

Who Pays Taxes in America?

It's often claimed that the richest Americans pay a disproportionate share of taxes while those in the bottom half pay nothing. These claims ignore the many taxes that most Americans are subject to — federal payroll taxes, federal excise taxes, state and local taxes — and focus instead on just one tax, the federal personal income tax. The other taxes are mostly regressive, meaning they take a larger share of income from a poor or middle-income family than they take from a rich family.¹

Many Americans do not have enough income to owe federal personal income taxes, but do pay these other taxes. The federal personal income tax is a progressive tax, and the combination of this tax with the other (mostly regressive) taxes results in a tax system that is, overall, just barely progressive. Total tax obligations are, on average, fairly proportional to income.

This table illustrates the share of *total* taxes (all federal, state and local taxes) paid by Americans in different income groups in 2011.

- The share of total taxes paid by each income group is similar to that group's share of total income.

- The share of total taxes paid by the richest one percent (21.6 percent) is almost identical to that group's share of total income (21.0 percent).

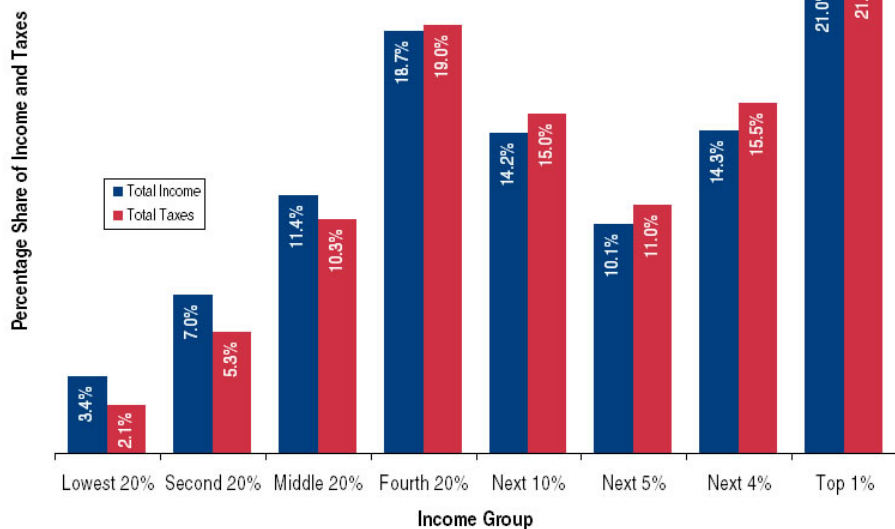
- The total effective tax rate for the richest one percent (29.0 percent) is only about four percentage points higher than the total effective tax rate for the middle fifth of taxpayers (25.2 percent).²

- The share of total taxes paid by the poorest fifth of Americans (2.1 percent) is only slightly less than this group's share of total income (3.4 percent).

Incomes and Federal, State & Local Taxes in 2011						
	Average cash income	Shares of		TAXES AS A % OF INCOME		
		Total income	Total taxes	Federal taxes	State & local taxes	Total taxes
Lowest 20%	\$ 13,000	3.4%	2.1%	5.0%	12.3%	17.4%
Second 20%	26,100	7.0%	5.3%	9.5%	11.7%	21.2%
Middle 20%	42,000	11.4%	10.3%	13.9%	11.3%	25.2%
Fourth 20%	68,700	18.7%	19.0%	17.1%	11.2%	28.3%
Next 10%	105,000	14.2%	15.0%	18.5%	11.0%	29.5%
Next 5%	147,000	10.1%	11.0%	19.7%	10.7%	30.3%
Next 4%	254,000	14.3%	15.5%	20.6%	9.9%	30.4%
Top 1%	1,371,000	21.0%	21.6%	21.1%	7.9%	29.0%
ALL	\$ 71,600	100.0%	100.0%	17.6%	10.3%	27.9%
Addendum:						
Bottom 99%	\$ 58,500	79.1%	78.3%	16.5%	11.0%	27.5%
Notes:						
a. Taxes include all federal, state & local taxes (personal and corporate income, payroll, property, sales, excise, estate etc.).						
b. For calculations of income shares and taxes as a % of income, income includes employer-paid FICA taxes and corporate profits net of taxable dividends, neither of which is included in the average cash income figures shown.						
Source: Institute on Taxation and Economic Policy Tax Model, April 2012						
Citizens for Tax Justice, April 2012						

Virtually every person in America pays some type of tax. Everyone who works pays federal payroll taxes. Everyone who buys gasoline pays federal and state gas taxes. People who shop in stores pay the sales taxes that most state and local governments impose. State and local property taxes affect everyone who owns or rents a home. (Even renters pay property taxes because landlords pass some of the tax on to them in the form of higher rents). Most states also have income taxes, most of which are not particularly progressive.

Shares of Total Taxes Paid by Each Income Group Were Similar to their Shares of Total Income in 2011



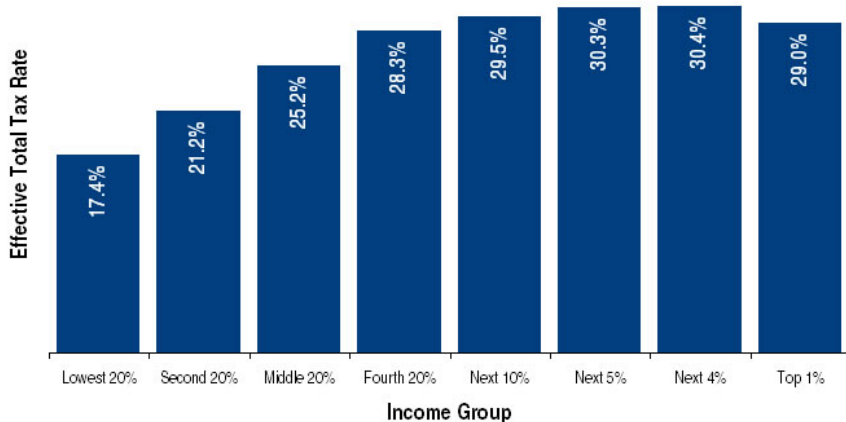
Source: Institute on Taxation and Economic Policy Tax Model, April 2012

Why the Federal Personal Income Tax Is Progressive

We need the federal personal income tax to be progressive to offset the regressive impacts of these other taxes.

For example, the federal personal income tax provides refundable tax credits like the Earned Income Tax Credit and the Child Tax Credit, which can reduce or eliminate personal income tax liability and even result in negative personal income tax liability, meaning families receive a check from the IRS. These tax credits are only available to taxpayers who work, and who therefore pay federal payroll taxes, not to mention the other taxes that disproportionately affect low- and middle-income Americans.

Total Effective Tax Rates Were Not Dramatically Higher for Richest Taxpayers than for Middle Class in 2011



Source: Institute on Taxation and Economic Policy Tax Model, April 2012

In other words, the parts of the federal personal income tax that seem like a boon to the poor are justified because they offset some of the other taxes that poor and middle-income families must pay.

As these figures illustrate, America's tax system as a whole is just barely progressive.

1. For a state-by-state break down of the distribution of state and local taxes, see Institute on Taxation and Economic Policy, *Who Pays: A Distributional Analysis of the Tax System in All 50 States*, November 2009. <http://www.itepnet.org/whopays.htm>

2. There are some high-income individuals who have effective federal tax rates that are much lower than average for their income group. See Citizens for Tax Justice, "How to Implement the Buffett Rule," October 19, 2011. <http://www.ctj.org/pdf/buffettruleremedies.pdf>