

Preliminary Individual Income Statistics, 1984

By Marshall S. Epstein and David Barker *

Adjusted gross income reported by individual income tax filers exceeded \$2 trillion for the first time for Tax Year 1984. This 11.1 percent increase in income led to an 11.0 percent increase in taxable income and a 10.9 percent increase in total income tax. This was the first increase in total income tax since implementation of the Economic Recovery Tax Act of 1981.

This and other information that was unavailable in time for inclusion in the Winter 1985-86 issue of the SOI Bulletin is presented in Table 1 by size of adjusted gross income. Among the new statistics for 1984 are itemized deductions by type. They show that the 15 percent increase in total itemized deductions reflected similar increases in the two predominant deductions, for interest and taxes paid. To assist the user of the data, the definitions and tax law changes and the descriptions of the data sources and limitations from the Winter issue are repeated below.

DEFINITIONS AND TAX LAW CHANGES

In general, the definitions of the terms used here are the same as those shown in the complete report, Individual Income Tax Returns 1983.

Following is a partial list of 1984 tax law and administrative changes that are reflected in the preliminary data in this article. Changes are listed in the same order as the topics are presented in this article.

- o Beginning with Tax Year 1984, a percentage of social security benefits (or tier 1 railroad retirement benefits) became taxable. The amount of benefits that had to be included in income was the lesser of half the benefits received for the year or half the excess of the taxpayer's modified AGI over a specified base amount. Modified adjusted gross income was the taxpayer's AGI plus the following:

- 1) any tax-exempt interest,

- 2) the two-earner married couple deduction,
- 3) the foreign earned income exclusion and the foreign housing deduction and
- 4) the exclusion for income from U.S. possessions and Puerto Rico.

The base amount that applied was \$25,000 for single persons, \$32,000 for married couples filing jointly, \$25,000 for married persons filing separately and not living with their spouse, and zero for married persons filing separately and living together.

- o Beginning with Tax Year 1984 contributions to IRA's could no longer be made after the due date for filing a return. Previously taxpayers could make contributions to their IRA until the due date for filing their return including any extensions.
- o The limit for excluding "reasonable" amounts of employer-provided foreign housing increased by \$263 to \$6,878 for 1984.
- o For Tax Year 1983, taxpayers could only deduct expenditures for prescription and over-the-counter products, including vitamins and minerals recommended by a doctor, greater than 1 percent of their AGI. The 1 percent floor was removed for Tax Year 1984. Offsetting this, starting with 1984 only prescription medicines and drugs and insulin were deductible.
- o Before Tax Year 1984, all casualty and theft losses exceeding \$100 were combined and only the portion of these losses in excess of 10 percent of AGI was deductible. For Tax Year 1984, casualty and theft gains were netted. The 10 percent casualty loss limitation still applied. However, net casualty and theft gains were treated as capital gains.

*Individual Returns Analysis Section. Prepared under the direction of Susan Hostetter, Chief

- Beginning with Tax Year 1984, taxpayers not itemizing their deductions could deduct up to \$75 (\$37.50 for married couples filing separately) for charitable contributions. For Tax Years 1982 and 1983, non-itemizing taxpayers could only deduct up to \$25 (\$12.50 for a married couple not filing a joint return).

- Features from the disability income exclusion and the credit for the elderly were combined into a new credit--the credit for the elderly and permanently and totally disabled. The following individuals qualified for the credit:

- taxpayers who were 65 or older, and

- taxpayers under 65 receiving taxable disability benefits who were retired on permanent and total disability and who had not reached the age for mandatory retirement. Prior law allowed taxpayers under 65 to claim the credit for the elderly if they received income from a public retirement system. For 1984, these individuals could only take the credit if they met the permanent and total disability requirement.

- Beginning with 1984, the investment credit, jobs credit, alcohol fuels credit, and employee stock ownership credit were combined into the general business credit. Separate limits based on tax liability and individual carryback and carryover provisions no longer applied to each credit. Instead, a single tax limit and carryback and carryover rule applied to the combined business credit.

- The 1984 Tax Table and Tax rate schedules reflected the final annual 10 percent tax cut mandated by the Economic Recovery Tax Act of 1981.

- "Income averaging" changed for Tax Year 1984. The base period was reduced from 4 years to 3. The base period encompasses the years closest to the current tax year. In order to "income average," taxpayers' current-year income had to exceed 140 percent of their average taxable income for the 3-year base period. Previously, taxpayers current income only had to exceed 120 percent of their average base period income.

DATA SOURCES AND LIMITATIONS

These preliminary statistics are based on a sample of individual income tax returns, Forms 1040, 1040A and 1040EZ, filed for Tax Year

1984. Returns in the sample were stratified based on the presence or absence of Schedule C, Profit (or Loss) from Business or Professions; Schedule F, Profit (or Loss) from Farms; the larger of total income or total loss, and the size of business plus farm receipts. For Tax Year 1984, returns were selected at rates ranging from 0.02 percent to 100 percent. There were 79,797 returns in the 1984 preliminary sample, estimating a total population of 99,604,975. The corresponding sample size and population for the preliminary 1983 data were 104,970 and 96,293,634, respectively. Sample size and population for the final 1983 data, referenced in this article, were 122,997 and 96,563,687, respectively.

Because the data presented in this article are estimates based on a sample of returns filed, they are subject to sampling error. To use properly 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.

The following table presents approximate coefficients of variation (CV's) for frequency estimates. The approximate CV's shown here are intended only as a general indication of the reliability of the data. For a number other than those shown, the corresponding CV's can be estimated by interpolation. The reliability of estimates based on samples, and the use of coefficients of variation for evaluating the precision of sample estimates based on samples, are discussed in the Appendix.

Number of Returns	Approximate Coefficient of Variation
40,438,600	.01
10,109,700	.02
1,617,500	.05
404,400	.10
101,100	.20
44,900	.30
33,000	.35
16,200	.50

These preliminary estimates are subject to several types of nonsampling reporting error. While the estimates are intended to represent the full year's taxpayer reporting, they are actually based on returns filed January through late September 1985. Returns filed after that (which were sampled for use in the revised estimates for the year) tend to have slightly different characteristics than those filed earlier. These characteristics include higher income, a larger proportion of investment income (such as capital gains), a higher average tax liability, and a larger proportion of certain other items such as the alternative minimum tax.

Individual Returns/1984

Table 1. — All Returns: Selected Income, Deduction, and Tax Items, by Size of Adjusted Gross Income — Continued

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

Main table showing 'All Returns' with columns for Unemployment compensation, Social Security income in AGI, and Statutory adjustments. Rows include 'All returns, total' and various income brackets from '\$1 under \$1,000' to '\$1,000,000 or more'.

Statutory adjustments — Continued

Table for 'Statutory adjustments — Continued' with columns for Payments to an individual retirement arrangement, Payments to a Keogh, Alimony paid, Deduction for working married couple, and Exemptions. Rows include 'All returns, total' and various income brackets.

Footnotes at end of table.

Individual Returns/1984

Table 1. — All Returns: Selected Income, Deduction, and Tax Items, by Size of Adjusted Gross Income — Continued

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

Size of adjusted gross income	Total tax credits		Income tax after credits		Alternative minimum tax		Total income tax				Total tax liability	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Percent of all returns	Amount	Average (dollars)	Number of returns	Amount
	(61)	(62)	(63)	(64)	(65)	(66)	(67)	(68)	(69)	(70)	(71)	(72)
All returns, total	20,530,609	8,901,812	81,789,254	302,061,242	237,305	1,899,861	81,850,383	82.2	303,969,892	3,714	83,738,512	315,023,856
No adjusted gross income	4,915	2,151	10,237	47,963	7,722	219,261	17,966	1.9	267,493	14,889	219,896	398,739
\$1 under \$1,000	**	**	*4,045	*121	**	**	*4,046	0.2	*144	36	50,657	16,935
\$1,000 under \$2,000	**12,136	**688	240,474	11,918	**12	**173	240,485	6.9	12,068	50	412,660	36,894
\$2,000 under \$3,000	—	—	169,884	27,630	*244	*4,602	170,128	5.0	32,232	189	344,914	78,085
\$3,000 under \$4,000	43,346	1,270	1,719,370	87,411	*50	*502	1,719,420	50.3	87,913	51	1,891,150	167,554
\$4,000 under \$5,000	234,952	12,138	2,436,928	310,374	*49	*2,071	2,436,977	67.4	312,445	128	2,573,290	387,512
\$5,000 under \$6,000	389,819	42,738	2,202,339	498,442	*19	*338	2,202,358	68.1	496,780	226	2,336,992	580,028
\$6,000 under \$7,000	601,869	90,688	2,144,881	723,903	**201	**1,164	2,145,081	64.4	725,053	338	2,291,464	825,853
\$7,000 under \$8,000	790,816	156,148	2,467,560	1,045,470	**	**	2,467,561	73.4	1,045,484	424	2,585,556	1,166,025
\$8,000 under \$9,000	846,286	166,123	2,887,538	1,441,166	**1,719	**12,015	2,889,256	83.7	1,453,150	503	2,989,985	1,612,432
\$9,000 under \$10,000	850,438	128,172	2,774,213	1,669,448	**	**	2,774,214	90.1	1,669,479	602	2,833,061	1,823,088
\$10,000 under \$11,000	451,261	125,253	2,793,537	1,934,632	*635	*2,926	2,794,172	93.7	1,937,558	693	2,831,691	2,141,956
\$11,000 under \$12,000	363,279	121,577	2,815,785	2,363,825	*197	*2,382	2,815,982	94.1	2,366,188	840	2,886,631	2,581,928
\$12,000 under \$13,000	453,644	150,786	2,779,865	2,647,340	*59	*1,993	2,779,824	95.6	2,649,333	953	2,817,698	2,820,316
\$13,000 under \$14,000	443,338	147,833	2,620,472	2,917,683	*74	*2,552	2,620,540	95.3	2,920,235	1,114	2,656,383	3,077,835
\$14,000 under \$15,000	421,213	148,106	2,400,148	2,920,153	*9	*202	2,400,157	98.1	2,920,356	1,217	2,424,589	3,139,755
\$15,000 under \$16,000	495,858	154,619	2,418,987	3,270,585	*198	*2,163	2,419,185	98.1	3,272,748	1,353	2,438,751	3,507,930
\$16,000 under \$17,000	477,469	157,370	2,382,728	3,521,905	*190	*1,289	2,382,871	97.8	3,523,194	1,479	2,403,001	3,727,981
\$17,000 under \$18,000	379,100	125,989	2,363,439	3,931,693	*548	*5,092	2,363,986	98.6	3,936,786	1,665	2,382,550	4,123,411
\$18,000 under \$19,000	402,146	132,208	2,143,029	3,678,581	*1,176	*777	2,143,029	98.1	3,679,358	1,810	2,161,589	4,033,903
\$19,000 under \$20,000	401,929	139,234	2,015,536	3,939,926	*599	*12,469	2,016,135	98.9	3,952,395	1,960	2,031,316	4,166,436
\$20,000 under \$25,000	2,035,803	665,172	8,735,369	20,985,205	7,552	17,628	8,739,127	98.7	21,002,833	2,403	8,792,492	22,000,245
\$25,000 under \$30,000	2,050,003	716,883	7,549,858	23,767,418	6,539	8,473	7,550,769	98.9	23,775,891	3,149	7,587,487	24,781,965
\$30,000 under \$40,000	3,302,513	1,128,167	11,029,869	48,692,243	27,961	74,953	11,035,091	99.4	48,767,196	4,419	11,063,857	50,219,912
\$40,000 under \$50,000	1,992,139	836,251	5,870,404	38,785,754	49,939	67,360	5,981,231	99.8	38,853,114	6,496	5,986,180	39,933,245
\$50,000 under \$75,000	1,899,156	971,284	4,668,545	47,338,197	49,462	240,884	4,683,316	99.8	47,579,080	10,159	4,687,095	49,055,571
\$75,000 under \$100,000	522,094	434,737	1,030,333	18,392,222	27,078	149,876	1,036,650	99.7	18,542,734	17,887	1,038,217	19,172,749
\$100,000 under \$200,000	472,508	948,605	763,637	25,469,365	34,956	408,421	769,136	99.8	25,879,298	33,647	769,488	26,592,853
\$200,000 under \$500,000	152,226	556,281	202,025	18,445,749	16,624	414,547	203,123	99.7	18,662,592	92,863	203,368	19,247,764
\$500,000 under \$1,000,000	25,743	223,871	31,639	7,967,117	2,268	111,029	31,834	99.8	8,079,442	253,799	31,870	8,221,961
\$1,000,000 or more	14,690	417,471	16,581	15,029,800	1,224	134,736	16,631	99.8	15,167,318	911,991	16,636	15,382,994
Taxable returns, total	17,698,007	7,755,176	81,789,254	302,061,242	237,305	1,899,861	81,850,383	100.0	303,969,892	3,714	81,850,383	313,850,638
Nontaxable returns, total	2,832,602	1,146,636	—	—	—	—	—	—	—	—	1,888,129	1,173,218

* Estimate should be used with caution because of the small number of sample returns on which it is based.
 ** Data combined to avoid disclosure of information for specific taxpayers.
 n.a. — Not available.
 NOTE: Detail may not add to total because of rounding.