MORE THAN THEY REALIZE: THE INCOME OF THE WEALTHY AND THE PIKETTY THESIS

Jenny Bourne, Eugene Steuerle, Ellen Steele, Brian Raub, and Joseph Newcomb

Because the recognition of capital income is often voluntary, realized income poorly reflects true economic income, especially for the very rich. We use data from estate tax returns filed in 2007 linked to income tax returns from 2002 to 2006 to obtain information about the realized return to capital across wealth classes and demographic groups. The realized return to capital for estate-tax filers was typically less than 5 percent and often even lower for filers with greater wealth. Because wealthier people also tend to achieve higher-than-average economic returns, wealth concentration may be even greater than previous studies suggest.

Keywords: capital taxation, income realization, returns to capital, wealth distribution

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Thomas Piketty's work on inequality (Piketty and Zucman, 2014; Piketty, 2013) suggests that, because the return to capital has exceeded the rate of economic growth in recent years, wealth is becoming increasingly concentrated in the hands of a few. Attempting to gauge wealth inequality among individuals via measures of inequality in capital income is problematic, however. Our research indicates that (1) realized income poorly reflects true economic income because the recognition of capital income is often a voluntary event, particularly for the rich; (2) accurate estimation of wealth holdings from realized capital income requires accounting for empirically measured lower realization rates and theoretically likely higher rates of economic return for wealthier and longer-term investors; (3) as one consequence of these first two conclusions, wealth concentration may be even more pronounced than Piketty suggests; and, (4) for the very rich, the tax rate on economic income from capital is often 10 percent or less, although it varies widely by individual.

Our analysis uses estate tax returns from 2007 linked to income tax returns from 2002-2006 to obtain information about the realized return to capital across wealth categories. We find large differences in realization across individuals, with the realized rate of return on capital generally lower at the highest levels of wealth. This is consistent with earlier findings (for example, Steuerle 1983, Steuerle 1985, Johnson and Bourne Wahl 2004, and Johnson, Raub, and Newcomb 2012).

What is more, we expect that wealthier people also tend to achieve higher-than-average economic returns from their investments. As a simple empirical matter, higher returns accompany the types of assets (such as stock and real estate) that dominate estate tax portfolios (Steuerle, 1975). Two types of selection bias further support the supposition of higher economic returns for those at the top: *ex post* measures of who is wealthy include those more successful

than peers making similar *ex ante* levels of investment, and the wealthy are more likely to include longer-term investors who achieve higher returns because they worry less about shorter-term risks. Thus, wealth and economic income from wealth may be even more concentrated than measures of the realized returns to capital indicate.

Tellingly, the vast majority of income tax returns associated with wealthy decedents reported returns to capital of 5 percent or less, at a time when the stock market was enjoying returns of up to 28 percent. Taxable returns to capital in aggregate were less than 3 percent and the predominant rate was in the 1 to 2 percent range. And realized returns to capital – whether taxable or not -- for the wealthiest of decedents were often lower than those for many of their less-wealthy counterparts.

Of course, one would want to compare realizations with expected returns or longer-term returns. What we do know is that the long-term real return on stock and real estate typically held by all -- not just the richest or most successful-- investors is about 6 to 7 percent (Damodaran 2015, Ibbotson et al. 2013). In estimating individual tax rates, therefore, the effective rate of tax on economic income of the wealthy is at best one-half the rate they pay on their realized income -- far less than the statutory rate because much of this income benefits from tax preferences, mainly for capital gains.

I. DATA DESCRIPTION

The Statistics of Income Division of the Internal Revenue has created a dataset that links federal estate tax returns filed for persons who died in 2007 to their federal income tax records for the years 2002-2006. A total of 36,889 Forms 706 were filed for individuals who died in 2007 and whose total gross estates met or exceeded the estate-tax filing threshold.[1] All told,

[1] These forms were filed in the years 2007-2009 for persons who died in 2007 with total gross estate of at least $2 million. The relatively long data-collection period is because executors have up to 15 months after the decedent's

these decedents left over $229 billion in total gross estate. Average gross estate was $6.2 million and median gross estate was $3.2 million; average estate net of debts and mortgages was $6 million and median net estate was $3.15 million.

Table 1 offers additional descriptive information. One way we segment our data is by age of decedent, with age 70 being the dividing line. We do this as a crude way of acknowledging that some decedents (the "old") were more likely to have anticipated death than others; those aged 70 and older were also much more likely to be retired. This demarcation permits us to see whether patterns of income receipt differ for those who were likely preparing for death (and receiving virtually all income from capital or pensions). About four-fifths of decedents in the sample were aged 70 or older.

(TABLE 1 ABOUT HERE)

Among the decedents, about half were married at the time of death, and just over half were male. Only 15 percent had a change in marital status in the five years before death. Just over 70 percent of decedents had a net estate of between $2 and $5 million; just under 1 percent of decedents filing returns had a net estate of over $50 million.[2]

Reflecting the longer average lifespan of females, over 85 percent of women died at age 70 or older compared to 76 percent of their male counterparts. The distribution of wealth was somewhat more bimodal for older estate tax filers: those dying at age 70 or older were more heavily represented in the bottom three and the top two deciles of net estate than were decedents under age 70.

II. RETURNS TO CAPITAL ACROSS WEALTH CATEGORIES AND OVER TIME

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death to file an estate tax return, with longer extensions sometimes permitted. For a description of an earlier version of these data, see Johnson, Raub, and Newcomb (2012). The data are a stratified sample and contain 12, 296 observations. The analysis presented here uses sample weights so that the results reported pertain to the entire population of estate tax filers who died in 2007.

[2] A tiny fraction of decedents (0.05 percent) had a zero or negative net estate.

A. Calculation of Realized Capital Income

We calculate three measures of realized net capital income from information reported on Form 1040. All income figures are in constant 2007 dollars, calculated using chained GDP deflators. Table 2 lists the components of these measures CAPY1, CAPY2, and TAXY.

(TABLE 2 ABOUT HERE)

CAPY1 and CAPY2 are measures of realized capital income without regard to tax treatment. Schedule C income is income from a sole proprietorship, schedule F income is farm income, and schedule E income includes rents, royalties, and income from S corporations, partnerships, estates, and trusts. Each of these schedule C, F, and E income components arguably flows from both labor and capital, so we do not want to include their full amounts in a measure of net capital income. The amounts for Schedule C and F are moderate enough that alternative assumptions have limited effect on our results. It is also worth noting that, for some types of partnerships reported on Schedule E, individuals retain a life interest that reflects wealth and income when alive but does not carry over to estate wealth.[3]

IRA distributions, pensions, and annuities include income from capital and a return of previously untaxed labor income, but most of the income from capital reported in a given year reflects capital income (and deferred wages) from past years. For defined-benefit pension plans, moreover, the estate reports no asset value even though the annuity had value (equal to discounted expected lifetime income) when the filer was still alive. But IRA distributions,

[3] Schedule E income is a hodge-podge – mostly labor income for lawyers and accountants who belong to partnerships, but mostly capital income for those with passive partnership income, rents, and estate and trust income. Given that the bulk of our sample comprises older (retired) decedents, we chose to ascribe the preponderance of schedule E income to capital. Because our work suggests that realized capital income falls short of true economic income for the wealthy, we wanted to use a relatively large percentage so as to keep our measure of realized capital income high.

pensions, and annuities arguably constitute some form of capital income, so we augment CAPY1 by including a portion of these items to create CAPY2.

CAPY1 and CAPY2 include both taxable and tax-preferred income. Yet income realization is partly tax-dependent, and the tax literature makes clear that higher tax rates tend to lower the recognition of income (for example Feldstein, 1995; Feldstein and Feenburg, 1995; Auten and Carroll, 1999; Kopczuk, 2005; and Saez et al., 2012). We therefore calculate a third measure: capital income that is subject to tax (TAXY).[4]

One drawback of using tax returns to calculate the rate of return on wealth is that estate tax returns naturally pertain to individuals whereas income tax returns can be filed jointly by married couples. In determining how to attribute income to individuals, we focus on command of resources within a household rather than labor-market earning capacity. We think it reasonable to assume that, in many families, capital resources are equally available to each spouse. This is the presumption made in most states in divorce cases (http://family.findlaw.com/divorce/divorce-property-division-faq.html). In cases of joint income tax returns, we therefore attribute half of realized capital income to the decedent. To test the robustness of this assumption, we also report results for single returns in several places.

B. Patterns of Total Income and Realized Capital Income

For estate tax filers, most of whom are much older than the average-aged adult, net capital income (CAPY1) constituted a large proportion of total income in the five years before death, with the proportion generally greater for older decedents.[5] The age pattern is not

[4] The maximum capital gains rate was just over 21 percent in 2002 and 2003, just over 16 percent in 2004 and 2005, and 15.7 percent in 2006. The maximum statutory income tax rate was 38.6 in 2002 and 35 percent thereafter. The effective exclusion rate for capital gains income was therefore 45 percent in 2002, 40 percent in 2003, 54 percent in 2004 and 2005, and 55 percent in 2006. Because we did not have individual tax models to calculate the exact tax rate or equivalent exclusion at each margin for each individual, we use these exclusion rates as approximations.

[5] Total income equals total income reported on line 22 of Form 1040 plus tax-exempt income plus the untaxed portions of Social Security, IRA distributions, and pensions and annuities. Aside from the regression analysis

surprising, as many of the young decedents were still employed at the time of their death.[6] Figure 1 depicts this proportion separately for old and young decedents by age and marital status for each year from 2002 to 2006. Here and elsewhere in the paper, "married" applies to decedents who were married throughout the entire 2002-2007 period and "single" to those who were single throughout the entire period.[7] The proportion of total income that is capital income is largest for single females, at close to 90 percent for the old and between 60 and 70 percent for the young.[8] In most cases, the smallest proportion is for married males, at 60 to 70 percent for the old and 35 to 50 percent for the young.

(FIGURE 1 ABOUT HERE)

As a proportion of total income, net capital income (CAPY1) was increasingly important at higher levels of wealth. Figure 2 shows that, for decedents in the lowest major category of wealth (net estate between $2 and $5 million), net capital income represented 55 to 60 percent of total income.[9] But for decedents with net estate greater than $100 million, net capital income actually comprised 90 to 95 percent of total income.

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reported later in the paper, the proportions reported pertain to the total received in the category for both numerator and denominator. Here, for example, we report total capital income received by all old married males divided by total income received by all old married males.

[6] In years 2002 through 2006, only 15 to 20 percent of old decedents received wage and salary income; the range for young decedents was 60 to 70 percent.

[7] A potential issue in using estate as a wealth measure for all years arises for individuals whose spouses died between 2002 and 2007 and left a spousal bequest. To ascertain the importance of this issue, we analyzed separate samples for decedents who were continuously married from 2002 until the time of death, decedents who were continuously single for this period, and decedents with mixed marital status. Results across these groups did not show marked differences.

[8] Mixed (sometimes married, sometimes single) categories generally fell between always married and always single categories. To reduce clutter, we do not report the mixed-group outcomes. These results are available from the authors.

[9] As Table 1 indicates, a small proportion of estate-tax filers had net estate totaling $2 million or less. Because these decedents were much less likely to have anticipated that their estates would have exceeded the estate-tax filing threshold and thus less likely to have acted strategically with regard to estate-planning and income realization, we do not report results for them separately. These results are available from the authors.

Just as net capital income was a large fraction of total income for wealthy decedents, capital gains constituted a significant portion of net capital income. The proportion of net capital income represented by capital gains ranged from 20 to 50 percent for the old and up to 70 percent for the young.

As a possible explanation for the difference across age groups, young decedents -- particularly the richest ones -- may have been more likely to be in a stage of life where they wanted to diversify their portfolios or liquidate businesses. In contrast, older decedents may have been less actively engaged in strategic portfolio shifts or in reorganizing business assets, had fewer businesses to liquidate, or decided to keep the reins of control so as to have a bargaining chip with their heirs or to permit heirs to enjoy the step-up in basis for inherited assets.[10]

Figure 3 depicts the proportion of capital gains in net capital income by age and marital status for the years 2002 to 2006. The proportion generally was smallest for old single females and largest for young single males, again largely reflecting different levels of active engagement in selling investments.

(FIGURE 3 ABOUT HERE)

Figure 4 shows the proportion of capital gains in net capital income by wealth category. This proportion typically ranged from 25 to 50 percent. Except for the year just preceding death, the proportion was generally higher at greater levels of wealth.

(FIGURE 4 ABOUT HERE)

Figures 3 and 4 focus on capital gains, a portion of which were taxed at lower than normal rates, here translated roughly to a percentage exempt from taxation. Figure 5 takes a different approach, showing the proportion of net capital income that was subject to taxation. The range was 50 to 70 percent, implying that one- third to one-half of capital income realized by wealthy decedents bore no income tax.

[10] Bernheim, Schleifer, and Summers (1985) offer a nice account of the strategic bequest motive (and one that avoids the tragic mistake of King Lear).

(FIGURE 5 ABOUT HERE)

C. Average Returns to Capital Across Demographic Groups

Although we are fortunate to have an excellent measure of wealth for each decedent, we can only observe wealth at the time of death via estate information. We do not have a measure of wealth for each year in which we observe income. We therefore must use an individual's net estate as his or her wealth measure for each year from 2002 to 2006 to estimate rates of return on capital for multiple years.

Net estate is potentially biased as a measure of wealth at a point in time, but not in an ascertainable way. Some decedents accumulated wealth over some years – the stock market boomed between 2003 and 2006, for example – and others used much of their income or even dipped into reserves to pay for consumption, including possibly large medical bills and other expenses. Suppose the decedent's true wealth increased steadily over the period 2002 to 2007. Then the rates of return we calculate for that decedent are biased downward, with the largest bias being for 2002. By the same token, if wealth declined to cover consumption needs, generate intergenerational transfers below gift tax thresholds, or for other purposes, the rates of return would be biased upward.

Rather than attempt an *ad hoc* adjustment to wealth, we simply use net estate as a measure of wealth for every year from 2002 to 2006. Because we are primarily interested in comparing rates of return across wealth groups in a particular year, bias is not a problem provided that no systematic differences in behavior occurred during the period of time between earning year and year of death.

Figure 6 shows aggregate capital income (CAPY1) and capital income subject to tax (TAXY) as proportions of aggregate net estate for each age category and marital status for the years 2002 to 2006. Among the old, the proportion of net estate represented by CAPY1 was

never larger than 6 percent and the proportion for TAXY was at most about 3 percent. Reflecting more capital gains and, by the same token, more income effectively excluded from taxation, the CAPY1 fraction generally was a little higher and the TAXY fraction a little lower for the young.

Realized rates of return on capital were quite low across all demographic groups, especially by comparison to growth in stock values – the change in the Standard and Poor's Index ranged from 4.8 to 28.4 percent in the period 2003-2006.[11] Of course, since capital gains dominate the ways that capital income is realized, and the discretionary decision to recognize capital gains applies to accruals from years past, a better comparison for our realized returns is with longer-term returns to assets – the 6 to 7 percent real return we mentioned earlier.

(FIGURE 6 ABOUT HERE)

D. Average Returns to Capital Across Wealth Categories

Figure 7 depicts the three measures of realized returns to capital by wealth category for each of the years 2002 through 2006. Note that the measures associated with CAPY1 and CAPY2 diverge only for decedents with wealth less than about $10 million. IRA distributions and pension and annuity income simply were not that important for decedents with net estate exceeding $10 million.

A more compelling finding is that decedents at the very top of the wealth distribution apparently realized a lower return to capital than did less-wealthy decedents, particularly when it comes to TAXY. Individuals dying with net estate greater than $100 million realized a return to capital of only 3 to 4 percent, and, treating the preferential treatment of capital gains effectively as an exclusion, the taxable portion of that return in aggregate generally constituted less than 2

[11] For S&P figures, see http://people.stern.nyu.edu/adamodar/New_Home_Page/data.html . The S&P index lost 21.97 percent in 2002. Capital gains realizations, of course, represent discretionary decisions to recognize returns that have accrued over many years, so it is not surprising that the rate of realization does not differ that much even for this year of declining stock-market value.

percent of wealth. This is striking evidence that the very rich have considerable control over the amount of income they choose to realize, particularly for tax purposes.

(FIGURE 7 ABOUT HERE)

Figure 8 highlights TAXY, which equals the taxable part of capital income in a particular year as a fraction of net estate. This figure brings out the decline in realized returns to capital at the far right tail of the distribution relative to those wealth categories just below it, evident for each of the five years prior to death.

(FIGURE 8 ABOUT HERE)

One possible explanation for the inverted U-shape of TAXY for most years could have to do with home ownership. Net estate includes the value of the primary and secondary residences, but the implicit "rent" received by homeowners is not part of realized capital income. Because the value of homes generally constitutes a larger proportion of net estate at lower levels of wealth, our measure of realized returns to capital again is biased downward relative to economic income from capital, but in a more pronounced way at the bottom of the wealth distribution.

Figure 9 shows TAXY as a percentage of net estate only for those decedents who were not homeowners at the time of their death. A decline in the taxable return to capital at highest levels of wealth is more apparent for all years, but for some years the lowest wealth categories still have a realized rate of return below that of some higher-wealth households; hence, home ownership is not the entire explanation for the inverted U-shape. Additional reasons that we do not see a consistent or monotonic decline in realized returns to capital as wealth increases for this sample may have to do with individuals' behavior as death approaches, or with some unknown factor associated with this particular group of decedents.

(FIGURE 9 ABOUT HERE)

The pattern of realization of capital gains in the five years before death differed markedly for decedents who had net estate ranging from $50 to $100 million as compared with other wealthy decedents, as shown in Figure 10. Decedents in the three lower wealth classes generally realized an increasing amount of capital gains over the years; those in the highest wealth class realized an increasing amount from 2002 to 2004 but then a slightly decreased amount in the two years before death. But those who died with net estate between $50 and $100 million had a spike in capital gains realization in 2004, which helps explain the jagged pattern evident for the year 2004 in Figure 9. This result does not appear to be due to unusual outliers, but we hope to explore these patterns more in future research.

(FIGURE 10 ABOUT HERE)

E. Distribution of Returns to Capital Across Wealth Categories

Figure 11 offers additional evidence that wealthy people have considerable control over realization of capital income. Across all wealth groups, a significant majority of income tax returns reported a taxable return to capital of between 0 and 2 percent each year from 2002 to 2006. Strikingly, individuals at the highest levels of wealth also had the largest fraction reporting a return of less than 1 percent in three of the five years. In 2002, for instance, 46 percent of decedents with net wealth of $2 to $5 million reported a return less than 1 percent; the figures for other groups were 42 percent (net wealth $5-10 million), 44 percent (net wealth $10-50 million), 49 percent (net wealth $50-100 million), and 55 percent (net wealth exceeding $100 million).

(FIGURE 11 ABOUT HERE)

F. Regression Analysis

Another way to inspect the relationship between capital income and wealth, particularly for the very rich, is via regression analysis. Table 3 reports the results of regressions of the natural log of taxable capital income on the natural log of net estate and other variables.

(TABLE 3 ABOUT HERE)

The loglinear form of the regression permits us to interpret the coefficients as elasticities. Figure 12 depicts the coefficients on the natural log of net estate for all years by wealth category. Among the wealthiest decedents, realized taxable capital income was unambiguously inelastic with respect to wealth. That is, a 1 percent increase in net estate corresponded to much less than a 1 percent increase in realized capital income among decedents with $50 million or more in net estate.

These regression results reinforce our conclusion that, among potential estate tax filers, realized capital income only imperfectly mirrors underlying wealth. This is evidence that wealth may be even more concentrated than any look at statistics on reported income may indicate.

III. IMPLICATIONS FOR TAX POLICY

When realized rates of return are compared to rates of return in the stock market -- or with expected rates of return for long-term investments for the types of assets held -- it seems fairly clear that most capital income of top wealthholders either is not subject to taxation or is effectively excluded from taxation by a preferential tax rate. Consider higher-wealth individuals who may on average earn 7 percent real return (and even higher nominal expected return) on their capital in long-term stock investments, but realize for tax purposes only 2 percent. In the years 2003 to 2006, the top tax rate was 35 percent (and, in 2002, 38.6). Under those circumstances, the effective marginal individual tax rate on income from capital for top wealth-holders comes to about 10 percent. If 10 percent is an average figure then, naturally, a large share of top wealth-holders pay an even lower rate (and others, of course, pay a higher rate).

These individuals may also directly or indirectly pay corporate tax and property tax, and their estates may eventually be subject to the estate tax. We have not examined how those systems add to overall tax burden. Direct ownership of corporate shares equaled 35 percent of

the cumulative value of all net estates examined here, for instance, and 43 percent of the value of net estates exceeding $10 million. So, although wealthy persons pay a much lower effective income tax rate on economic income than the statutory rate, this paper does not present a complete picture of their tax burden.

IV. CONCLUSION

Realized income from capital is a poor measure of the true economic return to capital. For most wealthy individuals, capital income realization is a discretionary event due to the large percentage of capital held in the form of corporate stock, real estate (including homes for which "rental" returns to homeowners are not subject to individual income taxation), and pensions (that effectively yield the equivalent of little or no tax on the capital income).

Top wealth-holders also tend to hold large concentrations of the assets that yield the highest average long-term returns in society -- that is, stock and real estate rather than interest-bearing assets. This means that their lower realized rates of return are not matched by lower economic rates of return, as would be the case if they owned mainly tax-exempt securities. These results should not be surprising. The rich tend to be savers. People who save more than they ever are likely to consume themselves face reduced risks from shorter-term fluctuations in value and, hence, can make those longer-term investments that produce higher returns. Also, any *ex post* measurement of top wealth-holders contains a selection bias toward those who were most successful in generating higher returns—the successful business venture or the right stock pick.

To estimate the distribution of wealth by looking at capital income, all of these factors must be taken into account. As a simple example, if one grosses up wealth at 16 times capital income (a typical price-to-earnings ratio for stock and real estate investments), then those with realized rates of one-half the normal economic rate should be grossed up at 32 times realized

gains. If one accounts for the higher economic returns to wealth enjoyed by the rich for reasons just outlined, then the factor becomes larger still.

Warren Buffett's statement about paying tax at a lower statutory rate than his secretary was an understatement.[12] Buffett was contrasting the then-maximum capital gains tax rate of about 15 percent with the ordinary tax rate on labor income. Our research indicates that discretion in realization, particularly for the very rich, implies an even lower effective tax rate than one based only on recognized income.

As suggested in the previous section, however, this is not quite the end of the story for tax policy. Neither a Buffett nor a refined-Buffett calculation takes account of other taxes on capital, such as property, corporate, and estate taxes. If a nation decides to tax capital income earned by individuals, then all these factors must be taken into account to design an optimal tax policy. An attempt to lower the tax on corporate income in exchange for a higher rate on individuals, for instance, would need to account for the extent to which such income is and would be realized at both corporate and individual levels.

[12] Buffett first raised the point at a fundraiser for Hillary Clinton in 2007. He later wrote an op-ed about the issue: "Stop Coddling the Super-Rich," New York Times, p A21 (15 August 2011).

Table 1
Descriptive Information

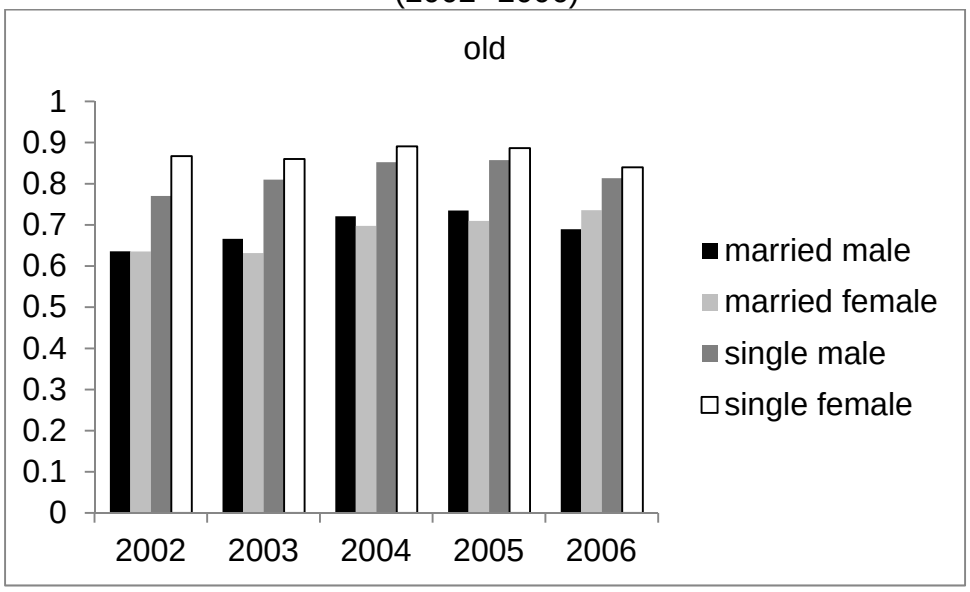
	Percent
Demographic Trait	
Age at death	
Young (less than 70 years)	19.7
Old (70 years or older	80.3
Gender	
Male	57.0
Female	43.0
Marital status at death	
Married	49.3
Not married	50.7
Marital status 2002--2007	
Always married	45.6
Always not married	38.8
Mixed	15.6
Net estate category ($million)	
0--2	3.5
2--5	70.9
5--10	17.1
10--50	7.7
50--100	0.5
Over 100	0.3

Note: Net estate equals total gross estate at date of death less debts and mortgages reported on Schedule K of Form 706.

Table 2
Three Measures of Capital Income

CAPY1	CAPY2	TAXY
Taxable interest	Taxable interest	Taxable interest
+Tax-exempt interest	+Tax-exempt interest	
+Capital gains	+Capital gains	+Taxable capital gains
+Dividends	+Dividends	+Dividends
+Gains from sale of business property	+Gains from sale of business property	+Gains from sale of business property
+½ Schedule C	+½ Schedule C	+½ Schedule C
+¾ Schedule E	+¾ Schedule E	+¾ Schedule E
+½ Schedule F	+½ Schedule F	+½ Schedule F
	+½ IRA distribution	
	+½ Pensions and annuities	
-Interest deduction	-Interest deduction	-Interest deduction

Figure 1
Net Capital Income (CAPY1) as a Proportion of Total Income, by Status (2002--2006)



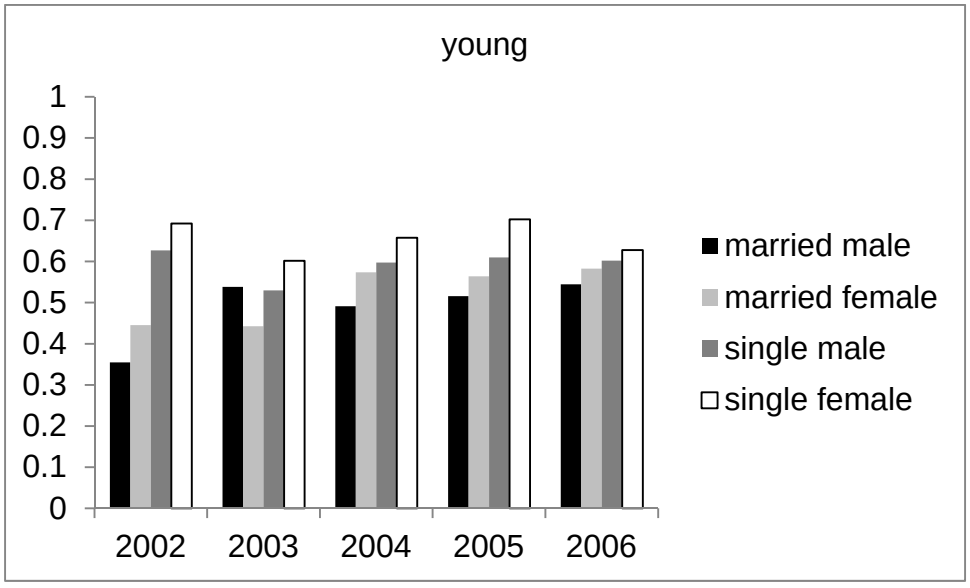


Figure 2

Net Capital Income (CAPY1) as a Proportion of Total Income, by Wealth Category (2002--2006)

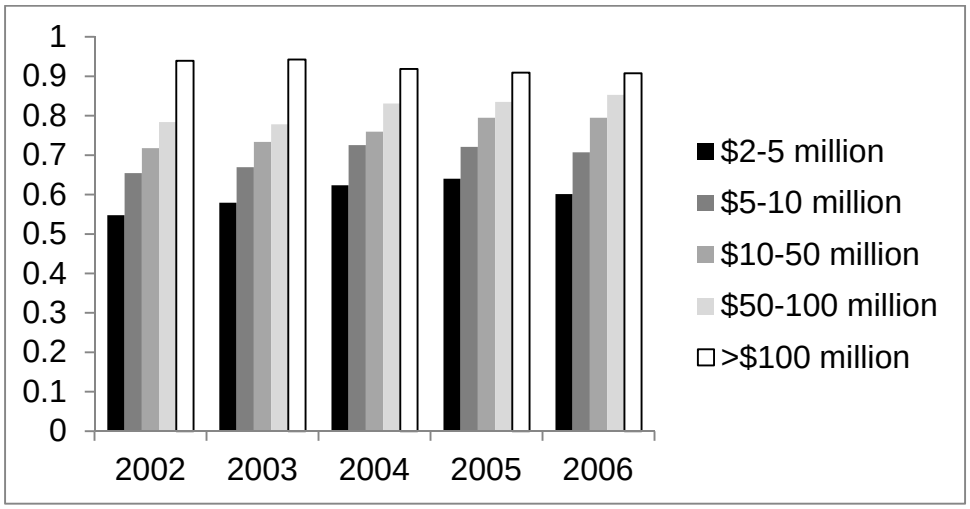


Figure 3

Capital Gains as a Proportion of Net Capital Income (CAPY1), by status (2002--2006)

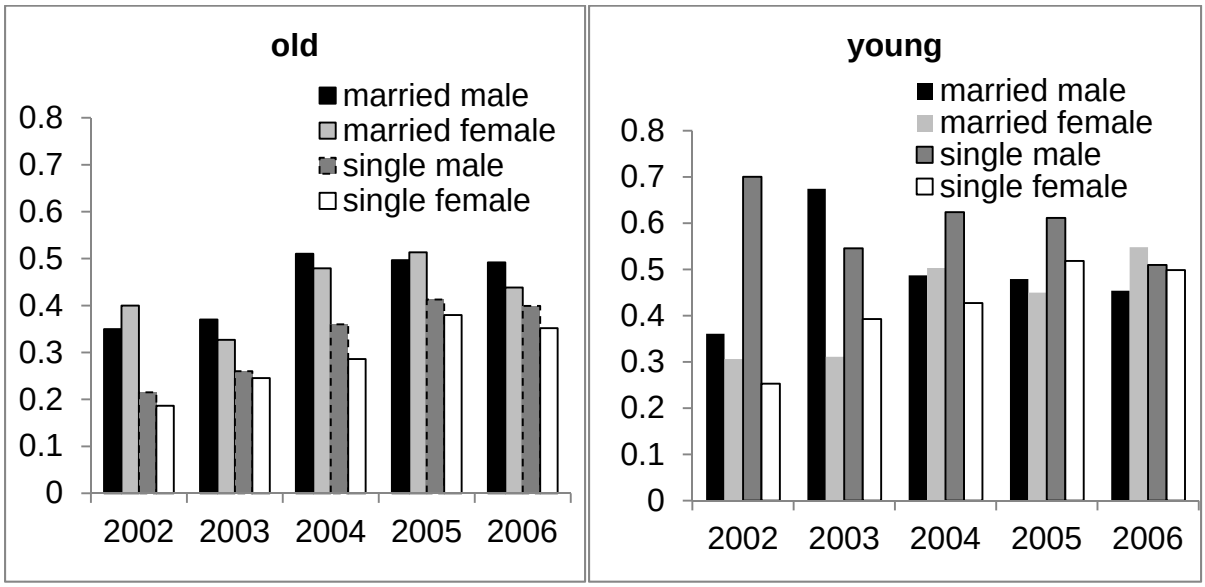


Figure 4
Capital Gains as a Proportion of Net Capital Income (CAPY1), by Wealth Category (2002--2006)

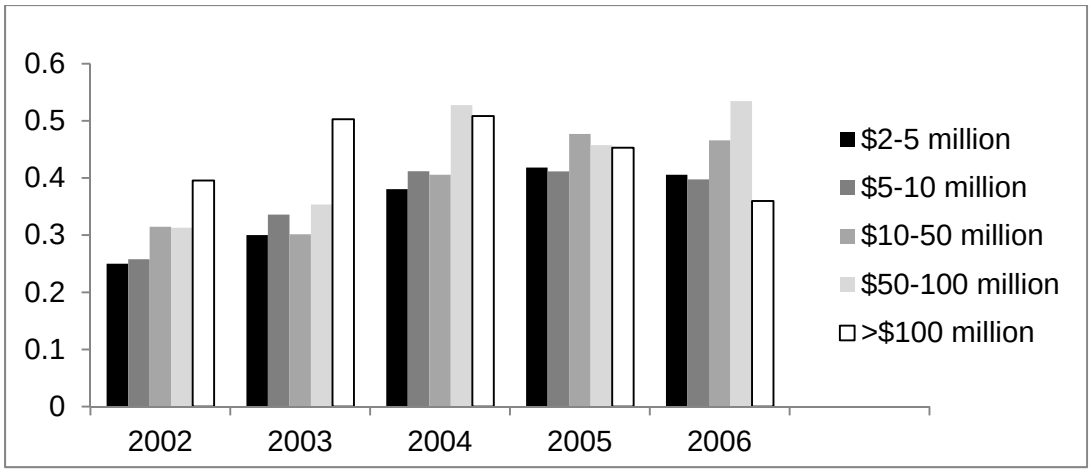


Figure 5

Taxable Capital Income (*TAXY*) as a Proportion of Net Realized Capital Income (*CAPY1*), by Wealth Category (2002--2006)

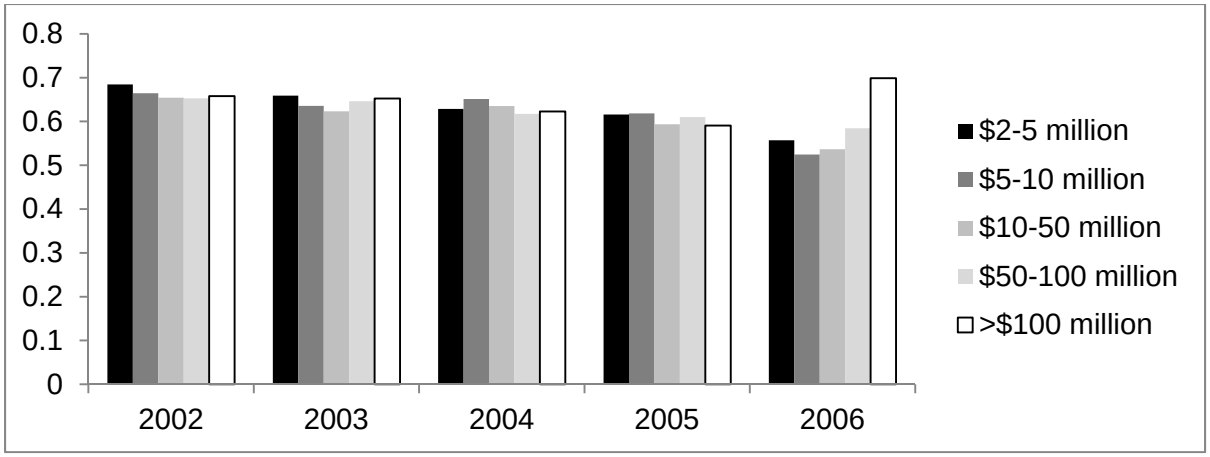


Figure 6:
Net Capital Income as a Proportion of Net Estate
(2002--2006)

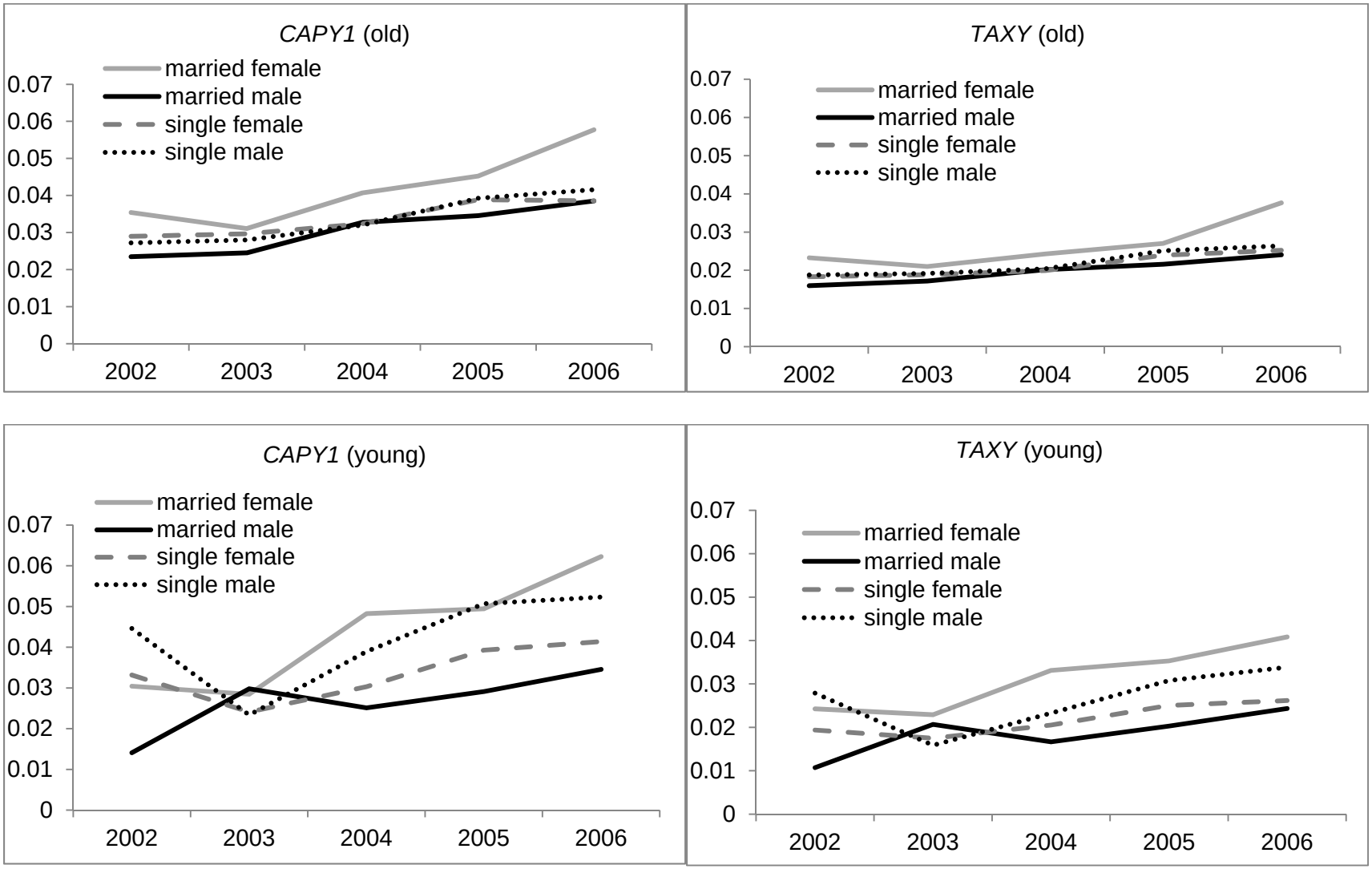


Figure 7

Measures of Net Return to Capital by Net Estate Category, Separately by Year

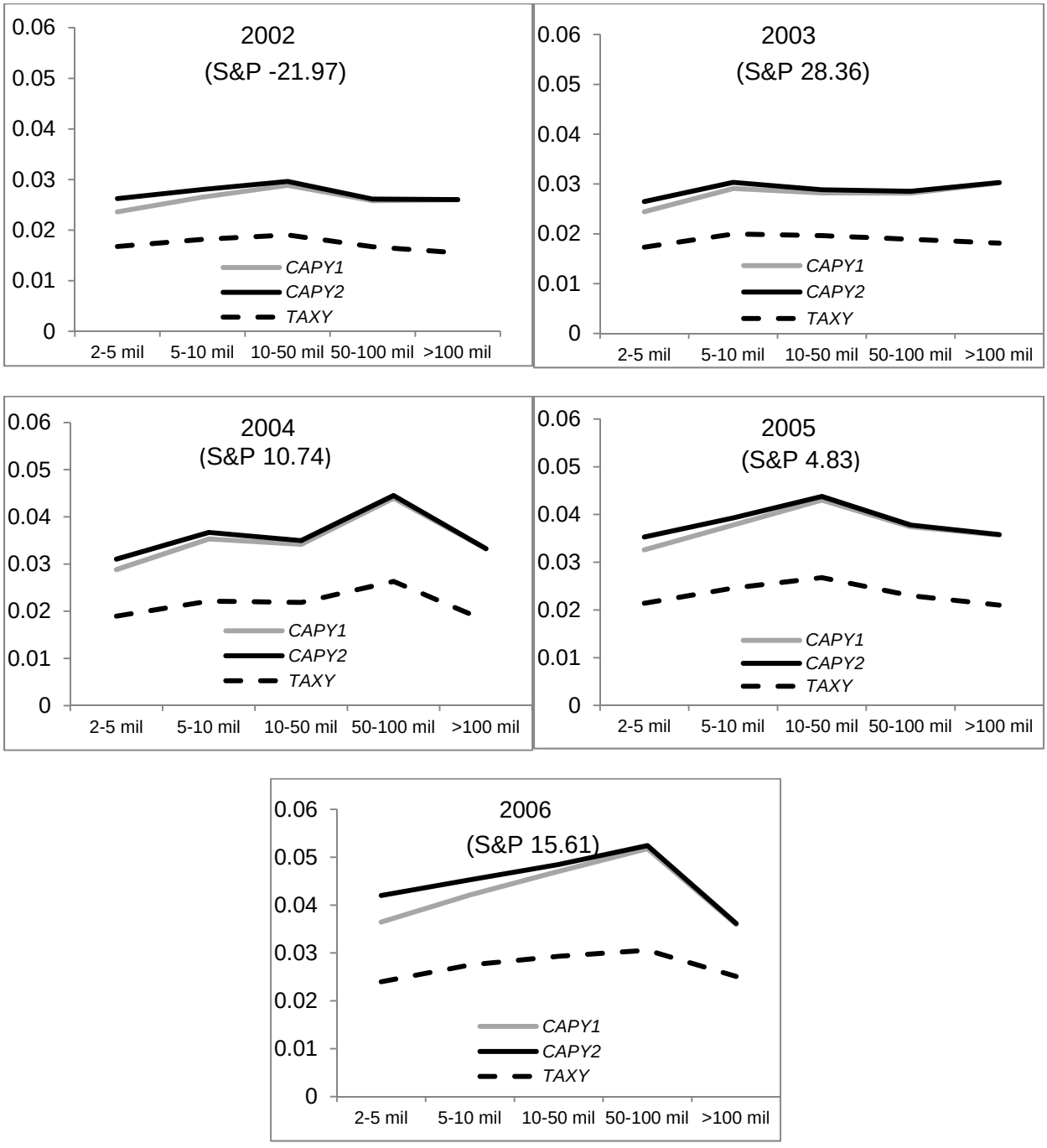


Figure 8

Taxable Capital Income as a Percentage of Net Estate by Wealth Category

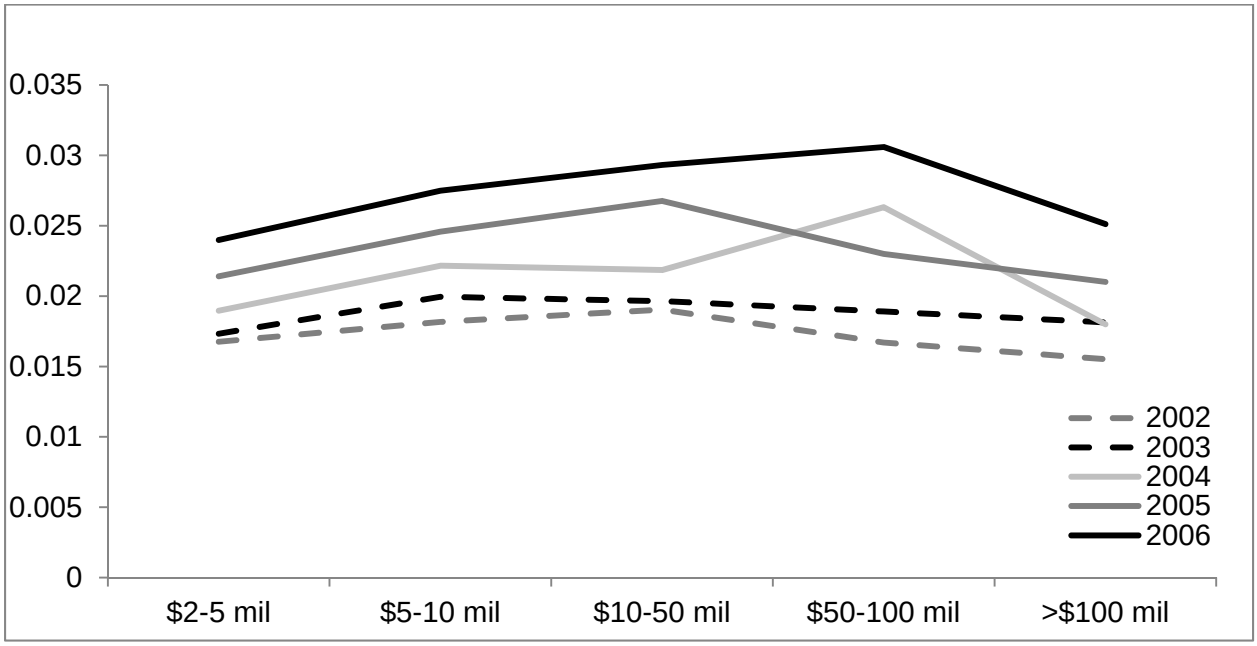


Figure 9
Taxable Capital Income as a Percentage of Net Estate by Wealth Category
(non-homeowners)

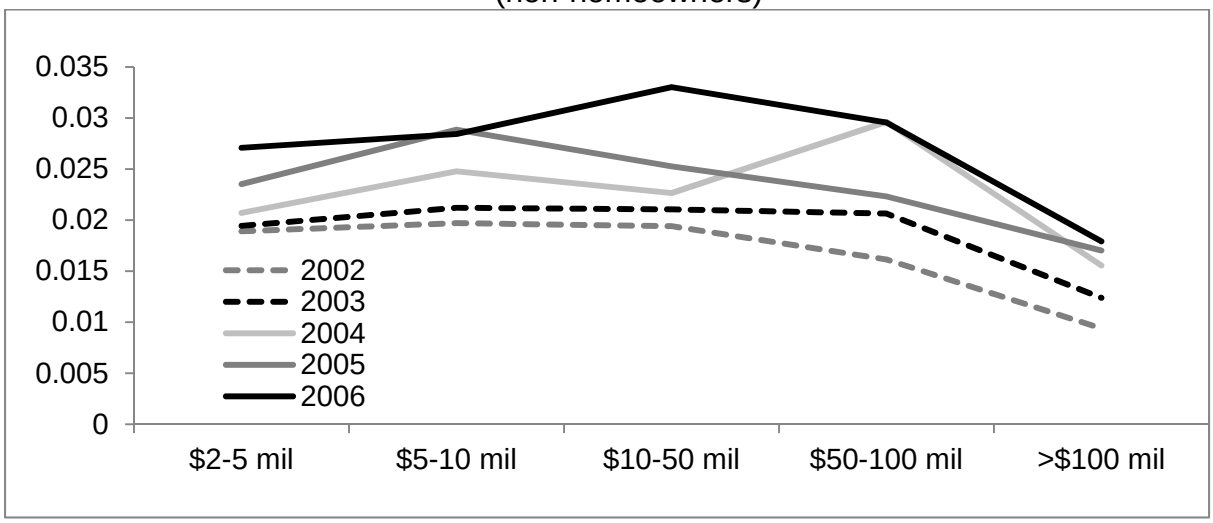


Figure 10
Proportion of Realized Capital Gains Relative to 5-Year Average, by Wealth Class, 2002--2006

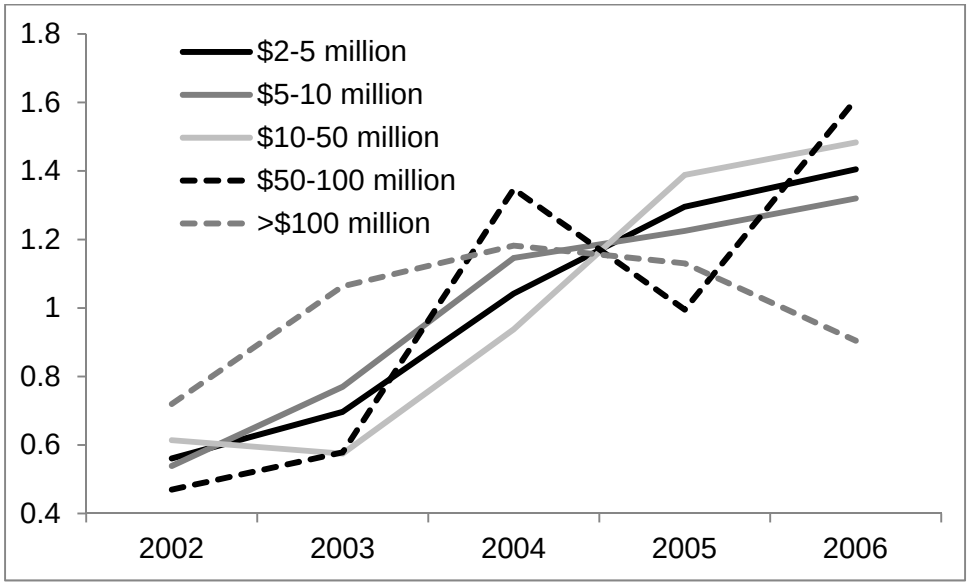


Figure 11

Percentages of Estates with Taxable Capital Income in a Particular Range, by Wealth Category

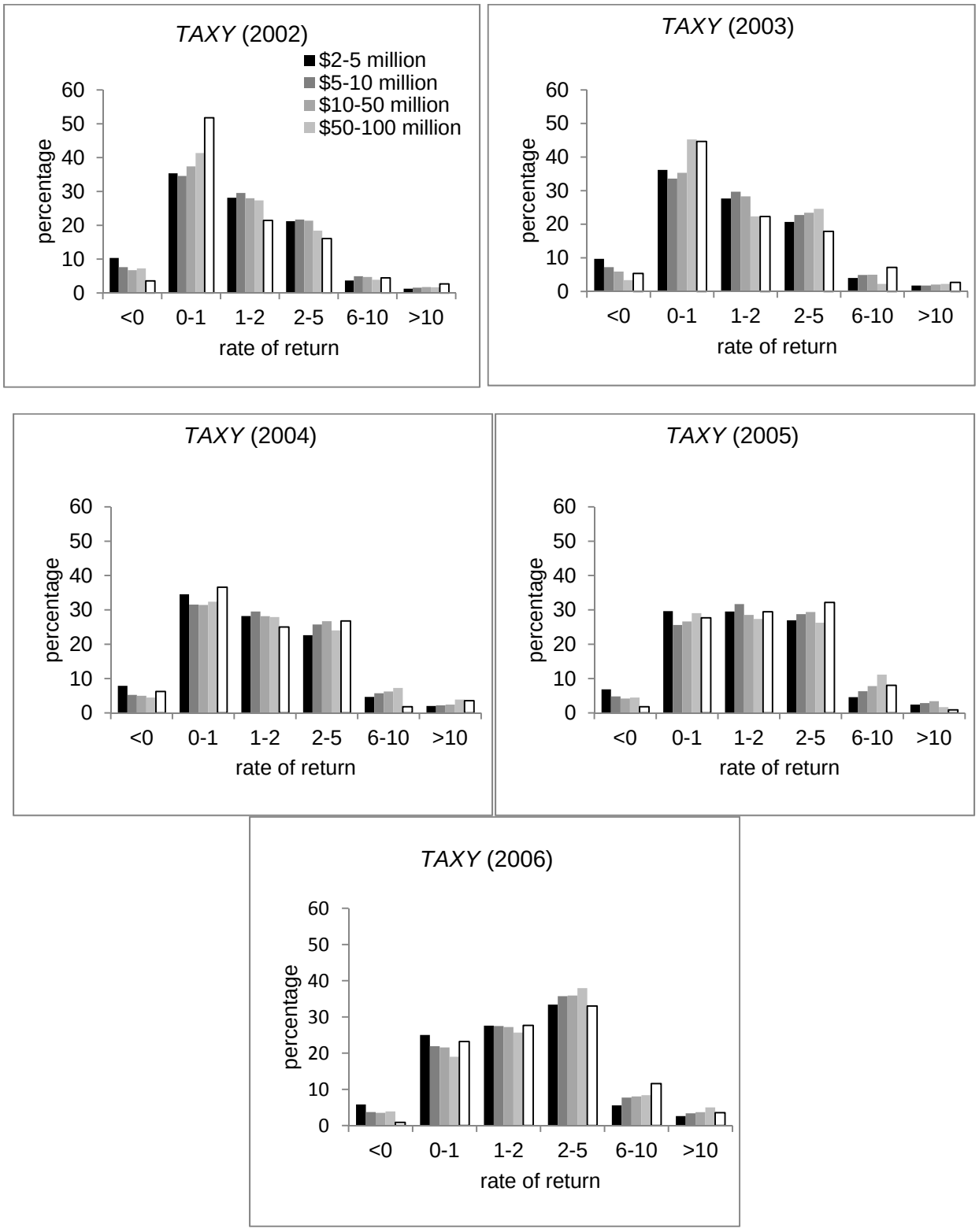


Table 3
Regression of ln(*TAXY*) on ln(*net estate)*

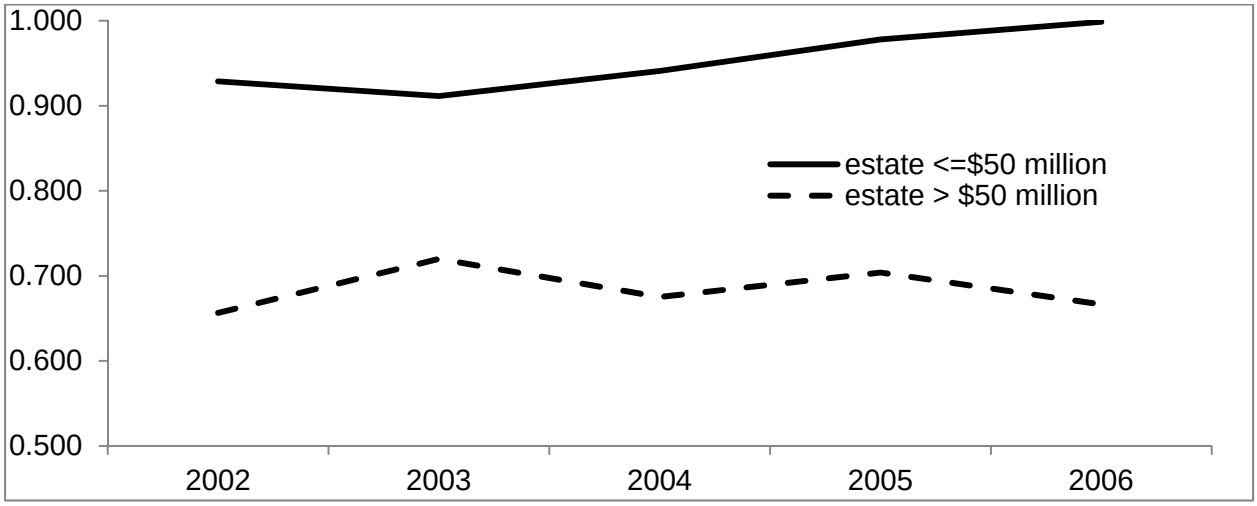
	2002		2003		2004		2005		2006	
	β	robust SE	β	robust SE	β	robust SE	β	robust SE	β	robust SE
Intercept	-3.763	0.442	-3.447	0.433	-3.171	0.423	-3.568	0.411	-3.447	0.387
ln (net estate)	0.929	0.020	0.912	0.020	0.941	0.021	0.978	0.020	0.999	0.019
age	-0.014	0.009	-0.016	0.009	-0.029	0.009	-0.027	0.009	-0.031	0.008
age squared	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
D(always married)	0.202	0.071	0.197	0.069	0.218	0.070	0.145	0.066	0.060	0.068
D(always single)	0.265	0.058	0.213	0.060	0.152	0.060	0.084	0.055	0.020	0.058
D(male)	-0.063	0.070	-0.060	0.076	-0.086	0.078	-0.115	0.066	-0.227	0.072
*D(male*always married)*	-0.190	0.088	-0.204	0.091	-0.227	0.093	-0.225	0.084	-0.077	0.087
*D(male*always single)*	-0.0.23	0.082	-0.002	0.087	0.009	0.091	0.105	0.079	0.249	0.085
ln (charitable deduction)	0.041	0.004	0.054	0.004	0.050	0.004	0.047	0.004	0.040	0.004
homepct[1]	-0.546	0.138	-0.519	0.150	-0.678	0.148	-0.622	0.159	-0.813	0.188
D(estate>$50 million)	4.928	2.292	3.508	2.080	4.910	2.222	4.942	2.072	6.084	1.856
*D(estate>$50 million)*ln(net estate)*	-0.272	0.126	-0.192	0.114	-0.266	0.121	-0.274	0.113	-0.332	0.102
adjusted R squared	0.304		0.309		0.306		0.329		0.340	
No. observations	10,415		10,556		10,779		10,959		11,135	

Notes: Returns that indicated no charitable deduction were assigned a deduction equaling one. Regressions do not include observations with negative capital income or negative net estate. Alternative forms of the regression indicate that these omissions have little effect on results.

[1] "Homepct" equals the percentage of net estate represented by the value of the primary residence of the decedent.

Figure 12

Elasticity of Taxable Capital Income with respect to Net Estate,
by Year and Wealth Category



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