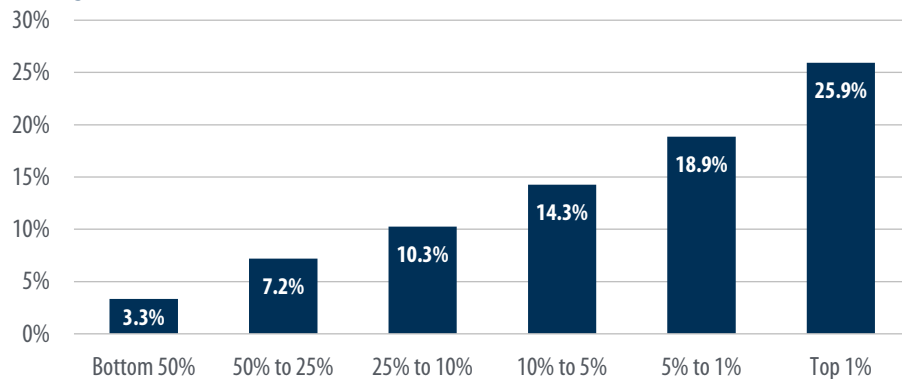


Are the Wealthy Paying their Fair Share?

With the Presidential Election fast approaching, conversations about the wealthy not paying their “fair share” of taxes have become more frequent. Figures like Warren Buffett are often cited, with examples showing he pays a lower tax rate than many of his office colleagues. For some, this serves as proof of a tax system that isn’t progressive enough. 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 2021 to provide a clearer picture of the federal income tax landscape. To offer further insight, we’ve included three detailed charts below.

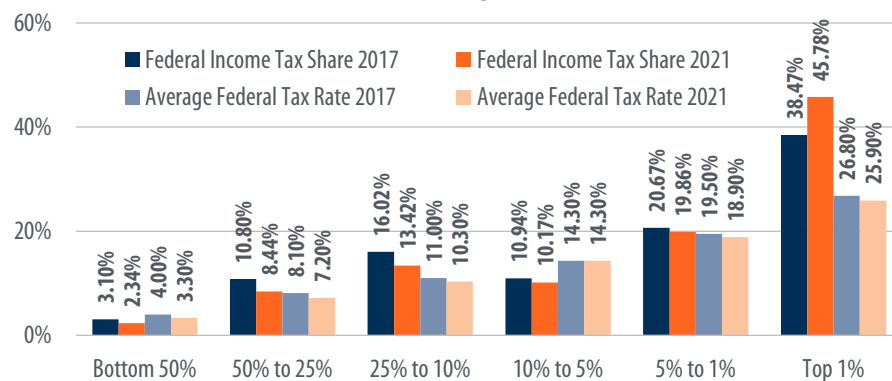
Average Federal Income Tax Rates



Source: IRS, First Trust Advisors. Data for 2021 (latest).

The latest IRS data from 2021 highlights the strongly progressive nature of the federal income tax system. Taxpayers in the top 1% (with an adjusted gross income of \$682,577 or more) paid an average tax rate of 25.9%. In contrast, those in the bottom 50% (earning \$46,637 or less) had an average tax rate of just 3.3%. This significant difference shows that the top 1% pay an average federal income tax rate that’s over eight times higher than the bottom half of all taxpayers.

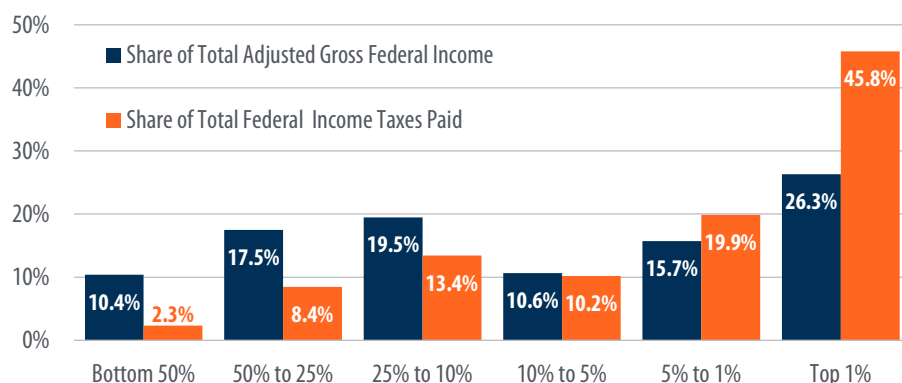
Total Federal Income Tax Share and Average Federal Tax Rates (2017 vs. 2021)



Source: IRS, First Trust Advisors. Data for 2017 and 2021.

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 all income levels. By 2021, average federal tax rates were lower for every income group compared to 2017. However, the top 1% saw their share of total federal income taxes paid rise significantly, from 38.5% in 2017 to 45.8% in 2021. Conversely, the bottom 50% saw their share of federal income taxes fall, dropping from 3.1% in 2017 to 2.3% in 2021.

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



Source: IRS, First Trust Advisors. Data for 2021 (latest).

The top 1%, representing 1.54 million federal income tax returns in 2021, earned 26.3% of total adjusted gross income but shouldered a striking 45.8% of the overall federal income tax burden. In contrast, the bottom 50%, with nearly 77 million tax returns, earned 10.4% of total adjusted gross income and carried only 2.3% of the federal tax burden. Remarkably, the bottom 98% of taxpayers—approximately 150.5 million returns—earned 68.1% of adjusted gross income in 2021 yet contributed just 46.2% of total federal income taxes, a share only slightly higher than that of the top 1%.

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.