

Individual Income Tax Returns, Preliminary Data, 1987

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In 1987, the first year of transition under the Tax Reform Act of 1986, there were major changes in the definitions of income (items included in gross income, adjusted gross income, and taxable income), statutory adjustments to income, deductions, and personal exemptions, as well as in tax rates and the income tax computation. Despite these changes, when computed similarly for 1986 and 1987, recomputed total income increased by only 1 percent from \$2,781 billion to \$2,808 billion [1]. On the other hand adjusted gross income (AGI), the traditional tax measure of income, reached \$2,788 billion for 1987, an increase of 12.3 percent, much of which was due to definitional changes. Recomputed total income is the measure of comparable income used for this article and is discussed later on. See Figure A for a comparison of 1986 and 1987 AGI and recomputed total income [2].

Total income tax (the sum of income tax after credits and the alternative minimum tax) for 1987 was \$371 billion, up only slightly from \$367 billion for 1986. Tax liability, when looked at as a percentage of adjusted gross income, declined sharply from 14.8 percent for 1986 to 13.3 percent for 1987; however, when looked at as a percentage of a comparable income total, the percentage remained the same at 13.2 for both years.

There were substantial modifications in reporting requirements throughout the individual income tax return, and these changes are dramatically evident in the statistics. Even though, in the aggregate, income and tax changed very little, individual taxpayers may have experienced considerable change in either adjusted gross income or tax as a result of tax reform.

Because of the extensive alterations in the individual tax law and the major effect this had on the traditional statistical measures (like AGI), this article is presented somewhat differently for 1987 than for prior years in order to focus on the tax law changes and their effects on the data. To this end, the article begins with a section on definitions and changes in the law, followed by an analysis using a comparable income concept.

DEFINITIONS AND CHANGES IN THE LAW

The changes in law summarized below are covered in the order in which they are reflected on the Form 1040

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Figure A.—Recomputed Total Income (RTI), Adjusted Gross Income (AGI), and Percentage Change, Tax Years 1986 and 1987

[Amounts are in millions of dollars]

Income concept	1986 Income	1987 Income	Percentage change
	(1)	(2)	(3)
Recomputed total income ¹	\$2,781,145	\$2,807,749	+ 1.0%
Adjusted gross income	\$2,481,681	\$2,788,011	+ 12.3

¹ For 1986, adjusted gross income plus statutory adjustments, plus dividend exclusion, plus capital gains exclusion, plus unemployment compensation exclusion; for 1987, adjusted gross income plus statutory adjustments less disallowed passive losses.

individual income tax return. Whenever possible, statistics showing the effects of the change from 1986 to 1987 are presented. Figure B shows a comparison of selected sources of income, total income (i.e., income before deducting statutory adjustments), statutory adjustments, and adjusted gross income for 1986 and 1987.

Filing Requirements

The tax return filing thresholds based on income, age, and marital status were changed for all filing status groups for 1987. The two largest categories in terms of the number of taxpayers affected were single persons and married persons filing jointly. While, for 1986, a single taxpayer was required to file a return if his or her gross income was at least \$3,560, for 1987 the threshold was \$4,440 [1]. For married couples filing jointly where both spouses were under age 65, the filing threshold increased from gross income of \$5,830 for 1986 to \$7,560 for 1987. Figure C shows that, while there was little increase (less than 1 percent) in the number of married taxpayers filing joint returns, the number filing single returns increased about 8 percent, and the number of married taxpayers filing separate returns increased 55 percent.

For 1987 filing thresholds for dependents were reduced, especially for those with earned income. Children and others eligible to be claimed as dependents were required to file a return if all of their income was earned (such as salaries and wages), and it exceeded \$2,540, or if their gross income was more than \$500 and any of it was unearned income (such as interest or dividends). A major change for 1987 was the elimination of the effective double exemption for dependents who filed returns and who, for 1986, could be claimed as a dependent and still claim an exemption for themselves. Regardless of income level, a dependent could not claim an exemption on his or her own return if he or she could be claimed as a dependent on the parent's return. Also, if gross income was \$1,900 or more,

Figure B.—Comparison of Selected Sources of Income Affected by the Tax Reform Act of 1986, Tax Years 1986 and 1987

[Returns are in thousands, amounts are in millions of dollars]

Item	1986		1987		Percentage change in income
	Number of returns	Amount	Number of returns	Amount	
	(1)	(2)	(3)	(4)	(5)
Salaries and wages	88,218	\$2,031,026	91,166	\$2,169,144	+6.8%
Taxable interest	65,237	167,640	68,010	163,981	-2.2
Tax-exempt interest	—	—	3,240	30,967	+100.0
Total dividends	20,896	63,629	22,264	66,442	+4.4
Dividend exclusion	17,053	2,006	—	—	-100.0
Dividends in AGI	16,754	61,623	22,264	66,442	+7.8
Business net income (less loss)	12,360	90,424	12,937	103,930	+14.9
Net income	9,248	110,497	9,861	120,209	+8.8
Net loss	3,113	20,073	3,076	16,279	-18.9
Net capital gains before exclusion	15,658	295,882	15,274	133,487	-54.9
Capital gains exclusion	10,082	191,290	—	—	-100.0
Net capital gains in AGI	15,565	132,842	15,274	133,487	+0.5
Pensions annuities in AGI	14,771	107,697	16,565	125,352	+16.4
Rent net income (less loss)	8,803	-20,204	8,683	-10,818	-46.5
Net income	3,418	17,683	3,569	18,492	+4.6
Net loss	5,385	37,887	5,114	29,310	-22.6
Partnership and S Corporation net income (less loss)	5,817	-5,860	5,271	32,075	+647.4
Net income	3,407	69,045	3,223	79,077	+14.5
Net loss	3,818	74,289	3,720	46,994	-36.7
Farm net income (less loss)	2,524	-7,284	2,426	-770	+89.4
Total unemployment compensation	8,243	14,135	7,423	12,324	-12.8
Excluded unemployment compensation	—	7,160	—	—	-100.0
Unemployment compensation in AGI	5,106	6,975	7,423	12,324	+76.7
Other income (less loss) ¹	5,917	-22,561	6,650	-8,712	+61.4
Total income	n.a.	2,580,689	106,893	2,817,576	+9.2
LESS:					
Statutory adjustments	38,034	99,008	11,559	29,565	-70.1
EQUALS:					
Adjusted gross income	103,045	2,481,681	107,070	2,788,011	+12.3

¹ Sources of income shown above represent an incomplete list and do not add to total income. "Other income" represents data reported on Form 1040, line 21 for 1987 (line 22 for 1986).

n.a.—Not available.

NOTE: Detail may not add to total because of rounding.

children over age 19 (with some exceptions) could not be claimed as dependents. A child under the age of 14 who had investment income that exceeded \$1,000 generally had that income taxed at the highest tax rate applicable to his or her parents' income for the year.

Interest

Starting with 1987 (for the first time since 1942), tax-exempt interest on State or local Government obligations had to be shown on Federal income tax returns, even

though it generally was not subject to Federal taxation. More than 3 million people reported almost \$31 billion in such interest. Nearly half of the total tax-exempt interest was reported on returns with AGI of \$100,000 or more.

Taxable interest received decreased by 2.2 percent, while the number of returns with taxable interest increased by more than 4 percent from 65 million to 68 million. In contrast to tax-exempt interest, only 20 percent of taxable interest was reported on returns with AGI of \$100,000 or more.

Dividend Exclusion

The dividend exclusion of up to \$100 (\$200 on joint returns) was repealed for 1987. Total dividends (before exclusion), the amount most comparable for both years, increased by about 4.4 percent for 1987, down from an increase of 11.6 percent the year before. Dividends in AGI rose 7.8 percent from 1986 to 1987, with over two-fifths of the increase in dividends due to the elimination of the exclusion.

The total number of returns with any dividend income increased by 6.5 percent for 1987, from 20.9 million to 22.3 million. However, those reporting dividend income included in AGI increased by 33 percent from 16.8 million to 22.3 million.

Figure C.—Summary of Filing Thresholds and Number of Returns, Tax Years 1986 and 1987

[Number of returns are in thousands]

Type of return	1986		1987		Percentage change in returns
	Filing threshold ¹	Number of returns	Filing threshold ¹	Number of returns	
	(1)	(2)	(3)	(4)	(5)
Total	—	103,045	—	107,070	+3.9%
Married filing:					
Jointly	\$5,830	47,870	\$7,560	47,901	+1
Separately	1,080	1,015	1,900	1,574	+55.1
Single	3,560	43,800	4,440	47,362	+8.1
Head of household	3,560	10,279	4,440	10,179	-1.0
Surviving spouse	4,750	82	5,660	55	-40.2

¹ Special filing thresholds were set for taxpayers 65 or older or blind.

Note: There were other reasons for being required to file such as the presence of self-employment income of \$400 or more, regardless of the filing threshold shown above. In addition, many people filed returns in order to claim a refund because of overwithholding of tax on wages.

Capital Gains

Long-term (assets held over 6 months): For 1987, the 60-percent exclusion of long-term capital gains was repealed so that the full amount of capital gains was included in AGI as ordinary income. However, for 1987 only, the maximum tax rate on long-term capital gains was limited to 28 percent (up from 20 percent in 1986), which was lower than the top rate of 38.5 percent on ordinary income for 1987. Full taxation at the same tax rates as "ordinary" income began in 1988.

Short-term (assets held for 6 months or less): For 1987, the top tax rate on short-term gains was the same as for "ordinary" income, 38.5 percent. For 1986, the top rate was 50 percent.

Net capital gains realizations (i.e., capital gains net of capital losses and before the 1986 exclusion) dropped from nearly \$300 billion in 1986 to about \$133 billion in 1987 [3]. The latter amount was more in line with the 1984 and 1985 realizations of \$135 and \$168 billion, respectively. The "spike" in capital gains for 1986 was an anomaly as taxpayers sold assets they might not otherwise have sold in order to take advantage of the 60 percent capital gains exclusion before it was rescinded beginning for 1987 by the Tax Reform Act. With the exclusion eliminated, capital gains in AGI were almost the same for 1987 as for 1986, increasing only about 0.5 percent.

Figure D shows the steady rise from 1980 through 1986 in net gains from sales of capital assets before exclusion and the comparable 1987 amount. By and large, the increase follows stock market trends in sales of corporate stock which comprises the largest component of capital assets sold [4]. Stock market activities in 1986 and 1987 would also have affected the sales of capital assets figures, in that 1986 saw a favorable stock market, and 1987 saw a decline that may have caused taxpayers to realize losses. However, the effects of these activities appear to be insignificant compared to the sales of capital assets in anticipation of the elimination of the 60-percent exclusion.

Figure D.—Net Capital Gains Before Exclusion, and Percent Increase, Tax Years 1980–1987

(Number of returns are in thousands, money amounts are in millions of dollars)

Tax year	Number of returns	Net Capital gains before exclusion	Percentage increase
	(1)	(2)	(3)
1980	8,929	\$ 72,073	1.4%
1981	9,485	77,799	7.9
1982	9,636	86,676	11.4
1983	9,543	119,271	37.6
1984	10,927	135,348	13.5
1985	11,126	167,540	23.8
1986	15,658	295,882	76.6
1987	15,274	133,487	-54.9

Pensions and Annuities

Pensions in AGI increased by 16.4 percent from Tax Year 1986 to more than \$125 billion, and the number of returns reporting pensions in AGI increased by 12.1 percent to 16.6 million. Both the number of returns reporting pension income and the total amount reported has been increasing steadily for years. However, the increase in pension income reported in AGI from 1986 to 1987 may have been partially attributable to the elimination of the 3-year recovery rule.

Prior to the Tax Reform Act of 1986, the 3-year recovery rule allowed retirees' annuities to be tax-free until the amount of their contribution to a pension plan was recovered, provided they could recover the entire contribution within 3 years. As a result of tax reform, all retirees were required to prorate the exclusion of their contributions over their lifetimes.

Passive Losses

Passive activity losses, a concept introduced in the Tax Reform Act of 1986, are losses that are generated by any trade, business, or rental activity in which the taxpayer did not *materially* participate. A taxpayer materially participates in an activity if he or she is involved on a regular, continuous, and substantial basis in the operations of the activity.

The 1986 Act also imposed limitations on the extent to which these losses were recognized for income tax purposes. Beginning for 1987, passive losses could only be used to offset income from passive activities. Any excess passive losses could be carried forward to the following years without limit. (Previously, any business losses could be used to offset income from any other activity.)

An exception to this limitation is made for taxpayers with passive losses from rental activities in which they are actively involved. Net losses of up to \$25,000 can be deducted to offset "nonpassive" income, such as wages or dividends. For taxpayers whose AGI exceeded \$100,000, the \$25,000 exception is reduced by 50 percent of the amount by which AGI exceeded \$100,000. This effectively eliminated the \$25,000 exception altogether for taxpayers with an AGI of \$150,000 or more.

The 1986 Act provided a 5-year phase in of the limitations on losses from passive activities entered into before October 23, 1986. This phase in allowed a diminishing percentage of passive losses to offset nonpassive income and taxes. Sixty-five percent of passive activity losses from such interests were allowed to offset nonpassive income for Tax Year 1987. Passive activity losses disallowed for 1987 by reason of the limitation could, in many cases, also be carried forward to 1988.

Total 1987 passive activity losses allowed were \$42 billion, and the total of those disallowed was \$9.8 billion. Even though rental activity is regarded as a passive activity regardless of whether the taxpayer materially participates, about \$23 billion of allowable passive losses were attributable to rental activities where there was active participation and the taxpayer was eligible for all or part of the \$25,000 exception. About \$3 billion in rental losses was disallowed.

Most of the passive loss activity was reported on Schedule E, Supplemental Income. However sole proprietorships (Schedule C) and farms (Schedule F) frequently included passive losses or passive income which could be used to offset other passive losses. Figure E shows the numbers of returns and dollar amounts of net losses (after reduction by allowable passive losses) reported on these more frequently used schedules. These losses include both passive and nonpassive losses. Net passive losses for one of the income sources shown were allowed if they were offset by passive income from another source.

Figure E shows a consistent decrease in net losses, much of which may be attributable to 1986 tax laws providing passive loss limitations and decreases in the amount of depreciation deducted in computing business net income.

Since the purpose of the passive loss limitations was to reduce or eliminate benefits that previously resulted from "tax shelter" activities, it is likely that their effect is most concentrated in the statistics for income or loss from partnerships, since partnerships (particularly limited partnerships) were frequently used for this purpose. The SOI Bulletin article on 1986 Partnership Returns documents a 32 percent increase in net losses in limited partnerships for 1986, with much of the increase attributable to industries generally associated with tax shelter activities, such as real estate operators, lessors of buildings, and oil and gas extraction [5, 6]. As Figure E shows there was a decrease of 36.7 percent in losses claimed from partnerships and S Corporations.

Figure E.—Number of Returns and Net Losses Reported for Selected Sources of Business Income, Tax Years 1986 and 1987

[Number of returns are in thousands, money amounts are in millions of dollars]

Income source	1986		1987		Percentage decrease in loss
	Number of returns	Amount of net loss	Number of returns	Amount of net loss	
	(1)	(2)	(3)	(4)	(5)
Total.....	14,169	\$149,261	13,425	\$104,889	29.7%
Sole proprietorships.....	3,113	20,073	3,076	16,279	18.9
Rent.....	5,385	37,887	5,114	29,310	22.6
Royalties.....	65	255	37	87	65.7
Partnership and S Corporation.....	3,818	74,289	3,720	46,994	36.7
Estates and trusts.....	83	687	111	550	19.9
Farm.....	1,705	16,071	1,367	11,669	27.4

Unemployment Compensation

For 1987, all unemployment compensation was included in AGI, whereas for 1986 all or part of unemployment compensation was excluded, depending on the taxpayer's filing status and income level. Although total unemployment compensation reported for 1987 decreased by 12.8 percent, the amount included in AGI increased by 76.7 percent, from \$7.0 billion to \$12.3 billion.

Statutory Adjustments

Statutory adjustments were the amounts deducted from "total income" in order to determine adjusted gross income. These adjustments decreased by 70 percent from 1986 to 1987, mainly as the result of statutory changes. Figure F provides a summary of the changes before and after tax reform.

Moving Expenses.—Moving expenses were no longer deductible as an adjustment in computing AGI; instead taxpayers could subtract them as an itemized deduction. For 1986, about \$4.6 billion was claimed for this adjustment. For those who itemized, the 1987 deduction was \$3.7 billion (see Itemized Deductions, below).

Employee Business Expenses.—For 1987, unreimbursed employee business expenses, in contrast to reimbursed expenses, were deductible only as a "miscellaneous" itemized deduction. As such they were deductible only by those who itemized and then only to the extent that all miscellaneous deductions exceeded 2 percent of AGI. For 1986, these expenses were statutory adjustments to income, and were fully deductible, even if the taxpayer did not itemize deductions. About \$19.6 billion was claimed as an adjustment for 1986 employee business expenses. For 1987, \$12.9 billion of employee business expenses were claimed as itemized deductions (subject to the 2 percent

Figure F.—Selected Statutory Adjustments, Tax Years 1986 and 1987

[Number of returns are in thousands, money amounts are in millions of dollars]

Type of adjustment	1986		1987		Percentage change in adjustment
	Number of returns	Amount	Number of returns	Amount	
	(1)	(2)	(3)	(4)	(5)
Total ¹	38,034	\$99,008	11,559	\$29,565	-70.1%
Moving expense.....	1,791	4,621	—	—	-100.0
Employee business expense.....	7,168	19,622	1,421	4,047	-79.4
Payments to an IRA.....	15,536	37,758	7,351	14,146	-62.5
Payments to a Keogh plan.....	773	6,195	746	5,921	-4.4
Deduction for a working married couple.....	25,647	26,672	—	—	-100.0

¹ Adjustments do not add to total because "other adjustments" were not listed and, in some cases, adjustments on prior year returns were not included in 1987 data, but are included in the 1987 total.

limitation), leaving only the reimbursed portion, amounting to \$4.0 billion, to be claimed as statutory adjustments.

Individual Retirement Arrangements (IRAs).—The IRA contribution deduction was limited or disallowed for middle- and upper-income participants who were covered by employer-provided pension plans, although the tax-deferral feature was still allowed for any nondeductible contributions they made [7]. This was a change from 1986 when IRA contributions were deductible regardless of income level or pension coverage. As a result of the change in law, deductible IRA contributions dropped from nearly \$38 billion to slightly more than \$14 billion. Also, the number of returns with IRA deductions dropped by 52.7 percent from 15.5 million for 1986 to 7.4 million for 1987.

Deduction for Working Married Couple.—For 1986, a married couple, when both worked and they filed a joint return, could deduct as an adjustment to income 10 percent of the lesser of \$30,000 or the "qualified earned income" of the lower-earning spouse. This deduction was repealed effective for 1987. Figure F, shows that for 1986 this adjustment to income reduced AGI by \$26.7 billion. The 1986 Act reduced tax rates and increased the standard deduction and the personal exemption amounts. As a result, the "marriage penalty" was reduced thereby reducing the need for the special deduction for two-earner couples [8].

Itemized Deductions

Total itemized deductions decreased by 14.1 percent and the number of returns reporting them dropped by 12.7 percent. These declines reflect tax reform provisions that generally reduced several widely-used itemized deductions.

One of the major provisions of the 1986 Act that was **not** effected for 1987 was the increase in the standard deduction. The slight increase in the standard deduction for 1987 from \$2,480 to \$2,540 for a single taxpayer (\$3,670 to \$3,760 for joint returns) was about the same as the increase in the previous zero bracket amount (replaced for 1987 by the standard deduction) would have been under indexing mandated under prior law. (See next section on Standard Deduction for definition of standard deduction and zero bracket amount.) However, for taxpayers 65 or over or those who were blind, significantly increased standard deductions were instituted for 1987. Some taxpayers may have found the larger standard deduction more advantageous than itemizing. Figure G shows itemized deductions for both 1986 and 1987.

Medical and Dental Expenses.—For 1987 the deduction for medical and dental expenses was limited to expenses in excess of 7.5 percent of adjusted gross income, whereas for 1986 the threshold was 5 percent. There was a

Figure G.—Selected Itemized Deductions, Tax Years 1986 and 1987

(Number of returns are in thousands, money amounts are in millions of dollars)

Itemized deduction	1986 deduction		1987 deduction		Percentage change of deduction
	Number of returns	Amount	Number of returns	Amount	
	(1)	(2)	(3)	(4)	(5)
Total.....	40,667	\$447,058	35,512	\$383,917	- 14.1%
Medical and dental expense	10,542	25,112	5,312	16,974	- 32.4
Taxes paid.....	40,420	143,446	34,772	118,152	- 17.6
Sales tax.....	38,962	20,790	—	—	- 100.0
Interest paid.....	37,261	196,566	33,008	174,356	- 11.3
Home mortgage.....	29,003	125,782	27,886	134,621	+ 7.0
Contributions.....	36,714	53,816	32,172	49,26	- 8.5
Net casualty or theft loss.....	244	1,331	218	1,388	+ 4.3
Moving expense.....	—	—	963	3,711	+ 100.0
Miscellaneous deductions.....	33,454	26,787	9,086	20,075	- 25.1

decrease in the medical and dental expense deduction of about one-third, and the number of returns reporting it declined by almost one-half, from 10.5 to 5.3 million returns.

Taxes Paid.—Beginning for Tax Year 1987, State and local sales taxes could no longer be taken as an itemized deduction. Figure G shows that the total taxes paid deduction dropped by 17.6 percent, at least partly as a result. The number of returns on which the tax-paid deduction was claimed was down by 13.9 percent.

Other types of taxes paid that continued to be deducted for 1987 were individual State and local income taxes, real estate taxes, certain personal property taxes, and foreign income taxes. The decline in the amount of the deduction for taxes paid may also have been related to the increased use of the standard deduction.

Interest Paid.—The interest paid deduction decreased by more than \$22 billion from 1986 to 1987. There were two major modifications in the law that caused most of this decline: the "personal" interest deduction and the mortgage interest deduction were both modified. Only 65 percent of personal interest, i.e., credit card interest, revolving charge account interest, and interest on bank loans, was deductible for 1987, whereas for 1986 all of it was deductible.

For 1987, the mortgage interest deduction was limited to the amounts paid on a "qualified" principal and second residence, and to the interest associated with debt no greater than the cost of the residence plus improvements and mortgage loans taken to pay for qualified medical and educational expenses [9]. These limits applied to debt that was assumed after August 16, 1986. If the mortgage debt, as of August 16, exceeded the taxpayer's previous "cost basis," then this greater amount became the basis for calculating the loan limits of the amount of deductible interest on the residence.

Notwithstanding these limitations, the home mortgage interest increased by 7 percent for 1987.

Charitable Contributions.—For 1987, charitable contributions were deductible as an itemized deduction only. For 1986, they could also be deducted by taxpayers who did not itemize their deductions, even on short forms 1040A or 1040EZ. Thus, for 1987, taxpayers, who did not itemize, could no longer claim the deduction. Also, because of the higher standard deduction for 1987 (especially for the elderly), some taxpayers, who itemized previously may have found it more advantageous to claim the standard deduction for 1987. The deduction declined by 8.5 percent, and the total number of taxpayers claiming it fell by 12.4 percent.

A comparison of charitable contributions for 1986 and 1987 can also be made by including the amounts that were claimed by nonitemizers for 1986 (see Figure H). On this basis, the number claiming any charitable contributions fell by 50.3 percent, and the amount fell by 26.6 percent.

Moving Expense.—Moving expenses became an itemized deduction for 1987, instead of an adjustment to income as they were for 1986 (see Statutory Adjustments). Almost 1 million taxpayers claimed these expenses as an itemized deduction, but this was considerably fewer than the 1.8 million that claimed them for 1986 as a statutory adjustment. The amount of the deduction was \$3.7 billion compared to the \$4.6 billion claimed in 1986.

Miscellaneous Itemized Deductions.—For 1987, there were two tiers of "miscellaneous" itemized deductions. The first tier applied to those expense items that were fully deductible. Some of these included gambling losses (limited to gains), impairment-related work expenses for handicapped people, and amortizable bond premiums.

The second tier was for expenses that were subject to a new 2 percent AGI floor, such as unreimbursed employee business expenses (previously discussed under Statutory Adjustments) and those expenses of producing income which are not deductible in computing AGI.

Figure H.—Charitable Contributions Deduction, Tax Years 1986 and 1987

[Number of returns are in thousands, money amounts are in millions of dollars]

Item	1986		1987	
	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)
Total charitable contributions deduction...	64,755	\$67,094	32,172	\$49,261
Contributions deduction for itemizers.....	36,714	53,816	32,172	49,261
Contributions deduction for nonitemizers.....	28,041	13,278	—	—

The new Act also put additional restrictions on employee business expense claims for meals, entertainment, and travel.

- **Meals and Entertainment.**—Tax reform modified how meals and entertainment expenses were handled. First, only 80 percent of the cost of qualified meals or entertainment was deductible, whereas for 1986, the full cost was deductible.

Second, the cost of a business meal could be deducted only if the meal were *directly related* to the *active conduct* of the taxpayer's business (even to the extent that conducting business must be the principal aspect of the combined business and entertainment) where previously the rule was that meals or entertainment must be related to the taxpayer's business and conducted in an atmosphere conducive to business discussions.

And third, any unreimbursed expense could be deducted only as a "miscellaneous" itemized deduction, not as a statutory adjustment to income.

- **Travel Expenses.**—Expenses for travel used as a form of education and investment seminar expenses were no longer deductible, and the deduction for travel by cruise ship was limited for 1987. Previously, these expenses had been fully deductible. For example, under pre-tax reform law, taxpayers who attended conventions, seminars, or meetings could deduct expenses for registration fees, transportation costs, meals, and lodging expenses if such meetings were connected with their income-producing activities or investments. Under tax reform, such seminars or meetings must offer significant business related activities and participation for the taxpayer.

Total miscellaneous deductions decreased by 25 percent, and the number of returns claiming an amount for them dropped by more than 75 percent.

Standard Deduction

For 1987, the "zero bracket amount" (i.e., income "taxed" at a rate of zero percent), or ZBA, that was in effect since 1977, was replaced by a standard deduction. Unlike the ZBA, the "new" standard deduction was not incorporated into the tax tables and tax rate schedules, but instead, had to be specifically deducted in computing taxable income. For 1987, taxpayers subtracted the larger of the standard deduction or total itemized deductions. Figure I shows a comparison of the 1987 standard deductions and the equivalent 1986 zero bracket amounts [10].

Under the 1986 Act, the basic standard deduction was supplemented by additional deductions for taxpayers age

Figure I.—Tax Year 1986 Zero Bracket Amounts and Tax Year 1987 Standard Deductions

Filing status	Zero bracket amount 1986	Basic standard deduction 1987
Single or head of household.....	\$2,480	\$2,540
Married filing jointly.....	3,670	3,760
Married filing separately.....	1,835	1,880

65 or over or who were blind. Prior to 1987, extra benefits for the aged and blind had been in the form of extra personal exemptions.

For 1987, the amount of the first additional deduction for age or blindness allowable was \$1,210 for single taxpayers, \$1,840 for married taxpayers filing jointly, \$1,220 for those married taxpayers who filed separately, and \$2,610 for those who were heads of household. The amount of each subsequent deduction for age or blindness was \$750 for single or head of household filers and \$600 for married filers.

As a result of these changes, taxable income for 1987 was derived in a manner different than for 1986. Taxable income for 1987 was adjusted gross income (AGI) minus the larger of the standard deduction or total itemized deductions, minus personal exemptions:

Tax Year 1987
 + AGI
 – Larger of standard deduction or itemized deductions
 – Personal exemptions
 = Taxable income for 1987

In contrast, for 1986, taxable income was adjusted gross income minus total itemized deductions in excess of the standard deduction (called zero bracket amount for 1986) (or minus the charitable contributions deduction for non-itemizers), minus personal exemptions:

Tax Year 1986
 + AGI
 – Itemized deductions in excess of zero bracket amount
 – Personal exemptions
 = Taxable income for 1986

OR

+ AGI
 – Charitable contributions deduction for non-itemizers
 – Personal exemptions
 = Taxable income for 1986

In brief, taxable income was derived after the standard or itemized deductions for 1987, whereas, for 1986, taxable

income was before the standard deduction equivalent allowed all taxpayers. Figure J shows in the aggregate the relationships between AGI and taxable income for 1986 and 1987.

The amount of the standard deduction for 1987 was \$213 billion.

Personal Exemptions

The size of each individual personal exemption increased by over 75 percent, from \$1,080 for 1986 to \$1,900 for 1987 [11]. As already noted, for 1987, the extra taxpayer exemptions for age and blindness were replaced by additional amounts of standard deductions.

Tax reform created two changes in the way exemptions for dependents were claimed [12]. First, if taxpayers were eligible to claim children or other dependents and those dependents were required to file a return, the dependents could not also claim a personal exemption for themselves on their own returns. As discussed earlier in the Section on Filing Requirements, more stringent rules requiring dependents to file returns were imposed under tax reform.

Second, in addition to meeting all other dependent tests, dependents could not earn more than \$1,900 unless they were under 19 years old or met certain tests as a full-time student. This last condition effectively eliminated the possibility that students over 19 could be claimed as a dependent on their parents' returns.

In the aggregate, the deduction for personal exemptions increased almost 55 percent from \$265 billion to \$409 billion, mainly as a result of these changes. However, the number of exemptions claimed dropped from 246 million to 218 million, a decrease of 13.1 percent. The number of dependents claimed declined from 77 to 72 million. For 1986, there were 17.7 million exemptions claimed for age and blindness.

Tax Rates

There were five tax brackets for 1987 instead of 14 or 15 as for 1986. Tax rates ranged from 11 percent to 38.5

Figure J.—AGI, Deductions, Exemptions, and Taxable Income, Tax Years 1986 and 1987

[Money amounts are in millions of dollars]

Item	1986	1987	Percentage change
	(1)	(2)	(3)
Adjusted gross income	\$2,481,681	\$2,788,011	+ 12.3%
Itemized deductions.....	447,058	383,917	– 14.1
Contributions deduction for nonitemizers.....	13,278	—	– 100.0
Standard deduction	—	213,447	+ 100.0
Personal exemption.....	265,152	409,385	+ 54.4
Taxable income.....	1,947,025	1,858,714	– 4.5
Zero bracket amount	281,393	—	– 100.0

Individual Income Tax Returns, Preliminary Data, 1987

percent, instead of from 11 percent to 50 percent as for 1986 [13]. The 1987 rate schedules were the first step in a two-step phase in of lower tax rates which was to be completed for Tax Year 1988 [14]. For 1987, the 60-percent exclusion for net long-term capital gains was eliminated; but, as already noted, under a special provision for 1987 only, net long-term gains were taxed at a maximum rate of 28 percent.

Income Averaging

Income averaging was repealed for 1987. Previously, a taxpayer could reduce his or her income tax in peak income years by averaging income over a 4-year period [15].

Tax Credits

On 1987 tax returns, the total amount of tax credits claimed was \$6.1 billion, or 13.0 percent less than for 1986. The decrease was considerably less than the 31.5 percent decline from 1985 to 1986. The repeal of the investment tax credit had been the major contributor to the 1986 reduction. Figure K shows the major tax credits, together with income tax before and after credits, for both 1986 and 1987. Income tax before credits increased by 2.3 percent (from \$368 billion to \$376 billion) with income tax after credits increasing by 2.6 percent (from \$361 billion to \$370 billion).

Earned Income Credit.—The Tax Reform Act increased the rate of and base for the earned income credit. For 1987, the credit was 14 percent of the first \$6,075 of an eligible individual's "earned" income. But, if earnings or AGI exceeded \$6,920, the credit was reduced by 10 percent of such excess so that at income levels exceeding \$15,432, the credit was completely eliminated. For 1987, the maximum credit of \$851 compared to \$550 for 1986. Under

prior law, the earned income credit generally equaled 11 percent of the first \$5,000 of earned income, and it was completely phased out at \$11,000 [16].

Primarily as a result of these changes, the 1987 earned income credit nearly doubled from \$2.0 billion to \$3.9 billion, with an increase in the number of returns with an earned income credit rising from 6.3 million to 8.8 million.

For statistical purposes, the earned income credit has been divided into three categories. The first two categories were 1) used to offset income tax before credits (where \$328 million was claimed for 1986 and \$647 million for 1987), and 2) used to offset all other taxes (\$201 million for 1986 and \$351 million for 1987). The third category of the credit consisted of a refundable portion that individuals could receive whether or not they paid taxes (\$1.5 billion for 1986 and \$2.9 billion for 1987).

Credit for the Elderly or the Permanently and Totally Disabled.—The number of returns from taxpayers claiming the credit for the elderly or the permanently and totally disabled fell from 430,000 to 352,000, about 18 percent. The total amount of the credit claimed fell 23.3 percent, from \$86 million to \$66 million (see Figure K). Part of this reduction could have been caused by a reduced amount of income tax before credits in the group that is eligible to claim the credit.

Child Care Credit.—Growth of the child care credit, by far the largest credit for both Tax Years 1986 and 1987, slowed considerably. For 1985, the amount of child care credit claimed was \$3.1 billion, up 18.2 percent from 1984; for 1986 the amount was \$3.4 billion, an increase of 8.5 percent; for 1987 the amount was 3.5 billion, a rise of only 1.5 percent. For 1987, the credit was claimed on 5 percent fewer returns than for 1986.

Figure K.—Selected Tax Credits, Tax Years 1986 and 1987

[Returns are in thousands, amounts are in millions of dollars]

Tax credit	1986		1987		Percentage change in credits
	Number of returns	Amount	Number of returns	Amount	
	(1)	(2)	(3)	(4)	(5)
Taxable income	97,358	\$1,947,025	90,077	\$1,858,714	-4.5%
Income tax before credits	86,601	367,592	89,753	376,132	+2.3
Total credits ¹	16,859	7,021	12,890	6,108	-13.0
Child care credit	8,950	3,397	8,528	3,449	+1.5
Earned income credit ²	2,507	328	3,735	647	+97.3
Credit for the elderly or disabled	430	86	352	66	-23.3
Political contributions credit	4,605	242	—	—	-100.0
Foreign tax credit	424	774	546	962	+24.3
General business credit	680	1,116	485	922	-17.4
Income tax after credits	83,898	360,571	86,732	370,024	+2.6
Alternative minimum tax	609	6,713	114	1,234	-81.6
Total income tax	83,967	367,287	86,750	371,258	+1.1

¹ The sum of the listed credits does not equal total credits because "other credits" are not listed and, in some cases, credits reported on prior year returns were not shown separately, but were included in the 1987 total.

² Represents the portion of the earned income credit that was used to offset income tax before credits. Additional earned income credit amounts were used to offset other taxes and some amounts were paid directly to the taxpayer.

General Business Credit.—The 1986 Tax Act, phased out, with certain exceptions, the investment credit (included in the general business credit) beginning with 1986. Thus, most depreciable business property placed in service after 1985 was not eligible for the investment credit, although taxpayers were allowed to claim “unused” credits carried over from 1985 and earlier years on their 1986 tax returns. For 1987, the law reduced the amount of unused credits that could be claimed by about 17.5 percent [17].

Political Contributions Credit.—The political contributions credit was repealed for 1987. Previously, a partial credit against tax had been allowed for 50 percent of the first \$50 (\$100 for a joint return) of political contributions.

Total Credits.—For 1987, the number of returns claiming any tax credits declined by 4.0 million, or 23.5 percent. This may have been partly due to the elimination of the political contributions credit. Of the 4.6 million taxpayers who claimed the political contributions credit for 1986, 3.8 million claimed no other credits.

Alternative Minimum Tax (AMT)

For 1987, the alternative minimum tax was revised in an attempt to insure that taxpayers with substantial economic income could not avoid a significant tax liability. To achieve this the method of calculating the “alternative minimum taxable income” (AMTI) was changed.

For 1987, the starting point for the calculation was taxable income. Taxpayers had to increase their regular taxable income by the amount of their “tax preferences” and add back certain exclusions or deductions allowed in calculating taxable income on the Form 1040. For 1986, the starting point had been adjusted gross income. AGI was reduced by the deductions that were not considered preferential, and increased by tax preferences. In addition, the AMT rate was increased from 20 percent of the AMTI in excess of an exemption amount for 1986 to 21 percent of such income for 1987. For both years, AMT was the excess of tax computed at these rates over the income tax (after credits) computed at the regular rates on taxable income and reduced by the foreign tax credit.

The AMT exemption for single (joint) filers of \$30,000 (\$40,000) was phased out above certain levels of AMTI. For single (joint) filers, the phase out began at \$112,500 (\$150,000) and ended at \$232,500 (\$310,000).

Because of other changes in the law described above, there were changes to the list of AMT adjustments and tax preference items. Since many exclusions were eliminated, they were no longer considered a tax preference. The most important of these was the 60-percent capital gains exclu-

sion. The principal addition to the list of tax preferences for 1987 was “passive losses,” already described.

Total Income Tax

Total income tax (the sum of income tax after credits and the alternative minimum tax) increased by 1.1 percent. This reflected the offsetting effect of many of the 1986 Act changes, including lower tax rates applied to a broader tax base.

RECOMPUTED TOTAL INCOME

As already discussed, the Tax Reform Act of 1986 altered the size and composition of AGI between 1986 and 1987. Thus, 1986 AGI cannot be compared meaningfully with AGI for 1987. In order to illustrate the effects of tax reform, a **recomputed total income** has been developed to provide comparable income data for Tax Years 1986 and 1987. By adding back the income exclusions for 1986, and disallowed passive losses for 1987, recomputed total income provided a standardized income concept for the two years. Figure L shows how recomputed total income was calculated.

The size of AGI in various years is normally used as a key indicator of income change. Comparisons, however, are not meaningful when the definition of AGI changes as it did for 1987. Between 1986 and 1987, AGI increased by 12.3 percent—a sizable increase. However, when the recomputed total income concept is used so that income data are on a comparable basis, the increase is only 1 percent, from \$2,781 billion to \$2,808 billion.

For 1987, the two income concepts produce very similar results—the increase in income by adding back statutory adjustments was partially offset in some cases by deducting passive losses that were not allowed under the 1987 tax law. By income size class, the number of returns, income, and tax also remained similar under both income concepts (see Figure M) [18].

Figure L.—Computation of Recomputed Total Income, Tax Years 1986 and 1987

[Money amounts are in million of dollars]

Income items	1986	1987	Percentage change
	(1)	(2)	(3)
Adjusted gross income	\$2,481,681	\$2,788,011	+ 12.3%
PLUS:			
Statutory adjustments	99,008	29,565	– 70.1
Dividend exclusion	2,006	—	– 100.0
Capital gains exclusion	191,290	—	– 100.0
Unemployment compensation exclusion	7,160	—	– 100.0
LESS:			
Disallowed passive losses	—	9,827	+ 100.0
EQUALS:			
Recomputed total income	2,781,145	2,807,749	+ 1.0

Individual Income Tax Returns, Preliminary Data, 1987

Figure M.—Number of Returns, Adjusted Gross Income (AGI), Recomputed Total Income (RTI), and Total Income Tax by Size of Adjusted Gross Income and Recomputed Total Income, Tax Years 1986 and 1987

[Number of returns in thousands, money amounts in millions of dollars]

Tax Year, income and tax	Total	Size of Income									
		Under \$1	\$1 under \$10,000	\$10,000 under \$20,000	\$20,000 under \$30,000	\$30,000 under \$50,000	\$50,000 under \$100,000	\$100,000 under \$200,000	\$200,000 under \$500,000	\$500,000 under \$1,000,000	\$1,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Adjusted Gross Income (AGI)											
Tax Year 1987:											
Number of returns	107,070	891	32,641	25,259	16,556	19,471	10,187	1,520	432	77	36
AGI	\$2,788,011	\$ -28,837	\$160,348	\$370,836	\$408,807	\$753,062	\$659,485	\$201,210	\$123,965	\$51,939	\$87,196
Total income tax	\$371,258	\$73	\$4,606	\$25,064	\$38,425	\$84,212	\$101,292	\$43,632	\$33,203	\$15,261	\$25,491
Tax as a percentage of AGI	13.3%	(¹)	2.9%	6.8%	9.4%	11.2%	15.4%	21.7%	26.8%	29.4%	29.2%
Tax Year 1986:											
Number of returns	103,045	958	31,898	24,996	16,780	18,948	7,975	1,116	291	52	32
AGI	\$2,481,681	\$ -42,443	\$162,418	\$367,099	\$414,425	\$730,372	\$513,758	\$146,974	\$82,841	\$33,670	\$72,565
Total income tax	\$367,287	\$308	\$4,899	\$28,779	\$43,734	\$94,373	\$88,741	\$37,289	\$27,067	\$12,928	\$29,169
Tax as a percentage of AGI	14.8%	(¹)	3.0%	7.8%	10.6%	12.9%	17.3%	25.4%	32.7%	38.4%	40.2%
Recomputed Total Income (RTI)											
Tax Year 1987:											
Number of returns	107,070	897	32,470	25,100	16,462	19,708	10,323	1,559	438	77	36
RTI	\$2,807,749	\$ -30,379	\$159,389	\$368,486	\$406,909	\$764,237	\$668,623	\$206,504	\$125,601	\$51,871	\$86,511
Total income tax	\$371,258	\$150	\$4,582	\$24,651	\$37,720	\$84,297	\$101,553	\$44,183	\$33,452	\$15,281	\$25,390
Tax as a percentage of RTI	13.2%	(¹)	2.9%	6.7%	9.3%	11.0%	15.2%	21.4%	26.6%	29.5%	29.3%
Tax Year 1986:											
Number of returns	103,045	845	30,726	24,651	16,326	18,987	9,416	1,525	434	80	55
RTI	\$2,781,145	\$ -36,324	\$157,469	\$361,813	\$403,895	\$733,669	\$612,901	\$203,788	\$125,952	\$53,785	\$164,196
Total income tax	\$367,287	\$17	\$4,520	\$27,020	\$39,982	\$86,800	\$91,193	\$39,096	\$29,499	\$13,482	\$35,679
Tax as a percentage of RTI	13.2%	(¹)	2.9%	7.5%	9.9%	11.8%	14.9%	19.2%	23.4%	25.1%	21.7%

¹ Less than 0.05 percent

For 1986, however, a comparison of the recomputed income and AGI data shows large differences in income and in tax as a percentage of income for all taxpayers, and even bigger differences for the various income classes. For 1986, recomputed total income was 12.1 percent higher than AGI. Moreover, under recomputed total income, more taxpayers are in higher income classes. For example, the number of taxpayers with incomes of \$1 million or more rose from 32,000 to 55,000, a 72 percent increase. Incomes for the \$1 million or more class rose even more dramatically, by 126 percent. For the \$1 million or more class alone, nearly \$92 billion was excluded for 1986 that would have been subject to tax for 1987. These differences are largely due to adding back the 60 percent of net capital gains that were excluded from AGI for 1986.

Since 1986 was an unusual year, with a 77 percent increase in capital gain realizations over 1985, it is possible that the dramatic increase from 1986 to 1987 in tax as a percentage of income for the highest income class (from 21.7 to 29.3) would not have been as great from 1985 to 1987 [19].

Using recomputed total income as a measure, total income tax as a percentage of income remained unchanged at 13.2 percent, but there were significant differ-

ences for some income classes. Overall, income classes under \$50,000 showed a lower effective tax rate for 1987 and those classes over \$50,000 showed a higher effective rate. The greatest difference was for the \$1 million or more class where the tax rate increased, as already noted, from 21.7 to 29.3 percent.

Figure N shows income tax as a percentage of **AGI** by income class for 1986 and 1987. For 1987, average tax rates were lower for all AGI classes. Figure O shows similar information with data based on **recomputed total income**. Using recomputed total income, Figure O indicates that for 1986 higher income classes had a considerably lower average tax rate than they did for 1987.

SUMMARY

Initial results of the Tax Reform Act of 1986 indicate that the major changes in the tax law were, in fact, reflected in reduced amounts of tax preferences claimed, a reduction in tax rates for lower income taxpayers, and an increase in effective tax rates for the highest income taxpayers.

Many of the components of income and taxes changed more dramatically than they had for years, reflecting the extent of the 1986 tax law overhaul. For example, adjusted

Figure N.
Income Tax As a Percentage of Adjusted Gross Income,
Tax Years 1986 and 1987

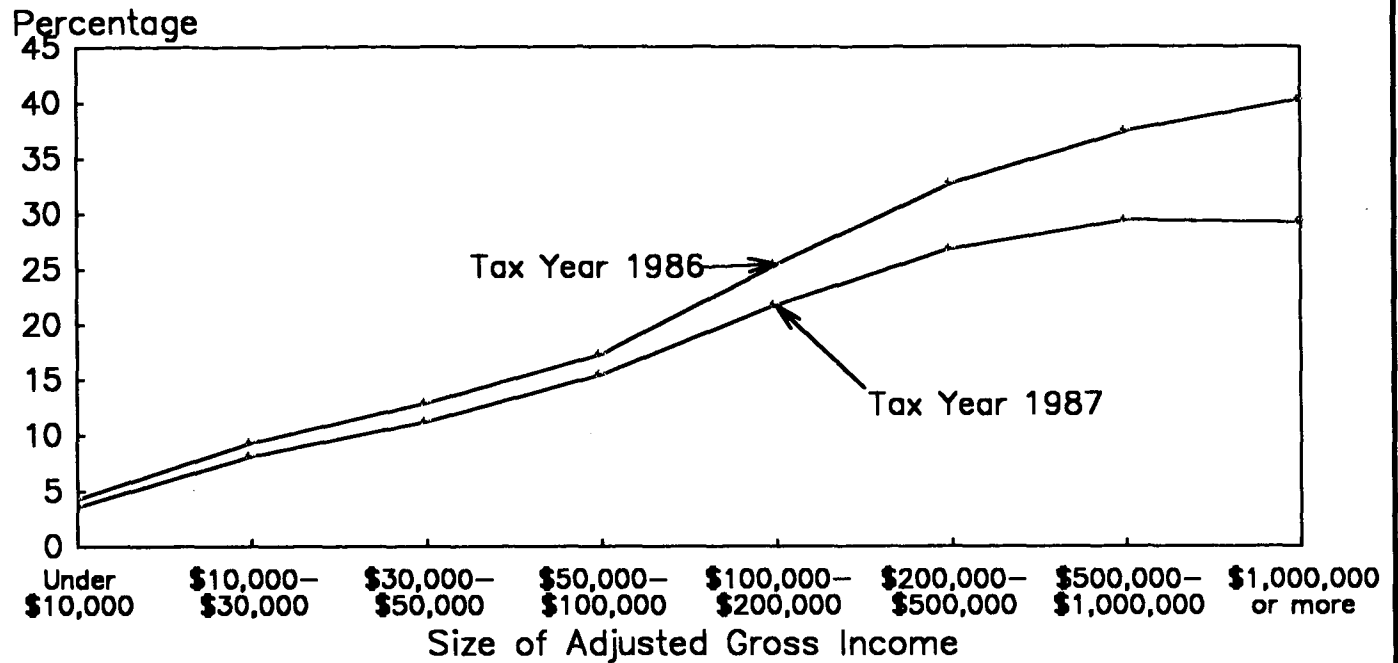
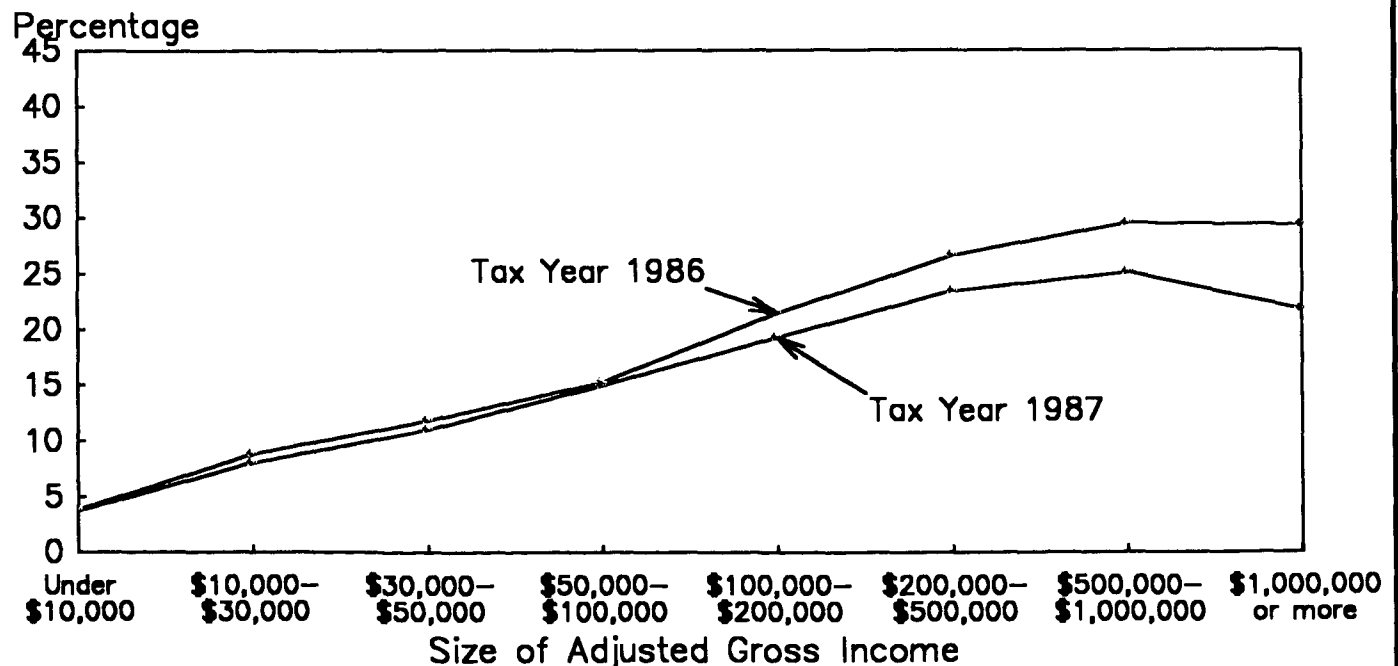


Figure O.
Income Tax As a Percentage of Recomputed Total Income,
Tax Years 1986 and 1987



gross income increased 12.3 percent, mainly because of the inclusion of income such as capital gains, dividends, and unemployment compensation which were partially excludable for 1986. Income, when computed more consistently for 1986 and 1987, increased by only 1.1 percent. Total income tax increased by only 1.1 percent. The changes from 1986 to 1987 should be considered cautiously in view of the 1986 "spike" in capital gains activity that was primarily due to taxpayers' anticipation of the elimination of the 60-percent exclusion.

DATA SOURCES AND LIMITATIONS

These preliminary statistics are based on a sample of individual income tax returns (Forms 1040, 1040A, and 1040EZ) filed in 1988. Returns in the sample were stratified based on the presence or absence of Schedule C, Profit (or Loss) from Business or Profession; Schedule F, Farm Income and Expenses; the larger of "total income" or "total loss"; and the size of business plus farm receipts. These returns were selected at rates ranging from 0.03 percent to 100 percent. There were 108,183 returns in the 1987 preliminary sample estimating a total population of 107,106,845. The corresponding sample size and population for the preliminary 1986 data were 74,985 and 103,299,845, respectively. Sample size and population for the final 1986 data referenced in this article were 89,165 and 103,423,606, respectively.

Because the data presented here are estimates based on a sample of returns filed, they are subject to sampling error. To properly use the statistical data provided, the magnitude of the potential sampling error must be known. Coefficients of variation (CV's) are used to measure that magnitude.

Approximate coefficients of variation (CV's) for frequency estimates are presented in Figure P. These approximate CV's shown are intended only as a general indication of the reliability of the data. For a number other than those shown, the corresponding CV's can be estimated by interpolation. The reliability of estimates based on samples, and the use of coefficients of variation for evaluating the precision of estimates based on samples, are discussed in the Appendix.

Basic tables presented in this article are based on adjusted gross income (AGI) concepts, but because the

Figure P.—Estimated Number of Returns for Selected Coefficients of Variation, Tax Year 1987

Number of returns	Approximate coefficient of variation
30,293,000	0.01
7,573,300	0.02
1,211,700	0.05
302,900	0.10
75,700	0.20
33,700	0.30
24,700	0.35
12,100	0.50

1987 concept was revised substantially by tax reform, data for 1986 and 1987 may not be comparable. In addition, nonsampling errors in these 1987 tax statistics are potentially greater than usual. During a year of major change in forms, reporting methods, and changes in the law, taxpayers are much more likely to make reporting errors. Returns used in these statistics are pre-audit, and would, therefore, include such taxpayer reporting errors if they occurred.

While these preliminary estimates are intended to represent a full year of taxpayer reporting, they are actually based on returns processed between January and late September 1987. In general, those returns processed after September (which are sampled for use in the revised estimates for the year) tend to have somewhat different characteristics from those filed earlier. Compared to other returns, the characteristics of these later returns include higher income, a larger proportion of investment income (such as from capital gains), a higher average tax liability, and a larger proportion of such other items as the alternative minimum tax.

Figure Q provides a comparison of 1986 preliminary and final data. Figure Q shows, for example, that certain items, such as AGI and salaries and wages, which are reported on most returns, changed little between preliminary and final data. This contrasts with other items, such as net gain from sales of capital assets, which tend to be understated in all preliminary estimates.

Figure Q.— Comparison of Preliminary and Final Data, Tax Year 1986

(Millions of dollars)

Item	1986 preliminary data	1986 final data	Difference, 1986 preliminary and final data	Percentage difference, 1986 preliminary and final data
	(1)	(2)	(3)	(4)
Adjusted gross income	\$2,522,517	\$2,481,681	\$ -40,836	-1.62%
Salaries and wages	2,046,135	2,031,026	-15,109	-0.74
Sales of capital assets net gain less loss (after exclusion)	129,933	132,842	2,909	2.24
Total itemized deductions	446,542	447,058	516	0.12
Interest paid deduction	194,451	196,566	2,115	1.09
Total tax credits	7,655	7,021	-634	-8.28
Additional tax for tax preferences	6,115	6,716	601	9.83
Total income tax	377,051	367,287	-9,764	-2.59

NOTES AND REFERENCES

- [1] **Gross Income** is all income from whatever source derived. This is reduced by income items that are specifically excluded (either completely or partially) for income tax purposes, and by excludable portions of income items reported on Form 1040 to arrive at **total income**. Total income is reduced by statutory adjustments to arrive at **adjusted gross income**. For more

complete definitions see Explanation of Terms, Section 4 of *Statistics of Income—1985, Individual Income Tax Returns*.

- [2] For prior use of the recomputed total income concept see Weber, Michael E., "Individual Income Tax Returns for 1987: Selected Characteristics from the Taxpayer Usage Study," *Statistics of Income Bulletin*, Summer 1988, Volume 8, Number 1. Similar conclusions on income and tax were presented in this earlier article.

- [3] In general, capital assets for tax purposes included all property held for personal use or investment. Realizations of capital gains represent sales and certain other taxable dispositions. Net capital gains represents net long-term gains less net short-term losses before the exclusion (for 1986 and earlier years before the exclusion was repealed). See Sales of Capital Assets Net Gain or Loss (plus other related definitions) in Explanation of Terms, Section 4 of *Statistics of Income—1986, Individual Income Tax Returns*.

- [4] Clark, Bobby and Paris, David, "Sales of Capital Assets, 1981 and 1982," *Statistics of Income Bulletin*, Winter 1985-86, Volume 5, Number 3, and a forthcoming article, Holik, Dan, Labate, John, and Hostetter, Susan, "Sales of Capital Assets, 1985," *Statistics of Income and Related Administrative Research, 1988-1989*, Department of Treasury, Internal Revenue Service.

- [5] Zempel, Alan, "Partnership Returns, 1986," *Statistics of Income Bulletin*, Summer 1988, Volume 8, Number 1.

- [6] Nelson, Susan, "Taxes Paid by High-Income Taxpayers and the Growth of Partnerships," *Statistics of Income Bulletin*, Fall 1985, Volume 5, Number 2, and a forthcoming article, Nelson, Susan and Petska, Tom, "Partnerships, Passive Losses, and Tax Reform," *Statistics of Income and Related Administrative Research, 1988-1989*, Department of Treasury, Internal Revenue Service.

- [7] The amount of the allowable deduction for IRA contributions depended on the following criteria:

Full Deduction: IRA contributions up to \$2,000 a year (\$2,250 for a spousal IRA) were fully deductible if the taxpayer (or spouse) did not belong to a company-funded retirement plan or, if the taxpayer (or spouse) did belong to a company retirement plan and his or her adjusted gross income was less than \$25,000 (less than \$40,000, if taxpayer and spouse filed jointly).

Partial Deduction: The maximum amount of the allowable deduction for the IRA contribution was phased out (in some cases permitting a partial deduction) for taxpayers with adjusted gross income from \$25,000 to \$35,000 (\$40,000 to \$50,000, if taxpayer and spouse filed jointly) when a taxpayer (or spouse) belonged to a company retirement plan.

No Deduction: IRA contributions were not deductible for those taxpayers with company retirement plans and adjusted gross incomes greater than \$35,000 (\$50,000 for joint returns).

- [8] The "marriage penalty" is the difference between the tax reported on a joint return when both spouses work and the combined amount of tax for the same two persons assuming that they are not married and each is taxed as a single person. If the two persons each have about the same amount of income, taxes after marriage may increase, providing a "marriage penalty." The two-earner marriage deduction was an attempt to reduce the marriage penalty. For other taxpayers, especially where one has most or all of the income, marriage may reduce combined taxes, providing a "marriage bonus." In some cases, the two-earner deduction may have increased such bonuses, or may have turned penalties into bonuses.
- [9] The mortgage interest deduction could not be claimed for third homes.
- [10] The allowable standard deductions shown in Figure 1 for 1987 were to increase significantly for 1988 and then be indexed for inflation for subsequent years.
- [11] Further increases in the size of personal exemptions were also specified in the Act for 1988 and 1989, after which exemptions were to be indexed annually for inflation.
- [12] In addition to changing the criteria for claiming dependents, the 1986 Act required the inclusion of social security numbers for dependents over age 5 who were claimed on 1987 tax returns. The purpose of the requirement was to eliminate improperly claimed exemptions.
- [13] For 1987, tax rates and brackets were specified by statute. Unlike 1986 tax rate schedules, they were not the result of automatic indexing for the effects of inflation.
- [14] Beginning for 1988, there will be only two rates (15 and 28 percent), plus an additional rate of 33 percent produced by the phaseout of certain benefits. For Tax Year 1989 and thereafter, the 1988 tax rate structure will be indexed.

- [15] For a definition and description of how income averaging could be used, see Explanation of Terms, Section 4 of *Statistics of Income—1986, Individual Income Tax Returns*.
- [16] Beginning with 1988 the earned income credit was to be adjusted for inflation, but also beginning for 1988 there was a permanent increase in the phase out income range.
- [17] The 1986 Act further reduced, by 35 percent, the amount of unused investment credit that could be claimed for 1988.
- [18] Recomputed total income was calculated for each individual return, and returns were reclassified by income class on the basis of the recomputed total income.
- [19] Comparisons of individual tax return data based on income concepts that provide comparable data among years with changes in the law will be presented in *Statistics of Income—1987, Individual Tax Returns* which will be available in November, 1989.
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Table 1.—All Returns: Selected Income, Adjustments, Deductions, and Tax Items, by Size of Adjusted Gross Income
 [All figures are estimates based on samples—money amounts are in thousands of dollars]

Size of adjusted gross income	Number of returns	Adjusted gross income less deficit (AGI)	Salaries and wages		Taxable interest		Tax-exempt interest ¹		Dividends	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
All returns, total	107,070,087	2,788,010,987	91,166,342	2,169,144,134	68,010,179	163,981,254	3,239,808	30,967,469	22,264,019	66,441,562
No adjusted gross income	890,857	-28,836,564	290,122	4,739,436	473,384	2,215,680	29,549	627,097	202,333	665,873
\$1 under \$1,000	2,833,204	1,732,778	1,868,706	1,817,811	1,174,357	488,626	25,832	52,385	266,750	113,258
\$1,000 under \$2,000	3,695,589	5,542,603	2,996,732	4,774,990	1,449,873	821,321	*11,681	*9,135	314,074	189,284
\$2,000 under \$3,000	3,727,701	9,318,781	3,159,863	7,781,710	1,519,535	976,317	*9,200	*60,608	316,565	227,907
\$3,000 under \$4,000	3,351,531	11,718,781	2,787,457	9,414,863	1,463,641	1,316,294	18,547	42,172	283,088	232,456
\$4,000 under \$5,000	3,326,784	14,950,996	2,699,125	11,324,140	1,425,119	1,485,073	19,067	34,693	289,329	285,901
\$5,000 under \$6,000	3,304,245	18,171,692	2,611,456	13,290,467	1,526,268	2,199,085	16,783	34,006	306,089	326,243
\$6,000 under \$7,000	3,108,631	20,188,128	2,401,670	14,743,265	1,442,370	2,431,945	*15,674	*165,025	336,984	328,565
\$7,000 under \$8,000	3,216,840	24,109,430	2,517,647	17,488,781	1,482,747	2,433,814	21,738	60,197	300,784	345,643
\$8,000 under \$9,000	3,092,614	26,325,425	2,402,693	18,873,181	1,416,685	2,789,472	28,050	75,673	364,628	439,600
\$9,000 under \$10,000	2,983,749	28,289,872	2,387,365	20,720,874	1,373,573	2,600,481	24,062	35,274	368,583	570,556
\$10,000 under \$11,000	2,972,786	31,180,858	2,313,508	22,537,545	1,503,084	3,142,572	31,651	57,859	314,792	496,062
\$11,000 under \$12,000	2,821,431	32,444,165	2,219,299	23,797,050	1,439,898	3,027,763	26,348	156,187	341,744	628,256
\$12,000 under \$13,000	2,766,136	34,587,054	2,235,236	25,649,108	1,485,047	3,224,568	25,390	103,880	349,988	674,859
\$13,000 under \$14,000	2,735,739	36,908,429	2,250,013	28,177,624	1,451,281	3,088,131	43,033	74,218	368,957	797,643
\$14,000 under \$15,000	2,567,210	37,224,005	2,160,782	28,805,118	1,448,760	2,991,741	32,886	124,971	354,546	616,655
\$15,000 under \$16,000	2,504,029	38,782,479	2,129,179	30,958,191	1,380,658	2,848,616	27,561	56,801	302,807	615,621
\$16,000 under \$17,000	2,284,511	37,693,343	1,944,000	29,586,833	1,295,407	2,804,749	35,997	134,084	376,845	771,054
\$17,000 under \$18,000	2,292,159	40,096,934	1,949,321	31,649,810	1,283,766	3,037,124	29,288	124,683	347,386	702,285
\$18,000 under \$19,000	2,195,306	40,598,839	1,884,382	32,641,465	1,324,909	2,863,790	29,374	100,071	341,772	791,491
\$19,000 under \$20,000	2,119,390	41,320,290	1,840,894	33,189,476	1,281,007	2,494,527	44,352	91,893	371,813	736,872
\$20,000 under \$25,000	9,062,033	203,260,969	8,124,327	168,911,459	5,963,728	10,690,522	196,638	1,134,476	1,597,851	3,093,095
\$25,000 under \$30,000	7,494,234	205,545,681	6,841,474	173,895,781	5,440,296	9,853,003	203,020	1,347,967	1,609,735	2,964,877
\$30,000 under \$40,000	11,605,168	402,546,332	10,718,642	343,322,159	9,406,216	17,245,920	397,479	2,090,703	3,121,496	5,749,082
\$40,000 under \$50,000	7,865,984	350,515,258	7,319,170	298,356,833	6,938,260	14,280,586	336,942	1,647,468	2,611,492	5,187,496
\$50,000 under \$75,000	8,144,059	485,721,579	7,563,804	403,520,514	7,611,320	20,616,382	670,031	5,442,321	3,701,294	9,568,809
\$75,000 under \$100,000	2,043,299	173,763,280	1,837,455	131,166,093	1,979,981	9,159,069	310,740	2,504,521	1,267,558	5,275,601
\$100,000 under \$200,000	1,519,691	201,210,047	1,265,578	124,683,684	1,489,079	13,780,309	361,307	4,693,075	1,079,146	9,004,964
\$200,000 under \$500,000	431,787	123,964,730	353,835	67,665,952	427,064	8,851,930	159,786	4,544,160	355,290	6,682,194
\$500,000 under \$1,000,000	77,091	51,938,773	62,774	24,357,216	76,664	3,879,940	37,364	2,481,527	67,348	3,070,365
\$1,000,000 or more	36,299	87,196,022	29,833	21,302,705	36,202	6,341,903	20,438	2,860,338	32,952	5,288,996
Taxable returns, total	86,750,436	2,706,583,316	75,580,339	2,084,859,528	60,590,345	150,306,053	3,075,360	29,214,302	20,509,884	63,479,502
Nontaxable returns, total	20,319,651	81,427,671	15,586,003	84,284,606	7,419,834	13,675,200	164,448	1,753,166	1,754,135	2,962,061

Footnote(s) at end of table.

Table 1.—All Returns: Selected Income, Adjustments, Deductions, and Tax Items, by Size of Adjusted Gross Income

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Size of adjusted gross income	State income tax refunds		Alimony received		Business or profession net income less loss		Capital gains net gain less loss		Other gains or losses	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
All returns, total	23,312,840	11,136,661	477,642	3,110,247	12,937,456	103,929,657	15,257,762	133,482,635	1,723,044	753,010
No adjusted gross income	113,978	130,586	*3,142	*7,372	394,546	-3,868,437	231,268	2,482,541	112,297	-1,172,092
\$1 under \$1,000	34,890	3,123	*3,753	*3,385	187,094	82,624	141,010	69,987	*10,402	*-33,400
\$1,000 under \$2,000	22,530	4,961	—	—	174,353	154,822	177,958	46,532	*2,023	*-3,288
\$2,000 under \$3,000	48,006	12,415	*1,839	*552	238,479	168,040	174,714	37,547	*11,457	*10,793
\$3,000 under \$4,000	66,415	15,079	*7,357	*12,553	256,361	500,477	184,942	98,403	*8,931	*-32,142
\$4,000 under \$5,000	68,799	22,789	*9,199	*28,609	240,113	586,349	166,437	94,719	24,287	-54,807
\$5,000 under \$6,000	87,711	20,679	18,621	73,895	245,121	647,466	194,046	263,217	26,152	-30,849
\$6,000 under \$7,000	123,237	25,434	*14,938	*65,586	285,188	894,315	197,617	119,961	19,643	75,928
\$7,000 under \$8,000	141,118	28,728	*7,359	*28,074	279,677	943,822	189,492	225,500	19,138	-277
\$8,000 under \$9,000	140,822	47,375	*14,862	*65,017	278,587	1,222,978	224,709	335,145	*14,719	*27,293
\$9,000 under \$10,000	134,194	28,388	*11,039	*47,372	266,044	1,246,287	226,812	318,970	33,191	54,585
\$10,000 under \$11,000	171,792	36,130	*16,708	*77,802	308,185	1,329,404	212,551	258,043	20,726	-71,898
\$11,000 under \$12,000	178,256	39,627	*7,432	*19,696	264,470	1,288,277	249,064	303,123	30,283	33,050
\$12,000 under \$13,000	230,200	56,453	20,312	97,020	280,255	1,193,851	260,070	324,713	39,956	-3,230
\$13,000 under \$14,000	226,079	53,598	*14,720	*33,654	238,833	1,107,148	257,581	361,012	29,213	456
\$14,000 under \$15,000	236,375	76,354	*14,790	*46,727	269,791	1,317,821	230,123	350,813	17,487	43,143
\$15,000 under \$16,000	230,432	53,889	22,151	91,678	227,366	904,308	187,231	370,512	21,914	4,402
\$16,000 under \$17,000	261,580	76,371	*11,040	*24,527	191,871	943,690	244,002	356,830	18,687	-20,494
\$17,000 under \$18,000	281,383	87,663	*12,951	*79,001	235,213	1,200,377	244,859	445,630	*13,242	*-12,027
\$18,000 under \$19,000	344,366	99,642	*14,791	*49,496	232,395	1,132,355	226,499	312,858	26,207	-5,482
\$19,000 under \$20,000	359,945	89,917	18,472	65,138	207,789	978,447	214,562	420,812	18,697	-18,450
\$20,000 under \$25,000	1,933,463	558,202	55,037	322,594	1,153,907	7,222,668	1,115,240	1,792,833	126,424	-40,202
\$25,000 under \$30,000	2,275,763	672,749	49,024	276,881	1,043,363	6,274,509	1,000,885	2,268,896	129,022	261,459
\$30,000 under \$40,000	4,714,776	1,663,527	54,176	485,218	1,724,906	11,081,127	2,005,641	4,452,084	232,012	135,264
\$40,000 under \$50,000	4,070,232	1,541,809	28,528	309,248	1,212,962	9,768,602	1,619,135	4,786,440	139,161	145,110
\$50,000 under \$75,000	4,572,615	2,343,863	29,488	327,855	1,444,786	17,599,301	2,554,832	11,761,785	232,966	370,896
\$75,000 under \$100,000	1,136,677	883,856	9,332	234,505	456,739	9,879,569	1,046,806	8,887,793	110,688	208,680
\$100,000 under \$200,000	813,314	1,058,775	5,188	105,992	443,540	17,388,751	1,026,055	21,631,159	133,729	296,240
\$200,000 under \$500,000	230,754	686,290	1,183	103,899	121,576	7,361,244	350,246	21,603,341	73,093	364,333
\$500,000 under \$1,000,000	41,884	290,368	133	1,003	22,463	1,844,562	69,370	12,553,777	17,178	150,273
\$1,000,000 or more	21,254	428,021	77	25,897	11,483	1,534,903	34,005	36,147,659	10,119	69,543
Taxable returns, total	22,248,047	10,703,616	417,885	2,851,601	10,275,321	100,840,303	13,905,874	128,943,069	1,379,229	2,106,048
Nontaxable returns, total	1,064,793	433,045	59,757	258,646	2,662,135	3,089,354	1,351,888	4,539,566	343,815	-1,353,036

Footnote(s) at end of table.

Table 1.—All Returns: Selected Income, Adjustments, Deductions, and Tax Items, by Size of Adjusted Gross Income

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Size of adjusted gross income	Pensions and annuities in adjusted gross income		Rents and royalties net income less loss		Partnership and S Corporation net income less loss		Farm net income less loss		Unemployment compensation in adjusted gross income	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)
All returns, total	16,565,268	125,352,013	9,704,968	- 9,082,135	5,270,769	32,074,878	2,425,970	- 769,887	7,422,952	12,324,306
No adjusted gross income	54,349	452,339	195,826	- 1,952,460	167,597	- 9,175,025	151,142	- 2,011,874	15,930	31,748
\$1 under \$1,000	31,495	60,862	37,915	- 135,314	32,928	- 46,816	24,173	3,894	* 12,954	* 6,252
\$1,000 under \$2,000	54,143	84,095	40,195	- 68,638	24,893	- 111,540	26,539	- 48,676	55,417	45,852
\$2,000 under \$3,000	154,554	255,586	86,740	- 53,420	28,721	3,978	36,439	- 16,440	85,656	101,519
\$3,000 under \$4,000	191,591	383,196	125,154	- 191,841	41,567	28,667	* 19,585	* - 37,001	117,081	168,435
\$4,000 under \$5,000	293,580	830,894	117,985	59,907	35,914	43,232	70,123	51,223	188,937	258,853
\$5,000 under \$6,000	409,152	1,228,911	152,646	- 31,519	39,502	- 25,568	43,365	57,700	189,843	270,922
\$6,000 under \$7,000	431,159	1,533,024	165,518	- 96,151	38,218	- 124,128	60,880	- 14,011	195,531	294,808
\$7,000 under \$8,000	528,683	2,213,996	137,519	39,938	51,642	24,216	58,656	29,609	273,027	403,980
\$8,000 under \$9,000	506,202	2,408,152	172,800	6,325	48,990	- 6,449	67,234	13,180	266,032	351,385
\$9,000 under \$10,000	494,632	2,461,867	154,080	- 19,215	49,974	- 70,354	48,772	32,189	263,821	432,467
\$10,000 under \$11,000	527,211	2,857,608	161,374	34,629	58,678	32,492	58,855	64,841	208,035	383,503
\$11,000 under \$12,000	534,052	3,199,486	141,482	- 50,728	48,726	- 28,475	46,054	- 78,733	241,013	400,476
\$12,000 under \$13,000	502,854	3,132,362	168,121	12,115	63,682	39,631	47,855	- 49,765	208,031	348,404
\$13,000 under \$14,000	474,034	2,991,923	185,610	- 65,285	62,189	151,884	65,225	- 34,084	209,179	365,411
\$14,000 under \$15,000	443,128	2,750,200	169,315	- 269,345	50,535	39,108	51,194	74,759	212,417	376,385
\$15,000 under \$16,000	416,663	3,036,626	156,904	- 99,593	46,636	3,407	46,910	- 89,229	223,130	407,964
\$16,000 under \$17,000	415,263	3,068,833	155,092	- 105,341	67,186	55,262	22,782	- 45,964	210,696	380,975
\$17,000 under \$18,000	374,068	2,969,160	146,183	- 84,660	41,044	- 9,269	48,319	- 24,562	174,122	310,669
\$18,000 under \$19,000	349,004	2,768,088	148,699	- 247,899	65,642	- 32,624	49,802	- 129,957	187,960	324,341
\$19,000 under \$20,000	379,023	3,123,555	162,563	- 114,119	66,055	140,682	51,602	21,568	162,771	270,517
\$20,000 under \$25,000	1,388,153	11,124,190	785,927	- 1,088,128	329,456	384,027	234,948	255,878	761,745	1,303,570
\$25,000 under \$30,000	1,238,626	9,584,932	711,007	- 956,993	267,601	211,221	216,507	- 256,745	765,100	1,390,199
\$30,000 under \$40,000	2,058,068	17,194,144	1,290,812	- 2,045,474	573,554	1,234,711	335,579	563,260	1,097,548	1,834,191
\$40,000 under \$50,000	1,618,911	14,175,749	1,037,576	- 1,440,740	543,731	846,478	201,210	417,274	570,353	963,071
\$50,000 under \$75,000	1,800,122	17,396,131	1,504,442	- 3,227,774	902,621	2,427,555	189,941	719,150	436,840	714,961
\$75,000 under \$100,000	459,116	6,081,596	559,509	- 453,647	482,234	2,160,678	63,604	415,825	65,460	120,424
\$100,000 under \$200,000	330,519	5,227,271	564,587	645,304	659,714	7,862,771	58,088	- 70,939	21,601	56,581
\$200,000 under \$500,000	86,013	1,881,510	208,088	1,332,059	291,101	7,633,476	22,399	- 296,448	2,302	5,290
\$500,000 under \$1,000,000	14,166	475,809	40,677	729,346	59,928	4,389,941	5,189	- 126,687	327	939
\$1,000,000 or more	6,734	399,919	20,622	856,526	30,510	13,991,708	2,999	- 159,124	93	212
Taxable returns, total	14,376,933	116,767,210	8,370,567	- 6,170,269	4,730,104	41,189,747	1,796,382	1,224,894	6,124,060	10,370,693
Nontaxable returns, total	2,188,335	8,584,803	1,334,401	- 2,911,866	540,665	- 9,114,868	629,588	- 1,994,780	1,298,892	1,953,613

Footnote(s) at end of table.

Table 1.—All Returns: Selected Income, Adjustments, Deductions, and Tax Items, by Size of Adjusted Gross Income

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Size of adjusted gross income	Social security benefits in AGI		Statutory adjustments							
			Total		Employee business expense		Payments to an Individual Retirement Arrangement		Payments to a Keogh plan	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(31)	(32)	(33)	(34)	(35)	(36)	(37)	(38)	(39)	(40)
All returns, total.....	3,661,680	12,641,286	11,559,265	29,565,013	1,420,644	4,048,686	7,351,364	14,146,118	745,675	5,920,984
No adjusted gross income.....	2,622	8,818	56,007	255,619	943	34,689	13,701	34,301	1,830	10,035
\$1 under \$1,000.....	—	—	30,704	60,000	*5,741	*32,347	*5,519	*7,697	*106	*2,115
\$1,000 under \$2,000.....	*1,840	*2,789	24,290	24,655	*1,839	*1,471	*14,942	*21,889	—	—
\$2,000 under \$3,000.....	—	—	57,071	71,060	*3,679	*12,190	25,094	37,256	*1,840	*767
\$3,000 under \$4,000.....	*1,839	*5,263	60,884	54,553	*3,889	*2,047	21,231	31,044	—	—
\$4,000 under \$5,000.....	—	—	68,026	85,565	*11,111	*29,536	21,956	30,593	—	—
\$5,000 under \$6,000.....	—	—	112,386	150,926	*7,433	*31,984	50,392	84,929	—	—
\$6,000 under \$7,000.....	*3,679	*9,103	92,746	130,000	*13,172	*42,151	37,311	61,157	—	—
\$7,000 under \$8,000.....	*1,914	*4,959	141,150	240,073	*13,249	*82,917	74,989	117,337	*1,914	*96
\$8,000 under \$9,000.....	*3,680	*4,646	139,012	196,131	14,265	30,471	78,684	130,428	—	—
\$9,000 under \$10,000.....	*1,840	*6,048	128,251	166,538	*5,593	*13,578	70,933	113,218	*447	*336
\$10,000 under \$11,000.....	—	—	157,306	215,238	*11,189	*18,067	103,819	176,696	—	—
\$11,000 under \$12,000.....	—	—	184,421	223,987	23,130	40,383	92,411	159,352	*3,753	*6,607
\$12,000 under \$13,000.....	*1,840	*2,248	176,160	273,665	*9,494	*14,266	114,169	210,629	—	—
\$13,000 under \$14,000.....	*1,840	*2,789	197,706	318,757	*10,346	*18,288	134,750	235,285	*3,891	*2,195
\$14,000 under \$15,000.....	*3,680	*9,130	193,813	284,118	*11,112	*29,051	112,596	176,456	*8,095	*16,370
\$15,000 under \$16,000.....	*1,839	*2,729	173,280	279,876	*13,169	*41,211	114,313	210,610	*465	*3,348
\$16,000 under \$17,000.....	*1,840	*15,340	172,920	287,583	*8,388	*32,891	108,468	194,124	*1,839	*311
\$17,000 under \$18,000.....	*5,594	*7,802	218,464	407,305	24,575	82,632	143,639	255,286	*2,866	*5,339
\$18,000 under \$19,000.....	*13,322	*14,155	230,297	386,675	*13,161	*22,937	169,195	290,264	*5,517	*11,050
\$19,000 under \$20,000.....	*9,199	*8,440	218,375	413,549	25,103	52,155	142,947	286,213	*1,914	*4,292
\$20,000 under \$25,000.....	184,495	199,892	1,243,258	2,301,284	113,304	258,950	916,120	1,627,107	32,429	85,429
\$25,000 under \$30,000.....	431,802	700,385	1,254,291	2,402,034	118,523	312,294	958,008	1,704,385	32,642	79,330
\$30,000 under \$40,000.....	1,024,259	2,688,741	2,292,476	4,894,650	270,433	727,208	1,720,577	3,397,756	65,230	223,128
\$40,000 under \$50,000.....	703,080	2,839,163	1,658,726	3,284,646	225,598	536,520	1,168,300	1,893,643	79,670	316,950
\$50,000 under \$75,000.....	727,667	3,275,667	1,205,494	3,888,903	291,501	812,823	517,194	1,400,598	175,104	841,658
\$75,000 under \$100,000.....	203,851	1,020,284	432,127	2,166,033	81,848	331,419	184,133	558,624	99,905	779,194
\$100,000 under \$200,000.....	232,474	1,227,128	464,911	3,636,904	69,770	266,145	174,151	518,104	160,833	2,091,638
\$200,000 under \$500,000.....	76,380	448,503	140,314	1,827,472	15,496	91,947	49,888	147,230	53,545	1,113,609
\$500,000 under \$1,000,000.....	14,153	92,002	22,566	381,100	2,754	30,163	7,990	22,474	7,966	201,904
\$1,000,000 or more.....	6,951	45,260	10,833	256,115	836	13,954	3,944	11,436	3,874	125,285
Taxable returns, total.....	3,625,797	12,529,854	10,813,811	28,261,678	1,347,081	3,723,199	7,085,952	13,678,962	731,092	5,884,134
Nontaxable returns, total.....	35,883	111,432	745,454	1,303,336	73,563	323,486	265,412	467,156	14,583	36,850

Footnote(s) at end of table.

Table 1.—All Returns: Selected Income, Adjustments, Deductions, and Tax Items, by Size of Adjusted Gross Income

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Size of adjusted gross income	Statutory adjustments— continued		Exemptions		Basic standard deduction		Additional standard deduction		Returns with itemized deductions	
	Alimony paid								Total itemized deductions	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount		
	(41)	(42)							(43)	(44)
All returns, total	569,728	3,721,690	217,529,986	409,384,854	69,451,089	204,379,998	10,185,297	9,067,259	35,512,119	383,917,222
No adjusted gross income	9,047	94,844	1,725,381	3,034,752	—	—	—	—	—	—
\$1 under \$1,000	*2,793	*16,149	1,661,364	3,074,556	2,742,379	3,911,818	100,182	80,867	20,081	114,769
\$1,000 under \$2,000	—	—	2,371,777	4,424,206	3,598,241	6,712,977	114,067	97,019	40,237	252,798
\$2,000 under \$3,000	—	—	3,104,132	5,751,522	3,570,260	8,746,870	226,811	191,864	47,056	389,289
\$3,000 under \$4,000	—	—	3,058,106	5,717,836	3,219,129	8,431,915	275,794	227,680	63,254	467,507
\$4,000 under \$5,000	*1,840	*8,854	3,827,221	7,150,884	3,185,634	8,584,420	344,623	282,653	71,601	412,852
\$5,000 under \$6,000	*3,716	*19,208	4,254,454	7,984,013	3,156,408	8,832,171	534,184	455,058	96,289	673,609
\$6,000 under \$7,000	—	—	4,548,134	8,543,247	2,891,872	8,245,218	519,006	442,365	167,823	1,300,731
\$7,000 under \$8,000	*9,347	*26,084	4,891,279	9,172,197	2,984,883	8,706,010	575,201	490,059	178,227	1,124,608
\$8,000 under \$9,000	*3,678	*20,781	5,026,274	9,423,336	2,839,361	8,479,012	582,706	513,781	190,784	1,306,690
\$9,000 under \$10,000	*9,345	*22,793	4,942,824	9,284,482	2,706,882	8,043,621	505,871	447,157	215,123	1,697,151
\$10,000 under \$11,000	—	—	5,360,168	10,054,257	2,694,196	8,247,366	543,578	492,916	228,817	1,553,479
\$11,000 under \$12,000	*1,840	*442	4,924,256	9,245,610	2,518,481	7,562,100	480,781	426,428	255,697	1,750,965
\$12,000 under \$13,000	*9,273	*31,786	4,965,197	9,315,630	2,404,706	7,388,701	462,786	420,499	314,985	2,125,794
\$13,000 under \$14,000	*7,807	*32,167	5,116,921	9,608,011	2,351,421	7,193,486	411,613	366,666	350,979	2,155,528
\$14,000 under \$15,000	*5,583	*33,083	4,910,983	9,240,494	2,176,490	6,737,779	375,028	331,107	364,814	2,414,895
\$15,000 under \$16,000	*3,680	*12,181	4,969,613	9,329,573	2,089,205	6,477,808	322,830	308,067	375,295	2,422,486
\$16,000 under \$17,000	*7,500	*40,030	4,398,043	8,250,760	1,857,322	5,773,287	309,338	281,107	388,725	2,339,923
\$17,000 under \$18,000	*12,948	*41,850	4,659,609	8,725,616	1,820,489	5,723,604	303,282	281,473	435,094	2,990,325
\$18,000 under \$19,000	*7,500	*18,971	4,561,274	8,590,459	1,698,932	5,324,994	272,592	252,534	475,149	3,092,011
\$19,000 under \$20,000	*13,912	*53,748	4,443,162	8,366,253	1,558,779	4,967,500	226,002	198,948	538,012	3,588,250
\$20,000 under \$25,000	43,905	180,832	20,104,458	37,930,191	6,118,332	19,946,689	808,142	737,853	2,878,107	19,090,213
\$25,000 under \$30,000	42,304	166,701	18,333,883	34,596,064	4,159,231	14,115,199	508,015	455,623	3,280,941	22,752,662
\$30,000 under \$40,000	75,851	309,204	31,403,759	59,294,243	4,392,858	15,675,225	622,982	571,139	7,159,569	56,295,125
\$40,000 under \$50,000	77,384	340,240	23,132,773	43,630,466	1,659,520	6,328,876	364,993	340,893	6,187,060	57,823,261
\$50,000 under \$75,000	99,169	606,086	24,477,990	46,314,406	863,747	3,425,236	289,514	270,917	7,275,319	86,384,826
\$75,000 under \$100,000	42,050	385,807	6,177,743	11,676,608	112,791	465,793	57,298	54,521	1,929,263	32,614,832
\$100,000 under \$200,000	52,632	644,808	4,559,983	8,592,433	68,547	287,448	41,059	41,086	1,449,786	37,761,172
\$200,000 under \$500,000	20,667	393,576	1,292,875	2,446,444	9,069	37,002	5,781	5,719	422,597	20,108,267
\$500,000 under \$1,000,000	3,650	120,788	224,041	423,258	1,545	6,430	1,063	1,088	75,538	7,312,726
\$1,000,000 or more	2,307	100,678	102,309	193,048	379	1,444	175	174	35,897	11,600,478
Taxable returns, total	540,777	3,502,772	177,900,387	335,259,968	52,082,985	155,126,375	7,666,357	6,784,678	33,845,055	363,483,003
Nontaxable returns, total	28,951	218,918	39,629,599	74,124,886	17,368,104	49,253,624	2,518,940	2,282,581	1,667,064	20,434,219

Footnote(s) at end of table.

Table 1.—All Returns: Selected Income, Adjustments, Deductions, and Tax Items, by Size of Adjusted Gross Income

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Size of adjusted gross income	Returns with itemized deductions—continued									
	Medical and dental expense deduction		Taxes paid deduction		Interest paid deduction		Contributions deduction		Casualty or theft loss deduction	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(51)	(52)	(53)	(54)	(55)	(56)	(57)	(58)	(59)	(60)
All returns, total.....	5,311,692	16,974,201	34,771,754	118,151,666	33,008,243	174,356,122	32,171,820	49,260,909	218,232	1,387,927
No adjusted gross income.....	—	—	—	—	—	—	—	—	—	—
\$1 under \$1,000.....	15,247	39,805	14,918	11,494	16,886	46,661	15,790	2,432	*569	*2,187
\$1,000 under \$2,000.....	20,816	57,455	31,760	43,569	29,819	124,094	22,744	8,977	—	—
\$2,000 under \$3,000.....	32,634	117,676	32,262	81,476	36,016	157,431	28,469	10,565	—	—
\$3,000 under \$4,000.....	43,172	147,973	51,259	47,561	48,534	225,658	46,862	32,080	—	—
\$4,000 under \$5,000.....	45,012	109,951	62,328	72,484	53,053	166,071	48,263	30,714	*5,520	*7,402
\$5,000 under \$6,000.....	60,384	275,404	81,013	86,142	64,721	204,080	77,742	56,047	*1,840	*3,698
\$6,000 under \$7,000.....	121,756	621,138	143,832	160,271	111,870	324,390	112,402	116,542	*1,840	*294
\$7,000 under \$8,000.....	98,971	334,811	146,043	173,702	132,968	450,887	122,126	119,849	—	—
\$8,000 under \$9,000.....	127,943	583,938	165,181	175,320	129,027	363,134	144,564	108,486	*1,914	*11,796
\$9,000 under \$10,000.....	120,555	690,091	182,301	210,062	167,728	607,854	148,953	120,602	—	—
\$10,000 under \$11,000.....	130,772	528,099	202,033	208,478	167,146	497,262	178,340	154,673	—	—
\$11,000 under \$12,000.....	167,473	633,750	235,322	258,001	194,741	593,573	194,103	152,192	*5,594	*45,844
\$12,000 under \$13,000.....	148,522	661,270	292,759	334,322	257,802	757,691	251,110	206,106	*3,754	*4,458
\$13,000 under \$14,000.....	142,938	405,639	331,912	387,801	281,141	869,890	291,845	323,269	*1,839	*1,528
\$14,000 under \$15,000.....	176,649	540,423	342,145	399,266	313,534	1,012,492	293,617	273,446	*7,358	*22,405
\$15,000 under \$16,000.....	133,883	407,942	360,577	420,786	336,978	1,063,778	294,411	295,575	*7,898	*41,599
\$16,000 under \$17,000.....	137,448	296,136	373,857	430,328	355,529	1,163,698	325,995	279,504	*3,754	*8,518
\$17,000 under \$18,000.....	165,640	461,812	418,977	527,007	377,459	1,338,966	353,954	348,297	*7,359	*113,156
\$18,000 under \$19,000.....	188,010	381,312	460,188	708,648	425,571	1,413,702	395,155	388,286	*1,914	*117
\$19,000 under \$20,000.....	186,561	632,161	516,819	716,739	488,643	1,600,860	462,150	453,369	*1,913	*4,253
\$20,000 under \$25,000.....	718,964	1,726,106	2,796,495	4,346,267	2,650,373	9,230,241	2,508,178	2,250,037	31,293	161,723
\$25,000 under \$30,000.....	631,218	1,341,536	3,215,521	5,844,883	3,086,076	11,125,311	2,909,596	2,738,576	20,115	54,569
\$30,000 under \$40,000.....	815,780	1,878,845	7,042,022	15,774,272	6,788,225	28,458,090	6,496,304	6,529,717	35,509	107,399
\$40,000 under \$50,000.....	429,404	1,306,748	6,136,680	17,226,353	5,946,606	29,305,239	5,728,069	6,473,318	34,237	309,198
\$50,000 under \$75,000.....	328,315	1,318,037	7,235,249	27,582,641	6,944,804	41,607,867	6,933,098	10,051,833	37,184	302,768
\$75,000 under \$100,000.....	76,273	556,209	1,925,442	10,945,015	1,812,465	14,892,798	1,867,661	3,987,354	*2,149	*41,806
\$100,000 under \$200,000.....	39,857	654,332	1,443,375	13,222,822	1,316,637	15,749,809	1,399,393	5,494,381	3,844	46,664
\$200,000 under \$500,000.....	6,846	238,712	420,497	8,507,820	376,373	6,914,527	412,440	3,431,359	700	65,313
\$500,000 under \$1,000,000.....	567	21,586	75,229	3,529,288	65,943	1,864,741	73,379	1,547,953	123	28,604
\$1,000,000 or more.....	82	5,304	35,758	5,718,847	31,575	2,225,326	35,107	3,275,371	21	2,627
Taxable returns, total.....	4,302,963	10,121,855	33,331,880	115,586,616	31,712,190	166,573,038	30,945,115	47,842,723	183,052	719,943
Nontaxable returns, total.....	1,008,729	6,852,346	1,439,874	2,565,050	1,296,053	7,783,084	1,226,705	1,418,186	35,180	667,983

Footnote(s) at end of table.

Table 1.—All Returns: Selected Income, Adjustments, Deductions, and Tax Items, by Size of Adjusted Gross Income

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Size of adjusted gross income	Returns with itemized deductions—continued						Taxable income		Income tax before credits	
	Moving expense deduction		Miscellaneous deductions subject to AGI limitation		Other miscellaneous deductions					
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(61)	(62)	(63)	(64)	(65)	(66)	(67)	(68)	(69)	(70)
All returns, total	962,958	3,711,337	8,078,441	18,261,862	1,194,913	1,813,198	90,077,175	1,858,714,325	89,752,616	376,131,913
No adjusted gross income	—	—	—	—	—	—	—	—	*16	*359
\$1 under \$1,000	*569	*273	*7,709	*10,912	*1,914	*1,005	758,362	148,982	728,777	23,016
\$1,000 under \$2,000	—	—	*11,491	*18,702	*4	*1	1,070,851	490,880	1,000,423	72,965
\$2,000 under \$3,000	—	—	17,284	19,197	*1,840	*2,944	1,333,468	807,813	1,217,638	106,523
\$3,000 under \$4,000	—	—	*13,749	*4,202	*5,655	*10,032	1,346,973	1,568,887	1,313,710	180,427
\$4,000 under \$5,000	*1,840	*4,876	20,830	15,121	*4,709	*6,233	1,699,370	2,130,334	1,683,965	251,493
\$5,000 under \$6,000	*3,678	*16,785	25,688	29,550	*2,793	*1,903	2,134,491	3,513,783	2,119,624	444,595
\$6,000 under \$7,000	*2,376	*4,790	41,639	73,262	*1,904	*43	2,244,887	4,630,734	2,232,376	551,628
\$7,000 under \$8,000	—	—	39,166	39,361	*15,052	*5,998	2,404,777	6,796,940	2,391,094	838,968
\$8,000 under \$9,000	*1,914	*5,832	33,888	39,126	*3,745	*19,058	2,391,602	8,318,364	2,385,870	1,068,832
\$9,000 under \$10,000	*6,992	*10,073	42,612	56,057	*4,192	*2,412	2,429,266	10,093,122	2,428,238	1,319,272
\$10,000 under \$11,000	*11,113	*23,203	36,631	92,274	16,618	49,490	2,633,551	11,737,330	2,627,883	1,555,301
\$11,000 under \$12,000	*2,439	*7,858	34,970	54,918	14,218	4,829	2,611,924	14,090,344	2,610,010	1,903,457
\$12,000 under \$13,000	*9,274	*12,350	83,596	148,187	*3,828	*1,411	2,620,540	15,849,056	2,620,540	2,142,277
\$13,000 under \$14,000	15,931	23,631	82,080	135,949	*6,549	*7,820	2,621,250	17,981,477	2,619,337	2,458,535
\$14,000 under \$15,000	*1,840	*4,175	76,050	138,301	*13,101	*24,388	2,466,334	18,908,278	2,464,420	2,612,312
\$15,000 under \$16,000	*10,428	*43,286	91,567	141,673	*5,604	*7,847	2,447,750	20,619,820	2,447,750	2,889,967
\$16,000 under \$17,000	*5,079	*23,501	76,719	96,834	12,969	41,404	2,239,937	21,187,668	2,239,472	2,957,744
\$17,000 under \$18,000	*7,057	*15,188	98,700	128,561	21,984	57,338	2,254,141	22,636,351	2,254,141	3,166,221
\$18,000 under \$19,000	*1,914	*8,071	111,545	175,540	*16,553	*16,333	2,156,898	23,528,451	2,157,692	3,329,188
\$19,000 under \$20,000	*16,266	*23,146	124,180	140,538	21,491	17,185	2,090,173	24,397,822	2,090,173	3,472,670
\$20,000 under \$25,000	55,632	113,399	714,944	1,133,887	106,643	128,553	8,978,791	126,179,297	8,979,200	18,504,184
\$25,000 under \$30,000	107,669	273,100	782,103	1,274,239	109,379	100,447	7,472,109	133,956,935	7,471,155	20,795,962
\$30,000 under \$40,000	172,833	424,197	1,758,420	2,896,341	227,541	226,264	11,579,997	271,232,572	11,579,398	43,554,736
\$40,000 under \$50,000	139,711	472,815	1,370,130	2,508,382	217,758	221,208	7,853,830	243,010,676	7,853,830	41,950,351
\$50,000 under \$75,000	232,316	1,084,723	1,588,459	4,145,318	227,795	291,640	8,135,939	349,700,309	8,135,939	70,745,109
\$75,000 under \$100,000	73,837	460,779	417,252	1,605,932	62,997	124,939	2,041,853	129,094,333	2,041,853	31,374,219
\$100,000 under \$200,000	70,953	557,723	297,151	1,849,287	51,815	186,154	1,515,085	154,796,091	1,515,084	43,849,284
\$200,000 under \$500,000	9,795	81,303	67,481	723,395	12,344	145,838	430,099	101,521,303	430,084	33,178,486
\$500,000 under \$1,000,000	1,193	13,188	9,056	284,498	2,464	22,867	76,762	44,266,142	76,760	15,245,403
\$1,000,000 or more	309	3,073	3,351	282,319	1,454	87,612	36,165	75,520,229	36,164	25,588,427
Taxable returns, total	925,943	3,598,871	7,724,774	17,483,147	1,121,026	1,556,810	86,710,716	1,849,540,365	86,732,710	374,989,573
Nontaxable returns, total	37,015	112,467	353,667	778,715	73,887	256,388	3,366,459	9,173,960	3,019,906	1,142,340

Footnote(s) at end of table.

Table 1.—All Returns: Selected Income, Adjustments, Deductions, and Tax Items, by Size of Adjusted Gross Income

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Size of adjusted gross income	Total tax credits		Income tax after credits		Alternative minimum tax		Total income tax		Total tax liability	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(71)	(72)	(73)	(74)	(75)	(76)	(77)	(78)	(79)	(80)
All returns, total.....	12,889,966	6,107,503	86,732,045	370,024,410	114,330	1,233,948	86,750,436	371,258,415	88,524,499	388,045,020
No adjusted gross income.....	*9	*255	*13	*104	3,841	72,369	3,860	72,528	154,962	253,052
\$1 under \$1,000.....	*1,786	*14	727,437	23,003	—	—	727,437	23,003	800,791	48,712
\$1,000 under \$2,000.....	*1,785	*42	1,000,423	72,923	—	—	1,000,423	72,923	1,119,056	99,544
\$2,000 under \$3,000.....	*1,785	*71	1,217,638	106,452	—	—	1,217,638	106,452	1,376,828	158,268
\$3,000 under \$4,000.....	*6,105	*324	1,309,389	180,103	—	—	1,309,389	180,103	1,476,193	257,264
\$4,000 under \$5,000.....	32,910	2,339	1,654,624	249,154	**	**	1,654,625	249,373	1,753,304	332,925
\$5,000 under \$6,000.....	50,065	3,437	2,073,183	441,158	**515	**9,454	2,073,697	450,392	2,152,512	547,035
\$6,000 under \$7,000.....	251,097	17,287	2,001,440	534,341	*785	*9,533	2,002,225	543,873	2,065,064	640,421
\$7,000 under \$8,000.....	322,519	48,726	2,092,509	790,243	*108	*721	2,092,617	790,963	2,199,007	910,662
\$8,000 under \$9,000.....	360,751	71,759	2,048,574	997,073	—	—	2,048,574	997,073	2,178,566	1,159,819
\$9,000 under \$10,000.....	458,411	127,155	2,019,664	1,192,117	**571	**67	2,019,664	1,192,182	2,117,430	1,351,390
\$10,000 under \$11,000.....	556,442	162,838	2,198,587	1,392,463	**	**	2,198,589	1,392,465	2,283,422	1,589,885
\$11,000 under \$12,000.....	561,982	186,347	2,226,968	1,717,109	**4	**374	2,226,968	1,717,129	2,309,276	1,898,187
\$12,000 under \$13,000.....	626,433	205,922	2,311,753	1,936,356	—	—	2,311,753	1,936,356	2,374,149	2,148,923
\$13,000 under \$14,000.....	675,573	201,814	2,453,975	2,256,721	**	**	2,453,977	2,257,075	2,507,274	2,452,412
\$14,000 under \$15,000.....	681,793	170,766	2,373,305	2,441,546	**508	**582	2,373,812	2,442,045	2,425,598	2,672,425
\$15,000 under \$16,000.....	404,146	105,147	2,412,014	2,784,820	**	**	2,412,015	2,784,902	2,426,020	2,949,969
\$16,000 under \$17,000.....	188,023	78,178	2,210,762	2,879,566	*446	*677	2,210,762	2,880,243	2,230,303	3,036,373
\$17,000 under \$18,000.....	238,539	105,392	2,223,993	3,060,829	—	—	2,223,993	3,060,829	2,243,924	3,266,587
\$18,000 under \$19,000.....	228,586	109,448	2,133,737	3,219,741	*553	*2,500	2,133,842	3,222,240	2,148,697	3,433,549
\$19,000 under \$20,000.....	206,718	102,390	2,070,392	3,370,280	*6	*142	2,070,398	3,370,422	2,092,243	3,583,593
\$20,000 under \$25,000.....	973,343	479,583	8,911,942	18,024,601	*5,168	*7,623	8,914,414	18,032,223	8,962,378	19,331,809
\$25,000 under \$30,000.....	983,712	413,953	7,445,641	20,382,009	3,376	10,896	7,446,271	20,392,905	7,464,151	21,516,587
\$30,000 under \$40,000.....	1,666,242	742,117	11,546,659	42,812,619	6,312	19,574	11,547,207	42,832,193	11,571,977	44,983,776
\$40,000 under \$50,000.....	1,301,690	595,379	7,839,369	41,354,972	5,195	24,605	7,842,302	41,379,577	7,851,542	43,151,633
\$50,000 under \$75,000.....	1,401,221	691,361	8,131,062	70,053,748	17,529	80,583	8,132,881	70,134,331	8,136,064	72,638,359
\$75,000 under \$100,000.....	346,211	291,454	2,040,170	31,082,765	13,674	75,218	2,040,738	31,157,983	2,042,047	32,220,282
\$100,000 under \$200,000.....	253,980	491,872	1,513,983	43,357,411	31,349	274,826	1,515,995	43,632,237	1,517,144	44,946,730
\$200,000 under \$500,000.....	77,938	291,327	429,950	32,887,160	19,030	315,498	431,138	33,202,657	431,304	33,580,827
\$500,000 under \$1,000,000.....	19,402	135,796	76,737	15,109,608	3,554	151,615	76,987	15,261,222	77,015	15,328,064
\$1,000,000 or more.....	10,769	275,008	36,152	25,313,419	1,806	177,094	36,245	25,490,513	36,258	25,555,959
Taxable returns, total.....	9,870,060	4,965,163	86,732,045	370,024,410	114,330	1,233,948	86,750,436	371,258,415	88,750,436	384,799,750
Nontaxable returns, total.....	3,019,906	1,142,340	—	—	—	—	—	—	1,774,063	1,245,271

* Estimate should be used with caution because of the small number of sample returns on which it is based.

** Data combined to avoid disclosure of information for specific taxpayers.

† Not included in adjusted gross income.

NOTE: Detail may not add to total because of rounding.