Peter G. Peterson Foundation
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How Much Do Americans Pay in Federal Taxes?

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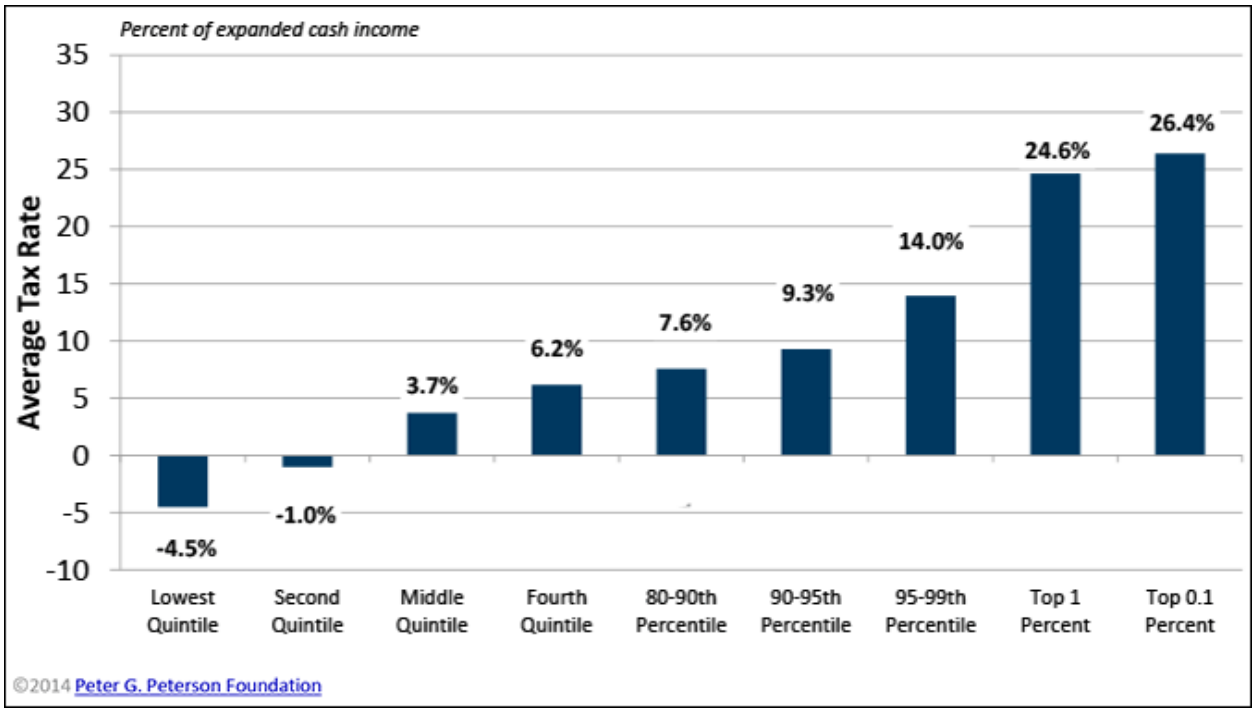
One of the most hotly debated issues of our time is the fairness of our federal tax system. But too often, discussions are clouded and confused because they focus on only one part of our federal tax system — usually the individual income tax — and ignore the fact that Americans pay many other taxes, such as the payroll tax, the corporate income tax, and the estate tax. To assess whether the tax system is fair or not, it is important to look at all of the taxes that people pay, not one particular form of taxation.

Using this broader approach dispels two misconceptions that have emerged in recent debates about our tax system. The first misconception is that "nearly half of taxpayers pay no federal tax." While it is true that many people pay no individual income tax, even those who do not pay income taxes pay payroll taxes if they are working. In fact, taxpayers with the bottom 90 percent of incomes pay, on average, more in payroll taxes than in income tax. The second misconception is that high-income Americans face low overall tax rates because they receive most of their income from tax-favored capital gains and dividends instead of wages and salaries. That conclusion, however, does not account for the fact that high-income taxpayers bear a disproportionate share of the corporate income tax, which significantly raises their overall effective tax rates.

To illustrate these points, the analysis below focuses on the aggregate tax rates borne by taxpayers with different levels of income and takes account of the major taxes imposed by the federal government: the individual income tax, the payroll tax, the corporate tax, and the estate tax. The data behind the analysis come from the non-partisan and independent Tax Policy Center.

Looking first at individual income taxes alone, the chart below shows effective tax rates based on income level. Effective tax rates include the statutory tax rate as well as the various tax deductions, exclusions, and credits that reduce taxpayers' liabilities. (Please see the Appendix for tables showing the statutory income and payroll tax rates.)

Effective tax rates: individual income taxes alone



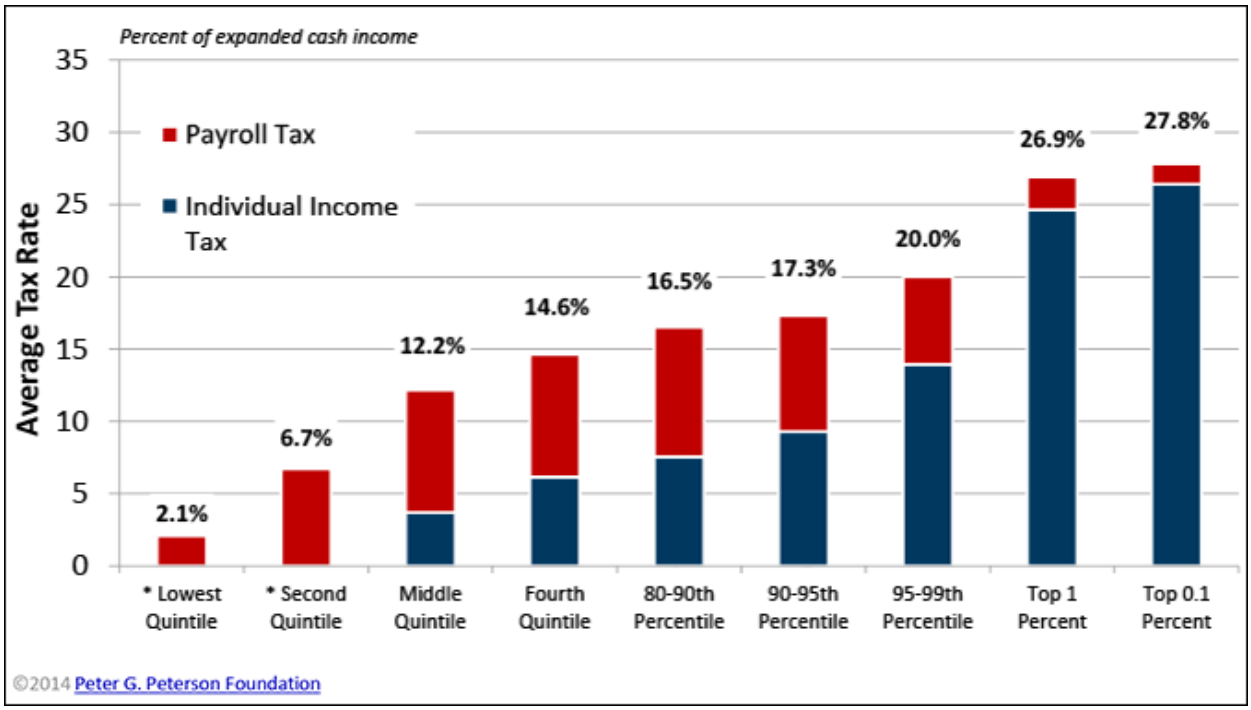
SOURCE: Tax Policy Center, *Table T13-0174*, July 2013. Data are for 2014. Compiled by PGPF.
NOTE: A quintile is one fifth of the population. The breaks are (in 2013 dollars): 20% $24,191; 40% $47,261; 60% $79,521; 80% $134,266; 90% $180,482; 95% $261,471; 99% $615,048; 99.9% $3,170,865.

The individual income tax is structured to be progressive in the sense that the effective tax rate increases as income rises. In 2014, the bottom 20 percent of taxpayers face an average tax rate of -4.5 percent, which is essentially a tax subsidy.[1] The top 1 percent of taxpayers face an average tax rate of 24.6 percent. However, within each of these categories there is variation among individuals, and it is true that some taxpayers with extremely high incomes face lower effective rates because much of their income comes from tax-favored capital gains and dividends.

As stated above, however, one must look at more than just individual income taxes to fully understand our tax system. One of the most significant taxes for a majority of Americans is the payroll tax, which helps to finance Social Security, Medicare, and unemployment benefits. The chart below adds payroll taxes to the income taxes in the prior chart.

[1] These effective tax rates are negative because tax credits are greater than the tax liabilities for this group and these credits can be refunded even if the taxpayer pays no tax.

Effective tax rates: individual income and payroll taxes combined



SOURCE: Tax Policy Center, *Table T13-0174*, July 2013. Data are for 2014. Compiled by PGPF.
NOTE: *Individual income tax rates for the lowest and second lowest quintiles are negative and are netted against the payroll tax rate. A quintile is one fifth of the population. The breaks are (in 2013 dollars): 20% $24,191; 40% $47,261; 60% $79,521; 80% $134,266; 90% $180,482; 95% $261,471; 99% $615,048; 99.9% $3,170,865.

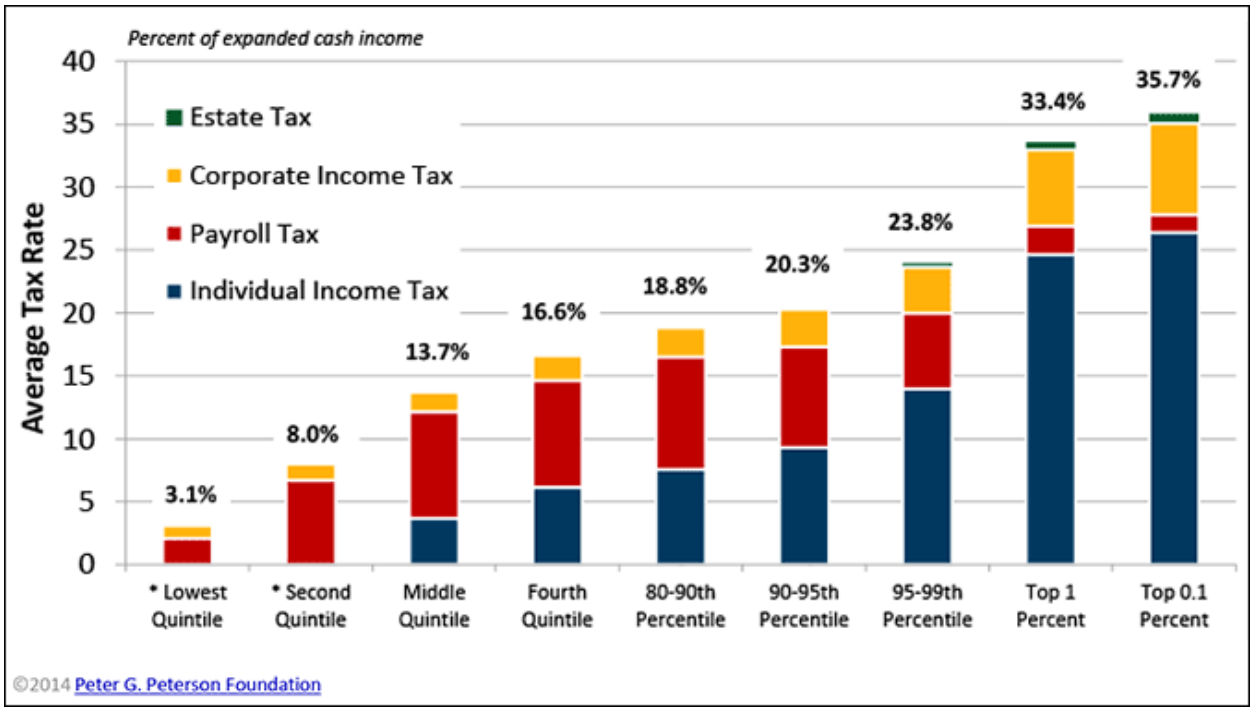
After combining payroll and income tax rates together, the distribution of the tax burden shown is less progressive.[2] As the effective tax rates at the bottom of the income distribution appear significantly higher, the effective rate for the very top 0.1 percent of taxpayers increases by only 1.4 percentage points largely because the payroll tax for Social Security does not apply to wages above a certain threshold, which is $117,000 in 2014.

However, this is still not the complete picture because one should also include two other significant sources of revenue for the federal government: the corporate income tax and the estate tax. The estate tax does not apply to estates below $5,340,000 for 2014, and therefore impacts the wealthiest Americans, who are at the high end of the income distribution. Determining who pays the corporate income tax, however, is much more difficult. There is a range of evidence on the question of how much of the corporate income tax is borne by investors, by which types of investors, and how much is borne by workers and consumers. Based on the weight of the evidence, the Tax Policy Center has chosen to allocate 60 percent of the burden of the corporate income tax to shareholders of companies; 20 percent to all capital owners; and 20 percent to labor. This methodology is similar to that employed by the U.S. Department of the Treasury and the Congressional Budget Office.

[2] These calculations include both the employee and the employer portion of the payroll tax for Social Security and Medicare's Hospital Insurance (HI) program, self-employment taxes, and the additional HI tax implemented by the Affordable Care Act.

Using this methodology, the following chart shows the combined effect of individual income, payroll, estate, and corporate income taxes (again, building on the previous charts):

Effective tax rates: income, payroll, corporate and estate taxes combined



SOURCE: Tax Policy Center, *Table T13-0174*, July 2013. Data are for 2014. Compiled by PGPF.
NOTE: *Individual income tax rates for the lowest and second lowest quintiles are negative and are netted against the payroll tax rate. A quintile is one fifth of the population. The breaks are (in 2013 dollars): 20% $24,191; 40% $47,261; 60% $79,521; 80% $134,266; 90% $180,482; 95% $261,471; 99% $615,048; 99.9% $3,170,865.

Overall, in the aggregate, our federal tax system is structured to be generally progressive, with higher-income taxpayers paying a larger share of their income in taxes. However, the composition of the type of taxes paid is very different for taxpayers at different ends of the income distribution. For low-income Americans, the payroll tax is the dominant tax; for high-income Americans, individual and corporate income taxes comprise most of their tax burden.

CONCLUSION

Our current tax system is broken in many respects. Altogether, the current federal income tax code, tax regulations, and explanations add up to more than 70,000 pages. Our tax laws are unnecessarily complex and loaded with numerous deductions, exemptions, credits, preferential rates, and other loopholes that distort economic decision-making and hurt our economy. There is a wide array of viewpoints on how best to fix our broken tax system, and how the tax burden should be distributed among various taxpayers. But whatever one's views may be, it is important to look at the existing tax system in the aggregate, so that reforms can be discussed and debated with a fuller understanding of its current impact.

APPENDIX

The following three tables provide additional detail about the actual current tax rates under the individual income tax system, the corporate income tax system, and the payroll tax. A central concept in any tax system is the marginal tax rate, which is the tax rate that applies to the last dollar of taxable income. Under the U.S. individual tax system, the marginal rate rises with higher income.

Federal individual income tax rates for married couples, filing jointly, 2014

Taxable Income		Marginal Tax Rate	Income Tax Owed
More than	But not more than		
$0	$18,150	10%	10% of taxable income
$18,150	$73,800	15%	$1,815 plus 15% of taxable income over $18,150
$73,800	$148,850	25%	$10,162.50 plus 25% of taxable income over $73,800
$148,850	$226,850	28%	$28,925 plus 28% of taxable income over $148,850
$226,850	$405,100	33%	$50,765 plus 33% of taxable income over $226,850
$405,100	$457,600	35%	$109,587.50 plus 35% of taxable income above $405,100
$457,600		39.6%	$127,962.50 plus 39.6% of taxable income over $457,600

SOURCE: Joint Committee on Taxation, *Overview of the Federal Tax System as in Effect for 2014 (JCX-25-14)*, March 2014.

Please note that the table above includes information only for married couples filing jointly — there are different tax rate schedules for singles, heads of households, and married filing separately (for more information about those tax schedules, see the complete individual income tax parameters).

Federal corporate income tax rates

Taxable Income		Marginal Tax Rate	Income Tax Owed
More than	But not more than		
$0	$50,000	15%	15% of taxable income
$50,000	$75,000	25%	$7,500 plus 25% of taxable income over $50,000
$75,000	$10,000,000	34%*	$13,750 plus 34% of taxable income over $75,000
$10,000,000		35%*	$3,388,250 plus 35% of taxable income over $10,000,000

SOURCE: Joint Committee on Taxation, *Overview of the Federal Tax System as in Effect for 2014 (JCX-25-14)*, March 2014.
* The first two graduated rates described above are phased out for corporations with taxable income between $100,000 and $335,000. As a result, a corporation with taxable income between $335,000 and $10,000,000 effectively is subject to a flat tax rate of 34 percent. Also, the application of the 34-percent rate is gradually phased out for corporations with taxable income between $15,000,000 and $18,333,333, such that a corporation with taxable income of $18,333,333 or more effectively is subject to a flat rate of 35 percent.

Payroll tax rates for 2014: Social Security, Medicare, and unemployment

	Taxable Wage Income	Paid by Employer	Paid by Employee	Total Rate
Social Security	For 2014: Up to $117,000	6.2%	6.2%	12.4%
Medicare	No limit	1.45%	1.45%*	2.9%
Unemployment	Up to $7,000	0.6%	n.a.	0.6%**

SOURCE: Joint Committee on Taxation, *Overview of the Federal Tax System as in Effect for 2014 (JCX-25-14)*, March 2014.
* The employee portion of the Medicare tax is increased by an additional tax of 0.9 percent on wages received in excess of a specific threshold amount. However, unlike the general 1.45 percent Medicare tax on wages, this additional tax is on the combined wages of the employee and the employee's spouse, in the case of a joint return. The threshold amount is $250,000 in the case of a joint return, $125,000 in the case of a married individual filing a separate return, and $200,000 in any other case (unmarried individual, head of household or surviving spouse).
** The statutory rate is 6% on wages up to $7,000, but the employer receives a credit of 5.4% for payments to state unemployment funds. As a result, the federal government receives a maximum of $42 per worker.

Please note that this report does not include analysis on federal excise taxes on products like gasoline, diesel fuel, tobacco products, airline tickets, and alcohol, nor does it include state and local income, property, or excise taxes. Assigning these taxes by income level is extremely difficult and uncertain, and would also result in differences from state to state, and even county to county. Overall, including these taxes would most likely flatten the progressivity of the tax system somewhat (because they disproportionately impact lower-income taxpayers, in general), but it would not fundamentally alter the information provided in this report. [3]

[3] These Congressional Budget Office, *Historical Effective Tax Rates, 1979 to 2005*, December 2007.