

Individual Income Tax Rates and Shares, 1997

by David Campbell and Michael Parisi

Taxpayers filed 122.4 million Individual Income Tax Returns for Tax Year 1997, of which more than 76 percent showed an income tax liability. Despite the introduction of lower capital gains rates for 1997, the average tax rate on taxable returns increased for the sixth consecutive year. The rate reached 15.3 percent for 1997, the highest level since 1986. The average adjusted gross income (less deficit) (AGI) rose to \$50,980, a 6.8-percent increase from 1996. Over the same period, average total income tax increased 8.1 percent to \$7,824. Total AGI increased 9.7 percent to \$4,765.2 billion for 1997, while total income tax over the same period increased 11.1 percent to \$731.3 billion.

The percent of AGI reported by the top 5 percent of taxpayers increased for the fourth consecutive year, reaching 31.8 percent for 1997. The top 5 percent of taxpayers also reported 51.9 percent of the total income tax for 1997, an increase of almost 1 percentage point over 1996. An AGI of at least \$108,048 placed an individual in the top 5 percent of taxpayers, while an AGI of at least \$250,736 included an individual in the top 1 percent of taxpayers. The percent of AGI reported by the top 1 percent of taxpayers for 1997 increased for the fourth consecutive year to 17.4 percent, while the same group accounted for 33.2 percent of the total income tax.

The capital gain tax rate was changed midway through 1997, from a uniform maximum rate of 28 percent on long-term capital gains to varying rates of either 10 percent, 20 percent, 25 percent, 28 percent, or a combination of these rates, depending on the type of asset, dates it was bought and sold, and (in the case of the 10-percent rate) the taxpayer's marginal income tax rate (tax bracket). (See Appendix C: Changes in Law for 1997 for an explanation of the new capital gain rates.) The amount of capital gains reported by taxpayers increased 41.4 percent for 1997, and, in turn, tax generated from capital gains increased 35.5 percent to \$63.8 billion for 1997. However, if all capital gains had been taxed as ordinary income for 1997, the tax generated from capital gains would have been \$35.6 billion higher compared to 15.9 billion for 1996. Due to these lower capital

gain rates, taxpayers with AGI's of \$1 million or more actually paid taxes at a lower average rate (28.8 percent) than taxpayers reporting between \$500,000 and \$1 million of AGI (29.1 percent).

This article discusses the individual income tax rates and tax shares and the computation of "total income tax" for 1997. To put this discussion into perspective, the appendices to the article provide explanations of selected terms used for the article and describe the income tax structure, certain tax law changes ("The Taxpayer Relief Act of 1997"), income and tax concepts (the "1979 Income Tax Concept," "modified" taxable income, and marginal tax rates), the computation of "alternative minimum taxable income," and the data sources and limitations.

Income Tax Rates

Discussions of income tax rates generally center on measuring two distinct tax rates: average tax rates and marginal tax rates. Average tax rates are calculated by dividing some measure of tax by some measure of income. For the statistics in this article, the average tax rate is "total income tax" (the sum of "income tax after credits" and the "alternative minimum tax") divided by AGI reported on returns showing some income tax liability. Measures of marginal tax rates, on the other hand, focus on determining the tax rate imposed on the last (or next) dollar of income received by a taxpayer. For this article, the marginal tax rate is the statutory rate at which the last dollar of taxable income is taxed. (See Appendix D for a more detailed explanation of marginal tax rates.) The following sections describe the measurement of the average and marginal tax rates in more detail and discuss the statistics based on these rates for 1997.

Average Tax Rates

Figure A presents statistics for 1986 through 1997 on income (based on each year's definition of AGI and on the common 1979 Income Concept) and taxes reported. (See Appendix D for an explanation of the 1979 Income Concept.) These tax years can be partitioned into six distinct subperiods:

- (1) Tax Year 1986 was the last year under the Economic Recovery Tax Act of 1981 (ERTA81). The tax bracket boundaries, personal exemptions, and standard deductions

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Figure A

Adjusted Gross Income, Total Income Tax, Average Tax Rate, and Average Total Income Tax, Tax Years 1986-1997

[Money amounts are in billions of dollars, except where indicated]

Tax year	Total number of returns	Taxable returns								
		Number of returns	As a percentage of total returns ¹	Adjusted gross income (less deficit)	Total income tax	Average tax rate (percent) ^{2,3}	Average per return (whole dollars) ³			
							Current dollars		Constant dollars ⁴	
							Adjusted gross income (less deficit)	Total income tax	Adjusted gross income (less deficit)	Total income tax
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
Using each tax year's adjusted gross income										
1986.....	103,045,170	83,967,413	81.5	2,440	367	15.1	29,062	4,374	26,516	3,991
1987.....	106,996,270	86,723,796	81.1	2,701	369	13.7	31,142	4,257	27,414	3,747
1988.....	109,708,280	87,135,332	79.4	2,990	413	13.8	34,313	4,738	29,005	4,005
1989.....	112,135,673	89,178,355	79.5	3,158	433	13.7	35,415	4,855	28,560	3,915
1990.....	113,717,138	89,862,434	79.0	3,299	447	13.6	36,711	4,976	28,088	3,807
1991.....	114,730,123	88,733,587	77.3	3,337	448	13.4	37,603	5,054	27,609	3,711
1992.....	113,604,503	86,731,946	76.3	3,484	476	13.7	40,168	5,491	28,630	3,914
1993.....	114,601,819	86,435,367	75.4	3,564	503	14.1	41,233	5,817	28,535	4,026
1994.....	115,943,131	87,619,446	75.6	3,737	535	14.3	42,646	6,104	28,776	4,119
1995.....	118,218,327	89,252,989	75.5	4,008	588	14.7	44,901	6,593	29,463	4,326
1996.....	120,351,208	90,929,350	75.6	4,342	658	15.2	47,750	7,239	30,433	4,614
1997.....	122,421,991	93,471,200	76.4	4,765	731	15.3	50,980	7,824	31,763	4,875
Using 1979 Income Concept ⁵										
1986.....	103,045,170	83,967,413	81.5	2,703	367	13.6	32,194	4,374	29,374	3,991
1987.....	106,996,270	86,723,796	81.1	2,736	369	13.5	31,551	4,257	27,774	3,747
1988.....	109,708,280	87,135,332	79.4	3,011	413	13.7	34,556	4,738	29,210	4,005
1989.....	112,135,673	89,178,355	79.5	3,188	433	13.6	35,752	4,855	28,832	3,915
1990.....	113,717,138	89,862,434	79.0	3,335	447	13.4	37,108	4,976	28,392	3,807
1991.....	114,730,123	88,733,587	77.3	3,387	448	13.2	38,169	5,054	28,024	3,711
1992.....	113,604,503	86,731,946	76.3	3,553	476	13.4	40,964	5,491	29,198	3,914
1993.....	114,601,819	86,435,367	75.4	3,625	503	13.9	41,938	5,817	29,023	4,026
1994.....	115,943,131	87,619,446	75.6	3,796	535	14.1	43,322	6,104	29,232	4,119
1995.....	118,218,327	89,252,989	75.5	4,075	588	14.4	45,655	6,593	29,957	4,326
1996.....	120,351,208	90,929,350	75.6	4,418	658	14.9	48,582	7,239	30,964	4,614
1997.....	122,421,991	93,471,200	76.4	4,849	731	15.1	51,875	7,824	32,321	4,875

¹ Number of taxable returns (column 2) divided by total number of returns (column 1).

² Average tax rate is "total income tax" (column 5) as a percentage of adjusted gross income (AGI) less deficit (column 4).

³ The average adjusted gross income (less deficit), average total income tax, and average tax rate were calculated from unrounded data.

⁴ Constant dollars were calculated using the U.S. Bureau of Labor Statistics' consumer price index for urban consumers (CPI-U, 1982-84=100). See footnote 2 of this article for further details.

⁵ These statistics are based on adjusted gross income (AGI) recomputed to reflect the 1979 Income Concept, thus enabling more valid comparisons to be made of the average tax rates among years. See Figure I for the components of the 1979 Income Concept. Changes in the definition of AGI among years render direct comparison of the unadjusted figures misleading. For additional information, see *Statistics of Income—Individual Income Tax Returns, for 1986-1997*.

were indexed for inflation, and the maximum tax rate was 50 percent.

(2) Tax Year 1987 was the first year under the Tax Reform Act of 1986 (TRA86). During 1987, a 1-year, transitional, five-rate tax bracket struc-

ture was established with a partial phase-in of new provisions that broadened the definition of AGI. The maximum tax rate was 38.5 percent.

(3) During Tax Years 1988 through 1990, there was effectively a three-rate tax bracket structure

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[1]. The phase-in of the provisions of TRA86 continued with a maximum tax rate of 33 percent.

- (4) Tax Years 1991 and 1992 brought a three-rate tax bracket structure (with a maximum tax rate of 31 percent), a limitation on some itemized deductions, and a phaseout of personal exemptions.
- (5) Tax Years 1993 through 1996 had a five-rate tax bracket structure (with a maximum statutory tax rate of 39.6 percent), a limitation on some itemized deductions, and a phaseout of personal exemptions.
- (6) Tax Year 1997 was the first year under the Taxpayer Relief Act of 1997 (TRA97). TRA97 added three new capital gain tax rates to the previous rate structure to form a new eight-rate tax bracket structure (with maximum statutory tax rate of 39.6 percent). (See Appendix C for more detailed description of the new capital gains rates)

Approximately 93.5 million, or 76.4 percent, of the 122.4 million individual returns filed for 1997 were “taxable returns.” Total AGI for these returns increased 9.7 percent to \$4,765 billion. Using the 1979 Income Concept, taxable returns showed total income of \$4,849 billion, an increase of 9.8 percent from 1996. Taxpayers reported \$731 billion in total income tax for 1997, approximately \$73 billion (11.1 percent) more than for 1996. Thus, for 1997, the growth of total income tax exceeded the growth of AGI by 1.4 percentage points, less than half the 3.6-percentage point difference for 1996. The lessening of this gap between the growth rates of total income tax and AGI can be partially attributed to the reduction of the capital gain tax rate from 28 percent to 10, 20, or 25 percent in many cases.

Average AGI and average total income tax increased from 1996 to 1997, in both current and constant 1982-84 dollars [2]. Average AGI increased 6.8 percent to \$50,980, while average tax increased 8.1 percent to \$7,824. After adjusting for inflation, average AGI rose to \$31,763, and average total income tax increased to \$4,875 in constant dollars.

Because TRA86 reduced statutory tax rates and broadened the definition of AGI (by eliminating or limiting the preferential treatment of various tax items, such as restricting the use of “passive losses” to offset “non-passive income” and eliminating the beneficial tax treatment of net long-term capital gains), comparisons of average tax rates before and after 1986, based on current-year definitions of AGI, become less meaningful [3]. The 1979 Income Concept provides a more consistent basis for such comparisons. Based on the 1979 Income Concept, average tax rates declined 0.1 percentage point from 13.6 percent for 1986 to 13.5 percent for 1987, increased to 13.7 percent for 1988, and declined again for the next 3 years, until reaching 13.2 percent for 1991. The average tax rate rose to 13.4 percent for 1992, increased to 13.9 percent for 1993, and continued to increase to 15.1 percent for 1997.

As shown in Figure B, the average tax rate (as a percentage of AGI) on all taxable returns increased approximately 0.1 percentage point for 1997 to 15.3 percent, while the average tax rate for all of the AGI-size classes either remained unchanged or declined between 1996 and 1997. Thus, the higher overall average tax rate was due to more taxpayers moving to higher income-size classes with higher average tax rates. The increased number of taxpayers in the three highest AGI-size classes likely accounted for much of the higher average tax rate. The number of taxable returns reporting AGI of \$200,000 or more increased 18.6 percent for 1997, whereas the total number of taxable returns increased 2.8 percent. Likewise, AGI on all taxable returns increased 9.7 percent, while on returns for taxpayers reporting AGI of \$200,000 or more, it increased 24.6 percent. Total income tax for this group also rose 19.5 percent, while for all taxable returns, it increased 11.1 percent. The average tax rate increased progressively with each AGI size class except for those taxpayers in the “\$1,000,000 or more” income-size class, whose average tax rate (28.8 percent) was actually 0.3 percentage points less than those taxpayers in the “\$500,000 under \$1,000,000” income-size class (29.1 percent).

Marginal Tax Rate Classifications

A return’s marginal tax rate is the highest statutory tax rate bracket applicable to that tax return. Marginal tax rate statistics are presented in Figures C and

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Figure B

Taxable Returns: Number of Returns, Adjusted Gross Income, and Total Income Tax, by Size of Adjusted Gross Income, Tax Years 1996 and 1997

[Number of returns is in thousands--money amounts are in millions of dollars]

Tax year, item	Total	Size of adjusted gross income									
		Under \$1 ¹	\$1 under \$10,000	\$10,000 under \$20,000	\$20,000 under \$30,000	\$30,000 under \$50,000	\$50,000 under \$100,000	\$100,000 under \$200,000	\$200,000 under \$500,000	\$500,000 under \$1,000,000	\$1,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Tax Year 1997:											
Number of taxable returns.....	93,471	6	9,994	15,722	16,357	22,620	21,592	5,374	1,401	262	144
Adjusted gross income											
(less deficit).....	4,765,197	-6,969	59,448	235,780	407,092	882,808	1,476,061	707,311	404,056	176,547	423,065
Total income tax.....	731,321	111	2,525	15,779	33,662	89,793	190,445	126,268	99,512	51,291	121,936
Average tax rate (percent).....	15.3	(²)	4.2	6.7	8.3	10.2	12.9	17.9	24.6	29.1	28.8
Tax Year 1996:											
Number of taxable returns.....	90,929	4	10,044	16,277	16,417	21,961	20,094	4,610	1,198	214	111
Adjusted gross income											
(less deficit).....	4,341,871	-7,737	60,205	245,462	408,100	858,369	1,368,290	603,354	347,177	144,695	313,957
Total income tax.....	658,245	121	2,501	16,859	33,875	88,649	178,230	109,838	87,687	43,530	96,956
Average tax rate (percent).....	15.2	(²)	4.2	6.9	8.3	10.3	13.0	18.2	25.3	30.1	30.9
Increase in average tax rates, 1997 over 1996.....	0.1	(³)	--	-0.2	--	-0.1	-0.1	-0.3	-0.7	-1.0	-2.1

¹ Includes returns with adjusted gross deficit. Tax in these returns represents some combination of alternative minimum tax, Form 4972 tax on lump-sum distributions from qualified retirement plans, and Form 8814 tax on a child's interest and dividends not reflected in adjusted gross income or taxable income.

² Percentage not computed.

³ Increase not computed.

NOTE: Detail may not add to totals because of rounding.

D, and in Table 1. These statistics were based on individual income tax returns showing an amount for "tax generated" on taxable income and items of income that were subject to the regular income tax, generally those included in AGI [4]. Tables 2 and 3 contain additional data based on marginal tax rates. These tables present statistics on the income and tax generated at each marginal tax rate by size of AGI (Table 2) and by filing status (Table 3). Appendix D explains the details on the determination of the marginal tax rate bracket into which a return is assumed to fall.

For 1997, the 99.2 million individual returns with modified taxable income totaling \$3,429.6 billion generated more than \$738.8 billion in income taxes. Figure C presents the amounts and percentages of modified taxable income and income tax generated (before reduction by tax credits, including the earned income credit) by the marginal rate categories (defined in Appendix D). Although 69.3 percent of the

returns were in the "15-percent" and "15-percent (Form 8814)" marginal rate categories, they reported only 27.4 percent of the modified taxable income and generated 19.1 percent of the tax. Conversely, the 0.7 percent of returns in the "39.6-percent" classification reported 16.9 percent of the modified taxable income and generated 26.4 percent of the tax. The 24.0 percent of returns in the "28-percent" and "28-percent (capital gains)" categories reported 36.4 percent of the modified taxable income and 32.4 percent of the tax. Returns in the "31-percent" classification reported 9.4 percent of the modified income tax and 10.5 percent of the income tax, while returns in the "36-percent" classification showed 7.3 percent of the modified taxable income and 9.3 percent of the income tax. Other than capital gains, the remaining returns—those in the "Form 8615" category—reported 0.1 percent of the modified taxable income and 0.1 percent of the income tax generated.

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Figure C

Returns with Modified Taxable Income: Tax Generated at All Rates on Returns with the Indicated Marginal Tax Rate, Tax Year 1997

[Money amounts are in thousands of dollars]

Marginal tax rate classes	Number of returns		Modified taxable income		Tax generated	
	Number	Percentage	Amount	Percentage	Amount	Percentage
	(1)	(2)	(3)	(4)	(5)	(6)
All rates.....	99,217,292	100.0	3,429,576,155	100.0	738,816,216	100.0
10 percent.....	506,115	0.5	1,822,520	0.1	182,339	(²)
15 percent (Form 8814) ¹	13,927	(²)	10,417	(²)	1,566	(²)
15 percent.....	68,703,363	69.2	939,404,002	27.4	140,896,164	19.1
20 percent.....	897,974	0.9	82,106,281	2.4	15,649,877	2.1
25 percent.....	37,749	(²)	4,119,307	0.1	820,993	0.1
28 percent.....	20,125,622	20.3	998,563,003	29.1	189,013,768	25.6
28 percent (capital gains) ³	3,695,872	3.7	248,694,887	7.3	50,498,743	6.8
31 percent.....	2,868,200	2.9	321,551,623	9.4	77,515,492	10.5
36 percent.....	1,169,742	1.2	249,769,289	7.3	68,609,227	9.3
39.6 percent.....	691,359	0.7	580,861,776	16.9	194,949,710	26.4
Form 8615 ⁴	507,367	0.5	2,673,050	0.1	678,337	0.1

¹ Form 8814 was filed for a dependent child under age 14 for whom the parents made an election to report the child's investment income (if it was from interest or dividends totaling between \$500 and \$6,500) on the parents' income tax return.

² Less than 0.05 percent.

³ Returns with net long-term capital gains in excess of net short-term capital losses taxed at the 28-percent rate, which otherwise (based on ordinary income) would be taxed at a higher rate than 28 percent.

⁴ Form 8615 was filed for a child under age 14 to report the child's investment income in excess of \$1,300. The returns in this rate classification are not distributed by tax rate.

NOTES: Detail may not add to totals because of rounding. See Appendix A for an explanation of "tax generated" and Appendix D for an explanation of "modified taxable income."

The three new marginal rate classifications for 1997, "10 percent," "20 percent," and "25 percent," reported just 2.6 percent of the modified taxable income and 2.3 percent of the income tax. As shown in Table 2, the 7.9 percent of returns with modified taxable income taxed at "20 percent" reported 5.3 percent of the modified taxable income and 4.9 percent of the income tax. The 6.7 percent of returns (with modified taxable income) taxed at the "10-percent" rate accounted for only 0.5 percent of modified taxable income and 0.2 percent of income tax. The returns in the "25-percent" marginal rate classification accounted for only 0.3 percent of the total, while the modified taxable income and income tax reported on these returns were 0.1 percent and 0.2 percent of the aggregates, respectively. Including capital gain income tax at the 28-percent rate, income taxed at lower capital gain rates represented 8.5 percent of total modified taxable income. This income generated \$63.8 billion for 1997, representing 9.7 percent of taxes. In contrast, for 1996, only 5.4 percent of modified taxable income was taxed at lower capital gain rates, generating \$47.1 billion in taxes.

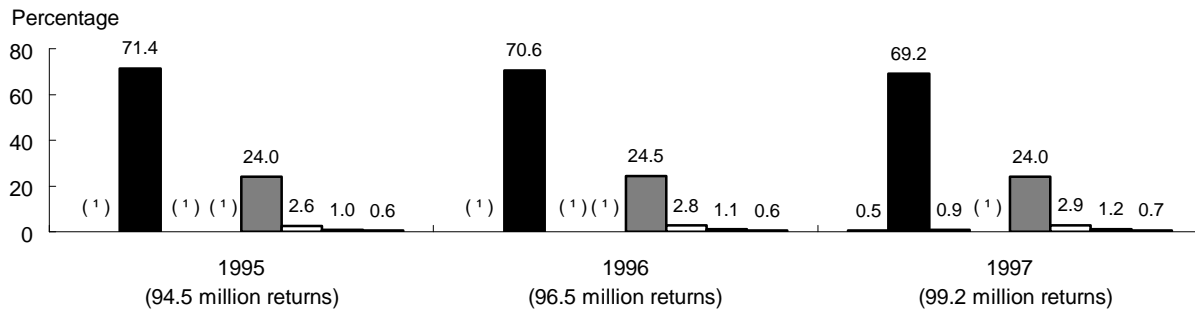
Figure D illustrates changes in the distribution of percentages of tax returns, modified taxable income, and income tax generated among various marginal tax rate classifications over Tax Years 1995, 1996, and 1997. Over the 3-year period, the percentage of returns in the "15-percent" marginal tax rate category decreased 2.2 percentage points, while the remaining four marginal tax rate categories either increased or remained the same. During this 3-year period, the largest changes in the percentage shares of modified taxable income and income tax generated occurred in the "15-percent," "28-percent," and "39.6-percent" categories. The percentage shares of modified taxable income declined 3.5 percentage points in both the "15-percent" and "28-percent" categories, while it increased 3.1 percentage points in the "39.6-percent" category. Similar to the changes in the percentage shares of modified taxable income, the percentage shares of income tax generated for the "15-percent" and "28-percent" categories decreased by 2.8 and 4.0 percentage points, respectively. The percentage share of income tax generated for the "39.6-percent" category increased 3.7 percentage points. The three new marginal tax rate

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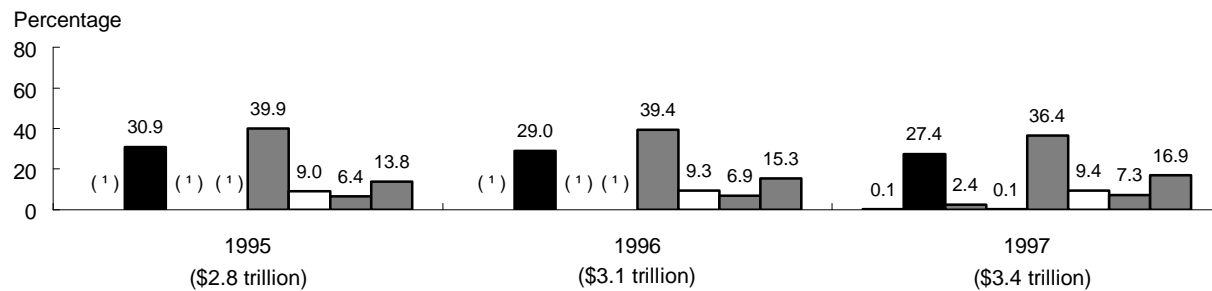
Figure D

Returns with Modified Taxable Income: Percentages of Returns, Modified Taxable Income, and Tax Generated by Marginal Tax Rate Classification, Tax Years 1995-1997

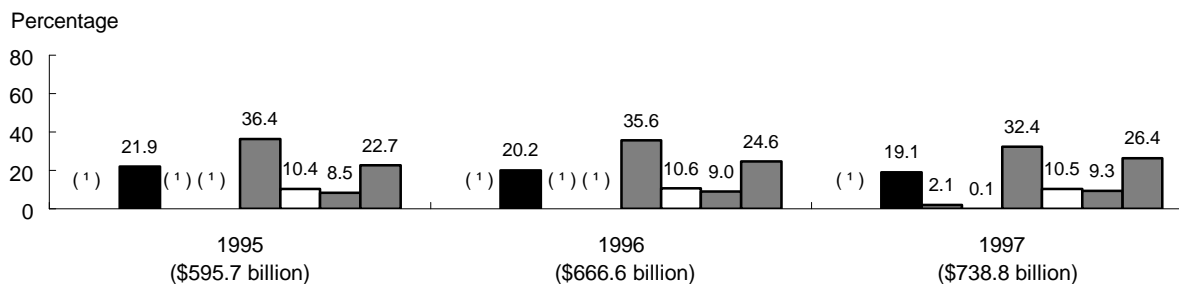
Number of Returns



Modified Taxable Income



Tax Generated



■ 10 percent ■ 15 percent ■ 20 percent ■ 25 percent ■ 28 percent² □ 31 percent ■ 36 percent ■ 39.6 percent

¹ The 10-percent, 20-percent, and 25-percent rates not applicable for 1995 and 1996.

² Includes 28 percent for returns with net long-term capital gains in excess of net short-term capital losses.

NOTE: Returns in the "Form 8615" and "Form 8814" categories were included in the calculation of the percentages, but are not shown separately. Detail may not add to 100 percent because of rounding.

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categories for 1997, “10 percent,” “20 percent,” and “25 percent,” did not have a significant impact on the distribution of returns, modified taxable income, or tax generated.

Components of Total Income Tax

Regular Tax

Regular tax is generally tax determined from a taxpayer’s taxable income based on statutory tax rates less any applicable tax credits. It does not include the “alternative minimum tax” (AMT). Figure E illustrates the derivation of aggregate total income tax for 1997 returns with modified taxable income. Table 1 includes two tax amounts: “tax generated” and “income tax after credits.” Tables 5 through 8 and Figures A and B include an additional measure of tax, “total income tax.”

As shown (Figure E and column 5 of Table 1), the tax generated by applying statutory income tax rates to modified taxable income was \$738.8 billion. For most taxpayers, tax generated was equal to income tax before credits. However, for others, income tax before credits included special taxes on lump-sum distributions from qualified retirement plans (when a 5- or 10-year averaging method was used) [5]. The earned income credit (EIC) is included in this computation to the extent that its application did not reduce income tax before credits below zero. Any portion of the EIC that is refundable to the taxpayer because it exceeds the taxpayer’s liability and any portion of the EIC used to reduce taxes other than regular income taxes are excluded from the computation of income tax after credits [6]. Income tax after credits (Figure E) totaled \$727.3 billion. Total income tax of \$731.3 billion (Figure A) is thus the sum of income tax after credits and the alternative minimum tax [7].

Table 4 provides estimates on the type of tax computation for returns with modified taxable income. For 1997, the number of children under age 14 who had investment income over \$1,300 increased 39 percent to over 507,000. Using Form 8615 to compute their tax (as if their incomes were treated as the marginal incomes of their parents or guardians), these children showed \$677.1 million in tax generated (column 7). If these same children had had all their incomes taxed as ordinary income, income tax before credits (regular tax computation) would have totaled

Figure E

Derivation of 1997 Total Income Tax as Shown in Statistics of Income

[Money amounts are in billions of dollars]

Tax generated from tax rate schedules or tax table.....	738.8
PLUS:	
Tax on lump-sum distributions from qualified retirement plans.....	0.7
EQUALS:	
Income tax before credits.....	739.5
LESS: Tax credits, total.....	12.2
Child-care credit.....	2.5
Foreign tax credit.....	4.1
General business credit.....	0.8
Earned income credit (limited to the amount needed to reduce total income tax to zero).....	3.8
Credit for prior-year minimum tax.....	0.7
Other credits ¹	0.3
EQUALS:	
Income tax after credits.....	727.3
PLUS: Alternative minimum tax.....	4.0
EQUALS:	
Total income tax.....	731.3

¹ Includes the elderly or disabled credit, empowerment zone employment credit, mortgage interest credit, adoption credit, nonconventional source fuel credit, and other credits.

NOTE: Detail may not add to totals because of rounding.

\$548.3 million (column 6). Thus, the difference resulting from the special tax computation was \$128.8 million (column 8) in additional tax, down 17.0 percent from the \$155.1 million calculated for 1996 (column 4) [8]. This decrease in the margin of additional tax for 1997 was in part the result of the reduction in the capital gain tax rate, which lowered the marginal rate at which the long term capital gains were taxed on the parents’ (and, therefore, the children’s) returns.

For 1997, almost 14.0 million returns using the Schedule D capital gain tax computation generated \$316.0 billion in tax (column 7). However, if long-term capital gains had been taxed the same as ordinary income, the amount of income tax before credits (regular tax computation) for these same taxpayers would have been \$351.7 billion (column 6). Therefore, the reduction in tax generation resulting from use of the Schedule D tax computation was \$35.6 billion (column 8), more than twice the \$15.9 billion shown for 1996 (column 4) where only 2.4 million

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taxpayers received some benefit from lower capital gain taxes (column 1). Most of these tax savings (61.4 percent) were reported by taxpayers in the “\$1,000,000 or more” income-size class. For 1997, 5.7 million taxpayers with an AGI of less than \$50,000, who were previously unaffected by the capital gain tax rate, were able to take advantage of new lower capital gain tax rates and accounted for almost \$600 million, or 1.7 percent of the tax savings.

Alternative Minimum Tax

The Revenue Act of 1978 established the alternative minimum tax to ensure that a minimum amount of income tax was paid by taxpayers who might other-

wise use certain provisions of the tax code meant to stimulate economic activity and generate “economic income” to reduce, or even eliminate, their regular tax liabilities. The AMT provisions may recapture some of these tax reductions by recomputing income to achieve “alternative minimum taxable income,” or AMTI, the tax base for AMT. Form 6251, *Alternative Minimum Tax—Individuals*, is used to calculate AMT. (See Appendix E for an explanation of the computation of AMTI.)

Figure F presents statistics, by size of AGI, on the AMT reported by taxpayers filing Form 6251 with their returns. For 1997, an AMT liability of \$4.0 billion was reported based on AMTI of \$700.4 billion.

Figure F

Returns with Alternative Minimum Tax Computation Reported on Form 6251: Total Adjustments and Preferences, and Alternative Minimum Taxable Income and Tax, Tax Years 1996 and 1997

[Money amounts are in thousands of dollars]

Size of adjusted gross income	Total adjustments and preferences		Alternative minimum taxable income ¹		Alternative minimum tax	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)
Tax Year 1997						
All returns.....	4,413,784	72,535,818	4,416,738	700,352,427	618,072	4,005,101
No adjusted gross income ²	91,143	1,421,451	89,940	-4,015,600	5,949	111,300
\$1 under \$10,000.....	427,322	1,225,108	430,484	1,795,924	14,666	9,517
\$10,000 under \$20,000.....	337,837	1,667,360	337,844	3,968,847	5,538	5,191
\$20,000 under \$30,000.....	276,787	1,381,384	276,787	5,801,791	3,143	4,668
\$30,000 under \$40,000.....	269,507	1,571,678	269,510	8,525,792	4,642	4,966
\$40,000 under \$50,000.....	301,931	1,846,573	301,931	12,037,276	8,832	11,036
\$50,000 under \$75,000.....	629,507	4,875,382	629,874	35,084,875	39,995	81,204
\$75,000 under \$100,000.....	471,911	5,243,941	471,911	36,728,677	86,641	212,517
\$100,000 under \$200,000.....	842,114	12,658,352	842,124	106,113,664	196,043	652,446
\$200,000 under \$500,000.....	555,196	15,834,686	555,648	153,703,666	200,635	1,533,144
\$500,000 under \$1,000,000.....	125,911	6,494,152	126,002	80,060,355	34,107	453,955
\$1,000,000 or more.....	84,619	18,315,749	84,683	260,547,164	17,882	925,157
Tax Year 1996						
All returns.....	4,001,833	61,523,205	4,006,470	569,843,530	477,898	2,812,746
No adjusted gross income ²	87,560	1,170,955	88,052	-4,752,241	3,266	120,386
\$1 under \$10,000.....	456,172	1,255,547	456,171	1,737,678	11,375	3,723
\$10,000 under \$20,000.....	328,415	1,750,411	328,464	4,135,439	2,480	3,762
\$20,000 under \$30,000.....	285,140	1,514,715	285,249	6,439,434	3,159	5,305
\$30,000 under \$40,000.....	217,970	1,201,865	217,970	6,815,734	4,267	5,271
\$40,000 under \$50,000.....	290,451	1,761,979	291,602	11,960,719	10,309	12,565
\$50,000 under \$75,000.....	575,968	4,556,520	577,319	32,111,286	47,512	59,182
\$75,000 under \$100,000.....	434,685	4,248,173	434,782	34,053,987	58,951	86,219
\$100,000 under \$200,000.....	712,939	10,808,261	713,668	89,914,043	161,683	465,223
\$200,000 under \$500,000.....	442,156	12,306,907	442,660	123,753,421	136,415	893,742
\$500,000 under \$1,000,000.....	104,195	6,262,981	104,297	66,778,330	25,691	467,983
\$1,000,000 or more.....	66,184	14,684,892	66,237	196,895,699	12,789	689,384

¹ See Figure K-1 for the calculation of alternative minimum taxable income.

² Includes returns with adjusted gross deficit.

NOTE: Detail may not add to totals because of rounding.

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Generally, AMTI is only shown on filed tax returns if the taxpayer's liability is affected by the AMT. The AMT amount for 1997 represents a 42.4-percent increase from the \$2.8 billion in AMT for 1996 based on \$569.8 billion of AMTI. This increase was at least partially attributed to the substantial increase in net long-term capital gain (less loss), which was taxed at 28 percent (the same as the maximum rate for the AMT) or lower rates. Also, the size of the AMT exemptions and the AMT income level at which the rate increases from 26 percent to 28 percent have not been indexed for inflation annually, whereas the widths of regular income tax rate brackets and the sizes of personal exemptions have been inflation-adjusted. Thus, year-to-year inflation may cause more taxpayers to be affected by the AMT and increase the amount of AMT liability.

Figure G shows the highest marginal tax rates on ordinary income, capital gains, and AMTI for each of the years 1986 through 1997. The amount of AMT

reported for each of the 12 years is also shown. For 1986, after TRA86 was introduced but before it became effective, when the highest marginal tax rate on ordinary income was 50 percent, and the highest capital gain rate and highest AMT rate were both 20 percent, the AMT reported was \$6.7 billion. After 1986, both the highest capital gain rate and the highest AMT rate increased, while the highest marginal ordinary tax rate declined. In addition, capital gains were fully included in AGI. For 1987, AMT decreased dramatically to \$1.7 billion. From 1988 to 1990, AMT revenue continued to decrease, to a low of \$830.3 million for 1990. For 1991, when the AMT rate increased to 24 percent, the AMT increased 46.1 percent to \$1.2 billion. From 1992 to 1993, when the highest marginal tax rate on ordinary income and the highest AMT rate increased again (while the highest capital gain rate remained the same), the AMT liability increased 51.3 percent to nearly \$2.1 billion. From 1994 through 1996, the amount of the AMT increased gradually every year. But for 1997, the AMT spiked 42.4 percent to \$4.0 billion, the highest level reported since 1986. This also coincides with the large increases in long-term capital gains receiving favorable tax rates, cited previously.

Figure G

Marginal Tax Rate, Capital Gain Rate, Alternative Minimum Tax Rate, and Alternative Minimum Tax, Tax Years 1986-1997

[Tax rates are in percentages--money amounts are in thousands of dollars.]

Tax year	Highest marginal statutory tax rate on ordinary income	Highest capital gain tax rate	Highest statutory alternative minimum tax rate	Alternative minimum tax	
				Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)
1986.....	50.0	20 ¹	20	608,907	6,713,149
1987.....	38.5	28	21	139,779	1,674,898
1988.....	28.0 ²	28 ²	21	113,562	1,027,884
1989.....	28.0 ²	28 ²	21	117,483	831,012
1990.....	28.0 ²	28 ²	21	132,103	830,313
1991.....	31.0	28	24	243,672	1,213,426
1992.....	31.0	28	24	287,183	1,357,063
1993.....	39.6	28	28	334,615	2,052,790
1994.....	39.6	28	28	368,964	2,212,094
1995.....	39.6	28	28	414,106	2,290,576
1996.....	39.6	28	28	477,898	2,812,746
1997.....	39.6	28	28	618,072	4,005,101

¹ This tax rate was based on 60 percent of long-term capital gains (in excess of short-term capital losses) being excluded from income. The remaining 40 percent of capital gains were taxed at the maximum rate of 50 percent, creating a top capital gain rate of 20 percent.

² The tax rate schedule provided only two basic rates: 15 percent and 28 percent. However, taxable income between certain amounts was subject to an additional 5 percent tax, creating an "effective" 33-percent tax rate.

Income and Tax Shares

Historical statistics on income and tax by cumulative percentiles (based on numbers of returns) are presented in Tables 5 through 8. Distributions of AGI, as defined for each year, and tax, by descending and ascending cumulative percentiles of returns, are presented in Tables 5 and 6. These tables can be used to make comparisons across cumulative percentile classes within each year, among years within the ERTA81 period (i.e., Tax Years 1982 through 1986), and among years within the post-TRA86 period (i.e., Tax Years 1987 through 1997). Since TRA86 redefined AGI, Tables 5 and 6 are not as useful for comparisons between pre- and post-TRA86 years. Thus, Tables 7 and 8, which are based on a consistent definition of income (i.e., using the 1979 Income Concept), are included to facilitate such comparisons.

Tables 5 and 7 are based on percentiles of returns cumulated downward from the highest income returns. The data are shown for the top 1, 5, 10, 25, and 50 percent of returns. In contrast, Tables 6 and 8 are based on returns cumulated upward for the

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lowest income returns. Data are shown for the bottom 50, 75, 90, 95, and 99 percent of all returns.

For example, consider the data in Table 5 for the 121.5 million returns filed for 1997 with positive AGI [9]. The average tax rate for these returns was 14.6 percent, the highest level since 1986 (14.5 percent). For the first time since 1990, the average tax rate on the top 1, 5 and 10 percentiles decreased (mostly due to the new capital gain tax rates), while the average tax rate on all other percentiles continued to increase. For 1997, the returns in the top 1 percentile reported 17.4 percent of total AGI and 33.2 percent of total income tax. The amount of AGI needed for inclusion in this percentile group (i.e., the AGI floor) was \$250,736. For 1996, the returns in this percentile group (i.e., those with at least \$227,546 in AGI) reported 16.0 percent of total AGI and 32.3 percent of total income tax. For 1997, the returns in the top 5 percentile group (returns reporting AGI of \$108,048 or more) reported 31.8 percent of total AGI and 51.9 percent of total income tax, higher than the 30.4 percent and 51.0 percent, respectively, for 1996 (when the AGI floor was \$101,141). For 1997, returns in the top 10 percentile group (returns with AGI of at least \$79,212) showed 42.8 percent of AGI and 63.2 percent of total income tax. For 1996, the returns in this percentile group (with AGI of \$74,986 or more) reported 41.6 percent of total AGI and 62.5 percent of total income tax.

The statistics by percentile in Tables 5 and 6 (for years prior to 1991) and Tables 7 and 8 (for years prior to 1994) were estimated, using a mathematical technique called “osculatory interpolation,” applied to aggregated data tabulated by income-size classes, in order to distribute the tax returns within each class [10]. For 1991 and later years, the statistics by percentiles in Tables 5 and 6 (and Tables 7 and 8 for 1994 through 1997) were computed based on an actual ranking of the returns in the statistical sample that served as the basis for Individual Statistics of Income estimates. The differences under the two methods were judged to be minor enough so that the pre-1991 and post-1990 data are believed to be comparable.

Figure H presents percentage shares of income and total income tax for various percentile groups, using the 1979 Income Concept, for 1986 through 1997. While shares of income for the top 1 percent and bottom 50 percent of taxpayers have been close

over the years, 1997 marks the third consecutive year that the income shares of the top 1 percent of taxpayers were higher than the corresponding shares of the bottom 50 percentile. The income share for the top 1 percent of taxpayers grew to the largest it has been in the previous 12 years, reaching 18.0 percent for 1997, while the bottom 50 percent of taxpayers reported the lowest share of income over the corresponding period at 13.8 percent. This constitutes the largest difference in income shares between the two percentile groups over the previous 12 years, 4.2 percentage points. Similar to this recent trend in shares of income, the shares of total income tax for the top 1 percent and bottom 50 percent of taxpayers have diverged over time. The total income tax shares for the top 1 percent have, despite fluctuations, risen from 25.4 percent for 1986 to a high of 32.7 percent for 1997. Shares of total income tax for the bottom 50 percent of taxpayers have decreased from 6.7 percent for 1986 to a low of just under 4.4 percent for 1997. The difference between shares of income for the top 5 percent and bottom 75 percent of taxpayers, which has converged over time, continued this trend for 1997. Income shares increased from 28.4 percent for 1986 to 32.9 percent for 1997 for the top 5 percent of taxpayers and decreased from 38.2 percent for 1986 to 34.4 percent for 1997 for the bottom 75 percent of taxpayers. Shares of total income tax for the top 5 percent and bottom 75 percent of taxpayers have also diverged over the past 12 years. Percentage shares of total income tax for taxpayers in the top 5 percentile rose from 42.4 percent for 1986 to a high of 51.4 percent for 1997, while shares of total income tax for the bottom 75 percent of taxpayers have decreased from 24.3 percent for 1986 to 18.6 percent for 1997.

Notes and References

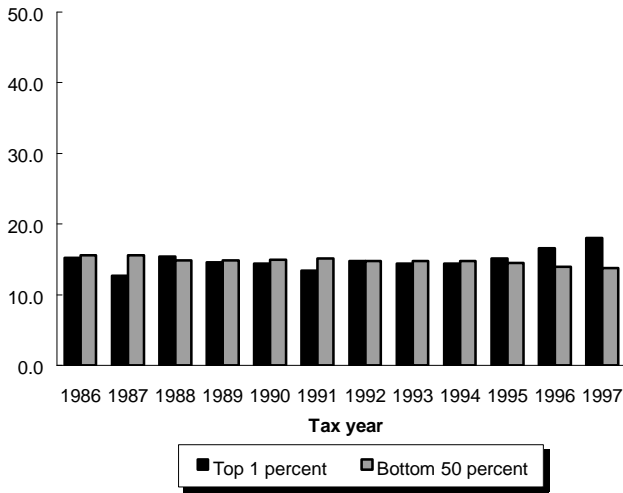
- [1] For Tax Years 1988 through 1990, the tax rate schedules provided only two basic rates: 15 percent and 28 percent. However, taxable income over certain levels was subject to a 33-percent tax rate to phase out the benefit of the 15-percent tax bracket (as compared to the 28-percent rate) and the deduction for personal exemptions. At the taxable income level where these benefits were completely phased out, the tax rate returned to 28 percent.

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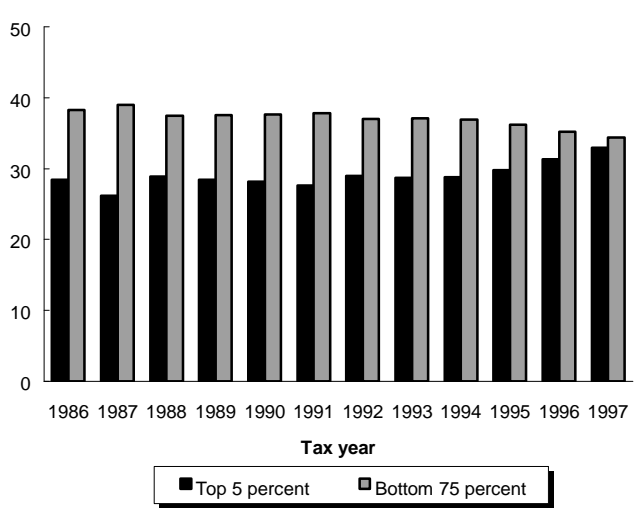
Figure H

Shares of Income and Total Income Tax Based on the 1979 Income Concept, by Cumulative Percentiles, Tax Years 1986-1997¹

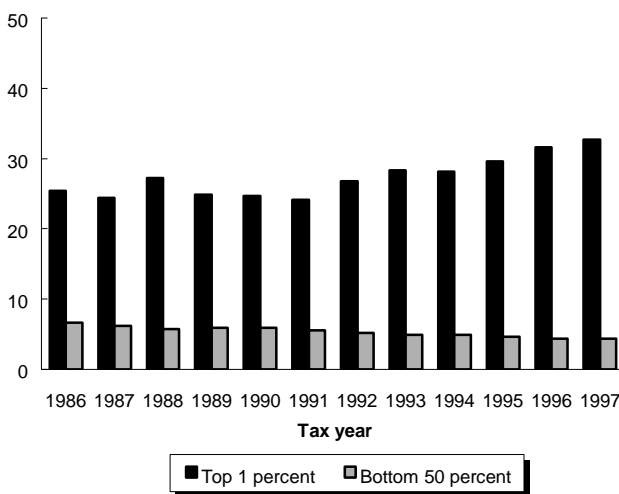
Percentage share of income



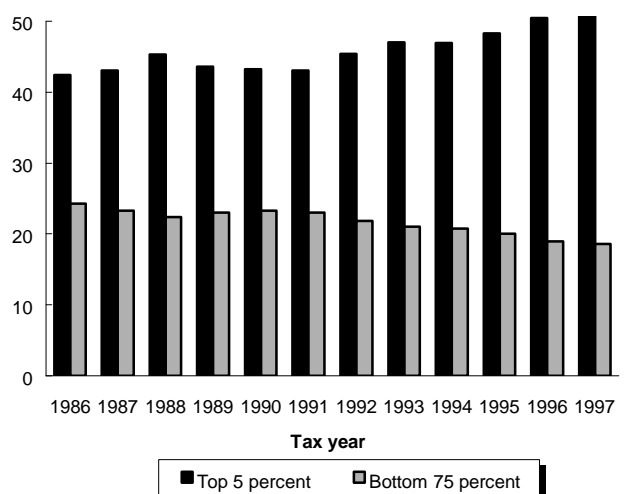
Percentage share of income



Percentage share of total income tax



Percentage share of total income tax



¹ Percentile groupings of tax filers exclude returns with zero or negative income.
NOTE: See Figure I for the components of the 1979 Income Concept.

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- [2] U.S. Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review*. The consumer price index (CPI-U) represents annual averages of monthly figures and reflects the buying of typical urban consumers (1982-84=100):

<u>Year</u>	<u>CPI-U</u>	<u>Year</u>	<u>CPI-U</u>
1997	160.5	1990	130.7
1996	156.9	1989	124.0
1995	152.4	1988	118.3
1994	148.2	1987	113.6
1993	144.5	1986	109.6
1992	140.5	1985	107.6
1991	136.2		

- [3] For further information on the Tax Reform Act of 1986, see U.S. Congress, Joint Committee on Taxation, General Explanation of the Tax Reform Act of 1986 (H.R. 3838, 99th Congress, Public Law 99-514), May 4, 1987.
- [4] Nontaxable (i.e., tax-exempt) forms of income, such as interest on State and local government obligations, were not included in AGI and generally did not affect the marginal tax rate. However, the receipt of some forms of tax-exempt income could have influenced the taxability of other income, such as Social Security benefits. When this situation occurred, the income made taxable by the receipt of other forms of nontaxable income was included in AGI.
- [5] The income amounts on which these special computations were based were not reflected in current-year AGI or current-year taxable income.
- [6] For 1997, the total earned income credit was \$30.4 billion. This amount includes the amount used to reduce the regular income tax (\$3.8 billion), the amount used to reduce other taxes reported on individual income tax returns (\$2.2 billion), and the amount refunded to taxpayers (\$24.4 billion). Table 2.5 in *Statistics of Income—1997, Individual Income Tax Returns*, shows these amounts.
- [7] Total income tax does not include certain other taxes reported on the individual income tax

return, such as self-employment tax (the Social Security tax on income from self-employment), the Social Security tax on certain tip income, tax from the recapture of prior-year investment or low-income housing credits, tax applicable to early withdrawals from an Individual Retirement Arrangement (IRA) or other qualified retirement plans, tax on trusts, accumulation and distributions, and household employment taxes. The statistics for “total tax liability,” shown in *Statistics of Income—1997, Individual Income Tax Returns*, include these taxes. For Tax Year 1997, total tax liability reported on 95.7 million returns was \$762.3 billion.

- [8] The difference resulting from the special tax computation does not reflect the provisions of TRA86, which lowered standard deductions for dependents (compared to other taxpayers) and prevented these children from claiming their own personal exemptions.
- [9] The percentile groupings of tax filers exclude returns with zero or negative AGI.
- [10] For an explanation of the osculatory interpolation technique, see Oh, H. Lock, “Osculatory Interpolation with a Monotonicity Constraint,” *1977 Proceedings of the American Statistical Association, Section on Statistical Computing*, 1978.

Appendix A: Explanation of Selected Terms

This appendix provides brief explanations of the major tax concepts discussed. For more extensive definitions, see Section 4 in *Statistics of Income—1997, Individual Income Tax Returns*.

Adjusted Gross Income.—Adjusted gross income is “total income,” as defined by the tax code, less “statutory adjustments” (primarily business, investment, or certain other deductions, such as payments to a Keogh self-employed retirement plan, certain deductible contributions to an Individual Retirement Arrangement (IRA), and self-employed health insurance deductions). Total income includes, for example, salaries and wages, taxable interest, dividends, alimony, and net amounts from such sources as business income, rents and royalties, and sales of capital assets.

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Difference Due to Special Tax Computation.—For this article, the tax difference is the amount of tax resulting from using provisions of one of the special tax computations (Form 8615 or Schedule D) less the amount of tax that would have resulted from not having used these provisions (regular tax computation).

Form 8615 Tax Computation.—Form 8615 was used to compute the tax on investment income of children under age 14 who had investment income of more than \$1,300. Generally, such income was taxed at the marginal tax rate of the parents.

Income Tax Before Credits (Regular Tax Computation).—This amount consisted of the tax liability on ordinary income, computed by using the tax table or applying the rates from one of the four tax rate schedules, plus any additional tax (tax on lump-sum distributions from qualified retirement plans). When Form 8615 tax was payable on investment income of children, for this concept, all the income was taxed at the child's rate rather than at the rate of the parents. When the Schedule D tax was payable on net long-term capital gains, the tax was based on the regular tax rates rather than the 28-percent tax rate for capital gains.

Marginal Taxable Income.—See Appendix D.

Marginal Tax Rate.—See Appendix D.

Regular Tax Computation.—Depending on marital status and size of taxable income, the taxpayer used the tax table or applied rates from one of the four tax rate schedules to determine tax. Returns of taxpayers who had taxes computed by the Internal Revenue Service were classified under the regular tax computation method.

Schedule D Tax Computation.—Schedule D was used to compute the 10-percent, 20-percent, 25-percent, and 28-percent tax on net long-term capital gains (in excess of net short-term capital losses), if such a computation was beneficial to the taxpayer. Any investment interest allocated to long-term capital gains (on Form 4952) was excluded from this computation.

Taxable Income.—Taxable income is AGI less the sum of personal exemptions amounts and either the standard deduction for non-itemizers or total itemized deductions. The amounts for personal exemptions and total itemized deductions are net of any reductions because of taxpayers' income exceeding certain income thresholds.

Taxable Returns.—A return is classified as "taxable" based on the presence of "total income tax" (the sum of income tax after credits and the alternative minimum tax). The following additional taxes were not taken into account for this purpose: self-employment, household employment, Social Security, Railroad Retirement Tax Act (RRTA) taxes, tax from recomputing prior-year investment or low-income housing credits, penalty taxes on Individual Retirement Arrangements, section 72 penalty taxes, advance earned income credit payments, or "golden parachute" payments (made to key employees as compensation under certain circumstances).

Tax Generated.—This is the amount of tax computed on modified taxable income either from the tax rate schedules or the tax table. Tax generated does not take into account the alternative minimum tax or the effect of tax credits. For most returns (those without the special tax on lump-sum distributions from qualified retirement plans), tax generated equals "income tax before credits."

Total Income Tax.—Total income tax is the sum of income tax after credits and the alternative minimum tax.

Appendix B: Income Tax Structure

Each year, taxpayers must file an income tax return if they meet certain minimum filing requirements. The filing requirements for 1997 were based on the amount of "gross income," filing status, age, and, to a lesser extent, dependency and blindness [B1]. Generally, the minimum level of income for which a return was required to be filed equaled the sum of the standard deduction for the particular filing status and the amount of the personal exemption deduction allowed for the taxpayer or taxpayers (but not for any dependents). In addition to the general filing requirements, individuals were required to file a return for Tax Year 1997 if they had net earnings from self-employment of at least \$400; liability for Social Security or Medicare tax on unreported tip income; Social Security, Medicare, or Railroad Retirement tax on reported tip income or group-term life insurance; "alternative minimum tax"; tax on qualified retirement plan distributions, including an Individual Retirement Arrangement (IRA) or a Medical Savings Account (MSA); tax on the recapture of investment credit or low-income housing credit; recapture tax on the disposition of a home

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purchased with a Federally-subsidized mortgage; any advance earned income credit payments; or wages of \$108.28 or more from a church or qualified church-controlled organization that was exempt from Social Security taxes.

Gross income includes all income received as money, goods, property, or services that was not expressly exempt from tax [B2]. Adjusted gross income (AGI) is equal to gross income less deductions for certain expenses [B3]. "Taxable income," the base on which income tax before credits is computed, equals AGI less the amount for personal exemptions and less either total allowable itemized deductions for taxpayers who itemize deductions, or the standard deduction (including the additional amounts for age and blindness) for all other taxpayers.

Income tax before credits is calculated from taxable income using: The tax table or tax rate schedules, both of which vary with taxpayer filing status (single, married filing jointly, surviving spouse, married filing separately, and head of household); Form 8615 or Form 8814 for children's investment income; Schedule D worksheet for net long-term capital gains; or some combination of the above [B4]. For 1997, the tax rates for each filing status were 10, 15, 20, 25, 28, 31, 36, and 39.6 percent. The tax rates of 10, 20, and 25 percent were only for net long-term capital gains (in excess of net short-term capital losses). (See Appendix C for further details on these rates.)

To calculate their Federal income tax liabilities for 1997, taxpayers used either the tax table or the tax rate schedules. Taxpayers with taxable income less than \$100,000 were required to use the tax table, while those with taxable income of \$100,000 or more were required to use the tax rate schedules. The tax table was based on income tax "brackets" up to \$50 wide [B5]. The tax within each bracket was based on the tax calculated at the midpoint of the bracket and then rounded to the nearest whole dollar. As a result, the tax table and the tax rate schedules could produce different amounts of tax for the same amount of taxable income. Use of the tax table could have produced either a slightly higher or lower amount of tax than that produced by the tax rate schedules. For taxpayers using the tax table with taxable income that was subject to the 36-percent marginal rate, the maximum difference in tax be-

tween the tax rate schedules and the tax table was \$8.75 [B6]. However, the actual difference in tax was smaller for most taxpayers.

Notes to Appendix B

- [B1] Taxpayers fall into one of five filing statuses: single, married filing jointly, married filing separately, head of household, and surviving spouse. Being age 65 or older or being legally blind affects the amount of the standard deduction and, hence, the filing requirements. Those taxpayers who are (or could be) dependents of other taxpayers have different filing requirements. For more information on the general filing requirements for 1997, see *Statistics of Income—1997, Individual Income Tax Returns* or Publication 17, *Your Federal Income Tax*.
- [B2] As defined under section 61 of the Internal Revenue Code, gross income includes amounts from wages and salaries, interest and dividends, alimony, bartering income, canceled debt income, gambling winnings, rents and royalties, and gains from property sales or exchanges, as well as gross profits from sole proprietorships and farming, income from partnerships and S Corporations, and distributions from estates and trusts. This definition of gross income is slightly different from the Form 1040, *U.S. Individual Income Tax Return*, concept of "total income," which is a component of the adjusted gross income (AGI) calculation on Form 1040. Total income includes net amounts rather than gross amounts (income prior to deductions) from such items as business income and rents and royalties.
- [B3] As defined under Internal Revenue Code section 62, deductible expenses are those incurred in the course of a trade or business or in connection with rents and royalties; losses from property sales or exchanges; and certain statutory adjustments, such as deductible contributions to an IRA or Keogh plan, moving expenses, or the health insurance deduction for certain self-employed taxpayers.
- [B4] Income tax before credits includes tax on lump-sum distributions from qualified retirement plans.

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[B5] For taxable income between \$0 and \$5 and between \$5 and \$25, the tax brackets were \$5 and \$10 wide, respectively. For taxable income between \$25 and \$3,000, the brackets were \$25 wide. All brackets for taxable income above \$3,000 were \$50 wide.

[B6] For example, assume a taxpayer filing as “married filing separately” reported taxable income of \$85,000. Using the tax table, the tax would be \$22,643, but using the tax rate schedules, the tax would be \$22,634.25, a difference of \$8.75.

Appendix C: Changes in Law for 1997

Adoption Credit.—New for 1997, certain taxpayers were able to take a nonrefundable tax credit for qualifying expenses paid in connection with the adoption of an eligible child. The credit could be as much as \$5,000 for each child (\$6,000 for a child with special needs), and would be phased out for AGI’s between \$75,000 and \$115,000. There is also an income exclusion of up to \$5,000 for employer-provided adoption expenses. Both the credit for non-special needs adoptions and the exclusion will expire on December 31, 2001. This was a provision in the Small Business Protection Act of 1996.

Capital Gain Distributions.—Beginning with Tax Year 1997, all capital gain distributions had to be reported on Schedule D, even if there were no other capital gains or losses.

Capital Gain Rates.—The maximum long-term capital gain tax rate for sales or exchanges of property after May 6, 1997, was reduced to 20 percent (10 percent for taxpayers in the 15-percent tax bracket). Capital gains realized between May 7, 1997, and July 28, 1997, were taxed at this lower long-term capital gain rate if held for 12 months or more. Capital gains realized after July 28, 1997, were taxed at the long-term rate if held for 18 months or more. Most other long-term gains were still taxed at a maximum of 28 percent. However, the maximum rate on gains from the sale of certain depreciable real property was reduced only to 25 percent. Therefore, for 1997, the long-term capital gain tax rate could be 10 percent, 20 percent, 25 percent, 28 percent, or a combination of those rates. Previously, the maximum rate was 28 percent. The new capital gain rates were also used in figuring the alternative minimum tax.

Earned Income Credit.—Several changes were made to the earned income credit for 1997. The maximum amount of the earned income credit increased to reflect indexing for inflation, as did the amounts of earned income and AGI an individual could have and still claim the credit. Taxpayers with more than \$2,250 of investment income (up from \$2,200 for 1996) were not eligible for the earned income credit. For most people, investment income includes interest (taxable and tax-exempt), dividend income, and capital gain net income. The maximum credit for taxpayers with no qualifying children increased 2.7 percent for 1997, from \$323 to \$332. For these taxpayers, earned income and AGI had to be less than \$9,770 (up from \$9,500 for 1996). For taxpayers with one qualifying child, the maximum credit for 1997 increased 2.7 percent, from \$2,152 to \$2,210. For taxpayers with two or more qualifying children, the maximum credit increased 2.7 percent to \$3,656 for 1997. To be eligible for the credit, a taxpayer’s earned income and AGI had to be less than \$25,760 for one qualifying child (up from \$25,078 for 1996), or less than \$29,290 for two or more qualifying children (up from \$28,495 for 1996).

Exemption Amount.—Indexing for inflation allowed most taxpayers to claim a \$2,650 deduction for each personal or dependant exemption to which he or she was entitled for 1997, a \$100 increase over the amount allowed for 1996. The AGI threshold for the reduction of exemption amounts was also indexed for inflation, from \$117,950 to \$121,200 for single filers; \$176,950 to \$181,800 for married persons filing jointly and surviving spouses; \$147,450 to \$151,500 for heads of household; and \$88,475 to \$90,900 for married persons filing separately.

Individual Retirement Arrangements (IRA’s).—For 1997, married couples filing a joint tax return could contribute up to \$2,000 to each spouse’s IRA, even if one spouse had little or no compensation. Therefore, the couple’s total combined IRA contributions could be as high as \$4,000 for the year. Previously, if one spouse had no compensation or elected to be treated as having no compensation, the total combined IRA contributions could not be more than \$2,250.

Itemized Deductions.—If a taxpayer’s AGI was greater than \$121,200 (\$60,600 if married filing separately), some types of his or her itemized deductions were limited; this threshold increased from \$117,950

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(\$58,975) for 1996 as a result of indexing for inflation. The limitation did not apply to deductions for medical and dental expenses, investment interest expenses, casualty or theft losses, and gambling losses; all other deductions were subject to the limitation. To arrive at allowable itemized deductions, total itemized deductions were reduced by the smaller of: (1) 80 percent of the “non-limited” deductions or (2) 3 percent of AGI in excess of the limitation threshold.

Medical Savings Accounts.—A new statutory adjustment for 1997, this pilot program for tax deferred medical savings was included in the Health Insurance Portability and Accountability Act of 1996. Eligible taxpayers either had to be self-employed or participate in a high deductible employer-sponsored health plan (limited to employers of no more than 50 employees over the preceding 2 years). Maximum annual contributions were limited to 65 percent of the deductible for individual coverage and 75 percent of the deductible for family coverage. Any distributions for qualified medical purposes were not taxed. However, if other distributions were made before age 65, disability, or death, they would be included in income and subject to an additional 15-percent tax.

Sale of a Home.—Taxpayers who sold their primary residences after May 6, 1997, were generally able to exclude from income up to \$250,000 (\$500,000 for married couples filing a joint tax return) of the gain on the sale of their homes.

Self-Employed Health Insurance Deduction.—Included in the Health Insurance and Portability Act of 1996 was a provision to increase the maximum percentage of self-employed health insurance premiums that a taxpayer could deduct as a statutory adjustment, from 30 percent in 1996 to 40 percent in 1997.

Self-Employment Tax.—The ceiling on taxable “self-employment income” was increased for 1997 due to indexing. The maximum amount of net earnings applied to the Social Security part of self-employment tax increased to \$65,400 from \$62,700 for 1996.

Standard Deduction.—The basic standard deduction and additional standard deduction for age or blindness increased for 1997 as a result of inflation indexing. For single filers, the basic standard deduction rose from \$4,000 to \$4,150; for married persons filing jointly or surviving spouses, from \$6,700 to \$6,900; for married persons filing separately, from

\$3,350 to \$3,450; and for heads of household, from \$5,900 to \$6,050. The basic standard deduction claimed by filers who were dependents of other taxpayers remained at \$650. The additional standard deduction for people age 65 or older or the blind remained at \$1,000 for single filers and heads of households, and \$800 for married persons filing jointly, surviving spouses, and married persons filing separately.

Tax Brackets.—To reflect the effects of inflation, the boundaries for the tax brackets were widened. The 15-percent bracket applied to taxable income equal to or below \$24,651 (\$24,000 for 1996) for single filers; \$41,200 (\$40,100 for 1996) for joint filers or surviving spouses; \$20,600 (\$20,050 for 1996) for married persons filing separately; and \$33,050 (\$32,150 for 1996) for heads of household. The 28-percent tax bracket applied to taxable income in excess of the 15-percent bracket ceiling and equal to or below \$59,750 (\$58,150 for 1996) for single filers; \$99,600 (\$96,900 for 1996) for joint filers or surviving spouses; \$49,800 (\$48,450 for 1996) for married persons filing separately; and \$85,350 (\$83,050 for 1996) for heads of household. The 31-percent tax bracket applied to taxable income in excess of the 28-percent bracket ceiling and equal to or below \$124,650 (\$121,300 for 1996) for single filers; \$151,750 (\$147,700 for 1996) for joint filers or surviving spouses; \$75,875 (\$73,850 for 1996) for married persons filing separately; and \$138,200 (\$134,500 for 1996) for heads of households. The 36-percent tax bracket applied to taxable income in excess of the 31-percent bracket ceiling and equal to or below \$271,050 (\$263,750 for 1996) for single filers, joint filers or surviving spouses, and heads of households and \$135,525 (\$131,875 for 1996) for married persons filing separately. The 39.6-percent tax rate applied to taxable income in excess of the upper boundary for the 36-percent tax bracket.

Appendix D: Income and Tax Concepts

As discussed in Appendix B, gross income is all income received that is not exempt from tax. Total income is the net amount of gross income after certain expenses (i.e., business or rent and royalty expenses) have been deducted. Adjusted gross income (AGI) is the result of total income less statutory adjustments to income (i.e., deductible contributions to an IRA or Keogh plan).

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1979 Income Concept

To analyze changes in income and taxes over a period of years, a consistent definition of income should be used. Because the components of AGI may vary from year to year as the law changes, the "1979 Income Concept" was developed to provide a more uniform measure of income across tax years. By including the same income and deduction items in each year's income calculation and using only items available on Federal individual income tax returns, the definition of the 1979 Income Concept is consistent throughout the base years and can be used for future years to compare income by including only income components common to all years. Tax Years 1979 through 1986 were used as base years in identifying the income and deduction items included in this concept. The 1979 Income Concept applied to 1997 includes many income and deduction items that are also components of AGI (Figure I). However, unlike AGI, the 1979 Income Concept also includes nontaxable (i.e., tax-exempt) amounts of income reported on individual income tax returns and disallowed passive loss deductions. In addition, only straight-line deductions for depreciation are included in the 1979 Income Concept [D1].

Modified Taxable Income

This concept is relevant only for "prior-year returns." For current-year returns, modified taxable income is identical to taxable income.

This is the term used for the statistics to describe "income subject to tax," the actual base on which tax is computed. Each year, a small number of returns for prior tax years are filed during the same calendar year in which the tax returns for the current tax year are being selected for the *Statistics of Income* sample. Some of these returns are selected for the sample and act as proxies for returns for the current tax year that will be filed during a later calendar year. The tax on these returns is based on a previous year's tax law (which may reflect different tax rates and income concepts). For the statistics in this article, the taxable income reported on these prior-year returns is modified to equal an amount necessary to generate the tax actually shown on these returns using current-year rates.

Marginal Tax Rates

Under the progressive U.S. tax rate structure, different portions of taxable income are taxed at

Figure I

Components of the 1979 Income Concept, Tax Year 1997

Income or Loss:

- Salaries and wages ¹
- Interest ¹
- Dividends ¹
- Taxable refunds ¹
- Alimony received ¹
- Capital gains reported on Schedule D minus allowable losses ¹
- Other gains and losses (Form 4797) ¹
- Business net income or loss ¹
- Farm net income or loss ¹
- Rent net income or loss ¹
- Royalty net income or loss ¹
- Partnership net income or loss ¹
- S Corporation net income or loss ¹
- Farm rental net income or loss ¹
- Estate or trust net income or loss ¹
- Unemployment compensation ¹
- Depreciation in excess of straight-line depreciation ²
- Total pension income ^{3,4}
- Other net income or loss ⁵
- Net operating loss ¹

Deductions:

- Disallowed passive losses (Form 8582) ⁶
- Moving expenses ¹
- Alimony paid ¹
- Unreimbursed business expenses ⁶

¹ Included in adjusted gross income (less deficit) (AGI) for Tax Year 1997.

² Adjustment to add back excess depreciation (accelerated over straight-line depreciation) deducted in the course of a trade or business and included in net income (loss) amounts shown above.

³ Includes taxable and tax-exempt pension and retirement distributions, including IRA distributions.

⁴ Not fully included in AGI for Tax Year 1997.

⁵ Includes an adjustment to add back amounts reported for the "foreign-earned income exclusion."

⁶ Not included in AGI for Tax Year 1997.

different rates. Figure J illustrates how income tax is determined for a single taxpayer with AGI of \$280,000 using the standard deduction. As shown in the example, five different tax rates are applied to the taxable income to arrive at total tax. The first \$24,650 of taxable income were taxed at the 15-percent rate; the next \$35,100 were taxed at the 28-percent rate; the next \$64,900 were taxed at the 31-percent rate; the next \$146,400 were taxed at the 36-percent rate; and the remaining portion, \$4,800, was taxed at the 39.6-percent rate. For purposes of this article, the tax rate applied to the last dollar of income (given certain assumptions about which source of income provided the last dollar of income subject to tax) is the marginal tax rate for that return.

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Figure J

Income Tax Calculation for a Single Taxpayer With One Exemption Who Used the Standard Deduction Tax Year 1997

[Money amounts are in whole dollars]

Item	1997
Adjusted gross income.....	280,000
Less: Exemption amount.....	0 ¹
Standard deduction amount.....	4,150
Equals: Taxable income.....	275,850
Tax based on tax rates for single taxpayers:	
First \$24,650 taxed at 15 percent.....	3,698
Next \$35,100 taxed at 28 percent.....	9,828
Next \$64,900 taxed at 31 percent.....	20,119
Next \$146,400 taxed at 36 percent.....	52,704
Next \$4,800 taxed at 39.6 percent.....	1,901
Total tax from tax rate schedule.....	88,250

¹ The exemption amount was phased out completely because AGI exceeded \$243,700.

The example shown has a marginal tax rate of 39.6 percent.

Since the individual income tax structure includes various types of income, deductions, exclusions, credits, and taxes which are not subject to the same treatment under tax laws, determining marginal tax rate can be difficult. For instance, investment income of a dependent under age 14 in excess of a specific amount is treated differently than salaries and wages of the same dependent. The investment income in excess of \$1,400 was taxed at the marginal tax rate of the parents, while the salaries and wages were taxed at the dependent's own rate.

Calculating marginal tax rates for a specific individual income tax return generally depends on the types and amounts of income reported and the assumptions made about the order in which the income is taxed, in particular, which type of income is assumed to be received "last." This determination is complicated by the presence of such items as the alternative minimum tax and various tax credits.

For this article, it is assumed that the income taxed at the marginal rate was the "last" income received. The alternative minimum tax and income tax credits, such as the earned income credit, are excluded in determining the marginal tax rates. The marginal tax rate is defined as follows:

- (1) If a return showed taxable income, the marginal tax rate of the return was the highest rate at which any amount of taxable income reported on the return was taxed.

- (2) If the return had no taxable income except for net long-term capital gains and that amount was less than or equal to the 15-percent tax bracket limit, the return was defined as having a "10-percent rate" marginal tax rate. If the return had taxable income (from other than net long-term capital gains) to which only the 15-percent tax rate applied, as well as net long-term capital gains to which the 20-percent or 25-percent rate on the net gain applied, the return was defined as having a marginal tax rate equal to the maximum rate at which the net gains were taxed. If the return had taxable income (from other than net long-term capital gains) to which the 28-percent tax rate applied as the highest rate, as well as net long-term capital gains to which the maximum 28-percent rate on net gain applied, the return was defined as having a "28-percent (capital gain)" marginal tax rate. However, if the return had taxable income (from other than net long-term capital gains) above the maximum amount to which the 28-percent applied, as well as net long-term capital gains to which the 28-percent rate on the net gain applied, the return was classified as having the highest rate at which any amount of taxable income reported on the return was taxed.

- (3) For returns of dependents with a Form 8615 attached when the use of this form resulted in the taxation of some of the dependent's income as if it were that of the parents, the return was classified as having a "Form 8615" marginal tax rate (the returns in the Form 8615 classification are not distributed by tax rate).
- (4) For returns of parents choosing to report interest and dividend income of a dependent under age 14 on their own (i.e., the parents') return using Form 8814, when the dependent's income generated the only tax liability on the parent's return, the return was classified with a "Form 8814" marginal tax rate.

The classification of returns into marginal tax rate categories for Statistics of Income purposed was essentially a function of filing status, size of taxable income, presence of net long-term capital gains (in excess of net short-term capital losses), and presence of Form 8615 or Form 8814. Returns were classified

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into one of the following eleven mutually exclusive marginal tax rate categories: (1) 10-percent rate; (2) Form 8814 (15-percent rate with no tax liability other than that generated by the dependent's income); (3) 15-percent rate; (4) 20-percent rate; (5) 25-percent rate; (6) 28-percent rate; (7) 28-percent rate with net long-term capital gains [D2]; (8) 31-percent rate; (9) 36-percent rate; (10) 39.6-percent rate; and (11) Form 8615 (with income taxed at any rate) [D3].

Table 1 presents statistics by marginal tax rate classification and filing status for returns with modified taxable income. For each marginal rate classification, modified taxable income and "income tax generated" were computed "at all rates" and "at marginal rate." The "at all rates" computations (columns 3 and 5) show the total amount of modified taxable income or tax generated, tabulated by the marginal tax rate specified; each tax rate classification is mutually exclusive. The "at marginal rate" computations (columns 4 and 6) report the specific amounts of modified taxable income taxed and the tax generated at the marginal tax rate shown, for all returns in each of the marginal rate classifications. For example, consider returns in the "joint returns and returns of surviving spouses" filing status that were included in the "39.6-percent" marginal tax rate classification. The total modified taxable income for the 590,431 returns in this classification "at all rates" was \$491.7 billion (column 3), and the total tax generated was \$164.7 billion (column 5). More than \$244.0 billion (column 4) of the modified taxable income for 1997 were subject to tax at the marginal tax rate of 39.6 percent. This modified taxable income generated \$96.6 billion (column 6) in tax at the 39.6-percent tax rate with the remainder generated at the lower seven tax rates. The alternative minimum tax was not included in the statistics by marginal tax rate.

Table 2 provides statistics on the tax generated, in total and at each marginal tax rate bracket, for returns with modified taxable income. Returns in this table are classified by size of AGI rather than by the marginal tax rate classifications used in Table 1. The tax generated at each marginal tax rate was computed based on the modified taxable income for each individual return. For example, the approximately 1.4 million returns included in the "\$200,000 under \$500,000" income-size classification showed total modified taxable income of \$345.8 billion and gener-

ated total tax of \$99.1 billion. Of the \$345.8 billion of modified taxable income, \$0.4 billion were taxed at the 10-percent rate, \$54.5 billion were taxed at 15 percent, \$25.2 billion were taxed at 20 percent, \$1.2 billion were taxed at 25 percent, \$74.5 billion were taxed at 28 percent (ordinary income), \$15.0 billion were taxed at 28 percent (net long-term capital gains), \$66.2 billion were taxed at 31 percent, \$85.5 billion were taxed at 36 percent, and \$23.2 billion were taxed at 39.6 percent, with the remainder consisting of income related to Forms 8814 and 8615. Approximately \$0.04 billion of the total tax generated were from the 10-percent rate, \$8.2 billion of the total tax generated were from the 15-percent rate, \$5.0 billion were from the 20-percent rate, \$0.3 billion were from the 25-percent rate, \$20.9 billion were from the 28-percent rate (ordinary income), \$4.2 billion were from the 28-percent rate (net long-term capital gains), \$20.5 billion were from the 31-percent rate, \$30.8 billion were from the 36-percent rate, and \$9.2 billion were generated at the 39.6-percent rate, with the remainder from tax related to Forms 8814 and 8615.

Table 3 presents statistics on the income and tax generated at each marginal tax rate (as in Table 2, columns 5 through 28) by filing status, instead of size of AGI, for returns with modified taxable income. Almost 0.6 million of the nearly 43.5 million returns with modified taxable income filed jointly had some income taxed at the 39.6-percent tax rate. For these returns, the taxable income subject to this rate was \$244.0 billion, and the tax generated was \$96.6 billion.

Notes to Appendix D

[D1] For more details on the income computation under the 1979 Income Concept for 1997, see *Statistics of Income—1997, Individual Income Tax Returns*.

[D2] The "28-percent (capital gain)" marginal tax rate category consists of returns that have a top tax rate of 28 percent, but have net long-term capital gains (in excess of net short-term capital losses), which would have been taxed at a higher rate if they had been some other form of income.

[D3] For some taxpayers, the statutory marginal tax rate may differ from the actual marginal tax

rate. For example, extra income received by certain taxpayers may result in the phaseout of their personal exemptions as well as some of their itemized deductions. Therefore, an extra dollar of income could add more than \$1 of taxable income. While this taxpayer could face a statutory marginal tax rate of 31 percent, the actual marginal rate faced by the taxpayer would be somewhat higher.

Appendix E: Computation of Alternative Minimum Taxable Income (AMTI)

AMTI was computed by adding certain “tax preferences” (i.e., deduction or exclusion amounts identified as potential sources of tax savings disallowed for AMT purposes) and “adjustments” (i.e., regular tax deduction amounts recomputed or excluded for AMT purposes) to taxable income before any deductions for personal exemptions (Figures K-1 and K-2). Although itemized deductions for some taxpayers were limited for regular tax purposes, the full amounts of such itemized deductions were included as adjustments. To compensate for this, the overall limitation on itemized deductions was subtracted from taxable income for AMT purposes. The “net operating loss deduction” was recomputed to allow for the exclusion of the “tax preference items” and “adjustments” used to reduce regular tax liability. The recomputed net operating loss deduction, termed the “alternative net operating loss deduction,” was limited to 90 percent of AMTI (with certain minor exceptions for 1997).

AMTI was reduced by an exemption amount dependent upon the filing status of the individual and subject to phaseout at higher AMTI levels. For 1997, the AMTI exemptions for single filers (and heads of households) was \$33,750; for joint filers and surviving spouses, \$45,000; and for married persons filing separately, \$22,500. The exemption was reduced (but not below zero) by 25 percent of the amount by which the AMTI exceeded threshold levels of \$112,500 for single filers (and heads of households), \$150,000 for joint filers, and \$75,000 for married persons filing separately. The exemptions was phased out completely for individuals whose filing status was single (or head of household), married filing jointly, and married filing separately, at \$247,500, \$330,000, and \$165,000, of AMTI, respectively.

Figure K-1

Calculation of Alternative Minimum Taxable Income (AMTI), Tax Year 1997

Taxable income before deduction for personal exemptions	
PLUS:	Adjustments and preferences (See Figure K-2)
PLUS:	Net operating loss deduction
MINUS:	Overall itemized deductions limitation
MINUS:	Alternative tax net operating loss deduction ¹
EQUALS:	Alternative minimum taxable income

¹ Limited to 90 percent of AMTI, except when depletion is present on Form 6251. In this case, AMTI is recalculated, and the alternative tax net operating loss deduction is limited to 90 percent of the recomputed amount.

After reduction by the exemption, the first \$175,000 (\$87,500 if married filing separately) of the remaining AMTI was subject to tax at a 26-percent rate, with any excess taxed at a 28-percent rate. However, capital gains (recalculated for AMT purposes) that were taxed at lower rates (10, 20, and 25 percent) were tax at these rates for AMT as well. The rest of AMT was taxed at the rates mentioned above (26 percent or 28 percent). The resulting tax was reduced by the “alternative minimum tax foreign tax credit,” which produced a “tentative minimum tax.” Tentative minimum tax was further reduced by the individual’s regular tax before credits (excluding tax on lump-sum distributions from qualified retirement plans) less the foreign tax credit (for regular tax purposes) to yield the alternative minimum tax.

Dependents under the age of 14 with investment income over a certain amount who filed their own returns were subject to special rules for AMT purposes. These rules required that the dependents pay the same amount of AMT as their parents would have paid if the parents included the dependents’ incomes on their own tax returns. (Dependents filing their own returns were limited to an AMT exemption of \$1,300 plus their “earned incomes.” The dependent’s AMT could be reduced if the parents had regular tax greater than the child’s own tentative minimum tax, or if any other dependent under age 14 of the same parents had regular tax greater than this dependent’s own tentative minimum tax.)

Appendix F: Data Sources and Limitations

The statistics for Tax Year 1997 are based on a stratified probability sample of unaudited individual

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FigureK-2

Alternative Minimum Tax Adjustments and Preferences, Tax Year 1997

- Standard deduction
- Medical and dental expenses from Schedule A (the lesser of deductible medical and dental expenses or 2.5 percent of AGI)
- Deductions for State and local income, real estate, personal property, and foreign taxes
- Deductions for interest on certain home mortgages not used to buy, build, or improve the taxpayer's main home or second home
- Miscellaneous itemized deductions subject to the 2-percent-of-AGI limitation
- Refunds of State and local income, real estate, personal property, and foreign taxes previously deducted (negative)
- Investment interest expense (the result could be negative)
- Excess of depreciation on property placed in service after 1986 over less liberal methods allowed for alternative minimum tax (AMT) purposes (straight-line or 150-percent declining balance method, depending on the type of property; the result could be negative)
- Adjustment of gain or loss on property, the basis of which was affected by accelerated depreciation or rapid amortization and which was reduced for AMT purposes (the result could be negative)
- Incentive stock options which were exercised after 1987 (the amount by which the value of the option when exercised exceeded the price paid by the taxpayer; the result could be negative)
- Passive activity gains and losses allowed for regular tax purposes for activities acquired before October 23, 1986, taking into account AMT adjustments and preference items and any AMT prior-year unallowed losses (the result could be negative)
- Difference between income distributions to beneficiaries of estates and trusts for regular tax purposes and the amounts refigured for AMT purposes (the result could be negative)
- Tax-exempt interest from private activity bonds issued after August 7, 1986
- Excess of deduction for carryover of charitable contributions refigured for AMT purposes using AMT, instead of regular tax (the result could be negative)
- Excess of circulation expenditures paid or incurred after 1986 over allowable amortization if the expenditures were capitalized (the result could be negative)
- Excess of percentage depletion deduction for sections 611 and 613 property over the adjusted basis (the result could be negative)
- Excess of accelerated depreciation on property placed in service before 1987 over straight-line depreciation as refigured for AMT purposes
- Adjustment from disallowing the installment sales method of accounting for sales of inventory and stock in trade after March 1, 1986, with certain exceptions (the result could be negative)
- Amount by which excess intangible drilling costs deducted currently over allowable amortization (if these costs were capitalized) was more than 65 percent of the taxpayer's "net income" from oil, gas, and geothermal wells, with exceptions for independent oil producers and royalty owners
- Deferred income from long-term contracts entered into after February 28, 1986, with certain exceptions and limitations (the result could be negative)
- Adjustment for refigured loss from activities in which allowable losses from partnerships or S corporations were limited by "at-risk" and other rules, taking into account AMT adjustments and preference items (the result could be negative)
- Excess of mining exploration and development costs paid or incurred after 1986 over allowable amortization if the expenditures were capitalized (the result could be negative)
- Adjustment for taxable distributions received from a cooperative (total AMT patronage dividend and per-unit retain allocation adjustment)
- Excess of rapid amortization of pollution control facilities placed in service after 1986 over otherwise allowable depreciation (the result could be negative)
- Excess of research and experimental expenditures paid or incurred after 1986 over allowable amortization if the expenditures were capitalized (the result could be negative)
- Adjustment for refigured tax shelter farm losses, taking into account AMT adjustments and preference items (the result could be negative)
- Related adjustments, refigured for AMT purposes, including section 179 expense deduction, expenses for business or rental use of the home, conservation expenses, taxable IRA distributions, self-employed health insurance deduction, Keogh retirement plan or self-employed SEP deduction, and IRA deductions (the result could be negative)

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income tax returns (Forms 1040, 1040A, 1040EZ, and 1040PC, including electronic returns) filed with the Internal Revenue Service during Calendar Year 1998. Returns in the sample were stratified based on: (1) the larger of positive income or negative income; (2) the size of business and/or farm receipts; (3) the presence or absence of specific forms and schedules; and (4) usefulness of returns for Treasury Department tax modeling purposes [F1]. Returns were then selected at rates ranging from 0.022 percent to 100 percent. The sampling resulted in 124,913 returns selected to represent the 123,045,360 returns filed during 1998.

Since the data presented in this article are estimates based on a sample of returns filed, they are subject to sampling error. To properly use the statistical data provided, the magnitude of the potential sampling error must be known; coefficients of variation (CV's) are used to measure that magnitude. (For information about the samples used for the other

tax years referred to in the statistics, for example, in Tables 5 through 8, see the *Statistics of Income* reports for those years.) Figure L presents estimated CV's for the number of returns and money amounts for selected income items. The appendix to this issue of the *Bulletin* discusses the reliability of estimates based on samples, and the use of coefficients of variation for evaluating the precision of estimates based on samples. SOURCE: IRS Statistics of Income Bulletin, Publication 1136, Spring 2000.

Notes to Appendix F

[F1] Returns in the sample were stratified based on the presence or absence of one or more of the following forms or schedules: Form 2555, *Foreign Earned Income*; Form 1116, *Foreign Tax Credit (Individual, Fiduciary, or Non-resident Alien Individual)*; Schedule C, *Profit or Loss from Business (Sole Proprietorship)*; and Schedule F, *Profit or Loss from Farming*.

Figure L

Coefficients of Variation for Selected Items, Tax Year 1997

[Coefficients of variation are percentages]

Size of adjusted gross income	Modified taxable income		Tax generated	Income tax after credits	Total income tax
	Number of returns	Amount	Amount	Amount	Amount
	(1)	(2)	(3)	(4)	(5)
Total	0.23	0.19	0.22	0.23	0.23
Under \$2,000 ¹	4.57	5.29	5.68	15.30	8.71
\$2,000 under \$4,000.....	4.65	5.18	5.61	5.58	5.64
\$4,000 under \$6,000.....	4.40	4.72	4.96	4.96	4.96
\$6,000 under \$8,000.....	3.98	4.90	5.04	5.31	5.31
\$8,000 under \$10,000.....	3.17	3.69	3.73	3.83	3.83
\$10,000 under \$12,000.....	3.19	3.53	3.55	3.60	3.60
\$12,000 under \$14,000.....	2.90	3.37	3.37	3.58	3.58
\$14,000 under \$16,000.....	2.65	3.22	3.23	3.55	3.55
\$16,000 under \$18,000.....	2.73	3.23	3.24	3.71	3.71
\$18,000 under \$20,000.....	2.69	3.11	3.12	3.60	3.60
\$20,000 under \$25,000.....	1.72	1.93	1.94	2.10	2.10
\$25,000 under \$30,000.....	1.88	2.06	2.06	2.10	2.10
\$30,000 under \$40,000.....	1.32	1.39	1.41	1.42	1.42
\$40,000 under \$50,000.....	1.36	1.41	1.46	1.47	1.47
\$50,000 under \$75,000.....	1.05	1.09	1.13	1.14	1.14
\$75,000 under \$100,000.....	1.45	1.48	1.53	1.59	1.59
\$100,000 under \$200,000.....	1.44	1.28	1.26	1.27	1.26
\$200,000 under \$500,000.....	1.32	1.13	1.12	1.13	1.13
\$500,000 under \$1,000,000.....	1.15	1.04	1.05	1.06	1.05
\$1,000,000 or more.....	0.88	0.39	0.38	0.38	0.38

¹ Includes returns with adjusted gross deficit.

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Table 1.--Returns with Modified Taxable Income: Tax Classified by Marginal Tax Rate, Tax Year 1997

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Highest marginal rate at which tax was computed	Number of returns	Adjusted gross income (less deficit)	Modified taxable income		Tax generated		Income tax after credits		
			Taxed at all rates	Taxed at marginal rate	At all rates	At marginal rate	Total	As a percentage of--	
								Adjusted gross income (less deficit)	Modified taxable income
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
All returns									
Total.....	99,217,292	4,868,199,362	3,429,576,155	1,653,463,053	738,816,216	378,712,678	727,274,473	14.9	21.2
10 percent.....	506,115	7,354,401	1,822,520	1,821,147	182,339	182,115	177,181	2.4	9.7
15 percent (Form 8814) ¹	13,927	-21,054	10,417	10,417	1,566	1,566	785	(X)	7.5
15 percent.....	68,703,363	1,754,291,826	939,404,002	925,337,331	140,896,164	138,800,600	135,190,939	7.7	14.4
20 percent.....	897,974	106,168,591	82,106,281	37,950,321	15,649,877	7,590,064	15,524,206	14.6	18.9
25 percent.....	37,749	5,139,670	4,119,307	931,245	820,993	232,811	814,087	15.8	19.8
28 percent.....	20,125,622	1,343,619,282	998,563,003	269,959,959	189,013,768	75,588,789	188,365,274	14.0	18.9
28 percent (capital gains) ²	3,695,872	320,060,814	248,694,887	17,995,548	50,498,743	5,038,753	50,212,031	15.7	20.2
31 percent.....	2,868,200	394,983,806	321,551,623	55,728,162	77,515,492	17,275,730	76,887,208	19.5	23.9
36 percent.....	1,169,742	291,682,151	249,769,289	50,629,474	68,609,227	18,226,611	67,804,437	23.2	27.1
39.6 percent.....	691,359	641,810,735	580,861,776	290,762,893	194,949,710	115,142,106	191,633,734	29.9	33.0
Form 8615 ³	507,367	3,109,139	2,673,050	2,336,555	678,337	633,533	664,593	21.4	24.9
Joint returns and returns of surviving spouses									
Total.....	43,515,577	3,304,812,528	2,376,104,562	1,061,734,521	531,708,220	260,086,703	525,326,904	15.9	22.1
10 percent.....	155,271	4,049,506	967,990	966,623	96,874	96,662	93,533	2.3	9.7
15 percent (Form 8814) ¹	7,027	-87,725	4,538	4,538	683	683	360	(X)	7.9
15 percent.....	25,743,008	984,870,246	526,703,146	518,611,906	79,056,569	77,791,786	77,139,566	7.8	14.6
20 percent.....	515,262	74,787,378	58,173,746	27,045,080	11,179,383	5,409,016	11,083,127	14.8	19.1
25 percent.....	27,490	3,949,781	3,152,281	666,134	624,844	166,533	618,928	15.7	19.6
28 percent.....	11,381,599	934,616,453	680,974,125	182,702,693	129,087,058	51,156,754	128,627,472	13.8	18.9
28 percent (capital gains) ²	2,509,495	248,375,301	191,214,615	12,959,759	38,804,021	3,628,733	38,560,947	15.5	20.2
31 percent.....	1,657,949	271,431,497	218,526,315	34,176,185	52,341,881	10,594,617	51,881,581	19.1	23.7
36 percent.....	928,047	239,748,194	204,721,548	40,564,346	55,866,072	14,603,165	55,253,242	23.0	27.0
39.6 percent.....	590,431	543,071,897	491,666,257	244,037,257	164,650,836	96,638,754	162,068,147	29.8	33.0
Form 8615 ³	--	--	--	--	--	--	--	(X)	(X)
Returns of married persons filing separately									
Total.....	2,287,343	91,354,525	67,955,412	34,761,478	15,623,648	8,966,613	15,352,208	16.8	22.6
10 percent.....	*7,021	*133,899	*13,198	*13,198	*1,319	*1,320	*1,319	*1.0	*10.0
15 percent (Form 8814) ¹	**	**	**	**	**	**	**	(X)	(X)
15 percent.....	1,364,774	26,243,372	15,043,469	14,872,166	2,270,136	2,230,825	2,242,921	8.5	14.9
20 percent.....	11,133	1,937,171	1,442,830	919,749	298,266	183,950	296,072	15.3	20.5
25 percent.....	**	**	**	**	**	**	**	(X)	(X)
28 percent.....	694,826	28,418,597	21,502,897	6,842,119	4,149,113	1,915,793	4,137,376	14.6	19.2
28 percent (capital gains) ²	55,298	3,302,765	2,632,737	341,582	554,830	95,643	550,189	16.7	20.9
31 percent.....	102,654	8,025,771	6,565,295	1,064,827	1,577,892	330,096	1,561,886	19.5	23.8
36 percent.....	30,046	4,255,201	3,636,992	805,780	994,959	290,081	992,626	23.3	27.3
39.6 percent.....	21,536	18,964,397	17,045,926	9,886,238	5,761,852	3,914,950	5,554,921	29.3	32.6
Form 8615 ³	**	**	**	**	**	**	**	(X)	(X)

Footnotes at end of table.

Individual Income Tax Rates and Shares, 1997

Table 1.--Returns with Modified Taxable Income: Tax Classified by Marginal Tax Rate, Tax Year 1997

--Continued

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Highest marginal rate at which tax was computed	Number of returns	Adjusted gross income (less deficit)	Modified taxable income		Tax generated		Income tax after credits		
			Taxed at all rates	Taxed at marginal rate	At all rates	At marginal rate	Total	As a percentage of--	
								Adjusted gross income (less deficit)	Modified taxable income
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
Returns of heads of households									
Total.....	11,014,994	334,534,651	183,320,652	127,444,666	32,590,675	22,340,758	28,989,345	8.7	15.8
10 percent.....	20,433	466,534	80,629	80,629	8,066	8,063	7,439	1.6	9.2
15 percent (Form 8814) ¹	*6,890	*72,175	*5,873	*5,873	*883	*883	*424	*0.6	*7.2
15 percent.....	9,755,629	236,296,458	107,539,087	106,972,777	16,104,774	16,045,917	12,690,726	5.4	11.8
20 percent.....	40,738	3,767,560	2,927,128	1,306,575	525,631	261,315	522,188	13.9	17.8
25 percent.....	*715	*149,955	*135,985	*62,120	*29,276	*15,530	*29,276	19.5	21.5
28 percent.....	994,101	61,925,594	45,817,189	11,602,100	8,522,231	3,248,588	8,436,230	13.6	18.4
28 percent (capital gains) ²	106,803	7,681,698	5,910,333	376,914	1,158,848	105,536	1,151,634	15.0	19.5
31 percent.....	44,561	6,578,958	5,300,228	991,707	1,292,321	307,429	1,287,805	19.6	24.3
36 percent.....	32,328	7,232,828	6,186,994	1,297,416	1,724,327	467,070	1,690,716	23.4	27.3
39.6 percent.....	12,796	10,362,893	9,417,205	4,748,554	3,224,318	1,880,427	3,172,906	30.6	33.7
Form 8615 ³	--	--	--	--	--	--	--	(X)	(X)
Returns of single persons									
Total.....	42,399,377	1,137,497,657	802,195,529	429,522,387	158,893,672	87,318,605	157,606,017	13.9	19.6
10 percent.....	323,390	2,704,462	760,703	760,697	76,080	76,070	74,890	2.8	9.8
15 percent (Form 8814) ¹	**	**	**	**	**	**	**	(X)	(X)
15 percent.....	31,839,952	506,881,750	290,118,300	284,880,482	43,464,685	42,732,072	43,117,726	8.5	14.9
20 percent.....	330,841	25,676,483	19,562,576	8,678,917	3,646,597	1,735,783	3,622,818	14.1	18.5
25 percent.....	9,491	959,135	758,974	187,171	151,592	46,793	150,986	15.7	19.9
28 percent.....	7,055,096	318,658,638	250,268,792	68,813,047	47,255,366	19,267,653	47,164,195	14.8	18.8
28 percent (capital gains) ²	1,024,276	60,701,050	48,937,201	4,317,293	9,981,044	1,208,842	9,949,261	16.4	20.3
31 percent.....	1,063,037	108,947,580	91,159,785	19,495,444	22,303,398	6,043,588	22,155,935	20.3	24.3
36 percent.....	179,322	40,445,929	35,223,754	7,961,932	10,023,869	2,866,296	9,867,852	24.4	28.0
39.6 percent.....	66,596	69,411,548	62,732,388	32,090,843	21,312,705	12,707,974	20,837,761	30.0	33.2
Form 8615 ³	507,367	3,109,139	2,673,050	2,336,555	678,337	633,533	664,593	21.4	24.9

* Estimate should be used with caution due to the small number of sample returns on which it is based.

**Data deleted to avoid disclosure of information for specific taxpayers. Deleted data are included in appropriate totals.

¹ Form 8814 was filed for a dependent child under age 14 for whom the parents made the election to report the child's investment income (if it was from interest or dividends totaling between \$500 and \$6,500) on the parents' income tax return. This rate classification is comprised of those returns with a tax liability only from the dependents' income.

² Returns with net long-term capital gains in excess of short-term capital losses taxed at the 28-percent rate.

³ Form 8615 was filed for a child under age 14 to report the child's investment income in excess of \$1,300. The returns in this rate classification are not distributed by tax rate.

(X) Percentage not computed.

NOTE: Detail may not add to totals because of rounding.

Individual Income Tax Rates and Shares, 1997

Table 2.--Returns with Modified Taxable Income: Tax Generated by Rate and by Size of Adjusted Gross Income, Tax Year 1997

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Size of adjusted gross income	Number of returns	Taxable income	Modified taxable income	Tax generated at all rates	Tax generated at specified rate					
					10 percent			15 percent (from Form 8814) ¹		
					Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
Total.....	99,217,292	3,429,108,873	3,429,576,155	738,816,216	6,907,742	17,771,867	1,777,462	244,568	175,713	26,450
Under \$2,000 ²	1,320,795	550,086	552,097	80,956	474,378	132,968	13,302	1,811	2,002	302
\$2,000 under \$4,000.....	1,462,006	1,334,502	1,342,755	226,599	354,219	233,410	23,339	--	--	--
\$4,000 under \$6,000.....	1,940,430	2,363,558	2,364,259	369,078	224,497	204,071	20,424	*1,237	*799	*120
\$6,000 under \$8,000.....	2,327,305	4,141,287	4,141,430	633,772	131,099	174,280	17,437	--	--	--
\$8,000 under \$10,000.....	3,374,586	8,519,632	8,522,183	1,283,436	236,750	309,151	30,928	*2,868	*2,262	*339
\$10,000 under \$12,000.....	3,321,662	13,209,002	13,211,091	1,984,361	200,058	289,812	28,988	*3,161	*2,055	*310
\$12,000 under \$14,000.....	3,804,323	18,093,142	18,094,010	2,711,165	214,967	274,589	27,473	*2,364	*825	*125
\$14,000 under \$16,000.....	4,431,226	24,805,350	24,805,705	3,711,104	279,453	414,642	41,465	--	--	--
\$16,000 under \$18,000.....	4,055,904	28,052,935	28,054,602	4,188,020	270,962	418,672	41,873	*1,122	*1,452	*218
\$18,000 under \$20,000.....	4,171,276	35,794,219	35,799,855	5,346,169	253,121	527,556	52,763	*6,399	*5,604	*844
\$20,000 under \$25,000.....	9,619,748	111,836,096	111,838,817	16,718,458	651,300	1,382,649	138,291	*2,644	*2,499	*377
\$25,000 under \$30,000.....	7,970,070	128,101,288	128,103,256	19,165,233	639,087	1,511,804	151,216	*6,153	*2,075	*312
\$30,000 under \$40,000.....	12,885,016	279,356,776	279,402,245	43,425,740	946,565	2,539,874	254,033	15,216	9,802	1,476
\$40,000 under \$50,000.....	9,752,885	288,610,900	288,644,304	47,164,624	804,743	2,197,108	219,744	15,397	9,117	1,370
\$50,000 under \$75,000.....	15,156,884	646,563,388	646,668,040	111,034,146	1,007,564	4,149,862	415,036	45,436	25,833	3,886
\$75,000 under \$100,000.....	6,444,130	404,479,370	404,563,029	80,198,640	131,847	1,405,368	140,545	31,970	27,898	4,201
\$100,000 under \$200,000.....	5,372,889	548,325,305	548,420,652	126,650,998	63,180	993,316	99,332	61,834	45,914	6,912
\$200,000 under \$500,000.....	1,400,406	345,717,075	345,776,692	99,120,000	17,087	397,722	39,773	35,202	27,331	4,116
\$500,000 under \$1,000,000.....	261,500	157,795,604	157,806,717	51,670,992	3,500	99,747	9,975	7,764	6,581	992
\$1,000,000 or more.....	144,252	381,459,356	381,464,416	123,132,726	3,367	115,266	11,527	3,991	3,665	552

Size of adjusted gross income	Tax generated at specified rate--continued								
	15 percent			20 percent			25 percent		
	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate
(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	
Total.....	98,555,961	1,944,874,703	291,731,205	7,796,946	178,967,637	35,793,545	246,106	4,905,399	1,226,380
Under \$2,000 ²	1,146,495	375,727	56,359	--	--	--	--	--	--
\$2,000 under \$4,000.....	1,416,377	795,971	119,396	--	--	--	--	--	--
\$4,000 under \$6,000.....	1,913,132	1,924,946	288,742	--	--	--	--	--	--
\$6,000 under \$8,000.....	2,303,972	3,793,247	568,987	--	--	--	--	--	--
\$8,000 under \$10,000.....	3,310,285	8,026,511	1,203,977	--	--	--	--	--	--
\$10,000 under \$12,000.....	3,287,300	12,763,241	1,914,486	--	--	--	--	--	--
\$12,000 under \$14,000.....	3,773,403	17,707,302	2,656,095	--	--	--	--	--	--
\$14,000 under \$16,000.....	4,383,925	24,312,449	3,646,867	--	--	--	--	--	--
\$16,000 under \$18,000.....	4,034,029	27,615,079	4,142,262	--	--	--	--	--	--
\$18,000 under \$20,000.....	4,139,407	35,246,629	5,286,994	--	--	--	--	--	--
\$20,000 under \$25,000.....	9,579,974	110,368,642	16,555,296	--	--	--	--	--	--
\$25,000 under \$30,000.....	7,946,218	126,390,612	18,958,592	*7,147	*6,400	*1,280	--	--	--
\$30,000 under \$40,000.....	12,863,028	263,919,929	39,587,989	346,865	490,329	98,057	*6,486	*7,505	*1,878
\$40,000 under \$50,000.....	9,739,717	254,983,546	38,247,532	529,527	1,395,534	279,112	*5,581	*17,265	*4,316
\$50,000 under \$75,000.....	15,129,735	529,200,716	79,380,107	1,936,117	6,324,584	1,264,918	43,801	231,105	57,785
\$75,000 under \$100,000.....	6,433,261	248,809,354	37,321,403	1,681,143	8,365,448	1,673,101	37,668	243,852	60,965
\$100,000 under \$200,000.....	5,361,050	208,638,659	31,295,799	2,216,204	22,573,011	4,514,603	84,458	1,100,542	275,146
\$200,000 under \$500,000.....	1,394,266	54,491,434	8,173,715	801,933	25,214,137	5,042,836	44,230	1,207,212	301,808
\$500,000 under \$1,000,000.....	259,150	10,076,677	1,511,502	172,034	17,262,026	3,452,404	13,405	654,807	163,703
\$1,000,000 or more.....	141,237	5,434,030	815,104	105,977	97,336,169	19,467,233	10,475	1,443,112	360,779

Footnotes at end of table.

Individual Income Tax Rates and Shares, 1997

Table 2.--Returns with Modified Taxable Income: Tax Generated by Rate and by Size of Adjusted Gross Income, Tax Year 1997--Continued

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Size of adjusted gross income	Tax generated at specified rate--continued								
	28 percent			28 percent (capital gains) ³			31 percent		
	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate
(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	
Total.....	28,550,795	612,168,865	171,407,282	5,917,203	89,203,768	24,977,072	4,729,302	154,606,632	47,928,056
Under \$2,000 ²	--	--	--	--	--	--	--	--	--
\$2,000 under \$4,000.....	--	--	--	--	--	--	--	--	--
\$4,000 under \$6,000.....	--	--	--	--	--	--	--	--	--
\$6,000 under \$8,000.....	--	--	--	--	--	--	--	--	--
\$8,000 under \$10,000.....	--	--	--	--	--	--	--	--	--
\$10,000 under \$12,000.....	--	--	--	--	--	--	--	--	--
\$12,000 under \$14,000.....	--	--	--	--	--	--	--	--	--
\$14,000 under \$16,000.....	--	--	--	--	--	--	--	--	--
\$16,000 under \$18,000.....	--	--	--	--	--	--	--	--	--
\$18,000 under \$20,000.....	--	--	--	--	--	--	--	--	--
\$20,000 under \$25,000.....	*3,161	*1,397	*391	--	--	--	--	--	--
\$25,000 under \$30,000.....	74,023	136,792	38,302	*1,199	*4,133	*1,157	--	--	--
\$30,000 under \$40,000.....	3,327,282	12,283,923	3,439,498	192,726	150,884	42,243	--	--	--
\$40,000 under \$50,000.....	3,011,527	29,339,274	8,214,997	376,349	702,461	196,694	--	--	--
\$50,000 under \$75,000.....	9,033,797	102,976,078	28,833,302	1,316,305	2,699,972	755,990	215,698	841,713	260,931
\$75,000 under \$100,000.....	6,105,850	134,883,322	37,767,330	1,236,231	4,017,850	1,125,011	541,193	6,678,646	2,070,380
\$100,000 under \$200,000.....	5,242,994	236,823,864	66,310,682	1,857,888	12,104,005	3,389,122	2,294,771	61,004,068	18,911,261
\$200,000 under \$500,000.....	1,363,435	74,484,099	20,855,548	697,189	15,018,334	4,205,136	1,297,336	66,207,284	20,524,258
\$500,000 under \$1,000,000.....	253,044	13,874,206	3,884,778	149,235	9,545,035	2,672,610	247,201	12,890,962	3,996,198
\$1,000,000 or more.....	135,681	7,365,911	2,062,455	90,080	44,961,095	12,589,107	133,102	6,983,959	2,165,027

Size of adjusted gross income	Tax generated at specified rate--continued								
	36 percent			39.6 percent			Form 8615 ⁴		
	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate
(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)	(37)	
Total.....	1,861,101	133,802,118	48,168,762	691,359	290,762,893	115,142,106	507,367	2,336,555	633,533
Under \$2,000 ²	--	--	--	--	--	--	130,092	41,395	10,894
\$2,000 under \$4,000.....	--	--	--	--	--	--	208,948	313,375	83,704
\$4,000 under \$6,000.....	--	--	--	--	--	--	65,808	234,444	59,703
\$6,000 under \$8,000.....	--	--	--	--	--	--	30,858	173,903	47,231
\$8,000 under \$10,000.....	--	--	--	--	--	--	24,270	184,259	48,151
\$10,000 under \$12,000.....	--	--	--	--	--	--	16,904	155,983	40,430
\$12,000 under \$14,000.....	--	--	--	--	--	--	*9,594	*111,294	*27,374
\$14,000 under \$16,000.....	--	--	--	--	--	--	*6,053	*78,613	*22,619
\$16,000 under \$18,000.....	--	--	--	--	--	--	*1,199	*19,399	*3,673
\$18,000 under \$20,000.....	--	--	--	--	--	--	*1,199	*20,065	*5,541
\$20,000 under \$25,000.....	--	--	--	--	--	--	*3,655	*83,630	*23,807
\$25,000 under \$30,000.....	--	--	--	--	--	--	*2,400	*51,441	*14,217
\$30,000 under \$40,000.....	--	--	--	--	--	--	--	--	--
\$40,000 under \$50,000.....	--	--	--	--	--	--	--	--	--
\$50,000 under \$75,000.....	--	--	--	--	--	--	*4,480	*218,177	*61,085
\$75,000 under \$100,000.....	*6,981	*51,994	*18,718	--	--	--	*1,128	*79,297	*16,574
\$100,000 under \$200,000.....	319,369	4,959,352	1,785,367	5,194	128,598	50,925	*349	*49,323	*12,025
\$200,000 under \$500,000.....	1,166,260	85,488,467	30,775,848	340,161	23,193,557	9,184,649	*157	*47,115	*12,168
\$500,000 under \$1,000,000.....	238,385	27,919,489	10,051,016	222,122	65,429,258	25,909,986	*85	*47,929	*17,793
\$1,000,000 or more.....	130,106	15,382,815	5,537,813	123,882	202,011,480	79,996,546	189	426,914	126,546

* Estimate should be used with caution because of the small number of sample returns on which it is based.

¹ Form 8814 was filed for a dependent child under age 14 for whom the parents made the election to report the child's investment income (if it was from interest or dividends totaling between \$500 and \$6,500) on the parents' income tax return. This rate classification is comprised of those returns with a tax liability only from the dependents' income.

² Includes returns with adjusted gross deficit.

³ Returns with net long-term capital gains in excess of short-term capital losses taxed at the 28-percent rate.

⁴ Form 8615 was filed for a child under age 14 to report the child's investment income in excess of \$1,300. The returns in this rate classification are not distributed by tax rate.

NOTE: Detail may not add to totals because of rounding.

Individual Income Tax Rates and Shares, 1997

Table 3.--Returns with Modified Taxable Income: Taxable Income, Total Tax, and Tax Classified by Marginal Tax Rate and by Filing Status, Tax Year 1997

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Marginal tax rate classes	All returns			Joint returns and returns of surviving spouses			Returns of married persons filing separately		
	Number of returns	Income taxed at rate	Income tax generated at rate	Number of returns	Income taxed at rate	Income tax generated at rate	Number of returns	Income taxed at rate	Income tax generated at rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All tax rates.....	99,217,292	3,429,576,149	738,811,513	43,515,577	2,376,104,562	531,706,867	2,287,343	67,955,412	15,623,607
10 percent.....	6,907,742	17,771,867	1,777,187	3,092,420	10,232,839	1,023,284	52,341	107,919	10,792
15 percent (Form 8814) ¹	244,568	175,713	26,450	223,638	158,594	23,874	3,194	2,191	330
15 percent.....	98,555,961	1,944,874,703	291,731,205	43,332,095	1,240,426,423	186,063,963	2,279,396	33,686,019	5,052,903
20 percent.....	7,796,946	178,967,637	35,793,527	5,309,431	137,009,227	27,401,845	116,686	4,858,742	971,748
25 percent.....	246,106	4,905,399	1,226,350	173,315	3,775,925	943,981	4,151	88,323	22,081
28 percent.....	28,550,795	612,168,865	171,407,282	17,067,520	447,856,931	125,399,941	904,360	12,263,851	3,433,878
28 percent (capital gains) ²	5,917,203	89,203,768	24,977,055	4,025,557	68,239,841	19,107,156	99,043	2,561,883	717,327
31 percent.....	4,729,302	154,606,632	47,928,056	3,176,426	113,364,789	35,143,085	154,236	2,409,830	747,047
36 percent.....	1,861,101	133,802,118	48,168,763	1,518,478	111,002,735	39,960,985	51,582	2,090,416	752,550
39.6 percent.....	691,359	290,762,893	115,142,105	590,431	244,037,257	96,638,754	21,536	9,886,238	3,914,950
Form 8615 ³	507,367	2,336,555	633,533	--	--	--	--	--	--

Marginal tax rate classes	Returns of heads of households			Returns of single persons		
	Number of returns	Income taxed at rate	Income tax generated at rate	Number of returns	Income taxed at rate	Income tax generated at rate
	(10)	(11)	(12)	(13)	(14)	(15)
All tax rates.....	11,014,994	183,320,652	32,590,155	42,399,377	802,195,523	158,890,884
10 percent.....	350,928	922,117	92,212	3,412,053	6,508,992	650,899
15 percent (Form 8814) ¹	14,342	12,715	1,912	3,394	2,212	334
15 percent.....	10,986,092	147,401,655	22,110,248	41,958,377	523,360,605	78,504,091
20 percent.....	227,084	3,732,716	746,543	2,143,745	33,366,953	6,673,391
25 percent.....	3,862	102,693	25,673	64,778	938,457	234,614
28 percent.....	1,190,589	18,740,273	5,247,276	9,388,327	133,307,810	37,326,187
28 percent (capital gains) ²	145,540	1,286,081	360,103	1,647,063	17,115,963	4,792,470
31 percent.....	89,685	3,376,501	1,046,715	1,308,955	35,455,512	10,991,209
36 percent.....	45,124	2,997,346	1,079,045	245,918	17,711,620	6,376,183
39.6 percent.....	12,796	4,748,554	1,880,428	66,596	32,090,843	12,707,974
Form 8615 ³	--	--	--	507,367	2,336,555	633,533

¹ Form 8814 was filed for a dependent child under age 14 for whom the parents made an election to report the child's investment income (if it was from interest or dividends totaling between \$500 and \$6,500) on the parents' income tax return. This rate classification is comprised of those returns with a tax liability only from the dependents' income.

² Returns with net long-term capital gains in excess of short-term capital losses taxed at the 28-percent rate.

³ Form 8615 was filed for a child under age 14 to report the child's investment income in excess of \$1,300. The returns in this rate classification are not distributed by tax rate.

NOTE: Detail may not add to totals because of rounding.

Individual Income Tax Rates and Shares, 1997

Table 4.--Returns with Modified Taxable Income: Tax Classified by Type of Tax Computation and by Size of Adjusted Gross Income, Tax Years 1996 and 1997

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Type of tax computation by size of adjusted gross income	Tax Year 1996				Tax Year 1997			
	Income tax before credits (regular tax computation) ¹		Tax generated	Difference due to special tax computation ²	Income tax before credits (regular tax computation) ¹		Tax generated	Difference due to special tax computation ²
	Number of returns	Amount	Amount		Number of returns	Amount	Amount	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Returns with regular tax computation only								
Total.....	93,702,787	467,560,382	467,560,388	N/A	84,194,722	418,718,163	418,718,201	N/A
Under \$5,000 ³	3,546,149	299,315	299,311	N/A	2,707,280	180,900	180,909	N/A
\$5,000 under \$10,000.....	6,628,794	2,076,609	2,076,614	N/A	6,077,713	1,830,617	1,830,617	N/A
\$10,000 under \$15,000.....	9,637,027	6,605,270	6,605,268	N/A	8,789,983	5,997,291	5,997,303	N/A
\$15,000 under \$20,000.....	10,733,244	12,382,513	12,382,513	N/A	9,751,460	10,776,922	10,776,932	N/A
\$20,000 under \$25,000.....	9,433,163	16,633,620	16,633,615	N/A	8,965,821	15,622,866	15,622,868	N/A
\$25,000 under \$30,000.....	7,951,182	19,243,325	19,243,327	N/A	7,327,817	17,714,227	17,714,227	N/A
\$30,000 under \$40,000.....	12,477,550	42,820,283	42,820,292	N/A	11,659,588	39,262,200	39,262,200	N/A
\$40,000 under \$50,000.....	9,505,812	46,646,622	46,646,623	N/A	8,438,661	40,485,309	40,485,309	N/A
\$50,000 under \$75,000.....	14,210,586	104,485,195	104,485,195	N/A	12,334,355	88,728,609	88,728,609	N/A
\$75,000 under \$100,000.....	5,575,167	69,977,962	69,977,962	N/A	4,594,914	56,247,837	56,247,842	N/A
\$100,000 under \$200,000.....	3,412,067	74,522,221	74,522,221	N/A	2,931,078	66,533,836	66,533,836	N/A
\$200,000 under \$500,000.....	496,520	36,004,736	36,004,736	N/A	513,643	36,524,115	36,524,115	N/A
\$500,000 under \$1,000,000.....	68,068	14,366,637	14,366,637	N/A	72,897	15,350,460	15,350,460	N/A
\$1,000,000 or more.....	27,459	21,496,074	21,496,074	N/A	29,511	23,462,974	23,462,974	N/A
Returns with Form 8615 tax computation								
Total.....	364,783	451,697	606,821	155,125	507,367	548,261	677,107	128,846
Under \$5,000 ³	287,648	80,354	129,619	49,265	373,876	105,794	153,545	47,750
\$5,000 under \$10,000.....	38,647	36,858	66,106	29,248	86,100	80,855	135,511	54,655
\$10,000 under \$15,000.....	15,977	28,393	55,113	26,720	30,153	49,478	83,561	34,083
\$15,000 under \$20,000.....	*9,238	*22,756	*45,987	*23,231	*4,797	*11,505	*18,843	*7,338
\$20,000 under \$25,000.....	*3,669	*11,008	*20,172	*9,164	*3,655	*12,774	*24,036	*11,262
\$25,000 under \$30,000.....	*1,112	*4,602	*10,118	*5,515	*2,400	*8,232	*14,295	*6,063
\$30,000 under \$40,000.....	*3,578	*21,585	*26,258	*4,673	--	--	--	--
\$40,000 under \$50,000.....	*1,112	*9,662	*16,885	*7,223	--	--	--	--
\$50,000 under \$75,000.....	*1,112	*13,912	*20,808	*6,896	*4,480	*49,147	*62,201	*13,054
\$75,000 under \$100,000.....	*1,025	*20,937	*27,947	*7,011	*1,128	*18,950	*16,574	*-2,376
\$100,000 under \$200,000.....	*521	*20,849	*21,042	*194	*349	*13,839	*12,025	*-1,814
\$200,000 under \$500,000.....	*1,027	*71,892	*68,161	*-3,731	*157	*15,367	*12,168	*-3,199
\$500,000 under \$1,000,000.....	--	--	--	--	*85	*17,211	*17,797	*586
\$1,000,000 or more.....	118	108,890	98,605	-10,285	189	165,110	126,553	-38,556
Returns with Schedule D tax computation								
Total.....	2,434,556	214,315,357	198,407,296	-15,908,060	13,960,749	351,652,758	316,035,356	-35,617,402
Under \$5,000 ³	--	--	--	--	596,662	118,639	102,890	-15,749
\$5,000 under \$10,000.....	--	--	--	--	335,911	192,613	170,408	-22,205
\$10,000 under \$15,000.....	--	--	--	--	458,433	381,076	351,023	-30,053
\$15,000 under \$20,000.....	--	--	--	--	594,033	717,465	672,226	-45,239
\$20,000 under \$25,000.....	--	--	--	--	611,754	1,102,959	1,046,476	-56,483
\$25,000 under \$30,000.....	--	--	--	--	618,401	1,484,874	1,418,086	-66,788
\$30,000 under \$40,000.....	--	--	--	--	1,203,440	4,285,501	4,133,858	-151,643
\$40,000 under \$50,000.....	--	--	--	--	1,301,056	6,870,981	6,659,311	-211,670
\$50,000 under \$75,000.....	88,414	1,255,641	1,249,234	-6,408	2,794,270	22,862,789	22,168,320	-694,469
\$75,000 under \$100,000.....	221,372	3,857,928	3,810,737	-47,192	1,838,346	24,650,831	23,873,377	-777,454
\$100,000 under \$200,000.....	1,196,565	36,276,961	35,786,778	-490,183	2,429,972	62,492,309	59,965,967	-2,526,342
\$200,000 under \$500,000.....	699,570	54,052,985	51,820,236	-2,232,749	880,623	67,425,621	62,402,268	-5,023,353
\$500,000 under \$1,000,000.....	145,454	31,489,468	29,378,648	-2,110,820	186,211	40,197,032	36,073,307	-4,123,725
\$1,000,000 or more.....	83,182	87,382,373	76,361,664	-11,020,709	111,638	118,870,067	96,997,838	-21,872,229

* Estimate should be used with caution due to the small number of sample returns on which it is based.

¹ Includes special tax not included in tax generated.

² The difference between the amount of tax resulting from using provisions of one of the special tax computations and the amount of tax resulting from the regular tax computation.

³ Includes returns with adjusted gross deficit.

N/A - Not applicable.

NOTE: Detail may not add to totals because of rounding.

Individual Income Tax Rates and Shares, 1997

Table 5.--Returns with Positive Adjusted Gross Income (AGI): Number of Returns, Shares of AGI and Total Income Tax, AGI Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Cumulative Percentiles of Returns Based on Income Size Using the Definition of AGI for Each Year, Tax Years 1986-1997

[All figures are estimates based on samples]

Item, tax year	Total	Descending cumulative percentiles				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns: ¹						
1986.....	102,087,623	1,020,876	5,104,381	10,208,762	25,521,906	51,043,811
1987.....	106,154,761	1,061,548	5,307,738	10,615,476	26,538,690	53,077,380
1988.....	108,872,859	1,088,729	5,443,643	10,887,286	27,218,214	54,436,429
1989.....	111,312,721	1,113,127	5,565,636	11,131,272	27,828,181	55,656,361
1990.....	112,812,262	1,128,123	5,640,613	11,281,226	28,203,066	56,406,132
1991.....	113,804,104	1,138,041	5,690,205	11,380,410	28,451,026	56,902,052
1992.....	112,652,759	1,126,528	5,632,638	11,265,276	28,163,190	56,326,380
1993.....	113,681,387	1,136,814	5,684,069	11,368,139	28,420,347	56,840,694
1994.....	114,989,920	1,149,899	5,749,496	11,498,992	28,747,480	57,494,960
1995.....	117,274,186	1,172,742	5,863,709	11,727,419	29,318,546	58,637,093
1996.....	119,441,767	1,194,418	5,972,088	11,944,177	29,860,442	59,720,884
1997.....	121,506,446	1,215,064	6,075,322	12,150,645	30,376,611	60,753,223
Adjusted gross income floor on percentiles (current dollars):						
1986.....	N/A	118,818	62,377	48,656	32,242	17,302
1987.....	N/A	139,289	68,414	52,921	33,983	17,768
1988.....	N/A	157,136	72,735	55,437	35,398	18,367
1989.....	N/A	163,869	76,933	58,263	36,839	18,993
1990.....	N/A	167,421	79,064	60,287	38,080	19,767
1991.....	N/A	170,139	81,720	61,944	38,929	20,097
1992.....	N/A	181,904	85,103	64,457	40,378	20,803
1993.....	N/A	185,715	87,386	66,077	41,210	21,179
1994.....	N/A	195,726	91,226	68,753	42,742	21,802
1995.....	N/A	209,406	96,221	72,094	44,207	22,344
1996.....	N/A	227,546	101,141	74,986	45,757	23,174
1997.....	N/A	250,736	108,048	79,212	48,173	24,393
Adjusted gross income floor on percentiles (constant dollars): ⁴						
1986.....	N/A	108,411	56,913	44,394	29,418	15,786
1987.....	N/A	122,614	60,224	46,585	29,915	15,641
1988.....	N/A	132,828	61,484	46,861	29,922	15,526
1989.....	N/A	132,152	62,043	46,986	29,709	15,317
1990.....	N/A	128,096	60,493	46,126	29,135	15,124
1991.....	N/A	124,919	60,000	45,480	28,582	14,756
1992.....	N/A	129,654	60,658	45,942	28,780	14,828
1993.....	N/A	128,522	60,475	45,728	28,519	14,657
1994.....	N/A	132,069	61,556	46,392	28,841	14,711
1995.....	N/A	137,406	63,137	47,306	29,007	14,661
1996.....	N/A	145,026	64,462	47,792	29,163	14,769
1997.....	N/A	156,222	67,320	49,353	30,014	15,198
Adjusted gross income (millions of dollars): ¹						
1986.....	2,524,124	285,197	608,467	886,510	1,490,173	2,103,569
1987.....	2,813,728	346,635	722,221	1,038,221	1,709,389	2,373,869
1988.....	3,124,156	473,527	890,702	1,232,536	1,950,860	2,657,865
1989.....	3,298,858	468,079	918,421	1,286,539	2,054,478	2,805,235
1990.....	3,451,237	483,252	953,337	1,338,032	2,144,177	2,932,537
1991.....	3,516,142	456,603	943,350	1,343,202	2,174,765	2,984,003
1992.....	3,680,552	523,586	1,031,093	1,443,784	2,299,401	3,131,400
1993.....	3,775,578	520,586	1,048,252	1,474,463	2,357,953	3,212,299
1994.....	3,961,146	546,700	1,103,084	1,552,205	2,481,074	3,371,352
1995.....	4,244,607	619,610	1,222,723	1,704,513	2,689,820	3,627,542
1996.....	4,590,527	736,545	1,393,805	1,909,149	2,952,637	3,944,383
1997.....	5,023,492	872,834	1,597,124	2,151,426	3,267,638	4,328,031

Footnotes at end of Table 6.

Individual Income Tax Rates and Shares, 1997

Table 5.--Returns with Positive Adjusted Gross Income (AGI): Number of Returns, Shares of AGI and Total Income Tax, AGI Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Cumulative Percentiles of Returns Based on Income Size Using the Definition of AGI for Each Year, Tax Years 1986-1997--Continued

[All figures are estimates based on samples]

Item, tax year	Total	Descending cumulative percentiles				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Total income tax (millions of dollars): ³						
1986.....	366,979	94,491	156,240	200,703	278,976	343,289
1987.....	369,046	91,559	159,642	205,230	283,857	346,655
1988.....	412,761	113,841	188,303	236,411	321,297	389,145
1989.....	432,838	109,259	190,188	241,458	334,258	407,599
1990.....	447,061	112,338	195,088	247,514	344,340	421,075
1991.....	448,349	111,267	194,480	250,282	346,511	423,759
1992.....	476,163	131,156	218,479	276,213	373,700	452,070
1993.....	502,720	145,836	238,083	297,808	398,516	478,563
1994.....	534,754	154,337	254,106	317,902	425,402	509,256
1995.....	588,331	178,035	287,741	357,402	472,808	561,225
1996.....	658,124	212,626	335,433	411,404	535,164	629,684
1997.....	731,210	243,779	380,785	463,405	597,882	700,057
Average tax rate (percentage): ⁴						
1986.....	14.54	33.13	25.68	22.64	18.72	16.32
1987.....	13.12	26.41	22.10	19.77	16.61	14.60
1988.....	13.21	24.04	21.14	19.18	16.47	14.64
1989.....	13.12	23.34	20.71	18.77	16.27	14.53
1990.....	12.95	23.25	20.46	18.50	16.06	14.36
1991.....	12.75	24.37	20.62	18.63	15.93	14.20
1992.....	12.94	25.05	21.19	19.13	16.25	14.44
1993.....	13.32	28.01	22.71	20.20	16.90	14.90
1994.....	13.50	28.23	23.04	20.48	17.15	15.11
1995.....	13.86	28.73	23.53	20.97	17.58	15.47
1996.....	14.34	28.87	24.07	21.55	18.12	15.96
1997.....	14.48	27.64	23.62	21.36	18.18	16.09
Adjusted gross income share (percentage):						
1986.....	100.00	11.30	24.11	35.12	59.04	83.34
1987.....	100.00	12.32	25.67	36.90	60.75	84.37
1988.....	100.00	15.16	28.51	39.45	62.44	85.07
1989.....	100.00	14.19	27.84	39.00	62.28	85.04
1990.....	100.00	14.00	27.62	38.77	62.13	84.97
1991.....	100.00	12.99	26.83	38.20	61.85	84.87
1992.....	100.00	14.23	28.01	39.23	62.47	85.08
1993.....	100.00	13.79	27.76	39.05	62.45	85.08
1994.....	100.00	13.80	27.85	39.19	62.64	85.11
1995.....	100.00	14.60	28.81	40.16	63.37	85.46
1996.....	100.00	16.04	30.36	41.59	64.32	85.92
1997.....	100.00	17.38	31.79	42.83	65.05	86.16
Total income tax share (percentage):						
1986.....	100.00	25.75	42.57	54.69	76.02	93.54
1987.....	100.00	24.81	43.26	55.61	76.92	93.93
1988.....	100.00	27.58	45.62	57.28	77.84	94.28
1989.....	100.00	25.24	43.94	55.78	77.22	94.17
1990.....	100.00	25.13	43.64	55.36	77.02	94.19
1991.....	100.00	24.82	43.38	55.82	77.29	94.52
1992.....	100.00	27.54	45.88	58.01	78.48	94.94
1993.....	100.00	29.01	47.36	59.24	79.27	95.19
1994.....	100.00	28.86	47.52	59.45	79.55	95.23
1995.....	100.00	30.26	48.91	60.75	80.36	95.39
1996.....	100.00	32.31	50.97	62.51	81.32	95.68
1997.....	100.00	33.17	51.87	63.20	81.67	95.72

Footnotes at end of Table 6.

Individual Income Tax Rates and Shares, 1997

Table 6.--Returns with Positive Adjusted Gross Income (AGI): Number of Returns, Shares of AGI and Total Income Tax, and Average Tax Rates, by Selected Ascending Cumulative Percentiles of Returns Based on Income Size Using the Definition of AGI for Each Year, Tax Years 1986-1997

[All figures are estimates based on samples]

Item, tax year	Total	Ascending cumulative percentiles				
		Bottom 50 percent	Bottom 75 percent	Bottom 90 percent	Bottom 95 percent	Bottom 99 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns: ¹						
1986.....	102,087,623	51,043,811	76,565,717	91,878,861	96,983,242	101,066,747
1987.....	106,154,761	53,077,380	79,616,071	95,539,285	100,847,023	105,093,213
1988.....	108,872,858	54,436,429	81,654,643	97,985,572	103,429,215	107,784,129
1989.....	111,312,721	55,656,361	83,484,542	100,181,451	105,747,087	110,199,596
1990.....	112,812,262	56,406,132	84,609,198	101,531,038	107,171,651	111,684,141
1991.....	113,804,104	56,902,052	85,353,078	102,423,694	108,113,899	112,666,063
1992.....	112,652,759	56,326,380	84,489,560	101,387,483	107,020,121	111,526,231
1993.....	113,681,387	56,840,693	85,261,040	102,313,248	107,997,318	112,544,573
1994.....	114,989,920	57,494,960	86,242,440	103,490,928	109,240,424	113,840,021
1995.....	117,274,186	58,637,093	87,955,640	105,546,767	111,410,477	116,101,444
1996.....	119,441,767	59,720,883	89,581,325	107,497,590	113,469,679	118,247,349
1997.....	121,506,446	60,753,223	91,129,835	109,355,801	115,431,124	120,291,382
Adjusted gross income (millions of dollars): ¹						
1986.....	2,524,124	420,555	1,033,951	1,637,614	1,915,657	2,238,927
1987.....	2,813,728	439,859	1,104,338	1,775,506	2,091,507	2,467,093
1988.....	3,124,156	466,291	1,173,296	1,891,620	2,233,454	2,650,629
1989.....	3,298,858	493,623	1,244,380	2,012,319	2,380,437	2,830,779
1990.....	3,451,237	518,700	1,307,060	2,113,205	2,497,900	2,967,985
1991.....	3,516,142	532,138	1,341,377	2,172,939	2,572,792	3,059,539
1992.....	3,680,552	549,152	1,381,151	2,236,768	2,649,459	3,156,966
1993.....	3,775,578	563,279	1,417,625	2,301,115	2,727,326	3,254,992
1994.....	3,961,146	589,795	1,480,073	2,408,941	2,858,063	3,414,447
1995.....	4,244,607	617,065	1,554,788	2,540,094	3,021,884	3,624,997
1996.....	4,590,527	646,144	1,637,891	2,681,378	3,196,723	3,853,983
1997.....	5,023,492	695,461	1,755,854	2,872,065	3,426,368	4,150,657
Total income tax (millions of dollars): ³						
1986.....	366,979	23,690	88,002	166,276	210,739	272,488
1987.....	369,046	22,391	85,189	163,816	209,404	277,488
1988.....	412,761	23,616	91,464	176,350	224,459	298,920
1989.....	432,838	25,239	98,580	191,380	242,650	323,579
1990.....	447,061	25,986	102,721	199,547	251,973	334,723
1991.....	448,349	24,554	101,837	198,067	253,869	337,081
1992.....	476,163	24,093	102,463	199,950	257,683	345,007
1993.....	502,720	24,157	104,203	204,912	264,637	356,884
1994.....	534,754	25,499	109,353	216,852	280,648	380,418
1995.....	588,331	27,106	115,523	230,929	300,590	410,296
1996.....	658,124	28,440	122,960	246,720	322,691	445,498
1997.....	731,210	31,154	133,328	267,805	350,425	487,431
Average tax rate (percentage): ⁴						
1986.....	14.54	5.63	8.51	10.15	11.00	12.17
1987.....	13.12	5.09	7.71	9.23	10.01	11.25
1988.....	13.21	5.06	7.80	9.32	10.05	11.28
1989.....	13.12	5.11	7.92	9.51	10.19	11.43
1990.....	12.95	5.01	7.86	9.44	10.09	11.28
1991.....	12.75	4.61	7.59	9.12	9.87	11.04
1992.....	12.94	4.39	7.42	8.94	9.73	10.93
1993.....	13.32	4.29	7.35	8.90	9.70	10.96
1994.....	13.50	4.32	7.39	9.00	9.82	11.14
1995.....	13.86	4.39	7.43	9.09	9.95	11.32
1996.....	14.34	4.40	7.51	9.20	10.09	11.56
1997.....	14.56	4.48	7.59	9.32	10.23	11.74

Footnotes at end of table.

Individual Income Tax Rates and Shares, 1997

Table 6.--Returns with Positive Adjusted Gross Income (AGI): Number of Returns, Shares of AGI and Total Income Tax, and Average Tax Rates, by Selected Ascending Cumulative Percentiles of Returns Based on Income Size Using the Definition of AGI for Each Year, Tax Years 1986-1997--Continued

[All figures are estimates based on samples]

Item, tax year	Total	Ascending cumulative percentiles				
		Bottom 50 percent	Bottom 75 percent	Bottom 90 percent	Bottom 95 percent	Bottom 99 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Adjusted gross income share (percentage):						
1986.....	100.00	16.66	40.96	64.88	75.89	88.70
1987.....	100.00	15.63	39.25	63.10	74.33	87.68
1988.....	100.00	14.93	37.56	60.55	71.49	84.84
1989.....	100.00	14.96	37.72	61.00	72.16	85.81
1990.....	100.00	15.03	37.87	61.23	72.38	86.00
1991.....	100.00	15.13	38.15	61.80	73.17	87.01
1992.....	100.00	14.92	37.53	60.77	71.99	85.77
1993.....	100.00	14.92	37.55	60.95	72.24	86.21
1994.....	100.00	14.89	37.36	60.81	72.15	86.20
1995.....	100.00	14.54	36.63	59.84	71.19	85.40
1996.....	100.00	14.08	35.68	58.41	69.64	83.96
1997.....	100.00	13.84	34.95	57.17	68.21	82.62
Total income tax share (percentage):						
1986.....	100.00	6.46	23.98	45.31	57.43	74.25
1987.....	100.00	6.07	23.08	44.39	56.74	75.19
1988.....	100.00	5.72	22.16	42.72	54.38	72.42
1989.....	100.00	5.83	22.78	44.22	56.06	74.76
1990.....	100.00	5.81	22.98	44.64	56.36	74.87
1991.....	100.00	5.48	22.71	44.18	56.62	75.18
1992.....	100.00	5.06	21.52	41.99	54.12	72.46
1993.....	100.00	4.81	20.73	40.76	52.64	70.99
1994.....	100.00	4.77	20.45	40.55	52.48	71.14
1995.....	100.00	4.61	19.64	39.25	51.09	69.74
1996.....	100.00	4.32	18.68	37.49	49.03	67.69
1997.....	100.00	4.26	18.23	36.62	47.92	66.66

N/A-- Not applicable.

¹ The number of returns with negative adjusted gross income, i.e., returns with an adjusted gross deficit, and the corresponding amounts for adjusted gross deficit, were excluded from Tables 5 and 6. By excluding deficit returns, alternative minimum tax reported on some of these returns was also excluded. For Tax Year 1997, there were 6,478 returns with no adjusted gross income that reported income tax, mostly alternative minimum tax, totaling \$111.4 million.

² For Table 5, constant dollars were calculated using the U.S. Bureau of Labor Statistics' consumer price index for urban consumers (CPI-U, 1982-84=100). See footnote 2 of this article for further details.

³ Total income tax is the sum of income tax after credits and alternative minimum tax reported on returns that showed a positive amount for adjusted gross income. Therefore, total income tax excludes alternative minimum tax, Form 8814 tax (tax on a child's interest or dividends), and Form 4972 tax (tax on lump-sum distributions from qualified retirement plans) reported on some returns with a negative amount for adjusted gross income. See also footnote 1.

⁴ The average tax rate was computed by dividing total income tax (see footnote 3) by (positive) adjusted gross income.

Individual Income Tax Rates and Shares, 1997

Table 7.--Returns with Positive "1979 Income Concept" Income: Number of Returns, Shares of Income and Total Income Tax, Income Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Cumulative Percentiles of Returns Based on Income Size, Tax Years 1986-1997

[All figures are estimates based on samples]

Item, tax year	Total	Descending cumulative percentiles				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns: ¹						
1986.....	101,988,805	1,019,888	5,099,440	10,198,881	25,497,201	50,994,402
1987.....	106,191,624	1,061,916	5,309,581	10,619,162	26,547,906	53,095,812
1988.....	108,879,154	1,088,792	5,443,958	10,887,915	27,219,788	54,439,577
1989.....	111,328,835	1,113,288	5,566,442	11,132,884	27,832,209	55,664,418
1990.....	112,717,959	1,127,180	5,635,898	11,271,796	28,179,490	56,358,980
1991.....	113,823,123	1,138,231	5,691,156	11,382,312	28,455,781	56,911,562
1992.....	112,687,747	1,126,877	5,634,387	11,268,775	28,171,937	56,343,874
1993.....	113,721,706	1,137,217	5,686,085	11,372,171	28,430,426	56,860,853
1994.....	115,061,112	1,150,611	5,753,056	11,506,111	28,765,278	57,530,556
1995.....	117,333,779	1,173,338	5,866,689	11,733,378	29,333,445	58,666,889
1996.....	119,487,813	1,194,878	5,974,391	11,948,781	29,871,953	59,743,906
1997.....	121,555,156	1,215,552	6,077,758	12,155,516	30,388,789	60,777,578
Income floor on percentiles (current dollars):						
1986.....	N/A	147,863	68,362	52,035	33,623	17,909
1987.....	N/A	145,624	69,222	53,094	34,165	17,959
1988.....	N/A	161,774	73,451	55,532	35,432	18,534
1989.....	N/A	169,603	77,542	58,429	36,783	19,152
1990.....	N/A	174,813	80,400	60,623	38,026	19,947
1991.....	N/A	180,268	83,300	62,413	38,913	20,302
1992.....	N/A	197,031	87,370	65,283	40,423	21,041
1993.....	N/A	199,698	88,992	66,685	41,013	21,390
1994.....	N/A	210,742	93,186	69,118	42,480	22,000
1995.....	N/A	224,523	98,420	72,210	43,860	22,575
1996.....	N/A	246,268	103,489	75,574	45,508	23,378
1997.....	N/A	268,889	110,949	79,598	47,738	24,551
Income floor on percentiles (constant dollars): ²						
1986.....	N/A	134,912	62,374	47,477	30,678	16,340
1987.....	N/A	128,190	60,935	46,738	30,075	15,809
1988.....	N/A	136,749	62,089	46,942	29,951	15,667
1989.....	N/A	136,777	62,534	47,120	29,664	15,445
1990.....	N/A	133,751	61,515	46,383	29,094	15,262
1991.....	N/A	132,355	61,160	45,825	28,571	14,906
1992.....	N/A	140,436	62,274	46,531	28,812	14,997
1993.....	N/A	138,199	61,586	46,149	28,383	14,803
1994.....	N/A	142,201	62,879	46,638	28,664	14,845
1995.....	N/A	147,325	64,580	47,382	28,780	14,813
1996.....	N/A	156,959	65,959	48,167	29,004	14,900
1997.....	N/A	167,532	69,127	49,594	29,743	15,297
Income (millions of dollars):						
1986.....	2,804,691	427,513	796,935	1,097,550	1,732,231	2,368,620
1987.....	2,856,118	363,880	749,240	1,067,438	1,741,747	2,411,715
1988.....	3,153,639	484,675	911,170	1,255,108	1,973,061	2,683,524
1989.....	3,336,571	486,976	947,363	1,317,619	2,085,003	2,838,481
1990.....	3,497,118	504,687	987,582	1,376,162	2,182,091	2,973,847
1991.....	3,577,337	478,756	985,590	1,390,924	2,224,979	3,038,428
1992.....	3,763,002	556,421	1,090,019	1,509,728	2,369,701	3,206,490
1993.....	3,849,532	554,075	1,105,014	1,537,285	2,422,475	3,278,866
1994.....	4,033,642	579,564	1,161,972	1,617,250	2,544,400	3,436,167
1995.....	4,317,506	653,717	1,284,726	1,772,890	2,754,988	3,692,267
1996.....	4,670,644	772,868	1,462,979	1,984,931	3,025,107	4,015,461
1997.....	5,112,706	918,007	1,679,877	2,242,353	3,353,245	4,409,075

Footnotes at end of Table 8.

Individual Income Tax Rates and Shares, 1997

Table 7.--Returns with Positive "1979 Income Concept" Income: Number of Returns, Shares of Income and Total Income Tax, Income Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Cumulative Percentiles of Returns Based on Income Size, Tax Years 1986-1997--Continued

[All figures are estimates based on samples]

Item, tax year	Total	Descending cumulative percentiles				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Total income tax (millions of dollars):³						
1986.....	366,763	93,128	155,553	198,862	277,578	342,296
1987.....	368,924	89,908	158,485	204,050	282,970	346,228
1988.....	412,549	112,208	186,793	235,121	320,152	388,631
1989.....	432,643	107,508	188,588	240,229	333,285	407,106
1990.....	446,906	110,530	192,991	245,856	342,926	420,345
1991.....	448,177	107,926	192,548	246,745	345,168	423,180
1992.....	476,067	127,361	216,303	272,361	372,352	451,494
1993.....	502,638	142,329	235,908	294,238	397,261	477,997
1994.....	534,693	150,133	250,770	314,909	423,743	508,540
1995.....	588,292	173,877	284,036	354,427	471,035	560,748
1996.....	658,059	208,071	331,404	407,726	532,750	628,918
1997.....	731,123	238,978	376,046	459,674	595,060	699,131
Average tax rate (percentage):⁴						
1986.....	13.08	21.78	19.52	18.12	16.02	14.45
1987.....	12.92	24.71	21.15	19.12	16.25	14.36
1988.....	13.08	23.15	20.50	18.73	16.23	14.48
1989.....	12.97	22.08	19.91	18.23	15.98	14.34
1990.....	12.78	21.90	19.54	17.87	15.72	14.13
1991.....	12.53	22.54	19.54	17.74	15.51	13.93
1992.....	12.65	22.89	19.84	18.04	15.71	14.08
1993.....	13.06	25.69	21.35	19.14	16.40	14.58
1994.....	13.26	25.90	21.58	19.47	16.65	14.80
1995.....	13.63	26.60	22.11	19.99	17.10	15.19
1996.....	14.09	26.92	22.65	20.54	17.61	15.66
1997.....	14.30	26.03	22.39	20.50	17.75	15.86
Income share (percentage):						
1986.....	100.00	15.24	28.41	39.13	61.76	84.45
1987.....	100.00	12.74	26.23	37.37	60.98	84.44
1988.....	100.00	15.37	28.89	39.80	62.56	85.09
1989.....	100.00	14.60	28.39	39.49	62.49	85.07
1990.....	100.00	14.43	28.24	39.35	62.40	85.04
1991.....	100.00	13.38	27.55	38.88	62.20	84.94
1992.....	100.00	14.79	28.97	40.12	62.97	85.21
1993.....	100.00	14.39	28.71	39.93	62.93	85.18
1994.....	100.00	14.37	28.81	40.09	63.08	85.19
1995.....	100.00	15.14	29.76	41.06	63.81	85.52
1996.....	100.00	16.55	31.32	42.50	64.77	85.97
1997.....	100.00	17.96	32.86	43.86	65.59	86.24
Total income tax share (percentage):						
1986.....	100.00	25.39	42.41	54.22	75.68	93.33
1987.....	100.00	24.37	42.96	55.31	76.70	93.85
1988.....	100.00	27.20	45.28	56.99	77.60	94.20
1989.....	100.00	24.85	43.59	55.53	77.03	94.10
1990.....	100.00	24.73	43.18	55.01	76.73	94.06
1991.....	100.00	24.08	42.96	55.06	77.02	94.42
1992.....	100.00	26.75	45.44	57.21	78.21	94.84
1993.....	100.00	28.32	46.93	58.54	79.04	95.10
1994.....	100.00	28.08	46.90	58.90	79.25	95.11
1995.....	100.00	29.56	48.28	60.25	80.07	95.32
1996.....	100.00	31.62	50.36	61.96	80.96	95.57
1997.....	100.00	32.69	51.43	62.87	81.39	95.62

Footnotes at end of Table 8.

Individual Income Tax Rates and Shares, 1997

Table 8.--Returns with Positive "1979 Income Concept" Income: Number of Returns, Shares of Income and Total Income Tax, and Average Tax Rates, by Selected Ascending Cumulative Percentiles of Returns Based on Income Size, Tax Years 1986-1997

[All figures are estimates based on samples]

Item, tax year	Total	Ascending cumulative percentiles				
		Bottom 50 percent	Bottom 75 percent	Bottom 90 percent	Bottom 95 percent	Bottom 99 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns: ¹						
1986.....	101,988,805	50,994,402	76,491,604	91,789,924	96,889,365	100,968,917
1987.....	106,191,624	53,095,812	79,643,718	95,572,462	100,882,043	105,129,708
1988.....	108,879,154	54,439,577	81,659,366	97,991,239	103,435,196	107,790,362
1989.....	111,328,835	55,664,417	83,496,626	100,195,951	105,762,393	110,215,547
1990.....	112,717,959	56,358,980	84,538,469	101,446,163	107,082,061	111,590,779
1991.....	113,823,123	56,911,562	85,367,342	102,440,811	108,131,967	112,684,892
1992.....	112,687,747	56,343,874	84,515,810	101,418,972	107,053,360	111,560,870
1993.....	113,721,706	56,860,853	85,291,280	102,349,535	108,035,621	112,584,489
1994.....	115,061,112	57,530,556	86,295,834	103,555,001	109,308,056	113,910,501
1995.....	117,333,779	58,666,890	88,000,334	105,600,401	111,467,090	116,160,441
1996.....	119,487,813	59,743,907	89,615,860	107,539,032	113,513,422	118,292,935
1997.....	121,555,156	60,777,578	91,166,367	109,399,640	115,477,398	120,339,604
Income (millions of dollars):						
1986.....	2,804,691	436,071	1,072,460	1,707,142	2,007,756	2,377,178
1987.....	2,856,118	444,403	1,114,372	1,788,680	2,106,878	2,492,238
1988.....	3,153,639	470,115	1,180,578	1,898,531	2,242,469	2,668,964
1989.....	3,336,571	498,089	1,251,567	2,018,952	2,389,207	2,849,595
1990.....	3,497,118	523,271	1,315,027	2,120,956	2,509,535	2,992,431
1991.....	3,577,337	538,910	1,352,358	2,186,413	2,591,748	3,098,582
1992.....	3,763,002	556,512	1,393,300	2,253,273	2,672,983	3,206,581
1993.....	3,849,532	570,666	1,427,057	2,312,247	2,744,518	3,295,456
1994.....	4,033,642	597,475	1,489,242	2,416,392	2,871,670	3,454,078
1995.....	4,317,506	625,239	1,562,518	2,544,615	3,032,780	3,663,789
1996.....	4,670,644	655,183	1,645,537	2,685,713	3,207,665	3,897,777
1997.....	5,112,706	703,631	1,759,461	2,870,353	3,432,828	4,194,699
Total income tax (millions of dollars): ³						
1986.....	366,763	24,467	89,186	167,901	211,210	273,635
1987.....	368,924	22,696	85,954	164,874	210,439	279,016
1988.....	412,549	23,918	92,397	177,429	225,756	300,341
1989.....	432,643	25,537	99,358	192,414	244,055	325,135
1990.....	446,906	26,562	103,980	201,050	253,915	336,376
1991.....	448,177	24,997	103,009	201,432	255,629	340,251
1992.....	476,067	24,573	103,715	203,706	259,764	348,706
1993.....	502,638	24,641	105,377	208,400	266,730	360,309
1994.....	534,693	26,153	110,950	219,783	283,923	384,560
1995.....	588,292	27,544	117,257	233,864	304,256	414,415
1996.....	658,059	29,142	125,310	250,333	326,655	449,988
1997.....	731,123	31,992	136,063	271,450	355,078	492,146
Average tax rate (percentage): ⁴						
1986.....	13.08	5.61	8.32	9.84	10.52	11.51
1987.....	12.92	5.11	7.71	9.22	9.99	11.20
1988.....	13.08	5.09	7.83	9.35	10.07	11.25
1989.....	12.97	5.13	7.94	9.53	10.21	11.41
1990.....	12.78	5.08	7.91	9.48	10.12	11.24
1991.....	12.53	4.64	7.62	9.21	9.86	10.98
1992.....	12.65	4.42	7.44	9.04	9.72	10.87
1993.....	13.06	4.32	7.38	9.01	9.72	10.93
1994.....	13.26	4.38	7.45	9.10	9.89	11.13
1995.....	13.63	4.41	7.50	9.19	10.03	11.31
1996.....	14.09	4.45	7.62	9.32	10.18	11.54
1997.....	14.30	4.55	7.73	9.46	10.34	11.73

Footnotes at end of table.

Individual Income Tax Rates and Shares, 1997

Table 8.--Returns with Positive "1979 Income Concept" Income: Number of Returns, Shares of Income and Total Income Tax, and Average Tax Rates, by Selected Ascending Cumulative Percentiles of Returns Based on Income Size, Tax Years 1986-1997--Continued

[All figures are estimates based on samples]

Item, tax year	Total	Ascending cumulative percentiles				
		Bottom 50 percent	Bottom 75 percent	Bottom 90 percent	Bottom 95 percent	Bottom 99 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Income share (percentage):						
1986.....	100.00	15.55	38.24	60.87	71.59	84.76
1987.....	100.00	15.56	39.02	62.63	73.77	87.26
1988.....	100.00	14.91	37.44	60.20	71.11	84.63
1989.....	100.00	14.93	37.51	60.51	71.61	85.40
1990.....	100.00	14.96	37.60	60.65	71.76	85.57
1991.....	100.00	15.06	37.80	61.12	72.45	86.62
1992.....	100.00	14.79	37.03	59.88	71.03	85.21
1993.....	100.00	14.82	37.07	60.07	71.29	85.61
1994.....	100.00	14.81	36.92	59.91	71.19	85.63
1995.....	100.00	14.48	36.19	58.94	70.24	84.86
1996.....	100.00	14.03	35.23	57.50	68.68	83.45
1997.....	100.00	13.76	34.41	56.14	67.14	82.04
Total income tax share (percentage):						
1986.....	100.00	6.67	24.32	45.78	57.59	74.61
1987.....	100.00	6.15	23.30	44.69	57.04	75.63
1988.....	100.00	5.80	22.40	43.01	54.72	72.80
1989.....	100.00	5.90	22.97	44.47	56.41	75.15
1990.....	100.00	5.94	23.27	44.99	56.82	75.27
1991.....	100.00	5.58	22.98	44.94	57.04	75.92
1992.....	100.00	5.16	21.79	42.79	54.56	73.25
1993.....	100.00	4.90	20.96	41.46	53.07	71.68
1994.....	100.00	4.89	20.75	41.10	53.10	71.92
1995.....	100.00	4.68	19.93	39.75	51.72	70.44
1996.....	100.00	4.43	19.04	38.04	49.64	68.38
1997.....	100.00	4.38	18.61	37.13	48.57	67.31

N/A--Not applicable.

¹ The number of returns in columns 2 through 6, Tables 7 and 8, were processed in thousands and, therefore, reflect differences due to rounding .

² For Table 7, constant dollars were calculated using the U.S. Bureau of Labor Statistics' consumer price index for urban consumers (CPI-U, 1982-84=100). See footnote 2 of this article for further details.

³ Total income tax is the sum of income tax after credits and the alternative minimum tax.

⁴ Average tax rate was computed by dividing total income tax (see footnote 3) by income, using the 1979 income concept (see text and Figure A).

NOTE: See Figure I for the components of the 1979 Income Concept.