

Individual Income Tax

An individual income tax (or personal income tax) is levied on the wages, salaries, investments, or other forms of income an individual or household earns. The U.S. imposes a progressive income tax where rates increase with income. The Federal Income Tax was established in 1913 with the ratification of the 16th Amendment. Though barely 100 years old, individual income taxes are the largest source of tax revenue in the U.S.

How Does the Individual Income Tax Work?

In the United States, individual income taxes are levied at the federal level as well as in most states. Many countries around the world also levy individual income taxes.

The U.S. income tax is progressive, which means that tax rates (the percentage of your income that you pay in taxes) increase as taxpayer income increases. The U.S. levies income tax rates ranging from 10 percent to 37 percent that kick in at the specific income thresholds outlined below. The income ranges for which these rates apply are called tax brackets. All income that falls within each bracket is taxed at the corresponding rate.

2024 Federal Income Tax Brackets and Rates for Single Filers, Married Couples Filing Jointly, and Heads of Households

Tax Rate	For Single Filers	For Married Individuals Filing Joint Returns	For Heads of Households
10%	\$0 to \$11,600	\$0 to \$23,200	\$0 to \$16,550
12%	\$11,600 to \$47,150	\$23,200 to \$94,300	\$16,550 to \$63,100
22%	\$47,150 to \$100,525	\$94,300 to \$201,050	\$63,100 to \$100,500
24%	\$100,525 to \$191,950	\$201,050 to \$383,900	\$100,500 to \$191,950
32%	\$191,950 to \$243,725	\$383,900 to \$487,450	\$191,950 to \$243,700

35%	\$243,725 to \$609,350	\$487,450 to \$731,200	\$243,700 to \$609,350
37%	\$609,350 or more	\$731,200 or more	\$609,350 or more

Source: Internal Revenue Service

SEE 2024 TAX BRACKETS

A graduated-rate structure like the one above, where every dollar of income above each threshold is taxed at a higher rate, results in marginal tax rates, the amount of additional tax paid for every additional dollar earned as income.

Due to various deductions, such as the standard deduction and itemized deductions, and credits, such as the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC), most taxpayers do not pay federal income taxes on all of their income. Many state tax codes also offer similar credits and deductions.

How Is Tax Liability Calculated?

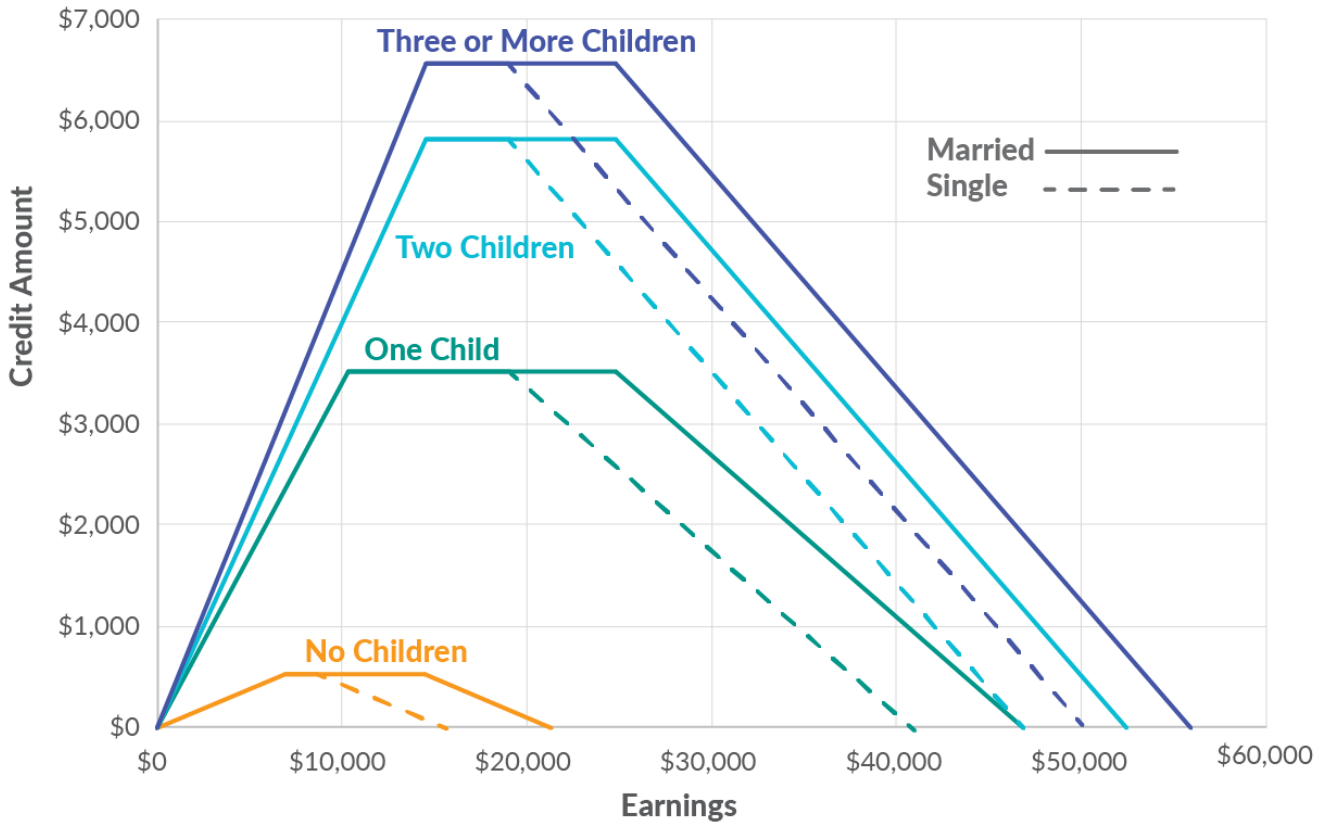
Line Item	Scenario 1: Using the Standard Deduction	Scenario 2: Using Itemized Deductions	
Adjusted Gross Income	\$125,000	\$125,000	← Their Adjusted Gross Income (AGI) is their combined income but not the amount they pay taxes on
Minus the Standard Deduction	\$24,800] Their standard or itemized deductions reduce the amount of income they pay taxes on
or Minus Itemized Deductions		\$28,000	
Equals their Taxable Income	\$100,200	\$97,000	← This is their new "taxable income." Note the \$3,200 difference because of the itemized deductions
Pay 10% up to \$19,749	\$1,975	\$1,975] The tax brackets apply a different or "marginal" rate to progressively higher levels of their taxable income.
Pay 12% from \$19,750 to \$80,249	\$7,260	\$7,260	
Pay 22% from \$80,250 to \$171,050	\$4,389	\$3,685	
Total Tax Liability Before Credits	\$13,624	\$12,920	← Adding up their "marginal" tax amounts equals their tax liability before credits
Minus Child Tax Credit (2 x \$2,000)	\$4,000	\$4,000	← Tax credits reduce their tax liability by the amount of the credit

Income Tax After Credits	\$9,624	\$8,920
Average Tax Rate	9.6%	9.2%

← This is their final tax bill after taking their deductions and credits into account

The Phase-In and Phaseout of the EITC

Credit Amount by Marital Status and Number of Children



Source: Amir El-Sibaie, "2019 Tax Brackets," Tax Foundation, Nov. 28, 2018.

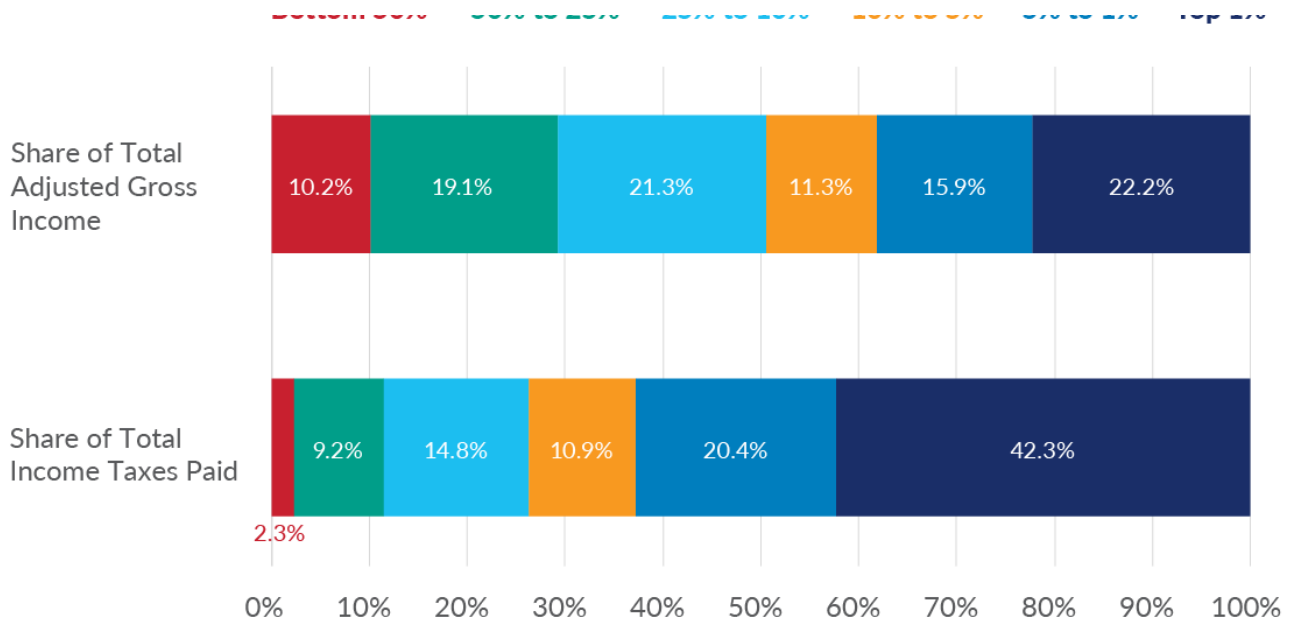
Who Pays the Federal Income Tax?

The progressive design of the U.S. income tax code leads to higher-income individuals paying a larger share of income taxes than lower-income individuals.

Half of Taxpayers Paid 97.7 Percent of Federal Income Taxes

Shares of Adjusted Gross Income and Federal Income Taxes Paid by Income Group, 2020

Bottom 50% 50% to 25% 25% to 10% 10% to 5% 5% to 1% Top 1%

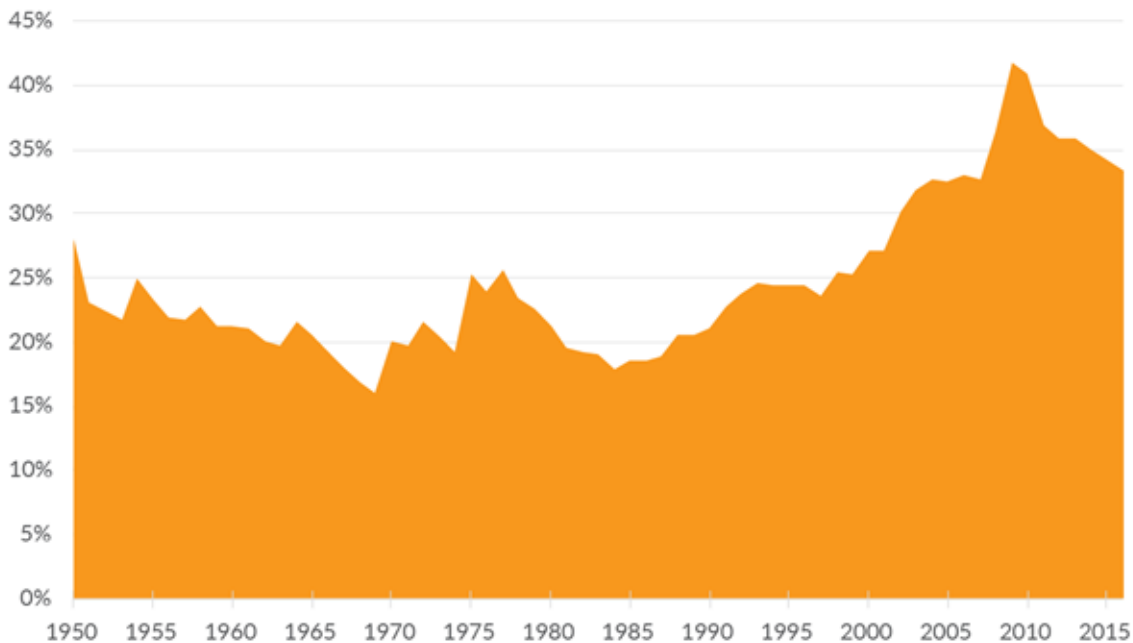


Source: IRS, Statistics of Income, Individual Income Rates and Tax Shares.

Between 1950 and 2016, an increasing number of U.S. taxpayers owed zero income taxes after credits and deductions. Despite occasional dips, the trend has been an increase in the percentage of nonpayers, from 28 percent in 1950 to 33.4 percent in 2016. During this period, the minimum percentage of nonpayers was 16 percent in 1969, and the maximum was 41.7 percent in 2009.

The Percentage of Nonpayers Has Increased Over Time

Percentage of Nonpayers, 1950-2016

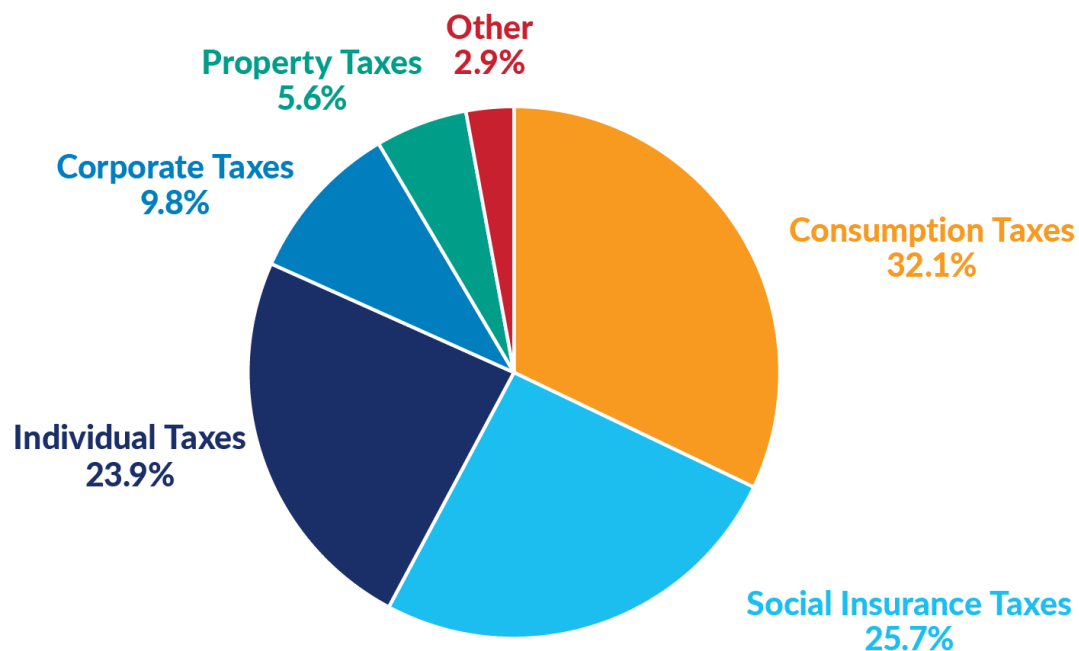


A Primary Source of Government Revenue

Compared to the OECD average, the United States relies significantly more on individual income taxes than other developed countries. While OECD countries on average raised 23.9 percent of total tax revenue from individual income taxes in 2021, in the U.S., individual income taxes (federal, state, and local) were the primary source of tax revenue at 42.1 percent, a difference of over 18 percentage points.

Consumption Taxes Are the Most Important Tax Revenue Source for OECD Countries

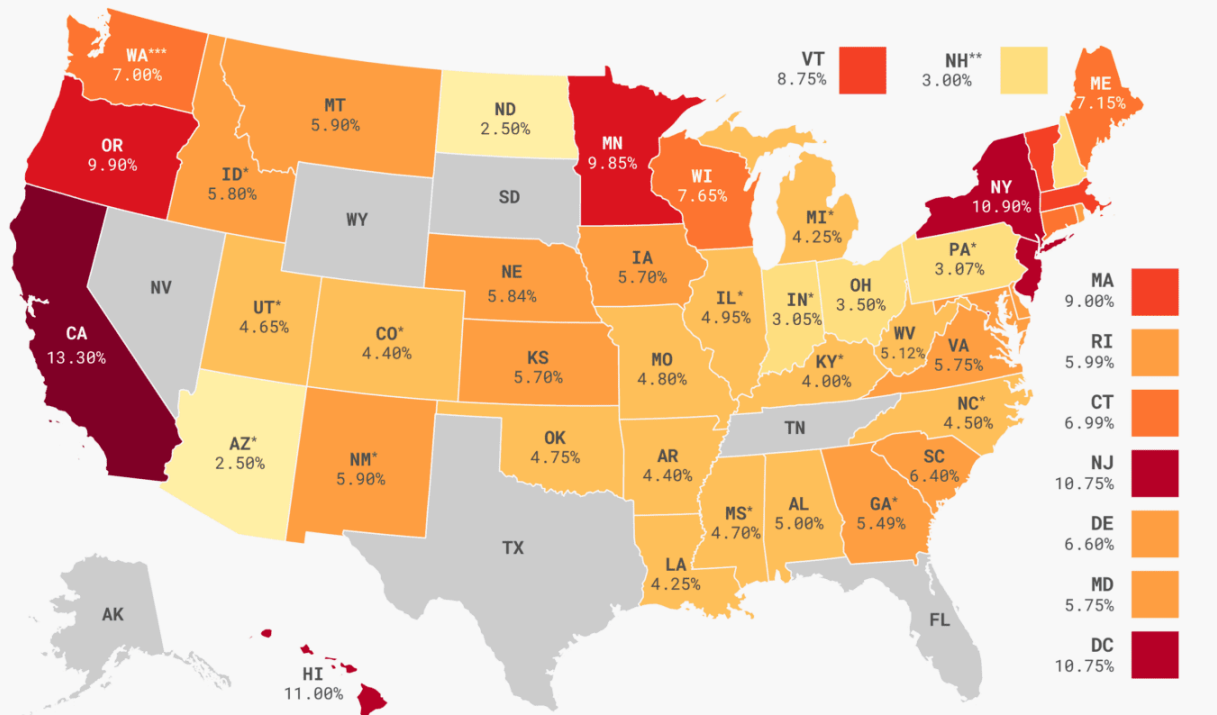
OECD Average Sources of Tax Revenue, 2021



Source: OECD, "Revenue Statistics - OECD Countries Comparative Tables."

State and localities rely heavily on the individual income tax, which comprised 22.8% percent of total U.S. state and local tax collections in fiscal year 2020, the latest year of data available. The level of reliance on income taxes varies significantly by state.

Top Marginal State Individual Income Tax Rates (as of January 1, 2024)



(*) State has a flat income tax.
 (**) State only taxes interest and dividends income.
 (***) State only taxes capital gains income.
 Note: Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective tax rates, which would include the effects of various tax preferences. Local income taxes are not included.
 Sources: Tax Foundation; state tax statutes, forms, and instructions.

Top Marginal Individual Income Tax Rate



States' approaches to income taxes vary in other details as well. Some states double their single-bracket widths for married filers to avoid a "marriage penalty." Some states index tax brackets, exemptions, and deductions for inflation; many others do not. Some states tie their standard deductions and personal exemptions to the federal tax code, while others set their own or offer none at all.

