

Issue Brief

DECEMBER 20, 2022

BY: DEMIAN BRADY

Who Doesn't Pay Income Taxes?

Introduction

Even as Congress shovels resources at the Internal Revenue Service (IRS), most of the millions of Americans who don't pay taxes aren't wealthy at all. Indeed, the latest data from the IRS puts the lie to the idea that the tax code is anything other than very progressive.

The newest IRS data shows that over 37 percent of all filers had no income tax liability in 2020, a 3 percent increase from last year. NTUF has tracked the share of income tax burdens since 1980, and 2020 has the third highest level recorded, only topped by the Great Recession in 2009 and 2010 when the shares of filers with no income tax were 42 and 41 percent, respectively.

This data represents the first year of tax data reflecting the impacts of the pandemic and the shutdown of parts of the economy that shuttered millions of jobs. The consequences of these events undid the progress that the Tax Cuts and Jobs Act (TCJA) had made in expanding the economy and increasing the wages among middle income earners. These two factors had contributed to a modest decline in the share of filers with no income tax in 2019 from the previous year.

Key Facts:



New data from the IRS show that over 61 million filers, 37 percent of the total, owed no income taxes in 2020.



The share of filers with no income tax obligation increased from 2019 because of the impact of the pandemic and economic shutdown on wages and employment. In addition, the number of filers claiming the standard deduction has increased significantly since passage of the Tax Cuts and Jobs Act.



In 1980, one in five federal tax returns had no income tax liability. The number has tended to increase over time as the share of the income tax burden has been shifted to wealthier earners.



The share of filers with no income tax liability in 2020 is the third highest in data available since 1980, exceeded only by the years of the 2009 and 2010 Great Recession.

Over time, however, the income tax code has become substantially more progressive, even as top marginal tax rates were significantly lowered from where they stood several decades ago. Consider that in 1980, one in five filers owed no income tax compared to more than one in three today. Higher-income earners have steadily paid a larger share of federal income taxes while low-income earners have become more shielded from significant income tax liabilities, and this is exactly what played out in 2020.

Figure 1: Percentage of Nontaxable Returns: 1980-2020

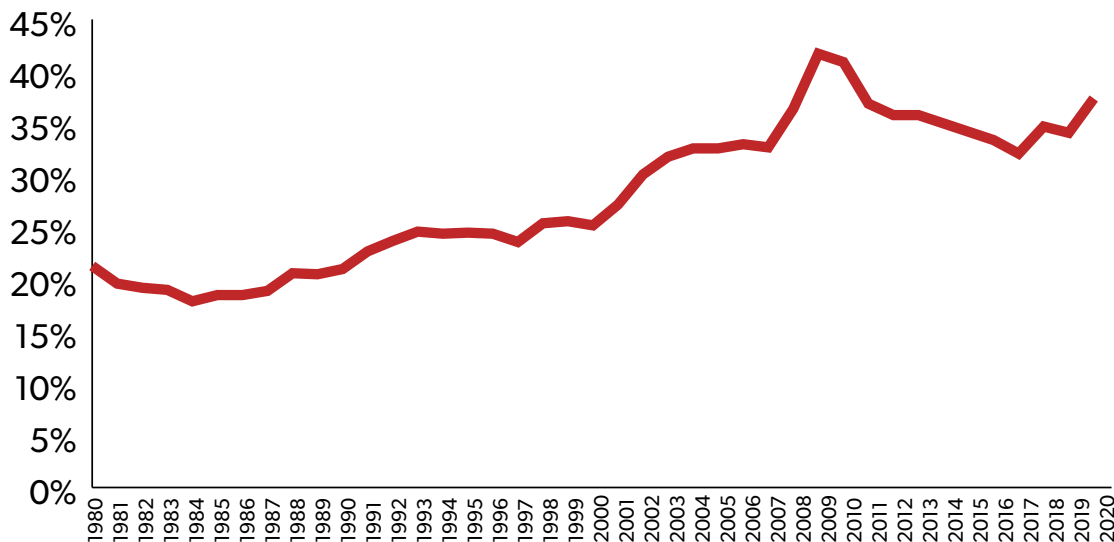
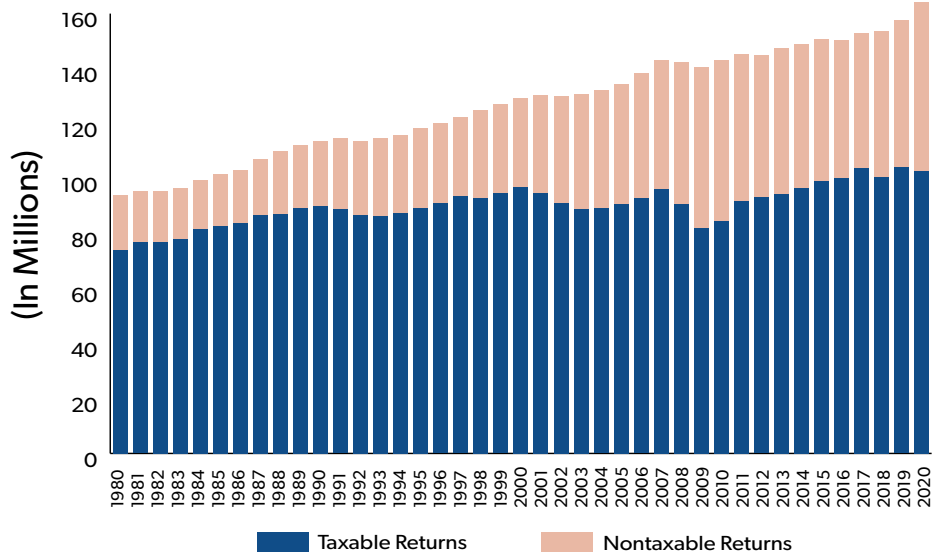


Figure 2. Paying Returns vs. Non-Paying Tax Returns: 1980-2020



Nontaxable Returns in 2020

NTUF has gathered IRS data back to 1980 regarding the share of nontaxable returns to track the trends over time. The IRS has recently published data for tax year 2020 (forms filed in 2021). The lag in reporting the data is normal as it takes time for the IRS to process and analyze the data.

For 2020, the IRS received over 164 million tax returns (see Table 1). Over a third of returns (37.4 percent) owed no income tax. Returns of married filers typically have a lower share of nontaxable returns. For example, of the 55 million returns filed jointly, one in four had no income tax liability (24.5 percent).¹ Married couples filing separately sent in 4 million forms of which 23.5 percent owed no income taxes.

Table 1. Paying Returns vs. Non-paying Returns by Filing Status: 2019

	All Returns	Joint Returns & Surviving Spouses	Filing Separately	Heads of Household	Individual Returns
Total Returns	164,358,792	55,322,922	3,919,416	21,463,538	83,652,916
Paying Returns	102,960,476	41,779,139	2,999,450	7,142,896	51,038,992
Non-Paying Returns	61,398,316	13,543,784	919,966	14,320,642	32,613,925
Percentage of Non-Paying Returns	37.36%	24.48%	23.47%	66.72%	38.99%

Numbers may not total due to the sampling the IRS uses to produce the data.

Nearly 84 million returns – over half of all returns in 2020 – were filed by individuals. Among this group, 39 percent had no income tax liability. Two-thirds of the 21 million returns filed by heads of a household owed no income taxes.

Factors in Nontaxable Returns

As Table 2 shows, the average percentage of nontaxable returns has steadily increased over the past few decades. The share recorded in 2020 is nearly twice as large as the average of the 1980s.

Table 2. Average Percentage of Nontaxable Returns

1980s	19.4
1990s	24
2000s	32.3
2010s	35.3
2020	37.4

Below is a review of some of the primary drivers of the increase in the number of filers with no income tax liability.

The State of the Economy

Fluctuations in the number of nontaxable returns is, in part, attributable to economic fluctuations. During recessions, the number of filers owing no taxes tends to grow as unemployment increases and income falls. For example, the highest share of nontaxable returns in the historical data since 1980 were filed in 2009 and 2010 as America dealt with the lingering effects of the Great Recession that began in 2008. The gradual recovery over the next several years saw a decline in the share of nontaxable returns to 32 percent. The gains in employment in 2019 saw a modest increase in the number of taxable returns. Data also shows that earnings for middle income earners [increased that year](#).

¹ The IRS began to merge the data for surviving spouses with joint returns in 2015 because of the relatively small numbers included and to protect taxpayer anonymity in the data.

The percentage of nontaxable returns in 2020 was the highest since 2010. According to the [Bureau of Labor Statistics](#), the unemployment rate was 3.6 percent at the end of 2019, with 5.9 million people out of work. Then the pandemic hit. On March 16, 2020, the White House and the Centers for Disease Control released guidelines and recommendations called “15 Days to Slow the Spread” of the novel coronavirus. Non-essential workers were asked to stay home. Many white-collar workers were able to continue to perform their jobs remotely, but millions lost their jobs. In April, unemployment skyrocketed to 14.7 percent, 23 million people. The economic shutdown lasted much longer than originally anticipated, but after April, the monthly unemployment rate gradually declined to 6.7 percent in December 2020, and it took another year before it fell back below 4 percent.

The Progressivity of the Income Tax Code

The number of filers owing no income taxes is also a result of the increasing progressivity of the tax system. NTUF’s annual [Who Pays Income Taxes](#) study finds that the wealthiest Americans pay an outsized portion of all income taxes. In 2020, the top 25 percent of earners paid 88.5 percent of income taxes – the highest share recorded in NTUF’s 50-years of data. The bottom 50 percent of income earners paid 2.32 percent of all income taxes, compared to their Adjusted Gross Income (AGI) share of 10.2 percent.

Historical data that NTUF has tracked since 1980 shows that even as the top marginal tax rates have been significantly reduced, the tax code has tended to grow more progressive as other changes were made to shield low-income earners from income taxes. For example, the [lowest income bracket](#) for a married couple filing jointly for [tax year 1980](#) owed a 14 percent tax on income above \$3,400 (\$10,762 in 2020 dollars). Since 2002 a tax rate of 10 percent has been applied to the lowest tax bracket. For 2020, this applied to income up to \$19,750.

Many filers benefit from the standard deduction, a flat amount that taxpayers can automatically deduct from taxable income if they choose not to itemize. The standard deduction for a married couple [increased](#) from \$3,400 in 1980 to \$12,700 in 2017. The TCJA lowered many tax rates and also nearly doubled the standard deduction. This reform significantly reduced taxable income. With annual adjustments, in 2020, the standard deduction for married filing jointly was \$24,800. For single taxpayers and married individuals filing separately, the standard deduction was \$12,400, and for heads of households, the standard deduction was \$18,650.

As Table 3 below shows, the TCJA expansion of the standard deduction (in the place of previous personal exemptions) provided a substantial benefit to taxpayers.

Basic standard deduction	Number of Returns (in Millions)	Amount (in Trillions)
2017	104	\$0.88
2018	134	\$2.21
2019	138	\$2.31
2020	144	\$2.45

The number of filers claiming the standard deduction from 68 percent of all returns in 2017 to 87 percent of all returns in 2018, the first year of the TCJA. 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 in 2017. In 2020, 144 million returns claimed the basic standard deduction for a total benefit of \$2.4 trillion.

After filers calculate their AGI, they may be eligible for tax credits that further reduce their income tax liability. Some of these tax credits are refundable, meaning that filers can claim them even if they owe no taxes. With the immense job losses in 2020, the use of refundable credits soared.

**Figure 3. Refundable Credits Claimed:
2018 - 2020 (in Billions)**

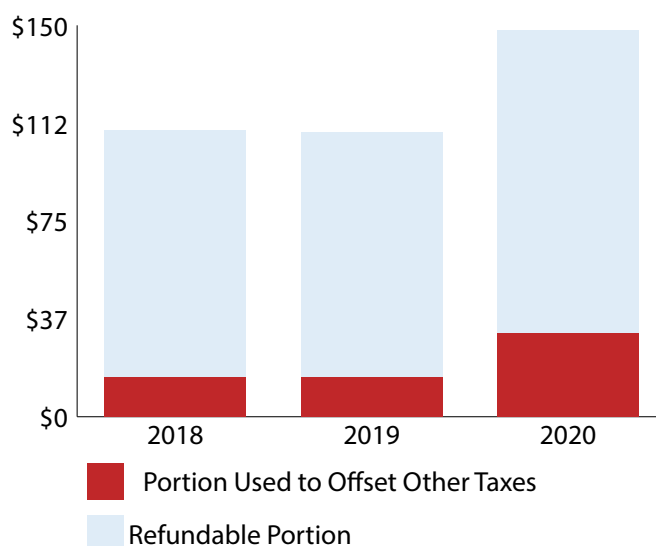


Figure 3 above shows the value of refundable credits claimed from 2018 through 2020. The figures for 2018 and 2019 are similar. Nearly 37 million filers claimed refundable credits in each of those years totaling \$109 billion and \$108 billion, respectively. Of those amounts, \$15 billion in refundable credits offset filers’ tax liability with the remainder paid out as the refundable portion. In both years, nearly 86 percent of these credits were refunded. This portion of the credit is recorded as outlays in the federal budget.

Table 4. Refundable Credits Claimed in 2018 – 2020 (Dollars in Billions)

	2018	2019	2020
Portion Used to Offset Other Taxes	\$15	\$15	\$32
Refundable Portion	\$95	\$94	\$116
Total Refundable Tax Credits	\$109	\$108	\$148
Number of Filers Claiming Refundable Credits (Millions)	37	36.7	59.3

In 2020, an additional 22.6 million filers claimed refundable credits, a 60 percent increase from 2019, while total refundable credits increased to \$148 billion. The refundable portion included \$52 billion in payments for the Earned Income Tax Credit and \$32 billion for the Additional Child Tax Credit, and \$27 billion for the recovery rebate credit.

These credits primarily benefit lower-income individuals. Table 3, below, shows the share of refundable credits by income in 2020. Nearly \$127 billion — 85 percent — of total refundable credits were claimed by those with incomes of \$50,000 or less.

Table 5. Taxable and Nontaxable Returns by Income Range, and Total Refundable Credits Claimed: 2020					
	Taxable Returns	Percentage of Taxable Returns in Income Range	Nontaxable returns	Percentage of Nontaxable Returns in Income Range	Total Refundable Credit Amount for All Returns (in Billions)
No adjusted gross income	4,612	0.10%	5,255,377	99.90%	\$5.80
\$1 under \$5,000	191,766	1.90%	10,164,887	98.10%	\$7.50
\$5,000 under \$10,000	279,212	2.80%	9,828,617	97.20%	\$10.50
\$10,000 under \$15,000	1,640,321	15.50%	8,940,145	84.50%	\$17.00
\$15,000 under \$20,000	4,241,209	42.30%	5,782,465	57.70%	\$19.40
\$20,000 under \$25,000	4,546,818	46.70%	5,179,022	53.30%	\$18.20
\$25,000 under \$30,000	5,222,233	54.90%	4,293,562	45.10%	\$16.70
\$30,000 under \$40,000	11,175,808	66.60%	5,600,498	33.40%	\$22.00
\$40,000 under \$50,000	10,374,914	78.90%	2,779,182	21.10%	\$9.90
\$50,000 under \$75,000	19,932,175	88.20%	2,670,821	11.80%	\$9.20
\$75,000 under \$100,000	13,735,959	95.50%	643,733	4.50%	\$4.00
\$100,000 under \$200,000	22,172,651	98.90%	242,764	1.10%	\$7.70
\$200,000 under \$500,000	7,599,782	99.80%	15,576	0.20%	\$0.20
\$500,000 under \$1,000,000	1,236,779	99.90%	1,196	0.10%	\$0.03
\$1,000,000 or more	606,237	99.90%	473	0.10%	\$0.10

Noting that filers 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. But a [review of federal analyses](#) that takes these additional taxes into account finds that the tax code remains highly progressive.

Conclusion

The latest IRS data reflects the negative impacts of the pandemic on millions of Americans who were unemployed during the economic shutdown. The number of filers with no income tax increased to the third highest level recorded over the past 50 years. But in addition to the economic impact, there are key provisions in the tax code that make it highly progressive, shielding low income workers from liabilities while also providing billions in aid through the tax code in the form of refundable tax credits.

About the Author

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



*2022 National Taxpayers Union Foundation
122 C Street NW, Suite 700, Washington, DC 20001
ntuf@ntu.org*