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CENTER ON BUDGET AND POLICY PRIORITIES

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New IRS Data Show Dramatic Income Gains at the Top That Far Outstrip Income Gains for the Rest of the Population

An analysis of new Internal Revenue Service data shows that income disparities between the very highest-income individuals and other Americans continued to widen sharply in recent years. The data cover the period from 1995 to 1997 and show the average after-tax income of the top one percent of tax filers jumped $121,000 — or 31 percent — over these two years, after adjusting for inflation. By contrast, the average after-tax income of the bottom 90 percent of tax filers rose only 3.4 percent. Average after-tax income rose nine times faster for those at the top of the income spectrum than for most other Americans.

Data previously issued by the Congressional Budget Office covering years from 1977 to 1995 found sharp increases in income disparities over that period. The new data, which come from actual tax returns, indicate these income gaps have continued to grow since 1995.

The report by analysts at the Center on Budget and Policy Priorities, *An Analysis of New IRS Income Data*, notes that the average after-tax income of the top one percent of filers rose from $397,000 in 1995 to $518,000 in 1997, after adjusting for inflation. These figures represent adjusted gross income minus federal income taxes. The average *before*-tax income of the top one percent of filers rose from $556,000 in 1995 to $718,000 in 1997, a 29 percent increase.

A similar pattern of widening income disparities holds if a longer period is used. For example, the IRS data show that from 1993 to 1997, the average after-tax income of the top one percent of filers rose 41 percent, after adjustment for inflation, while income of the bottom 90 percent of filers climbed five percent.

Since 1997, there have been gains across the income spectrum, but preliminary IRS data for 1998 indicate that such gains continued to be substantially larger for those at the very top than for other Americans and that the pattern of widening income disparities continued into 1998. The preliminary data indicate that capital gains income rose approximately 20 percent between 1997 and 1998, with 72 percent of the capital gains income received in 1998 going to the top 1.65 percent of filers with incomes exceeding $200,000. These data on capital gains virtually assure that income disparities continued widening in 1998. (The preliminary data for 1998 are not broken out for the top one percent of tax filers.)

Census Bureau Data Do Not Capture Income Growth at the Top

Some earlier assessments that used Census data have suggested income disparities might have stopped widening after 1993, but the new IRS data show this is not the case. Researchers have long noted that Census data are inadequate for this purpose because they miss large amounts of income received by those at the top of the income scale. In particular, the Census data do not include capital gains income. The IRS data show that capital gains income, which is highly concentrated among very high income filers, doubled in just two years from 1995 to 1997 and totaled $356 billion in 1997. Lack of inclusion of this income substantially weakens the Census data on people at the top of the income scale.

The Census Bureau recognizes the incompleteness of its data for those with very high incomes and does not publish income information for the top one percent of the population. The IRS tax-return data are the sole reliable source of data on the incomes of these individuals.

As a result of these sharp differences in income growth, income disparities between the highest-income individuals and the rest of the population grew substantially between 1995 and 1997. The IRS data show the disparities in after-tax income were greater in 1997 than in any other year for which the IRS has collected these data. The data go back to 1986.

The IRS data do not provide information in a manner that would permit examination of income trends just for middle-income taxpayers. The closest approximation to this group that can be derived from the data consists of people in the next-to-the-top quarter of tax filers — those individuals whose income places them between the 50^{th} and 75^{th} percentiles of income for all tax filers.

Within this group, average after-tax income rose 3.4 percent between 1995 and 1997. This is the same percentage as the rise in income for the bottom 90 percent of filers as a whole.

The Center's analysis also noted that just the *increase* of $121,000 between 1995 and 1997 in the average after-tax income of the top one percent of tax filers is several times the *total* income of the typical middle-class family. This increase is substantially larger than the total income of the vast majority of American families.

One other interesting finding that emerges from these data is that the average federal income tax *rate* that the top one percent of filers pay fell by nearly a percentage point between 1995 and 1997. These filers paid an average of 27.9 percent of income in federal income taxes in 1997, down from 28.7 percent in 1995. The decline appears to reflect both the fact that capital gains income, which is taxed at a lower rate than other income for those in the top income bracket, constituted a larger share of the income of these filers in 1997 than in 1995 and the impact of legislation enacted in 1997 that reduced the capital gains tax rate.

The report, *An Analysis of New IRS Income Data*, can be found at http://www.cbpp.org/9-4-00inc.htm

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