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FEDERAL INCOME TAX SYSTEM PUNISHES HIGH-EARNERS WHILE 61% OF HOUSEHOLDS PAY NO INCOME TAX

The COVID-19 Tax Relief has increased the share of households paying no income tax to 60.6 percent, according to a new study by the nonpartisan Washington-based Tax Foundation. At the same time, high-earners are punished by the progressive nature of the federal income tax system.

“The growing share of households paying no income tax should be kept in mind when evaluating the progressivity of the federal income tax system and proposed tax hikes on higher earners,” writes the foundation’s Garrett Watson.

“In 2020, out of 176.2 individuals and married couples who could file a tax return, about 144.5 million of them actually filed a tax return. Of the 144.5 million, 75.1 million filers paid no taxes after deductions and credits. Another 32 million households did not file a tax return. In total, about 107 million Americans (or 60.6 percent of households) paid no federal income taxes.”

According to the report, “The large portion of households paying no income tax illustrates that the U.S. income tax system is quite progressive, and that the tax system is increasingly being used to provide social benefits to households.”

Lower-income households mostly do not pay income tax under current law, so a fewer number become non-payers from the extended tax credits in 2022.

The foundation warns that Biden’s proposals would also raise tax rates on high earners, generally making an already progressive tax system still more progressive. Higher earners tend to pay a higher share of income taxes as a proportion of their share of adjusted gross income (AGI).

The top 1 percent of earners earned about 20.9 percent of adjusted gross income (AGI) in 2018 but paid 40.1 percent of income taxes. The bottom 5 percent earned 11.6 percent of AGI, but paid only about 2.9 percent of income taxes. The Joint Committee on Taxation found that when including refundable tax credits, the bottom 50 percent of earners actually faced a negative 2 percent effective tax rate for the federal income tax.

The report concludes, “Advocates of higher taxes may argue that higher earners should pay more than a proportionate share of taxes relative to their incomes, but then the question becomes what ‘fair share’ means moving forward...There is no objective standard for what defines ‘fair share’; it is a purely

subjective concept. But there are facts, which are objective, and the facts suggest that the U.S. tax and fiscal system is very progressive and very redistributive.”

“These facts should be kept in mind when considering tax increases and expansions in tax credits in the budget reconciliation process.”

Source:

<https://taxfoundation.org/us-households-paying-no-income-tax/>