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Reliance on Capital Gains and Dividend Income Tends to Rise with Age

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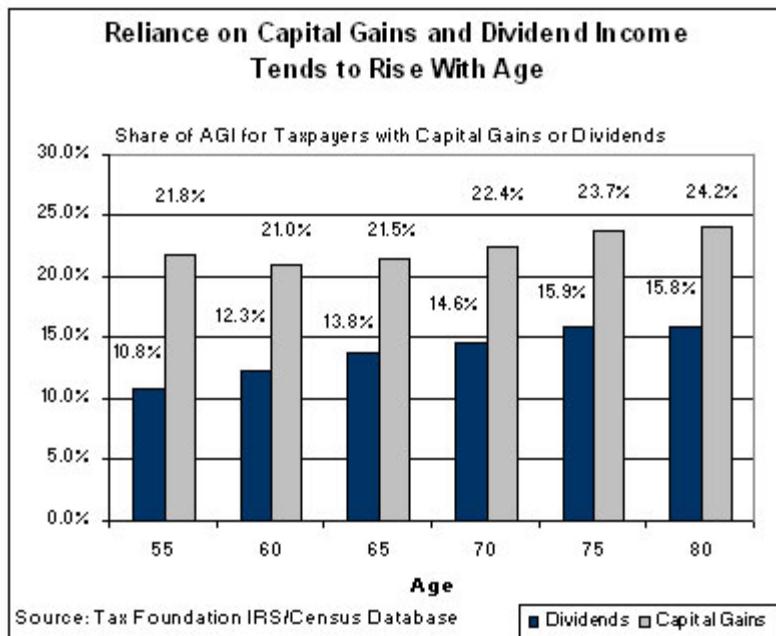
As stock ownership becomes the norm rather than the exception in the U.S. today, capital gains and dividend income will become an increasingly larger share of the retirement income for seniors. Seniors already account for a sizeable share of the taxpayers with capital gains or dividend income. As Tax Foundation economists reported recently (see <http://www.taxfoundation.org/publications/show/1236.html>), among taxpayers with dividend income, 36 percent are over age 55 while 38 percent of taxpayers with capital gains income are over age 55.

A closer look at these taxpayers reveals an interesting fact—the reliance on capital gains and dividend income tends to rise with age. Using the Tax Foundation's Individual Tax Model and Matched IRS/Census Database, Foundation economists calculated the share of adjusted gross income (AGI) that taxpayers age 55 and above claim in capital gains or dividend income.

As Figure 1 shows, for older taxpayers with capital gains or dividend income, these income sources become more important as they age. For taxpayers age 55 with dividend income, dividends comprise 10.8 percent of their AGI in contrast to taxpayers age 80 who receive nearly 16 percent of their total income from dividends. Similarly, taxpayers age 55 with capital gains derive about 22 percent of their AGI from capital gains income. By contrast, comparable taxpayers at age 80 derive more than 24 percent of their income from capital gains.

These figures are bound to become more significant as the “baby boom” generation retires since these workers are far more likely to benefit from stock options or profit sharing plans than their parents did. Extending the current reduced tax rates on capital gains and dividend income will come precisely at the time when this large cohort of retirees begins to rely most on these income sources for their retirement security.

Figure 1. Reliance on Capital Gains and Dividend Income Tends to Rise With Age



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