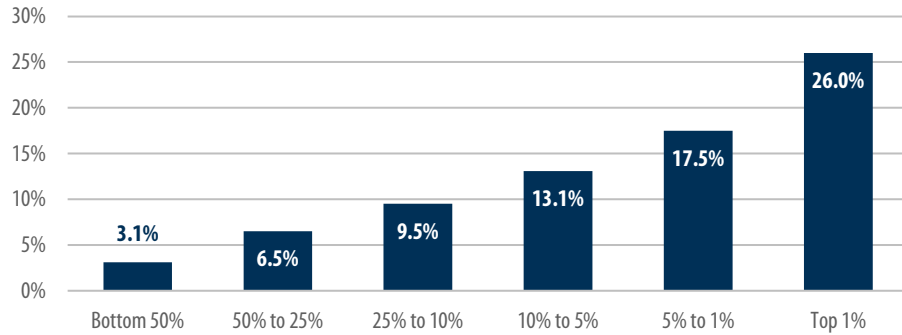


In this week's edition of "Three on Thursday," we investigate the most recent IRS tax data from 2020 to gain a comprehensive understanding of the federal income tax landscape in America. Amid the ongoing public discourse, you often encounter discussions about the wealthy not contributing their "fair share" or instances like Warren Buffet paying a lower tax rate than his 20 office colleagues, which some view as evidence of a tax system that's not progressive enough. But what do the actual data reveal? It may hold some surprising revelations. To offer deeper insights, we've included three informative charts below.

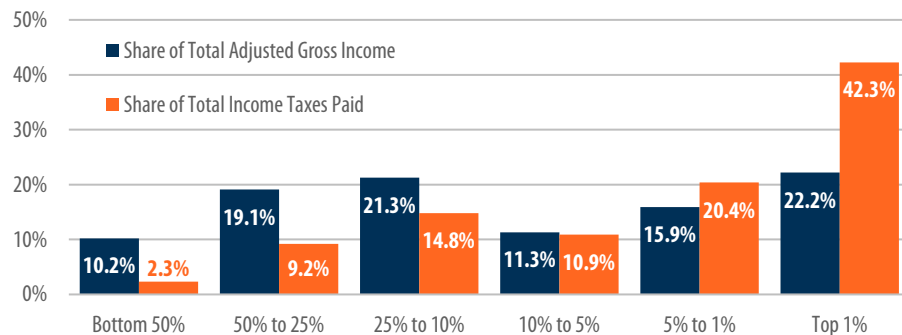
Average Income Tax Rates



Source: IRS, First Trust Advisors. Data for 2020 (latest).

The most recent IRS data from 2020 underscores the highly progressive nature of the federal income tax system. Individuals in the top 1% (those with an adjusted gross income of \$548,336 or higher) paid an average of 26% of their income to the Federal government. Meanwhile, those in the bottom 50%, (earning \$42,184 or less) had an average income tax rate of 3.1%. This significant difference shows that the top 1% pay an average federal income tax rate that's 8.4 times higher than the bottom half of all taxpayers.

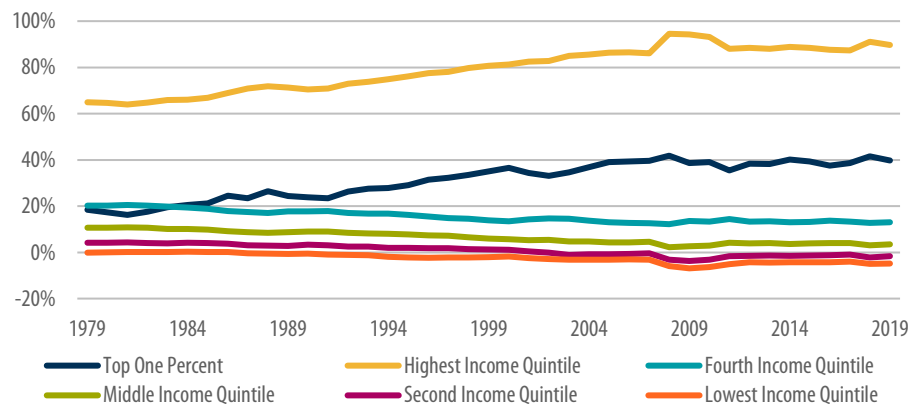
Share of Total Adjusted Gross Income vs. Share of Total Income Taxes Paid



Source: IRS, First Trust Advisors. Data for 2020 (latest).

The top 1% is comprised of roughly 1.6 million income tax returns, and make 22.2% of total adjusted gross income, but they shoulder a significant 42.3% of the overall federal income tax burden. Conversely, the bottom half, consisting of nearly 79 million income tax returns, make 10.2% of total adjusted gross income, yet their federal income tax burden is comparatively light at 2.3%. It's worth noting that the bottom 96% of taxpayers, accounting for approximately 151.2 million tax returns and 64.8% of the adjusted gross income, collectively bear 40.5% of the total federal income tax load. This still falls short of the share carried by the top 1%.

Share of Federal Income Tax Liabilities



Source: Congressional Budget Office, First Trust Advisors. Data from 1979-2019.

Over the past four decades, those within the highest income quintile have consistently witnessed their portion of the federal income tax burden increase, rising from 65.0% in 1979 to 89.7% in 2019, the most recent year recorded by the Congressional Budget Office. In stark contrast, those in the lower four income quintiles have experienced a different trajectory. The lowest and second quintiles have reduced their tax liability share to -4.8% and -1.6% in 2019, respectively, down from -0.1% and 4.2% in 1979, meaning that now the bottom 40% not only pay no federal income tax, but also receive additional income. The middle income quintile has also experienced a decline, falling to 3.5% in 2019 from 10.7% in 1979. Similarly, the fourth income quintile has decreased to 13.1% from 20.2% over the same period.

This report was prepared by First Trust Advisors L.P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.