

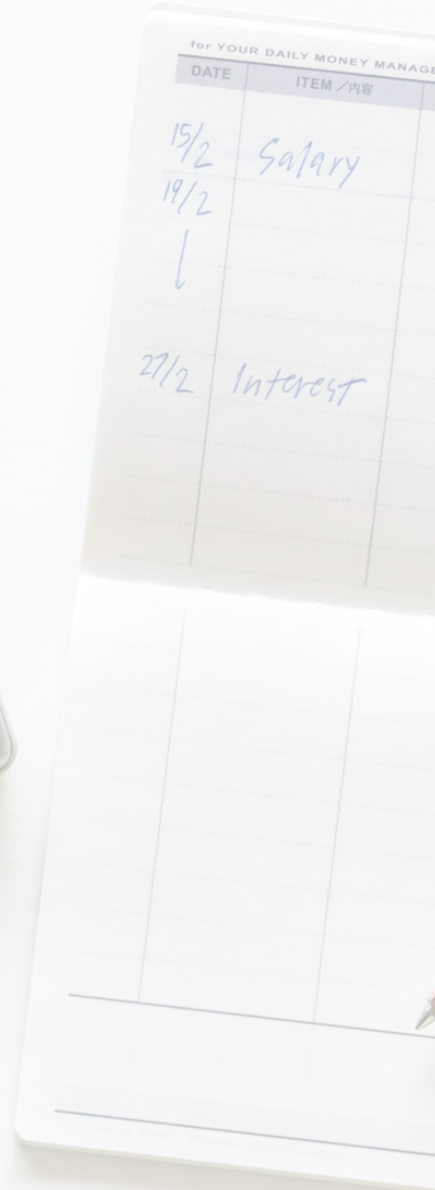


Who Pays Income Taxes: Tax Year 2019

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BY: DEMIAN BRADY

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Key Facts:



New IRS data for tax year 2019 helps to illustrate the progressivity of the income tax: the top 1 percent of earners paid 39 percent of all income taxes. Over two-thirds of all taxes were paid by the top 25 percent of all filers.



Compared to 2018, the average Adjusted Gross Income share fell slightly as those in the middle income saw modest gains.



The bottom 50 percent are largely shielded from the income tax burden, contributing 3 percent of all income taxes. Their after-tax income is also boosted by means-tested transfer payments.



In 1980, the top marginal tax rate stood at 70 percent. As tax reductions enacted since then reduced the top rate to 37 percent, the tax share of the top earners has increased.



The trends show that the tax code has become increasingly progressive, and when people are allowed to keep more of their own money, they prosper, move up the economic ladder, and pay a bigger part of the nation's income tax bill.

Introduction

It's become an article of faith among many progressives that "the rich aren't paying their 'fair share'" of income taxes. This claim is used to justify the hundreds of billions in tax hikes on individuals and the \$80 billion budget boost to the Internal Revenue Service to increase audits and tax enforcement in the Build Back Better reconciliation bill.

However, recent data from the Internal Revenue Service (IRS) provides a reminder that the federal income tax code is already highly progressive, with the top earners paying the lion's share of all income taxes. Despite claims that the passage of the 2017 Tax Cuts and Jobs Act (TCJA) would rig the tax code in favor of the wealthy, the tax system became more progressive in the 2018 IRS data release even as income tax rates were reduced. The release of 2019 data shows that not much has changed on this front.

This latest release of IRS data shows that the top 25 percent of earners paid nearly 87 percent of all income taxes in 2019. Lower income earners are largely spared from income taxes with the bottom 50 percent of earners owing just three percent of the national share.

More significantly, 2019 was the second year under the reforms enacted through the TCJA. The IRS data show that the economic expansion it encouraged was beginning to boost middle class incomes. The income tax share of the top income earners fell, but this was because their share of Adjusted Gross Income (AGI) also shrunk. The changes were relatively small but could have potentially marked the start of a new trend of middle income wealth expansion. While more recent data is not yet available, this was likely cut short in 2020 by the pandemic and economic shutdowns that forced many people out of their jobs.

Tax Shares in Tax Year 2019

The IRS's Statistics of Income division publishes annual data showing the share of taxes paid by taxpayers across ranges of Adjusted Gross Income (AGI). The newly released report covers Tax Year [2019](#) (for tax forms filed in 2020).¹

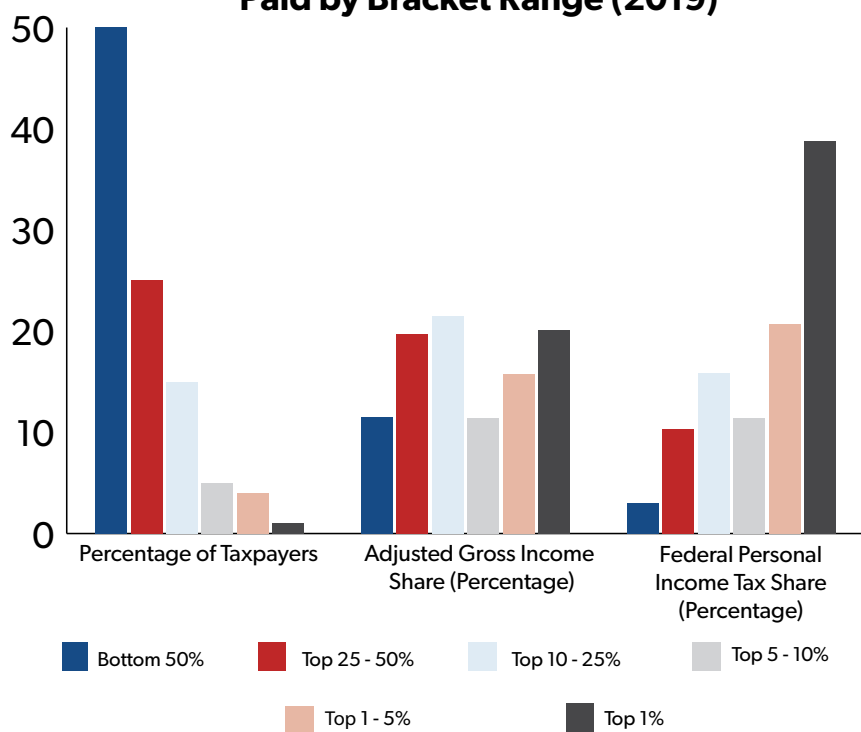
The newest data show that the top 1 percent of earners (with incomes over \$546,434) paid nearly 39 percent of all income taxes. The amount of taxes paid in this percentile is nearly twice as much as their AGI share, consistent with the steeply progressive nature of the income tax.

¹ Internal Revenue Service. (2021). *Number of Returns, Shares of AGI, Selected Income Items, Credits, Total Income Tax, AGI Floor on Percentiles, and Average Tax Rates: 2019*. Retrieved from <https://www.irs.gov/statistics/soi-tax-stats-individual-income-tax-rates-and-tax-shares>.

Table 1. Who Pays Income Taxes: Tax Year 2019

Percentages Ranked by AGI	AGI Threshold on Percentiles	Adjusted Gross Income Share	Share of Federal Personal Income Tax Paid	Ratio of Percentage of Personal Income Tax Paid to AGI Share
Top 1%	\$546,434	20.14%	38.77%	1.92
Top 5%	221,572	35.93%	59.44%	1.65
Top 10%	\$154,589	47.30%	70.81%	1.5
Top 25%	\$87,917	68.82%	86.65%	1.26
Top 50%	\$44,269	88.51%	96.94%	1.1
Bottom 50%	<\$44,269	11.49%	3.06%	0.27

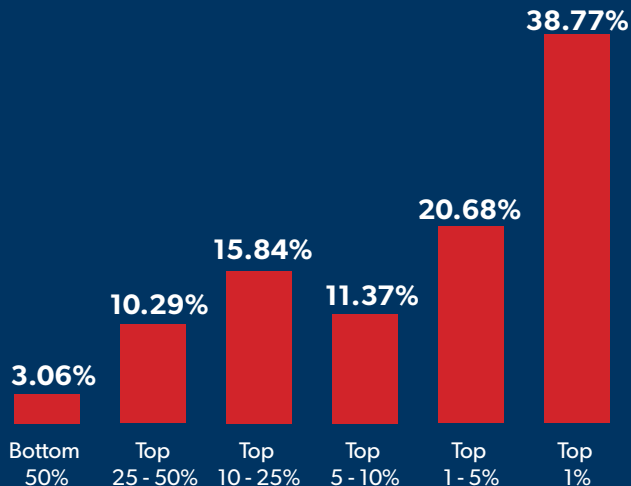
Share of Adjusted Gross Income and Income Taxes Paid by Bracket Range (2019)



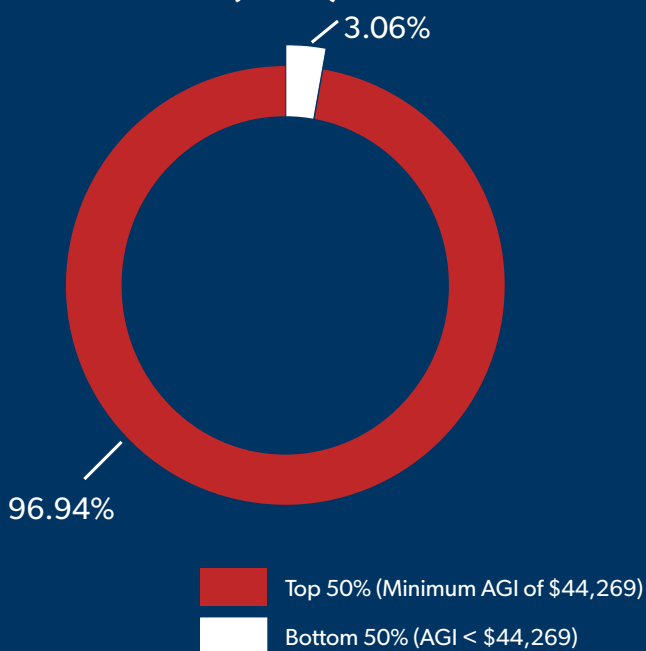
The top 10 percent of earners bore responsibility for 71 percent of all income taxes paid and the top 25 percent paid 87 percent of all income taxes. Altogether, the top half of filers earned 89 percent of all income and were responsible for 97 percent of all income taxes paid in 2019.

The other half of earners (those with incomes below \$44,269) took home 11.5 percent of total nationwide income and owed 3 percent of all income taxes in 2019. Among this group are many filers with no income tax liability either because their earnings were below the taxable threshold or due to eligibility for tax credits that reduce income tax liability. Separate IRS data shows that there were nearly 54 million tax returns in 2019 with no income tax liability. Among these returns, 94 percent were filed by those with incomes less than \$50,000.

Income Tax Share by AGI Bracket Range (2019)



AGI Bracket vs. Percentage of Federal Personal Income Tax Paid (2019)



The TCJA and the Tax Share

Starting in 2018, the TCJA lowered tax rates, nearly doubled the standard deduction, and expanded the child tax credit, among other changes. Despite the rate reductions, the result was a distribution of tax burdens that was in fact more progressive in the first year of the reformed tax code.

NTUF has compiled historical IRS data tracking the distribution of the federal income tax burden since 1980. In that year, the [top marginal income tax rate](#) stood at 70 percent and the wealthiest one percent of earners' share of income taxes was 19 percent.² Over the next decades, their share of income taxes has increased even as the top tax rates were reduced. By 2018 the top rate had fallen to 37 percent yet the income tax share of the wealthiest one percent had doubled to 40 percent — the highest share reported in the decades of data.

Table 2. Tax Share of the Top 1 & 5 Percent of Income Earners: 1980 - 2019

Tax Year	Percentage of Federal Personal Income Tax Paid by the Wealthiest 1 Percent	Percentage of Federal Personal Income Tax Paid by the Wealthiest 5 Percent	Highest Marginal Tax Rate
1980	19.3	37.1	70
1990	25.1	43.6	28
2000	37.4	56.5	39.6
2010	37.4	59.1	35
2017	38.5	59.1	39.6
2018	40.1	60.3	37
2019	38.8	59.4	37

The new data from the IRS covers the second year of reported data under the changes ushered into law through the TCJA. In 2019, the income tax share of the wealthiest earners slightly decreased, as did their share of AGI. For example, the AGI of the top 1 percent fell from 20.9 percent to 20.1 percent while their share of the income tax burden fell from 40.1 percent to 38.8 percent. Similar small decreases occurred through the top 25 percent of earners. More detailed information is available from the IRS in Table 3 below that shows that those on the lower end of the income spectrum, (with 2019 income in the range from \$44,000 to \$58,000) saw small gains in AGI from 2018 to 2019.

² National Taxpayers Union Foundation. *How Have the Top and Bottom Income Tax Brackets Changed Over Time?* Retrieved from <https://www.ntu.org/foundation/tax-page/how-have-the-top-and-bottom-income-tax-brackets-changed-over-time>.

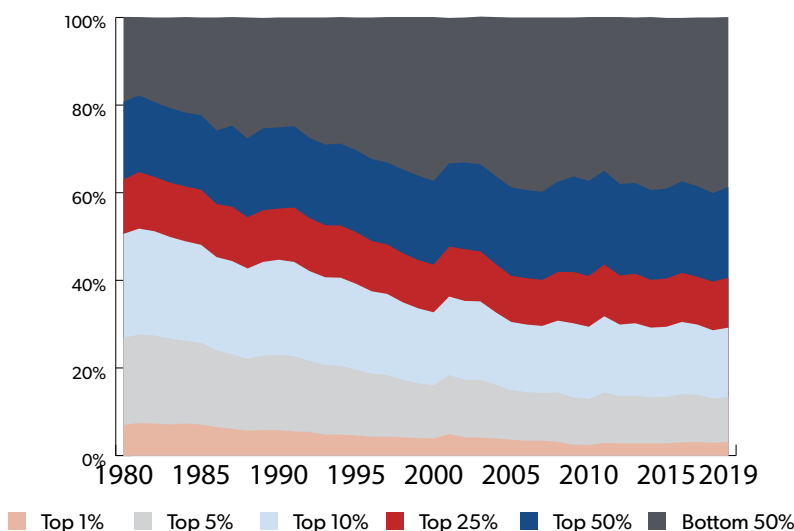
Table 3. Change in AGI Share from 2018 to 2019 by Percentiles of Income

Descending Cumulative Percentiles	2018 AGI Share	2019 AGI Share	Change from 2018 to 2019
.001 percent	2.09	1.81	-0.28
.01 percent	4.93	4.4	-0.53
.1 percent	10.35	9.6	-0.75
1 percent	20.93	20.14	-0.79
2 percent	26.33	25.61	-0.72
3 percent	30.3	29.65	-0.65
4 percent	33.59	33	-0.59
5 percent	36.48	35.93	-0.55
10 percent	47.66	47.3	-0.36
20 percent	63.04	62.88	-0.16
25 percent	68.91	68.82	-0.09
30 percent	73.96	73.92	-0.04
40 percent	82.15	82.19	0.04
50 percent	88.39	88.51	0.12

Since 1980 the income tax share of the bottom half of earners has fallen from 7 percent to 3 percent in 2019. This has happened as their AGI decreased from 18 percent to 11.5 percent and the AGI share of the top earners increased. For example, the AGI share of the top 1 percent increased from 8.5 percent to 20 percent from 1980 to 2019 and, for the top 10 percent from about a third of AGI in 1980 to just under half in 2019. As their earnings have increased, so has their tax burden.

It is also important to remember that AGI is an adjustment of income for tax purposes. Many middle income earners are able to reduce their AGI by deducting IRA contributions. AGI also excludes many transfer payments and federal benefits. Analysis from the Congressional Budget Office shows that individuals in the lowest income quintile receive half of all [means-tested transfers](#) through government benefits. These transfers lifted their income in 2018 by 64 percent — \$37,700 after transfers versus \$22,500 before them.³

Percentage of Federal Personal Income Tax Paid by Earners 1980-2019



³ Congressional Budget Office. (2021). *The Distribution of Household Income, 2018*. Retrieved from <https://www.cbo.gov/system/files/2021-08/57061-Distribution-Household-Income.pdf>.

This new IRS data should help inform the debate in Congress about the fairness of the tax system as the President and his allies push for higher taxes and increased tax enforcement.

The decades-long trend is clear: the tax code has become increasingly progressive, and when people are allowed to keep more of their own money, they prosper, move up the economic ladder, and pay a bigger part of the nation's income tax bill. Meanwhile, many low-income earners are afforded protections from income taxes through deductions and credits.

Even counting payroll and other taxes, the top income earners pay a substantial portion of taxes. The CBO [finds](#) that the highest income quintiles average total federal tax rate was 24 percent.⁴ By comparison the lowest quintile's was less than 0.1 percent due to refundable credits.

Conclusion

The BBB would impose hundreds of billions in tax hikes targeting wealthy individuals. Along with the complicated business tax hikes, the plan would undermine the much-needed economic recovery on the basis of the faulty assessment that the wealthy do not face significant tax burdens.

The BBB also includes large expansions of refundable credits which provide payments to individuals even if they have no income tax liability. If enacted, this would remove more individuals from the tax rolls. This raises basic questions of fairness as an increasing share of the tax burden falls on the shoulders of a small percentage of taxpayers. Politicians should consider the existing tax burden distribution while striving for a tax system that imposes minimal burdens on private sector wealth creation that opens up opportunities for all.

About the Author

Demian Brady is the Vice President of Research for National Taxpayers Union Foundation, where he runs the organization's Taxpayers' Budget Office.

⁴ Ibid.