

## Changes in Income Reported On Federal Tax Returns

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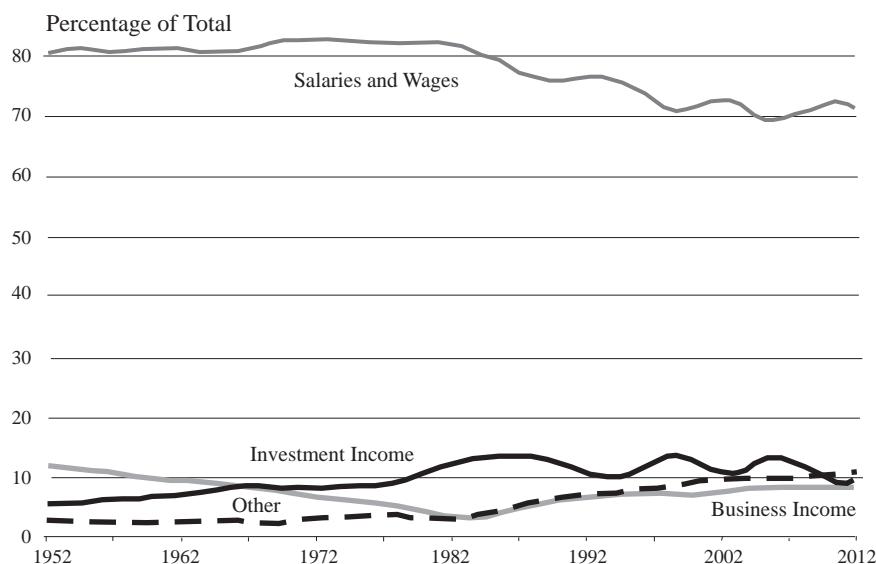
The composition of income reported on federal income tax returns has changed markedly over the past six decades as wages and salaries have lost some of their dominant share, and capital gains and other nonbusiness income have grown in relative importance. In 1952, 80 percent of income came from wages and salaries; business income accounted for another 12 percent (see figure). Investment income — capital gains, dividends, and interest — contributed another 5 percent of income, and income from all other sources — primarily retirement income from pensions, Social Security, and IRAs — amounted to just 3 percent.

Wage and salary income maintained its share through the mid-1980s but lost ground relative to other income sources over the last 30 years, dropping in uneven steps to 71 percent in 2012. In contrast, the share coming from business income

fell steadily for three decades to just 3 percent in the early 1980s but then recovered most of its lost share, climbing to about 9 percent of total income in 2012. Much of the gain since 1980 likely came as a result of more businesses becoming passthrough entities, the income from which shows up on individual tax returns rather than corporate returns.

Investment income grew steadily through the mid-1980s, more than doubling its share to 13 percent in 1985. Virtually all of that growth came from interest, whose share of income soared from 1 percent in 1952 to nearly 8 percent in 1983, when rapid price inflation drove interest rates to high levels; dividends were about 3 percent of income over that early period and capital gains accounted for 2 percent. More recently, however, low interest rates have reduced the share from interest back to its 1 percent level in 1952. The share from dividends has dipped to about 2.5 percent, and all of the gain in investment income has come from capital gains. Meanwhile the share of income coming from all other sources drifted upward over the six decades, more than tripling to 12 percent in 2012.

**Income Reported on Federal Income Tax Returns, Five-Year Moving Average, 1952-2012**



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