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## New IRS Data Show All Income Groups Have Seen Tax Liabilities Fall Since 2000

by Gerald Prante

The IRS recently released official tax statistics by income group for the 2004 tax year, and the new data show that despite what some critics of recent tax policy have suggested, all income groups have witnessed their effective federal income tax rates fall, including lower- and middle-income taxpayers.

Table 1 shows how the tax picture has changed for each income group (as defined by adjusted gross income, or AGI) from 2000 to 2004 when all tax returns within each group are included.

**Table 1:** Tax Rates Have Fallen for All Income Groups from 2000 to 2004

Income Group (AGI)	Percent of Returns in Income Group that are Taxable		Share of Total AGI in Income Group		Share of Total Federal Income Taxes Paid* by Income Group		Income Taxes Paid as a Percentage of AGI		Tax Cut**
	2000	2004	2000	2004	2000	2004	2000	2004	
Total	74.8%	67.4%	100%	100%	100%	100%	14.9%	11.5%	3.4%
\$1-\$5,000	18.0%	6.5%	0.5%	0.5%	-0.2%	-0.2%	-4.4%	-5.6%	1.2%
\$5,000-\$10,000	43.2%	32.0%	1.5%	1.3%	-0.7%	-0.9%	-6.4%	-7.7%	1.3%
\$10,000-\$15,000	57.2%	48.7%	2.4%	2.1%	-0.5%	-1.3%	-3.3%	-7.1%	3.8%
\$15,000-\$20,000	64.7%	54.5%	3.2%	2.9%	0.2%	-0.9%	1.0%	-3.4%	4.4%
\$20,000-\$25,000	75.7%	61.1%	3.5%	3.2%	1.1%	-0.1%	4.6%	-0.4%	5.0%
\$25,000-\$30,000	87.2%	68.7%	3.6%	3.4%	1.7%	0.8%	6.8%	2.5%	4.3%
\$30,000-\$40,000	96.0%	81.1%	7.4%	7.1%	4.2%	3.2%	8.5%	5.1%	3.4%
\$40,000-\$50,000	98.5%	89.6%	7.3%	7.0%	4.8%	4.2%	9.8%	6.9%	2.9%
\$50,000-\$75,000	99.3%	96.1%	16.4%	16.3%	12.2%	11.9%	11.1%	8.3%	2.8%
\$75,000-\$100,000	99.8%	99.0%	11.6%	12.9%	10.5%	11.0%	13.5%	9.8%	3.7%
\$100,000-\$200,000	99.9%	99.8%	16.8%	19.0%	19.4%	22.5%	17.3%	13.6%	3.7%
\$200,000-\$500,000	99.9%	99.9%	9.6%	1.0%	15.4%	17.9%	23.9%	20.6%	3.3%
\$500,000-\$1,000,000	99.9%	99.9%	4.2%	4.3%	8.0%	9.2%	28.3%	24.3%	3.9%

\$1,000,000- \$1,500,000	99.9%	99.9%	1.9%	1.9%	3.7%	4.0%	29.1%	24.7%	4.4%
\$1,500,000- \$2,000,000	99.9%	99.9%	1.2%	1.2%	2.4%	2.5%	29.3%	25.0%	4.4%
\$2,000,000- \$5,000,000	99.9%	99.9%	3.1%	2.9%	6.1%	6.2%	29.2%	24.7%	4.5%
\$5,000,000- \$10,000,000	99.9%	99.9%	1.9%	1.6%	3.6%	3.3%	28.5%	23.8%	4.7%
\$10,000,000 or more	99.9%	99.9%	4.7%	3.8%	8.0%	7.0%	25.3%	21.1%	4.3%

\* “Federal income taxes paid” equals income taxes after credits minus the refundable portions of both the Earned Income Tax Credit (EITC) and the additional child tax credit.  
 \*\* “Tax cut” is the percentage point fall in the effective tax rate for that income group from 2000 to 2004.

Source: Internal Revenue Service

Several important stories emerge from this table. First, effective tax rates have fallen for every income group. Those in the bottom and middle income groups, as well as millionaires, have seen their tax rates fall. The percentage decrease in tax burden is greatest for those in the lowest income groups between 2000 and 2004.

For example, in 2000 a taxpayer with an AGI of \$35,000 who pays 8.54 percent of his income in federal income taxes would pay \$2,959 in federal income taxes after credits. Following the tax cuts that push his effective rate down to 5.12 percent, he would pay \$1,792 in taxes—a 39.4 percent decrease in tax burden.

At the other end of the income spectrum, a taxpayer making \$1.75 million would see his effective tax rate fall from 29.35 percent to 25 percent. Before the tax cuts, he would pay \$513,625 in federal income taxes after credits. Following the tax cuts, he would pay \$437,500. This amounts to a 14.8 percent reduction in tax burden.

Second, even though their effective tax rates have fallen, taxpayers in the \$75,000 - \$500,000 AGI range are shouldering a larger burden of the total taxes paid. This can be seen, for example, in the \$100,000 - \$200,000 income group, which paid 22.5 percent of all federal income taxes in 2000, yet in 2004 paid 21.06 percent of all income taxes.

There are two reasons for this increase: (1) This income group’s fraction of the total AGI has increased; and (2) taxpayers in these groups are most likely to be hit by the Alternative Minimum Tax (AMT), which has been changed very little since 2000.

Third, as shown by the “percent of returns that are taxable” column, the tax cuts have taken many taxpayers in the low-income groups off the tax rolls entirely. In 2000, approximately 29 million tax returns had no income tax. By 2004, that number had risen to around 43 million returns. This is largely because of the expansion of the Child Tax Credit along with the establishment of the 10 percent tax bracket.

Finally, in 2004, much more money was returned to low-income earners through the tax code via programs like the Earned Income Tax Credit (EITC) and the Refundable Child Tax Credit than in 2000. Table 1 shows that among lower- and middle-income groups, many taxpayers receive more back from the IRS than they actually pay in federal income taxes. Every AGI group up to \$25,000 actually receives more back from the IRS in the aggregate than it pays in federal income taxes.

### **Conclusion**

Ever since the Bush tax cuts were enacted in 2001 and 2003, much of the political debate has centered on the often-repeated claim that the benefits of the tax cuts accrued only to high-income taxpayers. While the wealthy will save a higher dollar amount from any across-the-board tax cut merely because they pay more in taxes and earn higher incomes, all income groups have had their current tax burdens reduced by the tax cuts.

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Tax Foundation  
2001 L Street NW Suite 1050  
Washington, DC 20036  
Ph: (202) 464-6200  
Fax: (202) 464-6201  
[www.taxfoundation.org](http://www.taxfoundation.org)