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A Profile of the High-Income Taxpayers in The Middle of the Tax Cut Debate

By the Tax Foundation's Data Analysis Division

Introduction

Bush tax cuts: extend them, partially extend them, or allow them to expire? That's the number one question in Washington right at the moment and will likely continue to be until Congress acts.

Depending upon whose side you are on, the entire debate centers around leading Democrats' unwillingness to extend the tax cuts for the highest-income earners or Republicans' unwillingness to let the tax cuts for high-income earners expire. Either way, it is these high-income taxpayers who are at the center of this major policy question.

But who are these high-income taxpayers? Tax returns are just pieces of paper with numbers on them, but they represent real people. Other than the fact that they reported a comparatively large amount of income on their 1040s for at least one tax year, what do we know about them? Are these taxpayers in the top 2-3 percent married? Do they have college degrees? Do they have children? Where do they live? How old are they? Where do they work? In short: Are the rich different?

While most of these factors are not critical pieces of information for setting tax policy, it is still informative (and entertaining) to take a look at what general characteristics tend to correlate with being among this approximately top 3 percent of the population.

High-Income Tax Units: Married, Highly-Educated, and Metropolitan

The differences are what one would probably expect: high-income taxpayers are more likely than others to be married, own a home, have children, live in cities, and have a college degree (see Table 1). Specifically, tax units above the so-called "Obama tax cut threshold" of $200,000 in AGI for singles and $250,000 for couples are over 80 percent more likely to be married than those below the threshold, and over 50 percent more likely to have a child. Those high-income taxpayers are also more than twice as likely to have at least a bachelor's degree, and they work more hours per week.

A higher percentage of high-income tax units live in the Northeast and West, and they are more likely to live in cities, especially big cities and the regions that surround them. For example, high-income tax units are about 50 percent more likely to live in a metro region with at least 2.5 million people (about the size of Denver) than are those beneath the $200,000/$250,000 threshold. And while big cities have more rentals, these high-income tax units are still about 30 percent more likely to live in an owner-occupied home.

Table 1
Comparing Tax Units Above and Below "Obama Tax Cut Threshold"
2009

Statistic	Tax Units with Incomes Below Obama Threshold*	Tax Units with Incomes Above Obama Threshold*
% Tax Units Married	41.2%	77.4%
% Tax Units with at least one child	27.6%	43.2%
% Tax Units in Owner-Occupied Home	63.7%	86.6%
Regional Distribution of Tax Units	Northeast: 18.1% Midwest: 22.0% South: 36.8% West: 23.0%	Northeast: 25.5% Midwest: 17.3% South: 30.9% West: 26.3%
% of Tax Units in "Blue" States (Obama 2008)	69.5%	76.3%
% Tax Units Living in a Metro Region with Various Populations	Not in a Metro region: 19.6% Less than 1 million: 27.1% 1 million – 2.5 million: 17.2% 2.5 million – 5 million: 17.3% 5 million+: 18.7%	Not in a Metro region: 9.5% Less than 1 million: 18.5% 1 million – 2.5 million: 19.2% 2.5 million – 5 million: 27.2% 5 million+: 25.5%
Tax Units by Number of Earners (i.e., workers)	0 Earners: 36.6% 1 Earner: 46.4% 2 Earners: 17.0%	0 Earners: 11.9% 1 Earner: 42.4% 2 Earners: 45.7%
Avg. Hours Worked per Week by Taxpayers (One-Earner Units)	38.8 hours	46.1 hours
Avg. Hours Worked per Week by Taxpayers (Two-Earner Units)	78.6 hours	85.1 hours
Industry Employing Top-Earning Taxpayer in Tax Unit	Not in Labor Force/Unemployed: 27.3% Agriculture: 1.1% Mining: 0.4% Construction: 6.1% Manufacturing: 8.3% Wholesale and retail trade: 9.8% Transportation and utilities: 4.2% Information: 1.8% Financial activities: 4.8% Professional/business services: 8.1% Educational and health services: 14.9% Leisure and hospitality: 5.9% Other services: 3.3% Public administration: 3.9%	Not in Labor Force/Unemployed: 5.6% Agriculture: 0.8% Mining: 0.8% Construction: 3.6% Manufacturing: 9.5% Wholesale and retail trade: 8.7% Transportation and utilities: 2.9% Information: 3.7% Financial activities: 15.3% Professional/business services: 20.0% Educational and health services: 22.1% Leisure and hospitality: 1.9% Other services: 1.6% Public administration: 3.4%
Avg. Age of Head Taxpayer	47.7 years	49.0 years
Distribution of Age of Head Taxpayer	Under 25: 9.1% 25-34: 18.6% 35-44: 17.3% 45-54: 19.2% 55-64: 15.4%	Under 25: 1.2% 25-34: 9.6% 35-44: 23.8% 45-54: 31.5% 55-64: 24.2%

	65+: 20.5%	65+: 9.7%
Education Level of Highest Earner in Tax Unit	Less than H.S.: 10.3% H.S. grad, no college: 29.8% H.S. grad, some college: 25.3% College grad (bachelors): 21.4% College grad (advanced): 13.1%	Less than H.S.: 0.8% H.S. grad, no college: 6.8% H.S. grad, some college: 12.6% College grad (bachelors): 32.2% College grad (advanced): 47.6%
% of Tax Units whose highest earner has at least a bachelor's degree	34.5%	79.7%
Education Level of All Taxpayers in Tax Unit	Less than H.S.: 12.8% H.S. grad, no college: 31.7% H.S. grad, some college: 27.2% College grad (bachelors): 18.9% College grad (advanced): 9.5%	Less than H.S.: 2.0% H.S. grad, no college: 8.9% H.S. grad, some college: 15.5% College grad (bachelors): 34.4% College grad (advanced): 39.2%
% of Persons in Tax Units Uninsured	16.6%	5.1%
* Obama threshold refers to those single tax returns with incomes exceeding $200,000, married returns with incomes exceeding $250,000 and head of household returns with incomes exceeding $225,000. Not all tax returns with incomes above these thresholds will see a difference between the Democrats' plan and full extension because some may be in AMT under both scenarios. ** Includes retirees.		

Behind the Numbers

In profiling these taxpayers, we use the recently released March 2010 Supplement of the Current Population Survey (CPS) from the Census Bureau. We created tax units in the CPS and then identified the primary taxpayers on those units. Although the CPS has topcoding issues relating to high-income amounts (privacy concerns), creating tax units and placing them into the category of "high-income" at the thresholds cited above is permissible. (Citing average incomes for this group would be problematic using the CPS, which is why when citing income statistics for high-income taxpayers, IRS data is typically used.) Note that since the CPS does not have a variable for capital gains; capital gains were imputed using IRS data and random number generators. Dependent tax units were excluded from this analysis (although as dependents they may be counted in some of the statistics for the primary unit above such as number of children).

National Press Building
529 14th Street, N.W., Suite 420
Washington, DC 20045

202.464.6200
www.TaxFoundation.org

About the Tax Foundation

The Tax Foundation is a 501(c)(3) non-partisan, non-profit research institution founded in 1937 to educate the public on tax policy. Based in Washington, D.C., the Foundation's economic and policy analysis is guided by the principles of sound tax policy: simplicity, neutrality, transparency, and stability.