

The world's most interesting addresses start with this one. [wsj.com/realestate](http://wsj.com/realestate)

VISIT NOW

THE WALL STREET JOURNAL  
live in the know

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit [www.djreprints.com](http://www.djreprints.com)

See a sample reprint in PDF format.

Order a reprint of this article now

THE WALL STREET JOURNAL

WSJ.com

U.S. NEWS | MAY 3 2011

## High-Earning Households Pay Growing Share of Taxes

By JOHN D. MCKINNON

As President Barack Obama pushes to raise income taxes on high earners, opponents are seizing on data that indicates these U.S. households already pay a large and growing share of taxes, even compared with high-tax European countries. And a new congressional study concludes that the percentage of U.S. households owing no federal income tax climbed to 51% for 2009.

Republicans are expected to highlight these figures at a congressional hearing Tuesday. They oppose Mr. Obama's proposal to increase taxes for high earners, defined as families making more than \$250,000 per year, as a way to help close large federal budget deficits.

### Heavier Burden

The wealthiest 20% of Americans have seen their share of federal taxes grow more rapidly than their share of income, leading to more U.S. taxes relative progressivity by one measure.

#### Share of total federal taxes paid by:

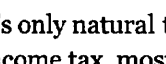
Top 10%  
2010  
12.4%  
2007  
11.4%



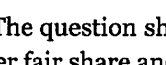
Next 10%  
2010  
2.4%  
2007  
2.4%



Next 10%  
2010  
2.4%  
2007  
2.4%



Bottom 70%  
2010  
11.8%  
2007  
11.8%

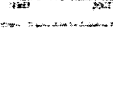


#### Share of pretax income:

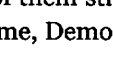
Top 10%  
2010  
20.0%  
2007  
20.0%



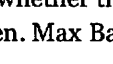
Next 10%  
2010  
10.0%  
2007  
10.0%



Next 10%  
2010  
10.0%  
2007  
10.0%

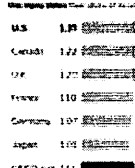


Bottom 70%  
2010  
70.0%  
2007  
70.0%



#### Tax vs. income by country

For a given level of income, U.S. taxes are the most progressive by one measure.



"Most taxpayers are skeptical that the answer to our fiscal problems is for them to sacrifice more, when more than half of all households are not paying any income taxes and an increasingly smaller group of Americans is shouldering the burdens for an increasing larger group of Americans," said Sen. Orrin Hatch of Utah, the top Republican on the Senate Finance Committee.

For their part, Democrats note that the incomes of higher earners have been growing far more rapidly, so

it's only natural that they would pay a higher share of tax. As for those Americans who pay no federal income tax, most of them still pay Social Security and Medicare payroll taxes that can take a significant share of their income, Democrats said.

"The question shouldn't be what kind of taxes people pay, but whether every American is paying his or her fair share and whether the tax code is as fair to middle-income Americans as it is to the wealthiest among us," said Sen. Max Baucus (D., Mont.), the Finance Committee chairman.

Also, while the U.S. income tax system might be more progressive, the nation's overall social safety-net system has been less generous than many European countries, according to many experts. The tax debate comes as Washington weighs a range of options for cutting budget deficits.

Upper-income taxpayers have paid a growing share of the federal tax burden over the last 25 years.

A 2008 study by the Organization for Economic Cooperation and Development, for example, found that the highest-earning 10% of the U.S. population paid the largest share among 24 countries examined, even after adjusting for their relatively higher incomes. "Taxation is most progressively distributed in the United States," the OECD study concluded.

Meanwhile, the percentage of U.S. households paying no federal income tax has been climbing, and reached 51% for 2009, according to a new analysis by the Joint Committee on Taxation. That was the first time since at least 1992 that more than half of households owed no federal income tax, according to

JCT estimates.; earlier data were unavailable on Monday.

Many who paid no federal income tax for 2009 are likely low-wage workers, students and the elderly, according to Democratic aides, as well as those whose incomes have been affected by the economic downturn.

The analysis, in a letter to Finance Committee Republicans, concludes that about 30% of taxpayers received money from the government through tax credits.

The growth in higher earners' tax share has been due to several factors, experts say. Their incomes have been growing more rapidly than others, resulting in generally higher tax collections, even as rates dropped for virtually all earners during the administration of President George W. Bush.

Average rates for the very wealthy are often lower than that because of low tax rates on investment income.

Average pretax incomes for the top 20% grew from \$140,300 in 1979 to \$264,700 in 2007, in inflation-adjusted dollars; for the top 10%, they grew from \$182,800 in 1979 to \$394,500 in 2007 according to the Congressional Budget Office. Incomes for all groups rose at least somewhat during the period, in inflation-adjusted dollars, albeit much more slowly for lower earners.

The share of pre-tax income rose only for the top 20% and above, from 45.5% in 1979 to 55.9% in 2007.

A series of federal tax breaks for lower earners also has increased tax-system payouts and helped reduce tax shares for lower and middle-income earners. Examples include the expanded availability of the earned-income credit and the child credit.

Still another reason for the U.S. system's apparent progressivity is its lack of a value-added tax, according to some experts. VATs—a form of consumption tax common in Europe and Asia—typically place more of the burden on lower-income earners, because they spend more of their income.

Tax systems in emerging economies tend to be less progressive than either the U.S. or other developed countries, according to experts. They extract less in taxes as a percentage of GDP, and the role played by individual income taxes is "remarkably small," said Eric Zolt, a tax law professor at UCLA. Singapore's top individual income-tax rate, for example, is 20%. The highest U.S. marginal rate is 35%: Mr. Obama has proposed raising it to 39.6%.

To be sure, some experts say the share of tax borne by the wealthy is not the best measure of a system's progressivity. They say it's more important to look at the tax rates being paid by higher earners. In the U.S., the average tax rate for higher earners has fluctuated, but generally has declined for the top 10% from 29.6% in 1979, to 26.7% in 2007, according to the CBO, even as incomes for that group were rising. Average rates for the very wealthy are often lower than that because of low tax rates on investment income.

Some experts see an opportunity. "There's a potentially very large fiscal reserve" that the government could tap by raising taxes on higher earners, says Emmanuel Saez, an economist at the University of California, Berkeley.

**Write to John D. McKinnon at [john.mckinnon@wsj.com](mailto:john.mckinnon@wsj.com)**

Copyright 2011 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our Subscriber Agreement and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit [www.djreprints.com](http://www.djreprints.com)