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Majority of Seniors Benefit from Reduced Capital Gains and Dividend Tax Rates

by Scott A. Hodge

Most of the debate over whether or not to extend the current 15 percent tax rate on capital gains and dividends—both of which are set to expire in 2008—has focused on the relatively high incomes of a minority of taxpayers who benefit from these reduced rates. Comparatively little attention has been paid to a more complete demographic profile of all of the taxpayers who claim capital gains or dividend income.

Upper-income Americans clearly earn the bulk of dividend and capital gains income. But as stock ownership becomes more universal in America, stock owners—those claiming dividends or capital gains income—are becoming increasingly middle-class. Based on IRS data, Tax Foundation economists estimate that more than 80 percent of taxpayers who claim dividend income earn less than \$100,000 and 76.4 percent of those who claim capital gains earn less than \$100,000.

Capital Gains, Dividends and the “Graying” of America

In order to develop a demographic profile of taxpayers who benefit from lower tax rates on capital gains and dividends, Tax Foundation economists employed the Foundation’s Individual Tax Model and Matched IRS/Census Database. The picture that emerges is largely a reflection of the “graying” of America: a sizeable percentage of taxpayers who claim dividends or capital gains are over age 55, and the majority of taxpayers over age 55 claim some form of capital gains or dividend income.

Table 1 illustrates the percentage of capital gains and dividend income claimed by age group. Among taxpayers with dividend income, roughly 23 percent are over age 65 while nearly 36 percent are over age 55. Among taxpayers with capital gains income, nearly 26 percent are over age 65 and more than 38 percent are over age 55.

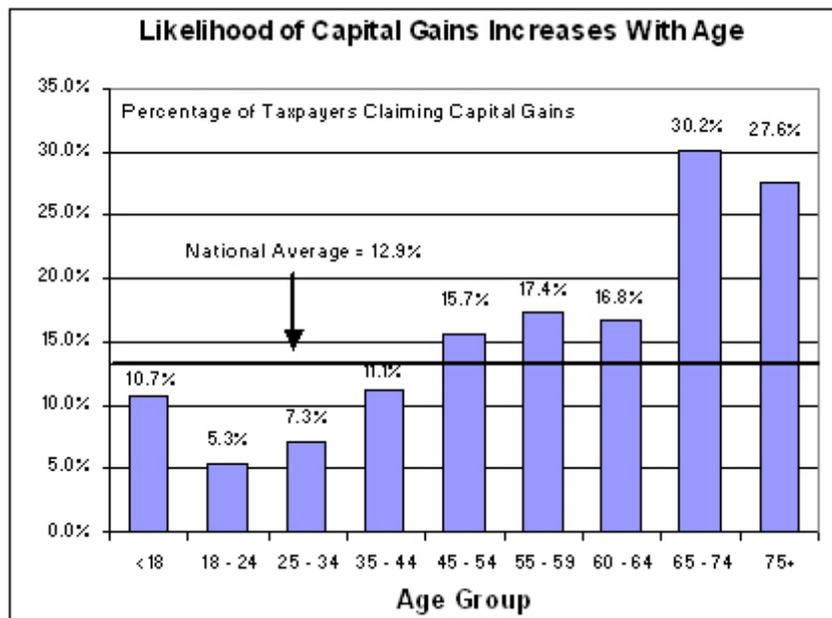
Table 1. Older Americans Earn a Large Portion of Capital Gains and Dividends, 2004

Age	Percentage of Dividends Claimed by Age Group	Percentage of Capital Gains Claimed by Age Group
<18	3.9%	3.2%
18 - 24	7.6%	6.9%
25 - 34	11.2%	10.6%
35 - 44	19.3%	18.9%
45 - 54	22.1%	21.9%
55 - 59	7.3%	7.3%
60 - 64	5.7%	5.3%
65 - 74	13.0%	15.1%
75+	9.9%	10.7%
<i>Total</i>	<i>100.0%</i>	<i>100.0%</i>

Source: IRS, Tax Foundation Individual Tax Model

Within these figures lies a more interesting story of how dependent older Americans are on capital gains and dividend income. Figure 1 illustrates the number of taxpayers within each age group who claim capital gains income. Capital gains realizations clearly increase with age. Some 30.2 percent of taxpayers between age 65 and 74 claim capital gains income, while 27.6 percent of taxpayers over age 75 have capital gains income. The percentage of taxpayers over age 65 with capital gains income is higher than any other age group, and is more than twice the national average of 12.9 percent.

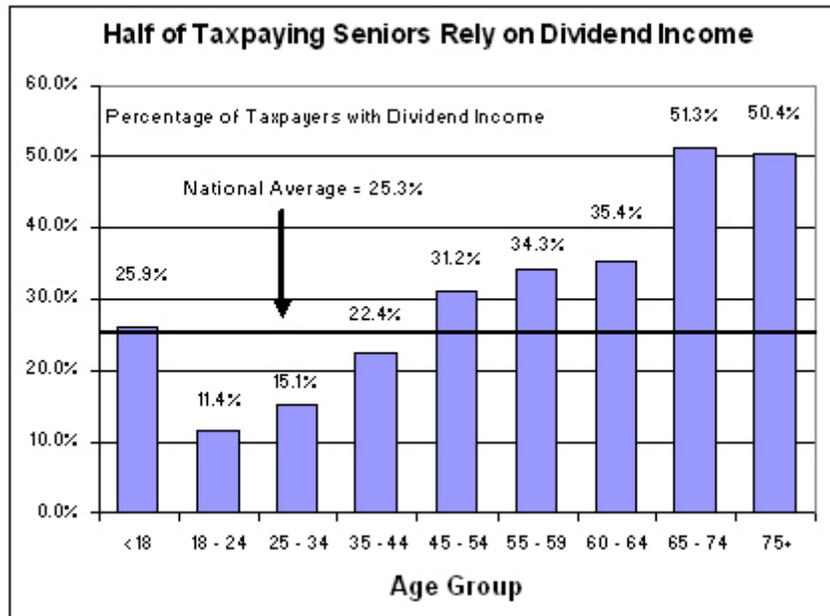
Figure 1. Older Americans Most Likely to Earn Capital Gains, 2004



Source: IRS, Tax Foundation Individual Tax Model

Figure 2 shows that older Americans are even more reliant on dividend income than capital gains. Among taxpayers between age 65 and 74, a remarkable 51.3 percent claim dividend income while 50.4 percent above age 75 have dividend income.

Figure 2. Majority of Taxpayers over Age 65 Earn Dividend Income, 2004



Source: IRS, Tax Foundation Individual Tax Model

These figures represent a universe of taxpayers in which the “Baby Boom” generation has just reached its 60th birthday. As this generation continues to age, the demographic balance of capital gains and dividend earners will undoubtedly shift even more dramatically up the age scale.

Focusing solely on current income distributions when deciding whether or not to extend the lower rates on dividends and capital gains provides little information about those taxpayers who actually benefit from these policies. When we examine the demographic details behind tax return data it becomes clear that these policies significantly benefit older Americans who are growing in numbers each year.

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