

Issue Brief

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Who Doesn't Pay Income Taxes?

In the debate regarding the fairness of the income tax system, the fact that a significant number of returns have no income tax liability is often overlooked. The latest data released from the Internal Revenue Service (IRS) shows that nearly a third of returns in tax year 2017 paid no income tax. Moreover, the percentage of filers with no income liability has generally increased from where it was nearly 40 years ago. This trend is indicative of a progressive income tax code under which higher-income earners pay a larger share of taxes while low-income earners are generally shielded from significant income tax liabilities.

NTUF's latest "[Who Pays Income Taxes](#)" study for tax year 2017 finds that the wealthiest 1 percent of earners shoulder over 38 percent of all income taxes, an amount that is nearly double their adjusted gross income share. Historical data since 1980 shows that the income tax code has grown increasingly progressive, with a small share of earners paying an increasing share of the tax burden, even as the top marginal tax rate was reduced.

Key Facts:



In 1980, one in five federal tax returns had no income tax liability. New IRS data shows that nearly one in three owed no income tax in 2017.

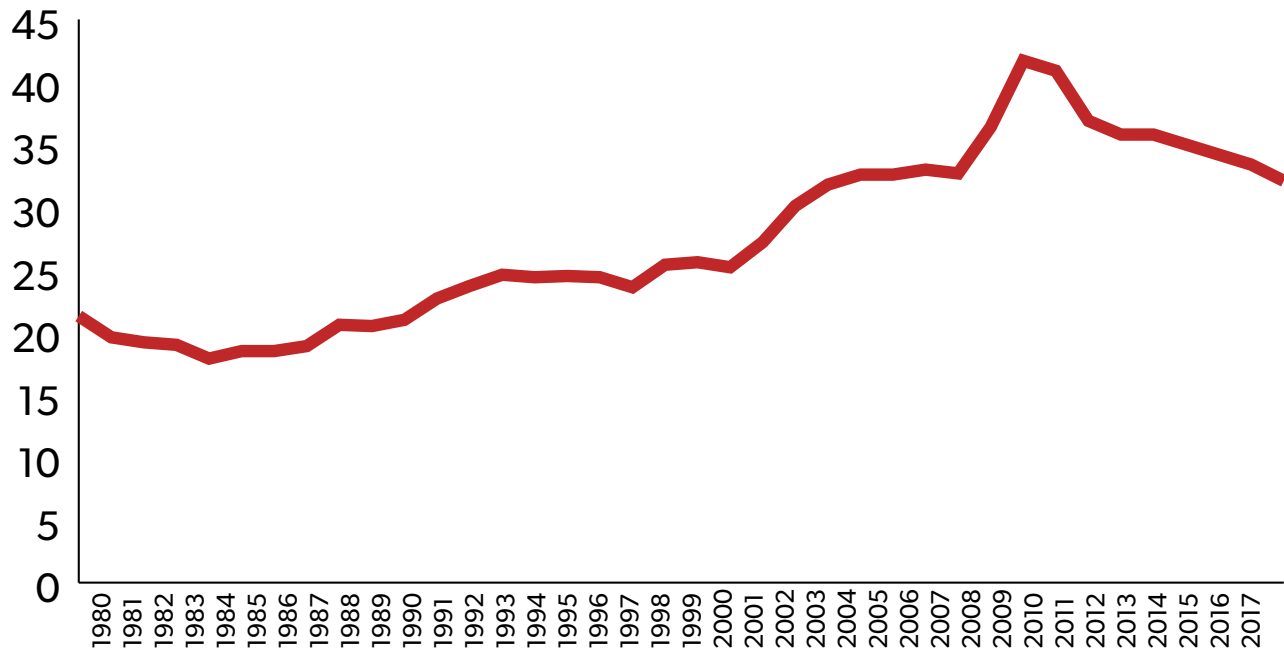


The increase in non-taxable returns is indicative of a progressive income tax code under which higher-income earners pay a larger share of taxes while low-income earners are generally shielded from significant income tax liabilities.



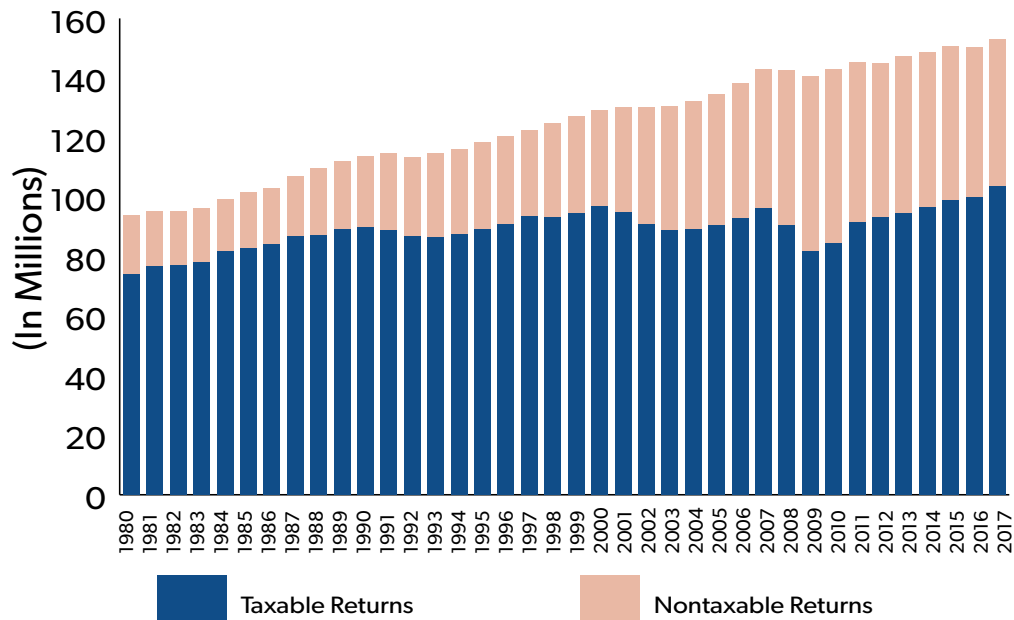
Over the past four decades, policymakers have adjusted features of the income tax designed to shield low-income workers from significant burdens. For example, the tax rate on the lowest income bracket was reduced while the threshold was raised, and the number of credits and exclusions has grown.

Percentage of Nontaxable Returns: 1980- 2017



Correspondingly, the share of filers with zero income tax liability has trended up. In 1980, the percentage of returns with no income tax liability stood at 21.3 percent. By 1985, it dropped to 18.5 percent, but it has generally grown since.¹

Paying Returns vs. Non-Paying Tax Returns: 1980-2017



Over time, policymakers have adjusted features of the income tax designed to shield low-income workers from significant burdens. For example, the [lowest income bracket](#) for a married couple filing jointly for tax year 1980 imposed a 14 percent tax on income of at least \$3,400 (\$9,634 in 2017 dollars).

¹ The IRS also notes that “classification as taxable or nontaxable was based on each return as it was filed and does not reflect any changes resulting from audit or other enforcement activities.” Figures may not total due to rounding in the sampling models used by the IRS to estimate the amounts.

By 2017, the lowest bracket was adjusted to a 10 percent tax on income over \$18,650. The standard deduction was also [increased](#) from \$3,400 in 1980 (\$9,634 in 2017 dollars) to \$12,700 in 2017 for married filers, significantly reducing taxable income. (A similar expansion occurred for single filers.)

The number of nontaxable returns is also reflective of the number of exclusions, deductions, and credits available to eligible filers. The Congressional Budget Act of 1974 requires that the annual federal budget include a list of “tax expenditures” which are defined in law as “revenue losses attributable to provisions of the federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.” The number of such tax provisions has grown. A historical budget book from 1981 lists [82](#) individual income tax expenditures for fiscal year (FY) 1980. A recent budget publication includes [142](#) different individual income tax expenditures that were claimed in FY 2017.²

These exclusions also include “refundable credits” that eligible filers can receive above and beyond their income tax liability. These credits reduce a filer’s income tax liability, but unlike regular tax credits, any remaining credit amounts are “refunded” as a cash payment. The IRS reports that [\\$100 billion](#) in refundable credits were claimed in 2017. Fifteen percent of this amount was applied to reducing income tax burdens while the rest was essentially converted into subsidy checks, mostly from eligibility for the Earned Income Credit (\$56.8 billion) and the Additional Child Tax Credit (\$23.3 billion). Because of these credits, filers with an Adjusted Gross Income of \$30,000 or less had an average tax rate that was actually [negative](#).

Table 1. Paying Returns vs. Non-paying Returns: 1980-2017

Year	Total Returns	Taxable Returns	Nontaxable Returns	Percentage of Nontaxable Returns
2017	152,903,231	103,747,043	49,156,189	32.1
2016	150,272,157	100,052,490	50,219,667	33.4
2015	150,493,263	99,040,729	51,452,534	34.2
2014	148,606,578	96,544,079	52,062,499	35
2013	147,351,299	94,532,494	52,818,806	35.8
2012	144,928,472	93,109,721	51,818,751	35.8
2011	145,370,240	91,694,201	53,676,039	36.9
2010	142,892,051	84,475,933	58,416,118	40.9
2009	140,494,127	81,890,189	58,603,939	41.7
2008	142,450,569	90,660,104	51,790,465	36.4
2005	134,372,678	90,593,081	43,779,597	32.6
2000	129,373,500	96,817,603	32,555,897	25.2
1995	118,218,327	89,252,989	28,965,338	24.5
1990	113,717,138	89,862,434	23,854,704	21
1985	101,660,287	82,846,420	18,813,867	18.5
1980	93,902,469	73,906,244	19,996,225	21.3

² While these tax credits provide targeted relief to eligible taxpayers (in lieu of a flatter tax with lower overall rates), they also contribute to the complexity and compliance burdens of the tax code.

In part, the number of nontaxable returns is indicative of the state of the economy. After the 2008 recession, 41.7 percent of returns – two out of every five – owed no income tax in 2009, due to a combination of higher levels of unemployment and tax relief (including refundable credits) in the American Recovery and Reinvestment Act of 2009. As the economy eventually recovered and employment grew, the number of taxable returns has gradually increased, yet still represents a smaller share of returns than in 1980.

This is not to say that these households faced no federal tax liability whatsoever. Individuals with wage income are subject to payroll taxes to finance Social Security and Medicare. Many of the returns classified as not subject to a net income tax were possibly subject to a [host of additional taxes](#) including “as excess advance premium tax credit repayment, self-employment tax, uncollected employee Social Security and Medicare tax on tips, tax from recomputing prior-year investment credit, penalty taxes on individual retirement accounts, Section 72 penalty taxes, household employment taxes, health care individual responsibility payment, Additional Medicare Taxes, or golden parachute payments.”

Table 2. Paying Returns vs. Non-paying Returns by Filing Status: 2017

	All Returns	Joint Returns & Surviving Spouses	Filing Separately	Heads of Household	Individual Returns
Total Returns	152,903,231	54,774,397	49,156,189	21,894,095	73,021,932
Paying Returns	103,747,043	42,630,889	2,652,819	7,853,184	50,610,150
Non-Paying Returns	49,156,189	12,143,507	559,987	14,040,911	22,411,782
Percentage of Non-Paying Returns	32.2%	22.2%	17.4%	64.1%	30.7%

Note: The data includes 54,693,840 joint returns and 80,557 surviving spouses returns. The IRS combined these returns across tables beginning in 2015 because of revised disclosure guidelines from the IRS Office of Safeguards affecting individual returns.

Table 3. Paying Returns vs. Non-paying Returns by Filing Status: 1980

	All Returns	Joint Returns	Surviving Spouses	Filing Separately	Heads of Household	Individual Returns
Total Returns	93,902,469	45,243,211	125,646	1,699,165	7,691,103	39,143,344
Paying Returns	73,906,244	39,726,769	78,647	1,382,925	4,886,649	27,831,254
Non-Paying Returns	19,996,225	5,516,442	46,999	316,240	2,804,454	11,312,090
Percentage of Non-Paying Returns	21.3%	12.2%	37.4%	18.6%	36.5%	28.9%

Conclusion

A responsible tax system eases the burden on those at the bottom striving to work their way up. The latest IRS data shows that nearly a third of filers, primarily low-income earners, had no tax liability, with some facing a negative tax rate. The high number of nontaxable returns is yet another indication that America's income tax code is highly progressive, with lower-income filers largely escaping heavy taxation.

About the Author

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