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## Rich get richer, but faster

**IRS says growing wealth for 400 top taxpayers outstripped increases in their tax burdens.**

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**NEW YORK (CNN/Money) - The rich got richer as their tax rates fell in 2000, according to a study by the Internal Revenue Service released Wednesday night.**

A separate IRS report released Thursday showed that in 2000 there were nearly 2.8 million "high-income" returns, those with adjusted gross income of at least \$200,000. That's a 14.1 percent increase from 1999 (the total number of filed returns increased just 1.8 percent in that time).

The first study shows that the **wealthiest 400 taxpayers** in the United States accounted for **1.1 percent of U.S. adjusted gross income in 2000 versus 0.5 percent in 1992**. The AGI cutoff to make the top-400 list in 2000 was **\$86.8 million**.

That group's share of the total burden didn't rise as much as its share of AGI -- it grew to 1.6 percent from 1.04 percent in 1992. **The average tax rate for the group declined to 22.3 percent in 2000, from 26.4 percent in 1992 and a high of 29.9 percent in 1995.**

Had President Bush's tax cut been in effect in 2000, the amount of taxes paid by the wealthiest Americans would have dropped an additional 20 percent, the *New York Times* reported.

"I think the statistics are pretty striking -- the huge amount of income earned at the top and how much of it is attributable to capital gains." Leonard Burman, a former Treasury official and now co-director of the Tax Policy Center, told the *Wall Street Journal*.

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## Tax Brackets—2002 Taxable Income

Joint return	Single taxpayer	Rate	
\$0–\$12,000	\$0–\$6,000	10.0%	
12,000–46,700	6,000–27,950	15.0	
46,700–112,850	27,950–67,700	27.0	[My bracket; I paid 17.3% of AGI.]
112,850–171,950	67,700–141,250	30.0	
171,950–307,050	141,250–307,050	35.0	
307,050 and up	307,050 and up	38.6	[They paid 27.5% avg in 2000.]

Source: Tax Foundation.

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[Note that the tax rate only applies to the income in that bracket. For example, everyone pays only 10% on the first \$6,000 & 15% on income between \$6,000 and \$27,950.]

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## Income Tax: Who Pays? IRS Figures for 2000

Year: Total.....Top 1%.....Top 5%.....Top 10%.....Top 25%.....Top 50%

Number of returns: [1]

2000: 128,227,143.....1,282,271.....6,411,357.....12,822,714.....32,056,786.....64,113,572

Adjusted gross income (AGI) floor on percentiles (current dollars):

2000: N/A.....**313,469**.....**128,336**.....**92,144**.....**55,225**.....**27,682**

Adjusted gross income floor on percentiles (constant dollars): [2]

1986: N/A.....**108,411**.....56,913.....44,394.....29,418.....**15,786**

2000: N/A.....**182,038**.....74,527.....53,510.....32,070.....**16,075**

(The 1% floor increased 1.68 times; the 50% increased 1.02 times.)

Adjusted gross income (millions of dollars):

2000: 6,423,977.....1,336,773.....2,267,403.....2,955,386.....4,313,786.....5,589,755

### Descending cumulative percentiles

Year: Total.....Top 1%.....Top 5%.....Top 10%.....Top 25%.....Top 50%

Total income tax (millions of dollars): [3]

2000: 980,521.....366,929.....553,670.....660,150.....823,706.....942,179

Average tax rate (percentage): [4]

2000: **15.26**.....**27.45**.....**24.42**.....**22.34**.....**19.09**.....**16.86** (very flat compared to tax tables)

Adjusted gross income share (percentage):

2000: 100.00.....20.81.....35.30.....46.01.....67.15.....87.01

Total income tax share (percentage): 1986:

2000: **100.00**.....**37.42**.....**56.47**.....**67.33**.....**84.01**.....**96.09**

[4] The average tax rate was computed by dividing total income tax (see footnote 3) by (positive) adjusted gross income.

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The AGI cutoff to make the **top-400** list in 2000 was **\$86.8 million**. The average tax rate for the group declined to **22.3 percent in 2000**. [Therefore the top 1% (1.3 million people) pay at a rate of 27.5%, but the top 400 people pay at a rate of 22.3%. So the rate peaks somewhere between \$300K and \$90M.

Note that **~96%** of income taxes are paid by people making **\$28K** and above.

The top **1%** make **~21%** of the money. The top **50%** make **~87%** of the money (AGI). [The bottom 50% make less than \$28K (\$13K avg) & earn 13% of the money. They pay 4% of the tax.]

If you taxed the top 50% at a flat rate, then:  $\text{tax/AGI} = \$942,179\text{M}/\$5,589,755\text{M} = r = \mathbf{16.86\%}$ . (I payed **17.28%** in 2002. The flat rate for everyone would be 15.26%.

(If you only tax the top 50%,  $\$980,521\text{M}/\$5,589,755\text{M} = r = 17.54\%$ .)

Note that the floor of the top 1% increased 1.68 times in four years, but the floor of the top 50% hardly increased at all. In other words, the top 1% nearly doubled their income in four years while lower incomes didn't move much.

A simple formula to accomplish the same the same thing with no special interest subsidies:

AGI = adjusted gross income

S = subsistence level or the part of income that is not taxed

r = tax rate

$$\text{tax} = (\text{AGI} - \text{S})r \quad \{\text{See 2000\_tax\_figures.xls}\}$$

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Note that the tax tables appear far more progressive than actual taxes paid, which are fairly flat. This is because the rates are only applied to the income in that particular bracket. Also, you are only taxed on your taxable income (AGI – deductions). The deductions are like S in my formula. For 2002,

$$S = 4,700 + 3,000 + (\text{exemptions} \times 3,000)$$

$$= 7,700 + (\text{dependents} \times 3,000) \quad \dots \text{in many cases.}$$

My formula does not use tax brackets. A single rate is applied to “taxable income” – which is simpler & flat over taxable income. It is slightly progressive over AGI because of S. My system would be completely flat if you set S = 0.

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Spending in 2001:

36% = Social Security, Medicare, & other retirement.

18% = Defense related.

16% = payment on debt.

2% = Law enforcement & general gov't

$$(36 + 18 + 16 + 2) = 72\%$$

The remaining 28% were for domestic development & social services covering a wide range of items.