



tax facts

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Nonfilers and Filers With Modest Tax Liabilities

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The effects of income tax changes on the economy and the distribution of after-tax income depend in part on the population that does not file a tax return or that does file a return but owes little or no net income tax liability. These types of tax units featured prominently in the debate over the 2003 tax legislation.

The Tax Policy Center (TPC) model contains information on both tax filers and nonfiling tax units. The data for tax return filers are based on extrapolations from individual income tax returns filed in 1999. The data for nonfiling tax units are based on a statistical match with the March 2000 Current Population Survey. This approach to estimating nonfilers is common, but its precision is difficult to determine because it is impossible to know with certainty who the nonfilers are.

The table below shows the pattern of nonfilers and filers with negative or small positive net income tax liabilities after credits, following enactment of the 2003 tax legislation. The table is limited to “nondependent tax units”; that is, tax units other than dependents reported on other tax returns.

Of the nation’s 139 million estimated nondependent tax units, 18 million do not file an income tax return. More than 60 percent of these nonfilers are singles, but

a quarter are married without dependent children. Almost all nonfilers have estimated adjusted gross income of less than \$10,000. They are also disproportionately elderly: those aged 65 or above account for less than 20 percent of all nondependent tax units, but more than half of all nonfiling units.

An additional 42 million tax units file an income tax return but owe no more than \$500 in income tax after credits. Of these, 34 million either owe no income tax or receive a net income tax refund after credits.

Reflecting the refundability of the Earned Income Tax Credit and partial refundability of the Child Tax Credit, single heads of households and married couples with dependent children account for more than half of the tax units with zero or negative net income tax liability after credits. Most of the single filers in this category owe literally zero net income tax. Single filers loom relatively larger among tax units with positive income tax liability of less than \$500; they account for more than half of such tax units.

All together, nonfilers and filers with income tax liability of less than \$500 after credits (including filers with negative income tax liabilities after credits) account for more than 40 percent of nondependent tax units. Roughly 30 percent of married couples with dependent children, 45 percent of singles, and 75 percent of heads of households fall into this category. Even though these tax units bear at most a modest net federal income tax liability, they often face significant payroll and other taxes.

Family Status	Tax Units		Nonfilers		Nontaxable Returns (including those with net refunds)*		Income Tax of \$500 or Less	
	Number (thousands)	Percent of Total	Number (thousands)	Percent of Column	Number (thousands)	Percent of Column	Number (thousands)	Percent of Column
Single	59,108	42.5	11,345	62.6	10,098	30.1	4,949	59.1
Single head of household	21,242	15.3	1,533	8.5	13,036	38.9	966	11.5
Married without children	30,992	22.3	4,681	25.8	3,548	10.6	1,461	17.4
Married with children	27,617	19.9	573	3.2	6,861	20.5	996	11.9
All	138,959	100.0	18,131	100.0	33,544	100.0	8,372	100.00

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0503-1).

Note: Excludes dependent filers.

* Income tax liability net of refundable credits.



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