OVERVIEW OF THE FEDERAL TAX SYSTEM AS IN EFFECT FOR 2024

Prepared by the Staff
of the
JOINT COMMITTEE ON TAXATION

May 23, 2024
JCX-26-24

CONTENTS

Page

INTRODUCTION 1

I. SUMMARY OF THE PRESENT-LAW FEDERAL TAX SYSTEM 2

A. Individual Income Tax 2

B. Corporate Income Tax 12

C. Estate, Gift, and Generation-Skipping Transfer Taxes 22

D. Social Insurance Taxes 24

E. Major Excise Taxes 26

APPENDIX: FIGURES AND TABLES 28

INTRODUCTION

This document,[1] prepared by the staff of the Joint Committee on Taxation ("Joint Committee staff"), provides a summary of the present-law Federal tax system as in effect for 2024.

The current Federal tax system has four main elements: (1) an income tax on individuals, estates, trusts, and corporations (which consists of both a "regular" income tax and, in the case of individuals and certain large corporations, an alternative minimum tax);[2] (2) payroll taxes on wages (and corresponding taxes on self-employment income) to finance certain social insurance programs; (3) estate, gift, and generation-skipping transfer taxes; and (4) excise taxes on selected goods and services. This document provides a broad overview of each of these elements.

Several aspects of the Internal Revenue Code of 1986 (the "Code") are subject to change over time. For example, some dollar amounts and income thresholds are indexed for inflation, including the standard deduction, tax rate brackets, and the annual gift tax exclusion. In general, the Internal Revenue Service ("IRS") adjusts these numbers annually and publishes the inflation-adjusted amounts in effect for taxable years beginning in a calendar year before the beginning of such calendar year. Where applicable, this document generally includes dollar amounts in effect for 2024[3] and notes whether dollar amounts are indexed for inflation.[4]

In addition, many provisions in the Federal tax laws are temporary or have parameters that change over time according to the statute. For simplicity, this document describes the Federal tax laws in effect for 2024, as of the date of publication, and generally does not include references to provisions as they may be in effect for future years or to termination dates for expiring provisions.[5]

---

[1] This document may be cited as follows: Joint Committee on Taxation, *Overview of the Federal Tax System as in Effect for 2024* (JCX-26-24), May 23, 2024. This document can be found on the Joint Committee on Taxation website at www.jct.gov. Unless otherwise stated, all section references are to the Internal Revenue Code of 1986.

[2] If certain requirements are met, certain entities or organizations are exempt from Federal income tax. A description of such entities and organizations is beyond the scope of this document. For a description, see Joint Committee on Taxation, *Report to the House Committee on Ways and Means on Present Law and Suggestions for Reform Submitted to the Tax Reform Working Groups* (JCS-3-13), May 6, 2013, pp. 19-58.

[3] For certain inflation-adjusted amounts in effect for 2024, see Rev. Proc. 2023-34, 2023-48 I.R.B. 1287, November 27, 2023.

[4] Parameters in the Code generally are indexed for inflation by applying the CPI-U up to 2017 values and the C-CPI-U for years thereafter.

[5] See Joint Committee on Taxation, *List of Expiring Federal Tax Provisions 2024-2034* (JCX-1-24), January 11, 2024.

I. SUMMARY OF THE PRESENT-LAW FEDERAL TAX SYSTEM

A. Individual Income Tax

In general

The worldwide taxable income of a United States citizen or resident alien generally is subject to the U.S. individual income tax.[6] Taxable income equals the taxpayer's total income less certain exclusions, exemptions, and deductions. Income tax liability is determined by applying graduated tax rates to a taxpayer's taxable income. A taxpayer may face additional liability if the alternative minimum tax applies. Income tax liability may be reduced by applicable tax credits.

The taxable income of estates and trusts is generally calculated in the same manner as the taxable income of individuals.[7]

Gross income

Under the Code, gross income means "income from whatever source derived" except for certain items specifically exempt or excluded by statute.[8] Sources of income include compensation for services, interest, dividends, capital gains, rents, royalties, annuities, income from life insurance and endowment contracts (other than certain death benefits), pensions, gross profits from a trade or business, income in respect of a decedent, income distributed from trusts or estates, and income allocated from S corporations or partnerships.[9] Statutory exclusions from

---

[6] Foreign tax credits generally are available to offset U.S. income tax imposed on foreign source income to the extent of foreign income taxes paid on that income. Sec. 901, *et. seq*. A nonresident alien generally is subject to the U.S. individual income tax only on income with a sufficient nexus to the United States. Sec. 872(a). A U.S. citizen or resident who satisfies certain requirements for presence in a foreign country also is allowed a limited exclusion ($126,500 in 2024) for foreign earned income and a limited exclusion for employer-provided housing. Sec. 911.

[7] Sec. 641(b). In general, estates and most trusts pay tax on income at the entity level to the extent that the income is not distributed or required to be distributed under governing law or under the terms of the governing instrument. Such entities determine their tax liability using a special tax rate schedule and are subject to the alternative minimum tax and net investment income tax. They may also claim the qualified business income deduction. Certain trusts do not pay any Federal income tax at the entity level (*e.g.,* trusts that distribute all income currently to beneficiaries). Other trusts are treated for tax purposes as being owned by a grantor or other person; in such cases, the grantor or other person is taxed on the income of the trust.

[8] Sec. 61.

[9] In general, partnerships and S corporations (*i.e.*, corporations subject to the provisions of subchapter S of the Code) are treated as pass-through entities for Federal income tax purposes. Thus, no Federal income tax is imposed at the entity level. Rather, income of such entities is passed through and taxed at the owner level. A business entity organized as a limited liability company ("LLC") under applicable State law generally is treated as a partnership for Federal income tax purposes if it has two or more members; a single-member LLC generally is disregarded as an entity separate from its owner for Federal income tax purposes.

gross income[10] include death benefits payable under a life insurance contract, interest on certain State and local bonds, the receipt of property by gift or inheritance, certain disaster relief payments, certain benefits and payments to members of qualified volunteer emergency response organizations, as well as employer-provided health insurance and certain other benefits. Contributions to qualified retirement plans, along with any attributable earnings, generally are included in gross income when distributed.[11]

Adjusted gross income

An individual's adjusted gross income ("AGI") is determined by subtracting certain "above-the-line" deductions from gross income. These deductions[12] include trade or business expenses or losses, losses from the sale or exchange of property, contributions to a qualified retirement plan by a self-employed individual, contributions to certain individual retirement accounts ("IRAs"), certain moving expenses for members of the Armed Forces, and certain expenses of elementary and secondary school teachers.

Taxable income

In general

To determine taxable income, an individual reduces AGI by (1) the applicable standard deduction or applicable itemized deductions[13] and (2) the deduction for qualified business income.[14]

The standard deduction is the sum of the basic standard deduction and the additional standard deduction. The amount of the basic standard deduction depends on a taxpayer's filing status. For 2024, the amount of the standard deduction is $14,600 for a single individual and for a married individual filing separately, $21,900 for a head of household, and $29,200 for married individuals filing jointly and for a surviving spouse. The additional standard deduction is allowed with respect to any individual who is elderly (*i.e.*, above age 64) and/or blind.[15] The amounts of the basic standard deduction and the additional standard deductions are indexed annually for inflation.

---

[10] Sec. 101, *et. seq*.

[11] The rules governing qualified retirement plans are found in section 401, *et. seq*. This treatment contrasts with designated Roth accounts, distributions from which are generally not included in gross income. Sec. 402A.

[12] Sec. 62.

[13] Sec. 63.

[14] Sec. 199A.

[15] For 2024, the additional amount is $1,550 for married taxpayers (for each spouse meeting the applicable criterion) and surviving spouses. The additional amount for single individuals and heads of households is $1,950. If an individual is both elderly and blind, the individual is entitled to two additional standard deductions, for a total additional amount (for 2024) of $3,100 or $3,900, as applicable. See sec. 63(c)(3).

In lieu of taking the applicable standard deductions, an individual may elect to itemize deductions. The deductions that may be itemized include certain State and local income, property, and sales taxes (up to $10,000 annually ($5,000 for married taxpayers filing separately)),[16] home mortgage interest (on mortgages up to certain specified dollar amounts), charitable contributions, certain investment interest, medical expenses (in excess of 7.5 percent of AGI), and casualty and theft losses attributable to Federally declared disasters (in excess of 10 percent of AGI and in excess of $100 per loss).[17]

The Joint Committee staff estimates that for the 2024 taxable year approximately 150.3 million taxpayers will claim the standard deduction while 16.4 million taxpayers will elect to itemize deductions.

<u>Deduction for qualified business income</u>

In addition to standard or itemized deductions, an individual taxpayer generally may deduct 20 percent of qualified business income from a partnership, S corporation, or sole proprietorship, as well as 20 percent of aggregate qualified real estate investment trust ("REIT") dividends and qualified publicly traded partnership income. A specified agricultural or horticulture cooperative generally may deduct nine percent of qualified production activities income.[18]

For taxpayers with taxable income[19] in excess of the threshold amount (for 2024, $383,900 for married taxpayers filing jointly, $191,950 for married taxpayers filing separately, and $191,950 for all other taxpayers),[20] the deduction with respect to qualified business income is limited based on (1) the taxpayer's allocable share of W-2 wages paid by the trade or business and the taxpayer's allocable share of capital investment with respect to the trade or business[21]

---

[16] A taxpayer may elect to itemized State and local income taxes or general sales taxes, but not both. See sec. 164(b)(5).

[17] Section 67(b) provides a list of allowable itemized deductions. All other itemized deductions ("miscellaneous itemized deductions") are suspended through 2025. Sec. 67(g).

[18] Sec. 199A(b)(7). The deduction is limited by the cooperative's taxable income for the year (computed without regard to the 199A deduction and reduced by certain payments or allocations to patrons). The deduction may instead be allocated to and deducted by the cooperative's patrons, limited to each patron's taxable income for the year (computed without regard to any section 199A deduction under the general rule and after taking into account the cooperative's section 199A deduction). See sec. 199A(g).

[19] Taxable income is computed without regard to the deduction allowable under section 199A with respect to the threshold amount.

[20] These threshold amounts are indexed for inflation.

[21] The deduction is limited to the greater of (a) 50 percent of the W-2 wages paid with respect to the qualified trade or business, or (b) the sum of 25 percent of the W-2 wages with respect to the qualified trade or business plus 2.5 percent of the unadjusted basis, immediately after acquisition, of all qualified property. Sec. 199A(b)(2)(B).

and (2) the type of trade or business in which the income is earned.[22] These limitations begin to phase in above the threshold amount of taxable income.[23] In addition, the deduction calculated with respect to qualified business income, qualified REIT dividends, and qualified publicly traded partnership income may not exceed 20 percent of the taxpayer's taxable income for the taxable year.[24]

The Joint Committee staff estimates that for the 2024 taxable year approximately 24 million taxpayers will claim the deduction for qualified business income representing approximately $222 billion in tax deductions.[25]

Tax liability

In general

A taxpayer's net income tax liability is the greater of (1) regular individual income tax liability reduced by credits allowed against the regular tax or (2) tentative minimum tax reduced by credits allowed against the minimum tax.[26] The amount of income subject to tax is determined differently under the regular tax and the alternative minimum tax ("AMT"), and separate rate schedules apply. Lower rates apply for long-term capital gain and certain dividends; those rates apply for both the regular tax and the AMT.

Regular tax liability

To determine regular tax liability, the tax rate schedules (or the tax tables) are applied to a taxpayer's regular taxable income. The rate schedules are broken into several ranges of income, known as income brackets, with the marginal tax rate increasing as a taxpayer's taxable

---

[22] Qualified business income generally excludes income from a specified service trade or business when taxable income is in excess of the threshold amount and always excludes income from the trade or business of performing services as an employee. A specified service trade or business means any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees or owners, or which involves the performance of services that consist of investing and investment management, trading, or dealing in securities, partnership interests, or commodities. Sec. 199A(d).

[23] Taxable income is computed without regard to the deduction allowable under section 199A with respect to the threshold amount.

[24] Taxable income is computed without regard to the deduction allowable under section 199A and is reduced by net capital gain with respect to this limitation.

[25] These estimates do not include taxpayers claiming deductions for qualified REIT dividends and qualified publicly traded partnership income.

[26] Sec. 55.

income increases.[27] Separate rate schedules apply based on an individual's filing status. For 2024, the regular individual income tax rate schedules are as follows:

Table 1.–Federal Individual Income Tax Rates for 2024

If taxable income is:	Then income tax equals:
Single Individuals	
Not over $11,600	10% of the taxable income
Over $11,600 but not over $47,150	$1,160 plus 12% of the excess over $11,600
Over $47,150 but not over $100,525	$5,426 plus 22% of the excess over $47,150
Over $100,525 but not over $191,950	$17,168.50 plus 24% of the excess over $100,525
Over $191,950 but not over $243,725	$39,110.50 plus 32% of the excess over $191,950
Over $243,725 but not over $609,350	$55,678.50 plus 35% of the excess over $243,725
Over $609,350	$183,647.25 plus 37% of the excess over $609,350
Heads of Households	
Not over $16,550	10% of the taxable income
Over $16,550 but not over $63,100	$1,655 plus 12% of the excess over $16,550
Over $63,100 but not over $100,500	$7,241 plus 22% of the excess over $63,100
Over $100,500 but not over $191,950	$15,469 plus 24% of the excess over $100,500
Over $191,950 but not over $243,700	$37,417 plus 32% of the excess over $191,950
Over $243,700 but not over $609,350	$53,977 plus 35% of the excess over $243,700
Over $609,350	$181,954.50 plus 37% of the excess over $609,350
Married Individuals Filing Joint Returns and Surviving Spouses	
Not over $23,200	10% of the taxable income
Over $23,200 but not over $94,300	$2,320 plus 12% of the excess over $23,200
Over $94,300 but not over $201,050	$10,852 plus 22% of the excess over $94,300
Over $201,050 but not over $383,900	$34,337 plus 24% of the excess over $201,050
Over $383,900 but not over $487,450	$78,221 plus 32% of the excess over $383,900
Over $487,450 but not over $731,200	$111,357 plus 35% of the excess over $487,450
Over $731,200	$196,669.50 plus 37% of the excess over $731,200

[27] The term "marginal tax rate" generally refers to the additional, or incremental, increase in tax liability from a $1.00 increase in the taxpayer's income. The marginal tax rates for individuals defined in section 1 of the Code and described in Table 1 are referred to as "statutory marginal tax rates."

If taxable income is:	Then income tax equals:
Married Individuals Filing Separate Returns	
Not over $11,600	10% of the taxable income
Over $11,600 but not over $47,150	$1,160 plus 12% of the excess over $11,600
Over $47,150 but not over $100,525	$5,426 plus 22% of the excess over $47,150
Over $100,525 but not over $191,950	$17,168.50 plus 24% of the excess over $100,525
Over $191,950 but not over $243,725	$39,110.50 plus 32% of the excess over $191,950
Over $243,725 but not over $365,600	$55,678.50 plus 35% of the excess over $243,725
Over $365,600	$98,334.75 plus 37% of the excess over $365,600
Estates and Trusts	
Not over $3,100	10% of the taxable income
Over $3,100 but not over $11,150	$310 plus 24% of the excess over $3,100
Over $11,150 but not over $15,200	$2,242 plus 35% of the excess over $11,150
Over $15,200	$3,659.50 plus 37% of the excess over $15,200

An individual's effective marginal tax rate may be reduced by the allowance of the deduction for qualified business income.[28] Effective marginal tax rates may also be altered by the phase-in and phaseout of certain exemptions or credits.[29]

Preferential rates on capital gain and dividends

In general, gain or loss reflected in the value of an asset is not recognized for income tax purposes until a taxpayer disposes of the asset. On the sale or exchange of a capital asset, any gain generally is included in income.[30] Any net capital gain of an individual is taxed at maximum rates lower than the rates applicable to ordinary income. Net capital gain is the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for the

[28] Deductions of income amounts can be viewed as substitutes for exemptions or rate reductions for the affected income.

[29] The term "effective marginal tax rate" refers to the additional, or incremental increase in tax liability *under the income tax* from a $1.00 increase in the taxpayer's income. For example, a credit that is phased out, or incrementally reduced, by $.05 for every $1.00 above a certain threshold would cause the effective marginal tax rate to be five percentage points higher than the statutory marginal tax rate in the phase out range. The Code contains many provisions that may cause effective marginal tax rates to differ from statutory marginal rates.

[30] Gain from the sale of a taxpayer's principal residence may be excluded up to certain limits if certain conditions are met. See sec. 121.

year.[31] Gain or loss is treated as long-term if the asset is held for more than one year. Qualified dividend income generally is taxed at the same rate as net capital gain.[32]

Capital losses generally are deductible in full against capital gains. In addition, individual taxpayers may deduct capital losses against up to $3,000 of ordinary income in each year.[33] Any remaining unused capital losses may be carried forward indefinitely to another taxable year.

The maximum rate of tax on the adjusted net capital gain of an individual depends on the individual's taxable income and filing status. These maximum rates apply for purposes of both the regular tax and the alternative minimum tax. For 2024, the adjusted net capital gain rate schedules are as follows:

Table 2.–Adjusted Net Capital Gain Maximum Rates for 2024

Filing Status and Rate Start Amount (Taxable Income)					Rate
Single Individuals	Heads of Households	Married Individuals Filing Joint Returns and Surviving Spouses	Married Individuals Filing Separate Returns	Estates and Trust	
$0	$0	$0	$0	$0	0%
$47,025	$63,000	$94,050	$47,025	$3,150	15%
$518,900	$551,350	$583,750	$291,850	$15,450	20%

Net investment income

An additional tax is imposed on net investment income in the case of an individual, estate, or trust.[34] In the case of an individual, the tax is 3.8 percent of the lesser of net investment income or the excess of modified adjusted gross income[35] over the threshold amount. The threshold amount is $250,000 in the case of a joint return or surviving spouse, $125,000 in

[31] Sec. 1222(11).

[32] Sec. 1(h).

[33] Sec. 1211(b).

[34] Sec. 1411.

[35] For this purpose, modified adjusted gross income is adjusted gross income increased by the amount excluded from income as foreign earned income under section 911(a)(1) (net of the deductions and exclusions disallowed with respect to the foreign earned income).

the case of a married individual filing a separate return, and $200,000 in any other case.[36] Thus, for taxpayers with modified adjusted gross income in excess of those thresholds, the rate on certain capital gains and dividends is 23.8 percent while the maximum rate on other investment income, including interest, annuities, royalties, and rents, is 40.8 percent.

Net investment income is, in general, the excess of (1) the sum of (a) gross income from interest, dividends, annuities, royalties, and rents (with certain exclusions[37]), and (b) net gain (to the extent taken into account in computing taxable income) attributable to the disposition of property (with certain exclusions[38]), over (2) deductions properly allocable to such gross income or net gain.

The Joint Committee staff estimates that for the 2024 taxable year, approximately 8.7 million taxpayers will pay the additional tax on net investment income, representing approximately $45.8 billion in tax revenue.

<u>Credits against tax</u>

An individual's income tax liability may be reduced by using available tax credits. For example, tax credits are allowed for certain business expenditures, certain foreign income taxes paid or accrued, certain energy conservation expenditures, certain education expenditures, certain child care expenditures, certain health care costs, and for certain elderly or disabled individuals.

Some credits are wholly or partially "refundable," meaning that if the amount of the credit exceeds the taxpayer's pre-credit tax liability (after reduction for other nonrefundable credits), the credit creates an overpayment that may generate a refund, even if it exceeds actual payments credited to the taxpayer account. Two large refundable credits (in terms of overall loss of Federal revenues) are the child tax credit and the earned income tax credit.[39]

An individual may claim a refundable child tax credit ("CTC") which includes an amount of $2,000 for each qualifying child under age 17.[40] The aggregate amount of child credits that may be claimed is phased out for individuals with income over certain threshold amounts. Specifically, the otherwise allowable CTC is reduced by $50 for each $1,000, or fraction thereof,

---

[36] These thresholds are not indexed for inflation.

[37] This does not include income which is derived in the ordinary course of a trade or business that is not a passive activity with respect to the taxpayer or a trade or business of trading in financial instruments or commodities.

[38] Net gain for this purpose does not include net gain from property held in the active conduct of a trade or business that is not in the trade or business of trading in financial instruments or commodities.

[39] Other refundable credits include the American opportunity tax credit (sec. 25A), the premium tax credit (sec. 36B), and the health coverage tax credit (sec. 35).

[40] Sec. 24.

of modified adjusted gross income[41] over $400,000 for married individuals filing jointly and $200,000 for all other individuals. To the extent the credit amount exceeds the taxpayer's tax liability, the taxpayer is eligible for a refundable credit (the additional child tax credit) equal to 15 percent of earned income in excess of $2,500,[42] not to exceed $1,700 per child in 2024. The maximum amount of the refundable portion of the credit is indexed for inflation.

For taxpayers with dependents other than qualifying children, such as a 17-year-old child living at home, a full-time college student, or other adult member of the household for whom the taxpayer provides financial support, taxpayers are able to claim a $500 nonrefundable credit.

A refundable earned income tax credit ("EITC") is available to low-income workers who satisfy certain requirements.[43] The amount of the EITC varies depending on the taxpayer's earned income and whether the taxpayer has more than two, two, one, or no qualifying children. For 2024, the maximum EITC for taxpayers is $7,830 with more than two qualifying children, $6,960 with two qualifying children, $4,213 with one qualifying child, and $632 with no qualifying children. The credit amount begins to phase out at an income level of $29,640 for joint-filers with qualifying children, $22,720 for other taxpayers with qualifying children, $17,250 for joint-filers with no qualifying children, and $10,330 for other taxpayers with no qualifying children. The phaseout percentages, or the rates at which the credit amount phases out, are 21.06 percent for taxpayers with two or more qualifying children, 15.98 percent for taxpayers with one qualifying child, and 7.65 percent for taxpayers with no qualifying children.

Alternative minimum tax liability

The personal credits allowed against the regular tax are generally allowed against the alternative minimum tax. An AMT is imposed on an individual, estate, or trust in an amount by which the tentative minimum tax exceeds the regular income tax for the taxable year.[44] For 2024, the tentative minimum tax is the sum of (1) 26 percent of so much of the taxable excess as does not exceed $232,600 ($116,300 in the case of married filing separately)[45] and (2) 28 percent of the remaining taxable excess.[46] The taxable excess is so much of the alternative minimum taxable income ("AMTI") as exceeds the exemption amount. AMTI is the taxpayer's taxable

[41] For this purpose, modified adjusted gross income is adjusted gross income increased by any amount excluded from gross income under sections 911, 931 or 933.

[42] Families with three or more children may determine the additional child tax credit by taking the greater of (1) the earned income formula, or (2) the alternative formula, *i.e.,* the amount by which the taxpayer's social security taxes exceed the taxpayer's earned income tax credit.

[43] Sec. 32.

[44] Sec. 55.

[45] The breakpoint between the 26-percent and 28-percent brackets is indexed for inflation.

[46] The maximum tax rates on net capital gain and dividends used in computing the regular tax are also used in computing the tentative minimum tax.

income increased by the taxpayer's tax preferences[47] and adjusted by determining the tax treatment of certain items[48] in a manner that negates the deferral of income resulting from the regular tax treatment of those items.

For taxable years beginning in 2024, the exemption amount is $133,300 for married individuals filing jointly and surviving spouses, $85,700 for other unmarried individuals, $66,650 for married individuals filing separately, and $29,900 for estates or trusts. The exemption amount is phased out by an amount equal to 25 percent of the amount by which the individual's AMTI exceeds $1,218,700 for married individuals filing jointly and surviving spouses, $609,350 for other individuals, and $99,700 for estates or trusts. These amounts are indexed annually for inflation.

Among the tax preferences and adjustments included in AMTI are accelerated depreciation on certain property used in a trade or business, circulation expenditures, research and experimental expenditures, certain expenses and allowances related to oil and gas, certain expenses and allowances related to mining exploration and development, certain tax-exempt interest income, and a portion of the gain excluded with respect to the sale or disposition of certain small business stock. The standard deduction, and certain itemized deductions, such as the deduction for State and local taxes, are not allowed to reduce AMTI.

The Joint Committee staff estimates that for the 2024 taxable year, approximately 0.2 million taxpayers will pay the alternative minimum tax, representing approximately $6.3 billion in tax revenue.

[47] Sec. 57.

[48] Secs. 56 and 58.

B. Corporate Income Tax

Taxable income

In general

Corporations organized under the laws of any of the 50 States or the District of Columbia generally are subject to the U.S. corporate income tax on their U.S.-source and certain foreign-source income.[49] Foreign corporations generally are subject to the U.S. corporate income tax only on income that is effectively connected with a U.S. trade or business.

The taxable income of a corporation generally is its gross income less allowable deductions, computed based on the corporation's methods of accounting. Gross income generally is income derived from any source, including gross profit from the sale of goods and services to customers, rents, royalties, interest (other than interest from certain indebtedness issued by State and local governments), dividends, gains from the sale of business and investment assets, and other income. Large C corporations[50] (*i.e.*, those with average annual gross receipts for the three-taxable-year period ending with the prior taxable year that exceed $30 million (for 2024)) generally are required to use an accrual method of accounting.[51] Under the accrual method of accounting, items of income generally accrue when all the events have occurred that fix the right to receive the income and the amount of the income can be determined with reasonable accuracy, but no later than the taxable year in which such income is included as revenue for book purposes.[52] Items of expense generally may not be deducted prior to when all the events have occurred that fix the obligation to pay the liability, the amount of the liability can be determined with reasonable accuracy, and economic performance has occurred.[53]

Allowable deductions include ordinary and necessary business expenditures,[54] such as salaries, wages, contributions to qualified retirement plans and certain other employee benefit programs, repairs, write offs for bad debts, taxes (other than Federal income taxes), contributions to charitable organizations (subject to an income limitation), advertising, interest expense (subject to limitation), certain losses, selling expenses, and other expenses. In the event these deductions exceed gross income, a net operating loss ("NOL") deduction may be allowed in

---

[49] Under subchapter S of the Code, a small business corporation may elect not to be subject to the corporate income tax (*i.e.*, may make an "S corporation election"). If an S corporation election is made, the income of the corporation flows through to the shareholders and is taxable directly to them.

[50] The term "C Corporation" refers to a corporation subject to the default Federal tax rules governing corporations, which are found in subchapter C of the Code.

[51] Sec. 448. Special methods of accounting that provide an exception to the all events test may apply (*e.g.*, special methods for long term contracts subject to section 460).

[52] Sec. 451.

[53] Sec. 461.

[54] Sec. 162, *et seq.*

other years.[55] Deductions are also allowed for certain amounts despite the lack of a direct expenditure by the taxpayer. For example, a deduction is allowed for a percentage of certain dividends received by a corporation from another corporation (provided certain ownership requirements are satisfied).[56]

Expenditures that produce benefits in future taxable years for a taxpayer's business or income-producing activities (such as the purchase of plant and equipment) generally are capitalized[57] and recovered over time through depreciation, amortization, or depletion allowances.[58] In some instances, taxpayers can recover their costs more quickly than under the general rules. An additional first-year depreciation deduction is allowed equal to up to 60 percent (for 2024) of the adjusted basis of qualified property.[59] Also, a taxpayer may elect to deduct (or "expense") up to $1,220,000 of the cost of section 179 property placed in service during the 2024 taxable year.[60]

Certain expenditures may not be deducted, such as dividends paid to shareholders, expenses associated with earning tax-exempt income,[61] certain meal and entertainment expenses,[62] certain qualified transportation fringe and commuter benefits,[63] certain highly compensated employee remuneration in excess of $1 million per year, a portion of the interest on certain high-yield debt obligations that resemble equity, as well as fines, penalties, bribes,

---

[55] The net operating loss deduction is limited to 80 percent of taxable income and excess losses generally may be carried forward. Sec. 172.

[56] Sec. 243.

[57] Sec. 263.

[58] See, *e.g.*, Secs. 167, 168, and 197.

[59] The portion of basis allowable as additional first-year depreciation depends on both the date the qualified property is acquired and the year the qualified property is placed in service. See sec. 168(k)(6) and (8). Used property acquired in arms-length transactions may qualify for the additional first-year depreciation deduction. Generally, property used by businesses not subject to the limitation on interest expense (*e.g.,* regulated public utilities and electric cooperatives and taxpayers in a trade or business that has had floor plan financing indebtedness) is excluded from the definition of qualified property. Sec. 168(k)(9).

[60] This amount is reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the year exceeds $3,050,000. These limits are indexed for inflation. Sec. 179.

[61] For example, the carrying costs of tax-exempt State and local obligations and the premiums on certain life insurance policies are not deductible. Secs. 265 and 264, respectively.

[62] Generally, deductions are prohibited for entertainment expenses, activities that constitute entertainment, and facilities used in connection with entertainment activities. A 50-percent deduction disallowance applies to expenses associated with providing meals and facilities that qualify as *de minimis* under section 132(e), including meals for the convenience of the employer under section 119, if the eating facility is either located on the business premises of the employer or is employer operated. See sec. 274(n) and Notice 2021-25, April 26, 2021.

[63] Employers are disallowed deductions for expenses associated with providing qualified transportation fringe benefits unless amounts are reported and properly included in employee compensation and are disallowed deductions for other commuter benefits generally. Sec. 274.

kickbacks, illegal payments, and settlements subject to nondisclosure agreements paid in connection with sexual harassment or abuse.[64]

Foreign activities of U.S. persons

In general, income earned directly by a U.S. person from the conduct of a foreign business is taxed currently, while income earned indirectly through certain related foreign legal entities is taxed either in the year earned or not at all. In particular, the indirect earnings from certain related foreign legal entities (*i.e.*, controlled foreign corporations ("CFCs")) may constitute income to U.S. shareholders under the rules of either subpart F or section 951A of the Code.[65] Subpart F income generally includes certain passive income and certain other related-party income that is readily movable from one jurisdiction to another. Under section 951A, U.S. shareholders of a CFC also may be subject to tax on their pro rata shares of certain other income of the CFC (referred to as global intangible low-taxed income ("GILTI")).[66] Subpart F income is taxed at full rates, while GILTI is taxed at preferential rates. Both subpart F income and GILTI are taxed without regard to whether the income is distributed to the U.S. shareholders. The preferential rate on GILTI is achieved by allowing corporations a 50-percent deduction (a "section 250 deduction") on their GILTI.[67] A foreign tax credit generally is available to offset, in whole or in part, the U.S. Federal income tax owed on foreign-source income.[68]

To ensure that income of CFCs is taxed either in the year earned or not at all, dividends received by corporate U.S. shareholders from their CFCs generally are eligible for a 100-percent dividends-received deduction.[69] In addition, certain U.S. corporations (both U.S. and foreign

---

[64] Sec. 261, *et seq.*

[65] Secs. 951-964. A CFC generally is defined as any foreign corporation in which U.S. persons own (directly, indirectly, or constructively) more than 50 percent of the corporation's stock (measured by vote or value), taking into account only "U.S. shareholders," that is, U.S. persons that own at least 10 percent of the stock (measured by vote or value). Secs. 951(b), 957, and 958.

[66] Secs. 951-964. GILTI, with respect to any U.S. shareholder, is the excess of its pro rata share of certain CFC income over a 10-percent return (reduced by certain interest expense incurred by CFCs) on its pro rata share of the aggregate of the average quarterly adjusted bases in certain depreciable tangible property of each CFC with respect to which it is a U.S. shareholder.

[67] Sec. 250(a)(1)(B). The section 250 deduction for GILTI is available only for C corporations that are neither regulated investment companies ("RICs") nor real estate investment trusts ("REITs"). The section 250 deduction also applies with respect to foreign-derived intangible income ("FDII") of certain corporations, discussed in more detail below.

[68] Foreign tax credits not allowed in the current year generally may be carried back one year or forward 10 years. Sec. 904(c). In contrast with the general rules allowing carrybacks and carryovers of excess foreign tax credits, no carrybacks or carryovers of excess foreign tax credits are allowed in the GILTI foreign tax credit limitation category. In addition, a 20-percent foreign tax credit disallowance applies to foreign income taxes paid with respect to GILTI. Sec. 960(d). Foreign tax credits are not available for foreign taxes paid or accrued with respect to dividends qualifying for the 100-percent dividends-received deduction. Sec. 245A(d).

[69] Sec. 245A.

owned) with foreign affiliates are subject to a base erosion and anti-abuse tax (the "BEAT") that is in the nature of a minimum tax and payable in addition to all other tax liabilities.[70]

Tax liability

In general

Corporate income generally is taxed at 21 percent. While no separate rate structure exists for corporate capital gains, a corporation may not deduct the amount of capital losses in excess of capital gains for any taxable year.[71] Disallowed capital losses may be carried back three years or carried forward five years.

Corporations generally are taxed at lower rates on their foreign-derived intangible income ("FDII").[72] The preferential rate is achieved by allowing corporations a 37.5-percent deduction on their FDII.

Like individuals, corporations may reduce their tax liability by any applicable tax credits.[73] Unused credits generally may be carried back one year and carried forward 20 years.[74] The four largest dollar amount credits are (1) the research credit, which targets intangible investment, (2) the low-income housing credit, which targets real property investment, (3) the energy credit, which targets investment in certain renewable energy property, and (4) the renewable electricity production credit, which targets electricity production.[75]

The research credit is generally available with respect to incremental increases in qualified research.[76] A research credit is also available with respect to corporate cash expenses paid for basic research conducted by universities (and certain nonprofit scientific research

[70] Sec. 59A. The BEAT is discussed in more detail below.

[71] Sec. 1211(a).

[72] A corporation's FDII is its deemed intangible income multiplied by the percentage of its income (computed with certain exceptions) derived from serving foreign markets. A corporation's deemed intangible income is the excess of its income (computed with certain exceptions) over a 10-percent return on the aggregate of its average quarterly adjusted bases in certain depreciable tangible property. The deduction for FDII is not available for RICs or REITs. Sec. 250.

[73] General business credits also apply to the business income of individuals. Sec. 38, *et seq.*

[74] See rules for the general business credit, secs. 38 and 39.

[75] See Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2023-2027* (JCX-59-23), December 7, 2023.

[76] For general research expenditures, a taxpayer may claim a research credit equal to 20 percent of the amount by which the taxpayer's qualified research expenses for a taxable year exceed its base amount for that year. Sec. 41(a)(1). An alternative simplified research credit (with a 14 percent rate and a different base amount) may be claimed in lieu of this credit. Sec. 41(c)(5).

organizations) above a certain floor.[77] Finally, a research credit is available for a taxpayer's expenditures on research undertaken by an energy research consortium.[78]

Generally, low-income housing credits are provided to States annually and allocated by State or local housing credit agencies to taxpayers to subsidize the construction or rehabilitation of low-income residential rental property.[79] Low-income housing credits may be claimed over a 10-year period after a qualified low-income building is placed in service. The annual credit amount is equal to the applicable percentage[80] of the qualified basis of the qualified low-income building.[81]

The energy credit is allowed as a percentage of the cost of certain new energy property that is placed in service for use in the United States.[82] For this credit, energy property includes solar energy property, fiber optic solar property, geothermal heat pump property, fuel cell property or microturbine property, combined heat and power system property, small wind energy property, waste energy recovery property, energy storage technology, qualified biogas property, and microgrid controllers.[83] An election may also be made to treat property used in facilities eligible for the renewable electricity production credit (described below) as energy property in lieu of claiming such production credit.[84] The credit rate is increased if certain prevailing wage and apprenticeship requirements are met.[85] Additionally the credit rate may be further increased

[77] This 20-percent credit is available with respect to the excess of (1) corporate cash expenses (including grants or contributions) paid for basic research conducted by universities (and certain nonprofit scientific research organizations) over (2) the sum of (a) the greater of two minimum basic research floors plus (b) an amount reflecting any decrease in nonresearch giving to universities by the corporation as compared to such giving during a fixed-base period adjusted for inflation. Secs. 41(a)(2) and (e).

[78] This separate credit computation commonly is referred to as the energy research credit. Unlike the other research credits, the energy research credit applies to all qualified expenditures, not just those in excess of a base amount. Sec. 41(1)(3).

[79] Sec. 42.

[80] The applicable percentage for newly constructed or substantially rehabilitated housing that is not Federally subsidized is adjusted monthly by the IRS so that the ten annual installments have a present value of 70 percent of the building's qualified basis, but the applicable percentage cannot be less than nine percent. The applicable percentage for newly constructed or substantially rehabilitated housing that is Federally subsidized and for existing housing that is substantially rehabilitated is calculated to have a present value of 30 percent of the building's qualified basis, but the applicable percentage cannot be less than four percent. See sec. 42(b).

[81] Sec. 42(a).

[82] Sec. 48.

[83] Sec. 48(a)(3).

[84] Sec. 48(a)(5).

[85] The base credit rate is generally six or two percent depending on the type of energy property. These rates are multiplied by five, to 30 and 10 percent respectively, if certain prevailing wage and apprenticeship requirements are met. See section 48(a)(9).

if certain domestic content requirements[86] are met, if energy property is placed in an energy community,[87] or if an allocation is received from the Secretary of the Treasury (the "Secretary") for certain solar and wind projects placed in low-income communities.[88] The taxpayer's basis in the property is reduced by one-half of the amount of the credit claimed.[89]

The renewable electricity production credit is allowed for the domestic production of electricity from qualified energy resources at a qualified facility during the 10-year period beginning after such qualified facility is originally placed in service.[90] Qualified energy resources comprise wind, closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower production, and marine and hydrokinetic renewable energy.[91] Qualified facilities are, generally, facilities that generate electricity using qualified energy resources.[92] To be eligible for the credit, electricity produced from qualified energy resources at qualified facilities must be sold by the taxpayer to an unrelated person.[93] The credit rate is increased if certain prevailing wage and apprenticeship

[86] Sec. 48(a)(12).

[87] Sec. 48(a)(14).

[88] Sec. 48(e).

[89] Sec. 50(c)(3).

[90] Sec. 45. A credit for the production of Indian coal is also available under section 45.

[91] Sec. 45(c)(1).

[92] Under section 48(a)(5), a taxpayer may make an irrevocable election to have property used in certain qualified facilities eligible for the renewable electricity production tax credit be treated as energy property eligible for an investment credit under the energy credit. A taxpayer electing to treat a facility as energy property may not claim the renewable electricity production credit for power generated at that facility. A phaseout rule similar to the rule for the renewable electricity production credit applies to property for which an election has been made.

[93] Sec. 45(a)(2)(B).

requirements are met.[94] Additionally the credit rate may be further increased if certain domestic content requirements[95] are met or if the qualified facility is placed in an energy community.[96]

Other credits applicable to businesses include other investment tax credits[97] (such as for the rehabilitation of certain real property), the work opportunity credit (applicable to wages paid to individuals from certain targeted groups), the employer-provided child care credit (applicable to certain expenditures to provide child care for employees), the employer credit for paid family and medical leave (applicable to wages paid to employees on family and medical leave), the advanced manufacturing production credit (applicable to certain components and critical minerals), the credit for production of clean hydrogen, the zero-emission nuclear power production credit, and the disabled access credit (applicable to expenditures by certain small businesses to make the businesses accessible to disabled individuals), among others.[98]

The BEAT

The BEAT applies to a corporation (1) that is not a RIC or REIT, (2) that has average annual gross receipts of at least $500 million over the prior three taxable years, and (3) whose base erosion tax benefits exceed three percent of certain outlays made by the corporation.[99]

A corporation's BEAT liability generally is the excess, if any, of 10 percent of its modified taxable income[100] over an amount equal to its regular tax liability reduced (but not

---

[94] In general, the base credit amount is multiplied by five if certain prevailing wage and apprenticeship requirements are met. Additionally, the base credit is multiplied by five for facilities with a maximum net output of less than one megawatt. Sec. 45(b)(6).

For facilities placed in service after December 31, 2022, the base credit amount for calendar year 2023 is .55 cents per kilowatt-hour (2.75 cents per kilowatt-hour if certain prevailing wage and apprenticeship requirements are met) for wind, closed-loop biomass, geothermal energy, solar energy, qualified hydropower, and marine and hydrokinetic renewable energy facilities. For such year, the base credit amount is .3 cents per kilowatt-hour (1.5 cents per kilowatt-hour if certain prevailing wage and apprenticeship requirements are met) for open-loop biomass, landfill gas, and trash facilities. See Notice of Publication, 88 Fed. Reg. 40400, June 21, 2023. The inflation adjustment factor for this credit for calendar year 2024 has not yet been published.

[95] Sec. 45(b)(9).

[96] Sec. 45(b)(11).

[97] Sec. 46.

[98] Certain of these credits are scheduled to expire in 2024 or later. For more information on expiring provisions of the Code, see Joint Committee on Taxation, *List of Expiring Federal Tax Provisions 2024-2034* (JCX-1-24), January 11, 2024.

[99] Sec. 59A(e).

[100] A corporation's modified taxable income is its taxable income determined without regard to a certain portion of any NOL deduction allowed for the taxable year and without regard to any base erosion tax benefit with respect to certain items (*i.e.*, "base erosion payments"), including (1) certain deductible payments made to foreign related parties, (2) deductions allowed for depreciation (or amortization in lieu of deprecation) with respect to

below zero) by certain credits.[101] Special rules for computing the base erosion minimum tax apply to banks and securities dealers.

Affiliated group

Domestic corporations that are affiliated through 80 percent or more corporate ownership may elect to file a consolidated return in lieu of filing separate returns. Corporations filing a consolidated return generally are treated as a single corporation; thus, the losses of one corporation may offset the income (and thus reduce the otherwise applicable tax) of other affiliated corporations.

Book minimum tax

Large C corporations meeting certain requirements ("applicable corporations") are subject to an alternative minimum tax (known as the "book minimum tax") that is based on adjusted financial statement income ("AFSI"). The tax equals the excess (if any) of the corporation's tentative minimum tax over the corporation's regular tax[102] plus the corporation's BEAT liability for the taxable year.[103]

The tentative minimum tax for an applicable corporation for a taxable year is generally 15 percent of AFSI (as reduced by certain financial statement NOLs)[104] over the book minimum foreign tax credit.[105] The tentative minimum tax is zero for corporations that are not applicable

---

property acquired from foreign related parties, and (3) reinsurance premiums paid to foreign related parties. Sec. 59A(c).

[101] Credits that reduce regular tax liability (*i.e.*, increase the base erosion minimum tax amount, if any) are all section 38 credits except for (1) the research credit and (2) applicable section 38 credits. Applicable section 38 credits are the low-income housing credit, the renewable electricity production credit, and the energy investment credit. The exception for applicable section 38 credits generally may not reduce the base erosion minimum tax amount by more than 80 percent (determined without regard to the exception for applicable section 38 credits). Sec. 59A(b).

[102] This is generally the corporation's regular tax liability under section 26(b) reduced by the foreign tax credit allowable under section 27(a), with certain exceptions. See sec. 55(c).

[103] Sec. 55(a).

[104] Book income, or financial statement income, is modified to eliminate certain book-tax differences to arrive at AFSI. Sec. 56A.

[105] The taxpayer may elect to claim the book minimum tax foreign tax credit if the taxpayer does not take a deduction with respect to creditable foreign taxes against regular Federal income tax for a taxable year. Sec. 59(l).

corporations. Generally, an applicable corporation is a corporation[106] that exceeds $1 billion in average annual AFSI.[107]

General business credits (discussed above) generally may offset up to approximately 75 percent of the sum of a corporation's normal income tax and alternative minimum tax.[108] In addition, an applicable corporation is generally entitled for any taxable year to a credit against its Federal income tax in an amount equal to the minimum tax credit for such taxable year.[109]

The Joint Committee staff estimates that for the 2024 taxable year, approximately 150 corporations will have book income minimum tax liability, representing between $30 to $40 billion in tax revenue.

Treatment of corporate distributions

The taxation of a corporation generally is separate and distinct from the taxation of its shareholders. A distribution by a corporation to one of its shareholders generally is taxable as a dividend to the extent of the corporation's current or accumulated earnings and profits.[110] Thus, corporate income distributed as a dividend generally is taxed twice: once when the income is earned by the corporation and again when the dividend is distributed to the shareholder.[111] In contrast, some amounts paid as interest on corporate debt may be subject to only one level of tax (at the recipient level) since the corporation is allowed a deduction for part or all of the amount of interest expense paid or accrued.

Amounts received by a shareholder in complete liquidation of a corporation generally are treated as full payment in exchange for the shareholder's stock.[112] A liquidating corporation recognizes gain or loss on the distributed property as if such property were sold to the

---

[106] Other than an S corporation, a RIC, or a REIT.

[107] Aggregation rules and certain adjustments apply in determining AFSI for purposes of determining whether a corporation is an applicable corporation. Additionally, special rules apply for corporations which are members of a foreign-parented multinational group. Sec. 59(k).

[108] Sec. 38.

[109] Sec. 53(e).

[110] Secs. 301 and 316. A distribution in excess of the earnings and profits of a corporation generally is a tax-free return of capital to the shareholder to the extent of the shareholder's adjusted basis (generally, cost) in the stock of the corporation; such distribution is a capital gain if in excess of basis. A distribution of property other than cash generally is treated as a taxable sale of such property by the corporation and is taken into account by the shareholder at the property's fair market value. Sec. 311(b). A distribution of stock of the corporation generally is not a taxable event to either the corporation or the shareholder. Sec. 311(a).

[111] This double taxation is mitigated by a reduced tax rate generally applicable to the qualified dividend income of individuals.

[112] Sec. 331.

shareholders for its fair market value.[113] However, if a corporation liquidates a subsidiary corporation of which it has 80 percent or more control, no gain or loss generally is recognized by either the parent corporation or the subsidiary corporation.[114]

Accumulated earnings and personal holding company taxes

The accumulated earnings or personal holding company income of a corporation may be taxed at the top rate generally applicable to qualified dividend income (*i.e.*, 20 percent). The accumulated earnings tax may be imposed if a corporation retains earnings in excess of reasonable business needs.[115] The personal holding company tax may be imposed on the excessive passive income of a closely held corporation.[116] When they apply, the accumulated earnings tax and the personal holding company tax in effect impose the shareholder-level tax in addition to the corporate-level tax on accumulated earnings or undistributed personal holding company income.

[113] Sec. 336.

[114] Sec. 337.

[115] Sec. 531, *et seq.*

[116] Sec. 541, *et seq.*

C. Estate, Gift, and Generation-Skipping Transfer Taxes

The United States generally imposes a gift tax on any transfer of property by gift made by a U.S. citizen or resident, whether made directly or indirectly and whether made in trust or otherwise.[117] Nonresident aliens are subject to the gift tax with respect to transfers of tangible real or personal property where the property is located in the United States at the time of the gift. The gift tax is imposed on the donor and is based on the fair market value of the property transferred. Deductions are allowed for certain gifts to spouses and to charities. Annual gifts of $18,000 (for 2024) or less made by the donor to any person generally are not subject to tax.[118]

An estate tax also is imposed on the taxable estate of any person who was a citizen or resident of the United States at the time of death and on certain property belonging to a nonresident of the United States that is located in the United States at the time of death.[119] The estate tax is imposed on the estate of the decedent and generally is based on the fair market value of the property passing at death.[120] The taxable estate generally equals the worldwide gross estate less certain allowable deductions, including a marital deduction for certain bequests to the surviving spouse of the decedent and a deduction for certain bequests to charities.

The gift and estate taxes are unified such that a single graduated rate schedule and exemption apply to an individual's cumulative taxable gifts and bequests. The unified estate and gift tax rates begin at 18 percent on the first $10,000 in cumulative taxable transfers and reach 40 percent on cumulative taxable transfers over $1,000,000. A unified credit of $5,389,800 (for 2024) is available with respect to taxable transfers by gift or at death. This credit effectively exempts a total of $13.61 million (for 2024)[121] in cumulative taxable transfers from the gift tax or the estate tax. The unified credit thus generally also has the effect of rendering the marginal rates below 40 percent inapplicable. Unused exemption as of the death of a spouse generally is available for use by the surviving spouse; this feature of the law sometimes is referred to as exemption portability.

---

[117] Sec. 2501, *et seq*.

[118] The gift tax annual exclusion is indexed for inflation.

[119] Sec. 2001, *et seq*.

[120] In addition to interests in property owned by the decedent at the time of death, the Federal estate tax also is imposed on: (1) life insurance that was either payable to the decedent's estate or in which the decedent had an incident of ownership at death; (2) property over which the decedent had a general power of appointment at death; (3) annuities purchased by the decedent or his employer that were payable to the decedent before death; (4) certain interests in jointly held property; (5) property transferred by the decedent before death in which the decedent retained a life estate or over which the decedent had the power to designate who will possess or enjoy the property; (6) property revocably transferred by the decedent before death; and (7) certain transfers taking effect at the death of the decedent.

[121] The basic exclusion amount is indexed for inflation. Sec. 2010(c)(3)(B).

A separate transfer tax is imposed on generation-skipping transfers in addition to any estate or gift tax that is imposed on such transfers.[122] This tax generally is imposed on transfers, either directly or through a trust or similar arrangement, to a beneficiary in more than one generation below that of the transferor. For 2024, the generation-skipping transfer tax is determined using a 40-percent rate and an exemption of $13.61 million.[123]

---

[122] Sec. 2601, *et seq.*

[123] The exemption amount for the generation-skipping transfer tax is the same as the basic exclusion amount used to calculate the unified credit. Sec. 2631.

D. Social Insurance Taxes

In general

Social Security benefits and certain Medicare benefits are financed primarily by payroll taxes on covered wages.[124] The Federal Insurance Contributions Act ("FICA") imposes tax on employers and employees based on the amount of wages paid to an employee during the year. The tax imposed is composed of two parts: (1) the old age, survivors, and disability insurance ("OASDI") tax equal to 6.2 percent of covered wages up to the taxable wage base ($168,600 in 2024); and (2) the Medicare hospital insurance ("HI") tax amount equal to 1.45 percent of covered wages with no wage cap.[125] In addition to the tax on employers, each employee's wages are subject to FICA taxes equal to the amount of tax imposed on the employer. The employee FICA taxes generally must be withheld and, along with employer FICA taxes, remitted to the Federal government by the employer.[126]

As a parallel to FICA taxes, the Self-Employment Contributions Act ("SECA") imposes taxes on the net income from self-employment of self-employed individuals.[127] The rate of the OASDI portion of SECA taxes is equal to the combined employee and employer OASDI tax rates and applies to self-employment income up to the FICA taxable wage base. Similarly, the rate of the HI portion is the sum of the combined employer and employee HI rates, and there is no cap on the amount of self-employment income to which the rate applies.[128]

In addition to FICA taxes, the Federal Unemployment Tax Act ("FUTA") imposes tax on employers equal to six percent of the total wages of each employee (up to $7,000) on covered employment.[129] Generally, employers are eligible for a Federal credit equal to 5.4 percent for State unemployment taxes paid by the employer, yielding a 0.6 percent effective tax rate. FUTA taxes are used to fund programs maintained by the States for the benefit of unemployed workers.

---

[124] Sec. 3101, *et seq*.

[125] FICA taxes also includes an additional hospital insurance tax. Sec. 3101(b)(2).

[126] Instead of FICA taxes, railroad employers, employees, and employee representatives are subject, under the Railroad Retirement Tax Act ("RRTA"), to taxes equivalent to the OASDI and HI taxes under FICA. Under RRTA, employers and employees are also subject to an additional tax, referred to as the "tier 2" tax, on compensation up to a certain amount. Sec. 3201, *et seq*.

[127] Sec. 1401, *et seq*.

[128] For purposes of computing net earnings from self-employment, taxpayers are permitted a deduction equal to the product of the taxpayer's earnings (determined without regard to this deduction) and one-half of the sum of the rates for OASDI (12.4 percent) and HI (2.9 percent), *i.e.*, 7.65 percent of net earnings. This deduction reflects the fact that the FICA rates apply to an employee's wages, which do not include FICA taxes paid by the employer, whereas a self-employed individual's net earnings are economically equivalent to an employee's wages plus the employer share of FICA taxes.

[129] Sec. 3301, *et seq*.

Additional hospital insurance tax on certain high-income individuals

The employee portion of the HI tax is increased by an additional tax of 0.9 percent on wages received in excess of a specific threshold amount.[130] Employers are required to withhold the additional 0.9 percent on wages of the employee in excess of $200,000. However, unlike the general 1.45 percent HI tax on wages, this additional tax is on the combined wages of the employee and the employee's spouse, in the case of a joint return. The threshold amount is $250,000 in the case of married filing jointly, $125,000 in the case of married filing separately, and $200,000 in any other case (unmarried individual, head of household or surviving spouse).[131] Any difference between the amount withheld on wages in excess of $200,000 and the applicable tax based on the thresholds is reconciled on the individual's personal income tax return.

The same additional HI tax applies to the HI portion of SECA tax on self-employment income in excess of the threshold amount. Thus, an additional tax of 0.9 percent is imposed on every self-employed individual on self-employment income in excess of the applicable threshold amount.[132]

The Joint Committee staff estimates that for the 2024 taxable year, approximately 8.1 million taxpayers will pay the additional HI tax.

[130] Sec. 3101(b)(2).

[131] These threshold amounts are not indexed for inflation.

[132] Sec. 1402(b).

E. Major Excise Taxes

The Federal tax system imposes excise taxes on selected goods and services.[133] Generally, excise taxes are taxes imposed on a per unit or *ad valorem* (*i.e*., percentage of price) basis on the production, importation, or sale of a specific good or service. Among the goods and services subject to U.S. excise taxes are motor fuels, alcoholic beverages, tobacco products, firearms, air and ship transportation, certain environmentally hazardous products (*e.g*., ozone depleting chemicals, and crude oil and certain petroleum products to fund the Oil Spill Liability Trust Fund), coal, certain telephone communications (*e.g*., local service), certain wagers, indoor tanning services, vehicles lacking in fuel efficiency, certain chemicals and substances, designated drugs of certain drug manufacturers,[134] and stock repurchases[135] of certain corporations.[136] Additionally, an annual fee is imposed on certain manufacturers and importers of branded prescription drugs.

Large excise taxes in terms of revenue, for fiscal year 2023, are those imposed on gasoline motor fuel ($23.5 billion),[137] diesel motor fuel ($11.0 billion),[138] domestic air tickets ($15.7 billion),[139] domestic and imported tobacco products ($10.3 billion),[140] and domestic and imported alcohol beverages ($11.1 billion).[141] Revenues from certain Federal excise taxes are dedicated to trust funds (*e.g*., the Highway Trust Fund) for designated expenditure programs, and revenues from other excise taxes (*e.g*., alcoholic beverages) go to the General Fund for general purpose expenditures.

---

[133] See subtitles D and E of the Code.

[134] Sec. 5000D. The tax applies to the price of drugs sold by certain drug manufacturers, producers, or importers during noncompliance periods using an applicable percentage ranging from 65 to 95 percent. This is equivalent to a tax exclusive rate on the price of drugs ranging from 186 to 1900 percent.

[135] Sec. 4501. The tax is one percent of the fair market value of net repurchases of stock of a covered corporation.

[136] For a historical description of various other Federal excise taxes, see Joint Committee on Taxation, *Present Law and Background Information on Federal Excise Taxes* (JCX-99-15), July 13, 2015.

[137] U.S. Department of Treasury, "FY 2023 Highway Consolidated Reports," September 2023, pp. 10, available at https://treasurydirect.gov/ftp/dfi/tfmb/dfihw0923.pdf.

[138] *Ibid*.

[139] U.S. Department of Treasury, "FY 2023 Airport and Airways Reports," September 2023, pp. 7, available at https://www.treasurydirect.gov/ftp/dfi/tfmb/dfiaa0923.pdf.

[140] U.S. Department of Treasury, Alcohol and Tobacco Tax and Trade Bureau, "Tax Collections, Cumulative Summary Fiscal Year 2023," December 5, 2023, available at https://www.ttb.gov/taxes/tax-audit/tax-collections.

[141] *Ibid*.

Table 3.–2024 Federal Excise Tax Rates for Selected Products or Services

Gasoline Motor Fuel	18.3 cents per gallon[1]
Diesel Motor Fuel	24.3 cents per gallon[2]
Domestic Air Tickets	7.5 percent of fare, plus $5.00 (2024) per domestic flight segment generally.[3]
Cigarettes[4]	$50.33 per thousand small cigarettes;[5] $105.69 per thousand large cigarettes.
Alcoholic Beverages[6]	$3.50 to $18.00 per barrel of beer; [7] $0.07 to $3.15 per gallon of still wine;[8] $2.70 to $13.50 per proof gallon of distilled spirits[9]

[1] This rate does not include the additional 0.1 cent per gallon tax to fund the Leaking Underground Storage Tank Trust Fund.

[2] This rate does not include the additional 0.1 cent per gallon tax to fund the Leaking Underground Storage Tank Trust Fund.

[3] Generally, for international air passenger transportation that begins or ends in the United States, the tax is $22.20 (2024) per arrival or departure.

[4] Cigars, pipe tobacco, chewing tobacco, snuff, roll-your-own tobacco, cigarette papers, and cigarette tubes are also subject to Federal excise tax. Sec. 5701. https://www.ttb.gov/taxes/tax-audit/tax-and-fee-rates.

[5] There is approximately $1.01 in Federal excise tax imposed on a pack of cigarettes containing 20 cigarettes.

[6] The rate of excise tax on alcoholic beverages may depend on a number of factors, including volume produced or imported, location of production, and alcoholic content. Artificially carbonated wine, sparkling wine, and hard cider are also subject to excise tax at various rates. Secs. 5001, 5041, and 5051. https://www.ttb.gov/taxes/tax-audit/tax-and-fee-rates.

[7] There is approximately $0.33 in Federal excise tax imposed on a six pack (72 oz) of beer, assuming an excise tax of $18.00 per barrel.

[8] There is approximately $0.21 in Federal excise tax imposed on a 750 ml bottle of wine, assuming an excise tax of $1.07 per gallon.

[9] There is approximately $2.14 in Federal excise tax imposed on a 750 ml bottle of 80-proof distilled spirits, assuming an excise tax of $13.50 per proof gallon.

APPENDIX: FIGURES AND TABLES

Page

Table A-1.−Federal Receipts by Source, 1974-2023 29

Table A-2.−Federal Receipts by Source, as a Percentage of GDP, 1974-2023 30

Table A-3.−Federal Receipts by Source, as a Percentage of Total Revenues, 1974-2023 31

Figure A-1.−Federal Receipts by Source as Share of Total Receipts, 1950-2023 32

Figure A-2.−Federal Receipts as a Percentage of GDP, 1950-2023 33

Figure A-3.−Federal Receipts by Source, 2024 (Projected) 34

Figure A-4.−Sources of Gross Income for Individual Taxpayers, 2024 (Projected) 35

Table A-4.−Number of Business Returns by Type, 1978-2022 36

Table A-5.−Social Security Taxable Wage Base and Rates of Tax, 1975-2024 37

Table A-6.−Distribution of Income and Taxes, and Average Tax Rates, 2024 (Projected) 38

Table A-7.− Distribution of Income and Taxes, and Average Tax Rates, Alternative Measure, 2024 (Projected) 39

Table A-8.− Tax Returns with Income or Employment Taxes, 2024 (Projected) 40

Table A-9.− Marginal Tax Rates on Labor and Long-Term Capital Gains, by Income Category, 2024 (Projected) 41

Table A-10.− Distribution of Selected Sources of Income, 2024 (Projected) 42

Table A-11.–Distribution of Selected Itemized Deductions,2024 (Projected) 43

Table A-1.−Federal Receipts by Source, 1973-2023
(millions of dollars)

Fiscal Year	Individual Income Tax	Corporate Taxes	Social Insurance Taxes [1]	Excise Taxes	Estate and Gift Taxes	Other Receipts [2]	Total
1974	118,952	38,620	75,071	16,844	5,035	8,702	263,224
1975	122,386	40,621	84,534	16,551	4,611	10,387	279,090
1976	131,603	41,409	90,769	16,963	5,216	12,101	298,061
1977	157,626	54,892	106,485	17,548	7,327	11,681	355,559
1978	180,988	59,952	120,967	18,376	5,285	13,993	399,561
1979	217,841	65,677	138,939	18,745	5,411	16,690	463,303
1980	244,069	64,600	157,803	24,329	6,389	19,922	517,112
1981	285,917	61,137	182,720	40,839	6,787	21,872	599,272
1982	297,744	49,207	201,498	36,311	7,991	25,015	617,766
1983	288,938	37,022	208,994	35,300	6,053	24,256	600,563
1984	298,415	56,893	239,376	37,361	6,010	28,382	666,437
1985	334,531	61,331	265,163	35,992	6,422	30,598	734,037
1986	348,959	63,143	283,901	32,919	6,958	33,275	769,155
1987	392,557	83,926	303,318	32,457	7,493	34,536	854,287
1988	401,181	94,508	334,335	35,227	7,594	36,393	909,238
1989	445,690	103,291	359,416	34,386	8,745	39,576	991,104
1990	466,884	93,507	380,047	35,345	11,500	44,674	1,031,957
1991	467,827	98,086	396,015	42,402	11,138	39,519	1,054,987
1992	475,964	100,270	413,688	45,569	11,143	44,574	1,091,208
1993	509,680	117,520	428,299	48,057	12,577	38,201	1,154,334
1994	543,055	140,385	461,475	55,225	15,225	43,202	1,258,567
1995	590,244	157,004	484,473	57,484	14,763	47,822	1,351,790
1996	656,417	171,824	509,414	54,014	17,189	44,195	1,453,053
1997	737,466	182,293	539,371	56,924	19,845	43,333	1,579,232
1998	828,586	188,677	571,831	57,673	24,076	50,885	1,721,728
1999	879,480	184,680	611,833	70,414	27,782	53,263	1,827,452
2000	1,004,462	207,289	652,852	68,865	29,010	62,713	2,025,191
2001	994,339	151,075	693,967	66,232	28,400	57,069	1,991,082
2002	858,345	148,044	700,760	66,989	26,507	52,491	1,853,136
2003	793,699	131,778	712,978	67,524	21,959	54,376	1,782,314
2004	808,959	189,371	733,407	69,855	24,831	53,691	1,880,114
2005	927,222	278,282	794,125	73,094	24,764	56,124	2,153,611
2006	1,043,908	353,915	837,821	73,961	27,877	69,387	2,406,869
2007	1,163,472	370,243	869,607	65,069	26,044	73,550	2,567,985
2008	1,145,747	304,346	900,155	67,334	28,844	77,565	2,523,991
2009	915,308	138,229	890,917	62,483	23,482	74,570	2,104,989
2010	898,549	191,437	864,814	66,909	18,885	122,112	2,162,706
2011	1,091,473	181,085	818,792	72,381	7,399	132,336	2,303,466
2012	1,132,206	242,289	845,314	79,061	13,973	137,147	2,449,990
2013	1,316,405	273,506	947,820	84,007	18,912	134,456	2,775,106
2014	1,394,568	320,731	1,023,458	93,368	19,300	170,066	3,021,491
2015	1,540,802	343,797	1,065,257	98,279	19,232	182,523	3,249,890
2016	1,546,075	299,571	1,115,065	95,026	21,354	190,874	3,267,965
2017	1,587,120	297,048	1,161,897	83,823	22,768	163,528	3,316,184
2018	1,683,538	204,733	1,170,701	94,986	22,983	152,966	3,329,907
2019	1,717,857	230,245	1,243,113	98,914	16,672	156,563	3,463,364
2020	1,608,663	211,845	1,309,955	86,780	17,624	186,297	3,421,164
2021	2,044,377	371,831	1,314,088	75,274	27,140	214,401	4,047,111
2022	2,632,146	424,865	1,483,527	87,728	32,550	236,523	4,897,339
2023	2,176,481	419,584	1,614,456	75,802	33,668	120,956	4,440,947

[1] Social insurance taxes comprise old-age and survivors insurance, disability insurance, hospital insurance, railroad retirement, railroad social security equivalent account, employment insurance, employee share of Federal employees retirement, and certain non-Federal employees retirement.

[2] Other receipts are primarily composed of (1) customs duties and fees, and (2) deposits of earnings by the Federal Reserve system.

Sources: Office of Management and Budget, Historical Tables, Budget of the U.S. Government, Fiscal Year 2025; Joint Committee on Taxation staff calculations.

Table A-2.−Federal Receipts by Source, as a Percentage of GDP, 1974-2023

Fiscal Year	Individual Income Tax	Corporate Taxes	Social Insurance Taxes [1]	Excise Taxes	Estate and Gift Taxes	Other Receipts [2]	Total
1974	8.0	2.6	5.1	1.1	0.3	0.6	17.8
1975	7.6	2.5	5.3	1.0	0.3	0.6	17.4
1976	7.4	2.3	5.1	0.9	0.3	0.7	16.7
1977	7.8	2.7	5.3	0.9	0.4	0.6	17.6
1978	8.0	2.6	5.3	0.8	0.2	0.6	17.6
1979	8.5	2.6	5.4	0.7	0.2	0.7	18.1
1980	8.7	2.3	5.7	0.9	0.2	0.7	18.5
1981	9.1	2.0	5.8	1.3	0.2	0.7	19.1
1982	9.0	1.5	6.1	1.1	0.2	0.8	18.6
1983	8.2	1.0	5.9	1.0	0.2	0.7	17.0
1984	7.6	1.4	6.1	0.9	0.2	0.7	16.9
1985	7.8	1.4	6.2	0.8	0.2	0.7	17.2
1986	7.7	1.4	6.3	0.7	0.2	0.7	17.0
1987	8.2	1.8	6.4	0.7	0.2	0.7	17.9
1988	7.8	1.8	6.5	0.7	0.1	0.7	17.7
1989	8.0	1.9	6.5	0.6	0.2	0.7	17.8
1990	7.9	1.6	6.4	0.6	0.2	0.8	17.5
1991	7.7	1.6	6.5	0.7	0.2	0.6	17.3
1992	7.4	1.6	6.4	0.7	0.2	0.7	17.0
1993	7.5	1.7	6.3	0.7	0.2	0.6	17.0
1994	7.6	2.0	6.4	0.8	0.2	0.6	17.5
1995	7.8	2.1	6.4	0.8	0.2	0.6	17.9
1996	8.3	2.2	6.4	0.7	0.2	0.6	18.3
1997	8.7	2.2	6.4	0.7	0.2	0.5	18.7
1998	9.3	2.1	6.4	0.6	0.3	0.6	19.3
1999	9.3	1.9	6.5	0.7	0.3	0.6	19.3
2000	9.9	2.0	6.5	0.7	0.3	0.6	20.0
2001	9.4	1.4	6.6	0.6	0.3	0.5	18.9
2002	7.9	1.4	6.5	0.6	0.2	0.5	17.1
2003	7.0	1.2	6.3	0.6	0.2	0.5	15.8
2004	6.7	1.6	6.1	0.6	0.2	0.4	15.6
2005	7.2	2.2	6.2	0.6	0.2	0.4	16.8
2006	7.7	2.6	6.1	0.5	0.2	0.5	17.6
2007	8.1	2.6	6.1	0.5	0.2	0.5	18.0
2008	7.7	2.1	6.1	0.5	0.2	0.5	17.1
2009	6.3	1.0	6.2	0.4	0.2	0.5	14.5
2010	6.0	1.3	5.8	0.4	0.1	0.8	14.5
2011	7.1	1.2	5.3	0.5	0.0	0.9	14.9
2012	7.0	1.5	5.2	0.5	0.1	0.9	15.2
2013	7.9	1.6	5.7	0.5	0.1	0.8	16.6
2014	8.0	1.8	5.9	0.5	0.1	1.0	17.3
2015	8.5	1.9	5.9	0.5	0.1	1.0	17.9
2016	8.3	1.6	6.0	0.5	0.1	1.0	17.5
2017	8.2	1.5	6.0	0.4	0.1	0.8	17.1
2018	8.2	1.0	5.7	0.5	0.1	0.7	16.3
2019	8.1	1.1	5.8	0.5	0.1	0.7	16.3
2020	7.6	1.0	6.2	0.4	0.1	0.9	16.1
2021	9.0	1.6	5.8	0.3	0.1	0.9	17.9
2022	10.4	1.7	5.9	0.3	0.1	0.9	19.4
2023	8.1	1.6	6.0	0.3	0.1	0.4	16.5
1950-2023 Avg	7.9	2.5	5.0	1.1	0.2	0.6	17.3

[1] Social insurance taxes comprise old-age and survivors insurance, disability insurance, hospital insurance, railroad retirement, railroad social security equivalent account, employment insurance, employee share of Federal employees retirement, and certain non-Federal employees retirement.

[2] Other receipts are primarily composed of (1) customs duties and fees, and (2) deposits of earnings by the Federal Reserve system.

Sources: Office of Management and Budget, Historical Tables, Budget of the U.S. Government, Fiscal Year 2025; Joint Committee on Taxation staff calculations.

Table A-3.−Federal Receipts by Source, as a Percentage of Total Revenues, 1974-2023

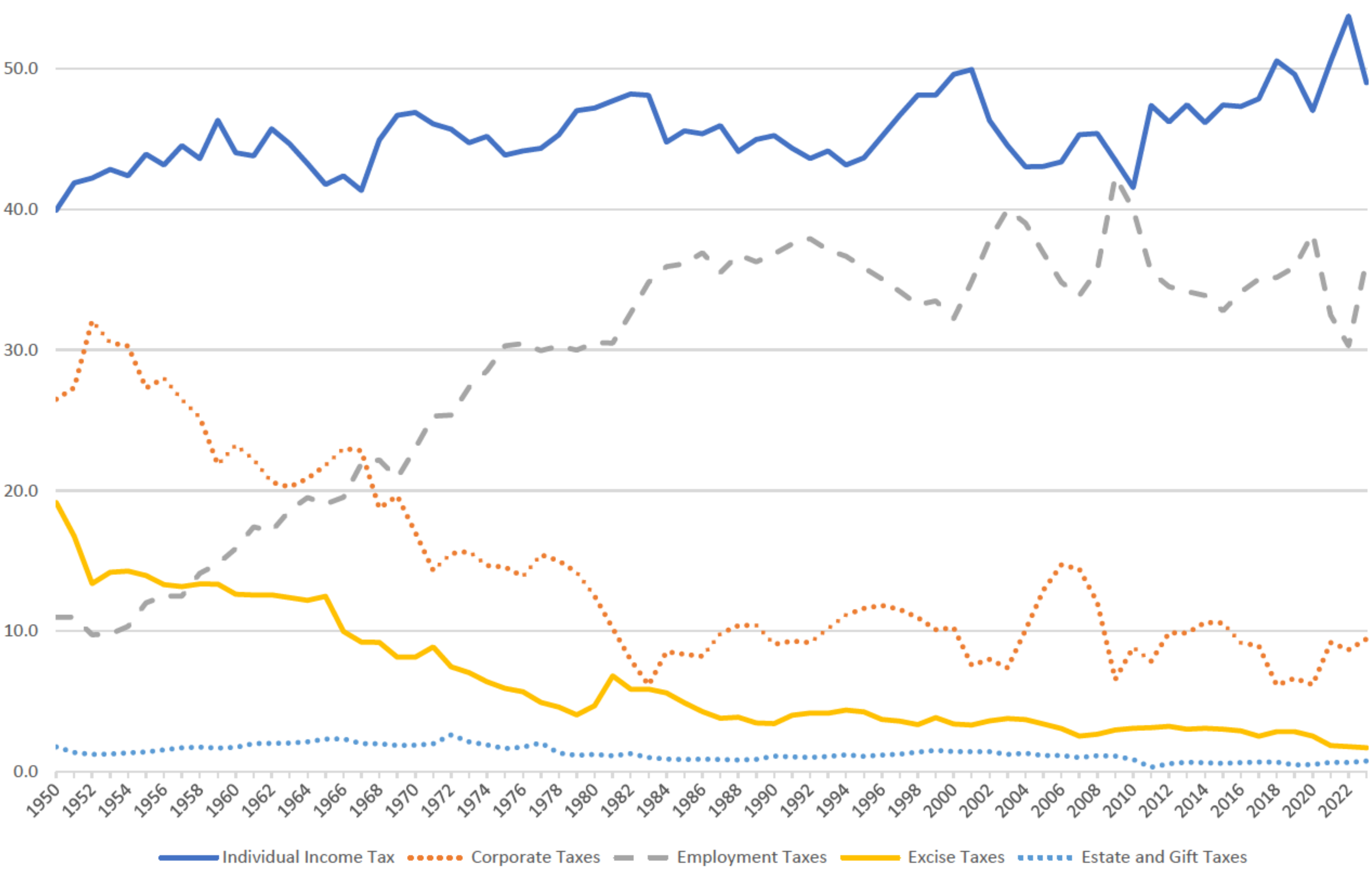
Fiscal Year	Individual Income Tax	Corporate Taxes	Social Insurance Taxes [1]	Excise Taxes	Estate and Gift Taxes	Other Receipts [2]
1974	45.2	14.7	28.5	6.4	1.9	3.3
1975	43.9	14.6	30.3	5.9	1.7	3.7
1976	44.2	13.9	30.5	5.7	1.7	4.1
1977	44.3	15.4	29.9	4.9	2.1	3.3
1978	45.3	15.0	30.3	4.6	1.3	3.5
1979	47.0	14.2	30.0	4.0	1.2	3.6
1980	47.2	12.5	30.5	4.7	1.2	3.9
1981	47.7	10.2	30.5	6.8	1.1	3.6
1982	48.2	8.0	32.6	5.9	1.3	4.0
1983	48.1	6.2	34.8	5.9	1.0	4.0
1984	44.8	8.5	35.9	5.6	0.9	4.3
1985	45.6	8.4	36.1	4.9	0.9	4.2
1986	45.4	8.2	36.9	4.3	0.9	4.3
1987	46.0	9.8	35.5	3.8	0.9	4.0
1988	44.1	10.4	36.8	3.9	0.8	4.0
1989	45.0	10.4	36.3	3.5	0.9	4.0
1990	45.2	9.1	36.8	3.4	1.1	4.3
1991	44.3	9.3	37.5	4.0	1.1	3.7
1992	43.6	9.2	37.9	4.2	1.0	4.1
1993	44.2	10.2	37.1	4.2	1.1	3.3
1994	43.1	11.2	36.7	4.4	1.2	3.4
1995	43.7	11.6	35.8	4.3	1.1	3.5
1996	45.2	11.8	35.1	3.7	1.2	3.0
1997	46.7	11.5	34.2	3.6	1.3	2.7
1998	48.1	11.0	33.2	3.3	1.4	3.0
1999	48.1	10.1	33.5	3.9	1.5	2.9
2000	49.6	10.2	32.2	3.4	1.4	3.1
2001	49.9	7.6	34.9	3.3	1.4	2.9
2002	46.3	8.0	37.8	3.6	1.4	2.8
2003	44.5	7.4	40.0	3.8	1.2	3.1
2004	43.0	10.1	39.0	3.7	1.3	2.9
2005	43.1	12.9	36.9	3.4	1.1	2.6
2006	43.4	14.7	34.8	3.1	1.2	2.9
2007	45.3	14.4	33.9	2.5	1.0	2.9
2008	45.4	12.1	35.7	2.7	1.1	3.1
2009	43.5	6.6	42.3	3.0	1.1	3.5
2010	41.5	8.9	40.0	3.1	0.9	5.6
2011	47.4	7.9	35.5	3.1	0.3	5.7
2012	46.2	9.9	34.5	3.2	0.6	5.6
2013	47.4	9.9	34.2	3.0	0.7	4.8
2014	46.2	10.6	33.9	3.1	0.6	5.6
2015	47.4	10.6	32.8	3.0	0.6	5.6
2016	47.3	9.2	34.1	2.9	0.7	5.8
2017	47.9	9.0	35.0	2.5	0.7	4.9
2018	50.6	6.1	35.2	2.9	0.7	4.6
2019	49.6	6.6	35.9	2.9	0.5	4.5
2020	47.0	6.2	38.3	2.5	0.5	5.4
2021	50.5	9.2	32.5	1.9	0.7	5.3
2022	53.7	8.7	30.3	1.8	0.7	4.8
2023	49.0	9.4	36.4	1.7	0.8	2.7
1950-2023 Avg	45.4	14.4	29.1	6.5	1.3	3.4

[1] Social insurance taxes comprise old-age and survivors insurance, disability insurance, hospital insurance, railroad retirement, railroad social security equivalent account, employment insurance, employee share of Federal employees retirement, and certain non-Federal employees retirement.

[2] Other receipts are primarily composed of (1) customs duties and fees, and (2) deposits of earnings by the Federal Reserve system.

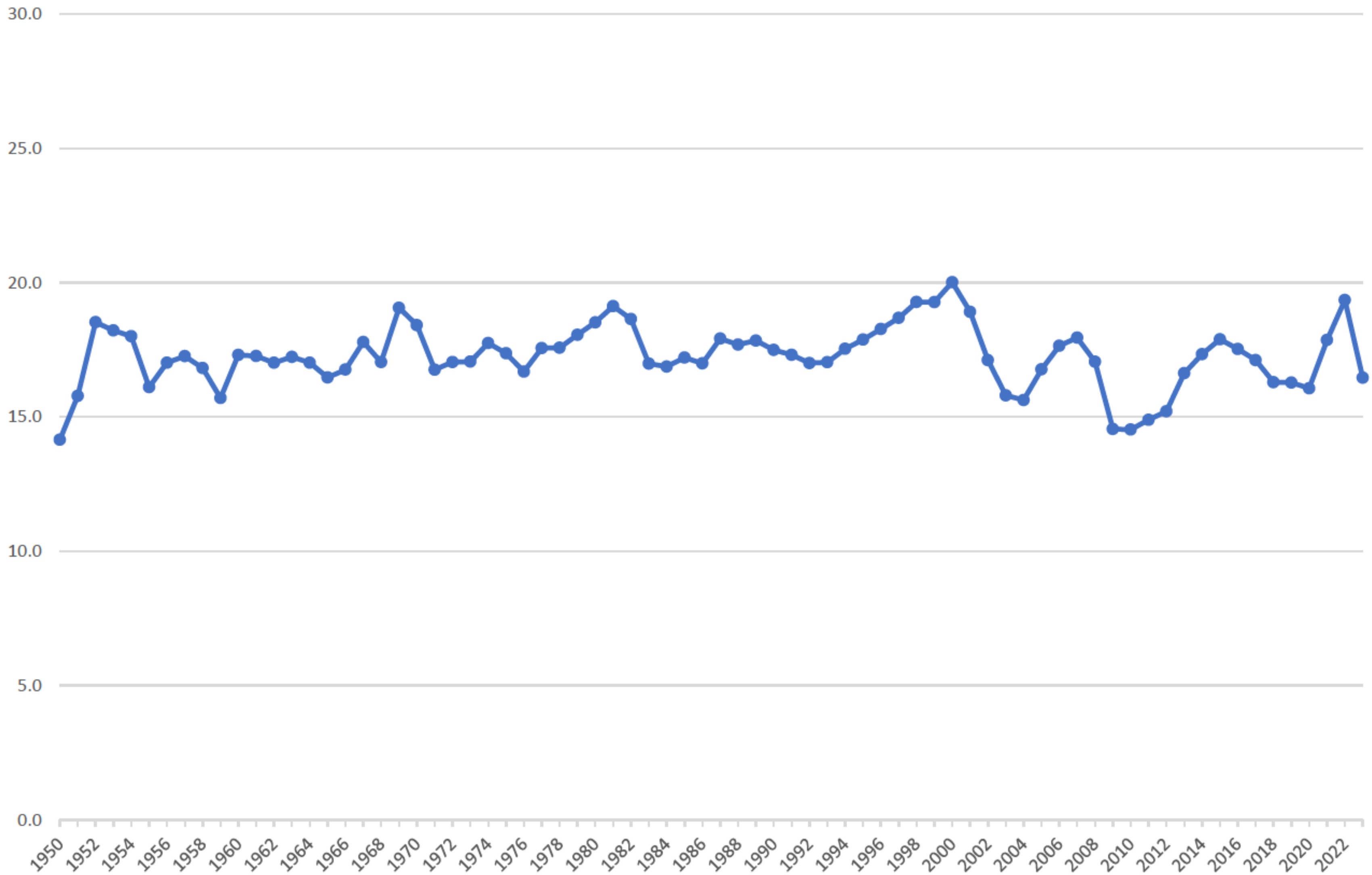
Sources: Office of Management and Budget, Historical Tables, Budget of the U.S. Government, Fiscal Year 2025; Joint Committee on Taxation staff calculations.

Figure A-1.–Federal Receipts by Source as Share of Total Receipts, 1950-2023



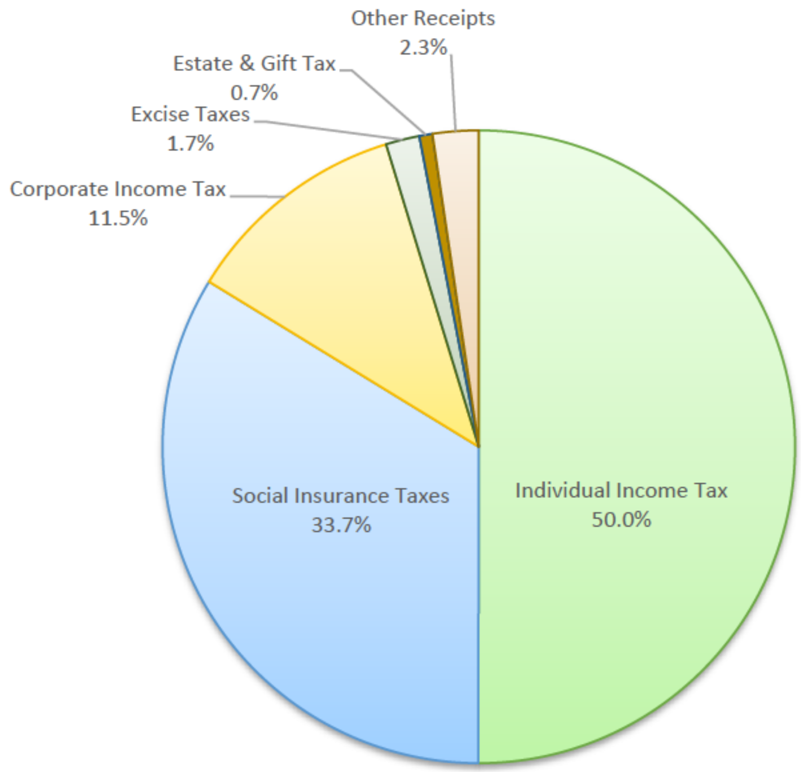
Sources: Office of Management and Budget, Historical Tables, Fiscal Year 2025; Joint Committee on Taxation staff calculations.

Figure A-2.–Federal Receipts as a Percentage of GDP, 1950-2023



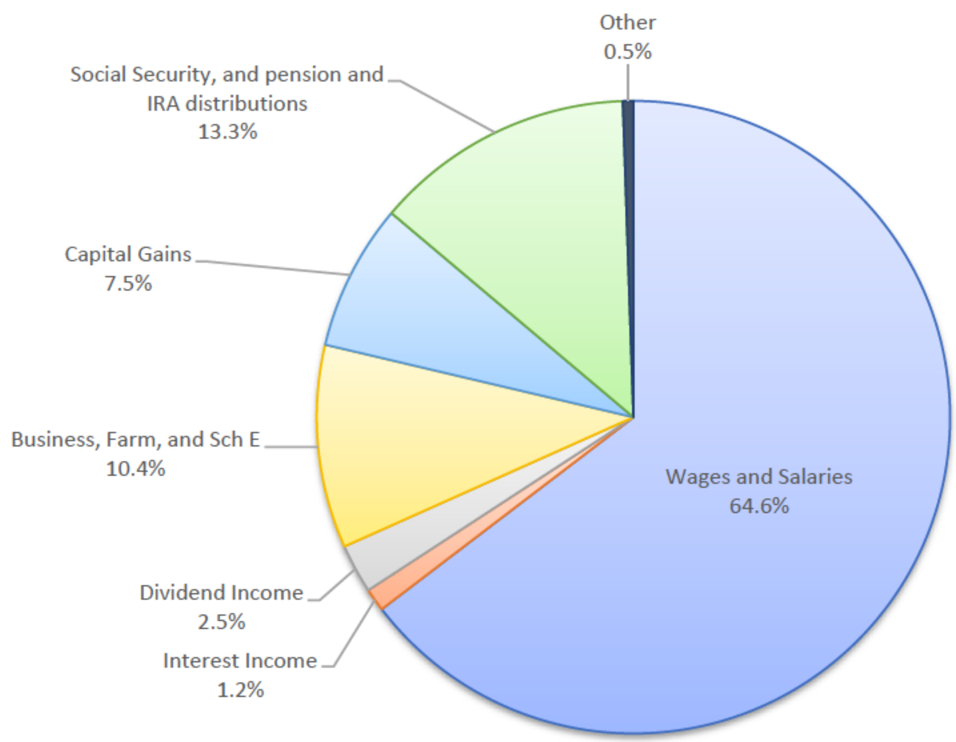
Sources: Office of Management and Budget, Historical Tables, Fiscal Year 2025; Joint Committee on Taxation staff calculations.

Figure A-3.–Federal Receipts by Source, 2024 (Projected)



Sources: Congressional Budget Office, January 2024 Baseline; Joint Committee on Taxation staff calculations.

Figure A-4.–Sources of Gross Income for Individual Taxpayers, 2024 (Projected)



Source: Joint Committe on Taxation staff estimates.

Table A-4.−Number of Business Returns by Type, 1978-2021

Year	Non-Farm Sole Props	C Corporations	S Corporations	Partnerships	Farm Sole Props	Total
1978	8,908,289	1,898,100	478,679	1,234,157	2,704,794	15,224,019
1979	9,343,603	2,041,887	514,907	1,299,593	2,605,684	15,805,674
1980	9,730,019	2,165,149	545,389	1,379,654	2,608,430	16,428,641
1981	9,584,790	2,270,931	541,489	1,460,502	2,641,254	16,498,966
1982	10,105,515	2,361,714	564,219	1,514,212	2,689,237	17,234,897
1983	10,703,921	2,350,804	648,267	1,541,539	2,710,044	17,954,575
1984	11,262,390	2,469,404	701,339	1,643,581	2,694,420	18,771,134
1985	11,928,573	2,552,470	724,749	1,713,603	2,620,861	19,540,256
1986	12,393,700	2,602,301	826,214	1,702,952	2,524,331	20,049,498
1987	13,091,132	2,484,228	1,127,905	1,648,035	2,420,186	20,771,486
1988	13,679,302	2,305,598	1,257,191	1,654,245	2,367,527	21,263,863
1989	14,297,558	2,204,896	1,422,967	1,635,164	2,359,718	21,920,303
1990	14,782,738	2,141,558	1,575,092	1,553,529	2,321,153	22,374,070
1991	15,180,722	2,105,200	1,696,927	1,515,345	2,290,908	22,789,102
1992	15,495,419	2,083,652	1,785,371	1,484,752	2,288,218	23,137,412
1993	15,848,119	2,063,124	1,901,505	1,467,567	2,272,407	23,552,722
1994	16,153,871	2,318,614	2,023,754	1,493,963	2,242,324	24,232,526
1995	16,423,872	2,321,048	2,153,119	1,580,900	2,219,244	24,698,183
1996	16,955,023	2,326,954	2,304,416	1,654,256	2,188,025	25,428,674
1997	17,176,486	2,257,829	2,452,254	1,758,627	2,160,954	25,806,150
1998	17,398,440	2,260,757	2,588,081	1,855,348	2,091,845	26,194,471
1999	17,575,643	2,210,129	2,725,775	1,936,919	2,067,883	26,516,349
2000	17,902,791	2,184,795	2,860,478	2,057,500	2,083,217	27,088,781
2001	18,338,190	2,149,105	2,986,486	2,132,117	2,027,643	27,633,541
2002	18,925,517	2,112,230	3,154,377	2,242,169	2,019,647	28,453,940
2003	19,710,079	2,059,631	3,341,606	2,375,375	2,017,879	29,504,570
2004	20,590,691	2,039,631	3,518,334	2,546,877	2,022,298	30,717,831
2005	21,467,566	1,987,171	3,684,086	2,763,625	2,002,088	31,904,536
2006	22,074,953	1,968,032	3,872,766	2,947,116	1,980,032	32,842,899
2007	23,122,698	1,878,956	3,989,893	3,096,334	2,013,681	34,101,562
2008	22,614,483	1,797,278	4,049,943	3,146,006	1,966,656	33,574,366
2009	22,659,976	1,729,984	4,094,562	3,168,728	1,947,670	33,600,920
2010	23,003,656	1,686,171	4,127,554	3,248,481	1,934,731	34,000,593
2011	23,426,940	1,664,553	4,158,572	3,285,177	1,894,910	34,430,152
2012	23,553,850	1,635,369	4,205,452	3,388,561	1,862,280	34,645,512
2013	24,031,243	1,629,895	4,257,909	3,460,699	1,848,973	35,228,719
2014	24,631,831	1,621,366	4,380,125	3,611,255	1,823,136	36,067,713
2015	25,226,245	1,632,229	4,487,336	3,715,187	1,841,542	36,902,539
2016	25,525,915	1,596,634	4,592,042	3,763,117	1,783,092	37,260,800
2017	26,426,406	1,599,430	4,725,684	3,905,335	1,817,386	38,474,241
2018	27,117,163	1,567,138	4,874,996	4,010,200	1,795,019	39,364,516
2019	27,817,189	1,533,396	4,940,351	3,821,470	1,757,822	39,870,228
2020	28,353,367	1,509,409	4,892,722	4,280,690	1,769,447	40,805,635
2021	29,309,596	1,570,179	5,120,552	4,467,584	1,755,016	42,222,927

Source: Internal Revenue Service, Statistics of Income, published and unpublished data.

Table A-5.−Social Security Taxable Wage Base and Rates of Tax, 1975-2024

Year	Annual Maximum Taxable Wage Base for OASDI	Contribution Rate for Both Employers and Employees (Percent of Covered Earnings)			Contribution Rate for Self-Employed Persons		
		Total	OASDI	HI	Total	OASDI	HI
1975 to 1977	$14,100 to $16,500	5.85	4.95	0.9	7.9	7.0	0.9
1978	$17,700	6.05	5.05	1.0	8.1	7.1	1.0
1979	$22,900	6.13	5.08	1.05	8.1	7.05	1.05
1980	$25,900	6.13	5.08	1.05	8.1	7.05	1.05
1981	$29,700	6.65	5.35	1.3	9.3	8	1.3
1982 to 1983	$32,400 to $35,700	6.7	5.4	1.3	9.35	8.05	1.3
1984 [1]	$37,800	7.0	5.7	1.3	14.0	11.4	2.6
1985	$39,600	7.05	5.7	1.35	14.1	11.4	2.7
1986 to 1987	$42,000 to $43,800	7.15	5.7	1.45	14.3	11.4	2.9
1988 to 1989	$45,000 to $48,000	7.51	6.06	1.45	15.02	12.12	2.9
1990 to 2010	$51,300 to $106,800	7.65	6.2	1.45	15.3	12.4	2.9
2011 to 2012 [2]	$106,800 to $110,100	7.65/5.65	6.2/4.2	1.45	13.3	10.4	2.9
2013 [3]	$113,700	7.65	6.2	1.45	15.3	12.4	2.9
2014 [3]	$117,000	7.65	6.2	1.45	15.3	12.4	2.9
2015 [3]	$118,500	7.65	6.2	1.45	15.3	12.4	2.9
2016 [3]	$118,500	7.65	6.2	1.45	15.3	12.4	2.9
2017 [3]	$127,200	7.65	6.2	1.45	15.3	12.4	2.9
2018 [3]	$128,400	7.65	6.2	1.45	15.3	12.4	2.9
2019 [3]	$132,900	7.65	6.2	1.45	15.3	12.4	2.9
2020 [3]	$137,700	7.65	6.2	1.45	15.3	12.4	2.9
2021 [3]	$142,800	7.65	6.2	1.45	15.3	12.4	2.9
2022 [3]	$147,000	7.65	6.2	1.45	15.3	12.4	2.9
2023 [3]	$160,200	7.65	6.2	1.45	15.3	12.4	2.9
2024 [3]	$168,600	7.65	6.2	1.45	15.3	12.4	2.9

[1] For 1984 only, employees were allowed a credit of 0.3 percent of taxable wages against heir FICA tax liability, reducing the effec ive rate to 6.7 percent.

[2] The Tax Relief, Unemployment Reau horization, and Job Creation Act of 2010 reduced he FICA tax rate for employees by two percentage Specifically, he employer OASDI rate remains at 6.2 while the employee rate is reduced points for 2011 to 4.2. Equivalent reduc ions were made to the SECA tax. Subsequent legisla ion extended that treatment to 2012.

[3] For 2013, and subsequent years, an addi ional employee HI tax of 0.9 percent applies to wages in excess of $250,000 for married taxpayers filing jointly ($125,000 for married taxpayers filing separately) and $200,000 in all other cases. Equivalent increases were made to the SECA tax. For wages in excess of he hreshold in these years, he HI contribution rate is 2.35 percent for employees and 3.8 percent for self-employed persons, and the total HI and OASDI contribu ion rate is 8.55 percent (not the corresponding rates reflected in the table).

Source: Social Security Administration.

Table A-6.–Distribution of Income and Taxes, and Average Tax Rates, 2024 (Projected)

Income Category [1]	Number of Returns [2] (Thousands)	Share of Returns	Income ($ Millions)	Share of Income	Combined Income, Employment, and Excise Taxes Under Present Law [3]			Individual Income Taxes			Employment Taxes		
					$ Billions	Percent share	Average Tax Rate [4]	$ Billions	Percent share	Average Tax Rate	$ Billions	Percent share	Average Tax Rate
Less than $15,000....................	20,550	10.8%	135,172	0.6%	2.9	0.1%	2.2%	-17.5	-0 8%	-13.0%	14.7	0.9%	10.9%
$15,000 to $30,000..................	23,444	12.4%	535,519	2.5%	11.3	0.3%	2.1%	-52.7	-2 5%	-9.8%	53.3	3.3%	10.0%
$30,000 to $40,000..................	17,162	9.1%	600,407	2.8%	34.4	0.8%	5.7%	-30.2	-1.4%	-5.0%	54.0	3.3%	9.0%
$40,000 to $50,000..................	14,408	7.6%	648,881	3.0%	53.6	1.2%	8.3%	-16.9	-0 8%	-2.6%	58.7	3.6%	9.1%
$50,000 to $60,000..................	13,263	7.0%	728,379	3.4%	77.5	1.8%	10.6%	-1.7	-0.1%	-0.2%	65.6	4.1%	9.0%
$60,000 to $80,000..................	22,675	12.0%	1,576,193	7.4%	200.9	4.7%	12.7%	30.5	1 5%	1.9%	140.5	8.7%	8.9%
$80,000 to $100,000................	16,075	8.5%	1,438,580	6.7%	211.8	4.9%	14.7%	56.2	2.7%	3.9%	126.1	7.8%	8.8%
$100,000 to $150,000.............	26,021	13.7%	3,187,697	14.9%	540.0	12.5%	16.9%	188.7	9 0%	5.9%	279.4	17.3%	8.8%
$150,000 to $200,000.............	14,089	7.4%	2,433,897	11.4%	475.4	11.0%	19.5%	191.3	9.1%	7.9%	221.4	13.7%	9.1%
$200,000 to $500,000.............	18,333	9.7%	5,194,674	24.3%	1,235.7	28.7%	23.8%	628.7	29 9%	12.1%	445.4	27.6%	8.6%
$500,000 to $1,000,000...........	2,415	1.3%	1,609,615	7.5%	456.9	10.6%	28.4%	305.2	14 5%	19.0%	90.0	5.6%	5.6%
$1,000,000 and over................	1,056	0.6%	3,312,045	15.5%	1,006.1	23.4%	30.4%	820.3	39 0%	24.8%	67.4	4.2%	2.0%
Total, All Taxpayers................	189,491	100.0%	21,401,059	100.0%	4,306.4	100.0%	20.1%	2,101.8	100 0%	9.8%	1,616.5	100.0%	7.6%

[1] The income concept used to place tax returns into size-adjusted income categories is adjusted gross income (AGI) plus: (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer share of FICA tax, (4) workers' compensation, (5) nontaxable Social Security benefits, (6) insurance value of Medicare benefits, (7) alternative minimum tax preference items, (8) individual share of business taxes, and (9) excluded income of U.S. citizens living abroad. Categories are measured at 2024 levels.

[2] Includes nonfilers, excludes dependent filers and returns with negative income.

[3] Federal taxes are equal to individual income tax (including the outlay portion of refundable credits), employment tax (attributed to employees), excise taxes (attributed to consumers), and corporate income taxes. The estimates of Federal taxes are preliminary and subject to change. Individuals who are dependents of other taxpayers and taxpayers with negative income are excluded from he analysis. Does not include indirect effects.

[4] The average tax rate is equal to Federal taxes described in footnote [3] divided by income described in footnote [1].

Source: Joint Committee on Taxation staff estimates.

Table A-7.–Distribution of Income and Taxes, and Average Tax Rates, Alternative Measure [1], 2024 (Projected)

Size-adjusted Income Category [2]	Number of Returns [3] (Thousands)	Share of Returns	Income ($ Millions)	Share of Income	Combined Income, Employment, and Excise Taxes Under Present Law [4]			Individual Income Taxes			Employment Taxes		
					$ Billions	Percent share	Average Tax Rate [5]	$ Billions	Percent share	Average Tax Rate	$ Billions	Percent share	Average Tax Rate
Bottom quintile (P0 to P20)…..	37,898	20.0%	539,875	2.5%	-15.4	-0.4%	-2 8%	-90.5	-4.3%	-16.8%	60.6	3.7%	11.2%
2nd quin ile (P20 to P40)……...	37,898	20.0%	1,523,631	7.1%	102.6	2.4%	6.7%	-68.9	-3.3%	-4.5%	143.4	8.9%	9.4%
3rd quintile (P40 to P60)…......	37,898	20.0%	2,591,714	12.1%	313.9	7.3%	12.1%	41.5	2.0%	1.6%	225.7	14.0%	8.7%
4th quintile (P60 to P80)…......	37,899	20.0%	4,239,470	19.8%	706.6	16.4%	16.7%	232.2	11.0%	5.5%	384.6	23.8%	9.1%
P80 to P90…...........................	18,948	10.0%	3,252,849	15.2%	672.9	15.6%	20.7%	293.7	14.0%	9.0%	297.2	18.4%	9.1%
P90 to P95…...........................	9,476	5.0%	2,283,589	10.7%	537.1	12.5%	23 5%	267.8	12.7%	11.7%	201.1	12.4%	8.8%
P95 to P99…...........................	7,579	4.0%	3,040,046	14.2%	801.9	18.6%	26.4%	481.1	22.9%	15.8%	211.1	13.1%	6.9%
P99 to P99.9….........................	1,705	0.9%	2,004,801	9.4%	613.0	14.2%	30.6%	463.8	22.1%	23.1%	70.7	4.4%	3.5%
Top 0.1%................................	190	0.1%	1,925,084	9.0%	573.8	13.3%	29 8%	481.0	22.9%	25.0%	22.2	1.4%	1.2%
Total, All Taxpayers...............	189,491	100.0%	21,401,059	100.0%	4,306.4	100.0%	20.1%	2,101.8	100.0%	9.8%	1,616.5	100.0%	7.6%

[1] The alternative Joint Committee on Taxation distribution method uses proportional tax-unit groups and size-adjusted income. The proportional distribution means each quintile includes the same number of tax units. Size-adjusted income is calculated by dividing tax-unit income by the square root of the number of individuals in the tax unit and is only used to determine a tax unit's income category.

[2] The income concept used to place tax returns into size-adjusted income categories is adjusted gross income (AGI) plus: (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer share of FICA tax, (4) workers' compensation, (5) nontaxable Social Security benefits, (6) insurance value of Medicare benefits, (7) alternative minimum tax preference items, (8) individual share of business taxes, and (9) excluded income of U.S. citizens living abroad.

[3] Includes nonfilers, excludes dependent filers and returns with negative income.

[4] Federal taxes are equal to individual income tax (including the outlay portion of refundable credits), employment tax (attributed to employees), excise taxes (attributed to consumers), and corporate income taxes. The estimates of Federal taxes are preliminary and subject to change. Individuals who are dependents of other taxpayers and taxpayers with negative income are excluded from the analysis. Does not include indirect effects.

[5] The average tax rate is equal to Federal taxes described in footnote [4] divided by income described in footnote [2].

Source: Joint Committee on Taxation staff estimates.

Table A-8.—Tax Returns with Income or Employment Taxes, 2024 (Projected)

Income Category [1]	Number of Returns [2] (Millions)	Individual Income Taxes	Employment Taxes	Employment Taxes Less than Income Taxes	Employment Taxes Greater than Income Taxes	
		$ Billions	$ Billions	Returns (Millions)	Returns (Millions)	Fraction of Total Returns
Less than $15,000......................	20.6	-17.5	14.7	[3]	13.1	63.6%
$15,000 to $30,000.....................	23.4	-52.7	53.3	0.2	18.3	78.1%
$30,000 to $40,000.....................	17.2	-30.2	54.0	0.2	12.6	73.1%
$40,000 to $50,000......................	14.4	-16.9	58.7	0.4	11.0	76.6%
$50,000 to $60,000.....................	13.3	-1.7	65.6	1.1	10.3	77.4%
$60,000 to $80,000.....................	22.7	30.5	140.5	3.0	17.3	76.3%
$80,000 to $100,000....................	16.1	56.2	126.1	2.8	12.0	74.7%
$100,000 to $150,000..................	26.0	188.7	279.4	7.3	18.3	70.5%
$150,000 to $200,000..................	14.1	191.3	221.4	5.4	8.7	61.8%
$200,000 to $500,000..................	18.3	628.7	445.4	11.5	6.8	37.1%
$500,000 to $1,000,000...............	2.4	305.2	90.0	2.4	[3]	[4]
$1,000,000 and over.....................	1.1	820.3	67.4	1.0	[3]	[4]
Total, All Taxpayers...................	189.5	2101.8	1616.5	35.4	128.4	67.8%

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer share of FICA tax, (4) workers' compensation, (5) nontaxable Social Security benefits, (6) insurance value of Medicare benefits, (7) alternative minimum tax preference items, (8) individual share of business taxes, and (9) excluded income of U.S. citizens living abroad. Categories are measured at 2024 levels.

[2] Includes nonfilers, excludes dependent filers and returns with negative income.

[3] Less than 50,000.

[4] Less than 2 percent.

Source: Joint Committee on Taxation staff estimates.

Table A-9.–Marginal Tax Rates on Labor and Long-Term Capital Gains, by Income Category, 2024 (Projected)

Income Category [1]	Labor Income			Long-Term Capital Gains Income
	Average Marginal Income Tax Rate [2]	Average Marginal Employment Tax Rate [2]	Average Combined Marginal Income and Employment Tax Rate [2]	Average Marginal Capital Gains Tax Rate [2]
Less than $15,000......................	-4.2%	14.2%	10.0%	1.8%
$15,000 to $30,000....................	3.8%	14.2%	18.0%	2.5%
$30,000 to $40,000....................	10.8%	14.2%	25.0%	2.4%
$40,000 to $50,000....................	12.9%	14.2%	27.1%	4.9%
$50,000 to $60,000....................	13.9%	14.2%	28.1%	7.7%
$60,000 to $80,000....................	14.2%	14.2%	28.5%	10.6%
$80,000 to $100,000..................	15.8%	14.2%	30.0%	11.6%
$100,000 to $150,000................	15.0%	14.2%	29.2%	13.9%
$150,000 to $200,000................	19.1%	13.9%	32.9%	13.2%
$200,000 to $500,000................	22.5%	11.4%	33.9%	17.9%
$500,000 to $1,000,000.............	32.1%	7.9%	39.9%	21.6%
$1,000,000 and over..................	34.6%	7.2%	41.9%	23.6%
Total, All Taxpayers.................	14.0%	13.6%	27.6%	21.8%

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer share of FICA tax, (4) workers' compensation, (5) nontaxable Social Security benefits, (6) insurance value of Medicare benefits, (7) alternative minimum tax preference items, (8) individual share of business taxes, and (9) excluded income of U.S. citizens living abroad. Categories are measured at 2024 levels.

[2] For individual income and employment taxes, the average marginal tax rate is equal to the change in taxes from an additional $100 of wages to each spouse with positive wages. For long-term capital gain, the average marginal tax rate equals the change in taxes from an additional 1% increase in long-term capital gains to each taxpayer with positive long-term capital gains. Effective marginal rates may be higher or lower than statutory marginal rates due to certain provisions in the Code including the phasein and phaseout of certain exemptions or credits.

Source: Joint Committee on Taxation staff estimates.

Table A-10.—Distribution of Selected Sources of Income, 2024 (Projected)

Income Category [1]	Number of Returns [2] (Millions)	Wages	Long-Term Capital Gains in AGI	Dividend Income	Interest Income	Schedule C Income	Schedule E Income
		$ Billions	$ Billions	$ Billions	$ Billions	$ Billions	$ Billions
Less than $15,000........................	20.6	78.8	0.8	0.7	0.7	15.6	-1.7
$15,000 to $30,000......................	23.4	293.7	1.4	1.4	1.5	44.5	-1.0
$30,000 to $40,000......................	17.2	314.0	1.4	1.7	1.6	20.6	2.4
$40,000 to $50,000......................	14.4	343.0	2.2	2.4	2.2	19.2	1.4
$50,000 to $60,000......................	13.3	387.5	1.9	2.7	2.3	13.7	4.6
$60,000 to $80,000......................	22.7	840.7	7.1	6.7	5.4	26.7	6.2
$80,000 to $100,000....................	16.1	764.5	8.6	8.3	6.1	20.0	10.9
$100,000 to $150,000..................	26.0	1,726.0	28.9	25.5	17.0	44.5	28.2
$150,000 to $200,000..................	14.1	1,380.9	36.4	27.2	13.9	42.9	35.5
$200,000 to $500,000..................	18.3	3,035.4	163.1	98.2	38.1	117.8	200.2
$500,000 to $1,000,000................	2.4	851.1	131.5	65.3	19.5	50.3	208.2
$1,000,000 and over....................	1.1	934.6	884.7	185.3	90.1	57.1	815.9
Total, All Taxpayers...................	189.5	10,950.2	1,267.9	425.3	198.3	472.9	1,310.9

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer share of FICA tax, (4) workers' compensation, (5) nontaxable Social Security benefits, (6) insurance value of Medicare benefits, (7) alternative minimum tax preference items, (8) individual share of business taxes, and (9) excluded income of U.S. citizens living abroad. Categories are measured at 2024 levels.
[2] Includes nonfilers, excludes dependent filers and returns with negative income.
Source: Joint Committee on Taxation staff estimates.

Table A-11.—Distribution of Selected Itemized Deductions, 2024 (Projected)

Income Category [1]	State and Local Income, Sales, and Personal Property Tax Deduction		Mortgage Interest Deduction		Charitable Contribution Deduction	
	Returns (Thousands)	$ Millions	Returns (Thousands)	$ Millions	Returns (Thousands)	$ Millions
Less than $15,000......................	100	433	46	1,701	32	34
$15,000 to $30,000.....................	171	858	105	1,434	84	263
$30,000 to $40,000.....................	240	1,181	122	1,371	150	722
$40,000 to $50,000.....................	273	1,409	131	1,520	193	986
$50,000 to $60,000.....................	379	2,293	219	2,441	250	1,250
$60,000 to $80,000.....................	1,076	6,463	663	6,703	806	5,066
$80,000 to $100,000....................	1,217	8,308	867	8,986	946	5,658
$100,000 to $150,000..................	3,228	25,826	2,478	27,973	2,622	17,780
$150,000 to $200,000..................	2,323	20,667	1,811	23,541	1,978	18,313
$200,000 to $500,000..................	5,023	48,152	4,217	71,657	4,549	56,005
$500,000 to $1,000,000...............	1,257	12,576	1,023	22,536	1,175	30,225
$1,000,000 and over....................	757	7,797	528	12,857	724	133,917
Total, All Taxpayers...................	15,944	135,530	12,164	181,019	13,477	270,185

[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus: (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer share of FICA tax, (4) workers' compensation, (5) nontaxable Social Security benefits, (6) insurance value of Medicare benefits, (7) alternative minimum tax preference items, (8) individual share of business taxes, and (9) excluded income of U.S. citizens living abroad. Categories are measured at 2024 levels.

Source: Joint Committee on Taxation staff estimates.