

Components of income, top taxpayers

IRS issued a report in May on the top 400 taxpayers by adjusted gross income (AGI) each year for the years 1992-2008. This exclusive club has a lot of turnover. According to the report, 73% of the people who fell into this group were there for only a single year during the study period. Another 12% appeared in only two years. These could be situations in which a business owner has sold a business, or someone has converted valuable real estate holdings to cash. Only four taxpayers appeared in the top 400 in every single year.

The report demonstrates that top incomes are derived from investments, not wages or salaries. Here are the relative contributions to AGI for sample years:

Components of income for the top 400 taxpayers

	1992	2000	2008
Salaries	26%	17%	8%
Taxable interest	7%	4%	7%
Dividends	6%	3%	9%
Capital gains	36%	72%	57%
Partnership and S corp. income	18%	8%	19%

Source: Internal Revenue Service

Capital gains fell sharply from 2007 to 2008, as the recession got under way. Still, in 2008 the top 400 taxpayers collected 13% of all net capital gains reported to IRS for the year, their highest share during the study period.

Most of the top 400 taxpayers did not pay the Alternative Minimum Tax, which falls mainly on the affluent, not the rich. Until 2005 fewer than 25% of these taxpayers had any AMT liability. The high water mark came in 2007, when 36% of this group were snared in the AMT web.