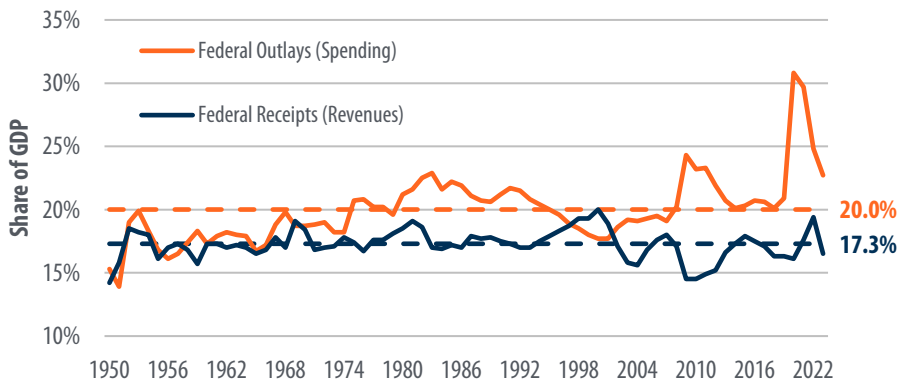


A prominent senator was on CNBC Tuesday morning and when asked about the issues with government spending in America today, responded it's unfair "that someone like Jeff Bezos pays taxes at a lower rate than a Boston public school teacher. . . Those at the top have to pay their fair share of taxes" and in regard to the severe deficit problem, "It's because we've done tax cuts and they've reduced our revenues sharply. . . What did Donald Trump's tax cuts do? They pushed the deficit up even higher. So part of what we've got to do is get our revenue back in balance with our expenditures." For today's Three on Thursday, we test these claims by examining recent trends in government spending and revenues as well as the share of taxes the rich have been paying. For more detail please find the three charts below.

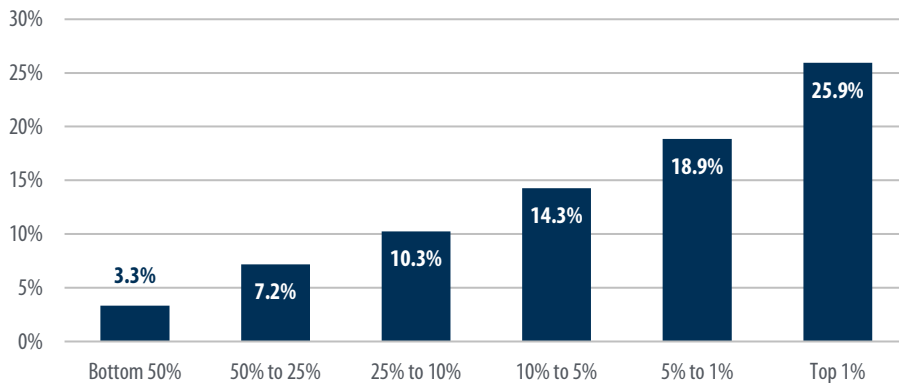
U.S. Federal Spending vs. Revenues



Source: The Congressional Budget Office (CBO), First Trust Advisors. Annual data 1950-2023, dashed lines are the average.

Looking back to 1950, government revenues have averaged 17.3% of GDP. During this time frame, the top marginal tax rate has exhibited significant fluctuations, ranging from a peak of 92% to a low of 28%. The best year for revenue as a share of GDP was 2000 when the highest marginal tax rate stood at 39.6%. Yet over this same period government spending has averaged 20.0% of GDP, hitting a record high of 30.8% of GDP in 2020. Since 2018 when the Trump tax cuts went into effect, revenues have averaged 17.0% of GDP, slightly below their historical average. Conversely, spending over the same period has averaged 24.8% of GDP, easily exceeding the historical average. The issue remains firmly on the spending side.

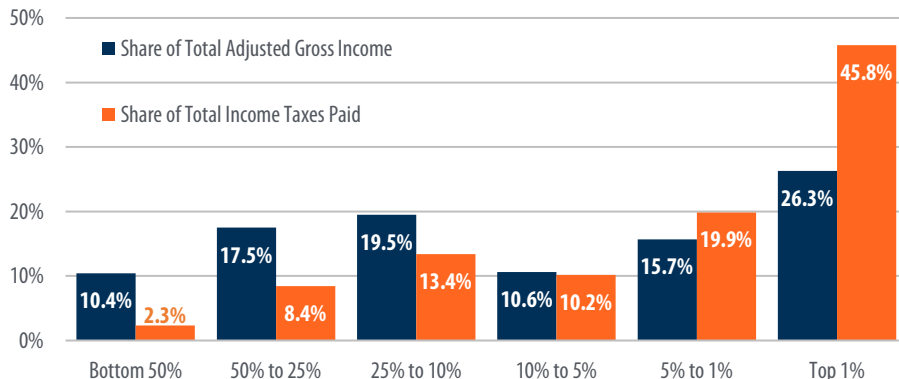
Average Income Tax Rates



Source: IRS, First Trust Advisors. Data for 2021 (latest available).

The most recent IRS data from 2021 underscores the highly progressive nature of the federal income tax system. Individuals in the top 1% (those with an adjusted gross income of \$682,577 or higher) paid an average of 25.9% of their income to the Federal government. Meanwhile, those in the bottom 50%, (earning less than \$46,637) had an average income tax rate of 3.3%. This significant difference shows that the top 1% pay an average federal income tax rate that's 7.8 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 2021 (latest available).

The top 1% is comprised of roughly 1.5 million income tax returns, and make 26.3% of total adjusted gross income, but they shoulder a significant 45.8% of the overall federal income tax burden, the highest percentage on record! Conversely, the bottom half, consisting of nearly 77 million income tax returns, make 10.4% of total adjusted gross income, yet their federal income tax burden is comparatively light at 2.3%. It's worth noting that the bottom 98% of taxpayers, accounting for approximately 150.5 million tax returns and 68.1% of the adjusted gross income, collectively bear 46.2% of the total federal income tax load, basically matching the share carried by the top 1%.