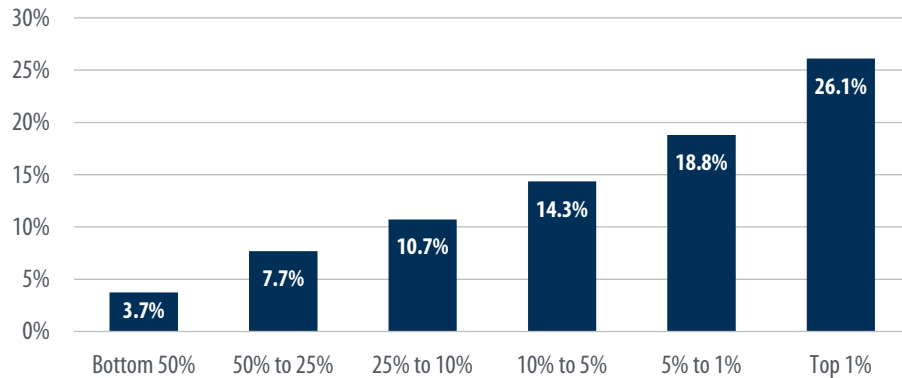


Federal Taxes: Who's Carrying the Load?

With the recent passing of the budget reconciliation bill commonly known as the One Big Beautiful Bill Act (OBBA), conversations about tax fairness are once again taking center stage. A core part of the bill makes permanent the tax rate cuts from 2017, reigniting debate over whether the wealthiest Americans are paying their "fair share." High-profile examples—like Warren Buffett famously paying a lower tax rate than his assistant—are used as evidence that the system remains tilted. But what do the actual data tell us? Are the wealthy really contributing less than their fair share, as some claim? And did the 2017 tax cuts only benefit the rich? In this week's edition of "Three on Thursday," we delve into the most recent IRS tax data from 2022 to provide a clearer picture of the federal income tax landscape. To offer further insight, we've included three detailed charts below.

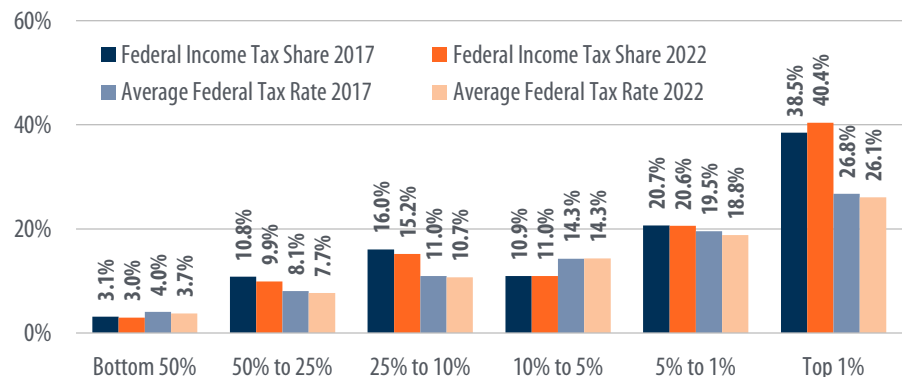
Average Federal Income Tax Rates



Source: IRS, First Trust Advisors. Data for 2022 (latest).

The latest IRS data from 2022 highlights the strongly progressive nature of the federal income tax system. Taxpayers in the top 1% (with an adjusted gross income of \$663,164 or more) paid an average tax rate of 26.1%. In contrast, those in the bottom 50% (earning \$50,339 or less) had an average tax rate of just 3.7%. This significant difference shows that the top 1% pay an average federal income tax rate that's over seven times higher than the bottom half of all taxpayers.

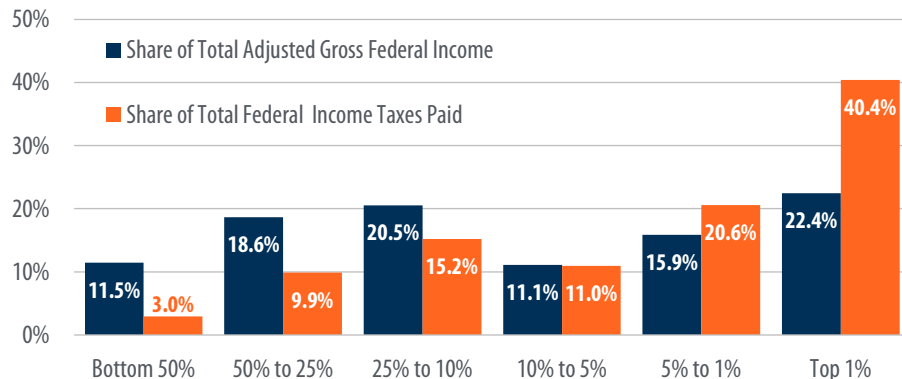
Total Federal Income Tax Share and Average Federal Tax Rates (2017 vs. 2022)



Source: IRS, First Trust Advisors. Data for 2017 and 2022.

The 2017 Tax Cuts and Jobs Act (TCJA), often called "the Trump tax cuts," reduced tax rates, widened tax brackets, increased the standard deduction, and expanded the child tax credit. But did these changes primarily benefit the wealthy? Not exactly. In fact, the TCJA lowered tax burdens on average across nearly all income levels. By 2022, every income group paid a lower average tax rate compared to 2017—except the 10–5% bracket, which stayed flat at 14.3%. Notably, the top 1% saw their share of total federal income taxes paid rise from 38.5% in 2017 to 40.4% in 2022. Conversely, the bottom 50% saw their share of federal income taxes fall slightly from 3.1% in 2017 to 3.0% in 2022.

Share of Total Adjusted Gross Federal Income vs. Share of Total Federal Income Taxes Paid



Source: IRS, First Trust Advisors. Data for 2022 (latest).

The top 1%, representing 1.54 million federal income tax returns in 2022, earned 22.4% of total adjusted gross income but shouldered a striking 40.4% of the overall federal income tax burden. In contrast, the bottom 50%, with nearly 77 million tax returns, earned 11.5% of total adjusted gross income and carried only 3.0% of the federal tax burden. Remarkably, the bottom 97% of taxpayers—approximately 149.2 million returns—earned 68.0% of adjusted gross income in 2022 yet contributed just 46.2% of total federal income taxes, a share not much higher than that of the top 1%.