

At the Very Top, a Surge in Income in '03

I.R.S. Data Show Thin Slice of Richest 1% Got Outsize Gains

By DAVID CAY JOHNSTON

After falling for two years, the share of income going to the richest slice of Americans — the top tenth of 1 percent — grew significantly in 2003 while the share going to 99 percent of Americans fell, tax data released yesterday showed.

At the same time, the effective income tax rates paid by the top tenth of 1 percent fell sharply, declining at more than 10 times the rate reduction for middle-class taxpayers, the new report, by the Internal Revenue Service, showed.

Overall incomes rose by 2.7 percent in 2003, compared with the previous year, the I.R.S. said. A quarter of this increase went to the top tenth of 1 percent, the 129,000 taxpayers, with reported incomes of \$1.3 million or more, an analysis of the data showed.

Prof. Edward N. Wolff, a New York University economist who studies wealth, contended that the data

could be tied to stock market gains in 2003 and a sharp rise in the pay of chief executives while most workers' pay was barely keeping up with inflation.

The top 10th of 1 percent paid almost 23.6 percent of their reported

The share of income going to 99 percent of Americans dropped.

income in income taxes in 2003, down from just under 27 percent in 2002. That is a decline of 3.4 percentage points. For taxpayers in the bottom 80 percent, the effective tax rates fell by three-tenths of a percentage point or less.

Only for those Americans in the top 1 percent, the nearly 1.3 million

taxpayers who made at least \$327,000, did incomes increase significantly more in 2003 than the rate of inflation. And this increase was concentrated within the top tenth of 1 percent. The income of that group grew by 9.5 percent in 2003 over the previous year while the rest of the top 1 percent had a gain of 3.7 percent.

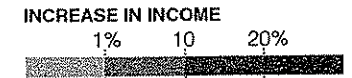
For the bottom 99 percent of taxpayers, income rose by slightly less than 2 percent, which was below the inflation rate of 2.3 percent.

The top 1 percent of taxpayers received almost 17.5 percent of all income and paid a third of all income taxes in 2003, the I.R.S. found. The top tenth of 1 percent received 7.57 percent of reported income and paid more than 15.3 percent of all income taxes.

The share of all reported income reported by the top 1 percent of taxpayers increased by 0.57 percentage point, compared with 2002. Nearly all of this increase — 0.47 percentage

Taking Home a Bigger Paycheck

More than a quarter of all the increases in income from 2002 to 2003 went to the top tenth of 1 percent. That is also the only group to show increases that were significantly more than the inflation rate of 2.3 percent, new data show.



INCOME GROUP	Bottom Top								
	0 to 20%	20 to 40%	40 to 60%	60 to 80%	80 to 90%	90 to 95%	95 to 99%	99 to 99.9%	99.9 to 100
INCREASE FROM 2002 TO 2003	0.7%	1.1	1.5	1.9	2.5	2.1	2.2	3.7	9.5
AS A PERCENTAGE OF ALL INCREASES	0.6%	2.8	6.9	14.2	14.8	9.4	12.5	13.6	25.2

Source: Internal Revenue Service

The New York Times

point — went to the top tenth of 1 percent.

The top tenth of 1 percent had more income in 2003 than the poorest third of taxpayers, a group with 330 times the number of people, analysis of the data showed. This is a sharp change from 1979, the earliest year in the I.R.S. report, when the total income of the poorest third of Americans exceeded that garnered by the top tenth of 1 percent by 2.5 to 1.

The I.R.S. data tend to understate

incomes for those at the very top because of different rules for reporting wages and capital gains, meaning the actual disparity was larger than the official data show.

Other data show that among major world economies, the United States in recent years has had the third-greatest disparity in incomes between the very top and everyone else. Only Mexico and Russia, among major economies, have greater disparity.

Bruce Bartlett, a fiscally conservative Republican tax expert who is writing a book on the tax system, said that he found it remarkable that "just 129,000 tax filers pay more than 15 percent of all federal income taxes."

"Despite all the tax cuts" and flatter tax rates, "it's important to note that the tax code remains effectively progressive," he argued, meaning people with higher incomes pay higher tax rates.