



# JOINT ECONOMIC COMMITTEE

ROBERT F. BENNETT, CHAIRMAN

APRIL 14, 2004

## WHO PAYS THE INCOME TAX?

New data from the Congressional Budget Office reaffirm that the more an individual or family earns, the greater percentage of their income they pay in taxes. A small segment of the population — the top 20% of households by earnings — shoulders the largest burden of government cost, while many lower-income households pay little in income taxes and often receive money through the income tax system in the form of refundable credits.

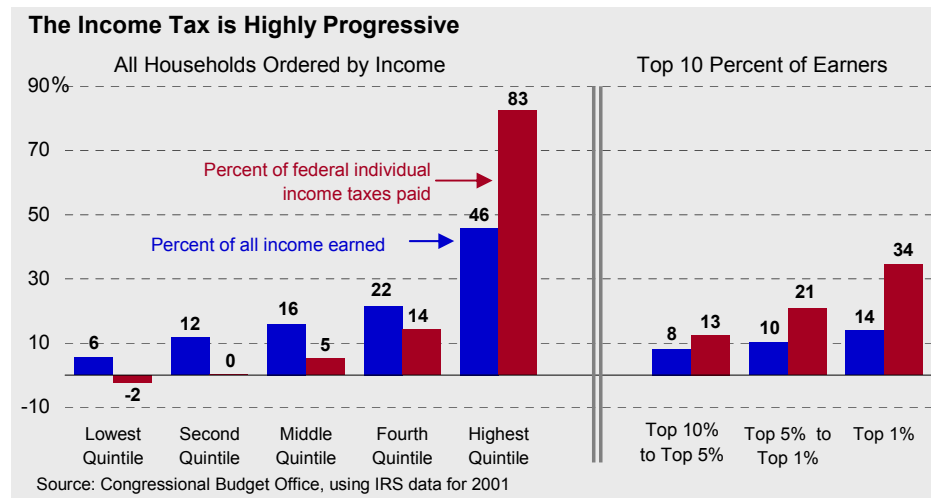
### The federal income tax system is highly progressive

A tax system is *progressive* if an earning group's share of the tax burden rises with its share of total income. A glance at the accompanying chart reveals that the U.S. has a highly progressive tax system. The bottom 40% of earners pay a small percentage or no income taxes — or even receive money in the form of refundable tax credits — while higher earners pay a rapidly rising share of their income in taxes.

### The lowest earners are generally free from paying income taxes

Due to refundable tax credits such as the Earned Income Tax Credit (EITC) and the child tax credit, the bottom 20% of earners — those households with

income less than \$16,300 — generally receive tax credits larger than their income tax liability. The next 20% of earners — those with income less than \$27,600 — earn 12% of all income, but pay less than half a percent of all taxes. Collectively, the bottom 40% of earners thus pays little or nothing in income taxes. (Like all taxpayers, however, they do face the time, frustration, and monetary costs of preparing their taxes and complying with the complex tax code.)



### The highest-earning groups pay a share of taxes much greater than their share of income

The highest-earning 20% of taxpayers earn less than half of all income but pay more than four-fifths of all federal income taxes. The highest-earning one percent bears an even more disproportionate share of the income tax burden, earning 14% of all income but paying 34% of federal income taxes, more than double their income share.

Because the largest share of federal income taxes is paid by the highest earners, lower-earning households bear a much smaller share of the overall income tax burden, thereby creating progressivity in the federal income tax system. However, it also means that federal revenues devoted to general government operations are particularly sensitive to changes in the income of the top earners.

**Source:** Congressional Budget Office (<http://www.cbo.gov/showdoc.cfm?index=5324&sequence=0>)

# Committee Publications

## Recent JEC reports include:

- “Recent Economic Developments: A Surge in Job Growth,” April 6, 2004. Reviews economic activity for the past month and highlights the employment growth surge.
- “A Primer on Individual Retirement Accounts (IRAs),” March 10, 2004. Answers a variety of questions about IRAs and other tax measures designed to reduce the tax burden on personal saving.
- “Medical Spending Growth & the Level of Insurance Coverage,” February 25, 2004. Compares the decline in out-of-pocket health spending with the increase in total health spending.
- “4% Economic Growth in the 4<sup>th</sup> Quarter,” January 30, 2004. Reviews the estimates of the gross domestic product (GDP) for the fourth quarter in 2003.

## Recent JEC hearings include:

- “The Employment Situation: March 2004,” April 2, 2004
- “Helping Americans Save,” March 10, 2004.
- “The Employment Situation,” March 5, 2004.
- “The Performance and Potential of Consumer Driven Health Care,” February 25, 2004.

Copies of the above publications can be found on-line at the committee’s website at [jec.senate.gov](http://jec.senate.gov). Publications issued by the vice-chair and ranking member can be accessed via the same website.