

March 17, 2014

Taxes 101: The Seven Things You Must Know about Taxes

National Priorities Project explains who pays, who benefits, and why you own the federal budget.

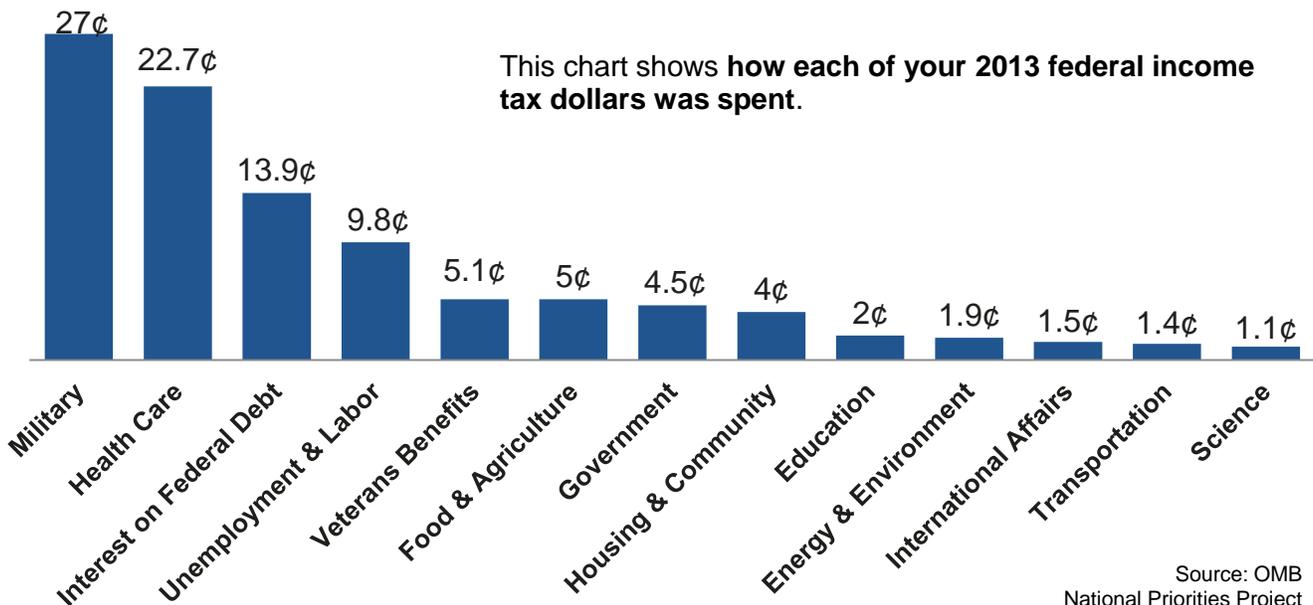
1. You are an investor in our nation and your tax dollars come back to your community

Your taxes fund **health care programs, clean drinking water, education, the national weather service, highways and bridges, and national parks**, among many other things. Federal dollars flow into your state and then down into your own neighborhood. In the state of Iowa, for instance, federal dollars account for a third of the state's budget¹ – and those funds are used for health care, repairs to roads and bridges, and countless community initiatives across the state.

2. You pay the federal government's bills

Around **80 percent of all federal tax revenue comes from the paychecks of Americans**, through income taxes and payroll taxes.² (Payroll taxes are Social Security and Medicare taxes, paid by employee and employer.) That means regular people like you are the primary bill payer for the U.S. government – and **that's why the federal budget belongs to you and to all Americans.**

3. Exactly where your 2013 income taxes went



Source: OMB
National Priorities Project



¹ U.S. Census Bureau, [2012 Census of Governments: Finance - Survey of State Government Finances](#)

² NPP analysis of OMB Public Budget Database data

Want a **personalized tax receipt** for the total amount of federal income taxes you paid? Go to bit.ly/TaxReceipt – where you can also see **the average tax receipt for taxpayers in your own state**.

4. We don't all pay taxes equally. Not even close.

In theory the tax code is progressive, meaning those who make more money pay higher tax rates – yet in practice that's not always the case. As Warren Buffett made famous, **billionaires sometimes pay lower rates than middle-class workers**.³ And **some corporations, like Bank of America and Citigroup, have gotten away with paying zero federal income taxes**, even when they make billions in profit.⁴ And that's because the tax code is chock-full of tax breaks.

5. Our tax code is full of special tax breaks – tilted heavily in favor of the rich.

Ten of the largest tax breaks that together totaled more than \$750 billion in tax savings in 2013 overwhelmingly benefited the top 1 percent of households, with 17 percent of the benefits going to those top earners.⁵ That's in part because tax deductions – one important type of tax break – are far more likely to benefit the wealthy than middle- and low-income folks, because deductions only offer savings to taxpayers who *itemize* deductions. Only 16 percent of households making between \$25,000 and \$30,000 itemize tax deductions, while nearly 100 percent of those making over \$200,000 do.⁶

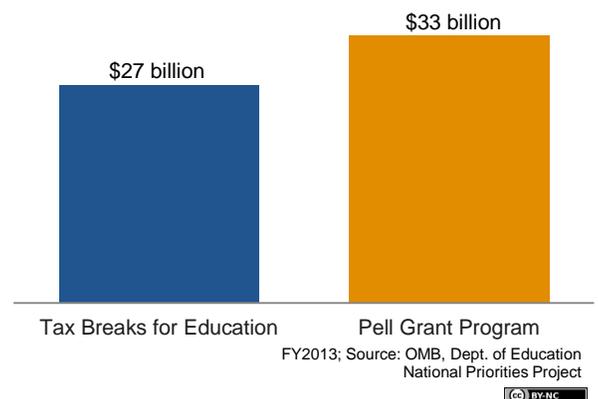
6. A couple key tax breaks benefit working families.

Most tax credits are nonrefundable, meaning they can reduce your taxes down to zero but can't also result in the Treasury sending you a check on top of that. But a couple tax credits are refundable. **The Earned Income Tax Credit and the Child Tax Credit are refundable and are widely seen as effective anti-poverty measures, helping to combat inequality**.⁷

7. Lawmakers use the tax code to do a lot more than raise revenue – with unintended consequences.

Lawmakers often use the tax code to achieve goals like promoting manufacturing or reducing the cost of health care. But the tax code isn't always effective at achieving these kinds of goals. For instance, Washington devotes billions in spending to financial aid for college students while a variety of tax breaks do the same thing. **But while Pell grants and other direct aid are largely effective at reaching low-income students, tax breaks⁸ are far more likely to**

Education Tax Breaks⁸ Are Nearly the Size of Pell Grants



³ White House National Economic Council, "[The Buffett Rule: A Basic Principle of Tax Fairness](#)."

⁴ Americans for Tax Fairness, 2013, "[Corporate Tax Dodgers: 10 Companies and Their Tax Loopholes](#)."

⁵ Congressional Budget Office, "[The Distribution of Major Tax Expenditures in the Individual Income Tax System](#)" and National Priorities Project [analysis](#) of White House Office of Management and Budget data. View full report [here](#).

⁶ Tax Foundation, "[Higher Income Taxpayers Are Most Likely to Claim Itemized Deductions](#)."

⁷ Center on Budget and Policy Priorities, "[One Anti-Poverty Initiative Both Sides Can Agree On](#)."

⁸ For a list of education tax breaks, see [Tax Day 2014: Notes & Sources](#).

reach wealthy families who may be less in need of aid.⁹

⁹ CLASP et al., "[Higher Education Tax Reform: A Shared Agenda for Increasing College Affordability, Access, and Success.](https://nationalpriorities.org/analysis/2014/tax-day-2014/taxes-101)"
nationalpriorities.org/analysis/2014/tax-day-2014/taxes-101