

# Special Report

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## Tax Equity and the Growth in Nonpayers

*By*

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### Introduction

Recent debates over the equity of the income tax system have centered chiefly on whether high-income Americans are paying their “fair share” in taxes. There has been less discussion about the growing number of Americans who pay no federal income tax—the so-called nonpayers.

Today, the percentage of tax filers who pay no income taxes due to the generous credits and deductions in the tax code has reached levels not seen since the income tax became a “mass tax” in 1940. This trend raises serious concerns about the equity of the U.S. tax system, the fiscal stability of the federal government, and the political implications of disconnecting millions of citizens from the primary means of funding government programs.

Recent IRS data reveals that in 2010, over 58 million federal income tax filers had no income tax liability after taking deductions and credits. This amounts to nearly 41 percent of the roughly 143 million tax returns filed that year.

### Key Findings

- *In 2010, 41 percent of all tax returns filed had no income tax liability. This represents over 58 million income tax filers.*
  - *Nonpayers have grown substantially over the last two decades. In 1990, only about 21 percent of returns had no tax liability, about half of what it is today.*
  - *The expansion of tax credits is the primary driver of the increased number of nonpayers. The budgetary cost of tax credits reached \$224 billion in 2010.*
  - *Though most nonpayers of the income tax are generally low income, the number of nonpayers in middle income categories has grown. The median income of nonpayers has increased by 40% over the last 9 years.*
  - *The threshold at which a typical married couple with two children will likely be a nonpayer is now \$47,000.*
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Indeed, many of these filers actually had a negative income tax burden because they were eligible for “refundable” tax credits even though they had no income tax liability. These taxpayers did this through the wholly legal and legitimate use of deductions and credits provided in the income tax code.

These 58 million nonpayers represent the second highest percentage of nonpayers since 1940, behind only 2009, where nearly 42 percent of income tax filers were nonpayers. By contrast, the low point in the modern era for nonpayers was 1969, when only 16 percent of filers had no income tax liability. As recently as 2000, 25.2 percent of filers paid no income taxes.

## What is a Nonpayer?

A nonpayer is an individual or couple who, after taking advantage of their legal credits and deductions, has zero income tax liability. This is not the same as those who have overpaid their taxes through paycheck withholding and then receive a portion of that withholding back after filing a tax return and receiving a refund.

Table 1 demonstrates how a family of four making \$45,000 in adjusted gross income can become a nonpayer.<sup>1</sup> After taking a standard deduction of \$11,600 and personal exemptions of \$14,800 (four times \$3,700) the family’s taxable income is reduced to \$18,600. This income level puts them in the 10 percent tax bracket, at which they would have a tax liability before credits of \$1,940.

**Table 1: Married Couple with Two Children: Tax Liability Under 2011 Tax Law**

<b>Adjusted Gross Income in 2011</b>	<b>\$45,000</b>
<b>Minus Standard Deduction</b>	<b>-\$11,600</b>
<b>Minus Personal Exemption</b>	<b>-\$14,800</b>
<b>Taxable Income</b>	<b>\$18,600</b>
<b>Gross Taxes Owed Before Credits</b>	<b>\$1,940</b>
<b>Minus Two Child Credits</b>	<b>-\$2,000</b>
<b>Minus EITC</b>	<b>-\$214</b>
<b>Taxes Owed</b>	<b>\$0</b>
<b>"Refundable" Credit Received</b>	<b>\$274</b>

From this, they are allowed to deduct two tax credits of \$1,000 for each of their two children. As the table indicates, these two credits bring their \$1,920 liability to zero. However, since the child credits are refundable, the family also receives a check for \$214 from the IRS for the remaining value of their two dependent child credits plus a small EIC payment. Some families may also be eligible for other credits such

as the child care credit, education credit, or the tax credit for purchasing a hybrid vehicle.

<sup>1</sup> Hypothetical tax return generated using Tax Foundation’s MyTaxBurden tax policy calculator. This hypothetical return can be viewed or modified at: <http://goo.gl/Oj8bB>

## What is the Real Number of Nonpayers?

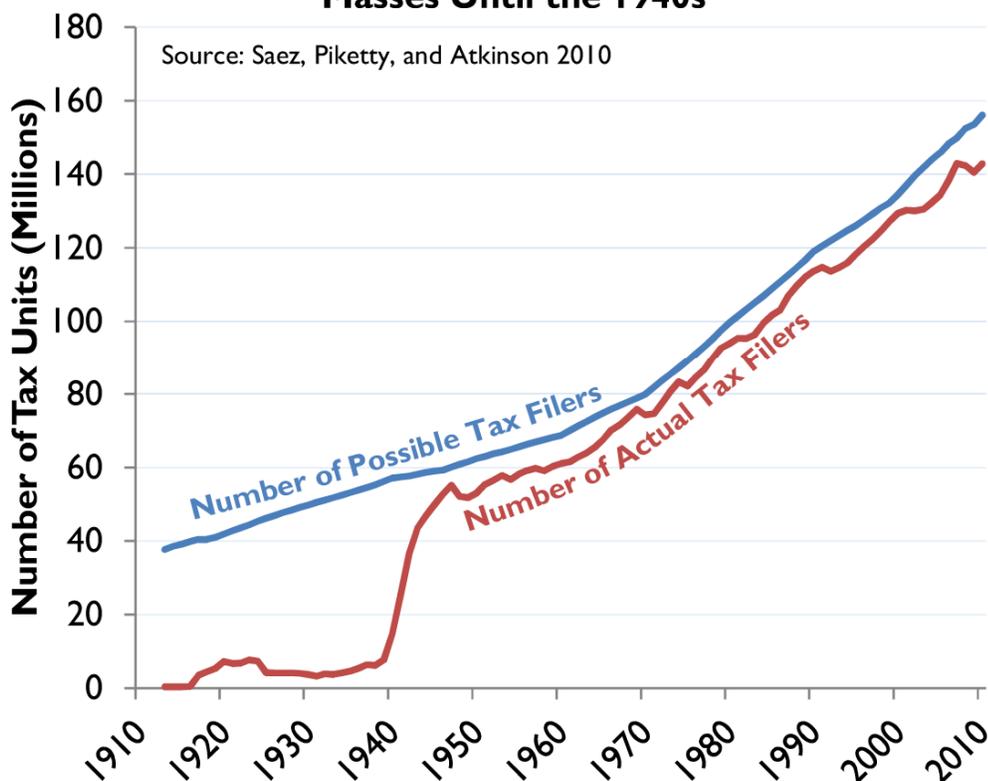
There is frequent confusion about the true number of Americans outside the income tax system. The 58 million figure cited here is strictly the number of Americans who file an income tax return but have no income tax liability after credits and deductions.<sup>2</sup>

There are, however, millions of other Americans who earn some income but not enough to be required to file an income tax return. Currently, the threshold for filing a tax return is \$9,500 for a single person and \$19,000 for a married couple. When these non-filers are added to the number of nonpayers, the total number of Americans outside the income tax system jumps to roughly 50 percent of all households by some estimates.<sup>3</sup>

## The Historic Growth in the Paying and Nonpaying Population

Since the early days of the income tax, the tax code has contained provisions that exempt low-income workers or greatly reduce their tax burden. The standard deduction, personal exemption, dependent exemption, and earned income tax credit are all examples of these types of provisions. Indeed, during the decades following the enactment of the income tax, the filing threshold was set so high that few Americans were even required to file a tax return. Fewer still ended up paying income taxes because of the value of the personal

**Figure 1: The Income Tax Did Not Become a Tax on the Masses Until the 1940s**



<sup>2</sup> Internal Revenue Service, Tax Year 2008 Preliminary Data: Selected Income and Tax Items by Size of Adjusted Gross Income, Table 1: Individual Income Tax Returns.

<sup>3</sup> See Tax Policy Center, Baseline Distribution of Tax Units with No Tax Liability, Current Law, 2004-2011, Table T11-0173 (June 14, 2011), <http://www.taxpolicycenter.org/numbers/displayatab.cfm?Docid=3054&DocTypeID=7>.

See also Memorandum from the Joint Committee on Taxation, *Information on Income Tax Liability for Tax Year 2009* (Apr. 29, 2011), <http://finance.senate.gov/newsroom/ranking/download/?id=9fe27e9f-a5e0-4010-8461-ffc00b5c00ef>.

exemption and the deductions allowed for such things as interest, state and local taxes, and business losses.

The number of Americans who filed a tax return remained very small all the way up to the start of World War II, during which virtually all Americans were brought into the income tax system (see Figure 1). In the early years of the income tax, the personal exemption for taxable income was very high relative to the majority of incomes in the nation. For example, in 1916, the average employee income was \$705 in current dollars,<sup>4</sup> yet the personal exemption was set at \$3,000 for single filers and \$4,000 for married filers.<sup>5</sup> In today's dollars, this equates to about \$62,000 for a single individual and roughly \$82,500 for a married couple. Only about 1.1 percent of working age Americans even filed a tax return<sup>6</sup> and roughly 17 percent of the 437,036 Americans who did file a tax return had no income tax liability.

In 1917, the personal exemption dropped to \$1000 for single filers and \$2,000 for married filers. This increased the number of filers to nearly 3.5 million. At the same time, however, lawmakers enacted a \$200 per dependent exemption, which helped increase the percentage of nonpayers to 22 percent.

During World War I, the percentage of Americans who were required to file a tax return climbed to as high as 17 percent. After the war, the percentage of filers fell to below 10 percent and remained at roughly that level through the mid-1930s. During the post-World War I period, the value of the personal exemption was increased, which in turn boosted the percentage of nonpayers to over 56 percent in 1934—even though the top marginal income tax rate hit 63 percent that year.

The years leading up to the start of World War II changed the income tax from a tax on the relatively wealthy to a tax on the masses. In 1939, the personal exemption stood at \$1,000 for single filers (equal to the income level required to file a tax return) and \$2,500 for married filers. In today's dollars, this equates to roughly \$16,200 for singles and nearly \$40,500 for married couples. That year, less than 14 percent of working adults filed a tax return.<sup>7</sup>

By 1942, the value of the personal exemption dropped to \$500 for singles and \$1,000 for married couples. As a result, the number of tax returns jumped from 7.7 million in 1939 to 36.7 million in 1942. In 1945, the number of tax filers approached 50 million while the percentage of Americans who filed an income tax return neared 85 percent. By contrast, the percentage of nonpayers fell to 10 percent in 1945 (see Table 3 at the end of this Special Report for each year's data).

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<sup>4</sup> U.S. Census Bureau, Historical Statistics of the United States: Colonial Times to 1970, Average Annual Earnings of Employees: 1900 to 1970.

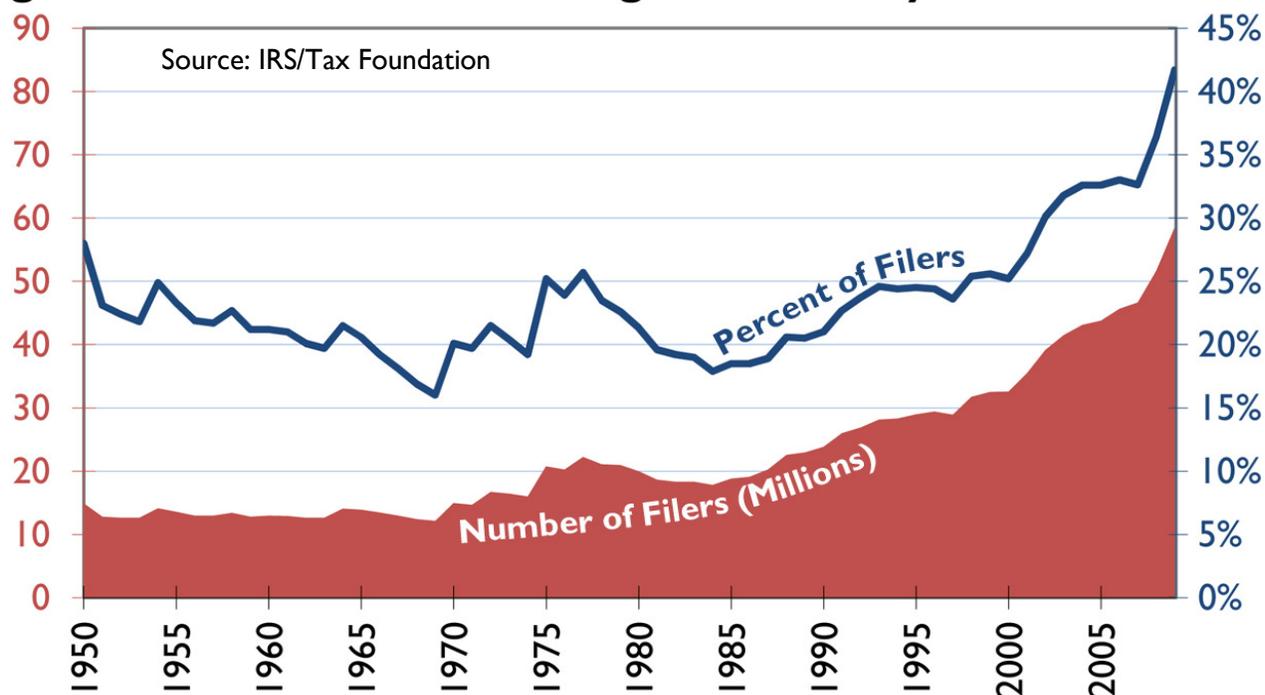
<sup>5</sup> Tax Foundation, *Federal Individual Income Tax: Exemptions and Treatment of Dividends, 1913-2006* (Dec. 12, 2006), <http://taxfoundation.org/article/federal-individual-income-tax-exemptions-and-treatment-dividends-1913-2006>.

<sup>6</sup> Thomas Piketty & Emmanuel Saez, Income Inequality in the United States, 1913-2002 (Nov. 2004), Table A0, <http://emlab.berkeley.edu/users/saez/piketty-saezOUP04US.pdf>. The estimate is based on the percentage of "tax units" who filed. Tax units are roughly the number of working age, single and married, adults who could be considered the universe of possible taxpayers.

<sup>7</sup> *Ibid.*

Since the end of World War II, the percentage of working Americans who file a return has remained very high—typically between 85 percent and 95 percent—but the percentage of nonpayers has fluctuated wildly over the decades (see Figure 2).

**Figure 2: Number and Percentage of "Non-Payers": 1950 to 2010**



### Causes of the Growth in Nonpayers

In the modern era, the percentage of nonpayers began to climb significantly after the Tax Reform Act of 1986, which increased the value of the standard deduction and nearly doubled the size of the personal exemption. Indeed, between 1986 and 1989, the personal exemption for singles grew from \$1,080 to \$2,000, and for married couples it grew from \$2,160 to \$4,000. As a result, the percentage of filers who became nonpayers jumped from 18.5 percent to 20.5 percent.

In the 25 years since then, the percentage of nonpayers has doubled thanks to the expansion of the Earned Income Tax Credit (EITC) and the enactment of a plethora of new credits, such as the child credit and the more recent Making Work Pay Credit. With respect to the EITC, the Omnibus Budget Reconciliation Act

of 1993 increased number of taxpayers qualifying for the EITC as well as the value of the credit.<sup>8</sup> By 1995, the percentage of nonpayers reached 24.5 percent, nearly 29 million tax filers.

This growth accelerated following the enactment of the Taxpayer Relief Act of 1997, which created a \$500 per child tax credit for families earning less than \$110,000.<sup>9</sup> By 2000, the number of nonpayers topped 32.5 million, or 25.2 percent of all filers.

The child credit was then expanded by the Economic Growth and Tax Relief Reconciliation Act of 2001 which increased the child credit at a graduated rate from \$600 in 2001 to \$1,000 in 2010. The Jobs and Growth Tax Relief Reconciliation Act of 2003 then more rapidly increased this amount to \$1,000 for 2003 and 2004. The \$1,000 credit was further extended from 2005 through 2010 by the Working Families Tax Relief Act. The EITC was also subsequently expanded multiple times throughout the late 1990s and 2000s.

These changes boosted the number of nonpayers dramatically during that period. Between 2000 and 2006, the number of nonpayers grew by 13 million, or 40 percent, from 32.5 million to 45.6 million. In 2006, more than one-third of all Americans who filed a tax return paid no income taxes after benefiting from their credits and deductions.

More recently, the new tax credits introduced in 2008 and 2009 by both the Bush and Obama administrations in response to the recession have accelerated the growth in nonpayers. These include the Making-Work Pay credit, the American Opportunity tax credit for education expenses, the first time homebuyer credit, and the alternative motor vehicle credit.

These new credits boosted the number of nonpayers by another 28 percent, nearly 13 million, between 2006 and 2010—thus increasing the percentage of nonpayers from one in three tax filers to more than two in five.

## The Growing Cost of Tax Credits and Refundable Credits

As the number of nonpayers has grown, so too has the number of tax filers who receive cash payments because of the expansion of refundable credits. The combined budgetary cost of basic tax credits (non-refundable credits that offset only a filer's income tax liability) and refundable tax credits (the cash payments) has soared over the past few years.

Figure 3 details the growing cost of both types of tax credits over the past two decades.<sup>10</sup> In 1990, the combined value of these credits was roughly \$20 billion after adjusting for inflation. In today's dollars, the

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<sup>8</sup> The EITC was originally enacted in 1975 by the Tax Reduction Act of 1975.

<sup>9</sup> The child credit was phased out over a \$20,000 income band—\$50 for every \$1,000 of income over \$110,000. As a result, a family of four could get some portion of the credit up to \$150,000.

<sup>10</sup> Internal Revenue Service, Statistics of Income, Table A. Selected Income and Tax Items for Tax Years, 1990-2009, in Current and Constant 1990 Dollars, <http://www.irs.gov/pub/irs-soi/09intba.xls>.

budgetary cost of basic tax credits was around \$8 billion, while the refundable credits under the EITC totaled \$12 billion.

By 2000, basic tax credits had a budgetary cost of \$46.5 billion, in 2012 dollars. The child credit was by far the biggest portion of this at more than \$25 billion after adjusting for inflation. Some 26 million taxpayers took advantage of the child credit that year. Refundable credits amounted to \$43.4 billion in 2000, nearly all of which was attributed to the EITC.

A decade later, the combined

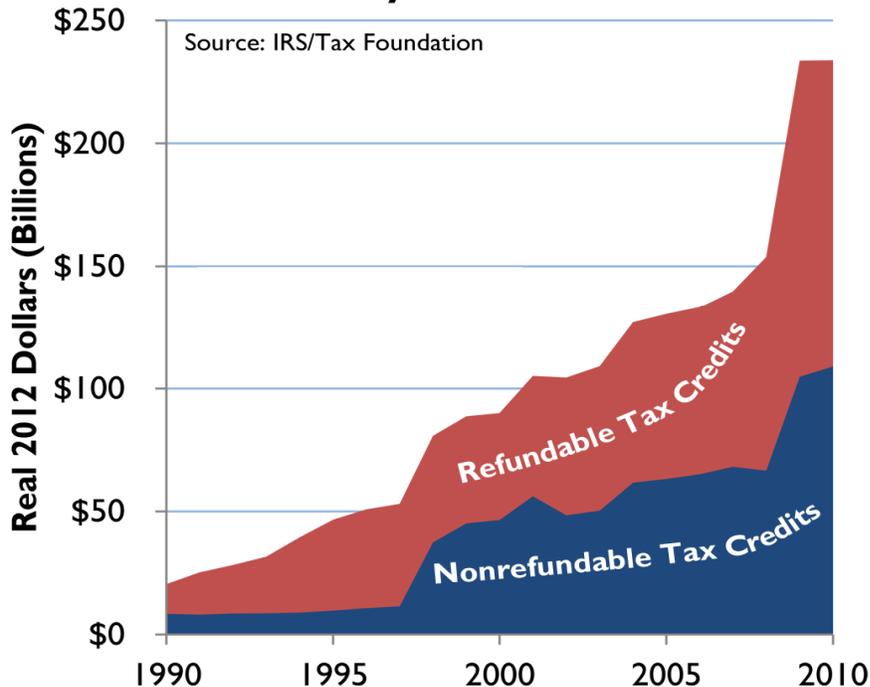
budgetary cost of both the basic and refundable tax credits reached a remarkable \$224 billion in 2010. This was larger than the budgetary cost of the tax exclusion for employer-provided health insurance that year, the largest tax expenditure in the federal budget. As of 2010, refundable cash payments to nonpayers comprised over half (\$120 billion) of the total cost of tax credits. The largest refundable credits in 2010 were the EITC (\$59 billion), the child credit (\$27.5 billion), and the Making Work Pay credit (\$16 billion).

The budgetary cost of basic tax credits in 2010 was \$104 billion. Roughly two-thirds of these total costs were comprised of the Making Work Pay credit and the Child Credit. Another 24 percent of these costs were attributable to the foreign tax credit and the education credit.

## Nonpayers Due to Economic Factors

In addition to the introduction of new tax credits, the post-2007 increase in nonpayers could also be caused in part by labor market effects of the recession. It is possible that some workers were made eligible for the Making Work Pay credit, for example, because they lost their jobs midyear, accepted lower wages at their current job, or settled for a lower paying job after losing their job as a result of the recession. However, it is difficult to parse out the magnitudes of causes for the growth in nonpayers between the recession and the new credits.

**Figure 3: Tax Credits Have Grown Considerably In Recent Years**



## Tax Credits Also Cost Taxpayers

These credits have a larger impact than their pure monetary cost. Some 73 percent of those claiming the EITC had to use a tax preparer according to the 2010 annual report of the IRS's National Taxpayer Advocate.<sup>11</sup> That rate is 62 percent for all taxpayers. The high rate at which taxpayers must seek the assistance of a tax preparer is indicative of the complexity of the tax code and the extent to which that complexity creates a substantial compliance cost.

That same report by the National Taxpayer Advocate found that complexity is a contributing factor to the estimated \$10 billion to \$12 billion in erroneous overpayments made to those claiming the credit in 2006. Those overpayments represent almost a quarter of the total \$44 billion in EITC claims that year. Moreover, these costs do not begin to estimate potential economic distortion and deadweight loss, resulting in credits that incentivize certain types of social and economic behavior.

## More Middle Class Taxpayers Becoming Nonpayers

Though most nonpayers are low income by conventional standards, the income level at which one can become a nonpayer has crept upward over the last decade. Table 2 details the percentage of tax filers with no income tax burden by income group.<sup>12</sup> Income brackets for this table are *not* adjusted for inflation.<sup>13</sup>

For example, in 2001, only 60 percent of tax filers making between \$7,000 and \$9,000 of income were nonpayers. By 2005, the share of nonpayers in this income group had grown to 74 percent, and by 2009 had jumped again to 84 percent. Similarly, for those making between \$25,000 and \$30,000 a year, the share of nonpayers was 18 percent in 2001 but then increased to 33 percent by 2005 and 47 percent by 2009.

Even for those in middle to upper-middle income categories, the share of nonpayers has substantially increased. For those making between \$50,000 and \$75,000, only 1 percent were nonpayers in 2001. By 2005, that figure was almost 5 percent, and by 2009 had hit 12 percent. For those making between \$75,000 and \$100,000 the share was 0.3 percent in 2001, a little over 1 percent in 2005, and over 4 percent by 2009.

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<sup>11</sup> National Taxpayer Advocate, *Report to Congress: Fiscal 2010 Objectives*, June 30, 2009, [http://www.irs.gov/pub/irs-ur/fy2010\\_objectivesreport.pdf](http://www.irs.gov/pub/irs-ur/fy2010_objectivesreport.pdf).

<sup>12</sup> Internal Revenue Service, *Statistics of Income*, Table A. Selected Income and Tax Items for Tax Years, 1990-2009, in Current and Constant 1990 Dollars, <http://www.irs.gov/pub/irs-soi/09intba.xls>.

<sup>13</sup> The IRS has not published a time series of nonpayers by income level that is inflation adjusted, making Table 2 the best data available. This makes comparing year-over-year changes imprecise, but the growth of nonpayers at higher income levels is still demonstrated by the table.

In 2001, the share of nonpayers making over \$50,000 (inflation adjusted to 2009 dollars) is roughly only 1 percent of tax filers or 2 percent of total nonpayers. By 2009, the share of nonpayers making over \$50,000 was 3.8 percent of tax filers and 4.5 percent of total nonpayers. The threshold at which the typical married couple with two children will likely be a nonpayer given the standard deduction, personal exemption, and only two dependent child credits is now roughly \$47,000.<sup>14</sup>

**Table 2: Percentage of Tax Filers who were Nonpayers by Income Group**

	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Total</b>	<b>27.2</b>	<b>30.1</b>	<b>31.8</b>	<b>32.6</b>	<b>32.6</b>	<b>33.0</b>	<b>32.7</b>	<b>36.4</b>	<b>41.7</b>
<b>No adjusted gross income</b>	99.6	99.7	99.8	99.8	99.7	99.8	99.7	99.9	99.9
<b>\$1 under \$1,000</b>	93.5	95.4	95.8	95.2	95.8	97.6	98.4	99.9	99.7
<b>\$1,000 under \$3,000</b>	87.4	91.2	92.6	92.3	90.8	90.1	88.9	94.8	96.0
<b>\$3,000 under \$5,000</b>	85.5	89.9	92.1	94.1	94.0	93.4	93.2	94.8	97.2
<b>\$5,000 under \$7,000</b>	69.0	70.4	72.3	70.1	70.5	70.9	73.6	78.4	84.3
<b>\$7,000 under \$9,000</b>	60.2	68.3	70.6	72.2	73.5	75.7	76.8	80.7	83.6
<b>\$9,000 under \$11,000</b>	46.6	51.0	49.8	53.4	54.1	56.5	57.8	71.8	86.8
<b>\$11,000 under \$13,000</b>	46.4	47.8	49.6	50.8	51.0	50.6	50.9	62.8	83.6
<b>\$13,000 under \$15,000</b>	42.8	49.9	48.7	51.5	50.6	51.3	52.0	62.0	65.8
<b>\$15,000 under \$17,000</b>	37.6	39.7	47.7	49.1	49.4	50.4	51.0	54.9	60.1
<b>\$17,000 under \$19,000</b>	36.3	38.4	43.1	42.8	45.3	47.4	48.0	50.9	55.6
<b>\$19,000 under \$22,000</b>	33.4	37.6	39.8	41.3	40.9	42.2	42.7	47.2	57.3
<b>\$22,000 under \$25,000</b>	26.8	35.4	36.3	38.1	39.2	40.2	40.8	44.2	51.4
<b>\$25,000 under \$30,000</b>	17.6	23.8	28.7	31.3	33.0	34.0	36.2	39.1	47.0
<b>\$30,000 under \$40,000</b>	7.2	10.9	15.1	18.9	20.3	21.2	22.2	26.1	33.4
<b>\$40,000 under \$50,000</b>	2.9	4.9	7.5	10.4	12.2	12.7	12.6	16.0	22.4
<b>\$50,000 under \$75,000</b>	1.0	1.3	2.0	3.9	4.7	5.5	5.8	8.0	12.0
<b>\$75,000 under \$100,000</b>	0.3	0.4	0.6	1.0	1.2	1.4	1.6	2.5	4.1
<b>\$100,000 under \$200,000</b>	0.1	0.2	0.2	0.2	0.4	0.4	0.6	0.8	1.0
<b>\$200,000 under \$500,000</b>	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.5	0.5
<b>\$500,000 under \$1,000,000</b>	0.2	0.1	0.1	0.1	0.2	0.2	0.3	0.6	0.5
<b>\$1,000,000 under \$1,500,000</b>	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.6	0.5
<b>\$1,500,000 under \$2,000,000</b>	0.2	0.2	0.1	0.1	0.2	0.2	0.3	0.7	0.5
<b>\$2,000,000 under \$5,000,000</b>	0.2	0.1	0.1	0.1	0.2	0.2	0.3	0.7	0.5
<b>\$5,000,000 under \$10,000,000</b>	0.3	0.2	0.1	0.1	0.2	0.2	0.3	0.7	0.4
<b>\$10,000,000 or more</b>	0.2	0.2	0.2	0.1	0.3	0.2	0.2	0.8	0.6

<sup>14</sup> Hypothetical tax return generated using Tax Foundation's MyTaxBurden tax policy calculator. This hypothetical return can be viewed or modified at: <http://goo.gl/YvGRj>.

Although many low-income nonpayers do pay other federal taxes such as payroll and excise taxes, the value of refundable credits is getting so large as to offset these other tax costs. For example, the Joint Committee on taxation estimated that in 2009, the value of refundable credits exceeded the employee share of payroll taxes for 23 million tax filers and exceeded the employer's share of payroll taxes for 15.5 million filers.<sup>15</sup>

What this means is that these Americans are not just being absolved from contributing to the basic cost of government, but they are also avoiding contributing to the cost of their own retirement as well.

## Conclusion

Since the first income tax code was enacted in 1913, the tax system has protected certain classes of Americans from paying the income tax. Starting in about 1940, however, the federal income tax changed from being a tax largely on high-income workers, to a mass tax on virtually all working Americans. But thanks to the rampant growth in tax credits over the past two decades or so, the federal income tax is reverting to its original composition – a tax largely on high-income Americans.

2009 and 2010 saw a record number of tax filers pay no income taxes because of the generous credits and deductions in the code. More than one out of every four tax filers no longer contributes to the basic cost of government because of these credits and deductions. In addition, millions of these nonpayers also received cash back through refundable credits, such as the EITC, child credit, and Making Work Pay credit.

These credits not only have a major budgetary cost – both in terms of the lost revenue and the outlay cost for the refundable portion – they undermine the financial stability of the government by narrowing the tax base and disconnect people from the basic cost of government. The latter consequence is what Noble Laureate James Buchanan calls “fiscal illusion.”<sup>16</sup> When people perceive government to be cheaper than it really is, they will demand ever more of it because they either don't have a true sense of its cost or they assume that others will bear the cost.

As lawmakers debate the equity of the current tax system, the conversation cannot be solely about the tax burden borne by the rich. It must include an honest discussion about how many Americans should we allow to be nonpayers and, thus, held harmless from the basic cost of government.

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<sup>15</sup> Joint Committee on Taxation, Letter to Representative Dave Camp and Senator Kent Conrad, May 28, 2010.

<sup>16</sup> James M. Buchanan, *Public Finance in Democratic Process: Fiscal Institutions and Individual Choice*, <http://www.econlib.org/library/Buchanan/buchCv4c10.html>.

**Table 3: Federal Individual Income Tax Returns with Zero or Negative Tax Liability**

<b>Year</b>	<b>Number of Returns Filed</b>	<b>Returns with Zero or Negative Tax Liability</b>	<b>Percentage of Returns with Zero or Negative Tax Liability</b>
1916	437,036	74,096	17.0%
1917	3,472,890	765,056	22.0%
1918	4,425,114	1,032,251	23.3%
1919	5,332,760	1,101,579	20.7%
1920	7,259,944	1,741,634	24.0%
1921	6,662,176	3,072,191	46.1%
1922	6,787,481	3,106,232	45.8%
1923	7,689,321	3,428,200	44.6%
1924	7,369,788	2,880,090	39.1%
1925	4,171,051	1,669,885	40.0%
1926	4,138,092	1,667,102	40.3%
1927	4,101,547	1,660,606	40.5%
1928	4,070,851	1,547,788	38.0%
1929	4,044,327	1,586,278	39.2%
1930	3,707,509	1,669,864	45.0%
1931	3,225,924	1,700,378	52.7%
1932	3,877,430	1,941,335	50.1%
1933	3,723,558	1,975,818	53.1%
1934	4,094,420	2,298,500	56.1%
1935	4,575,012	2,464,122	53.9%
1936	5,413,499	2,552,391	47.1%
1937	6,350,148	2,978,705	46.9%
1938	6,251,009	3,255,345	52.1%
1939	7,715,660	4,041,758	52.4%
1940	14,710,725	7,273,464	49.4%
1941	25,964,801	8,207,709	31.6%
1942	36,700,729	8,819,059	24.0%
1943	43,819,194	3,283,854	7.5%
1944	47,111,495	4,757,027	10.1%
1945	49,932,783	7,282,281	14.6%
1946	52,816,547	14,900,851	28.2%
1947	55,099,008	13,520,484	24.5%
1948	52,072,006	15,660,758	30.1%
1949	51,814,124	16,185,829	31.2%
1950	53,060,098	14,873,416	28.0%
1951	55,447,009	12,798,399	23.1%
1952	56,528,817	12,652,544	22.4%

<b>Year</b>	<b>Number of Returns Filed</b>	<b>Returns with Zero or Negative Tax Liability</b>	<b>Percentage of Returns with Zero or Negative Tax Liability</b>
1953	57,838,184	12,615,033	21.8%
1954	56,747,008	14,113,948	24.9%
1955	58,250,188	13,561,123	23.3%
1956	59,197,004	12,938,358	21.9%
1957	59,825,121	12,959,806	21.7%
1958	59,085,182	13,433,048	22.7%
1959	60,271,297	12,774,384	21.2%
1960	61,027,931	12,966,946	21.2%
1961	61,499,420	12,916,655	21.0%
1962	62,712,386	12,620,023	20.1%
1963	63,943,236	12,620,015	19.7%
1964	65,375,601	14,069,263	21.5%
1965	67,596,300	13,895,506	20.6%
1966	70,160,425	13,451,349	19.2%
1967	71,651,909	12,978,971	18.1%
1968	73,728,708	12,440,000	16.9%
1969	75,834,388	12,112,994	16.0%
1970	74,279,831	14,962,460	20.1%
1971	74,576,407	14,660,035	19.7%
1972	77,572,720	16,703,713	21.5%
1973	80,692,587	16,425,425	20.4%
1974	83,340,190	16,005,423	19.2%
1975	82,229,332	20,738,595	25.2%
1976	84,670,389	20,249,022	23.9%
1977	86,634,640	22,253,502	25.7%
1978	89,771,551	21,083,246	23.5%
1979	92,964,302	20,999,319	22.6%
1980	93,902,469	19,996,225	21.3%
1981	95,396,123	18,671,399	19.6%
1982	95,337,432	18,302,132	19.2%
1983	96,321,310	18,304,987	19.0%
1984	99,438,708	17,799,199	17.9%
1985	101,660,287	18,813,867	18.5%
1986	103,045,170	19,077,757	18.5%
1987	106,996,270	20,272,474	18.9%
1988	109,708,280	22,572,948	20.6%
1989	112,135,673	22,957,318	20.5%
1990	113,717,138	23,854,704	21.0%
1991	114,730,123	25,996,536	22.7%

<b>Year</b>	<b>Number of Returns Filed</b>	<b>Returns with Zero or Negative Tax Liability</b>	<b>Percentage of Returns with Zero or Negative Tax Liability</b>
1992	113,604,503	26,872,557	23.7%
1993	114,601,819	28,166,452	24.6%
1994	115,943,131	28,323,685	24.4%
1995	118,218,327	28,965,338	24.5%
1996	120,351,208	29,421,858	24.4%
1997	122,421,991	28,950,791	23.6%
1998	124,770,662	31,722,764	25.4%
1999	127,075,145	32,529,065	25.6%
2000	129,373,500	32,555,897	25.2%
2001	130,255,237	35,491,707	27.2%
2002	130,076,443	39,112,547	30.1%
2003	130,423,626	41,501,722	31.8%
2004	132,226,042	43,124,108	32.6%
2005	134,372,678	43,802,114	32.6%
2006	138,394,754	45,681,047	33.0%
2007	143,030,461	46,655,760	32.6%
2008	142,450,569	51,790,465	36.4%
2009	140,494,127	58,603,938	41.7%
2010	142,856,282	58,390,289	40.9%

**Source: Tax Foundation calculations based on IRS Data**

Note: 2010 numbers are based on preliminary data represent estimates of income and tax items based on a sample of individual income tax returns filed between January and late September of a given processing year. These returns are then weighted to represent a full year of taxpayer reporting. In general, some of the returns processed during the remainder of the year may have somewhat different characteristics compared to these earlier ones. Therefore, these preliminary data are best utilized by comparisons made to the preliminary estimates from the prior year. When available, the estimates from the Complete Year Data should be used in place of the primary data.

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#### **About the Tax Foundation**

The Tax Foundation is a 501(c)(3) non-partisan, non-profit research institution founded in 1937 to educate the public on tax policy. Based in Washington, D.C., our economic and policy analysis is guided by the principles of sound tax policy: simplicity, neutrality, transparency, and stability.