# US: Incomes of the ultra-rich quadrupled in eight years

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The 400 top-earning US taxpayers nearly quadrupled their income over the past decade, according to a report released by the Internal Revenue Service (IRS) last week. The IRS report documents just how much the rich got richer in the decade of the 1990's. It states that the adjusted gross income (AGI) of these 400 super-rich taxpayers went from an average of $46.8 million in 1992 to $174 million in 2000. Similarly, the minimum AGI required to be included in the elite group rose from $24.4 million to $86.8 million.

The nearly $70 billion in income reported in 2000 on these few tax returns constituted 1.09 percent of the total income reported by all 129 million taxpayers, or over 3,500 times the average. The percentage of income concentrated in the top 400 more than doubled from 0.52 percent in 1992.

While the IRS did not provide details on individual returns, one report indicated that several taxpayers listed incomes greater than $1 billion.

By contrast, the income of the bottom 90 percent of taxpayers increased only 17 percent over the eight years to an average of $27,000 in 2000.

As the incomes of the super-rich rocketed up, the percentage they paid in federal income tax dropped over the eight years from 26.4 percent to 22.3 percent. At the same time, average taxpayers saw their percentage rise from 13.1 percent to 15.4 percent.

These latest statistics confirm the extent to which the Democratic administration of President Clinton presided over a concentration of wealth at the top that went far beyond that of his Republican predecessors, Ronald Reagan and George Bush, Sr. While passage of a small increase in taxes on the wealthy early in the Clinton years produced an initial increase in the top 400's tax percentage, peaking at 29.9 percent in 1995, the reduction in the tax rate on capital gains from 28 percent to 20 percent that Clinton signed into law in 1997—in the midst of the stock market boom—more than made up the difference.

Indeed, in 2000, a whopping $50 billion, or 72 percent of the income of the top 400, consisted of capital gains, over seven times the amount and double the percentage reported in 1992. In fact, capital gains account for 85 percent of their entire increase in income over that period.

The year 2000 showed by far the biggest annual increase in income for the group, up $16 billion over 1999. This leap in wealth was fueled by a $10.9 billion increase in net capital gains. This was a year in which a number of top corporate executives, whose rapid increase in compensation over the 1990's had catapulted them into the ranks of the ultra-rich, cashed out their holdings in advance of the bursting of the stock market bubble. The names of several of these executives, such as Enron's Kenneth Lay and Worldcom's Bernard Ebbers, have since become synonymous with fraud.

The IRS report on the top 400 actually understates the income of the wealthiest by many billions of dollars. The adjusted gross income figure taken off the tax forms excludes sizable non-taxable amounts, in particular interest on state and municipal bond holdings as well as compensation that is deferred under plans used by corporate executives to shield as much as 100 percent of their salary and bonus from taxation.

Other tax shelter schemes are also widely used. When William Esrey, CEO of the telecommunications company Sprint, cashed in more than $150 million in stock option profits in 1999 and 2000, he bought a tax shelter plan from the accounting firm Ernst and Young that allowed him to delay reporting the income for 30 years. Publicity surrounding this high profile case at a time of widening corporate scandal generated an IRS audit, and led to Esrey's forced resignation earlier this year, but many similar schemes go unquestioned.

In addition, unrealized capital gains—stocks and other investments that appreciate but are not sold—do not count towards income.

A separate IRS report documents the growth of an upper-middle class layer, those with incomes in excess of $200,000. The number of taxpayers in this category increased by 14.1 percent in the year 2000 alone, while the total number of taxpayers increased by only 1.8 percent. This layer represented only 2.1 percent of all taxpayers, while reporting 26.7 percent of total income.

Out of this group, 2,328 paid no federal income tax at all, a 45 percent increase in one year. Additionally, an estimated 35,700 of this well-heeled group paid tax at a rate of less than 10 percent. Deductions for investment interest expenses were the most significant means used to reduce taxes.

The number of upper-income "non-taxpayers" was by far the highest since Congress mandated the IRS to keep track in 1977, when there were only 60 in that category. Even taking inflation into account, the number has shot up nearly nine times since 1977.

Following a public outcry over revelations of the many millionaires using loopholes to avoid taxes altogether, Congress passed the Alternative Minimum Tax in 1970. This provision was designed to ensure that the rich paid at least some income tax regardless of the size of their deductions. As incomes have grown, however, so have the means for avoiding the AMT.

The IRS report on the top 400 is new this year. Its findings point to the vast widening of the gulf between wealth and poverty in the US. The attention given to the report, including front-page coverage in the *New York Times*, reflects growing unease within ruling circles about the social explosions that today's extreme inequality is bound to produce.

This attention, however, in no way signals an attempt to ameliorate deepening inequality in order to preserve social peace. Congress just passed further massive tax reductions—bringing the rate on both capital gains and dividends down to 15 percent—designed to funnel an even greater share of national income to the wealthy. According to the *New York Times'* analysis of the IRS data, if these new tax rates had applied in 2000, the top 400 earners would have saved $8.3 million each.

The concern occasionally expressed in the corporate media over rising inequality does not presage reform, but rather amounts to a warning to those who have enriched themselves of the need to prepare new measures to defend their wealth. This is an essential underlying factor in the government's attacks on democratic rights and the "war on terrorism."