



JOINT ECONOMIC COMMITTEE

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FEDERAL INCOME TAX SYSTEM IS HIGHLY PROGRESSIVE AFTER RECENT TAX CUTS

Debate over changes in the tax code often focuses on who benefits most from such changes. Most of this debate hinges on tax distribution tables that measure the impact of tax law changes on the tax liabilities of various income groups. However, many newspaper articles and think tank reports fail to consider the current progressivity of the existing tax code when discussing the benefits of tax cuts for various income groups.

For example, it is important to note that up to 40 percent of federal income tax filers cannot receive further tax relief because these taxpayers do not in effect pay federal income taxes. Millions of families, many in the bottom fifth, have either zero tax liability or receive a net transfer from the government due to the refundable portion of the Earned Income Tax Credit (EITC) and/or the Child Tax Credit (CTC).

In addition, millions of people do not earn enough to file a tax return. Hence, these non-filers, plus many of those that file tax returns in the bottom fifth, do not actually pay federal income taxes and, due to the refundable portion of the EITC and/or the CTC, many do not in effect pay payroll taxes.

The table below provides the most recent IRS data from the Statistics of Income Division. It shows that the average tax liability for returns reporting income under \$20,000 was negative for tax year 2003. While reliance on averages alone can be misleading, the data suggest that tens of millions of tax returns actually reported either zero or negative federal income tax liability.

Another important statistic that illustrates the progressive nature of the current federal income tax system is tax shares. Using the same IRS data

Progression in Federal Income Tax Payments				
Size of AGI	Number of Returns	Refundable Portion of EITC & CTC US\$000	Total Income Tax Amount Including Refundable Credits US\$000	Average Income Tax Including Refundable Credits
All returns	130,423,626	(\$43,125,048)	\$704,892,440	\$5,405
No AGI	1,813,840	(\$362,509)	(\$283,931)	(\$157)
\$1 under \$5,000	11,697,628	(\$1,723,064)	(\$1,650,106)	(\$141)
\$5,000 under \$10,000	12,503,409	(\$6,781,432)	(\$6,000,982)	(\$480)
\$10,000 under \$15,000	12,002,004	(\$10,950,887)	(\$8,200,228)	(\$683)
\$15,000 under \$20,000	11,293,967	(\$10,104,164)	(\$4,699,431)	(\$416)
\$20,000 under \$25,000	9,831,150	(\$6,690,557)	\$1,583,529	\$161
\$25,000 under \$30,000	8,541,753	(\$3,526,262)	\$7,509,778	\$879
\$30,000 under \$40,000	13,957,257	(\$2,035,283)	\$27,702,535	\$1,985
\$40,000 under \$50,000	10,452,444	(\$610,965)	\$34,024,248	\$3,255
\$50,000 under \$75,000	17,372,492	(\$275,318)	\$93,980,875	\$5,410
\$75,000 under \$100,000	9,542,599	(\$56,318)	\$84,196,798	\$8,823
\$100,000 under \$200,000	8,878,643	(\$8,289)	\$163,334,118	\$18,396
\$200,000 under \$500,000	1,999,016	\$0	\$120,711,552	\$60,385
\$500,000 under \$1,000,000	356,140	\$0	\$60,180,642	\$168,980
\$1,000,000 or more	181,283	\$0	\$132,503,043	\$730,918

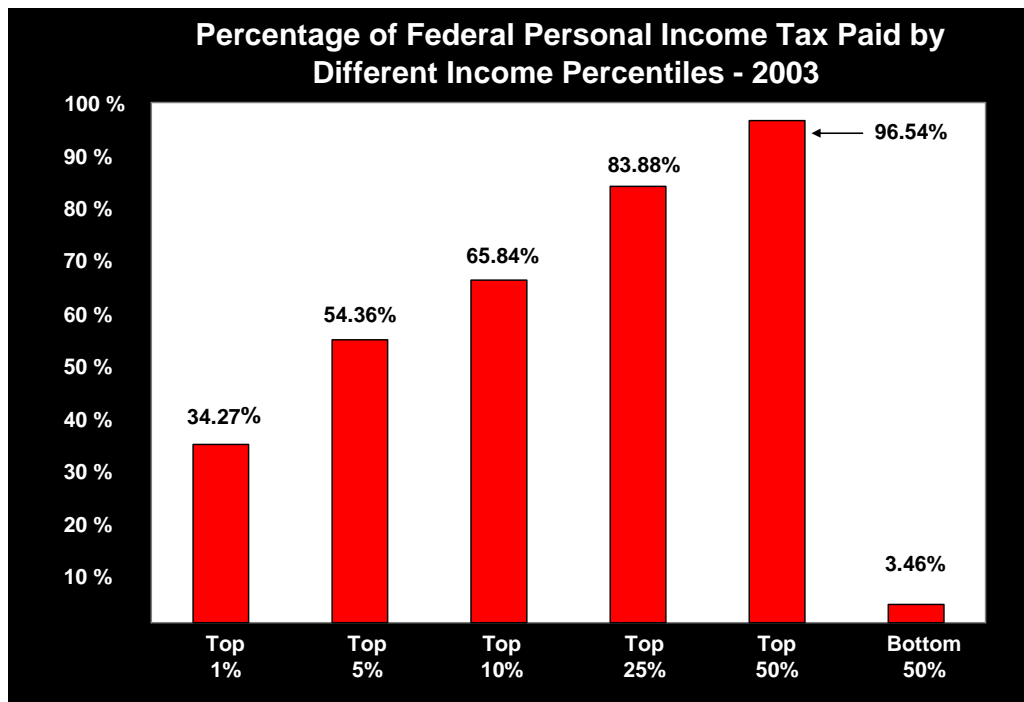
Source: JEC Calculations based on SOI Data for TY2003 - SOI Bulletin Fall 2005.
Notes: (1) Detail may not add due to rounding; (2) Figures in parenthesis are negative amounts.

for 2003, the top half of taxpayers, ranked by income, pay more than **96.5 percent** of federal individual income taxes while the bottom half accounts for less than **3.5 percent**. These data reflect the early effects of recent Republican tax cuts under the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003.

The top one percent of tax filers paid **34.27 percent** of federal personal income taxes in 2003, while the top ten percent accounted for **65.84 percent** of these taxes. To be counted in the top one percent, taxpayers needed an Adjusted Gross Income (AGI) of \$295,495 or

more. The 2003 AGI cut-off amount for the top ten percent was \$94,891, while the cut-off amount for the top/bottom fifty percent was \$29,019. Again, it is important to note that many returns in the bottom half report zero or negative federal income tax liability.

These IRS data illustrate the steeply progressive nature of the federal income tax. Further, data on the number of non-filers, tax shares and the number of taxpayers effectively paying zero federal income taxes must be considered before any valid distributional evaluation of various income tax proposals or legislation can be made.



For further information please see the following Joint Economic Committee studies by visiting the JEC website www.house.gov/jec, or by contacting the JEC at (202) 226-3234.

For further information please see:

- *Millions of Taxpayers Have Zero or Negative Federal Income Tax Liability*. Research Report #109-21 (October 2005)
- *Tax Distribution Analysis and Shares of Taxes Paid – Updated Analysis*. Research Report #109-20 (October 2005)
- *A Comparison of Tax Distribution Tables: How Missing or Incomplete Information Distorts Perspectives* (December 2003)
- *The Misleading Effects of Averages in Tax Distribution Analysis* (September 2003)
- *A Guide to Tax Policy Analysis: The Central Tendency of Federal Income Tax Liabilities in Distributional Analysis* (May 2000)
- *A Guide to Tax Policy Analysis: Problems with Distributional Tax Tables* (January 2000)