

Composition of Income Reported On Tax Returns in 2012

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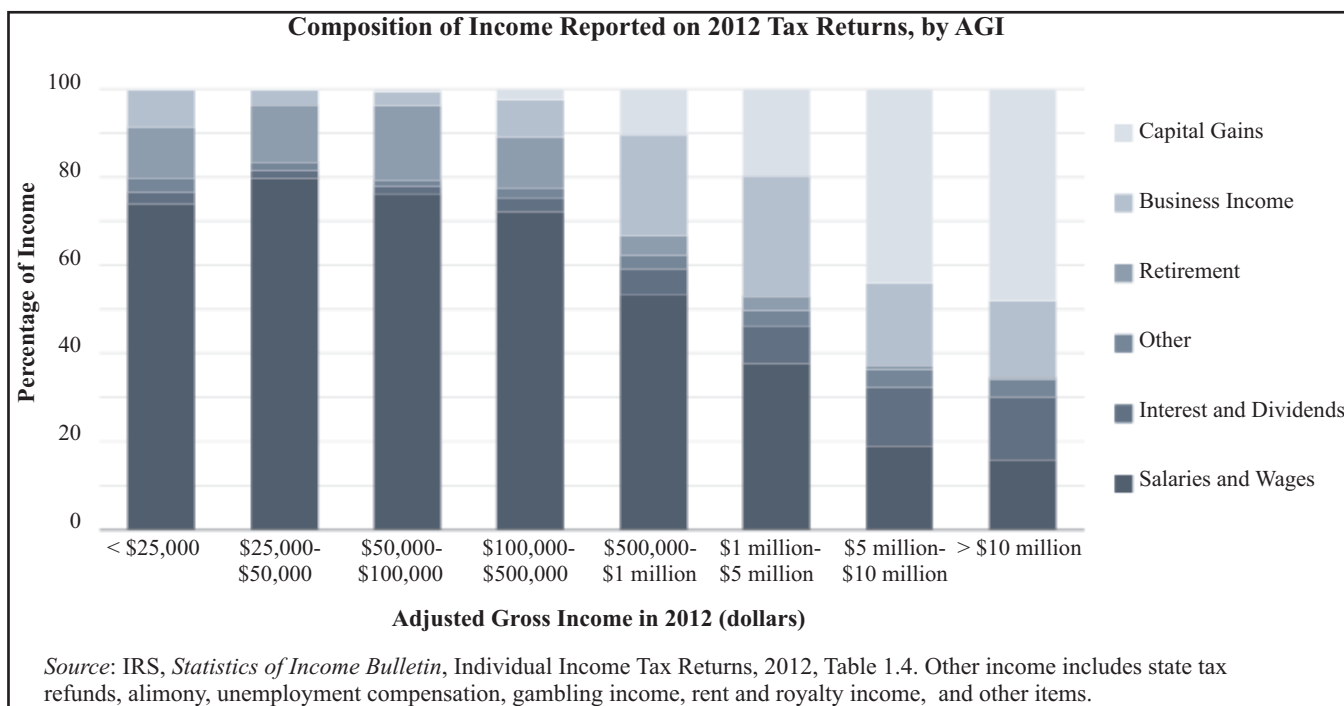
The composition of income reported on tax returns changes markedly as income increases. Salaries and wages make up most of reported income for the vast majority of households. But for those with adjusted gross incomes exceeding \$500,000, business and investment income — capital gains, interest, and dividends — account for most of AGI.

For the 99 percent of tax filers with AGI less than \$500,000, salaries and wages were by far the largest source of income in 2012, accounting for about 75 percent of all reported income. About half of their non-wage income came from retirement programs — pensions, annuities, IRA distributions, and Social Security.

Although taxpayers with AGI between \$500,000 and \$1 million received a smaller share of income from work, earnings still made up more than half. The majority of that group’s non-wage income came from their own businesses. Capital gains accounted for nearly half of the rest.

Although salaries and wages were the largest source of income (38 percent) for taxpayers with incomes between \$1 million and \$5 million, significant shares came from business income (27 percent) and capital gains (20 percent).

By contrast, capital gains were the largest source of income for tax units with AGI exceeding \$5 million, making up nearly half of their incomes. Many taxpayers in the top income categories are there primarily because they realized very large amounts of capital gains. Other sources of income were also important: salaries and wages and business income each contributed 18 percent of total income, and interest and dividends provided another 14 percent.



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