

Do the Rich Really Pay Over a Third of Their Income in Federal Income Taxes?

In 2006, the 400 highest-income Americans paid an effective rate of 17.2%

As we approach April 15th, one complaint we often hear is that Americans who work hard and become successful have to pay over a third of their income in federal income taxes. But a recent report from the Internal Revenue Service (IRS) shows that this is not remotely true.¹ The IRS data show that the federal income tax rates paid by the highest-income Americans have dropped substantially since 2000, largely due to cuts in the tax rates on capital gains and dividends pushed through by the Bush Administration. While income from work (salaries and wages) is subject to rates as high as 35 percent, income from investments (long-term capital gains and stock dividends) is taxed at only 15 percent.

The IRS report shows that in 2006 (the latest year for which data are available), the 400 richest income tax filers paid just 17.2 percent of their adjusted gross income (AGI) in federal income taxes. That is down from 22.3 percent in 2000, and is less than half of the top statutory income tax rate of 35 percent. Almost 65 percent of the income reported by those 400 taxpayers consisted of capital gains and dividends subject to the preferential rates.

The 400 Richest Americans in 2006: Income and Tax Profile

	Total \$Billions	Average (000s)	Share of US Total
Adjusted Gross Income (AGI)	\$ 105.3	\$ 263,306	1.3%
Capital Gains Taxed at Lower Rate	\$ 67.6	\$ 169,020	7.9%
	Total \$Millions	Average (000s)	Effective Tax Rate
Income Taxes Paid	\$ 18.1	\$ 45,216	17.2%

Source: Internal Revenue Service

The IRS report, which shows the effective federal income tax rates paid by the 400 highest-income Americans in each year since 1992, offers an important opportunity to understand how the tax system affects the most privileged Americans. The table above shows that:

- Only those with at least \$110 million of AGI were members of this group in 2006, and the average AGI for these 400 taxpayers was \$263 million.
- Each one of these 400 taxpayers enjoyed, on average, more than \$169 million of net capital gains and dividend income that was subject to special lower tax rates in 2006.

¹Internal Revenue Service, "The 400 Individual Income Tax Returns Reporting the Highest Adjusted Gross Income Each Year, 1992-2006," January 29, 2009. <http://www.irs.gov/pub/irs-soi/06intop400.pdf>

- Although 400 returns are less than 1/1000th of a percent of the total individual tax returns filed, these 400 taxpayers collected almost 8 percent of the total preferential-rate capital gains and dividends in the nation in 2006.
- These 400 taxpayers paid income taxes averaging \$45 million in 2006. As a share of AGI, their tax bills averaged 17.2 percent.
- This decline from 22.3 percent to 17.2 percent represented a total tax cut of \$5.4 billion in 2006 for this group, or an average tax cut of over \$13 million each.

“This valuable data confirms what we already knew—that the very richest Americans are paying much less of their income in tax than many would have us believe,” noted Citizens for Tax Justice director Robert S. McIntyre. “These taxpayers are now paying lower effective tax rates than at any time since the IRS began publishing these data in 1992—and the Bush Administration’s capital gains tax cuts are the main culprit.”