Leaked IRS data expose manipulation of US tax system by the ultra-wealthy

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13 April 2022

The nonprofit news organization ProPublica published on Wednesday an analysis of the top 400 income earners in the US. The report reveals how much income tax the wealthy elite pay and illustrates how the US tax system is itself structured to benefit the personal wealth of a handful of individual billionaires and multimillionaires.

Based on a trove of leaked IRS data, the ProPublica report shows that it took an average of $110 million in income per year between 2013 and 2018 to enter the top 400 list. The data confirm what many already know—that the tax laws in America are structured to benefit the super-rich and that this set-up is a contributing factor in the overall growth of social inequality in the US.

The report shows that the highest earning Americans do not pay the highest income tax. ProPublica notes, "On average, the rate of income tax that people pay does climb as incomes ascend into the top 1 percent, but when you get to the range of $2 million to $5 million, that trend stops. The group earning in this range, composed mostly of business owners and workers with extremely high salaries, paid an average income tax rate of 29 percent from 2013 to 2018. After that, average tax rates actually drop the further up in income you go."

The analysis begins by pointing out that many billionaires "didn't even come close" to making the top 400 list because they use write-offs to erase taxable income. "Other billionaires, like Warren Buffett, simply avoid income even as their wealth rises," the report says.

Buffet's average personal wealth was $70 billion across the six years of the ProPublica report— from 2013 to 2018–but his average income during that timeframe was just $27 million and he is not on the top income earners list.

The report also explains that billionaires often use the "Buy, Borrow, Die" method in which they "borrow against their wealth to avoid taxes, then their estates are able to skirt taxes after their deaths."

While one aspect of the data published by ProPublica shows how the super-rich "work" the system to their significant advantage, the report also says "in the American system, there's a huge difference between how we tax *wages* and how we tax *investments.* Income from financial assets is generally taxed at a lower rate."

As in every country of the world, the extent of inequality in the US is difficult to comprehend due its sheer magnitude. The ProPublica report explains, for example, that it would take a typical American with an income of $40,000 per year "to work for 2,750 years to make what the lowest-earning person in this group made in one," and the typical American "would have to work for 25,000 years to make $1 billion," which was made on average by the top 11 individuals on the list.

Tech billionaires represent 10 of the top 15 income earners and most of their income came from selling stocks. Among the names on this list are Bill Gates (Microsoft, $2.85 billion), Larry Ellison (Oracle, $1.07 billion), Steve Balmer (Microsoft, $1.05 billion), Sergey Brin (Google, $1.04 billion), Larry Paige (Google, $990 million) and Jeff Bezos (Amazon, $832 million). These billionaires paid an average of 18 percent in taxes on their income over six years.

The largest group of super-wealthy income earners come from the hedge fund industry. Representing approximately one-fifth of the entire list (80 individuals), the income of the hedge fund managers comes directly from stock trades, options and the other financial instruments of their firms. While these individuals are less known to the public, the founder of

Citadel, Kenneth Griffin, raked in an average of $1.68 billion per year from 2013 and 2018 and paid an effective 29.2 percent in taxes.

Founders of private equity firms were another group that ProPublica found stood out on the top 400 list. These individuals make their money by buying companies and reselling them at a profit. The top 10 income earners in this group paid an effective average tax rate of 20 percent between 2013 and 2018.

The greatest combination of highest incomes and lowest tax rates for the super-rich stemmed from those who made stock sales taxed at the lower rate that was established in 2013 during the Obama administration. The report says that since then, the "long-term capital gains rate has been 20 percent, about half the top rate on ordinary income (37 percent in 2018)."

Former Microsoft CEO Bill Gates benefited from this arrangement because his average yearly income of $2.85 billion came from sales of his former company's stock and, as the report notes, "every penny of Gates' taxable income was eligible for the lower rate" and this was generally true for the other tech billionaires as well.

Others who also benefited from the lower dividend tax rate enacted by the Democratic Party were the Walton (Walmart) and DeVos (Amway) family heirs. The report says that "the 11 Walton descendants in the top 400 saved $371 million a year due to this tax change."

One individual who came in for specific mention in the ProPublica report is billionaire and former mayor of New York City, Michael Bloomberg. Bloomberg successfully achieved one of the lowest tax rates of anyone on the top 400 list. Bloomberg took annual income deductions of more than $1 billion, mostly through charitable contributions. The report says, "From 2013 to 2017, he also wrote off an average of $409 million each year from what he'd paid in state and local taxes."

Although the Trump-era 2018 tax overhaul limited those deductions to $10,000, the bill introduced a new massive deduction that Bloomberg took advantage of. The Tax Cuts and Jobs Act was rushed through the legislative process and permitted so-called "pass through" profits to avoid taxation. For Bloomberg, this law enabled him to claim an income deduction of more the $183 million and reduce his taxes by nearly $68 million. On an average income of $2.05 billion, Bloomberg paid an effective tax rate of 4.1 percent, which is lower than the rate paid by an average American worker making $40,000 to $50,000 per year (5 percent).

While the owners and executives of tech monopolies, private equity and hedge fund businesses paid between 17 and 26 percent effective tax rates, the owners of manufacturing businesses paid on average 30 percent in taxes.

The publication of the income tax data by ProPublica comes amid a campaign for the Biden administration to push for a 20 percent minimum tax rate on all US households with net worth of $100 million or more. It is expected that this proposal will never make it to the floor of the US Senate given that Senator Joe Manchin (Democrat from West Virginia) has already said he will not support it and the entirety of congressional Republicans are opposed to it.

Certain elements within the ruling elite are concerned that the grotesque levels of social inequality—including the rigging of the tax system to nakedly benefit wealth accumulation by the ultra-rich—has primed the conditions for a social eruption in the US which threatens to overturn the entire capitalist order. A group called Patriotic Millionaires—a network of wealthy individuals who advocate raising taxes on their class—responded to the ProPublica report by saying that "it's time to tax billionaires."