

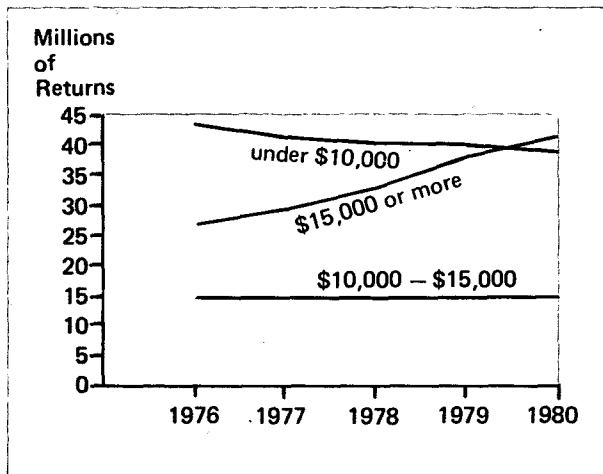
Early Highlights From 1980 Individual Income Tax Returns

By Peter Sailer and Noreen Hoffmeier*

Early estimates show almost 94.5 million individual income tax returns will be filed for Tax Year 1980, up 1.8 million returns (1.9 percent) from 1979. This year-to-year increase in the total number of returns filed is the smallest that has occurred since 1976.

Tax Year	Returns (thousands)	Change from Previous Year
1976	84,670	3.0%
1977	86,635	2.3
1978	89,772	3.6
1979	92,694	3.3
1980	94,454	1.9

While the trend for the total number of returns has been a steady increase since the mid-1970's, there were three different patterns for the distribution of these returns according to the size of income. The number of returns with adjusted gross income of less than \$10,000 has steadily declined, going from 43.8 million for 1976 to 38.5 million for 1980. Those with income falling between \$10,000 and \$15,000 have remained relatively constant, between 14 and 15 million returns during the 5-year period. In contrast, returns with income of \$15,000 or more have shown strong steady increases, rising from 26.3 million for 1976 to 41.4 million for 1980.



These changes are a reflection of several factors. Two of the more evident are tax law changes and economic conditions. Tax reduction acts for 1975, 1977, and 1979--especially those provisions increasing the income levels required for filing a return--affected the overall number of returns as well as the income distribution of the returns. In fact, for each of the

years, the number of returns filed increased at rates slower than those for the years in which there were no comparable law changes. Economic conditions--particularly rising incomes--have also played an important part; the largest change over the 5-year period occurred in the \$15,000 and over income class, as illustrated by the graph.

As would be expected, income increased overall on the 1980 income tax returns. Adjusted gross income rose to \$1.6 trillion, up 10.4 percent from 1979. This increase was slightly smaller than the 12.4 percent and 12.5 percent increases registered for 1978 and 1979, respectively. Salaries and wages, the major component of adjusted gross income, increased at about the same pace, rising 9.8 percent over 1979, up to almost \$1.4 trillion. Dividends (after the exclusion) showed a slightly higher increase, rising from \$33.5 billion for 1979 to \$38.5 billion for 1980.

Since 1976, the amount of interest reported has been rising, generally at an increasing rate.

Tax Year	Interest (billions)	Change from Previous Year
1976	\$ 48.6	11.9%
1977	54.6	12.4
1978	61.2	12.1
1979	73.9	20.7
1980	107.8	45.9

For 1980, however, the rate of increase more than doubled that for 1979; interest received rose from \$73.9 billion for 1979 to \$107.8 billion for 1980. Much of this increase can be attributed to rising interest rates and to the greater availability of high-interest investments.

As income increases, generally so does the amount of income tax. Total tax liability amounted to \$255.2 billion for 1980, a 15.6 percent increase over 1979. Tax liability has risen steadily over the last 5 years, although at varying rates of increase. During that time, however, tax liability has increased at a faster rate than adjusted gross income (AGI) in every year.

Tax Year	Change in AGI	Change in Tax
1976	11.2%	13.9%
1977	9.9	12.4
1978	12.4	17.7
1979	12.5	14.1
1980	10.4	15.6

Over the 5-year period, adjusted gross income increased by a substantial 53.5 percent; tax liability, however, rose by 74.7 percent. Some of this increase in tax liability can be attributed to the general (inflationary) rise in incomes, which has resulted in

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what is commonly referred to as "bracket creep." Higher self-employment (social security) taxes have also contributed, going from a maximum of just over \$1,200 per taxpayer per year for 1976 to a maximum of almost \$2,100 for 1980. These increases have occurred in the face of major tax law changes in several of those years designed to ease the burden on most taxpayers. (In fact, the one year for which there were virtually no new provisions aimed at most, or all, taxpayers--1978--shows the greatest disparity between the income and tax increases. [1]) Many of the provisions of the Economic Recovery Tax Act of 1981--tax rate decreases over 3 years, a reduction of the "marriage tax" penalty, indexing, and the like--are specifically aimed at this problem of tax liability rising faster than income.

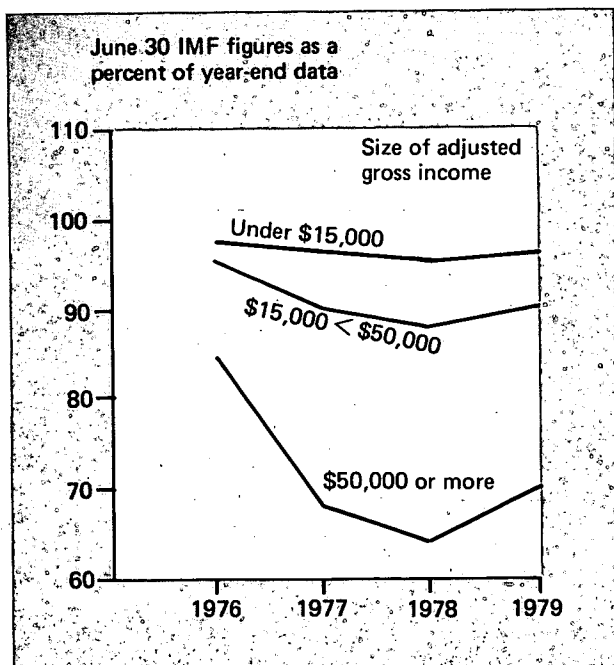
BASIC TABLE INFORMATION

The estimates for 1980 are shown in Table 1, along with comparable year-end Statistics of Income data for 1977-1979. Included in that table as well are June 30 data for 1977-80 from actual counts of returns processed through that date. A description of the methodology used to derive the 1980 estimates is given below. Table 2 illustrates the computations involved.

DATA SOURCES AND LIMITATIONS

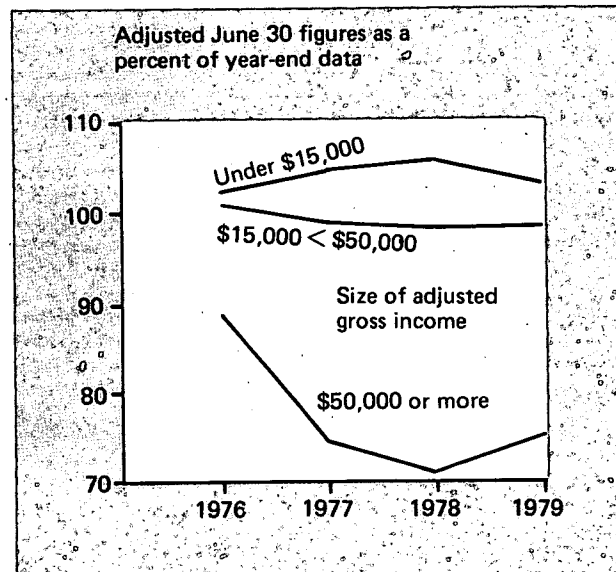
In recent years, returns processed through the revenue processing system and posted to the Internal Revenue Service's Individual Master File (IMF) by June 30 have represented from 92 to 97 percent of the final count published in Statistics of Income (SOI). While there has been a slight downward trend in this percentage in recent years, the pattern has been somewhat irregular. In any given year, tax law changes (which may switch large numbers of taxpayers from the "balance due" to the "refund" column), as well as changes in general economic conditions, can have a significant effect on the percentage of returns processed through June 30.

For the four previous years for which extensive June 30 data are available (Tax Years 1976 - 1979), the percentage of returns posted to the IMF by June 30, for three major income classes, looked as follows:



Clearly, an outside benchmark was needed to adjust the June 30 data. This was found in the projections prepared routinely for IRS workload estimating purposes [2]. The projected total number of returns for each of the next 10 years is obtained and updated annually by projecting growth trends in employment and pension beneficiaries, and adjusting the results for changes in filing requirements. When the June 30 IMF data become available, the most recent projection for a given tax year is usually about nine months old; nevertheless, for 1976-1979, the projected figure has been accurate within about one percent of the actual year-end total.

There are two basic reasons why the projections mentioned above cannot simply be applied across-the-board to inflate the June 30 figures. First (and most importantly), income on early returns tends to be lower than that on later returns. Second, the projected figure is for number of returns filed, not the number processed (i.e., it includes returns which cannot be processed because important information is lacking, and which are sent back to the taxpayer; when the taxpayer resubmits the return, it is counted a second time under number of returns filed). The figure below shows the relationship between the June 30 IMF data adjusted for projected total number of returns filed and the actual total number of returns processed as reported in Statistics of Income. As can be seen, the curves become quite flat for returns in the lower and middle income classes. The curve for the \$50,000 or more income class, however, still appears rather erratic.



Obviously, the overall trend towards later filing, as well as the sensitivity to tax law changes, are so much more pronounced in the upper income classes than in the population as a whole that adjustment to an accurate population total does not straighten out the trend line in that class. Two basic options remained for adjusting the June 30 data, once the preliminary adjustment factor had been applied. The ratios computed from the previous year's data could simply have been used, on the grounds that the year-to-year changes have not been so large as to invalidate the estimates thus derived. On the other hand, an attempt could have been made to come a little closer to the true figure by making a judgment as to which recent year is most like the year being estimated. Basically, this latter course was chosen. Thus, 1980, a year of both substantial inflation and no tax law change, should produce filing patterns similar to 1978. On the other hand, 1979, which had extensive tax law changes which tended to reduce the tax burden at the upper income level, should be more like 1977.

Table 2 details the methodology used in deriving the 1980 estimates published in Table 1. The beginning point was frequency counts obtained from the June 30, 1981, IMF tabulation (col. 1). Next these frequency counts were multiplied by the factor 1.1008 (col. 2), which was obtained by dividing the total projected number of returns to be filed for Tax Year 1980 (94,347,000) by the number obtained by June 30 (85,708,000). Then ratios obtained by comparing 1978 end-of-year data to June 30 IMF data for that year were applied, adjusted for the year-end projection (col. 3). Basically, this second adjustment resulted in a reduction in the number of returns in the lower income classes and an increase in the number in the upper income classes (col. 7).

In order to obtain an estimate of the amounts of income and tax expected by the end of the year, the starting point was the average amount per return of each of these items on returns processed by June 30 (col. 4). Then the average amounts on returns processed by June 30, 1979, for Tax Year 1978, were compared to the average amounts on all returns for the year (col. 5). As expected, the averages for most items in most income classes were higher at year-end than on June 30. Then the ratio of these averages was used to inflate the June 30 averages for Tax Year 1980 (col. 6). By multiplying the new average by the estimated frequency, an estimated year-end amount (col. 8) was obtained.

The results of these computations are shown in columns 7 and 8 of Table 2. In order to test the validity of the methodology, the same technique was applied to June 30 data for Tax Year 1979 (cols. 9 and 10), and the results were compared to the actual year-end figures (cols. 11 and 12). As explained previously, Tax Year 1977 data were used in arriving at the 1979 estimate, since both years were affected by tax reduction acts.

Overall, the results were quite encouraging. All estimates were within 3.1 percent of the year-end data. The total number of returns fell short by 0.7 percent of the year-end figure, reflecting a trend of the total returns projection [2] to get closer to the year-end figure (as opposed to a bit high in earlier years). Also, the amounts for some items in the top income class tended to be slightly low, reflecting a trend of the taxpayers at the top of this class to file later. On the assumption that these overall trends will continue, independent from temporary irregularities brought on by tax law changes, the ratios of the 1979 estimates to the actual year-end figures (cols. 13 and 14) were used to make a second adjustment to the 1980 data. The results of this second adjustment appear in columns 15 and 16 of Table 2, and were carried over to Table 1 as "best estimates" of year-end data for Tax Year 1980. Due to lack of consistent data for previous years, a second adjustment was made to dividends in adjusted gross income by using average rates of increase from previous years.

More detailed and updated statistics for Tax Year 1980 will be available in the Winter SOI Bulletin.

References

- [1] For a comprehensive study of effective tax rates, see Eugene Steuerle and Michael Hartzmark: OTA Paper 48, Individual Income Taxation 1947-79, Office of Tax Analysis, 1981.
- [2] Internal Revenue Service: Calendar Year Projections, United States, Regions and Service Center Areas, Document 6186-A, various years.

Individual Income Tax Returns, 1980

Table 1.--Individual Income Tax Returns for Tax Years 1977-1980: Comparison of Data From Returns Processed Through June 30 With Data From Returns Processed Through December 31

(June 30 data from Individual Master File; December 31 data from Statistics of Income--1980 data estimated)

[Numbers are in thousands--money amounts are in millions]

Item and size of adjusted gross income	1977				1978				1979				1980				
	IMF-June 30		SOI-Annual		IMF-June 30		SOI-Annual		IMF-June 30		SOI-Annual		IMF-June 30		SOI-Annual		
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	
Adjusted Gross Income (Less Deficit)																	
Total.....	81,264	1,029,590	86,635	1,158,492	82,379	1,114,855	89,772	1,302,447	86,264	1,285,715	92,694	1,465,395	85,708	1,360,034	94,454	1,618,070	
Under \$10,000.....	41,122	188,252	42,605	192,279	39,949	186,002	41,821	191,392	38,938	182,165	40,528	188,207	36,602	168,317	38,542	175,530	
\$10,000 under \$15,000..	13,622	168,738	14,299	177,144	13,301	164,583	14,242	176,531	13,593	168,107	14,433	178,809	13,401	165,738	14,527	180,400	
\$15,000 under \$50,000..	25,548	590,875	28,311	664,703	27,969	668,416	31,883	775,528	32,098	798,253	35,391	890,808	33,699	866,401	38,284	998,327	
\$50,000 or more.....	972	81,725	1,419	124,366	1,160	95,854	1,825	158,996	1,636	137,190	2,341	207,571	2,006	159,579	3,101	263,813	
Salaries and Wages																	
Total.....	72,834	880,141	77,346	969,404	74,229	960,569	80,278	1,090,292	77,651	1,101,698	83,201	1,229,251	76,986	1,174,074	84,249	1,349,532	
Under \$10,000.....	35,515	162,808	36,570	167,141	34,757	161,844	36,035	167,248	33,855	160,288	35,086	167,598	31,773	152,243	33,171	160,440	
\$10,000 under \$15,000..	12,489	148,913	13,033	154,814	12,140	144,819	12,891	153,005	12,269	146,079	12,976	154,228	11,971	142,865	12,896	145,714	
\$15,000 under \$50,000..	24,068	523,479	26,601	580,088	26,395	596,879	29,846	678,073	30,183	711,569	33,180	784,369	31,540	771,738	35,519	873,471	
\$50,000 or more.....	762	44,941	1,141	67,361	937	57,028	1,507	91,966	1,347	83,762	1,958	123,056	1,702	107,229	2,663	169,907	
Dividends in Adjusted Gross Income																	
Total.....			9,202	27,020	7,806	21,271	9,426	30,206			9,881	33,483	8,517	25,190	10,715	38,497	
Under \$10,000.....		Not available	2,489	2,674	2,119	2,323	2,394	2,854		Not available	2,217	2,508	1,797	2,030	2,083	2,583	
\$10,000 under \$15,000..			1,276	2,105	1,061	1,703	1,176	1,943				1,215	2,116	1,040	1,666	1,182	2,179
\$15,000 under \$50,000..			4,582	9,326	3,952	8,119	4,798	10,383				5,126	10,939	4,625	9,695	5,758	13,127
\$50,000 or more.....			855	12,916	675	9,125	1,057	15,026				1,323	17,920	1,055	11,799	1,692	20,608
Interest Received																	
Total.....	40,371	45,402	44,006	54,603	40,774	48,336	46,107	61,223	43,272	61,227	47,885	73,875	42,973	79,489	49,412	107,792	
Under \$10,000.....	14,372	13,152	15,020	14,505	13,589	12,961	14,654	14,771	13,138	13,650	14,057	15,335	12,163	14,858	13,444	17,281	
\$10,000 under \$15,000..	6,904	6,991	7,285	7,977	6,482	7,219	7,065	8,640	6,453	8,561	6,965	9,471	6,167	10,663	6,887	12,395	
\$15,000 under \$50,000..	18,167	20,186	20,350	24,441	19,596	22,345	22,655	28,175	22,122	29,501	24,636	34,465	22,748	40,462	26,168	49,338	
\$50,000 or more.....	928	5,074	1,352	7,679	1,106	5,811	1,733	9,636	1,559	9,514	2,227	14,604	1,894	13,506	2,913	28,778	
Total Tax Liability¹																	
Total.....	62,303	136,726	67,191	164,276	64,537	153,342	71,431	193,432	69,067	181,181	75,226	220,761	69,557	198,965	77,399	255,203	
Under \$10,000.....	22,377	9,617	23,376	10,165	22,360	9,863	23,798	10,541	22,032	9,566	23,389	10,289	20,794	9,116	22,492	9,917	
\$10,000 under \$15,000..	13,461	16,511	14,155	17,552	13,128	16,583	14,012	17,866	13,937	16,558	14,215	17,643	13,182	16,554	13,661	17,209	
\$15,000 under \$50,000..	25,494	85,264	28,245	97,551	27,893	98,163	31,801	116,214	32,004	114,809	35,288	130,138	33,580	128,498	38,149	150,850	
\$50,000 or more.....	971	25,333	1,416	39,008	1,156	28,733	1,820	48,811	1,633	40,249	2,335	62,691	2,001	44,797	3,097	77,227	

¹In contrast to the data generally published in SOI, these figures have not been reduced by the earned income credit.

Individual Income Tax Returns, 1980

Table 2.--Computation of Year-End Projections for Tax Year 1980 From June 30, 1981, IMF Data

[Numbers are in thousands--money amounts are in millions]

Item and size of adjusted gross income	Number of returns			Calculating average amounts			Initial 1980 estimate		Initial 1979 estimate		1979 year-end SOI		1979 estimate as a percent of 1979 SOI		Final 1980 estimate	
	Number June 30, 1981	Adjusted to year-end projection	1978 ratio of SOI to adjusted IMF	Average amount June 30, 1981 (Dollars)	1978 ratio of averages (Percent)	Adjusted averages (Dollars)	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Adjusted Gross Income																
Total.....	85,708	94,347	98.5	15,868	93.3	17,008	93,827	1,613,655	92,029	1,460,695	92,694	1,465,395	99.3	99.7	94,454	1,618,070
Under \$10,000.....	36,602	40,292	94.7	4,599	101.7	4,522	38,157	172,546	40,118	185,064	40,528	188,207	99.0	98.3	38,542	175,530
\$10,000 under \$15,000..	13,401	14,752	96.8	12,368	99.8	12,393	14,280	176,972	14,181	175,376	14,433	178,809	98.3	98.1	14,527	180,400
\$15,000 under \$50,000..	33,699	37,096	103.1	25,710	98.3	26,155	38,246	1,000,324	35,356	892,668	35,391	890,808	99.9	100.2	38,284	998,327
\$50,000 or more.....	2,006	2,208	142.4	79,547	94.8	83,910	3,144	263,813	2,374	207,587	2,341	207,571	101.4	100.0	3,101	263,813
Salaries and Wages																
Total.....	76,986	84,746	97.8	15,250	95.3	16,002	83,634	1,351,704	82,548	1,231,280	83,201	1,229,251	99.2	100.2	84,249	1,349,532
Under \$10,000.....	31,773	34,976	93.7	4,792	100.3	4,778	32,773	156,589	34,661	163,635	35,086	167,598	98.8	97.6	33,171	160,440
\$10,000 under \$15,000..	11,971	13,178	96.0	11,934	100.5	11,875	12,651	150,231	12,733	159,001	12,976	154,228	98.1	103.1	12,896	145,714
\$15,000 under \$50,000..	31,540	34,719	102.2	24,469	99.5	24,592	35,483	872,598	33,149	783,841	33,180	784,369	99.9	99.9	35,519	873,471
\$50,000 or more.....	1,702	1,874	145.5	62,988	99.7	63,178	2,727	172,286	2,005	124,803	1,958	123,056	102.4	101.4	2,663	169,907
Dividends in Adjusted Gross Income																
Total.....	8,517	9,376	109.2	2,958	85.0	3,480	10,403	36,059			9,881	33,483			10,715	38,497
Under \$10,000.....	1,797	1,978	102.2	1,130	91.9	1,230	2,022	2,487			2,217	2,508			2,083	2,583
\$10,000 under \$15,000..	1,040	1,145	100.3	1,602	97.2	1,648	1,148	1,892			1,215	2,116			1,182	2,179
\$15,000 under \$50,000..	4,625	5,091	109.8	2,096	94.9	2,209	5,590	12,348			5,126	10,939			5,758	13,127
\$50,000 or more.....	1,055	1,161	141.5	11,189	95.1	11,766	1,643	19,332			1,323	17,920			1,692	20,608
									Not available				Not applicable			
Interest Received																
Total.....	42,973	47,305	102.3	1,850	89.2	2,074	48,870	108,591	47,306	74,516	47,885	73,875	98.8	100.9	49,412	107,792
Under \$10,000.....	12,163	13,389	97.5	1,222	94.6	1,292	13,054	16,866	13,650	14,974	14,057	15,335	97.1	97.6	13,444	17,281
\$10,000 under \$15,000..	6,167	6,789	98.6	1,729	91.1	1,898	6,694	12,705	6,767	9,711	6,965	9,471	97.2	102.5	6,887	12,395
\$15,000 under \$50,000..	22,748	25,041	104.5	1,779	91.6	1,942	26,168	50,818	24,630	35,516	24,636	34,465	100.0	103.0	26,168	49,338
\$50,000 or more.....	1,894	2,085	141.7	7,132	94.5	9,547	2,954	28,202	2,259	14,315	2,227	14,604	101.4	98.0	2,913	28,778
Total Tax Liability¹																
Total.....	69,557	76,568	101.1	2,860	87.7	3,299	77,271	254,721	75,079	220,450	75,226	220,761	99.8	99.9	77,399	255,203
Under \$10,000.....	20,794	22,890	96.2	438	99.5	440	22,020	9,689	22,890	10,049	23,389	10,289	97.9	97.7	22,492	9,917
\$10,000 under \$15,000..	13,182	14,511	96.5	1,256	99.1	1,267	14,003	17,742	14,570	18,183	14,215	17,643	102.5	103.1	13,661	17,209
\$15,000 under \$50,000..	33,580	36,965	103.1	3,827	96.3	3,974	38,111	151,453	35,253	130,648	35,288	130,138	99.9	100.4	38,149	150,850
\$50,000 or more.....	2,001	2,203	142.4	22,386	92.6	24,175	3,137	75,837	2,366	61,570	2,335	62,691	101.3	98.2	3,097	77,227

¹In contrast to the data generally published in SOI, these figures have not been reduced by the earned income credit.