

## Taxes— IRS Releases Data on Top 400

The IRS began releasing data on the 400 taxpayers with the highest adjusted gross income (AGI) back in 1992. Their data is summarized in four tables, which are chock full of juicy tidbits about your highest income clients. (Link to IRS data at end of article)

IRS Table 1 contains frequencies, money amounts, and average dollar amounts for the major income, deduction, and tax credits reported on Form 1040. IRS Table 2 shows ranges of marginal tax rates for the various statutory rates (including the alternative minimum tax rates) that were in effect for Tax Years 1992 through 2007, while IRS Table 3 shows the range of average tax rates up to 35 percent and over, computed as total income tax divided by adjusted gross income.

The data in IRS Tables 1 - 3 are based on the individual returns with the largest adjusted gross income reported each specific year shown and do not necessarily reflect the same taxpayers over the 16-year time period reflected. Therefore, IRS Table 4 is available to present the number of times an individual return appeared among the 400 largest adjusted gross incomes for each of tax years 1992 through 2007.

### IRS Table 1

An analysis of IRS Table 1 reveals that those at the top averaged AGI of about \$344.8 million in 2007.

That's a significant increase from 1992, when it took a mere \$113.6 million to crack the top 400. In 1992, over 25 percent of the top earners' income derived from salary and wages, while in 2007 salary and wages account for only about 6 percent of AGI. The difference was reflected largely in capital gains. The percent of AGI attributable to capital gains increased from about 36 percent in 1992 to about 66 percent in 2007, just before the recent downturn. Presumably, the shift from "earned income" to "investment income" is indicative of the increase in net worth and invested capital of the Top 400, proving once again that it's easier to make money with money than the sweat of one's brow.

Year	AGI of Top 400	Tax Rate of Top 400	% of Total AGI
1992	46.8m	26.4%	0.52%
1993	46.3m	29.4%	0.50%
1994	46.2m	28.6%	0.47%
1995	50.9m	29.9%	0.49%
1996	74.7m	27.8%	0.66%
1997	93.0m	24.2%	0.75%
1998	110.5m	22.0%	0.82%
1999	133.9m	22.2%	0.91%
2000	173.9m	22.3%	1.09%
2001	131.1m	22.9%	0.85%
2002	104.0m	22.9%	0.69%
2003	131.2m	19.6%	0.85%
2004	172.8m	18.2%	1.02%
2005	213.9m	18.2%	1.15%
2006	263.3m	17.2%	1.31%
2007	344.8m	16.6%	1.59%

### Summary of IRS DATA

Maybe the most interesting factoid derived from IRS Table 1 is that while incomes for the highest earners soared, average tax rates (Tax/AGI) decreased significantly from 26.38 percent in 1992 to 16.62 percent in 2007. That decrease may not stick, however, if the EGTRRA tax cuts are allowed to expire at the end of 2010.

## **IRS Table 2**

IRS Table 2 also illustrates the impact of the Bush tax cuts. Since 1993, when taxpayers first became subject to a maximum marginal rate of 35 percent, the number of taxpayers included in the Top 400 who were subject to that marginal rate has declined from 311 to 220. Apparently, those Top 400 are spending some of their money on some pretty good tax advice.

*An interesting exercise is to calculate the average tax rate of your top tier clients. If most of them don't have an average tax rate of 20 percent or less, chances are, you're missing some tax planning opportunities.*

## **IRS Table 3**

Further evidence of good tax planning is reflected in IRS Table 3. Of the Top 400 taxpayers 269 had an average tax rate of 20 percent or less. An interesting exercise for advisors is to calculate the average tax rate of their top tier clients. If most of them don't have an average tax rate of 20 percent or less, chances are you're overlooking some tax planning opportunities.

## **IRS Table 4**

IRS Table 4 presents data for the 400 taxpayers reporting the highest adjusted gross incomes (AGI). This table shows the number of times that these returns were in this group for each of Tax Years 1992 through 2007. Over the 16 tax years, a total of 6,400 returns were identified for the table. There were 3,472 different taxpayers representing the top 400 returns of each year. Of these taxpayers, a little more than 27 percent appear more than once and slightly more than 15 percent appear more than twice. In any given year, on average, about 40 percent of the returns were filed by taxpayers that are not in any of the other 15 years. In each year, 7 (or 1.75percent) of the returns are for taxpayers who can be found in all 16 years. Overall, the data shows that the Top 400 is a changing group of taxpayers over time, rather than a fixed group of taxpayers.

## **Bottom Line**

Saving your clients taxes is like finding them money on the street. And, according to the IRS Nearly 80 percent of Americans over pay their taxes unknowingly. Not only that, although 50% of taxpayers use professional preparers, they overpay their taxes by about \$1 billion each year. If

you're not reviewing your clients' 1040s and tearing them down line by line, it's likely they're missing the chance to defer or shelter income through tax-advantaged investments, it's likely they're overlooking deductions or the ability to generate deductions. If most of your best clients pay more than 20 percent of AGI in taxes, they're probably paying more than they need to. This data is available to download from the IRS at this link: <http://www.irs.gov/pub/irs-soi/06intop400.pdf>

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