

# Section 1

# Introduction and Changes in Law

---

## Introduction

This report contains complete individual income tax data for Tax Year 1998. The statistics are based on a stratified probability sample of individual income tax returns, selected before audit, which represents a population of almost 125 million Forms 1040, 1040A, 1040EZ, and 1040PC, including electronic returns, filed for Tax Year 1998.

Table A on the following pages presents selected income and tax items for Tax Years 1994, 1995, 1996, 1997, and 1998 as they appear on the forms and provides the percentage change for each item between 1997 and 1998. When comparing income and tax items from different years, it is important to consider any changes in the tax law which may have affected the data. These tax law changes are explained below. To assist inter-year comparisons, Table A includes the items in both current dollars and constant 1990 dollars, as adjusted by the U.S. Department of Labor's consumer price index (CPI-U).

For Tax Year 1998, the number of individual tax returns filed increased by over 2.0 million, or 1.9 percent. Adjusted gross income (AGI) grew \$446.0

billion, or 9.0 percent from 1997 to 1998, compared to the 9.6 percent growth recorded from 1996 to 1997. Total tax liability increased 7.6 percent to \$826.6 billion. Several components of AGI showed sizable increases for 1998: taxable Individual Retirement Account distributions increased 34.3 percent; net capital gain less loss increased 25.3 percent; and self-employed health insurance increased 21.3 percent.

This report is divided into six sections. Section 1 explains the requirements for filing, changes in the law for 1998, and the 1979 Income Concept. Section 2 describes the sample of individual income tax returns upon which the statistics are based. Section 3 contains tables of detailed aggregate statistics on individual tax returns. Section 4 provides explanations of the terms used in the tables. The tax forms appear in Section 5, and Section 6 contains a subject index.

**Table A--Selected Income and Tax Items for Selected Years, 1994-1998, in Current and Constant 1990 Dollars<sup>1</sup>**

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

Item	Current dollars					Percent change, 1997 to 1998
	1994	1995	1996	1997	1998	
	(1)	(2)	(3)	(4)	(5)	(6)
<b>All returns*</b> .....	<b>115,943,131</b>	<b>118,218,327</b>	<b>120,351,208</b>	<b>122,421,991</b>	<b>124,770,662</b>	<b>1.9</b>
Form 1040 returns.....	66,390,696	64,774,724	66,264,999	68,781,991	71,162,837	3.5
Electronically filed returns.....	3,562,384	4,130,001	4,905,975	6,972,994	9,450,121	35.5
Form 1040A returns.....	26,051,305	24,463,262	24,579,173	24,780,076	25,987,822	4.9
Electronically filed returns.....	5,639,602	5,975,664	7,083,225	8,475,296	10,285,487	21.4
Form 1040EZ returns.....	20,507,577	21,644,177	21,196,154	21,154,656	20,830,173	-1.5
Electronically filed returns.....	2,700,590	4,618,555	6,964,704	8,839,265	9,150,964	3.5
Form 1040PC returns.....	2,993,313	7,102,740	8,310,882	7,705,268	6,789,831	-11.9
Salaries & wages						
Number of returns.....	99,356,244	101,138,551	102,748,874	104,404,985	106,535,263	2.0
Amount.....	3,026,777,706	3,201,456,569	3,376,871,545	3,613,918,456	3,879,762,259	7.4
Taxable interest received						
Number of returns.....	65,340,012	67,028,830	67,159,338	67,300,571	67,231,792	-0.1
Amount.....	126,169,276	154,780,536	165,672,564	171,700,242	178,333,632	3.9
Tax-exempt interest						
Number of returns.....	5,061,511	5,006,129	5,000,839	4,925,914	4,778,374	-3.0
Amount.....	48,296,834	48,518,428	48,216,666	49,016,921	50,223,365	2.5
Dividends in AGI						
Number of returns.....	25,235,082	26,214,195	27,709,581	29,507,639	30,423,274	3.1
Amount.....	82,410,237	94,592,325	104,254,986	120,493,432	118,479,991	-1.7
State income tax refund						
Number of returns.....	17,771,636	18,261,317	18,352,565	19,218,388	19,544,265	1.7
Amount.....	11,853,690	12,235,548	12,751,223	14,094,351	14,707,844	4.4
Alimony received						
Number of returns.....	421,716	427,060	415,593	413,109	437,410	5.9
Amount.....	4,397,932	4,339,781	4,592,121	4,965,883	5,118,123	3.1
Business or profession net income, less loss						
Number of returns.....	15,944,127	16,172,851	16,735,827	16,937,575	17,104,786	1.0
Amount.....	166,203,589	169,343,327	176,903,956	186,741,216	202,400,115	8.4
Net capital gain in AGI less loss						
Number of returns.....	14,808,542	15,284,562	16,636,286	24,240,112	25,690,397	6.0
Amount.....	139,544,718	166,758,085	245,960,751	356,083,267	446,083,839	25.3
Capital gain distributions reported on Form 1040						
Number of returns.....	4,014,164	4,678,363	5,428,435	N/A	N/A	--
Amount.....	2,743,634	3,657,121	5,856,183	N/A	N/A	--
Sales of property other than capital assets, net gain less loss						
Number of returns.....	1,774,653	1,777,233	1,822,036	1,744,602	1,719,937	-1.4
Amount.....	-3,188,731	-3,010,038	-2,284,494	-1,460,402	-1,575,698	-7.9
Total IRA distributions						
Number of returns.....	5,502,525	5,858,634	6,456,820	6,761,089	8,530,379	26.2
Amount.....	55,312,555	59,840,199	70,006,464	79,009,673	133,357,445	68.8
Taxable IRA distributions in AGI						
Number of returns.....	4,777,297	5,255,882	5,831,146	6,214,044	7,774,091	25.1
Amount.....	33,106,103	37,316,169	45,538,743	55,182,520	74,094,367	34.3
Total pensions & annuities						
Number of returns.....	19,063,270	19,778,915	20,675,450	20,948,184	22,211,348	6.0
Amount.....	288,967,847	311,264,612	344,907,107	382,935,981	441,521,385	15.3
Taxable pensions & annuities in AGI						
Number of returns.....	17,893,606	18,414,601	19,272,307	19,496,575	20,473,407	5.0
Amount.....	205,442,984	221,053,045	238,786,811	259,711,251	280,650,198	8.1
Rents, royalties, partnerships, estates, trusts, etc.						
Number of returns.....	13,995,757	14,158,755	14,371,185	14,480,636	14,647,697	1.2
Amount.....	135,860,869	148,999,462	175,060,227	198,823,191	219,258,921	10.3
Farm net income less loss						
Number of returns.....	2,242,324	2,219,244	2,188,025	2,160,954	2,091,845	-3.2
Amount.....	-7,378,101	-7,849,640	-7,111,985	-6,847,443	-7,933,778	-15.9
Unemployment compensation in AGI						
Number of returns.....	8,530,794	7,985,322	7,995,015	7,124,100	7,082,562	-0.6
Amount.....	20,285,055	19,336,423	19,326,824	17,230,102	16,814,669	-2.4
Social security benefits (received)						
Number of returns.....	10,040,115	10,292,449	10,961,473	11,351,510	12,136,792	6.9
Amount.....	112,332,115	119,291,657	130,679,153	139,958,629	154,953,370	10.7
Taxable social security benefits in AGI						
Number of returns.....	5,891,912	6,598,033	7,365,955	8,307,938	8,941,171	7.6
Amount.....	38,639,292	45,715,361	53,203,171	61,557,689	68,702,700	11.6
Foreign earned income exclusion <sup>2</sup> .....						
Number of returns.....	257,240	266,129	279,004	297,534	308,284	3.6
Amount.....	11,096,943	12,284,935	11,982,578	13,170,179	13,455,924	2.2
Net operating loss <sup>2</sup> .....						
Number of returns.....	431,277	505,303	503,913	568,443	539,802	-5.0
Amount.....	47,045,252	49,330,982	49,749,182	51,343,546	48,297,886	-5.9
Other income, net gain less loss <sup>2</sup> .....						
Number of returns.....	5,453,748	4,623,440	4,698,360	4,737,237	5,088,222	7.4
Amount.....	21,915,214	15,518,117	16,741,080	19,085,136	21,554,040	12.9

Footnotes at end of table.

**Table A--Selected Income and Tax Items for Selected Years, 1994-1998, in Current and Constant 1990 Dollars--Continued<sup>1</sup>**

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

Item	Current dollars					Percent change, 1997 to 1998
	1994	1995	1996	1997	1998	
	(1)	(2)	(3)	(4)	(5)	(6)
Total income, net gain less loss						
Number of returns.....	115,831,790	118,113,441	120,289,122	122,332,599	124,652,387	1.9
Amount.....	3,946,621,274	4,230,493,192	4,578,621,425	5,016,904,666	5,467,503,555	9.0
Total taxpayer IRA adjustment						
Number of returns.....	4,319,153	4,300,722	4,374,281	4,068,958	3,868,017	-4.9
Amount.....	8,388,771	8,338,014	8,627,534	8,662,694	8,188,452	-5.5
Student loan interest deduction						
Number of returns.....	N/A	N/A	N/A	N/A	3,763,742	--
Amount.....	N/A	N/A	N/A	N/A	1,730,768	--
Medical savings account deduction						
Number of returns.....	N/A	N/A	N/A	16,912	42,235	149.7
Amount.....	N/A	N/A	N/A	22,454	62,071	176.4
One-half of self-employment tax						
Number of returns.....	12,734,753	12,849,084	13,204,164	13,513,228	13,756,483	1.8
Amount.....	13,104,801	13,341,810	14,044,148	14,868,362	15,960,341	7.3
Self-employed health insurance						
Number of returns.....	1,483,167	3,011,145	3,147,032	3,284,842	3,380,867	2.9
Amount.....	1,183,635	2,601,145	2,785,382	3,869,842	4,693,286	21.3
Keogh retirement plan						
Number of returns.....	995,844	1,032,102	1,079,413	1,189,981	1,177,487	-1.0
Amount.....	8,194,688	8,734,145	8,979,382	10,237,623	11,039,683	7.8
Penalty on early withdrawal of savings						
Number of returns.....	636,445	803,838	708,631	918,302	828,922	-9.7
Amount.....	137,032	203,861	167,528	234,237	217,913	-7.0
Alimony paid adjustment						
Number of returns.....	639,000	567,947	597,157	623,646	590,898	-5.3
Amount.....	5,513,611	5,225,564	5,668,169	6,311,455	6,877,808	9.0
Foreign housing deductions						
Number of returns.....	4,312	5,765	4,055	654	1,543	135.9
Amount.....	50,994	114,619	75,059	16,361	38,994	138.3
Other adjustments						
Number of returns.....	125,020	126,323	120,561	118,629	164,646	38.8
Amount.....	981,245	860,329	618,170	884,074	1,037,209	17.3
Total statutory adjustments						
Number of returns.....	17,859,335	18,208,887	18,424,901	18,785,760	21,998,366	17.1
Amount.....	39,103,321	41,139,577	42,646,933	46,954,680	51,530,709	9.7
Adjusted gross income or loss (AGI)						
Amount.....	3,907,517,953	4,189,353,615	4,535,974,492	4,969,949,986	5,415,972,847	9.0
Total itemized deductions						
Number of returns.....	33,017,754	34,007,717	35,414,589	36,624,595	38,186,186	4.3
Amount.....	493,654,068	527,374,034	572,541,293	620,810,172	676,460,336	9.0
Total standard deduction						
Number of returns.....	81,947,182	83,222,737	83,996,917	84,844,302	85,576,463	0.9
Amount.....	397,106,389	413,584,632	426,102,973	441,695,925	459,457,374	4.0
Basic standard deduction						
Number of returns.....	81,947,182	83,222,737	83,996,917	84,844,302	85,576,463	0.9
Amount.....	385,027,102	401,265,344	412,808,983	428,362,726	445,400,450	4.0
Additional standard deduction						
Number of returns.....	10,621,983	10,809,600	11,042,761	11,136,379	11,081,634	-0.5
Amount.....	12,079,287	12,319,288	13,293,990	13,333,199	14,056,924	5.4
AGI less deductions						
Number of returns.....	104,288,562	106,211,028	107,919,330	110,720,898	111,924,583	1.1
Amount.....	3,092,849,174	3,326,498,893	3,615,875,867	3,984,130,897	4,357,840,879	9.4
Number of exemptions.....	232,716,395	237,164,486	238,626,393	241,279,259	245,592,958	1.8
Exemption amount.....	562,559,033	584,509,487	598,860,677	627,825,050	650,347,285	3.6
Taxable income						
Number of returns.....	92,793,239	94,612,292	96,576,755	99,314,519	100,801,271	1.5
Amount.....	2,597,980,066	2,813,826,386	3,089,667,389	3,429,109,165	3,780,838,200	10.3
Tax from table, rate schedules, etc.						
Number of returns.....	92,689,014	94,482,512	96,513,834	99,217,292	100,793,439	1.6
Amount.....	540,938,022	595,744,087	666,575,498	738,819,027	813,227,104	10.1
Additional taxes						
Number of returns.....	100,985	65,179	36,237	59,250	47,690	-19.5
Amount.....	633,313	424,567	148,670	663,002	341,757	-48.5
Income tax before credits						
Number of returns.....	92,701,755	94,497,909	96,522,237	99,225,503	100,797,716	1.6
Amount.....	541,571,335	596,168,654	666,724,167	739,482,029	813,568,861	10.0
Child care credit						
Number of returns.....	6,011,648	5,964,253	5,974,146	5,795,530	6,128,155	5.7
Amount.....	2,525,652	2,517,962	2,531,383	2,464,005	2,660,573	8.0
Credit for elderly or disabled						
Number of returns.....	222,358	251,524	168,012	190,343	180,473	-5.2
Amount.....	46,601	48,028	31,836	41,281	35,689	-13.5
Child tax credit						
Number of returns.....	N/A	N/A	N/A	N/A	24,810,781	--
Amount.....	N/A	N/A	N/A	N/A	15,143,468	--
Education credits						
Number of returns.....	N/A	N/A	N/A	N/A	4,652,596	--
Amount.....	N/A	N/A	N/A	N/A	3,376,647	--
Adoption credit						
Number of returns.....	N/A	N/A	N/A	30,721	40,668	32.4
Amount.....	N/A	N/A	N/A	58,522	83,046	41.9
Foreign tax credit						
Number of returns.....	1,545,691	1,730,566	2,105,799	2,334,015	2,995,294	28.3
Amount.....	2,308,948	2,965,313	3,538,835	4,073,461	4,677,022	14.8

Footnotes at end of table.

**Table A--Selected Income and Tax Items for Selected Years, 1994-1998, in Current and Constant 1990 Dollars--Continued<sup>1</sup>**

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

Item	Current dollars					Percent change, 1997 to 1998
	1994	1995	1996	1997	1998	
	(1)	(2)	(3)	(4)	(5)	(6)
<b>General business credit</b>						
Number of returns.....	301,244	267,527	297,511	306,254	272,197	-11.1
Amount.....	690,038	702,906	742,891	826,320	732,487	-11.4
<b>Prior year minimum tax credit</b>						
Number of returns.....	77,133	106,592	117,414	118,571	108,583	-8.4
Amount.....	376,558	468,755	669,545	681,282	818,389	20.1
<b>Total credits<sup>3</sup></b>						
Number of returns.....	8,120,873	8,263,198	8,583,103	8,712,146	32,114,860	268.6
Amount.....	6,141,494	6,894,461	7,740,814	8,410,868	27,823,908	230.8
<b>Income tax less credits<sup>1</sup></b>						
Number of returns.....	92,092,322	94,020,926	96,051,501	98,794,570	96,581,077	-2.2
Amount.....	535,429,841	589,274,192	658,983,353	731,071,161	785,744,954	7.5
<b>Self-employment tax</b>						
Number of returns.....	12,748,808	12,850,372	13,217,169	13,515,150	13,757,431	1.8
Amount.....	26,227,746	26,678,859	28,094,894	29,738,153	31,914,256	7.3
<b>Alternative minimum tax</b>						
Number of returns.....	368,964	414,106	477,898	618,072	853,433	38.1
Amount.....	2,212,094	2,290,576	2,812,746	4,005,101	5,014,549	25.2
<b>Recapture taxes</b>						
Number of returns.....	7,280	7,416	12,207	26,922	22,300	-17.2
Amount.....	34,596	51,517	70,167	133,018	238,980	79.7
<b>Social security, Medicare tax on tip income not reported</b>						
Number of returns.....	347,712	267,601	286,946	267,055	245,028	-8.2
Amount.....	33,599	43,651	32,100	27,826	26,264	-5.6
<b>Tax on qualified retirement plans</b>						
Number of returns.....	2,832,705	3,039,096	3,434,814	3,415,245	3,786,186	10.9
Amount.....	1,501,808	1,780,113	2,189,148	2,335,845	2,699,419	15.6
<b>Advanced earned income credit payments</b>						
Number of returns.....	220,447	193,751	192,014	239,664	217,555	-9.2
Amount..... <sup>14</sup>	75,243	124,693	91,737	122,398	105,877	-13.5
<b>Total tax liability</b>						
Number of returns.....	95,432,579	97,461,757	99,665,343	102,359,516	100,813,446	-1.5
Amount.....	565,560,681	620,965,863	693,027,778	768,290,921	826,621,050	7.6
<b>Income tax withheld</b>						
Number of returns.....	100,436,904	102,436,220	104,213,605	106,483,908	109,144,689	2.5
Amount.....	460,687,479	495,484,153	533,284,434	582,124,212	636,248,491	9.3
<b>Estimated tax payments</b>						
Number of returns.....	12,083,839	11,903,592	12,333,764	12,766,410	13,072,121	2.4
Amount.....	115,983,568	122,489,252	141,571,020	162,584,233	177,750,952	9.3
<b>Earned income credit<sup>1</sup></b>						
Number of returns.....	19,017,357	19,334,397	19,463,836	19,391,179	19,704,707	1.6
Amount.....	21,105,158	25,955,575	28,825,258	30,388,582	31,591,789	4.0
<b>Payment with an extension request</b>						
Number of returns.....	1,249,234	1,368,994	1,422,648	1,597,435	1,540,573	-3.6
Amount.....	19,752,634	24,929,343	32,447,235	38,918,434	45,640,225	17.3
<b>Excess social security tax withheld</b>						
Number of returns.....	930,953	1,033,189	1,178,757	1,267,562	1,303,642	2.8
Amount.....	935,083	1,081,454	1,313,451	1,399,705	1,523,584	8.9
<b>Other payments:</b>						
<b>Form 2439</b>						
Number of returns.....	30,165	42,037	87,976	68,097	41,688	-38.8
Amount.....	44,384	67,482	60,178	55,227	46,076	-16.6
<b>Form 4136</b>						
Number of returns.....	575,317	519,653	513,815	445,633	446,489	0.2
Amount..... <sup>15</sup>	157,098	123,815	108,650	101,328	108,376	7.0
<b>Total payments</b>						
Number of returns.....	109,152,732	111,098,864	112,926,241	115,138,784	117,835,317	2.3
Amount.....	618,682,380	670,131,074	737,610,226	815,571,720	893,418,466	9.5
<b>Overpayment, total</b>						
Number of returns.....	85,089,436	85,348,771	86,492,206	88,311,237	93,434,624	5.8
Amount.....	112,924,413	119,462,121	128,964,442	140,110,378	167,987,055	19.9
<b>Overpayment refunded</b>						
Number of returns.....	82,136,645	82,744,440	83,668,927	85,381,040	90,233,356	5.7
Amount.....	98,539,553	104,537,379	111,680,967	119,706,937	144,445,788	20.7
<b>Refund credited to next year</b>						
Number of returns.....	4,347,767	3,671,556	3,862,330	4,109,601	4,567,379	11.1
Amount.....	14,384,861	14,924,742	17,283,475	20,403,441	23,541,268	15.4
<b>Tax due at time of filing</b>						
Number of returns.....	27,639,693	29,734,331	30,601,619	31,198,382	28,429,856	-8.9
Amount.....	60,507,961	71,153,015	85,337,201	93,909,641	102,151,442	8.8
<b>Tax penalty</b>						
Number of returns.....	4,707,696	5,177,201	5,530,812	5,920,839	5,019,736	-15.2
Amount.....	705,246	856,106	955,207	1,080,062	961,802	-10.9

Footnotes at end of table.

**Table A--Selected Income and Tax Items for Selected Years, 1994-1998, in Current and Constant 1990 Dollars--Continued<sup>1</sup>**

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

Item	Constant 1990 dollars <sup>o</sup>					Percent change, 1997 to 1998
	1994	1995	1996	1997	1998	
	(7)	(8)	(9)	(10)	(11)	(12)
<b>All returns*</b> .....	<b>114,601,819</b>	<b>115,943,131</b>	<b>118,218,327</b>	<b>120,351,208</b>	<b>122,421,991</b>	<b>1.7</b>
Form 1040 returns.....	66,358,259	66,390,696	64,774,724	66,264,999	68,781,991	3.8
Electronically filed returns.....	3,858,800	3,562,384	4,130,001	4,905,975	6,972,994	42.1
Form 1040A returns.....	27,850,427	26,051,305	24,463,262	24,579,173	24,780,076	0.8
Electronically filed returns.....	7,707,100	5,639,602	5,975,664	7,083,225	8,475,296	19.7
Form 1040EZ returns.....	20,393,132	20,507,577	21,644,177	21,196,154	21,154,656	-0.2
Electronically filed returns.....	2,524,937	2,700,590	4,618,555	6,964,704	8,839,265	26.9
Form 1040PC returns.....	4,215,400	2,993,313	7,102,740	8,310,882	7,705,268	-7.3
Salaries & wages						
Number of returns.....	99,356,244	101,138,551	102,748,874	104,404,985	106,535,263	2.0
Amount.....	2,669,116,143	2,745,674,587	2,814,059,621	2,942,930,339	3,093,909,297	5.1
Taxable interest received						
Number of returns.....	65,340,012	67,028,830	67,159,338	67,300,571	67,231,792	-0.1
Amount.....	111,260,384	132,744,885	138,060,470	139,821,044	142,211,828	1.7
Tax-exempt interest						
Number of returns.....	5,061,511	5,006,129	5,000,839	4,925,914	4,778,374	-3.0
Amount.....	42,589,801	41,611,002	40,180,555	39,916,059	40,050,530	0.3
Dividends in AGI						
Number of returns.....	25,235,082	26,214,195	27,709,581	29,507,639	30,423,274	3.1
Amount.....	72,672,167	81,125,493	86,879,155	98,121,687	94,481,652	-3.7
State income tax refund						
Number of returns.....	17,771,636	18,261,317	18,352,565	19,218,388	19,544,265	1.7
Amount.....	10,452,989	10,493,609	10,626,019	11,477,485	11,728,743	2.2
Alimony received						
Number of returns.....	421,716	427,060	415,593	413,109	437,410	5.9
Amount.....	3,878,247	3,721,939	3,826,768	4,043,879	4,081,438	0.9
Business or profession net income, less loss						
Number of returns.....	15,944,127	16,172,851	16,735,827	16,937,575	17,104,786	1.0
Amount.....	146,564,011	145,234,414	147,419,963	152,069,394	161,403,600	6.1
Net capital gain in AGI less loss						
Number of returns.....	14,808,542	15,284,562	16,636,286	24,240,112	25,690,397	6.0
Amount.....	123,055,307	143,017,226	204,967,293	289,970,087	355,728,739	22.7
Capital gain distributions reported on Form 1040						
Number of returns.....	4,014,164	4,678,363	5,428,435	N/A	N/A	--
Amount.....	2,419,430	3,136,467	4,880,153	N/A	N/A	--
Sales of property other than capital assets, net gain less loss						
Number of returns.....	1,774,653	1,777,233	1,822,036	1,744,602	1,719,937	-1.4
Amount.....	-2,811,932	-2,581,508	-1,903,745	-1,189,252	-1,256,537	-5.7
Total IRA distributions						
Number of returns.....	5,502,525	5,858,634	6,456,820	6,761,089	8,530,379	26.2
Amount.....	48,776,504	51,320,925	58,338,720	64,340,125	106,345,650	65.3
Taxable IRA distributions in AGI						
Number of returns.....	4,777,297	5,255,882	5,831,146	6,214,044	7,774,091	25.1
Amount.....	29,194,094	32,003,575	37,948,953	44,936,906	59,086,417	31.5
Total pensions & annuities						
Number of returns.....	19,063,270	19,778,915	20,675,450	20,948,184	22,211,348	6.0
Amount.....	254,821,735	266,950,782	287,422,589	311,837,118	352,090,419	12.9
Taxable pensions & annuities in AGI						
Number of returns.....	17,893,606	18,414,601	19,272,307	19,496,575	20,473,407	5.0
Amount.....	181,166,653	189,582,371	198,989,009	211,491,247	223,803,986	5.8
Rents, royalties, partnerships, estates, trusts, etc.						
Number of returns.....	13,995,757	14,158,755	14,371,185	14,480,636	14,647,697	1.2
Amount.....	119,806,763	127,786,846	145,883,523	161,908,136	174,847,624	8.0
Farm net income less loss						
Number of returns.....	2,242,324	2,219,244	2,188,025	2,160,954	2,091,845	-3.2
Amount.....	-6,506,262	-6,732,110	-5,926,654	-5,576,094	-6,326,777	-13.5
Unemployment compensation in AGI						
Number of returns.....	8,530,794	7,985,322	7,995,015	7,124,100	7,082,562	-0.6
Amount.....	17,888,056	16,583,553	16,105,687	14,031,028	13,408,827	-4.4
Social security benefits (received)						
Number of returns.....	10,040,115	10,292,449	10,961,473	11,351,510	12,136,792	6.9
Amount.....	99,058,302	102,308,454	108,899,294	113,972,825	123,567,281	8.4
Taxable social security benefits in AGI						
Number of returns.....	5,891,912	6,598,033	7,365,955	8,307,938	8,941,171	7.6
Amount.....	34,073,450	39,206,999	44,335,976	50,128,411	54,786,842	9.3
Foreign earned income exclusion <sup>2</sup> .....						
Number of returns.....	257,240	266,129	279,004	297,534	308,284	3.6
Amount.....	9,785,664	10,535,965	9,985,482	10,724,901	10,730,402	-0.2
Net operating loss <sup>2</sup> .....						
Number of returns.....	431,277	505,303	503,913	568,443	539,802	-5.0
Amount.....	41,486,113	42,307,875	41,457,652	41,810,705	38,515,061	-8.1
Other income, net gain less loss <sup>2</sup>						
Number of returns.....	5,453,748	4,623,440	4,698,360	4,737,237	5,088,222	7.4
Amount.....	19,325,586	13,308,848	13,950,900	15,541,642	17,188,230	10.4

Footnotes at end of table.

**Table A--Selected Income and Tax Items for Selected Years, 1994-1998, in Current and Constant 1990 Dollars--Continued<sup>1</sup>**

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

Item	Constant 1990 dollars					Percent change, 1997 to 1998
	1994	1995	1996	1997	1998	
	(7)	(8)	(9)	(10)	(11)	(12)
Total income, net gain less loss						
Number of returns.....	115,831,790	118,113,441	120,289,122	122,332,599	124,652,387	1.9
Amount.....	3,480,265,674	3,628,210,285	3,815,517,854	4,085,427,252	4,360,050,682	6.5
Total taxpayer IRA adjustment						
Number of returns.....	4,319,153	4,300,722	4,374,281	4,068,958	3,868,017	-4.9
Amount.....	7,397,505	7,150,955	7,189,612	7,054,311	6,529,866	-7.6
Student loan interest deduction						
Number of returns.....	N/A	N/A	N/A	N/A	3,763,742	--
Amount.....	N/A	N/A	N/A	N/A	1,380,198	--
Medical savings account deduction						
Number of returns.....	N/A	N/A	N/A	16,912	42,235	149.7
Amount.....	N/A	N/A	N/A	18,285	49,498	170.7
One-half of self-employment tax						
Number of returns.....	12,734,753	12,849,084	13,204,164	13,513,228	13,756,483	1.8
Amount.....	11,556,262	11,442,376	11,703,457	12,107,787	12,727,545	5.1
Self-employed health insurance						
Number of returns.....	1,483,167	3,011,145	3,147,032	3,284,842	3,380,867	2.9
Amount.....	1,043,770	2,230,828	2,321,152	3,151,337	3,742,652	18.8
Keogh retirement plan						
Number of returns.....	995,844	1,032,102	1,079,413	1,189,981	1,177,487	-1.0
Amount.....	7,226,356	7,490,690	7,482,818	8,336,827	8,803,575	5.6
Penalty on early withdrawal of savings						
Number of returns.....	636,445	803,838	708,631	918,302	828,922	-9.7
Amount.....	120,840	174,838	139,607	190,747	173,774	-8.9
Alimony paid adjustment						
Number of returns.....	639,000	567,947	597,157	623,646	590,898	-5.3
Amount.....	4,862,091	4,481,616	4,723,474	5,139,621	5,484,695	6.7
Foreign housing deductions						
Number of returns.....	4,312	5,765	4,055	654	1,543	135.9
Amount.....	44,968	98,301	62,549	13,323	31,096	133.4
Other adjustments						
Number of returns.....	125,020	126,323	120,561	118,629	164,646	38.8
Amount.....	865,295	737,846	515,142	719,930	827,120	14.9
Total statutory adjustments						
Number of returns.....	17,859,335	18,208,887	18,424,901	18,785,760	21,998,366	17.1
Amount.....	34,482,646	35,282,656	35,539,111	38,236,710	41,093,069	7.5
Adjusted gross income or loss (AGI)						
Amount.....	3,533,018,041	3,694,315,357	3,890,201,108	4,141,624,988	4,410,401,341	6.5
Total itemized deductions						
Number of returns.....	33,017,754	34,007,717	35,414,589	36,624,595	38,186,186	4.3
Amount.....	435,321,048	452,293,340	477,117,744	505,545,743	539,442,054	6.7
Total standard deduction						
Number of returns.....	81,947,182	83,222,737	83,996,917	84,844,302	85,576,463	0.9
Amount.....	350,182,001	354,703,801	355,085,811	359,687,235	366,393,440	1.9
Basic standard deduction						
Number of returns.....	81,947,182	83,222,737	83,996,917	84,844,302	85,576,463	0.9
Amount.....	339,530,072	344,138,374	344,007,486	348,829,581	355,183,772	1.8
Additional standard deduction						
Number of returns.....	10,621,983	10,809,600	11,042,761	11,136,379	11,081,634	-0.5
Amount.....	10,651,929	10,565,427	11,078,325	10,857,654	11,209,668	3.2
AGI less deductions						
Number of returns.....	104,288,562	106,211,028	107,919,330	110,720,898	111,924,583	1.1
Amount.....	2,727,380,224	2,852,915,003	3,013,229,889	3,244,406,268	3,475,152,216	7.1
Number of exemptions.....	232,716,395	237,164,486	238,626,393	238,626,393	238,626,393	0.0
Exemption amount.....	496,083,803	501,294,586	499,050,564	511,258,184	518,618,250	1.4
Taxable income						
Number of returns.....	92,793,239	94,612,292	96,576,755	99,314,519	100,801,271	1.5
Amount.....	2,290,987,713	2,413,230,177	2,574,722,824	2,792,434,173	3,015,022,488	8.0
Tax from table, rate schedules, etc.						
Number of returns.....	92,689,014	94,482,512	96,513,834	99,217,292	100,793,439	1.6
Amount.....	477,017,656	510,929,749	555,479,582	601,644,159	648,506,463	7.8
Additional taxes						
Number of returns.....	100,985	65,179	36,237	59,250	47,690	-19.5
Amount.....	558,477	364,123	123,892	539,904	272,533	-49.5
Income tax before credits						
Number of returns.....	92,701,755	94,497,909	96,522,237	99,225,503	100,797,716	1.6
Amount.....	477,576,133	511,293,871	555,603,473	602,184,063	648,778,996	7.7
Child care credit						
Number of returns.....	6,011,648	5,964,253	5,974,146	5,795,530	6,128,155	5.7
Amount.....	2,227,206	2,159,487	2,109,486	2,006,519	2,121,669	5.7
Credit for elderly or disabled						
Number of returns.....	222,358	251,524	168,012	190,343	180,473	-5.2
Amount.....	41,094	41,190	26,530	33,616	28,460	-15.3
Child tax credit						
Number of returns.....	N/A	N/A	N/A	N/A	24,810,781	--
Amount.....	N/A	N/A	N/A	N/A	12,076,131	--
Education credits						
Number of returns.....	N/A	N/A	N/A	N/A	4,652,596	--
Amount.....	N/A	N/A	N/A	N/A	2,692,701	--
Adoption credit						
Number of returns.....	N/A	N/A	N/A	30,721	40,668	32.4
Amount.....	N/A	N/A	N/A	47,656	66,225	39.0
Foreign tax credit						
Number of returns.....	1,545,691	1,730,566	2,105,799	2,334,015	2,995,294	28.3
Amount.....	2,036,109	2,543,150	2,949,029	3,317,151	3,729,683	12.4

**Table A--Selected Income and Tax Items for Selected Years, 1994-1998, in Current and Constant 1990 Dollars--Continued<sup>1</sup>**

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

Item	Constant 1990 dollars <sup>6</sup>					Percent change, 1997 to 1998
	1994	1995	1996	1997	1998	
	(7)	(8)	(9)	(10)	(11)	(12)
<b>General business credit</b>						
Number of returns.....	301,244	267,527	297,511	306,254	272,197	-11.1
Amount.....	608,499	602,835	619,076	672,899	584,120	-13.2
<b>Prior year minimum tax credit</b>						
Number of returns.....	77,133	106,592	117,414	118,571	108,583	-8.4
Amount.....	332,062	402,020	557,954	554,790	652,623	17.6
<b>Total credits <sup>3</sup></b>						
Number of returns.....	8,120,873	8,263,198	8,583,103	8,712,146	32,114,860	268.6
Amount.....	5,415,780	5,912,917	6,450,678	6,849,241	22,188,124	224.0
<b>Income tax less credits<sup>1</sup></b>						
Number of returns.....	92,092,322	94,020,926	96,051,501	98,794,570	96,581,077	-2.2
Amount.....	472,160,354	505,380,954	549,152,794	595,334,822	626,590,872	5.3
<b>Self-employment tax</b>						
Number of returns.....	12,748,808	12,850,372	13,217,169	13,515,150	13,757,431	1.8
Amount.....	23,128,524	22,880,668	23,412,412	24,216,737	25,449,965	5.1
<b>Alternative minimum tax</b>						
Number of returns.....	368,964	414,106	477,898	618,072	853,433	38.1
Amount.....	1,950,700	1,964,473	2,343,955	3,261,483	3,998,843	22.6
<b>Recapture taxes</b>						
Number of returns.....	7,280	7,416	12,207	26,922	22,300	-17.2
Amount.....	30,508	44,183	58,473	108,321	190,574	75.9
<b>Social security, Medicare tax on tip income not reported</b>						
Number of returns.....	347,712	267,601	286,946	267,055	245,028	-8.2
Amount.....	29,629	37,437	26,750	22,660	20,944	-7.6
<b>Tax on qualified retirement plans</b>						
Number of returns.....	2,832,705	3,039,096	3,434,814	3,415,245	3,786,186	10.9
Amount.....	1,324,346	1,526,684	1,824,290	1,902,154	2,152,647	13.2
<b>Advanced earned income credit payments</b>						
Number of returns.....	220,447	193,751	192,014	239,664	217,555	-9.2
Amount.....	66,352	106,941	76,448	99,673	84,431	-15.3
<b>Total tax liability <sup>1,4</sup></b>						
Number of returns.....	95,432,579	97,461,757	99,665,343	102,359,516	100,813,446	-1.5
Amount.....	498,730,759	532,560,774	577,523,148	625,644,072	659,187,440	5.4
<b>Income tax withheld</b>						
Number of returns.....	100,436,904	102,436,220	104,213,605	106,483,908	109,144,689	2.5
Amount.....	406,249,981	424,943,527	444,403,695	474,042,518	507,375,192	7.0
<b>Estimated tax payments</b>						
Number of returns.....	12,083,839	11,903,592	12,333,764	12,766,410	13,072,121	2.4
Amount.....	102,278,279	105,050,816	117,975,850	132,397,584	141,747,171	7.1
<b>Earned income credit<sup>1</sup></b>						
Number of returns.....	19,017,357	19,334,397	19,463,836	19,391,179	19,704,707	1.6
Amount.....	18,611,250	22,260,356	24,021,048	24,746,402	25,192,814	1.8
<b>Payment with an extension request</b>						
Number of returns.....	1,249,234	1,368,994	1,422,648	1,597,435	1,540,573	-3.6
Amount.....	17,418,549	21,380,226	27,039,363	31,692,536	36,395,714	14.8
<b>Excess social security tax withheld</b>						
Number of returns.....	930,953	1,033,189	1,178,757	1,267,562	1,303,642	2.8
Amount.....	824,588	927,491	1,094,543	1,139,825	1,214,979	6.6
<b>Other payments:</b>						
<b>Form 2439</b>						
Number of returns.....	30,165	42,037	87,976	68,097	41,688	-38.8
Amount.....	39,139	57,875	50,148	44,973	36,743	-18.3
<b>Form 4136</b>						
Number of returns.....	575,317	519,653	513,815	445,633	446,489	0.2
Amount.....	138,534	106,188	90,542	82,515	86,424	4.7
<b>Total payments <sup>1,5</sup></b>						
Number of returns.....	109,152,732	111,098,864	112,926,241	115,138,784	117,835,317	2.3
Amount.....	545,575,291	574,726,479	614,675,188	664,146,352	712,454,917	7.3
<b>Overpayment, total</b>						
Number of returns.....	85,089,436	85,348,771	86,492,206	88,311,237	93,434,624	5.8
Amount.....	99,580,611	102,454,649	107,470,368	114,096,399	133,960,969	17.4
<b>Overpayment refunded</b>						
Number of returns.....	82,136,645	82,744,440	83,668,927	85,381,040	90,233,356	5.7
Amount.....	86,895,549	89,654,699	93,067,473	97,481,219	115,188,029	18.2
<b>Refund credited to next year</b>						
Number of returns.....	4,347,767	3,671,556	3,862,330	4,109,601	4,567,379	11.1
Amount.....	12,685,063	12,799,950	14,402,896	16,615,180	18,772,941	13.0
<b>Tax due at time of filing</b>						
Number of returns.....	27,639,693	29,734,331	30,601,619	31,198,382	28,429,856	-8.9
Amount.....	53,357,990	61,023,169	71,114,334	76,473,649	81,460,480	6.5
<b>Tax penalty</b>						
Number of returns.....	4,707,696	5,177,201	5,530,812	5,920,839	5,019,736	-15.2
Amount.....	621,910	734,225	796,006	879,529	766,987	-12.8

<sup>1</sup> All items correspond to the Form 1040 line items. Therefore, some may differ from the SOI items shown in the Basic Tables in Section 3.

N/A = Not applicable

<sup>2</sup> Line 21 on Form 1040 consists of other income minus foreign earned income exclusion and net operating loss.<sup>3</sup> Total credits includes the values for mortgage interest tax credit and "other credits" not tabulated here.<sup>4</sup> Total tax liability includes the values for "other taxes" not tabulated here.<sup>5</sup> Total payments includes the value for the deferral of additional 1993 taxes, however, this is a value for 1993 only and is not included in table A. The value can be found in table 3.3.<sup>6</sup> Inflation-adjusted data were calculated using the consumer price index in the "Economic Report of the President," February 1998, Table B-59; based on 1990=100 when 1990 CPI-U = 130, 1998 CPI-U = 163.9; 1997 CPI-U = 160.5; 1996 CPI-U = 156.9; 1995 CPI-U = 152.4; 1994 CPI-U = 148.2; 1993 CPI-U = 144.5.

\* All returns for 1995 includes 233,424 Form 1040T returns.

<b>Figure 1--General Filing Requirements</b>			
<b>Marital Status</b>	<b>Filing Status</b>	<b>Age</b>	<b>Gross Income</b>
Single (including divorced and legally separated)	Single	under 65 65 or older	\$6,950 \$8,000
	Head of household	under 65 65 or older	\$8,950 \$10,000
Married with a child and living apart from spouse during the last six months of 1998	Head of household	under 65 65 or older	\$8,950 \$10,000
Married and living with spouse at the end of 1998 (or on the date spouse died)	Married, joint return	under 65 (both spouses) 65 or older (one spouse)	\$12,500 \$13,350
		65 or older (both spouses)	\$14,200
Married, not living with spouse at the end of 1998 (or on the date spouse died)	Married, separate return	any age	\$2,700
	Married, joint or separate return	any age	\$2,700
Widowed in 1996 or 1997 and not remarried in 1998	Single	under 65 65 or older	\$6,950 \$8,000
	Head of household	under 65 65 or older	\$8,950 \$10,000
	Qualifying widow(er) with dependent child	under 65 65 or older	\$9,800 \$10,650

## Requirements for Filing

The filing requirements for Tax Year 1998 were based on gross income, marital status, age, and, to a lesser extent, dependency and blindness. Gross income included all income received in the form of money, property, and services that was not expressly exempt from tax. Generally, a citizen or resident of the United States was required to file a tax return if gross income for the year was at least as much as the amount shown for the appropriate filing status in Figure 1. Figure 2 shows the filing requirements for taxpayers who could be claimed as a dependent by another person (such as a parent).

In addition to the general filing requirements, an individual was obligated to file a return for Tax Year 1998 if he or she:

1. was liable for any of the following taxes:
  - social security or Medicare tax on unreported tip income;
  - uncollected social security, Medicare, or railroad retirement tax on reported tip income or group-term life insurance;
  - alternative minimum tax;
  - tax on an individual retirement arrangement (IRA) or a qualified retirement plan;
  - tax from the recapture of investment credit or low-income housing credit;

## Figure 2.-Filing Requirements for Children and Other Dependents

If someone (such as a parent) can claim the individual as a dependent, and any of the four conditions listed below applies, he or she must file a return.

In this chart unearned income includes taxable interest and dividends. Earned income includes wages, tips, and taxable scholarship and fellowship grants.

**Caution:** If an individual's gross income was \$2,700 or more, he or she generally could not be claimed as a dependent unless the individual was under age 19 or under age 24 and a full-time student.

### 1. Single dependents under 65 must file a return if-

- Earned income was more than \$4,250, or
- Unearned income was over \$700, or
- Total of earned and unearned income was more than the larger of \$700 or earned income (up to \$4,000) plus \$250.

### 2. Single dependents 65 or older or blind must file a return if-

- Earned income was more than \$5,300 (\$6,350 if 65 or older and blind), or
- Unearned income was more than \$1,750 (\$2,800 if 65 or older and blind), or
- Gross income was more than the total of earned income (up to \$4,000) plus \$250 or \$700, whichever is larger, plus \$1,050 (\$2,100 if 65 or older and blind).

### 3. Married dependents under 65 must file a return if-

- Gross income was at least \$5 and spouse files a separate return on Form 1040 and itemizes deductions.
- Earned income was more than \$3,550, or
- Unearned income was over \$700, or
- Total of earned and unearned income was more than the larger of \$700 or earned income (up to \$3,300) plus \$250.

### 4. Married dependents 65 or older or blind must file a return if-

- Earned income was more than \$4,400 (\$5,250 if 65 or older and blind), or
- Unearned was more than \$1,550 (\$2,400 if 65 or older and blind), or
- Gross income was more than the total of earned income (up to \$3,300) plus \$250 or \$700, whichever is larger, plus \$850 (\$1,700 if 65 or older and blind).
- Gross income was at least \$5 and spouse files a separate return on Form 1040 and itemizes deductions.

- tax from medical savings accounts (MSA);
- 2. received any advanced earned income credit (AEIC) payments.
- 3. had net earnings from self-employment of at least \$400; or
- 4. had wages of \$108.28 or more from a church or qualified church-controlled organization that was exempt from employer

social security and Medicare taxes.

Data shown in this report include individuals who were not required to file tax returns, but did so for any of a number of reasons. For example, an individual might have filed a return to obtain a refund of tax withheld, or take advantage of the earned income credit.

## Changes in Law

Major changes in effect for Tax Year 1998 which influenced the Statistics of Income data are listed below. Section 4, Explanation of Terms, provides more detailed explanations and definitions of the terms used in this report.

### Child Tax Credits

Beginning in 1998, a new credit of \$400 was allowed for each qualifying child under the age of 17. For families with no more than two children, the credit was non-refundable. For families with more than two children the credit was refundable subject to certain limitations. The child tax credit was phased out by \$50 for each \$1,000 (or fraction thereof) that AGI exceeded \$110,000 for taxpayers filing jointly, \$55,000 for married filing separately, and \$75,000 for single filers. Certain taxpayers were also able to take the additional child tax credit.

### Earned Income Credit

The income eligibility level and amount of the earned income credit (EIC) for 1998 was adjusted for inflation. If a taxpayer's "earned income" and modified adjusted gross income for 1998 were both less than \$26,473 and the taxpayer had one qualifying child living with them, the credit could be as much as \$2,271. If the taxpayer had two or more qualifying children living with them and earned less than \$30,095, the credit could be as much as \$3,756. For taxpayers with no qualifying children and earning less than \$10,030, the credit could be as much as \$341.

Starting in 1998 the definition of modified AGI used for EIC purposes changed. Modified AGI included tax-exempt interest plus the nontaxable part of a pension, annuity, or IRA distribution, except for any amount that is nontaxable due to trustee-to-trustee transfer or a rollover distribution. For prior years, 50 percent of business losses had to be added back to AGI to figure modified AGI. Starting in 1998 this amount increased from 50 percent to 75 percent. Also, taxpayers with investment income

totaling more than \$2,300 were not eligible to receive the EIC.

### Education Credits

Beginning in 1998, the Hope Scholarship Credit and the Lifetime Learning Credit were available for post-secondary educational expenses. Based on eligibility, a taxpayer could claim only one of the credits with respect to a certain student for a certain year. If the student made a tax-free withdrawal from an educational IRA, neither credit could be claimed. The credits would be phased out for AGI between \$40,000 and \$50,000 (\$80,000 and \$100,000 for married filing jointly).

The Hope Scholarship Credit provided a maximum credit per student of 100 percent of the first \$1,000 of qualified tuition and related expenses and a 50 percent credit for the next \$1,000 of eligible expenses for enrollment in undergraduate programs. Also, the credit only applied for the first two years of post-secondary education.

Unlike the Hope Scholarship Credit, the Lifetime Learning Credit could be used for qualified tuition and expenses for undergraduate, graduate level, and professional degree courses. The credit could be used for an unlimited number of years, as long as the taxpayer or dependents were enrolled in post-secondary education. This credit applied to expenses paid after June 30, 1998, and a maximum Lifetime Learning Credit of \$1,000 could be claimed per tax return.

### Education IRA

Beginning in 1998, taxpayers could have made nondeductible contributions up to \$500 annually to an educational IRA for a child under age 18. The earnings and withdrawals were tax-free to the extent that withdrawals did not exceed the beneficiary's qualified higher education expenses for the year. The educational IRA contribution was phased out for modified AGI between \$95,000 and \$110,000 (between \$150,000 and \$160,000 for married taxpayers filing jointly)

## Exemption Amount

Indexing for inflation allowed a taxpayer to claim a \$2,700 deduction for each exemption to which he or she was entitled for 1998, an increase over the \$2,650 allowed for 1997. The AGI threshold for the limitation of exemption amounts was also indexed for inflation, increasing from \$121,200 to \$124,500 for single filers; \$181,800 to \$186,800 for married persons filing jointly and surviving spouses; \$151,500 to \$155,650 for heads of household; and \$90,900 to \$93,400 for married persons filing separately. The phaseout of the deduction for exemptions was completed at AGI levels above \$247,000 for single filers; \$309,300 for married persons filing jointly and surviving spouses; \$278,150 for heads of household; and \$154,650 for married persons filing separately. Above these levels, no deduction for exemptions was allowed.

## Itemized Deductions

If a taxpayer's AGI was greater than \$124,500 (\$62,250 if married filing separately), his or her itemized deductions may have been limited; the threshold was increased from \$121,200 (\$60,600) for 1997, as a result of inflation indexing. 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: (a) 80 percent of the non-exempt deductions, or (b) 3 percent of the amount of AGI in excess of the limitation threshold.

## Personal Tax Credits

Beginning in 1998, personal tax credits were no longer limited by alternative minimum tax computations. The personal tax credits include: credit for child and dependent care expenses, credit for the elderly or the disabled, child tax credit, education credits, adoption credit, and mortgage interest credit.

## Roth IRA

In 1998, for the first time, taxpayers were able to create Roth IRA's. Unlike traditional IRA's, contributions to a Roth IRA were not deductible. However, qualified distributions from the earnings of a Roth IRA were tax exempt. The contribution limit for Roth IRA's was the lesser of \$2,000 or the individual's taxable compensation, unless the taxpayer contributed to both Roth IRA's and traditional IRA's. In that case, the contribution limit for Roth IRA's was reduced by all contributions (other than employer contributions) to traditional IRA's for the taxable year. The eligibility for Roth IRA's was phased out for joint filers with modified AGI between \$150,000 and \$160,000, married taxpayers filing separately and living with their spouses with modified AGI between \$0 and \$10,000, and all other filers (single, head of household, and married filing separately and not living with their spouse at any time during the year) with modified AGI between \$95,000 and \$110,000. Contributions to Roth IRA's could be made after the taxpayer reached the age of 70 1/2. Also, the minimum distribution rules did not apply to living taxpayers as they did for traditional IRA's.

Some taxpayers were also eligible to make taxable rollovers of traditional IRA's to Roth IRA's without paying the 10 percent tax on early withdrawals. Taxpayers had to have a modified AGI of \$100,000 or less to be able to roll over a traditional IRA to a Roth IRA. When a taxpayer converted an amount from the traditional IRA to a Roth IRA, they were required to include in gross income the amount that they would have reported in income if they had made a withdrawal from this IRA. The taxpayer did not include in gross income any part of the conversion that was a nondeductible contribution in a traditional IRA. Taxpayers then generally had the option of including this taxable amount from the conversion in income either for the current year or including it in equal parts over four years. Married taxpayers filing separately could not take advantage of this rollover provision.

## Sale of a Home

Taxpayers who sold their primary residence after May 6, 1997, were 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

The maximum percentage of self-employed health insurance premiums that a taxpayer could deduct as an adjustment to income rose to 45 percent, up from 40 percent in 1997.

## Self-employment Tax

The ceiling on taxable "self-employment income" was raised for 1998, to \$68,400 for the social security portion (12.4 percent) of the self-employment tax. The limit was \$65,400 for 1997.

## Standard Deduction

The standard deduction increased for 1998 as a result of inflation indexing. For single filers, the standard deduction rose from \$4,150 to \$4,250; for married persons filing jointly or surviving spouses, from \$6,900 to \$7,100; for married persons filing separately, from \$3,450 to \$3,550; and for heads of household, from \$6,050 to \$6,250. The basic standard deduction claimed by filers who were dependent children of other taxpayers increased to \$700 for 1998. New for 1998, the amount of standard deduction for a dependent could be greater than \$700 and equal to the dependent's earned income plus \$250 (but not more than the regular standard deduction amount). Taxpayers who were age 65 or over or blind could claim an additional standard deduction amount of \$850 or \$1,050 depending on marital status.

## Student Loan Interest Deduction

Beginning in 1998, a deduction allowed eligible taxpayers to deduct up to \$1,000 for interest paid on qualified higher education loans. These loans

must have gone towards qualified expenses of either the taxpayer, the taxpayer's spouse, or any dependent of the taxpayer at the time the debt was incurred. The education interest deduction was phased out began with a modified AGI of \$40,000 - \$50,000 (\$60,000 - \$75,000, joint returns)

## The 1979 Income Concept A Retrospective Income Definition

In order to analyze changes in income and taxes over a period of years, a consistent definition of income must be used. The income concept available from Federal income tax returns, AGI, was designed to facilitate tax administration, and its definition has changed over time to reflect modifications to the Internal Revenue Code. Tax laws of the 1980's (the Economic Recovery Tax Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982, the Tax Reform Act of 1984, and the Tax Reform Act of 1986) made significant changes to the components of AGI, which made it more difficult to use AGI for accurate comparisons of income from year to year. For this reason, it was decided to develop an income definition that would be consistent over several years, and would allow comparisons both before and after the major tax legislation of the 1980's.

The result was a retrospective income definition known as the 1979 Income Concept, reflecting a base period from 1979 through 1986. It was calculated using only data available from individual income tax returns. By using the same income items in the calculation each year, its definition was

### Figure 3.-Calculation of the 1979 Income Concept for 1998

#### 1979 Total Income Concept=

##### Income or Loss:

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

##### Deductions:

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

<sup>1</sup> Included in adjusted gross income (less deficit) (AGI) for Tax Year 1998.

<sup>2</sup> 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.

<sup>3</sup> Includes taxable and tax-exempt pension and retirement distributions, including IRA distributions.

<sup>4</sup> Includes an adjustment to add back amounts reported for the "foreign-earned income exclusion."

<sup>5</sup> Not fully included in AGI for Tax Year 1998.

<sup>6</sup> Not included in AGI for Tax Year 1998.

consistent throughout the base years. In addition, this retrospective income definition could be used in future years to compare income by continuing to include the same components that were common to all years.

The calculation of the 1979 Income Concept is shown in Figure 3. Several items partially excluded from AGI for the base years were fully included in this new income measure, the largest of which was capital gains. The full amount of all capital gains, as well as all dividends and unemployment compensation, was included in the income calculation. Total pensions, annuities, IRA distributions, and roll-overs were added, including the non-taxable portions that were excluded from AGI. Social security benefits were omitted because they were not reported on tax returns until 1984. Also, any depreciation in excess of straight-line depreciation, which was subtracted in computing AGI, was added back.

Deductions that could be subtracted in the calculation of the 1979 Income Concept were limited to employee business expenses, alimony paid, and moving expenses. These same items were also subtracted in computing AGI until 1987 when unreimbursed business expenses and moving expenses were changed from adjustments to itemized deductions. Starting in 1994, moving expenses were once more made an adjustment to income. The amounts reported for employee business expenses by taxpayers who itemized deductions were subtracted in the calculation of the 1979 Income Concept. Taxpayers who did not itemize deductions, however, could not claim this expense (as well

**Table B--All Returns: Selected Income and Tax Items, by Size of Adjusted Gross Income and by 1979 Income Concept, 1998**

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

Size of income	Income				Salaries and wages			
	1998 Adjusted Gross Income		1979 Income Concept		1998 Adjusted Gross Income		1979 Income Concept	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>All returns, total.....</b>	<b>124,770,662</b>	<b>5,415,973</b>	<b>124,770,662</b>	<b>5,571,452</b>	<b>16,535,263</b>	<b>3,879,762</b>	<b>106,535,263</b>	<b>3,879,762</b>
Under \$10,000.....	27,284,126	79,829	26,771,398	75,877	21,435,755	111,718	21,238,961	108,070
\$10,000 under \$20,000.....	24,625,807	366,072	24,590,329	365,172	20,120,998	279,326	20,075,945	279,142
\$20,000 under \$30,000.....	18,292,762	451,254	18,870,326	465,974	15,912,818	364,495	16,086,070	369,001
\$30,000 under \$40,000.....	13,135,034	456,216	13,393,562	464,872	11,672,076	372,621	11,828,353	376,750
\$40,000 under \$50,000.....	9,973,659	447,073	9,971,063	446,979	9,071,515	368,944	9,032,908	369,209
\$50,000 under \$60,000.....	7,686,872	421,092	7,502,419	410,293	6,976,556	342,533	6,837,465	336,973
\$60,000 under \$70,000.....	5,891,662	381,631	5,545,455	359,178	5,334,810	307,650	5,127,430	297,062
\$70,000 under \$80,000.....	4,387,237	328,048	4,229,816	316,288	3,987,489	260,497	3,890,935	257,350
\$80,000 under \$90,000.....	2,925,974	247,538	2,785,814	235,789	2,657,073	193,822	2,560,730	186,767
\$90,000 under \$100,000.....	2,216,060	209,946	2,143,903	203,305	2,008,583	164,169	1,982,541	160,315
\$100,000 under \$125,000.....	3,211,034	355,933	3,243,056	359,995	2,899,383	267,715	2,935,454	268,103
\$125,000 under \$150,000.....	1,603,249	217,636	1,674,364	227,718	1,415,480	154,737	1,497,783	157,684
\$150,000 under \$175,000.....	878,918	141,977	962,494	155,599	784,006	97,755	837,769	98,673
\$175,000 under \$200,000.....	573,058	107,075	607,444	113,363	491,823	68,667	525,988	67,816
\$200,000 under \$300,000.....	1,036,956	248,276	1,230,832	295,305	891,086	149,859	1,034,156	157,550
\$300,000 under \$400,000.....	376,277	129,350	453,721	155,981	315,295	70,278	377,871	74,080
\$400,000 under \$500,000.....	192,953	85,963	234,586	104,619	161,111	46,600	196,058	47,630
\$500,000 under \$1,000,000.....	307,020	207,594	368,080	247,926	255,074	99,361	308,446	105,091
\$1,000,000 or more.....	172,004	533,469	192,000	567,220	144,334	159,017	160,400	162,496

  

Size of income	Taxable interest received				Dividends in AGI		Dividends received	
	1998 Adjusted Gross Income		1979 Income Concept		1998 Adjusted Gross Income		1979 Income Concept	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
<b>All returns, total.....</b>	<b>67,231,792</b>	<b>178,334</b>	<b>67,231,792</b>	<b>178,334</b>	<b>30,423,274</b>	<b>118,480</b>	<b>30,423,274</b>	<b>118,480</b>
Under \$10,000.....	8,611,135	10,240	8,334,161	10,126	3,691,023	4,000	3,539,242	3,937
\$10,000 under \$20,000.....	9,013,652	16,618	8,788,679	15,914	3,130,971	5,453	2,976,532	5,293
\$20,000 under \$30,000.....	8,478,003	14,436	8,955,651	17,364	2,843,736	5,063	3,088,765	6,494
\$30,000 under \$40,000.....	7,507,524	12,528	7,754,334	13,943	2,687,171	5,431	2,872,843	6,586
\$40,000 under \$50,000.....	6,801,033	10,633	6,836,774	11,657	2,698,886	5,574	2,730,470	5,787
\$50,000 under \$60,000.....	5,761,643	10,358	5,615,773	10,915	2,541,417	5,496	2,384,031	5,225
\$60,000 under \$70,000.....	4,804,799	9,859	4,457,454	7,819	2,253,057	5,099	2,048,733	4,621
\$70,000 under \$80,000.....	3,714,446	8,143	3,576,242	7,121	1,886,781	5,641	1,789,447	5,230
\$80,000 under \$90,000.....	2,586,876	6,264	2,469,745	4,931	1,444,680	4,286	1,380,334	3,758
\$90,000 under \$100,000.....	2,040,210	5,281	1,969,323	5,267	1,226,425	3,721	1,162,748	3,651
\$100,000 under \$125,000.....	2,979,939	9,399	2,983,558	8,744	2,001,540	8,362	1,971,523	7,305
\$125,000 under \$150,000.....	1,516,102	7,169	1,581,542	6,046	1,127,575	5,563	1,177,255	5,097
\$150,000 under \$175,000.....	835,584	4,295	911,453	4,691	656,392	4,121	716,067	3,841
\$175,000 under \$200,000.....	548,259	3,622	576,864	3,261	447,298	3,441	480,717	3,531
\$200,000 under \$300,000.....	1,005,281	7,977	1,195,024	8,408	847,899	8,792	991,235	8,856
\$300,000 under \$400,000.....	366,155	4,913	442,700	5,067	321,496	5,216	389,535	5,396
\$400,000 under \$500,000.....	188,956	3,129	230,181	3,295	171,802	3,002	204,957	3,164
\$500,000 under \$1,000,000.....	301,817	8,773	362,410	8,843	281,510	8,485	336,419	8,761
\$1,000,000 or more.....	170,376	24,697	189,924	24,921	163,613	21,735	182,420	21,944

  

Size of income	Business or profession net income less loss				Sales of capital assets			
	1998 Adjusted Gross Income		1979 Income Concept		1998 Adjusted Gross Income		1979 Income Concept	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
<b>All returns, total.....</b>	<b>17,104,785</b>	<b>202,400</b>	<b>17,104,785</b>	<b>202,400</b>	<b>25,690,397</b>	<b>446,084</b>	<b>25,690,397</b>	<b>446,084</b>
Under \$10,000.....	3,141,702	6,468	2,882,198	4,090	3,282,054	8,290	3,156,963	8,455
\$10,000 under \$20,000.....	2,515,088	16,499	2,547,803	15,935	2,468,337	4,854	2,358,793	4,591
\$20,000 under \$30,000.....	2,135,473	16,166	2,132,548	14,522	2,294,363	5,392	2,478,652	6,170
\$30,000 under \$40,000.....	1,751,670	13,961	1,814,268	13,796	2,217,784	6,576	2,369,420	7,503
\$40,000 under \$50,000.....	1,584,725	13,033	1,604,706	12,644	2,131,835	6,912	2,193,152	8,226
\$50,000 under \$60,000.....	1,247,468	11,978	1,229,674	10,044	2,027,529	8,387	1,924,296	7,852
\$60,000 under \$70,000.....	996,805	10,570	1,012,876	10,452	1,838,362	7,724	1,653,901	8,590
\$70,000 under \$80,000.....	787,864	9,580	773,441	9,892	1,566,055	9,553	1,461,980	8,208
\$80,000 under \$90,000.....	597,415	8,353	563,734	7,949	1,241,728	8,018	1,188,263	7,648
\$90,000 under \$100,000.....	408,070	7,596	422,677	7,480	1,068,111	7,462	991,025	6,464
\$100,000 under \$125,000.....	630,107	14,024	649,877	14,138	1,789,539	16,457	1,766,818	15,603
\$125,000 under \$150,000.....	373,531	12,063	384,923	12,358	986,367	14,101	1,023,691	13,133
\$150,000 under \$175,000.....	218,724	9,116	241,568	8,860	610,912	10,389	664,573	10,485
\$175,000 under \$200,000.....	153,384	7,551	172,730	8,018	419,225	8,879	445,056	8,788
\$200,000 under \$300,000.....	293,207	17,982	347,096	20,844	815,698	27,139	934,042	26,704
\$300,000 under \$400,000.....	102,249	8,149	125,977	9,865	319,568	18,380	376,503	18,772
\$400,000 under \$500,000.....	50,695	4,522	58,918	5,279	167,874	13,076	193,843	13,276
\$500,000 under \$1,000,000.....	74,724	7,980	92,023	9,041	280,246	41,903	328,024	41,805
\$1,000,000 or more.....	41,883	6,809	47,746	7,194	164,810	222,591	181,400	223,809

**Table B--All Returns: Selected Income and Tax Items, by Size of Adjusted Gross Income and by 1979 Income Concept, 1998--Continued**

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

Size of income	Rents, royalties, and farm rental net income less loss				Partnership and S corporation net income less loss			
	1998 Adjusted Gross Income		1979 Income Concept		1998 Adjusted Gross Income		1979 Income Concept	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)
<b>All returns, total.....</b>	<b>10,157,416</b>	<b>22,440</b>	<b>10,157,416</b>	<b>22,440</b>	<b>6,184,186</b>	<b>187,355</b>	<b>6,184,186</b>	<b>187,355</b>
Under \$10,000.....	929,602	-793	882,066	-877	500,848	-16,975	477,862	-17,146
\$10,000 under \$20,000.....	1,173,450	992	1,143,115	1,096	385,323	845	370,132	567
\$20,000 under \$30,000.....	1,057,801	294	1,121,578	531	436,247	1,473	459,216	1,392
\$30,000 under \$40,000.....	965,188	697	1,019,237	736	442,415	1,569	452,496	1,588
\$40,000 under \$50,000.....	969,476	-425	1,000,092	-182	434,039	1,683	426,366	1,650
\$50,000 under \$60,000.....	890,936	483	853,665	587	420,154	2,498	420,644	1,975
\$60,000 under \$70,000.....	728,071	201	684,665	202	406,465	3,008	378,373	2,999
\$70,000 under \$80,000.....	601,179	238	546,306	195	357,664	2,186	349,963	3,041
\$80,000 under \$90,000.....	465,505	309	462,546	125	284,030	2,384	264,676	2,312
\$90,000 under \$100,000.....	391,473	562	381,352	221	268,248	3,028	260,092	1,933
\$100,000 under \$125,000.....	731,968	1,409	688,008	1,445	495,844	7,506	474,523	7,380
\$125,000 under \$150,000.....	361,652	1,551	383,600	1,334	328,952	6,710	335,711	5,969
\$150,000 under \$175,000.....	180,900	1,201	196,310	1,104	241,224	6,876	243,654	6,664
\$175,000 under \$200,000.....	123,525	1,195	137,894	1,469	168,207	6,447	172,919	5,718
\$200,000 under \$300,000.....	252,575	3,345	292,136	3,288	396,682	20,264	437,321	21,337
\$300,000 under \$400,000.....	111,265	2,050	120,019	1,868	190,006	14,748	202,558	14,970
\$400,000 under \$500,000.....	55,706	1,239	61,616	1,321	108,140	11,004	116,718	11,461
\$500,000 under \$1,000,000.....	102,225	2,905	113,147	2,970	192,346	31,401	204,868	31,784
\$1,000,000 or more.....	64,920	4,987	70,066	5,007	127,350	80,700	136,095	81,762

  

Size of income	Nondeductible passive losses				Estate and trust net income less loss			
	1998 Adjusted Gross Income		1979 Income Concept		1998 Adjusted Gross Income		1979 Income Concept	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(33)	(34)	(35)	(36)	(37)	(38)	(39)	(40)
<b>All returns, total.....</b>	<b>1,163,488</b>	<b>10,842</b>	<b>1,163,488</b>	<b>10,842</b>	<b>530,175</b>	<b>9,464</b>	<b>530,175</b>	<b>9,464</b>
Under \$10,000.....	86,908	1,101	104,326	3,545	56,591	-145	56,101	-147
\$10,000 under \$20,000.....	65,717	200	65,504	154	42,796	189	44,922	199
\$20,000 under \$30,000.....	42,441	311	48,306	151	30,488	170	34,643	180
\$30,000 under \$40,000.....	57,965	178	56,904	127	42,097	229	39,396	226
\$40,000 under \$50,000.....	59,423	235	63,459	116	28,936	118	37,105	182
\$50,000 under \$60,000.....	56,537	155	52,004	237	42,012	236	33,735	236
\$60,000 under \$70,000.....	43,466	213	34,472	205	26,730	194	23,749	113
\$70,000 under \$80,000.....	45,681	462	40,545	175	29,998	201	32,797	256
\$80,000 under \$90,000.....	27,014	119	22,874	117	23,948	209	31,220	233
\$90,000 under \$100,000.....	30,673	418	30,652	188	28,119	249	18,553	167
\$100,000 under \$125,000.....	98,620	571	104,512	614	40,215	464	36,930	531
\$125,000 under \$150,000.....	93,183	590	93,098	646	26,717	316	18,944	192
\$150,000 under \$175,000.....	92,541	801	82,210	480	15,946	410	20,892	420
\$175,000 under \$200,000.....	72,763	535	61,795	347	12,845	312	13,331	307
\$200,000 under \$300,000.....	125,755	1,370	125,849	951	26,682	507	28,570	530
\$300,000 under \$400,000.....	55,109	638	59,631	492	16,659	574	18,535	552
\$400,000 under \$500,000.....	28,065	387	28,062	268	8,401	530	9,143	583
\$500,000 under \$1,000,000.....	50,784	968	57,250	717	17,209	1,101	17,197	1,102
\$1,000,000 or more.....	30,843	1,587	32,036	1,311	13,785	3,600	14,414	3,600

  

Size of income	Pensions and annuities in AGI <sup>1</sup>		Pensions and annuities <sup>1</sup>		Total statutory adjustments			
	1998 Adjusted Gross Income		1979 Income Concept		1998 Adjusted Gross Income		1979 Income Concept	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(41)	(42)	(43)	(44)	(45)	(46)	(47)	(48)
<b>All returns, total.....</b>	<b>24,360,349</b>	<b>354,745</b>	<b>26,356,280</b>	<b>574,879</b>	<b>21,998,366</b>	<b>51,531</b>	<b>12,701,314</b>	<b>50,132</b>
Under \$10,000.....	2,241,821	11,003	2,146,866	10,898	2,957,031	2,035	205,479	1,531
\$10,000 under \$20,000.....	4,696,357	39,885	4,628,650	39,759	3,225,406	3,544	655,090	3,170
\$20,000 under \$30,000.....	3,591,663	41,804	4,108,015	50,304	3,137,407	4,460	1,159,428	4,807
\$30,000 under \$40,000.....	2,817,811	35,883	3,114,508	44,308	2,645,308	4,192	1,486,107	4,935
\$40,000 under \$50,000.....	2,340,121	32,242	2,469,688	38,324	2,210,533	3,668	1,699,894	5,285
\$50,000 under \$60,000.....	1,971,181	29,280	2,046,513	37,608	1,722,161	3,592	1,531,994	4,827
\$60,000 under \$70,000.....	1,660,494	28,285	1,572,916	27,750	1,366,968	2,815	1,284,813	3,758
\$70,000 under \$80,000.....	1,267,559	24,400	1,258,216	26,104	924,964	2,442	1,127,018	3,855
\$80,000 under \$90,000.....	859,759	18,696	913,985	22,424	621,142	2,063	738,532	2,369
\$90,000 under \$100,000.....	665,023	14,613	697,288	18,308	476,422	1,819	619,023	2,244
\$100,000 under \$125,000.....	917,962	24,980	1,165,335	37,604	791,041	3,348	911,984	3,713
\$125,000 under \$150,000.....	450,272	13,490	633,089	26,168	486,407	2,768	431,509	2,008
\$150,000 under \$175,000.....	216,725	7,567	366,824	21,679	299,391	2,313	245,314	1,358
\$175,000 under \$200,000.....	151,512	6,477	232,116	14,391	220,096	1,950	128,537	1,030
\$200,000 under \$300,000.....	263,740	12,455	500,166	47,941	426,217	4,199	261,383	2,062
\$300,000 under \$400,000.....	89,693	4,224	179,639	24,912	165,715	1,997	83,906	913
\$400,000 under \$500,000.....	48,845	2,486	102,151	18,143	88,727	1,070	41,790	516
\$500,000 under \$1,000,000.....	71,230	3,998	151,090	37,143	143,414	1,865	63,281	971
\$1,000,000 or more.....	38,582	2,978	69,225	31,108	90,017	1,389	26,233	781

Footnotes at end of table

**Table B--All Returns: Selected Income and Tax Items, by Size of Adjusted Gross Income and by 1979 Income Concept, 1998--Continued**

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

Size of income	Total itemized deductions				Taxable income			
	1998 Adjusted Gross Income		1979 Income Concept		1998 Adjusted Gross Income		1979 Income Concept	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(49)	(50)	(51)	(52)	(53)	(54)	(55)	(56)
<b>All returns, total</b> .....	<b>38,186,186</b>	<b>676,460</b>	<b>38,158,905</b>	<b>647,039</b>	<b>100,801,271</b>	<b>3,780,838</b>	<b>100,801,271</b>	<b>3,780,838</b>
Under \$10,000.....	605,230	6,721	647,555	6,691	8,853,287	15,561	8,766,641	15,944
\$10,000 under \$20,000.....	2,015,074	21,665	2,063,269	20,417	19,688,985	121,185	19,467,284	119,715
\$20,000 under \$30,000.....	3,230,753	34,115	3,479,481	34,058	17,860,695	238,847	18,360,617	248,157
\$30,000 under \$40,000.....	4,072,039	45,383	4,172,930	44,113	13,044,476	282,909	13,251,143	294,171
\$40,000 under \$50,000.....	4,570,422	54,394	4,500,431	51,024	9,935,141	294,872	9,904,132	301,176
\$50,000 under \$60,000.....	4,403,866	58,086	4,224,158	53,051	7,668,239	288,384	7,467,137	285,746
\$60,000 under \$70,000.....	4,026,768	57,836	3,760,054	51,778	5,883,003	267,264	5,526,927	252,061
\$70,000 under \$80,000.....	3,362,612	51,428	3,244,487	47,583	4,384,138	236,295	4,205,043	226,057
\$80,000 under \$90,000.....	2,395,059	41,325	2,237,113	36,716	2,922,893	179,574	2,777,013	168,972
\$90,000 under \$100,000.....	1,885,798	34,612	1,808,762	32,187	2,215,080	156,080	2,136,423	147,906
\$100,000 under \$125,000.....	2,872,438	60,010	2,854,956	56,783	3,209,680	269,014	3,236,517	260,884
\$125,000 under \$150,000.....	1,468,682	35,651	1,522,292	34,472	1,601,772	168,938	1,669,354	167,468
\$150,000 under \$175,000.....	827,957	22,979	876,134	22,418	878,310	111,870	954,789	113,328
\$175,000 under \$200,000.....	530,418	16,373	552,561	15,968	572,417	86,135	605,066	83,574
\$200,000 under \$300,000.....	960,914	35,880	1,099,351	36,822	1,036,040	207,667	1,227,044	217,854
\$300,000 under \$400,000.....	346,818	16,736	404,598	17,730	376,024	112,460	452,693	117,202
\$400,000 under \$500,000.....	177,614	10,532	208,951	10,810	192,714	75,369	234,397	78,341
\$500,000 under \$1,000,000.....	277,847	22,378	328,094	23,466	306,675	185,114	367,385	192,074
\$1,000,000 or more.....	155,879	50,356	173,726	50,950	171,700	483,301	191,667	490,208

  

Size of income	Total tax credits				Total income tax			
	1998 Adjusted Gross Income		1979 Income Concept		1998 Adjusted Gross Income		1979 Income Concept	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(57)	(58)	(59)	(60)	(61)	(62)	(63)	(64)
<b>All returns, total</b> .....	<b>34,271,812</b>	<b>30,056</b>	<b>34,271,812</b>	<b>30,056</b>	<b>93,047,898</b>	<b>788,542</b>	<b>93,047,898</b>	<b>788,542</b>
Under \$10,000.....	1,470,197	131	1,435,132	136	8,261,384	2,302	8,184,193	2,387
\$10,000 under \$20,000.....	5,177,591	2,501	5,144,673	2,470	15,365,028	15,567	15,182,271	15,397
\$20,000 under \$30,000.....	5,958,447	4,812	6,014,934	4,838	15,364,816	30,864	15,841,463	32,250
\$30,000 under \$40,000.....	4,338,491	3,279	4,399,095	3,303	12,779,095	40,348	12,976,884	42,293
\$40,000 under \$50,000.....	3,911,843	3,196	3,875,807	3,159	9,875,704	44,815	9,842,854	46,060
\$50,000 under \$60,000.....	3,255,520	2,782	3,173,692	2,722	7,658,793	44,940	7,455,865	45,012
\$60,000 under \$70,000.....	2,723,466	2,506	2,626,123	2,383	5,873,712	43,402	5,516,203	41,044
\$70,000 under \$80,000.....	2,075,515	1,951	2,059,769	1,947	4,383,814	41,435	4,203,839	39,764
\$80,000 under \$90,000.....	1,485,797	1,388	1,426,005	1,259	2,923,894	33,385	2,773,878	31,452
\$90,000 under \$100,000.....	1,091,473	860	1,042,477	809	2,214,727	30,969	2,135,144	29,395
\$100,000 under \$125,000.....	1,343,010	961	1,410,900	1,004	3,210,399	57,080	3,235,901	54,886
\$125,000 under \$150,000.....	368,240	307	432,355	328	1,602,188	38,493	1,668,771	37,806
\$150,000 under \$175,000.....	207,069	186	247,302	266	878,163	26,717	952,597	26,684
\$175,000 under \$200,000.....	140,644	250	152,551	175	572,439	21,431	605,458	20,513
\$200,000 under \$300,000.....	291,470	642	343,334	714	1,036,241	55,601	1,226,623	57,335
\$300,000 under \$400,000.....	135,047	378	155,759	438	376,013	32,821	453,073	33,576
\$400,000 under \$500,000.....	72,068	292	79,837	304	192,805	23,123	234,431	23,646
\$500,000 under \$1,000,000.....	133,342	1,100	152,005	1,167	306,822	58,483	367,542	60,230
\$1,000,000 or more.....	92,583	2,533	100,060	2,634	171,862	146,767	190,906	148,815

<sup>1</sup> Individual Retirement Arrangements are included in the calculation of "Pensions and annuities."

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

as moving expenses prior to 1994). For this reason, the deduction for these two expenses beginning in 1987 is not completely comparable to that for previous years.

## Comparison of AGI with 1979 Income Concept

The Tax Reform Act of 1986 (TRA 86) made extensive changes to the calculation of AGI beginning with 1987. These changes made necessary a revision of the calculation of the 1979 Income Concept, in order to make tax years beginning with 1987 comparable to the base years, 1979 through 1986. The law changes limited the deduction of passive losses and eliminated

unreimbursed employee business expenses and moving expenses as "adjustments" (moving expenses changed back for 1994) in figuring AGI beginning with Tax Year 1987. Since passive losses had been fully deductible for both income measures prior to 1987, the disallowed passive losses had to be deducted in the 1979 Income Concept calculation for tax years after 1986.

Some income items, such as capital gains, that had been partially excluded from AGI under prior law were fully included. The new law also eliminated or restricted some deductions. Therefore, if AGI is used to measure income, comparisons between 1986 income and tax data with that for years after 1986 are misleading. A more accurate comparison can be made using the 1979 Income Concept because it measures income in the same way for all years. Table B shows total income and selected tax items for 1998 using AGI and the 1979 Income Concept, classified by size of 1998 AGI.

Before TRA 86 became effective, a comparison of income measured by AGI with that measured by the 1979 Income Concept showed significant differences at income levels of \$200,000 or more. But, with the elimination of preferential treatment of various income items by TRA 86, such as the exclusion of a portion of capital gains, much of the difference disappeared. Under tax law prior to 1987, the capital gains exclusion accounted for the largest difference at the higher income levels between the two income measures. For 1998, 1979 Concept income was 2.9 percent higher than income as calculated using AGI. This difference was primarily attributed to the inclusion of more than \$220.1 billion in nontaxable pensions and annuities (including IRA distributions) in the 1979 Income Concept.

Income for all returns, using the 1979 Income Concept, increased 10.2 percent for 1998; income for the group \$200,000 and above increased 23.9 percent, after increasing 25.0 percent for 1997. Total income tax for all returns increased 7.8 percent; and total income tax reported for the \$200,000 and above income group increased 17.0 percent for 1998, following an increase of 19.7 percent for 1997.

The average tax rates (income tax as a percentage of total income) for each income class and both income concepts for years 1986 through 1998 are shown in Figure 4.

For the population as a whole, average tax rates for 1998 (based on the 1979 Income Concept) are higher than those for 1986 (before tax reform). However, between these 2 years, the average tax rates declined in all income categories below \$500,000. The remaining two income categories show the following increases in average tax rates between 1986 and 1998: returns with income between \$500,000 and \$1,000,000 increased 0.6 percentage points; and returns with income exceeding \$1,000,000 increased 4.8 percentage points. Although the average tax rate for 1998 was calculated using a lower maximum marginal tax rate of 39.6 percent for 1998 compared to 50 percent for 1986, it was calculated on income which included all capital gains (long-term gains could be partially excluded from income for 1986). Also, certain deductions from income that were allowed for 1986 were limited or eliminated beginning with 1987.

SOURCE: IRS, Statistics of Income – 1998, Individual Income Tax Returns, Publication 1304, Revised 4-01

**Figure 4--Total Income Tax as a Percentage of Adjusted Gross Income and the 1979 Income Concept, 1986-1998**

Size of 1998 AGI	Total income tax as a percentage of adjusted gross income												
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
<b>All returns, total.....</b>	<b>14.8</b>	<b>13.3</b>	<b>13.4</b>	<b>13.3</b>	<b>13.1</b>	<b>12.9</b>	<b>13.1</b>	<b>13.5</b>	<b>13.7</b>	<b>14.0</b>	<b>14.5</b>	<b>14.7</b>	<b>14.6</b>
Under \$10,000.....	4.3	4.0	4.0	3.8	3.7	3.5	3.2	3.0	3.0	3.0	3.1	3.2	2.9
\$10,000 under \$20,000.....	7.8	6.8	6.5	6.4	6.1	5.5	5.1	4.9	4.8	4.7	4.6	4.3	4.3
\$20,000 under \$30,000.....	10.6	9.4	9.3	9.3	9.1	8.7	8.4	8.2	8.1	7.9	7.7	7.6	6.8
\$30,000 under \$40,000.....	12.2	10.6	10.9	10.9	10.6	10.5	10.2	10.1	10.0	9.8	9.7	9.6	8.8
\$40,000 under \$50,000.....	13.8	11.8	11.6	11.5	11.4	11.0	10.8	10.7	10.8	10.7	10.8	10.7	10.0
\$50,000 under \$60,000.....	15.5	13.5	13.2	12.9	12.4	12.1	11.6	11.5	11.4	11.4	11.3	11.3	10.7
\$60,000 under \$70,000.....	16.9	15.1	14.5	14.2	13.8	13.2	12.9	12.7	12.6	12.5	12.3	12.1	11.4
\$70,000 under \$80,000.....	18.7	16.5	15.6	15.3	14.9	14.4	14.0	13.9	13.8	13.6	13.6	13.4	12.6
\$80,000 under \$90,000.....	19.9	17.8	16.6	16.2	15.8	15.4	15.0	15.1	14.9	14.6	14.6	14.4	13.5
\$90,000 under \$100,000.....	20.8	18.8	17.4	17.3	16.6	16.0	15.9	15.7	15.9	15.8	15.4	15.2	14.8
\$100,000 under \$125,000.....	23.1	20.1	18.8	18.4	17.5	17.3	16.9	17.0	17.0	16.9	16.7	16.5	16.0
\$125,000 under \$150,000.....	25.2	21.8	20.3	19.8	19.2	18.6	18.7	18.6	18.6	18.3	18.4	17.7	17.7
\$150,000 under \$175,000.....	28.0	23.0	21.6	21.1	20.4	19.8	19.6	19.7	19.9	19.9	19.8	19.3	18.8
\$175,000 under \$200,000.....	29.3	23.9	22.5	21.8	21.1	21.0	20.7	21.2	21.4	20.9	20.9	20.5	20.0
\$200,000 under \$300,000.....	31.1	25.8	23.7	22.8	22.6	22.7	22.9	23.8	23.9	23.8	23.4	22.9	22.4
\$300,000 under \$400,000.....	33.7	27.0	24.0	23.6	23.7	24.3	24.4	26.9	26.9	26.8	26.6	26.1	25.4
\$400,000 under \$500,000.....	36.2	28.2	24.1	23.9	23.6	24.9	25.3	28.4	28.6	28.7	28.2	27.4	26.9
\$500,000 under \$1,000,000.....	38.4	29.0	24.6	24.0	24.0	25.7	26.0	30.0	30.2	30.2	30.1	29.0	28.2
\$1,000,000 or more.....	40.2	28.6	25.0	24.2	24.1	26.2	26.8	31.2	31.1	31.4	30.8	28.8	27.5

  

Size of 1998 AGI	Total income tax as a percentage of 1979 Income Concept												
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)
<b>All returns, total.....</b>	<b>13.3</b>	<b>13.1</b>	<b>13.3</b>	<b>13.2</b>	<b>13.0</b>	<b>12.7</b>	<b>12.8</b>	<b>13.3</b>	<b>13.5</b>	<b>13.8</b>	<b>14.3</b>	<b>14.5</b>	<b>14.2</b>
Under \$10,000.....	4.9	4.2	4.4	4.3	4.3	4.0	3.5	3.2	3.2	3.1	3.2	3.4	3.1
\$10,000 under \$20,000.....	7.6	6.7	6.5	6.4	6.1	5.5	5.1	4.8	4.8	4.7	4.6	4.4	4.2
\$20,000 under \$30,000.....	10.0	9.3	9.3	9.3	9.1	8.7	8.3	8.2	8.1	7.9	7.8	7.6	6.9
\$30,000 under \$40,000.....	11.6	10.7	10.7	10.9	10.7	10.5	10.2	10.2	10.1	10.1	10.0	9.8	9.1
\$40,000 under \$50,000.....	12.6	11.7	11.7	11.5	11.5	11.1	10.9	10.8	11.0	11.0	11.1	11.0	10.3
\$50,000 under \$60,000.....	13.8	13.4	13.2	12.9	12.5	12.0	11.6	11.6	11.6	11.6	11.6	11.5	11.0
\$60,000 under \$70,000.....	14.9	15.0	14.5	14.2	13.8	13.2	12.9	12.7	12.7	12.5	12.5	12.4	11.4
\$70,000 under \$80,000.....	15.8	16.2	15.4	15.2	14.6	14.2	13.7	13.7	13.6	13.6	13.5	13.3	12.6
\$80,000 under \$90,000.....	16.7	17.5	16.1	16.2	15.5	15.1	14.6	14.7	14.6	14.4	14.5	14.2	13.3
\$90,000 under \$100,000.....	16.8	18.1	17.1	16.8	16.1	15.5	15.2	15.3	15.4	15.5	15.2	15.2	14.5
\$100,000 under \$125,000.....	18.3	19.3	18.0	17.7	16.9	16.6	16.2	16.3	16.3	16.2	16.1	16.0	15.2
\$125,000 under \$150,000.....	19.0	20.6	19.6	18.8	18.0	17.3	17.2	17.7	17.4	17.4	17.3	16.7	16.6
\$150,000 under \$175,000.....	19.3	21.2	20.6	20.0	19.1	18.3	17.8	18.0	18.5	18.1	18.4	18.2	17.1
\$175,000 under \$200,000.....	20.3	22.5	21.6	20.7	20.0	18.6	19.0	19.1	19.4	19.2	18.9	18.8	18.1
\$200,000 under \$300,000.....	22.6	23.8	22.3	21.5	21.4	20.5	20.2	21.4	21.5	21.5	21.3	20.4	19.4
\$300,000 under \$400,000.....	22.6	24.5	22.6	21.9	21.5	21.6	21.6	23.5	23.7	23.7	23.1	24.0	21.5
\$400,000 under \$500,000.....	23.4	26.5	23.2	22.7	22.3	23.0	21.4	25.4	24.8	25.1	25.0	24.3	22.6
\$500,000 under \$1,000,000.....	23.7	26.7	23.5	22.0	21.7	23.5	22.6	26.3	26.1	26.7	27.1	26.1	24.3
\$1,000,000 or more.....	21.4	26.8	24.5	23.2	23.2	25.2	26.1	29.5	30.1	30.4	29.8	27.5	26.2