



JOINT ECONOMIC COMMITTEE

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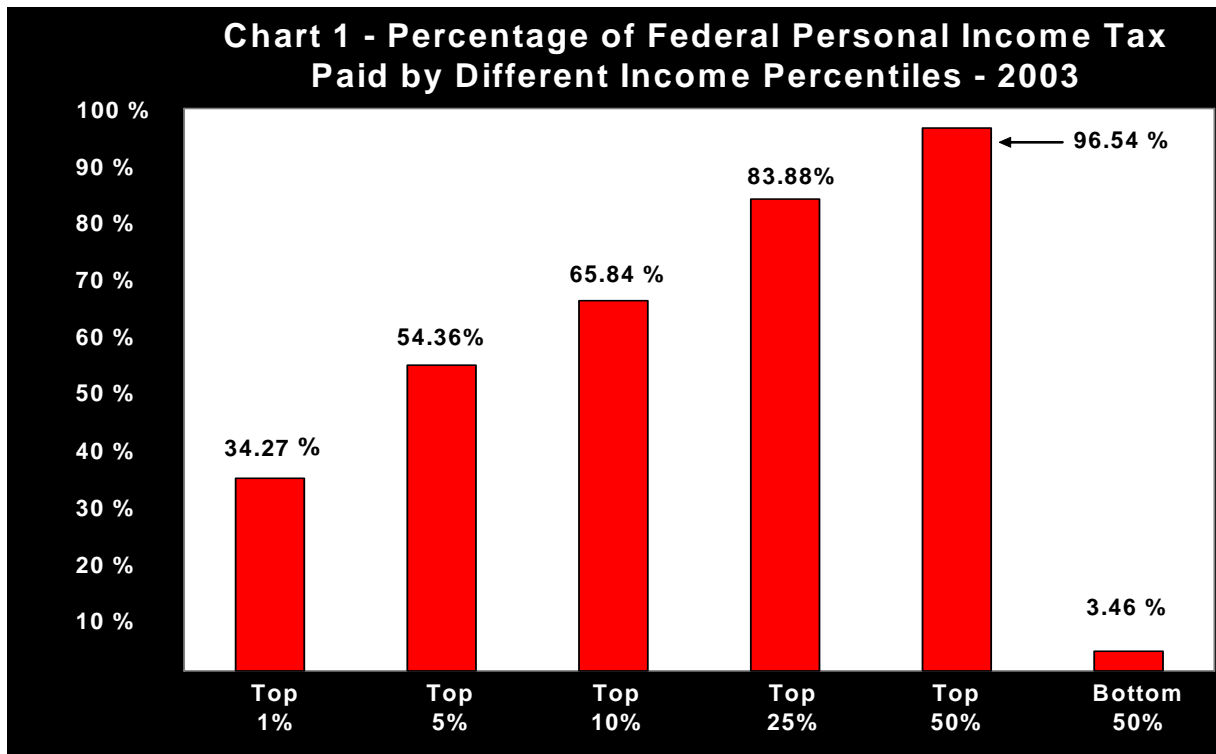
TAX DISTRIBUTION ANALYSIS AND SHARES OF TAXES PAID – UPDATED ANALYSIS

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.

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 2003, 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 just less than **3.5 percent**. The data show the highly progressive nature of the Federal income tax.

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 Adjusted Gross Income (AGI) of \$295,495 or more. The 2003 AGI cut-off amount for the top ten percent is \$94,891, while the cut-off amount for the top/bottom fifty percent is \$29,019.



The 3.46 percent share paid by the bottom half of taxpayers in 2003 compares to a 3.97 percent share in 2001 and 3.50 percent share in 2002. The top half of taxpayers paid 96.03 percent of federal income taxes in 2001, 96.50 percent in 2002, and 96.54 percent in 2003. 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.

Percentiles Ranked by AGI	Adjusted Gross Income Threshold on Percentiles	Percentage of Federal Personal Income Tax Paid
Top 1%	\$295,495	34.27%
Top 5%	\$130,080	54.36%
Top 10%	\$94,891	65.84%
Top 25%	\$57,343	83.88%
Top 50%	\$29,019	96.54%
Bottom 50%	<\$29,019	3.46%

Source: IRS

* 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.

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)