



JOINT ECONOMIC COMMITTEE

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A PORTRAIT OF THE PERSONAL INCOME TAX BURDEN IN 2001

The Internal Revenue Service (IRS) has released its most recent data on the distribution of income and personal income tax payments. The IRS data show that a small group of earners accounts for most federal income tax revenue and highlight how dependent tax revenues are on the incomes of the highest earners. Incomes of the top 1% of earners declined significantly in the recession year of 2001 (the data arrive with a two-year lag), leading to lower tax collections.

Half of Taxpayers Paid Nearly All Personal Income Taxes

The top 50% of taxpayers, by income, accounted for 96% of all personal income taxes paid in 2001; the bottom 50% of taxpayers accounted for the remaining 4%. These percentages have remained essentially constant for the last five years. Personal income taxes are used to finance general government operations, as opposed to the payroll tax, which is borne more broadly and is primarily used to finance social insurance programs such as Medicare and Social Security.

Taxpayers Grouped by Income*	Percentage of All Income Earned		Percentage of All Income Taxes Paid	
	2000	2001	2000	2001
Top 1%	20.8	17.5	37.4	33.9
Top 5%	35.3	32.0	56.5	53.3
Top 10%	46.0	43.1	67.3	64.9
Top 25%	67.2	65.2	84.0	82.9
Top 50%	87.0	86.2	96.1	96.0
Bottom 50%	13.0	13.8	3.9	4.0

*Income measured as Adjusted Gross Income (AGI).

The Recession's Impact on High-Income Individuals Dampened Tax Receipts

Due to the weak economy and declining stock market, the incomes of the top 1% of earners declined by 18% in 2001 – as did their tax payments. This decline in income for the highest earners resulted in a \$66 billion reduction in federal income tax receipts. Because such a large percentage of tax revenue is collected from a very small portion of the population, federal revenues are highly sensitive to changes in the income of the top earners.

The Highest Earners Continue to Bear Most of the Cost of General Government

Those with highest incomes pay for the bulk of government's general operations (that is, operations other than Social Security and Medicare) through their income tax payments. The top 5% of taxpayers paid more than half of all personal income taxes in 2001, while earning less than a third of taxable income. On the other hand, the bottom 50% of taxpayers paid 4% of personal income taxes while earning 13.8% of taxable income. The personal income tax system remains highly progressive.

Source: Internal Revenue Service (<http://www.irs.ustreas.gov/pub/irs-soi/01in01ts.xls>)

Committee Publications

JEC reports issued in the past month:

- “A Portrait of the Personal Income Tax Burden in 2001,” October 14, 2003. Explains how federal tax revenues are dependent on a small group of high income earners and other issues about new tax distribution data from the IRS.
- “A Tale of Two Employment Surveys,” October 14, 2003. Update of previous report that explains how two employment surveys from the same monthly report paint a surprisingly different picture – one survey shows job losses, while the other shows job gains.
- “The Tax Reform Act of 1986: A Primer,” September 17, 2003. Outlines the major changes of the Tax Reform Act of 1986, as well as the current state of the tax code, in order to promote a better understanding of that often-cited tax reform.
- “Constant Change: A History of Federal Taxes,” September 12, 2003. Highlights major trends in the U.S. tax system since the beginning of the income tax to show how we arrived at the current system (first in a series of reports on tax simplification and reform).

Other JEC reports include:

- “Recent Economic Developments: The Economy Builds Momentum”
- “Understanding Today’s Deficits”
- “Prescription Drugs Are Only One Reason Why Medicare Needs Reform”
- “New Possibilities for Financing Roads”

Recent JEC hearings and events include:

- “Reshaping the Future of America’s Health,” October 1, 2003.
- “The Employment Situation,” September 9, 2003.
- “Technology, Innovation, and the Costs of Health Care,” July 9, 2003.
- “Transforming Iraq’s Economy,” June 11, 2003.

Copies of the above publications can be found on-line at the committee’s website at jec.senate.gov. Publications issued by the vice-chair and ranking member can be accessed via the same website.