

Nearly half of US households escape fed income tax



By STEPHEN OHLEMACHER, Associated Press Writer
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WASHINGTON – Tax Day is a dreaded deadline for millions, but for nearly half of U.S. households it's simply somebody else's problem.

About 47 percent will pay no federal income taxes at all for 2009. Either their incomes were too low, or they qualified for enough credits, deductions and exemptions to eliminate their liability. That's according to projections by the Tax Policy Center, a Washington research organization.

Most people still are required to file returns by the April 15 deadline. The penalty for skipping it is limited to the amount of taxes owed, but it's still almost always better to file: That's the only way to get a refund of all the income taxes withheld by employers.

In recent years, credits for low- and middle-income families have grown so much that a family of four making as much as \$50,000 will owe no federal income tax for 2009, as long as there are two children younger than 17, according to a separate analysis by the consulting firm Deloitte Tax.

Tax cuts enacted in the past decade have been generous to wealthy taxpayers, too, making them a target for President Barack Obama and Democrats in Congress. Less noticed were tax cuts for low- and middle-income families, which were expanded when Obama signed the massive economic recovery package last year.

The result is a tax system that exempts almost half the country from paying for programs that benefit everyone, including national defense, public safety, infrastructure and education. It is a system in which the top 10 percent of earners — households making an average of \$366,400 in 2006 — paid about 73 percent of the income taxes collected by the federal government.

The bottom 40 percent, on average, make a profit from the federal income tax, meaning they get more money in tax credits than they would otherwise owe in taxes. For those people, the government sends them a payment.

"We have 50 percent of people who are getting something for nothing," said Curtis Dubay, senior tax policy analyst at the Heritage Foundation.

The vast majority of people who escape federal income taxes still pay other taxes, including federal payroll taxes that fund Social Security and Medicare, and excise taxes on gasoline, aviation, alcohol and cigarettes. Many also pay state or local taxes on sales, income and property.

That helps explain the country's aversion to taxes, said Clint Stretch, a tax policy expert Deloitte Tax. He said many people simply look at the difference between their gross pay and their take-home pay and blame the government for the disparity.

"It's not uncommon for people to think that their Social Security taxes, their 401(k) contributions, their share of employer health premiums, all of that stuff in their mind gets lumped into income taxes," Stretch said.

The federal income tax is the government's largest source of revenue, raising more than \$900 billion — or a little less than half of all government receipts — in the budget year that ended last Sept. 30. But with deductions and credits, especially for families with children, there have long been people who don't pay it, mainly lower-income families.

The number of households that don't pay federal income taxes increased substantially in 2008, when the poor economy reduced incomes and Congress cut taxes in an attempt to help recovery.

In 2007, about 38 percent of households paid no federal income tax, a figure that jumped to 49 percent in 2008, according to estimates by the Tax Policy Center.

In 2008, President George W. Bush signed a law providing most families with rebate checks of \$300 to \$1,200. Last year, Obama signed the economic recovery law that expanded some tax credits and created others. Most targeted low- and middle-income families.

Obama's Making Work Pay credit provides as much as \$800 to couples and \$400 to individuals. The expanded child tax credit provides \$1,000 for each child under 17. The Earned Income Tax Credit provides up to \$5,657 to low-income families with at least three children.

There are also tax credits for college expenses, buying a new home and upgrading an existing home with energy-efficient doors, windows, furnaces and other appliances. Many of the credits are refundable, meaning if the credits exceed the amount of income taxes owed, the taxpayer gets a payment from the government for the difference.

"All these things are ways the government says, if you do this, we'll reduce your tax bill by some amount," said Roberton Williams, a senior fellow at the Tax Policy Center.

The government could provide the same benefits through spending programs, with the same

effect on the federal budget, Williams said. But it sounds better for politicians to say they cut taxes rather than they started a new spending program, he added.

Obama has pushed tax cuts for low- and middle-income families and tax increases for the wealthy, arguing that wealthier taxpayers fared well in the past decade, so it's time to pay up. The nation's wealthiest taxpayers did get big tax breaks under Bush, with the top marginal tax rate reduced from 39.6 percent to 35 percent, and the second-highest rate reduced from 36 percent to 33 percent.

But income tax rates were lowered at every income level. The changes made it relatively easy for families of four making \$50,000 to eliminate their income tax liability.

Here's how they did it, according to Deloitte Tax:

The family was entitled to a standard deduction of \$11,400 and four personal exemptions of \$3,650 apiece, leaving a taxable income of \$24,000. The federal income tax on \$24,000 is \$2,769.

With two children younger than 17, the family qualified for two \$1,000 child tax credits. Its Making Work Pay credit was \$800 because the parents were married filing jointly.

The \$2,800 in credits exceeds the \$2,769 in taxes, so the family makes a \$31 profit from the federal income tax. That ought to take the sting out of April 15.