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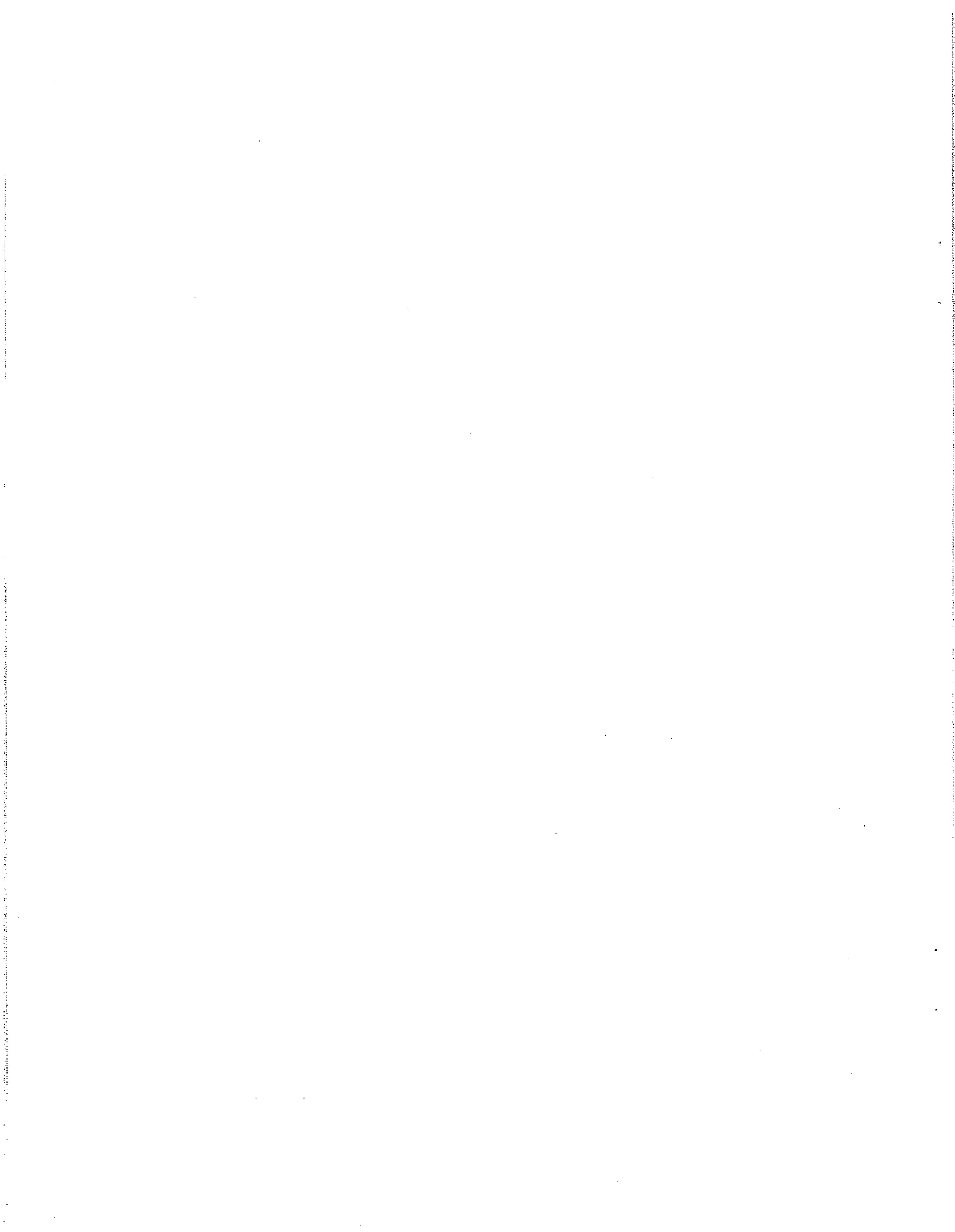

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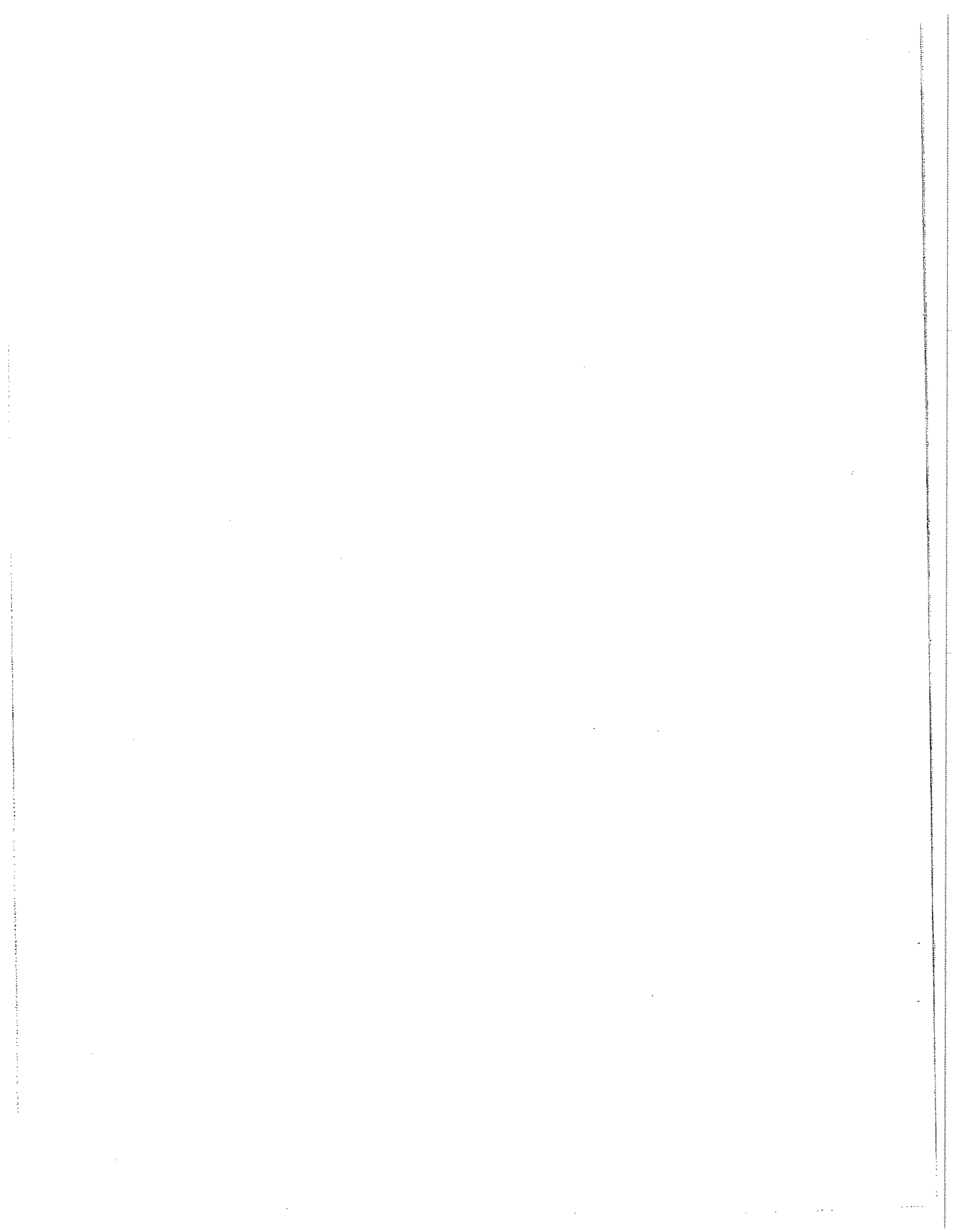


Introduction

Since 1900 the United States has weathered 23 economic recessions by the count of most experts, averaging about one recessionary period every five years through 2010. No two recessions during this time frame were of the same duration or depth. Likewise, no two socioeconomic sectors or two geographic regions reacted identically to the recessions. The most recent recession and the related impacts present no exception. Therefore, recession related data offers almost unlimited opportunity for analysis.

From the first predictions of a recession to the end of the recovery period, economists furrow their brows and pour over reams of recession-related statistics. Reports on employment, GDP, retail sales, inflation and more get examined from every angle in attempts to create predictions and cause and affect relationships for recessions. Specific accounting data and the accountants that produce it get almost totally ignored and/or relegated to deep background in the analysis process, even though the accountant operates in the central role of gathering, recording, and communicating data/information which in turn gets incorporated into most economic analysis. The accountant's role in the dissection of an economic recession can be as important and enlightening as that of an economist while providing, perhaps, more practical insight. The data collected from the work of the more specialized tax accountant in recession analysis, while even further from the analytical spotlight, can be presumed to be equally enlightening. While fulfilling tax compliance and consulting duties, the tax accountant witnesses firsthand the effects of the recession on individuals and business entities. However important the financial/tax accountant's role might be, the potential insights of this group are largely ignored except as part of an economist's big picture presentation. Herein we present a wealth of data and a preliminary analysis gleaned from the data as drawn U.S. income tax records.

The Data

Following ratification of the 16th amendment in 1913 establishing income taxation in the U.S., detailed recession (and non-recession) related income tax data have been painstakingly gathered by the Internal Revenue Service [IRS]. As one would expect, much of this data is straight forward such as total taxable income and total income tax paid each year. The IRS also gathers all tax data by income level enabling the identification and analysis of income stratified segments of the U.S. population. Stratified tax attribute data have also been segregated by state/territory. Therefore, comparative analysis by income level and state for tax return data such as adjusted income gross income [AGI] and its subcomponents including interest income, business income etc., provides a wealth of un-mined information regarding the impact of recessionary pressure on the U.S. population. Even more fertile analysis rests in the stratified non-income subcomponents of income tax reporting including various deduction and credit elements. The U.S. Congress's aversion to simplicity in the tax code results in a wealth of detailed income, deduction, and tax credit data by year, by state, and by income level. This categorized IRS data provides the source material for this article. http://www.irs.gov/taxstats/indtaxstats/article/0,,id=96978,00.html)

Areas of Analysis

This article focuses on individual tax attributes for three income strata of individual taxpayers: 1) taxpayers earning less than $50,000; 2) taxpayers earning between $50,000 and $200,000 and 3) taxpayers earning over $200,000. The article also analyzes data from individual states and identifies which were most and least negatively affected by the most recent recession. The analysis focuses on tax attributes calculated on an average per return basis in each income strata. The income attributes analyzed include Adjusted Gross Income (AGI), and certain components

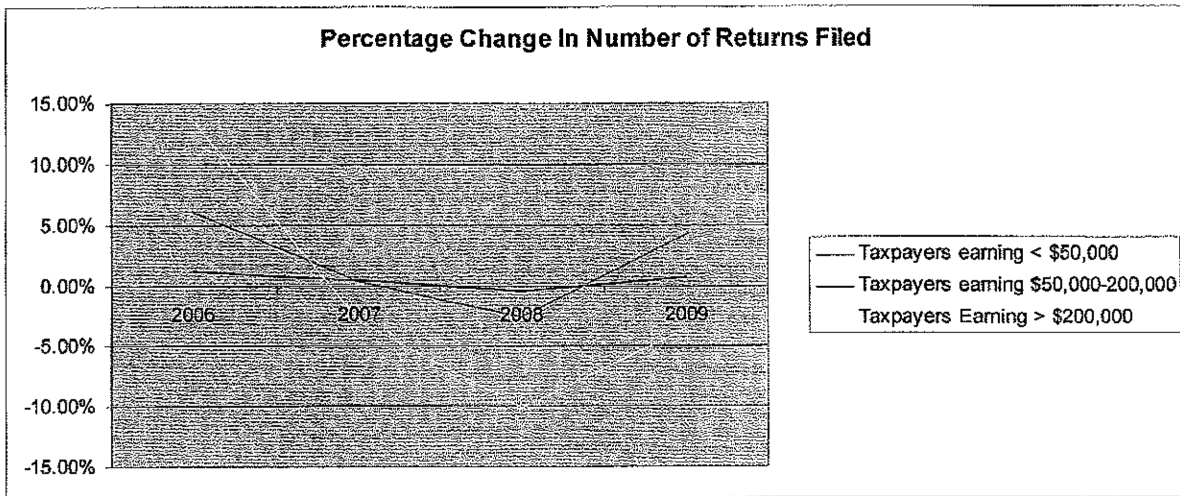
of AGI (Salary and Wages, Business Income, Taxable Interest Income, Dividend Income, Capital Gains/Losses, and Unemployment Compensation). The non-income attributes analyzed are Number of Exemptions Claimed, Mortgage Interest Deducted, Charitable Contributions Deducted, Childcare/Dependant Care Credit claimed, and Earned Income Credit claimed. The resulting analysis provides expected outcomes at the national level, that is, individual taxable income components decreased during the recession. However, considerable differences in the recessionary impact on taxpayers arise across the taxpayer income strata units of analysis and among the various U.S. states.

Finally, the analysis deals with non-income tax attributes for periods immediately prior to and periods encompassing the most recent recession which tacitly began in December 2007 and ended June of 2009. The difference in how this recession affected taxpayers within various income levels and among the various states is striking.

Focus on Taxpayers earning less than $50,000

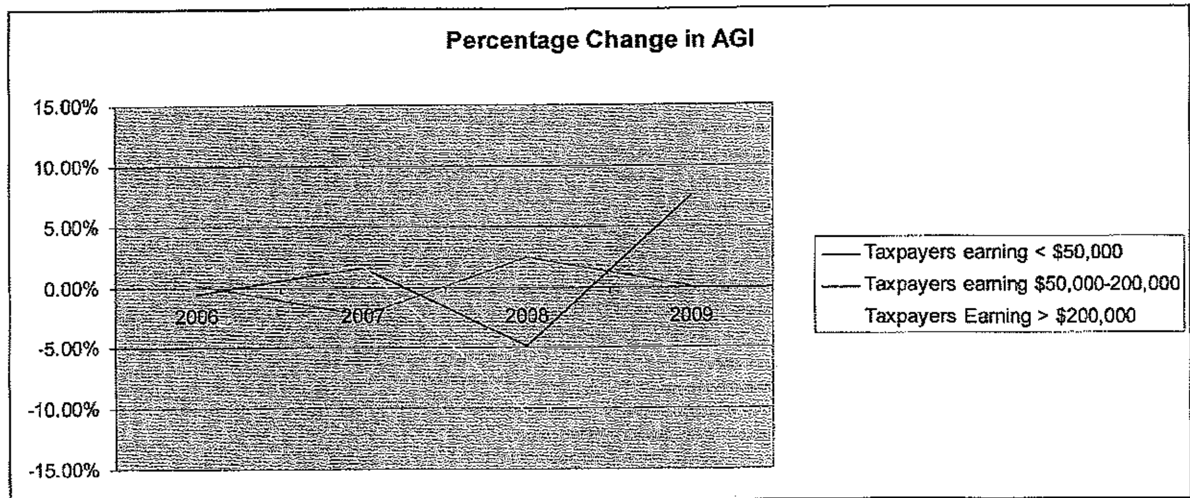
Much is said in the media today about the amount of the U.S. income tax burden that is, should be, or should not be shouldered by those earning less than $50,000 (and much of what is said is inflammatory and contradictory). During the most recent recession, the number of taxpayers in the sub-$50,000 stratum remained fairly constant when compared to other income levels (Chart #1). A decrease in the number of number of taxpayers in the sub- $50,000 stratum (a 0.5% decrease) appeared only in 2008, the peak year of the recession. This minor decrease coincided with noticeable decreases in the number of taxpayers in the two higher earning strata.

Chart #1



Adjusted Gross Income (AGI) during the 2006-2009 period increased 3.92 % for the sub-$50,000 income level, a robust increase when compared to the decreases in the higher income levels examined later. This increase resulted despite decreases in salary and wage income (-1.8%), taxable interest income (-4.6%) and capital gain income (-73.6%) during the three year period. Positive changes to AGI in the sub-$50,000 stratum resulted from increases in dividend income (11.8%) and business income (3.5%) (i.e. IRS Schedules C & F) and a more than tripling of unemployment compensation (233.2%) per return during the period. Chart #2 depicts annual percentage changes in AGI for all strata.

Chart #2

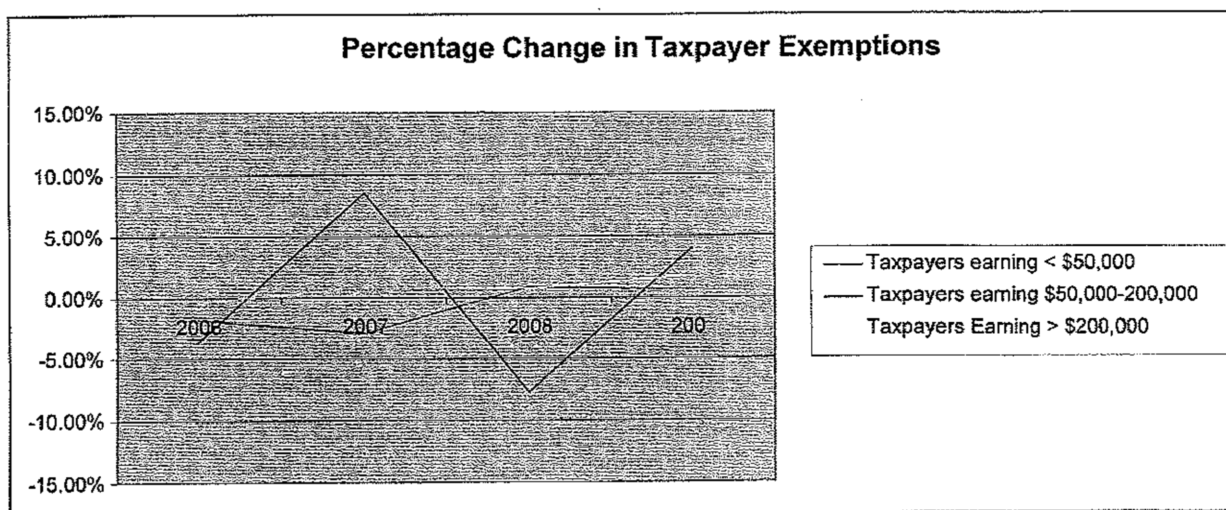


Non-income attributes for the sub-$50,000 income taxpayers were also significantly affected. Historically, exemptions claimed per return were considerably lower for the lowest income level, compared with the two higher income levels analyzed. However, the onset of the recession brought an increase of 4.1% in number of exemptions for the sub-$50,000 income level. Chart #3 shows the changes in exemptions for all income levels by year. Causes for this increase are not likely an increase in birthrate, but might logically include an increase in job losses for adult children resulting in children moving back home with parents. This also likely indicates a downward drift of typically larger families from higher income (and higher exemption) levels to the sub-$50,000 income level resulting in this sub-$50,000 increase in exemptions.

Similar results were also noted in tax deductions and certain tax credits taken. In the sub-$50,000 stratum, charitable contributions deducted per return decreased 11.6% and mortgage interest deducted decreased 18.6%. A decrease in disposable income during the period and an increase in home foreclosures adversely affected these deductions. Childcare and dependant care credits also decreased 13.5% from 2006 to 2009, a possible reflection of the same a drop in disposable income and the likely increased availability of unemployed family members to

supplant paid child and dependant care. The earned income credit taken during this period increased 32.8% most likely resulting from a downward drift of taxpayers from higher income (not previously eligible for the earned income credit) levels to the sub-$50,000 income level now eligible for the credit.

Chart #3



Focus on Taxpayers earning between $50,000 and $200,000:

Although not precisely defined, the terms "middle income" and "middle class" taxpayers include individuals who would be part of the $50,000 to $200,000 strata analyzed for this article. During the period from 2006-2009, this income level saw an increase of 4.2% in the number of returns filed, and a 1.7% increase in average AGI, both likely resulting from a drift downward of taxpayers (described below) from the above $200,000 income level. The breakdown of the increase in AGI showed increases in average salary and wages (4.0%) and unemployment compensation (175.9%) offset by decreases in taxable interest income (-24.6%), dividend income (-19.0%), business income (-15.6%), and capital gains (-79.1%).

Non-income tax attributes for the $50,000 to $200,000 income taxpayers also showed recessionary effects. Like the sub-$50,000 income level, mortgage interest deducted decreased 8.9%, charitable contributions decreased 7.1% and the childcare and dependant care credits also decreased 3.1% from 2006 to 2009. Contrary to the sub-$50,000 stratum, this bracket displayed a 1.4% decrease in exemptions claimed per return. [Taxpayers in this stratum are not eligible for the earned income credit.]

Focus on Taxpayers earning more than $200,000:

The upper income strata demonstrated the greatest levels of change during the examined recession period. When compared to 2006, total returns filed for taxpayers earning over $200,000 decreased 3.6%. Average AGI also dropped 15.6%. Salary and wage income per return for these taxpayers increased 5.5% for the period while unemployment compensation per return grew 288.2%. However, investment income for this class of taxpayer was the most negatively affected of all income classes. Taxable interest income fell 34.2%, dividend income decreased 25% and capital gains plummeted 66.1%. Additionally, business income decreased 6.6%.

Most non-income tax attributes for the above $200,000 income taxpayers also exhibited recessionary effects. Like the sub-$50,000 taxpayers, the top income bracket saw an increase of 3.2% in the average number of exemptions claimed. The above $200,000 taxpayers deducted an average of 22% less in mortgage interest and 22.2% less in charitable contributions in 2009 than in 2006. However, the average child care/dependant care credit taken unexpectedly increased by 22.1% during the recession. [This income level is not eligible for the earned income credit.]

Varying Recessionary Effects on Different States:

Additional analysis at the state level determined which states were the most and least negatively affected by the recession. Taking all the previous tax factors into consideration, Nevada, suffering through a decrease in tourism dollars and significant real estate foreclosure woes, showed the largest negative impact from the recession. Arizona and Florida were the next most negatively affected. North Dakota, the state showing the least negative effects, displayed positive movement in many tax attributes. This is assumed to be related to the current surge in natural gas exploration and extraction. West Virginia and Alaska followed as the next least negatively affected by the recession.

Ironically, both Nevada and North Dakota showed an increase of 2.7% in the number of returns filed between 2006 and 2009. However a more in depth analysis of taxpayer counts shows that Nevada had a 4.3% increase in taxpayers with income less than $50,000 and 21.8% decrease in taxpayers earning over $200,000. North Dakota had a 4.3% decrease in taxpayers earning less than $50,000 and a 33.3% increase in taxpayers earning more than $200,000. Additional analysis follows.

Nevada: Between 2006 and 2009 average AGI per taxpayer decreased 14.3% in Nevada. Average unemployment compensation increased 393%; the only taxable income category showing an increase. Decreases in average wage and salary income (-2.6%), interest income (-33.3%), dividend income (-19%), capital gains (-72.5%) and business income (-24.4%) more than offset the unemployment compensation increase. The recessionary impact on non-income elements included an increase in average exemptions per return of 3.3%, decreases in average mortgage interest deducted (-31.3%), charitable contributions deducted (-25.3%), childcare/dependant care credit taken (-11.3%) and an increase in the earned income credit taken of 46.8%.

North Dakota: Between 2006 and 2009 average AGI per taxpayer increased 14.1% in North Dakota. This growth was fueled by increases in average wage and salary income (14.4%), dividends (2.4%), business income (8.2%) and unemployment compensation (66.9%). Offsetting this were decreases in taxable interest income (-13.5%) and capital gains (-46.5%). Most non-income tax attributes showed little negative impact from the recession. The average number of exemptions claimed per return increased by 1.2% during the period. Average mortgage interest deducted per return actually increased (2.5%) along with increases in average charitable contributions deducted (2.5%) and childcare/dependant care credit taken (6.7%). The average earned income credit claimed per return increased 33.5% during the 2006-2009 examined period.

Summary and Conclusion

Difficulty in drawing general conclusions from the above analysis arises for various reasons. First, percentage changes in income and deductions do not capture the direct human impact of causal and related events. Second, one may surmise that a 5% income decrease for a taxpayer in the below $50,000 group has a greater impact than a similar percentage decrease in the higher income groups. However, the absolute dollar difference is more significant for the higher income groups. One might assume that the higher income groups also have higher fixed commitments and therefore may be more negatively affected by the same percentage change. Finally, on a state by state basis, middle states, those affected by the recession in an average way without great highs or lows, may exhibit the most stable economies over time.

As a general statement this analysis provides intriguing statistics and comparative outcomes of the most recent recession as reflected in the income tax data collected by the Internal Revenue

Service. The underlying causes of changes and differences noted herein are left for the intellectual evaluation and discussion of the readers.