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# Overview of the Federal Tax System in 2024

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## Overview of the Federal Tax System in 2024

This report describes the federal tax structure and system in effect for 2024. The report also provides selected statistics on the tax system as a whole. Historically, the largest component of the federal tax system, in terms of revenue generated, has been the individual income tax. In FY2023, \$2.2 trillion, or 49% of the federal government's revenue, was collected from the individual income tax. The corporate income tax generated another \$420 billion in revenue in FY2023, or 9% of total revenue. Social insurance or payroll taxes generated \$1.6 trillion, or 36% of revenue in FY2023. In FY2023, total revenues were 16.5% of gross domestic product (GDP), slightly below the post-World War II average of 17.0% of GDP.

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

The federal government also levies taxes on corporations, wage earnings, estates and gifts, and certain goods. Corporate taxable income is subject to tax at a flat rate of 21%. Social Security and Medicare tax rates are, respectively, 12.4% and 2.9% of earnings. In 2024, Social Security taxes are levied on the first \$168,600 of wages. Medicare taxes are assessed against all wage income. Federal excise taxes are levied on specific goods, such as transportation fuels, alcohol, and tobacco.

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

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

At the end of 2017, President Trump signed into law P.L. 115-97 (commonly referred to as the “Tax Cuts and Jobs Act” [TCJA]), which substantially changed the U.S. federal tax system. Consequently, the federal tax system differs from what was in effect for 2017 and what it is scheduled to look like in 2026.<sup>1</sup> Most of the changes to the individual income tax system in P.L. 115-97 are temporary and scheduled to expire at the end of 2025. Under current law, after 2025 the individual income tax system is slated to look more like the system that was in effect for 2017. In contrast, many of the changes made in P.L. 115-97 affecting corporations are permanent.<sup>2</sup>

This report provides an overview of the federal tax system in effect for 2024, including the individual income tax, corporate income tax, payroll taxes, estate and gift taxes, and federal excise taxes.

## The Federal Tax System

The largest component of the federal tax system, in terms of revenue generated, is the individual income tax. In FY2023, the individual income tax generated \$2.2 trillion in federal revenue (**Figure 1**). In FY2023, 49% of federal revenue came from the individual income tax. In FY2023, corporate income tax receipts were \$420 billion, or 9% of total federal revenues.

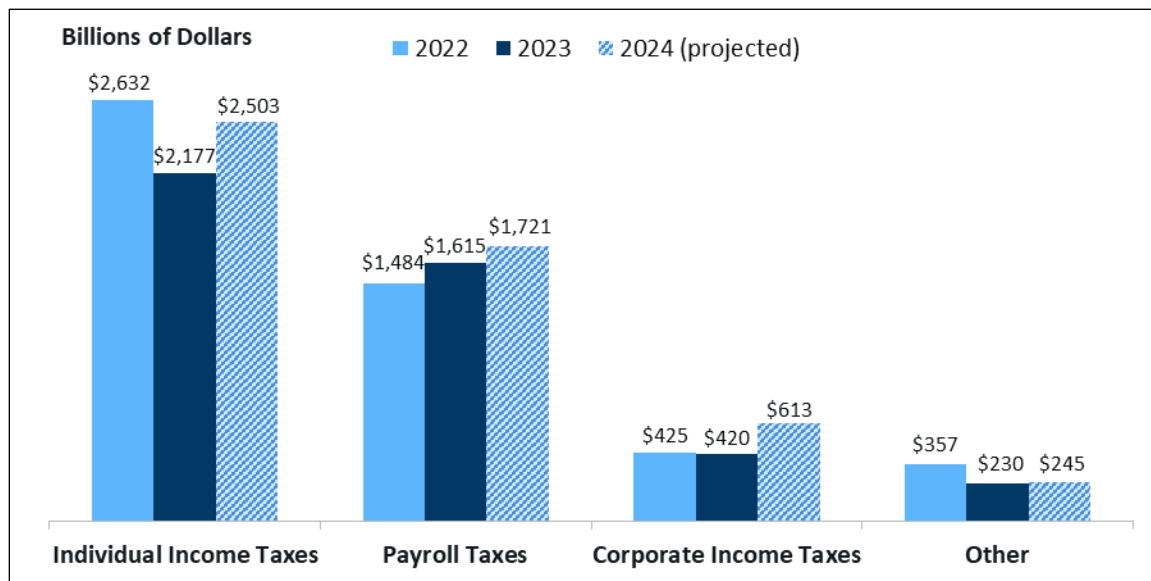
The second-largest source of federal revenue is payroll taxes.<sup>3</sup> In FY2023, payroll taxes generated \$1.6 trillion in federal revenue (36% of the total revenue). Receipts from other sources were \$230 billion in FY2023 (5% of the total receipts).

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<sup>1</sup> See CRS Report R45053, *The Federal Tax System for the 2017 Tax Year*, by Molly F. Sherlock and Donald J. Marples.

<sup>2</sup> Information on changes to the tax system enacted in the 2017 tax revision (P.L. 115-97) can be found in CRS Report R45092, *The 2017 Tax Revision (P.L. 115-97): Comparison to 2017 Tax Law*, coordinated by Molly F. Sherlock and Donald J. Marples, and the expiring provisions can be seen in CRS Report R47846, *Reference Table: Expiring Provisions in the “Tax Cuts and Jobs Act” (TCJA, P.L. 115-97)*, by Donald J. Marples and Brendan McDermott.

<sup>3</sup> This category is “Social Insurance and Retirement Receipts” in the Office of Management and Budget’s Historical Tables. Most of the revenue in this category is collected through various payroll taxes. There are, however, some collections that come in the form of retirement contributions.

**Figure 1. Federal Revenue by Source: FY2022-FY2024**

**Source:** Office of Management and Budget (OMB), Historical Tables, Table 2.1, <https://www.whitehouse.gov/omb/historical-tables/>.

## The Individual Income Tax

Income taxed by the individual income taxes comes from a variety of sources. Most of the income reported on individual income tax returns is wages and salaries. CBO projects that in 2024, 65% of total income reported on individual income tax returns will be from salaries and wages.<sup>4</sup> The United States also taxes a substantial portion of business income using the individual income tax system. Pass-through businesses, such as sole proprietorships, partnerships, and S corporations, generally pass business income through to the business's owners, who pay taxes on that income at individual income tax rates.<sup>5</sup> CBO projects that 10% of total income that individual taxpayers reported in FY2024 will be net business income, including pass-through business income, farm income, or Schedule E income.<sup>6</sup> Another 12% of taxable income is retirement related, in the form of taxable pensions, annuities, IRA distributions, or Social Security benefits.<sup>7</sup>

## Gross Income and Adjustments

Levying an income tax requires defining income. Economists tend to define income broadly—for example, the widely used Haig-Simons comprehensive income definition states that taxable resources equal the change in a taxpayer's ability to consume during the tax year.<sup>8</sup> Equivalently,

<sup>4</sup> Congressional Budget Office (CBO), *An Update To The Budget and Economic Outlook: 2024 to 2034*, June 2024, <https://www.cbo.gov/publication/60039>.

<sup>5</sup> See CRS Report R43104, *A Brief Overview of Business Types and Their Tax Treatment*, by Mark P. Keightley.

<sup>6</sup> In addition to business income, Schedule E income includes income or losses from rental property, royalties, estates, and trusts.

<sup>7</sup> CBO, *An Update To The Budget and Economic Outlook: 2024 to 2034*.

<sup>8</sup> The Haig-Simons comprehensive income definition was first developed in Robert Murray Haig, "The Concept of Income—Economic and Legal Aspects," in *The Federal Income Tax*, ed. Robert Murray Haig (New York, NY: Columbia University Press, 1921), pp. 1-28; and Henry C. Simons, *Personal Income Taxation: The Definition of* (continued...)

income is the change in the value of a taxpayer's wealth (i.e., net saving), plus any consumption by the taxpayer during the year on an accrual basis. For example, this definition of income would consider an employer's contributions toward employee health insurance part of the employee's income.

In practice, the tax code applies the individual income tax to an individual's gross income "from whatever source derived," minus some noteworthy exceptions.<sup>9</sup> This base includes many sources of income, such as wages; salaries; tips; taxable interest and dividend income; business and farm income; realized net capital gains; taxable pension and annuity income; and income from rents, royalties, trusts, estates, and partnerships. The tax code also excludes certain forms of income from taxation. For example, employer-provided health insurance, pension contributions, and certain other employee benefits all enable an employee to consume more than they otherwise would, meeting the Haig-Simons definition of income, yet are excluded from income subject to tax.<sup>10</sup> The employer's portion of Social Security taxes on the employee's behalf is also excluded from income. Other exclusions include amounts received under life insurance contracts, interest received on certain state and local bonds, and some forgiven debts.<sup>11</sup>

Income classified as capital gains or dividends is subject to tax, but treated under advantageous rules.<sup>12</sup> Capital gains (or losses) are the change in an asset's value from when it is bought to when it is sold. Taxpayers only include capital gains in taxable income in the year when they sell the asset (in tax parlance, the year in which they "realize" the gain.)<sup>13</sup> The tax base excludes unrealized capital gains, even though they represent an increase in wealth for the assets' owners—and therefore increase their ability to consume.<sup>14</sup> When realized and therefore subject to tax, some capital gains and dividends also face reduced tax rates (discussed below in the "Tax Rates" section).<sup>15</sup> As with ordinary income, some capital gains can be excluded from income subject to tax. For example, certain capital gains on sales of primary residences are excluded from income.<sup>16</sup>

Income from pass-through businesses is also subject to the individual income tax, rather than the corporate income tax. Pass-through businesses include proprietorships, partnerships, or small business corporations that elect to be treated similarly to a partnership (Subchapter S corporation). Income from rental property is also subject to the individual income tax.<sup>17</sup> Business income equals gross receipts, reduced by such deductible costs as payments to labor, depreciation, costs of goods acquired for resale and other inputs, interest, and certain taxes.

Taxpayers can also deduct, or subtract, the value of some expenses from their income subject to tax. A taxpayer's adjusted gross income (AGI), the basic measure of income under the federal

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*Income as a Problem of Fiscal Policy* (Chicago, IL: University of Chicago Press, 1938). An overview of the concept can be found in Jonathan Gruber, *Public Finance and Public Policy*, 7<sup>th</sup> ed. (New York, NY: Worth Publishers, 2022).

<sup>9</sup> 26 U.S.C. §61(a).

<sup>10</sup> Exclusions are a form of "tax expenditure." Tax expenditures are revenue losses associated with targeted provisions that move the income tax away from a "theoretical normal" tax system.

<sup>11</sup> See CRS Report RL30638, *Tax-Exempt Bonds: A Description of State and Local Government Debt*, by Grant A. Driessen, and CRS In Focus IF11535, *The Tax Treatment of Canceled Mortgage Debt*, by Mark P. Keightley.

<sup>12</sup> See CRS Report 96-769, *Capital Gains Taxes: An Overview*, by Jane G. Gravelle; and CRS Report R43418, *The Taxation of Dividends: Background and Overview*, by Jane G. Gravelle and Molly F. Sherlock.

<sup>13</sup> Capital losses are generally deductible against capital gains. Taxpayers can also deduct up to \$3,000 of capital losses from ordinary income per tax year (the deduction is limited to \$1,500 for married taxpayers filing separately).

<sup>14</sup> Unrealized capital gains are also excluded at death.

<sup>15</sup> Qualified dividends, which are generally dividends that have met certain holding period requirements, are taxed at the same reduced rate as capital gains.

<sup>16</sup> See CRS Report RL32978, *The Exclusion of Capital Gains for Owner-Occupied Housing*, by Jane G. Gravelle.

<sup>17</sup> See CRS Report R43104, *A Brief Overview of Business Types and Their Tax Treatment*, by Mark P. Keightley.

income tax, is determined by subtracting “above-the-line” deductions from gross income.<sup>18</sup> Above-the-line deductions are available to taxpayers regardless of whether they itemize deductions or claim the standard deduction (discussed further in “Filing Status and Deductions”). Taxpayers can claim above-the-line deductions for contributions to qualified retirement plans by self-employed individuals, contributions to individual retirement accounts (IRAs),<sup>19</sup> interest paid on student loans, and contributions to health savings accounts, among other items.<sup>20</sup>

## Filing Status and Deductions

Tax liability depends on the filing status of the taxpayer. There are four main filing categories: married filing jointly, married filing separately, head of household, and single individual.<sup>21</sup> The computation of taxpayers’ tax liability depends on their filing status, as discussed further below.

Taxpayers can choose between claiming the standard deduction or claiming the sum of their itemized deductions. The standard deduction amount depends on filing status. The 2024 standard deduction for single filers is \$14,600, while the standard deduction for married taxpayers filing jointly is twice that amount, or \$29,200. The standard deduction for a head of household is \$21,900. There is an additional standard deduction for taxpayers who are elderly (age 65 and older) or blind.<sup>22</sup> The standard deduction amounts are indexed for inflation.<sup>23</sup>

When the sum of taxpayers’ itemized deductions exceeds the standard deduction, taxpayers will likely choose to claim the sum of their itemized deductions. These deductions include those for mortgage interest<sup>24</sup> and charitable contributions.<sup>25</sup> Taxpayers can also claim up to \$10,000 (\$5,000 for married taxpayers filing separately) in total deductions for state and local taxes (income, sales, or property taxes).<sup>26</sup>

Some deductions can only be itemized and claimed in excess of a floor. For example, taxpayers can deduct medical expenses to the extent those expenses exceed 7.5% of AGI. Casualty and theft losses attributable to federally declared disasters can also be deducted in excess of 10% of AGI.<sup>27</sup>

<sup>18</sup> A list of “above the line” deductions can be found in Internal Revenue Code (IRC) §62.

<sup>19</sup> See CRS Report RL34397, *Traditional and Roth Individual Retirement Accounts (IRAs): A Primer*, by Elizabeth A. Myers.

<sup>20</sup> See CRS Report R45277, *Health Savings Accounts (HSAs)*, by Ryan J. Rosso.

<sup>21</sup> A fifth filing status, qualified surviving spouse, allows certain individuals whose spouse recently died and who have at least one child dependent to use a filing status similar to married filing jointly.

<sup>22</sup> The additional standard deduction for married taxpayers filing jointly is \$1,550 per spouse that is either blind or elderly (or \$3,100 if both blind and elderly). For single and head of household taxpayers, the additional standard deduction is \$1,950 (or \$3,900 if both blind and elderly).

<sup>23</sup> Beginning after 2018, the standard deduction is indexed for inflation using the Chained Consumer Price Index (C-CPI-U). For background information, see CRS Report R43347, *Budgetary and Distributional Effects of Adopting the Chained CPI*, by Donald J. Marples.

<sup>24</sup> See CRS In Focus IF11540, *The Mortgage Interest Deduction*, by Mark P. Keightley; and CRS Report R46429, *An Economic Analysis of the Mortgage Interest Deduction*, by Mark P. Keightley.

<sup>25</sup> See CRS In Focus IF11022, *The Charitable Deduction for Individuals*, by Margot L. Crandall-Hollick and Molly F. Sherlock; CRS Insight IN11420, *Temporary Enhancements to Charitable Contributions Deductions in the CARES Act*, by Jane G. Gravelle; and CRS Report R45922, *Tax Issues Relating to Charitable Contributions and Organizations*, by Jane G. Gravelle, Donald J. Marples, and Molly F. Sherlock.

<sup>26</sup> See CRS Report R46246, *The SALT Cap: Overview and Analysis*, by Grant A. Driessen and Joseph S. Hughes.

<sup>27</sup> CRS In Focus IF12574, *The Casualty and Theft Loss Deduction*, by Brendan McDermott. Congress has at times modified the casualty loss deduction for certain losses. In recent years, the modifications typically include (1) waiving the 10% of AGI floor; (2) increasing the \$100 floor for each casualty to \$500; and (3) allowing taxpayers not itemizing deductions to add the deduction to their standard deduction.



The TCJA nearly doubled the standard deduction and instituted or tightened limits on many itemized deductions, both of which discouraged itemization. These changes took effect in 2018 and are scheduled to expire after 2025. The IRS estimated that 31% of tax filers itemized deductions in 2017;<sup>28</sup> under the changes imposed by the TCJA, the Joint Committee on Taxation estimates 10% of taxpayers will itemize their deductions on their 2024 tax returns.<sup>29</sup>

### ***Deduction for Qualified Business Income***

Through 2025, some taxpayers with business income can deduct a portion of that income from their income subject to tax.<sup>30</sup> Specifically, individual taxpayers can deduct 20% of qualified business income from a partnership, S corporation, or sole proprietorship. Individual taxpayers can also deduct 20% of qualified Real Estate Investment Trust (REIT) dividends, publicly traded partnership income, and cooperative dividends.

For certain taxpayers, the deduction is subject to two limitations. First, above threshold amounts, the deduction phases out for income from certain services such as health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or investing and investments management services. The phaseout ranges are adjusted annually for inflation. In 2024, they are \$383,900-\$483,900 for married taxpayers filing joint returns and \$191,950-\$241,950 for all other taxpayers.

Second, the deduction also faces limits based on the taxpayer's share of wages paid and depreciable assets of the associated business. Specifically, the deduction is limited to the greater of 50% of W-2 wages, or 25% of W-2 wages plus 2.5% of the cost of qualified property. This second limitation phases in over the same income range as the first limitation.

### **Tax Rates**

The income tax system is designed to be economically progressive, meaning statutory marginal tax rates rise as income increases.<sup>31</sup> The marginal tax rates are the rates that apply to each dollar of taxable income earned within their corresponding bracket. Once taxpayers' incomes surpass a threshold level, placing new income in a higher marginal tax bracket, the higher marginal tax rate only applies to income that exceeds that threshold.

In 2024, the individual income tax system has seven marginal income tax rates: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.<sup>32</sup> These marginal income tax rates are applied to taxable income to

<sup>28</sup> Internal Revenue Service Statistics of Income, *Individual Income Tax Returns Complete Report*, Publication 1304, September 2019.

<sup>29</sup> The Joint Committee on Taxation (JCT) estimates that for the 2024 tax year, approximately 150.3 million taxpayers will claim the standard deduction while 16.4 million taxpayers will itemize deductions. See JCT, *Overview Of The Federal Tax System As In Effect For 2024*, JCX-26-24, May 23, 2024.

<sup>30</sup> See CRS Report R46402, *The Section 199A Deduction: How It Works and Illustrative Examples*, by Gary Guenther; and CRS In Focus IF11122, *Section 199A Deduction for Pass-Through Business Income: An Overview*, by Gary Guenther. For additional information, congressional clients may contact Donald Marples.

<sup>31</sup> A marginal tax rate is the tax rate on the last dollar earned. See CRS In Focus IF12032, *How Do Marginal Income Tax Rates Work in 2021?*, by Margot L. Crandall-Hollick. For a discussion of various tax rate metrics, see CRS Report R44787, *Statutory, Average, and Effective Marginal Tax Rates in the Federal Individual Income Tax: Background and Analysis*, by Molly F. Sherlock. For additional information, congressional clients may contact Brendan McDermott.

<sup>32</sup> For historical perspective on marginal tax rates, see CRS Report RL34498, *Federal Individual Income Tax Brackets, Standard Deduction, and Personal Exemption: 1988 to 2024*, by Gary Guenther. For additional information, congressional clients may contact Brendan McDermott.



arrive at a taxpayer's gross income tax liability.<sup>33</sup> Threshold levels associated with the rate brackets depend on filing status. Tax rates for 2024 are summarized in **Table 1**.

For most taxpayers, their average tax rate (individual income taxes paid divided by income) is less than their statutory tax rate. This is due to the progressive nature of the tax system, coupled with a variety of tax preference items (credits, deductions, exclusions, etc.). Many taxpayers, particularly lower-income taxpayers, have negative average tax rates. Refundable tax credits, such as the earned income tax credit (EITC) (discussed below), can lead to negative average tax rates.

**Table 1. Statutory Marginal Tax Rates, 2024**

Tax Schedules by Filing Status

| <b>Married Filing Jointly</b> |      |           |  |
|-------------------------------|------|-----------|--|
| If taxable income is:         |      |           | Then, tax is:                                      |
| \$0                           | to   | \$23,200  | 10% of the amount over \$0                         |
| \$23,200                      | to   | \$94,300  | \$2,320 plus 12% of the amount over \$23,200       |
| \$94,300                      | to   | \$201,050 | \$10,852 plus 22% of the amount over \$94,300      |
| \$201,050                     | to   | \$383,900 | \$34,337 plus 24% of the amount over \$201,050     |
| \$383,900                     | to   | \$487,450 | \$78,221 plus 32% of the amount over \$383,900     |
| \$487,450                     | to   | \$731,200 | \$111,357 plus 35% of the amount over \$487,450    |
| \$731,200                     | plus |           | \$196,669.50 plus 37% of the amount over \$731,200 |
| <b>Single</b>                 |      |           |  |
| If taxable income is:         |      |           | Then, tax is:                                      |
| \$0                           | to   | \$11,600  | 10% of the amount over \$0                         |
| \$11,600                      | to   | \$47,150  | \$1,160 plus 12% of the amount over \$11,600       |
| \$47,150                      | to   | \$100,525 | \$5,426 plus 22% of the amount over \$47,150       |
| \$100,525                     | to   | \$191,950 | \$17,168.50 plus 24% of the amount over \$100,525  |
| \$191,950                     | to   | \$243,725 | \$39,110.50 plus 32% of the amount over \$191,950  |
| \$243,725                     | to   | \$609,350 | \$55,678.50 plus 35% of the amount over \$243,725  |
| \$609,350                     | plus |           | \$183,647.25 plus 37% of the amount over \$609,350 |
| <b>Heads of Households</b>    |      |           |  |
| If taxable income is:         |      |           | Then, tax is:                                      |
| \$0                           | to   | \$16,550  | 10% of the amount over \$0                         |
| \$16,550                      | to   | \$63,100  | \$1,655 plus 12% of the amount over \$16,550       |
| \$63,100                      | to   | \$100,500 | \$7,241 plus 22% of the amount over \$63,100       |
| \$100,500                     | to   | \$191,950 | \$15,469 plus 24% of the amount over \$100,500     |

<sup>33</sup> Take, for example, a single taxpayer with taxable income of \$50,000. That taxpayer would fall in the 22% statutory rate bracket. However, that taxpayer's tax liability would be the sum of taxes applied to income falling within the first three brackets, the 10%, 12%, and 22% brackets. Specifically, the taxpayer would pay \$1,160 (or 10%) on the first \$11,600 in taxable income, \$4,266 (or 12%) on the next \$35,550 in taxable income, and \$627 (or 22%) on the last \$2,850 in income. Thus, the taxpayer's total tax bill would be \$6,053 on \$50,000 in taxable income. Even though this taxpayer is in the 22% tax bracket, their average tax rate is 12.1%.

|           |      |           |  |
|-----------|------|-----------|--|
| \$191,950 | to   | \$243,700 | \$37,417 plus 32% of the amount over \$191,950     |
| \$243,700 | to   | \$609,350 | \$53,977 plus 35% of the amount over \$243,700     |
| \$609,350 | plus |           | \$181,954.50 plus 37% of the amount over \$609,350 |

**Source:** Internal Revenue Code §1 and Internal Revenue Service (IRS) Rev. Proc. 2023-34.

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

### ***Tax Rates on Capital Gains and Dividends***

As was noted above, income earned from certain long-term capital gains and qualified dividends may be taxed at lower rates. Capital gains income must be earned on assets the taxpayer held for at least a year to qualify, while qualified dividends generally must be held for 60 of the 121 days prior to the payment of the dividend.

The marginal rates on long-term capital gains and qualified dividends are 0%, 15%, and 20%. The brackets for these rates are linked to the brackets for ordinary income that were in effect before P.L. 115-97 was enacted. The 20% rate applies to taxpayers that would have been in the 39.6% bracket under the pre-P.L. 115-97 rate structure. Taxpayers that would have been in the 25%, 28%, 33%, and 35% tax brackets under the former rate structure face a 15% tax rate on long-term capital gains and qualified dividends, whereas the rate is 0% for taxpayers that would have been in the 10% and 15% tax brackets under the former rate structure. The taxable income thresholds for long-term capital gains and qualified dividends in 2024 are summarized in **Table 2**.

**Table 2. Maximum Tax Rate on Long-Term Capital Gains and Qualified Dividends, 2024**

| <b>Married Filing Jointly</b> |                 | <b>Single</b>         |                 | <b>Heads of Households</b> |                 |
|-------------------------------|-----------------|-----------------------|-----------------|----------------------------|-----------------|
| <b>Taxable Income</b>         | <b>Tax Rate</b> | <b>Taxable Income</b> | <b>Tax Rate</b> | <b>Taxable Income</b>      | <b>Tax Rate</b> |
| Less than \$94,050            | 0%              | Less than \$47,025    | 0%              | Less than \$63,000         | 0%              |
| \$94,050 to \$583,750         | 15%             | \$47,025 to \$518,900 | 15%             | \$63,000 to \$551,350      | 15%             |
| Above \$583,750               | 20%             | Above \$518,900       | 20%             | Above \$551,350            | 20%             |

**Source:** Internal Revenue Code §1 and Internal Revenue Service (IRS) Rev. Proc. 2023-34.

### ***Net Investment Income<sup>34</sup>***

Certain higher-income individuals may be subject to an additional 3.8% tax on net investment income. Specifically, the tax applies to the lesser of (1) net investment income, or (2) the amount by which modified AGI exceeds fixed threshold amounts.<sup>35</sup> The fixed threshold amounts are \$250,000 for taxpayers filing jointly and \$200,000 for most other filers.<sup>36</sup> The net investment income tax increases the maximum tax rate on capital gains and dividends to 23.8%. The

<sup>34</sup> See CRS In Focus IF11820, *The 3.8% Net Investment Income Tax: Overview, Data, and Policy Options*, by Mark P. Keightley.

<sup>35</sup> Modified AGI for this purpose is AGI increased by the amount excluded from income as foreign earned income.

<sup>36</sup> The threshold amount is \$125,000 for married taxpayers filing separate returns. These threshold amounts are not adjusted for inflation.

maximum rate on other investment income, including interest, annuities, royalties, and rent, is 40.8%.

## Tax Credits

After taxpayers calculate their gross tax liability, they next subtract tax credits to determine their final tax liability. Tax credits offset tax liability on a dollar-for-dollar basis.

There are two different types of tax credits: refundable and nonrefundable. If a tax credit is refundable and the credit amount exceeds tax liability, a taxpayer receives the credit (or a portion of the credit) as a tax refund. If credits are nonrefundable, then the credit is limited to the amount of tax liability. Most unused individual income tax credits cannot be carried forward to offset tax liability in future tax years. Some credits are phased out as income rises to limit or eliminate benefits for higher-income taxpayers.

Refundable or partially refundable tax credits include the earned income tax credit (EITC);<sup>37</sup> the child tax credit (CTC);<sup>38</sup> the health insurance premium tax credit;<sup>39</sup> and the American Opportunity Tax Credit (AOTC), a tax credit for tuition expenses.<sup>40</sup> Advanced refundable tax credits were also provided as a form of temporary relief in response to the COVID-19 pandemic.<sup>41</sup>

Nonrefundable tax credits include the credit for child and dependent care expenses,<sup>42</sup> as well as the Lifetime Learning Credit, a credit for certain education expenses.<sup>43</sup>

Tax credits can cause effective marginal tax rates to differ from statutory marginal tax rates for many taxpayers.<sup>44</sup> For example, the earned income tax credit (EITC) phases in as income increases, effectively reducing a taxpayer's marginal tax rate in that range. At higher income levels, as the credit phases out, the taxpayer faces a higher marginal tax rate during that phaseout

<sup>37</sup> See CRS Report R43805, *The Earned Income Tax Credit (EITC): How It Works and Who Receives It*, by Margot L. Crandall-Hollick, Gene Falk, and Conor F. Boyle; CRS Report R44057, *The Earned Income Tax Credit (EITC): An Economic Analysis*, by Margot L. Crandall-Hollick; CRS Report R44825, *The Earned Income Tax Credit (EITC): Legislative History*, by Margot L. Crandall-Hollick; and CRS Report R43873, *The Earned Income Tax Credit (EITC): Administrative and Compliance Challenges*, by Margot L. Crandall-Hollick.

<sup>38</sup> See CRS Report R41873, *The Child Tax Credit: How It Works and Who Receives It*, by Margot L. Crandall-Hollick; CRS In Focus IF11077, *The Child Tax Credit*, by Margot L. Crandall-Hollick; and CRS Report R45124, *The Child Tax Credit: Legislative History*, by Margot L. Crandall-Hollick.

<sup>39</sup> See CRS Report R44425, *Health Insurance Premium Tax Credit and Cost-Sharing Reductions*, by Bernadette Fernandez.

<sup>40</sup> See CRS Report R42561, *The American Opportunity Tax Credit: Overview, Analysis, and Policy Options*, by Margot L. Crandall-Hollick. For additional information, congressional clients may contact Brendan McDermott.

<sup>41</sup> See CRS Insight IN11605, *COVID-19 and Direct Payments: Comparison of First and Second Round of "Stimulus Checks" to the Third Round in the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2)*, by Margot L. Crandall-Hollick; and CRS Report R46415, *COVID-19 and Direct Payments: Overview and Resources*, coordinated by Margot L. Crandall-Hollick. For additional information, congressional clients may contact Brendan McDermott.

<sup>42</sup> See CRS Report R44993, *Child and Dependent Care Tax Benefits: How They Work and Who Receives Them*, by Margot L. Crandall-Hollick. For additional information, congressional clients may contact Brendan McDermott.

<sup>43</sup> See CRS Report R41967, *Higher Education Tax Benefits: Brief Overview and Budgetary Effects*, by Margot L. Crandall-Hollick. For additional information, congressional clients may contact Brendan McDermott.

<sup>44</sup> See CRS Report R44787, *Statutory, Average, and Effective Marginal Tax Rates in the Federal Individual Income Tax: Background and Analysis*, by Molly F. Sherlock. For additional information, congressional clients may contact Brendan McDermott.

range. Tax credits can also pose administrative challenges since they typically come with qualifications that can confuse well-intentioned taxpayers or present opportunities for abuse.<sup>45</sup>

## Alternative Minimum Tax

Individuals may also pay tax under the alternative minimum tax (AMT). The policy goal of the AMT is to prevent certain higher-income taxpayers from using the graduated personal income tax rate structure and tax preferences to avoid paying what lawmakers determine to be a sufficient amount of taxes.

The AMT is a parallel tax system that applies lower tax rates to a broader income base than the ordinary income tax system does. Filers pay the higher of their ordinary income tax liability or their AMT liability.<sup>46</sup>

To calculate the AMT, a filer first adds back to their regular taxable income various tax items, including certain itemized deductions and business tax preferences.<sup>47</sup> This larger measure of income becomes the income base for the AMT.

The taxpayer then subtracts a fixed dollar amount called the AMT exemption from the AMT's income base. For 2024, the AMT exemption amount is \$133,300 for married taxpayers filing a joint return, \$66,650 for married taxpayers filing separate returns, and \$85,700 for all other individual tax filers.<sup>48</sup> These exemption amounts are indexed for inflation. The AMT exemption is reduced by 25% of the amount by which a taxpayer's AMT taxable income exceeds certain threshold amounts. In 2024, the AMT exemption amount begins to phase out at \$1,218,700 for married taxpayers filing a joint return and \$609,350 for all other individual tax filers.<sup>49</sup>

The rate structure for the AMT has two brackets, 26% and 28%.<sup>50</sup> Most nonrefundable personal tax credits are allowed against the AMT. Few taxpayers are subject to the individual AMT. For 2024, the Joint Committee on Taxation (JCT) estimated that roughly 200,000 tax filers paid the AMT (out of the approximately 167 million projected income tax returns).<sup>51</sup>

## The Corporate Income Tax<sup>52</sup>

The corporate income tax generally only applies to C corporations (also known as regular corporations). These corporations—named for Subchapter C of the Internal Revenue Code (IRC), which details their tax treatment—are generally treated as taxable entities separate from their shareholders.<sup>53</sup> That is, corporate income is first taxed at the corporate level according to the corporate income tax system. When corporate dividend payments are made or capital gains are realized, income is taxed again at the individual-shareholder level according to the individual tax

<sup>45</sup> See CRS Report R43873, *The Earned Income Tax Credit (EITC): Administrative and Compliance Challenges*, by Margot L. Crandall-Hollick. For additional information, congressional clients may contact Brendan McDermott.

<sup>46</sup> See CRS Report R44494, *The Alternative Minimum Tax for Individuals: In Brief*, by Donald J. Marples.

<sup>47</sup> For example, the income tax base for the AMT does not allow a deduction for state and local taxes paid.

<sup>48</sup> Internal Revenue Service, *Internal Revenue Procedure 2023-34*, [https://www.irs.gov/irb/2023-48\\_IRB#REV-PROC-2023-34](https://www.irs.gov/irb/2023-48_IRB#REV-PROC-2023-34).

<sup>49</sup> While the AMT exemption begins to phase out at the same level for all filers who are not married filing jointly, it phases out more quickly for those who are married filing separately than for single or head of household filers.

<sup>50</sup> The 28% rate bracket threshold for 2024 is \$116,300 for married taxpayers filing separate returns and \$232,600 for all other taxpayers.

<sup>51</sup> JCT, *Overview Of The Federal Tax System As In Effect For 2024*.

<sup>52</sup> See CRS Report RL34229, *Corporate Tax Reform: Issues for Congress*, by Jane G. Gravelle.

<sup>53</sup> See CRS Report R43104, *A Brief Overview of Business Types and Their Tax Treatment*, by Mark P. Keightley.

system (discussed above) if received by a taxable entity. Research indicates that roughly one-quarter of dividends are subject to the individual income tax.<sup>54</sup> In contrast, noncorporate businesses, including S corporations<sup>55</sup> and partnerships,<sup>56</sup> pass their income through to owners who pay taxes. Collectively, these noncorporate business entities are referred to as pass-throughs. For these types of entities, business income is taxed only once, at individual income tax rates. As discussed above, taxpayers may be allowed to claim a 20% deduction from certain income earned by pass-through businesses.

The corporate income tax is designed as a tax on corporate profits (also known as net income). Broadly defined, corporate profit is total income minus the cost associated with generating that income.<sup>57</sup> Business expenses that may be deducted from income include employee compensation; the decline in value of machines, equipment, and structures (i.e., depreciation); general supplies and materials; advertising; and interest payments (subject to certain limitations).<sup>58</sup> Businesses may also be allowed to expense 60% (in 2024) of the basis of qualified property or to expense the costs of certain property.<sup>59</sup> The corporate income tax also allows for a number of other special deductions, credits, and tax preferences that reduce taxes paid by corporations. Oftentimes, these provisions are intended to promote particular policy goals (promoting charitable giving or encouraging investment in renewable energy, for example). A corporation's tax liability can be calculated as follows:

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

Some corporations experience net operating losses (NOLs), which occur when total income less expenses is negative.<sup>60</sup> Under permanent law, losses arising after 2017 can generally be “carried

<sup>54</sup> The research finds that the remaining dividends are received by foreigners (40%) and retirement accounts (30%). See Steve Rosenthal and Theo Burke, “Who’s Left to Tax? Grappling with Dwindling Shareholder Tax Base,” Tax Notes, April 1, 2024.

<sup>55</sup> An S corporation is a closely held corporation that elects to be treated as a pass-through entity for tax purposes. S corporations are named for Subchapter S of the IRC, which details their tax treatment. By electing S corporation status, a business is able to combine many of the legal and business advantages of a C corporation with the tax advantages of a partnership. See CRS Report R43104, *A Brief Overview of Business Types and Their Tax Treatment*, by Mark P. Keightley.

<sup>56</sup> A partnership is a joint venture consisting of at least two partners organized to operate a trade or business with each partner sharing profits, losses, deductions, credits, and the like. The most common partnerships include general partnerships, limited liability partnerships, limited partnerships, publicly traded partnerships, and electing large partnerships. For more information, see CRS Report R43104, *A Brief Overview of Business Types and Their Tax Treatment*, by Mark P. Keightley.

<sup>57</sup> The primary components of business income are revenues generated from the sale of goods and services. Other income sources include investment income, royalties, rents, and capital gains.

<sup>58</sup> The law commonly known as the Tax Cut and Jobs Act (P.L. 115-97) limits interest payments, with the limitation generally set at 30% of adjusted taxable income. The limitation does not apply to businesses with average gross receipts of \$25 million or less or to certain regulated public utilities. Temporary law enacted as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) relaxes the limitation to 50% of adjusted taxable income for tax years 2019 and 2020. See CRS Insight IN11287, *Limits on Business Interest Deductions Under the Coronavirus Aid, Relief, and Economic Security (CARES) Act*, by Jane G. Gravelle.

<sup>59</sup> See CRS Report RL31852, *The Section 179 and Section 168(k) Expensing Allowances: Current Law, Economic Effects, and Selected Policy Issues*, by Gary Guenther. For additional information, congressional clients may contact Anthony Cilluffo.

<sup>60</sup> See CRS Report R46377, *The Tax Treatment and Economics of Net Operating Losses*, by Mark P. Keightley.

forward” indefinitely, and used to offset future tax liability.<sup>61</sup> The NOL deduction is generally limited to 80% of taxable income.<sup>62</sup>

The corporate income tax rate is a flat 21%. Thus, tax liability before applying tax credits is generally calculated as 21% of taxable income. Corporate tax liability can be reduced by claiming corporate tax credits. Credits claimed by corporations include the research credit,<sup>63</sup> the low-income housing tax credit,<sup>64</sup> certain energy credits,<sup>65</sup> the new markets tax credit,<sup>66</sup> the work opportunity tax credit,<sup>67</sup> and an employer credit for paid family and medical leave.<sup>68</sup>

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

With the base of the corporate tax being largely equity income, the flow of capital out of the corporate sector and other economic adjustments likely cause a portion of the burden of the tax to spread to all owners of capital: owners of unincorporated business, bondholders, and homeowners. In analyzing the incidence of the corporate tax, the Congressional Budget Office (CBO) and the JCT generally distribute most of the burden to owners of capital, with a smaller portion falling on labor income.<sup>69</sup> Since owners of capital tend to be in higher income groups, and most of the corporate tax burden falls on capital, the corporate tax is widely viewed as being progressive.

<sup>61</sup> Temporary law enacted as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) allows for NOLs generated in taxable years beginning after December 31, 2017, and before January 1, 2021, to be carried back for up to five years and suspends the limit to 80% of taxable income for taxable years beginning before January 1, 2021. See CRS Insight IN11296, *Tax Treatment of Net Operating Losses (NOLs) in the Coronavirus Aid, Relief, and Economic Security (CARES) Act*, by Jane G. Gravelle.

<sup>62</sup> There are special rules for farming and insurance company losses.

<sup>63</sup> See CRS Report RL31181, *Federal Research Tax Credit: Current Law and Policy Issues*, by Gary Guenther; and CRS In Focus IF10757, *The 2017 Tax Law (P.L. 115-97) and Investment in Innovation*, by Gary Guenther. For additional information, congressional clients may contact Jane Gravelle.

<sup>64</sup> See CRS Report RS22389, *An Introduction to the Low-Income Housing Tax Credit*, by Mark P. Keightley; and CRS In Focus IF11335, *The Low-Income Housing Tax Credit: Policy Issues*, by Mark P. Keightley.

<sup>65</sup> See CRS Report R43453, *The Renewable Electricity Production Tax Credit: In Brief*, by Molly F. Sherlock; CRS In Focus IF10479, *The Energy Credit or Energy Investment Tax Credit (ITC)*, by Molly F. Sherlock; and CRS In Focus IF11455, *The Section 45Q Tax Credit for Carbon Sequestration*, by Angela C. Jones and Donald J. Marples.

<sup>66</sup> See CRS Report RL34402, *New Markets Tax Credit: An Introduction*, by Donald J. Marples and Sean Lowry.

<sup>67</sup> See CRS Report R43729, *The Work Opportunity Tax Credit*, by Benjamin Collins and Sarah A. Donovan.

<sup>68</sup> See CRS In Focus IF11141, *Employer Tax Credit for Paid Family and Medical Leave*, by Molly F. Sherlock. For additional information, congressional clients may contact Anthony Cilluffo.

<sup>69</sup> See CRS In Focus IF10742, *Who Pays the Corporate Tax?*, by Jane G. Gravelle.



## Corporate Income Earned Abroad<sup>70</sup>

There are a number of rules governing the taxation of foreign-source income earned by U.S. corporations. The United States has a quasiterritorial tax system (pure territorial tax systems tax only income earned within a country's borders). In general, dividends received by U.S. corporate shareholders from their controlled foreign corporations (CFCs) are eligible for a 100% dividends-received deduction. However, certain forms of passive or easily shifted income are taxed in the year earned under IRC Subpart F. In addition, global intangible low-taxed income (GILTI) is taxed at a rate of 10.5%.<sup>71</sup> A deduction is allowed for foreign-derived intangible income (FDII)—roughly the share of intangible income that is attributed to foreign activity.

Current law also contains a general antiabuse provision whose focus is primarily on U.S. subsidiaries of foreign parents, although it applies in general to all related parties. Unlike Subpart F or the GILTI provision, the base erosion and antiavoidance tax (BEAT) is not aimed at including income but at disallowing deductions for certain “base erosion” payments made by U.S. parents to their foreign subsidiaries that historically have been used to shift profits out of the United States. BEAT imposes a minimum tax which is equal to 10%, in 2024, of the sum of taxable income and base erosion payments on corporations with average annual gross receipts of at least \$500 million over the past three tax years and with deductions attributable to outbound payments exceeding 3% of overall deductions.<sup>72</sup>

## Social Insurance and Retirement Payroll Taxes

Payroll taxes are used to fund specific programs, largely Social Security and Medicare.<sup>73</sup> Social Security and Medicare taxes are generally paid at a combined rate of 15.3% of wages, with 7.65% being paid by the employee and employer alike.<sup>74</sup>

The Social Security part of the tax, or the old age, survivors, and disability insurance (OASDI) tax, is 6.2% for both employees and employers (12.4% in total).<sup>75</sup> In 2024, the tax applies to the first \$168,600 in wages. This wage base is adjusted annually for the growth in average wages.

The Medicare portion of the tax, or the Medicare hospital insurance (HI) tax, is 1.45% for both employees and employers (2.9% in total).<sup>76</sup> There is no wage cap for the HI tax (the Medicare HI tax applies to all wage earnings). Certain higher-income taxpayers may be subject to an additional HI tax of 0.9%. For married taxpayers filing jointly, combined wages above \$250,000 are subject

<sup>70</sup> See CRS Report R47003, *Corporate Income Taxation in a Global Economy*, by Jane G. Gravelle, Mark P. Keightley, and Donald J. Marples; CRS Report R45186, *Issues in International Corporate Taxation: The 2017 Revision (P.L. 115-97)*, by Jane G. Gravelle and Donald J. Marples; and CRS In Focus IF11809, *Trends and Proposals for Corporate Tax Revenue*, by Donald J. Marples and Jane G. Gravelle.

<sup>71</sup> The GILTI tax rate is 10.5% in 2018 and through 2025. After 2025, the GILTI tax rate is scheduled to increase to 13.125%. See CRS In Focus IF11943, *GILTI: Proposed Changes in the Taxation of Global Intangible Low-Taxed Income*, by Jane G. Gravelle.

<sup>72</sup> The BEAT tax rate increased from 5% in 2018 to 10% in 2019, and is scheduled to increase to 12.5% after 2025.

<sup>73</sup> The taxes are also known as Federal Insurance Contributions Act (FICA) taxes. See CRS Report R47062, *Payroll Taxes: An Overview of Taxes Imposed and Past Payroll Tax Relief*, by Anthony A. Cilluffo and Molly F. Sherlock.

<sup>74</sup> Self-employed taxpayers pay both the employer and employee share, but receive an income tax deduction for the employer-equivalent amount.

<sup>75</sup> See CRS Report R42035, *Social Security Primer*, by Dawn Nuschler.

<sup>76</sup> See CRS Report R40425, *Medicare Primer*, coordinated by Patricia A. Davis.



to the additional 0.9% HI tax.<sup>77</sup> The threshold for single and head of household filers is \$200,000. These threshold amounts are not indexed for inflation.

Employers may also be subject to a federal unemployment insurance payroll tax.<sup>78</sup> For most employers, this tax is 0.6% on the first \$7,000 of wages per worker.<sup>79</sup> Federal unemployment insurance payroll taxes are used to pay for the administrative costs of the unemployment insurance (UI) program. State UI taxes generally pay for UI benefits.<sup>80</sup>

Most taxpayers pay more in payroll taxes than income taxes. For 2023, the Tax Policy Center estimates that 62.6% of tax filing units will have a payroll tax liability that exceeds income tax liability.<sup>81</sup> Taxpayers closer to the top of the income distribution are more likely to have an income tax liability that exceeds payroll tax liability (see **Figure 2**).

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<sup>77</sup> The threshold amount for married taxpayers filing separately is \$125,000.

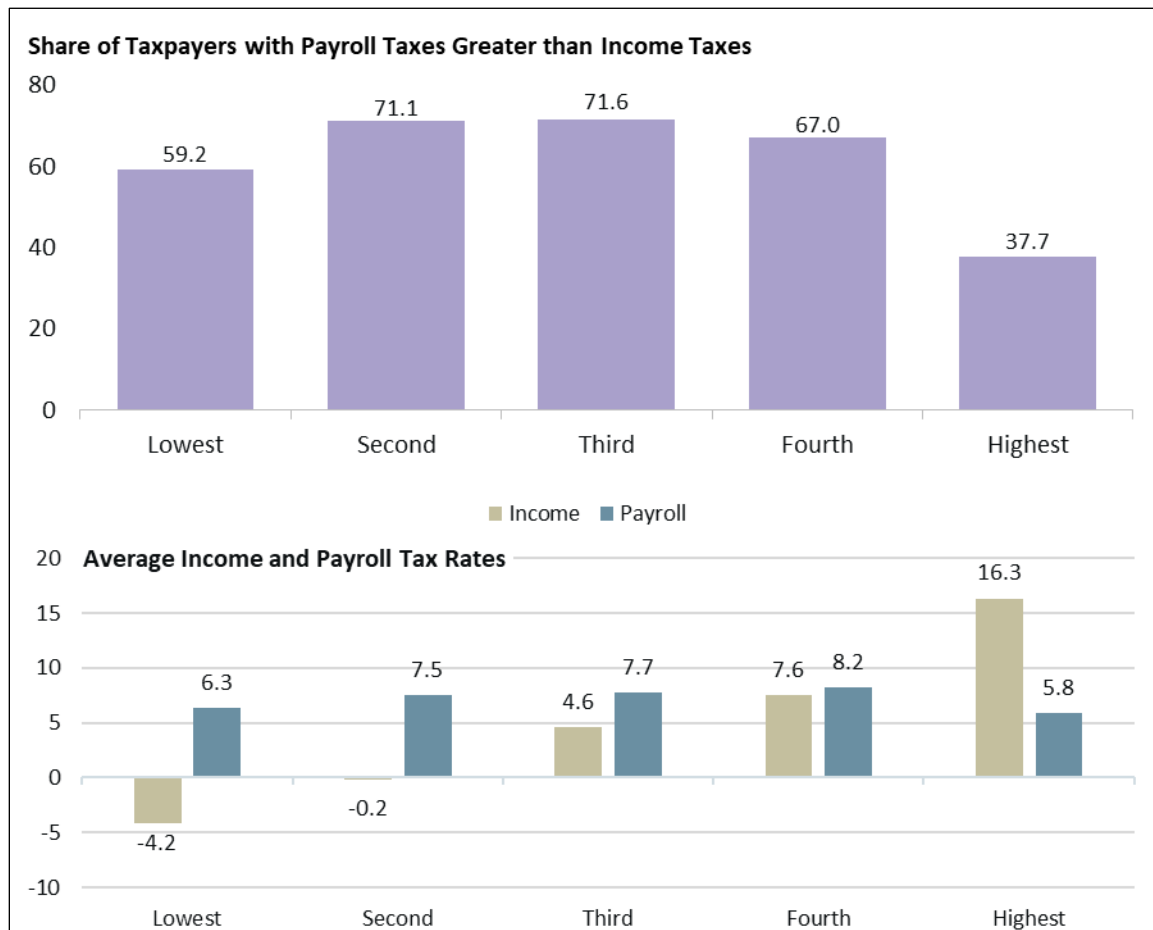
<sup>78</sup> See CRS In Focus IF10336, *The Fundamentals of Unemployment Compensation*, by Julie M. Whittaker and Katelin P. Isaacs; and CRS Report R44527, *Unemployment Compensation: The Fundamentals of the Federal Unemployment Tax (FUTA)*, by Julie M. Whittaker.

<sup>79</sup> The tax rate is 6% of total wages for each employee, up to \$7,000. However, there is a federal credit of 5.4% for state unemployment taxes, making the effective federal tax rate 0.6%, unless a tax credit reduction applies. In 2024, employers in California, New York, and the U.S. Virgin Islands were subject to a federal unemployment tax credit reduction.

<sup>80</sup> See CRS Report RL33362, *Unemployment Insurance: Programs and Benefits*, by Julie M. Whittaker and Katelin P. Isaacs.

<sup>81</sup> This analysis combines the employee-paid and employer-paid portions of payroll taxes. Tax Policy Center, *T22-0180—Distribution of Federal Payroll and Income Taxes Expanded Cash Income Percentile, 2023*, December 7, 2022, <https://taxpolicycenter.org/model-estimates/distribution-federal-payroll-and-individual-income-taxes-december-2022/t22-0180>.

**Figure 2. Share of Taxpayers with Payroll Taxes Greater Than Income Taxes and Average Payroll and Income Tax Rates, by Income Quintile, 2023**



**Source:** CRS graphic using Tax Policy Center Data.

**Notes:** Income quintile breaks are 20% at \$30,600, 40% at \$59,700, 60% at \$105,900, and 80% at \$193,600 in 2022 dollars. Income groups are determined using expanded cash income.

Most low- and middle-income taxpayers pay more in payroll taxes than in income taxes. The average payroll tax rate across all taxpayers is estimated to be 6.8% for 2023. The average rate is higher in the middle of the income distribution, and lower at the top of the income distribution. The lower average payroll tax rate at the top of the income distribution is largely a consequence of the wage base limit for the OASDI tax. Average income tax rates, in contrast, increase across the income distribution. Refundable tax credits (discussed above) result in negative average income tax rates in the lowest two income quintiles. Only in the highest quintile does the average income tax rate exceed the average payroll tax rate (see **Figure 2**).

## Estate and Gift Taxes

Upon death, an individual's estate may be subject to tax.<sup>82</sup> The base of the federal estate tax is generally property transferred at death, less allowable deductions and exemptions. An unlimited

<sup>82</sup> See CRS Report R42959, *Recent Changes in the Estate and Gift Tax Provisions*, by Jane G. Gravelle, and CRS In Focus IF11812, *Tax Treatment of Capital Gains at Death*, by Jane G. Gravelle.

marital deduction is allowed for property transferred to a surviving spouse. Other allowable deductions include estate administration expenses and charitable bequests. The effective estate tax exemption is \$13.61 million for 2024.<sup>83</sup> The value of the estate over the exemption amount is generally taxed at a rate of 40%.<sup>84</sup>

The federal gift tax operates alongside the estate tax to prevent individuals from avoiding the estate tax by transferring property to heirs before dying. For 2024, the first \$18,000 of gifts from one individual to another is excluded from taxation and does not apply to the lifetime exemption.<sup>85</sup> Any amount over this annual exclusion lowers the effective lifetime estate tax exemption.

The gift tax and estate tax are unified in that the same lifetime exemption amount applies to both taxes (\$13.61 million in 2024). Being unified, taxable gifts reduce the exemption amount that is available for estate tax purposes. The gift tax rate is 40%, the same as the top rate for the estate tax, for gifts beyond the exemption amount.

Few taxpayers pay the estate tax. From 2021 through 2025, an estimated 0.13% of decedents will pay the estate tax.<sup>86</sup> The estate tax is also progressive, generally only being paid by taxpayers in the top income quintile. For taxpayers in the 95<sup>th</sup> to 99<sup>th</sup> percentiles, the estate tax liability has been estimated to be 0.2% of cash income in 2023.<sup>87</sup> For taxpayers in the top 1% of the income distribution, the estate tax has been estimated to be 0.4% of cash income in 2023.

## Excise Taxes<sup>88</sup>

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

Federal excise taxes are levied on a variety of products. The collection point of the tax varies across products. For some goods, taxes are collected at the production level. Other excise taxes are collected on retail sales. In terms of receipts, the single largest excise tax is the excise tax on gasoline.<sup>89</sup> Other prominent excise taxes are those on diesel and other fuels; trucks, trailers, and tractors; aviation-related taxes and fees;<sup>90</sup> excise taxes on beer, wine, and distilled spirits; taxes on

<sup>83</sup> The exemption amount is adjusted for inflation. For the most recent exemption level, see <https://www.irs.gov/businesses/small-businesses-self-employed/estate-tax>.

<sup>84</sup> Although estate tax rates are graduated, the exemption is applied in the form of a credit and offsets taxes applied at the lower rates.

<sup>85</sup> A married couple could each give a child \$18,000 for a total gift of \$36,000. This \$36,000 in gifts would not apply to the lifetime exemption. Gifts can also be made to more than one child. The exemption amount is indexed for inflation in \$1,000 increments.

<sup>86</sup> Tax Policy Center, *T21-0230 - Estate Tax Returns and Liability Under Current Law and Pre-2017 Tax Act Law, 2021-2031*, September 23, 2021, <https://www.taxpolicycenter.org/model-estimates/baseline-estate-tax-tables-september-2021/t21-0230-estate-tax-returns-and-liability>.

<sup>87</sup> Tax Policy Center, *T21-0134 - Average Effective Federal Tax Rates—All Tax Units, By Expanded Cash Income Percentile, 2023*, October 14, 2022, <https://taxpolicycenter.org/model-estimates/baseline-average-effective-tax-rates-october-2022/t22-0076-average-effective-federal>.

<sup>88</sup> See CRS Report R46938, *Federal Excise Taxes: Background and General Analysis*, by Anthony A. Cilluffo.

<sup>89</sup> Congressional Budget Office, *Revenue Projections, by Category*, June 2024, <https://www.cbo.gov/data/budget-economic-data#7>.

<sup>90</sup> See CRS Report R44749, *The Airport and Airway Trust Fund (AATF): An Overview*, by Rachel Y. Tang and Bart Elias.

tobacco products;<sup>91</sup> Affordable Care Act (ACA) taxes and fees (e.g., branded pharmaceuticals fee);<sup>92</sup> and taxes on firearms and ammunition.<sup>93</sup>

Most federal excise taxes are paid into federal trust funds devoted to specific activities, as opposed to remaining in the federal budget's general fund. During the FY2018-FY2023 period, 74% of excise tax revenue supported trust funds, with the remainder being general fund revenue.<sup>94</sup> The largest trust fund is the Highway Trust Fund. Devoted revenue sources include excise taxes on fuels, trucks, and tires. Aviation-related excise taxes support the Airport and Airway Trust Fund, the second-largest of the excise-tax-supported trust funds.<sup>95</sup> Many of these trust funds attempt to pair spending toward some policy goal with a tax source related to that goal. For example, the gas tax was once seen as a proxy for how much a driver used public roadways. The excise tax on domestically mined coal helps fund a program that provides benefits to coal miners with a mining-related disease. General fund excise taxes include taxes on alcohol and tobacco and ACA-related excise taxes.

Excise taxes can result in consumers paying higher prices for goods and services. Overall, households from the lower part of the income distribution tend to pay a larger share of their income in excise taxes than higher-income households.<sup>96</sup> Thus, taken as a whole, federal excise taxes are generally believed to be regressive. The degree of regressivity can vary for different types of excise taxes. For example, tobacco excise taxes are estimated to be more regressive than aviation-related excise taxes.<sup>97</sup>

## Tax Statistics

### Taxes as a Share of the Economy

Federal revenues are derived from several sources and have collectively ranged from roughly one-fifth to one-seventh the size of the economy. **Figure 3** displays total federal tax revenues and major sources of federal tax revenue as percentages of gross domestic product (GDP) since 1945. For FY2023, revenues were 16.5% of GDP, below the post-World War II average of 17.0% of GDP.

Since the mid-1940s, the individual income tax has been the largest single source of federal revenue (business income may also be taxed under the individual income tax system, as previously discussed in “The Individual Income Tax”). Over time, the corporate income tax has fallen from the second- to the third-largest source of revenue. In the late 1960s, corporate taxes were replaced by social insurance and retirement taxes as the second-leading revenue source.

<sup>91</sup> See CRS In Focus IF11941, *Proposed Tobacco Excise Tax Changes in H.R. 5376, the Reconciliation Bill*, by Anthony A. Cilluffo.

<sup>92</sup> Before 2021, there was an annual fee on health insurance providers. See CRS Report R43225, *Patient Protection and Affordable Care Act: Annual Fee on Health Insurers*, by Suzanne M. Kirchhoff. This fee is repealed after 2020.

<sup>93</sup> See CRS Report R45123, *Guns, Excise Taxes, Wildlife Restoration, and the National Firearms Act*, by R. Eliot Crafton, Jane G. Gravelle, and William J. Krouse.

<sup>94</sup> Office of Management and Budget, Historical Tables, Table 2.4, <https://www.whitehouse.gov/omb/budget/historical-tables/>.

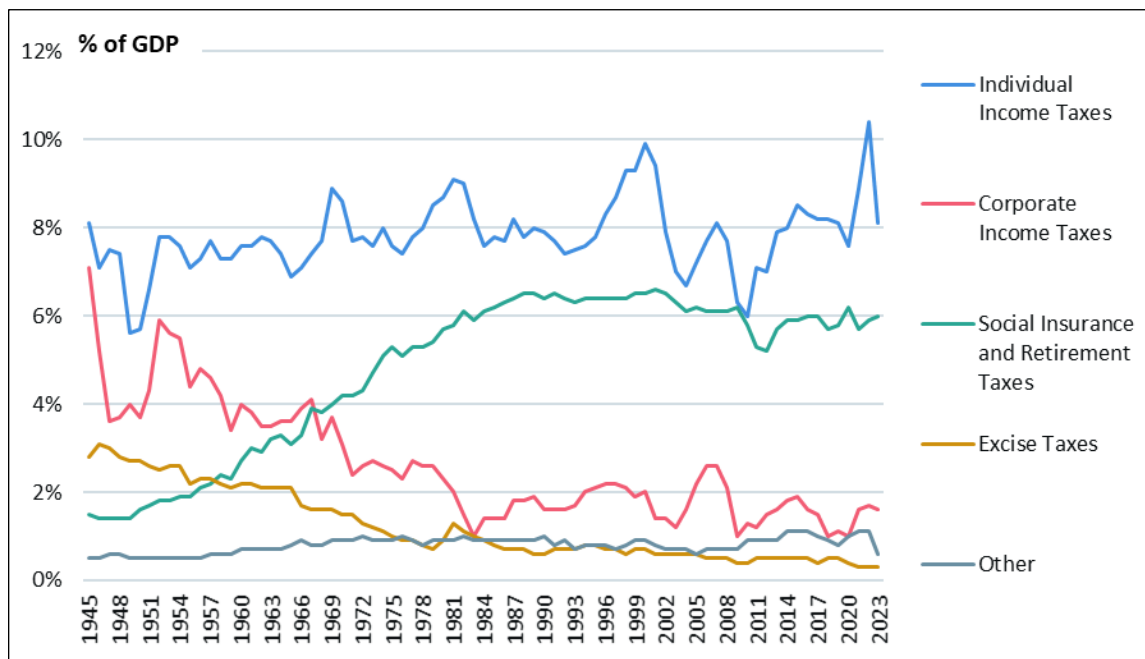
<sup>95</sup> See CRS Report R44749, *The Airport and Airway Trust Fund (AATF): An Overview*, by Rachel Y. Tang and Bart Elias.

<sup>96</sup> Tax Policy Center Briefing Book, “Who Bears the Burden of Federal Excise Taxes?” <http://www.taxpolicycenter.org/briefing-book/who-bears-burden-federal-excise-taxes>. The distribution of federal excise taxes is estimated for the 2019 tax year.

<sup>97</sup> Tax Policy Center Briefing Book, “Who Bears the Burden of Federal Excise Taxes?”.

Corporate receipts as a share of GDP have fallen further in recent years. Excise taxes have also decreased as a share of GDP over time.

**Figure 3. Federal Revenue as a Percentage of GDP, 1945-2023**



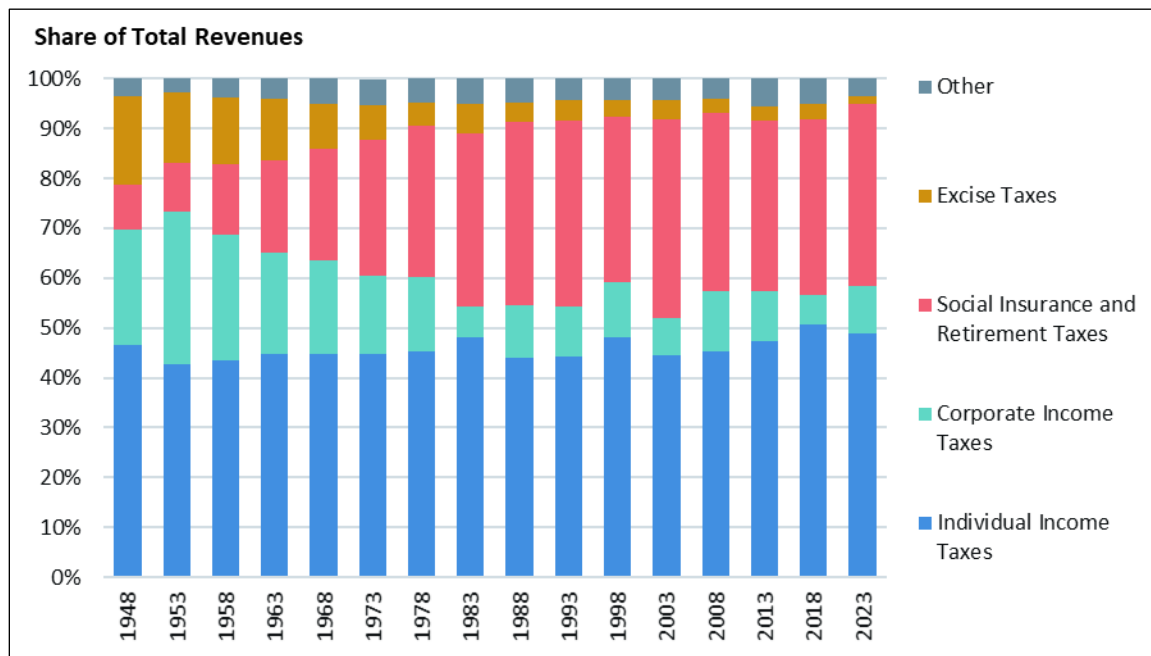
**Source:** CRS calculations and graphic using data from U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2025, Historical Tables*.

## Composition of Tax Revenue

The changing shares of federal revenues over time are more clearly shown in **Figure 4**. For example, the corporate income tax accounted for roughly 30% of federal revenue in 1946, but less than 10% in FY2023.<sup>98</sup> Excise tax revenue was less than 2% of federal receipts in 2023, down from 18% in 1946. In contrast, receipts for social insurance and retirement taxes have risen post-World War II with the enactment of Social Security and Medicare and were the second-largest source of federal receipts at in FY2023, at 36% of federal revenue.

<sup>98</sup> See CRS Report R42113, *Reasons for the Decline in Corporate Tax Revenues*, by Mark P. Keightley. Historical data on federal receipts by source can be found in Table 2.1 of the Historical Tables published by the Office of Management and Budget (OMB), <https://www.whitehouse.gov/omb/historical-tables/>.

**Figure 4. Composition of Federal Revenue**  
(Selected Years 1948-2023)



**Source:** CRS calculations and graphic using data from U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2025, Historical Tables*.

## The Distribution of the Tax Burden

The U.S. individual income tax system is generally progressive in the economic sense of the term—after-tax income is distributed more evenly across the population than pretax income. As shown in **Figure 5**, taxpayers with lower incomes tend to have a proportionally smaller share of the overall individual income tax burden. JCT projections indicate that in 2024, taxpayers in the bottom two income quintiles had a negative average individual income tax liability.<sup>99</sup> This occurred because these groups receive more in refundable tax benefits than they pay in federal individual income taxes.<sup>100</sup> Projections for 2024 show that taxpayers in income groups above \$200,000 pay a larger share of taxes than their share of total income.

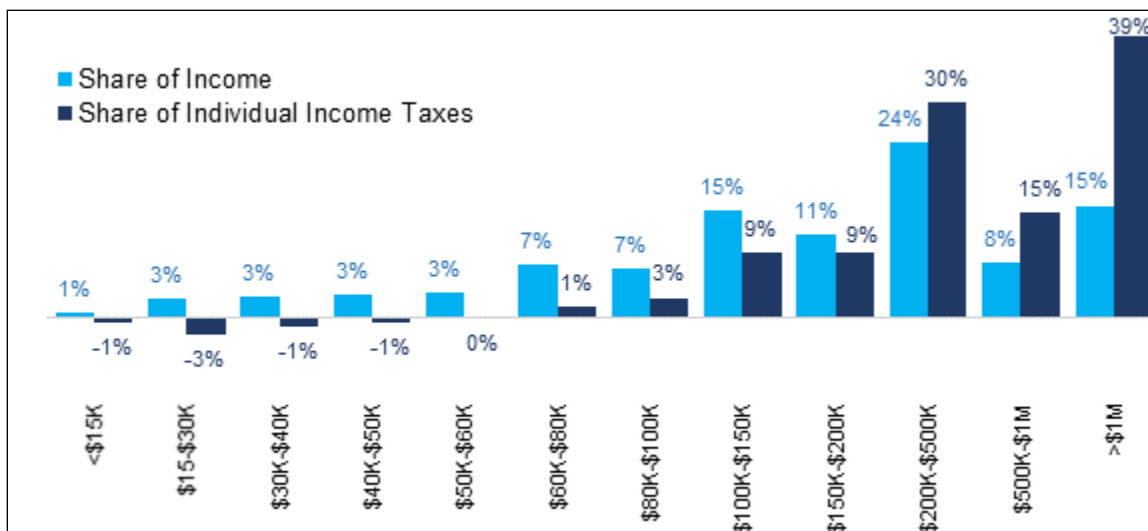
The individual income tax is more economically progressive than the tax system as a whole. Payroll taxes and excise taxes tend to be regressive, with higher average tax rates paid by taxpayers in lower income groups. As a result, payroll taxes and excise taxes offset some of the progressivity of the individual income tax.<sup>101</sup>

<sup>99</sup> Projections of the distribution of income and income taxes in 2024 can be found in Table A-6 of JCT, *Overview Of The Federal Tax System As In Effect For 2024*.

<sup>100</sup> Refundable tax benefits are the primary mechanism in the tax code that can reduce poverty. See CRS Report R45971, *The Impact of the Federal Income Tax Code on Poverty*, by Margot L. Crandall-Hollick, Gene Falk, and Jameson A. Carter.

<sup>101</sup> Congressional Budget Office, *The Distribution of Household Income, 2018*, August 2021, <https://www.cbo.gov/publication/57061>.

**Figure 5. Shares of Income and Individual Income Taxes by Income Level, 2024 Projections**



**Source:** CRS and Joint Committee on Taxation (JCT).

**Notes:** The income concept used by JCT is AGI adjusted to more closely measure cash income.

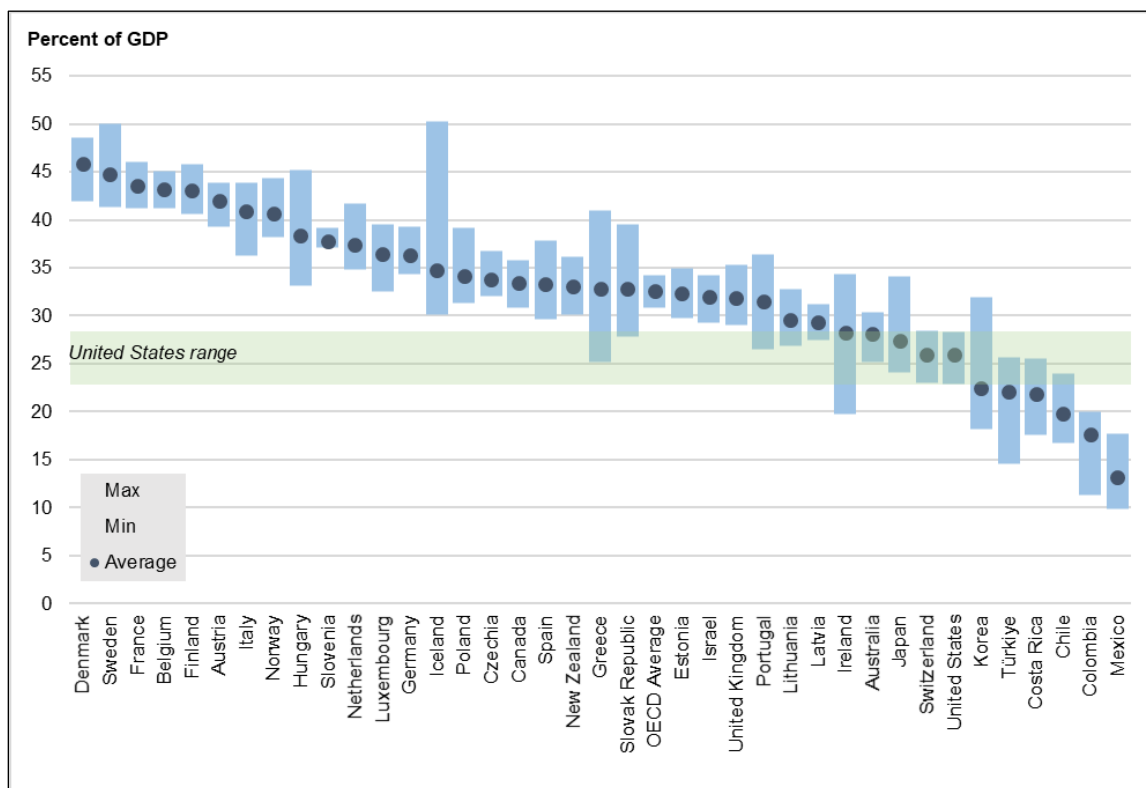
## International Comparisons

**Figure 6** shows revenue (including for federal, state, and local governments) as a percentage of GDP for Organisation for Economic Co-operation and Development (OECD) countries. The dot represents the average over the 1987-2022 time period, while the band illustrates the high and low for the period. Total U.S. taxes as a percentage of GDP have historically been below the average for OECD countries.<sup>102</sup> Six countries have tended to collect less revenue as a percentage of GDP than the United States. Note that direct comparisons can be difficult to interpret, as they do not account for nations' fiscal deficits or surpluses, which provide more context for the adequacy of revenues, nor do they account for each nation's spending priorities, which partly determine their revenue needs.

<sup>102</sup> Organisation for Economic Co-operation and Development (OECD), *Revenue Statistics 2024*, November 21, 2024.



**Figure 6. Range of Total Government Tax Revenue as a Percentage of GDP**  
OECD countries, 1990-2022



**Source:** OECD Revenue Statistics.

**Note:** Government revenue includes all federal, state, and local tax collections. The bars for each country illustrate the range over the 1990 through 2022 time period (range spanning from high to low). Revenues measured using a “split basis” treatment of refundable tax credits, meaning credits that offset tax liability, are treated as negative revenues, while credits in excess of tax liability are considered outlays. Unavailable data omitted.

Table 3 provides this additional context for the United States and the other major democratic countries in the G-7. Among the G-7 countries, the United States has both the lowest revenue as a percentage of GDP and the largest fiscal deficit in 2023.<sup>103</sup>

**Table 3. U.S. Fiscal Position Compared to Other G-7 Nations, 2023**

|         | Government Revenues as<br>a % of GDP | Government Expenditures<br>as a % of GDP | Surplus(+) or Deficit(-)<br>as a % of GDP |
|---------|--------------------------------------|--|---|
| Canada  | 41.9%                                | 42.5%                                    | -0.6%                                     |
| France  | 51.5%                                | 57.0%                                    | -5.5%                                     |
| Germany | 45.8%                                | 48.4%                                    | -2.6%                                     |
| Italy   | 46.6%                                | 53.8%                                    | -7.2%                                     |

<sup>103</sup> The relatively low revenue in the United States may be partially explained by the lack of a federal-level consumption tax (like a value-added tax), which all other OECD and G-7 countries use. Similarly, the level of government spending may be partially explained by the lack of federal provision of health care that occurs in the other G-7 countries.

|                |       |       |       |
|----------------|-------|-------|-------|
| Japan          | 37.9% | 41.7% | -3.8% |
| United Kingdom | 40.7% | 46.4% | -5.7% |
| United States  | 32.4% | 40.0% | -7.6% |

**Source:** OECD Economic Outlook Annex Tables 29, 30, and 31, <https://www.oecd.org/economy/outlook/statistical-annex/>.

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

## Concluding Remarks

The U.S. federal tax system in 2024 looks substantively different than it did before 2018, or when temporary measures tax relief measures were in place in 2020 and 2021. The changes enacted in P.L. 115-97 affected most parts of the tax system. Over the longer term, as tax policies that were temporary in P.L. 115-97 expire, and delayed tax policies begin to phase in, Congress may choose to consider whether expirations, phase-ins, or other delayed policies in P.L. 115-97 should be modified.

Information on taxes relative to the size of the economy, the distribution of the tax burden, and how the U.S. tax system compares to tax systems globally may provide context for consideration of future tax policy changes.

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