The composition of income reported on tax returns changes markedly as income increases. On most tax returns, wages and salaries are the dominant source of income. Capital gains become more significant at higher incomes, but even at adjusted gross income (AGI) of $200,000 to $500,000, they only averaged about 12 percent of income in 2000.

At very high incomes, however, capital gains dominate. Those with incomes of $10 million or more report capital gains equal to 57 percent of total income. For the 400 taxpayers with the highest incomes (AGI exceeding $86.8 million), capital gains make up more than 71 percent of income, while wages comprise less than 17 percent.

For low- and moderate-income households, pensions, annuities, IRA distributions and Social Security are the second largest income category after wages. They comprise 17 percent of income reported by those with AGI less than $25,000, and 10 percent or more of the incomes up to AGI of $500,000. These numbers include returns of elderly individuals, for whom retirement income looms large.

Business income, interest, and dividends are also a growing component of income as income rises to about $2 million of AGI. But these elements decline in importance as income rises higher.

The stock market bubble distorts these data somewhat. But earlier research based on a 10-year panel of returns shows a similar pattern in the composition of average income. Also, preliminary data for 2001 show that capital gains made up 21 percent of income for those with AGI exceeding $200,000 (the highest income reported) compared with 27 percent in 2000.

Notes:
1Income equals (1) wages and salaries plus (2) interest and dividends including interest on tax-exempt bonds, plus (3) state tax refunds, alimony, unemployment compensation, gambling income, rent and royalty income, and other income items, plus (4) the taxable and nontaxable portions of IRA distributions, Social Security benefits, pensions and annuities, plus (5) income from Schedule C, S-corporation, partnership, and farming, plus (6) net taxable gains reported on Schedule D plus capital gains distributions reported on Form 1040.
2The highest AGI category represents the 400 highest income tax returns filed in 2000. The definition of income here is slightly different from that for the other income classes. It excludes untaxed income.