

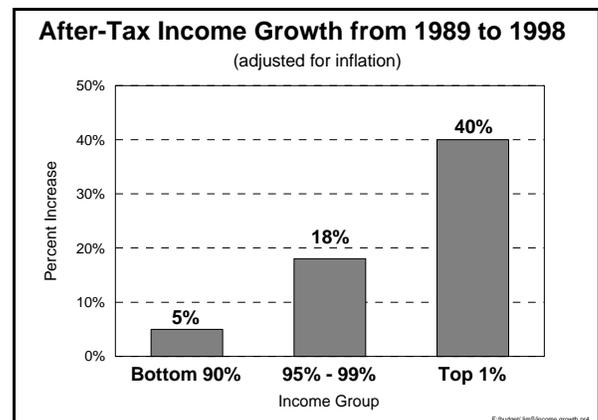
February 28, 2001

## THE LATEST IRS DATA ON AFTER-TAX INCOME TRENDS

On February 26, the Center on Budget and Policy Priorities released an analysis, “The Latest IRS Data on After-Tax Income Trends.” The report finds that after-tax income growth for the top one percent of tax filers far outpaced that of the rest of the population in 1998, and that since 1989 the top five percent of tax filers — the only group in marginal tax brackets above 28 percent — experienced after-tax income gains that were dramatically larger than were the gains among the rest of the population. In addition, in 1998 the average income tax rate of the top one percent of tax filers fell for the second year in a row. The findings of the report include:

The full report can be viewed at <http://www.cbpp.org/2-26-01tax.htm>

- New data from the Internal Revenue Service indicate that between 1997 and 1998, the average after-tax income of the one percent of tax filers with the highest incomes increased 13 percent, or \$69,000. In comparison, the average after-tax income of the bottom 90 percent of tax filers rose by four percent.
- From 1989 (the peak of the last economic recovery) to 1998, the average after-tax income of the top one percent of tax filers rose by a robust 40 percent, or \$171,000. The average after-tax income of those between the 95th and 99th percentiles of the income spectrum (that is, those in the top five percent except for the top one percent), climbed a healthy 18 percent. Gains among both groups far outpaced the bottom 90 percent of filers, whose after-tax income rose five percent in this period.
- As a result of these sharp differences in income growth, income disparities between the highest-income taxpayers and the rest of the population grew substantially during the 1990s, reaching their widest point since at least 1977 (the earliest year for which after-tax income data are available).
- The available indicators for the 1998–2000 period point towards a further jump in incomes at the top. Using data from the Congressional Budget Office and the IRS, the Center on Budget and Policy Priorities estimates that from 1998 to 2000, the average after-tax income of the richest one percent of the population increased by another \$57,000 due to capital gains income alone. Capital gains income is heavily concentrated among the top one percent of the population.



As the Center’s report notes, these findings provide a useful context for deliberations over what to do with emerging budget surpluses. The Bush tax plan as a whole would confer about 40 percent of its tax-cut benefits on the top one percent of the population. Since the top one percent receives significantly less than 40 percent of the national after-tax income, the tax package would further increase the share of after-tax income the top one percent of taxpayers receive, thereby further exacerbating income disparities.

Proponents of large tax cuts for high-income individuals correctly note that the marginal tax rates these individuals face were raised in the early 1990s. The Center’s study observes, however, that these individuals’ extremely large income gains in recent years suggest current marginal rates have not posed major barriers to economic activity and risk-taking. The study also points out that while those at the top of the income spectrum now pay a larger share of federal taxes than in the past, the principal reason for this is that their share of the national income has risen to record levels. In fact, between 1996 and 1998, the percentage of income that the most affluent one percent of tax filers paid in federal income taxes *fell*, from 28.9 percent of income to 27.1 percent.