



TAX FOUNDATION

# Tax Foundation University

---

## Session 3: The Individual Tax Code

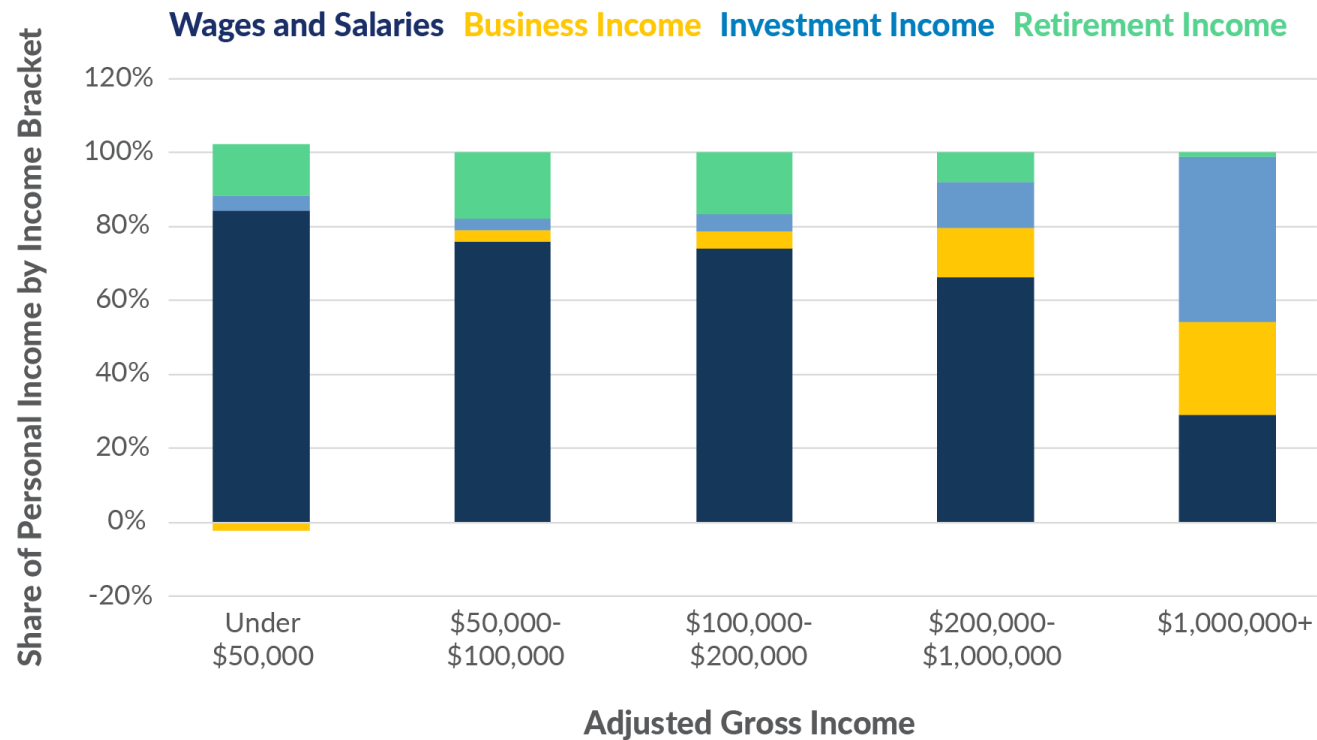
# Areas of Focus

- Review of a Typical Individual Income Tax Return
- Family and Worker Tax Credits
- How do Passthrough Businesses Pay Taxes?
- Is the Tax Code Progressive?
- Tax Cuts and Jobs Act (TCJA) Expirations

# Sources of Income Subject to Income Tax

## Composition of Income Varies with Income Level

Sources of Personal Income by Income Bracket, 2020



Source: IRS SOI Table 1.4.

# Individual Income Taxes, Step by Step

## How Is Tax Liability Calculated?

Line Item	Scenario 1: Using the Standard Deduction	Scenario 2: Using Itemized Deductions	
Adjusted Gross Income	\$125,000	\$125,000	← Their Adjusted Gross Income (AGI) is their combined income but not the amount they pay taxes on
Minus the Standard Deduction	\$24,800		] Their standard or itemized deductions reduce the amount of income they pay taxes on
or Minus Itemized Deductions		\$28,000	
Equals their Taxable Income	\$100,200	\$97,000	← This is their new "taxable income." Note the \$3,200 difference because of the itemized deductions
Pay 10% up to \$19,749	\$1,975	\$1,975	] The tax brackets apply a different or "marginal" rate to progressively higher levels of their taxable income.
Pay 12% from \$19,750 to \$80,249	\$7,260	\$7,260	
Pay 22% from \$80,250 to \$171,050	\$4,389	\$3,685	
Total Tax Liability Before Credits	\$13,624	\$12,920	← Adding up their "marginal" tax amounts equals their tax liability before credits
Minus Child Tax Credit (2 x \$2,000)	\$4,000	\$4,000	← Tax credits reduce their tax liability by the amount of the credit
Income Tax After Credits	\$9,624	\$8,920	← This is their final tax bill after taking their deductions and credits into account
Average Tax Rate	9.6%	9.2%	

# Individual Income Taxes, Step by Step

<b>Income</b>  Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.  If you did not get a Form W-2, see instructions.	<b>1a</b>	Total amount from Form(s) W-2, box 1 (see instructions)		<b>1a</b>				
	<b>b</b>	Household employee wages not reported on Form(s) W-2		<b>1b</b>				
	<b>c</b>	Tip income not reported on line 1a (see instructions)		<b>1c</b>				
	<b>d</b>	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		<b>1d</b>				
	<b>e</b>	Taxable dependent care benefits from Form 2441, line 26		<b>1e</b>				
	<b>f</b>	Employer-provided adoption benefits from Form 8839, line 29		<b>1f</b>				
	<b>g</b>	Wages from Form 8919, line 6		<b>1g</b>				
	<b>h</b>	Other earned income (see instructions)		<b>1h</b>				
	<b>i</b>	Nontaxable combat pay election (see instructions)		<b>1i</b>				
	<b>z</b>	Add lines 1a through 1h		<b>1z</b>				
Attach Sch. B if required.	<b>2a</b>	Tax-exempt interest	<b>2a</b>		<b>b</b>	Taxable interest	<b>2b</b>	
	<b>3a</b>	Qualified dividends	<b>3a</b>		<b>b</b>	Ordinary dividends	<b>3b</b>	
	<b>4a</b>	IRA distributions	<b>4a</b>		<b>b</b>	Taxable amount	<b>4b</b>	
	<b>5a</b>	Pensions and annuities	<b>5a</b>		<b>b</b>	Taxable amount	<b>5b</b>	
	<b>6a</b>	Social security benefits	<b>6a</b>		<b>b</b>	Taxable amount	<b>6b</b>	
	<b>c</b>	If you elect to use the lump-sum election method, check here (see instructions)		<input type="checkbox"/>				
	<b>7</b>	Capital gain or (loss). Attach Schedule D if required. If not required, check here		<input type="checkbox"/>	<b>7</b>			
	<b>8</b>	Additional income from Schedule 1, line 10			<b>8</b>			
	<b>9</b>	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your <b>total income</b>			<b>9</b>			
	<b>10</b>	Adjustments to income from Schedule 1, line 26			<b>10</b>			
Standard Deduction for— <ul style="list-style-type: none"><li>• Single or Married filing separately, \$13,850</li><li>• Married filing jointly or Qualifying surviving spouse, \$27,700</li><li>• Head of household, \$20,800</li><li>• If you checked any box under <i>Standard Deduction</i>, see instructions.</li></ul>	<b>11</b>	Subtract line 10 from line 9. This is your <b>adjusted gross income</b>		<b>11</b>				
	<b>12</b>	<b>Standard deduction or itemized deductions</b> (from Schedule A)		<b>12</b>				
	<b>13</b>	Qualified business income deduction from Form 8995 or Form 8995-A		<b>13</b>				
	<b>14</b>	Add lines 12 and 13		<b>14</b>				
	<b>15</b>	Subtract line 14 from line 11. If zero or less, enter -0-. This is your <b>taxable income</b>		<b>15</b>				

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2023)

# Individual Income Taxes, Step by Step

Form 1040 (2023)		Page <b>2</b>		
<b>Tax and Credits</b>	<b>16</b>	<b>Tax</b> (see instructions). Check if any from Form(s): <b>1</b> <input type="checkbox"/> 8814 <b>2</b> <input type="checkbox"/> 4972 <b>3</b> <input type="checkbox"/> <input type="text"/>	<b>16</b>	
	<b>17</b>	Amount from Schedule 2, line 3	<b>17</b>	
	<b>18</b>	Add lines 16 and 17	<b>18</b>	
	<b>19</b>	Child tax credit or credit for other dependents from Schedule 8812	<b>19</b>	
	<b>20</b>	Amount from Schedule 3, line 8	<b>20</b>	
	<b>21</b>	Add lines 19 and 20	<b>21</b>	
	<b>22</b>	Subtract line 21 from line 18. If zero or less, enter -0-	<b>22</b>	
	<b>23</b>	Other taxes, including self-employment tax, from Schedule 2, line 21	<b>23</b>	
	<b>24</b>	Add lines 22 and 23. This is your <b>total tax</b>	<b>24</b>	
<b>Payments</b>	<b>25</b>	Federal income tax withheld from:		
	<b>a</b>	Form(s) W-2	<b>25a</b>	
	<b>b</b>	Form(s) 1099	<b>25b</b>	
	<b>c</b>	Other forms (see instructions)	<b>25c</b>	
	<b>d</b>	Add lines 25a through 25c	<b>25d</b>	
	<b>26</b>	2023 estimated tax payments and amount applied from 2022 return	<b>26</b>	
	<b>27</b>	Earned income credit (EIC)	<b>27</b>	
	<b>28</b>	Additional child tax credit from Schedule 8812	<b>28</b>	
	<b>29</b>	American opportunity credit from Form 8863, line 8	<b>29</b>	
	<b>30</b>	Reserved for future use	<b>30</b>	
	<b>31</b>	Amount from Schedule 3, line 15	<b>31</b>	
<b>32</b>	Add lines 27, 28, 29, and 31. These are your <b>total other payments and refundable credits</b>	<b>32</b>		
<b>33</b>	Add lines 25d, 26, and 32. These are your <b>total payments</b>	<b>33</b>		
<b>Refund</b>	<b>34</b>	If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you <b>overpaid</b>	<b>34</b>	
	<b>35a</b>	Amount of line 34 you want <b>refunded to you</b> . If Form 8888 is attached, check here <input type="checkbox"/>	<b>35a</b>	
	<b>b</b>	Routing number <input type="text"/> <b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
	<b>d</b>	Account number <input type="text"/>		
<b>36</b>	Amount of line 34 you want <b>applied to your 2024 estimated tax</b>	<b>36</b>		
<b>Amount You Owe</b>	<b>37</b>	Subtract line 33 from line 24. This is the <b>amount you owe</b> . For details on how to pay, go to <a href="http://www.irs.gov/Payments">www.irs.gov/Payments</a> or see instructions	<b>37</b>	
	<b>38</b>	Estimated tax penalty (see instructions)	<b>38</b>	



# 2024 Marginal Income Tax Rates & Brackets

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

Tax Rate	For Single Filers	For Married Individuals Filing Joint Returns	For Heads of Households
10%	\$0 to \$11,600	\$0 to \$23,200	\$0 to \$16,550
12%	\$11,600 to \$47,150	\$23,200 to \$94,300	\$16,550 to \$63,100
22%	\$47,150 to \$100,525	\$94,300 to \$201,050	\$63,100 to \$100,500
24%	\$100,525 to \$191,950	\$201,050 to \$383,900	\$100,500 to \$191,950
32%	\$191,950 to \$243,725	\$383,900 to \$487,450	\$191,950 to \$243,700
35%	\$243,725 to \$609,350	\$487,450 to \$731,200	\$243,700 to \$609,350
37%	\$609,350 or more	\$731,200 or more	\$609,350 or more

Source: Internal Revenue Service





# 2024 Marginal Income Tax Rates & Brackets

**Table 6. 2024 Capital Gains Tax Brackets**

	For Unmarried Individuals, Taxable Income Over	For Married Individuals Filing Joint Returns, Taxable Income Over	For Heads of Households, Taxable Income Over
0%	\$0	\$0	\$0
15%	\$47,025	\$94,050	\$63,000
20%	\$518,900	\$583,750	\$551,350

Source: Internal Revenue Service, "Revenue Procedure 2023-34."

# Worker and Family Tax Credits

	ARPA Policy, 2021	TCJA Policy, 2022–2025	Post-TCJA Policy, after 2025
<b>Maximum Credit</b>	\$3,600 for children under age 6; \$3,000 for children age 6 to 17	\$2,000 for children under age 17	\$1,000 for children under age 17
<b>Amount Refundable</b>	Fully refundable regardless of income	Partially refundable up to \$1,600, indexed to inflation until it reaches \$2,000	Full amount refundable depending on earned income
<b>Phase-in and phase-out</b>	<p>No phase-in</p> <p>Expanded \$1,600 or \$1,000 phases out by \$50 for each \$1,000 of income above \$112,500 for head of household filers and \$150,000 for joint filers, then follows TCJA</p>	<p>Refundable amount calculated by multiplying earned income above \$2,500 by 15%</p> <p>Phases out by \$50 for each \$1,000 of AGI above \$200,000 for single filers and \$400,000 for married filing jointly</p>	<p>Refundable amount calculated by multiplying earned income above \$3,000 by 15%</p> <p>Phases out by \$50 for each \$1,000 of AGI above \$75,000 for single filers and \$110,000 for joint filers</p>

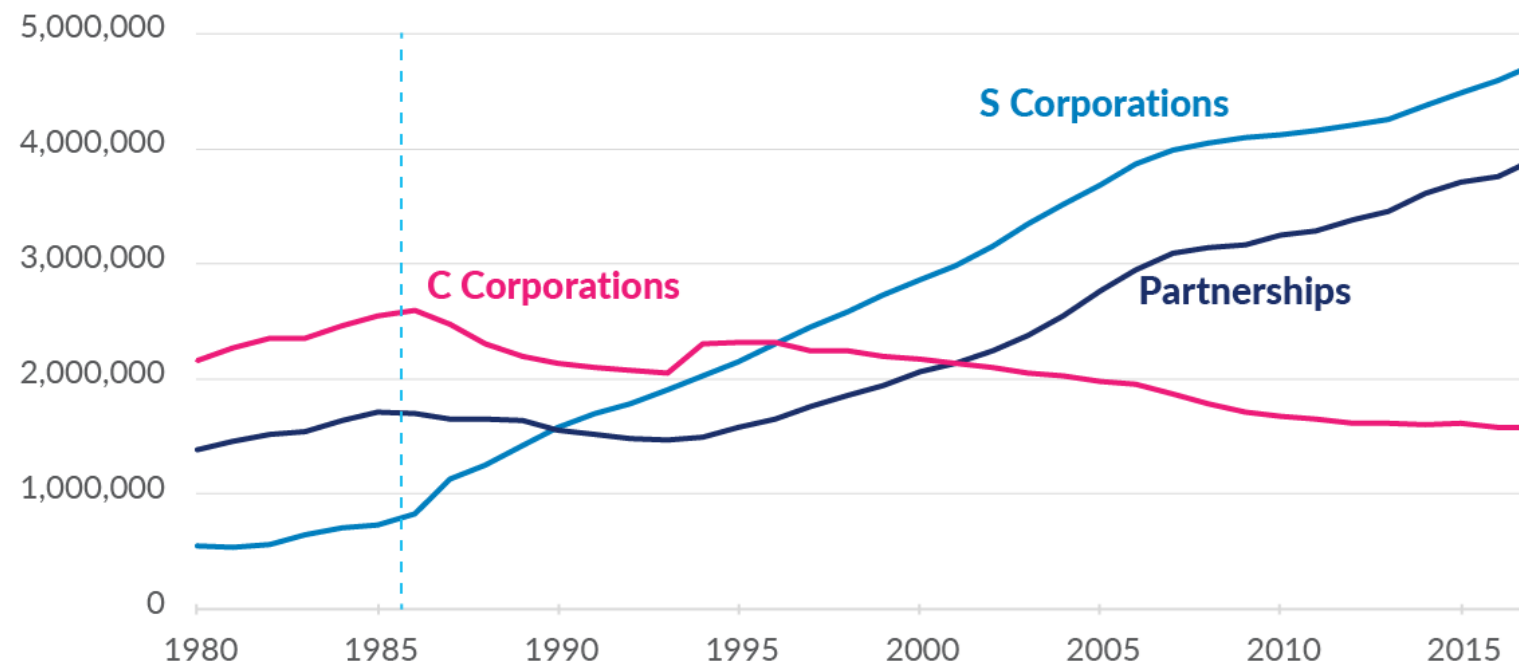
# Earned Income Tax Credit (2024 values)

Filing Status		No Children	1 Child	2 Children	3+ Children
Single or Head of Household	Income at Max Credit	\$8,260	\$12,390	\$17,400	\$17,400
	Maximum Credit	\$632	\$4,213	\$6,960	\$7,830
	Phaseout Begins	\$10,330	\$22,720	\$22,720	\$22,720
	Phaseout Ends (Credit Equals Zero)	\$18,591	\$49,084	\$55,768	\$59,899
Married Filing Jointly	Income at Max Credit	\$8,260	\$12,390	\$17,400	\$17,400
	Maximum Credit	\$632	\$4,213	\$6,960	\$7,830
	Phaseout Begins	\$17,250	\$29,640	\$29,640	\$29,640
	Phaseout Ends (Credit Equals Zero)	\$25,511	\$56,004	\$62,688	\$66,819

# Passthrough Business Taxation

**Since 1986, the Number of C Corporations has Declined While the Number of S Corporations and Partnerships has Grown**

*Number of Firms by Entity Type, 1980 to 2017*

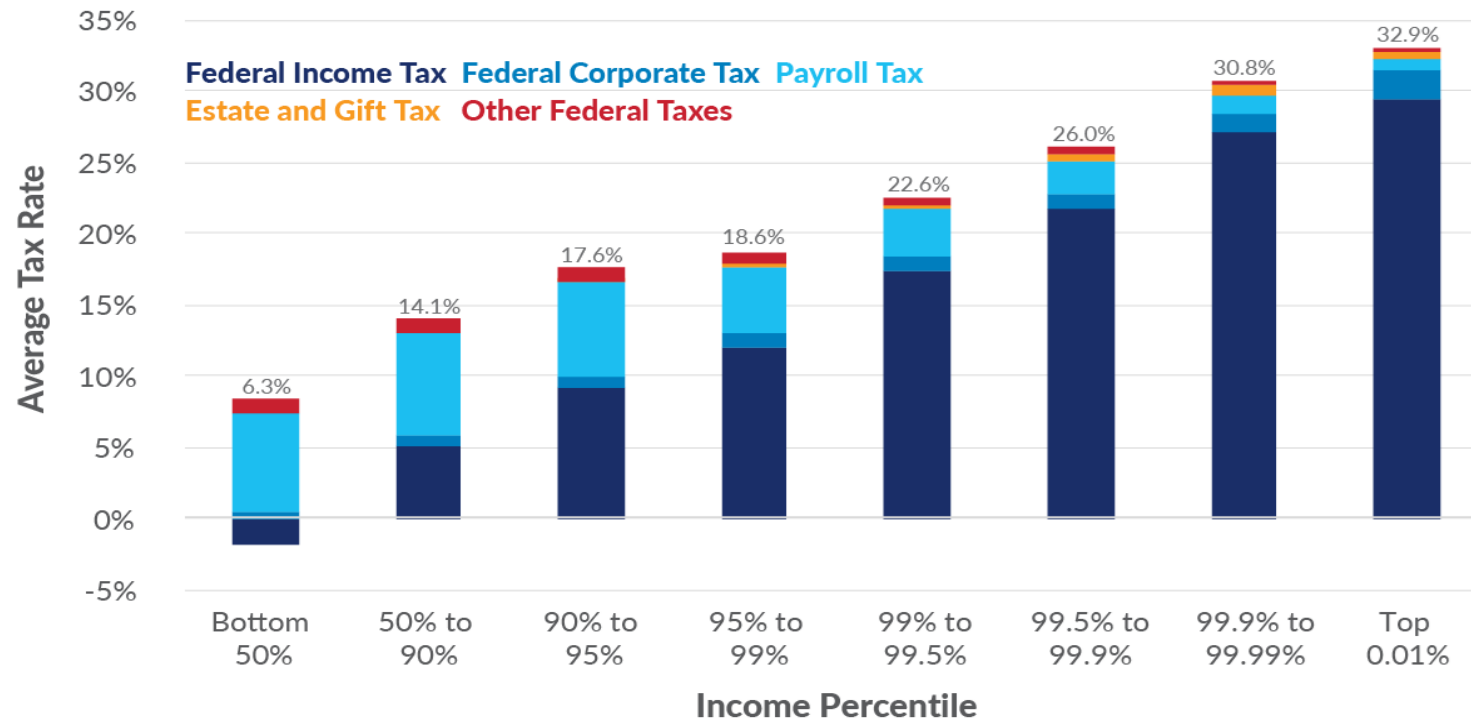


Source: IRS, "Statistics of Income."

# Progressivity in the Federal Tax Code

## The Federal Tax System is Progressive Overall

Average Tax Rates for Federal Tax Types by Income Group, 2018



Source: "Present Law and Background on the Taxation of High Income and High Wealth Taxpayers," Joint Committee on Taxation, Table 4.

TAX FOUNDATION

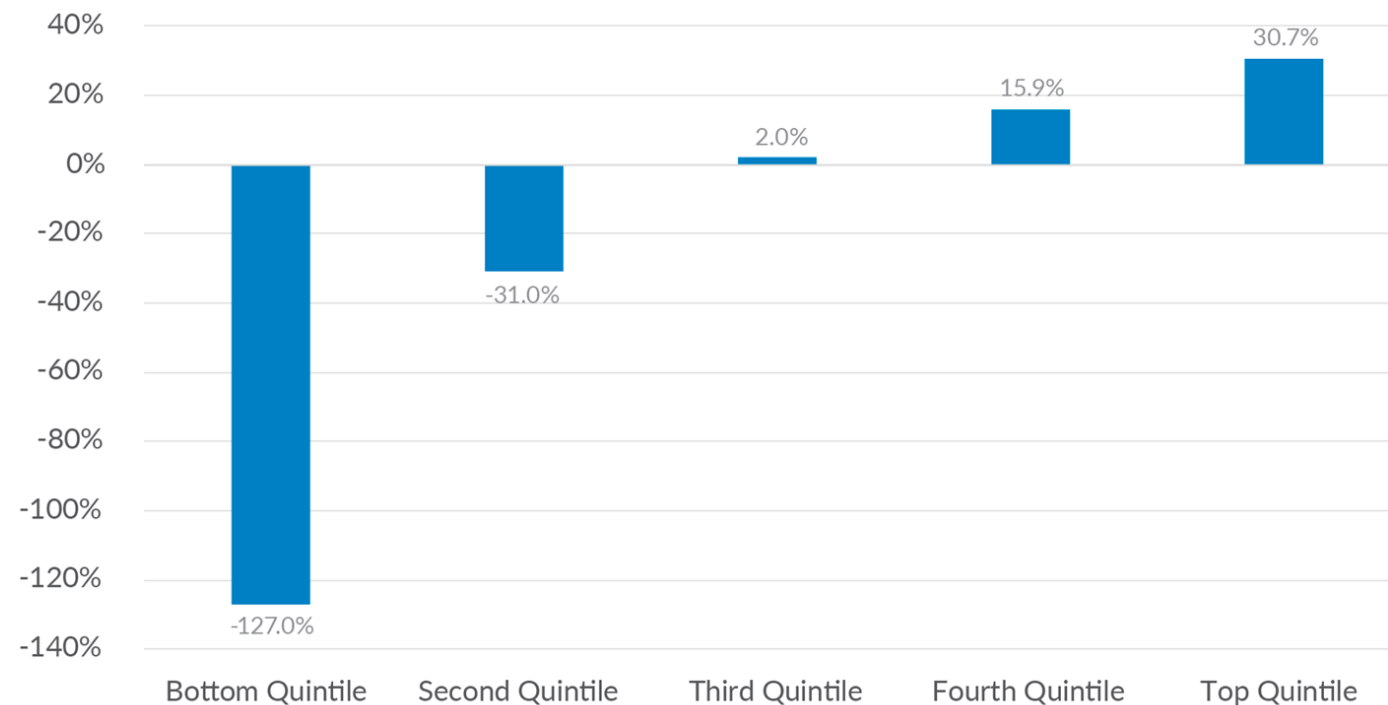
@TaxFoundation

TAX FOUNDATION

# Progressivity in the Federal Tax Code

## Overall U.S. Tax and Transfer System Is Highly Progressive

*Household Effective Rates of Government Taxes and Transfers, 2019*



Source: Tax Foundation calculations with BEA, SSA, USCB, CMS, and VA data.

TAX FOUNDATION

@TaxFoundation

TAX FOUNDATION



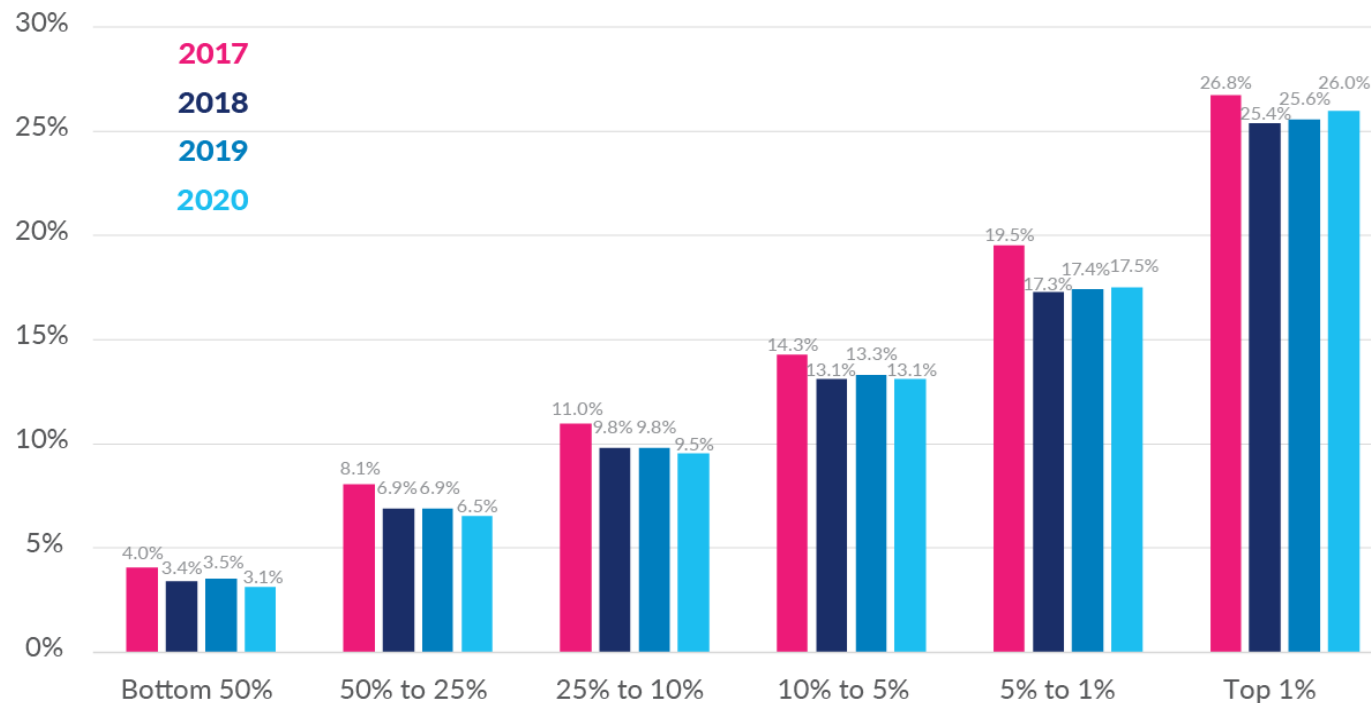
# Tax Cuts and Jobs Act Expirations

- Enacted in 2017, ideas date back to at least early 2010s
- Temporarily changed most aspects of the individual income tax code
- Permanently changed some aspects of the corporate tax code
- Look at changes altogether, not in isolation
  - Cut taxes for 80% of taxpayers; raised taxes for 5% of taxpayers
  - Simplified the system overall
- Individual changes are scheduled to expire after the end of 2025
- Several corporate changes expired already, more to change after 2025

# Tax Cuts and Jobs Act Expirations

## Average Tax Rates Lower after TCJA and COVID-19 Recession & Relief

Average Tax Rate by Income Group, 2017-2020



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

TAX FOUNDATION

@TaxFoundation

TAX FOUNDATION

# Tax Cuts and Jobs Act Expirations

Provision	Expiration Date
Businesses must deduct research and experimentation costs over five years rather than immediately	After the end of 2021
The deduction for business net interest expense will be limited to 30% of EBIT rather than 30% of EBITDA	After the end of 2021
Full expensing for short-life business investments will begin phasing out	After the end of 2022, fully expires after the end of 2026
The reduction of individual income tax rates will expire	After the end of 2025
The increase in the standard deduction, elimination of the personal exemption, and doubling of the child tax credit will expire	After the end of 2025
The limits on the state and local tax deduction and the mortgage interest deduction and the changes to miscellaneous itemized deductions will expire	After the end of 2025
The reduction of the alternative minimum tax will expire	After the end of 2025
The pass-through deduction (§199A) will expire	After the end of 2025
The reduction of the estate tax will expire	After the end of 2025
Three international-related provisions (GILTI, FDII, and BEAT) will become more restrictive	After the end of 2025










# Making the TCJA Expirations Salient

## 2026 Tax Calculator

Share this tool: [taxfoundation.org/calculator](https://taxfoundation.org/calculator)>



### Select a Profile or Create a Scenario

 Create a Custom Scenario	 <b>James</b> Single, No Kids \$30,000	 <b>Jason</b> Single, 2 Kids \$52,000
 <b>Amber</b> Single, No Kids \$75,000	 <b>Kavya &amp; Nick</b> Married, 2 Kids \$85,000	 <b>Sophie &amp; Chad</b> Married, 2 Kids \$165,000
 <b>Soren &amp; Linea</b> Married, 3 Kids \$200,000	 <b>Laura &amp; Seth</b> Married, 2 Kids \$2,000,000	 <b>James &amp; Eddie</b> Married, Retired \$48,000

# Revenue Costs of TCJA Individual Permanence

- Making the expiring individual and estate tax changes permanent would decrease federal revenue by \$2.6 trillion on a conventional basis and by \$2.2 trillion on a dynamic basis.
- Incorporating added interest costs, the deficit impact would be \$3 trillion on a conventional basis and \$2.6 trillion on a dynamic basis.
- Without other offsets, the long-run debt-to-GDP ratio would increase by 20.0 percentage points (conventional) or 16.1 percentage points (dynamic) above its baseline of 231.8 percent.

# Economic Benefits of TCJA Individual Permanence

- Making the expiring individual and estate tax changes permanent would increase GDP by 0.5 percent and employment by 686,000 full-time equivalent jobs.
- The main driver of the increase in output and work is the reduction in ordinary income tax rates and the widening of tax brackets, which reduces marginal tax rates on work and investment across income levels.
- The base broadeners have a partially offsetting effect by bringing more income into the tax base and increasing marginal tax rates.



# Distributional Effect of TCJA Individual Permanence

Table 5. Distributional Effects of Individual and Estate Tax Permanence (Percent Change in After-Tax Income)

CSVEXCELPDFPRINT

	2024, Conventional	2033, Conventional	Long-run, Dynamic
0% - 20.0%	0.0%	1.2%	1.6%
20.0% - 40.0%	0.0%	0.5%	0.9%
40.0% - 60.0%	0.0%	1.2%	1.6%
60.0% - 80.0%	0.0%	1.7%	2.1%
80.0% - 100%	0.0%	2.4%	2.7%
80.0% - 90.0%	0.0%	1.7%	2.1%
90.0% - 95.0%	0.0%	2.2%	2.6%
95.0% - 99.0%	0.0%	3.5%	3.9%
99.0% - 100%	0.0%	2.0%	2.3%
Total for All	0.0%	2.1%	2.4%

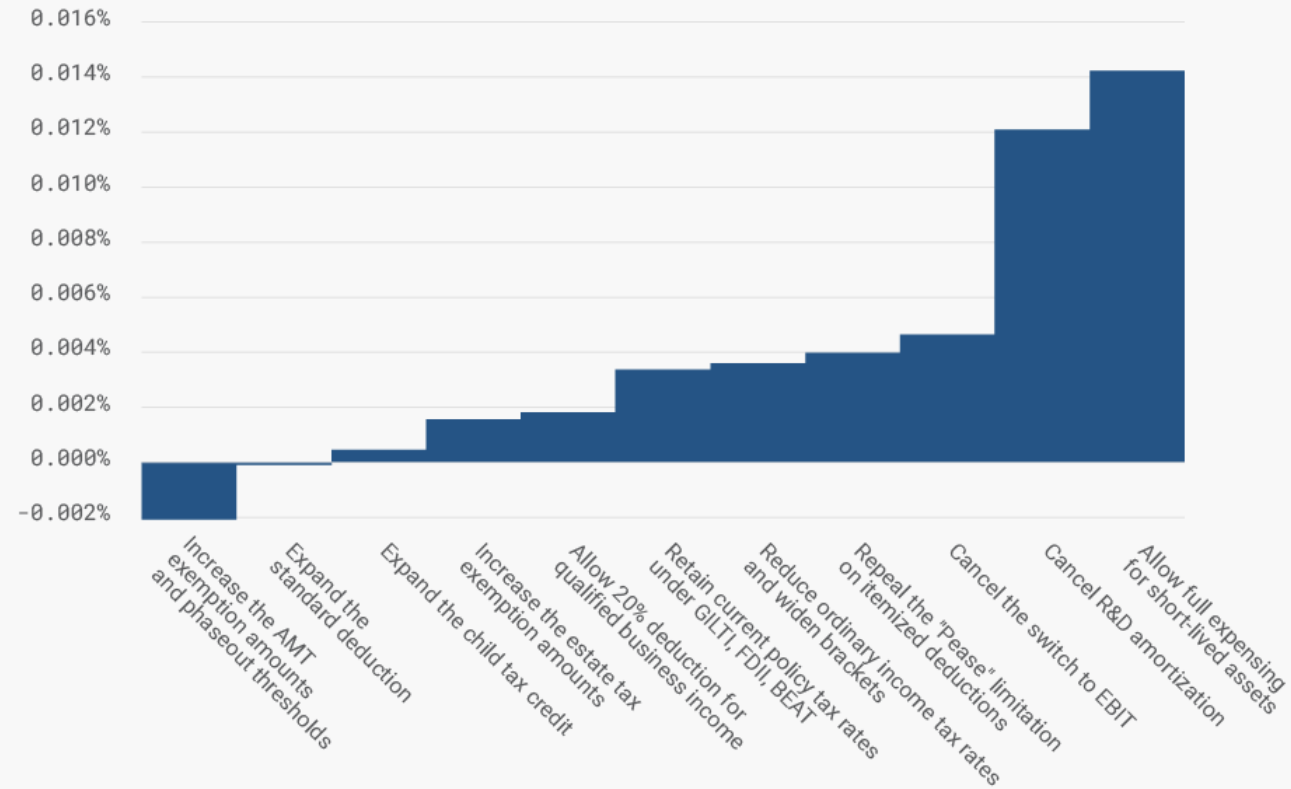
Note: The provisions have no effect in 2024 because they do not begin until 2026.

Source: Tax Foundation General Equilibrium Model, November 2023.

# Options for Policymakers – Prioritizing Growth

## Improving the Tax Treatment of Investment Leads to the Most Economic Growth

*Percentage Change in Level of GDP per Billion of Annual Conventional Revenue Cost*



Source: Tax Foundation General Equilibrium Model, November 2023.

# Options for Policymakers – Broadening the Tax Base

- Individual TCJA permanence will require offsets to avoid increasing the deficit. One option is to explore further base broadening.
- Major options could include eliminating the SALT deduction, the mortgage interest deduction, the capital gains exclusion on principal residences, and the tax treatment of employer-sponsored insurance and fringe benefits.
- These changes can be paired with deeper reforms to individual and business taxes to lower tax rates, promote growth and simplify the tax system.

# Wrapping Up

---

**Rate** The individual income tax is a marginal tax rate structure, where every dollar of income above each threshold is taxed at a higher rate

---

**Base** The individual income tax base includes wages, interest and dividends, business income and capital gains. However, the federal income tax base is made narrower by various deductions and credits

---

**Family and Worker Tax Credits** The individual income tax provides substantial payments to workers and families with children through the earned income and child tax credits

---

**Progressivity** The individual income tax is highly progressive and the federal tax system is progressive overall

---

**2025 Expirations** Making permanent the TCJA individual tax cuts would be pro-growth but comes at a revenue cost. Base broadeners and pro-growth reforms should be considered



# Questions?

---

Garrett Watson  
[gwatson@taxfoundation.org](mailto:gwatson@taxfoundation.org)  
[@GS\\_Watson](https://twitter.com/GS_Watson)