

FEDERAL DATA FOR 2003

After two year's of decline federal adjusted gross income (AGI) rose by more than 4% and is now almost 2.5% above where it was in 2000. Total income is 3% above the 2000 figure. In 2002 only wages, taxable social security, and taxable pensions grew. By contrast, all sources of AGI except interest grew in 2003. This is not a surprise given the falling interest rates in 2003. The largest gains were in capital gains and dividends as the market ceased to fall and the favorable tax treatment of dividends led more companies to pay dividends. Taxable pensions, taxable IRAs and taxable social security showed good growth. Together they are the second largest source of income by far, after wages, and will likely continue to grow as more taxpayers retire. They are larger than capital gains, interest and dividends together.

As federal income tax cuts continued to be enacted or phased in, federal income taxes fell by 2.65% and are now only 80% of what they were in 2000. The ratio of federal taxes to AGI is now less than 10% (9.82%) compared with 12.6% in 2000.

Itemized deductions registered the third straight year of decline, probably due to the increase in the married standard deduction. Interest payments continued to be the largest deduction, at over 36% of deductions, followed by contributions and taxes at close to 25% each. Medical deductions fell surprisingly after growing rapidly in 2001 and 2002. Since these deductions are limited to a threshold that increases with AGI, perhaps deductions fell as AGI increased. Itemized deductions, with the limit for upper incomes, were still almost 27% of AGI.