

Issue Brief

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Who Doesn't Pay Income Taxes?

Introduction

New data from the Internal Revenue Service (IRS) shows that the number of filers with no income tax liability increased from 2017 to 2018. A rising number of filers owing zero income taxes normally coincides with a recession, as higher unemployment reduces earnings, but 2018 was characterized by strong economic growth. The break from the historical norm is likely a result of the Tax Cuts and Jobs Act of 2017 (TCJA), the systemic tax reform package that lowered tax rates, nearly doubled the standard deduction, and expanded and increased the refundable child tax credit.

This new data further cements the trend that has seen the percentage of filers with no income liability generally increase from where it stood nearly 40 years ago. This underscores the substantial progressivity of America's 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.

Key Facts:



Greater than one-third of all filers owed no income tax in 2018, the first year of data after the 2017 Tax Cuts and Jobs Act.

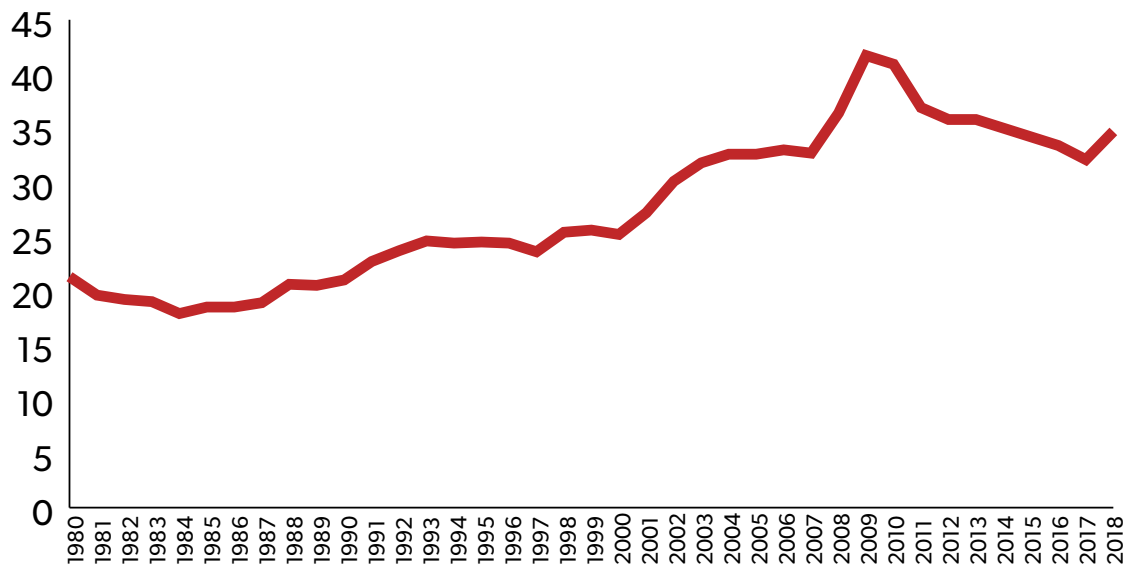


While the number of nontaxable returns often tracks economic fortunes, the share of filers with no income tax increased from 2017 to 2018 despite a low level of unemployment.



The increase in nontaxable 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.

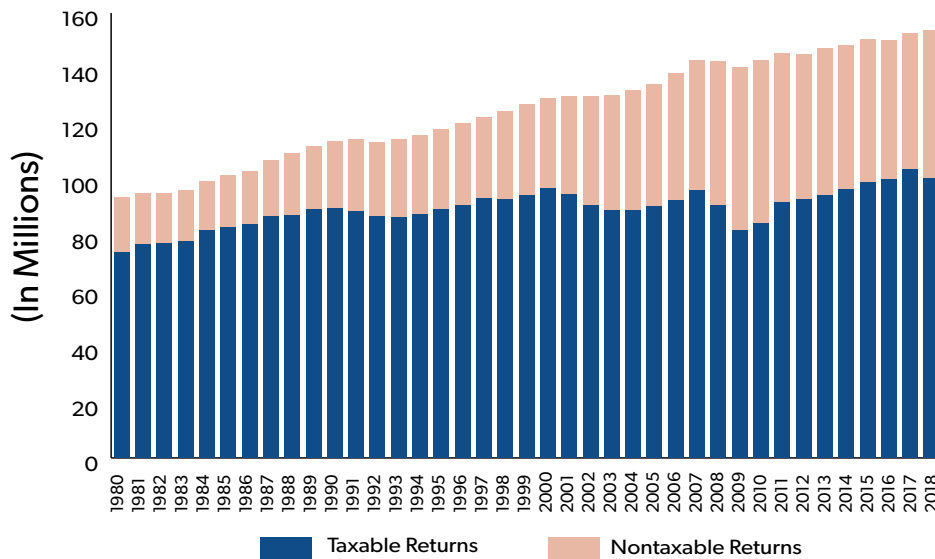
Figure 1. Percentage of Nontaxable Returns: 1980- 2018



The Increase In Nontaxable Returns

In the ongoing 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 over a third of returns in [tax year 2018](#) (34.7 percent of all returns) owed no income tax.¹ The share of nontaxable returns increased by 2.6 percentage points from 2017 when fewer than one in three owed zero taxes (32.1 percent).

Figure 2. Paying Returns vs. Non-Paying Tax Returns: 1980-2018



The number of nontaxable returns is, in part, related to the economy. The last time the number increased was during the recession years of 2008 and 2009. The number of filers with no taxes increased from 32.7 percent in 2007 up to 41.7 percent -- two out of every five returns -- in 2009 as a result of higher levels of unemployment and tax relief (including refundable credits) in the American Recovery and Reinvestment Act of 2009. In subsequent years as the economy gradually improved and labor force participation grew, more people incurred income tax liabilities, yet still represented a smaller share of returns than in 1980.

¹ Internal Revenue Service. (2020). "SOI Tax Stats - Individual Income Tax Returns Publication 1304 (Complete Report): 2018." Retrieved from <https://www.irs.gov/statistics/soi-tax-stats-individual-income-tax-returns-publication-1304-complete-report>.

Increasing Progressivity

NTUF’s annual “[Who Pays Income Taxes](#)” study finds that the wealthiest pay an outsized portion of all income taxes.² For example, in 2017 the top one percent of income earners were responsible for 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 a greater share of the tax burden, even as the top marginal tax rate was reduced.

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.³

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).⁴ 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 and simplifying returns.⁵ (A similar expansion occurred for single filers.)

Expanded Standard Deduction in the TCJA

The TCJA made significant changes that increased progressivity. In addition to lowering rates, the tax reform law nearly doubled the standard exemption from \$6,350 for single taxpayers and married individuals filing separately to \$12,000, and from \$12,700 to \$24,000 for married couples filing jointly. While reducing taxable income, this change also simplified the process of preparing and filing taxes. The IRS has previously estimated that [26 million fewer filers](#) would go through the more complicated process of itemizing deductions using Schedule A because of the TCJA’s increased standard deduction. ⁶As Table 1 below shows, this is a large benefit to taxpayers.

Table 1. Basic Standard Deduction: Number of Returns and Amount Claim in 2017 vs. 2018

	2017		2018		Percent Change	
	Number of Returns	Amount	Number of Returns	Amount	Number of Returns	Amount
Basic standard deduction	104	\$876.18	134	\$2,208.54	29.1	152.1

Notes: Number of returns in millions, amount in billions.

The number of filers claiming the basic standard deduction increased by 29 percent from 2017. By comparison, the total number of filers increased by one percent from 152.9 million to 153.8 million from 2017 to 2018. The total value of income covered by the standard deduction increased by over two and half times, from \$876 billion to over \$2.2 trillion. The figure below shows the massive increase in the standard deduction in 2018 compared to tax years since 1990.

² Brady, Demian. “Who Pays Income Taxes: 2017.” National Taxpayers Union Foundation. October 25, 2019. Retrieved from <https://www.ntu.org/library/doclib/2019/10/2017-who-pays-income-taxes-2.pdf>. As of publication of this report, the Internal Revenue Service has not yet released tax share data for tax year 2018.

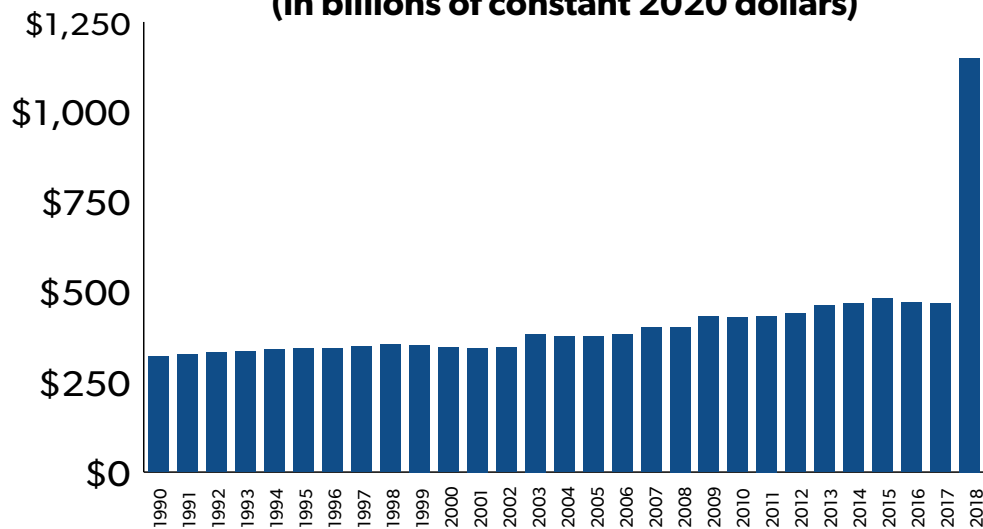
³ The IRS also [notes](#) that “classification as taxable or nontaxable was based on each return as it was filed and does not reflect any changes resulting from audit or other enforcement activities.” Figures may not total due to rounding in the sampling models used by the IRS to estimate the amounts.

⁴ Tax-Brackets.org. “Federal Income Tax Brackets (Tax Year 1980).” Retrieved from <https://www.tax-brackets.org/federaltaxtable/1981>.

⁵ Tax Policy Center. (2019.) “Standard Deduction: 1970 to 2019.” Retrieved from <https://www.taxpolicycenter.org/statistics/standard-deduction>.

⁶ Brady, Demian. “Tax Complexity 2020: Compliance Burdens Ease for Second Year Since Tax Reform.” National Taxpayers Union Foundation. April 15, 2020. Retrieved from <https://www.ntu.org/foundation/detail/tax-complexity-2020-compliance-burdens-ease-for-second-year-since-tax-reform>.

Figure 3. Basic Standard Deduction Amount Claimed in Tax Years 1990-2018 (in billions of constant 2020 dollars)



The TCJA also expanded and increased the refundable child tax credit. Eligible filers can receive refundable credits 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 2017.⁷ Fifteen percent of this amount was applied to reducing income tax burdens while the rest was essentially converted into subsidy checks, mostly from the Earned Income Tax Credit (EITC, \$56.8 billion) and the refundable portion of the child tax credit which is called the Additional Child Tax Credit (ACTC, \$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**.⁸

In 2018, filers were eligible for a total of \$109.4 billion in refundable credits, including \$14.8 billion in reduced tax liability and \$94.6 billion in outlays. The increase in the refundable portion of these credits was largely due to the ACTC. The total refundable portion of the EITC fell slightly to \$56.2 billion but the ACTC refundability increased to \$34.2 billion.

Table 2. Refundable Credits 2017 vs. 2018 (in billions of dollars)

	2017	Percentage of All Refundable Credits	2018	Percentage of All Refundable Credits
Refundable Credits that Offset Income Taxes	\$15.40	15%	\$14.80	14%
Refundable Portion of the Earned Income Tax Credit	\$56.80	57%	\$56.20	51%
Refundable Portion of the Additional Child Tax Credit	\$23.30	23%	\$34.20	31%
Refundable Portion of All Refundable Credits	\$84.60	85%	\$94.60	86%
Total Refundable Credits	\$100.00		\$109.40	

⁷ Internal Revenue Service. (2019). “SOI Tax Stats - Individual Income Tax Returns Publication 1304 (Complete Report): 2017.” Retrieved from <https://www.irs.gov/pub/irs-prior/p1304--2019.pdf>.

⁸ Brady, Demian. “Who Pays Income Taxes: 2017.” National Taxpayers Union Foundation. October 25, 2019. Retrieved from <https://www.ntu.org/library/doclib/2019/10/2017-who-pays-income-taxes-2.pdf>.

Table 3. Paying Returns vs. Non-paying Returns: 1980-2017

Year	Total Returns	Taxable Returns	Nontaxable Returns	Percentage of Nontaxable Returns
2018	153,774,296	100,424,240	53,350,056	34.7
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

Table 4. Paying Returns vs. Non-paying Returns by Filing Status: 2018

	All Returns	Joint Returns & Surviving Spouses	Filing Separately	Heads of Household	Individual Returns
Total Returns	153,774,296	54,870,439	3,292,834	21,786,803	73,824,221
Paying Returns	100,424,240	41,823,170	2,671,971	7,149,932	48,779,167
Non-Paying Returns	53,350,056	13,047,268	620,863	14,636,870	25,045,054
Percentage of Non-Paying Returns	34.69%	23.78%	18.85%	67.18%	33.93%

Table 5. 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

To be clear, saying a filer had no federal income tax liability is not the same thing as saying they had no federal tax liability whatsoever. Individuals with wage income are subject to payroll taxes to finance Social Security and Medicare, which is generally assessed at a flat rate from the first dollar of income. Some of the returns classified as not subject to a net income tax were also potentially subject to a [host of additional taxes](#) including self-employment taxes or “individual responsibility payments” for lack of health insurance coverage, among others.⁹

The latest IRS data shows that because of the changes implemented through the TCJA, over one third of filers, primarily low-income earners, had no income tax liability in 2018, with some receiving a negative tax rate. The increasing number of nontaxable returns experienced during a year of low unemployment is yet another indication that America’s tax code largely spares lower-income filers from federal income tax while imposing much higher burdens on the wealthy. While political debates often suggest otherwise, the fact is that America’s tax code has long been and remains substantially progressive.

About the Author

Demian Brady is Director of Research for National Taxpayers Union Foundation, where he runs the organization’s Taxpayers’ Budget Office.

⁹ Internal Revenue Service. (2020). Internal Revenue Service. (2020). “SOI Tax Stats - Individual Income Tax Returns Publication 1304 (Explanation of Terms): 2018 Retrieved from <https://www.irs.gov/pub/irs-pdf/p1304.pdf#page=301>.



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