

Income and Taxes of the Very Rich

By Robertson Williams

The very rich may be “different from you and me,” as F. Scott Fitzgerald wrote, but they are also different from the ordinary rich, as new IRS data on the 400 tax filers with the highest adjusted gross incomes show. Not only do the top 400 taxpayers have much more income than others with AGIs exceeding \$1 million — nearly 75 times as much on average in 2009 — but they get far more of their income from investments and thus pay lower effective individual income tax rates (ETRs).

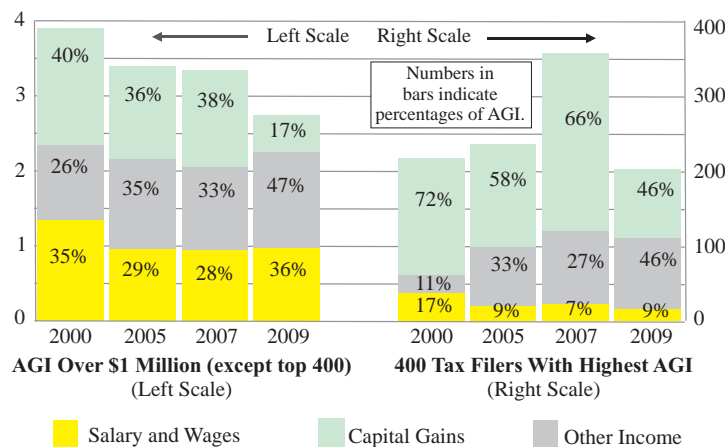
The top 400 are an ever-changing group. Over the 1992-2009 period that IRS data cover, 73 percent of taxpayers making the cut showed up just once. Those taxpayers seem to join the top 400 when they realize outsized capital gains, most likely from selling businesses.

Compared with others making more than \$1 million, the very rich get much less of their income from salary and wages — less than one-tenth in recent years compared with roughly one-third for

ordinary millionaires (see graph). The two groups get similar fractions of income from other non-gains sources, but the top 400 get a much larger share from capital gains. That has made income of the top group more volatile during the Great Recession. Between 2007 and 2009, average income for the top 400 plunged more than 40 percent with more than 90 percent of the drop the result of lower capital gains. What happened to other millionaires is harder to determine: The group’s average income dropped just 18 percent in real terms between 2007 and 2009, but the number of millionaires fell 40 percent. Like the top 400, different people have made up the millionaires group over time.

Because the top 400 got more of their income from tax-preferred capital gains, they faced a lower ETR than other millionaires: Individual income taxes claimed 19.9 percent of their AGIs compared with 25 percent for the less rich group. But the drop in the share of income coming from gains meant that, even though their income fell, ETR went up for both groups: from 16.6 to 19.9 percent for the top 400 and from 22.7 to 25 percent for the others.

Average AGI of Very High-Income Taxpayers by Source, Selected Years
(millions of 2009 dollars)



Source: Tax Policy Center analysis of IRS Statistics of Income data for various years.