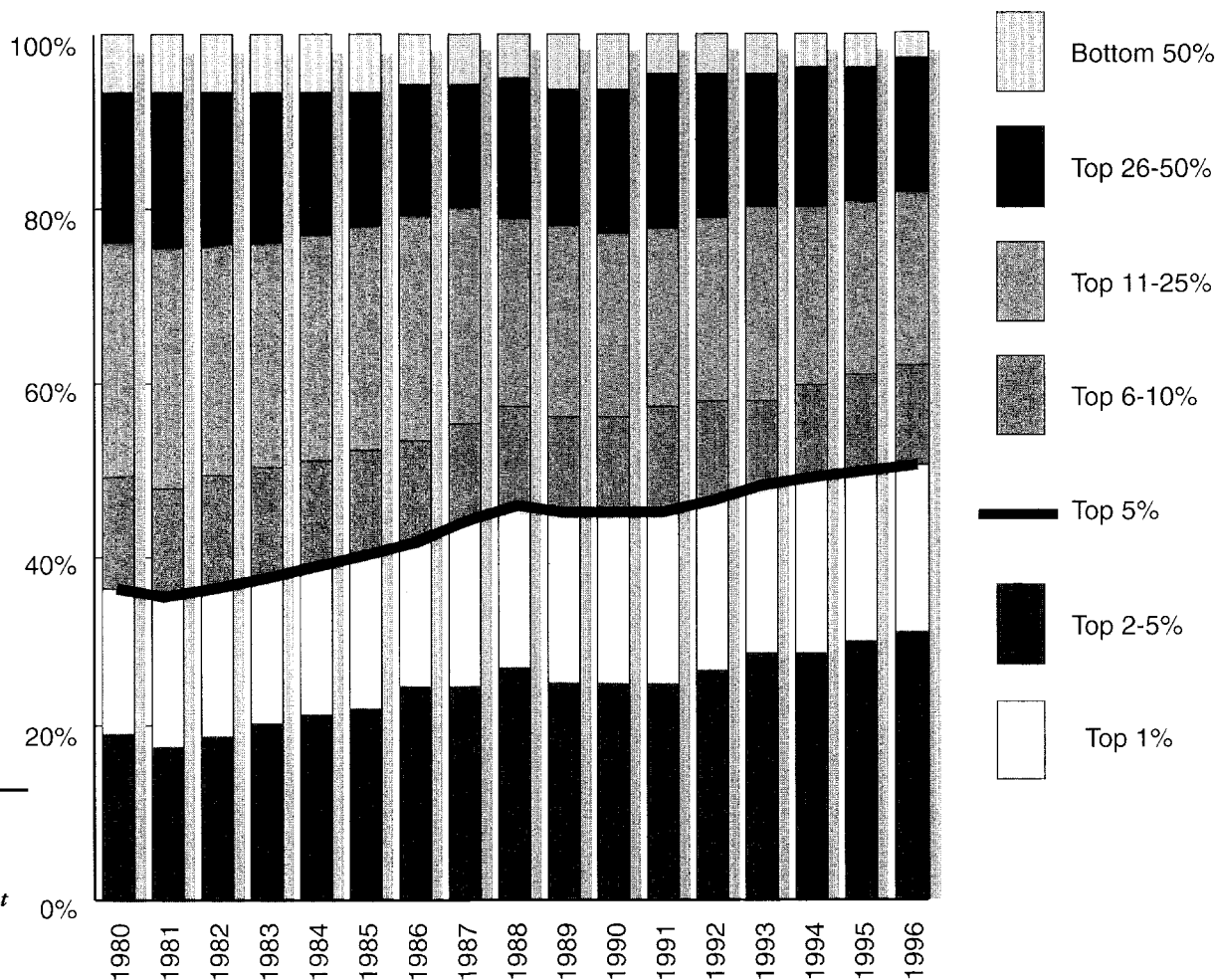
Source: Tax Foundation.

to 13.6 in 1990 and then to 14.3 in 1996. As a result, the two bottommost sections of the bars in Figure 3 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 two years it once again began to rise, reaching 30.4 percent in 1996.

The share of federal individual income taxes paid by the top five percent of income earners rose even more rapidly than their share of income during this period. 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 45.5 percent in 1988. Over the next 3 years this figure declined slightly, reaching 43.4 percent in 1991. It then increased by more than 7 points to 50.8 percent in 1996. The data in Table 3 shows that most of this rise was attributable to an increased share of the overall burden being shouldered by the top one 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 32.3 percent in 1996.

Figure 4  
Federal Individual Income Tax Shares of Income Groups, 1980-1996



Source: Tax Foundation.



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The rise in the percent 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 individual income taxes paid by the individuals in the top six to ten percent of income earners fell from 12.4 percent in 1980 to 11.6 percent in 1996.

Similarly, the share paid by earners in the top 11 to 25 percent fell from 23.7 percent in 1980 to 18.9 percent in 1996. Likewise, the share paid by individuals in the top 26 to 50 percent fell from 19.9 percent in 1980 to 14.4 percent in 1996. Finally, the share paid by the bottom 50 percent fell from 7.1 percent in 1980 to just 4.3 percent in 1996.