Recent tax data shows widening gap between rich and poor in US

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The latest Statistics of Income (SOI) released by the Internal Revenue Service (IRS) this month point to a marked social polarization in the US over the recent period, compounded by stagnating wages for the majority of the population and huge tax breaks for the rich.

A preliminary analysis of the SOI data reveals that over the past several years a small fraction of the top one percent of the US population has been massively expanding its share of the national income at the expense of everyone else.

The income figures cited in the report are in terms of what the IRS calls "adjusted gross income (AGI) less deficit." This is a figure intended by the IRS to serve as an estimate of a taxpayer's actual gross income that year before taxes and is based upon reported income figures submitted by taxpayers. A taxpayer may be an individual or a household that files tax returns jointly.

According to this most recent data, which dates back to 2005, the broad majority of those paying taxes in the US are just barely making ends meet. In 2005, 91 million American taxpayers, or more than two-thirds of those filing taxes, reported making $50,000 a year or less. About 48 million taxpayers, more than one in three, reported making less than $20,000. Approximately 25 million taxpayers, around one in five, reported making under $10,000; while 13 million taxpayers, or one in ten, reported income between $5,000 and nothing at all.

The average or mean income for a taxpayer in 2005 was about $55,238, compared to $55,714 in 2000, adjusted for inflation. The years 2000 and 2001 saw a sharp decline in average income in the US, largely attributed to the collapse of the "dot-com" market boom of the late 90s and the economic fallout from the September 2001 terrorist attacks. Although average income has risen steadily over the past several years, it is still below the 2000 figure in real terms.

About 70 percent of the population earned below the mean in 2005—a sign of a highly polarized society. A large section of American taxpayers in 2005 likely found themselves either directly in poverty, or one paycheck or medical bill away from poverty.

In the same country in 2005, the number of taxpayers drawing in $10 million or more stood at 13,776, and this handful of taxpayers pulled in a combined $376 billion in income. This is more than the combined income of all those making $15,000 or less, or the poorest quarter of all American taxpayers. To put that another way, by sacrificing the 2005 income of these 13,776 taxpayers—around 0.01 percent of tax filings—the income of the poorest quarter of American society could have been *more than doubled*.

During the period between 2000 and 2005, the number of taxpayers drawing in more than $1 million each went from 239,685 in 2000 to 303,817 in 2005—a growth of 26 percent.

These figures help confirm an earlier study by Prof Emmanuel Saez of University of California-Berkeley and Prof. Thomas Piketty of the Paris School of Economics, which found that in 2005, the top 10 percent of the population in the US had its largest share of income since 1928, just before the Great Depression.

The IRS statistics, however, surely understate the real economic situation. First of all, it is worth remembering that there presently exists an enormous "tax gap," estimated at between $300 and $400 billion per year. This is the difference between what the population should have paid in taxes and what the government actually receives. The chief source of this gap is underreported income, primarily from the richest sections of American society.

This means that there are literally trillions of dollars, accumulated in recent years, sloshing around at the top, undeclared to the IRS.

Income is also not necessarily a good index of the general welfare of the working class, as an individual working class taxpayer's income will resist dropping below a certain point. For example, once a household's primary breadwinner stops making enough to pay the bills at a certain job, he or she might take on overtime or a second job, a spouse could take on a new job, and so on to make up the difference. That taxpayer's income could remain the same or even rise under those circumstances, even while economic hardship was increasing.

An individual taxpayer's reported income is not necessarily a reflection of wages. A taxpayer's gross income may reflect wages from his own job or jobs as well as those of his spouse, so an income of $75,000 is not necessarily an indication that the taxpayer holds a job that pays the same.

These circumstances make the capital gains and dividends tax cuts enacted by the Bush administration all the more extreme. Following the sharp decline in the stock market in 2000-2001, the rich found that they had lost a significant amount of money and desperately sought a means to replenish their coffers. In this context, the Bush tax cuts amounted to little more than throwing open the doors to the federal treasury and telling the rich, "Help yourselves!"

According to an August 10 report by Citizens for Tax Justice (CTJ), of the $91 billion in taxes that went unpaid in 2005 as a result of these cuts, more than three quarters went to that 0.6 percent making $500,000 or more. This amounts to a handout of around $81,000 each.

According to CTJ, those making more than $10 million in 2005 received more than a quarter of the handouts—or an average of $1,876,280 each.

By comparison, CTJ reports, the poorest *half* of American taxpayers, those making $30,000 or less, received an average of $5 each, or 0.4 percent of the total tax breaks. Those making $75,000 or less, which includes the vast majority of the population, received together a total of around 3.2 percent of the tax breaks.

It is worth pointing out that since the Democratic Party took control of Congress following the 2006 mid-term elections, no serious effort has been made to repeal these tax cuts, which continue to channel tens of billions of dollars of government tax revenue into the hands of the rich and super-rich.

According to the most recent tax data, as of 2005 the rich had nearly returned to their 2000 income levels, with the average taxpayer making over $500,000 per year earning approximately $1.7 million. This group of taxpayers in 2005, numbering 828,323—around 0.6 percent of those filing tax returns—hauled in around $1.4 trillion in income that year.

To put the above figure in perspective, the $1.4 trillion in income received by the richest 828,323 taxpayers is roughly equal to the combined reported income of the poorest 81 million taxpayers, or 60 percent of the total number of returns in 2005.

American society is becoming rapidly polarized. For the majority of people, rising gas prices, health care costs and interest rates are increasingly a major source of economic distress. Meanwhile, wages and benefits are stagnating or declining.

At the same time, a small group of individuals at the pinnacle of American society is cashing in on the present economic situation, raking in unprecedented sums of money for themselves.

*The raw data from the IRS can be accessed here (*http://www.irs.gov/taxstats/indtaxstats/article/0,,id=134951,00.html*). The full CTJ report can be accessed here (*http://www.ctj.org/pdf/cgdiv.pdf*).*