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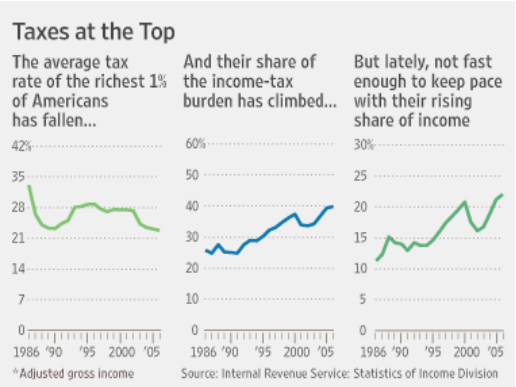
Richest Americans See Their Income Share Grow

By JESSE DRUCKER
July 23, 2008; Page A3

In a new sign of increasing inequality in the U.S., the richest 1% of Americans in 2006 garnered the highest share of the nation's adjusted gross income for two decades, and possibly the highest since 1929, according to Internal Revenue Service data.

Meanwhile, the average tax rate of the wealthiest 1% fell to its lowest level in at least 18 years. The group's share of the tax burden has risen, though not as quickly as its share of income.



The figures are from the IRS's income-statistics division and were posted on the agency's Web site last week. The 2006 data are the most recent available.

The figures about the relative income and tax rates of the wealthiest Americans come as the presumptive presidential candidates are in a debate about taxes. Congress and the next president will have to decide whether to extend several Bush-era tax cuts, including the 2003 reduction in tax rates on capital gains and dividends. Experts said those tax cuts in particular are playing a major role in falling tax rates for the very wealthy.

Sen. John McCain has proposed extending the lower tax rates of 15% on long-term capital gains and dividends that apply to most taxpayers, while Sen. Barack Obama has said he will seek to raise them to at least 20%, the rate before the 2003 cut, and possibly higher.

QUESTION OF THE DAY

• **Vote:** Do the rich pay their fair share of taxes?

According to the figures, the richest 1% reported 22% of the nation's total adjusted gross income in 2006. That is up from 21.2% a year earlier, and is the highest in the 19 years that the IRS has kept strictly comparable figures. The 1988 level was 15.2%. Earlier IRS data show the last year the share of income belonging to the top 1% was at such a high level as it was in 2006 was in 1929, but changes in measuring income make a precise comparison difficult.

The average tax rate in 2006 for the top 1%, based on adjusted gross income, was 22.8%, down slightly from 2005 and the fifth straight year of declines. The average tax rate of this group was 28.9% in 1996, and was 24% in 1988.

As the wealthiest Americans' share of income has risen, so has their share of the income-tax burden. The group paid 39.9% of all income taxes in 2006, compared with 27.6% in 1988. In the most recently reported five years, however, the share of income reported by the very wealthy has risen faster than the group's share of income taxes.

The IRS data look only at so-called adjusted gross income, which is reported on tax returns, and focus only on income taxes. A report by the Congressional Budget Office late last year, which used wider definitions of both income and taxes, found similar trends.

Joel Slemrod, a tax economist at the University of Michigan's business school, said that some portion of the increase in income for the top 1% could stem from the increasing shift to entities such as partnerships, which means some income previously reported by businesses is now reported by individuals. Larger factors likely include changes in trade policy and other aspects of

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the increasingly global economy, he said.

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