

**PRESENT LAW RELATED TO THE INDIVIDUAL INCOME  
AND SOCIAL INSURANCE TAXES AS IN EFFECT  
FOR 2009 AND BACKGROUND DATA RELATED  
TO THE DISTRIBUTION OF FEDERAL TAXES**

Scheduled for a Public Hearing  
Before the  
**SENATE COMMITTEE ON FINANCE**  
on March 26, 2009

Prepared by the Staff  
of the  
**JOINT COMMITTEE ON TAXATION**



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## INTRODUCTION

The Senate Committee on Finance has scheduled a public hearing on March 26, 2009 on middle income tax relief options. This document,<sup>1</sup> prepared by the staff of the Joint Committee on Taxation, provides a summary of the present-law Federal tax system with respect to the individual income tax and payroll taxes, as in effect for 2009. The document provides background data on the historical distribution of Federal tax liabilities from 1980 to 2005, as well as projections of the distribution of tax liabilities for 2009.

The current Federal tax system has four main elements: (1) an income tax on individuals and corporations (which consists of both a “regular” income tax and an alternative minimum tax); (2) payroll taxes on wages (and corresponding taxes on self-employment income); (3) estate, gift, and generation-skipping transfer taxes, and (4) excise taxes on selected goods and services. This document provides a broad overview of the first two of these elements, excluding the corporate income tax.

A number of aspects of the Federal tax laws are subject to change over time. For example, some dollar amounts and income thresholds are indexed for inflation. The standard deduction and tax rate brackets are examples of amounts that are indexed for inflation. The amount of earnings subject to the Social Security tax is adjusted annually for wage growth. In general, the Internal Revenue Service adjusts these numbers annually and publishes the inflation-adjusted amounts in effect for a tax year prior to the beginning of that year. Where applicable, this document generally includes dollar amounts in effect for 2009 and notes whether dollar amounts are indexed for inflation.

In addition, a number of the provisions in the Federal tax laws have been enacted on a temporary basis or have parameters that vary by statute from year to year.<sup>2</sup> For example, Public Law 110-343 (the Emergency Economic Stabilization Act of 2008, the Energy Improvement and Extension Act of 2008, and the Tax Extenders and Alternative Minimum Tax Relief Act of 2008) and Public Law 111-5 (American Recovery and Reinvestment Act of 2009) extended a number of expired or soon to expire provisions on a temporary basis. In addition, many of the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 initially were to expire at the end of 2010; some provisions of that Act have been modified subsequently or made permanent. For simplicity, this document generally describes the Federal tax laws in effect in 2009 and generally does not include references to provisions as they may be in effect for future years or to termination dates for expiring provisions.

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<sup>1</sup> This document may be cited as follows: Joint Committee on Taxation, *Present Law Related to the Individual Income and Social Insurance Taxes as in Effect for 2009 and Background Data Related to the Distribution of Federal Taxes* (JCX-21-09), March 24, 2009. This document can be found on the website at [www.jct.gov](http://www.jct.gov).

<sup>2</sup> See Joint Committee on Taxation, *List of Expiring Federal Tax Provisions, 2008-2020* (JCX-20-09), March 9, 2009.

## **I. SUMMARY OF PRESENT-LAW INDIVIDUAL INCOME TAX AND SOCIAL INSURANCE TAXES**

### **A. Individual Income Tax**

#### **In general**

A United States citizen or resident alien generally is subject to the U.S. individual income tax on his or her worldwide taxable income.<sup>3</sup> Taxable income equals the taxpayer's total gross income less certain exclusions, exemptions, and deductions. Graduated tax rates are then applied to a taxpayer's taxable income to determine his or her individual income tax liability. A taxpayer may face additional liability if the alternative minimum tax applies. A taxpayer may reduce his or her income tax liability by any applicable tax credits.

#### **Adjusted gross income**

Under the Internal Revenue Code of 1986 (the "Code"), gross income means "income from whatever source derived" except for certain items specifically exempt or excluded by statute. Sources of income include, among other things, compensation for services, interest, dividends, capital gains, rents, royalties, alimony and separate maintenance payments, annuities, income from life insurance and endowment contracts (other than certain death benefits), pensions, gross profits from a trade or business, income in respect of a decedent, and income from S corporations, partnerships,<sup>4</sup> trusts or estates.<sup>5</sup> Statutory exclusions from gross income include death benefits payable under a life insurance contract, interest on certain State and local bonds, employer-provided health insurance, employer-provided pension contributions, and certain other employer-provided benefits. Gross income is also reduced by other items like trade or business expenses and capital losses.

An individual's adjusted gross income ("AGI") is determined by subtracting certain "above-the-line" deductions from gross income. These deductions include, among other things, contributions to a tax-qualified retirement plan by a self-employed individual, contributions to

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<sup>3</sup> Foreign tax credits generally are available against U.S. income tax imposed on foreign source income to the extent of foreign income taxes paid on that income. A nonresident alien generally is subject to the U.S. individual income tax only on income with a sufficient nexus to the United States.

<sup>4</sup> In general, partnerships and S corporations are treated as pass-through entities for Federal income tax purposes. Thus, no Federal income tax is imposed at the entity level. Rather, income of such entities is passed through and taxed to the owners at the individual level.

<sup>5</sup> In general, estates and most trusts pay tax on income at the entity level, unless the income is distributed or required to be distributed under governing law or under the terms of the governing instrument. Such entities determine their tax liability using a special tax rate schedule and are subject to the alternative minimum tax. Certain trusts, however, do not pay Federal income tax at the trust level. For example, certain trusts that distribute all income currently to beneficiaries are treated as "pass-through" or conduit entities (similar to a partnership). Other trusts are treated as being owned by grantors in whole or in part for tax purposes; in such cases, the grantors are taxed on the income of the trust.

certain individual retirement arrangements (“IRAs”), one-half of self-employment taxes, certain moving expenses, and alimony payments.

### **Taxable income**

In order to determine taxable income, an individual reduces AGI by any personal exemption deductions and either the applicable standard deduction or his or her itemized deductions. Personal exemptions generally are allowed for the taxpayer, his or her spouse, and any dependents. For 2009, the amount deductible for each personal exemption is \$3,650. This amount is indexed annually for inflation. The deduction for personal exemptions is reduced or eliminated for taxpayers with incomes over certain thresholds, which are indexed annually for inflation. The applicable thresholds for 2009 are \$166,800 for single individuals, \$250,200 for married individuals filing a joint return and surviving spouses, \$199,950 for heads of households, and \$125,100 for married individuals filing separate returns.

A taxpayer also may reduce AGI by the amount of the applicable standard deduction. The basic standard deduction varies depending upon a taxpayer’s filing status. For 2009, the amount of the standard deduction is \$5,700 for single individuals and married individuals filing separate returns, \$8,350 for heads of households, and \$11,400 for married individuals filing a joint return and surviving spouses. An additional standard deduction is allowed with respect to any individual who is elderly or blind.<sup>6</sup> The amounts of the basic standard deduction and the additional standard deductions are indexed annually for inflation. Finally, a taxpayer may reduce AGI by an additional standard deduction for State and local property taxes paid of \$500 (\$1,000 for joint filers) and for qualified motor vehicle taxes.

In lieu of taking the applicable standard deductions, an individual may elect to itemize deductions. The deductions that may be itemized include State and local income taxes (or, in lieu of income, sales taxes), real property and certain personal property taxes, home mortgage interest, charitable contributions, certain investment interest, medical expenses (in excess of 7.5 percent of AGI), casualty and theft losses (in excess of \$500 per loss and in excess of 10 percent of AGI), and certain miscellaneous expenses (in excess of two percent of AGI<sup>7</sup>). The total amount of most itemized deductions allowed is reduced for taxpayers with incomes over a certain threshold amount, which is indexed annually for inflation.<sup>8</sup> The threshold amount for 2009 is \$166,800 (\$83,400 for married individuals filing separate returns).

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<sup>6</sup> For 2009, the additional amount is \$1,100 for married taxpayers (for each spouse meeting the applicable criterion) and surviving spouses. The additional amount for single individuals and heads of households is \$1,400. If an individual is both blind and aged, the individual is entitled to two additional standard deductions, for a total additional amount (for 2009) of \$2,200 or \$2,800, as applicable.

<sup>7</sup> Certain expenses are not subject to the two percent of AGI limitation (e.g., certain interest expense, State and local taxes, theft and casualty losses, gambling losses, and medical expenses).

<sup>8</sup> Certain itemized deductions are not reduced (i.e., medical expenses, investment interest, theft and casualty losses and gambling losses).

## **Tax liability**

### In general

A taxpayer's net income tax liability is the greater of (1) regular individual income tax liability reduced by credits allowed against the regular tax, or (2) tentative minimum tax reduced by credits allowed against the minimum tax. The amount of income subject to tax is determined differently under the regular tax and the alternative minimum tax, and separate rate schedules apply. Lower rates apply for long-term capital gains; those rates apply for both the regular tax and the alternative minimum tax.

### Regular tax liability

To determine regular tax liability, a taxpayer generally must apply the tax rate schedules (or the tax tables) to his or her regular taxable income. The rate schedules are broken into several ranges of income, known as income brackets, and the marginal tax rate increases as a taxpayer's income increases. Separate rate schedules apply based on an individual's filing status. For 2009, the regular individual income tax rate schedules are as follows:

**Table 1.—Federal Individual Income Tax Rates for 2009**

If taxable income is:	Then income tax equals:
<i><b>Single Individuals</b></i>	
Not over \$8,350 .....	10% of the taxable income
Over \$8,350 but not over \$33,950.....	\$835 plus 15% of the excess over \$8,350
Over \$33,950 but not over \$82,250.....	\$4,675 plus 25% of the excess over \$33,950
Over \$82,250 but not over \$171,550.....	\$16,750 plus 28% of the excess over \$82,250
Over \$171,550 but not over \$372,950 .....	\$41,754 plus 33% of the excess over \$171,550
Over \$372,950 .....	\$108,216 plus 35% of the excess over \$372,950
<i><b>Heads of Households</b></i>	
Not over \$11,950 .....	10% of the taxable income
Over \$11,950 but not over \$45,500.....	\$1,195 plus 15% of the excess over \$11,950
Over \$45,500 but not over \$117,450.....	\$6,227.50 plus 25% of the excess over \$45,500
Over \$117,450 but not over \$190,200.....	\$24,215 plus 28% of the excess over \$117,450
Over \$190,200 but not over \$372,950 .....	\$44,585 plus 33% of the excess over \$190,200
Over \$372,950 .....	\$104,892.5 plus 35% of the excess over \$372,950
<i><b>Married Individuals Filing Joint Returns and Surviving Spouses</b></i>	
Not over \$16,700 .....	10% of the taxable income
Over \$16,700 but not over \$67,900.....	\$1,670 plus 15% of the excess over \$67,900
Over \$67,900 but not over \$137,050.....	\$9,350 plus 25% of the excess over \$67,900
Over \$137,050 but not over \$208,850.....	\$26,637.50 plus 28% of the excess over \$137,050
Over \$208,850 but not over \$372,950 .....	\$46,741.50 plus 33% of the excess over \$208,850
Over \$372,950 .....	\$100,894.50 plus 35% of the excess over \$372,950

***Married Individuals Filing Separate Returns***

Not over \$8,350 .....	10% of the taxable income
Over \$8,350 but not over \$33,950.....	\$835 plus 15% of the excess over \$8,350
Over \$33,950 but not over \$68,525 .....	\$4,675 plus 25% of the excess over \$33,950
Over \$68,525 but not over \$104,425 .....	\$13,318.75 plus 28% of the excess over \$68,525
Over \$104,425 but not over \$186,475 .....	\$23,310.75 plus 33% of the excess over \$104,425
Over \$186,475 .....	\$50,447.25 plus 35% of the excess over \$186,475

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**Alternative minimum tax liability**

An alternative minimum tax is imposed on an individual, estate, or trust in an amount by which the tentative minimum tax exceeds the regular income tax for the taxable year. The tentative minimum tax is the sum of (1) 26 percent of so much of the taxable excess as does not exceed \$175,000 (\$87,500 in the case of a married individual filing a separate return) and (2) 28 percent of the remaining taxable excess. The taxable excess is so much of the alternative minimum taxable income ("AMTI") as exceeds the exemption amount. The maximum tax rates on net capital gain and dividends used in computing the regular tax are also used in computing the tentative minimum tax. AMTI is the taxpayer's taxable income increased by the taxpayer's "tax preference items" and adjusted by redetermining the tax treatment of certain items in a manner that negates the deferral of income resulting from the regular tax treatment of those items.

The exemption amounts for 2009 are: (1) \$70,950 in the case of married individuals filing a joint return and surviving spouses; (2) \$46,700 in the case of other unmarried individuals; (3) \$35,475 in the case of married individuals filing separate returns; and (4) \$22,500 in the case of an estate or trust. The exemption amounts are phased out by an amount equal to 25 percent of the amount by which the individual's AMTI exceeds (1) \$150,000 in the case of married individuals filing a joint return and surviving spouses, (2) \$112,500 in the case of other unmarried individuals, and (3) \$75,000 in the case of married individuals filing separate returns or an estate or a trust. These amounts are not indexed for inflation.

Among the preferences and adjustments applicable to the individual alternative minimum tax are accelerated depreciation on certain property used in a trade or business, circulation expenditures, research and experimental expenditures, certain expenses and allowances related to oil and gas and mining exploration and development, certain tax-exempt interest income, and a portion of the amount of gain excluded with respect to the sale or disposition of certain small business stock. In addition, personal exemptions, the standard deduction, and certain itemized deductions, such as State and local taxes and miscellaneous deductions items, are not allowed to reduce alternative minimum taxable income.

### Special capital gains and dividends rates

In general, gain or loss reflected in the value of an asset is not recognized for income tax purposes until a taxpayer disposes of the asset. On the sale or exchange of a capital asset, any gain generally is included in income. Any net capital gain of an individual is taxed at maximum rates lower than the rates applicable to ordinary income. Net capital gain is the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for the year. Gain or loss is treated as long-term if the asset is held for more than one year.

Capital losses generally are deductible in full against capital gains. In addition, individual taxpayers may deduct up to \$3,000 of capital losses from ordinary income in each year. Any remaining unused capital losses may be carried forward indefinitely to another taxable year.

A separate rate structure applies to capital gains and certain qualified dividends. For 2009, the maximum rate of tax on the adjusted net capital gain of an individual is 15 percent. In addition, any adjusted net capital gain otherwise taxed at a 10- or 15-percent rate is taxed at a zero-percent rate. These rates apply for purposes of both the regular tax and the alternative minimum tax.

### Credits against tax

The individual may reduce his or her tax liability by any available tax credits. Tax credits are allowed for certain business expenditures, certain foreign income taxes paid or accrued, certain education expenditures, certain child care expenditures, and with respect to children under 17 and for certain elderly or disabled individuals. In addition, credits are allowed for earned income (the Making Work Pay credit), including a refundable earned income tax credit (“EITC”) for low-income workers who satisfy certain requirements. The amount of the EITC varies depending upon the taxpayer’s earned income and whether the taxpayer has one, two, more than two, or no qualifying children. In 2009, the maximum EITC is \$5,656.50 for taxpayers with more than two qualifying children, \$5,028 for taxpayers with two qualifying children, \$3,043 for taxpayers with one qualifying child, and \$457 for taxpayers with no qualifying children. Credits allowed against the regular tax are not uniformly allowed against the alternative minimum tax.

## B. Social Insurance Taxes

Social security benefits and certain Medicare benefits are financed primarily by payroll taxes on covered wages. The Federal Insurance Contributions Act (“FICA”) imposes tax on employers based on the amount of wages paid to an employee during the year. The tax imposed is composed of two parts: (1) the old age, survivors, and disability insurance (“OASDI”) tax equal to 6.2 percent of covered wages up to the taxable wage base (\$106,800 in 2009); and (2) the Medicare hospital insurance (“HI”) tax amount equal to 1.45 percent of covered wages. In addition to the tax on employers, each employee is subject to FICA taxes equal to the amount of tax imposed on the employer. The employee level tax generally must be withheld and remitted to the Federal government by the employer.

As a parallel to FICA taxes, the Self-Employment Contributions Act (“SECA”) imposes taxes on the net income from self employment of self employed individuals. The rate of the OASDI portion of SECA taxes is equal to the combined employee and employer OASDI FICA tax rates and applies to self employment income up to the FICA taxable wage base. Similarly, the rate of the HI portion is the same as the combined employer and employee HI rates and there is no cap on the amount of self employment income to which the rate applies.<sup>9</sup>

In addition to FICA taxes, employers are subject to a Federal unemployment insurance payroll tax equal to 6.2 percent of the total wages of each employee (up to \$7,000) on covered employment. Employers are eligible for a Federal credit equal to 5.4 percent for State unemployment taxes. For 2009, the current 0.8 percent average tax rate (i.e., 6.2 minus 5.4) is composed of a permanent tax rate of 0.6 percent and a temporary surtax rate of 0.2 percent. Federal unemployment insurance payroll taxes are used to fund programs maintained by the States for the benefit of unemployed workers.

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<sup>9</sup> For purposes of computing net earnings from self employment, taxpayers are permitted a deduction equal to the product of the taxpayer’s earnings (determined without regard to this deduction) and one-half of the sum of the rates for OASDI (12.4 percent) and HI (2.9 percent), i.e., 7.65 percent of net earnings. This deduction reflects the fact that the FICA rates apply to an employee’s wages, which do not include FICA taxes paid by the employer, whereas a self-employed individual’s net earnings are economically equivalent to an employee’s wages plus the employer share of FICA taxes.

## II. BACKGROUND DATA RELATED TO THE DISTRIBUTION OF INCOME AND TAXES

### **Historical trends in the distribution of income and taxes**

The following tables and figures show historical trends from 1980 to 2005 in the distribution of income and Federal taxes across households, as well as measures of average tax rates by income category.<sup>10</sup> By 2005, approximately 113 million households are represented in the data.

Table 2 shows the average real (i.e., inflation-adjusted) pre-tax and after-tax household income for each income quintile<sup>11</sup> for selected years from 1980 to 2005. All income quintiles experienced real gains in income, though the rate of growth was highly correlated to income. For example, the average real pre-tax income of the lowest quintile grew only \$800 dollars (from \$15,100 to 15,900) from 1980 to 2005, while the highest income quintile grew by \$103,500 (from \$127,800 to \$231,300) over the same period. On a percentage basis, the average real pre-tax income of the lowest income quintile grew 5.3 percent over the 25-year period, while the remaining quintiles grew by 14.7, 18.7, 27.4, and 81.0 percent respectively. Similar figures with respect to after-tax income were 10.1 for the lowest quintile, and 20.4, 25.2, 33.9, and 85.4 percent, respectively, for the other quintiles.

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<sup>10</sup> The historical data comes from Congressional Budget Office, *Historical Effective Federal Tax Rates: 1979 to 2005*, December 2007.

<sup>11</sup> The Congressional Budget Office methodology adjusts household income by household size (by dividing household income by the square root of the number of individuals per household) prior to ranking households by quintile. Thus there is no specific unadjusted household income range that defines the top and bottom of the quintile of households for all households, but rather separate ranges for each household size. For a household of three, the middle income quintile ranges from \$52,828 to \$78,289 (of unadjusted income) for 2005. Across all households, for 2005 the median household income is \$64,800.

**Table 2.—Average Pre-tax and After-tax Income and Income Shares,  
by Comprehensive Household Income Quintile, 1980-2005**

<b>Average Real Pre-Tax Income (2005 Dollars)</b>					
<b>Year</b>	<b>Lowest Quintile</b>	<b>Second Quintile</b>	<b>Middle Quintile</b>	<b>Fourth Quintile</b>	<b>Highest Quintile</b>
1980	15,100	32,600	49,300	66,900	127,800
1985	14,300	32,200	49,600	69,400	143,900
1990	15,300	33,800	51,600	72,900	159,000
1995	16,000	35,200	53,200	75,800	171,100
2000	16,600	37,700	57,000	84,500	222,600
2005	15,900	37,400	58,500	85,200	231,300
<b>Average Real After-Tax Income (2005 Dollars)</b>					
1980	13,900	28,000	40,100	52,500	92,900
1985	12,900	27,400	40,600	55,200	109,400
1990	13,900	28,900	42,400	57,800	119,000
1995	15,000	30,500	44,000	60,300	123,500
2000	15,500	32,800	47,500	67,100	160,400
2005	15,300	33,700	50,200	70,300	172,200
<b>Share of Pre-Tax Income (Percent)</b>					
1980	5.7	11.0	15.7	22.1	45.8
1985	4.8	10.1	15.2	21.9	48.6
1990	4.6	10.0	15.1	21.6	49.5
1995	4.6	9.7	14.9	21.3	50.2
2000	4.0	8.6	13.5	19.6	54.8
2005	4.0	8.5	13.3	19.8	55.1
<b>Share of After-Tax Income (Percent)</b>					
1980	6.8	12.1	16.5	22.3	42.8
1985	5.5	10.9	15.8	22.0	46.7
1990	5.3	10.8	15.8	21.9	47.3
1995	5.5	10.9	15.9	21.9	46.8
2000	4.9	9.7	14.7	20.2	51.3
2005	4.8	9.6	14.4	20.6	51.6

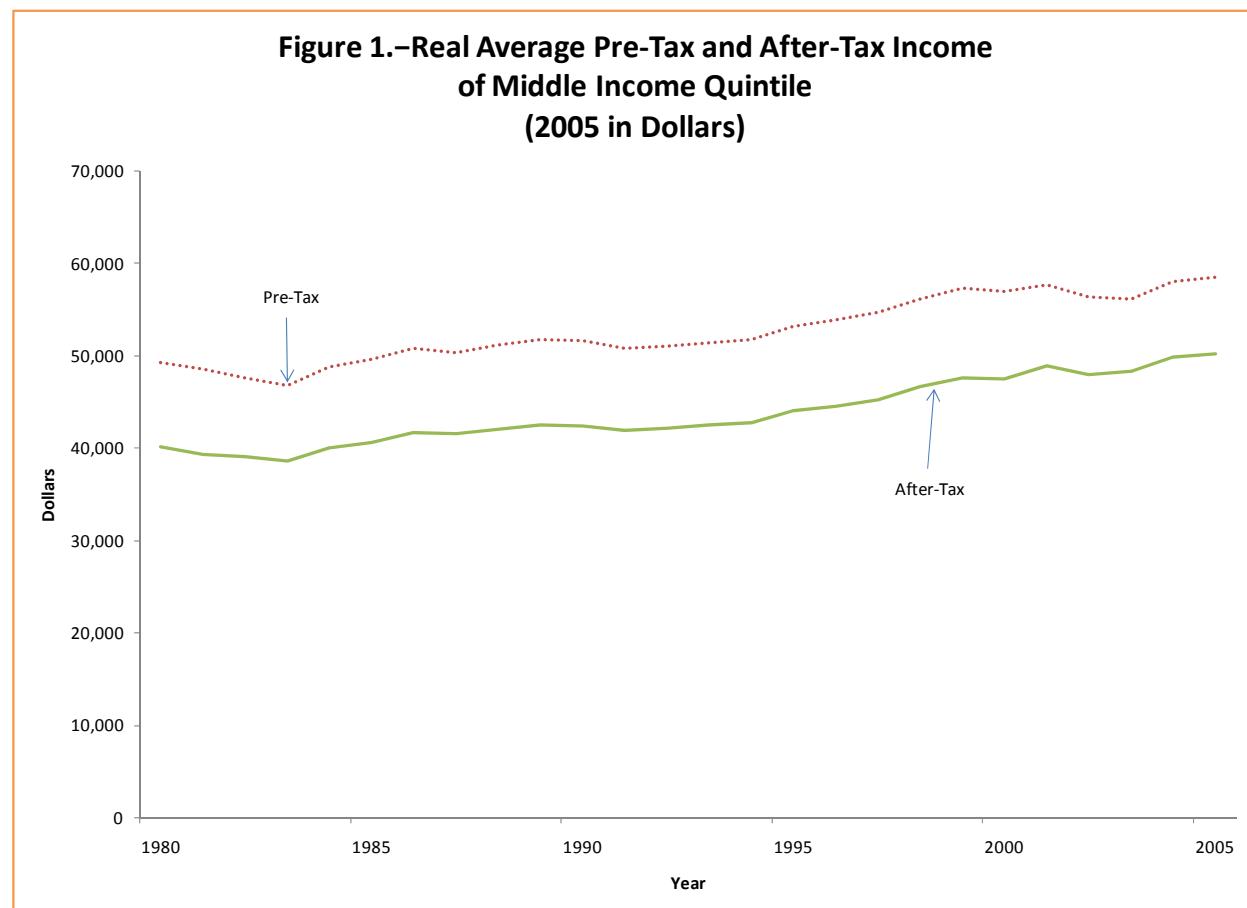
Source: Congressional Budget Office, *Historical Effective Federal Tax Rates: 1979 to 2005*, December 2007.

Comprehensive household income equals pretax cash income plus income from other sources. Pretax cash income is the sum of wages, salaries, self-employment income, rents, taxable and nontaxable interest, dividends, realized capital gains, cash transfer payments, and retirement benefits plus taxes paid by businesses (corporate income taxes and the employer's share of Social Security, Medicare, and federal unemployment insurance payroll taxes) and employee contributions to 401(k) retirement plans. Other sources of income include all in-kind benefits (Medicare, Medicaid, employer-paid health insurance premiums, food stamps, school lunches and breakfasts, housing assistance, and energy assistance). Households with negative income are excluded from the lowest income category but are included in totals.

Income categories are defined by ranking all people by their comprehensive household income adjusted for household size—that is, divided by the square root of the household’s size. (A household consists of the people who share a housing unit, regardless of their relationships.) Quintiles, or fifths, contain equal numbers of people.

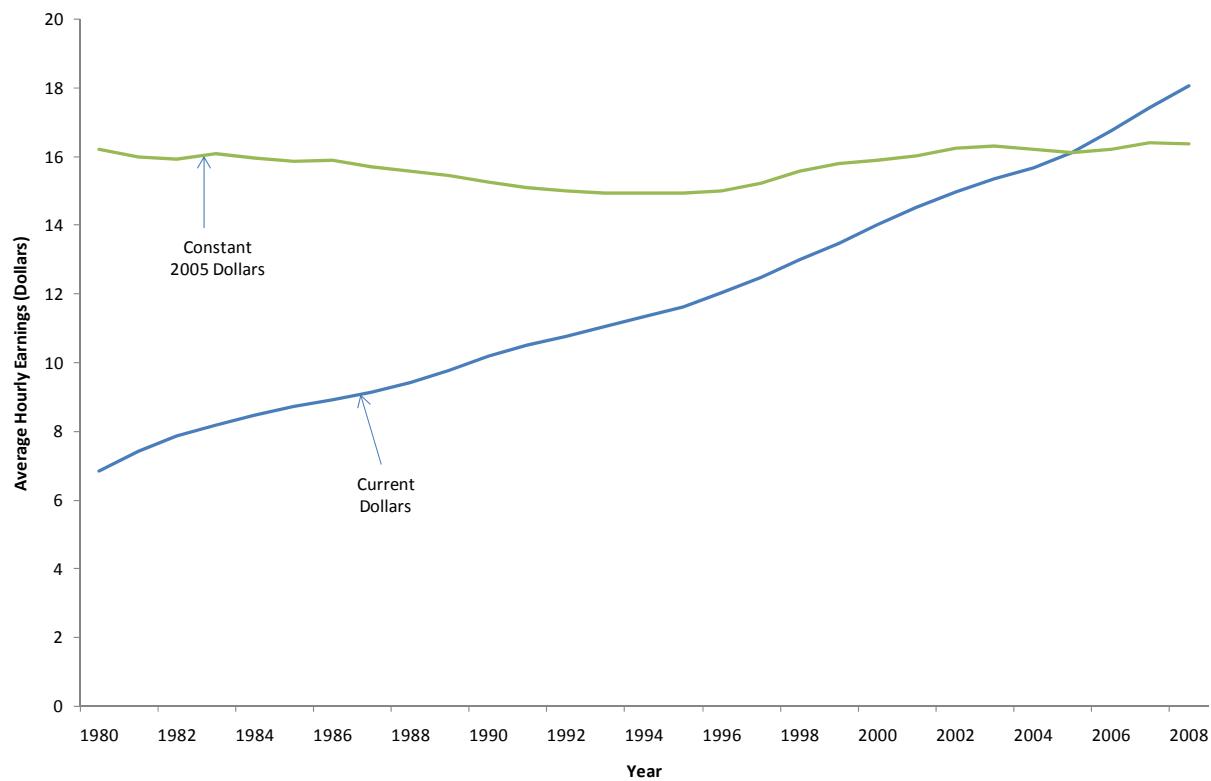
Individual income taxes are distributed directly to households paying those taxes (that is, the economic incidence of the tax is assigned to the individual remitting the tax and is not assumed to be shifted to other parties). Social insurance, or payroll, taxes are distributed to households paying those taxes directly or paying them indirectly through their employers. Corporate income taxes are distributed to households according to their share of capital income. Federal excise taxes are distributed to households according to their consumption of the taxed good or service.

Figure 1 shows the real average pre-tax and after-tax income of the middle income quintile from 1980 to 2005.



Source: Congressional Budget Office, *Historical Effective Federal Tax Rates: 1979 to 2005*, December 2007.

**Figure 2.—Average Hourly Earnings of Production Workers  
1980-2008**

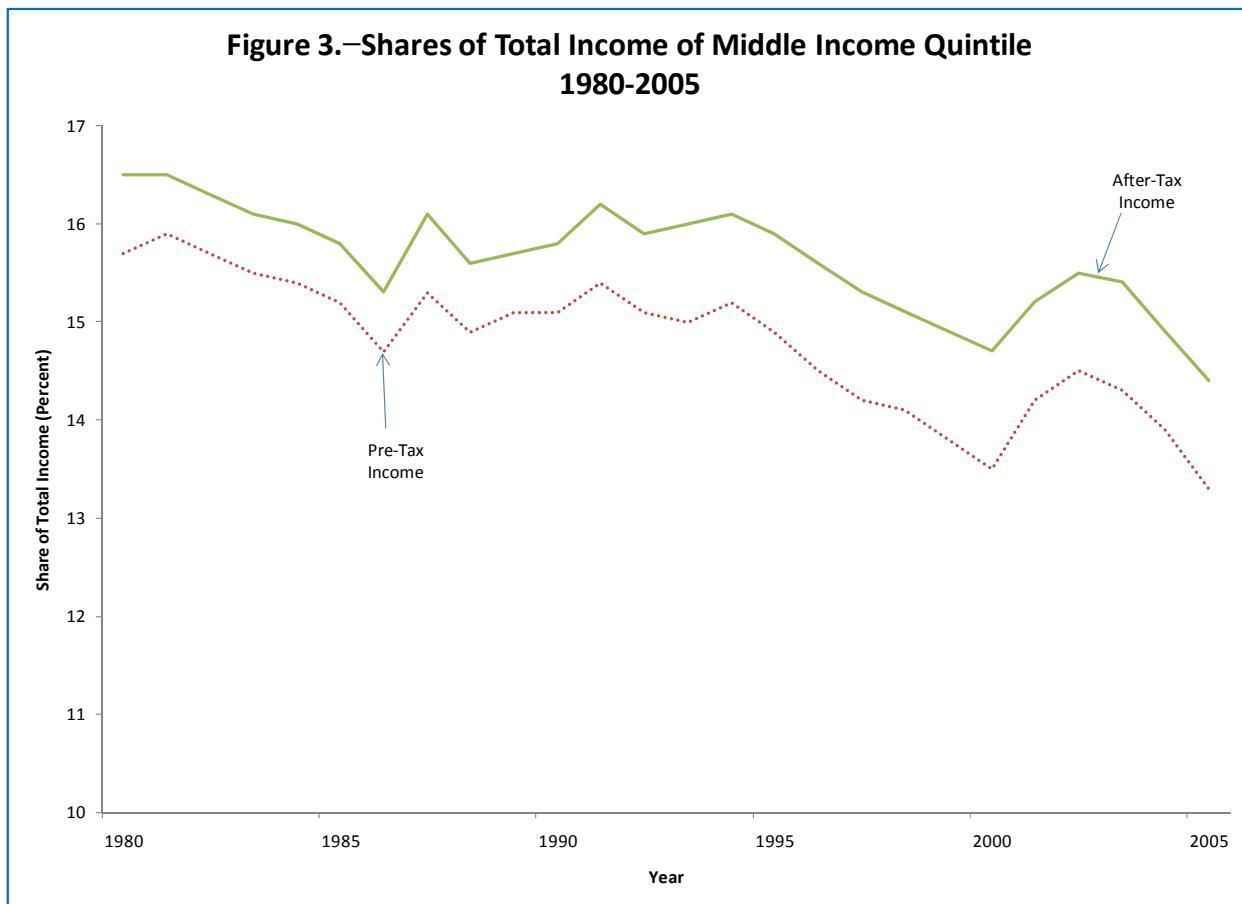


Source: Bureau of Labor Statistics; constant dollar figures obtained by adjusting the current dollar figures by changes in the Consumer Price Index- All Urban Consumers between the current year and 2005.

Figure 2 shows average hourly wage data for production workers from 1980 to 2008. Between 1980 and 2008, the average hourly wage grew from \$6.85 to \$18.08. In real, inflation-adjusted terms, the hourly wage was essentially unchanged, growing from \$16.24 to \$16.40 (measured in constant 2005 dollars). The lack of growth in real hourly wages is not inconsistent with the observed real growth in household income, as additional hours worked by households, or real growth in non-labor income, can explain the difference.

Table 2 also shows the share of pre-tax and after-tax income claimed by each income quintile. The share of aggregate income claimed by all income quintiles except the highest quintile fell from 1980 to 2005, on both a pre-tax and an after-tax basis. For example, the middle income quintile's share of pre-tax income fell from 15.7 percent of all income in 1980 to 13.3 percent. Comparable figures on an after-tax basis were 16.5 percent and 14.4 percent, respectively. In contrast, the share of pre-tax income claimed by the highest income quintile grew from 45.8 percent in 1980 to 55.1 percent in 2005 on a pre-tax basis, and from 42.8 percent to 51.6 percent on an after-tax basis.

Figure 3 shows the share of pre-tax and after-tax income claimed by the middle income quintile over the entire 1980 to 2005 period.



Source: Congressional Budget Office, *Historical Effective Federal Tax Rates: 1979 to 2005*, December 2007.

Table 3 shows the percentage share of total Federal tax liabilities (individual income, social insurance, corporate income, and excise taxes), individual income tax liabilities, and social insurance tax liabilities by household income quintile from 1980 to 2005.<sup>12</sup> Over this period, the share of total Federal liabilities, individual income tax liabilities, and social insurance liabilities paid by all but the highest income quintile have fallen. For example, the share of total Federal tax liabilities paid by the middle income quintile fell from 13.3 percent of the total in 1980 to 9.3 percent of the total in 2005. The middle income quintile's share of individual income tax liabilities fell over this same period from 10.8 percent of all individual income tax liabilities to 4.4 percent, and social insurance liabilities fell from 19.5 percent of all social insurance liabilities to 16.7 percent. In contrast, the share of total Federal tax liabilities paid by the highest income

<sup>12</sup> See notes to Table 2 for an explanation of the measure of income used here and for assumptions on the household incidence of the different types of taxes.

quintile rose from 56.3 percent of the total in 1980 to 68.7 percent of the total in 2005, while over the same period their share of individual income tax liabilities rose from 64.8 percent of all individual income tax liabilities to 86.3 percent, and their social insurance liabilities rose from 36.8 percent of all social insurance liabilities to 43.6 percent.

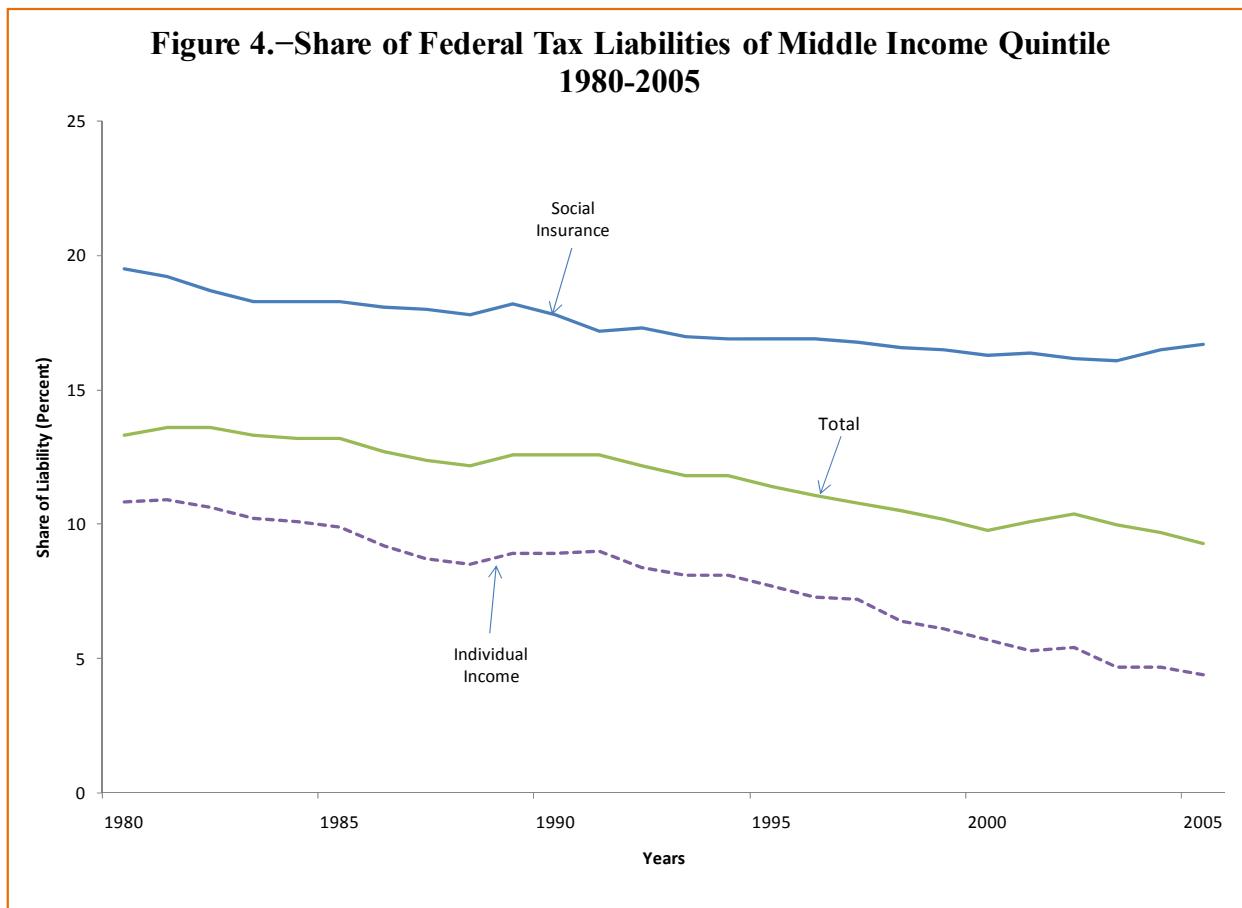
**Table 3.—Shares of Federal Tax Liabilities for All Households,  
by Comprehensive Household Income Quintile, 1980-2005**

<b>Share of Total Federal Tax Liabilities (Percent)</b>					
<b>Year</b>	<b>Lowest Quintile</b>	<b>Second Quintile</b>	<b>Middle Quintile</b>	<b>Fourth Quintile</b>	<b>Highest Quintile</b>
1980	2.0	7.0	13.3	21.3	56.3
1985	2.3	7.2	13.2	21.3	55.8
1990	1.9	6.8	12.6	20.7	57.9
1995	1.3	5.8	11.4	19.3	61.9
2000	1.1	4.8	9.8	17.5	66.6
2005	0.8	4.1	9.3	16.9	68.7
<b>Share of Individual Income Tax Liabilities (Percent)</b>					
1980	0.1	4.2	10.8	20.2	64.8
1985	0.2	4.0	9.9	19.0	66.9
1990	-0.4	3.3	8.9	17.8	70.4
1995	-2.0	1.9	7.7	16.2	76.1
2000	-1.6	1.1	5.7	13.5	81.2
2005	-2.9	-0.9	4.4	13.1	86.3
<b>Share of Social Insurance Tax Liabilities (Percent)</b>					
1980	4.4	12.1	19.5	27.2	36.8
1985	4.0	11.2	18.3	26.4	39.9
1990	4.0	11.1	17.8	26.5	40.5
1995	4.1	10.4	16.9	25.9	42.6
2000	4.2	10.2	16.3	25.8	43.3
2005	4.3	10.1	16.7	25.1	43.6

Source: Congressional Budget Office, *Historical Effective Federal Tax Rates: 1979 to 2005*, December 2007.

Note: See Table 2 for table footnotes. Negative shares indicate that on average the taxpayer is getting a refundable income tax credit.

Figure 4 shows the share of total Federal tax liabilities, individual income tax liabilities, and social insurance liabilities, attributable to the middle income quintile from 1980 to 2005.



Source: Congressional Budget Office, *Historical Effective Federal Tax Rates: 1979 to 2005*, December 2007.

Table 4 shows the average total Federal tax rates by income quintile, as well as the average rates for the individual income tax and social insurance taxes. All income quintiles experienced a decline in the average total Federal tax rate, with the smallest decline occurring in the highest quintile. The decline in the average total tax rate was largely an effect of the decline in the average individual income tax rate. The average individual income tax rates declined over all income quintiles, falling by greater amounts the lower the income quintile. Average social insurance tax rates grew for all income quintiles from 1980 to 2005, with the sharpest growth occurring in the lowest income quintile.

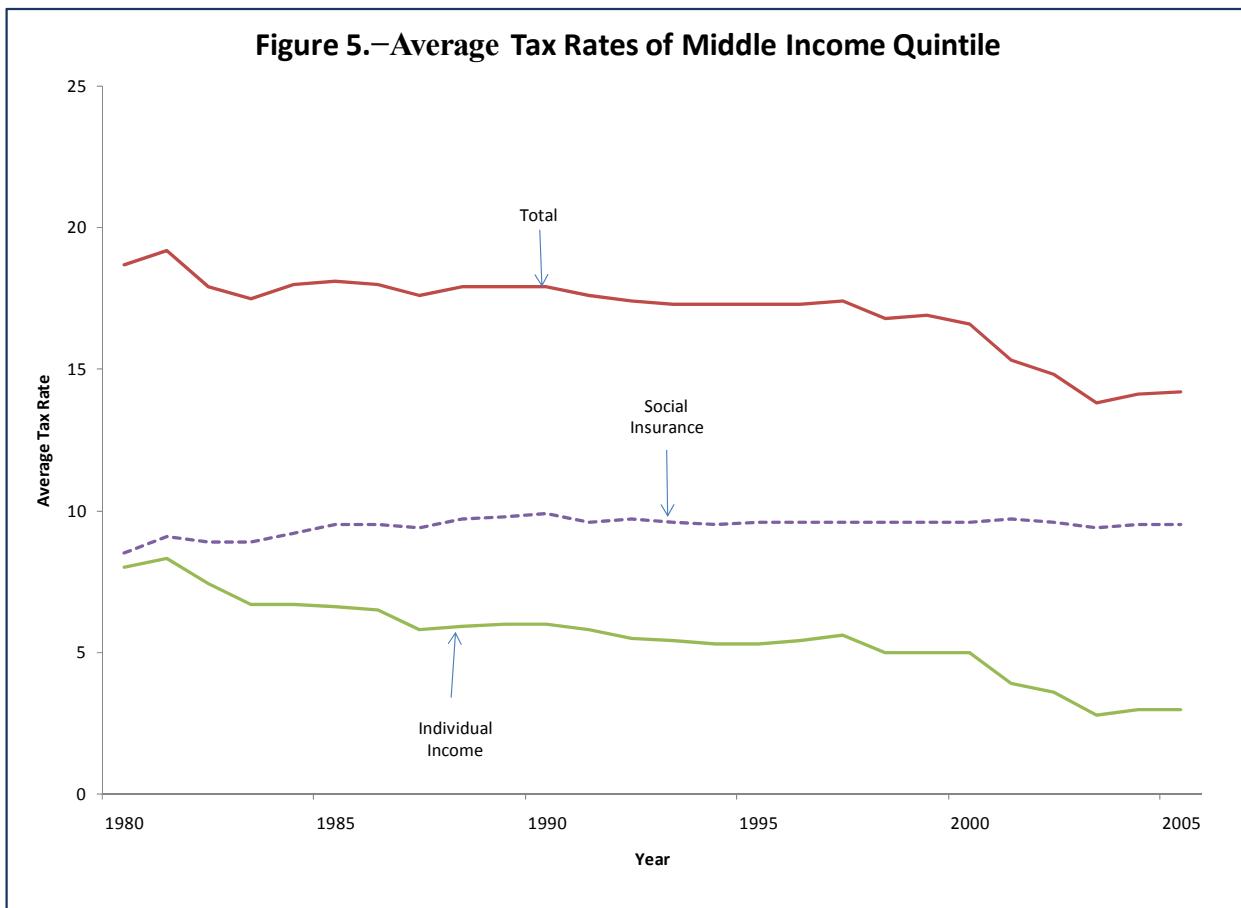
**Table 4.—Federal Tax Rates for All Households, by Comprehensive Household Income Quintile, 1980-2005**

<b>Average Total Federal Tax Rate</b>					
<b>Year</b>	<b>Lowest Quintile</b>	<b>Second Quintile</b>	<b>Middle Quintile</b>	<b>Fourth Quintile</b>	<b>Highest Quintile</b>
1980	7.7	14.1	18.7	21.5	27.3
1985	9.8	14.8	18.1	20.4	24.0
1990	8.9	14.6	17.9	20.6	25.1
1995	6.3	13.4	17.3	20.5	27.8
2000	6.4	13.0	16.6	20.5	28.0
2005	4.3	9.9	14.2	17.4	25.5
<b>Average Individual Income Tax Rate</b>					
1980	0.2	4.5	8.0	10.7	16.5
1985	0.5	4.0	6.6	8.8	14.0
1990	-1.0	3.4	6.0	8.3	14.4
1995	-4.4	2.0	5.3	7.8	15.5
2000	-4.6	1.5	5.0	8.1	17.5
2005	-6.5	-1.0	3.0	6.0	14.1
<b>Average Social Insurance Tax Rate</b>					
1980	5.3	7.6	8.5	8.5	5.5
1985	6.6	8.8	9.5	9.6	6.5
1990	7.2	9.3	9.9	10.3	6.9
1995	7.6	9.1	9.6	10.3	7.2
2000	8.2	9.4	9.6	10.4	6.3
2005	8.3	9.2	9.5	9.7	6.0

Source: Congressional Budget Office, *Historical Effective Federal Tax Rates: 1979 to 2005*, December 2007.

Note: The average tax rate is the tax paid as a percentage of comprehensive household income. See notes to Table 2 for definition of comprehensive household income.

Figure 5 shows the average tax rates for total taxes, and separately for individual income taxes and social insurance taxes, for the middle income quintile.



Source: Congressional Budget Office, *Historical Effective Federal Tax Rates: 1979 to 2005*, December 2007.

Notes: The average tax rate is the tax paid as a percentage of comprehensive household income. See notes to Table 2 for definition of comprehensive household income.

### **2009 projections of the distribution of income and taxes**

In 2009, the mean income<sup>13</sup> of all tax returns (excluding dependent filers and those with negative income, and including nonfilers) is projected to be \$59,667. The mean taxable income of all returns is projected to be \$35,154. The median income of all tax returns is projected to be \$33,984; the median taxable income of all tax returns is projected to be \$11,026.

The mean income in 2009 of married taxpayers filing jointly with two dependents is projected to be \$115,396, with the median income being \$81,329. The mean taxable income for such taxpayers is \$71,434, with the median being \$41,198. For 2009, the top 10 percent (in

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<sup>13</sup> See notes to Table 5 for the definition of income used here.

terms of income) of all tax returns receive 44.5 percent of all income and pay 81.7 percent of all income taxes. The top five percent of all tax returns receive 33.0 percent of all income and pay 68.8 percent of all income taxes. The top one percent of all tax returns receive 18.2 percent of all income and pay 44.6 percent of all income taxes.

Table 5 shows the projected distribution of income and taxes by income category for 2009 tax returns.<sup>14</sup> For example, tax returns with \$30,000 to \$40,000 of income constitute 9.9 percent of all returns, 5.9 percent of all income, 3.8 percent of total taxes, 0.4 percent of individual income taxes, and 7.0 percent of social insurance taxes. Similarly, tax returns with \$100,000 to \$200,000 of income constitute 10.1 percent of all returns, 23.3 percent of all income, 27.4 percent of total taxes, 26.6 percent of individual income taxes, and 28.5 percent of social insurance taxes.

Table 5 also shows average tax rates by income category for the individual income tax, social insurance taxes, and for total taxes (including the individual income tax, social insurance taxes and excise taxes, but not the corporate income tax). Note that the average tax rate reported here is the tax collected by the relevant tax, divided by total income (not only income subject to the relevant tax). The average tax rate for social insurance taxes is similar across most tax returns, ranging between seven and 12 percent for tax returns with income below \$500,000, with substantially lower average rates for those with income above \$500,000. In contrast, the average tax rate under the income tax varies widely, from a negative 10.2 percent to 23.4 percent, reflecting the existence of refundable tax credits and progressive statutory rates of tax.

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<sup>14</sup> The income categories and measures of income used in the staff of the Joint Committee models are not directly comparable to the historical data presented earlier in this pamphlet. Additionally, the staff of the Joint Committee on Taxation does not estimate the distribution of the corporate income taxes on account of the uncertainty in the incidence of the corporate income tax. See footnotes to Table 5 for the definition of income used by the staff of the Joint Committee on Taxation.

**Table 5.—Distribution of Income and Taxes, and Average Tax Rates (2009)**

INCOME CATEGORY (1)	Number of Returns (2) (Thousands)	Share of Returns	Income (Millions of Dollars)	Share of Income	COMBINED INCOME, SOCIAL INSURANCE, AND EXCISE TAXES UNDER PRESENT LAW (3)			INDIVIDUAL INCOME TAXES			EMPLOYMENT TAXES		
					\$ Billions	Percent Share	Average Tax Rate	\$ Billions	Percent Share	Average Tax Rate	\$ Billions	Percent Share	Average Tax Rate
Less than \$10,000.....	30,309	19.3%	142,126	1.5%	4.9	0.3%	3.5%	-14.4	-1.6%	-10.2%	13.4	1.5%	9.5%
\$10,000 to \$20,000.....	24,568	15.6%	374,856	4.0%	3.8	0.2%	1.0%	-32.6	-3.7%	-8.7%	31.4	3.6%	8.4%
\$20,000 to \$30,000.....	18,764	11.9%	478,320	5.1%	36.1	2.0%	7.6%	-18.9	-2.2%	-4.0%	50.5	5.7%	10.5%
\$30,000 to \$40,000.....	15,535	9.9%	556,020	5.9%	70.1	3.8%	12.6%	3.3	0.4%	0.6%	61.9	7.0%	11.1%
\$40,000 to \$50,000.....	12,665	8.0%	583,809	6.2%	87.4	4.8%	15.0%	18.1	2.1%	3.1%	64.4	7.3%	11.0%
\$50,000 to \$75,000.....	21,695	13.8%	1,367,713	14.6%	238.7	13.1%	17.5%	74.4	8.5%	5.4%	153.6	17.5%	11.2%
\$75,000 to \$100,000.....	13,189	8.4%	1,171,035	12.5%	233.2	12.8%	19.9%	85.8	9.8%	7.3%	139.1	15.8%	11.9%
\$100,000 to \$200,000.....	15,942	10.1%	2,192,174	23.3%	499.7	27.4%	22.8%	233.6	26.6%	10.7%	250.1	28.5%	11.4%
\$200,000 to \$500,000.....	3,789	2.4%	1,095,203	11.7%	283.5	15.5%	25.9%	196.8	22.4%	18.0%	81.0	9.2%	7.4%
\$500,000 to \$1,000,000.....	606	0.4%	419,262	4.5%	112.4	6.2%	26.8%	95.1	10.8%	22.7%	16.2	1.8%	3.9%
\$1,000,000 and over.....	320	0.2%	1,010,564	10.8%	253.9	13.9%	25.1%	236.9	27.0%	23.4%	16.4	1.9%	1.6%
<b>Total, All Taxpayers.....</b>	<b>157,382</b>	<b>100.0%</b>	<b>9,391,082</b>	<b>100.0%</b>	<b>1,824.0</b>	<b>100.0%</b>	<b>19.4%</b>	<b>877.9</b>	<b>100.0%</b>	<b>9.3%</b>	<b>878.0</b>	<b>100.0%</b>	<b>9.3%</b>

(1) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest,

[2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation,

[5] nontaxable social security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and

[8] excluded income of U.S. citizens living abroad. Categories are measured at 2008 levels.

(2) Includes nonfilers, excludes dependent filers and returns with negative income.

(3) Federal taxes are equal to individual income tax (including the outlay portion of the EIC), employment tax (attributed to employees),

and excise taxes (attributed to consumers). Corporate income tax is not included due to uncertainty concerning the incidence of the tax.

Individuals who are dependents of other taxpayers and taxpayers with negative income are excluded from the analysis.

Does not include indirect effects.

(4) The average tax rate is equal to Federal taxes described in footnote (3) divided by income described in footnote (2).

Table 6 shows, by income class, the number of tax returns paying income or social insurance taxes for which the social insurance taxes are greater than income taxes. Because of the progressive income tax structure and the generally flat structure of social insurance taxes, the lower is one's income the greater is the likelihood social insurance taxes will exceed income taxes. Thus, for example, in the \$40,000 to \$50,000 income class 85.1 percent of tax returns have social insurance taxes greater than income taxes, while in the \$100,000 to \$200,000 group 63.0 percent of returns have social insurance taxes greater than income taxes.

**Table 6.—Tax Returns with Income or Social Insurance Taxes**

INCOME CATEGORY (1)	Millions of Returns	Individual	Employment	Returns with Employment Taxes <u>Greater</u> than Income Taxes	Returns with Employment Taxes <u>Less</u> than Income Taxes	Fraction of Returns with Employment Taxes Greater than Income Taxes
		Income Taxes	Taxes			
		\$ Billions	\$ Billions	Millions of Returns	Millions of Returns	
Less than \$10,000.....	18.1	-14.4	13.4	18.0	0.0	99.9%
\$10,000 to \$20,000.....	15.9	-32.6	31.4	15.4	0.5	97.0%
\$20,000 to \$30,000.....	15.9	-18.9	50.5	14.8	1.1	93.1%
\$30,000 to \$40,000.....	14.5	3.3	61.9	12.7	1.8	87.9%
\$40,000 to \$50,000.....	12.1	18.1	64.4	10.3	1.8	85.1%
\$50,000 to \$75,000.....	21.4	74.4	153.6	17.2	4.1	80.6%
\$75,000 to \$100,000.....	13.1	85.8	139.1	10.1	3.0	76.8%
\$100,000 to \$200,000.....	15.9	233.6	250.1	10.0	5.9	63.0%
\$200,000 to \$500,000.....	3.8	196.8	81.0	0.2	3.5	6.2%
\$500,000 to \$1,000,000.....	0.6	95.1	16.2	0.0	0.6	1.7%
\$1,000,000 and over.....	0.3	236.9	16.4	0.0	0.3	1.3%
<b>Total, All Taxpayers.....</b>	<b>131.5</b>	<b>877.9</b>	<b>878.0</b>	<b>108.9</b>	<b>22.7</b>	<b>82.8%</b>

(1) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable social security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2008 levels.

(2) Includes nonfilers, excludes dependent filers and returns with negative income.

(3) Less than 50,000.

Table 7 shows the average marginal tax rates for labor income and for long-term capital gain income by income category. A taxpayer's marginal tax rate is the rate of tax that is owed on the last dollar of income of the taxpayer. Table 7 reports the average of the marginal tax rates of each taxpayer in the income category.

The marginal tax rates on labor income reflect the effects of the individual income tax and the social insurance taxes. They generally rise with income, reflecting the progressive nature of the individual income tax. The social insurance tax is flat to regressive,<sup>15</sup> reflecting the fact

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<sup>15</sup> Note that this statement reflects only the tax side of social insurance, and not the linked benefits. Many analysts think it is important to consider the tax and benefits of social insurance together.

that the single rate of tax for the Old Age and Survivors Disability Insurance portion of social insurance taxes does not apply to earnings above an annual cap (\$106,800 in 2009).<sup>16</sup>

The marginal tax rates on long-term capital income are lower than those for labor income, reflecting both the lower statutory rates of tax applicable to long-term capital gains and the fact that social insurance taxes do not apply to capital gain income. Marginal tax rates on long-term capital gains still generally rise with the level of income, reflecting the statutory structure of the maximum rates of tax on long-term capital gain income, as well as the interaction of capital gain income with other provision of the income tax that phase out certain tax benefits as income increases.

**Table 7.—Marginal Tax Rates on Labor Income and Long Term Capital Gain, by Income Category (2009)**

	Labor Income			Long-Term Capital Gains Income Average Marginal Tax Rate
	Average Marginal Income Tax Rate (2)	Average Marginal Employment Tax Rate (2)	Average Combined Marginal Income and Employment Tax Rate	
Less than \$10,000.....	-10.8%	14.2%	3.4%	0.1%
\$10,000 to \$20,000.....	0.6%	14.2%	14.8%	0.1%
\$20,000 to \$30,000.....	13.4%	14.2%	27.6%	0.8%
\$30,000 to \$40,000.....	16.0%	14.2%	30.2%	3.2%
\$40,000 to \$50,000.....	16.0%	14.2%	30.2%	4.5%
\$50,000 to \$75,000.....	16.3%	14.2%	30.5%	6.2%
\$75,000 to \$100,000.....	16.7%	14.1%	30.8%	7.4%
\$100,000 to \$200,000.....	24.3%	11.9%	36.3%	14.8%
\$200,000 to \$500,000.....	31.0%	7.7%	38.7%	18.6%
\$500,000 to \$1,000,000.....	29.8%	6.4%	36.2%	15.2%
\$1,000,000 and over.....	32.1%	6.2%	38.3%	14.8%
<b>Total, All Taxpayers.....</b>	<b>13.2%</b>	<b>13.6%</b>	<b>26.8%</b>	<b>14.6%</b>

(1) The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: [1] tax-exempt interest, [2] employer contributions for health plans and life insurance, [3] employer share of FICA tax, [4] worker's compensation, [5] nontaxable social security benefits, [6] insurance value of Medicare benefits, [7] alternative minimum tax preference items, and [8] excluded income of U.S. citizens living abroad. Categories are measured at 2008 levels.

(2) For individual income and employment taxes, the average marginal tax rate is equal to the change in taxes from an additional \$100 of wages to each spouse with positive wages. For long-term capital gain, the average marginal tax rate equals the change in taxes from an additional 1% increase in long-term capital gains to each taxpayer with positive long-term capital gains.

<sup>16</sup> As table 7 shows, the marginal social insurance tax rate is 14.2 percent rather than the sum of the employer (7.65 percent) and employee share (7.65 percent), or 15.3 percent. The reason for this is that comprehensive income includes the employer share of social insurance tax liability. Hence the marginal social insurance rate is .153 divided by 1.0765, or 14.2 percent.