

# Individual Income Tax Returns, 1995

by *Therese Cruciano*

**T**axpayers filed 118.2 million U.S. individual income tax returns for Tax Year 1995, 2.0 percent more than for 1994. For 1995, adjusted gross income (AGI) exceeded \$4 trillion for the first time, increasing 7.2 percent to nearly \$4.2 trillion. The largest components of AGI, salaries and wages and taxable pensions and annuities, increased 5.8 percent and 7.6 percent, respectively. Other sizable increases included taxable interest (22.7 percent), net capital gain (less loss) (19.8 percent), taxable social security benefits (18.3 percent), and dividends (14.8 percent). The total exemption deduction increased 3.9 percent to \$584.5 billion and total deductions (itemized and standard) increased 5.6 percent to almost \$941.0 billion. With these deductions, taxable income increased 8.3 percent to equal \$2.8 trillion. All of these increases exceeded the 2.8 percent rate of inflation for 1995.

Total income tax rose 10.0 percent to \$588.4 billion, and the average tax rate increased 0.3 percentage points to 14.0 percent. Total tax credits increased 12.5 percent to \$10.0 billion, and the total earned income credit (EIC) increased 23.0 percent to reach nearly \$26.0 billion. The large increase in the amount of the EIC was primarily a result of the continued phase-in of changes contained in previous tax legislation.

## Adjusted Gross Income and Selected Sources of Income

As shown in Figure A, AGI for 1995 increased 7.2 percent to nearly \$4.2 trillion. This growth rate was substantially higher than the 2.8 percent annual inflation rate for the same period [1]. The principal components of AGI and statutory adjustments to AGI are presented in Figure B and Table 1. The largest component of AGI, salaries and wages, increased \$174.7 billion, or 5.8 percent, for 1995. The second largest component of AGI, taxable pensions and annuities, increased 7.6 percent, to \$221.1 billion. The largest percentage increase of any income item was for taxable interest, which increased 22.7 percent to \$154.8 billion. This increase, which reversed a four-year downward trend, may be partially due to interest rates being higher during most of 1995 than they were for 1994 [2].

Other income items with large percentage increases included net capital gain (less loss), which increased 19.8 percent to \$170.4 billion and taxable social security

**Figure A**

### Adjusted Gross Income, Taxable Income, and Total Income Tax, Tax Years 1994 and 1995

[Number of returns is in thousands--money amounts are in millions of dollars]

Item	1994		1995		Percentage increase in amount
	Number of returns	Amount	Number of returns	Amount	
	(1)	(2)	(3)	(4)	(5)
Adjusted gross income (less deficit).....	115,943	3,907,518	118,218	4,189,354	7.2
Taxable income.....	92,793	2,597,980	94,612	2,813,826	8.3
Total income tax.....	87,619	534,856	89,253	588,419	10.0
Alternative minimum tax.....	369	2,212	414	2,291	3.6

benefits, which increased 18.3 percent to \$45.7 billion. In addition, partnership and S Corporation net income (less loss) increased 9.9 percent to \$125.8 billion, and dividends increased 14.8 percent to \$94.6 billion. Unemployment compensation declined 4.7 percent to \$19.3 billion, reflecting the 5.6 percent national unemployment rate for 1995, the lowest since 1990 [3].

## Losses

Total negative income includes net negative income line items from individual tax returns [4]. Total negative income, i.e., net loss, included in AGI increased for 1995 by 3.5 percent to \$177.5 billion (Figure C). Accounting for 27.8 percent of total net losses, net operating loss increased 4.9 percent to \$49.3 billion [5]. Partnership and S Corporation net loss, the second largest component of the total, increased 1.9 percent to nearly \$40.7 billion. Other increases included total rent and royalty net loss, which increased 1.4 percent to \$26.1 billion; business or profession net loss, which increased 7.0 percent to \$22.5 billion; and farm net loss, which rose 1.7 percent to reach \$16.0 billion. Net capital loss, which decreased 7.0 percent to \$9.7 billion, was the only net loss item showing a substantial decline for 1995.

## Statutory Adjustments

Statutory adjustments, which are subtracted from total income in the computation of AGI, increased 5.2 percent to \$41.1 billion for 1995 (Figure D). The largest of all statutory adjustments was the self-employment tax deduction, representing 32.4 percent of the total. This adjustment increased 1.8 percent to \$13.3 billion for 1995. Payments to a self-employed retirement (Keogh) plan increased 6.6 percent to \$8.7 billion, while deductible payments to Individual Retirement Arrangements (IRAs) declined 0.6 percent to \$8.3 billion, continuing the

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## Figure B

### Comparison of Total and Selected Sources of Adjusted Gross Income, Tax Years 1994 and 1995

[Number of returns is in thousands--money amounts are in millions of dollars]

Item	1994		1995		Percentage increase in amount	Increase in amount
	Number of returns	Amount	Number of returns	Amount		
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Adjusted gross income (less deficit) <sup>1</sup></b> .....	<b>115,943</b>	<b>3,907,518</b>	<b>118,218</b>	<b>4,189,354</b>	<b>7.2</b>	<b>281,836</b>
Salaries and wages.....	99,356	3,026,778	101,139	3,201,457	5.8	174,679
Taxable interest.....	65,340	126,169	67,029	154,781	22.7	28,612
Dividends.....	25,235	82,410	26,214	94,592	14.8	12,182
Business or profession net income (less loss).....	15,944	166,204	16,173	169,343	1.9	3,139
Net capital gain (less loss) <sup>2</sup> .....	18,823	142,288	19,963	170,415	19.8	28,127
Net gain (less loss), sales of property other than capital assets.....	1,775	-3,189	1,777	-3,010	5.6	179
Taxable social security benefits.....	5,892	38,639	6,598	45,715	18.3	7,076
Total rent and royalty net income (less loss) <sup>3</sup> .....	10,126	15,967	10,224	17,193	7.7	1,226
Partnership and S Corporation net income (less loss).....	5,590	114,386	5,622	125,752	9.9	11,366
Estate and trust net income (less loss).....	508	5,493	548	6,054	10.2	561
Farm net income (less loss).....	2,242	-7,378	2,219	-7,850	-6.4	-472
Unemployment compensation.....	8,531	20,285	7,985	19,336	-4.7	-949
Taxable pensions and annuities.....	17,894	205,423	18,415	221,053	7.6	15,630
Taxable Individual Retirement Arrangement distributions.....	4,777	33,106	5,256	37,316	12.7	4,210
Other net income (less loss) <sup>4</sup> .....	5,454	21,915	n.a.	23,385	6.7	1,470
Gambling earnings <sup>5</sup> .....	n.a.	n.a.	1,021	7,867	n.a.	n.a.

n.a. - Not available.

<sup>1</sup> Sources of adjusted gross income shown are incomplete and, therefore, do not add to total adjusted gross income.

<sup>2</sup> Includes capital gain distributions not reported on Schedule D.

<sup>3</sup> Includes farm rental net income (less loss).

<sup>4</sup> Other net income (less loss) represents data reported on Form 1040, line 21, except net operating loss and the foreign-earned income exclusion.

<sup>5</sup> Newly edited item for 1995, included in other net income (less loss).

downward trend that began with 1986.

## Deductions

The total standard deduction claimed on 1995 individual income tax returns, i.e., the basic standard deduction plus the additional standard deduction for age or blindness, increased 4.1 percent to \$413.6 billion (Figure E). Total deductions, the sum of the total standard deduction and total itemized deductions (after limitation), equaled \$941.0 billion, an increase of 5.6 percent. (See the Changes in Law section of this article for a definition of the itemized deduction limitation.)

The number of returns claiming a standard deduction increased 1.6 percent for 1995, accounting for 70.4 percent of all returns filed and 44.0 percent of the total deductions amount. The 1995 average standard deduction equaled \$4,970, up \$124 from the average for 1994. The increase was largely due to inflation-indexing of the standard deduction amounts.

Statistics for returns with itemized deductions are presented in Figure E and Table 3. Itemized deductions were claimed on 28.8 percent of all returns filed and represented 56.0 percent of the total deductions amount

[6]. The average total for itemized deductions (after limitation) equaled \$15,507, up \$556 from the average for 1994.

Total itemized deductions (before limitation) increased 7.1 percent for 1995. All of the itemized deductions for 1995 increased, except for casualty and theft losses, which decreased 49.0 percent to \$1.8 billion. Interest paid constituted the largest portion (39.6 percent) of the total, with home mortgage interest accounting for 94.4 percent of total interest paid. The remaining portion of interest paid was divided between investment interest and deductible points paid on a mortgage. The home mortgage interest deduction increased 9.4 percent and the total interest paid deduction increased 9.0 percent to \$215.1 billion. The taxes paid deduction increased 7.3 percent to \$188.6 billion, and comprised 34.7 percent of total itemized deductions (before limitation). Among the other deductions, charitable contributions increased 6.3 percent to \$75.0 billion, medical and dental expenses increased 2.2 percent to almost \$27.0 billion, and gambling losses and other unlimited miscellaneous deductions increased 24.6 percent to \$4.5 billion.

The AGI threshold for the limitation of itemized deduc-

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## Figure C

### Comparison of Total and Selected Sources of Net Losses Included in Adjusted Gross Income, Tax Years 1994 and 1995

[Number of returns is in thousands--money amounts are in millions of dollars]

Item	1994		1995		Percentage increase in amount
	Number of returns	Amount	Number of returns	Amount	
	(1)	(2)	(3)	(4)	(5)
<b>Total net losses</b> .....	<b>n.a.</b>	<b>171,593</b>	<b>n.a.</b>	<b>177,514</b>	<b>3.5</b>
Business or profession net loss.....	3,762	21,005	3,956	22,466	7.0
Net capital loss <sup>1</sup> .....	5,617	10,442	5,134	9,715	-7.0
Net loss, sales of property other than capital assets.....	973	8,757	975	8,745	-0.1
Total rent and royalty net loss <sup>2</sup> .....	4,699	25,783	4,766	26,140	1.4
Partnership and S Corporation net loss.....	2,098	39,891	2,055	40,666	1.9
Estate and trust net loss.....	44	598	41	817	36.6
Farm net loss.....	1,485	15,775	1,493	16,042	1.7
Net operating loss <sup>3</sup> .....	431	47,045	505	49,331	4.9
Other net loss <sup>4</sup> .....	172	2,297	210	3,592	56.4

n.a. - Not available.

<sup>1</sup> Includes only the portion of capital losses deducted during the calculation of adjusted gross income.

<sup>2</sup> Includes farm rental net loss.

<sup>3</sup> See footnote 5 of this article for a definition of net operating loss.

<sup>4</sup> Other net loss represents losses reported on Form 1040, line 21, except net operating loss and the foreign-earned income exclusion.

## Figure D

### Selected Statutory Adjustments, Tax Years 1994 and 1995

[Number of returns is in thousands--money amounts are in millions of dollars]

Item	1994		1995		Percentage increase in amount
	Number of returns	Amount	Number of returns	Amount	
	(1)	(2)	(3)	(4)	(5)
<b>Total statutory adjustments</b> <sup>1</sup> .....	<b>17,859</b>	<b>39,103</b>	<b>18,209</b>	<b>41,140</b>	<b>5.2</b>
Payments to an Individual Retirement Arrangement.....	4,319	8,389	4,301	8,338	-0.6
Moving expenses.....	799	1,549	880	1,720	11.0
Self-employment tax deduction.....	12,735	13,105	12,849	13,342	1.8
Self-employed health insurance deduction <sup>2</sup> .....	1,483	1,184	3,011	2,601	119.7
Payments to a self-employed retirement (Keogh) plan.....	996	8,195	1,032	8,734	6.6
Forfeited interest penalty.....	636	137	804	204	48.9
Alimony paid.....	639	5,514	568	5,226	-5.2

<sup>1</sup> Includes adjustments not shown separately.

<sup>2</sup> This deduction expired in 1993 and was not reinstated and made permanent until April 1995. Taxpayers who wished to claim this deduction for 1994 but had already filed their returns, had to file amended returns, which are not reflected in these statistics. Therefore, the number of returns claiming the deduction and the amount of the deduction for 1994 are understated.

tions increased to \$114,700 (\$57,350 if married filing separately) for 1995. Due to this limitation, 3.7 million higher-income taxpayers were unable to deduct nearly \$15.6 billion in itemized deductions, an increase of 16.5 percent from the 1994 amount.

### Taxable Income and Total Income Tax

For 1995, AGI grew at a lower annual rate than taxable income, 7.2 percent compared to 8.3 percent (Figure A). Since taxable income is the result of AGI less exemptions

and deductions, smaller increases in deductions (5.6 percent) and exemption amounts deducted (3.9 percent) resulted in a larger percentage increase in taxable income. Taxable income totaled over \$2.8 trillion, and total income tax increased 10.0 percent to \$588.4 billion. The alternative minimum tax rose 3.6 percent to \$2.3 billion.

Average AGI reported on 1995 individual income tax returns was \$35,438, and average taxable income was \$29,741 [7]. These amounts represent a growth of 5.2 percent and 6.2 percent, respectively, from the 1994

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**Figure E**

## Selected Itemized Deductions and the Standard Deduction, Tax Years 1994 and 1995

[Number of returns is in thousands--money amounts are in millions of dollars]

Item	1994		1995		Percentage increase in amount
	Number of returns <sup>1</sup>	Amount	Number of returns <sup>1</sup>	Amount	
	(1)	(2)	(3)	(4)	(5)
<b>Total itemized deductions before limitation.....</b>	<b>33,018</b>	<b>507,010 <sup>2</sup></b>	<b>34,008</b>	<b>542,931</b>	<b>7.1</b>
Medical and dental expenses.....	5,229	26,378	5,351	26,964	2.2
Taxes paid.....	32,569	175,848	33,530	188,644	7.3
Interest paid <sup>3</sup> .....	27,873	197,240	28,705	215,078	9.0
Home mortgage interest.....	27,518	185,709	28,350	203,074	9.4
Charitable contributions.....	29,849	70,545	30,541	74,992	6.3
Casualty and theft losses.....	225	3,484	152	1,776	-49.0
Miscellaneous deductions after AGI limitation.....	7,977	29,496	7,979	31,027	5.2
Gambling losses and other unlimited miscellaneous deductions.....	665	3,572	752	4,450	24.6
Itemized deductions in excess of limitation.....	3,378	13,356	3,710	15,557	16.5
<b>Total itemized deductions after limitation.....</b>	<b>33,018</b>	<b>493,654</b>	<b>34,008</b>	<b>527,374</b>	<b>6.8</b>
<b>Total standard deduction.....</b>	<b>81,947</b>	<b>397,106</b>	<b>83,223</b>	<b>413,585</b>	<b>4.1</b>
<b>Total deductions (after itemized deduction limitation).....</b>	<b>114,965</b>	<b>890,760</b>	<b>117,230</b>	<b>940,959</b>	<b>5.6</b>

<sup>1</sup> Returns with no adjusted gross income are excluded from the deduction counts. For this reason, the sum of the number of returns with total itemized deductions and the number of returns with total standard deduction is less than the total number of returns for all filers.

<sup>2</sup> Total deductions for 1994 include \$448 million in prior-year moving expenses.

<sup>3</sup> Includes investment interest and deductible mortgage "points" not shown separately.

amounts of \$33,702 (average AGI) and \$27,998 (average taxable income). Figure F shows that the average tax rate for 1995 (i.e., total income tax divided by AGI reported on *all* returns, taxable and nontaxable) was 14.0 percent, 0.3 percentage points more than for 1994. In the statistics, all income size classes except the highest had average tax rates that were the same as, or lower than, those shown for 1994. The increased average tax rate for 1995 most likely resulted from taxpayers, as a whole, earning more income and, thus, moving into higher tax brackets. For example, the highest income size class (">\$1,000,000 or more") had an increased number of taxpayers (up 24.3 percent) and AGI (up 25.2 percent). Consequently, these taxpayers faced higher tax rates and higher average taxes. This income size class showed a 31.4 percent average tax rate, 0.3 percentage points higher than the 1994 rate. These highest-income taxpayers comprised less than 1 percent of all taxpayers for 1995. The constant or lower average tax rates for the remaining income size classes for 1995 were mainly the result of inflation-indexing of the size of the standard deduction, the size of the deduction for personal exemptions, and the width of the tax rate brackets.

### Tax Credits

Statistics for the earned income credit (EIC) and the other tax credits are shown in Tables 2 and 4. Total tax credits increased 12.5 percent, or \$1.1 billion, for 1995 to over

\$10.0 billion (Figure G). With the exception of the child care credit, which decreased 0.3 percent, all of the tax credits increased for 1995. The change in total tax credits was primarily a result of increases in the earned income credit (used to offset income tax before credits) and the foreign tax credit, the two largest credits. The portion of the earned income credit used to offset income tax before credits increased 12.9 percent to \$3.1 billion, and the foreign tax credit increased 28.4 percent to nearly \$3.0 billion.

Unlike other tax credits, the EIC may not only offset income tax before credits, but may also offset all other taxes and may even be refundable. The refundable portion, the largest segment of the EIC, was treated as a refund and paid directly to taxpayers who had no tax against which to apply the credit, or whose EIC exceeded income tax (and other income-related taxes). The refundable portion of the EIC totaled \$20.8 billion for 1995, an increase of 25.5 percent from 1994 (Figure H).

Over 19.3 million taxpayers claimed the earned income credit for 1995, an increase of 1.7 percent from 1994. The total earned income credit, however, increased 23.0 percent to nearly \$26.0 billion, largely due to the continued phase-in of eligibility levels and increased rates for taxpayers with qualifying children [8]. (See the Changes in Law section of this article for more details on the earned income credit.) For taxpayers with no qualifying children, the only changes in eligibility levels and rates were due to inflation-

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## Figure F

### Number of Returns, Adjusted Gross Income, and Total Income Tax, by Size of Adjusted Gross Income, Tax Years 1994 and 1995

[Number of returns is in thousands--money amounts are in millions of dollars]

Tax year, item	Total	Size of adjusted gross income									
		Under \$1 <sup>1</sup>	\$1 under \$10,000	\$10,000 under \$20,000	\$20,000 under \$30,000	\$30,000 under \$50,000	\$50,000 under \$100,000	\$100,000 under \$200,000	\$200,000 under \$500,000	\$500,000 under \$1,000,000	\$1,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
<b>Tax Year 1995:</b>											
Number of returns.....	118,218	944	28,629	24,948	17,818	21,479	19,054	4,075	1,007	178	87
Adjusted gross income											
(less deficit).....	4,189,354	-55,254	142,208	367,736	438,600	837,130	1,286,855	532,030	292,118	120,347	227,583
Total income tax.....	588,419	88	2,491	17,415	34,672	86,037	167,991	97,240	74,630	36,316	71,540
Tax as a percentage of adjusted gross income (less deficit).....	14.0	( <sup>2</sup> )	1.8	4.7	7.9	10.3	13.1	18.3	25.5	30.2	31.4
<b>Tax Year 1994:</b>											
Number of returns.....	115,943	953	28,867	24,876	17,784	21,038	17,911	3,405	890	149	70
Adjusted gross income											
(less deficit).....	3,907,518	-53,629	144,698	366,640	438,970	821,909	1,203,690	446,517	256,193	100,695	181,833
Total income tax.....	534,856	102	2,602	17,543	35,481	85,474	158,393	82,665	65,582	30,376	56,637
Tax as a percentage of adjusted gross income (less deficit).....	13.7	( <sup>2</sup> )	1.8	4.8	8.1	10.4	13.2	18.5	25.6	30.2	31.1
Change in percentage points, tax as a percentage of adjusted gross income (less deficit), 1995 over 1994.....	0.3	( <sup>3</sup> )	( <sup>4</sup> )	-0.1	-0.2	-0.1	-0.1	-0.2	-0.1	( <sup>4</sup> )	0.3

<sup>1</sup>Includes returns with adjusted gross deficit.

<sup>2</sup>Percentage not computed.

<sup>3</sup>Difference not computed.

<sup>4</sup>Difference is less than 0.05 percentage points.

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

indexing. The number of EIC returns with no qualifying children and the amount of EIC claimed on these returns decreased 13.7 percent and 10.2 percent, respectively. The phase-in of tax legislation only affected the maximum EIC rates for taxpayers with one qualifying child. The number of returns for this group increased 18.1 percent, and the amount of EIC claimed increased 12.7 percent. The phase-in of tax legislation for taxpayers with two or more qualifying children affected eligibility levels, the maximum EIC amount, and the maximum EIC rate. While the number of these taxpayers only increased 10.8 percent, the amount of EIC claimed by taxpayers with two or more qualifying children increased 38.6 percent. Similar percentage changes are shown in Figure H for the numbers of returns and amounts of the refundable portion of the EIC.

### Historical Trends in Constant Dollars

As shown in Figure I, both AGI and salaries and wages showed large increases in constant dollars for 1995. Both salaries and wages and AGI decreased (in constant dollars) beginning with 1980, and continued to decline

until 1982. For 1983, AGI increased and continued to steadily increase through 1986. Between 1988 and 1993, constant dollar AGI fluctuated within a narrow band before increasing substantially for both 1994 and 1995. The trend for salaries and wages over this same period is comparable.

Over the same period, total income tax varied dramatically (Figure J). For 1980 and 1981, total income tax (in constant dollars) increased gradually, then declined sharply between 1981 and 1983, coinciding with the lower tax rates provided by the Economic Recovery Tax Act of 1981 (ERTA81). Although the ERTA81 tax reductions were still being phased in, total income tax increased for 1984, and continued to increase through 1986, as AGI began to steadily climb. Total income tax decreased for 1987, the first year under the Tax Reform Act of 1986 (TRA86), as the maximum tax rate was reduced from 50 percent to 38.5 percent. For 1988, total income tax rebounded as AGI increased. Between 1988 and 1991, total income tax (in constant dollars) declined modestly each year, mirroring the gradual decline of AGI. For 1992, total income tax increased, and continued to increase until

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## Figure G

### Selected Tax Credits, Tax Years 1994 and 1995

[Number of returns is in thousands--money amounts are in millions of dollars]

Item	1994		1995		Percentage increase in amount
	Number of returns	Amount	Number of returns	Amount	
	(1)	(2)	(3)	(4)	(5)
<b>Total tax credits</b> <sup>1</sup> .....	<b>15,042</b>	<b>8,927</b>	<b>15,240</b>	<b>10,040</b>	<b>12.5</b>
Child care credit.....	6,012	2,526	5,964	2,518	-0.3
Credit for the elderly or disabled.....	222	47	252	48	3.1 <sup>3</sup>
Earned income credit <sup>2</sup> .....	7,756	2,786	7,851	3,146	12.9
Foreign tax credit.....	1,546	2,309	1,731	2,965	28.4
General business credit.....	301	690	268	703	1.9
Minimum tax credit.....	77	377	107	469	24.4

<sup>1</sup> Includes credits not shown separately.

<sup>2</sup> Represents portion of earned income credit used to offset income tax before credits.

<sup>3</sup> Percentage increase calculated before rounding.

## Figure H

### Earned Income Credit, Tax Years 1994 and 1995

[Number of returns is in thousands--money amounts are in millions of dollars]

Item	1994		1995		Percentage increase in amount
	Number of returns	Amount	Number of returns	Amount	
	(1)	(2)	(3)	(4)	(5)
<b>Total earned income credit (EIC)</b> .....	<b>19,017</b>	<b>21,105</b>	<b>19,334</b>	<b>25,956</b>	<b>23.0</b>
EIC for returns with no qualifying children.....	4,081	686	3,520	616	-10.2
EIC for returns with one qualifying child.....	6,996	10,172	8,264	11,465	12.7
EIC for returns with two or more qualifying children.....	6,813	10,014	7,550	13,875	38.6
<b>Refundable earned income credit (EIC)</b> .....	<b>14,654</b>	<b>16,598</b>	<b>15,178</b>	<b>20,829</b>	<b>25.5</b>
EIC for returns with no qualifying children.....	2,622	477	2,249	420	-11.9
EIC for returns with one qualifying child.....	5,709	8,221	6,536	8,828	7.4
EIC for returns with two or more qualifying children.....	5,588	8,147	6,393	11,581	42.2

1995, reflecting higher AGI and higher tax rates (for 1993 and later years).

Net capital gain (less loss) is the sum of capital gain distributions reported on Form 1040 and sales of capital assets reported on Schedule D (net gain less loss).

Figure K shows that, in constant dollars, net capital gain (less loss) increased 16.5 percent and capital gain distributions (reported on Schedule D and Form 1040) increased 23.6 percent for 1995. Net capital gain (less loss) decreased 9.6 percent, 25.6 percent, and 13.7 percent for 1989, 1990, and 1991, respectively. The post-recession years of 1992 and 1993 were marked with double-digit growth in net capital gain (less loss), before 1994 saw a decline of 3.8 percent. The constant-dollar percentage changes in capital gain distributions for this same period were larger. After increasing 34.9 percent for 1989, these distributions declined 32.4 percent for 1990 and then

rebounded by 14.6 percent the following year. Similarly to net capital gain (less loss), 1992 and 1993 saw large increases in capital gain distributions (54.5 percent and 56.8 percent, respectively) before the decline reported for 1994. Although 1995 showed the highest capital gain distributions of recent years, net capital gain (less loss) was still below the constant-dollar level shown for 1988.

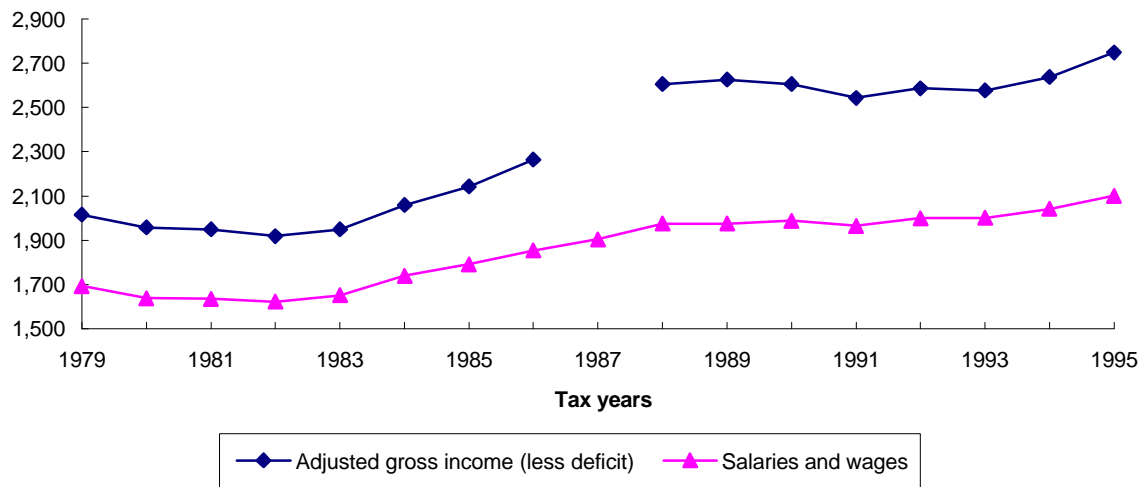
Figure L presents several income, deduction, and tax items (in constant dollars) over time. Real taxable interest declined annually between 1990 and 1994. For 1992 and 1993, these declines were substantial, 24.8 percent and 21.6 percent, respectively. The increase for 1995, while quite large, only brought the taxable interest amount to levels less than those reported for 1992, and far below (42.8 percent) the maximum amount reported for 1989. Dividends decreased for 1990, and continued to decline until 1994, when they showed a slight increase. However,

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## Figure I

### Adjusted Gross Income and Salaries and Wages, Tax Years 1979-1995 <sup>1</sup>

Constant 1982-84 dollars (billions) <sup>2</sup>



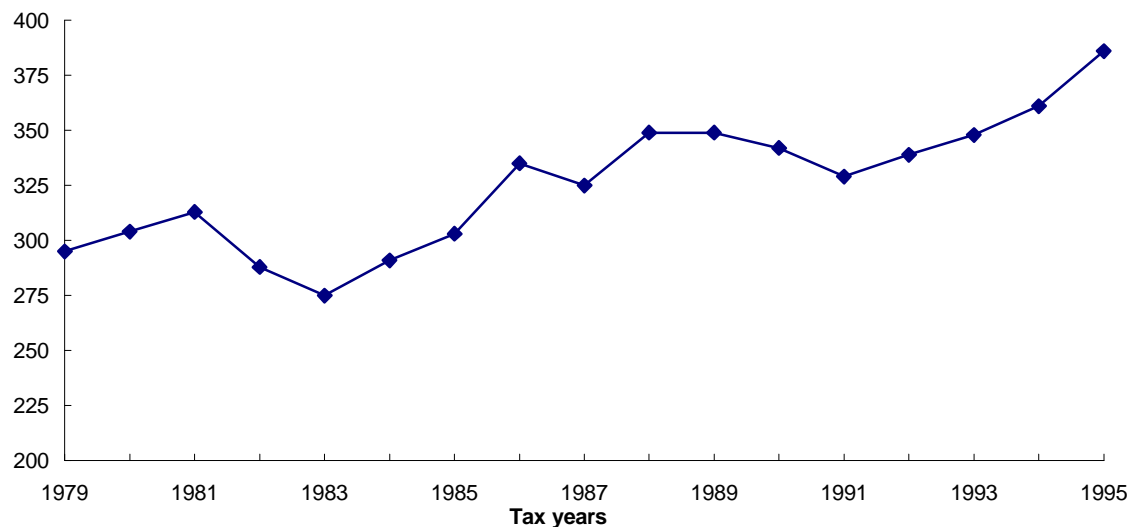
<sup>1</sup> The increase in adjusted gross income (less deficit) (AGI) is not shown for Tax Year 1987 because the definition of this item changed substantially beginning in 1987. Therefore, AGI should be examined separately from 1979 to 1986 and from 1988 to 1995.

<sup>2</sup> Constant dollars were calculated using the U.S. Bureau of Labor Statistics' consumer price index for urban consumers (CPI-U, 1982-84=100). See footnote 1 of this article for further details.

## Figure J

### Total Income Tax, Tax Years 1979-1995

Constant 1982-84 dollars (billions) <sup>1</sup>



<sup>1</sup> Constant dollars were calculated using the U.S. Bureau of Labor Statistics' consumer price index for urban consumers (CPI-U, 1982-84=100). See footnote 1 of this article for further details.

# Individual Income Tax Returns, 1995

## Figure K

### Net Capital Gain and Capital Gain Distributions, Tax Years 1988-1995

[Number of returns is in thousands--money amounts are in millions of dollars]

Tax year	Net capital gain (less loss) <sup>1</sup>				Capital gain distributions <sup>1</sup>			
	Number of returns	Current dollars	Constant 1982-84 dollars <sup>2</sup>		Number of returns	Current dollars	Constant 1982-84 dollars <sup>2</sup>	
			Amount	Percentage increase			Amount	Percentage increase
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1988.....	14,309	153,768	129,981	N/A	4,274	3,879	3,279	N/A
1989.....	15,060	145,631	117,444	-9.6	5,191	5,483	4,422	34.9
1990.....	14,288	114,231	87,400	-25.6	5,069	3,905	2,988	-32.4
1991.....	15,009	102,776	75,460	-13.7	5,796	4,665	3,425	14.6
1992.....	16,491	118,230	84,269	11.7	5,917	7,426	5,293	54.5
1993.....	18,409	144,172	99,773	18.4	9,998	11,995	8,301	56.8
1994.....	18,823	142,288	96,011	-3.8	9,803	11,322	7,640	-8.0
1995.....	19,963	170,415	111,821	16.5	10,744	14,391	9,443	23.6

N/A - Not applicable.

<sup>1</sup> Includes capital gain distributions not reported on Schedule D.

<sup>2</sup> Constant dollars were calculated using the U.S. Bureau of Labor Statistics' consumer price index for urban consumers (CPI-U, 1982-84=100). See footnote 1 of this article for further details.

the 11.6-percent increase for 1995 still left the dividends amount slightly below the amount reported for 1989.

Constant-dollar business or profession net income (less loss) fluctuated with increases and decreases, within a narrow range, between 1988 and 1995. This trend continued with the 0.9 percent decline for 1995. Taxable Individual Retirement Arrangement (IRA) distributions showed substantial increases for recent years, with the 1995 amount more than double the level shown for 1988. Taxable social security benefits increased each year since 1988. The large increase for 1994 reflected the change in law requiring up to 85 percent of social security benefits to be included in taxable income for some beneficiaries. Taxable pensions and annuities increased annually since 1979, with double-digit growth for 1983 through 1987. Tax Year 1995 levels were nearly three times the amount reported for 1979. Total rent and royalty net income (less loss) and partnership and S Corporation net income (less loss) both showed large increases and large decreases over time. For most of the 1980's, rent and royalty net income (less loss) decreased annually, and for many years the total was negative. This trend changed with TRA86 and its passive loss rules [9]. For 1991, this item finally reached a level exceeding the amount reported for 1981, and continued to increase through 1995. Similarly, partnership and S Corporation net income (less loss) was negative from 1981 through 1986. For 1987, this item reached a level higher than the amount reported for 1979. Partnership and S Corporation net income (less loss) more than doubled between 1987 and 1988 and, despite a decline for 1991, steadily increased through 1995. Real Tax Year 1995 amounts were over four times the amount

reported for 1979.

The inflation-adjusted amount of total itemized deductions after limitation increased from 1979 through 1986, then declined for the next two years because of provisions in TRA86. The amounts increased slightly the next two years, but beginning with 1991, when itemized deductions were limited for taxpayers with AGI above certain income thresholds, total itemized deductions decreased again. The total itemized deduction amount reported for 1995 nearly matches the level shown for 1984. During this same period, the real itemized deduction for charitable contributions increased each year until 1987, when provisions of TRA86 reduced the total number of itemizers. Since 1987, this deduction increased for most years.

The fluctuations in alternative minimum tax shown for 1988 through 1995 reflect the changes in law. For 1989, when the AMT exclusion was phased out, AMT declined 22.9 percent. Likewise, AMT showed double-digit growth for both 1991 and 1993, coinciding with increases in the AMT rate introduced for these years.

With the exception of 1985, the real value of the total earned income credit declined from 1980 through 1986. Tax Year 1987 showed the largest percentage increase in the EIC, 89.0 percent, primarily due to the increases in both the rate and the base of the credit. Since 1987, total EIC increased each year, exhibiting double-digit growth for many of the these years. The total EIC amount for 1995 was more than six times the level reported for 1979.

### Summary

For 1995, both AGI and taxable income grew at over twice the annual rate of inflation (2.8 percent). AGI



# Individual Income Tax Returns, 1995

## Figure L

### Selected Sources of Income, Deductions, and Tax Items, in Constant 1982-84 Dollars, Tax Years 1979-1995

[Money amounts are in millions of dollars]

Tax year	Taxable interest		Dividends		Business or profession net income (less loss)		Taxable Individual Retirement Arrangement distributions		Taxable social security benefits		Alternative minimum tax	
	Amount (Constant 1982-84 dollars) <sup>1</sup>	Percentage increase	Amount (Constant 1982-84 dollars) <sup>1</sup>	Percentage increase	Amount (Constant 1982-84 dollars) <sup>1</sup>	Percentage increase	Amount (Constant 1982-84 dollars) <sup>1</sup>	Percentage increase	Amount (Constant 1982-84 dollars) <sup>1</sup>	Percentage increase	Amount (Constant 1982-84 dollars) <sup>1</sup>	Percentage increase
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1988.....	158,057	N/A	65,367	N/A	106,782	N/A	9,398	N/A	12,140	N/A	869	N/A
1989.....	177,432	12.3	65,572	0.3	107,047	0.2	11,190	19.1	13,990	15.2	670	-22.9
1990.....	173,744	-2.1	61,338	-6.5	108,210	1.1	13,431	20.0	15,062	7.7	635	-5.2
1991.....	153,753	-11.5	56,743	-7.5	104,159	-3.7	15,145	12.8	15,682	4.1	891	40.3
1992.....	115,712	-24.7	55,542	-2.1	109,766	5.4	18,726	23.6	16,493	5.2	967	8.5
1993.....	90,755	-21.6	55,176	-0.7	107,754	-1.8	18,741	0.1	17,059	3.4	1,421	46.9
1994.....	85,134	-6.2	55,607	0.8	112,148	4.1	22,339	19.2	26,072	52.8	1,493	5.1
1995.....	101,562	19.3	62,068	11.6	111,118	-0.9	24,486	9.6	29,997	15.1	1,503	0.7

Tax year	Taxable pensions and annuities		Total rent and royalty net income (less loss)		Partnership and S Corporation net income (less loss)		Total itemized deductions after limitation <sup>2</sup>		Charitable contributions deduction		Total earned income credit	
	Amount (Constant 1982-84 dollars) <sup>1</sup>	Percentage increase	Amount (Constant 1982-84 dollars) <sup>1</sup>	Percentage increase	Amount (Constant 1982-84 dollars) <sup>1</sup>	Percentage increase	Amount (Constant 1982-84 dollars) <sup>1</sup>	Percentage increase	Amount (Constant 1982-84 dollars) <sup>1</sup>	Percentage increase	Amount (Constant 1982-84 dollars) <sup>1</sup>	Percentage increase
	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
1979.....	51,441	N/A	6,668	N/A	20,222	N/A	253,676	N/A	30,593	N/A	2,826	N/A
1980.....	52,597	2.2	4,982	-25.3	12,256	-39.4	264,597	4.3	31,322	2.4	2,410	-14.7
1981.....	57,081	8.5	3,368	-32.4	-1,050	( <sup>3</sup> )	282,121	6.6	33,884	8.2	2,103	-12.7
1982.....	62,304	9.2	-2,238	( <sup>3</sup> )	-1,822	-73.5	294,825	4.5	34,686	2.4	1,840	-12.5
1983.....	70,094	12.5	-5,409	-141.7	-530	70.9	310,877	5.4	37,829	9.1	1,801	-2.1
1984.....	77,428	10.5	-9,127	-68.7	-2,183	-311.9	345,405	11.1	40,539	7.2	1,574	-12.6
1985.....	88,379	14.1	-12,048	-32.0	-2,348	-7.6	376,416	9.0	44,575	10.0	1,940	23.3
1986.....	98,263	11.2	-13,953	-15.8	-5,346	-127.7	407,900	8.4	49,102	10.2	1,831	-5.6
1987.....	109,819	11.8	-8,147	41.6	21,403	( <sup>3</sup> )	345,088	-15.4	43,683	-11.0	3,460	89.0
1988.....	117,317	6.8	-1,081	86.7	48,250	125.4	334,080	-3.2	43,068	-1.4	4,984	44.0
1989.....	118,837	1.3	-1,160	-7.3	50,881	5.5	347,563	4.0	44,725	3.8	5,319	6.7
1990.....	121,878	2.6	2,880	( <sup>3</sup> )	51,279	0.8	350,792	0.9	43,797	-2.1	5,771	8.5
1991.....	129,590	6.3	3,814	32.4	46,395	-9.5	343,382	-2.1	44,474	1.5	7,676	33.0
1992.....	132,924	2.6	6,878	80.3	62,474	34.7	343,511	( <sup>3</sup> )	45,505	2.3	8,682	13.1
1993.....	134,266	1.0	9,280	34.9	64,269	2.9	339,380	-1.2	47,304	4.0	10,752	23.8
1994.....	138,625	3.2	10,774	16.1	77,183	20.1	333,100	-1.9	47,601	0.6	14,241	32.4
1995.....	145,048	4.6	11,281	4.7	82,515	6.9	346,046	3.9	49,207	3.4	17,031	19.6

N/A - Not applicable.

<sup>1</sup> Constant dollars were calculated using the U.S. Bureau of Labor Statistics' consumer price index for urban consumers (CPI-U, 1982-84=100). See footnote 1 of this article for further details.

<sup>2</sup> Itemized deductions for 1991 and later years were limited if adjusted gross income exceeded specified levels.

<sup>3</sup> Percentage not calculated.

increased 7.2 percent and taxable income increased 8.3 percent. These substantial increases contributed to the 10.0 percent increase in total income tax. The average tax rate increased 0.3 percentage points for the highest income size class, but either declined or remained the same as the 1994 rate for all other income size classes. Overall, the average tax rate increased for 1995 from 13.7 percent to 14.0 percent.

The largest components of AGI, salaries and wages and taxable pensions and annuities, increased 5.8 percent and

7.6 percent, respectively. A number of other income items contributed to the growth of AGI: taxable interest increased 22.7 percent; net capital gain (less loss) increased 19.8 percent; taxable social security benefits increased 18.3 percent; and dividends increased 14.8 percent. While 1995 saw record levels reported for most of these items, taxable interest, net capital gain (less loss), and dividends were still below the 1988 level (in constant dollars). Between 1994 and 1995, the number of returns claiming the earned income credit increased only 1.7

## Individual Income Tax Returns, 1995

percent, yet the total amount of the credit increased 23.0 percent, mainly as the result of the phase-in of changes enacted in 1993.

### Changes in Law

The following is a list of Federal tax law and Internal Revenue Service administrative changes that had a major bearing on the 1995 data presented in this article. In general, the definitions used in this article are the same as those in section 4 of *Statistics of Income--Individual Income Tax Returns 1994--Publication 1304*.

*Earned Income Credit*--As with previous years, the maximum amount of the earned income credit increased, as did the amount of *earned* income and AGI an individual could have and still claim the credit. The maximum credit for taxpayers with no qualifying children increased (due to inflation-indexing) 2.6 percent, from \$306 to \$314. The EIC rate for these taxpayers remained 7.65 percent of EIC income. For taxpayers with no qualifying children, earned income and AGI had to be less than \$9,230 (up 2.6 percent from \$9,000 for 1994). For taxpayers with one qualifying child, the maximum credit increased (due to inflation-indexing) 2.7 percent, from \$2,038 to \$2,094. The EIC rate for these taxpayers increased from 26.3 percent to 34.0 percent of EIC income. For taxpayers with two or more qualifying children, the maximum credit rose 23.0 percent, from \$2,528 to \$3,110. The EIC rate for these taxpayers increased from 30.0 percent to 36.0 percent of EIC income. To be eligible for the credit, a taxpayer's earned income and AGI had to be less than \$24,396 (up 2.7 percent from \$23,755 for 1994) for one qualifying child, or less than \$26,673 (up 5.4 percent from \$25,296 for 1994) for two or more qualifying children.

*Exemption Amount*--Indexing for inflation allowed a taxpayer to claim a \$2,500 deduction for each exemption to which he or she was entitled for 1995, a \$50 increase over the amount allowed for 1994. The AGI threshold for the limitation of exemption amounts was also indexed for inflation, from \$111,800 to \$114,700 for single filers; \$167,700 to \$172,050 for married persons filing jointly and surviving spouses; \$139,750 to \$143,350 for heads of household; and \$83,850 to \$86,025 for married persons filing separately. For 1995, the phaseout of the deduction for exemptions was completed at AGI levels above \$237,200 for single filers; \$294,550 for married persons filing jointly and surviving spouses; \$265,850 for heads of household; and \$147,275 for married persons filing separately. Above these levels, no deduction for exemptions was allowed.

*Form 1040EZ*--For the first time, taxpayers were permitted to report unemployment compensation on Form 1040EZ.

*Form 8615, Tax For Children Under Age 14 Who Have Investment Income of More Than \$1,300*--The amount of investment income a child under age 14 could have without having to file Form 8615 increased from \$1,200 to \$1,300.

*Household Employment Taxes*--For 1995, taxpayers paying domestic employees \$1,000 or more generally had to pay social security and Medicare taxes for these employees. The taxes were paid with the income tax return by filing Schedule H, *Household Employment Taxes*. (Household employment taxes are reflected in the statistics for "total tax liability" and are tabulated in Table 2.) Previously, social security and Medicare taxes for household employees were reported quarterly on Form 942, *Employer's Quarterly Tax Return for Household Employees*.

*Itemized Deductions*--If a taxpayer's AGI was greater than \$114,700 (\$57,350 if married filing separately), some types of his or her itemized deductions were limited; this threshold increased from \$111,800 (\$55,900) for 1994, as a result of indexing for inflation. The limitation did not apply to deductions for medical and dental expenses, investment interest expenses, casualty or theft losses, and gambling losses; all other deductions were subject to the limitation. To arrive at allowable itemized deductions, total itemized deductions were reduced by the smaller of: (a) 80 percent of the deductions that were subject to the limitation, or (b) 3 percent of AGI in excess of the limitation threshold.

*Self-employed Health Insurance Deduction*--The self-employed health insurance deduction, which expired on December 31, 1993, was retroactively extended and made permanent. In addition, the percentage of health insurance premiums that self-employed taxpayers were able to deduct increased from 25 percent to 30 percent.

*Self-employment Tax*--The ceiling on taxable "self-employment income" was changed for 1995. The maximum amount of net earnings subject to the social security part of self-employment tax increased to \$61,200. This threshold was increased from \$60,600 for 1994, as a result of indexing for inflation.

*Social Security Numbers*--Taxpayers were required to provide the social security number for each dependent claimed on their income tax return and for each dependent listed on Schedule EIC, unless the dependent was born after October 1995.

*Standard Deduction*--The basic standard deduction and

## Individual Income Tax Returns, 1995

additional standard deduction for age or blindness increased for 1995 as a result of inflation-indexing. For single filers, the basic standard deduction rose from \$3,800 to \$3,900; for married persons filing jointly or surviving spouses, from \$6,350 to \$6,550; for married persons filing separately, from \$3,175 to \$3,275; and for heads of household, from \$5,600 to \$5,750. The basic standard deduction claimed by filers who were dependents of other taxpayers increased from \$600 to \$650. The additional standard deduction for people age 65 or older or the blind remained \$950 for single filers and heads of households, and \$750 for married persons filing jointly, surviving spouses, and married persons filing separately.

**Tax Brackets**--To counterbalance the effects of inflation, the boundaries for the tax brackets were widened. The 15 percent bracket applied to taxable income equal to or below \$23,350 (\$22,750 for 1994) for single filers; \$39,000 (\$38,000 for 1994) for joint filers or surviving spouses; \$19,500 (\$19,000 for 1994) for married persons filing separately; and \$31,250 (\$30,500 for 1994) for heads of household. The 28 percent tax bracket applied to taxable income in excess of the 15 percent bracket ceiling and equal to or below \$56,550 (\$55,100 for 1994) for single filers; \$94,250 (\$91,850 for 1994) for joint filers or surviving spouses; \$47,125 (\$45,925 for 1994) for married persons filing separately; and \$80,750 (\$78,700 for 1994) for heads of household. The 31 percent tax bracket applied to taxable income in excess of the 28 percent bracket ceiling and equal to or below \$117,950 (\$115,000 for 1994) for single filers; \$143,600 (\$140,000 for 1994) for joint filers or surviving spouses; \$71,800 (\$70,000 for 1994) for married persons filing separately; and \$130,800 (\$127,500 for 1994) for heads of households. The 36 percent tax bracket applied to taxable income in excess of the 31 percent bracket ceiling and equal to or below \$256,500 (\$250,000 for 1994) for single filers, joint filers or surviving spouses, and heads of households and \$128,250 (\$125,000 for 1994) for married persons filing separately. The 39.6 percent tax rate applied to taxable income in excess of the upper boundary for the 36 percent tax bracket.

### Data Sources and Limitations

These statistics are based on a sample of individual income tax returns (Forms 1040, 1040A, 1040EZ, 1040T, and 1040PC; including electronically-filed returns) filed during Calendar Year 1996. Returns in the sample were stratified based on: (1) the larger of positive income or negative income; (2) the size of business and farm receipts; (3) the presence or absence of specific forms or

schedules; and (4) the usefulness of returns for tax policy modeling purposes [10]. Returns were then selected at rates ranging from 0.02 percent to 100 percent. The 1995 data are based on a sample of 114,591 returns and an estimated final population of 118,650,252 returns. The corresponding sample and population for the 1994 data were 108,861 and 116,878,243 returns, respectively.

Since the data presented here are estimates based on a sample of returns filed, they are subject to sampling error. To properly use the statistical data provided, the magnitude of the potential sampling error must be known; coefficients of variation (CV's) are used to measure that magnitude. Estimated CV's for the numbers of returns and money amounts for selected income items are presented in Figure M. The reliability of estimates based on samples, and the use of coefficients of variation for evaluating the precision of estimates based on samples, are discussed in the appendix to this issue of the *Bulletin*.

### Notes and References

- [1] U.S. Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review*. The consumer price index (CPI-U) represents annual averages of monthly figures and reflects buying patterns of all urban consumers (1982-84=100):

<u>Year</u>	<u>CPI-U</u>	<u>Year</u>	<u>CPI-U</u>
1995	152.4	1986	109.6
1994	148.2	1985	107.6
1993	144.5	1984	103.9
1992	140.3	1983	99.6
1991	136.2	1982	96.5
1990	130.7	1981	90.9
1989	124.0	1980	82.4
1988	118.3	1979	72.6
1987	113.6		

- [2] "A26 Domestic Financial Statistics, Interest Rates," *Federal Reserve Bulletin*, July 1995, September 1995, December 1995, Volume 81; and March 1996, Volume 82.
- [3] U.S. Bureau of Labor Statistics as reported in *Economic Report of the President, 1996*, p. 346.
- [4] For purposes of this article, total negative income is a compilation of all income items on individual income tax returns (Forms 1040, 1040A, 1040EZ, 1040PC, and electronically-filed returns) for which a loss was reported by the taxpayer. The Form 1040 income tax return entry for Schedule E, *Supplemental Income*

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## Figure M

### Coefficients of Variation for Selected Items, Tax Year 1995

[Number of returns is in thousands--money amounts are in millions of dollars--coefficients of variation are percentages]

Item	Number of returns	Coefficient of variation	Amount	Coefficient of variation
	(1)	(2)	(3)	(4)
Adjusted gross income (less deficit).....	118,218	0.06	4,189,354	0.17
Salaries and wages.....	101,139	0.18	3,201,457	0.28
Business or profession:				
Net income.....	12,217	0.68	191,810	1.16
Net loss.....	3,956	1.85	22,466	2.32
Net capital gain (less loss) reported on Schedule D:				
Net gain.....	10,151	1.18	176,473	0.87
Net loss.....	5,134	1.78	9,715	1.92
Taxable Individual Retirement Arrangement distributions.....	5,256	1.94	37,316	3.11
Taxable pensions and annuities.....	18,415	0.95	221,053	1.40
Partnership and S Corporation:				
Net income.....	3,567	1.74	166,419	1.05
Net loss.....	2,055	2.61	40,666	1.65
Estate and trust:				
Net income.....	507	5.20	6,871	4.81
Net loss.....	41	15.91	817	7.08
Unemployment compensation.....	7,985	1.74	19,336	2.35
Taxable social security benefits.....	6,598	1.56	45,715	1.89
Other income:				
Net income.....	4,413	1.99	19,111	2.70
Net loss.....	210	8.28	3,592	6.56
Payments to an Individual Retirement Arrangement.....	4,301	2.15	8,338	2.22
Moving expenses adjustment.....	880	5.22	1,720	7.45
Deduction for self-employment tax.....	12,849	0.75	13,342	1.13
Self-employed health insurance deduction.....	3,011	1.83	2,601	2.01
Total statutory adjustments.....	18,209	0.78	41,140	1.24
Total standard deduction.....	83,223	0.24	413,585	0.31
Interest paid deduction.....	28,705	0.65	215,078	0.72
Taxes paid deduction.....	33,530	0.57	188,644	0.50
Charitable contributions deduction.....	30,541	0.61	74,992	0.96
Total itemized deductions after limitation.....	34,008	0.56	527,374	0.55
Taxable income.....	94,612	0.24	2,813,826	0.22
Total earned income credit.....	19,334	0.98	25,956	1.20
Foreign tax credit.....	1,731	1.69	2,965	4.28
Total tax credits.....	15,240	1.17	10,040	1.67
Total income tax.....	89,253	0.27	588,419	0.24

and Loss (From rental real estate, royalties, partnerships, S Corporations, estates, trusts, REMICs, etc.), was separated into the following components: rent and royalty net loss, partnership and S Corporation net loss, and estate and trust net loss. When any of these components were negative on a return, the corresponding loss (rather than the netted total amount from Schedule E) was included in the statistics for total net loss. For example, if a return showed estate and trust net income of \$20,000 and rent and royalty net loss of \$12,000, total net loss would include the \$12,000 of estate and trust net loss, rather than the \$8,000 netted total of both sources of

supplemental income.

- [5] Net operating loss is a carryover of the loss of a business when AGI for a prior year was less than zero. The loss could be applied to the AGI for the current year and carried forward for up to 15 years. Net operating loss is included in other income and edited separately for SOI purposes.
- [6] The remaining 0.8 percent of the returns did not claim either a standard deduction or itemized deductions because no AGI was reported.
- [7] Average AGI is defined as the amount of AGI

## Individual Income Tax Returns, 1995

divided by the number of returns filed. Average taxable income is defined as the amount of taxable income divided by the number of returns with taxable income. Average total income tax is defined as the amount of total income tax divided by the number of taxable returns. Taxable returns are defined as returns with “total income tax” (the sum of income tax after credits and the alternative minimum tax) present.

[8] U.S. Congress, *Omnibus Budget Reconciliation Act of 1993* (H.R. 2264, 103rd Congress; Public Law 103-66), August 10, 1993.

[9] Losses generated by any “flow-through” business activity (i.e., such as partnerships or S Corporations for which profits and certain other amounts are passed through to the owners for taxation) in which the taxpayer did not “materially participate” (i.e., was not involved regularly and substantially in the operations

of the activity) are categorized as passive activity losses. TRA86 gradually eliminated the use of passive losses as offsets to nonpassive income, such as salaries and wages. TRA86 provided for a 5-year phase-in (ending in 1991) of the limitations on passive losses for investments made prior to 1987; since Tax Year 1991, the restrictions applied to all passive losses. However, exceptions up to \$25,000 were made for certain real estate losses. Under prior law, passive losses were fully deductible.

[10] Returns in the sample were stratified based on the presence or absence of one or more of the following forms or schedules: Form 2555, *Foreign Earned Income*; Form 1116, *Foreign Tax Credit (Individual, Fiduciary, or Nonresident Alien Individual)*; Schedule C, *Profit or Loss from Business (Sole Proprietorship)*; and Schedule F, *Profit or Loss From Farming*.

SOURCE: IRS, SOI Bulletin, Publication 1136, Fall 1997.