



Income Shares, Tax Shares, and Average Tax Rates Across the Income Distribution

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The distribution of income and tax burdens often informs tax policy debates. The U.S. income tax system is generally progressive. In a progressive tax system, those with higher incomes pay more, as a percentage of their income, in taxes. As a result, average tax rates tend to be higher for higher-income taxpayers. Future changes to the income tax system might seek to increase or decrease the progressivity of the tax system, or to leave the distribution of the tax burden unchanged.

The Internal Revenue Service (IRS) is one source for data on the [income and tax distribution](#). IRS data on the income and tax shares for 2018 were recently released. Changes to the tax code that were part of the 2017 tax revision (P.L. 115-97), commonly referred to as the “Tax Cuts and Jobs Act” (TCJA), were generally effective for the 2018 tax year. Thus, these 2018 data provide information on how the TCJA initially affected the distribution of the tax burden and average tax rates. This Insight uses IRS data on income and tax shares from 2001 through 2018 to look at medium-term trends in the distribution of income and the income tax burden, as well as average tax rates for different income groups.

Distribution of Income

In 2018, the top 1% of taxpayers had 21% of total adjusted gross income (AGI). Since 2001, the share of AGI earned by the top 1% of the AGI distribution has fluctuated (**Figure 1**). After rising early in the 2000s, it fell during the Great Recession, before rising again, although not to levels seen in the mid-2000s.

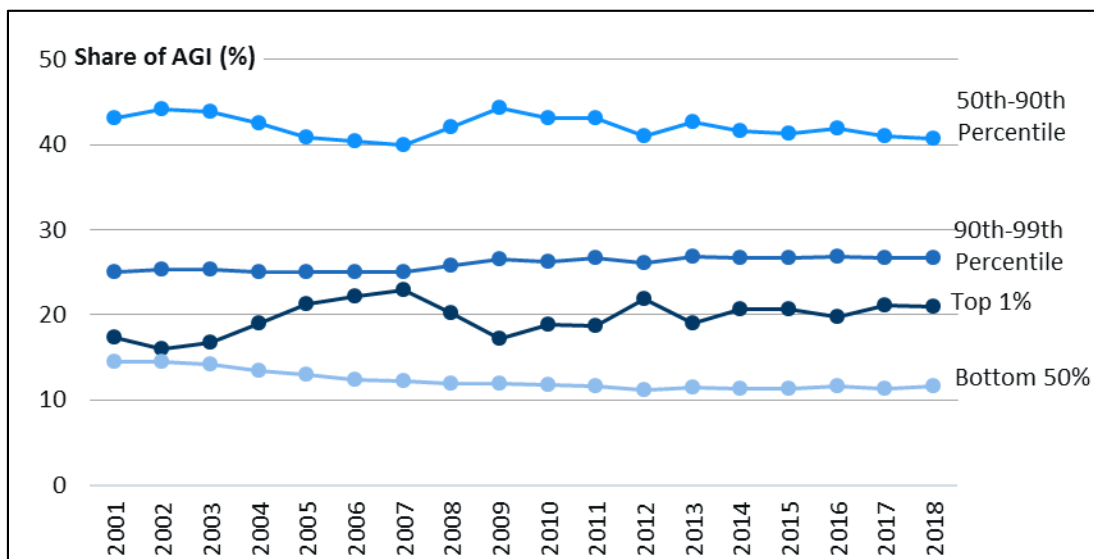
Since 2001, when the share of AGI earned by the top 1% has fallen, the share of AGI going to earners in the 50th to 90th percentile of the income distribution has tended to rise. There has been less fluctuation in the share of AGI earned by taxpayers in the 90th to 99th percentile over the same period. The 12% share of AGI earned by those in the bottom 50% of the AGI distribution is lower than it was in the early 2000s, and has remained stable in recent years.

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Figure I. Share of AGI Earned by AGI Group
2001-2018



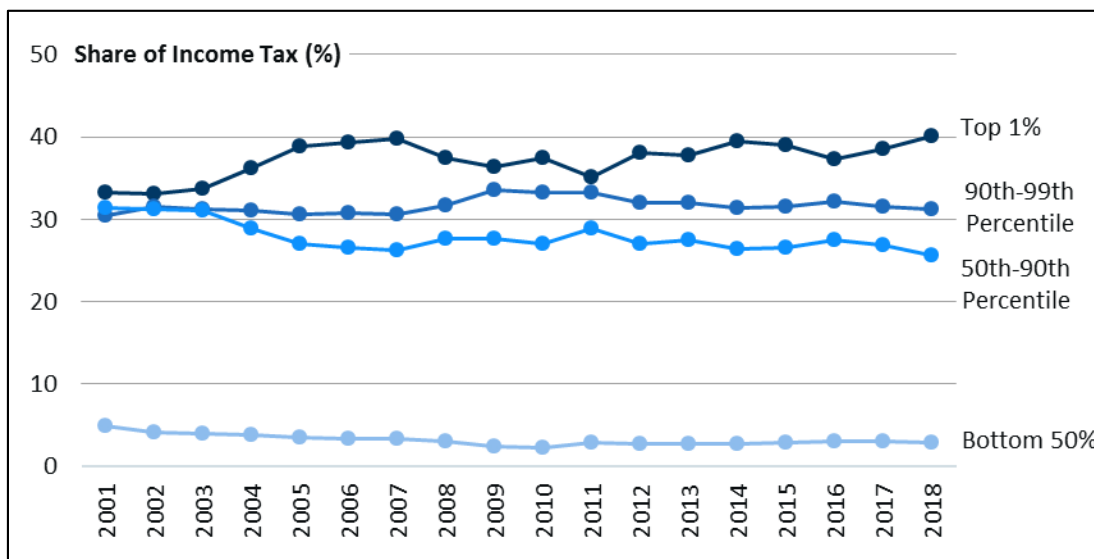
Source: CRS calculations using IRSSOI data, Individual Income Tax Rates and Tax Shares, [Table I](#).

Distribution of Income Tax Burden

In 2018, taxpayers in the top 1% of the AGI distribution paid 40% of federal income taxes. If the income tax system were proportional (e.g., “a flat tax”), meaning that each person paid an equal share of their income in income taxes, then the top 1% of AGI earners would have paid 21% of total income taxes (or an amount equal to the income group’s share of AGI). Since 2001, changes in the share of income taxes paid by the top 1% have tended to follow changes in the share of income earned by the top 1% of the AGI distribution. Between 2017 and 2018, the share of taxes paid by the top 1% increased, while the share paid by all other income groups held roughly steady or decreased.

Taxpayers in the 90th to 99th percentile of the AGI distribution paid 31% of federal taxes in 2018, and taxpayers in the 50th to 90th percentile paid 26% of federal taxes. Taxpayers in the bottom 50% of the AGI distribution paid 3% of federal taxes. If the tax system were proportional, these taxpayers would have paid 12% of income taxes.

Figure 2. Income Tax Share by AGI Group
2001-2018

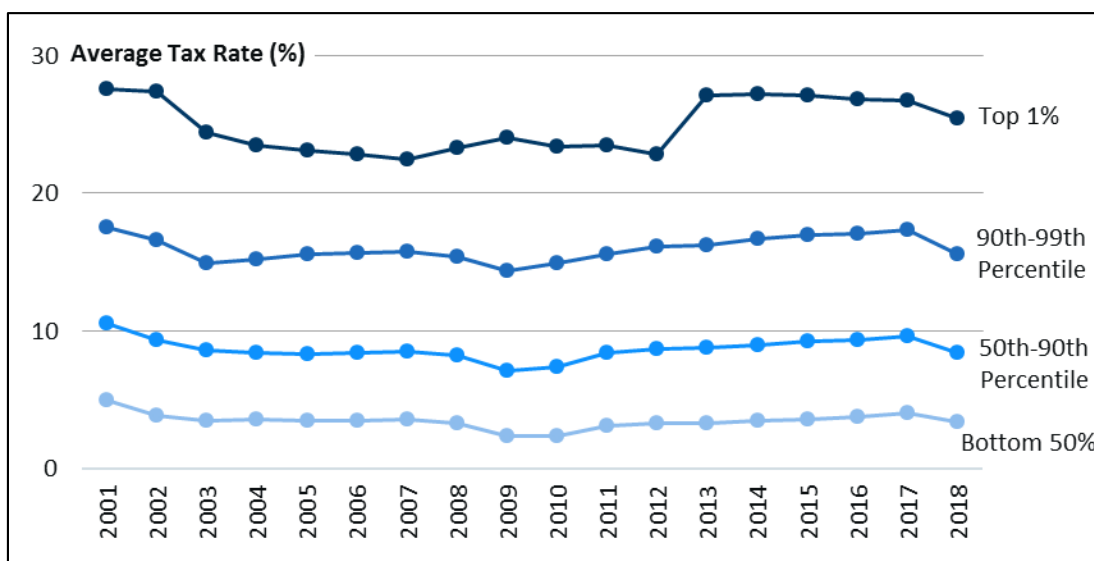


Source: CRS calculations using IRSSOI data, Individual Income Tax Rates and Tax Shares, [Table I](#).

Average Tax Rates across the Income Distribution

Average tax rates tend to rise across the income distribution. Average tax rates fell for all income groups in the early 2000s following the 2001/2003 tax cuts. Through 2017, average tax rates were trending up for all income groups other than the top 1%. Average tax rates for the top 1% held steady around 27% from 2013 through 2017, before decreasing to 25% in 2018. The average tax rate faced by the top 1% increased markedly between 2012 and 2013, reflecting increased income taxes on high-income households in the [American Taxpayer Relief Act of 2012](#) (ATRA; P.L. 112-240).

Figure 3. Average Tax Rate by AGI Group
2001-2018



Source: CRS calculations using IRSSOI data, Individual Income Tax Rates and Tax Shares, [Table I](#).

Notes: Average tax rates in the IRS data are calculated as income tax after credits divided by AGI.

While **Figure 3** clearly illustrates the general progressivity of the income tax, it masks regressivity at the very top of the income distribution. The average tax rates for taxpayers in the top 0.01% and 0.001% of the AGI distribution, about 24% and 23%, respectively, in 2018, are less than the 25% average rate of taxpayers in the top 1%.

Comparing IRS and Congressional Budget Office (CBO) Data on Income and Tax Burden Distributions

The analysis in this Insight is similar to portions of the analysis in the Congressional Budget Office's (CBO's) [October 2020 report](#) on the distribution of household income. There are, however, some notable differences. First, IRS data are available for 2018 (post-TCJA). CBO's most recent report examines the 1979 through 2017 time period. Second, the measure of income differs. CBO's report uses a measure of [household income that](#) includes market income (e.g., wages, business income, and capital gains) and social insurance benefits. In the IRS data, income is [adjusted gross income \(AGI\)](#), where income includes market income but not necessarily social insurance benefits, less adjustments (e.g., above-the-line deductions for educator expenses, student loan interest, or retirement contributions). Third, in CBO's study the unit of analysis is the household, which could include more than one tax filer or no tax filers. Data from the IRS include only those filing a federal tax return, and the unit of analysis is the taxpayer.

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