



JOINT ECONOMIC COMMITTEE

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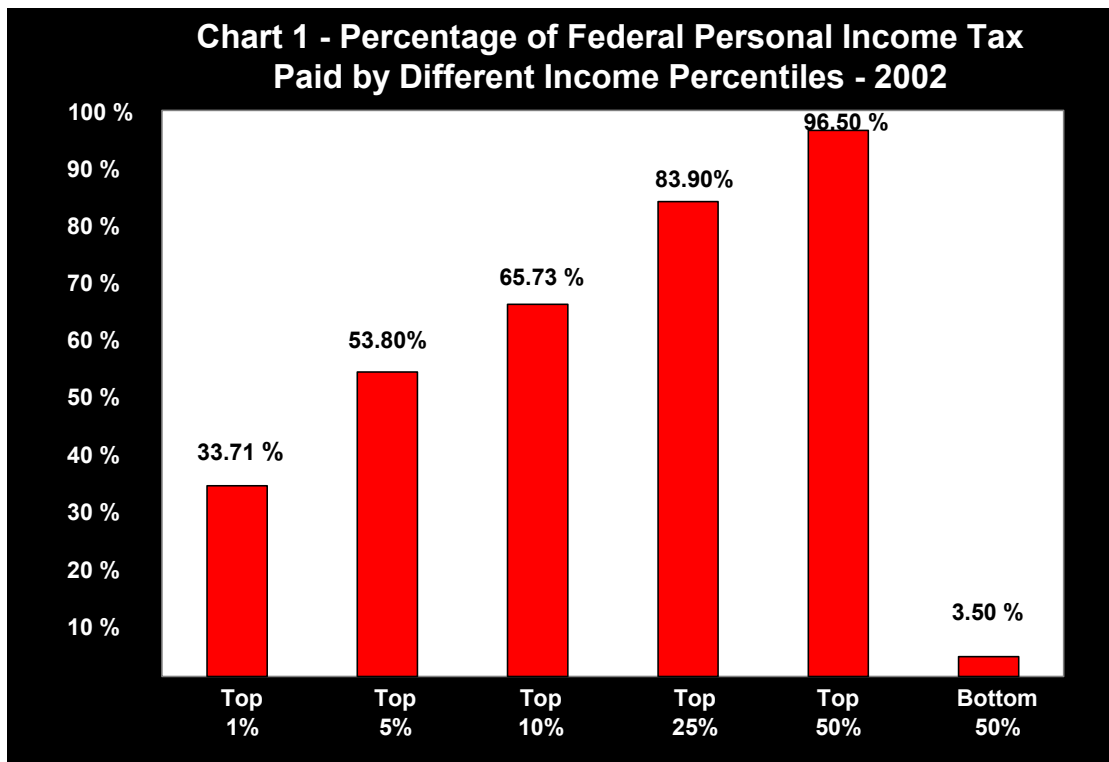
TAX DISTRIBUTION ANALYSIS AND SHARES OF TAXES PAID

A regular feature of the debate over changes in the tax code is who benefits and who doesn't. Most of this debate hinges on federal government statistical tables, which employ distributional analysis to measure the effects of changes in the tax code.

The official sources of tax distribution analysis and tables are the Office of Tax Analysis (OTA) of the Department of Treasury, the Congressional Joint Committee on Taxation (JCT) and, to a lesser extent, the Congressional Budget Office (CBO). There are also unofficial distribution tables that are publicly released by various interest groups, such as the Tax Policy Center and Citizens For Tax Justice, to politically influence the policy process.

Distribution analysis and tables rank taxpayers from lowest to highest income and then divide them into various income groups. These income groups can be percentiles based, for example, on the adjusted gross income "cut-offs" of the "top" 1%, 5%, 10%, etc., of incomes, or lowest quintile, second quintile, third quintile, fourth quintile, and highest quintile of income earners.

IRS data for 2002, the most recent available, show that the top half of taxpayers ranked by income continue to pay over 96 percent of Federal individual income taxes while the bottom half accounts for less than 4 percent. The data show the highly progressive nature of the Federal income tax.



The top one percent of tax filers paid 33.71 percent of Federal personal income taxes in 2002, while the top ten percent accounted for 65.73 percent of these taxes. These tax shares have fallen from their recent highs primarily due to a reduction in income reported by the top ten percent amounting to \$401.9 billion between 2000 and 2002. In 2001 and 2002, the income tax shares of the upper percentiles remained at relatively high levels for recent decades, exceeded only in the stock market bubble years of 1998-2000.

The 3.50 percent share paid by the bottom half of taxpayers in 2002 compares to a 3.97 percent share in 2001. The top half of taxpayers paid 96.03 percent of federal income taxes in 2001, and 96.50 percent in 2002.

These IRS data illustrate the steeply progressive impact of the federal income tax, which must be considered before any valid distributional evaluation of various income tax proposals can be made.

Unfortunately, statistics portraying tax policy changes as skewed often are released without disclosing the share of taxes actually paid by various income groups. In other words, data on the share of taxes paid before and after a tax change would take effect are often undisclosed, leading to incomplete and often misleading results. The bottom line is that these data are needed for an informed discussion of a wide array of tax policy issues.

For example, the shares of taxes paid by various groups were essentially unchanged by most of the tax bills in recent years, but incomplete releases of data were selectively used by opponents to suggest that such legislation was skewed to disproportionately benefit the affluent.

Opponents of broad tax relief often have chosen to release a small slice of data portraying the effects of tax reduction as skewed. At the same time, they have chosen to withhold closely related data that show that tax reduction will not

Percentiles Ranked by AGI	Adjusted Gross Income Threshold on Percentiles	Percentage of Federal Personal Income Tax Paid
Top 1%	\$285,424	33.7%
Top 5%	\$126,525	53.8%
Top 10%	\$92,663	65.7%
Top 25%	\$56,401	83.9%
Top 50%	\$28,654	96.5%
Bottom 50%	<\$28,654	3.5%

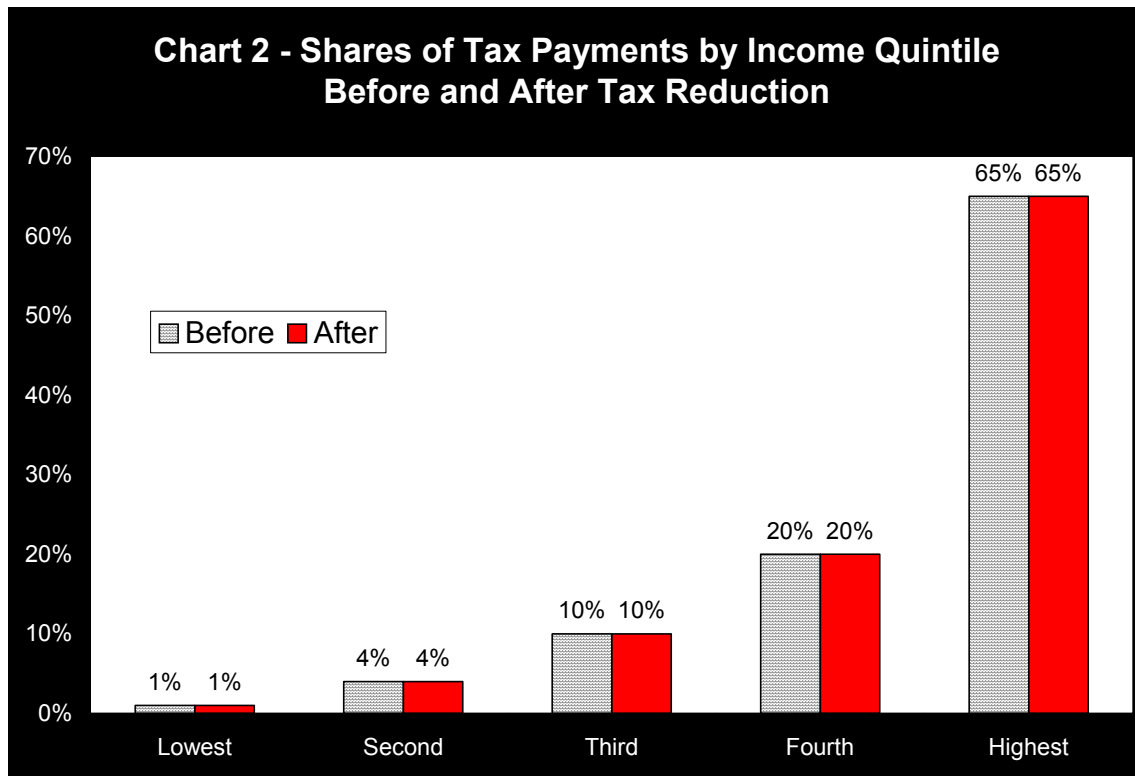
Source: IRS

change the shares of total taxes paid by each income group. The level of total taxes is estimated to change, but the relative share paid by each income group would remain unchanged. The tax shares already paid by various income groups largely determine the distributional outcomes of most major tax proposals, not the tax rate structure of the legislation itself.

This can be illustrated by one concrete example. In 2000, the Clinton Treasury Department released data indicating that a tax reduction proposal then under consideration in Congress was skewed, but the JEC staff reconstructed the data to produce what was not disclosed: the

proportion of taxes paid by each income fifth would in fact be unchanged.

For example, the top fifth paid 65 percent of federal taxes before the tax relief legislation, and would pay 65 percent of total taxes after this legislation took effect. The bottom fifth paid one percent of total taxes before the tax relief bills, and one percent after. Tax relief is provided, but the shares of taxes paid under tax relief are unchanged for each income group. The failure to disclose this information is very misleading and raises serious questions about the propriety of withholding this information from the public.



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

For further information please see:

- *A Guide to Tax Policy Analysis: Problems with Distributional Tax Tables* (January 2000)
- *A Guide to Tax Policy Analysis: The Central Tendency of Federal Income Tax Liabilities in Distributional Analysis* (May 2000)
- *The Misleading Effects of Averages in Tax Distribution Analysis* (September 2003)
- *A Comparison of Tax Distribution Tables: How Missing or Incomplete Information Distorts Perspectives* (December 2003)
- *Treasury Department Estimates of Tax Changes: A Review and Analysis* (July 1997)