Overview

In upcoming battles over tax reform, one question sure to spark heated debate is whether the current system is “fair.” Do wealthy Americans pay “enough”? Does the middle class pay too much?

Who pays the most in federal taxes?

The federal tax system is generally progressive (versus regressive)—meaning tax rates are higher for wealthy people than for the poor. More than two-thirds of all federal taxes collected in 2010 came from the top 20% of taxpayers, and more than a fifth came from the wealthiest 1% of filers (with $500,000 in income or more). The top 1% also paid three-fourths of all estate taxes, although this accounted for just 1% of all federal revenues.

Meanwhile, the poorest fifth of taxpayers got more money back from the federal government than they paid in. This is because of programs such as the Earned Income Tax Credit, which gives lower-income working Americans tax refunds even if they don’t owe taxes.

<table>
<thead>
<tr>
<th>2010 taxpayer income (in 2011 dollars)</th>
<th>Share of all federal taxes paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>$16,961 and under (Bottom 20%)</td>
<td>-0.1%</td>
</tr>
<tr>
<td>$16,962 to $33,870 (21%-40%)</td>
<td>2.8%</td>
</tr>
<tr>
<td>$33,871 to $59,154 (41%-60%)</td>
<td>9.8%</td>
</tr>
<tr>
<td>$59,155 to $103,428 (61%-80%)</td>
<td>18.7%</td>
</tr>
<tr>
<td>$103,428 and over (Top 20%)</td>
<td>68.6%</td>
</tr>
</tbody>
</table>

Are current tax rates too high?

For most of the last century, the top tax rate has been higher than the current top rate of 35%. From 1944 through 1980, the top rate ranged from 70% to 94%. In terms of effective tax rates—the amount people pay after deductions, exemptions and other benefits—the current average burden on a family of four earning the median income is near its lowest since 1955.

Could the tax code be more “fair”?  

The amount of income subject to payroll taxes is capped ($106,800 in 2010), which means these taxes fall more heavily on poorer Americans. In 2010, the top 1% of taxpayers paid just 4% of all payroll taxes because so much of their income was sheltered from this tax.

The 2001 and 2003 tax cuts also mostly benefited the wealthy. According to the Tax Policy Center, the average break for millionaires will be $135,489 in 2011, versus $1,242 for people earning between $75,000 and $100,000.

Wealthier taxpayers are also more likely to “itemize.” Roughly 70% of taxpayers don’t take advantage of deductions for home mortgage interest, state and local taxes, IRA contributions and other benefits because their expenses for these items don’t exceed the “standard” deduction ($11,400 for a married couple in 2010).
Links to Other Resources

- Joint Committee on Taxation - Present Law And Historical Overview of The Federal Tax System
  http://www.jct.gov/publications.html?func=download&id=3719&chk=3719&no_html=1

- Joint Committee on Taxation - General Explanation of Tax Legislation Enacted In The 111th Congress
  http://www.jct.gov/publications.html?func=download&id=3775&chk=3775&no_html=1

- The Tax Policy Center – Tax Facts
  http://www.taxpolicycenter.org/taxfacts/index.cfm

- The Tax Policy Center – The Distribution of Federal Taxes, 2009-2012

- Internal Revenue Service – Tax Statistics

- Internal Revenue Service – IRS Data Book
  http://www.irs.gov/taxstats/article/0,,id=102174,00.html

- U.S. Department of the Treasury – Office of Tax Analysis Resource Center
  http://www.treasury.gov/resource-center/tax-policy/Pages/otapapers-index.aspx