

# CRS Report for Congress

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## Average Marginal Income Tax Rates by Adjusted Gross Income and Filing Status

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### Summary

This report presents average marginal income tax rates by filing status and detailed adjusted gross income (AGI) class for the 2001 tax year, the most recent year for which data are available. The source of data is the 2001 Internal Revenue Service (IRS) public use micro-sample. A general finding is that the average marginal tax rates by filing status begin to converge with AGI above \$75,000. Below that amount, married taxpayers filing joint returns had significantly lower average marginal tax rates. This report will be updated when new data are released.

### Overview

This report provides a rough approximation of the marginal tax rate faced by taxpayers of different income levels by filing status, e.g., single, married filing joint, married filing separate, and head of household in 2001. Statutory rates (the rates in the income tax code) are often termed marginal tax rates because they represent the amount of tax due on the last dollar earned. For example, a single taxpayer with net taxable income of \$60,000 would be in the 25% statutory tax bracket and would pay 25 cents in taxes for the next dollar earned above \$60,000. Policymakers and researchers are interested in marginal tax rates because they are the rates that influence taxpayers decisions to work or invest. A higher marginal tax rate reduces the incentive to earn more through work or investments.

The 2001 tax cuts contained in the Economic Growth and Tax Relief Reconciliation Act (P.L. 107-16, EGTRRA) reduced the higher marginal tax rates and expanded the taxable income brackets for married taxpayers filing joint returns. Congress believed that these tax cuts were necessary because of (1) the projected federal budget surpluses; (2) high marginal rates that reduced the "...incentives for taxpayers to work, save, and to

invest....”; and (3) the slowing economy could use the stimulative boost of tax reductions.<sup>1</sup> The data in this report provide the average marginal tax rates by income class and filing status when the first incremental steps of the EGTRRA tax cuts began to take hold. The data can serve as a benchmark for comparison to the burden distribution after EGTRRA has been fully implemented. In addition, EGTRRA is scheduled to sunset in 2011 and if Congress chooses not to act, marginal tax rates will revert to ones approximating 2001 rates.

## Marginal Tax Rates in 2001

The federal personal income tax is a progressive tax because it collects a larger percentage of income as income rises. This outcome is achieved through graduated statutory rates that increase with taxable income. In addition, the federal income tax requires taxpayers to claim a filing status, i.e., single, married filing joint, married filing separate, and head of household. The statutory rates across filing status are the same but are applied to different levels of income. In 2005, the individual income tax rates are 10%, 15%, 25%, 28%, 33%, and 35%. However, there are additional rates that apply to different types of income, e.g., the capital gains tax rate for taxpayers in the 10% or 15% bracket is 5%. **Table 1** reports the frequency of the marginal tax rates and type of income for the which the rate applied for the 2001 tax year.

The Internal Revenue Service (IRS) provides researchers with public use data on individual returns that are based on a sample of taxpayers from all states and from all income ranges. Income is reported in ranges and taxpayer’s filing status and marginal tax rates are included in the sample data. Weights are assigned to each sample return that “inflate” the returns to represent the full taxpayer population. The data are from 2001, the most recent year that is publicly available. The data are scrubbed by the IRS to mask any information that could reveal the identity of a taxpayer. The summarized results of the scrubbed public use data do not match the IRS published tables exactly because the IRS publications are based on the actual data in the full population of returns.

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<sup>1</sup> U.S. Congress, Joint Committee on Taxation, *General Explanation of Tax Legislation Enacted in the 107<sup>th</sup> Congress*, JCS-1-03, U.S. Government Printing Office, January 24, 2003, pp. 6-8.

**Table 1. Marginal Tax Rates for the 2001 Tax Year**

<b>Marginal Tax Rate</b>	<b>Number of Returns</b>	<b>Percentage of Returns</b>	<b>Description</b>
0.0%	26,171,186	20.09%	No taxable income.
8.0%	183,923	0.14%	Long term capital gains tax rate on assets held for longer than 5 years for taxpayers in the 15% income tax brackets.
10.0%	4,727,907	3.63%	Long term capital gains tax rate on assets held for longer than 1 year (and less than 5) for taxpayers in the 15% income tax bracket. Bracket for qualified dependent children.
15.0%	64,994,479	49.90%	First bracket rate.
20.0%	675,123	0.52%	Capital gains tax rate for assets held longer than 1 year.
25.0%	49,164	0.04%	Recaptured capital gains tax rate on real estate.
27.5%	27,300,434	20.96%	Second bracket rate.
28.0%	49,663	0.04%	Capital gains tax rate on collectibles.
30.5%	3,796,728	2.91%	Third bracket rate.
35.5%	1,460,089	1.12%	Forth bracket rate.
39.1%	846,468	0.65%	Top bracket rate.

**Source:** CRS calculations based on Internal Revenue Service 2001 Public Use Tax File.

**Table 2** presents marginal tax rate information by adjusted gross income (AGI) and filing status. AGI is gross income less selected “above-the-line” deductions such as qualified IRA contributions, moving expenses, or student loan interest. The marginal tax rate or tax bracket is determined by net taxable income which is adjusted gross income less personal exemptions and either itemized deductions or a standard deduction. Thus, net taxable income is less than AGI and can vary significantly based on an individual taxpayer’s situation.

In each AGI range in **Table 2**, taxpayers could have a variety of marginal tax rates based on the amount of deductions (standard or itemized) and the number of exemptions which together generally determine taxable income. The average marginal tax rates in the table represent the weighted average of the tax rates of all the taxpayers in the income group. The average marginal tax rate can be used as a rough approximation of the marginal tax burden for groups defined by income class and filing status.

**Table 2. Average Marginal Tax Rate in 2001, by Income Class and Filing Status**

AGI	Total Returns	Weighted Average Marginal Tax Rate in 2001			
		Single	Married	Married Separate	Head of Household
Total Returns	130,255,165	58,235,849	51,042,444	2,358,665	18,618,205
less than equal \$0	1,454,425	0.0000	0.0000	0.0000	0.0000
\$1 to \$1,000	1,805,280	0.0084	0.0000	0.0000	0.0000
\$1,001 to \$2,000	2,555,855	0.0170	0.0000	0.0048	0.0000
\$2,001 to \$3,000	2,718,465	0.0115	0.0000	0.0000	0.0000
\$3,001 to \$4,000	2,671,531	0.0097	0.0000	0.0216	0.0000
\$4,001 to \$5,000	2,784,014	0.0281	0.0000	0.0017	0.0000
\$5,001 to \$6,000	2,418,277	0.0448	0.0000	0.0115	0.0000
\$6,001 to \$7,000	2,477,901	0.0378	0.0000	0.0508	0.0000
\$7,001 to \$8,000	2,638,850	0.0728	0.0000	0.1307	0.0000
\$8,001 to \$9,000	2,512,017	0.1142	0.0000	0.0954	0.0000
\$9,001 to \$10,000	2,362,305	0.1267	0.0000	0.1386	0.0031
\$10,001 to \$11,000	2,476,378	0.1312	0.0000	0.1348	0.0012
\$11,001 to \$12,000	2,251,608	0.1409	0.0000	0.1119	0.0056
\$12,001 to \$13,000	2,424,155	0.1398	0.0000	0.1326	0.0459
\$13,001 to \$14,000	2,401,739	0.1440	0.0193	0.1500	0.0752
\$14,001 to \$15,000	2,537,919	0.1455	0.0317	0.1486	0.0704
\$15,001 to \$16,000	2,391,556	0.1452	0.0625	0.1460	0.1128
\$16,001 to \$17,000	2,286,003	0.1463	0.0923	0.1470	0.1209
\$17,001 to \$18,000	2,406,348	0.1458	0.1006	0.1500	0.1330
\$18,001 to \$19,000	2,165,447	0.1452	0.0965	0.1446	0.1371
\$19,001 to \$20,000	2,167,193	0.1467	0.1148	0.1382	0.1401
\$20,001 to \$25,000	9,873,137	0.1483	0.1286	0.1494	0.1461
\$25,001 to \$30,000	8,507,326	0.1480	0.1422	0.1621	0.1490
\$30,001 to \$40,000	13,825,559	0.1911	0.1464	0.2322	0.1487
\$40,001 to \$50,000	10,602,167	0.2597	0.1487	0.2546	0.1534
\$50,001 to \$75,000	17,531,694	0.2698	0.1882	0.2713	0.2365
\$75,001 to \$100,000	9,010,079	0.2877	0.2642	0.3006	0.2693
\$100,001 to \$200,000	8,435,039	0.3017	0.2809	0.3371	0.2868
\$200,001 to \$500,000	2,013,541	0.3388	0.3462	0.3690	0.3504
\$500,001 to \$1,000,000	356,235	0.3625	0.3776	0.3808	0.3598
\$1,000,001 to \$1,500,000	85,448	0.3659	0.3776	0.3730	0.3662
\$1,500,001 to \$2,000,000	36,480	0.3654	0.3763	0.3734	0.3706
\$2,000,001 to \$5,000,000	52,121	0.3630	0.3759	0.3700	0.3644
\$5,000,001 to \$10,000,000	12,259	0.3625	0.3719	0.3773	0.3588
greater than \$10,000,000	6,815	0.3583	0.3609	0.3698	0.3575

**Source:** CRS calculations based on Internal Revenue Service 2001 Public Use Tax File.

The average marginal tax rate by filing status begins converging at an AGI of \$75,000 and above. The average marginal rates converge because the amount of income subject to lower statutory rates becomes a smaller share of adjusted gross income and the higher rates are closer together. In addition, many special deductions and credits are phased out as income increases. And finally, the top bracket amount, applying to income above \$297,350 (\$148,675 for married filing separate), is the same regardless of filing status.

In contrast, below the \$75,000 threshold, married taxpayers filing jointly had average marginal tax rates significantly lower than the other three filing status groups. Taxpayers in these lower income groups can take fuller advantage of most special deductions and credits in the individual income tax code. Married taxpayers in lower income classes were more likely to receive a marriage “bonus,” thus reducing taxable income and the associated marginal tax rate.<sup>2</sup>

Looking forward, the rates in 2001 reported and analyzed here represent the first step in the gradual rate reductions and bracket adjustments implemented by the EGTRRA. In 2005, the higher rates, those above 15%, are reduced and the 15% and 25% married filing joint brackets are expanded to twice that of the single bracket amounts. This means that many married taxpayers who were in the next higher rate in 2001, dropped into the lower rate bracket with the expansion of the lower bracket amounts. **Table 3** below compares the 2001 and 2005 tax year rates and brackets by major filing status.

**Table 3. Personal Income Tax Rates and Bottom Brackets in 2001 and 2005**

Rates		Single		Married		Head of Household	
2001	2005	2001	2005	2001	2005	2001	2005
-	10.0%	-	\$0	-	\$0	-	\$0
15.0%	15.0%	\$0	\$7,300	\$0	\$14,600	\$0	\$10,450
27.5%	25.0%	\$27,050	\$29,700	\$45,200	\$59,400	\$36,250	\$39,800
30.5%	28.0%	\$65,550	\$71,950	\$109,250	\$119,950	\$93,650	\$102,800
35.5%	33.0%	\$136,750	\$150,150	\$166,500	\$182,800	\$151,650	\$166,450
39.1%	35.0%	\$297,350	\$326,450	\$297,350	\$326,450	\$297,350	\$326,450

The 2001 27.5% (25% bracket in 2005) entry bracket for single was \$27,050 in 2001 and \$29,700 in 2005, an average annual growth rate of just over 2.3%, just keeping pace with inflation. For married taxpayers filing joint returns, the entry bracket increased from \$45,200 to \$59,000, an average annual growth rate 6.8%. The faster growth represents the congressional intent (through EGTRRA) to eliminate the “marriage penalty” for taxpayers in these groups by expanding the brackets to be twice the size of the single

<sup>2</sup> U.S. Congressional Budget Office, *For Better or for Worse: Marriage and the Federal Income Tax*, Washington, D.C., June 1997.

bracket amounts. Thus, married taxpayers enter into the next higher bracket amount at a proportionally higher taxable income level. Note that the entry points for the brackets above 27.5% (25% in 2005) increased at roughly the same 2.3% average annual rate. (In 2011, the top four rates will revert to slightly higher rates, half of one percentage point, than in 2001: 28%, 31%, 36%, and 39.6%.)

The effect of the EGTRRA changes on the 2001 average marginal tax rates reported here would likely be significant. In particular, married taxpayers filing joint returns with AGI under \$75,000 would likely experience a significant reduction in average marginal tax rates. All taxpayers would benefit from the new 10% bracket and the higher income taxpayers from the reduced statutory rates.

While the alternative minimum tax (AMT) was not directly addressed in this report, the AMT is a parallel tax to the income tax that is designed to serve as a “floor” or minimum tax liability for relatively wealthy taxpayers. The base of the AMT is much broader than the regular income tax and the rates are 26% and 28%. Although, because these rates are applied to a different base than the regular income tax, they are not directly comparable to the marginal rates presented here. In 2001, relatively few taxpayers (less than 0.9%) were subject to the AMT and most of these taxpayers were in higher income classes. The 2001 data indicates that 0.02% of returns with AGI below \$20,000 have AMT liability and just 0.05% of returns between \$20,000 and \$50,000. **Table 4** below exhibits the percentage of AMT filers by income class. The EGTRRA tax cuts lowered rates for many high income taxpayers who may be captured by the AMT whose rates have remained unchanged. Congress has increased the exemption amount periodically to prevent more taxpayers from becoming subject to the AMT. The most recent adjustment expires after the 2005 tax year.

**Table 4. Percentage of AMT Filers by AGI Class, 2001**

AGI	AMT Filers	Non-AMT Filers in Class	Percent AMT Filers
Less than \$20,001	8,615	49,898,649	0.02%
\$20,001 to \$50,000	21,350	42,786,838	0.05%
\$50,001 to \$75,000	92,491	17,439,203	0.53%
\$75,001 to \$100,000	154,011	8,856,068	1.71%
\$100,001 to \$200,000	415,548	8,019,491	4.93%
\$200,001 to \$500,000	352,244	1,661,296	17.49%
\$500,001 to \$1,000,000	50,682	305,553	14.23%
\$1,000,001 to \$1,500,000	11,170	74,278	13.07%
\$1,500,001 to \$2,000,000	4,521	31,959	12.39%
\$2,000,001 to \$5,000,000	6,621	45,500	12.70%
\$5,000,001 to \$10,000,000	1,767	10,492	14.41%
greater than \$10,000,000	1,249	5,565	18.33%
Total	1,120,269	129,134,892	0.86%

**Source:** CRS calculations based on Internal Revenue Service 2001 Public Use Tax File.