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## An Analysis of the “Buffett Rule”

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*Congressional Research Service*

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## An Analysis of the “Buffett Rule”

### Abstract

[Excerpt] Warren Buffett, the chairman of Berkshire Hathaway, noted that he paid 17.4% of his taxable income in income and payroll taxes—“a lower percentage than was paid by any of the other 20 people” in his office. He stated that “the mega-rich pay income taxes at a rate of 15 percent on most of their earnings but pay practically nothing in payroll taxes.” Within a month, the Obama Administration unveiled a plan for economic growth and deficit reduction. The Administration stated that one of its principles for tax reform was to observe the “Buffett rule”—“no household making over \$1 million annually should pay a smaller share of its income in taxes than middle-class families pay.” On October 5, Senator Harry Reid introduced the American Jobs Act of 2011 (S. 1660), which contains a 5.6% surtax on millionaires to pay for the provisions of the jobs bill. This report examines the Buffett rule, but uses a measure of income that captures the ability to pay taxes and incorporates the effect of the corporate income tax in addition to the individual income tax and the payroll tax.

The results of this analysis show that the current U.S. tax system violates the Buffett rule in that a large proportion of millionaires pay a smaller percentage of their income in taxes than a significant proportion of moderate-income taxpayers. Roughly a quarter of all millionaires (about 94,500 taxpayers) face a tax rate that is lower than the tax rate faced by 10.4 million moderate-income taxpayers (10% of the moderate-income taxpayers). Tax reforms that are consistent with the Buffett rule would likely include raising tax rates on capital gains and dividends. For example, the President has proposed allowing the 2001 and 2003 Bush tax cuts to expire for high-income taxpayers and taxing carried interests of hedge fund managers as ordinary income as tax reforms that observe the Buffett rule. Research suggests that these tax reforms are unlikely to affect many small businesses or to deter saving and investment.

### Keywords

"Buffett rule", payroll taxes, American Jobs Act, household income

### Comments

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# An Analysis of the “Buffett Rule”

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## Summary

Warren Buffett, the chairman of Berkshire Hathaway, noted that he paid 17.4% of his taxable income in income and payroll taxes—"a lower percentage than was paid by any of the other 20 people" in his office. He stated that "the mega-rich pay income taxes at a rate of 15 percent on most of their earnings but pay practically nothing in payroll taxes." Within a month, the Obama Administration unveiled a plan for economic growth and deficit reduction. The Administration stated that one of its principles for tax reform was to observe the "Buffett rule"—"no household making over \$1 million annually should pay a smaller share of its income in taxes than middle-class families pay." On October 5, Senator Harry Reid introduced the American Jobs Act of 2011 (S. 1660), which contains a 5.6% surtax on millionaires to pay for the provisions of the jobs bill. This report examines the Buffett rule, but uses a measure of income that captures the ability to pay taxes and incorporates the effect of the corporate income tax in addition to the individual income tax and the payroll tax.

The results of this analysis show that the current U.S. tax system violates the Buffett rule in that a large proportion of millionaires pay a smaller percentage of their income in taxes than a significant proportion of moderate-income taxpayers. Roughly a quarter of all millionaires (about 94,500 taxpayers) face a tax rate that is lower than the tax rate faced by 10.4 million moderate-income taxpayers (10% of the moderate-income taxpayers). Tax reforms that are consistent with the Buffett rule would likely include raising tax rates on capital gains and dividends. For example, the President has proposed allowing the 2001 and 2003 Bush tax cuts to expire for high-income taxpayers and taxing carried interests of hedge fund managers as ordinary income as tax reforms that observe the Buffett rule. Research suggests that these tax reforms are unlikely to affect many small businesses or to deter saving and investment.

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In August 2011, Warren Buffett, the chairman of Berkshire Hathaway, published an opinion piece in the *New York Times*.<sup>1</sup> He noted that he paid 17.4% of his taxable income in income and payroll taxes—"a lower percentage than was paid by any of the other 20 people" in his office. He stated that "the mega-rich pay income taxes at a rate of 15 percent on most of their earnings but pay practically nothing in payroll taxes." He proposed that tax rates be raised for taxpayers making more than \$1 million.

One month later, the Obama Administration unveiled a plan for economic growth and deficit reduction.<sup>2</sup> The Administration stated that one of its principles for tax reform was to observe the "Buffett rule"—"no household making over \$1 million annually should pay a smaller share of its income in taxes than middle-class families pay."<sup>3</sup> The reaction to the Buffett rule tax reform principle was swift, with some accusing the President of engaging in class-warfare.<sup>4</sup> On October 5, Senator Harry Reid introduced the American Jobs Act of 2011 (S. 1660), which contains a 5.6% surtax on millionaires to pay for the provisions of the jobs bill. This report examines the validity of the Buffett rule and the issues surrounding the rule.

## Individual Income Taxes and Payroll Taxes

To calculate tax liability on the 1040 tax form, a taxpayer first adds up income from taxable sources; some income is excluded from taxes such as public assistance benefits, interest income from state and local bonds, 401(k) contributions and earnings, and some or all of Social Security benefits. Next the taxpayer subtracts various deductions available to all taxpayers (called above-the-line deductions), exemptions for the taxpayer and dependents, and either the standard deduction or itemized deductions.

The taxpayer then calculates regular income tax liability based on tax tables or worksheets.<sup>5</sup> The individual income tax in the U.S. uses a progressive tax formula with tax rates increasing from 10% to 35% as taxable income increases. Taxpayers with long-term capital gains and qualified dividends face a tax rate of either 0% or 15% depending on the taxpayer's tax bracket (lower income taxpayers in the 10% and 15% tax brackets face a 0% rate on long-term capital gains and qualified dividends).<sup>6</sup> Higher-income taxpayers also have to calculate the alternative minimum tax (AMT).<sup>7</sup> These taxpayers pay the higher of the regular income tax or AMT. Lastly, tax credits are subtracted to get the total tax due to the government.

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<sup>1</sup> Warren E. Buffett, "Stop Coddling the Super-Rich," *New York Times*, August 14, 2011, p. A.

<sup>2</sup> Office of Management and Budget, *Living Within Our Means and Investing in the Future*, Washington, DC, September 2011.

<sup>3</sup> *Ibid.*, p. 46.

<sup>4</sup> For example, Representative Paul Ryan, chairman of the House Budget Committee, reportedly said on Fox News in reference to the Buffett rule, "class warfare ... may make for really good politics, but it makes for rotten economics" (<http://www.foxnews.com/politics/2011/09/18/rep-ryan-accuses-obama-waging-class-warfare-with-millionaire-tax-plan/>).

<sup>5</sup> For more information, see CRS Report RL33755, *Federal Income Tax Treatment of the Family*, by Jane G. Gravelle.

<sup>6</sup> Long-term capital gains are gains on the sale of assets held for a year or more. See CRS Report R40411, *The Economic Effects of Capital Gains Taxation*, by Thomas L. Hungerford.

<sup>7</sup> For more information on the AMT, see CRS Report RL30149, *The Alternative Minimum Tax for Individuals*, by Steven Maguire.

Workers also pay payroll taxes on wages and salaries. These taxes fund the Social Security and Medicare programs. The total Social Security payroll tax rate is 12.4% and applies to all wages below \$106,800.<sup>8</sup> The Medicare payroll tax rate is 2.9% on all wages. Other income is not subject to payroll taxes.<sup>9</sup>

## The Simple Buffett Rule

**Figure 1** displays the range of tax rates (individual income and payroll tax rates combined) for various income categories based on taxable income. The tax rates are the effective average tax rate with respect to taxable income (total tax divided by taxable income)—the tax rates Warren Buffett referred to in his op-ed piece. Overall, the combined tax is regressive in that the average tax rate decreases as taxable income increases. Taxpayers with taxable income below \$100,000 pay on average about 35% of their taxable income in taxes while taxpayers with taxable income above \$1 million pay on average less than 30%.

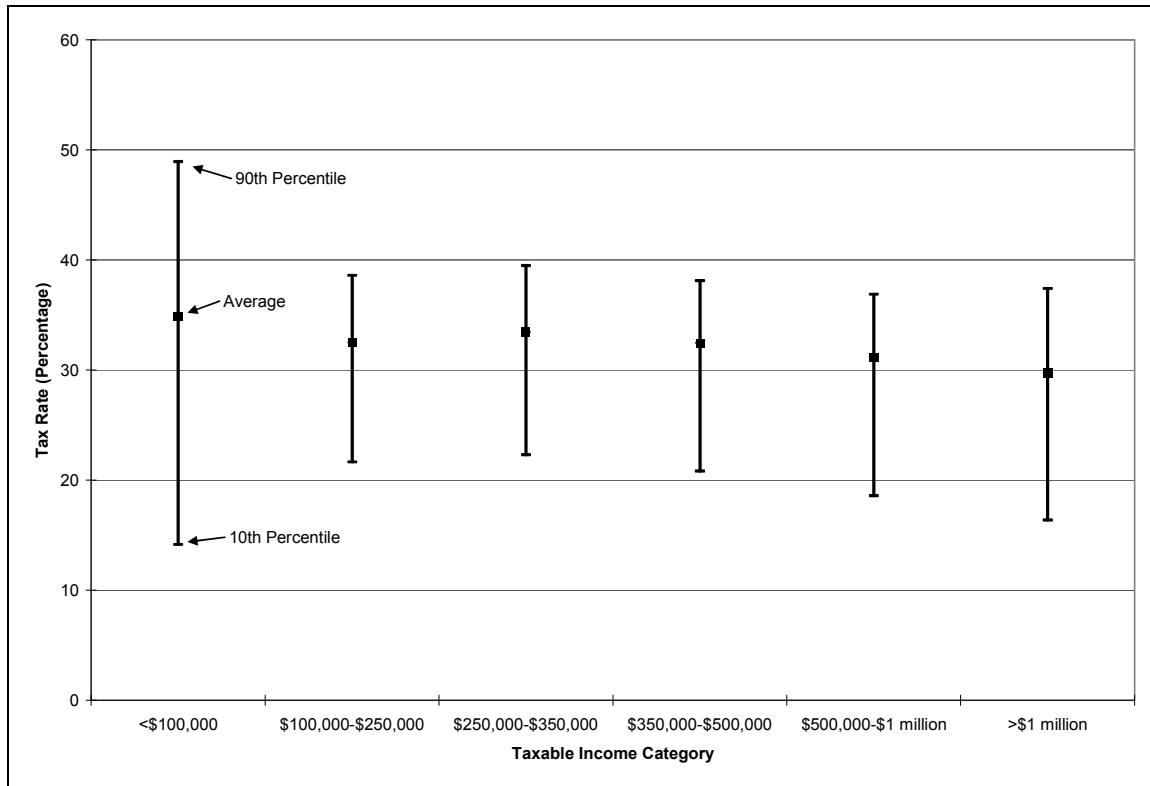
The average tax rate for all taxpayers in an income category hides a great deal of variation in the tax rates the taxpayers actually face. The vertical lines show the range in tax rates from the 10<sup>th</sup> percentile to the 90<sup>th</sup> percentile. The tax rate at the 10<sup>th</sup> percentile is the tax rate such that 10% of the taxpayers pay a lower tax rate and 90% of the taxpayers pay a higher tax rate. For taxpayers with taxable income less than \$100,000 (moderate-income taxpayers), 10% face a tax rate of less than 14.2%, and another 10% of these moderate-income taxpayers face tax rates exceeding 48.9%.<sup>10</sup> Interestingly, 65% of rich taxpayers (i.e., taxable income over \$1 million)—about 200,000 taxpayers—face a tax rate lower than the median tax rate of moderate-income taxpayers. The primary reason for this is the higher-income taxpayers with low tax rates receive a very high proportion of the income from long-term capital gains and qualified dividends, which are taxed at low tax rates and not subject to payroll taxes. Lower-income taxpayers with relatively high tax rates receive most of their income from wages, which are subject to payroll taxes.

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<sup>8</sup> Both the employee and employer pay half of the tax on wages. It is generally agreed by economists that the employer's share of the tax is borne by the employee. See CBO, *Effective Federal Tax Rates, 1979-1997*, October 2001.

<sup>9</sup> The Patient Protection and Affordable Care Act (P.L. 111-148) included an additional payroll tax of 0.9% on high-income workers and a 3.8% Medicare tax on investment income of high-income taxpayers beginning in 2013. For more information, see CRS Report R41128, *Health-Related Revenue Provisions in the Patient Protection and Affordable Care Act (PPACA)*, by Janemarie Mulvey.

<sup>10</sup> Buffett notes that the other people in his office faced tax burdens of 33% to 41% with an average of 36%.

**Figure 1. Tax Rates by Taxable Income Category**

**Source:** CRS analysis based on 2006 SOI Public Use File.

**Notes:** Numerical tax rates are reported in **Table A-2**.

## The Buffett Rule with a Broader Measure of Income and Taxes

Taxable income is a fairly narrow measure of income and does not reflect all the resources available to the taxpayer or gauge the taxpayer's ability to pay taxes. This is because personal exemptions and itemized deductions have been subtracted. This can artificially increase the effective average tax rate faced by a taxpayer. Adjusted gross income (AGI) is a broader income measure that does not exclude personal exemptions and itemized deductions for charitable contributions, state taxes, and mortgage interest.<sup>11</sup> AGI is used for the analysis in calculating tax rates and determining income categories.

The preceding analysis also excluded the corporate income tax, which is often used as justification for reduced tax rates on certain types of income. Specifically, one of the arguments for the reduced tax rates on long-term capital gains and qualified dividends is to reduce double taxation since this income may also be subject to the corporate income tax. Taxes from all sources should be included in an analysis of the effective tax burden and this analysis considers the

<sup>11</sup> AGI does exclude the above-the-line deductions as well as certain income such as public assistance and 401(k) contributions.



individual income tax, the corporate income tax, and the payroll tax.<sup>12</sup> But three issues need to be addressed regarding the burden of the corporate income tax.<sup>13</sup>

The first issue is the question of who actually bears the burden of the corporate income tax. Several recent studies estimate that most or all of the burden of the corporate income falls on labor through reduced wages. These studies, however, have been shown to suffer from various methodological deficiencies.<sup>14</sup> The evidence suggests that most or all of the burden of the corporate income tax falls on owners of capital.<sup>15</sup> In the analysis, it is assumed that 100% of the corporate income tax falls on capital income (dividends and capital gains), which mostly affects high-income taxpayers (almost 60% of all capital gains and dividends are received by taxpayers with income over \$1 million).

Second, not all of this income is taxed at the corporate level. The Internal Revenue Service (IRS) reports that a substantial proportion of capital gains and losses (short-term and long-term) reported by taxpayers are passthrough gains or losses (that is, the income is not reported on any corporate tax form and passes directly to individual taxpayers to report on their individual income tax form), gains or losses from the sale of government bonds, and other assets never taxed at the corporate level.<sup>16</sup> For example, hedge funds are generally organized as partnerships. Under current tax law, a partnership does not pay income taxes; instead gains and losses flow through to the partners who include it on their income tax returns.

The income from the partnership is often taxed as capital gains or qualified dividends at reduced tax rates (i.e., 15%). Essentially, if the partnership earns long-term capital gains or qualified dividends, the income flows through to the partners as long-term capital gains or qualified dividends and is taxed accordingly—the income is not recharacterized (e.g., from capital gains to ordinary income) as it passes through from the partnership to the individual partners. Some partners receive partnership interests in exchange for contributions of capital (that is, investments) and are referred to as limited partners; some partners receive partnership interests in exchange for services (carried interests) and these are general partners who actively manage the partnership.<sup>17</sup> Most of this income is taxed at the reduced long-term capital gains rate and is not taxed at the corporate level.<sup>18</sup> It is estimated that 37.4% of net capital gains are taxed at the corporate level as well as the individual level (such as corporate stock, mutual funds, and capital gains distributions). It is also assumed that all dividends are taxed at both the corporate and individual levels.

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<sup>12</sup> See CBO, *Average Federal Tax Rates in 2007*, June 2010.

<sup>13</sup> In addressing these issues, various assumptions need to be made regarding the burden of the corporate income tax. In cases where different decisions regarding assumptions could be made, the one that would “bias” against finding a Buffett rule result was chosen.

<sup>14</sup> See CRS Report RL34229, *Corporate Tax Reform: Issues for Congress*, by Jane G. Gravelle and Thomas L. Hungerford; and Jennifer C. Gravelle, *Corporate Tax Incidence: A Review of Empirical Estimates and Analysis*, CBO working paper 2011-01, June 2011, for reviews of these studies and an analysis of their deficiencies.

<sup>15</sup> *Ibid.*

<sup>16</sup> Janette Wilson and Pearson Liddell, “Sales of Capital Assets Reported on Individual Tax Returns, 2007,” *Statistics of Income Bulletin*, Winter 2010, pp. 75-104.

<sup>17</sup> See CRS Report RS22689, *Taxation of Hedge Fund and Private Equity Managers*, by Mark Jickling and Donald J. Marples; and CRS Report RS22717, *Taxation of Private Equity and Hedge Fund Partnerships: Characterization of Carried Interest*, by Donald J. Marples.

<sup>18</sup> About 45% of net capital gains are from passthrough net gains or a transaction involving partnership, S corporation, and estate or trust interests.

The third issue concerns the corporate tax rate. The statutory corporate tax rate in 2010 was 39.2%, which includes federal and state corporate taxes. However, several studies estimate the effective corporate tax rate is between 22.2% and 27.1%.<sup>19</sup> After subtracting out the state corporate tax rate from the highest estimate, it is assumed that the effective corporate tax rate is 24.2%.

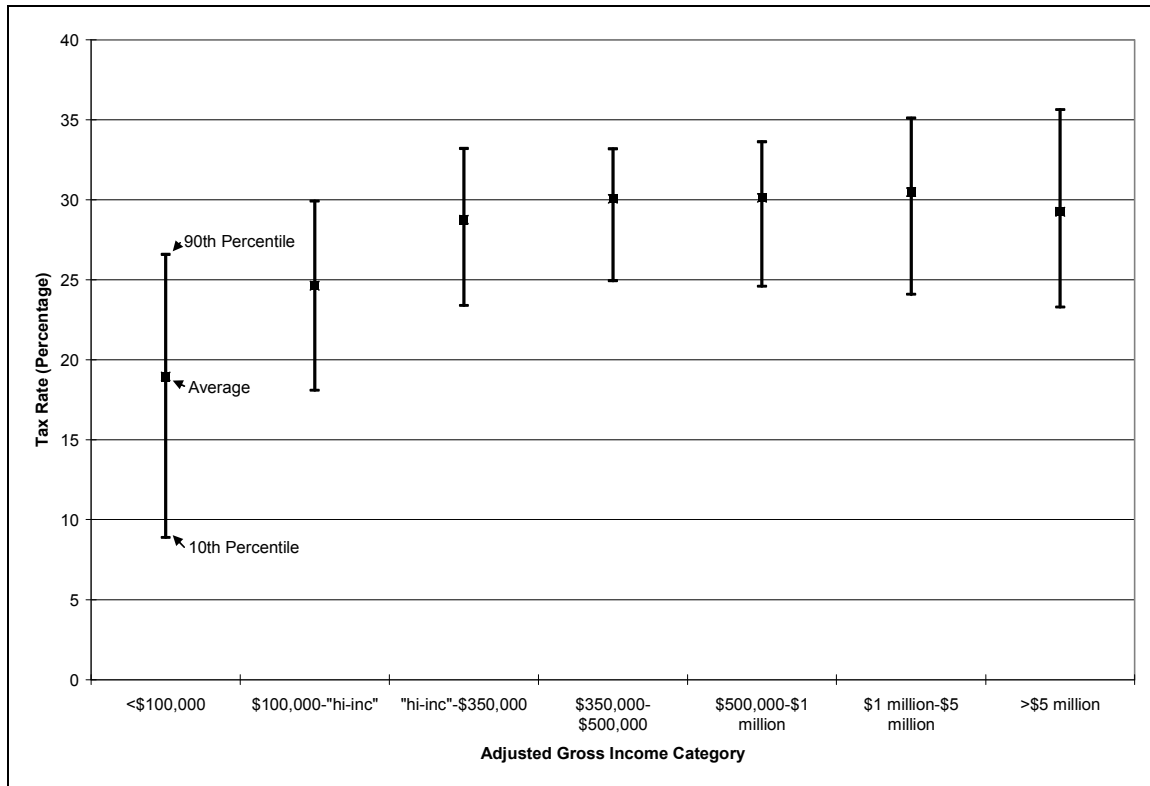
**Figure 2** displays the effective tax rates for various AGI categories. The “hi-inc” level varies depending on the taxpayer’s filing status: \$200,000 for single taxpayers; \$250,000 for married taxpayers filing a joint return; and \$125,000 for married taxpayers filing separate returns. Individual income taxes, corporate taxes, and payroll taxes are included and the income base for the tax rate calculation is AGI. Average taxes are progressive except at the top: the average tax rate increases with income except for taxpayers with income over \$5 million. As before, the mean tax rate obscures a great deal of variation in tax rates faced by taxpayers in each income category. Although the mean tax rate for moderate-income taxpayers with AGI below \$100,000 is 18.95%, 10% face a tax rate greater than 26.5% (about 10.4 million taxpayers) and another 10% pay less than 9% of their income in taxes.

Among millionaires (see the last two categories in the figure), the average tax rate is almost 30% with about 10% facing a tax rate greater than 35%. Furthermore, another 10% face a tax rate below 24%. Comparing millionaires with moderate-income taxpayers (with AGI less than \$100,000), roughly one-quarter of all millionaires (about 94,500 taxpayers) face a tax rate that is lower than the tax rate faced by 10.4 million moderate-income taxpayers (10% of the moderate-income taxpayers), which would be considered a violation of the Buffett rule but not to the extent alluded to by Mr. Buffett.

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<sup>19</sup> CRS Report R41743, *International Corporate Tax Rate Comparisons and Policy Implications*, by Jane G. Gravelle.

Figure 2. Tax Rates by Adjusted Gross Income Category



**Source:** CRS analysis based on the 2006 SOI Public Use File.

**Notes:** "hi-inc"=\$200,000 for single taxpayers; \$250,000 for married taxpayers filing joint return; and \$125,000 for married taxpayers filing a separate return. Numerical tax rates are reported in **Table A-3**.

## Issues

The President has proposed allowing the 2001 and 2003 Bush tax cuts expire for high-income taxpayers and taxing carried interests as ordinary income as one way to observe the Buffett rule.<sup>20</sup> Critics of using the Buffett rule as a principle of tax policy argue that raising tax rates on millionaires, especially capital gains tax rates, will harm job creators—small business—and deter saving and investment. These arguments are evaluated in turn.

<sup>20</sup> Office of Management and Budget, *Living Within Our Means and Investing in the Future*, Washington, DC, September 2011, pp. 47-48. The Obama Administration has proposed to designate a general partner's share of partnership income that is not attributable to invested capital as ordinary income, which would be taxed at the higher individual income tax rates rather than at the reduced capital gains tax rate. In addition, this share of income would be subject to self-employment taxes. For more information on the Bush tax cuts see CRS Report R42020, *The 2001 and 2003 Bush Tax Cuts and Deficit Reduction*, by Thomas L. Hungerford.

## Small Business and Job Creation

Small business owners are difficult to identify from publicly available income tax records.<sup>21</sup> As a substitute, analysts often identify taxpayers reporting business income or losses on their tax return (on the Schedule C, E, or F form). This method likely overstates the number of small business owners since some of this business income is simply a return on passive investments. Using this method, about 30.9 million taxpayers can be identified as small business owners. About 72% of the taxpayers reporting business income also report receiving wage income.<sup>22</sup> **Table 1** reports the proportion of taxpayers with business income and the distribution of tax rates among these taxpayers. Most taxpayers with business income (74%) have AGI below \$100,000. About 1% of the returns with business income have AGI over \$1 million. For these rich taxpayers, the average tax rate is 29.1%, but about one-quarter face a tax rate of less than 26.5% (the 90<sup>th</sup> percentile tax rate for all taxpayers with AGI less than \$100,000)—again, an apparent violation of the Buffett rule. The small share of taxpayers with small business income in the millionaire category suggests that tax reform policies designed to ensure adherence to the Buffett rule will affect few small businesses.

Many observers claim that small businesses are the primary creators of jobs.<sup>23</sup> Most research cited by these observers is from the 1980s. More recent research suggests that small businesses contribute only slightly more jobs than larger business relative to their employment share.<sup>24</sup> The difference, however, appears to be due to hiring by new startup firms rather than to existing small businesses.<sup>25</sup> New startup firms also account for a great deal of job destruction and within five years about 40% of the new jobs created by startups have disappeared because of business failure.<sup>26</sup> Firms generally do not generate much business income in their first years in operation; consequently, most small business owners of startup firms are not in the top income categories and would not be affected by tax policies that observe the Buffett rule.<sup>27</sup>

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<sup>21</sup> See Matthew Knittel, Susan Nelson, and Jason DeBacker, et al., *Methodology to Identify Small Businesses and Their Owners*, Office of Tax Analysis, U.S. Department of Treasury, OTA Technical Paper 4, Washington, DC, August 2011 for more information on the difficulty of identifying small business owners.

<sup>22</sup> Some of the wage income could be from the working spouse of a business owner. Also, the business income could be from selling Amway or Mary Kay products on the side.

<sup>23</sup> CRS Report R41392, *Small Business and the Expiration of the 2001 Tax Rate Reductions: Economic Issues*, by Jane G. Gravelle.

<sup>24</sup> Ibid.

<sup>25</sup> Ibid.

<sup>26</sup> John C. Haltiwanger, Ron S. Jarmin, and Javier Miranda, *Who Creates Jobs? Small vs. Large vs. Young*, National Bureau of Economic Research, Working Paper no. 16300, Cambridge, MA, August 2010.

<sup>27</sup> About 90% of small businesses that have been in operation for less than nine years have sales revenue of less than \$1 million. Business income is revenue less costs. If revenue is less than \$1 million then business income will be less than \$1 million. See Traci L. Mach and John D. Wolken, "Financial Services Used by Small Business: Evidence from the 2003 Survey of Small Business Finances," *Federal Reserve Bulletin*, October 2006, p. A188.

**Table 1. Tax Rates of Business Owners by Adjusted Gross Income Category**

Taxpayers Reporting Business Income

AGI Category	Percent Distribution of Business Owners	Tax Rates			
		Mean	10 <sup>th</sup> Percentile	Median	90 <sup>th</sup> Percentile
Less than \$100,000	74.0	18.70	8.02	17.57	27.35
\$100,00-"hi-inc"	18.9	23.91	16.29	24.81	29.84
"hi-inc"- \$350,000	2.9	28.48	22.89	29.07	32.98
\$350,000-\$500,00	1.6	29.95	24.73	30.22	33.26
\$500,000-\$1 million	1.6	29.91	24.45	29.94	33.56
\$1 million-\$5 million	0.9	30.27	24.06	30.82	34.88
Greater than \$5 million	0.1	29.05	23.25	29.46	35.37

**Source:** CRS analysis based on the 2006 SOI Public Use File (see Appendix for a description of the data).

**Notes:** "hi-inc"=\$200,000 for single taxpayers; \$250,000 for married taxpayers filing joint return; and \$125,000 for married taxpayers filing a separate return.

## Saving and Investment

Tax reforms that satisfy the Buffett rule likely would include an increase in the tax rate on long-term capital gains and qualified dividends. Some argue that raising these tax rates will reduce saving and investment. National saving is made up of saving by the government (public saving) and by households and firms (private saving). Public saving is equal to the government's deficit or surplus—it is negative for a deficit and positive for a surplus. Increasing capital gains tax rates would likely increase public saving because it increases tax revenues without affecting outlays; this decreases a budget deficit or increases a budget surplus.<sup>28</sup>

Households save by investing in their own business or investing in stocks, bonds, and other financial instruments. Changing capital gains tax rates changes the after-tax rate of return on investments (for example, increasing the tax rate decreases the after-tax return). The change in the rate of return has two offsetting effects on saving. Decreasing the rate of return can decrease households' willingness to save (the substitution effect). But at the same time, the decreased return may induce households to save more to maintain their desired or target wealth level (the income effect). Consequently, the effect of capital gains taxes on private saving is likely to be small.

The traditional economic theory of saving, the life-cycle model, assumes that individuals make rational, far-sighted decisions. The preponderance of empirical evidence, however, does not

<sup>28</sup> See Jane G. Gravelle, "Can A Capital Gains Tax Cut Pay for Itself," *Tax Notes*, vol. 48 (July 9, 1990), pp. 209-219.

support the life-cycle model.<sup>29</sup> Behavioral theories of saving emphasize the role of inertia, the lack of self-control, and the limit of human intellectual capabilities. To cope with the complexities involved in making saving decisions, individuals often use simple rules of thumb and develop target levels of wealth. Once their target level of wealth is obtained, many individuals suspend active saving.<sup>30</sup> Saving rates have fallen over the past 30 years while the capital gains tax rate has fallen from 28% in 1987 to 15% today (0% for taxpayers in the 10% and 15% tax brackets). This suggests that changing capital gains tax rates have had little effect on private saving.

Some have argued that preferential capital gains tax rates would boost high risk investments such as in venture capital. Most venture capital, however, is supplied by pension funds, college endowments, foundations, and insurance companies—sources not associated with the capital gains tax. In 2003, only about 10% of investors in venture capital funds were individuals and families.<sup>31</sup>

Capital gains tax rate increases appear to increase public saving and may have little or no effect on private saving. Consequently, capital gains tax increases likely have a positive overall impact on national saving and investment.

## Concluding Remarks

The Obama Administration has stated it will adopt the Buffett rule as one of its principles for tax reform. This rule basically follows from the well-known tax principles of vertical equity and ability to pay, which suggest that a tax system should at least be proportional (all taxpayers pay the same percentage of income in taxes) if not progressive (the tax rate increases with income). The results of this analysis show that the current U.S. tax system violates the Buffett rule in that a large proportion of millionaires pay a smaller percentage of their income in taxes than a significant proportion of moderate-income taxpayers. Tax reforms that are consistent with the Buffett rule would likely include raising tax rates on capital gains and dividends. For example, the President has proposed allowing the 2001 and 2003 Bush tax cuts expire for high-income taxpayers and taxing carried interests as ordinary income as one way to observe the Buffett rule. Research suggests that these reforms are unlikely to affect many small businesses or to deter saving and investment.

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<sup>29</sup> For a discussion and citations to the literature see CRS Report RL33482, *Saving Incentives: What May Work, What May Not*, by Thomas L. Hungerford.

<sup>30</sup> F. Thomas Juster, Joseph P. Lupton, James P. Smith, and Frank Stafford, "The Decline in Household Saving and the Wealth Effect," *Review of Economics and Statistics*, vol. 87, no. 4 (November 2005), pp. 20-27.

<sup>31</sup> National Venture Capital Association, *Venture Impact*, 4<sup>th</sup> Edition, 2007, available at [http://www.nvca.org/pdf/NVCA\\_VentureCapital07-2nd.pdf](http://www.nvca.org/pdf/NVCA_VentureCapital07-2nd.pdf).

## Appendix. Data

The source of data is the 2006 Internal Revenue Service (IRS) Statistics of Income (SOI) Public Use File. The Public Use File is a nationally representative sample of tax returns for the 2005 tax year. To protect the identity of individual taxpayers while preserving the character of the data, the IRS made changes to the data. Consequently, while reliable aggregate information can be obtained, individual taxpayer records in the data may or may not contain information from just one tax return. The unit of analysis is the tax return for a taxpayer, and IRS-provided sample weights are used throughout the analysis. The analysis sample contains information for 130,438 taxpayers (representing 122.7 million taxpayers).

Income was adjusted to 2010 values using the GDP personal consumption expenditure deflator. Tax liability was calculated using a tax module prepared by the author based on the 2010 form 1040 as well as other forms and schedules of the regular income tax and alternative minimum tax (AMT). Taxpayers with negative or zero adjusted gross income are omitted from the analysis. The refundable portion of tax credits were not considered in the analysis. This does not, however, affect the results of the analysis.

**Table A-1. Number of Sample Observations**

AGI Category	Unweighted Number	Weighted	
		Number	Percent
Less than \$100,000	55,247	104,441,369	85.13
\$100,000-"hi-inc"	19,753	14,911,280	12.15
"hi-inc"-\$350,000	7,350	1,587,809	1.29
\$350,000-\$500,000	6,532	718,425	0.59
\$500,000-\$1 million	12,199	644,724	0.53
\$1 million-\$5 million	24,929	336,237	0.27
Greater than \$5 million	4,428	44,207	0.04
All	130,438	122,684,051	100.00

**Source:** CRS analysis based on the 2006 SOI Public Use File.

**Notes:** "hi-inc"=\$200,000 for single taxpayers; \$250,000 for married taxpayers filing joint return; and \$125,000 for married taxpayers filing a separate return.

**Table A-2. Tax Rates by Taxable Income Category**

<b>Income Category</b>	<b>Mean</b>	<b>10<sup>th</sup> Percentile</b>	<b>Median</b>	<b>90<sup>th</sup> Percentile</b>
Less than \$100,000	34.89	14.15	35.11	48.93
\$100,000-\$250,000	32.51	21.64	34.12	38.59
\$250,000-\$350,000	33.42	22.31	35.58	39.48
\$350,000-\$500,000	32.46	20.82	34.88	38.12
\$500,000-\$1 million	31.15	18.59	34.28	36.88
Greater than \$1 million	29.76	16.37	33.60	37.40

**Source:** CRS analysis based on the 2006 SOI Public Use File.

**Table A-3. Tax Rates by Adjusted Gross Income Category**

<b>AGI Category</b>	<b>Mean</b>	<b>10<sup>th</sup> Percentile</b>	<b>Median</b>	<b>90<sup>th</sup> Percentile</b>
Less than \$100,000	18.95	8.89	17.84	26.58
\$100,00-"hi-inc"	24.63	18.08	25.29	29.91
"hi-inc"-< \$350,000	28.76	23.39	29.41	33.20
\$350,000-\$500,000	30.06	24.94	30.48	33.18
\$500,000-\$1 million	30.12	24.59	30.22	33.63
\$1 million-\$5 million	30.47	24.09	31.11	35.10
Greater than \$5 million	29.25	23.30	29.85	35.63

**Source:** CRS analysis based on the 2006 SOI Public Use File.

**Notes:** "hi-inc"=\$200,000 for single taxpayers; \$250,000 for married taxpayers filing joint return; and \$125,000 for married taxpayers filing a separate return.

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