

**OVERVIEW OF THE FEDERAL TAX SYSTEM  
AS IN EFFECT FOR 2020**

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of the  
JOINT COMMITTEE ON TAXATION



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## INTRODUCTION

This document,<sup>1</sup> prepared by the staff of the Joint Committee on Taxation (“Joint Committee staff”), provides a summary of the present-law Federal tax system as in effect for 2020.

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, in the case of individuals, an alternative minimum tax);<sup>2</sup> (2) payroll taxes on wages (and corresponding taxes on self-employment income) to finance certain social insurance programs; (3) estate, gift, and generation-skipping transfer taxes; and (4) excise taxes on selected goods and services. This document provides a broad overview of each of these elements.

Several aspects of the Internal Revenue Code of 1986 (the “Code”), are subject to change over time. For example, some dollar amounts and income thresholds are indexed for inflation, including the standard deduction, tax rate brackets, and the annual gift tax exclusion. In general, the Internal Revenue Service (“IRS”) adjusts these numbers annually and publishes the inflation-adjusted amounts in effect for tax years beginning in a calendar year before the beginning of such calendar year. Where applicable, this document generally includes dollar amounts in effect for 2020<sup>3</sup> and notes whether dollar amounts are indexed for inflation.<sup>4</sup>

In addition, many provisions in the Federal tax laws are temporary or have parameters that change over time according to the statute. For simplicity, this document describes the Federal tax laws in effect for 2020<sup>5</sup>, as of date of publication, and generally does not include

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<sup>1</sup> This document may be cited as follows: Joint Committee on Taxation, *Overview of the Federal Tax System as in Effect for 2020* (JCX-14-20), May 1, 2020. This document can be found on the Joint Committee on Taxation website at [www.jct.gov](http://www.jct.gov).

<sup>2</sup> If certain requirements are met, certain entities or organizations are exempt from Federal income tax. A description of such entities and organizations is beyond the scope of this document. For a description, see Joint Committee on Taxation, *Report to the House Committee on Ways and Means on Present Law and Suggestions for Reform Submitted to the Tax Reform Working Groups* (JCS-3-13), May 6, 2013, pp. 19-58.

<sup>3</sup> For certain inflation-adjusted amounts in effect for 2020 see Rev. Proc. 2019-44, 2019-47 I.R.B. 1093, November 18, 2019.

<sup>4</sup> Parameters in the Code generally are indexed for inflation by applying the CPI-U up to 2017 values and the C-CPI-U for years thereafter.

<sup>5</sup> This description includes the Families First Coronavirus Response Act, Pub. L. No. 116-127 enacted March 18, 2020 and the Coronavirus Aid, Relief, and Economic Security Act, Pub. L. No. 116-136 enacted March 27, 2020. For more detailed descriptions of the tax provisions of these laws see Joint Committee on Taxation, *Technical Explanation Of Division G, “Tax Credits For Paid Sick And Paid Family And Medical Leave”* (JCX-10-20), March 17, 2020 and Joint Committee on Taxation, *Description Of The Tax Provisions Of Public Law 116-136, The Coronavirus Aid, Relief, And Economic Security (“CARES”) Act* (JCX-12R-20), April 23, 2020.

references to provisions as they may be in effect for future years or to termination dates for expiring provisions.<sup>6</sup>

This document does not contain certain tax-related projections for the current tax year,<sup>7</sup> as are customarily included, because at the time of publication the Joint Committee staff projections incorporating the effects of the coronavirus disease 2019 (“COVID-19”) are not available. An updated version of this document containing such projections may be released at a later date.

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<sup>6</sup> See Joint Committee on Taxation, *List of Expiring Federal Tax Provisions 2020-2029* (JCX-1-20), January 16, 2020.

<sup>7</sup> This includes the distribution of returns by income category and Federal receipts by source of tax.

## I. SUMMARY OF THE PRESENT-LAW FEDERAL TAX SYSTEM

### 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>8</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 using applicable tax credits.

#### Gross income

Under the Code, gross income means "income from whatever source derived" except for certain items specifically exempt or excluded by statute.<sup>9</sup> Sources of income include<sup>10</sup> compensation for services, interest, dividends, capital gains, rents, royalties, 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>11</sup> and estates or trusts.<sup>12</sup> Statutory exclusions from gross income include death benefits payable under a life insurance contract, interest on certain State and local bonds, the receipt of property by gift or inheritance, as well as employer-provided health

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<sup>8</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. A U.S. citizen or resident who satisfies certain requirements for presence in a foreign country also is allowed a limited exclusion (\$107,600 in 2020) for foreign earned income and a limited exclusion for employer-provided housing. Sec. 911.

<sup>9</sup> Sec. 61.

<sup>10</sup> Alimony and separate maintenance payments received generally are includable as income for divorce or separation instruments executed before January 1, 2019.

<sup>11</sup> In general, partnerships and S corporations (*i.e.*, corporations subject to the provisions of subchapter S of the Code) 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 at the owner level. A business entity organized as a limited liability company ("LLC") under applicable State law generally is treated as a partnership for Federal income tax purposes if it has two or more members; a single-member LLC generally is disregarded as an entity separate from its owner for Federal income tax purposes.

<sup>12</sup> In general, estates and most trusts pay tax on income at the entity level to the extent that the income is not 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 do not pay any Federal income tax at the entity level, for example trusts that distribute all income currently to beneficiaries. 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.

insurance and certain other benefits. Contributions to qualified retirement plans, along with any attributable earnings, generally are included in gross income when distributed.

### Adjusted gross income

An individual's adjusted gross income ("AGI") is determined by subtracting certain "above-the-line" deductions from gross income. These deductions<sup>13</sup> include trade or business expenses, losses from the sale or exchange of property, contributions to a qualified retirement plan by a self-employed individual, contributions to certain individual retirement accounts ("IRAs"), certain moving expenses for members of the Armed Forces, certain education-related expenses, and certain charitable contributions.<sup>14</sup>

### Taxable income

#### In general

To determine taxable income, an individual reduces AGI by (1) the applicable standard deduction or his or her itemized deductions<sup>15</sup> and (2) the deduction for qualified business income.<sup>16</sup>

The standard deduction is the sum of the basic standard deduction and the additional standard deduction. The amount of the basic standard deduction depends on a taxpayer's filing status. For 2020, the amount of the basic standard deduction is \$12,400 for a single individual and for a married individual filing separately, \$18,650 for a head of household, and \$24,800 for married individuals filing jointly and for a surviving spouse. The additional standard deduction is allowed with respect to any individual who is elderly (*i.e.*, above age 64) and/or blind.<sup>17</sup> The amounts of the basic standard deduction and the additional standard deductions are indexed annually for inflation.

In lieu of taking the applicable standard deductions, an individual may elect to itemize deductions. The deductions that may be itemized include certain State and local income, property, and sales taxes (up to \$10,000 annually (\$5,000 for married taxpayers filing

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<sup>13</sup> Sec. 62. Alimony and separate maintenance payments generally are deductible by the payor spouse for divorce and separation instruments executed before January 1, 2019.

<sup>14</sup> Sec. 62(f)(1). The \$300 limit applies to the tax-filing unit. Thus, for example, married taxpayers who file a joint return and do not elect to itemize deductions are allowed to deduct up to a total of \$300 in qualified charitable contributions on the joint return.

<sup>15</sup> Sec. 63.

<sup>16</sup> Sec. 199A.

<sup>17</sup> For 2020, the additional amount is \$1,300 for married taxpayers (for each spouse meeting the applicable criterion) and surviving spouses. The additional amount for single individuals and heads of households is \$1,650. If an individual is both elderly and blind, the individual is entitled to two additional standard deductions, for a total additional amount (for 2020) of \$2,600 or \$3,300, as applicable.

separately)), home mortgage interest (on mortgages up to certain specified dollar amounts), charitable contributions, certain investment interest, medical expenses (in excess of 7.5 percent of AGI), and casualty and theft losses attributable to Federally declared disasters (in excess of 10 percent of AGI and in excess of \$100 per loss).

### Deduction for qualified business income

In addition to standard or itemized deductions, an individual taxpayer generally may deduct 20 percent of qualified business income from a partnership, S corporation, or sole proprietorship, as well as 20 percent of aggregate qualified real estate investment trust (“REIT”) dividends and qualified publicly traded partnership income. A specified agricultural or horticulture cooperative generally may deduct nine percent of qualified production activities income.<sup>18</sup>

For taxpayers with taxable income<sup>19</sup> in excess of the threshold amount (for 2020, \$326,600 for married taxpayers filing jointly, \$163,300 for married taxpayers filing separately, and \$163,300 for all other taxpayers),<sup>20</sup> the deduction with respect to qualified business income is limited based on (1) the taxpayer’s allocable share of W-2 wages paid by the trade or business and the taxpayer’s allocable share of capital investment with respect to the trade or business<sup>21</sup> and (2) the type of trade or business in which the income is earned.<sup>22</sup> These limitations begin to phase in above the threshold amount of taxable income.<sup>23</sup> In addition, the deduction calculated

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<sup>18</sup> The deduction is limited by the cooperative’s taxable income for the year (computed without regard to the 199A deduction and reduced by certain payments or allocations to patrons). The deduction may instead be allocated to and deducted by the cooperative’s patrons, limited to each patron’s taxable income for the year (computed without regard to any section 199A deduction under the general rule and after taking into account the cooperative’s section 199A deduction).

<sup>19</sup> Taxable income is computed without regard to the deduction allowable under section 199A with respect to the threshold amount.

<sup>20</sup> These threshold amounts are indexed for inflation.

<sup>21</sup> The deduction is limited to the greater of (a) 50 percent of the W-2 wages paid with respect to the qualified trade or business, or (b) the sum of 25 percent of the W-2 wages with respect to the qualified trade or business plus 2.5 percent of the unadjusted basis, immediately after acquisition, of all qualified property. Sec. 199A(b)(2)(B).

<sup>22</sup> Qualified business income generally excludes income from a specified service trade or business when taxable income is in excess of the threshold amount and always excludes income from the trade or business of performing services as an employee. A specified service trade or business means any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees or owners, or which involves the performance of services that consist of investing and investment management, trading, or dealing in securities, partnership interests, or commodities. Sec. 199A(d).

<sup>23</sup> Taxable income is computed without regard to the deduction allowable under section 199A with respect to the threshold amount.

with respect to qualified business income, qualified REIT dividends, and qualified publicly traded partnership income may not exceed 20 percent of the taxpayer's taxable income for the tax year.<sup>24</sup>

## **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 gain and certain dividends; 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, with the marginal tax rate increasing as a taxpayer's income increases.<sup>25</sup> Separate rate schedules apply based on an individual's filing status. For 2020, the regular individual income tax rate schedules are as follows:

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<sup>24</sup> Taxable income is computed without regard to the deduction allowable under section 199A and is reduced by net capital gain with respect to this limitation.

<sup>25</sup> The term "marginal tax rate" generally refers to the additional, or incremental, increase in tax liability that a taxpayer incurs from a \$1.00 increase in his or her income. The marginal tax rates for individuals defined in section 1 of the Code and described in Table 1 are referred to as "statutory marginal tax rates."

**Table 1.—Federal Individual Income Tax Rates for 2020**

<b>If taxable income is:</b>	<b>Then income tax equals:</b>
<i>Single Individuals</i>	
Not over \$9,875	10% of the taxable income
Over \$9,875 but not over \$40,125	\$987.50 plus 12% of the excess over \$9,875
Over \$40,125 but not over \$85,525	\$4,617.50 plus 22% of the excess over \$40,125
Over \$85,525 but not over \$163,300	\$14,605.50 plus 24% of the excess over \$85,525
Over \$163,300 but not over \$207,350	\$33,271.50 plus 32% of the excess over \$163,300
Over \$207,350 but not over \$518,400	\$47,367.50 plus 35% of the excess over \$207,350
Over \$518,400	\$156,235 plus 37% of the excess over \$518,400
<i>Heads of Households</i>	
Not over \$14,100	10% of the taxable income
Over \$14,100 but not over \$53,700	\$1,410 plus 12% of the excess over \$14,100
Over \$53,700 but not over \$85,500	\$6,162 plus 22% of the excess over \$53,700
Over \$85,500 but not over \$163,300	\$13,158 plus 24% of the excess over \$85,500
Over \$163,300 but not over \$207,350	\$31,830 plus 32% of the excess over \$163,300
Over \$207,350 but not over \$518,400	\$45,926 plus 35% of the excess over \$207,350
Over \$518,400	\$154,793.50 plus 37% of the excess over \$518,400
<i>Married Individuals Filing Joint Returns and Surviving Spouses</i>	
Not over \$19,750	10% of the taxable income
Over \$19,750 but not over \$80,250	\$1,975 plus 12% of the excess over \$19,750
Over \$80,250 but not over \$171,050	\$9,235 plus 22% of the excess over \$80,250
Over \$171,050 but not over \$326,600	\$29,211 plus 24% of the excess over \$171,050
Over \$326,600 but not over \$414,700	\$66,543 plus 32% of the excess over \$326,600
Over \$414,700 but not over \$622,050	\$94,735 plus 35% of the excess over \$414,700
Over \$622,050	\$167,307.50 plus 37% of the excess over \$622,050

If taxable income is:	Then income tax equals:
<i>Married Individuals Filing Separate Returns</i>	
Not over \$9,875	10% of the taxable income
Over \$9,875 but not over \$40,125	\$987.50 plus 12% of the excess over \$9,875
Over \$40,125 but not over \$85,525	\$4,617.50 plus 22% of the excess over \$40,125
Over \$85,525 but not over \$163,300	\$14,605.50 plus 24% of the excess over \$85,525
Over \$163,300 but not over \$207,350	\$33,271.50 plus 32% of the excess over \$163,300
Over \$207,350 but not over \$311,025	\$47,367.50 plus 35% of the excess over \$207,350
Over \$311,025	\$83,653.75 plus 37% of the excess over \$311,025
<i>Estates and Trusts</i>	
Not over \$2,600	10% of the taxable income
Over \$2,600 but not over \$9,450	\$260 plus 24% of the excess over \$2,600
Over \$9,450 but not over \$12,950	\$1,904 plus 35% of the excess over \$9,450
Over \$12,950	\$3,129 plus 37% of the excess over \$12,950

An individual's effective marginal tax rate may be reduced by the allowance of the deduction for qualified business income.<sup>26</sup> Effective marginal tax rates may also be altered by the phase-in and phaseout of certain exemptions or credits.<sup>27</sup>

#### Preferential rates on capital gain and dividends

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

<sup>26</sup> Deductions of income amounts can be viewed as substitutes for exemptions or rate reductions for the affected income.

<sup>27</sup> The term "effective marginal tax rate" refers to the additional, or incremental increase in tax liability under the income tax from a \$1.00 increase in his or her income. For example, a credit that is phased out, or incrementally reduced, by \$.05 for every \$1.00 above a certain threshold would cause the effective marginal tax rate to be five percentage points higher than the statutory marginal tax rate in the phase out range. The Code contains many provisions that may cause effective marginal tax rates to differ from statutory marginal rates. For a discussion of such provisions that have an effect on effective marginal tax rates as applied to a prior version of the Code, see Joint Committee on Taxation, *Present Law and Analysis Relating to Individual Effective Marginal Tax Rates* (JCS-3-98), February 3, 1998.

or loss is treated as long-term if the asset is held for more than one year. Qualified dividend income generally is taxed at the same rate as net capital gain.<sup>28</sup>

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

The maximum rate of tax on the adjusted net capital gain of an individual depends on the individual's taxable income and filing status. These maximum rates apply for purposes of both the regular tax and the alternative minimum tax. For 2020, the adjusted net capital gain rate schedules are as follows:

**Table 2.—Adjusted Net Capital Gain Maximum Rates for 2020**

Rate	Filing Status and Rate Start Amount (Taxable Income)				
	Single Individuals	Heads of Households	Married Individuals Filing Joint Returns and Surviving Spouses	Married Individuals Filing Separate Returns	Estates and Trust
0%	\$0	\$0	\$0	\$0	\$0
15%	\$40,000	\$53,600	\$80,000	\$40,000	\$2,650
20%	\$441,450	\$469,050	\$496,600	\$248,300	\$13,150

Net investment income

An additional tax is imposed on net investment income in the case of an individual, estate, or trust.<sup>29</sup> In the case of an individual, the tax is 3.8 percent of the lesser of net investment income or the excess of modified adjusted gross income<sup>30</sup> over the threshold amount. The threshold amount is \$250,000 in the case of a joint return or surviving spouse, \$125,000 in the case of a married individual filing a separate return, and \$200,000 in any other case.<sup>31</sup> Thus, for taxpayers with modified adjusted gross income in excess of those thresholds, the rate on certain

<sup>28</sup> Sec. 1(h).

<sup>29</sup> Sec. 1411.

<sup>30</sup> Modified adjusted gross income is adjusted gross income increased by the amount excluded from income as foreign earned income under section 911(a)(1) (net of the deductions and exclusions disallowed with respect to the foreign earned income).

<sup>31</sup> These thresholds are not indexed for inflation.

capital gains and dividends is 23.8 percent while the maximum rate on other investment income, including interest, annuities, royalties, and rents, is 40.8 percent.

Net investment income is the excess of (1) the sum of (a) gross income from interest, dividends, annuities, royalties, and rents (with certain exclusions<sup>32</sup>), and (b) net gain (to the extent taken into account in computing taxable income) attributable to the disposition of property (with certain exclusions<sup>33</sup>), over (2) deductions properly allocable to such gross income or net gain.

### Credits against tax

An individual may reduce his or her tax income tax liability using available tax credits. For example, tax credits are allowed for certain business expenditures, certain foreign income taxes paid or accrued, certain energy conservation expenditures, certain education expenditures, certain child care expenditures, certain health care costs, and for certain elderly or disabled individuals.

In some instances, a credit is wholly or partially “refundable,” that is, if the amount of these credits exceeds tax liability (net of other nonrefundable credits), such credits create an overpayment, which may generate a refund. Three large refundable credits in terms of cost are the child tax credit, the earned income tax credit, and the recovery rebate credit.<sup>34</sup>

An individual may claim a tax credit for each qualifying child under age 17. The amount of the credit per child is \$2,000.<sup>35</sup> The aggregate amount of child credits that may be claimed is phased out for individuals with incomes over certain threshold amounts. Specifically, the otherwise allowable child tax credit is reduced by \$50 for each \$1,000, or fraction thereof, of modified AGI over \$400,000 for married individuals filing jointly and \$200,000 for all other individuals. To the extent the child tax credit exceeds the taxpayer’s tax liability, the taxpayer is eligible for a refundable credit (the additional child tax credit) equal to 15 percent of earned income in excess of \$2,500,<sup>36</sup> not to exceed \$1,400 per child in 2020. The maximum amount of the refundable portion of the credit is indexed for inflation.

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<sup>32</sup> This does not include income which is derived in the ordinary course of a trade or business that is not a passive activity with respect to the taxpayer or a trade or business of trading in financial instruments or commodities.

<sup>33</sup> Net gain for this purpose does not include net gain from property held in the active conduct of a trade or business that is not in the trade or business of trading in financial instruments or commodities.

<sup>34</sup> Other refundable credits include the American opportunity tax credit, the premium tax credit, and the health coverage tax credit.

<sup>35</sup> Sec. 24.

<sup>36</sup> Families with three or more children may determine the additional child tax credit by taking the greater of (1) the earned income formula, or (2) the alternative formula, *i.e.*, the amount by which the taxpayer’s social security taxes exceed the taxpayer’s earned income tax credit.

For taxpayers with dependents other than qualifying children, such as a 17-year-old child living at home, a full-time college student, or other adult member of the household for whom the taxpayer provides financial support, taxpayers are able to claim a \$500 nonrefundable credit.

A refundable earned income tax credit (“EITC”) is available to low-income workers who satisfy certain requirements.<sup>37</sup> The amount of the EITC varies depending on the taxpayer’s earned income and whether the taxpayer has more than two, two, one, or no qualifying children. For 2020, the maximum EITC for taxpayers is \$6,660 with more than two qualifying children, \$5,920 with two qualifying children, \$3,584 with one qualifying child, and \$538 with no qualifying children. The credit amount begins to phase out at an income level of \$25,220 for joint-filers with qualifying children, \$19,330 for other taxpayers with qualifying children, \$14,680 for joint-filers with no qualifying children, and \$8,790 for other taxpayers with no qualifying children. The phaseout percentages, or the rates at which the credit amount phases out, are 21.06 percent for taxpayers with two or more qualifying children, 15.98 percent for taxpayers with one qualifying child, and 7.65 percent for taxpayers with no qualifying children.

For 2020, a refundable and advanceable recovery rebate credit is available to taxpayers.<sup>38</sup> Taxpayers may claim a credit of \$1,200 (\$2,400 for married individuals filing jointly) plus \$500 for each qualifying child.<sup>39</sup> This aggregate amount is phased out for individuals with incomes over certain threshold amounts. Specifically, the otherwise allowable amount is reduced by five percent of the amount by which the taxpayer’s AGI exceeds \$150,000 for married individuals filing jointly, \$112,500 for heads of households, and \$75,000 for all other individuals. A taxpayer is generally eligible for an advance refund amount to be provided during the 2020 calendar year.<sup>40</sup> The amount of the advance refund is computed in the same manner as the credit except using information reported on the tax return filed for 2019<sup>41</sup> (or if the taxpayer’s 2019 return is not yet filed, 2018 tax return information or other 2019 information may be used).<sup>42</sup> On a 2020 tax return (filed in 2021), a taxpayer may receive as a refundable credit the amount by which a 2020 recovery rebate amount (based on 2020 information) exceeds any advance refund amount paid in 2020 (based on 2019 or 2018 information).<sup>43</sup> In the case where any advance

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<sup>37</sup> Sec. 32.

<sup>38</sup> Sec. 6428.

<sup>39</sup> The definition of “qualifying child” for the recovery rebate credit has the same meaning as for the child tax credit. Sec. 24(c).

<sup>40</sup> Sec. 6428(f).

<sup>41</sup> For example, a single filer with no qualifying children and AGI of \$60,000 in 2019 and \$99,000 in 2020 would receive an advance refund amount of \$1,200. If this taxpayer did not receive the advance refund amount, this taxpayer’s recovery rebate amount based on 2020 tax return information would be \$0 (\$1,200 reduced by five percent of \$24,000 (\$99,000 - \$75,000)).

<sup>42</sup> Sec. 6428(f)(5).

<sup>43</sup> For example, a single taxpayer with no qualifying children and AGI of \$60,000 in 2019 but one qualifying child and AGI of \$60,000 in 2020 would receive an advance refund amount of \$1,200. This taxpayer’s

refund amount paid in 2020 (based on 2019 or 2018 information) exceeds the 2020 recovery rebate amount, the 2020 recovery rebate amount is zero and the taxpayer has no additional tax liability.

### Alternative minimum tax liability

The personal credits allowed against the regular tax are generally allowed against the alternative minimum tax (“AMT”). An AMT 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.<sup>44</sup> For 2020, the tentative minimum tax is the sum of (1) 26 percent of so much of the taxable excess as does not exceed \$197,900 (\$98,950 in the case of married filing separately)<sup>45</sup> and (2) 28 percent of the remaining taxable excess.<sup>46</sup> The taxable excess is so much of the alternative minimum taxable income (“AMTI”) as exceeds the exemption amount. AMTI is the taxpayer’s taxable income increased by the taxpayer’s tax preferences and adjusted by determining the tax treatment of certain items in a manner that negates the deferral of income resulting from the regular tax treatment of those items.

For taxable years beginning in 2020, the exemption amount is \$113,400 for married individuals filing jointly and surviving spouses, \$72,900 for other unmarried individuals, \$56,700 for married individuals filing separately, and \$25,400 for estates or trusts. The exemption amount is phased out by an amount equal to 25 percent of the amount by which the individual’s AMTI exceeds \$1,036,800 for married individuals filing jointly and surviving spouses, \$518,400 for other individuals, and \$84,800 for estates or trusts. These amounts are indexed annually for inflation.

Among the tax preferences and adjustments included in AMTI 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, certain expenses and allowances related to mining exploration and development, certain tax-exempt interest income, and a portion of the gain excluded with respect to the sale or disposition of certain small business stock. The standard deduction, and certain itemized deductions, such as the deduction for State and local taxes, are not allowed to reduce AMTI.

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2020 recovery rebate amount would be \$500 (\$1,200 for self plus \$500 for one qualifying child minus the \$1,200 advance refund amount already received).

<sup>44</sup> Sec. 55.

<sup>45</sup> The breakpoint between the 26-percent and 28-percent brackets is indexed for inflation.

<sup>46</sup> The maximum tax rates on net capital gain and dividends used in computing the regular tax are used in computing the tentative minimum tax.

## B. Corporate Income Tax

### Taxable income

#### In general

Corporations organized under the laws of any of the 50 States or the District of Columbia generally are subject to the U.S. corporate income tax on their U.S.-source and certain foreign-source income.<sup>47</sup> Foreign corporations generally are subject to the U.S. corporate income tax only on income that is effectively connected with a U.S. trade or business.

The taxable income of a corporation generally is its gross income less allowable deductions, computed based on the corporation's methods of accounting. Gross income generally is income derived from any source, including gross profit from the sale of goods and services to customers, rents, royalties, interest (other than interest from certain indebtedness issued by State and local governments), dividends, gains from the sale of business and investment assets, and other income. Large C corporations (*i.e.*, those with average annual gross receipts for the three-taxable-year period ending with the prior taxable year that exceed \$26 million (for 2020<sup>48</sup>)) generally are required to use an accrual method of accounting.<sup>49</sup> Under the accrual method of accounting, items of income generally accrue when all the events have occurred that fix the right to receive the income and the amount of the income can be determined with reasonable accuracy, but no later than the taxable year in which such income is included as revenue for book purposes.<sup>50</sup> Items of expense generally may not be deducted prior to when all the events have occurred that fix the obligation to pay the liability, the amount of the liability can be determined with reasonable accuracy, and economic performance has occurred.<sup>51</sup>

Allowable deductions include ordinary and necessary business expenditures, such as salaries, wages, contributions to qualified retirement plans and certain other employee benefit programs, repairs, write offs for bad debts, taxes (other than Federal income taxes), contributions to charitable organizations (subject to an income limitation), advertising, interest expense (subject to limitation),<sup>52</sup> certain losses, selling expenses, and other expenses. In the event these

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<sup>47</sup> Under subchapter S of the Code, a small business corporation may elect not to be subject to the corporate income tax (*i.e.*, may make an "S corporation election"). If an S corporation election is made, the income of the corporation flows through to the shareholders and is taxable directly to them.

<sup>48</sup> Rev. Proc. 2019-44, 2019-47 I.R.B. 1093.

<sup>49</sup> Sec. 448. Special methods of accounting that provide an exception to the all events test may apply (*e.g.*, special methods for long term contracts subject to section 460). Unless otherwise stated, all section references are to the Code.

<sup>50</sup> Sec. 451.

<sup>51</sup> Sec. 461.

<sup>52</sup> The deduction for business interest expense for taxable years beginning in 2019 or 2020 is generally limited to the sum of (1) business interest income, (2) 50 percent of the adjusted taxable income (not less than zero), and (3) the floor plan financing interest of the taxpayer for the taxable year. The amount of any business interest

deductions exceed gross income, a net operating loss (“NOL”) deduction may be allowed in other years.<sup>53</sup> Deductions are also allowed for certain amounts despite the lack of a direct expenditure by the taxpayer. For example, a deduction is allowed for the amount of certain dividends received by a corporation from another corporation (provided certain ownership requirements are satisfied).

Expenditures that produce benefits in future taxable years for a taxpayer’s business or income-producing activities (such as the purchase of plant and equipment) generally are capitalized and recovered over time through depreciation, amortization, or depletion allowances. In some instances, taxpayers can recover their costs more quickly than under the general rules. An additional first-year depreciation deduction is allowed equal to up to 100 percent of the adjusted basis of qualified property.<sup>54</sup> Also, a taxpayer may elect to deduct (or “expense”) up to \$1,040,000 of the cost of section 179 property placed in service during the 2020 taxable year.<sup>55</sup>

Certain expenditures may not be deducted, such as dividends paid to shareholders, expenses associated with earning tax-exempt income,<sup>56</sup> certain meal and entertainment

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expense not allowed as a deduction for any taxable year may be carried forward indefinitely. Taxpayers generally may elect to substitute the adjusted taxable income for its last taxable year beginning in 2019 for its adjusted taxable income for any taxable year beginning in 2020. In the case of certain taxpayers (*e.g.*, partnerships and S corporations), these rules are modified. The section 163(j) limitation does not apply to taxpayers, other than taxpayers who are classified as tax shelters under section 448(a)(3), who meet the gross receipts test of section 448(c) (involving a \$26 million threshold for 2020). Interest expense from certain trades or businesses (*e.g.*, any electing real property trade or business, any electing farming business and certain regulated utility trades or businesses) is not subject to the section 163(j) limitation. Sec. 163(j). See also Prop. Treas. Reg. sec. 1.163(j)-4 and 1.163(j)-6.

<sup>53</sup> The net operating loss deduction is limited to taxable income and excess losses may be carried forward. Losses arising in a taxable year beginning in 2018, 2019, or 2020 may be carried back for five taxable years preceding the taxable year of the loss. Sec. 172.

<sup>54</sup> The portion of basis allowable as additional first-year depreciation depends on both the date the qualified property is acquired and the year the qualified property is placed in service. Used property acquired in arms-length transactions may qualify for the additional first-year depreciation deduction. Generally, property used by businesses not subject to the limitation on interest expense (*e.g.*, regulated public utilities and electric cooperatives and taxpayers in a trade or business that has had floor plan financing indebtedness) is excluded from the definition of qualified property. Sec. 168(k)(9).

<sup>55</sup> This amount is reduced (but not below zero) by the amount by which the cost of qualifying property exceeds \$2,590,000. These limits are indexed for inflation. Sec. 179 and Rev. Proc. 2019-44, 2019-47 I.R.B. 1093.

<sup>56</sup> For example, the carrying costs of tax-exempt State and local obligations and the premiums on certain life insurance policies are not deductible.

expenses,<sup>57</sup> certain qualified transportation fringe and commuter benefits,<sup>58</sup> certain executive compensation in excess of \$1 million per year, a portion of the interest on certain high-yield debt obligations that resemble equity, as well as fines, penalties, bribes, kickbacks, illegal payments, and settlements subject to nondisclosure agreements paid in connection with sexual harassment or abuse.

### Foreign activities of U.S. persons

In general, income earned directly by a U.S. person from the conduct of a foreign business is taxed currently, while income earned indirectly through certain related foreign legal entities is taxed either in the year earned or not at all. In particular, the indirect earnings from certain related foreign legal entities (*i.e.*, controlled foreign corporations (“CFCs”)) may constitute income to U.S. shareholders under the rules of either subpart F or section 951A of the Code.<sup>59</sup> Subpart F income generally includes certain passive income and certain other related-party income that is readily movable from one jurisdiction to another. Under section 951A, U.S. shareholders of a CFC also may be subject to tax on their pro rata shares of certain other income of the CFC (referred to as global intangible low-taxed income (“GILTI”)).<sup>60</sup> Subpart F income is taxed at full rates, while GILTI is taxed at preferential rates. Both subpart F income and GILTI are taxed without regard to whether the income is distributed to the U.S. shareholders. The preferential rate on GILTI is achieved by allowing corporations a 50-percent deduction (a “section 250 deduction”) on their GILTI (and the amount of the corresponding section 78 gross

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<sup>57</sup> Generally, deductions are prohibited for entertainment expenses, activities that constitute entertainment, and facilities used in connection with entertainment activities. A 50 percent deduction disallowance applies to expenses associated with providing meals and facilities that qualify as *de minimis* under section 132(e), including meals for the convenience of the employer under section 119. Sec. 274.

<sup>58</sup> Employers are disallowed deductions for expenses associated with providing qualified transportation fringe benefits unless amounts are reported and properly included in employee compensation and are disallowed deductions for other commuter benefits generally. Sec. 274.

<sup>59</sup> Secs. 951-964. A CFC generally is defined as any foreign corporation in which U.S. persons own (directly, indirectly, or constructively) more than 50 percent of the corporation’s stock (measured by vote or value), taking into account only “U.S. shareholders,” that is, U.S. persons that own at least 10 percent of the stock (measured by vote or value). Secs. 951(b), 957, and 958.

<sup>60</sup> Secs. 951-964. GILTI, with respect to any U.S. shareholder, is the excess of its pro rata share of certain CFC income over a 10-percent return (reduced by certain interest expense incurred by CFCs) on its pro rata share of the aggregate of the average quarterly adjusted bases in certain depreciable tangible property of each CFC with respect to which it is a U.S. shareholder.

up).<sup>61</sup> A foreign tax credit generally is available to offset, in whole or in part, the U.S. Federal income tax owed on foreign-source income.<sup>62</sup>

To ensure that income of CFCs is taxed either in the year earned or not at all, dividends received by corporate U.S. shareholders from their CFCs generally are eligible for a 100-percent dividends-received deduction.<sup>63</sup> In addition, certain U.S. corporations (both U.S. and foreign owned) with foreign affiliates are subject to a base erosion and anti-abuse tax (the “BEAT”) that is in the nature of a minimum tax and payable in addition to all other tax liabilities.<sup>64</sup>

## **Tax liability**

### **In general**

Corporate income generally is taxed at 21 percent.<sup>55</sup> While no separate rate structure exists for corporate capital gains, a corporation may not deduct the amount of capital losses in excess of capital gains for any taxable year. Disallowed capital losses may be carried back three years or carried forward five years.

Corporations generally are taxed at lower rates on their foreign-derived intangible income (“FDII”).<sup>55</sup> The preferential rate is achieved by allowing corporations a 37.5-percent section 250 deduction on their FDII.

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<sup>61</sup> Sec. 250(a)(1)(B). The section 250 deduction for GILTI is available only for C corporations that are neither regulated investment companies (“RICs”) nor real estate investment trusts (“REITs”). The section 250 deduction also applies with respect to foreign-derived intangible income (“FDII”) of certain corporations, discussed in more detail below.

<sup>62</sup> Foreign tax credits not allowed in the current year generally may be carried back one year or forward 10 years. Sec. 904(c). In contrast with the general rules allowing carrybacks and carryovers of excess foreign tax credits, no carrybacks or carryovers of excess foreign tax credits are allowed in the GILTI foreign tax credit limitation category. In addition, a 20-percent foreign tax credit disallowance applies to foreign income taxes paid with respect to GILTI. Sec. 960(d). Foreign tax credits are not available for foreign taxes paid or accrued with respect to dividends qualifying for the 100-percent dividends-received deduction. Sec. 245A(d).

<sup>63</sup> Sec. 245A.

<sup>64</sup> Sec. 59A. The BEAT is discussed in more detail below.

<sup>55</sup> Before 2018, corporations were subject to an AMT that was payable (in addition to all other tax liabilities) to the extent that it exceeded the corporation’s regular income tax liability. If a corporation was subject to AMT in any taxable year, the amount of AMT was allowed as an AMT credit in any subsequent taxable year to the extent the corporation’s regular tax liability exceeded its tentative minimum tax in the subsequent year. See sec. 53. As part of the repeal of the corporate AMT, a corporation may offset its entire regular tax liability for a taxable year with any AMT credits carried forward from prior taxable years. The corporate AMT credit is allowable and refundable for taxable years beginning after 2017 and before 2020.

<sup>55</sup> A corporation’s FDII is its deemed intangible income multiplied by the percentage of its income (computed with certain exceptions) derived from serving foreign markets. A corporation’s deemed intangible income is the excess of its income (computed with certain exceptions) over a 10-percent return on the aggregate of

Like individuals, corporations may reduce their tax liability by any applicable tax credits.<sup>56</sup> The three largest dollar amount credits are the research credit, the low income housing tax credit, and the renewable electricity production credit, which target intangible investment, real property investment, and electricity production, respectively.<sup>57</sup>

The research credit is generally available with respect to incremental increases in qualified research.<sup>58</sup> A research tax credit is also available with respect to corporate cash expenses paid for basic research conducted by universities (and certain nonprofit scientific research organizations) above a certain floor.<sup>59</sup> Finally, a research credit is available for a taxpayer's expenditures on research undertaken by an energy research consortium.<sup>65</sup>

The low-income housing tax credit is provided to States annually and subsequently allocated to owners of certain qualified low-income residential rental property by State housing credit agencies.<sup>66</sup> Generally, the low-income housing tax credit may be claimed over a 10-year period after a low-income building is placed in service. The amount of the credit for any taxable year in the credit period is the applicable percentage<sup>67</sup> of the qualified basis of certain qualified low-income residential property.

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its average quarterly adjusted bases in certain depreciable tangible property. The deduction for FDII is not available for RICs or REITs. Sec. 250.

<sup>56</sup> Business credits also apply to the business income of individuals.

<sup>57</sup> See Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2019-2023* (JCX-55-19), December 18, 2019.

<sup>58</sup> For general research expenditures, a taxpayer may claim a research credit equal to 20 percent of the amount by which the taxpayer's qualified research expenses for a taxable year exceed its base amount for that year. Sec. 41(a)(1). An alternative simplified research credit (with a 14 percent rate and a different base amount) may be claimed in lieu of this credit. Sec. 41(c)(5).

<sup>59</sup> This 20-percent credit is available with respect to the excess of (1) corporate cash expenses (including grants or contributions) paid for basic research conducted by universities (and certain nonprofit scientific research organizations) over (2) the sum of (a) the greater of two minimum basic research floors plus (b) an amount reflecting any decrease in nonresearch giving to universities by the corporation as compared to such giving during a fixed-base period adjusted for inflation. Sec. 41(a)(2) and (e).

<sup>65</sup> This separate credit computation commonly is referred to as the energy research credit. Unlike the other research credits, the energy research credit applies to all qualified expenditures, not just those in excess of a base amount. Sec. 41(1)(3).

<sup>66</sup> Sec. 42.

<sup>67</sup> The applicable percentage for newly constructed or substantially rehabilitated housing that is not Federally subsidized is adjusted monthly by the IRS so that the ten annual installments have a present value of 70 percent of the building's qualified basis. The applicable percentage for newly constructed or substantially rehabilitated housing that is Federally subsidized and for existing housing that is substantially rehabilitated is calculated to have a present value of 30 percent of the building's qualified bases. See sec. 42(b).

An income tax credit may be claimed during a 10-year period beginning after a qualified facility is originally placed in service for the production of electricity from qualified energy resources at qualified facilities (the “renewable electricity production credit”). Qualified energy resources comprise wind, closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower production, and marine and hydrokinetic renewable energy. Qualified facilities are, generally, facilities that generate electricity using qualified energy resources. To be eligible for the credit, electricity produced from qualified energy resources at qualified facilities must be sold by the taxpayer to an unrelated person.<sup>68</sup>

In addition there are credits applicable to businesses including investment tax credits (applicable to investment in certain renewable energy property and the rehabilitation of certain real property), the work opportunity credit (applicable to wages paid to individuals from certain targeted groups), the employer-provided child care credit (applicable to certain expenditures to provide child care for employees), the employer credit for paid family and medical leave (applicable to wages paid to employees on family and medical leave), and the disabled access credit (applicable to expenditures by certain small businesses to make the businesses accessible to disabled individuals), among others.<sup>69</sup> Unused credits generally may be carried back one year and carried forward 20 years.

### The BEAT

The BEAT applies to a corporation (1) that is not a RIC or REIT, (2) that has average annual gross receipts of at least \$500 million over the prior three taxable years, and (3) whose base erosion tax benefits exceed three percent of certain outlays made by the corporation.<sup>70</sup>

A corporation’s BEAT liability generally is the excess, if any, of 10 percent of its modified taxable income<sup>71</sup> over an amount equal to its regular tax liability reduced (but not

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<sup>68</sup> Sec. 45. A phaseout of the credit applies for wind facilities the construction of which begins after December 31, 2016 and before January 1, 2021. Generally, no credit is allowed for facilities the construction of which begins after December 31, 2017.

<sup>69</sup> Certain of these credits are scheduled to expire in 2020 or later. For more information on expiring provisions of the Code, see Joint Committee on Taxation, *List of Expiring Federal Tax Provisions 2020-2029* (JCX-1-20), January 16, 2020.

<sup>70</sup> Sec. 59A(e).

<sup>71</sup> A corporation’s modified taxable income is its taxable income determined without regard to a certain portion of any NOL deduction allowed for the taxable year and without regard to any base erosion tax benefit with respect to certain items (*i.e.*, “base erosion payments”), including (1) certain deductible payments made to foreign related parties, (2) deductions allowed for depreciation (or amortization in lieu of depreciation) with respect to property acquired from foreign related parties, and (3) reinsurance premiums paid to foreign related parties. Sec. 59A(c).

below zero) by certain credits.<sup>72</sup> Special rules for computing the base erosion minimum tax apply to banks and securities dealers.

### **Affiliated group**

Domestic corporations that are affiliated through 80 percent or more corporate ownership may elect to file a consolidated return in lieu of filing separate returns. Corporations filing a consolidated return generally are treated as a single corporation; thus, the losses of one corporation may offset the income (and thus reduce the otherwise applicable tax) of other affiliated corporations.

### **Treatment of corporate distributions**

The taxation of a corporation generally is separate and distinct from the taxation of its shareholders. A distribution by a corporation to one of its shareholders generally is taxable as a dividend to the extent of the corporation's current or accumulated earnings and profits.<sup>73</sup> Thus, corporate income distributed as a dividend generally is taxed twice: once when the income is earned by the corporation and again when the dividend is distributed to the shareholder.<sup>74</sup> In contrast, some amounts paid as interest on corporate debt may be subject to only one level of tax (at the recipient level) since the corporation is allowed a deduction for part or all of the amount of interest expense paid or accrued.

Amounts received by a shareholder in complete liquidation of a corporation generally are treated as full payment in exchange for the shareholder's stock. A liquidating corporation recognizes gain or loss on the distributed property as if such property were sold to the shareholders for its fair market value. However, if a corporation liquidates a subsidiary corporation of which it has 80 percent or more control, no gain or loss generally is recognized by either the parent corporation or the subsidiary corporation.

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<sup>72</sup> Credits that reduce regular tax liability (*i.e.*, increase the base erosion minimum tax amount, if any) are all section 38 credits except for (1) the research credit and (2) applicable section 38 credits. Applicable section 38 credits are the low-income housing credit, the renewable electricity production credit, and the energy investment credit. The exception for applicable section 38 credits generally may not reduce the base erosion minimum tax amount by more than 80 percent (determined without regard to the exception for applicable section 38 credits). Sec. 59A(b).

<sup>73</sup> A distribution in excess of the earnings and profits of a corporation generally is a tax-free return of capital to the shareholder to the extent of the shareholder's adjusted basis (generally, cost) in the stock of the corporation; such distribution is a capital gain if in excess of basis. A distribution of property other than cash generally is treated as a taxable sale of such property by the corporation and is taken into account by the shareholder at the property's fair market value. A distribution of stock of the corporation generally is not a taxable event to either the corporation or the shareholder.

<sup>74</sup> This double taxation is mitigated by a reduced tax rate generally applicable to the qualified dividend income of individuals.

### **Accumulated earnings and personal holding company taxes**

The accumulated earnings or personal holding company income of a corporation may be taxed at the top rate generally applicable to qualified dividend income (*i.e.*, 20 percent). The accumulated earnings tax may be imposed if a corporation retains earnings in excess of reasonable business needs. The personal holding company tax may be imposed on the excessive passive income of a closely held corporation. The accumulated earnings tax and the personal holding company tax, when they apply, in effect impose the shareholder-level tax in addition to the corporate-level tax on accumulated earnings or undistributed personal holding company income.

### C. Estate, Gift, and Generation-Skipping Transfer Taxes

The United States generally imposes a gift tax on any transfer of property by gift made by a U.S. citizen or resident, whether made directly or indirectly and whether made in trust or otherwise. Nonresident aliens are subject to the gift tax with respect to transfers of tangible real or personal property where the property is located in the United States at the time of the gift. The gift tax is imposed on the donor and is based on the fair market value of the property transferred. Deductions are allowed for certain gifts to spouses and to charities. Annual gifts of \$15,000 (for 2020) or less made by the donor to any person generally are not subject to tax.<sup>75</sup>

An estate tax also is imposed on the taxable estate of any person who was a citizen or resident of the United States at the time of death and on certain property belonging to a nonresident of the United States that is located in the United States at the time of death. The estate tax is imposed on the estate of the decedent and generally is based on the fair market value of the property passing at death.<sup>76</sup> The taxable estate generally equals the worldwide gross estate less certain allowable deductions, including a marital deduction for certain bequests to the surviving spouse of the decedent and a deduction for certain bequests to charities.

The gift and estate taxes are unified such that a single graduated rate schedule and exemption apply to an individual's cumulative taxable gifts and bequests. The unified estate and gift tax rates begin at 18 percent on the first \$10,000 in cumulative taxable transfers and reach 40 percent on cumulative taxable transfers over \$1,000,000. A unified credit of \$4,577,800 (for 2020) is available with respect to taxable transfers by gift or at death. This credit effectively exempts a total of \$11.58 million (for 2020)<sup>77</sup> in cumulative taxable transfers from the gift tax or the estate tax. The unified credit thus generally also has the effect of rendering the marginal rates below 40 percent inapplicable. Unused exemption as of the death of a spouse generally is available for use by the surviving spouse; this feature of the law sometimes is referred to as exemption portability.

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<sup>75</sup> The gift tax annual exclusion is indexed for inflation.

<sup>76</sup> In addition to interests in property owned by the decedent at the time of death, the Federal estate tax also is imposed on: (1) life insurance that was either payable to the decedent's estate or in which the decedent had an incident of ownership at death; (2) property over which the decedent had a general power of appointment at death; (3) annuities purchased by the decedent or his employer that were payable to the decedent before death; (4) certain interests in jointly held property; (5) property transferred by the decedent before death in which the decedent retained a life estate or over which the decedent had the power to designate who will possess or enjoy the property; (6) property revocably transferred by the decedent before death; and (7) certain transfers taking effect at the death of the decedent.

<sup>77</sup> The basic exclusion amount is indexed for inflation. Sec. 2010(c)(3)(B).

A separate transfer tax is imposed on generation-skipping transfers in addition to any estate or gift tax that is imposed on such transfers. This tax generally is imposed on transfers, either directly or through a trust or similar arrangement, to a beneficiary in more than one generation below that of the transferor. For 2020, the generation-skipping transfer tax is determined using a 40-percent rate and an exemption of \$11.58 million.<sup>78</sup>

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<sup>78</sup> The exemption amount for the generation-skipping transfer tax is the same as the basic exclusion amount used to calculate the unified credit. Sec. 2631.

## D. Social Insurance Taxes

### In general

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 and employees 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 (\$137,700 in 2020); and (2) the Medicare hospital insurance (“HI”) tax amount equal to 1.45 percent of covered wages with no wage cap.<sup>79</sup> 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 FICA taxes generally must be withheld and, along with employer FICA taxes, remitted to the Federal government by the employer.<sup>80</sup>

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 tax rates and applies to self-employment income up to the FICA taxable wage base. Similarly, the rate of the HI portion is the sum of 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>81</sup>

In addition to FICA taxes, the Federal Unemployment Tax Act (“FUTA”) imposes tax on employers equal to six percent of the total wages of each employee (up to \$7,000) on covered employment. Generally, employers are eligible for a Federal credit equal to 5.4 percent for State unemployment taxes paid by the employer, yielding a 0.6 percent effective tax rate. FUTA taxes are used to fund programs maintained by the States for the benefit of unemployed workers.

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<sup>79</sup> FICA taxes also includes an additional hospital insurance tax. Sec. 3101(b)(2).

<sup>80</sup> Instead of FICA taxes, railroad employers and employees are subject, under the Railroad Retirement Tax Act (“RRTA”), to taxes equivalent to the OASDI and HI taxes under FICA. Under RRTA, employers and employees are also subject to an additional tax, referred to as the “tier 2” tax, on compensation up to a certain amount.

<sup>81</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.

### **Additional hospital insurance tax on certain high-income individuals**

The employee portion of the HI tax is increased by an additional tax of 0.9 percent on wages received in excess of a specific threshold amount.<sup>82</sup> Employers are required to withhold the additional 0.9 percent on wages of the employee in excess of \$200,000. However, unlike the general 1.45 percent HI tax on wages, this additional tax is on the combined wages of the employee and the employee's spouse, in the case of a joint return. The threshold amount is \$250,000 in the case of married filing jointly, \$125,000 in the case of married filing separately, and \$200,000 in any other case (unmarried individual, head of household or surviving spouse).<sup>83</sup> Any difference between the amount withheld on wages in excess of \$200,000 and the applicable tax based on the thresholds is reconciled on the individual's personal income tax return.

The same additional HI tax applies to the HI portion of SECA tax on self-employment income in excess of the threshold amount. Thus, an additional tax of 0.9 percent is imposed on every self-employed individual on self-employment income in excess of the applicable threshold amount.<sup>84</sup>

### **Refundable payroll tax credits**

For 2020, an employer is allowed a refundable credit against the OASDI tax<sup>85</sup> or RRTA tax imposed on the employer for each calendar quarter in an amount equal to 100 percent of the qualified sick leave wages and qualified family leave wages paid by the employer with respect to that calendar quarter,<sup>86</sup> subject to limitations.<sup>87</sup> Similarly, an eligible self-employed individual is

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<sup>82</sup> Sec. 3101(b), as amended by the Patient Protection and Affordable Care Act, Pub. L. No. 111-148.

<sup>83</sup> These threshold amounts are not indexed for inflation.

<sup>84</sup> Sec. 1402(b).

<sup>85</sup> Nonrefundable credits against payroll tax include the research credit in the case of qualified small businesses (secs. 41 and 3111(f)) and the work opportunity credit for qualified tax-exempt organizations that hire qualified veterans (secs. 51 and 3111(e)).

<sup>86</sup> Families First Coronavirus Response Act, Pub. L. No. 116-127, secs. 7001 and 7003. Pub. L. No. 116-127 secs. 5102 and 3102 require certain employers to provide employees with paid leave to the extent that the employee is unable to work or telework due to a need for leave related to COVID-19, subject to certain limitations.

<sup>87</sup> The amount of qualified sick leave wages taken into account for purposes of the credit may not exceed \$511 (\$200 in certain cases) for any day (or any portion thereof) for which each individual is paid such sick leave wages. Also, the aggregate number of days taken into account for the calendar quarter with respect to an individual under all cases may not exceed the excess (if any) of 10 over the aggregate number of days so taken into account for all preceding calendar quarters. For qualified family leave wages, the maximum amount eligible for the credit is \$200 for any day (or portion thereof) for which each employee is paid qualified family leave wages, and limited in the aggregate with respect to all calendar quarters to \$10,000 per employee.

allowed an income tax credit for any taxable year for qualified sick leave and qualified family leave equivalent amounts.<sup>88</sup>

Additionally for 2020, an eligible employer that is subject to closure due to COVID-19 is allowed a refundable credit against employment taxes<sup>89</sup> for each calendar quarter in an amount equal to 50 percent of each employee's qualified wages paid by the eligible employer with respect to that calendar quarter.<sup>90</sup> The maximum amount of each employee's qualified wages eligible for the credit in the aggregate with respect to all calendar quarters is \$10,000.

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<sup>88</sup> Pub. L. No. 116-127, secs. 7002 and 7004.

<sup>89</sup> Coronavirus Aid, Relief, and Economic Security Act, Pub. L. No. 116-136, sec. 2301.

<sup>90</sup> Eligible employers are employers required to fully or partially suspend operations due to orders from an appropriate governmental authority ("governmental order test"), or employers that experience a significant decline in gross receipts ("reduced gross receipts test"), with respect to a calendar quarter in 2020. Pub. L. No. 116-136, sec. 2301(c)(2).

Additionally, qualified wages depend on the average number of full-time and full-time-equivalent employees an eligible employer had during 2019. For an eligible employer with more than 100 such employees in 2019, qualified wages are wages paid with respect to which an employee is not providing services (due to circumstances that cause the eligible employer to meet either the governmental order test or the reduced gross receipts test). For an eligible employer with 100 or fewer such employees in 2019, qualified wages are wages paid (not to exceed wages paid for working an equivalent duration during the 30 days immediately preceding the period in which the employer met either the governmental order test or the reduced gross receipts test). Pub. L. No. 116-136, sec. 2301(c)(3).

## E. Major Excise Taxes

The Federal tax system imposes excise taxes on selected goods and services. Generally, excise taxes are taxes imposed on a per unit or *ad valorem* (i.e., percentage of price) basis on the production, importation, or sale of a specific good or service. Among the goods and services subject to U.S. excise taxes are motor fuels, alcoholic beverages, tobacco products, firearms, air and ship transportation,<sup>91</sup> certain environmentally hazardous products (e.g., ozone depleting chemicals, and crude oil and certain petroleum products to fund the Oil Spill Liability Trust Fund), coal, certain telephone communications (e.g., local service), certain wagers, indoor tanning services, and vehicles lacking in fuel efficiency.<sup>92</sup> Additionally, an annual fee is imposed on health insurers and on certain manufacturers and importers of branded prescription drugs.

Large excise taxes in terms of revenue, for fiscal year 2019, are those imposed on gasoline motor fuel (\$26.5 billion),<sup>93</sup> diesel motor fuel (\$11.2 billion),<sup>94</sup> domestic air tickets (\$10.4 billion),<sup>95</sup> domestic and imported tobacco products (\$12.4 billion),<sup>96</sup> and domestic and imported alcohol beverages (\$10.6 billion).<sup>97</sup> The annual fee on health insurers is \$15.5 billion for 2020.<sup>98</sup>

Revenues from certain Federal excise taxes are dedicated to trust funds (e.g., the Highway Trust Fund) for designated expenditure programs, and revenues from other excise taxes (e.g., alcoholic beverages) go to the General Fund for general purpose expenditures.

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<sup>91</sup> Certain taxes on transportation by air and on kerosene used in commercial aviation are suspended from March 28, 2020 through December 31, 2020. Coronavirus Aid, Relief, and Economic Security Act, Pub. L. No. 116-136, sec. 4007.

<sup>92</sup> For a historical description of the various Federal excise taxes, see Joint Committee on Taxation, *Present Law and Background Information on Federal Excise Taxes* (JCX-99-15), July 13, 2015.

<sup>93</sup> U.S. Department of Treasury, “FY 2019 Highway Consolidated Reports,” September 2019, pp. 12, available at <ftp://ftp.publicdebt.treas.gov/dfi/tfmb/dfihw0919.pdf>.

<sup>94</sup> *Ibid.*

<sup>95</sup> U.S. Department of Treasury, “FY 2019 Airport and Airways Reports,” September 2019, pp. 6, available at <ftp://ftp.publicdebt.treas.gov/dfi/tfmb/dfiaa0919.pdf>.

<sup>96</sup> U.S. Department of Treasury, Alcohol and Tobacco Tax and Trade Bureau, “Tax Collections, Cumulative Summary Fourth Quarter Fiscal Year 2019,” November 18, 2019, available at <https://www.ttb.gov/images/pdfs/statistics/4thqtr/4thqtr19.pdf>.

<sup>97</sup> *Ibid.*

<sup>98</sup> The annual fee on health insurers was suspended for 2019.

**Table 3.–2020 Federal Excise Tax Rates for Selected Products or Services**

Gasoline Motor Fuel	18.3 cents per gallon <sup>99</sup>
Diesel Motor Fuel	24.3 cents per gallon <sup>100</sup>
Domestic Air Tickets	7.5 percent of fare, plus \$4.30 (2020) per domestic flight segment generally.  Suspended from March 28, 2020 through December 31, 2020.
Cigarettes <sup>101</sup>	\$50.33 per thousand small cigarettes; <sup>102</sup> \$105.69 per thousand large cigarettes.
Alcoholic Beverages <sup>103</sup>	\$3.50 to \$18.00 per barrel of beer; <sup>104</sup> \$0.07 to \$3.15 per gallon of still wine; <sup>105</sup> \$2.70 to \$13.50 per proof gallon of distilled spirits <sup>106</sup>

<sup>99</sup> This rate does not include the additional 0.1 cent per gallon tax to fund the Leaking Underground Storage Tank Trust Fund.

<sup>100</sup> This rate does not include the additional 0.1 cent per gallon tax to fund the Leaking Underground Storage Tank Trust Fund.

<sup>101</sup> Cigars, pipe tobacco, chewing tobacco, snuff, roll-your-own tobacco, cigarette papers, and cigarette tubes are also subject to Federal excise tax. Sec. 5701. <https://www.ttb.gov/tax-audit/tax-and-fee-rates>.

<sup>102</sup> There is approximately \$1.01 in Federal excise tax imposed on a pack of cigarettes containing 20 cigarettes.

<sup>103</sup> The rate of excise tax on alcoholic beverages may depend on a number of factors, including volume produced or imported, location of production, and alcoholic content. Artificially carbonated wine, sparkling wine, and hard cider are also subject to excise tax at various rates. Secs. 5001, 5041, and 5051. <https://www.ttb.gov/tax-audit/tax-and-fee-rates>.

<sup>104</sup> There is approximately \$0.33 in Federal excise tax imposed on a six pack (72 oz) of beer, assuming an excise tax of \$18.00 per barrel.

<sup>105</sup> There is approximately \$0.21 in Federal excise tax imposed on a 750ml bottle of wine, assuming an excise tax of \$1.07 per gallon.

<sup>106</sup> There is approximately \$2.14 in Federal excise tax imposed on a 750ml bottle of 80-proof distilled spirits, assuming an excise tax of \$13.50 per proof gallon.

**APPENDIX: FIGURES AND TABLES**

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**Table A-1.--Federal Receipts by Source, 1970-2019**  
(millions of dollars)

<b>Fiscal Year</b>	<b>Individual Income Tax</b>	<b>Corporate Taxes</b>	<b>Social Insurance Taxes [1]</b>	<b>Excise Taxes</b>	<b>Estate and Gift Taxes</b>	<b>Other Receipts [2]</b>	<b>Total</b>
1970	90,412	32,829	44,362	15,705	3,644	5,855	192,807
1971	86,230	26,785	47,325	16,614	3,735	6,450	187,139
1972	94,737	32,166	52,574	15,477	5,436	6,919	207,309
1973	103,246	36,153	63,115	16,260	4,917	7,109	230,800
1974	118,952	38,620	75,071	16,844	5,035	8,702	263,224
1975	122,386	40,621	84,534	16,551	4,611	10,387	279,090
1976	131,603	41,409	90,769	16,963	5,216	12,101	298,061
1977	157,626	54,892	106,485	17,548	7,327	11,681	355,559
1978	180,988	59,952	120,967	18,376	5,285	13,993	399,561
1979	217,841	65,677	138,939	18,745	5,411	16,690	463,303
1980	244,069	64,600	157,803	24,329	6,389	19,922	517,112
1981	285,917	61,137	182,720	40,839	6,787	21,872	599,272
1982	297,744	49,207	201,498	36,311	7,991	25,015	617,766
1983	288,938	37,022	208,994	35,300	6,053	24,256	600,563
1984	298,415	56,893	239,376	37,361	6,010	28,382	666,437
1985	334,531	61,331	265,163	35,992	6,422	30,598	734,037
1986	348,959	63,143	283,901	32,919	6,958	33,275	769,155
1987	392,557	83,926	303,318	32,457	7,493	34,536	854,287
1988	401,181	94,508	334,335	35,227	7,594	36,393	909,238
1989	445,690	103,291	359,416	34,386	8,745	39,576	991,104
1990	466,884	93,507	380,047	35,345	11,500	44,674	1,031,957
1991	467,827	98,086	396,015	42,402	11,138	39,519	1,054,987
1992	475,964	100,270	413,688	45,569	11,143	44,574	1,091,208
1993	509,680	117,520	428,299	48,057	12,577	38,201	1,154,334
1994	543,055	140,385	461,475	55,225	15,225	43,202	1,258,567
1995	590,244	157,004	484,473	57,484	14,763	47,822	1,351,790
1996	656,417	171,824	509,414	54,014	17,189	44,195	1,453,053
1997	737,466	182,293	539,371	56,924	19,845	43,333	1,579,232
1998	828,586	188,677	571,831	57,673	24,076	50,885	1,721,728
1999	879,480	184,680	611,833	70,414	27,782	53,263	1,827,452
2000	1,004,462	207,289	652,852	68,865	29,010	62,713	2,025,191
2001	994,339	151,075	693,967	66,232	28,400	57,069	1,991,082
2002	858,345	148,044	700,760	66,989	26,507	52,491	1,853,136
2003	793,699	131,778	712,978	67,524	21,959	54,376	1,782,314
2004	808,959	189,371	733,407	69,855	24,831	53,691	1,880,114
2005	927,222	278,282	794,125	73,094	24,764	56,124	2,153,611
2006	1,043,908	353,915	837,821	73,961	27,877	69,387	2,406,869
2007	1,163,472	370,243	869,607	65,069	26,044	73,550	2,567,985
2008	1,145,747	304,346	900,155	67,334	28,844	77,565	2,523,991
2009	915,308	138,229	890,917	62,483	23,482	74,570	2,104,989
2010	898,549	191,437	864,814	66,909	18,885	122,112	2,162,706
2011	1,091,473	181,085	818,792	72,381	7,399	132,336	2,303,466
2012	1,132,206	242,289	845,314	79,061	13,973	137,145	2,449,988
2013	1,316,405	273,506	947,820	84,007	18,912	134,453	2,775,103
2014	1,394,568	320,731	1,023,458	93,368	19,300	170,062	3,021,487
2015	1,540,802	343,797	1,065,257	98,279	19,232	182,519	3,249,886
2016	1,546,075	299,571	1,115,065	95,026	21,354	190,870	3,267,961
2017	1,587,120	297,048	1,161,897	83,823	22,768	163,526	3,316,182
2018	1,683,538	204,733	1,170,701	94,986	22,983	152,963	3,329,904
2019 [3]	1,717,857	230,245	1,243,087	98,915	16,672	155,421	3,462,196

[1] Social insurance taxes comprise old-age and survivors insurance, disability insurance, hospital insurance, railroad retirement, railroad social security equivalent account, employment insurance, employee share of Federal employees retirement, and certain non-Federal employees retirement.

[2] Other receipts are primarily composed of (1) customs duties and fees, and (2) deposits of earnings by the Federal Reserve system

[3] Data for FY1970-2018 comes from OMB historical tables (not yet updated with data for FY2019); FY2019 data comes from Monthly Treasury Statement of Receipts and Outlays.

**Sources:** Office of Management and Budget, Historical Tables, Budget of the U.S. Government, Fiscal Year 2020; Department of the Treasury, Bureau of the Fiscal Service, Final Monthly Treasury Statement of Receipts and Outlays Fiscal Year 2019 through September 30, 2019; Joint Committee on Taxation staff calculations.

Table A-2.—Federal Receipts by Source, as a Percentage of GDP, 1970-2019

Fiscal Year	Individual Income Tax	Corporate Taxes	Social Insurance Taxes [1]	Excise Taxes	Estate and Gift Taxes	Other Receipts [2]	Total
1970	8.6	3.1	4.2	1.5	0.3	0.6	18.4
1971	7.7	2.4	4.2	1.5	0.3	0.6	16.7
1972	7.8	2.6	4.3	1.3	0.4	0.6	17.0
1973	7.6	2.7	4.7	1.2	0.4	0.5	17.0
1974	8.0	2.6	5.1	1.1	0.3	0.6	17.7
1975	7.6	2.5	5.2	1.0	0.3	0.6	17.3
1976	7.4	2.3	5.1	0.9	0.3	0.7	16.6
1977	7.8	2.7	5.2	0.9	0.4	0.6	17.5
1978	7.9	2.6	5.3	0.8	0.2	0.6	17.5
1979	8.5	2.6	5.4	0.7	0.2	0.6	18.0
1980	8.7	2.3	5.6	0.9	0.2	0.7	18.5
1981	9.1	1.9	5.8	1.3	0.2	0.7	19.1
1982	9.0	1.5	6.1	1.1	0.2	0.8	18.6
1983	8.2	1.0	5.9	1.0	0.2	0.7	17.0
1984	7.5	1.4	6.1	0.9	0.2	0.7	16.9
1985	7.8	1.4	6.2	0.8	0.2	0.7	17.2
1986	7.7	1.4	6.3	0.7	0.2	0.7	17.0
1987	8.2	1.8	6.3	0.7	0.2	0.7	17.9
1988	7.8	1.8	6.5	0.7	0.1	0.7	17.6
1989	8.0	1.9	6.5	0.6	0.2	0.7	17.8
1990	7.9	1.6	6.4	0.6	0.2	0.8	17.4
1991	7.7	1.6	6.5	0.7	0.2	0.6	17.3
1992	7.4	1.6	6.4	0.7	0.2	0.7	17.0
1993	7.5	1.7	6.3	0.7	0.2	0.6	17.0
1994	7.5	2.0	6.4	0.8	0.2	0.6	17.5
1995	7.8	2.1	6.4	0.8	0.2	0.6	17.8
1996	8.2	2.2	6.4	0.7	0.2	0.6	18.2
1997	8.7	2.1	6.4	0.7	0.2	0.5	18.6
1998	9.3	2.1	6.4	0.6	0.3	0.6	19.2
1999	9.2	1.9	6.4	0.7	0.3	0.6	19.2
2000	9.9	2.0	6.4	0.7	0.3	0.6	20.0
2001	9.4	1.4	6.6	0.6	0.3	0.5	18.8
2002	7.9	1.4	6.4	0.6	0.2	0.5	17.0
2003	7.0	1.2	6.3	0.6	0.2	0.5	15.7
2004	6.7	1.6	6.1	0.6	0.2	0.4	15.6
2005	7.2	2.2	6.2	0.6	0.2	0.4	16.7
2006	7.6	2.6	6.1	0.5	0.2	0.5	17.6
2007	8.1	2.6	6.1	0.5	0.2	0.5	17.9
2008	7.8	2.1	6.1	0.5	0.2	0.5	17.1
2009	6.3	1.0	6.2	0.4	0.2	0.5	14.6
2010	6.1	1.3	5.8	0.5	0.1	0.8	14.6
2011	7.1	1.2	5.3	0.5	0.0	0.9	15.0
2012	7.1	1.5	5.3	0.5	0.1	0.9	15.3
2013	8.0	1.7	5.7	0.5	0.1	0.8	16.8
2014	8.1	1.9	5.9	0.5	0.1	1.0	17.5
2015	8.6	1.9	5.9	0.5	0.1	1.0	18.1
2016	8.4	1.6	6.0	0.5	0.1	1.0	17.7
2017	8.3	1.5	6.1	0.4	0.1	0.9	17.3
2018	8.3	1.0	5.8	0.5	0.1	0.8	16.5
2019	8.1	1.1	5.9	0.5	0.1	0.7	16.3
1950-2019 Avg	7.8	2.5	5.0	1.1	0.2	0.6	17.2

[1] Social insurance taxes comprise old-age and survivors insurance, disability insurance, hospital insurance, railroad retirement, railroad social security equivalent account, employment insurance, employee share of Federal employees retirement, and certain non-Federal employees retirement.

[2] Other receipts are primarily composed of (1) customs duties and fees, and (2) deposits of earnings by the Federal Reserve system.

[3] Data for FY1970-2018 comes from OMB historical tables (not yet updated with data for FY2019); FY2019 data comes from Monthly Treasury Statement of Receipts and Outlays and BEA quarterly GDP releases.

Sources: Office of Management and Budget, Historical Tables, Budget of the U.S. Government, Fiscal Year 2020; Department of the Treasury, Bureau of the Fiscal Service, Final Monthly Treasury Statement of Receipts and Outlays, Fiscal Year 2019 through September 30, 2019; Bureau of Economic Analysis Gross Domestic Product, Seasonally adjusted at annual rates; Joint Committee on Taxation staff calculations.

Table A-3.—Federal Receipts by Source, as a Percentage of Total Revenues, 1969-2019

Fiscal Year	Individual Income Tax	Corporate Taxes	Social Insurance Taxes [1]	Excise Taxes	Estate and Gift Taxes	Other Receipts [2]
1970	46.9	17.0	23.0	8.1	1.9	3.0
1971	46.1	14.3	25.3	8.9	2.0	3.4
1972	45.7	15.5	25.4	7.5	2.6	3.3
1973	44.7	15.7	27.3	7.0	2.1	3.1
1974	45.2	14.7	28.5	6.4	1.9	3.3
1975	43.9	14.6	30.3	5.9	1.7	3.7
1976	44.2	13.9	30.5	5.7	1.7	4.1
1977	44.3	15.4	29.9	4.9	2.1	3.3
1978	45.3	15.0	30.3	4.6	1.3	3.5
1979	47.0	14.2	30.0	4.0	1.2	3.6
1980	47.2	12.5	30.5	4.7	1.2	3.9
1981	47.7	10.2	30.5	6.8	1.1	3.6
1982	48.2	8.0	32.6	5.9	1.3	4.0
1983	48.1	6.2	34.8	5.9	1.0	4.0
1984	44.8	8.5	35.9	5.6	0.9	4.3
1985	45.6	8.4	36.1	4.9	0.9	4.2
1986	45.4	8.2	36.9	4.3	0.9	4.3
1987	46.0	9.8	35.5	3.8	0.9	4.0
1988	44.1	10.4	36.8	3.9	0.8	4.0
1989	45.0	10.4	36.3	3.5	0.9	4.0
1990	45.2	9.1	36.8	3.4	1.1	4.3
1991	44.3	9.3	37.5	4.0	1.1	3.7
1992	43.6	9.2	37.9	4.2	1.0	4.1
1993	44.2	10.2	37.1	4.2	1.1	3.3
1994	43.1	11.2	36.7	4.4	1.2	3.4
1995	43.7	11.6	35.8	4.3	1.1	3.5
1996	45.2	11.8	35.1	3.7	1.2	3.0
1997	46.7	11.5	34.2	3.6	1.3	2.7
1998	48.1	11.0	33.2	3.3	1.4	3.0
1999	48.1	10.1	33.5	3.9	1.5	2.9
2000	49.6	10.2	32.2	3.4	1.4	3.1
2001	49.9	7.6	34.9	3.3	1.4	2.9
2002	46.3	8.0	37.8	3.6	1.4	2.8
2003	44.5	7.4	40.0	3.8	1.2	3.1
2004	43.0	10.1	39.0	3.7	1.3	2.9
2005	43.1	12.9	36.9	3.4	1.1	2.6
2006	43.4	14.7	34.8	3.1	1.2	2.9
2007	45.3	14.4	33.9	2.5	1.0	2.9
2008	45.4	12.1	35.7	2.7	1.1	3.1
2009	43.5	6.6	42.3	3.0	1.1	3.5
2010	41.5	8.9	40.0	3.1	0.9	5.6
2011	47.4	7.9	35.5	3.1	0.3	5.7
2012	46.2	9.9	34.5	3.2	0.6	5.6
2013	47.4	9.9	34.2	3.0	0.7	4.8
2014	46.2	10.6	33.9	3.1	0.6	5.6
2015	47.4	10.6	32.8	3.0	0.6	5.6
2016	47.3	9.2	34.1	2.9	0.7	5.8
2017	47.9	9.0	35.0	2.5	0.7	4.9
2018	50.6	6.1	35.2	2.9	0.7	4.6
2019	49.6	6.7	35.9	2.9	0.5	4.5
1950-2019 Avg	45.2	14.7	28.7	6.7	1.4	3.3

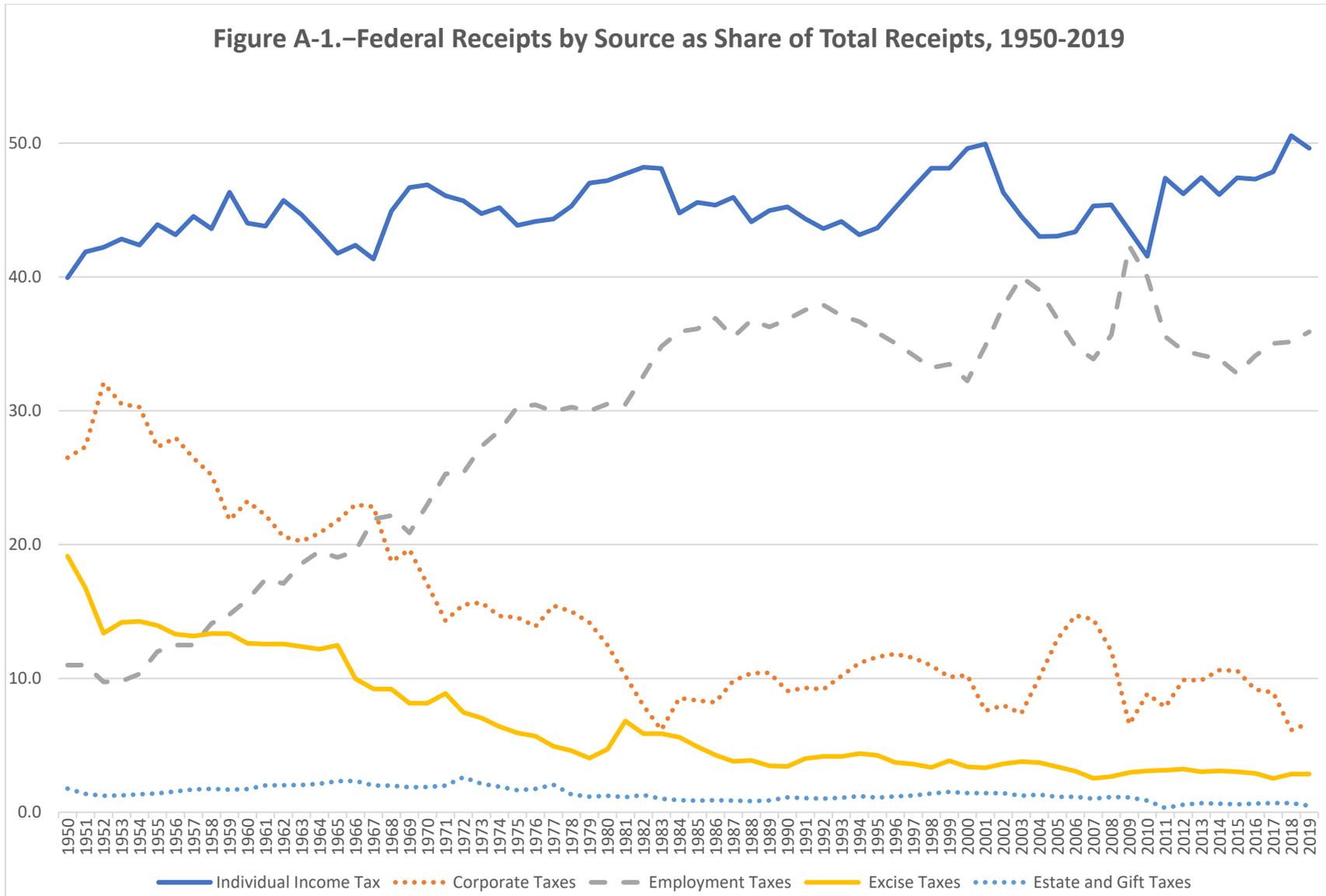
[1] Social insurance taxes comprise old-age and survivors insurance, disability insurance, hospital insurance, railroad retirement, railroad social security equivalent account, employment insurance, employee share of Federal employees retirement, and certain non-Federal employees retirement.

[2] Other receipts are primarily composed of (1) customs duties and fees, and (2) deposits of earnings by the Federal Reserve system.

[3] Data for FY1970-2018 comes from OMB historical tables (not yet updated with data for FY2019); FY2019 data comes from Monthly Treasury Statement of Receipts and Outlays

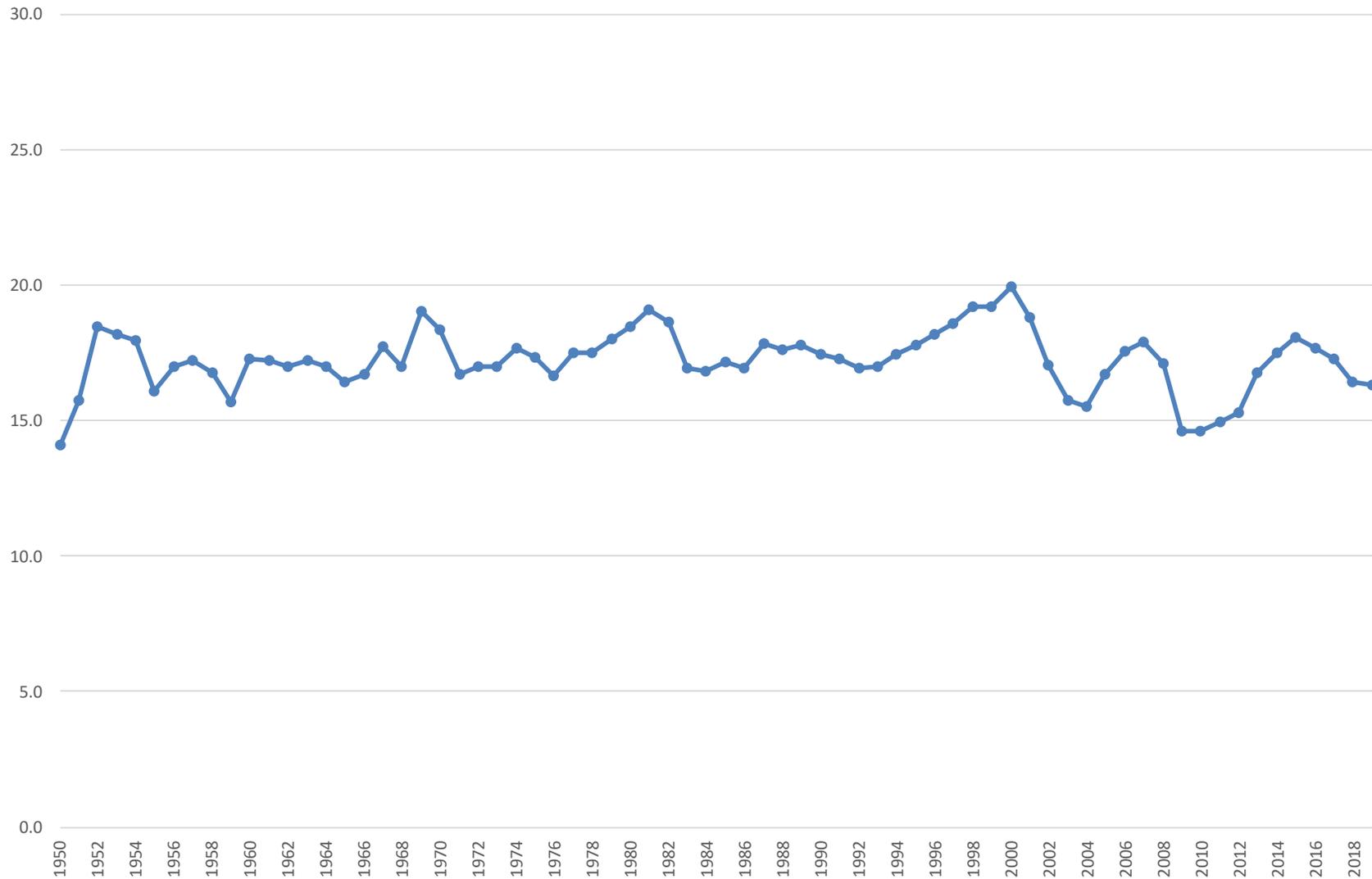
Sources: Office of Management and Budget, Historical Tables, Budget of the U.S. Government, Fiscal Year 2020; Department of the Treasury, Bureau of the Fiscal Service, Final Monthly Treasury Statement of Receipts and Outlays, Fiscal Year 2019 through September 30, 2019; Joint Committee on Taxation staff calculations.

Figure A-1.—Federal Receipts by Source as Share of Total Receipts, 1950-2019



Sources: Office of Management and Budget, Historical Tables, Fiscal Year 2020; Final Monthly Treasury Statement Fiscal Year 2019; Joint Committee on Taxation calculations.

Figure A-2.—Federal Receipts as a Percentage of GDP, 1950-2019



Sources: Office of Management and Budget, Historical Tables, Fiscal Year 2020; Final Monthly Treasury Statement Fiscal Year 2019; Bureau of Economic Analysis; Joint Committee on Taxation calculations.

**Table A-4.—Number of Business Returns by Type, 1978-2017**

Year	Non-Farm Sole Props	C Corporations	S Corporations	Partnerships	Farm Sole Props	Total
1978	8,908,289	1,898,100	478,679	1,234,157	2,704,794	15,224,019
1979	9,343,603	2,041,887	514,907	1,299,593	2,605,684	15,805,674
1980	9,730,019	2,165,149	545,389	1,379,654	2,608,430	16,428,641
1981	9,584,790	2,270,931	541,489	1,460,502	2,641,254	16,498,966
1982	10,105,515	2,361,714	564,219	1,514,212	2,689,237	17,234,897
1983	10,703,921	2,350,804	648,267	1,541,539	2,710,044	17,954,575
1984	11,262,390	2,469,404	701,339	1,643,581	2,694,420	18,771,134
1985	11,928,573	2,552,470	724,749	1,713,603	2,620,861	19,540,256
1986	12,393,700	2,602,301	826,214	1,702,952	2,524,331	20,049,498
1987	13,091,132	2,484,228	1,127,905	1,648,035	2,420,186	20,771,486
1988	13,679,302	2,305,598	1,257,191	1,654,245	2,367,527	21,263,863
1989	14,297,558	2,204,896	1,422,967	1,635,164	2,359,718	21,920,303
1990	14,782,738	2,141,558	1,575,092	1,553,529	2,321,153	22,374,070
1991	15,180,722	2,105,200	1,696,927	1,515,345	2,290,908	22,789,102
1992	15,495,419	2,083,652	1,785,371	1,484,752	2,288,218	23,137,412
1993	15,848,119	2,063,124	1,901,505	1,467,567	2,272,407	23,552,722
1994	16,153,871	2,318,614	2,023,754	1,493,963	2,242,324	24,232,526
1995	16,423,872	2,321,048	2,153,119	1,580,900	2,219,244	24,698,183
1996	16,955,023	2,326,954	2,304,416	1,654,256	2,188,025	25,428,674
1997	17,176,486	2,257,829	2,452,254	1,758,627	2,160,954	25,806,150
1998	17,398,440	2,260,757	2,588,081	1,855,348	2,091,845	26,194,471
1999	17,575,643	2,210,129	2,725,775	1,936,919	2,067,883	26,516,349
2000	17,902,791	2,184,795	2,860,478	2,057,500	2,083,217	27,088,781
2001	18,338,190	2,149,105	2,986,486	2,132,117	2,027,643	27,633,541
2002	18,925,517	2,112,230	3,154,377	2,242,169	2,019,647	28,453,940
2003	19,710,079	2,059,631	3,341,606	2,375,375	2,017,879	29,504,570
2004	20,590,691	2,039,631	3,518,334	2,546,877	2,022,298	30,717,831
2005	21,467,566	1,987,171	3,684,086	2,763,625	2,002,088	31,904,536
2006	22,074,953	1,968,032	3,872,766	2,947,116	1,980,032	32,842,899
2007	23,122,698	1,878,956	3,989,893	3,096,334	2,013,681	34,101,562
2008	22,614,483	1,797,278	4,049,943	3,146,006	1,966,656	33,574,366
2009	22,659,976	1,729,984	4,094,562	3,168,728	1,947,670	33,600,920
2010	23,003,656	1,686,171	4,127,554	3,248,481	1,934,731	34,000,593
2011	23,426,940	1,664,553	4,158,572	3,285,177	1,894,910	34,430,152
2012	23,553,850	1,635,369	4,205,452	3,388,561	1,862,280	34,645,512
2013	24,031,243	1,629,895	4,257,909	3,460,699	1,848,973	35,228,719
2014	24,631,831	1,621,366	4,380,125	3,611,255	1,823,136	36,067,713
2015	25,226,245	1,632,229	4,487,336	3,715,187	1,841,542	36,902,539
2016	25,525,915	1,596,634	4,592,042	3,763,117	1,783,092	37,260,800
2017	26,426,406	1,599,430	4,725,684	3,905,335	1,817,386	38,474,241

Source: Internal Revenue Service, Statistics of Income, published and unpublished data.

**Table A-5.—Distribution of C Corporations by Receipts, 2017**

<b>Firms Classified by Receipts</b>	<b>Number of Returns</b>	<b>Total Receipts (millions of dollars)</b>	<b>Cumulative Percentage (%)</b>	
			<b>Returns</b>	<b>Total Receipts</b>
\$0 or less	243,897	-2,517	15.25	-0.01
\$1 to \$2,500	43,613	41	17.98	-0.01
\$2,501 to \$5,000	27,262	103	19.68	-0.01
\$5,001 to \$10,000	41,391	298	22.27	-0.01
\$10,001 to \$25,000	89,139	1,536	27.84	0.00
\$25,001 to \$50,000	105,358	3,830	34.43	0.01
\$50,001 to \$100,000	138,287	10,205	43.07	0.06
\$100,001 to \$250,000	233,466	39,036	57.67	0.22
\$250,001 to \$500,000	174,693	63,602	68.59	0.49
\$500,001 to \$1,000,000	157,135	112,538	78.42	0.97
\$1,000,001 to \$10,000,000	276,007	841,808	95.67	4.54
\$10,000,001 to \$25,000,000	33,799	526,945	97.79	6.78
\$25,000,001 to \$50,000,000	14,388	503,486	98.69	8.92
More than \$50,000,000	20,997	21,457,575	99.10	100.00
<b>All Receipts</b>	<b>1,599,430</b>	<b>23,558,486</b>		

Note: Totals do not necessarily equal the sums of rounded components.

Source: Internal Revenue Service, Statistics of Income; Joint Committee on Taxation staff calculations.

**Table A-6.—Distribution of Multinational C Corporations, 2017**

<b>Firms classified by receipts</b>	<b>Number of Returns</b>	<b>Total Receipts (millions of dollars)</b>
\$0 or less	1,507	-17
\$1 to \$2,500	206	[1]
\$2,501 to \$5,000	264	1
\$5,001 to \$10,000	47	[1]
\$10,001 to \$25,000	70	1
\$25,001 to \$50,000	181	6
\$50,001 to \$100,000	120	9
\$100,001 to \$250,000	724	130
\$250,001 to \$500,000	574	206
\$500,001 to \$1,000,000	1,004	739
\$1,000,001 to \$10,000,000	3,147	13,917
\$10,000,001 to \$25,000,000	1,597	26,982
\$25,000,001 to \$50,000,000	1,521	54,136
More than \$50,000,000	6,319	15,918,431
<b>All Receipts</b>	<b>17,282</b>	<b>16,014,542</b>

[1] Less than \$500,000.

Note: Totals do not necessarily equal the sums of rounded components.

Source: Internal Revenue Service, Statistics of Income; Joint Committee on Taxation staff calculations.

**Table A-7.—Social Security Taxable Wage Base and Rates of Tax, 1975-2020**

Year	Annual Maximum Taxable Wage Base for OASDI	Contribution Rate for Both Employers and Employees (Percent of Covered Earnings)			Contribution Rate for Self-Employed Persons		
		Total	OASDI	HI	Total	OASDI	HI
1975	\$14,100	5.85	4.95	0.9	7.9	7.0	0.9
1976	\$15,300	5.85	4.95	0.9	7.9	7.0	0.9
1977	\$16,500	5.85	4.95	0.9	7.9	7.0	0.9
1978	\$17,700	6.05	5.05	1.0	8.1	7.1	1.0
1979	\$22,900	6.13	5.08	1.05	8.1	7.05	1.05
1980	\$25,900	6.13	5.08	1.05	8.1	7.05	1.05
1981	\$29,700	6.65	5.35	1.3	9.3	8	1.3
1982	\$32,400	6.7	5.4	1.3	9.35	8.05	1.3
1983	\$35,700	6.7	5.4	1.3	9.35	8.05	1.3
1984 [1]	\$37,800	7.0	5.7	1.3	14.0	11.4	2.6
1985	\$39,600	7.05	5.7	1.35	14.1	11.4	2.7
1986	\$42,000	7.15	5.7	1.45	14.3	11.4	2.9
1987	\$43,800	7.15	5.7	1.45	14.3	11.4	2.9
1988	\$45,000	7.51	6.06	1.45	15.02	12.12	2.9
1989	\$48,000	7.51	6.06	1.45	15.02	12.12	2.9
1990	\$51,300	7.65	6.2	1.45	15.3	12.4	2.9
1991	\$53,400	7.65	6.2	1.45	15.3	12.4	2.9
1992	\$55,500	7.65	6.2	1.45	15.3	12.4	2.9
1993	\$57,600	7.65	6.2	1.45	15.3	12.4	2.9
1994	\$60,600	7.65	6.2	1.45	15.3	12.4	2.9
1995	\$61,200	7.65	6.2	1.45	15.3	12.4	2.9
1996	\$62,700	7.65	6.2	1.45	15.3	12.4	2.9
1997	\$65,400	7.65	6.2	1.45	15.3	12.4	2.9
1998	\$68,400	7.65	6.2	1.45	15.3	12.4	2.9
1999	\$72,600	7.65	6.2	1.45	15.3	12.4	2.9
2000	\$76,200	7.65	6.2	1.45	15.3	12.4	2.9
2001	\$80,400	7.65	6.2	1.45	15.3	12.4	2.9
2002	\$84,900	7.65	6.2	1.45	15.3	12.4	2.9
2003	\$87,900	7.65	6.2	1.45	15.3	12.4	2.9
2004	\$87,900	7.65	6.2	1.45	15.3	12.4	2.9
2005	\$90,000	7.65	6.2	1.45	15.3	12.4	2.9
2006	\$94,200	7.65	6.2	1.45	15.3	12.4	2.9
2007	\$97,500	7.65	6.2	1.45	15.3	12.4	2.9
2008	\$102,000	7.65	6.2	1.45	15.3	12.4	2.9
2009	\$106,800	7.65	6.2	1.45	15.3	12.4	2.9
2010	\$106,800	7.65	6.2	1.45	15.3	12.4	2.9
2011 [2]	\$106,800	7.65/5.65	6.2/4.2	1.45	13.3	10.4	2.9
2012 [2]	\$110,100	7.65/5.65	6.2/4.2	1.45	13.3	10.4	2.9
2013 [3]	\$113,700	7.65	6.2	1.45	15.3	12.4	2.9
2014 [3]	\$117,000	7.65	6.2	1.45	15.3	12.4	2.9
2015 [3]	\$118,500	7.65	6.2	1.45	15.3	12.4	2.9
2016 [3]	\$118,500	7.65	6.2	1.45	15.3	12.4	2.9
2017 [3]	\$127,200	7.65	6.2	1.45	15.3	12.4	2.9
2018 [3]	\$128,400	7.65	6.2	1.45	15.3	12.4	2.9
2019 [3]	\$132,900	7.65	6.2	1.45	15.3	12.4	2.9
2020 [3]	\$137,700	7.65	6.2	1.45	15.3	12.4	2.9

[1] For 1984 only, employees were allowed a credit of 0.3 percent of taxable wages against their FICA tax liability, reducing the effective rate to 6.7 percent.

[2] The Tax Relief, Unemployment Reauthorization, and Job Creation Act of 2010 reduced the FICA tax rate for employees by two percentage points for 2011. Specifically, the employer OASDI rate remains at 6.2 while the employee rate is reduced to 4.2. Equivalent reductions were made to the SECA tax. Subsequent legislation extended that treatment to 2012.

[3] For 2013, and subsequent years, an additional employee HI tax of 0.9 percent applies to wages in excess of \$250,000 for married taxpayers filing jointly (\$125,000 for married taxpayers filing separately) and \$200,000 in all other cases. Equivalent increases were made to the SECA tax. For wages in excess of the threshold in these years, the HI contribution rate is 2.35 percent for employees and 3.8 percent for self-employed persons, and the total HI and OASDI contribution rate is 8.55 percent (not the corresponding rates reflected in the table).

Source: Social Security Administration.