

# Individual Income Tax Rates and Tax Shares, 1988-1989

by Charles Day and Michael Strudler

**T**ax Years 1988 and 1989 marked the second and third years of taxation under the Tax Reform Act of 1986. Total income tax amounted to \$432.9 billion for 1989, an increase of 4.8 percent over the \$412.9 billion reported for 1988; in turn, the tax for 1988 reflected an increase of 11.8 percent over the \$369.2 billion reported for 1987. Average tax (for returns showing an individual income tax liability) was \$4,855 for 1989 and \$4,738 for 1988, compared to \$4,257 for 1987. The average tax rate (total income tax divided by adjusted gross income reported on returns showing a tax) was 13.71 percent for 1989 and 13.81 percent for 1988, compared to 13.67 percent for 1987.

Any direct comparison of the average tax rates for 1987 and subsequent years with those for earlier years would be misleading because the 1986 Act introduced many changes in the tax treatment of income, losses and deductions which resulted in a broader concept of adjusted gross income (AGI) for tax years after 1986 [1]. The broadened definition of AGI would, all other things being equal, reduce the average income tax rate even if economic income and tax rates were unchanged. In order to allow comparisons to be made between average income tax rates before and after the redefinition of AGI without being subject to this effect, AGI statistics were recomputed for 1985 and subsequent years to match the concept used for 1979, the year that marked the end of the decade before the major tax law changes of the 1980's. Average tax rates, when based on the 1979 AGI concept, were 13.56 percent for 1985; 13.59 percent for 1986; 13.49 percent for 1987; 13.71 percent for 1988; and 13.58 percent for 1989 [2].

## Tax Rates for 1988 and 1989

The Tax Reform Act of 1986 provided a transitional, five-bracket tax rate structure for 1987 only, with a top marginal rate of 38.5 percent. For 1988 and subsequent years, there were two basic tax rates, 15 percent and 28 percent. In addition, the rate structure included a 5 percent surtax on taxable income within the ranges shown in Figure A. This surtax resulted in a 33 percent effective marginal tax rate for taxpayers with income within these ranges. The surtax effectively phased out the benefits of having part of the income taxed at a 15 percent rate rather than at a 28 percent rate. Besides the surtax on income within the ranges shown in Figure A, a 5 percent surtax was imposed on income above these ranges in order to

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**With income defined the same, tax averaged 13.58 percent (1989) and 13.56 percent (1985) based on "taxable returns."**

phase out the benefits of the personal exemptions for taxpayers and their dependents. At the point where the tax-saving from personal exemptions was completely phased out, the taxpayer's marginal tax rate returned to 28 percent (and the average tax rate on taxable income plus the phased-out exemption amounts

was equal to 28 percent) [3]. Note that alternative minimum tax is not included in the determination of marginal tax rates for purposes of this article. Approximately 113,600 returns reported \$1.0 billion of alternative minimum tax for 1988. About 117,500 returns reported alternative minimum tax, which totaled \$0.8 billion, for 1989.

Along with the change in tax rate structure starting with 1988, the tax treatment of certain income and deductions was gradually changed. The phase-in of limitations on "passive" losses continued for 1988 and 1989, along with the phase-out of the itemized deduction for personal interest [4]. For 1987, an amount equal to 65 percent of passive losses generated by activities in which the taxpayer had an interest prior to October 22, 1986, and which commenced prior to that date, was allowed as an offset against "active" and portfolio income. For 1988, the allowance was reduced to 40 percent, and for 1989, to 20 percent. This limitation did not, however, apply to certain real estate losses [5]. For 1987, the deduction for personal interest was limited to 65 percent of the total. For 1988, the phase-out continued, with the deduction limited to 40 percent. For 1989, it was limited to 20 percent.

Under the 1986 Act, all capital gains were to be treated as ordinary income, although for 1987, net long-term capital gains were taxed at a maximum rate of 28 percent. With the establishment of the 28 percent top marginal rate for all income for 1988, this provision no longer applied.

Also under the 1986 Act, investment income (such as interest or dividends) in excess of \$1,000, reported on returns filed for dependents under age 14, was taxed as if it were their parents' income (using Form 8615) when this resulted in a larger combined tax liability. However, for 1989, parents were allowed the option of reporting the income of dependents under age 14 on their own returns (using Form 8814), if the dependents' income consisted entirely of interest, dividends and Alaska Permanent Fund dividends totaling between \$500 and \$5,000; and if there were no "backup withholding," estimated tax payments or overpayment credits from 1988 returns to be applied to the tax on dependents' income [6, 7]. This accomplished

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**Figure A**

## Ranges of Taxable Income to Which the Portion of the 5 Percent Surtax Due to Phasing Out of the 15 Percent Bracket Applied, by Filing Status, Tax Years 1988 and 1989

[Money amounts are in whole dollars]

Tax year	Taxable income range by filing status			
	Single	Head of household	Married filing jointly	Married filing separately
	(1)	(2)	(3)	(4)
1988.....	43,150 - 89,560	61,650 - 123,790	71,900 - 149,250	35,950 - 113,300
1989.....	44,900 - 93,130	64,200 - 128,810	74,850 - 155,320	37,425 - 117,895

the same purpose for 1989 with respect to the taxation of dependents' investment income and eliminated the need to have separate returns filed for the dependents.

This article, and Tables 1 through 4 which follow, refer to two 28-percent marginal tax rate categories. The one labeled "28 percent (below the 5 percent surtax)" includes returns with taxable income large enough so that some income was taxed at 28 percent, but small enough to be below the threshold for the 5 percent surtax. The other, labeled "28 percent (above the 5 percent surtax)," includes returns with taxable income above the range on which the 5 percent surtax applied. Figure B presents the percentages of "modified" taxable income and the basic individual income tax (before reduction by tax credits) on returns with these marginal rates. (Modified taxable income is the same as taxable income for most returns in the sample on which the statistics were based; however, a small proportion of returns in the sample used for the statistics were prior-year returns received by the Internal Revenue Service during the current-year filing period. These returns were included in the sample as proxies for current-year returns received in later filing periods. Tax on these prior-year returns was computed from taxable income using the tax law applicable to the [prior] year for which the return was filed. This could have led to inconsistencies, because it would be unusual for the same amount of taxable income to generate the same amount of tax when different laws applied to different years. For this

reason, taxable income for these prior-year returns was modified by substituting the taxable income necessary to generate the amount of tax for the return, using the current year's tax law.)

Figures C and D include statistics on average tax and tax rates from 1985 through 1989 based on "taxable returns," i.e., returns that showed an income tax liability. This period consisted of three distinct sub-periods: (1) Tax Years 1985 and 1986 (the last 2 years under the Economic Recovery Tax Act of 1981, or ERTA, which had gradually reduced average tax rates through indexing of tax bracket boundaries for inflation); (2) Tax Year 1987 (the first year under the Tax Reform Act of 1986, which provided a 1-year transitional five-bracket tax rate structure and began a phase-in of most of the new provisions that resulted in a broadened definition of AGI); and (3) Tax Years 1988 and 1989 (the first 2 years under the two-rate bracket structure coupled with the 5 percent surtax, during which time new provisions limiting certain types of losses and deductions were more fully implemented).

Care should be taken when comparing average tax rates for 1987 and subsequent years with those for prior years. The Tax Reform Act of 1986 broadened the definition of AGI by limiting or eliminating many special provisions [8]. All other things being equal, this redefinition of AGI, which increased AGI, would act to decrease the average tax rate. Figure C shows both unadjusted average tax rates

**Figure B**

## Percentage of Modified Taxable Income and Income Tax Generated on Returns with the Indicated Marginal Tax Rate, Tax Years 1988-1989<sup>1</sup>

Marginal tax rate	Percentage of modified taxable income		Percentage of income tax generated	
	1988	1989	1988	1989
	(1)	(2)	(3)	(4)
All rates.....	100.0	100.0	100.0	100.0
15 percent rate.....	31.2	31.1	23.3	23.2
28 percent rate (below the 5 percent surtax).....	39.0	40.0	36.8	38.0
33 percent rate.....	12.4	13.4	15.8	17.1
28 percent rate (above the 5 percent surtax).....	17.3	15.5	24.1	21.6

<sup>1</sup> Two special categories of returns, both having to do with the taxation of dependents' income, are shown in Tables 1-4 at the end of this article, but are not shown here because of their small effect on the totals.

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

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**Figure C**

## Adjusted Gross Income, Total Income Tax, Average Tax Rate and Average Total Income Tax, Tax Years 1985-1989

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

Tax year	Total number of returns	Taxable returns							
		Number of returns	Adjusted gross income (less deficit)	Total income tax	Average tax rate (percent) <sup>2</sup>	Average per return <sup>1</sup>			
						Current dollars		Constant dollars <sup>3</sup>	
						Adjusted gross income (whole dollars)	Total income tax (whole dollars)	Adjusted gross income (whole dollars)	Total income tax (whole dollars)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
Using each tax year's adjusted gross income concept									
1985.....	101,660,287	82,846,420	2,259	326	14.42	27,268	3,931	25,342	3,653
1986.....	103,045,170	83,967,413	2,440	367	15.05	29,062	4,374	26,516	3,991
1987.....	106,996,270	86,723,796	2,701	369	13.67	31,142	4,257	27,414	3,747
1988.....	109,708,280	87,135,332	2,990	413	13.81	34,313	4,738	29,005	4,005
1989.....	112,135,673	89,178,355	3,158	433	13.71	35,415	4,855	28,560	3,915
Using common adjusted gross income concept <sup>4</sup>									
1985.....	101,660,287	82,846,420	2,403	326	13.56	29,003	3,931	26,954	3,653
1986.....	103,045,170	83,967,413	2,703	367	13.59	32,194	4,374	29,374	3,991
1987.....	106,996,270	86,723,796	2,736	369	13.49	31,551	4,257	27,774	3,747
1988.....	109,708,280	87,135,332	3,011	413	13.71	34,556	4,738	29,210	4,005
1989.....	112,135,673	89,178,355	3,188	433	13.58	35,752	4,855	28,832	3,915

<sup>1</sup> The average adjusted gross income, average total income tax and average tax rate were calculated from unrounded data.

<sup>2</sup> Average tax rate is "total income tax" (column 4) as a percentage of adjusted gross income (AGI) (column 3).

<sup>3</sup> These statistics are adjusted using the Bureau of Labor Statistics' Consumer Price Index (1982-1984=100).

<sup>4</sup> These statistics are based on adjusted gross income (AGI) recomputed to reflect the Tax Year 1979 concept, thus enabling more valid comparisons to be made of the average tax rates among years. Changes in the definition of AGI among years render direct comparison of the unadjusted figures misleading. For additional information, see Statistics of Income—Individual Income Tax Returns, for 1985 through 1989.

NOTE: Because data in columns 2-9 are based only on taxable returns, i.e., returns with an amount reported for total income tax liability, they are not comparable with data in Tables 5-8 at the end of this article (which are based on the larger number of returns with a positive amount reported for adjusted gross income) and in Tables 7-8 (which are based on all returns filed).

(which show the expected decrease between 1986 and 1987) and adjusted rates based on the 1979 concept of AGI [9]. The average tax rates before and after tax reform based on the common AGI concept differ little, revealing that the change in the unadjusted numbers between 1986 and 1987 resulted mostly from the differing definitions of AGI. Figure D presents the average total income tax for Tax Years 1980 (the year prior to the enactment of ERTA) through 1989 for taxable returns. (For further information on the number of returns, income tax and average tax, by size of AGI, for Tax Years 1987-1990, see Table 3 of the Selected Historical and Other Data section of this issue, and *Statistics of Income—1987, Individual Income Tax Returns*.)

### Computation of Tax

Figure E shows the computation of taxable income for 1988 and 1989. Taxable income was the amount on which income tax before credits (not including additional, special taxes) was computed. For both years, taxable income equaled AGI less the personal exemption amount and less either the standard deduction (including the additional amounts for age and blindness) for taxpayers who did not itemize deductions, or total allowable itemized deductions for all other taxpayers.

Taxes were based on taxable income according to tax rate schedules that varied with taxpayer filing status. There were separate rates for single persons, married

persons filing joint returns, married persons filing separate returns from their spouses, and heads of household [10, 11]. As already stated, the 1988 and 1989 rates for each filing status ranged from 15 to 28 percent; for 1987, they ranged from 11 to 38.5 percent (with a 28 percent maximum rate on net long-term capital gains).

For Tax Year 1988, taxpayers used one of three methods when figuring their initial tax liability (Figure F). If they were not dependents under 14 years of age with investment income in excess of \$1,000, they used either the (look-up) tax tables or the tax rate schedules to determine tax. Taxpayers with taxable income under \$50,000 were required to use the tax tables, which simplified the calculation of tax. Those with taxable income of \$50,000 or more were required to use the tax rate schedules. Although taxpayers did not have a choice between using the tax table or tax rate schedules, the two methods could produce slightly different results for the same taxable income amount. The amounts shown in the tax tables were based on the same computation as the tax rate schedules, but used the midpoints of "taxable income brackets" (generally \$50 wide) as the basis for deriving the tax. In addition, tax tables rounded the resulting tax to the nearest whole dollar. Since the highest marginal income tax rate used in the 1988 tax tables was 33 percent and, with the tax table brackets no wider than \$50 and the tax calculated on the midpoint of the bracket, the maximum deviation in tax between the tax tables and the tax

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rate schedules was \$8.33. In most cases the deviation was substantially less. The tax liability from the tax tables could be either higher or lower than that computed from the tax rate schedules [12]:

If a taxpayer were a dependent under age 14 and had over \$1,000 of investment income, his or her tax was computed using Form 8615, *Computation of Tax for Children Under Age 14 Who Have Investment Income in Excess of \$1,000*. This assured that any investment income over \$1,000 reported by these taxpayers was taxed as if it were the income of their parents, if a larger combined tax resulted from this treatment. In this case, the actual tax liability of the child could have been calculated using either of the methods described previously, depending on the particular circumstances of the parents, the child and any other children for whom a Form 8615 had to be filed.

Another option existed for Tax Year 1989 (shown in

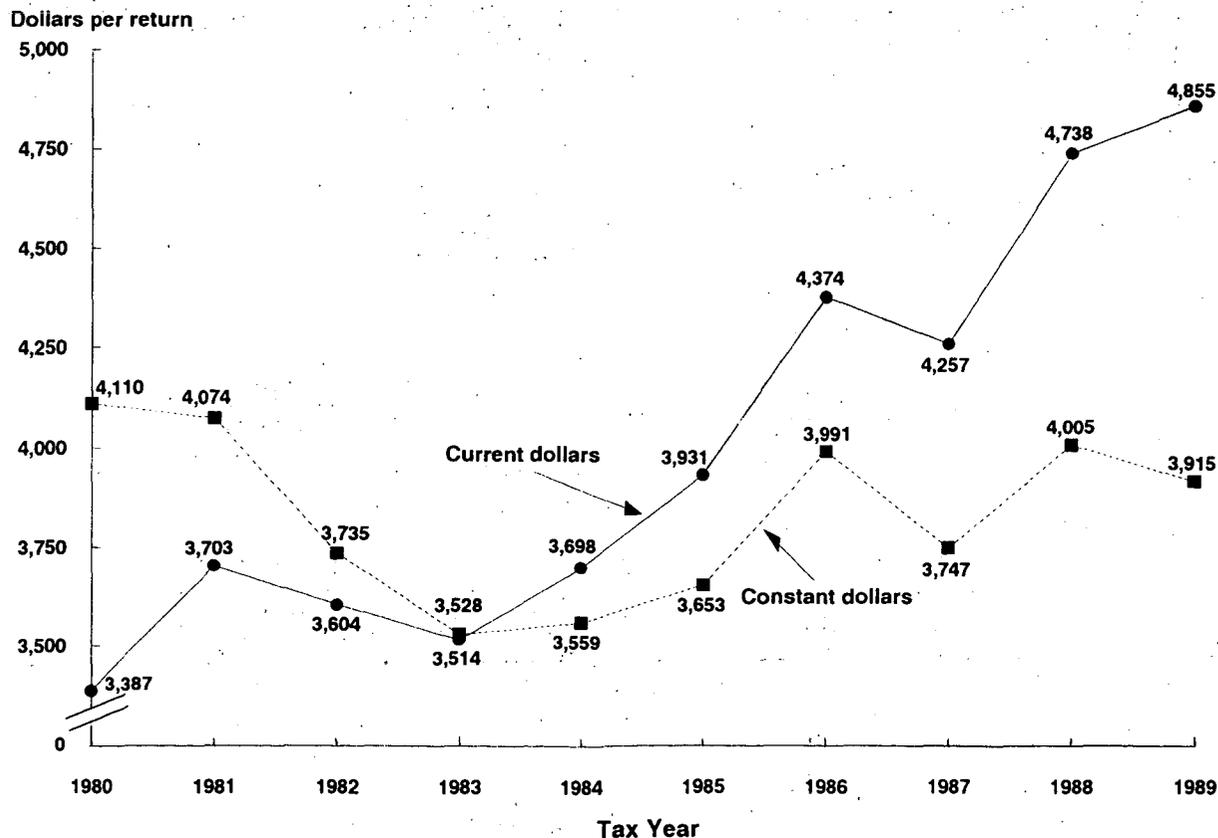
Figure F). Parents could report the income of dependents under age 14 on their own returns, if the dependents' income (1) consisted only of interest, dividends or Alaska Permanent Fund dividends, and (2) totaled between \$500 and \$5,000; and if the dependents (1) made no estimated tax payments, (2) had no "backup withholding" and (3) had not asked that a 1988 overpayment be credited towards their 1989 estimated tax. Using Form 8814, *Parents' Election to Report Child's Interest and Dividends*, the first \$1,000 of the dependent's income was taxed at 15 percent, while the rest was taxed as if it were the parent's income; all of this tax was reported on the parent's return.

### Marginal Tax Rates

When tax is calculated, different portions of taxable income are often taxed at different rates. For example, the first \$17,850 of taxable income on a single taxpayer's return was taxed at 15 percent for 1988. After the ceiling

Figure D

### Taxable Returns: Average Total Income Tax, Tax Years 1980-1989



NOTE: Constant dollars are based on Consumer Price Index (1982-1984=100) computed by U.S. Department of Labor, Bureau of Labor Statistics, and published in the *Economic Report of the President*, February 1992.

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**Figure E**

**Computation of Taxable Income from Adjusted Gross Income, Tax Years 1988 and 1989**

Adjusted gross income  
 Less: Deduction amount (for those who itemized deductions)  
           or  
           Standard deduction  
           Total exemptions times exemption amount <sup>1</sup>  
 Equals: Taxable income

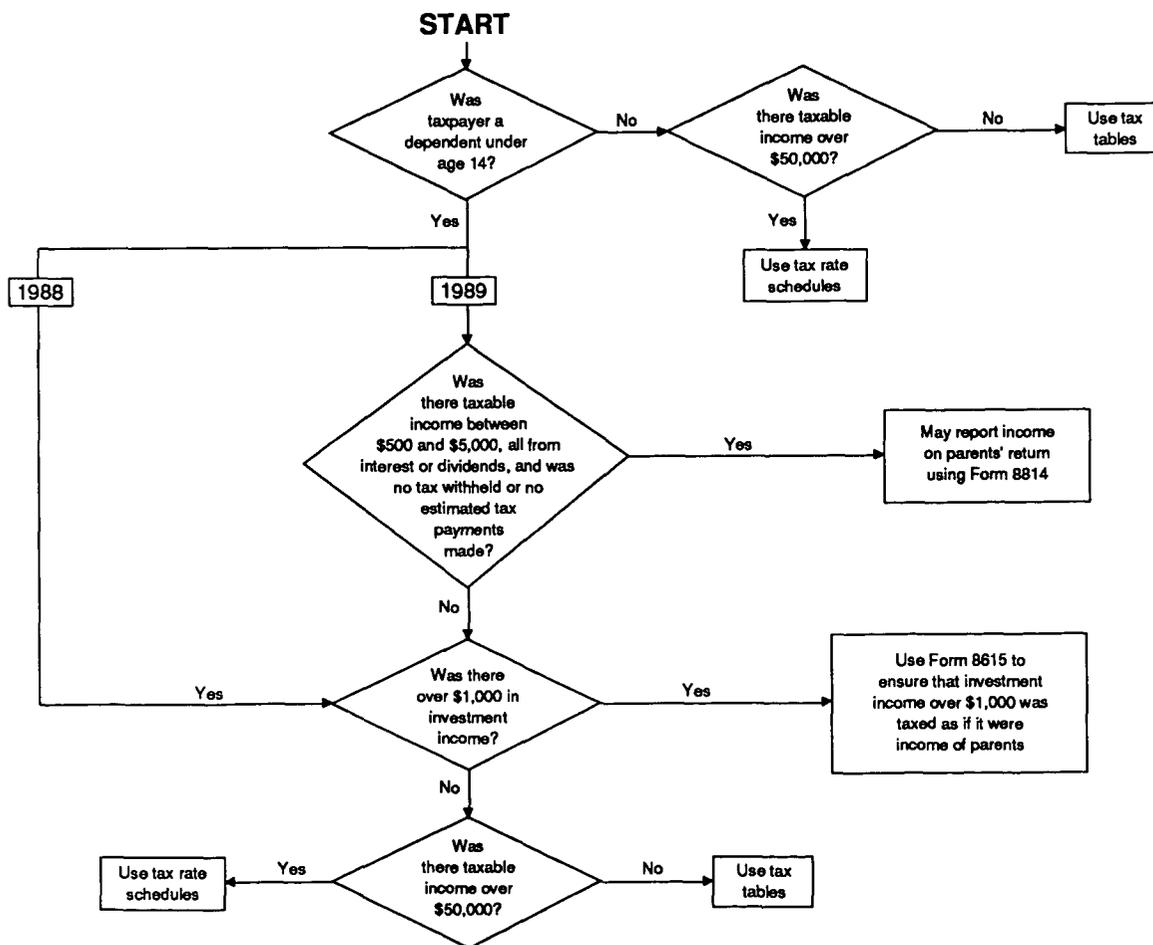
<sup>1</sup> The exemption amount for 1988 was \$1,950 and for 1989 it was \$2,000.

on the 15 percent bracket was indexed for inflation, the first \$18,550 was taxed at this rate for 1989. If the single taxpayer had more than \$17,850 in taxable income for 1988 (\$18,550 for 1989), then the next \$25,300 (\$26,350) was taxed at 28 percent. In general, the tax rate that applied to the last dollar of income (given certain assumptions about which source of income provided the last dollar of income subject to tax) is called the "marginal tax rate" for that return.

Prior to 1988, the marginal tax rate for a return was the highest rate applied to any amount of income on that return. Starting with Tax Year 1988 this was true only for returns which showed taxable income equal to or less than the maximum amount to which the 5 percent surtax applied. If the total amount of taxable income was within

**Figure F**

**Determination of Method for Computing Income Tax, Tax Years 1988 and 1989**



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the range of income to which the 5 percent surtax applied, the taxpayer was considered to have a 33 percent marginal rate. If the taxpayer had some income subject to the 33 percent rate but had income in excess of the maximum amount subject to the surtax, he or she was considered to have a 28 percent marginal tax rate. (See the appendix for a more general discussion of the marginal tax rate concept.)

Tables 1 through 4 present 1988 and 1989 marginal tax rate data. These data are based on the items of income that were subject to tax, generally those included in AGI. (Some forms of economic income, such as interest on State and local Government obligations, were not subject to Federal income tax and, thus, were not included in AGI. Nontaxable forms of income were not included in income for purposes of determining marginal tax rates in the tables.) It was possible, however, for the receipt of some forms of tax-exempt income to influence the taxability of other incomes, such as social security benefits. When this occurred, the income which was made taxable by the receipt of other forms of nontaxable income was included in AGI and was used in the determination of marginal tax rates.

All returns included in Tables 1 through 4 showed some taxable income. Of the 109,708,280 individual tax returns filed for 1988, there were 90,186,916 that showed (modified) taxable income, while 19,521,364 did not. Of the 112,135,673 returns filed for 1989, there were 92,211,584 with (modified) taxable income and 19,924,089 without such income. Figure G presents data for Tax Years 1988 and 1989 on: (1) the proportion of returns with modified taxable income by marginal tax rate; (2) the proportion of modified taxable income reported on returns by marginal

rate and (3) the proportion of total tax reported on returns at each marginal rate. (Modified taxable income, as noted above, differs only slightly from taxable income on the tax return; it is also described in the Explanation of Selected Terms section below.)

Several of the marginal tax rate classifications deserve special mention. In the 1988 tables, two different 28 percent rate classifications appear. The first of these is described earlier in this article as "28 percent (below 5 percent surtax)," and the second is described as "28 percent (above 5 percent surtax)."

Returns were classified as "Form 8615" if they were filed for dependents under age 14 with more than \$1,000 in investment income. The 1989 tables show the same marginal tax rate classifications as the 1988 tables plus a Form 8814 classification for returns on which parents chose to include the investment income of their dependents, and on which no tax liability was reported other than that generated by the dependents' income.

Tables 1 and 3 classify tax returns by marginal tax rate and filing status. Tables 2 and 4 classify returns by size of AGI. Tables 1 and 2 are for 1988. Tables 3 and 4 are for 1989. Two classification schemes are used in Tables 1 and 3. In columns 1 through 9, 13 through 21, 25 through 33, 37 through 45 and 49 through 57, a return was classified according to its applicable marginal tax rate. For example, column 1 of Table 1 shows that there were 22,226,008 returns for which the marginal tax rate was 28 percent (and which showed taxable income below the threshold for imposition of the 5 percent surtax). Columns 5 and 6 show that, for these returns, the "tax generated" on returns with "tax generated" at both the 15 percent and 28 percent (below the 5 percent surtax) rates totaled

**Figure G**

### Number of Taxable Returns, Modified Taxable Income and Tax Generated, by Marginal Tax Rate, Tax Years 1988 and 1989

[Money amounts are in millions of dollars]

Marginal tax rate, item	Number of returns		Modified taxable income		Income tax generated <sup>1</sup>	
	1988	1989	1988	1989	1988	1989
	(1)	(2)	(3)	(5)	(6)	(8)
<b>All returns</b> .....	<b>90,186,916</b>	<b>92,211,584</b>	<b>2,073,890</b>	<b>2,177,433</b>	<b>417,502</b>	<b>436,431</b>
15 percent rate.....	63,901,793	64,823,867	647,742	676,341	97,131	101,420
28 percent rate (below the 5 percent surtax) <sup>2</sup> .....	22,226,008	23,111,722	809,363	871,953	153,717	165,705
33 percent rate.....	2,925,698	3,188,030	256,632	291,152	65,835	74,696
28 percent rate (above the 5 percent surtax) <sup>3</sup> .....	748,828	729,455	359,094	336,780	100,546	94,298
Form 8615. <sup>4</sup> .....	384,588	351,582	1,058	1,203	272	311
Form 8814. <sup>5</sup> .....	(6)	6,929	(6)	4,553	(6)	685

<sup>1</sup> Represents the income tax generated at all rates on returns of taxpayers with the indicated marginal tax rate.

<sup>2</sup> Represents returns with a 28 percent marginal tax rate with taxable income below the level to which the 5 percent surtax applied.

<sup>3</sup> Represents returns with a 28 percent marginal tax rate with taxable income above the level to which the 5 percent surtax applied.

<sup>4</sup> Filed by dependents under age 14 with investment income over \$1,000 to ensure that their investment income was taxed as if it were their parents'.

<sup>5</sup> Represents returns filed by parents reporting investment income of their dependents over \$1,000, when the dependents' income generated all of the tax reported.

<sup>6</sup> The provisions that allowed reporting of dependents' income on returns filed by the parents did not take effect until Tax Year 1989.

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

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\$153.7 billion, of which \$69.6 billion of tax was "generated" solely at the 28 percent marginal rate.

In columns 10 through 12, 22 through 24, 34 through 36, 46 through 48 and 58 through 60, a return was classified by each rate that generated a tax. For example, columns 10, 11, and 12 show that 25,152,706 returns had some income taxed at the 28 percent rate (below the 5 percent surtax); the (modified) taxable income subject to this rate was \$355.2 billion, and the resultant tax generated at this rate was \$99.5 billion.

The "tax generated" at each specific tax rate, from the 15 percent rate to the 28 percent rate (above the 5 percent surtax), as well as the corresponding number of returns and the taxable income classified by size of AGI, are presented in Tables 2 and 4. For example, column 1 of Table 2 shows that, for Tax Year 1988, there were 9,191,617 returns with (modified) taxable income that showed an AGI between \$20,000 and \$25,000; column 3 shows that these returns had (modified) taxable income of \$123.5 billion; column 4 shows that these returns generated \$18.7 billion of tax. Column 8 shows that 1,206,904 of these returns had a portion of income taxed at the 28 percent rate. Column 9 shows that these returns had \$1.4 billion of (modified) taxable income subject to the 28 percent rate, and column 10 shows that \$391.8 million of tax was generated at this rate by these returns.

### Derivation of Tax

#### Regular Tax

Tables 1 and 3 include two amounts of income tax: "tax generated" and "income tax after credits." Both were used to determine the total income tax amount. Tax generated was the initial tax computed when tax rates were applied to taxable income. Column 5 in Table 1 shows that, for 1988, approximately \$417.5 billion of tax was generated by applying the tax rates to taxable income. For most taxpayers, tax generated was equal to income tax before credits. For others, income tax before credits was derived by adding the special taxes on accumulation distributions of trusts and lump-sum distributions from qualified retirement plans (when the special 10-year averaging method was used) to the tax generated from the tax rate schedules. Income tax after credits was derived by subtracting tax credits, in the following order: the credit for child and dependent care, the credit for the elderly or permanently and totally disabled, the foreign tax credit, the general business credit, the credit for prior-year minimum tax and the earned income credit. (The earned income credit, in this instance, is included to the extent that its application did not reduce tax below zero; this amount therefore excludes the refundable portion of the

**Figure H**

### Derivation of 1988 and 1989 Total Income Tax as Shown in Statistics of Income

(Money amounts are in billions of dollars)

Item	Tax year	
	1988	1989
<b>Tax generated from tax rate schedules or tax table.....</b>	<b>417.5</b>	<b>436.4</b>
PLUS: Taxes from special computations, total ...	1.3	1.8
Tax on accumulation distributions of trusts.....	n.a.	n.a.
Tax on lump-sum distributions from qualified retirement plans.....	n.a.	n.a.
EQUALS:		
<b>Income tax before credits.....</b>	<b>418.9</b>	<b>438.2</b>
LESS: Tax credits, total.....	7.0	6.1
Child-care credit.....	3.8	2.4
Foreign tax credit.....	1.1	1.3
General business credit.....	0.7	0.6
Elderly or disabled credit.....	0.1	0.1
Earned income credit (limited to the amount needed to reduce total income tax to zero).	1.1	1.4
Credit for prior-year minimum tax.....	0.2	0.3
Other credits.....	(')	(')
EQUALS:		
<b>Income tax after credits.....</b>	<b>411.8</b>	<b>432.1</b>
PLUS: Alternative minimum tax.....	1.0	0.8
EQUALS:		
<b>Total income tax.....</b>	<b>412.9</b>	<b>432.9</b>

n.a. - Not available.

' Less than \$0.05 billion.

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

credit.) Income tax after credits on returns with (modified) taxable income, shown in column 7 of Table 1, amounted to more than \$411.7 billion.

Figure H shows the derivation of aggregate income tax for 1988 and 1989 for returns with (modified) taxable income. Total income tax, used in Figures C and D but not shown in Tables 1 through 4, is the sum of income tax after credits and the alternative minimum tax [13]. Tax attributable to the alternative minimum tax, which was computed on a different base from that used for the statistics in these two tables, is excluded from Tables 1 through 4.

#### Alternative Minimum Tax

The Revenue Act of 1978 instituted the "alternative minimum tax," or AMT. Revised several times since its inception, this tax required the recomputation of income by including certain items which were otherwise deductible; restricting use of certain accounting methods; and disallowing certain benefits received in the form of deductions and exclusions, all of which served to reduce an individual's average tax rate. The use of a recomputed income amount in this calculation was part of a continuing effort to insure that individuals did not use provisions of the tax code meant to stimulate economic activity and

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generate substantial "economic income" without incurring at least some tax on this income.

Figure I shows the derivation of "alternative minimum taxable income" (AMTI) for 1988 and 1989. For 1988 and 1989 the alternative minimum tax was little changed from 1987. Beginning with Tax Year 1988, an adjustment was made for refunds of taxes that were not allowed as deductions for alternative minimum tax (AMT) purposes for 1987. Another new adjustment disallowed (for AMT purposes) the favorable tax treatment of incentive stock options exercised after 1987. This replaced the tax preference item for the excess of a share's market value over the option price when a stock option was exercised. For 1989, one preference used in the calculation of AMTI was eliminated. This was the excess of reserves for losses on bad debts of financial institutions over the allowable deduction if the institution maintained a reserve that accurately reflected the incidence of bad debts.

The alternative minimum tax was computed from AMTI using the following steps. First, AMTI was reduced by an exemption amount. For both 1988 and 1989, the AMTI exemption for single filers was \$30,000; for joint filers, \$40,000; and, for married persons filing separately, \$20,000. The exemption was reduced or eliminated above certain levels of AMTI. The exemption was reduced (but not below zero) by 25 percent of the amount by which AMTI exceeded threshold levels. For filers who were single, joint or married but filing separately, the phase-out began at \$112,500, \$150,000 or \$75,000 of AMTI, respectively; and ended at \$232,500, \$310,000 or \$155,000, respectively. (For 1989, dependents filing their own returns were further limited to an exemption of \$1,000 plus their "earned income.") After reduction by the exemption amount, AMTI was subject to tax at a 21 percent rate. The result was reduced by the alternative minimum tax foreign tax credit, yielding a tentative minimum tax. The taxpayer's regular tax before credits (including additional taxes from accumulation distributions of trusts or lump-sum distributions from qualified retirement plans for 1989), less the foreign tax credit, was then subtracted from the tentative minimum tax, yielding the alternative minimum tax, or AMT. For 1989, if Form 6251, *Alternative Minimum Tax for Individuals*, was prepared for a dependent under age 14, then the dependent's alternative minimum tax could be re-

**The top 5 percent of all tax returns for 1989 reported 28.9 percent of total adjusted gross income and 43.6 percent of total income tax.**

duced if the parent had regular tax greater than his or her own tentative minimum tax, or if any other dependent under age 14 of the same parents had regular tax greater than his or her own tentative minimum tax.

Figure J provides a summary of data from the alternative minimum tax computation reported on Form 6251.

### Income and Tax Shares

Tables 5 through 8 present statistics on AGI and tax by AGI percentile. Tables 5 and 6 use AGI, as defined for each year, as a variable for stratifying by percentile and also as a data item. These two tables are useful for many purposes, particularly for comparisons across AGI-percentile classes within a year, and for comparisons between years within the ERTA period, or within the post-1986 tax reform period. Tables 5 and 6 are not useful for comparisons of data between the years before 1987 and those for 1987 and beyond because of the redefinition of AGI included in the 1986 law change. Tables 7 and 8 use AGI as recomputed for each year, using the definition applicable to Tax Year 1979. These tables are, therefore, useful for comparisons between the pre- and post-tax reform periods. (Tables 5 and 6 present statistics that focus on returns with positive amounts reported for AGI; Tables 7 and 8 are based on all returns filed. Data in the two pairs of tables are, therefore, not altogether comparable.)

Tables 5 and 7 present data cumulated from the highest 1 percentile based on AGI to the 50th percentile. Tables 6 and 8 present data cumulated from the lowest (99th) percentile to the 50th percentile. For example, to use Table 5 to find the number of tax returns comprising the highest 5 percent of AGI for Tax Year 1987, one needs to first find the section for "Number of returns," then read across the row for Tax Year 1987 until column 3 is reached. This shows that there were 5,307,738 returns that accounted for the top 5 percent of AGI. The amount of AGI needed to be included in this group is found in the section called "Adjusted gross income floor on percentiles." (To help interpret the data from year to year, statistics on the AGI floor are also presented in constant dollars.) Reading across for Tax Year 1987 one discovers that a return needed at least \$68,414 in AGI to be included in the top 5 percent of returns based on AGI. The average tax rate for these taxpayers may be found in the block titled "Average tax rate." Reading across for Tax Year 1987, one finds that the average tax rate (or effective tax rate) for these returns was 22.10 percent.

### Explanation of Selected Terms

Brief explanations of the major tax concepts discussed in this article follow. For more extensive definitions, see

# Individual Income Tax Rates and Tax Shares, 1988-1989

**Figure 1**

## Calculation of Alternative Minimum Taxable Income (AMTI), Tax Years 1988 and 1989

<b>Taxable Income</b>	
<b>PLUS:</b>	<b>Net operating loss deduction</b>
<b>PLUS:</b>	<b>Adjustments</b>
	■ Standard deduction
	■ Personal exemptions
	■ The lesser of deductible medical and dental expenses or 2.5 percent of adjusted gross income
	■ Miscellaneous itemized deductions subject to the 2-percent-of-adjusted gross income limitation
	■ Deductions for State and local income, real estate and foreign taxes
	■ Refunds of State and local income, real estate and foreign taxes previously deducted (negative)
	■ Deductions for personal interest
	■ Other interest adjustments <sup>1</sup>
	■ Excess of depreciation on property placed in service after 1986 over less liberal methods allowed for alternative minimum tax purposes (straight-line or 150-percent declining balance method, depending on the type of property)
	■ Excess of mining exploration and development costs paid or incurred after 1986 over allowable amortization had costs been capitalized (the result could be negative)
	■ Excess of circulation and research and experimental expenditures paid or incurred after 1986 over allowable amortization had expenditures been capitalized (the result could be negative)
	■ Deferred income from long-term contracts entered into after February 28, 1986, with certain exceptions and limitations (the result could be negative)
	■ Excess of rapid amortization of pollution control facilities placed in service after 1986 over otherwise allowable depreciation (the result could be negative)
	■ Adjustment from disallowing the installment sales method of accounting for sales of inventory and stock in trade after March 1, 1986, with certain exceptions (the result could be negative)
	■ Adjustment of gain or loss on property disposed of after 1987, the basis of which was affected by accelerated depreciation or rapid amortization and which was reduced for alternative minimum tax purposes; and on incentive stock options which were exercised after 1987, the price paid by the taxpayer on which exceeded the value of the option when exercised (the result could be negative)
	■ Adjustment for refigured loss from activities in which allowable losses from partnerships or S Corporations were limited by "at-risk" and other rules, taking into account alternative minimum tax adjustments and preference items (the result could be negative)
	■ Adjustment for refigured tax shelter farm losses, taking into account alternative minimum tax adjustments and preference items
	■ Passive activity loss allowed for regular tax purposes for activities acquired before October 23, 1986, taking into account alternative minimum tax adjustments and preference items
	■ Difference between income distributions to beneficiaries of estates and trusts for regular tax purposes and the amounts refigured for alternative minimum tax purposes
<b>PLUS:</b>	<b>Tax Preference Items</b>
	■ Excess of accelerated depreciation on real property placed in service before 1987 over straight-line depreciation as refigured for alternative minimum tax purposes
	■ Excess of accelerated depreciation on leased property placed in service before 1987 over straight-line depreciation as refigured for alternative minimum tax purposes
	■ Excess of rapid amortization on pollution control facilities placed in service before 1987 over allowable depreciation
	■ Excess of deduction for charitable contributions of appreciated property over the basis of the property
	■ Amount by which the excess of intangible drilling costs deducted currently over allowable amortization (if these costs had been capitalized) was more than 65 percent of the taxpayer's "net income" from oil, mineral and geothermal properties, but with exceptions
	■ Tax-exempt interest from private activity bonds issued after August 7, 1986
	■ Excess of percentage depletion deduction for mineral reserves over their adjusted basis
	■ For Tax Year 1988, excess of reserves for losses on bad debts of financial institutions deducted, over the allowable deduction if the institution had maintained a reserve that reflected actual bad debt losses
<b>MINUS:</b>	<b>Alternative tax net operating loss deduction</b>
<b>EQUALS:</b>	<b>Alternative minimum taxable income</b>

<sup>1</sup> Includes interest attributable to the amount in excess of the remaining balance of a mortgage loan, when that loan had been refinanced for an amount greater than the remaining balance, and when that excess amount was not used for home improvements. Also includes the difference between the deduction for "investment interest expense" for regular tax purposes and the amount refigured for alternative minimum tax purposes.

# Individual Income Tax Rates and Tax Shares, 1988-1989

Figure J

## Selected Data from Alternative Minimum Tax Computation, by Size of Adjusted Gross Income, Tax 1988 and 1989

(Money amounts are in thousands of dollars)

Year and size of adjusted gross income	Total adjustments		Total tax preferences		Alternative minimum tax	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)
1988						
All returns.....	4,124,163	77,101,827	997,388	4,553,946	113,562	1,027,884
No adjusted gross income.....	54,746	3,062,334	16,588	168,538	5,940	108,122
\$1 under \$10,000.....	150,011	871,614	32,719	31,368	28	714
\$10,000 under \$20,000.....	152,823	1,264,917	43,709	30,680	2,703	16,969
\$20,000 under \$30,000.....	194,281	2,038,322	46,676	86,665	4,419	23,540
\$30,000 under \$40,000.....	272,428	2,749,979	80,053	96,151	7,956	28,482
\$40,000 under \$50,000.....	457,601	4,739,918	79,593	85,725	5,572	25,183
\$50,000 under \$75,000.....	1,034,590	12,384,741	215,248	312,931	14,120	37,664
\$75,000 under \$100,000.....	588,353	8,205,843	128,712	203,108	14,883	54,421
\$100,000 under \$200,000.....	733,235	14,464,516	180,414	707,602	33,887	189,433
\$200,000 or more.....	486,092	27,319,640	174,217	2,831,176	24,052	543,357
1989						
All returns.....	4,182,985	77,150,223	805,755	4,527,451	117,483	830,994
No adjusted gross income.....	46,234	1,552,897	12,623	145,976	4,820	66,722
\$1 under \$10,000.....	65,094	351,837	25,714	53,564	10,145	6,082
\$10,000 under \$20,000.....	58,507	444,697	31,830	49,003	2,386	12,307
\$20,000 under \$30,000.....	107,595	965,462	39,220	143,308	2,688	12,685
\$30,000 under \$40,000.....	253,013	2,128,507	51,797	49,825	4,284	9,070
\$40,000 under \$50,000.....	487,387	5,036,634	63,307	88,714	4,216	20,275
\$50,000 under \$75,000.....	1,127,399	13,435,905	160,560	244,817	19,138	54,460
\$75,000 under \$100,000.....	674,457	9,390,261	94,903	260,104	15,461	39,056
\$100,000 under \$200,000.....	825,895	15,641,363	163,066	509,701	30,316	149,962
\$200,000 or more.....	537,401	28,202,683	162,736	2,982,437	24,029	460,375

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

*Statistics of Income—Individual Income Tax Returns for 1988 and 1989.*

**Adjusted Gross Income.**—Adjusted gross income (AGI) is computed by subtracting statutory adjustments (primarily business, investment or employee-related deductions, such as payments to a Keogh self-employed retirement plan and contributions to an Individual Retirement Arrangement, or IRA) from total income recognized under the tax code. Total income includes, for example, salaries and wages, taxable interest, dividends and the net amounts from sources such as business income, rents and royalties, and sales of capital or other assets.

**Marginal Tax Rate.**—For purposes of this article, marginal tax rate is defined as follows: (1) if a return showed an amount of taxable income below or equal to the maximum amount to which the 5 percent surtax was applied, then the marginal tax rate of the return is the highest rate at which any amount of taxable income reported on the return was taxed; or (2) if a return had an amount of taxable income in excess of the amount to which the 5 percent surtax applied, then the return was defined to have a 28 percent marginal tax rate. For tabulation purposes, returns of dependents with a Form 8615 attached are shown separately when the use of this form resulted in the taxation of the dependent's income as if it were that of his or her parents. For 1989, returns of parents choosing to report the interest and dividend

income of their dependents under age 14 on their own (i.e., the parent's) return using Form 8814, are shown separately when the child's income generated the only tax liability on the parent's return. The alternative minimum tax is not included when marginal tax rates are determined (for purposes of this article). Credits, such as the earned income credit, are also excluded from consideration. For a more general discussion of marginal tax rates, see the appendix, below.

**Modified Taxable Income.**—Each year, a small number of returns for prior tax years are filed during the calendar year in which the *Statistics of Income* sample for the current tax year is being selected. A few of these returns are selected for the sample and act as proxies for returns for the current tax year that will be filed during a later year. The tax on these returns is based on a previous year's tax law (which may reflect different tax rates and income concepts). For purposes of the statistics, taxable income is adjusted to equal an amount necessary to generate, using current-year rates ("modified taxable income" in the statistics), the tax actually shown on the return. This estimated amount is used to represent the taxable income for these returns.

**Taxable Income.**—Taxable income was AGI less the sum of personal exemption amounts and either the standard deductions for non-itemizers or total itemized deductions for all others.

# Individual Income Tax Rates and Tax Shares, 1988-1989

**Taxable Returns.**—For 1988 and 1989, a return was considered “taxable” if it showed an amount of income tax after tax credits or if it had “total income tax” (which included the alternative minimum tax). The following additional taxes were not recognized in determining taxable returns: self-employment tax; tax on recapture of prior-years’ investment or low-income housing credits; social security tax on certain tip income; and the penalty tax on premature distributions from, and excess contributions to, Individual Retirement Arrangements (IRA’s).

**Tax Generated.**—This was the tax calculated from the tax rate schedules (or look-up tax tables) on taxable income. It did not take into account the alternative minimum tax or the effect of tax credits. For most returns (those without a tax on lump-sum distributions from qualified retirement plans or a tax on accumulation distributions of trusts), tax generated equaled income tax before credits.

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

## Data Sources and Limitations

The statistics for 1988 and 1989 are based on samples of individual income tax returns (Forms 1040, 1040A and 1040EZ) filed with the Internal Revenue Service in 1989 (for Tax Year 1988) and in 1990 (for Tax Year 1989). Returns in the samples were stratified based on the larger of “total income” (or “total loss”); size of business plus farm receipts; the presence or absence of Schedule C, *Profit (or Loss) from Business or Profession*; Schedule F, *Farm Income and Expenses*; Form 4835, *Farm Rental Income and Expenses*; Form 1116, *Computation of Foreign Tax Credit—Individual, Fiduciary, or Nonresident Alien Individual*; and Form 2555, *Foreign Earned Income*. Returns were selected at rates ranging from 0.02 percent (for the more numerous, smaller-sized, homogeneous returns) to 100 percent (for the relatively few

returns with large income amounts), resulting in 110,634 returns selected to represent the 109,708,280 returns filed for Tax Year 1988, and 110,840 returns to represent the 112,135,673 filed for Tax Year 1989. Since the data presented in this article are estimates based on a sample, they are subject to sampling, as well as nonsampling, error. To make proper use of the statistical data provided, the magnitude of the potential sampling error needs to be known. (For information about the samples used for the other tax years referred to in the statistics, for example, in Tables 5 through 8, see the *Statistics of Income* reports for these years.)

Figure K presents approximate upper level 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. Since upper level coefficients of variation represent the “worst case,” they are strongly influenced by the choice of sampling fractions in the stratum with the lowest fraction sampled. The apparent large improvement in reliability of the data for 1989 reflects decisions about the size of this fraction relative to the sampling fractions for other strata, and is, therefore, not significant. For a number of returns other than those shown, the corresponding CV’s can be estimated by interpolation. The reliability of estimates based on samples, the use of coefficients of variation for evaluating the precision of sample estimates and nonsampling error considerations are discussed in the methodological appendix at the back of this issue of the *Bulletin*.

Note that the estimates in Tables 5 through 8 were not derived by an actual ranking of the returns in the *Statistics of Income* sample, but were estimated instead, using a mathematical technique called “osculatory interpolation,” applied to tabulations of aggregated data [14]. The technique attempts to estimate the distribution of returns within each AGI size class in a table, thus allowing estimation of values by percentile.

**Figure K**

### Coefficients of Variation for Frequency Estimates, 1988 and 1989

Estimated coefficient of variation	Estimated number of returns	
	1988	1989
0.01.....	28,566,000	17,228,500
0.02.....	7,141,500	4,307,100
0.05.....	1,142,600	689,100
0.10.....	285,700	172,300
0.20.....	71,400	43,100
0.30.....	31,700	19,100
0.35.....	23,300	14,100
0.50.....	11,400	6,900

## Notes and References

- [1] For further information on the Tax Reform Act of 1986, see U.S. Congress, Joint Committee on Taxation, *General Explanation of the Tax Reform Act of 1986* (H.R. 3838, 99th Congress, Public Law 99-514), May 4, 1987.
- [2] For details on the computation of the adjusted gross income under the 1979 concept for each year, see *Statistics of Income—Individual Income Tax Returns* for the year concerned.
- [3] The surtax was eliminated by the Revenue Reconciliation Act of 1990, beginning with Tax Year 1991, in favor of a new 31 percent tax bracket, a phase-out of

## Individual Income Tax Rates and Tax Shares, 1988-1989

the personal exemption amounts for taxpayers and dependents with income above certain thresholds and a reduction in the total itemized deductions allowed taxpayers with adjusted gross income above certain thresholds.

- [4] A source of income is defined as "passive" if it is from a trade or business in which the taxpayer does not "materially participate," or if it is from a rental real estate activity. A taxpayer "materially participates" in an activity if he or she is involved on a regular, continuous and substantial basis in the operations of the activity.
- [5] The 1986 Act made an exception to the passive loss general rule for rental real estate activities. For taxpayers with a (modified) adjusted gross income of \$100,000 or less, up to \$25,000 in rental real estate losses was allowed to offset "active," i.e., non-passive, income. (For married taxpayers filing separately and living separately for the entire year, the adjusted gross income limit was reduced to \$50,000 and the losses allowed reduced to \$12,500. Married taxpayers filing separately and living together for any part of the year were not eligible for the exception.) For taxpayers with adjusted gross income in excess of \$100,000, this \$25,000 exception was reduced by 50 percent of the income in excess of \$100,000; this effectively eliminated the \$25,000 exception for taxpayers with (modified) adjusted gross income of \$150,000 or more. All rental real estate losses in excess of the exception amount were subject to the same limitations on their deductibility as other passive losses.

For more information on limitations on the deductibility of passive losses, see Hostetter, Susan and Bates, Jeffrey, "Individual Income Tax Returns, Preliminary Data, 1987" *Statistics of Income Bulletin*, Spring 1989, Volume 8, Number 4; Middough, Joseph H., "Partnership Returns, 1987," *Statistics of Income Bulletin*, Volume 9, Number 3; Nelson, Susan and Petska, Tom, "Partnerships, Passive Losses, and Tax Reform," *Statistics of Income Bulletin*, Winter 1989-1990, Volume 9, Number 3; and Petska, Tom and Nelson, Susan, "Partnerships and Tax Shelters: An Analysis of the Impact of the 1986 Tax Reform," *1990 Proceedings of the American Statistical Association, Section on Survey Research Methods*, 1991; and Petska, Tom, "Further Examination of Tax Shelters in the Post-Reform World," *1991 Proceedings of the American Statistical Association, Section*

*on Survey Research Methods*, 1992, and "Partnerships, Partners, and Tax Shelters After Tax Reform, 1987-1989," *Statistics of Income Bulletin*, Summer 1992, Volume 12, Number 1.

- [6] The Alaska Permanent Fund was created to return some of the royalties generated by the Alaska pipeline to the people of the State. Alaska Permanent Fund dividends are distributions from this fund to Alaskan residents.
- [7] "Backup withholding" is the system of withholding tax at a rate of 20 percent on interest, dividend or bond redemption income, or income from the sale of securities by the payer if the payee has not provided him or her with a correct taxpayer identification number, or certified to him or her that the payee is not subject to such withholding. Backup withholding may also occur if the payer is requested by the Internal Revenue Service to begin such withholding because the payee has persistently failed to properly report and pay taxes on interest or dividends.
- [8] For more information, see Hostetter, Susan and Bates, Jeffrey, "Individual Income Tax Returns, Preliminary Data, 1987," *op. cit.*
- [9] Details on how adjusted gross income was recalculated to match the 1979 concept for each year may be found in *Statistics of Income—Individual Income Tax Returns* for the year concerned.
- [10] The 1988 and 1989 tax rate schedules were published in the *Instructions for Preparing Form 1040*; they are reproduced in *Statistics of Income—Individual Income Tax Returns* for 1988 and 1989.
- [11] A taxpayer who did not remarry after the death of a spouse and who had a dependent living with him or her was allowed to use "qualifying widow(er) with dependent child" as his or her filing status if his or her spouse had died within 2 years prior to the tax year for which he or she was filing. Those who qualified for "qualifying widow(er) with dependent child" status could use the married filing jointly tax rates when calculating their tax.
- [12] Figure L, below, demonstrates the slightly different amounts of tax derived from tax rate schedules and tax tables for a single taxpayer with an AGI of \$25,000, one exemption and taking the standard deduction.

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[13] Total income tax did not include certain other taxes reported on the individual income tax return, such as self-employment tax (social security tax for self-employed persons), the social security tax on certain tip income, tax from recapture of prior-year investment or low-income housing credits, and tax on an Individual Retirement Arrangement (IRA) or a qualified retirement plan. These taxes were included in "total tax liability," which is also shown in *Statistics of Income—Individual Income Tax Returns*, for 1988 and 1989. For Tax Year 1988, total tax liability equaled \$430.7 billion and was reported on 89,001,467 returns. For Tax Year 1989, total tax liability equaled \$451.9 billion and was reported on 91,065,351 returns.

[14] For an explanation of the osculatory interpolation technique, see Oh, H. Lock, "Osculatory Interpolation with a Monotonicity Constraint," 1977 *Proceedings of the American Statistical Association, Section on Statistical Computing*, 1978.

## Appendix: General Definition of Marginal Tax Rate

When tax is calculated, different portions of taxable income may be taxed at different rates. To repeat the example presented earlier in this article, the first \$17,850 of taxable income on a single person's return was taxed at 15 percent for 1988; the first \$18,550 was taxed at that rate for 1989. If the taxpayer had more than \$17,850 in 1988 taxable income (\$18,550 for 1989), then the next \$25,300 (\$26,350 for 1989) was taxed at 28 percent. In general, the tax rate that applied to the last dollar of income earned (given certain assumptions about the order in which income-earning opportunities were undertaken) is called the "marginal tax rate" for that return.

The definition of marginal tax rate used in this article is not the only one possible. In general, the calculation of a marginal tax rate for a given return depends upon: (1) the type(s) of income (e.g., salaries and wages, or investment income on a dependent's return) reported on the return, which affects the type of tax computation used (e.g., use of the tax tables or tax rate schedules; or of Form 8615, used for dependents under age 14 with over \$1,000 in investment income; or of Form 6251, used to compute the alternative minimum tax); and (2) the order in which income was assumed to be "stacked." In cases where one considers how to rank or "stack" different types of income, some of which may be only partially subject to tax or which may be taxed at different rates, it is necessary to make some assumptions about which dollar was earned "last" in order to calculate the tax rate on the income earned from having taken advantage of the marginal or "last" economic opportunity. This calculation of the marginal rate may be complicated further by the alternative minimum tax. The addition of alternative minimum tax liability generated by taking advantage of the marginal income-earning opportunity over the "regular" tax generated by income from this opportunity may increase the effective marginal rate. Furthermore, the use of a credit generated by taking advantage of an opportunity may reduce the marginal tax rate.

Rather than adopt a particular set of beliefs about the order in which taxpayers undertake income-earning activities, income was ranked or stacked for *Statistics of Income* in a behavior-neutral fashion, by considering the amount taxed at the highest rate to contain the last dollar earned, with the exception of amounts over the ceiling for the 5 percent surtax. Returns which have taxable incomes within the ranges subject to the 5 percent surtax are considered to have a 33 percent marginal tax rate (28 percent plus the 5 percent surtax). Returns which have taxable incomes in excess of the largest amount on which

**Figure L**

### Example of the Income Tax Calculation for a Single Taxpayer Who Used the Standard Deduction, Tax Years 1988 and 1989

[Money amounts are in whole dollars]

Item	Amount
<b>1988</b>	
Adjusted gross income .....	25,000.00
Less: Exemption amount.....	1,950.00
Standard deduction amount.....	3,000.00
Equals: Taxable income.....	20,050.00
Tax based on 1988 tax rates for single taxpayers:	
First \$17,850 of taxable income taxed at 15 percent..	2,677.50
Next \$2,200 of taxable income taxed at 28 percent...	616.00
Tax on \$20,075 of taxable income based on tax rate schedule for single taxpayers.....	3,293.50
Tax based on 1988 tax table:	
Tax on \$20,055 of taxable income from the 1988 tax table.....	3,301.00
Difference.....	7.50
<b>1989</b>	
Adjusted gross income .....	25,000.00
Less: Exemption amount.....	2,000.00
Standard deduction amount.....	3,100.00
Equals: Taxable income.....	19,900.00
Tax based on 1989 tax rates for single taxpayers:	
First \$18,550 of taxable income taxed at 15 percent..	2,782.50
Next \$1,350 of taxable income taxed at 28 percent...	378.00
Tax on \$19,900 of taxable income based on tax rate schedule for single taxpayers.....	3,160.50
Tax based on 1989 tax table:	
Tax on \$20,560 of taxable income from the 1989 tax table.....	3,168.00
Difference.....	7.50

## Individual Income Tax Rates and Tax Shares, 1988-1989

the 5 percent surtax was applied were considered to have a 28 percent marginal rate. This treatment is consistent with the analytical uses of marginal rates in testing hypotheses about the behavior of economic agents when faced with particular marginal rates. To the extent that the taxpayer can correctly predict that his or her income will be suffi-

ciently large to place him or her above the top of the 33 percent bracket, the decision to undertake an opportunity where the taxpayer expects to earn income beyond the point where income will be subject to the 5 percent surtax is affected by the 28 percent rate, not the 33 percent rate.

**Table 1.—Returns With Modified Taxable Income: Tax Classified by Both the Marginal Rate and Each Rate at Which Tax Was Computed, Tax Year 1988**

(All figures are estimates based on samples—money amounts are in thousands of dollars)

Tax rate classes	All returns											
	Classified by the highest marginal rate at which tax was computed									Classified by each rate at which tax was computed		
	Number of returns	Adjusted gross income	Modified taxable income		Tax generated		Income tax after credits			Number of returns	Income taxed at rate	Income tax generated at rate
			At all rates	At marginal rate	At all rates	At marginal rate	Total	As a percent of				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
							Adjusted gross income	Modified taxable income				
<b>All marginal rates</b>	<b>90,186,916</b>	<b>3,031,603,960</b>	<b>2,073,889,949</b>	<b>1,331,100,678</b>	<b>417,502,019</b>	<b>292,246,037</b>	<b>411,769,989</b>	<b>13.6</b>	<b>19.9</b>	<b>90,186,916</b>	<b>2,073,889,949</b>	<b>417,531,969</b>
15 percent	63,901,793	1,209,022,798	647,741,725	647,741,725	97,130,916	97,161,259	93,256,178	7.7	14.4	89,434,924	1,283,857,598	192,578,640
28 percent	22,226,008	1,095,564,463	809,363,401	248,560,485	153,717,377	69,596,936	152,676,114	13.9	18.9	25,151,706	355,233,883	99,465,487
33 percent <sup>1</sup>	2,925,698	321,744,304	256,632,026	74,850,886	65,835,164	24,700,793	65,587,855	20.4	25.6	2,925,698	74,850,886	24,700,793
28 percent <sup>1</sup>	748,828	404,019,505	359,094,166	359,094,166	100,546,365	100,546,367	99,979,508	24.7	27.8	748,828	359,094,166	100,546,366
Form 8615	384,588	1,252,890	1,058,631	853,416	272,197	240,683	270,332	21.6	25.5	384,588	853,416	240,683

Tax rate classes	Joint returns and returns of surviving spouses											
	Classified by the highest marginal rate at which tax was computed									Classified by each rate at which tax was computed		
	Number of returns	Adjusted gross income	Modified taxable income		Tax generated		Income tax after credits			Number of returns	Income taxed at rate	Income tax generated at rate
			At all rates	At marginal rate	At all rates	At marginal rate	Total	As a percent of				
(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	
							Adjusted gross income	Modified taxable income				
<b>All marginal rates</b>	<b>42,444,543</b>	<b>2,110,432,061</b>	<b>1,455,060,353</b>	<b>917,330,358</b>	<b>300,095,144</b>	<b>208,974,391</b>	<b>296,593,545</b>	<b>14.1</b>	<b>20.4</b>	<b>42,444,543</b>	<b>1,455,060,353</b>	<b>300,107,587</b>
15 percent	26,549,433	738,575,331	390,946,238	390,946,238	58,629,218	58,641,936	56,670,497	7.7	14.5	41,916,260	848,109,333	127,216,400
28 percent	13,455,394	799,311,614	579,516,783	179,218,819	110,226,418	50,181,269	109,334,042	13.7	18.9	15,366,827	259,785,719	72,740,001
33 percent <sup>1</sup>	1,911,433	248,561,033	196,330,070	58,898,040	50,524,675	19,436,353	50,258,208	20.2	25.6	1,911,433	58,898,040	19,436,353
28 percent <sup>1</sup>	528,283	323,984,083	288,267,262	288,267,262	80,714,833	80,714,833	80,330,798	24.8	27.9	528,283	288,267,262	80,714,833
Form 8615	—	—	—	—	—	—	—	—	—	—	—	—

Tax rate classes	Separate returns of husbands and wives											
	Classified by the highest marginal rate at which tax was computed									Classified by each rate at which tax was computed		
	Number of returns	Adjusted gross income	Modified taxable income		Tax generated		Income tax after credits			Number of returns	Income taxed at rate	Income tax generated at rate
			At all rates	At marginal rate	At all rates	At marginal rate	Total	As a percent of				
(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)	
							Adjusted gross income	Modified taxable income				
<b>All marginal rates</b>	<b>1,450,838</b>	<b>39,108,739</b>	<b>28,380,274</b>	<b>18,037,595</b>	<b>6,077,314</b>	<b>4,293,241</b>	<b>5,990,288</b>	<b>15.3</b>	<b>21.1</b>	<b>1,450,838</b>	<b>28,380,274</b>	<b>6,078,097</b>
15 percent	865,263	11,671,365	6,448,152	6,448,152	966,794	967,223	936,291	8.0	14.5	1,439,843	14,995,032	2,249,255
28 percent	489,370	14,503,621	10,745,789	3,466,407	2,062,180	970,594	2,045,166	14.1	19.0	574,580	5,262,206	1,473,418
33 percent <sup>1</sup>	85,210	5,785,818	4,682,777	1,619,480	1,227,345	534,428	1,231,671	21.3	26.3	85,210	1,619,480	534,428
28 percent <sup>1</sup>	10,995	7,147,936	6,503,557	6,503,557	1,820,996	1,820,996	1,777,160	24.9	27.3	10,995	6,503,557	1,820,996
Form 8615	—	—	—	—	—	—	—	—	—	—	—	—

Footnote(s) at end of table

**Table 1.--Returns With Modified Taxable Income: Tax Classified by Both the Marginal Rate and Each Rate at Which Tax Was Computed, Tax Year 1988--Continued**

(All figures are estimates based on samples--money amounts are in thousands of dollars)

Returns of heads of households												
Tax rate classes	Classified by the highest marginal rate at which tax was computed									Classified by each rate at which tax was computed		
	Number of returns	Adjusted gross income	Modified taxable income		Tax generated		Income tax after credits			Number of returns	Income taxed at rate	Income tax generated at rate
			At all rates	At marginal rate	At all rates	At marginal rate	Total	As a percent of				
								Adjusted gross income	Modified taxable income			
(37)	(38)	(39)	(40)	(41)	(42)	(43)	(44)	(45)	(46)	(47)	(48)	
<b>All marginal rates</b>	<b>7,872,362</b>	<b>181,089,806</b>	<b>102,097,472</b>	<b>76,754,891</b>	<b>17,777,246</b>	<b>13,662,005</b>	<b>15,828,527</b>	<b>8.7</b>	<b>15.5</b>	<b>7,872,362</b>	<b>102,097,472</b>	<b>17,780,941</b>
15 percent	6,896,636	127,120,133	60,807,475	60,807,475	9,117,836 <sup>1</sup>	9,121,121	7,287,940	5.7	12.0	7,854,791	83,707,377	12,556,107
28 percent	893,448	39,281,255	28,757,656	7,404,244	5,275,800	2,073,188	5,178,816	13.2	18.0	958,155	9,846,922	2,757,138
33 percent <sup>1</sup>	64,707	6,756,681	5,501,319	1,512,150	1,414,924	499,010	1,413,849	20.9	25.7	64,707	1,512,150	499,010
28 percent <sup>1</sup>	17,572	7,931,738	7,031,022	7,031,022	1,968,686	1,968,686	1,947,922	24.6	27.7	17,572	7,031,022	1,968,686
Form 8615	—	—	—	—	—	—	—	—	—	—	—	—

Returns of single persons												
Tax rate classes	Classified by the highest marginal rate at which tax was computed									Classified by each rate at which tax was computed		
	Number of returns	Adjusted gross income	Modified taxable income		Tax generated		Income tax after credits			Number of returns	Income taxed at rate	Income tax generated at rate
			At all rates	At marginal rate	At all rates	At marginal rate	Total	As a percent of				
								Adjusted gross income	Modified taxable income			
(49)	(50)	(51)	(52)	(53)	(54)	(55)	(56)	(57)	(58)	(59)	(60)	
<b>All marginal rates</b>	<b>38,419,173</b>	<b>700,973,353</b>	<b>488,351,850</b>	<b>318,977,834</b>	<b>93,552,314</b>	<b>65,316,399</b>	<b>93,357,628</b>	<b>13.3</b>	<b>19.1</b>	<b>38,419,173</b>	<b>488,351,850</b>	<b>93,565,344</b>
15 percent	29,590,461	331,655,969	189,539,860	189,539,860	28,417,068	28,430,979	28,361,451	8.6	15.0	38,224,030	337,045,856	50,556,878
28 percent	7,387,796	242,467,974	190,343,173	58,471,015	36,152,978	16,371,884	36,118,090	14.9	19.0	8,252,145	80,339,035	22,494,930
33 percent <sup>1</sup>	864,349	60,640,772	50,117,860	12,821,217	12,668,221	4,231,002	12,684,127	20.9	25.3	864,349	12,821,217	4,231,002
28 percent <sup>1</sup>	191,979	64,955,749	57,292,326	57,292,326	16,041,850	16,041,851	15,923,628	24.5	27.8	191,979	57,292,326	16,041,851
Form 8615	384,588	1,252,890	1,058,631	853,416	272,197	240,683	270,332	21.6	25.5	384,588	853,416	240,683

<sup>1</sup> For 1988, the tax rate schedules contained only two basic rates: 15 percent and 28 percent. However, taxable income over certain levels were subject to an additional 5 percent tax, making for a temporary 33 percent marginal rate. The purpose of this was to phase out the benefit of the 15 percent rate and the benefit of the deduction for personal exemptions for taxpayers and dependents. After these benefits were phased out, the marginal tax rate reverted to 28 percent--at that point, the average tax rate was also 28 percent.  
NOTE: Detail may not add to total because of rounding.

# Individual Income Tax Rates and Tax Shares, 1988-1989

**Table 2.—Returns With Modified Taxable Income: Tax Generated by Rate and by Size of Adjusted Gross Income, Tax Year 1988**

(All figures are estimates based on samples—money amounts are in thousands of dollars)

Size of adjusted gross income	Number of returns	Taxable income	Modified taxable income	Tax generated at all rates	Tax generated at specified rate					
					15 Percent			28 Percent		
					Number of returns	Modified taxable income	Tax generated at rate	Number of returns	Modified taxable income	Tax generated at rate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
<b>Total</b> .....	<b>90,186,916</b>	<b>2,069,842,771</b>	<b>2,073,889,949</b>	<b>417,502,019</b>	<b>69,434,924</b>	<b>1,283,857,598</b>	<b>192,578,640</b>	<b>25,151,706</b>	<b>355,233,883</b>	<b>99,465,487</b>
Under \$2,000 .....	1,984,169	689,164	694,537	115,060	1,984,169	592,123	88,818	—	—	—
\$2,000 under \$4,000 .....	2,220,239	1,485,218	1,469,505	236,661	2,217,382	1,296,363	194,454	—	—	—
\$4,000 under \$6,000 .....	2,957,422	3,983,428	3,889,283	596,983	2,957,422	3,789,561	568,434	—	—	—
\$6,000 under \$8,000 .....	4,017,592	9,014,049	8,879,083	1,343,329	4,017,592	8,792,643	1,318,896	—	—	—
\$8,000 under \$10,000 .....	4,341,482	15,305,677	15,064,322	2,257,601	4,341,482	15,064,322	2,259,648	—	—	—
\$10,000 under \$12,000 .....	4,803,554	21,169,307	21,023,229	3,151,196	4,803,554	21,023,229	3,153,484	—	—	—
\$12,000 under \$14,000 .....	5,137,676	29,979,141	29,813,230	4,475,743	5,137,676	29,778,875	4,466,831	—	—	—
\$14,000 under \$16,000 .....	5,004,077	37,510,185	37,296,678	5,597,446	5,004,077	37,255,694	5,588,354	*2,858	*529	*148
\$16,000 under \$18,000 .....	4,683,976	42,095,127	41,942,815	6,289,178	4,683,976	41,942,815	6,291,422	—	—	—
\$18,000 under \$20,000 .....	4,271,295	45,602,105	45,467,472	6,828,909	4,271,295	45,391,904	6,808,786	36,416	22,909	6,414
\$20,000 under \$25,000 .....	9,191,617	123,752,465	123,529,176	18,717,951	9,191,617	122,063,835	18,309,575	1,206,904	1,399,253	391,791
\$25,000 under \$30,000 .....	7,485,237	130,581,872	130,422,850	20,767,799	7,485,237	121,139,285	18,170,893	2,360,587	9,283,565	2,599,398
\$30,000 under \$40,000 .....	11,920,216	274,610,363	274,516,460	44,922,812	11,920,216	245,677,633	36,851,645	3,497,940	28,829,119	8,072,153
\$40,000 under \$50,000 .....	8,253,967	255,121,323	255,167,430	43,351,067	8,253,967	216,158,106	32,423,716	5,335,597	38,887,290	10,888,441
\$50,000 under \$75,000 .....	8,897,248	383,088,855	383,206,995	74,858,442	8,897,248	251,380,069	37,707,010	8,468,028	127,026,446	35,567,405
\$75,000 under \$100,000 .....	2,518,150	159,574,120	159,700,887	35,827,287	2,515,993	71,662,195	10,749,329	2,496,937	79,187,740	22,172,567
\$100,000 under \$200,000 .....	1,775,165	183,252,229	183,890,978	47,882,840	1,645,361	47,706,307	7,155,946	1,640,564	66,184,441	18,531,643
\$200,000 under \$500,000 .....	547,349	134,674,808	137,444,027	38,550,404	106,144	3,129,088	469,363	105,387	4,395,532	1,230,749
\$500,000 under \$1,000,000 .....	114,575	67,559,945	68,453,870	19,166,602	451	11,763	1,764	427	14,977	4,193
\$1,000,000 or more .....	61,910	150,793,390	152,017,124	42,564,709	65	1,787	268	61	2,083	583

Size of adjusted gross income	Tax generated at specified rate—Continued								
	33 Percent <sup>1</sup>			28 Percent <sup>1</sup>			Form 8615		
	Number of returns	Modified taxable income	Tax generated at rate	Number of returns	Modified taxable income	Tax generated at rate	Number of returns	Modified taxable income	Tax generated at rate
(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	
<b>Total</b> .....	<b>2,925,698</b>	<b>74,850,886</b>	<b>24,700,793</b>	<b>748,828</b>	<b>359,094,166</b>	<b>100,546,366</b>	<b>384,588</b>	<b>853,416</b>	<b>240,683</b>
Under \$2,000 .....	—	—	—	—	—	—	231,466	102,414	26,490
\$2,000 under \$4,000 .....	—	—	—	—	—	—	97,158	173,142	42,970
\$4,000 under \$6,000 .....	—	—	—	—	—	—	28,576	99,722	29,879
\$6,000 under \$8,000 .....	—	—	—	—	—	—	*14,288	*86,440	*26,344
\$8,000 under \$10,000 .....	—	—	—	—	—	—	—	—	—
\$10,000 under \$12,000 .....	—	—	—	—	—	—	—	—	—
\$12,000 under \$14,000 .....	—	—	—	—	—	—	*2,858	*34,354	*11,336
\$14,000 under \$16,000 .....	—	—	—	—	—	—	*2,858	*40,455	*11,328
\$16,000 under \$18,000 .....	—	—	—	—	—	—	—	—	—
\$18,000 under \$20,000 .....	—	—	—	—	—	—	*2,858	*52,660	*15,748
\$20,000 under \$25,000 .....	—	—	—	—	—	—	*2,858	*66,088	*20,512
\$25,000 under \$30,000 .....	—	—	—	—	—	—	—	—	—
\$30,000 under \$40,000 .....	*1,381	*9,708	*3,204	—	—	—	—	—	—
\$40,000 under \$50,000 .....	57,113	122,034	40,271	—	—	—	—	—	—
\$50,000 under \$75,000 .....	602,996	4,800,479	1,584,158	—	—	—	—	—	—
\$75,000 under \$100,000 .....	667,305	8,543,379	2,819,315	*2,157	*210,274	*58,877	*1,198	*97,298	*27,237
\$100,000 under \$200,000 .....	1,492,315	51,897,954	17,126,325	129,509	18,056,313	5,055,768	*295	*45,963	*13,281
\$200,000 under \$500,000 .....	104,202	9,453,730	3,119,731	441,205	120,430,826	33,720,631	*166	*34,851	*9,935
\$500,000 under \$1,000,000 .....	343	20,941	6,911	114,124	68,406,190	19,153,733	—	—	—
\$1,000,000 or more .....	42	2,660	878	61,833	151,990,563	42,557,358	*11	*20,031	*5,622

<sup>1</sup> Estimate should be used with caution because of the small number of sample returns on which it is based.  
<sup>2</sup> For 1988, the tax rate schedules contained only two basic rates: 15 percent and 28 percent. However, taxable income over certain levels were subject to an additional 5 percent tax, making for a temporary 33 percent marginal rate. The purpose of this was to phase out the benefit of the 15 percent rate and the benefit of the deduction for personal exemptions for taxpayers and dependents. After these benefits were phased out, the marginal tax rate reverted to 28 percent—at that point, the average tax rate was also 28 percent.  
 NOTE: Detail may not add to total because of rounding.

**Table 3.—Returns with Modified Taxable Income: Tax Classified by Both the Marginal Rate and Each Rate at Which Tax Was Computed, Tax Year 1989.**

(All figures are estimates based on samples—money amounts are in thousands of dollars)

All returns												
Tax rate classes	Classified by the highest marginal rate at which tax was computed									Classified by each rate at which tax was computed		
	Number of returns	Adjusted gross income	Modified taxable income		Tax generated		Income tax after credits			Number of returns	Income taxed at rate	Income tax generated at rate
			At all rates	At marginal rate	At all rates	At marginal rate	Total	As a percentage of				
								Adjusted gross income	Modified taxable income			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
<b>All tax rates</b>	<b>92,211,584</b>	<b>3,199,434,253</b>	<b>2,177,433,197</b>	<b>1,367,570,697</b>	<b>436,431,173</b>	<b>299,240,398</b>	<b>432,028,341</b>	<b>13.5</b>	<b>19.8</b>	<b>92,211,584</b>	<b>2,177,433,197</b>	<b>436,461,520</b>
15 percent (Form 8814)	6,929	- 121.153	4,553	4,553	685	685	436	(1)	9.6	118,127	68,653	10,301
15 percent	64,823,867	1,263,193,018	676,341,280	676,319,020	101,420,116	101,447,853	98,407,588	7.8	14.5	91,472,466	1,365,027,058	204,754,059
28 percent	23,111,722	1,181,277,573	871,952,773	268,550,771	165,704,644	75,194,216	165,537,375	14.0	19.0	26,299,751	389,641,132	109,099,517
33 percent <sup>1</sup>	3,188,030	366,926,905	291,151,511	84,898,453	74,696,124	28,016,490	74,357,785	20.3	25.5	3,188,030	84,898,453	28,016,490
28 percent <sup>1</sup>	729,455	386,753,400	336,779,614	336,776,419	94,297,877	94,297,397	93,395,351	24.1	27.7	729,455	336,776,419	94,297,397
Form 8615	351,582	1,404,509	1,203,466	1,021,481	311,726	283,757	329,807	23.5	27.4	351,582	1,021,481	283,757

Joint returns and returns of surviving spouses												
Tax rate classes	Classified by the highest marginal rate at which tax was computed									Classified by each rate at which tax was computed		
	Number of returns	Adjusted gross income	Modified taxable income		Tax generated		Income tax after credits			Number of returns	Income taxed at rate	Income tax generated at rate
			At all rates	At marginal rate	At all rates	At marginal rate	Total	As a percentage of				
								Adjusted gross income	Modified taxable income			
(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	
<b>All tax rates</b>	<b>42,507,029</b>	<b>2,197,805,595</b>	<b>1,505,244,154</b>	<b>924,059,396</b>	<b>309,051,391</b>	<b>209,968,653</b>	<b>306,210,477</b>	<b>13.9</b>	<b>20.3</b>	<b>42,507,029</b>	<b>1,505,244,154</b>	<b>309,063,715</b>
15 percent (Form 8814)	4,057	- 118,663	3,678	3,678	554	554	418	(1)	11.4	100,042	60,886	9,137
15 percent	26,174,985	757,311,370	400,378,045	400,360,719	60,044,151	60,054,108	58,686,174	7.7	14.7	41,989,384	889,816,364	133,472,455
28 percent	13,726,201	851,346,479	615,740,799	190,886,939	117,176,645	53,448,343	116,565,660	13.7	18.9	15,814,399	282,558,844	79,116,476
33 percent <sup>1</sup>	2,088,198	282,381,788	221,898,298	65,587,821	57,007,911	21,643,981	56,778,254	20.1	25.6	2,088,198	65,587,821	21,643,981
28 percent <sup>1</sup>	513,587	306,884,621	267,223,335	267,220,239	74,822,131	74,821,667	74,179,971	24.2	27.8	513,587	267,220,239	74,821,667
Form 8615	—	—	—	—	—	—	—	—	—	—	—	—

Separate returns of husbands and wives												
Tax rate classes	Classified by the highest marginal rate at which tax was computed									Classified by each rate at which tax was computed		
	Number of returns	Adjusted gross income	Modified taxable income		Tax generated		Income tax after credits			Number of returns	Income taxed at rate	Income tax generated at rate
			At all rates	At marginal rate	At all rates	At marginal rate	Total	As a percentage of				
								Adjusted gross income	Modified taxable income			
(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)	
<b>All tax rates</b>	<b>1,786,665</b>	<b>48,094,237</b>	<b>34,019,136</b>	<b>22,291,877</b>	<b>7,238,969</b>	<b>5,207,507</b>	<b>7,152,710</b>	<b>14.9</b>	<b>21.0</b>	<b>1,786,665</b>	<b>34,019,136</b>	<b>7,239,961</b>
15 percent (Form 8814)	..	..	..	..	..	..	..	..	..	1,732	64	9
15 percent	1,154,104	16,035,832	8,794,966	8,794,965	1,318,710	1,319,244	1,325,152	8.3	15.1	1,776,035	18,419,354	2,762,903
28 percent	526,132	16,640,675	12,264,614	4,122,667	2,375,251	1,154,347	2,363,406	14.2	19.3	621,932	6,225,472	1,743,132
33 percent <sup>1</sup>	95,800	7,139,867	5,767,851	2,182,544	1,531,331	720,240	1,518,474	21.3	26.3	95,800	2,182,544	720,240
28 percent <sup>1</sup>	10,629	8,277,863	7,191,705	7,191,701	2,013,677	2,013,676	1,945,678	23.5	27.1	10,629	7,191,701	2,013,676
Form 8615	—	—	—	—	—	—	—	—	—	—	—	—

Footnote(s) at end of table.

**Table 3.—Returns with Modified Taxable Income: Tax Classified by Both the Marginal Rate and Each Rate at Which Tax Was Computed, Tax Year 1989—Continued**

(All figures are estimates based on samples—money amounts are in thousands of dollars)

Tax rate classes	Returns of heads of households											
	Classified by the highest marginal rate at which tax was computed									Classified by each rate at which tax was computed		
	Number of returns	Adjusted gross income	Modified taxable income		Tax generated		Income tax after credits			Number of returns	Income taxed at rate	Income tax generated at rate
			At all rates	At marginal rate	At all rates	At marginal rate	Total	As a percentage of				
(37)	(38)	(39)	(40)	(41)	(42)	(43)	(44)	(45)	(46)	(47)	(48)	
<b>All tax rates</b>	<b>8,214,230</b>	<b>193,863,734</b>	<b>108,717,603</b>	<b>80,551,103</b>	<b>18,855,144</b>	<b>14,295,404</b>	<b>17,103,047</b>	<b>8.8</b>	<b>15.7</b>	<b>8,214,230</b>	<b>108,717,603</b>	<b>18,858,560</b>
15 percent (Form 8814)	*1,511	*717	*756	756	*113	113	* <sup>(2)</sup>	* <sup>(2)</sup>	* <sup>(2)</sup>	14,992	7,584	1,137
15 percent	7,166,637	135,218,649	64,112,105	64,107,171	9,613,367	9,616,076	7,952,404	5.9	12.4	8,195,139	89,665,443	13,449,816
28 percent	962,393	43,559,660	32,079,300	8,162,393	5,873,039	2,285,470	5,824,096	13.4	18.2	1,028,502	10,763,793	3,013,862
33 percent <sup>1</sup>	66,109	7,326,560	5,747,083	1,502,517	1,470,696	495,831	1,461,454	19.9	25.4	66,109	1,502,517	495,831
28 percent <sup>1</sup>	17,580	7,758,148	6,778,359	6,778,265	1,897,929	1,897,914	1,865,092	24.0	27.5	17,580	6,778,265	1,897,914
Form 8615	—	—	—	—	—	—	—	—	—	—	—	—

Tax rate classes	Returns of single persons											
	Classified by the highest marginal rate at which tax was computed									Classified by each rate at which tax was computed		
	Number of returns	Adjusted gross income	Modified taxable income		Tax generated		Income tax after credits			Number of returns	Income taxed at rate	Income tax generated at rate
			At all rates	At marginal rate	At all rates	At marginal rate	Total	As a percentage of				
(49)	(50)	(51)	(52)	(53)	(54)	(55)	(56)	(57)	(58)	(59)	(60)	
<b>All tax rates</b>	<b>39,703,659</b>	<b>759,670,687</b>	<b>529,452,303</b>	<b>340,668,319</b>	<b>101,285,669</b>	<b>69,768,834</b>	<b>101,562,108</b>	<b>13.4</b>	<b>19.2</b>	<b>39,703,659</b>	<b>529,452,303</b>	<b>101,299,284</b>
15 percent (Form 8814)	**	**	**	**	**	**	**	**	**	*1,360	*118	*18
15 percent	**30,329,500	**354,623,962	**203,056,283	**203,056,283	**30,458,443	**30,458,443	30,443,877	*8.6	**15.0	39,511,908	367,125,897	55,068,885
28 percent	7,896,997	269,730,759	211,868,060	65,378,772	40,279,709	18,306,056	40,784,213	15.1	19.2	8,834,919	90,093,023	25,226,046
33 percent <sup>1</sup>	937,922	70,078,690	57,738,279	15,625,571	14,686,187	5,156,438	14,599,603	20.8	25.3	937,922	15,625,571	5,156,438
28 percent <sup>1</sup>	187,658	63,832,768	55,586,215	55,586,214	15,564,140	15,564,140	15,404,609	24.1	27.7	187,658	55,586,214	15,564,140
Form 8615	351,582	1,404,509	1,203,466	1,021,481	311,726	283,757	329,807	23.5	27.4	351,582	1,021,481	283,757

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

(1) Percentage not computed.

(2) Less than \$500.

(3) Less than 0.05 percent.

\*\* Data combined to avoid disclosure of information for specific taxpayers.

<sup>1</sup> For 1989, the tax rate schedules contained only two basic rates: 15 percent and 28 percent. However, taxable income over certain levels was subject to an additional 5 percent tax, creating a temporary 33 percent marginal rate. The purpose behind this was to phase out the benefit of the 15 percent rate and the benefit of the deduction for personal exemptions for taxpayers and dependents. After these benefits were phased out, the marginal tax rate returned to 28 percent; the average tax rate was also 28 percent.

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

# Individual Income Tax Rates and Tax Shares, 1988-1989

**Table 4.--Returns with Modified Taxable Income: Tax Generated by Rate and by Size of Adjusted Gross Income, Tax Year 1989**

(All figures are estimates based on samples—money amounts are in thousands of dollars)

Size of adjusted gross income	Number of returns with modified taxable income	Taxable income	Modified taxable income	Tax generated at all rates	Tax generated at specified rate					
					15 Percent (from Form 8814)			15 Percent		
					Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
<b>Total</b> .....	<b>92,211,584</b>	<b>2,173,345,607</b>	<b>2,177,433,197</b>	<b>436,431,173</b>	<b>118,127</b>	<b>68,653</b>	<b>10,301</b>	<b>91,472,466</b>	<b>1,365,027,058</b>	<b>204,754,059</b>
Under \$2,000 .....	1,901,787	657,726	658,799	106,413	1,605	254	38	1,900,181	590,036	88,505
\$2,000 under \$4,000 .....	2,148,866	1,398,650	1,403,211	226,075	1,515	758	114	2,147,351	1,242,386	186,358
\$4,000 under \$6,000 .....	2,789,622	3,477,958	3,473,458	531,678	1,507	1,914	288	2,788,115	3,376,808	506,521
\$6,000 under \$8,000 .....	4,000,530	8,319,790	8,300,702	1,259,760	—	—	—	4,000,530	8,163,861	1,224,579
\$8,000 under \$10,000 .....	3,988,253	13,660,363	13,636,822	2,057,196	—	—	—	3,988,253	13,542,126	2,031,319
\$10,000 under \$12,000 .....	5,002,772	21,653,514	21,632,159	3,246,164	913	457	68	5,001,859	21,587,189	3,238,078
\$12,000 under \$14,000 .....	5,255,305	30,064,596	30,045,504	4,507,842	—	—	—	5,255,305	30,015,547	4,562,332
\$14,000 under \$16,000 .....	4,833,886	35,498,553	35,478,845	5,319,472	1,358	1,152	174	4,832,527	35,477,693	5,321,654
\$16,000 under \$18,000 .....	4,673,038	41,875,045	41,842,930	6,274,210	—	—	—	4,673,038	41,842,930	6,276,440
\$18,000 under \$20,000 .....	4,379,375	46,542,828	46,520,586	6,980,469	3,014	1,878	282	4,379,375	46,484,570	6,972,685
\$20,000 under \$25,000 .....	9,215,631	122,363,183	122,347,800	18,436,508	6,964	3,227	485	9,215,631	121,669,950	18,250,493
\$25,000 under \$30,000 .....	7,560,712	131,904,440	131,912,855	20,914,418	2,866	1,201	180	7,559,204	123,271,452	18,490,718
\$30,000 under \$40,000 .....	12,062,779	278,320,160	278,350,440	45,652,790	13,106	7,732	1,159	12,062,779	248,309,841	37,246,476
\$40,000 under \$50,000 .....	8,566,122	263,107,712	263,170,933	44,319,430	15,611	8,836	1,325	8,566,122	225,897,799	33,884,670
\$50,000 under \$75,000 .....	9,906,175	424,581,970	424,699,354	81,575,413	31,668	17,433	2,616	9,906,175	289,014,823	43,352,223
\$75,000 under \$100,000 .....	3,055,245	193,047,596	193,148,326	42,800,332	12,060	9,006	1,350	3,054,116	90,269,179	13,540,377
\$100,000 under \$200,000 .....	2,086,857	212,184,703	212,528,061	54,629,213	16,972	8,177	1,227	1,975,757	59,181,617	8,877,243
\$200,000 under \$500,000 .....	611,757	146,390,252	148,944,159	41,780,219	7,330	5,606	841	165,358	5,067,640	760,146
\$500,000 under \$1,000,000 .....	115,396	66,881,786	67,568,223	18,918,235	1,102	686	103	670	18,132	2,720
\$1,000,000 or more .....	57,476	131,414,782	131,770,029	36,895,335	535	338	51	118	3,479	522

Size of adjusted gross income	Tax generated at specified rate—Continued											
	28 Percent			33 Percent <sup>1</sup>			28 Percent <sup>1</sup>			Form 8615		
	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate
(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	
<b>Total</b> .....	<b>26,299,751</b>	<b>389,641,132</b>	<b>109,099,517</b>	<b>3,188,030</b>	<b>84,898,453</b>	<b>28,016,490</b>	<b>729,455</b>	<b>336,776,419</b>	<b>94,297,397</b>	<b>351,582</b>	<b>1,021,481</b>	<b>283,757</b>
Under \$2,000 .....	—	—	—	—	—	—	—	—	—	177,016	68,510	18,349
\$2,000 under \$4,000 .....	—	—	—	—	—	—	—	—	—	97,226	160,068	40,411
\$4,000 under \$6,000 .....	—	—	—	—	—	—	—	—	—	24,421	94,736	26,109
\$6,000 under \$8,000 .....	—	—	—	—	—	—	—	—	—	23,791	136,841	37,004
\$8,000 under \$10,000 .....	—	—	—	—	—	—	—	—	—	12,056	94,695	27,826
\$10,000 under \$12,000 .....	—	—	—	—	—	—	—	—	—	4,521	44,514	10,387
\$12,000 under \$14,000 .....	—	—	—	—	—	—	—	—	—	2,443	29,957	8,003
\$14,000 under \$16,000 .....	—	—	—	—	—	—	—	—	—	—	—	—
\$16,000 under \$18,000 .....	—	—	—	—	—	—	—	—	—	—	—	—
\$18,000 under \$20,000 .....	7,387	6,521	1,826	—	—	—	—	—	—	1,507	27,618	7,734
\$20,000 under \$25,000 .....	797,290	612,086	171,384	—	—	—	—	—	—	3,014	62,537	18,247
\$25,000 under \$30,000 .....	2,510,248	8,600,978	2,408,274	—	—	—	—	—	—	1,507	39,224	17,681
\$30,000 under \$40,000 .....	3,683,792	29,981,192	8,394,734	—	—	—	—	—	—	1,724	51,674	14,491
\$40,000 under \$50,000 .....	4,934,874	37,241,512	10,427,623	18,025	22,786	7,519	—	—	—	—	—	—
\$50,000 under \$75,000 .....	9,208,855	130,986,955	36,676,347	616,015	4,680,144	1,544,447	—	—	—	—	—	—
\$75,000 under \$100,000 .....	3,024,109	93,572,571	26,200,320	658,360	9,118,340	3,009,052	—	—	—	2,258	179,231	49,235
\$100,000 under \$200,000 .....	1,968,566	81,526,620	22,827,453	1,734,887	56,327,497	18,588,074	111,028	15,470,698	4,331,795	72	13,453	3,426
\$200,000 under \$500,000 .....	163,889	7,085,047	1,983,813	160,099	14,707,565	4,853,496	446,371	122,078,301	34,181,924	—	—	—
\$500,000 under \$1,000,000 .....	636	23,329	6,532	644	42,121	13,900	114,701	67,473,877	18,892,686	25	18,424	4,855
\$1,000,000 or more .....	107	4,322	1,210	—	—	—	57,355	131,753,543	36,890,992	—	—	—

<sup>1</sup> Estimate should be used with caution because of the small number of sample returns on which it is based.

<sup>2</sup> Data combined to avoid disclosure of information for specific taxpayers.

<sup>3</sup> For 1989, the tax rate schedules contained only two basic rates: 15 percent and 28 percent. However, taxable income over certain levels was subject to an additional 5 percent tax, creating a temporary 33 percent marginal rate. The purpose behind this was to phase out the benefit of the 15 percent rate and the benefit of the deduction for personal exemptions for taxpayers and dependents. After these benefits were phased out, the marginal tax rate reverted to 28 percent; the average tax rate was also 28 percent.

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

# Individual Income Tax Rates and Tax Shares, 1988-1989

**Table 5.--Returns with Positive Adjusted Gross Income (AGI): Number of Returns, Shares of AGI and Total Income Tax, AGI Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Income Percentiles Based on the Definition of AGI for Each Year, Tax Years 1980-1989**

[All figures are estimates based on samples]

Item, tax year	Total	Adjusted gross income percentiles (cumulative)				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Number of returns: <sup>1</sup></b>						
1980.....	93,238,823	932,388	4,661,941	9,323,882	23,309,706	46,619,411
1981.....	94,586,878	945,869	4,729,344	9,458,688	23,646,719	47,293,439
1982.....	94,426,498	944,265	4,721,325	9,442,650	23,606,624	47,213,249
1983.....	95,330,713	953,307	4,766,536	9,533,071	23,832,678	47,665,356
1984.....	98,435,000	984,350	4,921,750	9,843,500	24,608,750	49,217,500
1985.....	100,625,484	1,006,255	5,031,274	10,062,548	25,156,371	50,312,742
1986.....	102,087,623	1,020,876	5,104,381	10,208,762	25,521,906	51,043,811
1987.....	106,154,761	1,061,548	5,307,738	10,615,476	26,538,690	53,077,380
1988.....	108,872,859	1,088,729	5,443,643	10,887,286	27,218,214	54,436,429
1989.....	111,312,721	1,113,127	5,565,636	11,131,272	27,828,181	55,656,361
<b>Adjusted gross income floor on percentiles (current dollars):</b>						
1980.....	N/A	80,580	43,792	35,070	23,606	12,936
1981.....	N/A	85,428	47,845	38,283	25,655	14,000
1982.....	N/A	89,388	49,284	39,676	27,027	14,539
1983.....	N/A	93,512	51,553	41,222	27,827	15,044
1984.....	N/A	100,889	55,423	43,956	29,360	15,998
1985.....	N/A	108,134	58,883	46,322	30,928	16,688
1986.....	N/A	118,818	62,377	48,656	32,242	17,302
1987.....	N/A	139,289	68,414	52,921	33,983	17,768
1988.....	N/A	157,136	72,735	55,437	35,398	18,367
1989.....	N/A	163,869	76,933	58,263	36,839	18,993
<b>Adjusted gross income floor on percentiles (1982-84 constant dollars): <sup>2</sup></b>						
1980.....	N/A	97,792	53,146	42,561	28,648	15,699
1981.....	N/A	93,979	52,634	42,115	28,223	15,401
1982.....	N/A	92,633	51,073	41,116	28,008	15,067
1983.....	N/A	93,886	51,759	40,387	27,938	15,104
1984.....	N/A	97,106	53,345	42,308	28,259	15,398
1985.....	N/A	100,500	54,726	43,052	28,744	15,510
1986.....	N/A	108,410	56,913	44,394	29,418	15,786
1987.....	N/A	122,616	60,225	46,586	29,915	15,641
1988.....	N/A	132,827	61,483	46,861	29,922	15,526
1989.....	N/A	131,613	61,866	46,846	29,567	15,168
<b>Adjusted gross income (millions of dollars): <sup>3</sup></b>						
1980.....	1,626,555	137,668	341,790	522,685	922,300	1,338,978
1981.....	1,791,116	148,722	372,171	572,719	1,015,006	1,473,267
1982.....	1,875,872	167,109	398,189	605,159	1,065,241	1,543,634
1983.....	1,969,600	182,895	428,162	645,661	1,127,019	1,625,287
1984.....	2,173,228	209,899	482,266	722,552	1,250,911	1,794,303
1985.....	2,343,989	235,095	531,372	791,481	1,358,860	1,939,351
1986.....	2,524,124	285,197	608,467	886,510	1,490,173	2,103,569
1987.....	2,813,728	346,635	722,221	1,038,221	1,709,389	2,373,869
1988.....	3,124,156	473,527	890,702	1,232,536	1,950,860	2,657,865
1989.....	3,298,858	468,079	918,421	1,286,539	2,054,478	2,805,235

Footnotes at end of Table 6.

# Individual Income Tax Rates and Tax Shares, 1988-1989

**Table 5.--Returns with Positive Adjusted Gross Income (AGI): Number of Returns, Shares of AGI and Total Income Tax, AGI Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Income Percentiles Based on the Definition of AGI for Each Year, Tax Years 1980-1989**  
**--Continued**

[All figures are estimates based on samples]

Item, tax year	Total	Adjusted gross income percentiles (cumulative)				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Total income tax (millions of dollars):<sup>4</sup></b>						
1980.....	250,240	48,270	92,773	123,799	182,966	232,662
1981.....	283,993	50,820	100,423	136,928	205,665	262,913
1982.....	277,470	53,528	100,958	135,394	201,466	257,160
1983.....	274,056	56,806	103,350	137,256	200,897	254,561
1984.....	301,504	65,707	116,512	154,142	222,515	279,574
1985.....	325,525	72,581	127,880	168,907	241,887	302,401
1986.....	366,979	94,491	156,240	200,703	278,976	343,289
1987.....	369,046	91,559	159,642	205,230	283,857	346,655
1988.....	412,761	113,841	188,303	236,411	321,297	389,145
1989.....	432,838	109,259	190,188	241,458	334,258	407,599
<b>Average tax rate (percentage):<sup>5</sup></b>						
1980.....	15.38	35.06	27.14	23.69	19.84	17.38
1981.....	15.86	34.17	26.98	23.91	20.26	17.85
1982.....	14.79	32.03	25.35	22.37	18.91	16.66
1983.....	13.91	31.06	24.14	21.26	17.83	15.66
1984.....	13.87	31.30	24.16	21.33	17.79	15.58
1985.....	13.89	30.87	24.07	21.34	17.80	15.59
1986.....	14.54	33.13	25.68	22.64	18.72	16.32
1987.....	13.12	26.41	22.10	19.77	16.61	14.60
1988.....	13.21	24.04	21.14	19.18	16.47	14.64
1989.....	13.12	23.34	20.71	18.77	16.27	14.53
<b>Adjusted gross income share (percentage):</b>						
1980.....	100.00	8.46	21.01	32.13	56.70	82.32
1981.....	100.00	8.30	20.78	31.98	56.67	82.25
1982.....	100.00	8.91	21.23	32.26	56.79	82.29
1983.....	100.00	9.29	21.74	32.78	57.22	82.52
1984.....	100.00	9.66	22.19	33.25	57.56	82.56
1985.....	100.00	10.03	22.67	33.77	57.97	82.74
1986.....	100.00	11.30	24.11	35.12	59.04	83.34
1987.....	100.00	12.32	25.67	36.90	60.75	84.37
1988.....	100.00	15.16	28.51	39.45	62.44	85.07
1989.....	100.00	14.19	27.84	39.00	62.28	85.04
<b>Total income tax share (percentage):</b>						
1980.....	100.00	19.29	37.07	49.47	73.12	92.98
1981.....	100.00	17.89	35.36	48.22	72.42	92.58
1982.....	100.00	19.29	36.39	48.80	72.61	92.68
1983.....	100.00	20.73	37.71	50.08	73.31	92.89
1984.....	100.00	21.79	38.64	51.12	73.80	92.73
1985.....	100.00	22.30	39.28	51.89	74.31	92.90
1986.....	100.00	25.75	42.57	54.69	76.02	93.54
1987.....	100.00	24.81	43.26	55.61	76.92	93.93
1988.....	100.00	27.58	45.62	57.28	77.84	94.28
1989.....	100.00	25.24	43.94	55.78	77.22	94.17

Footnotes at the end of Table 6.

# Individual Income Tax Rates and Tax Shares, 1988-1989

**Table 6.—Returns with Positive Adjusted Gross Income (AGI): Number of Returns, Shares of AGI and Total Income Tax, AGI Floor on Percentiles, and Average Tax Rates, by Selected Ascending Income Percentiles Based on the Definition of AGI for Each Year, Tax Years 1980-1989**

[All figures are estimates based on samples]

Item, tax year	Total	Adjusted gross income percentiles (cumulative)				
		Bottom 99 percent	Bottom 95 percent	Bottom 90 percent	Bottom 75 percent	Bottom 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Number of returns: <sup>1</sup></b>						
1980.....	93,238,823	932,388	4,661,941	9,323,882	23,309,706	46,619,411
1981.....	94,586,878	945,869	4,729,344	9,458,688	23,646,719	47,293,439
1982.....	94,426,498	944,265	4,721,325	9,442,650	23,606,624	47,213,249
1983.....	95,330,713	953,307	4,766,536	9,533,071	23,832,678	47,665,356
1984.....	98,435,000	984,350	4,921,750	9,843,500	24,608,750	49,217,500
1985.....	100,625,484	1,006,255	5,031,274	10,062,548	25,156,371	50,312,742
1986.....	102,087,623	1,020,876	5,104,381	10,208,762	25,521,906	51,043,811
1987.....	106,154,761	1,061,548	5,307,738	10,615,476	26,538,690	53,077,380
1988.....	108,872,859	1,088,729	5,443,643	10,887,286	27,218,214	54,436,429
1989.....	111,312,721	1,113,127	5,565,636	11,131,272	27,828,181	55,656,361
<b>Adjusted gross income (millions of dollars): <sup>2</sup></b>						
1980.....	1,626,555	1,488,886	1,284,765	1,103,869	704,255	287,576
1981.....	1,791,116	1,642,393	1,418,945	1,218,397	776,110	317,848
1982.....	1,875,872	1,708,762	1,477,682	1,270,713	810,630	332,238
1983.....	1,969,600	1,786,705	1,541,438	1,323,939	842,581	344,313
1984.....	2,173,228	1,963,329	1,690,962	1,450,676	922,317	378,925
1985.....	2,343,989	2,108,894	1,812,617	1,552,508	985,129	404,637
1986.....	2,524,124	2,238,927	1,915,657	1,637,614	1,033,951	420,555
1987.....	2,813,728	2,467,093	2,091,507	1,775,506	1,104,338	439,859
1988.....	3,124,156	2,650,629	2,233,454	1,891,620	1,173,296	466,291
1989.....	3,298,858	2,830,779	2,380,437	2,012,319	1,244,380	493,623
<b>Total income tax (millions of dollars): <sup>4</sup></b>						
1980.....	250,240	201,971	157,467	126,441	67,274	17,578
1981.....	283,993	233,173	183,570	147,065	78,329	21,080
1982.....	277,470	223,942	176,512	142,078	76,005	20,310
1983.....	274,056	217,250	170,706	138,799	73,159	19,495
1984.....	301,504	235,797	184,992	147,362	78,990	21,930
1985.....	325,525	252,944	197,645	156,618	83,638	23,124
1986.....	366,979	272,488	210,739	166,276	88,002	23,690
1987.....	369,046	277,488	209,404	163,816	85,189	22,391
1988.....	412,761	298,920	224,459	178,350	91,464	23,616
1989.....	432,838	323,579	242,650	191,380	98,580	25,239
<b>Average tax rate (percentage): <sup>5</sup></b>						
1980.....	15.38	13.57	12.26	11.45	9.55	6.11
1981.....	15.86	14.20	12.94	12.07	10.09	6.63
1982.....	14.79	13.11	11.95	11.18	9.38	6.11
1983.....	13.91	12.16	11.07	10.33	8.68	5.66
1984.....	13.87	12.01	10.94	10.16	8.56	5.79
1985.....	13.89	11.99	10.90	10.09	8.49	5.71
1986.....	14.54	12.17	11.00	10.15	8.51	5.63
1987.....	13.12	11.25	10.01	9.23	7.71	5.09
1988.....	13.21	11.28	10.05	9.32	7.80	5.06
1989.....	13.12	11.43	10.19	9.51	7.92	5.11
<b>Adjusted gross income share (percentage):</b>						
1980.....	100.00	91.54	78.99	67.87	43.30	17.68
1981.....	100.00	91.70	79.22	68.02	43.33	17.75
1982.....	100.00	91.09	78.77	67.74	43.21	17.71
1983.....	100.00	90.71	78.26	67.22	42.78	17.48
1984.....	100.00	90.34	77.81	66.75	42.44	17.44
1985.....	100.00	89.97	77.33	66.23	42.03	17.26
1986.....	100.00	88.70	75.89	64.88	40.96	16.66
1987.....	100.00	87.68	74.33	63.10	39.25	15.63
1988.....	100.00	84.84	71.49	60.55	37.56	14.93
1989.....	100.00	85.81	72.16	61.00	37.72	14.96
<b>Total income tax share (percentage):</b>						
1980.....	100.00	80.71	62.93	50.53	26.88	7.02
1981.....	100.00	82.11	64.64	51.78	27.58	7.42
1982.....	100.00	80.71	63.61	51.20	27.39	7.32
1983.....	100.00	79.27	62.29	49.92	26.69	7.11
1984.....	100.00	78.21	61.36	48.88	26.20	7.27
1985.....	100.00	77.70	60.72	48.11	25.69	7.10
1986.....	100.00	74.25	57.43	45.31	23.98	6.46
1987.....	100.00	75.19	56.74	44.39	23.08	6.07
1988.....	100.00	72.42	54.38	42.72	22.16	5.72
1989.....	100.00	74.76	56.06	44.22	22.78	5.83

N/A--Not applicable.

<sup>1</sup> The number of returns with negative adjusted gross income, i.e., returns with an adjusted gross deficit, and the corresponding amounts for adjusted gross deficit, were excluded from Tables 5 and 6. By excluding deficit returns, alternative minimum tax reported on some of these returns was also excluded. For Tax Year 1990, there were 5,329 returns with no adjusted gross income that reported alternative minimum tax totaling \$41.0 million.

<sup>2</sup> Constant dollar estimates were based on the Consumer Price Index (all items) 1982-1984=100, computed by the Bureau of Labor Statistics, U.S. Department of Labor, and published in the Economic Report of the President, February 1992.

<sup>3</sup> See footnote 1.

<sup>4</sup> Total income tax is the sum of income tax after credits and alternative minimum tax reported on returns that showed a positive amount for adjusted gross income. Therefore, total income tax excludes alternative minimum tax reported on some returns with a negative amount for adjusted gross income. See also footnote 1.

<sup>5</sup> Average tax rate was computed by dividing total income tax (see footnote 4) by (positive) adjusted gross income.

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

# Individual Income Tax Rates and Tax Shares, 1988-1989

**Table 7.--All Returns: Number of Returns, Shares of Adjusted Gross Income (AGI) and Total Income Tax, AGI Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Income Percentiles Based on the 1979 Definition of AGI, Tax Years 1985-1989**

(All figures are estimates based on samples)

Item, tax year	Total	Adjusted gross income percentiles (cumulative)				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Number of returns: <sup>1</sup></b>						
1985.....	101,661,000	1,016,610	5,083,050	10,166,100	25,415,250	50,830,500
1986.....	103,045,000	1,030,450	5,152,250	10,304,500	25,761,250	51,522,500
1987.....	106,994,000	1,069,940	5,349,700	10,699,400	26,748,500	53,497,000
1988.....	109,709,000	1,097,090	5,485,450	10,970,900	27,427,250	54,854,500
1989.....	112,133,000	1,121,330	5,606,650	11,213,300	28,033,250	56,066,500
<b>Adjusted gross income floor on percentiles (current whole dollars):</b>						
1985.....	N/A	124,962	63,126	48,664	31,753	16,951
1986.....	N/A	147,970	68,058	51,848	33,304	17,651
1987.....	N/A	144,820	68,990	52,926	33,994	17,760
1988.....	N/A	160,947	73,105	55,425	35,237	18,362
1989.....	N/A	169,460	77,318	58,211	36,652	18,959
<b>Adjusted gross income floor on percentiles (1982-84 constant whole dollars): <sup>2</sup></b>						
1985.....	N/A	116,140	58,669	45,228	29,511	15,754
1986.....	N/A	135,008	62,096	47,306	30,387	16,105
1987.....	N/A	127,485	60,732	46,591	29,925	15,634
1988.....	N/A	136,048	61,796	46,851	29,786	15,521
1989.....	N/A	136,669	62,357	46,947	29,560	15,290
<b>Adjusted gross income (millions of dollars):</b>						
1985.....	2,487,384	309,327	638,986	917,620	1,512,627	2,113,168
1986.....	2,753,688	429,393	800,547	1,103,026	1,741,211	2,377,981
1987.....	2,813,525	364,909	752,112	1,071,761	1,748,543	2,418,826
1988.....	3,106,549	485,818	914,122	1,259,567	1,980,128	2,691,199
1989.....	3,286,358	488,655	950,515	1,322,394	2,092,555	2,846,169
<b>Total income tax (millions of dollars): <sup>3</sup></b>						
1985.....	325,710	71,841	128,546	168,452	242,082	301,937
1986.....	367,287	93,581	156,695	200,026	278,686	342,511
1987.....	369,203	90,452	159,684	205,420	283,813	346,406
1988.....	412,870	113,095	187,454	236,702	321,338	388,843
1989.....	432,940	108,372	188,883	242,297	333,678	407,418
<b>Average tax rate (percentage): <sup>4</sup></b>						
1985.....	13.09	23.22	20.12	18.36	16.00	14.29
1986.....	13.34	21.79	19.57	18.13	16.01	14.40
1987.....	13.12	24.79	21.23	19.17	16.23	14.32
1988.....	13.29	23.28	20.51	18.79	16.23	14.45
1989.....	13.17	22.18	19.87	18.32	15.95	14.31
<b>Adjusted gross income share (percentage):</b>						
1985.....	100.00	12.44	25.69	36.89	60.81	84.96
1986.....	100.00	15.59	29.07	40.06	63.23	86.36
1987.....	100.00	12.97	26.73	38.09	62.15	85.97
1988.....	100.00	15.64	29.43	40.55	63.74	86.63
1989.....	100.00	14.87	28.92	40.24	63.67	86.61
<b>Total income tax share (percentage):</b>						
1985.....	100.00	22.06	39.47	51.72	74.32	92.70
1986.....	100.00	25.48	42.66	54.46	75.88	93.25
1987.....	100.00	24.50	43.25	55.64	76.87	93.83
1988.....	100.00	27.39	45.40	57.33	77.83	94.18
1989.....	100.00	25.03	43.63	55.97	77.07	94.11

Footnotes at the end of Table 8.

# Individual Income Tax Rates and Tax Shares, 1988-1989

**Table 8.--All Returns: Number of Returns, Shares of Adjusted Gross Income (AGI) and Total Income Tax, AGI Floor on Percentiles, and Average Tax Rates, by Selected Ascending Income Percentiles Based on the 1979 Definition of AGI, Tax Years 1985-1989**

[All figures are estimates based on samples]

Item, tax year	Total	Adjusted gross income percentiles (cumulative)				
		Bottom 99 percent	Bottom 95 percent	Bottom 90 percent	Bottom 75 percent	Bottom 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Number of returns: <sup>1</sup></b>						
1985.....	101,661,000	100,644,390	96,577,950	91,494,900	76,245,750	50,830,500
1986.....	103,045,000	102,014,550	97,892,750	92,740,500	77,283,750	51,522,500
1987.....	106,994,000	105,924,060	101,644,300	96,294,600	80,245,500	53,497,000
1988.....	109,709,000	108,611,910	104,223,550	98,738,100	82,281,750	54,854,500
1989.....	112,133,000	111,011,670	106,526,350	100,919,700	84,099,750	56,066,500
<b>Adjusted gross income (less deficit) (millions of dollars):</b>						
1985.....	2,487,384	2,178,056	1,848,397	1,569,763	974,756	374,215
1986.....	2,753,688	2,324,294	1,953,140	1,650,661	1,012,476	375,706
1987.....	2,813,525	2,448,616	2,061,413	1,741,764	1,064,982	394,699
1988.....	3,106,549	2,620,734	2,192,430	1,846,985	1,126,424	415,353
1989.....	3,286,358	2,797,670	2,335,810	1,963,931	1,193,770	440,156
<b>Total income tax (millions of dollars): <sup>2</sup></b>						
1985.....	325,710	253,870	197,165	157,259	83,629	23,774
1986.....	367,287	273,706	210,592	167,261	88,601	24,776
1987.....	369,203	278,751	209,519	163,783	85,390	22,797
1988.....	412,870	299,775	225,416	176,168	91,532	24,027
1989.....	432,940	324,566	244,055	190,641	99,260	25,520
<b>Average tax rate (percentage): <sup>4</sup></b>						
1985.....	13.09	11.66	10.67	10.02	8.58	6.35
1986.....	13.34	11.78	10.78	10.13	8.75	6.59
1987.....	13.12	11.38	10.16	9.40	8.02	5.78
1988.....	13.29	11.44	10.28	9.54	8.13	5.78
1989.....	13.17	11.60	10.45	9.71	8.31	5.80
<b>Adjusted gross income (less deficit) share (percentage):</b>						
1985.....	100.00	87.56	74.31	63.11	39.19	15.04
1986.....	100.00	84.41	70.93	59.94	36.77	13.64
1987.....	100.00	87.03	73.27	61.91	37.85	14.03
1988.....	100.00	84.36	70.57	59.45	36.26	13.37
1989.....	100.00	85.13	71.08	59.76	36.33	13.39
<b>Total income tax share (percentage):</b>						
1985.....	100.00	77.94	60.53	48.28	25.68	7.30
1986.....	100.00	74.52	57.34	45.54	24.12	6.75
1987.....	100.00	75.50	56.75	44.36	23.13	6.17
1988.....	100.00	72.61	54.60	42.67	22.17	5.82
1989.....	100.00	74.97	56.37	44.03	22.93	5.89

N/A--Not applicable.

<sup>1</sup> The number of returns in Tables 7 and 8 were processed in thousands and, therefore, reflect differences due to rounding. For this reason, they do not agree with totals in other Statistics of Income tables.

<sup>2</sup> See footnote 2 at the end of Table 6.

<sup>3</sup> Total income tax is the sum of income tax after credits and alternative minimum tax.

<sup>4</sup> Average tax rate was computed by dividing total income tax (see footnote 3) by adjusted gross income (less deficit).

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