



Economics Group

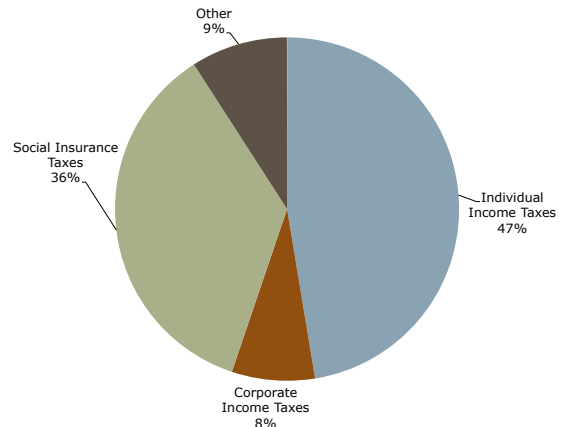
John E. Silvia, Chief Economist
john.silvia@wellsfargo.com • (704) 374-7034
Michael A. Brown, Economist
michael.a.brown@wellsfargo.com • (704) 715-0569

Income Tax Analysis: Who Pays?

This election cycle has been dominated by discussions about tax reform. In particular, who is paying the largest share of taxes? We explore the IRS data to answer this question.

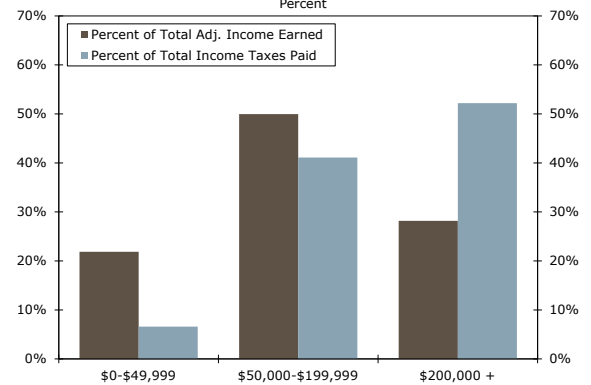
Two Ways to Measure Who Pays the Most

Individual tax collections are an essential component of the functioning of the federal government. Of all the revenues collected by the federal government, individual income taxes make up the largest share at 47 percent of total federal government revenues (top chart). The most reliable source of tax collections data is the IRS's annual tax statistics data. We will look at the 2010 tax data in two ways in order to gauge which income brackets pay more in income taxes. The first metric is the share of total income taxes paid by each income level. The second metric is the total taxes paid by each income level as a share of total adjusted income. While somewhat different than effective tax rates, this metric accounts for the large differences in number of taxpayers across income groups as well as the income earnings across these groups.



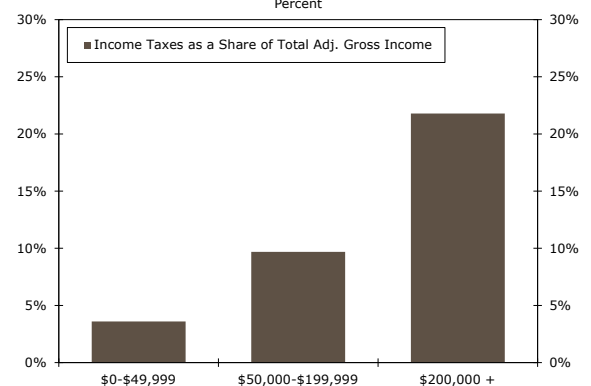
The first of these metrics is the percent of total income taxes paid (middle graph). Using this metric we can clearly see that those earning \$200,000 or more a year pay 52.2 percent of all income taxes, but only earn 28.2 percent of the total adjusted income produced in the country. In contrast, those individuals making between \$50,000 and \$200,000 per year in adjusted gross income make 50 percent of the nation's total income, but only pay 41.1 percent of all the individual income taxes collected. The bottom income group (\$0-\$49,999) earns 22 percent of the nation's income and pays 6.6 percent of total income taxes.

Income and Individual Tax Rates - 2010



Another way to look at the disparities in taxes paid across the income spectrum is to compare the aggregated total amount of taxes paid as a share of adjusted gross income by each income group. The greatest number of taxpayers is in the \$50,000-\$199,999 income bracket which in aggregate has paid 10 percent of their income in taxes (bottom graph). In contrast, the top income bracket in aggregate paid around 22 percent of their adjusted gross income in taxes, while the lowest income bracket paid 3.6 percent of their income in taxes.

Income Taxes Paid by Income Level - 2010



We Are All In This Together

The importance for tax policy can not be understated. We know that tax policy can dramatically affect consumer behavior through incentive effects. While increased taxes on any group has negative economic effects, the reality of the current federal fiscal situation dictates that a balanced approach of spending cuts in tandem with raising rates and expanding the base of taxpayers is needed. In other words, since we are all in this together, everyone must participate in funding federal government operations in some form, whether it includes a loss of some benefits at the lower end of the income spectrum, or middle and upper income individuals having to pay higher tax rates.

Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 715-8437 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wellsfargo.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(704) 715-0314	eugenio.j.aleman@wellsfargo.com
Sam Bullard	Senior Economist	(704) 383-7372	sam.bullard@wellsfargo.com
Anika Khan	Senior Economist	(704) 715-0575	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 374-4407	tim.quinlan@wellsfargo.com
Michael A. Brown	Economist	(704) 715-0569	michael.a.brown@wellsfargo.com
Sarah Watt	Economic Analyst	(704) 374-7142	sarah.watt@wellsfargo.com
Kaylyn Swankoski	Economic Analyst	(704) 715-0526	kaylyn.swankoski@wellsfargo.com
Sara Silverman	Economic Analyst	(704) 715-7395	sara.silverman@wellsfargo.com
Zachary Griffiths	Economic Analyst	(704) 715-1030	zachary.griffiths@wellsfargo.com
Peg Gavin	Executive Assistant	(704) 383-9613	peg.gavin@wellsfargo.com
Cyndi Flowe	Administrative Assistant	(704) 715-3985	cyndi.h.flowe@wellsfargo.com

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