The U.S. Tax System: Too Taxing on the Wealthy?

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The U.S. Tax System: Too Taxing on the Wealthy?

Megan Leighty

University of Redlands
Introduction

Many citizens of the United States have conversations about the tax system. More specifically, they discuss the appropriate rates for the tax brackets, methods of reducing tax liability, comparisons of the U.S.’s tax system to those of other countries, whether some groups of taxpayers may or may not be taxed unfairly, and many other topics of interest. Since taxes are an inevitable part of being a U.S. citizen, taxpayers are unsurprisingly concerned about how the system affects them. A survey by the Pew Research Center found that 54 percent of Americans believe they pay a fair amount in taxes for what they receive from the government, but 40 percent argued that they pay more than their “fair share,” and 60 percent of Americans believe that the burden is too light on some groups of people (DeSilver, Drew).

An important topic of concern is the tax burden on each income group. On all levels of the income spectrum, taxpayers care about these issues. No one enjoys feeling overburdened by involuntary taxes, and most people argue that it is unfair to put too much of the tax burden on any group of taxpayers. This research will describe the burdens that various types of taxes have on people in different income quintiles. Also included are some of the tax rates and benefits that may disproportionately benefit certain income classes of taxpayers.

The current U.S. tax system does not allow for proportional distribution of tax burdens among different levels of income. While there are some parts of the system that reduce the progressivity of the tax burden distribution, the wealthiest taxpayers are, on average, disproportionately burdened by taxes in proportion to the income they earn.

Before jumping into the conversation, some terms that often come up in conversations about tax equality should be defined. The first term to define is “burden.” “Burden” will mean
the “share of taxes.” Every taxpayer is burdened in some way, because they all must pay some taxes, but a taxpayer who pays more taxes will take on a greater burden.

The next term to clarify is “progressive.” The word will be used to describe an increasing trend in the data. Some commentators tend to use the term differently than others, so it is necessary to include a discussion of what a progressive tax system will entail. A progressive tax system will not necessarily include a top tax bracket with a very high rate. A system with a top tax bracket of 39.6 percent (The Tax Foundation, “2017 Tax Brackets”) like the United States could have a more progressive tax system than a system with a top tax bracket of 70 percent. As Forbes contributor Tim Worstall pointed out, progressiveness is measured by the differences in the tax rates paid by the poorest and wealthiest taxpayers. For example, if the lowest income quintile pays an average tax rate of 5 percent and the highest income quintile pays 10 percent, that is a progressive tax system. However, if the lowest income quintile pays 5 percent and the highest pays 15 percent, that is an even more progressive tax system (Worstall, Tim). As a general rule, a “progressive burden” disadvantages higher-income taxpayers, while a “regressive burden” disadvantages lower-income taxpayers.

In considering the progressiveness of the current U.S. tax system and the burden it places on certain income classes of taxpayers, the most concerned group would be the taxpayers themselves. The lower, middle, and upper classes may have different perspectives on how the tax system affects them, so throughout the research, the households will be separated into quintiles and percentiles based on income.

**Disproving the Myth of High-Income Households Paying Little to No Income Taxes**

Part of the reason why political arguments about the tax system are significantly divided is the lack of education about who really pays income taxes. The media likes to push the
narrative that wealthy individuals pay very little in income taxes, or none at all. As shown in the
table below that displays the income taxes paid by taxpayers for the 2014 tax year as a
percentage of taxable income, grouped by AGI range, it is true that the effective tax rates of
multi-millionaires decrease as income increases. The effective tax rate increases with AGI, but
begins to drop after the $2 million to $5 million AGI range (IRS, “SOI Tax Stats,” Table 1.1).
However, the data proves that the average effective tax rate for high-income taxpayers is around
30 percent, which is far from the myth that wealthy taxpayers “pay next to nothing.” While there
may be the occasional high-income individual who pays next to nothing in taxes, the effective
tax rates shown in the table prove that for every taxpayer who pays much less than the
approximately 30 percent effective tax rate, there are numerous taxpayers reporting incomes of
$500,000 or greater who pay effective tax rates near 30 percent. The tax system does not allow
for more than a small handful of high-income taxpayers to legally pay less in income taxes than
the average low- or middle-income taxpayer. The real issue lies in the distribution of burden of
federal taxes that affects the majority of taxpayers.

<table>
<thead>
<tr>
<th>Size and accumulated size of adjusted gross income</th>
<th>Number of returns</th>
<th>Number of returns as a percentage of the total</th>
<th>Total taxable income amount for all returns in each group (in thousands of dollars)</th>
<th>Total income tax liability after credits (in thousands of dollars)</th>
<th>Income tax as a percentage of taxable income</th>
<th>Mean tax paid per group (in thousands of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All returns</td>
<td>148,606,578</td>
<td>100.00%</td>
<td>6,846,372,042</td>
<td>1,355,304,645</td>
<td>19.80%</td>
<td>9.12</td>
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<tr>
<td>$30,000 and below</td>
<td>66,588,708</td>
<td>44.81%</td>
<td>1,911,828,843</td>
<td>20,625,167</td>
<td>10.75%</td>
<td>0.31</td>
</tr>
<tr>
<td>$30,000 to $75,000</td>
<td>45,467,037</td>
<td>30.60%</td>
<td>1,234,281,094</td>
<td>152,231,368</td>
<td>12.33%</td>
<td>3.35</td>
</tr>
<tr>
<td>$75,000 to $100,000</td>
<td>12,825,769</td>
<td>8.63%</td>
<td>772,570,399</td>
<td>105,597,731</td>
<td>13.67%</td>
<td>8.23</td>
</tr>
<tr>
<td>$100,000 to $200,000</td>
<td>17,501,251</td>
<td>11.78%</td>
<td>1,775,890,732</td>
<td>297,090,817</td>
<td>16.73%</td>
<td>16.98</td>
</tr>
<tr>
<td>$200,000 to $500,000</td>
<td>4,978,534</td>
<td>3.35%</td>
<td>1,168,977,449</td>
<td>273,784,889</td>
<td>23.42%</td>
<td>54.99</td>
</tr>
<tr>
<td>$500,000 to $2,000,000</td>
<td>1,092,492</td>
<td>0.74%</td>
<td>809,488,869</td>
<td>238,648,415</td>
<td>29.48%</td>
<td>218.44</td>
</tr>
<tr>
<td>$2,000,000 to $5,000,000</td>
<td>109,475</td>
<td>0.07%</td>
<td>292,257,099</td>
<td>92,857,091</td>
<td>31.77%</td>
<td>848.20</td>
</tr>
<tr>
<td>$5,000,000 to $10,000,000</td>
<td>26,579</td>
<td>0.02%</td>
<td>162,426,496</td>
<td>50,823,478</td>
<td>31.29%</td>
<td>1,912.17</td>
</tr>
<tr>
<td>$10,000,000 or more</td>
<td>16,733</td>
<td>0.01%</td>
<td>438,651,059</td>
<td>123,645,689</td>
<td>28.19%</td>
<td>7389.33</td>
</tr>
</tbody>
</table>
Purposes of the Tax System

Former Justice of the United States Supreme Court, Oliver Wendell Holmes, said, “Taxes are what we pay for a civilized society.” The purpose of taxes is “to pay the Debts and provide for the common Defense and general Welfare of the United States” (U.S. Department of the Treasury). In other words, taxes are essential for the government to provide the services that the public demands.

Many people believe that certain taxes and deductions serve the purpose of social engineering. “Tax deductions have become devices for social engineering…The fact is that most of the accused provisions were not devised as an escape hatch from just taxes, but because, rightly or wrongly, it was felt that they would serve the common good.” The point of this argument is that certain taxes and deductions are put in place not to disadvantage or benefit the taxpayers, or to increase or decrease the tax revenue, but instead to encourage or discourage certain behaviors. There is a Mortgage Interest Deduction that encourages families to pursue the American dream of owning a home. There are deductions for charitable contributions to encourage giving to those in need. Parents can claim their children as dependents, which allows the parents to reduce their tax liabilities and have more money in their pockets to provide for their children. Sin taxes are placed on goods such as tobacco and alcohol to discourage consumption of those products (Nizer, Louis).

The government uses the tax system not only for social engineering, but also to encourage certain behaviors in the economy. Economic stimulation after the 9/11 attacks was the purpose of the low tax rates on long-term capital gains and qualified dividends. The Bush Administration passed the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003, which encouraged investments in stocks. As a result, companies were more inclined to distribute
dividends. Additionally, the JGTRRA encouraged spending and decreased economic uncertainty by putting more money in the pockets of consumers (Amadeo, Kimberly).

Part 1 – Distribution of Burden in the Aggregate

Taxes Paid vs. AGI

One method of determining tax burden is to look at the amount paid in taxes compared to adjusted gross income (AGI), which is gross income minus adjustments to income (IRS, “Definition of Adjusted Gross Income”). AGI is a good measure to consider because it does not include the standard or itemized deductions or tax credits. Additionally, many organizations, including the IRS, use AGI as a base measurement when presenting data, so AGI will be the main base measurement throughout most of the paper.

<table>
<thead>
<tr>
<th>Income Percentile</th>
<th>AGI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 0.1%</td>
<td>$2,161,175 and above</td>
</tr>
<tr>
<td>Top 1%</td>
<td>$434,682 and above</td>
</tr>
<tr>
<td>Top 5%</td>
<td>$175,817 and above</td>
</tr>
<tr>
<td>Top 10%</td>
<td>$125,195 and above</td>
</tr>
<tr>
<td>Top 25%</td>
<td>$73,354 and above</td>
</tr>
<tr>
<td>Top 50%</td>
<td>$36,055 and above</td>
</tr>
<tr>
<td>Bottom 50%</td>
<td>Below $36,055</td>
</tr>
</tbody>
</table>

![Chart 1 - Top 50% vs. Bottom 50% - Share of AGI and Income Taxes](chart.png)
From a cumulative perspective, in 2012, 136.1 million taxpayers reported a total of $9.04 trillion in AGI. While considering the $1.1 trillion paid in taxes, reported figures can be used to discover which groups of paid the most taxes compared to their respective AGIs. As seen in Chart 1, the top 1 percent (AGI of $434,682 and above) reported only 21.9 percent of the total AGI amount reported, but paid 38.1 percent of the total income taxes. To put into perspective, of the $1.98 trillion of AGI that the top 1 percent reported, they paid taxes of $419.1 billion. Compare that to the other 99 percent, who reported a cumulative $7.94 trillion of AGI but paid $680.9 billion in taxes, or the remaining 61.9 percent of taxes (Pomerleau, Kyle & Lundeen, Andrew).

The tax burden can also be seen from a perspective that divides the top and bottom halves of taxpayers by income. Using the information on income tax shares from 2012 in Chart 1, the top 50 percent of taxpayers (AGI of $36,055 and above) paid 97.2 percent of the $1.1 trillion total income taxes, equal to about $1.0692 trillion; while the bottom 50 percent (AGI below $36,055) paid the remaining 2.8 percent of total income taxes, equal to about $30.8 billion. However, the top 50 percent reported AGI equal to approximately 88.9 percent of the total AGI, so their share of income taxes compared to their share of AGI (88.9 percent to 97.2 percent) is closer than the difference between the top 1 percent’s AGI share and income tax share (21.9 percent to 38.1 percent). Possibly a more surprising discovery is that the bottom 50 percent of all taxpayers reported only 11.10 percent of total AGI (Pomerleau, Kyle & Lundeen, Andrew). Deductions usually reduce the tax liabilities of lower income households more than the tax liabilities of higher income households. The greater benefits of deductions for lower-income households contribute to the differences explained above. The effects of deductions on tax burden will be discussed in greater detail later.
Chart 2 shows which groups paid the most income taxes compared to their shares of AGI. Taxpayers in the top 1 percent AGI group (AGI of $434,682 and above) and the top 1-5 percent AGI group (AGI between $175,817 and $434,628) paid a larger share of taxes than their shares of AGI. However, each AGI percentile below them paid either a close-to-equal share of taxes or much less in taxes compared to their shares of AGI. The percentile right below them, the taxpayers with the top 5-10 percent AGIs (AGI between $125,195 and $175,817), paid a nearly equal share of income taxes compared to their AGIs, or 11 percent of total AGI to 11.2 percent of total income taxes. That means that on average, households with AGIs between $125,195 and $175,817 bore almost equal tax burden for their share of total AGI. Each of the percentiles below the 5-10 percent group paid smaller shares of taxes for their shares of AGI. The greatest difference can be found in the bottom 50 percentile, represented by households with AGIs equal to or less than $36,055. They paid 2.8 percent of the total income taxes compared to their 11.1 percent share of total AGI (Pomerleau, Kyle & Lundeen, Andrew).

Social Security and Medicare Taxes
Social Security, Medicare, and unemployment insurance programs are progressive in the benefits they provide. The Social Security benefits that lower income taxpayers receive make up a higher proportion of their previous earnings than for higher-income taxpayers, and high-income Medicare beneficiaries pay more in taxes and premiums for the same services that low-income beneficiaries receive (CBPP, “Federal Payroll Taxes”). The payroll taxes—Social Security’s Old-Age, Survivors, and Disability Insurance (OASDI) and Medicare’s Hospital Insurance (HI)—have had rates of 6.2 and 1.45 respectively since 1990 (SSA, “Social Security & Medicare Tax Rates”).

In 2013, individuals with wages greater than $200,000, and $250,000 for married filing jointly, were required to pay an additional 0.9 percent tax on wages above the stated threshold for the Additional Medicare Tax (IRS, “Additional Medicare Tax”). For taxpayers receiving Medicare benefits, if their MAGI is greater than $170,000 for married filing jointly, or $85,000 for the other filing statuses, they must pay higher premiums for Part B and Medicare prescription drug coverage. However, the higher premiums affect less than 5 percent of those who are covered by Medicare (SSA, “Medicare Premiums”). Both of these examples support a slightly progressive payroll tax system. However, in 2017, the contribution and benefit base for Social Security’s OASDI is $127,200, meaning earnings above that base amount are not subject to the payroll tax for OASDI. This causes the OASDI tax burden to be very regressive relative to income level because the base prevents any taxes being collected on the earnings above $127,200 for high-income taxpayers (SSA, “Contribution”).

Excise Taxes

Excise taxes are imposed on certain goods and services. The excise tax is based on either per-unit or as a percentage of the sales price. Although the taxes are collected from producers
and wholesalers, the burden is passed onto the consumers when they purchase the goods or services (Tax Policy Center, “Federal Excise Taxes”). The top five categories of excise taxes and the shares of revenues collected form each can be found in the chart below.

Most excise taxes place regressive tax burdens by income level. For example, while the taxes on certain highway-related products such as trucks, trailers, and tires may burden upper-income taxpayers more than low-income taxpayers since the higher income earners are more likely to be able to purchase these goods, gasoline and diesel taxes make up over 90 percent of the tax revenue dedicated to highways. The gasoline tax is regressive because taxpayers at all income levels typically own vehicles, and when they refill their tanks, the excise tax per gallon over the course of a year is a greater portion of the AGIs of low-income taxpayers than taxpayers with higher incomes (Tax Policy Center, “Federal Excise Taxes”).

There are also excise taxes on health care. The greatest tax is imposed on health insurance providers according to their market share, which certainly gets passed onto consumers. While wealthier taxpayers may have more expensive insurance packages, it is likely that the burden of the excise taxes on health care is regressive based on income. Even for those lower-
income taxpayers who cannot afford insurance, there is an excise tax (the “individual mandate”) for not having a health insurance plan (Tax Policy Center, “Federal Excise Taxes”).

**Net Investment Income Tax**

Investment income includes taxable interest, ordinary and qualified dividends, capital gain distributions, and various other incomes from investments. The IRS imposes a Net Investment Income Tax (NIIT) of 3.8 percent on the investment incomes of individuals, estates, and trusts that have modified adjusted gross income (MAGI) above a threshold amount. The threshold amount is a modified adjusted gross income of $200,000 for single and head of household; $125,000 for married filing separately; and $250,000 for married filing jointly and qualifying widower with dependent child (IRS, “Pub 550”). Since the only difference between AGI and MAGI is that you add back certain, rare deductions to AGI to calculate MAGI, there will be the assumption for purposes of simplicity that the threshold amounts for the income percentiles found in the “Taxes Paid vs. AGI” section of this paper would not change much if MAGI figures were used instead of AGI figures (Turbo Tax, “AGI and MAGI”). Under this assumption, with the exception of some households filing as married filing separately, all households subject to the NIIT fell in the top 5 percent income percentile in 2012, which includes households with AGIs above $175,817. This implies that the NIIT tax is a highly progressive tax, since it only applies to a small group of households with six-figure MAGIs.

**Alternative Minimum Tax**

The Alternative Minimum Tax (AMT) is an additional tax that some taxpayers must pay on top of the federal income tax. Alternative minimum taxable income (AMTI) is calculated by adding or subtracting adjustments to the taxpayer’s taxable income, and then adding certain tax preferences. The first $186,300 of AMTI is taxed at 26 percent, and there is a 28 percent tax on
AMTI exceeding $186,300. AMT is calculated by subtracting from the tax on AMTI the foreign tax credit, nonrefundable tax credits, and the regular federal tax paid for that year (Smith, Hasselback, & Harmelink, location 9231).

Every taxpayer with AMTI is allowed an exemption amount. For 2016, the exemption amounts are $83,800 for married filing jointly and surviving spouses; $53,900 for single; and $41,900 for married filing separately and estates or trusts. However, the exemption is reduced by 25 cents per $1 for AMTI over $159,700 for married filing jointly; $119,700 for single; and $79,859 for married filing separately. This means that for households with very high incomes, they may not receive any exemption for AMTI if AMTI is over a certain amount and the exemption amount gets entirely cancelled out by the reduction of 25 cents per $1 over the threshold (Smith, Hasselback, & Harmelink, location 9334).

The AMT is intended to ensure that taxpayers with high incomes do not legally take advantage of deductions and other tax breaks to the extent to where they pay hardly anything in taxes. Congress’s goal for the AMT was to make the tax system “fairest” (Turbo Tax, “Alternative Minimum Tax”). Although the AMT was intended to hit only the highest earners, the AMT’s effects have trickled down into the upper-middle class. As shown in the table below, 61 percent of taxpayers with AGIs between $200,000 and $500,000 reported the AMT on their returns, but only 37 percent of taxpayers with incomes of $500,000 or more reported the tax. Although less than one percent of taxpayers with AGIs under $100,000 reported the AMT (IRS, “SOI Tax Stats,” Table 1.4), the tax that was meant for only the wealthiest households ended up on the returns of some lower-income households as a result of the AMT not being indexed for inflation and Congress enacting cuts to the income tax (Tax Policy Center, “AMT”).
When enacted, the AMT primarily applied to certain “preference” items that were either taxed at rates below the bracket rates, or not taxed at all, under the regular income tax. In 1969, the largest preference item considered was capital gains that were not taxed at the bracket rates (Tax Policy Center, “AMT”). Today, both the AMT and NIIT target high-income taxpayers to pay additional taxes on income earned from capital gains. However, while the NIIT is intended to impose an extra tax on the investment incomes of high-income taxpayers, the AMT’s several adjustments to taxable income targets high-income taxpayers who managed to legally lower their taxable incomes by “too much.” As a result of the increasing tax rate on AMTI and the exemption amounts being reduced when AMTI is over a certain amount, the AMT is certainly a progressive tax, where it affects primarily high-income taxpayers.

Part 2 – Income Taxed at Rates Lower Than the Standard Tax Brackets

Tax-Exempt Interest
Tax-exempt interest may be viewed as “unfair” because the recipient does not have to pay any federal taxes on the income received. Municipal bonds are common sources of tax-exempt interest income. While income derived from municipal bonds may be taxed under state guidelines, federal guidelines exempt the income from being taxed (Benge, Vicki A). The tax-exempt status of municipal bonds allows state and local governments to borrow at cheaper rates than competitors, such as corporations (Tax Policy Center, “Municipal Bonds”). By having
income outside of living expenses that they can invest in sources that generate even more income with no federal tax obligations, many would argue that wealthier households have a great advantage over lower income households. 45 percent of all taxpayers with AGIs above $500,000 reported tax-exempt interest. Tax-exempt interest makes up only 1.33 percent of the total AGI of taxpayers with AGIs above $500,000, but some lower income taxpayers may argue that the wealthy should not have access to any tax-exempt interest income (IRS, “SOI Tax Stats,” Table 2.1).

**Qualified Dividends**

![Chart 5 - Qualified Dividends - Percent of Total Returns by Income Group](image-url)
Qualified dividends are taxed differently from earned income. While qualified dividends are tax-exempt for taxpayers whose taxable incomes fall in the 10 percent and 15 percent tax brackets; they are taxed at 15 percent for taxpayers with taxable incomes in the 25 percent, 28 percent, and 33 percent brackets; and at 20 percent for taxpayers with taxable incomes that fall in the 39.6 percent tax bracket (Wells Fargo). While qualified dividends offer tax advantages for the lower and middle income taxpayers, an argument similar to the one against tax-exempt interest can be made. Since wealthy taxpayers have larger incomes and therefore have more money to invest than lower income taxpayers, they generally reap most of the benefits from the low tax rates on qualified dividends (IRS, “SOI Tax Stats,” Table 2.1).

The data shows that 82.14 percent of taxpayers with AGIs above $500,000 reported qualified dividends, while only 22.62 percent of taxpayers with incomes under $100,000 reported them. Additionally, qualified dividends made up about 5 percent of the total AGI of taxpayers with AGIs above $500,000. Qualified dividends made up under 2.5 of the total AGI of taxpayers with AGIs between $200,000 and $500,000. The tax benefits from qualified dividends are greater for lower income households. However, since lower income households report
qualified dividends significantly less frequently than higher income households, a conclusion can be made that the lower income households generally benefit less from the low taxes on qualified dividends (IRS, “SOI Tax Stats,” Table 2.1).

A similarity found between tax-exempt interest and qualified dividends is that the lowest AGI group—those with incomes under $35,000—receive income from these sources that make up a greater portion of AGI than the group about them ($35,000 to $75,000 AGI) despite receiving lower incomes. A possible reason why taxpayers in the lower income group receive a greater portion of AGI from non-taxable sources is that those people in the lower income group are retirees who invested in municipal bonds and stocks. The retired taxpayers receive lower incomes than they did while working and are now able to take advantage of tax-exempt qualified dividends since their incomes fall in the lower income brackets.

Part 3 – Deductions and Credits

The Home Mortgage Interest Deduction

The home mortgage interest deduction includes any interest paid on a loan secured by a main or a second home, and includes mortgages, second mortgages, lines of credits, and home equity loans. The requirements for deducting home mortgage interest include filing a Form 1040 and itemizing deductions on Schedule A, and the mortgage must be a secured debt on a qualified home in which the taxpayer has an ownership interest. The home acquisition debt limit cannot exceed $1 million, or $500,000 if married filing separately. While this limit may disadvantage certain high-income households with loans exceeding $1 million, the analysis below proves that the limitation generally does not disadvantage the wealthiest households (IRS, “Pub. 936”).

According to tax return data from 2014, for all taxpayers reporting itemized deductions, the percentage of total returns reporting the home mortgage interest deduction appears to be the
greatest for middle income households. Referring to the table below, only about 55 percent households with AGIs under $35,000 who itemized reported the mortgage interest deduction, and the percentage increased to 71 percent for households with AGIs between $35,000 and $75,000. The low percentage of lower-income households reporting the mortgage interest deduction is not surprising considering that lower-income households would struggle to make the mortgage payments, and some may not qualify for a loan. The percentage of households who itemized and reported the deduction is greatest in the $100,000 to $200,000 AGI range, where over 82 percent of itemizing households reported the deduction. This percentage figure drops down to only 69.15 percent of households with AGIs of $500,000 and above reporting the deduction. This distribution shows that middle class households are the most likely to take this deduction. A possible reason why wealthier households are less likely to report the deduction is because they can afford to make large payments and take out mortgage loans for shorter periods of time, thus paying off their homes faster and having no interest to deduct once the debt is repaid (IRS, “Pub. 936”).

However, when considering the average deduction amount, the wealthiest households benefit the most. Referring to the table below, the wealthiest households with AGIs of about $500,000 took an average $19,757 home mortgage interest deduction, while the deductions for each of the income groups decreased with AGI. On average, the households with $35,000 or below AGI reported a deduction of only $6,624 (IRS, “Pub. 936”). Even though wealthier households are less likely to report the deduction, they receive greater deductions when they do. Wealthier taxpayers are able to take out mortgages for more expensive homes, and thus they generally pay greater amounts of interest and report greater deductions.
### Adjusted gross incomes

<table>
<thead>
<tr>
<th>Category</th>
<th>Total returns reporting itemized deductions</th>
<th>Returns reporting mortgage interest deduction</th>
<th>Percent of total returns</th>
<th>Total Amount Reported (in thousands)</th>
<th>Amount divided by # of returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>All returns, total</td>
<td>43,965,083</td>
<td>32,729,222</td>
<td>74.44%</td>
<td>286,749,017</td>
<td>8.761</td>
</tr>
<tr>
<td>$35,000 and below</td>
<td>5,518,897</td>
<td>3,014,058</td>
<td>54.61%</td>
<td>19,963,978</td>
<td>6.624</td>
</tr>
<tr>
<td>$35,000 to $75,000</td>
<td>12,028,518</td>
<td>8,564,815</td>
<td>71.20%</td>
<td>57,496,668</td>
<td>6.713</td>
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<tr>
<td>$75,000 to $100,000</td>
<td>7,179,544</td>
<td>5,678,032</td>
<td>79.09%</td>
<td>43,373,383</td>
<td>7.639</td>
</tr>
<tr>
<td>$100,000 to $200,000</td>
<td>13,455,839</td>
<td>11,049,128</td>
<td>82.11%</td>
<td>102,421,078</td>
<td>9.270</td>
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<tr>
<td>$200,000 to $500,000</td>
<td>4,639,462</td>
<td>3,632,963</td>
<td>78.31%</td>
<td>47,881,577</td>
<td>13.180</td>
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<tr>
<td>$500,000 and above</td>
<td>1,142,826</td>
<td>790,227</td>
<td>69.15%</td>
<td>15,612,334</td>
<td>19.757</td>
</tr>
</tbody>
</table>

### Itemized Deductions Limitations

Chart 7 - Itemized Deductions in Excess of Limitation - Percent of Total Returns by Income Group
Itemized deductions are limited for higher income households. Households with AGIs above $309,900 with the status of married filing jointly; $284,050 if filing as head of household; $258,250 if single; and $154,950 if married filing separately all have limitations on itemized deductions. These limitations are imposed on certain itemized deductions, such as taxes paid, interest paid, gifts to charity, job expenses, and other miscellaneous deductions, excluding gambling and casualty or theft losses. If the deductions are subject to the limit, the itemized deductions the taxpayer can take are limited to the smaller of 80 percent of the itemized deductions affected by the limit, or 3 percent of the amount by which the AGI exceeds the limit, based on filing status (IRS, “Publication 17, Ch 29”).

The limitation on itemized deductions places a burden on the wealthy in that they cannot reduce their tax liability above a certain threshold. Nearly 100 percent of all returns reporting itemized deductions by taxpayers with AGIs over $500,000 had itemized deductions in excess of the limitation. For taxpayers with AGIs between $200,000 and $500,000, 35 percent also had excess itemized deductions. The taxpayers with AGIs of $500,000, on average, were not able to take itemized deductions equal to 2.27 percent of the group’s total AGI as a result of these
limitations, while taxpayers with AGIs under $200,000 faced virtually none of these limitations (IRS, “SOI Tax Stats,” Table 2.1).

Medical Expense Deduction

![Chart 9 - Total Medical Expenses - Percent of Total Returns with Itemized Deductions by Income Group](chart9.png)

![Chart 10 - Average Medical Deduction Reported](chart10.png)
When considering who is able to report the medical and dental expenses deduction, the deduction appears most frequently on returns with low AGIs, as shown in Chart 9. Since a taxpayer can only deduct expenses in excess of 10 percent of AGI (IRS, “Topic 502”), taxpayers with high AGIs are much less likely to be able to deduct their medical expenses. Additionally, higher-income taxpayers can generally afford insurance that covers more of their expenses, so they generally pay less out-of-pocket for medical treatment than a lower-income household would pay to receive the same treatment. Only 0.68 percent of returns of the households with AGIs above $500,000 that itemized deductions reported medical expenses. This figure can be compared with the nearly 53 percent of taxpayers with GIs below $35,000 that reported medical expenses (IRS, “SOI Tax Stats,” Table 2.1).

Shown in Chart 10, the amount of the medical deduction taken increased with AGI. The wealthiest households that reported a medical deduction took a deduction of $15,011 on average, compared to the $1,022 average deduction that the poorest households reported. However, simply looking at the average deduction does not accurately portray whether or not the deduction is progressive or regressive. When looking at the total deduction taken by each income group compared to the group’s total AGI, a highly regressive trend can be found. The total medical
expense deduction for the $35,000 and below AGI group is equal to nearly 25 percent of the group’s total AGI, while the total medical expense deduction for the $500,000 and above group is equal to only 0.07 percent of the group’s total AGI (IRS, “SOI Tax Stats,” Table 2.1). This shows that while the wealthier households generally report greater medical expenses than lower income households, the lower income households benefit much more from the medical expense deduction because the deductions they are able to take make up a larger portion of AGI than the deductions taken by higher AGI taxpayers. However, it is important to remember that those who benefit most from the medical expenses deduction are those who must pay for prescriptions and large medical bills, so this deduction only benefits those who are unfortunate to have to pay for medical treatment in the first place.

Who Itemizes Deductions?
Although lower income households generally benefit the most from the medical expenses deduction, they must itemize in order to include medical expenses in their deduction (IRS, “Topic 502”). According to the chart below from the Tax Foundation, higher income taxpayers are much more likely to itemize, since almost all returns with incomes over $200,000 itemized, while almost no returns with incomes under $25,000 itemized. Paying more in state and local taxes, paying higher amounts in mortgage interest as a result of being able to afford more expensive mortgages, and having larger amounts of disposable income to donate to charities allow wealthier households to accumulate an itemized deduction greater than the standard deduction (Greenberg, Scott, “Who Itemizes Deductions?”).

In order to itemize, the itemized deductions should be in excess of standard deductions. Although lower-income households generally benefit more than high income households when they report the medical expense deduction, they almost never itemize deductions. Lower-income households generally do not have the money to spend on mortgage loans, medical expenses, and other large expenses that generally increase a household’s itemized deductions over the standard deduction. It appears that the income group that benefits the most from deductions limited to the amount paid over a certain percentage of AGI, like the medical expenses deduction, is the middle class. This is because AGI needs to be low enough to take advantage of a generous deduction, and middle class households are much more likely to itemize than lower income households.

**Disadvantages of Deductions**

Another factor of the tax system that may be seen as a disadvantage by higher income households is the standard deduction. The standard deduction is the same for all qualifying taxpayers in 2016: $6,300 for those filing single or married filing separately; $12,600 if married filing jointly; $9,250 if head of household; and greater standard deductions available to
individuals who are over the age of 65 and/or blind. Since the standard deduction is the same regardless of income, the deduction is most beneficial to lower income households. For example, a tax return with a married filing jointly status and an AGI of $25,200 would have their taxable income reduced by half with the $12,600 standard deduction. However, a couple filing jointly with an AGI of $100,000 would receive a standard deduction equivalent to only 12.6 percent of the AGI (IRS, “Publication 27, Ch 20”).

<table>
<thead>
<tr>
<th>AGI</th>
<th>Standard Deduction</th>
<th>Standard Deduction as a % of AGI</th>
</tr>
</thead>
<tbody>
<tr>
<td>25,200</td>
<td>12,600</td>
<td>50.00%</td>
</tr>
<tr>
<td>100,000</td>
<td>12,600</td>
<td>12.60%</td>
</tr>
</tbody>
</table>

While higher income households may opt for itemizing, there may be some disadvantages. In this next example (shown in the table below), assume that two households file as married filing jointly, everyone is under the age of 65, both households elect to itemize deductions, and their adjusted gross incomes are $60,000 and $150,000, respectively. If both households have medical expenses of $14,000, the $60,000 AGI household can deduct $8,000 of medical expenses, while the second couple cannot deduct any of their medical expenses, even though both couples paid the same amount on medical care. This is because the taxpayers can deduct only the medical expenses that exceed 10% of their adjusted gross incomes. This clearly benefits lower and middle income households more so than higher income households. Additionally, even if the second household could deduct $8,000 for medical expenses like the first household, the deduction alone would reduce taxable income by only 5.33 percent, while it would reduce the first household’s taxable income by 13.33 percent (IRS, “Publication 27, Ch
20”). The advantages the 10% AGI floor gives primarily to lower income households can be seen in the regressive trend of medical deductions as mentioned in the section above.

<table>
<thead>
<tr>
<th>AGI</th>
<th>Medical Expenses</th>
<th>Amount over 10% of AGI</th>
<th>$8,000 Deduction as a % of AGI</th>
<th>Note for $8,000 deduction: Assuming a situation where the $150,000 household would be able to deduct $8,000.</th>
</tr>
</thead>
<tbody>
<tr>
<td>60,000</td>
<td>14,000</td>
<td>8,000</td>
<td>13.33%</td>
<td></td>
</tr>
<tr>
<td>150,000</td>
<td>14,000</td>
<td>-</td>
<td>5.33%</td>
<td></td>
</tr>
</tbody>
</table>

**Benefits of Tax Credits**

CBO’s research cites the addition of new refundable tax credits as a large contributor to the decline in the average tax rate, which was at its lowest point in the past three decades when the research was completed in 2009. The research also pointed out that the Earned Income Tax Credit (EITC) contributed to the decline in average tax rates in the 1990s, but the effect was offset by increasing payroll taxes (CBO, “Distribution 2008 and 2009”). Some of the most common tax credits can provide insight on how the benefits from credits are distributed among income groups.

The Earned Income Tax Credit (EITC) is a refundable credit that primarily benefits households that fall into the lower income quintiles (IRS, “EITC”). In order to receive the credit, the taxpayer must not have investment income greater than $3,400 for the year, earned income must be greater than $1, and AGI must be less than a specified amount. In 2016, the highest maximum AGI requirement for married filing jointly is $53,267; and for single, head of household, or surviving spouse filing statuses, the maximum is $47,747 for three or more qualifying children. Any returns with an AGI higher than those amounts do not qualify for the EITC (IRS, “Do I Qualify for EITC?”). A household with three or more qualifying children can...
receive an EITC up to $6,269 in 2016 (IRS, “2016 EITC Income Limits”). According to the Tax Policy Center, “The credit equals a fixed percentage of earnings from the first dollar of earnings until the credit reaches its maximum. The maximum credit is paid until earnings reach a specified level, after which it declines with each additional dollar of income until no credit is available.” This means that the credit increases with earnings, and then begins to decline after a certain amount of earnings. While the credit generally benefits lower-income households, households with earnings close to the amount where the credit begins to decline with increased earnings receive the greatest benefit, while households with lower or higher earnings benefit less (Tax Policy Center, “EITC”).

The Child Tax Credit (CTC) is a nonrefundable credit that allows taxpayers with adjusted gross incomes under $75,000 when filing as single, head of household, or qualifying widower; under $110,000 with a filing status of married filing jointly; or $55,000 if married filing separately, to take advantage of the full $1,000 credit per qualifying child. Any taxpayer filing with an AGI above the specified maximums must reduce the amount of CTC per child they can take on their federal return (IRS, “Pub. 972”).

For those who qualify, the CTC and EITC can significantly lower tax liability. The EITC is exclusively for lower-income households, and the CTC is for lower- and middle-income households, so an argument can be made that they contribute to the overall progressive distribution of federal taxes, as they reduce taxes for lower- and middle-income households.

Not all credits primarily benefit the lower income households. For example, wealthy households claim 90 percent of the tax credits for purchasing electric cars (Sparshott, Jeffrey). The Plug-in Electric Drive Vehicle Credit ranges from $2,500 to $7,500. Unlike the other credits
previously discussed, the Plug-in Electric Drive Vehicle Credit is based off the battery capacity of car purchased instead of the AGI of the household (IRS, “Plug-in Electric Drive Vehicle”).

Looking at all of the tax returns filed, a progressive trend can be found in the percentage of filers in each AGI group that reported tax credits. Of the total quantity of tax return filers in the $30,000 and under AGI group, only about 20 percent of filers reported any kind of tax credit, while over 65 percent of filers with AGIs above $500,000 reported at least one type of tax credit on their returns. The middle AGI groups, with AGIs between $30,000 and $500,000, consistently reported tax credits on between 40 to 50 percent of their group’s total quantities of tax returns. Considering just this set of information, one can conclude that tax credits must be most beneficial to the wealthiest group of taxpayers—those with AGIs over $500,000—since tax credits were most frequently reported on returns in that AGI group (IRS, “SOI Tax Stats,” Table 3.3).

However, if one considers the average of the total monetary amount of the tax credits reported on each AGI group’s returns as a percentage of each AGI group’s lowest and highest AGI limits, tax credits provide the greatest benefits for taxpayers with AGIs under $200,000. Referring to the table below that shows the average credits as a percentage of the groups’ total
AGIs’ low and high AGI limits (for example, the lowest AGI group has a low limit of $0 and a high limit of $30,000), the average amount of tax credits on returns reporting the credits as a percentage of the low and high AGI limits is over 1 percent for all AGI groups up until the $100,000 to $200,000 group, where the percentage falls below 1 percent as AGI approaches $200,000, and continues to fall as AGI increases. This data shows that while tax credits, on average, do not provide great benefits, they almost certainly benefit the lower AGI groups more than they benefit wealthier households. Of course, the benefits of tax credits depend on the amounts of the credits for which each individual household qualifies. Considering the credits discussed in the research, a low-income household that qualifies for a $2,000 EITC would benefit from that credit more than a wealthy household that qualifies for a $5,000 Plug-in Electric Drive Vehicle Credit, since those tax credit benefits would be measured relative to AGI. The data that shows the average monetary amount of tax credits for returns in an AGI range proves that, on average, lower and middle income households do generally receive greater benefits relative to income from the tax credits than wealthier households (IRS, “SOI Tax Stats,” Table 3.3).
Part 4—Sales Tax

While the federal tax burden is overall progressive, there are several state and local taxes that place a significant regressive burden on taxpayers. Possibly the most popular regressive tax is the sales tax, which is only applied at state and local levels. It is estimated that lower-income households spend about three-quarters of their income on items on which sales tax is applied, while higher-income households may spend only about one-sixth of their income on items subject to the sale tax. Lower-income households tend to spend a higher percentage of their income on necessities and other consumer goods, while higher-income households may purchase similar items but have income leftover to invest rather than spend most of their income on taxable goods (ITEP). State and local sales tax can be quite a steep burden, with some sale taxes around 10 percent, as seen in Tennessee with a state rate of 7 percent and an average local rate of 2.46 percent for a combined average sales tax of 9.46 percent (Drenkard, Scott & Kaeding, Nicole). However, there have been some actions from states to make the sales tax less regressive. Thirty-one states have implemented exemptions on certain necessities from state sales tax, and several states have made income tax credits available to lower income residents that offset the sales tax on certain goods (ITEP).

Part 5—Finding the Net Tax Burdens for Average Households
Note: All households in this example are assumed to file jointly.

<table>
<thead>
<tr>
<th>Percentile the taxpayers in this example fall into</th>
<th>Taxpayer 1</th>
<th>Taxpayer 2</th>
<th>Taxpayer 3</th>
<th>Taxpayer 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 1%</td>
<td>680,000</td>
<td>141,000</td>
<td>73,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Top 10%</td>
<td>20,000</td>
<td>1,000</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Top 25%</td>
<td>50,000</td>
<td>8,000</td>
<td>1,800</td>
<td></td>
</tr>
<tr>
<td>Bottom 50%</td>
<td>750,000</td>
<td>150,000</td>
<td>75,000</td>
<td>30,000</td>
</tr>
</tbody>
</table>

| Wages                                             | 680,000    | 141,000    | 73,000     | 30,000     |
| Taxable Interest                                  | 20,000     | 1,000      | 200        |            |
| Ordinary Dividends                                | 50,000     | 8,000      | 1,800      |            |
| AGI                                               | 750,000    | 150,000    | 75,000     | 30,000     |

| Itemized or Standard Deduction¹                   | (112,998)  | (35,372)   | (26,993)   | (12,600)   |
| Exemptions ($4,050 each for 2 parents and children; $311,300 phaseout)² | -          | (16,200)   | (16,200)   | (16,200)   |

| Taxable Income                                    | 637,002    | 98,428     | 31,807     | 1,200      |

| Taxes                                             |            |            |            |            |
| Income Tax                                        | 191,074    | 15,349     | 3,576      | 121        |
| Social Security Tax ($118,000 threshold)³         | 7,347      | 7,347      | 4,526      | 1,860      |
| Medicare Tax²                                     | 9,860      | 2,045      | 1,059      | 435        |
| ACA Tax⁴                                          | 3,870      |            |            |            |
| Net Investment Income Tax⁵                        | 2,660      |            |            |            |
| Sales and Excise Taxes⁶                            | 7,500      | 4,500      | 3,000      | 1,800      |
| Property Taxes                                    | 36,575     | 7,315      | 3,658      |            |
| Total Taxes                                       | 258,886    | 36,556     | 15,818     | 4,216      |

| Total Taxes / AGI                                  | 34.52%     | 24.37%     | 21.09%     | 14.05%     |

| Benefits                                           |            |            |            |            |
| Social Security Benefits (estimated)⁷             | 34,908     | 32,220     | 23,100     | 13,020     |
| Child Tax Credit (non-refundable)⁸                | 2,000      | 121        |            |            |
| EIC (refundable)⁹                                  |            |            | 4,248      |            |
| Additional Child Tax Credit (refundable)¹⁰        |            |            | 1,879      |            |
| Total Benefits                                    | 34,908     | 32,220     | 25,100     | 19,268     |

| Total Benefits / AGI                               | 4.65%      | 21.48%     | 33.47%     | 64.23%     |

| Net Taxes (Total Taxes - Total Benefits)           | 223,978    | 4,336      | (9,282)    | (15,052)   |

| Net Taxes / AGI                                    | 29.86%     | 2.89%      | -12.38%    | -50.17%    |
Understanding the progressive or regressive burdens of each tax is important, but looking at each tax in isolation does not show the overall tax burden the taxpayers from each income group bear. In order to better demonstrate the overall tax burden a taxpayer from each of the income groups may bear on average, the following example considers some of the typical tax burdens of a household from each income group.

For purposes of consistency, each of the taxpayers in this example have the filing status of Married Filing Jointly and two dependent children. Taxpayer 1 has an AGI of $750,000, which would fall in the top 1 percent AGI group; Taxpayer 2 has an AGI of $150,000 and would belong to the top 10 percent AGI group; Taxpayer 3 has an AGI of $75,000, which is part of the...
top 25 percent AGI group; and finally, Taxpayer 4 is part of the bottom 50 percent AGI group with an AGI of $30,000.

There are three separate measures that were calculated: taxable income, total taxes, and total benefits. The calculation for taxable income shows the amounts that would typically go into a taxpayer's taxable income for the respective AGI. Each of the taxpayers in the example, except for Taxpayer 4, reported wages, taxable interest, and ordinary dividends. The itemized deductions were determined based on average itemized deductions taken by taxpayers in each of the income groups (Wolters Kluwer). Taxpayer 4 is assumed to be a property renter, so they took the standard deduction instead of itemizing. As discussed earlier in the paper, low-income taxpayers typically do not itemize, especially not without a mortgage interest deduction. Finally, exemptions were deducted from AGI based on the total number of exemptions on each return (four) and limited by an income phaseout threshold for Taxpayer 1 (IRS, “Form 1040 Instructions,” pg. 41).

The second measure, total taxes, included many taxes that a typical taxpayer would pay at federal, state, and local levels. The income tax was calculated using the Form 1040 tax tables, using the assumptions from the taxable income calculation. Social Security and Medicare taxes were calculated based on wages, and the Social Security tax was limited based on the income threshold amount of $118,500 for 2016 (SSA, “Contribution”). For Taxpayer 1, the ACA Tax and Net Investment Income Tax were calculated using the 0.9 percent rate on wages earned and $250,000 income threshold (IRS, “Affordable Care Act Tax Provisions”), and 3.8 percent rate on the $70,000 net investment income (IRS, “Pub 550”). Sales and excise taxes were based on average data of taxes paid by each income group (Misra, Tanvi). Finally, property taxes were calculated using an estimated 1.33 percent rate on annual mortgage payments, assuming the
property values and values of the mortgage loans are equal for simplicity purposes. Mortgage values were determined by calculating the monthly mortgage payments each taxpayer could afford assuming 30 percent of monthly AGI is spent on home expenses, 70 percent of the home expenses goes toward the mortgage loan, and that each mortgage loan was for 30 years and has a fixed rate of 4 percent.

The final measure of total benefits considers some of the most common benefits taxpayers generally receive. Social Security benefits were estimated on the future annual benefits the taxpayers should expect to receive based on what they paid into Social Security in the current year (SSA, “SS Benefits Calculator”). The Child Tax Credit, Earned Income Credit, and Additional Child Tax Credit were calculated using AGI, and only the $30,000 AGI taxpayer received all three of those credits (IRS, “Pub. 972”), (EITC Outreach), (IRS, “Additional CTC”).

Considering the total taxes paid as a percentage of AGI, the results were unsurprisingly progressive, with the highest AGI taxpayer paying the greatest percentage of taxes as a percentage of their AGI. Taxpayer 1 paid 34.52 percent of their AGI in taxes, and Taxpayer 4 paid only 14.05 percent. Total benefits as a percentage of AGI was displays a regressive trend, where the percentage was highest for the lowest AGI taxpayer. Although Social Security benefits were progressive, the total benefits as a percentage of AGI for Taxpayer 1 was 4.65 percent, and the regressive trend continued to Taxpayer 4, whose benefits were 64.23 percent of AGI.

Net taxes were negative for both Taxpayer 3 and Taxpayer 4, meaning both taxpayers received greater benefits than the amount of taxes paid. Taxpayer 1 and Taxpayer 2 paid greater taxes than the benefits received. Net taxes as a percentage of AGI shows the relative net burden of taxes to AGI. With a percentage of 2.89 percent, Taxpayer 2 can be determined as the taxpayer who paid the closest amount of taxes to the benefits received, relative to AGI,
compared to each of the other taxpayers. In other words, that means that on average, a taxpayer who falls in the top 10 percent of taxpayers may have a net tax burden that makes up a small percentage of total AGI. This discovery is consistent with the data presented in Chart 2, which showed that taxpayers with the top 5-10 percent AGIs (AGI between $125,195 and $175,817), paid a nearly equal share of income taxes compared to their AGIs.

Of course, actual taxes paid and benefits received may vary from the amounts used in this example, and this example only considered the most common taxes paid, benefits received, and sources of income. The purpose of this example is to show the estimated net benefit or burden a typical taxpayer in each income group may expect to receive or bear, relative to AGI.

Part 6—Political Discussion

President Trump’s Tax Plan

The effects that President Donald J. Trump’s proposed tax reforms will have on the federal income taxes of individuals include a reduction in marginal tax rates, nearly quadrupling the standard deduction amounts, and repealing the AMT and NIIT. The Tax Policy Center predicts that the federal revenue will be reduced by about $9.5 trillion over the first decade, with the individual income revenue reductions as the greatest contributor to the decline. The Trump tax plan is expected to disproportionately benefit the wealthiest taxpayers. The average tax cut will be about $5,100, approximately 7 percent of after-tax income. However, for the top 0.1 percent of earners, with incomes of over $3.7 million in 2015, are expected to experience a tax cut equivalent to about 19 percent of after-tax income. The average relief for middle-income households will be approximately 4.9 percent of after-tax income (Nunns, Burman, Rohaly, & Rosenberg). Donald Trump’s plan will alleviate the burden of the federal tax burdens of the top
income earners the most, while also relieving the burdens of the middle-income earners significantly less.

**Conservative vs. Liberal Arguments**

Both sides of the politic spectrum have presented opinions on taxation that can seem reasonable from a certain perspective. The conservative side generally supports equal burden for each taxpayer relative to income. This kind of taxation would appear similar to a flat tax where every taxpayer would pay the same rate on their income. Although conservatives like Donald Trump generally support lowering taxes for all income levels, they place a significant emphasis on lowering the burden on the wealthiest households. The argument is that a high-earning taxpayer should not have to pay a greater share of taxes as a result of working hard to earn more income.

The other side, generally liberal, argues in support of a highly progressive tax system that places high burden on wealthy households to compensate for an economy of growing wealth inequality. The poverty line in 2012 for a single person household was $11,170. For two people, the line increased to $15,130. For three, the amount was $19,090 (ASPE). As displayed in the tables below, the data from the 2014 tax returns shows that 16.21 percent of total returned filed had AGIs under $10,000, 24.48 percent of total returns had AGIs under $15,000, and 32.10 percent of total returns had AGIs under $20,000 (IRS, “SOI Tax Stats,” Table 3.3). No matter which AGI maximum is chosen, a large handful of the households that filed tax returns for the 2014 fiscal year had AGIs below the poverty line. The liberal side of the spectrum supports higher taxes on the wealthy because the reality is that a lot of households live below the poverty line and simply cannot afford a significant tax burden. The research presented in this paper overall supports that the current U.S. tax system is in between these two extremes.
All returns, total: 148,606,578

<table>
<thead>
<tr>
<th>No adjusted gross income</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$1 under $5,000</td>
<td>10,262,509</td>
</tr>
<tr>
<td>$5,000 under $10,000</td>
<td>11,790,191</td>
</tr>
<tr>
<td>$10,000 under $15,000</td>
<td>12,289,794</td>
</tr>
<tr>
<td>$15,000 under $20,000</td>
<td>11,331,450</td>
</tr>
</tbody>
</table>

Returns with AGIs under: % of total

| $10,000  | 24,086,838 | 16.21% |
| $15,000  | 36,376,632 | 24.48% |
| $20,000  | 47,708,082 | 32.10% |

Conclusion & Opinion

Overall, this research discovered that the tax burden is progressive, placing the greatest amount of burden on the wealthiest households. There certainly are some taxes, like the sales and excise taxes, that offset the progressivity of individual income taxes and lessen the burden on high-income households. However, itemized deductions and tax credits that overall benefit the middle class; taxes like the AMT and NIIT; and the standard deduction all greatly contribute to the progressivity of the federal tax system and disproportionately lessen the tax burdens on low- and middle-income households.

Additionally, the research shows that most taxpayers are in fact disproportionately burdened by taxes relative to earned income. The data shows that the wealthy pay a greater share of taxes than their share of income earned. Likewise, the lower-income households are disproportionately burdened, except in the opposite direction where their shares of the federal tax burden are less than their shares of income earned. Only in a small sweet spot do taxpayers pay the same share of total taxes as their income earned.

The progressive federal income taxes and regressive payroll, excise, and state sales taxes altogether create a balance where everyone pays something, but no group is responsible for an overwhelming amount of taxes. To answer the question posed in the title, the higher-income
taxpayers do pay a larger share of taxes than lower-income taxpayers, and the net taxes paid relative to AGI are greater for higher-income taxpayers than for lower-income taxpayers. It appears that the tax burden and tax benefits just about equalize for taxpayers with upper-middle incomes who fall in the top 5 to 10 percent AGI group. However, as seen in the example above, most taxpayers are disproportionately burdened by taxes at both the federal and state levels, with the lower-income households generally receiving greater benefits than taxes paid, and higher-income households paying greater amounts in taxes than the amounts of benefits received. Although the U.S. tax system does not equally burden all taxpayers, the system ensures that everyone carries at least some of the burden and no one carries an overwhelming majority of the burden.
Works Cited


Internal Revenue Service (2016, Aug. 31). SOI Tax Stats - Individual Income Tax Returns Publication 1304 (Complete Report). Table 1.4. All Returns: Sources of Income,


