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Overview of the Federal Tax System in 2019

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Summary

This report describes the federal tax structure and system in effect for 2019. The report also provides selected statistics on the tax system as a whole. Historically, the largest component of the federal tax system, in terms of revenue generated, has been the individual income tax. For fiscal year (FY) 2019, an estimated $1.7 trillion, or 50% of the federal government's revenue, will be collected from the individual income tax. The corporate income tax is estimated to generate another $216 billion in revenue in FY2019, or just over 6% of total revenue. Social insurance or payroll taxes will generate an estimated $1.2 trillion, or 36% of revenue in FY2019. For 2019, it is estimated that revenues will be 16.1% of gross domestic product (GDP), slightly below the post-World War II average of 17.2% of GDP.

The largest source of revenue for the federal government is the individual income tax. The federal individual income tax is levied on an individual's taxable income, which is adjusted gross income (AGI) less deductions. Tax rates based on filing status (e.g., married filing jointly, head of household, or single individual) determine the amount of tax liability. Income tax rates in the United States are generally progressive, such that higher levels of income are typically taxed at higher rates. Once tentative tax liability is calculated, tax credits can be used to reduce tax liability. Tax deductions and tax credits are tools available to policymakers to increase or decrease the after-tax price of undertaking specific activities. Individuals with high levels of deductions and credits relative to income may be required to pay the alternative minimum tax (AMT).

The federal government also levies taxes on corporations, wage earnings, and certain other goods. Corporate taxable income is subject to tax at a flat rate of 21%. Social Security and Medicare tax rates are, respectively, 12.4% and 2.9% of earnings. In 2019, Social Security taxes are levied on the first $132,900 of wages. Medicare taxes are assessed against all wage income. Federal excise taxes are levied on specific goods, such as transportation fuels, alcohol, and tobacco.

Looking at the tax system as a whole, several observations can be made. Notably, the composition of revenues has changed over time. Corporate income tax revenues have become a smaller share of overall tax revenues over time, while social insurance revenues have trended upward as a share of total revenues. Social insurance revenues are a sizable component of the overall federal tax system. Most taxpayers pay more in payroll taxes than income taxes. Many taxpayers pay social insurance taxes but do not pay individual income taxes, having incomes below the amount that would generate a positive income tax liability. From an international perspective, the U.S. federal tax system tends to collect less in federal revenues as a percentage of GDP than other OECD countries.

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The U.S. federal tax system includes several elements. Income taxes are the primary component, and the United States has an income tax that applies to the income of individuals and a separate tax for corporations. The United States also levies payroll taxes on employment earnings, with most of this revenue used to finance social insurance programs. The U.S. tax system also includes an estate and gift tax, as well as several excise taxes.

At the end of 2017, President Trump signed into law P.L. 115-97, which substantially changed the U.S. federal tax system. Consequently, the federal tax system in effect for 2019 differs from what was in effect for 2017.[1] Most of the changes to the individual income tax system in P.L. 115-97 are temporary and scheduled to expire at the end of 2025. Thus, under current law, after 2025, the individual income tax system is slated to look like the system that was in effect for 2017. In contrast, many of the changes affecting corporations are permanent.

This report provides an overview of the federal tax system, including the individual income tax, corporate income tax, payroll taxes, estate and gift taxes, and federal excise taxes, as in effect for 2019. Information on changes to the tax system enacted in the 2017 tax revision (P.L. 115-97) can be found in CRS Report R45092, *The 2017 Tax Revision (P.L. 115-97): Comparison to 2017 Tax Law*, coordinated by Molly F. Sherlock and Donald J. Marples.

The Federal Income Tax System

The federal income tax system has several components. The largest component, in terms of revenue generated, is the individual income tax. For fiscal year (FY) 2019, an estimated $1.7 trillion, or 49% of the federal government's revenue, will come from the individual income tax.[2] The corporate income tax is estimated to generate another $216 billion in revenue in FY2019, or just over 6% of total revenue. Social insurance or payroll taxes will generate an estimated $1.2 trillion, or 36% of revenue in FY2019. Estimates indicate that the remainder of federal revenue collected in FY2019 will come from excise taxes (3%) or other sources (5%).[3]

The Individual Income Tax[4]

The individual income tax is the largest source of revenue in the federal income tax system. Most of the income reported on individual income tax returns is wages and salaries. The Joint Committee on Taxation (JCT) estimates that in 2019 76% of individuals' gross income will come from wages and salaries.[5] However, a large portion of business income in the United States is also taxed in the individual income tax system. Pass-through businesses, including sole proprietorships, partnerships, S corporations, and limited liability companies, generally pass business income through to the business's owners, where that income is taxed at individual

[1] CRS Report R45053, *The Federal Tax System for the 2017 Tax Year*, by Molly F. Sherlock and Donald J. Marples.

[2] Historical data on federal receipts by source can be found in Table 2.1 of the Historical Tables published by the Office of Management and Budget (OMB), available at https://www.whitehouse.gov/omb/historical-tables/.

[3] Other sources include estate and gift taxes, customs duties and fees, and deposits of earnings by the Federal Reserve System.

[4] CRS Report RL30110, *Federal Individual Income Tax Terms: An Explanation*, by Mark P. Keightley.

[5] Joint Committee on Taxation, *Overview of the Federal Tax System as in Effect for 2019*, Washington, DC, March 20, 2019, JCX-9-19.

income tax rates.[6] Projections indicate that in 2019, 8% of income reported by individual taxpayers will be business, farm, or Schedule E income.[7]

Gross Income and Adjustments

To levy an income tax, income must first be defined. As a benchmark, economists often turn to the Haig-Simons comprehensive income definitions, which can differ from the measure of income used in computing a taxpayer's taxes. Under the Haig-Simons definition, taxable resources are defined as changes in a taxpayer's ability to consume during the tax year.[8] Using this definition of income, an employer's contributions toward employee health insurance, for example, would be counted toward the employee's income. This income, however, is not included in the employee's taxable income under current tax law.

In practice, the individual income tax is based on gross income individuals accrue from a variety of sources. Included in the individual income tax base are wages, salaries, tips, taxable interest and dividend income, business and farm income, realized net capital gains, income from rents, royalties, trusts, estates, partnerships, and taxable pension and annuity income.

Gross income for tax purposes excludes certain items, which may deviate from the Haig-Simmons definition of income. For example, employer-provided health insurance, pension contributions, and certain other employee benefits are excluded from income subject to tax.[9] Employer contributions to Social Security are also excluded from wages. Amounts received under life insurance contracts are excluded from income. Another exclusion from income is the interest received on certain state and local bonds. Some forgiven debts and various other items are also excluded from income for tax purposes.

There are special rules for income earned as capital gains or dividends.[10] Capital gains (or losses) are realized when assets are sold.[11] The tax base excludes unrealized capital gains.[12] There are reduced tax rates for certain capital gains and dividends (discussed below in the "Tax Rates"

[6] See CRS Report R43104, *A Brief Overview of Business Types and Their Tax Treatment*, by Mark P. Keightley; and CRS Report R42359, *Who Earns Pass-Through Business Income? An Analysis of Individual Tax Return Data*, by Mark P. Keightley.

[7] In addition to business income, Schedule E income includes income or losses from rental property, royalties, estates, and trusts. Joint Committee on Taxation, *Overview of the Federal Tax System as in Effect for 2019*, Washington, DC, March 20, 2019, JCX-9-19.

[8] The Haig-Simons comprehensive income definition was first developed in Robert Murray Haig, "The Concept of Income–Economic and Legal Aspects," in *The Federal Income Tax*, ed. Robert Murray Haig (New York, NY: Columbia University Press, 1921), pp. 1-28; and Henry C. Simons, *Personal Income Taxation: The Definition of Income as a Problem of Fiscal Policy* (Chicago, IL: University of Chicago Press, 1938). An overview of the concept can be found in Jonathan Gruber, *Public Finance and Public Policy*, 2nd ed. (New York, NY: Worth Publishers, 2007).

[9] Exclusions are a form of "tax expenditure." Tax expenditures are revenue losses associated with targeted provisions that move the income tax away from a "theoretical normal" tax system.

[10] For additional information, see CRS Report 96-769, *Capital Gains Taxes: An Overview*, by Jane G. Gravelle; and CRS Report R43418, *The Taxation of Dividends: Background and Overview*, by Jane G. Gravelle and Molly F. Sherlock.

[11] Capital losses are generally deductible against capital gains. Taxpayers can also deduct up to $3,000 of capital losses from ordinary income per tax year.

[12] Unrealized capital gains are also excluded at death. This is discussed further in the "Estate and Gift Taxes" section below.

section).[13] As with ordinary income, there may be exclusions. For example, certain capital gains on sales of primary residences are excluded from income.

Income from operating a business through a proprietorship, partnership, or small business corporation that elects to be treated similarly to a partnership (Subchapter S corporation), or income from rental property, is also subject to the individual income tax.[14] This income is the net of gross receipts reduced by such deductible costs as payments to labor, depreciation, costs of goods acquired for resale and other inputs, interest, and taxes.

A taxpayer's adjusted gross income (AGI), the basic measure of income under the federal income tax, is determined by subtracting "above-the-line" deductions from gross income.[15] Above-the-line deductions are available to taxpayers regardless of whether they itemize deductions or claim the standard deduction.[16] Above-the-line deductions may be claimed for, among other items, contributions to qualified retirement plans by self-employed individuals, contributions to individual retirement accounts (IRAs), interest paid on student loans, higher education tuition expenses, and contributions to health savings accounts.[17]

Filing Status and Deductions

Tax liability depends on the filing status of the taxpayer. There are four main filing categories: married filing jointly, married filing separately, head of household, and single individual. The computation of taxpayers' tax liability depends on their filing status, as discussed further below. The amount of the standard deduction also depends on filing status. Deductions are subtracted before determining taxable income.

Taxpayers have a choice between claiming the standard deduction or claiming the sum of their itemized deductions. The standard deduction amount depends on filing status. The 2019 standard deduction for single filers is $12,200, while the standard deduction for married taxpayers filing jointly is twice that amount, or $24,400. The standard deduction for a head of household is $18,350. There is an additional standard deduction for the elderly (taxpayers age 65 and older) and the blind.[18] The standard deduction amount is indexed for inflation.[19]

When the sum of taxpayers' itemized deductions exceeds the standard deduction, taxpayers may choose to itemize. Deductions may be allowed for mortgage interest[20] and charitable

[13] Qualified dividends, which are generally dividends that have met certain holding period requirements, are taxed at the same reduced rate as capital gains.

[14] For background on types of business organizations, see CRS Report R43104, *A Brief Overview of Business Types and Their Tax Treatment*, by Mark P. Keightley.

[15] A list of "above the line" deductions can be found in the Internal Revenue Code (IRC) §62.

[16] For additional information, see CRS Report R42872, *Tax Deductions for Individuals: A Summary*, by Sean Lowry.

[17] The deduction for higher education tuition expenses expired at the end of 2017. It may, however, be extended as part of "tax extenders" legislation. See CRS Report R44925, *Recently Expired Individual Tax Provisions ("Tax Extenders"): In Brief*, coordinated by Molly F. Sherlock.

[18] JCT staff calculations indicate that for 2019, the additional standard deduction for married taxpayers filing jointly is $1,300 per spouse that is either blind or elderly (or $2,600 if both blind and elderly). For single and head of household taxpayers, the additional standard deduction is $1,650 (or $3,300 if both blind and elderly). See Joint Committee on Taxation, *Overview of the Federal Tax System as in Effect for 2019*, Washington, DC, March 20, 2019, JCX-9-19.

[19] Beginning after 2018, the standard deduction will be indexed for inflation using the Chained Consumer Price Index (C-CPI-U). For background information, see CRS Report R43347, *Budgetary and Distributional Effects of Adopting the Chained CPI*, by Donald J. Marples.

[20] CRS In Focus IF11063, *2019 Tax Filing Season (2018 Tax Year): The Mortgage Interest Deduction*, by Mark P. Keightley.

contributions.[21] Taxpayers may also claim up to $10,000 ($5,000 for married taxpayers filing separately) in total deductions for state and local taxes (income, sales, or property taxes).[22]

Some deductions can only be itemized and claimed in excess of a floor. For example, medical expenses can be deducted to the extent they exceed 10% of AGI (this amount was 7.5% of AGI in 2017 and 2018).[23] Casualty and theft losses attributable to federally declared disasters can also be deducted in excess of 10% of AGI.

The JCT estimates that for 2019, 139.4 million tax returns filed will use the standard deduction, while 17.9 million returns will elect to itemize deductions (see **Figure 1**).

Recent Changes in Personal Exemptions and Deductions

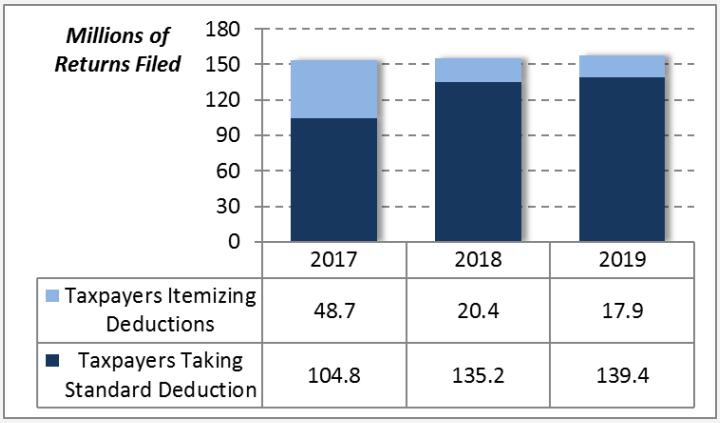
The 2017 Tax Revision (P.L. 115-97) substantially changed the individual income tax system by eliminating personal exemptions and nearly doubling the standard deduction.

Before 2018, taxpayers deducted personal exemptions from their AGI when calculating taxable income. Personal exemptions were allowed for taxpayers, their spouse, and any dependents. For 2018, the personal exemption amount would have been $4,150 per exemption, had the exemption not been temporarily eliminated in P.L. 115-97.

Standard deduction amounts for 2018 would have been $6,500 for single filers, and $13,000 for married taxpayers filing jointly, had P.L. 115-97 not been enacted. Nearly doubling the standard deduction meant that fewer taxpayers itemized deductions. Additional limitations imposed on the deduction for state and local taxes and mortgage interest deduction in P.L. 115-97 may have also contributed to fewer taxpayers claiming these deductions.

The share of taxpayers itemizing deductions fell substantially between 2017 and 2018, with lower itemization rates continuing in 2019 (see **Figure 1**). For 2017, the JCT estimated that 48.7 million (32%) tax filers would itemize deductions. For 2019, the JCT estimates that 17.9 million (11%) tax filers will itemize deductions.

Figure 1. Tax Returns Filed with Standard and Itemized Deductions, Estimates for 2017, 2018, and 2019



	2017	2018	2019
Taxpayers Itemizing Deductions	48.7	20.4	17.9
Taxpayers Taking Standard Deduction	104.8	135.2	139.4

Source: CRS and Joint Committee on Taxation.

[21] CRS In Focus IF11022, *The Charitable Deduction for Individuals*, by Margot L. Crandall-Hollick and Molly F. Sherlock; and CRS Report R45922, *Tax Issues Relating to Charitable Contributions and Organizations*, by Jane G. Gravelle, Donald J. Marples, and Molly F. Sherlock.

[22] CRS In Focus IF11098, *2019 Tax Filing Season (2018 Tax Year): The State and Local Tax Deduction*, by Grant A. Driessen and Joseph S. Hughes.

[23] The 7.5% of AGI threshold was temporary for 2017 and 2018, but may be extended as part of "tax extenders."

Deduction for Qualified Business Income

The deduction for qualified business income is also taken in determining taxable income.[24] Individual taxpayers can deduct 20% of qualified business income from a partnership, S corporation, or sole proprietorship. Individual taxpayers can also deduct 20% of qualified Real Estate Investment Trust (REIT) dividends, publicly traded partnership income, and cooperative dividends. For certain taxpayers, the deduction is subject to two limitations. First, above threshold amounts, the deduction begins to phase out for income from certain services, including health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or investing and investments management services. These threshold amounts are $315,000 for married taxpayers filing joint returns (adjusted for inflation to $321,400 in 2019), and $157,500 for all other taxpayers (adjusted for inflation to $160,725 in 2019). Second, the deduction is also subject to limitation based on the taxpayer's share of wages paid and depreciable assets of the associated business: Specifically, the deduction is limited to the greater of 50% of W-2 wages, or 25% of W-2 wages plus 2.5% of the cost of qualified property. This second limitation phases in over the same thresholds as the first limitation.

Tax Rates

The income tax system is designed to be progressive, with statutory marginal tax rates increasing as income increases.[25] At a particular statutory marginal tax rate, all individuals subject to the regular income tax, regardless of their overall level of earnings, pay the same tax rate on taxable income within the bracket. Once taxpayers' incomes surpass a threshold level, placing them in a higher marginal tax bracket, the higher marginal tax rate is only applied on income that exceeds that threshold value. In 2019, the individual income tax system has seven marginal income tax rates: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.[26] These marginal income tax rates are applied to taxable income to arrive at a taxpayer's gross income tax liability.[27] Threshold levels associated with the rate brackets depend on filing status. Tax rates for 2019 are summarized in **Table 1**.

Table 1. Statutory Marginal Tax Rates, 2019

Tax Schedules by Filing Status

Married Filing Jointly			
If taxable income is:			Then, *tax* is:
$0	to	$19,400	10% of the amount over $0
$19,400	to	$78,950	$1,940 plus 12% of the amount over $19,400
$78,950	to	$168,400	$9,086 plus 22% of the amount over $78,950

[24] CRS In Focus IF11122, *2019 Tax Filing Season (2018 Tax Year): Section 199A Deduction for Passthrough Business Income*, by Gary Guenther.

[25] A marginal tax rate is the tax rate on the last dollar earned. For a discussion of various tax rate metrics, see CRS Report R44787, *Statutory, Average, and Effective Marginal Tax Rates in the Federal Individual Income Tax: Background and Analysis*, by Molly F. Sherlock.

[26] For historical perspective on marginal tax rates, see CRS Report RL34498, *Individual Income Tax Rates and Other Key Elements of the Federal Individual Income Tax: 1988 to 2019 Tax Years*, by Gary Guenther.

[27] Take, for example, a single taxpayer with taxable income of $50,000. That taxpayer would fall in the 22% statutory rate bracket. However, that taxpayer's tax liability would be the sum of taxes applied to income falling within the first three brackets, the 10%, 12%, and 22% brackets. Specifically, the taxpayer would pay $970 (or 10%) on the first $9,700 in taxable income, $3,573 (or 12%) on the next $29,775 in taxable income, and $2,315.50 (or 22%) on the last $10,525 in income. Thus, the taxpayer's total tax bill would be $6,858.50 on $50,000 in taxable income. Even though this taxpayer is in the 22% tax bracket, their average tax rate is 13.7%.

$168,400	to	$321,450	$28,765 plus 24% of the amount over $168,400
$321,450	to	$408,200	$65,497 plus 32% of the amount over $321,450
$408,200	to	$612,350	$93,257 plus 35% of the amount over $408,200
$612,350	plus		$164,710 plus 37% of the amount over $612,350
Single			
If taxable income is:			Then, *tax* is:
$0	to	$9,700	10% of the amount over $0
$9,700	to	$39,475	$970 plus 12% of the amount over $9,700
$39,475	to	$84,200	$4,543 plus 22% of the amount over $39,475
$84,200	to	$160,725	$14,383 plus 24% of the amount over $84,200
$160,725	to	$204,100	$32,749 plus 32% of the amount over $160,725
$204,100	to	$510,300	$46,629 plus 35% of the amount over $204,100
$510,300	plus		$153,799 plus 37% of the amount over $510,300
Heads of Households			
If taxable income is:			Then, *tax* is:
$0	to	$13,850	10% of the amount over $0
$13,850	to	$52,850	$1,385 plus 12% of the amount over $13,850
$52,850	to	$84,200	$6,065 plus 22% of the amount over $52,850
$84,200	to	$160,700	$12,962 plus 24% of the amount over $84,200
$160,700	to	$204,100	$31,322 plus 32% of the amount over $160,700
$204,100	to	$510,300	$45,210 plus 35% of the amount over $204,100
$510,300	plus		$152,380 plus 37% of the amount over $510,300

Source: Internal Revenue Code.

Certain higher-income individuals may be subject to the alternative minimum tax (AMT). There are two marginal tax rates under the AMT, 26% and 28%, that are applied to an expanded income base. The AMT is discussed in further detail below.

Average and Marginal Tax Rates, by Income Group

For most taxpayers, their average tax rate (individual income taxes paid divided by income) is less than their statutory tax rate. This is due to the progressive nature of the tax system, coupled with a variety of tax preference items (credits, deductions, exclusions, etc.). Many taxpayers, particularly lower-income taxpayers, have negative average tax rates. Refundable tax credits, such as the earned income tax credit (EITC) (discussed below), can lead to negative average tax rates.[28] As illustrated in **Figure 2**, average tax rates are projected to be negative for all income groups below $50,000 in 2019.[29]

Marginal tax rates are the amount of tax paid on the next dollar of earnings.[30] Marginal tax rates are determined by (1) a taxpayer's statutory tax bracket; and (2) interactions with other credits, deductions, exemptions, and

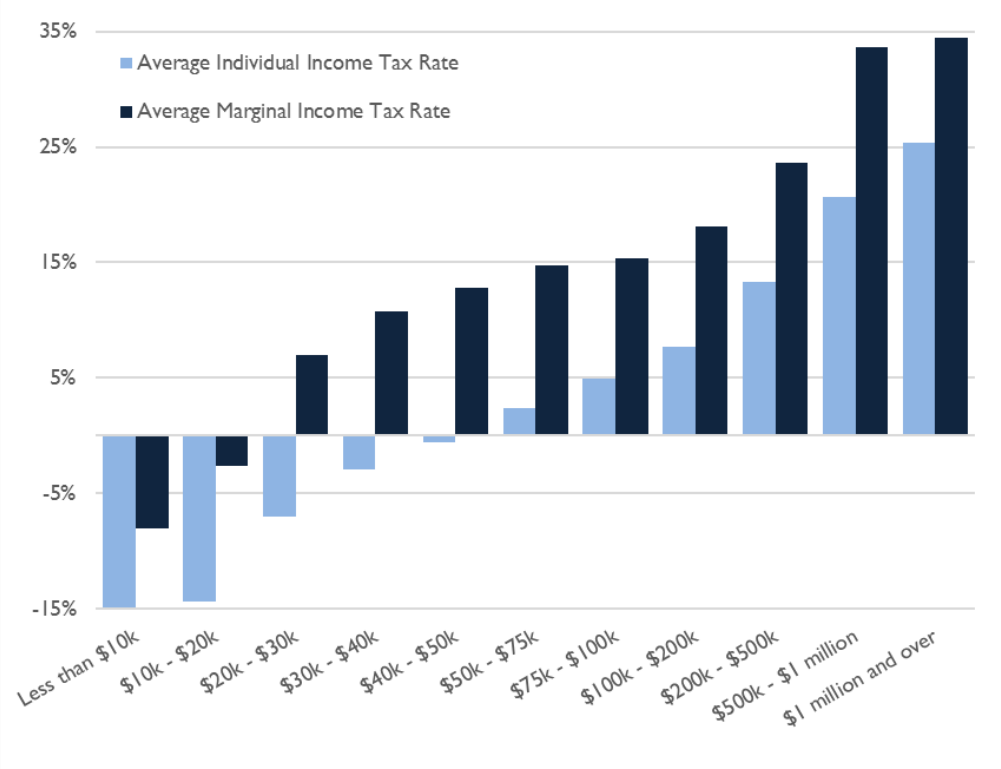
[28] Taxpayers that have average individual income tax rates that are negative often have positive payroll tax liability.

[29] Projections of average tax rates in 2019 can be found in Table A-6 of Joint Committee on Taxation, *Overview Of The Federal Tax System As In Effect For 2019*, JCX-9-19, Washington, DC, March 20, 2019, available at https://www.jct.gov/publications.html?func=startdown&id=5172.

[30] The JCT computes marginal tax rates by (1) adding $100 of wage income to the wages of each taxpayer (each spouse

special provisions in the tax code. These interactions, particularly phase-ins and phaseouts of various provisions, mean that an individual's marginal tax rate can be higher than or lower than their statutory rate. On average, marginal tax rates are negative for taxpayers in the lowest income groups (those below $20,000) (see **Figure 2**).[31] The average of marginal tax rates tends to rise with income, and exceeds the average of average tax rates for all income groups. Projections for 2019 indicate that, on average, for taxpayers in the highest income group ($1 million and above), the average marginal tax rate (34.5%) will be less than the highest statutory rate of 37%.

Figure 2. Average and Marginal Tax Rates by Income Group, 2019 Projections



Source: CRS and Joint Committee on Taxation.

Notes: The income concept used by the JCT is AGI plus tax-exempt interest, employer contributions for health plans and life insurance, employer share of FICA tax, worker's compensation, nontaxable Social Security benefits, insurance value of Medicare benefits, AMT preference items, individual share of business taxes, and excluded income of U.S. citizens living abroad.

Tax Rates on Capital Gains and Dividends

As was noted above, income earned from long-term capital gains and qualified dividends may be taxed at lower rates. The rate on long-term capital gains and qualified dividends can be 0%, 15%, or 20%, depending on the taxpayer's taxable income and filing status. The rates are linked to the statutory rate brackets that were in effect before P.L. 115-97 was enacted, such that the 20% rate applies to taxpayers that would have been in the 39.6% bracket (under the pre-P.L. 115-97 rate structure). Taxpayers that would have been in the 25%, 28%, 33%, and 35% tax brackets under

with wages, in the case of married taxpayers filing jointly), then (2) recomputing tax liability. The marginal tax rate is the change in tax liability divided by the change in wage income.

[31] Projections of marginal tax rates for 2019 can be found in Table A-8 of Joint Committee on Taxation, *Overview Of The Federal Tax System As In Effect For 2019*, JCX-9-19, Washington, DC, March 20, 2019, available at https://www.jct.gov/publications.html?func=startdown&id=5172.

the former rate structure face a 15% tax rate on long-term capital gains and qualified dividends, whereas the rate is 0% for taxpayers that would have been in the 10% and 15% tax brackets under the former rate structure. The taxable income thresholds for long-term capital gains and qualified dividends in 2019 are summarized in **Table 2**.

Table 2. Maximum Tax Rate on Long-Term Capital Gains and Qualified Dividends, 2019

Married Filing Jointly		Single		Heads of Households	
Taxable Income	**Tax Rate**	**Taxable Income**	**Tax Rate**	**Taxable Income**	**Tax Rate**
Less than $78,750	0%	Less than $39,375	0%	Less than $52,750	0%
$78,750 to $488,850	15%	$39,375 to $434,550	15%	$52,750 to $461,700	15%
Above $488,850	20%	Above $434,550	20%	Above $461,700	20%

Source: Internal Revenue Code.

Net Investment Income

Certain higher-income individuals may be subject to an additional 3.8% tax on net investment income. Specifically, the tax applies to the lesser of (1) net investment income, or (2) the amount by which modified AGI exceeds fixed threshold amounts.[32] The fixed threshold amounts are $250,000 for taxpayers filing jointly and $200,000 for other filers.[33] The net-investment-income tax increases the maximum tax rate on capital gains and dividends to 23.8%. The maximum rate on other investment income, including interest, annuities, royalties, and rent, is 40.8%.

Tax Credits

After a taxpayer's tax liability has been calculated, tax credits are subtracted from gross tax liability to arrive at a final tax liability (see **Figure 3**). Tax credits offset tax liability on a dollar-for-dollar basis. There are two different types of tax credits: refundable and nonrefundable. If a tax credit is refundable, and the credit amount exceeds tax liability, a taxpayer receives the credit (or a portion of the credit) as a refund. If credits are not refundable, then the credit is limited to the amount of tax liability. In some cases, unused credits can be carried forward to offset tax liability in future tax years. Some credits are phased out as income rises to limit or eliminate benefits for higher-income taxpayers.

[32] Modified AGI is AGI increased by the amount excluded from income as foreign earned income.

[33] The threshold amount is $125,000 for married taxpayers filing separate returns. These threshold amounts are not adjusted for inflation.

Tax credits that are refundable or have a refundable portion include the earned income tax credit (EITC)[34] and the child tax credit (CTC).[35] The American Opportunity Tax Credit (AOTC), a tax credit for tuition expenses, also has a refundable portion.[36]

A nonrefundable tax credit can be claimed for child and dependent care expenses.[37] There are also tax credits for other purposes, such as education[38] and certain health insurance premiums.[39]

Tax credits add to the complexity of the tax system for various reasons. For one, tax credits can cause effective marginal tax rates to differ from statutory marginal tax rates for many taxpayers.[40] For example, the earned income tax credit (EITC) phases in as income increases, reducing a taxpayer's marginal tax rate. At higher income levels, as the credit phases out, the taxpayer faces a higher marginal tax rate during that phaseout range. Thus, effective marginal tax rates can be less than or greater than statutory rates. Tax credits can also pose administrative challenges.[41]

[34] CRS Report R43805, *The Earned Income Tax Credit (EITC): An Overview*, by Gene Falk and Margot L. Crandall-Hollick; CRS Report R44057, *The Earned Income Tax Credit (EITC): An Economic Analysis*, by Margot L. Crandall-Hollick; CRS Report R44825, *The Earned Income Tax Credit (EITC): A Brief Legislative History*, by Margot L. Crandall-Hollick; and CRS Report R43873, *The Earned Income Tax Credit (EITC): Administrative and Compliance Challenges*, by Margot L. Crandall-Hollick.

[35] CRS Report R41873, *The Child Tax Credit: Current Law*, by Margot L. Crandall-Hollick; CRS In Focus IF11077, *The Child Tax Credit*, by Margot L. Crandall-Hollick; and CRS Report R45124, *The Child Tax Credit: Legislative History*, by Margot L. Crandall-Hollick.

[36] CRS Report R42561, *The American Opportunity Tax Credit: Overview, Analysis, and Policy Options*, by Margot L. Crandall-Hollick.

[37] CRS Report R44993, *Child and Dependent Care Tax Benefits: How They Work and Who Receives Them*, by Margot L. Crandall-Hollick.

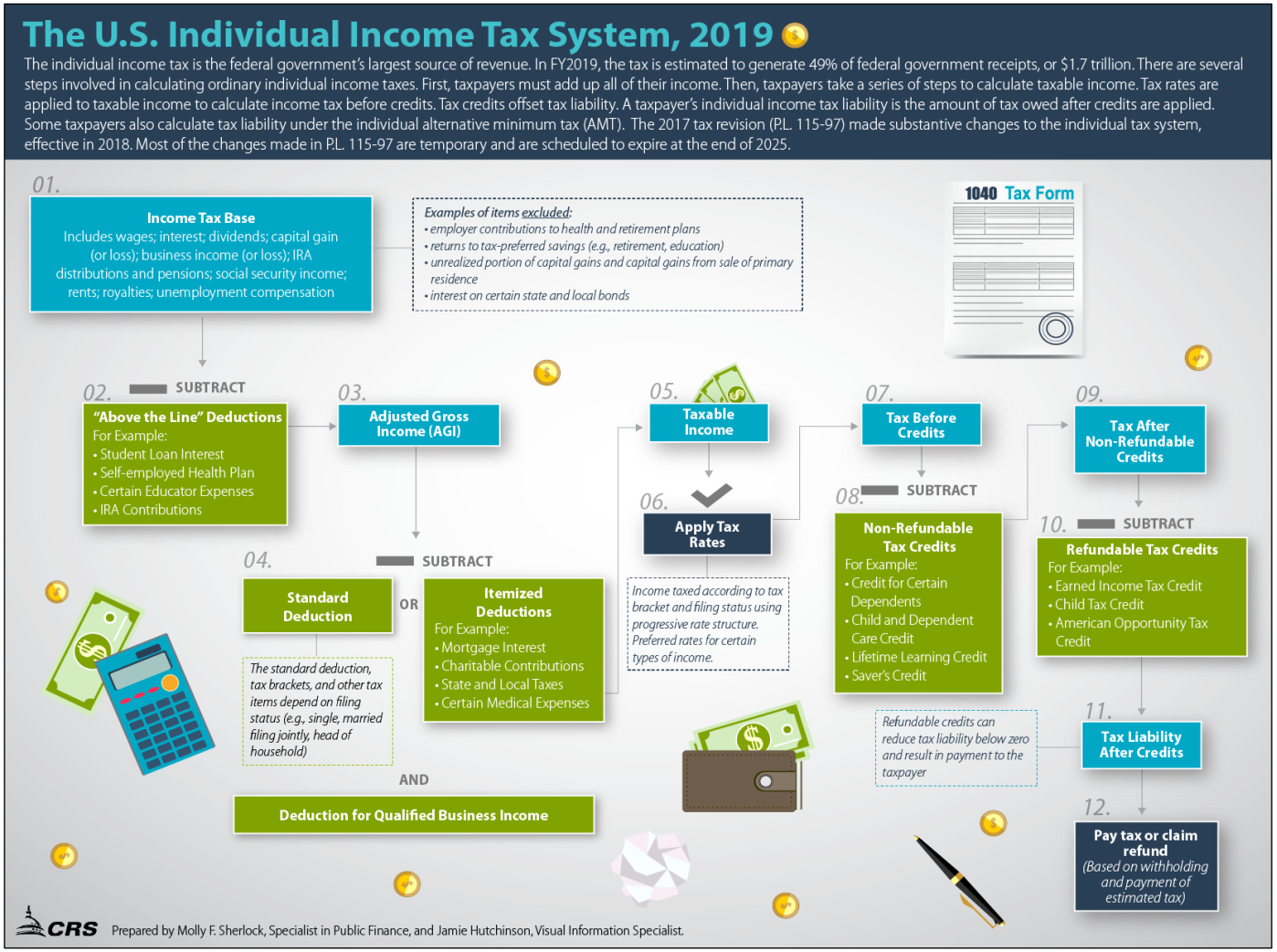
[38] CRS Report R41967, *Higher Education Tax Benefits: Brief Overview and Budgetary Effects*, by Margot L. Crandall-Hollick.

[39] CRS Report R44425, *Health Insurance Premium Tax Credits and Cost-Sharing Subsidies*, by Bernadette Fernandez.

[40] For additional information, see CRS Report R44787, *Statutory, Average, and Effective Marginal Tax Rates in the Federal Individual Income Tax: Background and Analysis*, by Molly F. Sherlock.

[41] CRS Report R43873, *The Earned Income Tax Credit (EITC): Administrative and Compliance Challenges*, by Margot L. Crandall-Hollick.

Figure 3. Visualization of the U.S. Individual Income Tax System



Source: This graphic was previously published as CRS Infographic IG10014, *The U.S. Individual Income Tax System, 2019*, by Molly F. Sherlock.

Alternative Minimum Tax

Individuals may also pay tax under the alternative minimum tax (AMT). The AMT applies lower tax rates to a broader income base. The policy goal of the AMT is to prevent certain higher-income taxpayers from using the graduated personal income tax rate structure and tax preferences to avoid paying sufficient amounts of taxes.[42]

To calculate the AMT, an individual first adds back various tax items, including certain itemized deductions and business tax preferences, to regular taxable income.[43] This grossed-up amount becomes the income base for the AMT.

The AMT exemption is subtracted from the AMT's income base. For 2019, the AMT exemption is $111,700 for married taxpayers filing a joint return, $55,850 for married taxpayers filing separate returns, and $71,700 for all other individual tax filers.[44] These exemption amounts are indexed for inflation. The AMT exemption is reduced by 25% of the amount by which a taxpayer's AMT taxable income exceeds certain threshold amounts. In 2019, the AMT exemption amount begins to phase out at $1,020,600 for married taxpayers filing a joint return and $510,300 for all other individual tax filers.

A two-tiered rate structure of 26% and 28% is assessed against AMT taxable income.[45] The taxpayer compares his AMT tax liability to his regular tax liability and pays the greater of the two. Most nonrefundable personal tax credits are allowed against the AMT. The JCT estimates that roughly 200,000 tax filers will pay the AMT in 2019.[46]

The Corporate Income Tax

The corporate income tax generally only applies to C corporations (also known as regular corporations). These corporations—named for Subchapter C of the Internal Revenue Code (IRC), which details their tax treatment—are generally treated as taxable entities separate from their shareholders.[47] That is, corporate income is taxed once at the corporate level according to the corporate income tax system. When corporate dividend payments are made or capital gains are realized income is taxed again at the individual-shareholder level according to the individual tax system (discussed above). In contrast, noncorporate businesses, including S corporations[48] and partnerships,[49] pass their income through to owners who pay taxes. Collectively, these

[42] CRS Report R44494, *The Alternative Minimum Tax for Individuals: In Brief*, by Donald J. Marples.

[43] For example, the income tax base for the AMT does not allow a deduction for state and local taxes paid.

[44] Internal Revenue Service, *Internal Revenue Bulletin*, 2018-10, March 5, 2018, available at https://www.irs.gov/irb/2018-10_IRB#RP-2018-18.

[45] The 28% rate bracket threshold for 2019 is $97,400 for married taxpayers filing separate returns and $194,800 for all other taxpayers.

[46] Joint Committee on Taxation, *Overview Of The Federal Tax System As In Effect For 2019*, JCX-9-19, Washington, DC, March 9, 2019, available at https://www.jct.gov/publications.html?func=startdown&id=5172.

[47] For more information, see CRS Report R43104, *A Brief Overview of Business Types and Their Tax Treatment*, by Mark P. Keightley.

[48] An S corporation is a closely held corporation that elects to be treated as a pass-through entity for tax purposes. S corporations are named for Subchapter S of the IRC, which details their tax treatment. By electing S corporation status, a business is able to combine many of the legal and business advantages of a C corporation with the tax advantages of a partnership. For more information, see CRS Report R43104, *A Brief Overview of Business Types and Their Tax Treatment*, by Mark P. Keightley.

[49] A partnership is a joint venture consisting of at least two partners organized to operate a trade or business with each partner sharing profits, losses, deductions, credits, and the like. The most common partnerships include general

noncorporate business entities are referred to as pass-throughs. For these types of entities, business income is taxed only once, at individual income tax rates. As discussed above, taxpayers may be allowed to claim a 20% deduction from certain income earned by pass-through businesses.

The corporate income tax is designed as a tax on corporate profits (also known as net income). Broadly defined, corporate profit is total income minus the cost associated with generating that income.[50] Business expenses that may be deducted from income include employee compensation; the decline in value of machines, equipment, and structures (i.e., depreciation); general supplies and materials; advertising; and interest payments (subject to certain limitations).[51] Businesses may also be allowed 100% first-year depreciation or to expense the costs of certain property. The corporate income tax also allows for a number of other special deductions, credits, and tax preferences that reduce taxes paid by corporations. Oftentimes, these provisions are intended to promote particular policy goals (promoting charitable giving or encouraging investment in renewable energy, for example). A corporation's tax liability can be calculated as follows:

$$\text{Taxes} = [(\text{Total Income} - \text{Deductible Expenses}) \times \text{Tax Rate}] - \text{Tax Credits}.$$

Some corporations experience net operating losses (NOLs), which occur when total income less expenses is negative. Losses arising after 2017 can generally be "carried forward" indefinitely, and used to offset future tax liability.[52] The NOL deduction is generally limited to 80% of taxable income.[53]

The corporate income tax rate is a flat 21%. Thus, tax liability before applying tax credits is generally calculated as 21% of taxable income. Corporate tax liability can be reduced by claiming corporate tax credits. Credits claimed by corporations include the research credit,[54] the low-income housing tax credit,[55] certain energy credits,[56] the new markets tax credit,[57] the work opportunity tax credit,[58] and an employer credit for paid family and medical leave.[59]

In broad economic terms, the base of the corporate income tax is the return to equity capital. Income produced by corporate capital investment includes that produced by corporate investment

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partnerships, limited liability partnerships, limited partnerships, publicly traded partnerships, and electing large partnerships. For more information, see CRS Report R43104, *A Brief Overview of Business Types and Their Tax Treatment*, by Mark P. Keightley.

[50] The primary components of business income are revenues generated from the sale of goods and services. Other income sources include investment income, royalties, rents, and capital gains.

[51] The 2017 tax revision (P.L. 115-97) limits interest payments, with the limitation generally set at 30% of adjusted taxable income. The limitation does not apply to small businesses with average gross receipts of $25 million or less or to certain regulated public utilities.

[52] Before 2018, taxpayers had the option to "carry back" losses, using losses to offset previous years' tax liability. For more, see CRS Insight IN10846, *P.L. 115-97: Net Operating Losses*, by Mark P. Keightley.

[53] There are special rules for farming and insurance company losses.

[54] CRS Report RL31181, *Research Tax Credit: Current Law and Policy Issues for the 114th Congress*, by Gary Guenther; and CRS In Focus IF10757, *The 2017 Tax Law (P.L. 115-97) and Investment in Innovation*, by Gary Guenther.

[55] CRS In Focus IF10725, *Key Issues in Tax Reform: The Low-Income Housing Tax Credit*, by Mark P. Keightley.

[56] CRS Report R43453, *The Renewable Electricity Production Tax Credit: In Brief*, by Molly F. Sherlock; and CRS In Focus IF10479, *The Energy Credit: An Investment Tax Credit for Renewable Energy*, by Molly F. Sherlock.

[57] CRS Report RL34402, *New Markets Tax Credit: An Introduction*, by Donald J. Marples and Sean Lowry.

[58] CRS Report R43729, *The Work Opportunity Tax Credit*, by Benjamin Collins and Sarah A. Donovan.

[59] This credit is available for wages paid in 2018 and 2019. CRS In Focus IF11141, *Employer Tax Credit for Paid Family and Medical Leave*, by Molly F. Sherlock.

of borrowed funds (debt), and that produced by investment of equity, or funds provided by stockholders. The deductibility of certain items makes it such that the corporate income tax applies largely to equity capital. Specifically, wages are tax deductible, so labor's contribution to corporate revenue is excluded from the corporate tax base. Additionally, profits from debt-financed investment are paid out as interest, which is partially deductible. To the extent that interest is deductible, the return to debt capital is excluded from the corporate tax base. Equity investments are financed by retained earnings and the sale of stock. The income equity investment generates is paid out as dividends and the capital gains that accrue as stock increases in value. Neither form of equity income is generally deductible. Thus, the base of the corporate income tax is largely the return to equity capital.

With the base of the corporate tax being largely equity income, the flow of capital out of the corporate sector and other economic adjustments probably cause the burden of the tax to spread to all owners of capital: owners of unincorporated business, bondholders, and homeowners. In analyzing the incidence of the corporate tax, the Congressional Budget Office (CBO) and JCT generally distribute most of the burden to owners of capital, with a smaller portion falling on labor income.[60] Since owners of capital tend to be in higher income groups, and most of the corporate tax burden falls on capital, the corporate tax is widely viewed as being progressive.

Corporate Income Earned Abroad[61]

The United States has a quasi-territorial tax system. In general, dividends received by U.S. corporate shareholders from their controlled foreign corporations (CFCs) are generally eligible for a 100% dividends-received deduction. However, certain forms of passive or easily shifted income are taxed in the year earned—under subpart F. In addition, global intangible low-taxed income (GILTI) is taxed at 10.5%.[62] A deduction is allowed for the foreign derived intangible income (FDII)—roughly the share of intangible income that is attributed to foreign activity.

Current law also contains a general antiabuse provision whose focus is primarily on U.S. subsidiaries of foreign parents, although it applies in general to all related parties. Unlike Subpart F or the new GILTI provision, the base erosion and antiavoidance tax (BEAT) is not aimed at including income but at disallowing deductions for certain "base erosion" payments made by U.S. parents to their foreign subsidiaries that historically have been used to shift profits out of the United States. BEAT imposes a minimum tax which is equal to 10%, in 2019, of the sum of taxable income and base erosion payments on corporations with average annual gross receipts of at least $500 million over the past three tax years and with deductions attributable to outbound payments exceeding 3% of overall deductions.[63]

[60] CRS In Focus IF10742, *Who Pays the Corporate Tax?*, by Jane G. Gravelle.

[61] CRS Report R45186, *Issues in International Corporate Taxation: The 2017 Revision (P.L. 115-97)*, by Jane G. Gravelle and Donald J. Marples.

[62] The GILTI tax rate is 10.5% in 2018 and through 2025. After 2025, the GILTI tax rate is scheduled to increase to 13.125%.

[63] The BEAT tax rate increased to 10% in 2019 and is scheduled to increase to 12.5% after 2025.

Social Insurance and Retirement Payroll Taxes

Payroll taxes are used to fund specific programs, largely Social Security and Medicare.[64] Social Security and Medicare taxes are generally paid at a combined rate of 15.3% of wages, with 7.65% being paid by the employee and employer alike.[65]

The Social Security part of the tax, or the old age, survivors, and disability insurance (OASDI) tax, is 6.2% for both employees and employers (12.4% in total).[66] In 2019, the tax applies to the first $132,900 in wages. This wage base is adjusted annually for inflation.

The Medicare portion of the tax, or the Medicare hospital insurance (HI) tax, is 1.45% for both employees and employers (2.9% in total).[67] There is no wage cap for the HI tax (the Medicare HI tax applies to all wage earnings). Certain higher-income taxpayers may be subject to an additional HI tax of 0.9%. For married taxpayers filing jointly, combined wages above $250,000 are subject to the additional 0.9% HI tax.[68] The threshold for single and head of household filers is $200,000. These threshold amounts are not indexed for inflation.

Employers may also be subject to a federal unemployment insurance payroll tax.[69] This tax is 0.6% on the first $7,000 of wages.[70] Federal unemployment insurance payroll taxes are used to pay for the administrative costs of the unemployment insurance (UI) program. State UI taxes generally pay for UI benefits.[71]

Most taxpayers pay more in payroll taxes than income taxes. The JCT projects that in 2019, 68% of tax units will pay more in payroll taxes than income taxes (see **Figure 4**).[72] Most low- and middle-income taxpayers pay more in payroll taxes than in income taxes. Nearly all taxpayers with incomes of $30,000 or less pay more in payroll taxes than income taxes. Up through the $100,000 to $200,000 income category, the share of taxpayers paying more in payroll taxes than income taxes exceeds the share of taxpayers paying more in income taxes than payroll taxes.

[64] The taxes are also known as Federal Insurance Contributions Act (FICA) taxes.

[65] Self-employed taxpayers pay both the employer and employee share.

[66] CRS Report R42035, *Social Security Primer*, by Dawn Nuschler.

[67] CRS Report R40425, *Medicare Primer*, coordinated by Patricia A. Davis.

[68] The threshold amount for married taxpayers filing separately is $125,000.

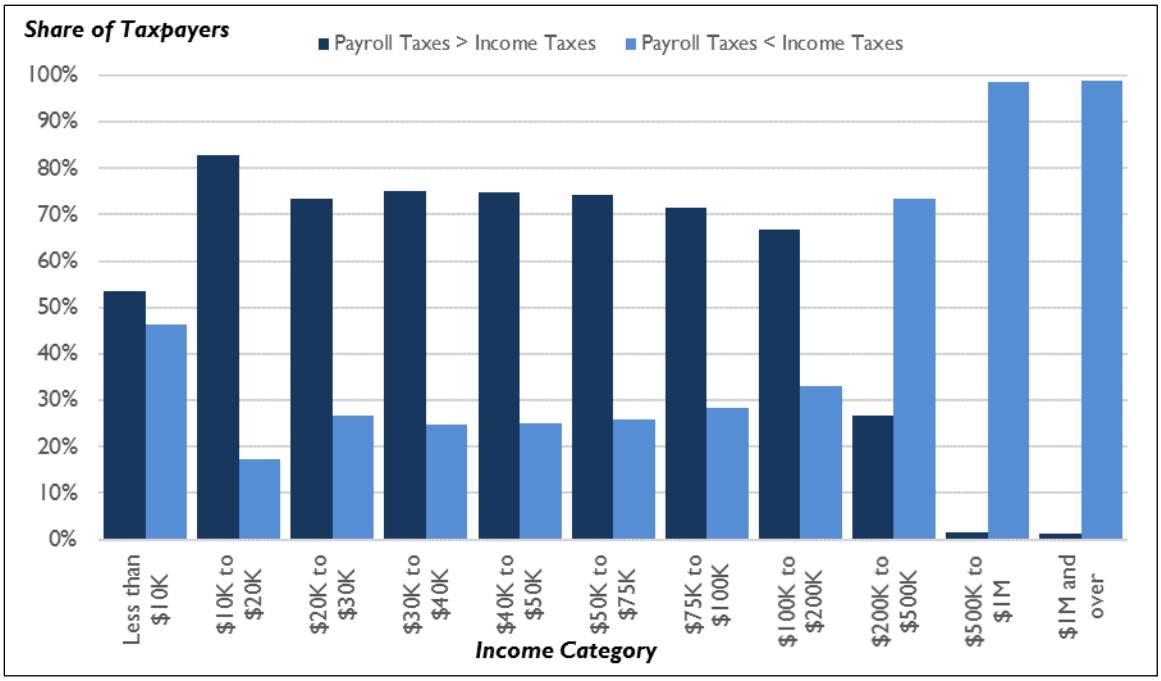
[69] CRS In Focus IF10336, *The Fundamentals of Unemployment Compensation*, by Julie M. Whittaker and Katelin P. Isaacs; and CRS Report R44527, *Unemployment Compensation: The Fundamentals of the Federal Unemployment Tax (FUTA)*, by Julie M. Whittaker.

[70] The tax rate is 6% of total wages for each employee, up to $7,000. However, there is a federal credit of 5.4% for state unemployment taxes, making the effective federal tax rate 0.6%.

[71] For more information, see CRS Report RL33362, *Unemployment Insurance: Programs and Benefits*, by Julie M. Whittaker and Katelin P. Isaacs.

[72] Projections of the share of taxpayers paying more in payroll as opposed to more in income taxes can be found in Table A-7 of Joint Committee on Taxation, *Overview Of The Federal Tax System As In Effect For 2019*, JCX-9-19, Washington, DC, March 20, 2019, available at https://www.jct.gov/publications.html?func=startdown&id=5172.

Figure 4. Share of Taxpayers with Higher Payroll or Income Taxes, 2019 Projections



Source: CRS and Joint Committee on Taxation.

Notes: The number of taxpayers includes non-filers. Shares within income category groups may not sum to 100 as not all taxpayers pay payroll taxes.

Estate and Gift Taxes

Upon death, an individual's estate may be subject to tax.[73] The base of the federal estate tax is generally property transferred at death, less allowable deductions and exemptions. An unlimited marital deduction is allowed for property transferred to a surviving spouse. Other allowable deductions include estate administration expenses and charitable bequests. The effective estate tax exemption is $11.4 million for 2019.[74] The value of the estate over the exemption amount is generally taxed at a rate of 40%.[75]

The federal gift tax operates alongside the estate tax to prevent individuals from avoiding the estate tax by transferring property to heirs before dying. For 2019, the first $15,000 of gifts from one individual to another is excluded from taxation and does not apply to the lifetime exemption.[76] Any amount over this annual exclusion lowers the effective lifetime estate tax exemption.

[73] CRS Report R42959, *Recent Changes in the Estate and Gift Tax Provisions*, by Jane G. Gravelle.

[74] Although estate tax rates are graduated, the exemption is applied in the form of a credit and offsets taxes applied at the lower rates.

[75] The exemption amount is adjusted for inflation. For the most recent exemption level, see https://www.irs.gov/pub/irs-drop/rp-18-57.pdf.

[76] A married couple could each give a child $15,000 for a total gift of $30,000. This $30,000 in gifts would not apply to the lifetime exemption. Gifts can also be made to more than one child. The exemption amount is indexed for inflation in $1,000 increments.

The gift tax and estate tax are unified in that the same lifetime exemption amount applies to both taxes ($11.4 million in 2019). Being unified, taxable gifts reduce the exemption amount that is available for estate tax purposes. The gift tax rate is 40%, the same as the top rate for the estate tax, for gifts beyond the exemption amount.

Few taxpayers pay the estate tax. Through 2025, an estimated 0.06% of decedents will pay the estate tax.[77] The estate tax is also progressive, up to the very top of the income distribution. For taxpayers in the 95th to 99th percentile, the estate tax has been estimated to be 0.1% of cash income in 2019.[78] For taxpayers in the top 1% and top 0.1% of the income distribution, the estate tax has been estimated to be 0.4% of cash income in 2019. The concentration in upper income categories will increase with the higher temporary exemption levels in effect after 2017.

Excise Taxes

Excise taxes are levied on the consumption of goods and services rather than income. Unlike sales taxes, they apply to particular commodities, rather than to broad categories. Historically, the federal government has levied excise taxes, but not a broad-based sales tax, instead leaving sales taxes to the states as a revenue source.

Federal excise taxes are levied on a variety of products. The collection point of the tax varies across products. For some goods, taxes are collected at the production level. Other excise taxes are collected on retail sales. In terms of receipts, the single largest tax is the excise tax on gasoline.[79] Other prominent excise taxes are those on diesel and other fuels; trucks, trailers, and tractors; aviation-related taxes and fees;[80] excise taxes on beer, wine, and distilled spirits;[81] taxes on tobacco products; Affordable Care Act (ACA) taxes and fees[82] (e.g., insurance provider fee,[83] branded pharmaceuticals fee); and taxes on firearms and ammunition.[84]

Most federal excise taxes are paid into federal trust funds devoted to specific federal activities, as opposed to remaining in the federal budget's general fund. Estimates for 2019 indicate that of the $99 billion in anticipated excise tax revenue, approximately 67% will support trust funds, with the remainder being general fund revenue.[85] The largest trust fund is the Highway Trust Fund. Devoted revenue sources include excise taxes on fuels, trucks, and tires. Aviation-related excise taxes support the Airport and Airway Trust Fund, the second largest of the excise-tax-supported

[77] Urban-Brookings Tax Policy Center, T17-0308 - Estate Tax Returns and Liability Under Current Law and the House and Senate Versions of the Tax Cuts and Jobs Act, 2018-2027, December 6, 2017, available at http://www.taxpolicycenter.org/model-estimates/estate-tax-and-tax-cuts-and-jobs-act-dec-2017/t17-0308-estate-tax-returns-and.

[78] Tax Policy Center, *T17-0040—Average Effective Federal Tax Rates—All Tax Units, By Expanded Cash Income Percentile, 2016*, March 17, 2017, available at http://www.taxpolicycenter.org/model-estimates/baseline-average-effective-tax-rates-march-2017/t17-0040-average-effective-federal.

[79] Congressional Budget Office, *Revenue Projections, by Category*, August 2019, available at https://www.cbo.gov/about/products/budget-economic-data#3.

[80] CRS Report R44749, *The Airport and Airway Trust Fund (AATF): An Overview*, by Rachel Y. Tang and Bart Elias.

[81] CRS Report R43350, *Alcohol Excise Taxes: Current Law and Economic Analysis*, by Sean Lowry.

[82] CRS In Focus IF10591, *Taxes and Fees Enacted as Part of the Affordable Care Act*, by Sean Lowry.

[83] CRS Report R43225, *Patient Protection and Affordable Care Act: Annual Fee on Health Insurers*, by Suzanne M. Kirchhoff.

[84] CRS Report R45123, *Guns, Excise Taxes, Wildlife Restoration, and the National Firearms Act*, by R. Eliot Crafton, Jane G. Gravelle, and William J. Krouse.

[85] Office of Management and Budget, Historical Tables, Table 2.4, available at https://www.whitehouse.gov/omb/budget/Historicals.

trust funds.[86] General fund excise taxes include taxes on alcohol and tobacco and ACA-related excise taxes.

Excise taxes can result in consumers paying higher prices for goods and services. Overall, households from the lower part of the income distribution tend to pay a larger share of their income in excise taxes than higher-income households.[87] Thus, taken as a whole, federal excise taxes are generally believed to be regressive. The degree of regressivity can vary for different types of excise taxes. For example, tobacco excise taxes are estimated to be more regressive than aviation-related excise taxes.[88]

Tax Statistics

Taxes as a Share of the Economy

Federal revenues are derived from several sources and have collectively ranged from roughly one-fifth to one-seventh the size of the economy. **Figure 5** displays total federal tax revenues and major sources of federal tax revenue as percentages of gross domestic product (GDP) since 1945. For 2019, it is estimated that revenues will be 16.1% of GDP, slightly below the post-World War II average of 17.2% of GDP.

Since the mid-1940s, the individual income tax has been the most important single source of federal revenue (business income may also be taxed under the individual income tax system, as previously discussed in "The Individual Income Tax"). Between 2000 and 2010, however, the individual income tax receipts decreased relative to the size of the economy, falling from nearly 10% of GDP in 2000 to just over 6% in 2010. Individual income tax receipts have subsequently increased, and are estimated to be 8% of GDP in 2019. Over time, the corporate income tax has fallen from the second- to the third-most important source of revenue. In the late 1960s, corporate taxes were replaced by social insurance and retirement taxes as the second-leading revenue source. Excise taxes and estate and gift taxes have also decreased as a share of GDP over time.

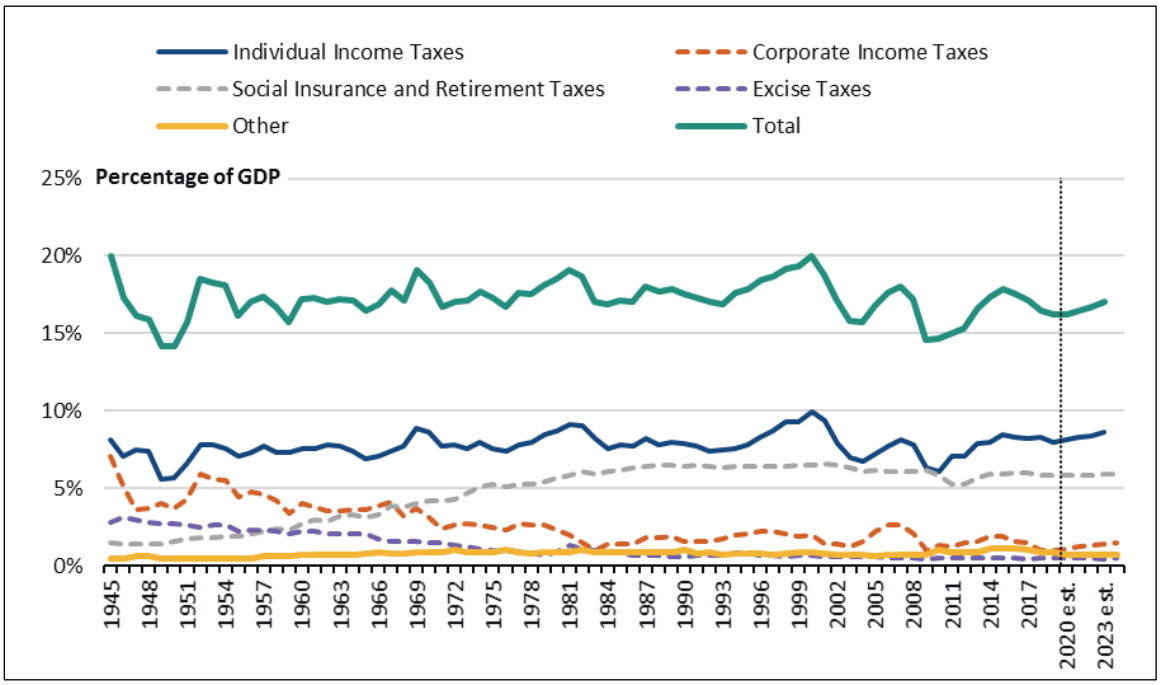
[86] CRS Report R44749, *The Airport and Airway Trust Fund (AATF): An Overview*, by Rachel Y. Tang and Bart Elias.

[87] Tax Policy Center Briefing Book, "Who Bears the Burden of Federal Excise Taxes?" available at http://www.taxpolicycenter.org/briefing-book/who-bears-burden-federal-excise-taxes. The distribution of federal excise taxes is estimated for the 2018 tax year.

[88] Ibid.

Figure 5. Federal Revenue as a Percentage of GDP

1945-2024



Source: CRS calculations using data from U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2020, Historical Tables* (Washington: GPO, 2019).

Notes: Revenues for 2019-2024 are projections based on the President's FY2020 budget proposal. FY2019 is noted with the vertical dotted line.

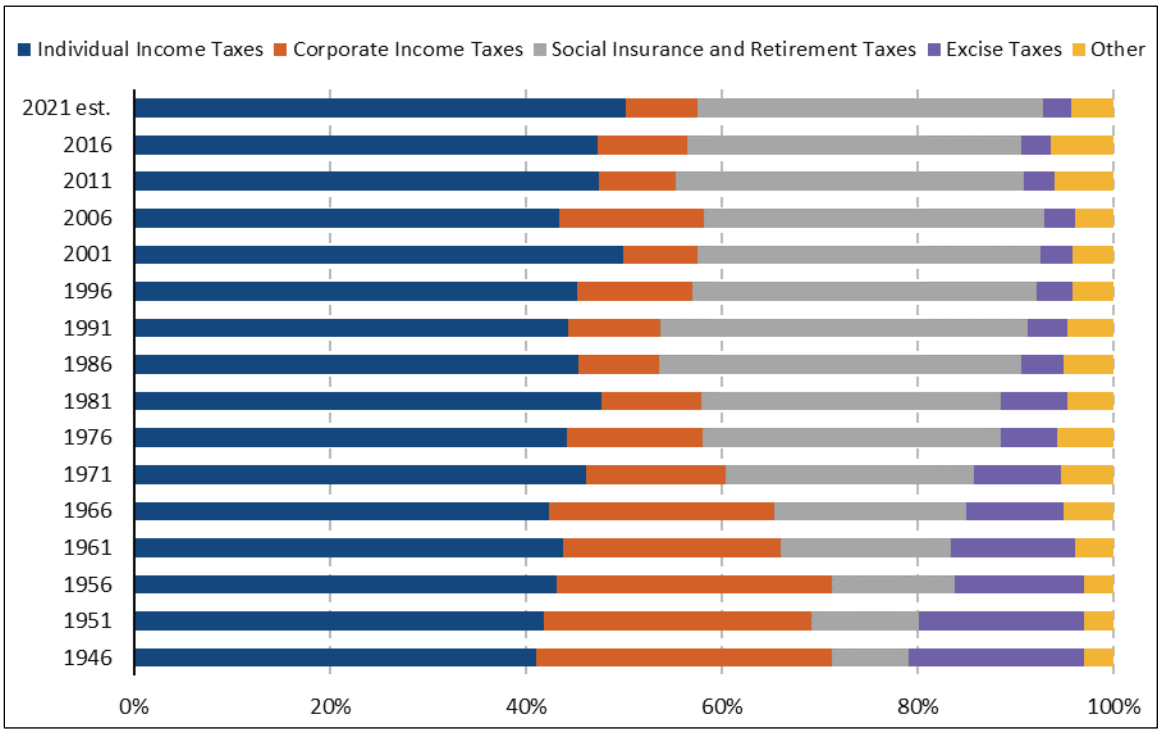
Composition of Tax Revenue

The changing shares of federal revenues over time are more clearly shown in **Figure 6**. For example, the corporate income tax accounted for roughly 30% of federal revenue in 1946, but 9% in 2016.[89] In 2019, corporate income tax revenues were about 6% of total revenues. As a share of total revenues, the corporate income tax is projected to increase, to roughly 7%, by 2021. Excise tax revenue is roughly 3% of federal receipts, down from nearly 18% in 1946. In contrast, receipts for social insurance and retirement taxes have risen post-World War II with the enactment of Social Security and Medicare and are now the second-largest source of federal receipts at approximately 36% of federal revenue.

[89] CRS Report R42113, *Reasons for the Decline in Corporate Tax Revenues*, by Mark P. Keightley. Historical data on federal receipts by source can be found in Table 2.1 of the Historical Tables published by the Office of Management and Budget (OMB), available at https://www.whitehouse.gov/omb/historical-tables/.

Figure 6. Composition of Federal Revenue

Selected Years 1946-2021



Source: CRS calculations using data from U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2020, Historical Tables* (Washington: GPO, 2019).

The Distribution of the Tax Burden

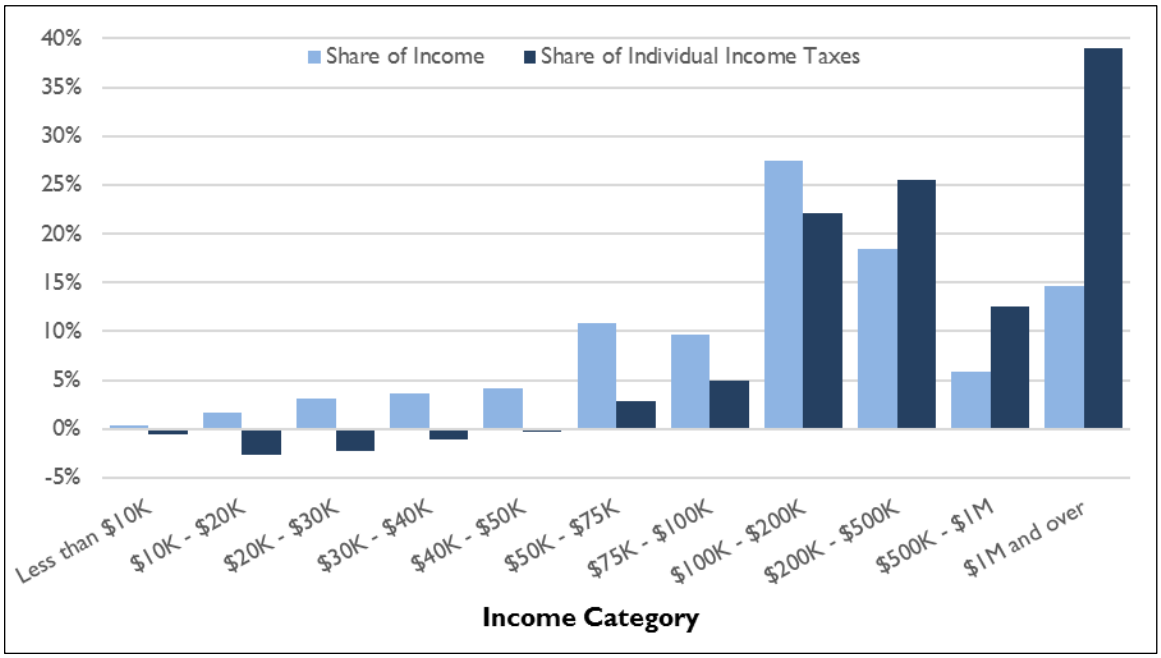
The U.S. individual income tax system is generally progressive. As shown in **Figure 7**, taxpayers with lower incomes tend to have a proportionally smaller share of the overall individual income tax burden. JCT projections indicate that in 2019, taxpayers in lower income categories will, on average, have a negative share of individual income taxes.[90] Thus, on average, these groups receive more in refundable tax benefits than they pay in federal individual income taxes. For taxpayers in income groups above $200,000, projections for 2019 show that their share of taxes paid exceeds their share of income earned. About 50% of taxpayers fall into an income category below $50,000. In contrast, just over 7% of filers fall into an income category above $200,000. Since higher-income taxpayers pay a larger share of income taxes relative to their share of income, the system is generally progressive, and causes after-tax income to be more equally distributed than before-tax income.

The tax system as a whole is progressive, but not as progressive as the individual income tax system. Payroll taxes and excise taxes tend to be regressive, with higher average tax rates paid by taxpayers in lower income groups. Thus, taken together in evaluating the federal tax system as a

[90] Projections of the distribution of income and income taxes in 2019 can be found in Table A-8 of Joint Committee on Taxation, *Overview Of The Federal Tax System As In Effect For 2019*, JCX-9-19, Washington, DC, March 20, 2019, available at https://www.jct.gov/publications.html?func=startdown&id=5172.

whole, payroll taxes and excise taxes offset some of the progressivity of the individual income tax.[91]

Figure 7. Shares of Income and Individual Income Taxes by Income Category, 2019 Projections



Source: CRS and Joint Committee on Taxation.

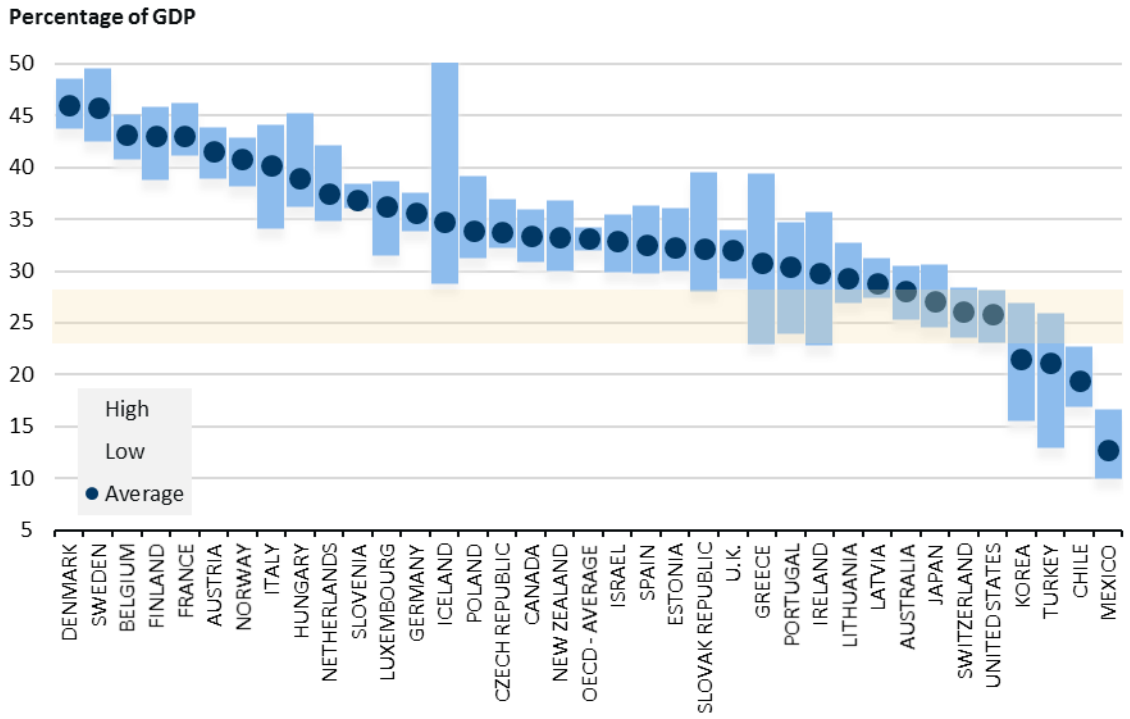
International Comparisons

How the U.S. tax system compares to those in other countries is a perennial tax policy question. As shown in **Figure 8**, total U.S. taxes as a percentage of GDP has historically been below the average for OECD countries. Four countries have tended to have lower taxes as a percentage of GDP than the United States, with most others tending to have higher taxes relative to the size of the economy. Note that such a direct comparison can be difficult to interpret, as it does not take into account government spending that reflects each country's policy preferences or deficit/surplus levels that provide more context.

[91] Congressional Budget Office, *The Distribution of Household Income, 2014*, March 2018, available at https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53597-distribution-household-income-2014.pdf.

Figure 8. Government Tax Revenue as a Percentage of GDP

OECD Countries, 1987-2017



Source: OECD Revenue Statistics.

Note: Government revenue includes all federal, state, and local tax collections.

Table 3 provides this additional context for the United States and the other major democratic countries in the G-7. Among the G-7 countries, the United States has both the lowest revenue and spending as a percentage of GDP and the highest deficit level in 2019.[92]

[92] The relatively low level of revenue collections in the United States may be partially explained by the lack of a federal-level consumption tax (like a Value-Added Tax), which is a feature of the other countries' tax systems. Similarly, the level of government spending may be partially explained by the lack of federal provision of health care that occurs in the other G-7 countries.

Table 3. U.S. Fiscal Position Compared to Other Industrialized Nations, 2019

	Government Revenues as a % of GDP	Government Expenditures as a % of GDP	Surplus/Deficit as a % of GDP
Canada	40.6	41.0	-0.4
France	52.4	55.6	-3.2
Germany	45.0	44.1	0.9
Italy	46.9	49.3	-2.4
Japan	35.6	38.1	-2.5
United Kingdom	39.1	41.2	-2.1
United States	31.2	37.9	-6.6

Source: OECD Economic Outlook Annex Tables.

Note: Government revenue and expenditures includes all federal, state, and local collections (tax and non-tax) and spending.

Concluding Remarks

The U.S. federal tax system in 2019 looks substantively different than it did in 2017. As taxpayers adjust to the changes to the federal tax system enacted late in 2017, Congress may consider further changes to the federal tax system. Given the scope and magnitude of the changes enacted in P.L. 115-97, tax policy for the 116th Congress may build on or be related to this legislation. Over the longer term, as tax policies that were temporary in P.L. 115-97 expire, and delayed tax policies begin to phase in, Congress may choose to consider whether expirations, phase-ins, or other delayed policies in P.L. 115-97 should be modified.

This report provides an overview of the federal tax system, as in effect in 2019. Information on taxes relative to the size of the economy, the distribution of the tax burden, and how the U.S. tax system compares to tax systems globally may provide context for consideration of future tax policy changes.

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