

# Taxpayers with Zero Income Tax Liability: Trends Over Time and Across Income Levels

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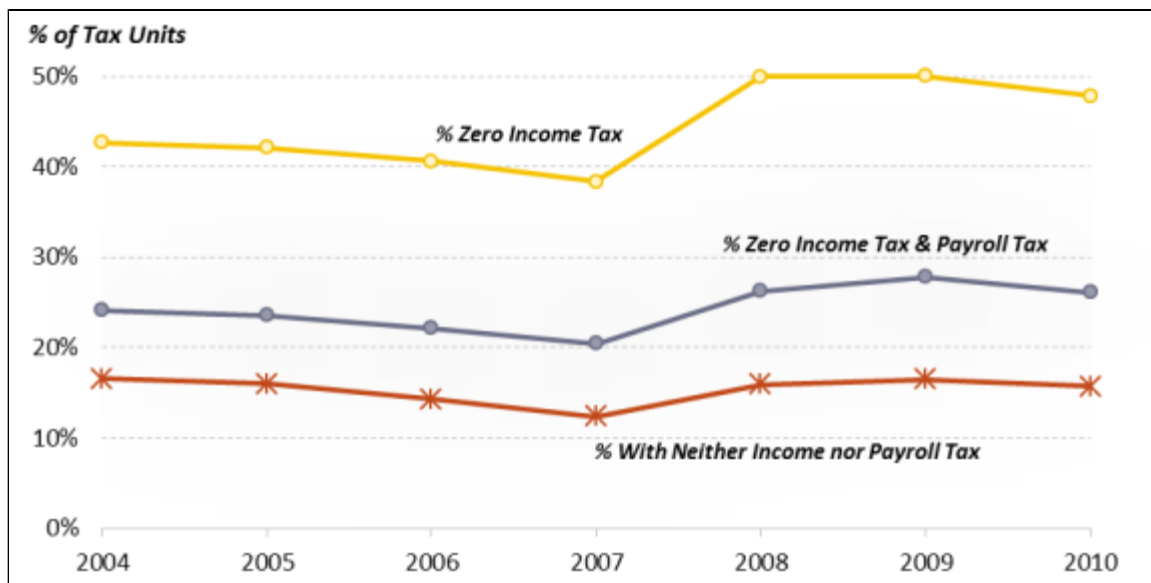
An estimated 44% of U.S. households will pay no federal income tax in 2016. Some individuals or households do not pay federal income taxes because their income was below the [filing threshold](#). Other individuals or households filing federal income tax returns pay no federal income tax due to either structural features or special provisions in the tax code. A [2011 analysis](#) found that of nontaxable "tax units," about half were made nontaxable by tax expenditures (special provisions in the tax code such as [credits and deductions](#)). The other half were made nontaxable by structural features of the income tax system, namely the standard deduction and personal exemptions.

Many tax units with no federal income tax liability have positive payroll tax liability. In 2016, an estimated 27% of tax units have zero or negative federal tax liability, when both income and payroll taxes are considered. For these tax units, it is possible that refunds from the income tax system offset or more than offset positive payroll tax liability. The proportion of tax units with no income or payroll tax liability in 2016 is estimated at 18%.

The proportion of tax units with zero tax liability fluctuated during the 2000s (see [Figure 1](#)), and is projected to slowly decline over the next decade (see [Figure 2](#)). During the Great Recession, the proportion of tax units with no tax liability increased. The increase is largely attributable to two factors: (1) declining income during the recession; and (2) fiscal policy responses, such as the recovery rebates provided in the Economic Stimulus Act of 2008 ([P.L. 110-185](#)). Under current law, the proportion of tax units with zero income tax liability is expected to decrease as real incomes rise.

Figure 1. Tax Units with Zero or Negative Federal Income Tax Liability

2004 - 2010

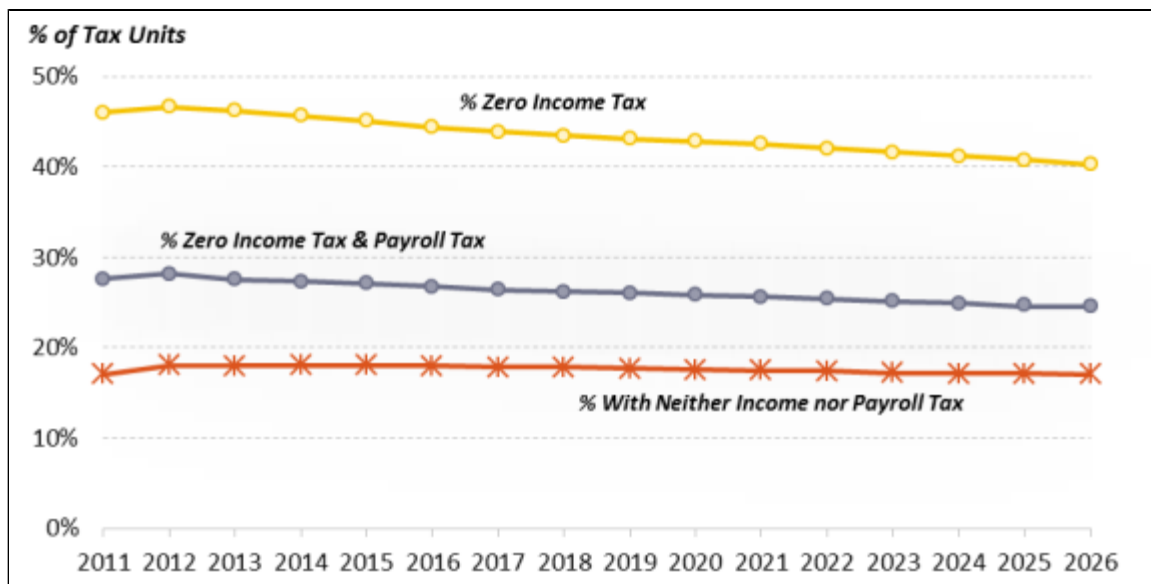


Source: Tax Policy Center, [T13-0228](#).

Notes: Estimates prepared using the [Urban-Brookings Tax Policy Center Microsimulation Model](#). The model is similar to those used by the Congressional Budget Office (CBO), Joint Committee on Taxation (JCT), and Treasury's Office of Tax Analysis (OTA).

Figure 2. Tax Units with Zero or Negative Federal Income Tax Liability

2011 - 2026



Source: Tax Policy Center, [T16-0121](#).

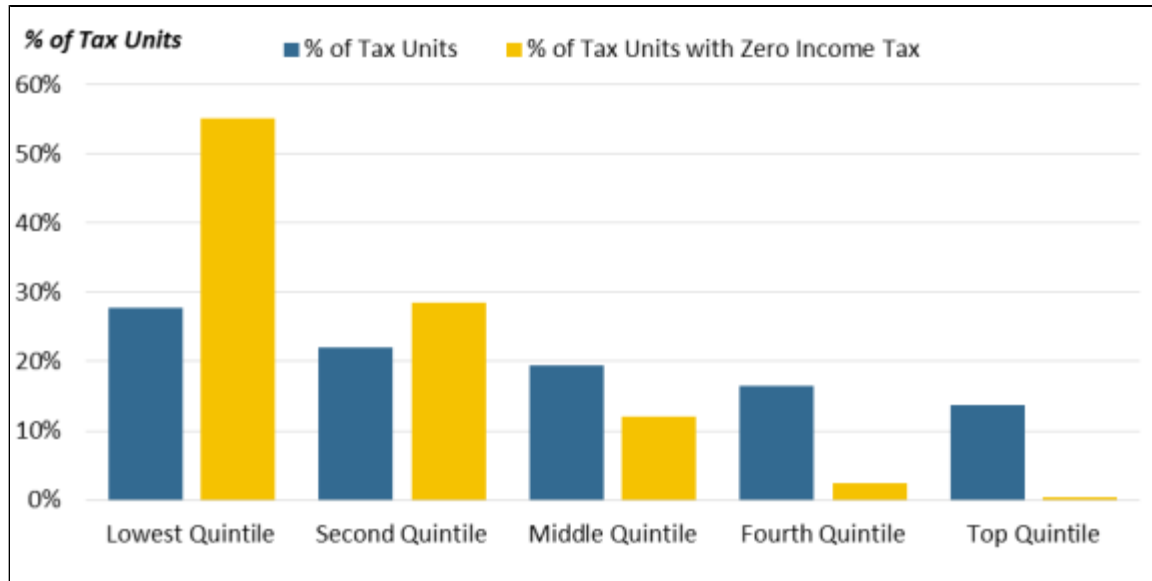
Notes: See [Figure 1](#) notes.

Lower-income taxpayers are more likely than higher-income taxpayers to have zero or negative income tax liability (see [Figure 3](#)). In 2016, an estimated 28% of all tax units fall in the lowest income quintile (having cash income of less than

\$24,400). In contrast, 55% of all tax units with zero or negative estimated tax liability in 2016 fall in the lowest quintile. At the other end of the income spectrum, nearly 14% of all tax units fall in the top income quintile (having cash income of more than \$142,200). An estimated 0.3% of all nontaxable tax units in 2016 are in the top cash income quintile.

Figure 3. Tax Units and Tax Units with No Tax Liability, by Cash Income Quintile

2016



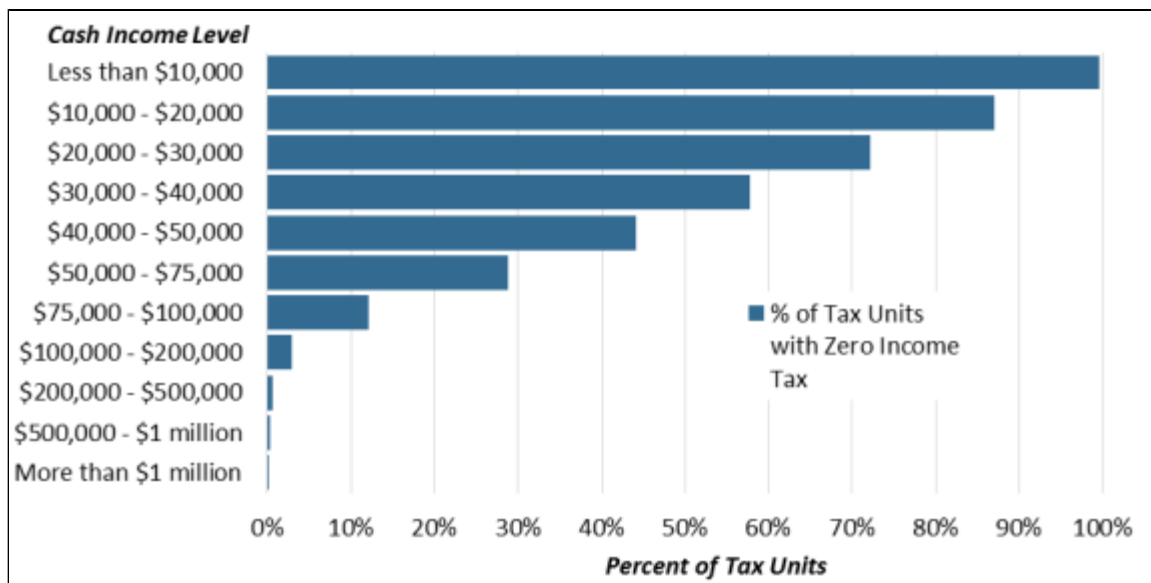
Source: Tax Policy Center, [Table T16-0210](#).

Notes: See [Figure 1](#) notes. The cash income quintile break points are: 20%, \$24,400; 40%, \$47,700; 60%, \$82,300; and 80%, \$142,200. These break points divide the individuals into five groups based on their cash income. Individuals may be grouped together into one "tax unit." Individuals in the bottom quintiles are less likely to be part of a larger "tax unit" and thus a greater share of "tax units" are in the lowest two deciles.

Another way to look at tax units with zero or negative income tax liability is to examine the proportion of taxpayers at different income levels that are non-paying (see [Figure 4](#)). For example, nearly 100% of taxpayers with cash income less than \$10,000 pay zero or negative federal income tax. An estimated 87% of taxpayers with \$10,000 to \$20,000 in cash income pay zero or negative federal income tax, while an estimated 72% of taxpayers with cash incomes between \$20,000 and \$30,000 pay zero or negative federal income tax. At the top end of the income spectrum, an estimated 3% of tax units with cash income between \$100,000 and \$200,000 pay zero or negative federal income tax, while 0.1% of tax units with cash incomes in excess of \$1 million pay zero or negative federal income tax.

Figure 4. Tax Units by Cash Income with Zero or Negative Income Tax Liability

2016



**Source:** Tax Policy Center, [Table T16-0209](#).

**Notes:** See [Figure 1](#) notes.

For taxpayers with no federal tax liability, more than half pay nothing (have a federal tax liability of zero). Many of these taxpayers are those that do not owe income taxes after the standard deduction, personal exemptions, and nonrefundable credits are applied. Many taxpayers, however, receive refundable tax credits. The largest two refundable tax credits ([in terms of outlay effects](#)) are the [earned income tax credit](#) and the [child tax credit](#). Estimates suggest that among those with zero or negative income tax liability, 25% receive a refund of at least \$1,898, while 10% receive a refund of at least \$4,581 (these refunded amounts do not reflect payroll taxes paid).

The [Budget Reconciliation Legislative Recommendations Relating to Repeal and Replace of Health-Related Tax Policy](#), released on March 6, 2017, propose a [new refundable tax credit for health insurance coverage](#), ranging from \$2,000 to \$4,000. As illustrated above, a large proportion of taxpayers have zero or negative federal income tax liability. Those with little or no income tax liability are concentrated in the lower and middle parts of the income distribution. For most low- and many moderate-income taxpayers, therefore, tax credits for health insurance coverage as currently proposed would be received as a refund, and not offset taxes otherwise owed.