

INCOME TAXES

APRIL 2024



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*“A fine is a tax for doing something wrong.
A tax is a fine for doing something right.”*
-Unknown

With April 15 behind us, hopefully you’ve found out just how “right” 2023 was for you. Your tax returns have either been filed or extended. Either way, you’ve had to account for your sources of income, determine your allowable deductions and turn your information over to a tax professional (or a computer program) to calculate your taxes for another year. Please remember this moment because 2024 is an election year and you will surely hear more about taxes in the coming months.

In 2017, President Donald Trump signed legislation that reduced federal income taxes through 2025. On December 31, 2025 those tax reductions expire and we will revert to prior tax law. One of the slogans you will hear over and over again from one of the parties over the next six months is “the wealthiest Americans need to pay their fair share.” While a catchy slogan, they don’t tell us just what is “their fair share” and who gets to determine what is “fair.”

The IRS recently released its data for the 2021 tax year (returns filed in 2022). Since this is the most recent data available, we will use this data in our analysis.

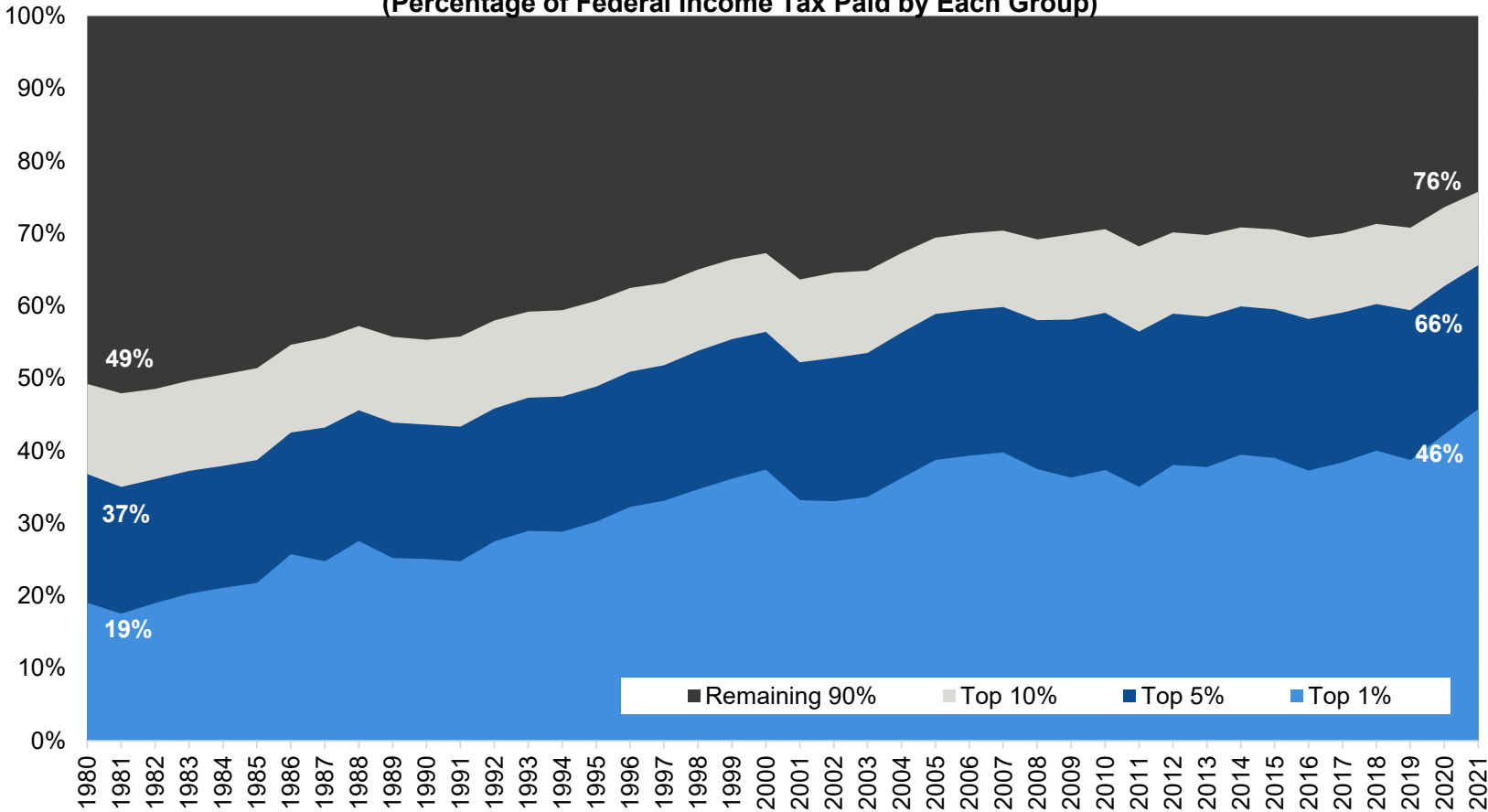
The chart below shows that the top 1% of taxpayers (AGI above \$682,576) earned 26% of the income (as measured by Federal Adjusted Gross Income) and paid 46% of the total federal individual income taxes. Add in the next 4% and we see that the top 5% of taxpayers earned 42% of the income and paid 66% of the taxes. Combine that with the next 5% and we see that the top 10% of taxpayers earned 53% of the income and paid 76% of the taxes.

Summary of Federal Individual Income Tax Data, 2021 Income Tax Returns Source: Internal Revenue Service

Category based on Federal AGI	AGI Brackets	Number of Tax Returns	(In Millions)	Percent of Total	(In Millions)	Percent of Total		
			Total Federal AGI	By Category	Cumulative	Federal Income Taxes Paid	By Category	Cumulative
Top 1%	Over \$682,576	1,536,000	\$ 3,872,000	26%	26%	\$ 1,004,000	46%	46%
Top 2% - 5%	\$252,840 - \$682,576	6,145,000	\$ 2,310,000	16%	42%	\$ 436,000	20%	66%
Top 6% - 10%	\$169,800 - \$252,839	7,679,000	\$ 1,563,000	11%	53%	\$ 223,000	10%	76%
Top 11% - 25%	\$94,440 - \$169,799	23,038,000	\$ 2,868,000	19%	72%	\$ 294,000	13%	89%
Top 26% - 50%	\$46,637 - \$94,439	38,397,000	\$ 2,578,000	18%	90%	\$ 185,000	8%	98%
Bottom 50%	Less than \$46,637	76,795,000	\$ 1,531,000	10%	100%	\$ 51,000	2%	100%
All Taxpayers		153,590,000	\$ 14,722,000	100%		\$ 2,193,000	100%	

This next chart shows the percentage of the total income taxes paid by the differing taxpayer income categories back to 1980. The chart helps us visualize the shift in total income tax burden towards the upper earning taxpayers. In 1980 the top 1% of taxpayers paid 19% of the total federal income taxes while in 2021 they paid 46%. The top 5% paid 37% in 1980 vs. 66% in 2021. And the top 10% earning taxpayers paid 49% in 1980 while paying 76% in 2021. The bottom 50% of taxpayers saw their share of the total federal income taxes fall from 7% in 1980 to 2.3% in 2021.

Total Income Tax Shares, 1980–2021
(Percentage of Federal Income Tax Paid by Each Group)



In addition, we see from this next chart that only the top 10% of all taxpayers pay more than 10% of their federal adjusted gross income in federal income taxes – 90% of all tax filers pay 10% or less of their adjusted gross income in federal income taxes.

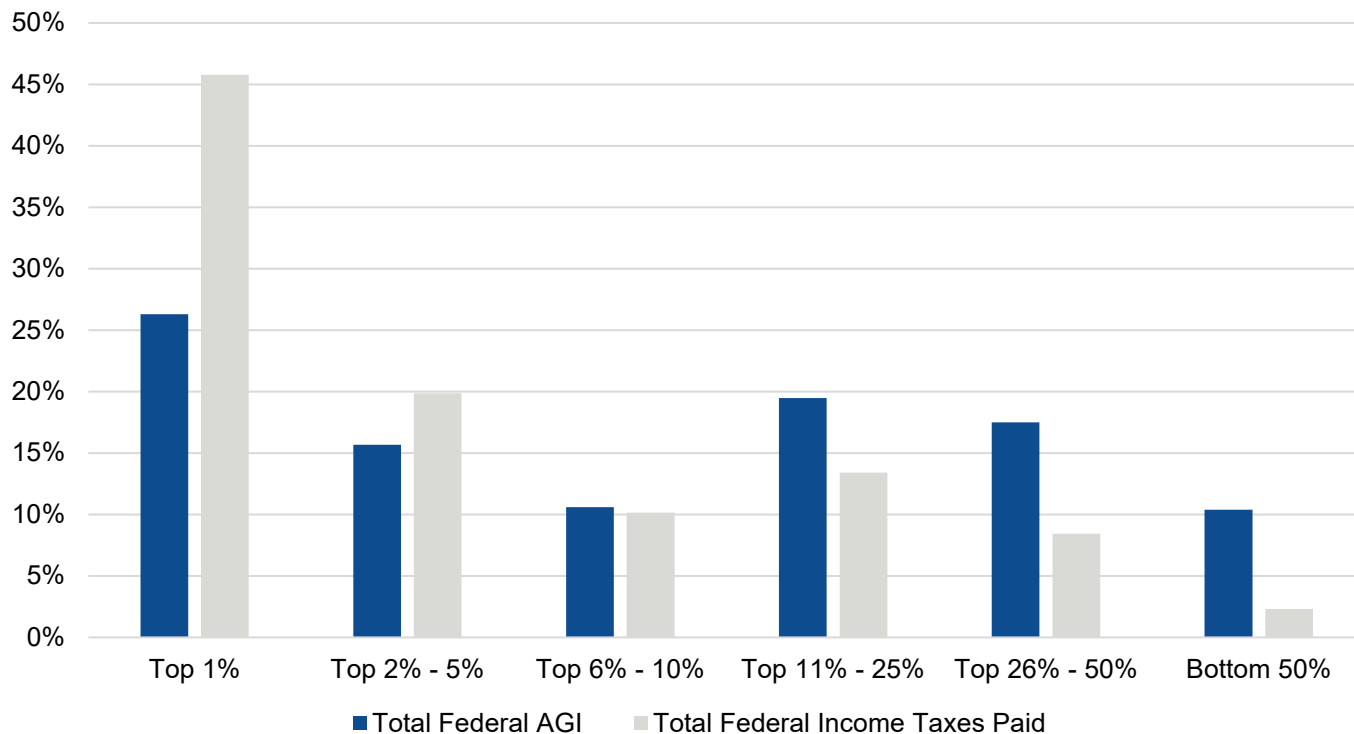
Summary of Federal Individual Income Tax Data, 2021 Income Tax Returns

Source: Internal Revenue Service

Category based on Federal AGI	Federal AGI Brackets	Number of Tax Returns	(In Millions)		Fed Income Taxes Paid as % of Fed AGI
			Total Federal AGI	Federal Income Taxes Paid	
Top 1%	Over \$682,576	1,536,000	\$ 3,872,000	\$ 1,004,000	26%
Top 2% - 5%	\$252,840 - \$682,576	6,145,000	\$ 2,310,000	\$ 436,000	19%
Top 6% - 10%	\$169,800 - \$252,839	7,679,000	\$ 1,563,000	\$ 223,000	14%
Top 11% - 25%	\$94,440 - \$169,799	23,038,000	\$ 2,868,000	\$ 294,000	10%
Top 26% - 50%	\$46,637 - \$94,439	38,397,000	\$ 2,578,000	\$ 185,000	7%
Bottom 50%	Less than \$46,637	76,795,000	\$ 1,531,000	\$ 51,000	3%
All Taxpayers		153,590,000	\$ 14,722,000	\$ 2,193,000	15%

And finally, we see from the next chart that only the top 5% of taxpayers pay a higher percentage of the taxes than their share of the total income. 95% of all taxpayers pay a lesser percentage of the taxes than their share of the income.

Total Federal AGI vs. Total Federal Income Taxes 2021



Over the next few months, as the campaign rhetoric heats up, just remember that taxes are not about “fairness” but in the words of Willie Sutton who was asked why he robbed banks “because that’s where the money is.”

At JVL Wealth Strategies taxes are not a once-a-year item, we consider them all year long. We look at estate, financial and investment strategies that seek to minimize taxes and maximize after tax returns. We actually like this stuff!

If you know of anyone who could benefit from our services, please feel free to pass our name along. We would enjoy the opportunity to share our experiences with others.



REFERENCES

[1] York, E. (2024b, April 2). Summary of the latest federal income tax data, 2024 update. Tax Foundation. <https://taxfoundation.org/data/all/federal/latest-federal-income-tax-data-2024/>