

# NEWS RELEASE



820 First Street, NE  
Suite 510  
Washington, DC 20002

Tel: 202-408-1080  
Fax: 202-408-1056

center@cbpp.org  
www.cbpp.org

**Robert Greenstein**  
Executive Director

**Iris J. Lav**  
Deputy Director

#### Board of Directors

**John R. Kramer, Chair**  
*Tulane Law School*

**Henry J. Aaron**  
*Brookings Institution*

**Ken Apfel**  
*University of Texas*

**Barbara B. Blum**  
*Columbia University*

**David de Ferranti**  
*The World Bank*

**Marian Wright Edelman**  
*Children's Defense Fund*

**James O. Gibson**  
*DC Agenda*

**Beatrix Hamburg, M.D.**  
*Cornell Medical College*

**Frank Mankiewicz**  
*Hill and Knowlton*

**Richard P. Nathan**  
*Nelson A Rockefeller Institute  
of Government*

**Marion Pines**  
*Johns Hopkins University*

**Sol Price**  
*Chairman, The Price Company  
(Retired)*

**Robert D. Reischauer**  
*Urban Institute*

**Audrey Rowe**  
*Lockheed Martin, IMS*

**Susan Sechler**  
*The Aspen Institute*

**Juan Sepulveda, Jr.**  
*The Common Experience/  
San Antonio*

**William Julius Wilson**  
*Harvard University*

**FOR IMMEDIATE RELEASE:**  
February 26, 2001

CONTACT: Jim Jaffe  
Michelle Bazie  
(202) 408-1080

## **INCOME GAINS AT TOP FAR OUTPACE GAINS FOR REST OF POPULATION, LATEST IRS DATA SHOW**

### **Top 1% of Tax Filers Gain \$69,000 Apiece in 1998 Alone**

New Internal Revenue Service data indicate that the after-tax income of the top one percent of tax filers jumped by \$69,000 in 1998 alone and has grown 40 percent since 1989. The pace of this income growth was eight times faster than that of the bottom 90 percent of the population over the 1989-1998 period, according to an analysis of these data issued today by the Center on Budget and Policy Priorities, a Washington D.C. policy institute.

“While some have thought that the wide income gaps between those at the very top of the income scale and the rest of the population stopped growing in the 1990s, these data show that is not the case,” said Isaac Shapiro, the report’s author. “Incomes at the top have continued to leap ahead, while the gains for the rest of the population have been relatively modest.” The IRS income data the report examines have not previously been analyzed.

The IRS data provide information on adjusted gross income, as reported on income tax returns, as well as the federal income taxes paid on that income. The Center’s analysis examines adjusted gross income after federal income taxes, which the analysis refers to as “after-tax income.”

According to these IRS data, the average after-tax income of the one percent of tax filers with the highest incomes increased 13 percent between 1997 and 1998, after adjusting for inflation, from \$526,000 to \$595,000. The average after-tax income of the bottom 90 percent of tax filers rose four percent. The average *increase* of \$69,000 in the after-tax income of the top one percent of filers in this single year is substantially larger than the *total* incomes of a significant majority of American families.

The IRS data also reveal that between 1997 and 1998, the percentage of income that the most affluent one percent of tax filers pay in federal income taxes fell from 27.9 percent of income to 27.1 percent. The percentage of income that these filers paid in income tax declined because of a large jump in their capital gains income, which is taxed at a lower rate than other income, and also because of a reduction in the capital gains tax that was enacted in 1997 but took full effect in 1998. This is the second year in a row that the percentage of income that the top one percent of tax filers pay in income tax has fallen.

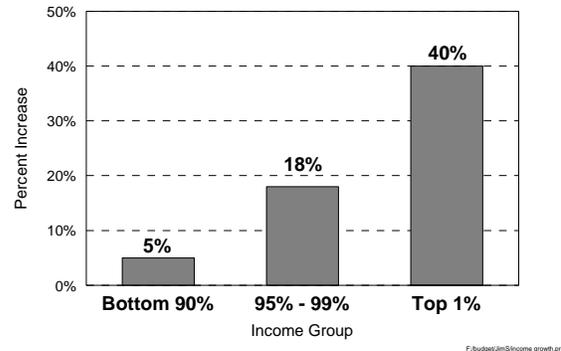
### **New Data Confirm Long-Term Growth in Income Disparities**

The new data confirm that the growth in income disparities, which began in the 1970s, continued during the 1990s. 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 a robust 40 percent, or \$171,000 per tax filer. The average after-tax income of those in the 95th-99th percentiles (that is, those in the top five percent of the population, except for those in the top one percent) rose 18 percent during this period.

The income gains that the top one percent and those in the 95th-99th percentiles secured far outpaced income gains among the bottom 90 percent of filers, whose average after-tax income rose a mere five percent from 1989 to 1998. Although all income groups experienced gains in 1998 in after-tax income, 1997 was the first year in which the average after-tax income of most income groups surpassed the average income level these groups attained in 1989, the last year before the onset of the recession of the early 1990s. As a result, in 1998, the after-tax income of most income groups was only modestly above its 1989 level.

**After-Tax Income Growth from 1989 to 1998**  
(adjusted for inflation)



Due to these sharp differences in income growth, income disparities between the highest-income households and the rest of the population grew substantially during the 1990s, the study found, reaching their widest point on record. The share of the national after-tax income the top one percent of filers received in 1998 is the highest recorded since the IRS began to collect these data in 1986. The share of after-tax income the bottom 90 percent of filers received is the lowest on record. In combination with data from the Congressional Budget Office that go back to 1977, these data suggest that income disparities were wider in 1998 than in at least two decades.

### **Income Gap Appears to Widen Further in 1998–2000**

The latest data on after-tax incomes are the 1998 IRS data the Center's study analyzes. A Congressional Budget Office report released in January 2001, however, includes additional data, which indicate that income growth between 1998 and 2000 continued to be strikingly high among those with very large incomes.

Using these CBO data, in conjunction with IRS data on the distribution of capital gains income, the Center's study estimates that after-tax income from capital gains increased another \$57,000 between 1998 and 2000 among the top one percent of filers. (Information on trends during this period in other types of income is not yet available.) Capital gains income is heavily concentrated among the top one percent of filers; IRS data show the top one percent of filers received close to two-thirds of all capital gains income in 1998.

The recent CBO report indicates that the growth in capital gains income began well before the reduction in capital gains tax rates enacted in 1997. CBO reported that capital gains income nearly tripled between 1994 and 1998, with most of that increase occurring before the reduction in capital gains tax rates.

### **IRS Data Useful in Assessing Possible Uses of Budget Surplus**

According to the Center's report, these findings provide a useful context for deliberations over what to do with emerging budget surpluses. Approval of the Bush tax plan would result in a further growth in disparities in after-tax income between those at the top of the income spectrum and the rest of the population. The Center's report raises the question of whether policies that would further widen the current record income disparities represent a priority claim on the budget surplus.

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 study notes, however, that the fact that after-tax income gains have been extremely large in recent years among the one part of the population whose marginal tax rates were raised during this period — the top five percent of tax filers — suggests that current marginal rates have not posed major barriers to economic activity and risk-taking among these individuals. 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.

The full text of this analysis, *The Latest IRS Data On After-Tax Income*, is available at the CBPP web site, [www.cbpp.org](http://www.cbpp.org).

---

**The Center on Budget and Policy Priorities** is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. It is supported primarily by foundation grants.

###