

## Five Myths About the 47 Percent

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### Abstract

As Mitt Romney recently noted, about 47 percent of U.S. households do not pay federal income taxes. Some see this as evidence of a welfare state run amok. Others think that gimmicks and loopholes let both rich and poor Americans duck their taxes. This commentary corrects some misconceptions about this group, now colloquially called the 47 percent.

Document date: September 21, 2012

Released online: September 25, 2012

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### *Washington Post* Five myths about the 47 percent

#### 1. Forty-seven percent of Americans don't pay taxes.

The most pernicious misconception about people who don't pay federal income taxes is that they don't pay any taxes. That oft-heard claim ignores all the other taxes Americans encounter in their daily lives. Almost two-thirds of the 47 percent work, for example, and their payroll taxes help finance Social Security and Medicare. Accounting for this, the share of households paying no net federal taxes [falls to 28 percent](#).

And those aren't the only other taxes they bear. According to economic research, the corporate income tax discourages domestic investment; that depresses wages, so workers are effectively paying some of the corporate tax. More directly, many households pay federal taxes on gasoline, beer and cigarettes. And then there are state and local sales, property and income taxes — all of which are often less progressive than the federal income tax. Putting all these together, a family of three with an income of \$30,000 would owe no federal income tax (in fact, they would get money back). But they could easily pay more than \$4,500, or 15 percent of their income, in taxes.

#### 2. Members of the 47 percent will never pay federal income taxes.

Politicians and commentators often talk about those who don't pay income taxes as though they're in a special club with lifetime membership. In fact, it's a highly diverse group, some of whom move in and out from year to year.

When they first join the workforce, for example, young people may not earn enough to pay federal income taxes. The same is true for many of the temporarily unemployed, working parents and entrepreneurs whose businesses experience a loss. But most of these people look forward to the day, perhaps in just a year or two, when their incomes will rise and they will join or rejoin the 53 percent of Americans who do pay federal income taxes.

The reverse is true for many senior citizens: They may pay no federal income tax in retirement, but most did during their working years.

#### 3. Many high-income people game the system to pay no income tax.

Our jerry-rigged tax code leaves many Americans with a nagging sense that other people are exploiting loopholes to avoid taxes — and the rest of us have to make up the difference. Sadly, there's an element of truth to that. But gimmickry by high-income taxpayers has essentially nothing to do with who does and doesn't pay income taxes. Our colleagues at the Tax Policy Center estimate, for example, that households with cash incomes of \$200,000 or more account for less than 0.1 percent of the 47 percent.

The vast majority of people who pay no federal income tax [have low earnings, are elderly or have children at home](#). They are exempt from the income tax because of features Congress added to the tax code, thanks to bipartisan efforts, to help these groups. For example, Presidents Ronald Reagan and Bill Clinton both favored the earned-income tax credit (EITC), which has helped millions of families stave off poverty.

About half of these households don't pay federal income tax simply because their incomes are low. More than one-fifth are retirees who benefit from tax breaks for seniors, including an exemption for most Social Security benefits. And another one-seventh are working families with children whose income tax liability is eliminated because of the child tax credit, the EITC, or the child and dependent care credit. Together, these three groups

of taxpayers account for almost 90 percent of the households that pay no federal income tax.

#### 4. The 47 percent vote Democratic.

In the leaked video that went viral this past week, Romney counts the 47 percent as people who will vote for President Obama "no matter what." There is no direct way to match people's tax records and voting habits, so we have only circumstantial evidence on how the 47 percent votes — but they certainly aren't all shoo-ins for Obama.

Let's take low-income and elderly households, which are particularly likely to pay no federal income taxes. Low-income households do tend to vote Democratic — when they vote. But fewer than half of individuals in households with incomes below \$30,000 voted in 2008, according to the [census](#), compared with about 60 percent of people with higher incomes. On the other hand, Romney appears to hold a lead over Obama among elderly voters, a group that votes enthusiastically.

#### 5. Tax increases are the only way to bring more of these households onto the tax rolls.

Romney's comments about the 47 percent raise the question: If too many Americans pay no federal income tax, how should we reduce that number? One strategy would be to cut back on tax benefits. The expansion of the child credit under President George W. Bush in 2001, for example, removed many households from the rolls. Allowing that expansion to expire at year's end — one factor that could lead to falling off the "fiscal cliff" — would add many back. But few observers and almost no politicians endorse that idea or other changes, such as subjecting more Social Security benefits to taxation, that would have similar effects.

But there is another way. The share of households paying no income tax is near record highs not only because of tax policy but also because of the struggling economy. Higher earnings, particularly for low- and moderate-income workers, would move more Americans into the income-tax-paying category. Indeed, [projections show](#) that the share of households paying no federal income tax will decline by more than one-fifth in the coming decade because of economic growth and inflation. That drop would be faster and steeper with a stronger, prolonged recovery, which would give more Americans the pleasure of paying federal income taxes.

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### Other Publications by the Authors

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