

CHART OF THE MONTH

APRIL 2015

While most people don't need to be reminded, today is April 15 – also known as Tax Day!

With the foregoing in mind, we thought it would be timely and instructive to take a look at just who is paying what. As an overview, individual income taxes equate to roughly \$1.5 trillion or about half of the federal receipts. Payroll and corporate income tax produce another \$1.8 trillion or so for a total take of approximately \$3.3T (equal to nearly 20% of GDP).

The bar chart below, which divides the total population of 325 million Americans into five quintiles of 65 million people each, provides the share of total income and total income tax for 2014. The key takeaway is that the federal income tax system is extremely progressive; that is, the higher the income, the higher the tax rate. As a result, the higher income groups pay a disproportionately greater and greater share of the total income taxes.

To illustrate, the top 20% (defined by those making above \$134,300) earn 51% of the total income and pay 84% of the federal income taxes. Of note, the top fifth is the only quintile whose tax share exceeds its income share. The other four quintiles have a lower tax burden as a share of the total taxes paid than their income as a share of the total. As an example, the second-highest quintile (\$79,500 to \$134,500) earns 20% of the total income but pays only 13.4% of the federal income taxes.

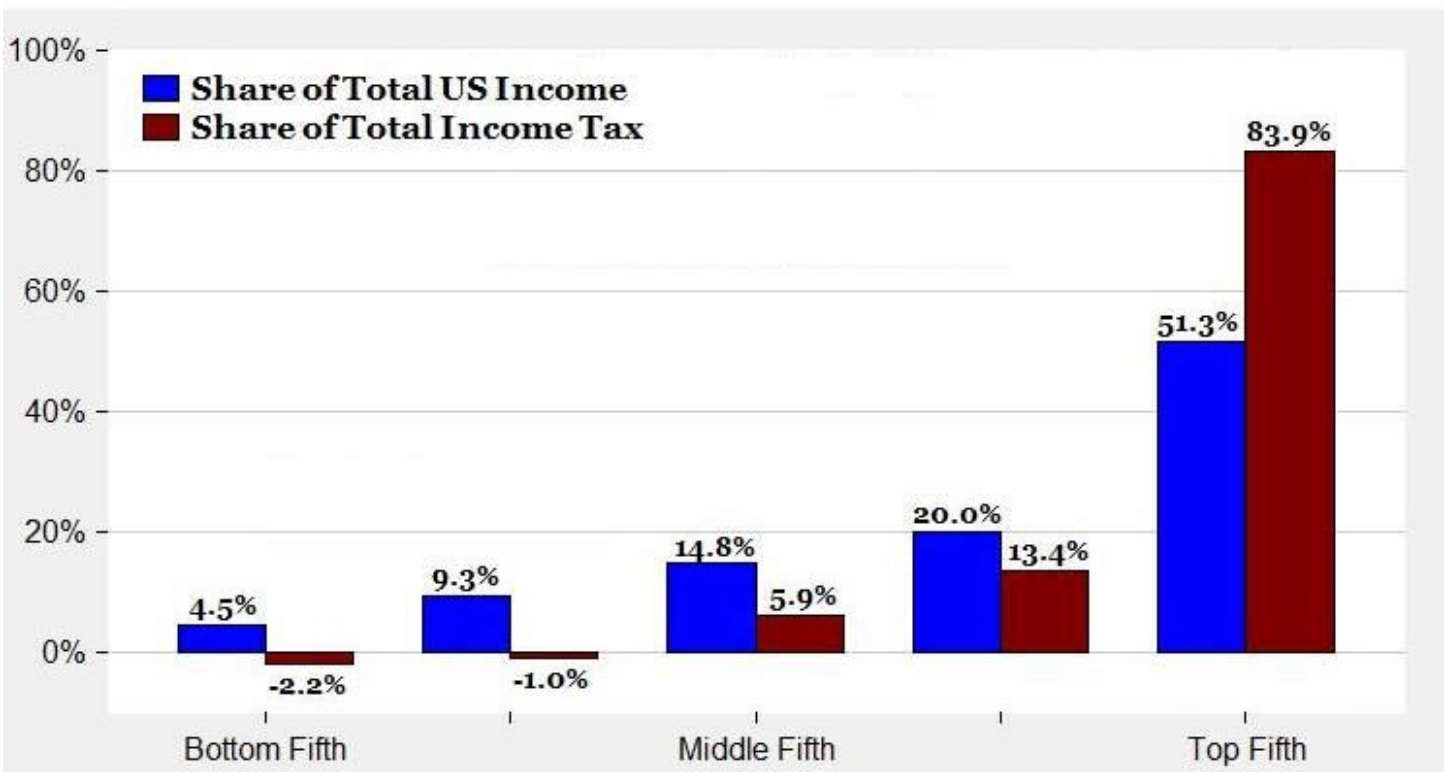
The top 40% accounts for 71% of the income and pays virtually all (97%) of the total income taxes. Conversely, the bottom 40% (\$47,300 and below) produces 13.8% of the income and pays no income tax. In fact, this group, in the aggregate, actually gets paid by Uncle Sam (i.e., the other 60%) due to credits that funnel through the tax system.

We recognize that many recipients make contributions to the Social Security and Medicare programs. Including such payments in the federal tax mix results in the bottom 40% paying 4.6% of the total. However, levies for Social Security and Medicare are different from the federal income tax because they bring the promise of personal benefits in the future.

Drilling down deeper, **the top 1% (which includes 3.2 million people) earns 17% of the income, yet pays almost as much in taxes (46% of the total) as the 322 million in the bottom 99% (who earn 83% and pay 54%).** Similarly, the top 5% (16 million citizens) earns 29% of the income and pays 64% of the income tax.

The share of federal income taxes is summarized in the [table provided by the Tax Policy Center](#). The table also has separate columns for payroll taxes, corporate income taxes, and estate taxes but does not include state, sales, or property taxes, none of which are paid into the federal coffers.

2014 Distribution of Federal Income Taxes



Source: Congressional Budget Office & Mark J. Perry



5305 East 2nd Street, SUITE 201, LONG BEACH, CALIFORNIA 90803
TEL: (562) 434-5305 ▲ FAX: (562) 434-5306
www.lederer-associates.com