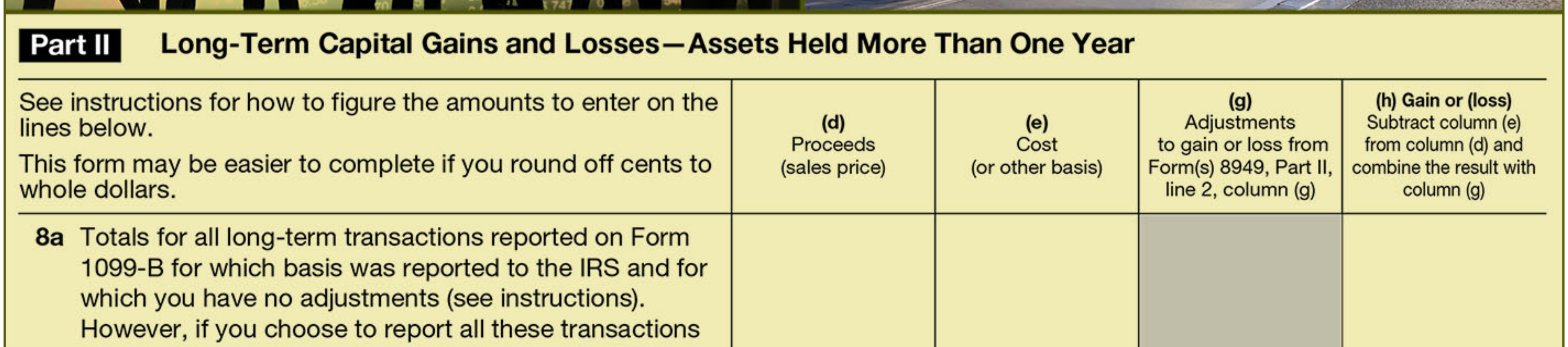
CONGRESSIONAL BUDGET OFFICE
JOINT COMMITTEE ON TAXATION

A Joint CBO/JCT Report

The Distribution of Asset Holdings and Capital Gains



Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions				

AUGUST 2016

Notes

Unless otherwise indicated, all years referred to are calendar years.

Numbers in the text and tables may not add up to totals because of rounding.

Supplemental data for this report are available on both CBO's website (www.cbo.gov/publication/51831) and JCT's website (www.jct.gov).

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Introduction and Summary

In 2010, more than 70 percent of families directly owned property designated under the Internal Revenue Code as capital assets—that is, assets that can be sold and that typically generate taxable capital gains or deductible losses when sold. Families' capital assets included their homes, other real estate, privately owned businesses, stocks, corporate and government bonds (including Treasury bills and notes but excluding Treasury savings bonds), and mutual funds; those assets had a combined worth of $50 trillion. That amount does not include an additional $20 trillion of other family assets—such as the value of defined benefit and defined contribution retirement plans (for example, 401(k) plans) and balances in savings and checking accounts.

When a capital asset is sold for more than its adjusted basis, the seller realizes a capital gain. (The adjusted basis is the amount of a taxpayer's investment in an asset after adjustments to account for certain factors that change the amount of the initial investment for tax purposes; some factors, such as improvements in a property, increase the adjusted basis, whereas others, such as depreciation, reduce it.) When an asset is sold for less than its adjusted basis, the seller incurs a capital loss. If over the course of a year a family's gains from all assets sold exceed its losses, those net gains can be subject to taxation; if, in contrast, a family's losses exceed its gains, a portion of those net losses can be used to reduce the amount of other income that is subject to taxation.

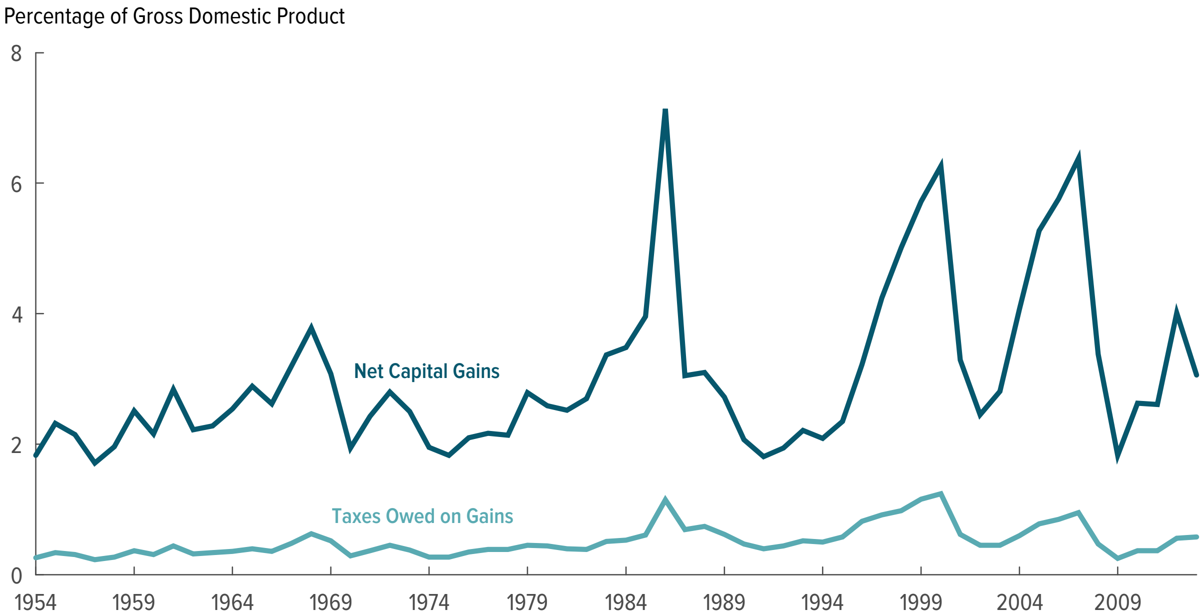
Most long-term capital gains (those realized on assets held for more than a year) are generally taxed at rates lower than those that apply to wage and interest income. In contrast, short-term gains are subject to the same income tax rates as wages and interest income. In 2010, taxpayers reported about $394 billion in short-term and long-term net capital gains, including those from sales of indirectly held assets (such as those owned by partnerships, S corporations, or mutual funds, or those managed by fiduciaries); they owed about $55 billion in federal income taxes on those gains. By comparison, the sum of reported net long-term gains and net long-term losses from the sale of directly held capital assets—the main focus of this report—amounted to $123 billion.

In this report, the Congressional Budget Office and the staff of the Joint Committee on Taxation (JCT) examine the distribution of capital assets and net capital gains and losses in 2010 by type of asset and by the income and age of the asset holder. The analysis of asset holdings is based on data from the Survey of Consumer Finances (SCF), a survey of the finances of U.S. families (consisting of a homeowner or renter, his or her spouse, and their dependent children) that the Board of Governors of the Federal Reserve System conducts every three years. To analyze capital gains reported by taxpayers on their returns, CBO and JCT used information from two different data sets compiled by the Internal Revenue Service (IRS). This report focuses on 2010 because it is the most recent year for which information was available from all three of those data sets at the time that the analysis in this report was undertaken.

How Have Capital Gains and Taxes Owed on Them Varied Over Time?

Both the amount of gains realized and the taxes owed on those gains have fluctuated significantly in relation to the size of the economy over the past

Net Capital Gains Reported on Individual Tax Returns and Taxes Owed on Those Gains, 1954 to 2013



Source: Congressional Budget Office and the staff of the Joint Committee on Taxation, using data from the Department of the Treasury.

Net capital gains occur when a taxpayer's gains exceed losses. In this figure, gains are reduced by losses incurred in the current tax year and those carried over from previous years. Both short-term and long-term net gains are included; net gains that resulted from sales of assets indirectly held by taxpayers through their shares of entities such as partnerships, S corporations, estates, and trusts are also included.

60 years, reflecting variability in asset prices and changes in the tax rate on capital gains, among other factors (see the figure). Capital gains realizations peaked as a share of the economy at over 6 percent of gross domestic product (GDP) in 1986, 2000, and 2007. In 1986, taxpayers rushed to sell assets that they might otherwise have held for longer because the Tax Reform Act enacted that year included an increase in the tax rate on gains that would become effective in 1987. The next two peaks coincided with spikes in the business cycle when stock prices, in particular, were high. In contrast, capital gains realizations were typically lowest in relation to the economy during recessions—falling under 2 percent of GDP in nine years that were at or near the trough of a recession. Revenues from capital gains realizations ranged from a low of 0.2 percent of GDP in 1957 (the year in which realizations measured as a share of GDP were lowest) to a high of 1.24 percent of GDP in 2000 (when realizations relative to the economy spiked).

Realizations of gains and revenues from taxes on those gains have generally moved in the same direction relative to GDP but diverged somewhat in 2013 (the most recent year for which some IRS data are available). Lower tax rates on gains, which were originally enacted as a temporary provision in 2003, had been extended through 2012, and that year, anticipation of a rate increase in 2013 prompted a sell-off of assets, which led to an offsetting reduction in the amount of realizations in 2013. The lower tax rates on capital gains were permanently extended in 2013 for many taxpayers, but the rate reverted to its higher, pre-2003 level for taxpayers in the top income tax bracket. As a consequence, revenues from capital gains taxes measured as a share of total output actually rose in 2013 despite the drop in realizations. That year, taxpayers reported short-term and long-term net capital gains (including those from indirectly held assets) totaling about $511 billion—equal to 3 percent of GDP—on their individual income tax returns and owed about $97 billion in federal income taxes on those realizations.

How Do Holdings of Capital Assets and Realizations of Gains Vary by Type of Asset?

In 2010, two-thirds of families owned their homes, which had a combined value of $21 trillion (before mortgage obligations)—41 percent of the total value of capital assets. But less than 2 percent of the sum of all net capital gains and net capital losses reported on tax returns was from home sales, a much smaller share than for most other types of capital assets, in part because the Internal Revenue Code allows taxpayers to exclude most of the gains from those sales. Although corporate stock—which was directly held by only 15 percent of families—constituted 7 percent of the total value of capital assets in 2010, stock transactions accounted for two-thirds of the sum of net gains and net losses that year.

The average value of capital assets held by families in 2010 was much greater than the median value, indicating that asset worth was concentrated among a relatively small number of families. The gap between the mean and the median values was largest for privately owned businesses (held by 13 percent of families) and smallest for personal residences.

How Do Holdings of Capital Assets and Realizations of Gains Vary by Income?

Higher-income families generally held larger and more diverse portfolios than those with lower income in 2010. For most families, the home was the largest component of their portfolio, but for families that earned more than $200,000 that year, personal residences accounted for only about a quarter of the total value of their capital assets; their largest holdings were privately owned businesses. Those higher-income families owned about a quarter of the total value of homes, but they held about two-thirds of the total value of nonresidential assets.

Similarly, the proportion of taxpayers in a given income group who reported capital gains was larger for higher-income taxpayers. Fewer than 2 percent of taxpayers with income of $50,000 or less reported net gains on their 2010 tax returns, whereas nearly half of taxpayers with more than $1 million of income reported net gains. Taxpayers in that top income group realized 70 percent of the total value of gross gains (that is, gains before losses) from the sale of shares in partnerships, S corporations, and trusts, but those taxpayers reported less than one-third of the total gross gains from taxable proceeds from home sales. That group also earned about half of all gains from the sale of two of the three types of financial assets that CBO and JCT included among capital assets—stocks and bonds.[1] They received only a quarter of total gains from the third type—mutual funds. In general, net losses on all types of assets were more widely distributed among income groups than were gains.

How Do Holdings of Capital Assets and Realizations of Gains Vary by Age?

In 2010, a smaller proportion of families headed by someone under 35 years of age than of families headed by someone 35 or older owned capital assets, and the value of their holdings was, on average, less than those of the older groups. Younger taxpayers were also less likely to realize any net capital gain, and when they did, their gains were smaller, on average, than those of older taxpayers. Families headed by someone between ages 55 and 64 had the highest average value of capital assets ($850,000), and taxpayers in that age group had the highest average value of net gains ($42,000).

How Have Holdings of Capital Assets and Realizations of Gains Varied Over Time?

The value of capital assets and the amount of net capital gains fluctuated over the 2004–2010 period. As the economy expanded from 2004 to 2007, the value of most types of assets held by families increased—stocks by 14 percent, personal residences by 16 percent, and privately owned businesses by 39 percent—but the value of bonds declined. Over that same period, reported capital gains measured as a share of GDP rose by about 60 percent—in part reflecting the tax cut on capital gains in 2003.

From 2007 to 2010—a period that included the 18-month recession that began in December 2007—the value of all types of capital assets and the amount of gains realized fell. Stock values dropped by 25 percent; the value of personal residences, by 19 percent; and the value of privately owned businesses, by 22 percent. Capital gains measured as a share of GDP fell by 59 percent.

1. For the purposes of this report, government bonds include Treasury bonds (other than savings bonds), Treasury notes, bonds issued by other federal agencies (such as those issued by the Government National Mortgage Association and the Tennessee Valley Authority), and state and local obligations. In the measure of capital assets, government bonds also include Treasury bills. Transactions involving Treasury bills do not, however, result in long-term capital assets because those securities are not held for more than one year.

A Note on Data Sources

The analysis in this report is based on three data sets that contain information on the ownership and sale of capital assets: the Survey of Consumer Finances, a triennial survey of the finances of U.S. families conducted by the Federal Reserve Board; a randomly selected sample of individual income tax returns compiled each year by the IRS; and the Sale of Capital Assets Cross Section (also compiled by the IRS), which includes detailed information on realizations of capital gains.

The scope of the tax return data from the IRS differs from that of the SCF data in a few significant ways. First, the tax data are limited to only those people who filed tax returns, whereas the SCF data represent a cross section of all U.S. families, including those in which no member files a return. Second, the tax data are derived from forms that are required to be filed when taxes are paid, whereas the SCF is a voluntary survey. Third, tax data contain more detailed information about some assets, especially rarely sold assets, such as timber and farmland.

Another difference between the SCF and the tax return data is the unit of observation. In the SCF, that unit is the family, which consists of an individual or couple who owns a given residence or who signed the lease for it and any dependents living at home. The SCF excludes from the family any financially independent people who reside with them. By contrast, tax return data sets are based on the taxpayer, who may be either a person who files an individual tax return or a married couple who file a joint return. In the SCF, a family may include more than one taxpayer; for example, a husband and wife who live together but file separate tax returns would be counted as two taxpayers in the IRS data but as one family in the SCF. As a result, the number of families in the SCF and the number of taxpayers differ: In 2010, there were about 118 million families in the SCF and 143 million taxpayers in the IRS data. Because those data sets underlie different sections of this report, the income groups identified in one section are defined by ranking families by income and in another by ranking taxpayers.

The income measures used in the SCF and IRS data sets also differ. The Federal Reserve Board defines income in the SCF differently from how the IRS measures it in tax returns. Using the detailed information available from the SCF, CBO and JCT developed a new measure of income that was closer to the definition used in the tax return data. In both sections, income generally includes wages and salaries; income from rental real estate, royalties, partnerships, and S corporations; business and farm net income; taxable and tax-exempt interest; dividends; net capital gains; other gains or losses; and unemployment compensation. Because of limitations in the data, however, the definitions of income—and therefore the income groups identified—still differ somewhat from section to section of this report. The most notable differences are as follows: In the section on capital assets, which uses data from the SCF, estate income is excluded and all distributions of pensions, individual retirement accounts, annuities, and Social Security benefits are included; in the section on capital gains and losses, which uses tax data from the IRS, income from estates is included, and only the taxable distributions of pensions, individual retirement accounts, annuities, and Social Security benefits are included. Unless otherwise indicated, families and taxpayers with negative income (that is, families and taxpayers with business or investment losses greater than their other income) are excluded from the lowest-income group but included in calculations for all income groups. ◆

The Tax Treatment of Long-Term Capital Gains and Losses

The U.S. tax code distinguishes between long-term capital gains and most other types of investment income and specifies different tax rate schedules for those two income categories. Although lawmakers have changed tax rates over the past four decades, the rates applied to long-term capital gains have usually been lower—sometimes substantially lower—than the rates on other forms of investment income. Qualified dividends are the exception: Since 2003, they have been taxed at the same rates as capital gains.[1] Those rates are a form of tax expenditure—that is, they resemble government spending programs by providing financial assistance to specific activities, entities, or groups of people.[2] JCT estimates that the tax expenditures for those lower tax rates on capital gains and dividends will total $690 billion between fiscal years 2015 and 2019 (see Exhibit 1).

Other provisions in the tax code defer or further reduce the tax on capital gains. One example is the deferral of taxes on capital gains that accrue on a given capital asset until that asset is sold; most types of income are taxed when they are earned. Although not classified by JCT as a tax expenditure, the deferral of capital gains taxes until a capital asset is sold provides capital gains with a significant tax advantage over other forms of income.[3] Another example is the treatment of gains from home sales. Some or all of the gains that taxpayers realize from sales of their homes are excluded from taxable income. That tax expenditure totaled $24 billion in 2015 and will total $150 billion over the 2015–2019 period, JCT estimates. Furthermore, capital gains on assets held during a taxpayer's lifetime are excluded from taxable income entirely when that person dies; the heirs will generally pay taxes only on the gains that accrue between the time of the taxpayer's death and the point when they later sell or exchange those inherited assets. Taxing capital gains when realized and excluding gains at the time of death encourages owners of assets to hold them until death rather than attempt to regularly rebalance their portfolio to maintain the most desirable allocation of assets.

Rates on Long-Term Gains and Losses

The maximum statutory rates on all types of investment income, including long-term capital gains, have fallen since 1977. That year, capital gains were taxed at a rate no higher than 35 percent, but

1. Generally, qualified dividends are those paid by domestic corporations or certain foreign corporations (including, for example, corporations whose stock is traded in one of the major securities markets in the United States).

2. JCT publishes estimates of tax expenditures each year. Tax expenditures, as defined under the Congressional Budget and Impoundment Control Act of 1974, are revenue losses attributable to provisions of the federal tax laws that allow a special exclusion, exemption, or deduction from gross income or that provide a special credit, a preferential rate of tax, or a deferral of tax liability. Further, JCT designates as a tax expenditure any deviation from a normal income tax on individuals and corporations resulting from a special provision that reduces the tax liability of particular taxpayers. A normal individual income tax is considered to include the following major components: a personal exemption for each taxpayer and each dependent, the standard deduction, the existing tax rate structure, and deductions for investment and employee business expenses. For a more thorough discussion of tax expenditures, see Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2015–2019*, JCX-141R-15 (December 2015), http://go.usa.gov/cVM89; and Congressional Budget Office, *The Distribution of Major Tax Expenditures in the Individual Income Tax System* (May 2013), www.cbo.gov/publication/43768.

3. Determining the appropriate tax on an accrued capital gain would be difficult because the change in the asset's value is not directly observed until its sale or appraisal. Because of that administrative hurdle, JCT assumes that a normal income tax would include the full amount of the capital gain as taxable income in the year that the gain was realized through sale, exchange, gift, or transfer at death.

other types of investment income faced statutory tax rates of up to 70 percent (see Exhibit 2). In 2010, the maximum tax rate on capital gains and qualified dividends was 15 percent, and for most other types of investment income, it was 35 percent.

In 2013, the top statutory rates on long-term capital gains and on other types of investment income rose, though they still remain below their 1977 levels. The American Taxpayer Relief Act of 2012 set the maximum rates at 39.6 percent for ordinary income (that is, all income subject to the income tax other than net capital gains and, since 2003, qualified dividends) and 20 percent for capital gains and qualified dividends. In addition, in 2013 the maximum rates on capital gains and other types of investment income were effectively increased by 3.8 percentage points by the Health Care and Education Reconciliation Act of 2010, which required higher-income taxpayers to pay a surtax on net investment income (see Exhibit 3).[4] Overall, since 1997 there has been about a 20 percentage-point difference between the maximum tax rate on capital gains and the maximum rate on most other types of investment income.

4. The surtax applies to interest, dividends, capital gains, rental and royalty income, nonqualified annuities, income from businesses involved in trading of financial instruments or commodities, and income from businesses in whose operations the taxpayer was not actively involved on a regular, continuous, and substantial basis. JCT does not view the surtax as part of a normal income tax; instead, it treats that surtax as a provision that reduces the magnitude of the tax expenditure to which it applies by $186 billion over the 2015–2019 period.

Provisions in the individual income tax code other than statutory tax rates have changed the effective marginal tax rate that applies to capital gains and other investment income. For example, in 2016, most taxpayers with adjusted gross income greater than $259,400 ($311,300 in the case of a married couple filing a joint return) will lose 3 cents of itemized deductions for each dollar of capital gains, causing their effective marginal tax rate on capital gains to increase by more than a percentage point.

Losses from the sale of capital assets can affect taxes at rates that differ from those that apply to gains. For most types of assets, when a taxpayer incurs a loss, it is subtracted from any gains realized in that year—effectively reducing taxes at the same rate that applies to capital gains. (However, losses from the sale of personal-use property, such as personal residences, are not deductible.) If total losses over the year exceed total gains, the net loss may be used to reduce the taxpayer's ordinary income, but that reduction is limited to $3,000 in any year. Losses greater than that amount may be carried forward to future years and used to reduce capital gains and then, if the taxpayer still has a net loss, ordinary income—again, by no more than $3,000 in any year.

Special Rules

The tax treatment of capital gains varies depending on the type of capital asset sold and how long that asset was held. In some instances, a portion of capital gains may be exempt from taxation, or the tax may be assessed in a year other than that when the gain actually occurred.

Exclusions

Some capital gains are not included in taxable income—for instance, gains on capital assets that a taxpayer held until his or her death. Gains from the sale of the taxpayer's personal residence are another example: Taxpayers are allowed to exclude up to $250,000 ($500,000 for a married couple filing a joint tax return) of such gains from taxable income. Also exempt from taxation is a portion of the capital gains from the sale of certain qualified small business stock. To qualify, the business must be a C corporation with gross assets of less than $50 million, and the taxpayer must have held the stock for at least five years.[5]

Deferrals

Taxes on capital gains from the sale of certain types of assets may be deferred if a taxpayer purchases a similar asset (a transaction known as a like-kind exchange) within a specified period; the proceeds from selling the first asset must be held by an intermediary and used to purchase the second. Gains from stocks, bonds, and other securities (among other assets) are not eligible for this deferral option; the tax code places other restrictions on the use of this type of deferral.

5. Beginning in 1993, 50 percent of capital gains from the sale of small business stock held for at least five years were exempt from taxation. The share of gains that is exempt was temporarily increased in 2009: For stock acquired between February 18, 2009, and September 27, 2010, 75 percent of gains could be excluded, and for stock acquired after September 27, 2010, but before January 1, 2015, 100 percent could be excluded. The Protecting Americans From Tax Hikes Act of 2015 (Public Law 114-113) made the 100 percent exclusion permanent.

Depreciation

Generally, businesses deduct depreciation on capital assets (that is, the estimated loss in value of the asset over time) from their ordinary income when calculating their taxes. When a capital asset is sold, gains up to the amount of depreciation on that asset are taxed at the ordinary income rate, and gains in excess of the depreciation are taxed at the preferential capital gains rate. The depreciation deduction is thus effectively recaptured when the asset is sold. Special tax rules apply to real estate held for business purposes: Gains up to the amount of depreciation are taxed like ordinary income—but only up to a maximum rate of 25 percent.

Different Rates

Higher rates are applied to some types of capital income (such as interest income) other than capital gains. Further, although taxes on gains in certain retirement accounts—including defined contribution and defined benefit plans—are deferred, distributions from those accounts are taxed as ordinary income. Net gains from certain assets that are often held for both investment purposes and for personal use, such as antiques and collectibles, are taxed at ordinary income rates of up to 28 percent.[6]

6. Although personal vehicles and collectibles are included in the tax code's definition of capital assets, CBO and JCT excluded those properties from this analysis because their tax treatment differs from the treatment of other capital assets; any net gains from the sale of such items are reported separately on a tax return.

Exhibit 1.

Estimates of Selected Tax Expenditures in the Individual Income Tax System, Fiscal Years 2015 to 2019

Billions of Dollars

	2015	2015–2019
	Tax Expenditures on Capital Gains	
Reduced Tax Rates on Long-Term Capital Gains and Qualified Dividends	132	690
Exclusion of Capital Gains at Death	32	171
Exclusion of Portion of Capital Gains on Sales of Personal Residences	24	150
Exclusion of Gains From Certain Small Business Stock	1	5
	Examples of Other Tax Expenditures	
Exclusion of Employers' Contributions for Health Care, Health Insurance Premiums, and Long-Term Care Insurance Premiums	146	770
Net Exclusion of Pension Contributions and Earnings[a]		
Defined contribution plans	73	505
Defined benefit plans	49	316
Earned Income Tax Credit[b]	73	371

Source: Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2015–2019*, JCX-141R-15 (December 2015), Table 1, http://go.usa.gov/cVM89.

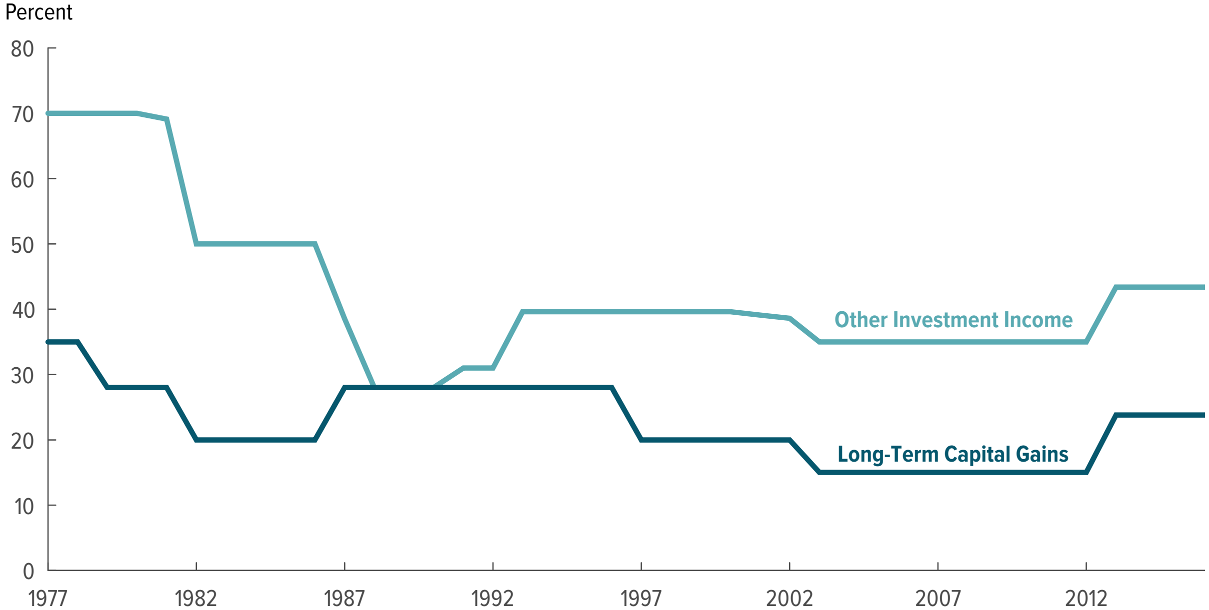
a. Calculated as the income taxes forgone on current tax-excluded pension contributions and earnings minus the income taxes paid on current pension distributions.

b. Includes outlays for the refundable portion of the tax credit.

The individual income tax system includes over 200 tax expenditures. The expenditure for reduced tax rates on long-term capital gains and qualified dividends—which JCT estimates will result in $690 billion of forgone revenues from 2015 to 2019—is the second largest of those expenditures. Only the expenditure for the exclusion from taxable income of employers' contributions for health care and health insurance premiums is larger. ◆

Exhibit 2.

Comparison of Maximum Statutory Tax Rates on Long-Term Capital Gains and on Other Investment Income, 1977 to 2016



Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

The statutory tax rate is specified by law. In the individual income tax code, the statutory rates apply to each additional dollar of capital gains or other investment income; those rates rise as taxable income increases. The statutory rates shown are the highest in the schedule of rates.

The changes in the statutory rates that were implemented in 1978, 1981, and 1997 became effective during the year (rather than at the beginning of the year). In those cases, the exhibit shows the maximum statutory rate that was in effect for most of the year.

For most of the period since 1977, the highest statutory rate on long-term capital gains (the rate at which most capital gains are taxed) was less than the maximum rate on other types of investment income. The Tax Reform Act of 1986 established a single rate that applied to all types of investment income, but lawmakers reinstituted the different rates for capital gains and for other investment income in 1991 and further increased the difference between those rates in 1993 and again in 1997, when the gap grew to about 20 percentage points. The top rates for both types of income were increased in 2013, but the gap between the two remained about the same. Since 2003, qualified dividends have been taxed at the same rate as capital gains. ◆

Exhibit 3.

Statutory Tax Rates on Long-Term Capital Gains for Taxpayers Whose Filing Status Is Single, 2016

Income Range (Dollars)	Tax Rate (Percent)
	Basic Rates on Long-Term Capital Gains
Taxable Income[a]	
0 to 37,650	0
37,651 to 413,350	15
Greater than 413,350	20
	Additional Rate on Net Investment Income[c]
Modified Adjusted Gross Income[b]	
Greater than 200,000	3.8

Source: Internal Revenue Service.

The income cutoffs for the rates on taxable income are adjusted each year for inflation, but the threshold for the tax on net investment income is not.

a. Taxable income is adjusted gross income—income from all sources not specifically excluded by the tax code, minus certain adjustments—minus exemptions and the standard deduction or itemized deductions.

b. Modified adjusted gross income is adjusted gross income plus any foreign earned income that is exempt from U.S. income taxes.

c. Net investment income includes most capital gains as well as interest, dividends, rents and royalties, income from nonqualified annuities, income from businesses involved in trading of financial instruments or commodities, and income from businesses in which the taxpayer does not actively participate. Taxpayers are allowed to make certain deductions—such as state and local taxes and investment interest expenses—from unearned income.

In 2016, the basic tax rates on long-term capital gains and qualified dividends ranged from zero (for taxpayers with taxable income up to $37,650) to 20 percent (for those with income greater than $413,350). An additional tax on net investment income made the combined statutory rate on long-term capital gains 23.8 percent for taxpayers with very high income. By contrast, the maximum statutory rate applicable to ordinary income (that is, all income subject to the income tax other than net capital gains and qualified dividends) is 39.6 percent. ◆

The Distribution of Capital Assets

In the 2010 Survey of Consumer Finances, families reported owning a total of $50 trillion in capital assets that, when sold, could result in taxable capital gains (see Exhibit 4). Personal residences—with a gross worth of $21 trillion—accounted for the largest share of that total value. The gross value of the assets does not account for the amounts owed to mortgage holders or other lenders. In 2010, for example, first and second mortgages on personal residences totaled $9 trillion, which effectively reduced families' wealth from their home from $21 trillion to $12 trillion. After personal residences, the next largest share of the total value of assets was held in privately owned businesses, valued at $12 trillion. Financial assets accounted for smaller shares—mutual funds and corporate stocks each totaled $4 trillion in value, and bonds were valued at $1 trillion.

Total family wealth included an additional $20 trillion of assets that were not counted among those capital assets. Half of that amount was held in tax-preferred retirement accounts, such as individual retirement accounts and 401(k) plans, for which contributions are generally deductible and withdrawals are taxed at the same rates as ordinary income.[7] One-third was held in other financial assets, such as checking accounts or personal loans, which typically are not sold and do not generate taxable gains. Most of the remaining assets were personal vehicles.[8]

Distribution of Capital Assets by Type of Asset

Although 72 percent of families owned capital assets, the types and amounts of assets that they owned varied considerably (see Exhibit 5). Moreover, the average value of families' capital asset holdings in 2010 (nearly $600,000) was three times larger than the median value: Half of families that owned capital assets had asset holdings valued at nearly $200,000 or more, and half held assets valued at less than that amount. That gap between the average value of families' holdings and the median value of those holdings indicates that some families above the median held assets worth much more than the median value.

The most widely held type of capital asset in 2010 was a home. Two-thirds of families owned their home. On average, personal residences were worth $261,000—the second lowest average value of any type of asset. However, the median value of personal residences—$170,000—was higher than the median value of the other types of assets. In combination, those two findings show that the dispersion of values of personal residences among families was narrower than for other asset types.

When personal residences are excluded, the proportion of families owning capital assets declines to 36 percent, and the gap between the average and median values of the remaining assets increases: The average value of families' capital asset portfolio excluding their personal residence was $691,000 in 2010, and the median value was $91,000. Among all asset types, privately owned businesses—held by about 13 percent of families—had the highest average value at $781,000, but the median value of

7. Although some retirement accounts are invested in stocks and bonds, those holdings are not included in the $5 trillion total for stocks and bonds included among capital assets because of their different tax treatment. In fact, some gains in retirement accounts are never taxed: Because taxes are paid on income earned before it is put in Roth individual retirement accounts and Roth 401(k) plans and the withdrawals during retirement are tax-free, gains resulting from such plans are exempt from taxation.

8. According to tax return data, about 90,000 taxpayers sold assets—such as antiques and collectibles—that were subject to ordinary income tax rates of up to 28 percent and are thus not included as capital assets in this report; the median value of those assets was $9,300.

those businesses was just $78,000. The type of capital asset least widely held was bonds, which fewer than 2 percent of families owned. Those bond holdings were worth an average of $587,000—the second highest amount of all types of assets—and they had a median value that was about a quarter of that amount. Stocks, the most widely held of the three types of financial assets, had the lowest average and median values among all types of capital assets.

Distribution of Capital Assets by Family Income

Holdings of capital assets varied across the income distribution in 2010. Nearly all families with income greater than $200,000 owned at least one capital asset that year; by comparison, the proportion of families that held at least one capital asset was roughly 60 percent for the group with income of $50,000 or less and about 40 percent for the group with income of $20,000 or less (see Exhibit 6). Families with income greater than $200,000—the top 5 percent of all families—held 47 percent of the total value of all capital assets; the asset holdings of families in that group were worth an average of $3.9 million (see Exhibits 7 and 8). Families with income greater than $1 million—the top 0.4 percent of all families—owned 16 percent of capital assets, and the average value of their holdings was $16.5 million. The group earning $50,000 or less included 53 percent of all families; they owned 16 percent of the total value of capital assets, and their asset holdings were worth $216,000, on average.

Compared with the value of total capital assets, home values were less concentrated in the top income groups—three-quarters of the value of personal residences accrued to families with income of $200,000 or less in 2010. For those families, more than half of the worth of their assets was derived from their homes. For families making more than $200,000, their personal residence accounted for only about a quarter of the value of their portfolio (see Exhibit 9).

When homes are excluded from capital assets, the difference in ownership rates between the top and bottom income groups increases. About 90 percent of families with over $200,000 of income owned nonresidential capital assets, but about 20 percent of families with income of $50,000 or less held such assets (see Exhibit 6). Most of the wealth attributable to privately owned businesses and financial assets belonged to families with over $200,000 of income. For families in that group, privately owned businesses accounted for about one-third of their portfolio, on average, a larger share than for any other type of capital asset.

Distribution of Capital Assets by Age of the Head of Family

In 2010, the proportion of families that owned capital assets increased with each age group before leveling off at about 85 percent for all families headed by someone age 55 or older (see Exhibit 10). The average value of assets for families that owned them was about $210,000 among families headed by someone under age 35 and about $850,000 for those headed by someone between ages 55 and 64. Among families headed by someone age 65 or older, the average value of assets was lower—declining to about $620,000 for families with a head of household age 75 or older.

The difference in rates of asset ownership by age group was more pronounced among low-income families than among higher-income families. In the group with income of $20,000 or less, about one-third of families headed by someone under 65 years old owned assets, whereas nearly two-thirds of families headed by someone 65 or older held assets (see Exhibit 11). The difference was much smaller for higher-income groups, and essentially all families with income greater than $200,000 held assets, regardless of the age of the head of the family.

Over 80 percent of families headed by someone who was at least 65 years old owned their own homes—more than twice the proportion of homeowners among families headed by a person under age 35. Among homeowners, the average value of those personal residences was highest—about $306,000—for families headed by someone between 55 and 64 years old.

Of families headed by someone under age 35, 22 percent owned capital assets other than their personal residence; roughly 45 percent of families headed by someone age 45 or older held such assets. For families holding nonresidential assets, the average value of those assets varied sharply among age groups—from $155,000 for families headed by someone under 35 years of age to nearly $1 million for families headed by someone between ages 55 and 64.

Changes in the Value of Capital Assets Over Time

The total value of capital assets held by all families fluctuated over the 2004–2010 period as families purchased and sold assets and as the value of those assets changed. From 2004 to 2007—a period during which real (inflation-adjusted) gross domestic product increased by 10 percent—the real value of all asset types other than bonds grew: The real value of stocks grew by 14 percent, personal residences by 16 percent, and privately owned businesses by 39 percent (see Exhibit 12).

From 2007 through 2010—a period that included the 2007–2009 recession—the real value of all assets fell. The largest declines in value from 2007 to 2010 were in stocks (25 percent), privately owned businesses (22 percent), and personal residences (19 percent).

Exhibit 4.

Total Value of Assets Held by Families, by Type of Asset, 2010

	Trillions of 2010 Dollars
Capital Assets	
Financial Assets	
Mutual funds	3.9
Bonds[a]	1.1
Stocks	3.6
Subtotal	8.6
Nonfinancial Assets	
Privately owned businesses	12.2
Real estate other than personal residences	8.5
Personal residences	20.6
Subtotal	41.3
Total	50.0
Other Types of Assets	
Financial Assets	
Transaction accounts[b]	3.5
Tax-preferred retirement accounts	10.1
Other[c]	3.9
Subtotal	17.5
Nonfinancial Assets[d]	2.9
Total	20.4

Source: Congressional Budget Office and the staff of the Joint Committee on Taxation, using data from the 2010 Survey of Consumer Finances.

The amounts shown are for the gross value of assets and are not reduced by costs associated with mortgages or other debts secured by those assets. Only the gains from the sale of capital assets are taxed at the capital gains rates.

a. Includes Treasury bills and notes but excludes Treasury savings bonds.

b. Includes checking accounts, savings accounts, money market deposit accounts, money market funds, and call and cash accounts at brokerages.

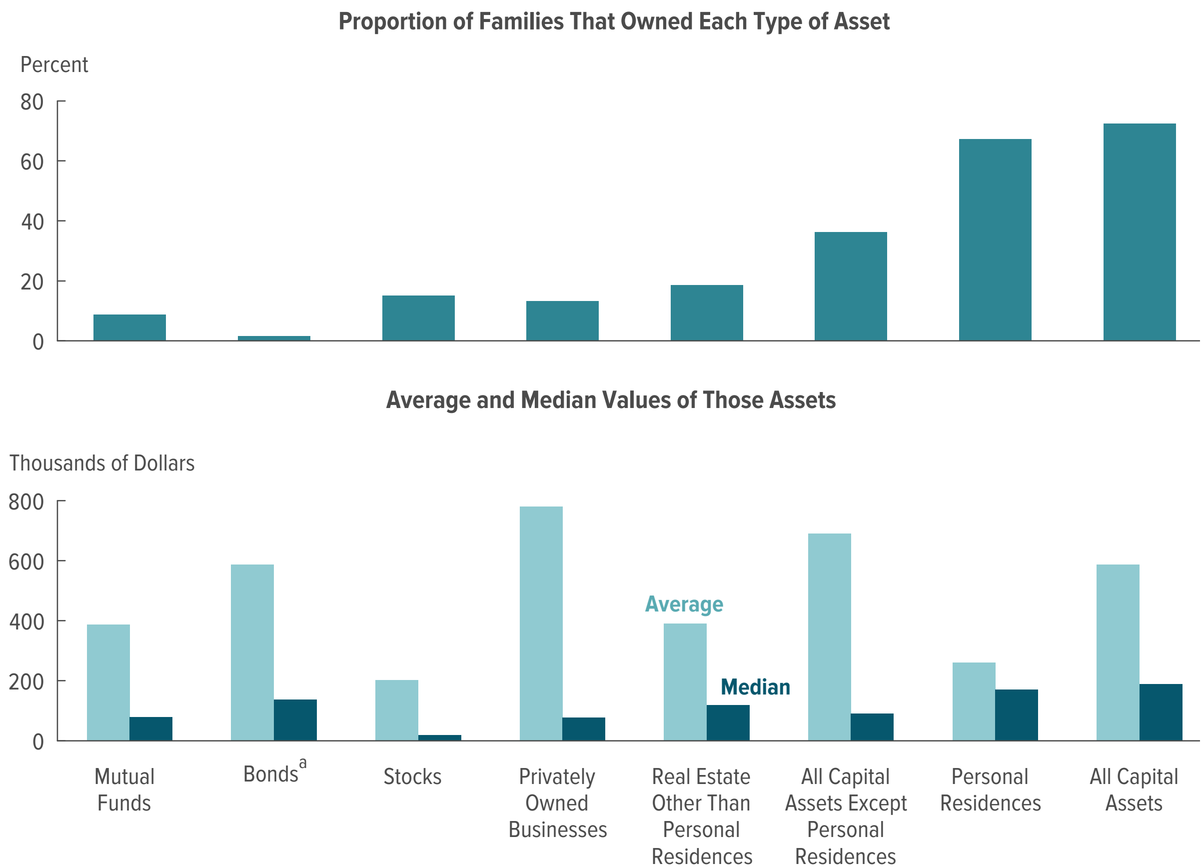
c. Includes personal loans, royalties, Treasury savings bonds, and deferred compensation.

d. Consists primarily of personal vehicles but also includes a variety of other items, such as antiques, jewelry, and collectibles.

In 2010, U.S. families owned property designated under the Internal Revenue Code as capital assets that had a gross worth of $50 trillion. Personal residences and privately owned businesses accounted for two-thirds of that total value. Families owned an additional $20 trillion in assets that either generated income that was subject to the same rates as other types of income (tax-preferred retirement accounts, for example) or that generated no income at all (such as checking accounts). ◆

Exhibit 5.

Proportion of Families That Owned Capital Assets and the Average and Median Values of Those Assets, by Type of Asset, 2010



Source: Congressional Budget Office and the staff of the Joint Committee on Taxation, using data from the 2010 Survey of Consumer Finances.

For the purposes of this report, capital assets do not include checking accounts, savings accounts, money market deposit accounts, money market funds, call or cash accounts at brokerages, tax-preferred retirement accounts, certain other financial assets, or nonfinancial assets (such as personal vehicles, antiques, jewelry, and collectibles).

a. Includes Treasury bills and notes but excludes Treasury savings bonds.

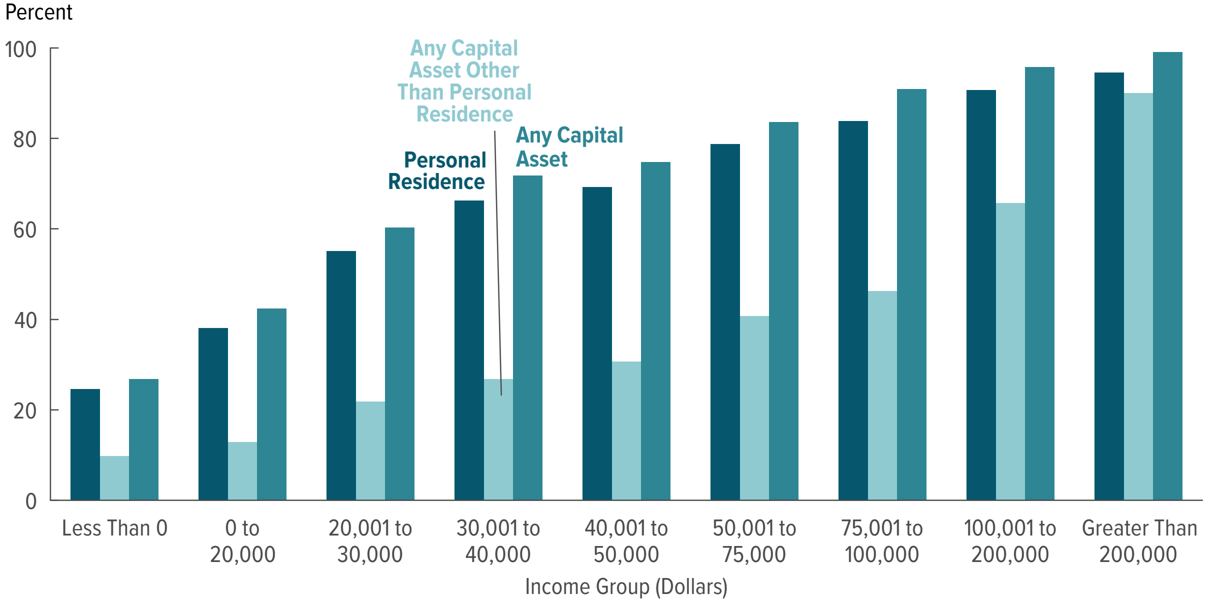
More than 70 percent of families held at least one type of capital asset in 2010. The most widely held type of asset was a personal residence: 67 percent of families owned their home. Only 36 percent of families owned an asset other than their personal residence.

The least widely held type of capital asset was corporate and government bonds, which were held by less than 2 percent of families.

For the families that owned capital assets, the average value of their asset portfolio was about $590,000. The median value, however, was only $190,000 because a relatively small number of families owned a large share of such assets. Of all types of capital assets, the gap between average and median values was largest for privately owned businesses and smallest for personal residences. ◆

Exhibit 6.

Proportion of Families That Owned Capital Assets, by Income Group and Type of Asset, 2010



Source: Congressional Budget Office and the staff of the Joint Committee on Taxation, using data from the 2010 Survey of Consumer Finances.

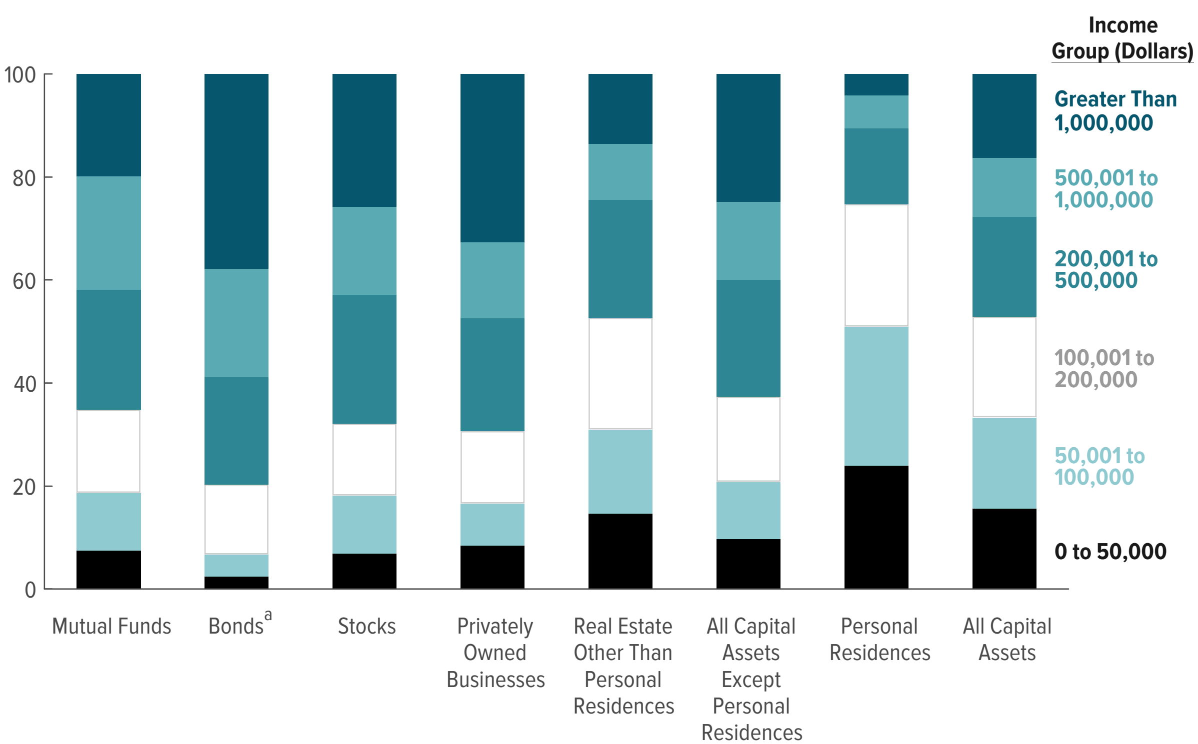
For the purposes of this report, capital assets do not include checking accounts, savings accounts, money market deposit accounts, money market funds, call or cash accounts at brokerages, tax-preferred retirement accounts, certain other financial assets, or nonfinancial assets (such as personal vehicles, antiques, jewelry, and collectibles).

Income includes wages and salaries; income from rental real estate, royalties, partnerships, and S corporations; business and farm net income; taxable and tax-exempt interest; dividends; net capital gains; other gains or losses; total distributions of pensions, individual retirement accounts, and annuities; total Social Security benefits; and unemployment compensation.

The proportion of families in a given income group that owned capital assets in 2010 was larger for higher-income groups than for those with lower income. That pattern was especially pronounced for nonresidential assets. Among families earning $20,000 or less, 38 percent owned a personal residence, but only 13 percent held other capital assets. In the highest-income group, nearly all families owned both a home and some other type of asset. ◆

Exhibit 7.

Distribution of Value of Capital Assets Among Income Groups, by Type of Asset, 2010



Source: Congressional Budget Office and the staff of the Joint Committee on Taxation, using data from the 2010 Survey of Consumer Finances.

For the purposes of this report, capital assets do not include checking accounts, savings accounts, money market deposit accounts, money market funds, call or cash accounts at brokerages, tax-preferred retirement accounts, certain other financial assets, or nonfinancial assets (such as personal vehicles, antiques, jewelry, and collectibles).

Income includes wages and salaries; income from rental real estate, royalties, partnerships, and S corporations; business and farm net income; taxable and tax-exempt interest; dividends; net capital gains; other gains or losses; total distributions of pensions, individual retirement accounts, and annuities; total Social Security benefits; and unemployment compensation.

a. Includes Treasury bills and notes but excludes Treasury savings bonds.

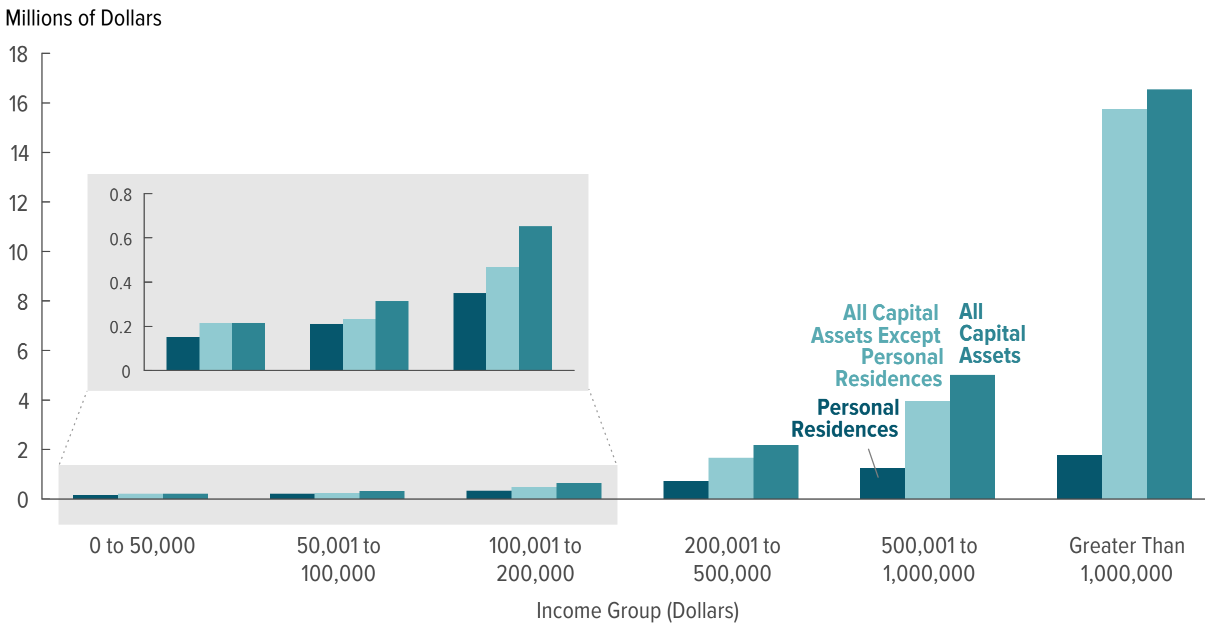
The total value of all capital assets was concentrated in families at the top of the income distribution in 2010. Families with more than $200,000 of income held 63 percent of the gross worth of nonresidential assets.

Personal residences were less concentrated. The residences of families whose income was more than $200,000 accounted for only one-quarter of the total value of homes.

All told, families with more than $200,000 of income—the top 5 percent of all families—held 47 percent of the gross worth of all capital assets, and families with more than $1 million in income—the top 0.4 percent of all families—owned 16 percent of the gross worth of all capital assets. ◆

Exhibit 8.

Average Value of Capital Asset Holdings, by Income Group, 2010



Source: Congressional Budget Office and the staff of the Joint Committee on Taxation, using data from the 2010 Survey of Consumer Finances.

Average values are based only on those families that reported holding assets.

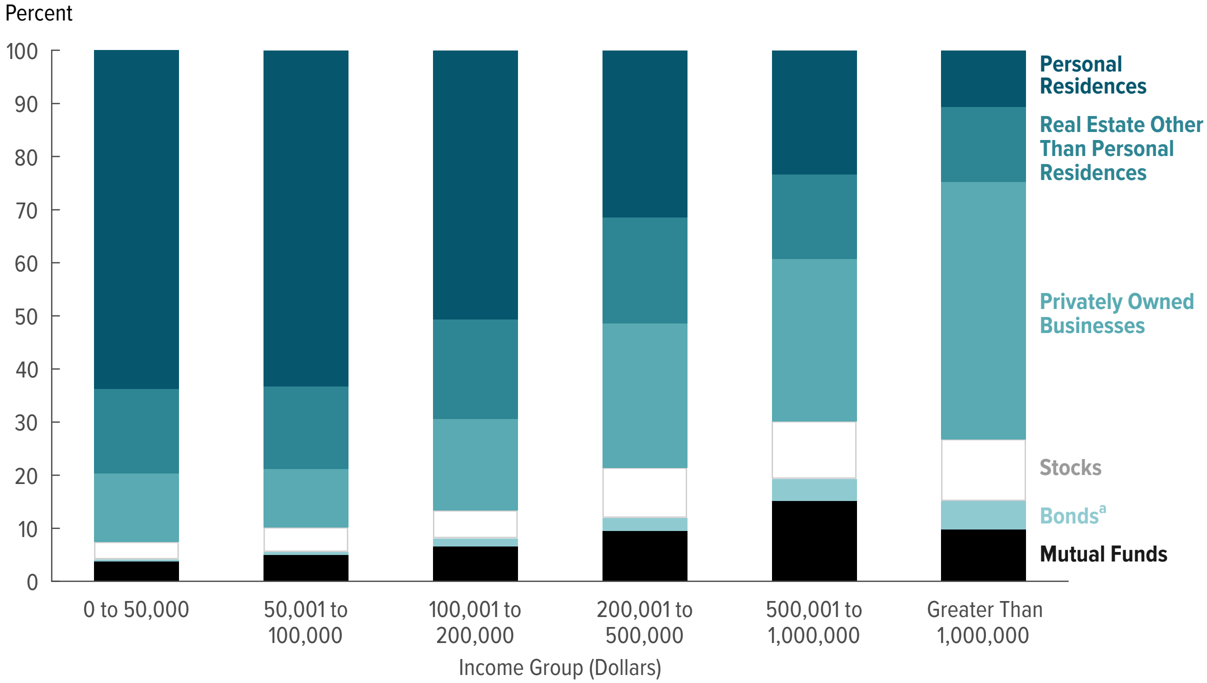
For the purposes of this report, capital assets do not include checking accounts, savings accounts, money market deposit accounts, money market funds, call or cash accounts at brokerages, tax-preferred retirement accounts, certain other financial assets, or nonfinancial assets (such as personal vehicles, antiques, jewelry, and collectibles).

Income includes wages and salaries; income from rental real estate, royalties, partnerships, and S corporations; business and farm net income; taxable and tax-exempt interest; dividends; net capital gains; other gains or losses; total distributions of pensions, individual retirement accounts, and annuities; total Social Security benefits; and unemployment compensation.

In 2010, the average value of the holdings of those families that owned capital assets was highest for families at the top of the income distribution. Families with more than $1 million of income held asset portfolios worth $16.5 million, on average. In contrast, families with income of $100,001 to $200,000 held assets worth $653,000, on average, and those with income of $50,000 or less held an average of about $216,000 in capital assets. ◆

Exhibit 9.

Composition of Capital Asset Holdings, by Income Group, 2010



Source: Congressional Budget Office and the staff of the Joint Committee on Taxation, using data from the 2010 Survey of Consumer Finances.

For the purposes of this report, capital assets do not include checking accounts, savings accounts, money market deposit accounts, money market funds, call or cash accounts at brokerages, tax-preferred retirement accounts, certain other financial assets, or nonfinancial assets (such as personal vehicles, antiques, jewelry, and collectibles).

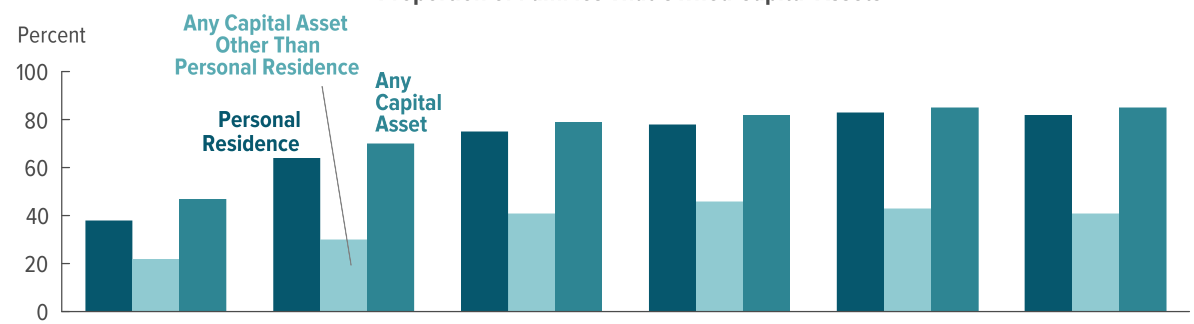
Income includes wages and salaries; income from rental real estate, royalties, partnerships, and S corporations; business and farm net income; taxable and tax-exempt interest; dividends; net capital gains; other gains or losses; total distributions of pensions, individual retirement accounts, and annuities; total Social Security benefits; and unemployment compensation.

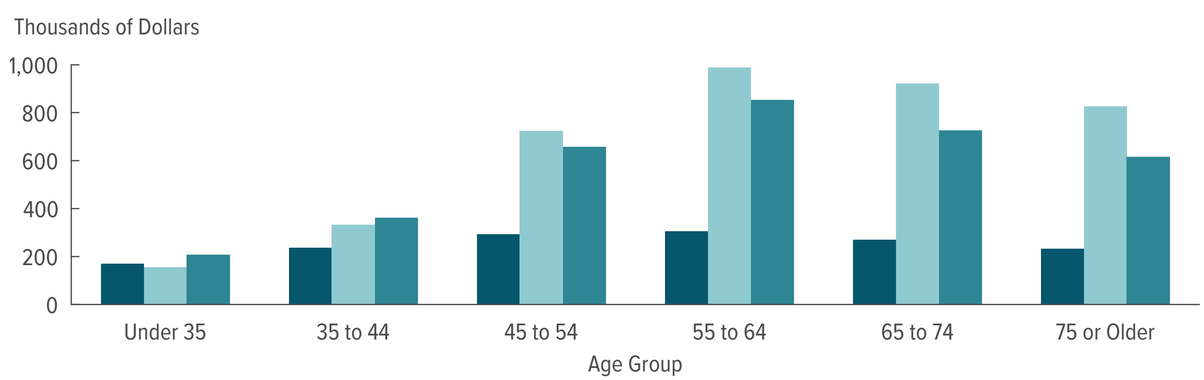
a. Includes Treasury bills and notes but excludes Treasury savings bonds.

In 2010, the composition of the capital asset holdings of families with income of $200,000 or less differed markedly from the composition of portfolios owned by higher-income families. For families whose income was less than or equal to $200,000, personal residences made up, on average, over half of the value of their capital assets, and privately owned businesses made up less than one-fifth of their portfolio. But for families with income greater than $200,000, the value of their residence accounted for about one-quarter of the total value of their portfolio, and privately owned businesses made up about one-third of the total value of their capital asset holdings. ◆

Exhibit 10.

Proportion of Families That Owned Capital Assets and the Average Value of Their Holdings, by Age Group, 2010





Source: Congressional Budget Office and the staff of the Joint Committee on Taxation, using data from the 2010 Survey of Consumer Finances.

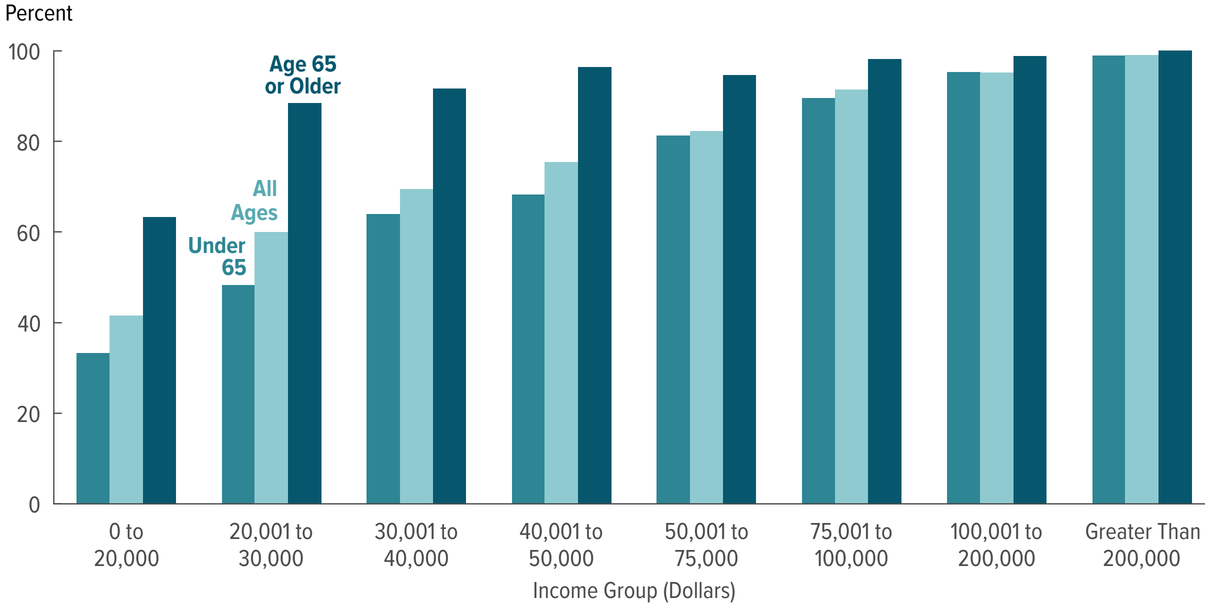
For the purposes of this report, capital assets do not include checking accounts, savings accounts, money market deposit accounts, money market funds, call or cash accounts at brokerages, tax-preferred retirement accounts, certain other financial assets, or nonfinancial assets (such as personal vehicles, antiques, jewelry, and collectibles).

The proportion of families in a given age group that owned capital assets in 2010 was greater for older groups, primarily because older families had higher rates of home ownership. Whereas only 38 percent of families headed by someone under age 35 owned a personal residence, more than 80 percent of families headed by someone 65 or older owned their home. The proportion of families that owned assets other than personal residences was also generally higher for older groups, though there was much less variation by age, particularly for families headed by someone age 45 or older. The rate of ownership of nonresidential assets was highest for the 55- to 64-year-old age group.

Averaging $850,000, the value of the capital asset holdings of families headed by someone between ages 55 and 64 was greater than the average worth of the portfolios of both younger and older families. The disparity among age groups of the average value of families' personal residence was much smaller than the disparity among those groups of the value of the rest of their capital asset portfolio combined. ◆

Exhibit 11.

Proportion of Families That Owned Capital Assets, by Income Group and Age Group, 2010



Source: Congressional Budget Office and the staff of the Joint Committee on Taxation, using data from the 2010 Survey of Consumer Finances.

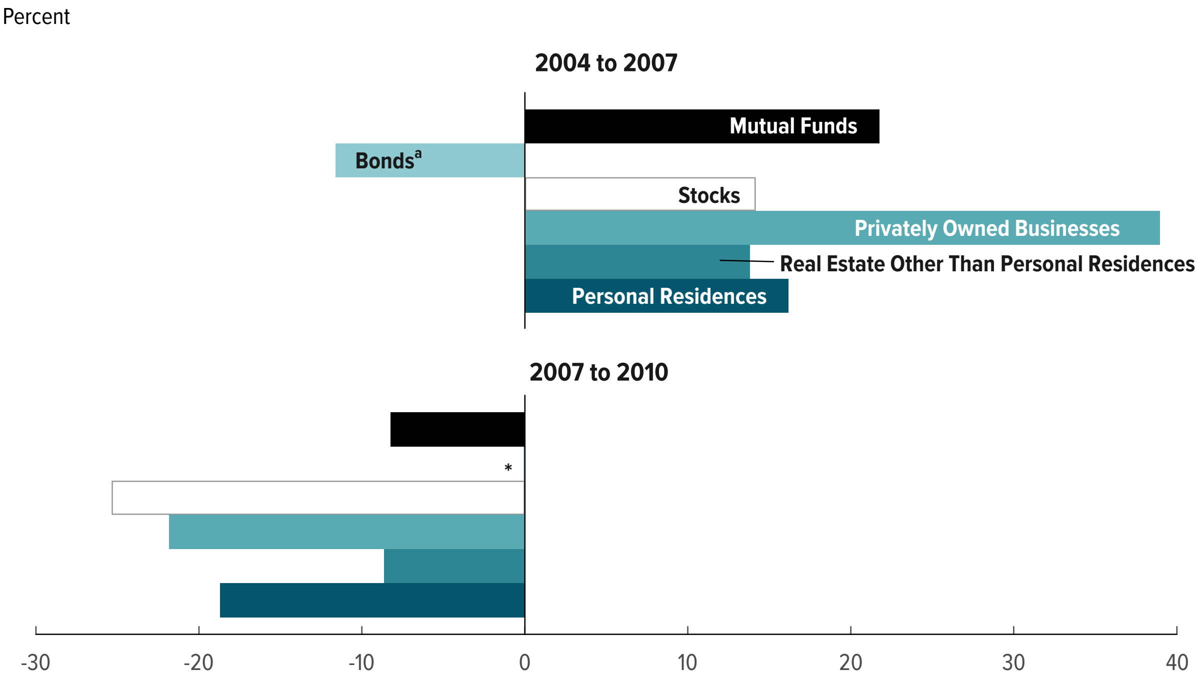
For the purposes of this report, capital assets do not include checking accounts, savings accounts, money market deposit accounts, money market funds, call or cash accounts at brokerages, tax-preferred retirement accounts, certain other financial assets, or nonfinancial assets (such as personal vehicles, antiques, jewelry, and collectibles).

Income includes wages and salaries; income from rental real estate, royalties, partnerships, and S corporations; business and farm net income; taxable and tax-exempt interest; dividends; net capital gains; other gains or losses; total distributions of pensions, individual retirement accounts, and annuities; total Social Security benefits; and unemployment compensation.

Among families earning less than $20,000 in 2010, only one-third of those headed by someone under age 65 owned capital assets, but nearly two-thirds of older families did. The gap in ownership rates among younger and older families was 40 percentage points for families with income between $20,001 and $30,000, but it gradually shrank as income rose. For those with income greater than $100,000, the difference was less than 4 percentage points. ◆

Exhibit 12.

Change in the Value of Capital Assets, by Type of Asset, 2004 to 2010



Source: Congressional Budget Office and the staff of the Joint Committee on Taxation, using data from the Survey of Consumer Finances from 2004, 2007, and 2010.

For the purposes of this report, capital assets do not include checking accounts, savings accounts, money market deposit accounts, money market funds, call or cash accounts at brokerages, tax-preferred retirement accounts, certain other financial assets, or nonfinancial assets (such as personal vehicles, antiques, jewelry, and collectibles).

Before calculating the percentage change in value, dollar amounts were adjusted to remove the effects of inflation using the price index for personal consumption expenditures.

* = between -0.1 percent and zero.

a. Includes Treasury bills and notes but excludes Treasury savings bonds.

The total real value of capital assets held by all families fluctuated over the 2004–2010 period as families purchased and sold assets and as the value of those assets changed. From 2004 to 2007, the value of all asset types other than bonds rose—especially the value of privately owned businesses. From 2007 to 2010—a period that included the 2007–2009 recession—the value of every category of assets fell. The largest declines were in the values of stocks, privately owned businesses, and personal residences. ◆

The Distribution of Capital Gains and Losses

In 2010, the net capital gains and net capital losses reported by all taxpayers on their returns amounted to a total net gain of $123 billion (see Exhibit 13).[9] (Unless otherwise indicated, analysis in this section includes only those gains and losses that result from the sale of capital assets held directly by taxpayers for over a year—that is, long-term gains and losses.) Although personal residences had the highest aggregate value of all capital assets and corporate stock had the second-lowest, in the ranking of the seven types of assets listed as sources of capital gains by the size of their contribution to that total net capital gain, corporate stock was first, accounting for over two-thirds of that total amount. Personal residences were second to last, accounting for less than 2 percent—in large part because taxpayers were not required to report a net gain from the sale of a personal residence that was at or below the exclusion level of $250,000 for a single filer or $500,000 for a married couple filing jointly.[10]

9. Whereas data on asset ownership in the previous section are from the Survey of Consumer Finances, which reports data for families, the following data on capital gains come from the Internal Revenue Service and are reported for taxpayers.

Put and call options and commodities contributed the smallest share of reported net capital gains, accounting for less than 1 percent of the total net gain.[11]

Sales of three types of capital assets—mutual funds, residential rental property, and business property—resulted in net losses (including those subject to the $3,000 loss limit) totaling $3 billion in 2010. Of those, mutual funds contributed the most to total net losses—$1.6 billion.

10. The state of the real estate market probably affects the share of net gains attributable to real estate sales. Following the collapse of the housing boom, there was a steep decline in housing prices, which caused the Federal Housing Finance Agency's house price index on purchases to fall by 47 percentage points from the first quarter of 2007 to the second quarter of 2011. The share of total net capital gains from the sale of personal residences was about 2 percentage points higher in 2007 than in 2010.

11. Put and call options are options on securities. A put option is the right to sell a stated number of shares to the potential purchaser at a specified price at any time up to a specified future date, and a call option is the right to buy a stated number of shares from the potential seller at a specified price at any time up to a specified future date.

The length of time that capital assets are held before being sold varies greatly by type. Some assets, such as land (including farmland), were held for more than a decade, on average, before they were sold (see Exhibit 14). Other forms of real estate, such as residential rental property, were held for shorter periods, on average, and financial assets, such as corporate stock and bonds, were held for even fewer years, on average.

Certain categories of gains and losses are excluded from most of the exhibits. Gains and losses from sales of capital assets owned by partnerships, S corporations, or mutual funds and from sales of capital assets managed by fiduciaries (as in the case of estates and trusts) are omitted from the exhibits unless otherwise indicated, even though taxpayers indirectly hold those assets as owners of shares of the businesses or as beneficiaries of the estates and trusts. For example, although capital gains from the sale of a taxpayer's interest in a partnership are included in the exhibits, capital gains realized when that partnership sells assets are omitted from most of them. Unless otherwise noted, losses carried over from previous years are also omitted, because including them would make it impossible to distinguish taxpayer losses in one year from those incurred in previous years.

Distribution of Capital Gains and Losses by Type of Asset

The proportion of all taxpayers who reported net capital gains or net capital losses from the sale of each type of capital asset varied widely. In general, the average value of net gains and net losses for each type of asset was substantially larger than the median value, indicating that sizable capital gains were concentrated among a relatively small number of families.

Because a sizable portion of net capital gains from the sale of a personal residence is exempt from taxation, less than 0.1 percent of returns reported any gains from such sales in 2010—despite the fact that personal residences were the most widely held capital asset that year (see Exhibit 15). Even though taxpayers are required to report only the portion of the net gain from the sale of their home that exceeded the exclusion amount, the average reported net gain from the sale of a personal residence was nevertheless the third largest among assets sold—about $51,000. The median reported net gain from a home sale was less than $4,000 (see Exhibit 16).

Reported net gains were thus primarily from sales of nonresidential capital assets. The most commonly reported net gains were those from the sale of corporate stock: About 5 percent of tax returns in 2010 reported such gains. The average net gain from stock was nearly $29,000, and the median net gain was $2,300. The largest average net gain was for a category of asset that fewer than 1 percent of tax returns reported gains on—partnerships, S corporations, estates, and trusts.[12] Those gains averaged just over $60,000, and their median value was about $2,300, about the same as the median value of net gains from stock.

Regarding the distribution of net capital losses among the different types of capital assets, the most notable feature is that the size of losses differed substantially between real estate and financial assets. The largest net capital losses in 2010—in terms of both average and median values—were associated with the sale of certain types of real estate and business property.[13] Net losses from residential rental property averaged about $66,000; net losses from business property, about $58,000; and net losses from land (including farmland, livestock, and timber), about $35,000. The smallest net losses—both average and median—came from transactions involving financial assets. The average net loss from bonds was about $6,500; from mutual funds, about $7,200; and from corporate stock, about $14,000. Median net losses were smaller than average net losses for each of those six assets—often substantially so.

Distribution of Capital Gains and Losses by Taxpayers' Income

The share of taxpayers who reported capital gains or losses generally increased with income, regardless of whether gains and losses are measured on a net or gross basis, the scope of gains and losses is broadened, or a different measure of income is used. Similarly, the average value of gains and losses also rose with income.

Distribution of Net Capital Gains and Net Capital Losses by Income

The proportion of taxpayers who reported net gains in 2010 was larger for higher-income groups (see Exhibit 17). It ranged from 2 percent for the group with the lowest income (income equal to or less than $50,000) to 46 percent for the group with the highest income (income above $1 million). The average net gain was also greater for higher-income taxpayers, ranging from $4,400 for taxpayers in the lowest-income group to $768,000 for taxpayers in the highest-income group.

Similarly, the proportion of taxpayers who reported net losses was larger, and the average size of those net losses was greater, for higher-income taxpayers, although the pattern is less pronounced than it is with net gains: 2 percent of taxpayers in the lowest-income group reported net losses, and 24 percent of taxpayers in the highest-income group did so. For the lowest-income group, the average net loss was $9,900, and for the highest-income group, it was $169,000.

Just as the proportion of taxpayers who realized net gains and the size of the average net gains were greater for the higher-income groups, the share of total income derived from net capital gains was greater for higher-income taxpayers. For taxpayers with income of $200,000 or less, net capital gains accounted for no more than 1 percent of income. The share of income from net capital gains was

12. Data on capital gains and losses from partnerships, S corporations, estates, and trusts are grouped together in the IRS sample of tax returns and cannot be easily disaggregated into the four components.

13. Losses from the sale of personal residences are not included because they are not deductible.

3 percent for taxpayers with income between $200,000 and $500,000, 5 percent for taxpayers with income between $500,000 and $1 million, and 11 percent for taxpayers with income greater than $1 million.

Distribution of Gross Capital Gains and Gross Capital Losses by Income

The distribution of *gross* gains (that is, the amount of gains before losses are deducted) among income groups varied by capital asset type. In 2010, taxpayers with more than $1 million of income received about 70 percent of the total value of gross gains from sales of interests in partnerships, S corporations, estates, and trusts as well as over half of the gains from corporate stocks and bonds. They received less than 30 percent of the gross gains from mutual funds and real estate (see Exhibit 18). The share of total gross losses reported by taxpayers with income below $500,000 was larger than the share of total gross gains that they reported. Taxpayers whose income was $200,000 or less incurred 36 percent of total gross losses but received only one-fifth of gross gains in 2010 (see Exhibit 19).

Distribution by Income Using a Broader Measure of Capital Gains

This report has generally focused on the losses incurred and gains realized by taxpayers in the same year that assets are sold. Taxpayers are, however, allowed to carry forward net losses to a future year. Those carryover losses, together with new losses, can be used to offset gains from current-year sales; the remaining losses—up to $3,000—can be used to reduce income from other sources.

Moreover, throughout this report the definition of capital gains and losses has generally been limited to the amount of reported gains from the sale of assets that were under the direct control of the taxpayer. However, the total amount of gains and losses reported by taxpayers on their returns also includes those from the sales of assets that are held by entities in which the taxpayer owned a share (such as partnerships and S corporations) or was a beneficiary (including estates and trusts). Those types of entities pass on income (including gains and losses) to the shareholders and beneficiaries, who are responsible for paying the taxes owed on that income.

Expanding the definitions of gains and losses to include carryover losses from previous years and realizations from indirectly held capital assets has the overall effect of increasing the proportion of income in a given year that is attributable to net gains; the additional realizations more than offset the negative effect of the carryover losses. The increase is particularly large for taxpayers with income greater than $1 million: Under the broader definition of net gains and losses, nearly a quarter of their income came from net capital gains in 2010—an increase of 13 percentage points from the share calculated on the basis of the definition of net gains used throughout most of this report (see Exhibit 20). Among those taxpayers with very high income, the proportion reporting net losses increases from nearly 25 percent to more than 40 percent when carryover losses and indirectly held assets are included.

Distribution by Market Income Across the Entire Population

In an earlier study, CBO examined the distribution of market income (that is, the sum of labor income, business income, net capital gains, other capital income, income received in retirement for past services, and certain other sources of income) across the entire population in 2010—including households that did not file a tax return (see Exhibit 21).[14] The share of a household's market income that came from net capital gains, including both short-term and long-term gains, was greater for higher-income households. That share was close to zero for households in the bottom 80 percentiles of the income distribution, about 1 percent for households

14. See Congressional Budget Office, *The Distribution of Household Income and Federal Taxes, 2010* (December 2013), www.cbo.gov/publication/44604. In that report, *household* was defined to include all people who share a housing unit, regardless of their relationship to one another. In the calculation of market income, net capital gains include both short-term and long-term gains but only the first $3,000 of net losses, and labor income includes several sources that are not included in the measure of income used elsewhere in this section: amounts allocated by employees to 401(k) plans, employment-based health insurance premiums; the employer's share of Social Security, Medicare, and federal unemployment insurance payroll taxes; and the share of corporate income taxes borne by workers. Market income does not include government transfer payments, such as Social Security payments; the taxable portion of such payments is included in the income measure used throughout the rest of this section.

in the 81st to 95th percentiles, 2 percent for households in the 96th to 99th percentiles, and nearly 20 percent for households in the top 1 percent.[15]

Distribution of Capital Gains and Losses by Age

A larger proportion of older taxpayers than younger taxpayers realized net gains and incurred net losses in 2010. Nearly 12 percent of taxpayers who were 75 or older reported a net capital gain, but fewer than 2 percent of taxpayers younger than 35 did so (see Exhibit 22).[16] Similarly, among taxpayers who realized net capital gains, the share of total income that came from those gains was greater for older groups. For taxpayers under age 35, less than 1 percent of income was attributable to capital gains, whereas for those 75 or older, 6 percent of their income came from capital gains. However, the average amount of net capital gains reported was greatest not for the oldest taxpayers but for those between 55 and 64 years old; the largest average net losses were incurred by taxpayers between the ages of 65 and 74, but the average amount of net losses for all taxpayers age 45 and over was nearly as large.

Changes in Reported Capital Gains Over Time

Over time, the size of reported net capital gains has risen. In 1993, 1999, and 2010, over 90 percent of taxpayers who reported net gains recorded less than $50,000 in gains (see Exhibit 23). However, in terms of dollar amounts, the share of total reported net gains that was attributable to net gains under $50,000 (measured in 1993 dollars) shrank from 1993 to 2010: Such gains accounted for more than one-third of total net gains in 1993, about one-fifth of the total in 1999, and one-ninth of the total in 2010. Conversely, the share of total reported net capital gains that was attributable to net gains of greater than $10 million grew over the period from about one-tenth of all such gains in 1993 to more than one-fifth in 1999 and to almost one-third in 2010.

Most taxpayers did not sell more than two capital assets in 1999 or 2010. A small number, however, engaged in many more transactions during those years, and that number rose over time. In both 1999 and 2010, about 60 percent of returns with net capital gains or losses reported only one or two sales (see Exhibit 24). Those realizations tended to be relatively small—the average of the net gains and losses reported by those with just one transaction was less than $7,000 in 1999 and fell to about $3,000 in 2010, and the median of those net gains and losses was less than $200 in 1999 and was zero in 2010. In contrast, the number of returns with more than 250 sales increased from 4,000 in 1999 to 40,000 in 2010. The average of the net gains and losses on those returns, however, fell, from $819,000 in 1999 to $272,000 in 2010; the median value increased over those years from a net loss of about $18,000 to a net gain of about $10,000.

15. Income groups were defined by ranking households by market income, which was adjusted for household size to account for the economies of scale attained by larger households. Percentiles (hundredths) contain approximately equal numbers of people but different numbers of households. If a household had negative income (that is, if its business or investment losses were larger than its other income), it is excluded from the lowest-income group.

16. For married couples filing jointly, the taxpayer's age refers to that of the spouse whose name appears first on the tax return.

Exhibit 13.

Total Net Capital Gains and Net Capital Losses, by Type of Asset, 2010

	Billions of Dollars	Percentage of Total
Financial Assets		
Mutual funds	-1.6	-1.3
Bonds[a]	3.4	2.7
Corporate stocks	83.3	67.9
Put and call options and commodities	0.7	0.5
Nonfinancial Assets		
Partnerships, S corporations, estates, and trusts	14.6	11.9
Land, including farmland, livestock, and timber	5.1	4.1
Business property	-0.4	-0.3
Residential rental property	-1.0	-0.8
Personal residences	1.8	1.5
Other	16.8	13.7
Total	122.6	100

Source: Congressional Budget Office and the staff of the Joint Committee on Taxation, using data from the 2010 Sale of Capital Assets Cross Section compiled by the Statistics of Income Division of the Internal Revenue Service.

The total net capital gain for each type of asset is the sum of all taxpayers' long-term gains and losses from sales of that type of asset; a negative amount indicates a total net capital loss. Only gains and losses that resulted from sales of assets directly owned by taxpayers are included.

Net losses are reported in full, although under current law a taxpayer may deduct only up to $3,000 of those losses from ordinary income and may carry over losses exceeding that amount to a future year. Losses carried over from previous years are omitted from the exhibit.

a. Includes Treasury notes but excludes Treasury savings bonds.

In 2010, 68 percent of the total value of all net capital gains and net capital losses reported on tax returns came from sales of corporate stock. Six of the other categories of capital assets each yielded net gains that were less than 14 percent of the total. Sales of each of the remaining three types of assets—mutual funds, residential rental property and business property—resulted in net losses. ◆

Exhibit 14.

Average Number of Years Long-Term Capital Assets Were Held Before Being Sold, by Type of Asset, 2010

Financial Assets	
Mutual funds	3.0
Bonds	
Federal obligations[a]	3.0
State and local obligations	4.9
Other bonds, notes, and debentures	3.3
Corporate stocks	3.4
Put and call options and commodities	2.4
Nonfinancial Assets	
Partnerships, S corporations, estates, and trusts	3.1
Farmland	20.0
Land other than farmland	10.9
Livestock	6.0
Timber	7.8
Business property	8.1
Residential rental property	7.7
Personal residences[b]	n.a.
Residences other than personal residences	7.1
Other	3.4
All Capital Assets	3.3

Source: Congressional Budget Office and the staff of the Joint Committee on Taxation (JCT), using data from the 2010 Sale of Capital Assets Cross Section compiled by the Statistics of Income Division of the Internal Revenue Service.

Long-term assets are those held for at least one year. Indirectly held assets are omitted.

n.a. = not applicable.

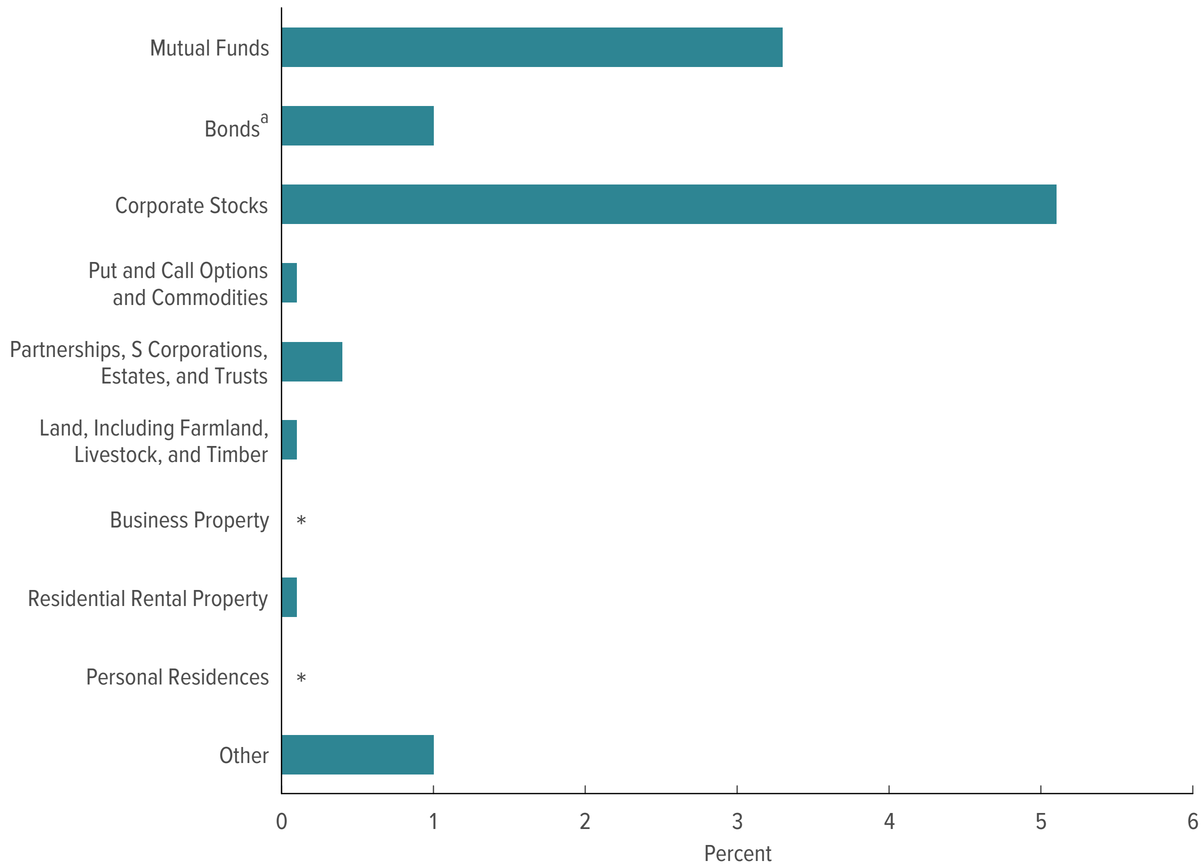
a. Includes Treasury bonds (other than savings bonds), Treasury notes, and bonds issued by other federal agencies.

b. Data on the length of time personal residences were held were unavailable for cases in which the net gain from the sale of a home was below the tax exemption thresholds ($250,000 for single taxpayers and $500,000 for married couples filing joint tax returns). Because of that limitation in the data set, CBO and JCT chose not to report the average number of years personal residences were owned.

The length of time that capital assets are held before being sold varies greatly by type. In 2010, taxpayers generally held financial assets, such as bonds or put and call options, for shorter periods than land. For example, federal bonds sold in 2010 had been held for an average of three years, whereas farmland sold that year had been held for an average of 20 years. ◆

Exhibit 15.

Proportion of Tax Returns With Net Capital Gains or Net Capital Losses, by Type of Asset, 2010



Source: Congressional Budget Office and the staff of the Joint Committee on Taxation, using data from the 2010 Sale of Capital Assets Cross Section compiled by the Statistics of Income Division of the Internal Revenue Service.

Net capital gains for each type of asset are the difference between a taxpayer's long-term gains and losses from sales of that type of asset; a net capital loss occurs when that difference is negative. The figure reflects only those net gains and net losses that resulted from sales of assets directly owned by taxpayers.

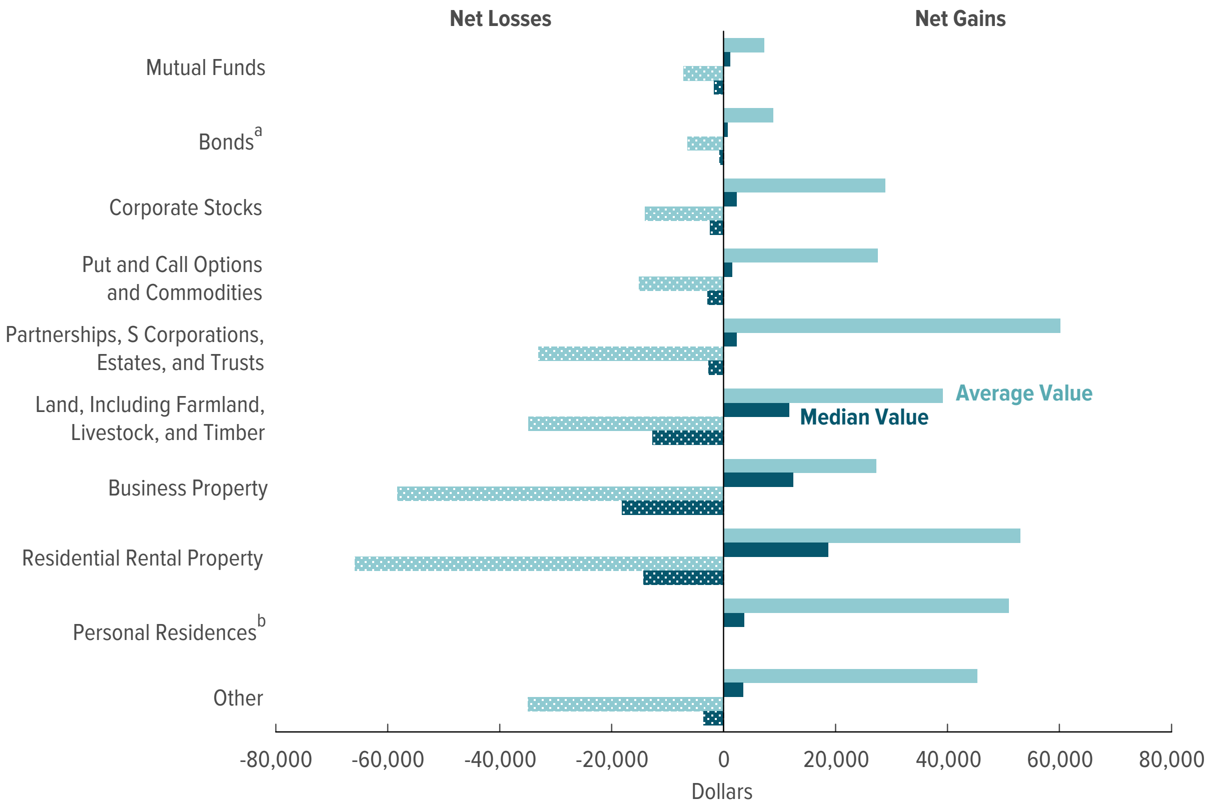
* = less than 0.05 percent.

a. Includes Treasury notes but excludes Treasury savings bonds.

In 2010, sales of stocks and mutual funds were the most common types of transactions reported on tax returns—reported on 5 percent and 3 percent of returns, respectively. Sales of each of the other types of capital assets were recorded on 1 percent of returns or fewer. The proportion of taxpayers who realized gains from sales of personal residences is understated because only gains that exceeded a specified threshold ($250,000 for single taxpayers and $500,000 for married couples filing jointly) had to be reported.

Exhibit 16.

Average and Median Values of Net Capital Gains and of Net Capital Losses, by Type of Asset, 2010



Source: Congressional Budget Office and the staff of the Joint Committee on Taxation (JCT), using data from the 2010 Sale of Capital Assets Cross Section compiled by the Statistics of Income Division of the Internal Revenue Service.

Net capital gains for each type of asset are the difference between a taxpayer's long-term gains and losses from sales of that type of asset; a net capital loss occurs when that difference is negative. The figure reflects only those net gains and net losses that resulted from sales of assets directly owned by taxpayers.

Average and median values of net gains are based only on tax returns reporting net gains; average and median values of net losses are based only on tax returns reporting net losses.

Net losses are reported in full, although under current law a taxpayer may deduct only up to $3,000 of those losses from ordinary income and may carry over losses exceeding that amount to a future year. Losses carried over from previous years are omitted from the exhibit.

a. Includes Treasury notes but excludes Treasury savings bonds.

b. Losses on the sale of personal residences are not deductible; however, a small number of taxpayers reported such losses on their tax returns. Because of that limitation in the data set, CBO and JCT chose not to report losses from sales of personal residences.

In 2010, sales of partnerships, S corporations, estates, and trusts led to the largest net capital gains for taxpayers reporting net gains—just over $60,000, on average. Sales of residential rental property resulted in the largest net capital losses for taxpayers reporting net losses—about $66,000, on average. For taxpayers who reported net gains from the sale of residential rental property, those net gains averaged $53,000. In each capital asset category, the median values for net gains and for net losses were smaller than their corresponding average values, indicating that the net gains and net losses reported by a relatively small proportion of taxpayers accounted for large portions of the total amounts of net gains and net losses. ◆

Exhibit 17.

Net Capital Gains and Net Capital Losses, by Income Group, 2010

	Net Gains			Net Losses	
Income Group (Dollars)	Share of Group's Returns With Net Gains (Percent)	Average Amount[a] (Dollars)	Share of Total Income (Percent)	Share of Group's Returns With Net Losses (Percent)	Average Amount[b] (Dollars)
0 to 50,000	2	4,400	*	2	-9,900
50,001 to 100,000	5	7,400	1	5	-9,900
100,001 to 200,000	11	12,500	1	10	-10,300
200,001 to 500,000	23	32,000	3	17	-20,300
500,001 to 1,000,000	35	91,200	5	23	-38,600
Greater Than 1,000,000	46	767,800	11	24	-168,600
All Income Groups	4	31,500	2	4	-14,400

Source: Congressional Budget Office and the staff of the Joint Committee on Taxation, using the individual income tax return statistics for 2010 compiled by the Statistics of Income Division of the Internal Revenue Service.

Net capital gains are the difference between a taxpayer's long-term gains and losses; a net capital loss occurs when that difference is negative. The data in the table reflect only those net gains and net losses that resulted from sales of assets directly owned by taxpayers.

Net losses are reported in full, although under current law a taxpayer may deduct only up to $3,000 of those losses from ordinary income and may carry over losses exceeding that amount to a future year. Losses carried over from previous years are omitted from the exhibit.

Income includes wages and salaries; income from rental real estate, royalties, partnerships, S corporations, estates, and trusts; business and farm net income; taxable and tax-exempt interest; dividends; net capital gains; other gains or losses; taxable distributions of pensions, individual retirement accounts, and annuities; taxable Social Security benefits; and unemployment compensation.

Taxpayers who reported negative income are excluded from the lowest-income group but are included in the calculations for all income groups.

* = less than 0.5 percent.

a. Based only on tax returns reporting net gains.

b. Based only on tax returns reporting net losses.

Only about 4 percent of all taxpayers reported net capital gains in 2010, but nearly half of taxpayers whose income was greater than $1 million reported gains. Those gains accounted for 11 percent of the income of taxpayers in that group. Net losses were also most prevalent among those in the highest-income category, but the proportion of taxpayers in that group reporting net losses was about half the size of the share reporting net gains. Both average net gains and average net losses were greatest for taxpayers in the highest-income group. ◆

Exhibit 18.

Distribution of Gross Capital Gains, by Income Group and Type of Asset, 2010

Percent

	Income Group (Dollars)					
	Zero to 50,000	50,001 to 100,000	100,001 to 200,000	200,001 to 500,000	500,001 to 1,000,000	Greater Than 1,000,000
Financial Assets						
Mutual funds	11	13	18	22	9	26
Bonds[a]	3	5	11	17	11	51
Corporate stocks	4	6	10	16	10	53
Put and call options and commodities	3	9	6	12	8	57
Nonfinancial Assets						
Partnerships, S corporations, estates, and trusts	1	4	3	10	8	70
Land, including farmland, livestock, and timber	8	17	30	16	10	16
Business property	23	18	16	14	6	19
Residential rental property	7	11	22	26	11	20
Personal residences	1	5	12	18	17	29
Other	3	5	9	13	29	39
All Capital Assets	4	6	10	15	13	49
Memorandum:						
Percentage of All Taxpayers in Income Group	64	21	10	3	*	*

Source: Congressional Budget Office and the staff of the Joint Committee on Taxation, using data from the 2010 Sale of Capital Assets Cross Section compiled by the Statistics of Income Division of the Internal Revenue Service.

Gross capital gains for each type of asset are the sum of all taxpayers' long-term gains before losses from sales of that type of asset. The data in the table reflect only those gains that resulted from sales of assets directly owned by taxpayers.

Income includes wages and salaries; income from rental real estate, royalties, partnerships, S corporations, estates, and trusts; business and farm net income; taxable and tax-exempt interest; dividends; net capital gains; other gains or losses; taxable distributions of pensions, individual retirement accounts, and annuities; taxable Social Security benefits; and unemployment compensation.

Taxpayers who reported negative income are excluded from the lowest-income group but are included in the calculations of the shares of total capital gains realized from each type of asset and of the percentage of all taxpayers in each income group.

* = less than 0.5 percent.

a. Includes Treasury notes but excludes Treasury savings bonds.

In 2010, taxpayers with income above $1 million realized nearly half of all reported gross capital gains. For certain categories of capital assets, however, they accounted for significantly greater shares of the total gross gains. For example, they realized 70 percent of total gross gains from partnerships, S corporations, estates, and trusts as well as over half of the gross gains from corporate stocks and bonds. In contrast, taxpayers with income of $100,000 or less accounted for only 11 percent of all reported gross capital gains but for 41 percent of gross gains from the sale of business property. ◆

Exhibit 19.

Distribution of Gross Capital Losses, by Income Group and Type of Asset, 2010

Percent

	Income Group (Dollars)					
	Zero to 50,000	50,001 to 100,000	100,001 to 200,000	200,001 to 500,000	500,001 to 1,000,000	Greater Than 1,000,000
Financial Assets						
Mutual funds	17	19	21	19	8	13
Bonds[a]	8	9	17	20	12	30
Corporate stocks	13	14	16	19	12	22
Put and call options and commodities	5	8	17	25	7	25
Nonfinancial Assets						
Partnerships, S corporations, estates, and trusts	7	8	7	16	13	34
Land, including farmland, livestock, and timber	31	30	5	11	4	7
Business property	31	29	9	8	5	8
Residential rental property	27	21	11	19	3	7
Personal residences[b]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other	9	9	12	13	38	14
All Capital Assets	9	13	14	16	18	14
Memorandum:						
Percentage of All Taxpayers in Income Group	64	21	10	3	*	*

Source: Congressional Budget Office and the staff of the Joint Committee on Taxation (JCT), using data from the 2010 Sale of Capital Assets Cross Section compiled by the Statistics of Income Division of the Internal Revenue Service.

Gross capital losses for each type of asset are the sum of all taxpayers' long-term losses from sales of that type of asset. The data in the table reflect only those losses that resulted from sales of assets directly owned by taxpayers.

Losses are reported in full, although under current law a taxpayer may deduct only up to $3,000 of those losses from ordinary income and may carry over losses exceeding that amount to a future year. Losses carried over from previous years are omitted from the exhibit.

Income includes wages and salaries; income from rental real estate, royalties, partnerships, S corporations, estates, and trusts; business and farm net income; taxable and tax-exempt interest; dividends; net capital gains; other gains or losses; taxable distributions of pensions, individual retirement accounts, and annuities; taxable Social Security benefits; and unemployment compensation.

Taxpayers who reported negative income are excluded from the lowest-income group but are included in the calculations of the shares of total capital losses incurred from each type of asset and of the percentage of all taxpayers in each income group.

n.a. = not applicable; * = less than 0.5 percent.

a. Includes Treasury notes but excludes Treasury savings bonds.

b. Losses on the sale of personal residences are not deductible; however, a small number of taxpayers reported such losses on their tax returns. Because of that limitation in the data set, CBO and JCT chose not to report losses from sales of personal residences.

Overall, taxpayers with income of $200,000 or less incurred 36 percent of total gross capital losses in 2010. A large portion of the gross losses from some types of capital assets were incurred by income groups at one end of the spectrum. For example, taxpayers with income of $100,000 or less incurred about 15 percent of the total gross losses from the sale of partnerships, S corporations, estates, and trusts, whereas taxpayers with income greater than $1 million incurred about one-third of such losses. Conversely, taxpayers with income of $100,000 or less incurred about 60 percent of gross losses from business property and from land, including farmland, livestock, and timber, whereas taxpayers with income greater than $1 million incurred less than one-tenth of such losses. ◆

Exhibit 20.

Net Capital Gains and Net Capital Losses, Including Carryover Losses and Gains and Losses From Indirectly Held Assets, by Income Group, 2010

	Net Gains			Net Losses	
Income Group (Dollars)	Share of Group's Returns With Net Gains (Percent)	Average Amount[a] (Dollars)	Share of Total Income (Percent)	Share of Group's Returns With Net Losses (Percent)	Average Amount[b] (Dollars)
0 to 50,000	2	4,500	*	4	-24,600
50,001 to 100,000	6	8,300	1	9	-26,700
100,001 to 200,000	11	15,700	1	18	-32,100
200,001 to 500,000	23	47,800	4	33	-61,200
500,001 to 1,000,000	33	152,100	8	43	-124,200
Greater Than 1,000,000	45	1,782,400	24	43	-412,000
All Income Groups	5	56,800	5	8	-39,100

Source: Congressional Budget Office and the staff of the Joint Committee on Taxation, using the individual income tax return statistics for 2010 compiled by the Statistics of Income Division of the Internal Revenue Service.

Net capital gains are the difference between a taxpayer's long-term gains and losses; a net capital loss occurs when that difference is negative.

Net losses are reported in full, although under current law a taxpayer may deduct only up to $3,000 of those losses from ordinary income and may carry over losses exceeding that amount to a future year.

In this exhibit, losses carried over from previous years are included; gains and losses that resulted from sales of assets indirectly held by taxpayers through their shares of entities such as partnerships, S corporations, estates, and trusts are also included.

Income includes wages and salaries; income from rental real estate, royalties, partnerships, S corporations, estates, and trusts; business and farm net income; taxable and tax-exempt interest; dividends; net capital gains; other gains or losses; taxable distributions of pensions, individual retirement accounts, and annuities; taxable Social Security benefits; and unemployment compensation.

* = less than 0.5 percent.

a. Based only on tax returns reporting net gains.

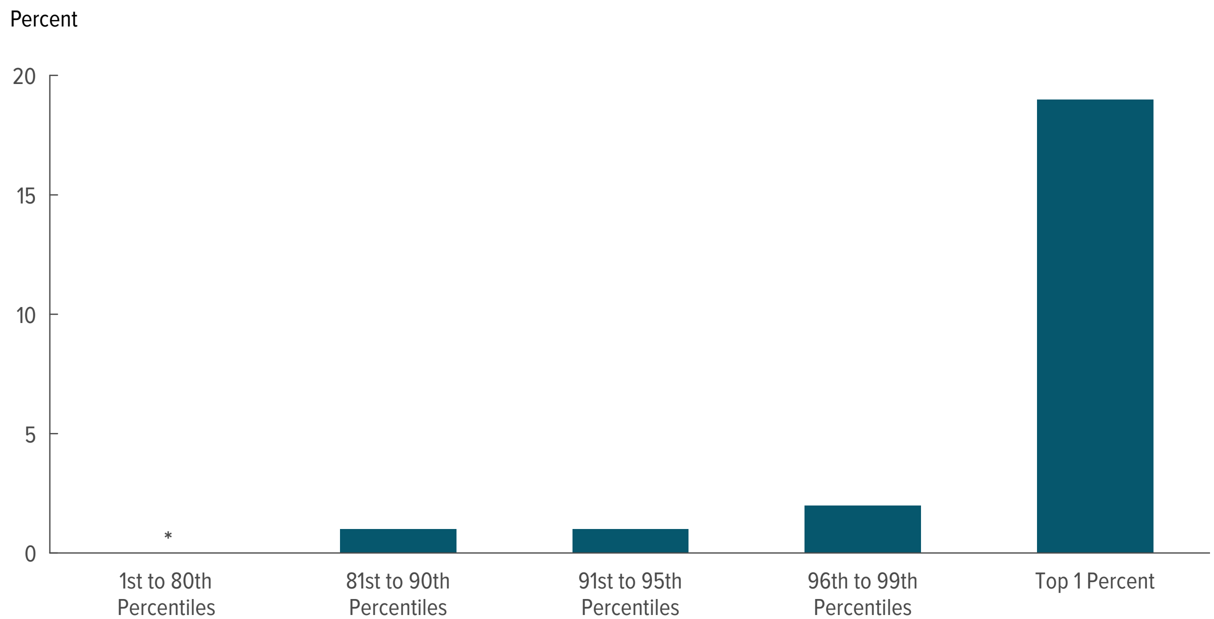
b. Based only on tax returns reporting net losses.

Another way to measure capital gains and losses is to include carryover losses and the gains and losses from the sale of indirectly held assets. Carryover losses are losses incurred in a prior year. Those past losses, together with new losses, can be used to offset gains from current-year sales; the remaining losses—up to $3,000—can be used to reduce income from other sources. In addition, taxpayers report on their tax returns the gains from the sale of assets held by entities in which they own a share (such as partnerships and S corporations) or are beneficiaries (including estates and trusts). Those types of entities pass on income (including gains and losses) to the shareholders and beneficiaries, who are responsible for paying the taxes owed on that income.

With those amounts included, the average net capital gains for taxpayers in the highest-income group who reported net gains were more than twice the gains shown in Exhibit 17, and the share of the group's income that was attributable to such gains rose from 11 percent to 24 percent. The average loss for taxpayers in that group who reported losses also more than doubled. ◆

Exhibit 21.

Net Capital Gains as a Share of a Household's Total Market Income, by Market Income Group, 2010



Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

The underlying data were previously published as supplemental material for Congressional Budget Office, *The Distribution of Household Income and Federal Taxes, 2010* (December 2013), www.cbo.gov/publication/44604.

Net capital gains are the difference between a taxpayer's gains and losses. In this exhibit, both short-term and long-term net gains are included, as are gains from assets indirectly held by households through their shares of entities such as partnerships, S corporations, estates, and trusts. Losses carried over from previous years are also included; individual taxpayers' total net losses were capped at $3,000.

Market income consists of labor income (including amounts allocated by employees to 401(k) plans; employment-based health insurance premiums; the employer's share of Social Security, Medicare, and federal unemployment insurance payroll taxes; and the share of corporate income taxes borne by workers), business income, net capital gains, other capital income, income received in retirement for past services, and certain other sources of income. It does not include government transfer payments, such as Social Security payments.

A household is considered to consist of the people who share a housing unit, regardless of their relationship to one another. In addition to households that filed tax returns, this exhibit includes households in which no member filed a tax return.

Income groups were defined by ranking households by market income, which was adjusted for household size to account for the economies of scale attained by larger households. Percentiles (hundredths) contain approximately equal numbers of people but different numbers of households. Households with negative income are excluded from the lowest-income group.

* = less than 0.5 percent.

In 2010, income from short-term and long-term net capital gains was a larger component of market income for households in higher-income groups than for those with lower income. For households in the 1st to 80th percentiles, virtually none of their market income was attributable to capital gains. For households in the 81st to the 95th percentiles, capital gains made up roughly 1 percent of their market income, and for households in the top 1 percent, capital gains accounted for nearly 20 percent of their total market income. ◆

Exhibit 22.

Net Capital Gains and Net Capital Losses, by Age Group, 2010

	Net Gains			Net Losses	
	Share of Group's Returns With Net Gains (Percent)	Average Amount[a] (Dollars)	Share of Total Income[b] (Percent)	Share of Group's Returns With Net Losses (Percent)	Average Amount[c] (Dollars)
Under 35	2	7,900	*	1	-5,200
35 to 44	3	27,600	1	2	-10,000
45 to 54	4	35,900	2	4	-16,900
55 to 64	6	42,400	3	6	-15,900
65 to 74	9	36,700	5	8	-17,800
75 or Older	12	26,700	6	11	-14,900
All Ages	4	31,500	2	4	-14,400

Source: Congressional Budget Office and the staff of the Joint Committee on Taxation, using the individual income tax return statistics for 2010 compiled by the Statistics of Income Division of the Internal Revenue Service.

Net capital gains are the difference between a taxpayer's long-term gains and losses; a net capital loss occurs when that difference is negative. The data in the table reflect only those net gains and net losses that resulted from sales of assets directly owned by taxpayers.

Net losses are reported in full, although under current law a taxpayer may deduct only up to $3,000 of those losses from ordinary income and may carry over losses exceeding that amount to a future year. Losses carried over from previous years are omitted from the exhibit.

For married couples filing jointly, the taxpayer's age refers to that of the spouse whose name appears first on the tax return.

* = less than 0.5 percent.

a. Based only on tax returns reporting net gains.

b. Income includes wages and salaries; income from rental real estate, royalties, partnerships, S corporations, estates, and trusts; business and farm net income; taxable and tax-exempt interest; dividends; net capital gains; other gains or losses; taxable distributions of pensions, individual retirement accounts, and annuities; taxable Social Security benefits; and unemployment compensation.

c. Based only on tax returns reporting net losses.

In 2010, the proportion of taxpayers in the older age groups who realized net capital gains and incurred net capital losses was greater than the proportion of younger taxpayers who did so. In terms of dollar amounts, however, average net gains were highest for taxpayers who were between ages 55 and 64, and average losses were highest for taxpayers between ages 65 and 74. ◆

Exhibit 23.

Distribution of Net Capital Gains, Including Gains From Indirectly Held Assets and Losses Carried Over From Previous Years, by Size of Net Gains, 1993, 1999, and 2010

Percent

	1993		1999		2010	
Amount of Net Capital Gains (1993 dollars)	Share of All Returns With Net Gains	Percentage of Total Net Gains	Share of All Returns With Net Gains	Percentage of Total Net Gains	Share of All Returns With Net Gains	Percentage of Total Net Gains
0 to 50,000	96	34	93	21	93	12
50,001 to 100,000	2	10	2	8	3	6
100,001 to 1,000,000	2	28	1	25	4	24
1,000,001 to 2,000,000	*	6	*	8	*	8
2,000,001 to 5,000,000	*	8	*	10	*	11
5,000,001 to 10,000,000	*	4	*	7	*	8
Greater Than 10,000,000	*	10	*	21	*	32

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation, using the individual income tax return statistics for 1993, 1999, and 2010 compiled by the Statistics of Income Division of the Internal Revenue Service.

Amounts were adjusted to 1993 dollars using the price index for personal consumption expenditures.

Net capital gains are the difference between a taxpayer's long-term gains and losses.

In this exhibit, gains from assets indirectly held by households through their shares of entities such as partnerships, S corporations, estates, and trusts are included. Losses carried over from previous years are also included.

* = less than 0.5 percent.

More than 90 percent of taxpayers who reported a net capital gain—including gains from indirectly held capital assets and carryover losses—recorded net gains that were less than $50,000 (measured in 1993 dollars) in 1993, 1999, and 2010. However, the share of total gains attributable to realizations of at least $10 million grew sharply over that period. Gains of that magnitude accounted for almost one-third of total reported net gains in 2010. ◆

Exhibit 24.

Net Capital Gains and Net Capital Losses, by the Number of Sales That a Taxpayer Reported, 1999 and 2010

	Number of Sales Reported								
	1	2	3–5	6–10	11–15	16–50	51–249	250+	All Sales
					1999				
Number of Returns Reporting (Thousands)	6,027	2,710	3,117	1,389	430	482	79	4	14,238
Net Gain or Loss (Dollars)[a]									
Average	6,900	11,500	19,000	36,700	65,200	136,700	484,900	818,900	22,400
Median	200	700	1,400	4,300	7,000	14,400	49,800	-18,300	600
Total (Millions of dollars)	41,700	31,300	59,100	51,000	28,000	66,000	38,500	3,500	319,000
					2010				
Number of Returns Reporting (Thousands)	5,680	2,319	2,576	1,259	458	603	195	40	13,129
Net Gain or Loss (Dollars)[a]									
Average	3,200	4,800	8,700	13,400	15,200	28,400	97,000	272,500	9,300
Median	0	0	0	*	*	700	1,400	10,400	0
Total (Millions of dollars)	18,400	11,100	22,300	16,900	7,000	17,100	18,900	10,900	122,600

Source: Congressional Budget Office and the staff of the Joint Committee on Taxation, using data from the 1999 and 2010 Sale of Capital Assets Cross Sections compiled by the Statistics of Income Division of the Internal Revenue Service.

Net capital gains are the difference between a taxpayer's long-term gains and losses; a negative amount indicates a net capital loss. The data in the table reflect only those net gains that resulted from sales of assets directly owned by taxpayers.

Net losses are reported in full, although under current law a taxpayer may deduct only up to $3,000 of those losses from ordinary income and may carry over losses exceeding that amount to a future year. Losses carried over from previous years are omitted from the exhibit.

* = between -$50 and zero.

a. Values are based on all taxpayers who reported either a net capital gain or a net capital loss.

About 13 million taxpayers reported net capital gains or net capital losses in 2010, about 1 million fewer than in 1999. The proportion of taxpayers with more than 50 sales, however, grew threefold, and their share of the total value of net gains and net losses almost doubled. In 2010, taxpayers with more than 50 sales of capital assets accounted for less than 2 percent of all taxpayers who realized net gains or net losses, but they received almost one-quarter of the total amount of those gains and losses. ◆

Definitions

adjusted basis: The amount of a taxpayer's investment in a property for tax purposes after certain adjustments. It is calculated by adjusting the taxpayer's initial investment amount to account for certain factors that change the taxpayer's basis, or investment, in that property. Improvements in a property, for example, increase the basis above the original investment amount, whereas depreciation reduces it. The adjusted basis is used to calculate the capital gain realized from the sale of an asset.

capital asset: Under the Internal Revenue Code, most types of property, whether for business or personal use, are designated as capital assets. The Congressional Budget Office and the staff of the Joint Committee on Taxation (JCT) included in this analysis only those assets that are commonly sold and that typically generate capital gains or losses when sold—namely, personal residences, other real estate, privately owned businesses (whether owned by individuals or partners), stocks, bonds (including Treasury bills and notes but excluding Treasury savings bonds), and mutual funds. Examples of assets that are excluded from the tax code's definition of capital assets, and thus from this report, are stock in trade and inventories. Some assets—copyrights; literary, musical, or artistic compositions; and letters or similar property (such as drafts of speeches, recordings, transcripts, manuscripts, drawings, or photographs)—are not considered capital assets when in the possession of the person who created the item but are capital assets when held by subsequent owners. Furthermore, transaction accounts, such as checking and savings accounts, are excluded from capital assets, as are tax-preferred education accounts (such as 529 accounts) and retirement accounts (such as 401(k) accounts); the present value of defined benefit plans is also excluded. Although personal vehicles and collectibles are included in the tax code's definition of capital assets, CBO and JCT excluded those properties from this analysis because their tax treatment differs from that of other capital assets; any net gains from the sale of such items are reported separately on a filer's tax return.

capital gain: The difference between the amount realized from the sale of a capital asset and its adjusted basis. All gains described in this report are long-term capital gains (that is, gains from the sale of assets held longer than a year) unless otherwise noted. Gains include all long-term gains from the sale of personally held assets reported on Schedule D (the income tax form on which taxpayers disclose detailed information about their asset sales). Capital gains realized in tax-preferred retirement accounts are excluded from this analysis. Although gains from the sale of mutual funds or of an interest in a partnership or S corporation are included, long-term gains from the sale of indirectly held assets are not included unless noted otherwise. For example, income from capital gains realized by a partnership and passed through to the partners is generally not included. Also not included in this analysis, unless otherwise noted, are gains attributable to estates or trusts managed by fiduciaries or gains attributable to mutual funds and distributed to taxpayers.

capital loss: The amount by which a capital asset's adjusted basis exceeds the amount realized from its sale. See **capital gain** for the types of transactions included in the calculations in this report.

carryover loss: Any net loss above the $3,000 limitation can be carried forward and claimed on tax returns in future years. Those carryover losses can first be used to reduce the amount of capital gains received in a future year that are subject to tax. Any remaining carryover losses—in combination with any new losses incurred in that year—can then be used to offset ordinary income of up to $3,000. The unused losses can be carried forward to another year.

effective marginal tax rate: The percentage of an additional dollar of income that is paid in taxes. Compare with **statutory tax rate**.

family: To accord with the Survey of Consumer Finances, in this report family refers to an individual or couple who owns a given residence or who signed the lease as well as any dependents who live in the residence; any financially independent people who may reside with them are not included.

income: Income generally includes wages and salaries; income from rental real estate, royalties, partnerships, and S corporations; business and farm net income; taxable and tax-exempt interest; dividends; net capital gains; other gains or losses; and unemployment compensation. Because of limitations in the data, however, the definitions of income—and therefore the income groups identified—differ somewhat from section to section of this report. The most notable differences in how income is defined in the main sections of the report are as follows: In the section on capital assets, which uses data from the Survey of Consumer Finances, estate and trust income is excluded and *all* distributions of pensions, individual retirement accounts, annuities, and Social Security benefits are included; in the section on capital gains and losses, which uses tax data from the Internal Revenue Service, income from estates and trusts is included, and only the *taxable* distributions of pensions, individual retirement accounts, annuities, and Social Security benefits are included.

long-term capital gain (or loss): A capital gain (or loss) on the sale of a capital asset held for more than one year.

market income: Consists of labor income, business income, net capital gains, other capital income, income received in retirement for past services, and certain other sources of income. Market income does not include government transfer payments, such as Social Security payments. In the calculation of market income, labor income includes the amounts allocated by employees to 401(k) plans; employment-based health insurance premiums; the employer's share of Social Security, Medicare, and federal unemployment insurance payroll taxes; and the share of corporate income taxes borne by workers. Net capital gains include both short-term and long-term gains but only the first $3,000 of net losses.

net gain: The amount by which gains exceed losses each year. Net gains can refer either to the total amounts attributable to all sales of capital assets or to the gains and losses from the sale of a single type of capital asset, such as corporate stock.

net loss: The amount by which losses exceed gains each year. If capital losses exceed gains, up to $3,000 of those net losses can be deducted from ordinary income. Unless otherwise noted, net losses shown in this report are before that $3,000 loss limitation, and losses carried over from previous years are not included.

ordinary income: All income subject to the income tax other than net capital gains and (since 2003) qualified dividends.

privately owned business: A sole proprietorship, farm, or other business that is owned by individuals or families and that is not publicly traded.

qualified dividends: Generally, dividends that are paid by domestic corporations or certain foreign corporations (including, for example, corporations whose stock is traded in one of the major securities markets in the United States).

realization: The sale of a capital asset, such as corporate stocks or bonds. The sale typically generates a capital gain or a capital loss.

statutory tax rate: The rate specified by law. In some cases, such as with individual and corporate income taxes, the statutory tax rate varies with the amount of taxable income. Compare with **effective marginal tax rate**.

tax expenditures: Revenues forgone because of tax provisions (exclusions, deductions, preferential rates, and credits) that reduce tax liabilities for specific activities, entities, or groups of people and thus resemble government spending programs.

taxpayer: Either a person who files an individual tax return or a married couple who file a joint return. In this report, a couple who file a return together are counted as one taxpayer, whereas a husband and wife who live together but file separate returns are counted as two taxpayers but as one **family**.

About This Document

This report was prepared at the request of the Ranking Member of the Senate Finance Committee. In keeping with the Congressional Budget Office's mandate to provide objective, impartial analysis, the report makes no recommendations.

Robert McClelland (formerly of CBO's Tax Analysis Division) and the staff of the Joint Committee on Taxation (JCT) wrote the report with guidance from Janet Holtzblatt, Frank Sammartino (formerly of CBO), and David Weiner (formerly of CBO). Wendy Kiska of CBO, Athiphat Multhitacharoen (formerly of CBO), Alex Brill of the American Enterprise Institute, William Gentry of Williams College, and Kevin Moore of the Board of Governors of the Federal Reserve System provided useful comments. (The assistance of external reviewers implies no responsibility for the final product, which rests solely with CBO and JCT.)

CBO's Jeffrey Kling and Robert Sunshine, as well as the staff of the Joint Committee on Taxation, reviewed the report. Bo Peery edited it, and Maureen Costantino and Jeanine Rees prepared it for publication. The report is available on both CBO's website (www.cbo.gov/publication/51831) and JCT's website (www.jct.gov).

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August 2016