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Top 20% of Earners Pay 84% of Income Tax

And the bottom 20%? They get paid by Uncle Sam. We compare tax burdens as Tax Day approaches.

Ahead of Tax Day, WSJ's Laura Saunders discusses how tax burdens broke down in 2014. She joins Tanya Rivero. Photo: AP



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Who pays what in income taxes? With April 15 just around the corner, filers may be curious about where they fit into the system as a whole.

The individual income tax remains the most important levy in the U.S., providing nearly half of federal revenue. This is unusual: On average, developed nations get only one-third of their revenue from income taxes. Typically they also impose national consumption taxes, such as a value-added tax, that raise as much revenue as their income tax.

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The pressure on the U.S. income tax has prompted lawmakers on both sides of the aisle to seriously consider a national consumption tax. But liberals worry that such a levy could unduly

burden the poor, while conservatives fear it would be too easy to dial up the rate and collect more revenue.

As a result, experts say, there is little chance of tax overhaul this year.

Meanwhile, these two tables offer a snapshot of who is paying what for the 2014 tax year.

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The first gives shares of income and federal income taxes for 2014 for some 325 million Americans, dividing the population into five income quintiles of about 65 million people each.

Who's Paying What?

How income and federal income taxes were distributed in 2014.

Groups of taxpayers by income	Income range	Share of total U.S. income	Share of total income tax
Bottom fifth	\$0 to \$24,200	4.5	-2.2%
	\$24,200 to \$47,300	9.3	-1.0
Middle fifth	\$47,300 to \$79,500	14.8	5.9
	\$79,500 to \$134,300	20.0%	13.4
Top fifth	Above \$134,300	51.3	83.9

Note: Total estimated U.S. income for 2014 is \$13.7 trillion. Total estimated U.S. individual income tax for 2014 is \$1.26 trillion. Income figures are higher than those shown on tax returns, as they include untaxed income due to employer-provided health coverage, municipal-bond interest, retirement plans and other items. Each quintile contains about 65 million people.

Source: Tax Policy Center

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The second table provides further information about the top 20%, who pay more than 80% of income taxes.

What the Top 20% Pay

Income percentile	Income range	Share of total U.S. income	Share of total income tax	Number of people (millions)
80%-90%	\$134,300 to \$180,500	13.1%	10.8%	33
90-95	\$180,500 to \$261,500	9.0	9.1	16
95-99	\$261,500 to \$615,000	12.1	18.3	13
Above 99%	Above \$615,000	17.1	45.7	3

Source: Tax Policy Center

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The data come from estimates by the nonpartisan Tax Policy Center, a Washington-based research group, as Internal Revenue Service data for 2014 won't be available for at least two years. Unlike IRS data, it includes information about nonfilers—both people who didn't need to file and people who should have filed but didn't. The total also includes Americans living overseas and others, which is why it is greater than the U.S. Census estimate of 319 million.

Another important difference: The income cited in the tables includes untaxed amounts for employer-provided health coverage, tax-exempt interest and retirement-plan contributions and growth, among other things. This can be significant.

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On average, such benefits double the income of people in the bottom quintile and add more than 25% to the income of people in the top quintile, says Roberton Williams, an income-tax specialist

at the Tax Policy Center. That means a taxpayer whose stated pay is \$130,000 might be reaping another \$35,000 annually in untaxed income.

“Most people focus on the income they see in their paychecks or portfolios and forget about untaxed benefits they receive,” Mr. Williams says.

The tables show just how progressive the income tax is. The three million people in the top 1% of earners pay nearly half the income tax.

Why is the share of income taxes negative for 40% of Americans? In recent decades Congress has chosen to funnel important benefits for lower-income earners through the income tax rather than other channels. Some of these benefits, such as the Earned Income Tax Credit and the American Opportunity Credit for education, make cash payments to people who don't owe income tax.

People receiving such payments do pay other federal taxes, of course, such as those for Social Security and Medicare. If these taxes are included, the share of federal taxes paid by the lowest two quintiles turns positive.

The share of tax paid by the top 20% of Americans also changes when such social-insurance levies are included: It drops from more than 80% of income taxes to about 67% of all federal taxes.

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