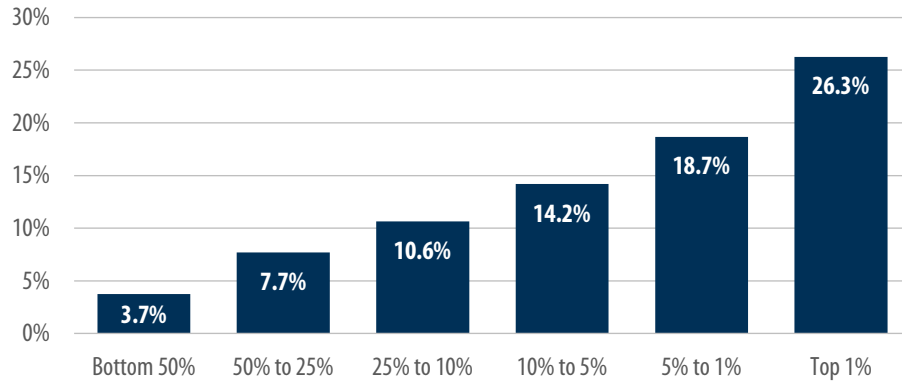


Tax Day Reality Check: The Data on Who Pays

In honor of Tax Day, this week's "Three on Thursday" takes a closer look at federal income taxes using the latest available Internal Revenue Service (IRS) data from 2023. That year, Americans filed 153.1 million tax returns, reporting more than \$15.2 trillion in adjusted gross income (AGI) and paying over \$2.1 trillion in individual income taxes. The data show a system that remains highly progressive, with higher-income taxpayers paying both a larger share of total taxes and higher average tax rates. So, are higher earners contributing less than their "fair share," as is often claimed? And did the Tax Cuts and Jobs Act primarily benefit the wealthy? We'll let the data speak for itself. To dig deeper, we've included three charts below that break down the numbers and provide additional perspective.

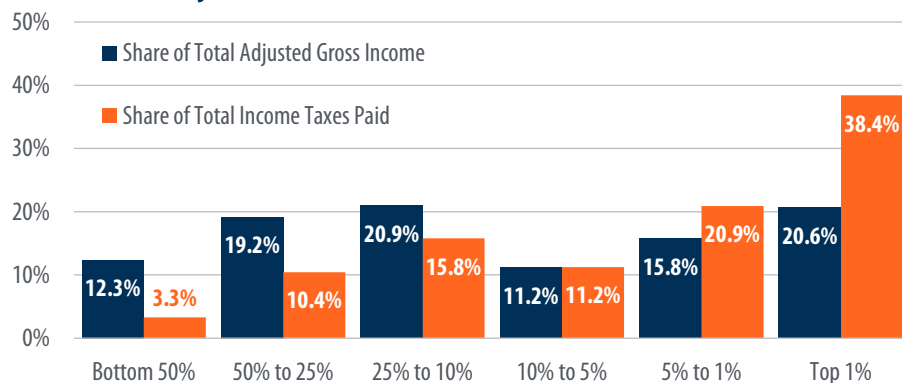
Average Income Tax Rates



Source: IRS, First Trust Advisors. Data for 2023 (latest).

The most recent IRS data from 2023 underscores the highly progressive nature of the federal income tax system. Individuals in the top 1% (those with an adjusted gross income of \$675,602 or higher) paid an average of 26.3% of their income to the Federal government. Meanwhile, those in the bottom 50%, (earning \$53,800 or less) had an average income tax rate of 3.7%. Put differently, the top 1% faced an average tax rate more than seven times higher than that of the bottom half of all taxpayers.

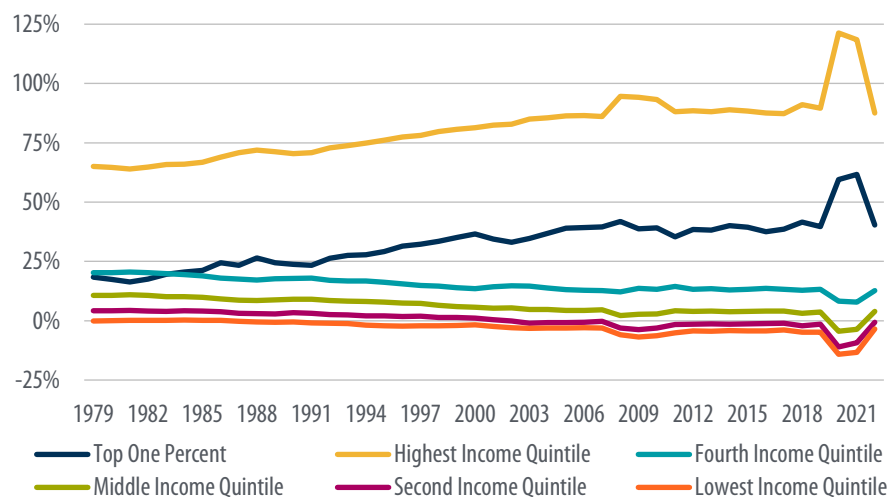
Share of Total Adjusted Gross Income vs. Share of Total Income Taxes Paid



Source: IRS, First Trust Advisors. Data for 2023 (latest).

The top 1%, roughly 1.53 million tax returns in 2023, earned 20.6% of total adjusted gross income but paid 38.4% of all federal income taxes. By contrast, the bottom 50%, nearly 77 million filers, earned 12.3% of income yet paid just 3.3% of the total tax burden. More broadly, the bottom 95%, about 145.4 million returns, earned 63.6% of income but contributed only 40.7% of federal income taxes, a share not much higher than that of the top 1% alone.

Share of Federal Income Tax Liabilities



Source: Congressional Budget Office, First Trust Advisors. Data from 1979-2022 (latest).

Over the past four decades, the highest income quintile has taken on a growing share of the federal income tax burden, rising from 65.0% in 1979 to 87.6% in 2022 (latest data available), according to the Congressional Budget Office. The spike above 100% in 2020 and 2021 was a pandemic-driven anomaly, as widespread refundable tax credits pushed millions into negative tax liability—meaning they received net payments—thereby inflating the top quintile's share. Meanwhile, the lower four quintiles have moved in the opposite direction. The two quintiles that comprise the bottom 40% now have negative tax shares (–3.5% for the bottom 20% and –0.7% for the next 20% in 2022), meaning they receive more from the tax system than they pay. The middle quintile's share has fallen from 10.7% to 3.9% since 1979, while the fourth quintile's share has declined from 20.2% to 12.7%.

This report was prepared by First Trust Advisors L.P. and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.