

Who Pays Capital Gains Taxes?

In 2003, Congress enacted—and President Bush signed into law—a new tax break that lowered the top federal income tax rate on capital gains from 20 percent to 15 percent. This special lower capital gains rate, which is less than half of the 35 percent top tax rate on salaries and wages, is not scheduled to expire until the beginning of 2009—but tax writers in Congress are already pushing to extend this tax break. This analysis provides a quick reminder that the lion's share of the benefits from this tax break go to a very small group of the wealthiest Americans:

- In 2005, the wealthiest 1 percent of Americans received almost 70 percent of all long-term capital gains—and paid 72 percent of the tax on these capital gains.
- The wealthiest 10 percent of taxpayers enjoyed 90 percent of the capital gains eligible for this special tax break.
- The poorest sixty percent of Americans, by contrast, collectively received just 2 percent of the capital gains eligible for the lower capital gains rates.

Distribution of Federal Capital Gains Taxes in 2005

Income Group	Income Range	Average Income	Average Capital Gain	Average Capital Gain Tax	Shares of Total	
					Capital Gains	Capital Gains Taxes
Lowest 20%	Less than \$16,000	\$ 10,800	\$ 39	\$ 0	0.2%	0.0%
Second 20%	\$16,000 – 28,000	22,100	94	2	0.6%	0.1%
Middle 20%	\$28,000 – 46,000	36,200	176	8	1.1%	0.3%
Fourth 20%	\$46,000 – 77,000	59,600	579	53	3.5%	2.1%
Next 10%	\$77,000 – 110,000	91,100	1,460	158	4.4%	3.2%
Next 5%	\$110,000 – 154,000	129,000	3,619	474	5.4%	4.8%
Next 4%	\$154,000 – 396,000	222,000	12,338	2,095	14.8%	16.9%
Top 1%	\$396,000 or more	1,241,000	232,824	35,956	69.9%	72.6%
ALL		\$ 61,600	\$ 3,285	\$ 488	100.0%	100.0%

Note: Capital gains are the profits from selling stocks, investment real estate, etc. Only "long-term capital gains" (those eligible for special low tax rates) and taxes thereon are shown in the table. Averages are for all taxpayers in each group.

Source: Institute on Taxation and Economic Policy Tax Model, March 2006

For more details on the scheduled phase-in (and phaseout) dates for the Bush tax cuts, visit <http://www.ctj.org/pdf/gwbpi.pdf>.