

# **Sensitivity of the Distribution of Household Income to Capital Gains, 1979 to 2021**

March 2025

# Notes

All years referred to are calendar years.

All dollar amounts are expressed in 2021 dollars and were adjusted using the Bureau of Economic Analysis's price index for personal consumption expenditures.

Some of the figures use shaded vertical bars to indicate recessions, which begin just after a peak in economic activity and run through the subsequent trough.

For this analysis, the Congressional Budget Office used data from the Statistics of Income collected by the Internal Revenue Service and from the Annual Social and Economic Supplement of the Census Bureau's Current Population Survey.

See [www.cbo.gov/publication/61046#data](https://www.cbo.gov/publication/61046#data).

The phrase “transfers and taxes” refers to means-tested transfers and federal taxes. For definitions of those and other important terms used in this document, see the section titled “Key Terms.”

# Introduction

Realized capital gains were historically high in 2021 and increased income inequality that year. In general, capital gains are more unequally distributed and more variable over time than other major sources of income.

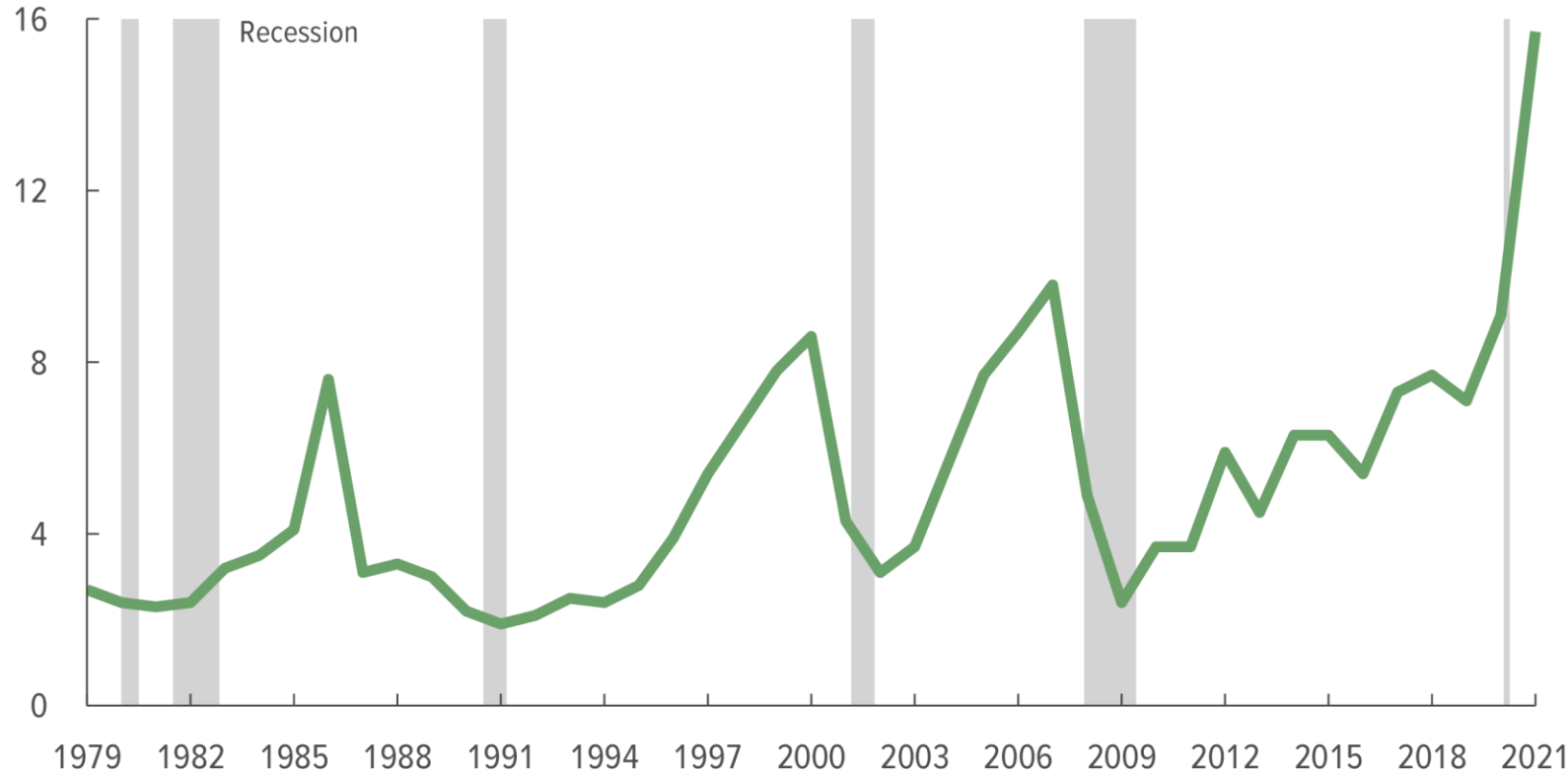
To demonstrate the sensitivity of the distribution of household income to capital gains, CBO examined several measures of income with and without realized capital gains. The comparisons highlight the significance of capital gains in different segments of the income distribution and how those gains have contributed to income inequality over time.

This document supplements two of CBO's publications:

- *The Distribution of Household Income in 2021* ([www.cbo.gov/publication/60341](https://www.cbo.gov/publication/60341)) and
- “Trends in the Distribution of Household Income From 1979 to 2021” ([www.cbo.gov/publication/60342](https://www.cbo.gov/publication/60342)).

# Average Household Income From Realized Capital Gains

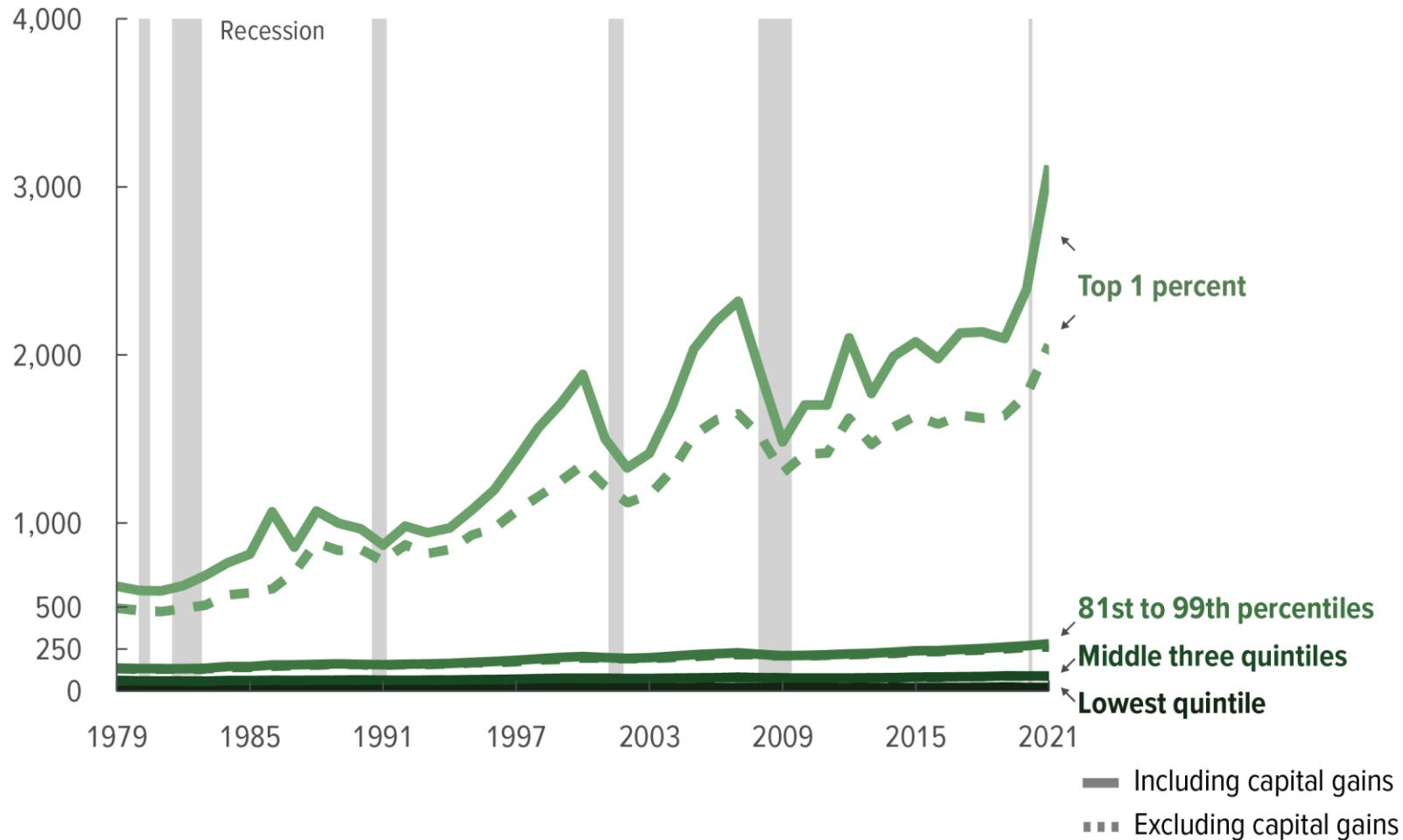
Thousands of 2021 dollars



Income from realized capital gains fluctuates from year to year. In 2021, average realized capital gains were higher than in any other year included in CBO's analysis.

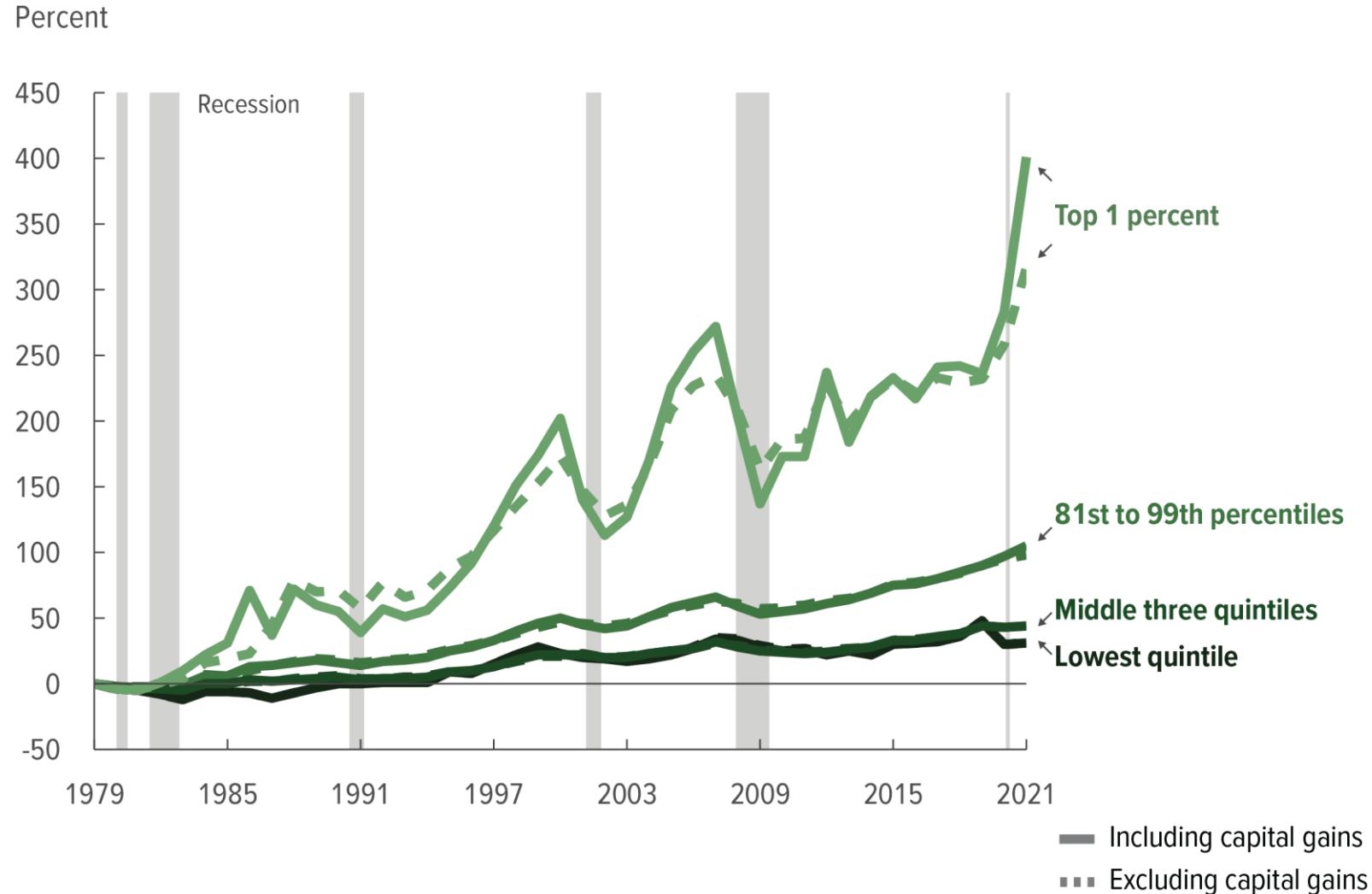
# Average Income Before Transfers and Taxes

Thousands of 2021 dollars



Average income for the top 1 percent of households in the distribution is the most sensitive to realized capital gains.

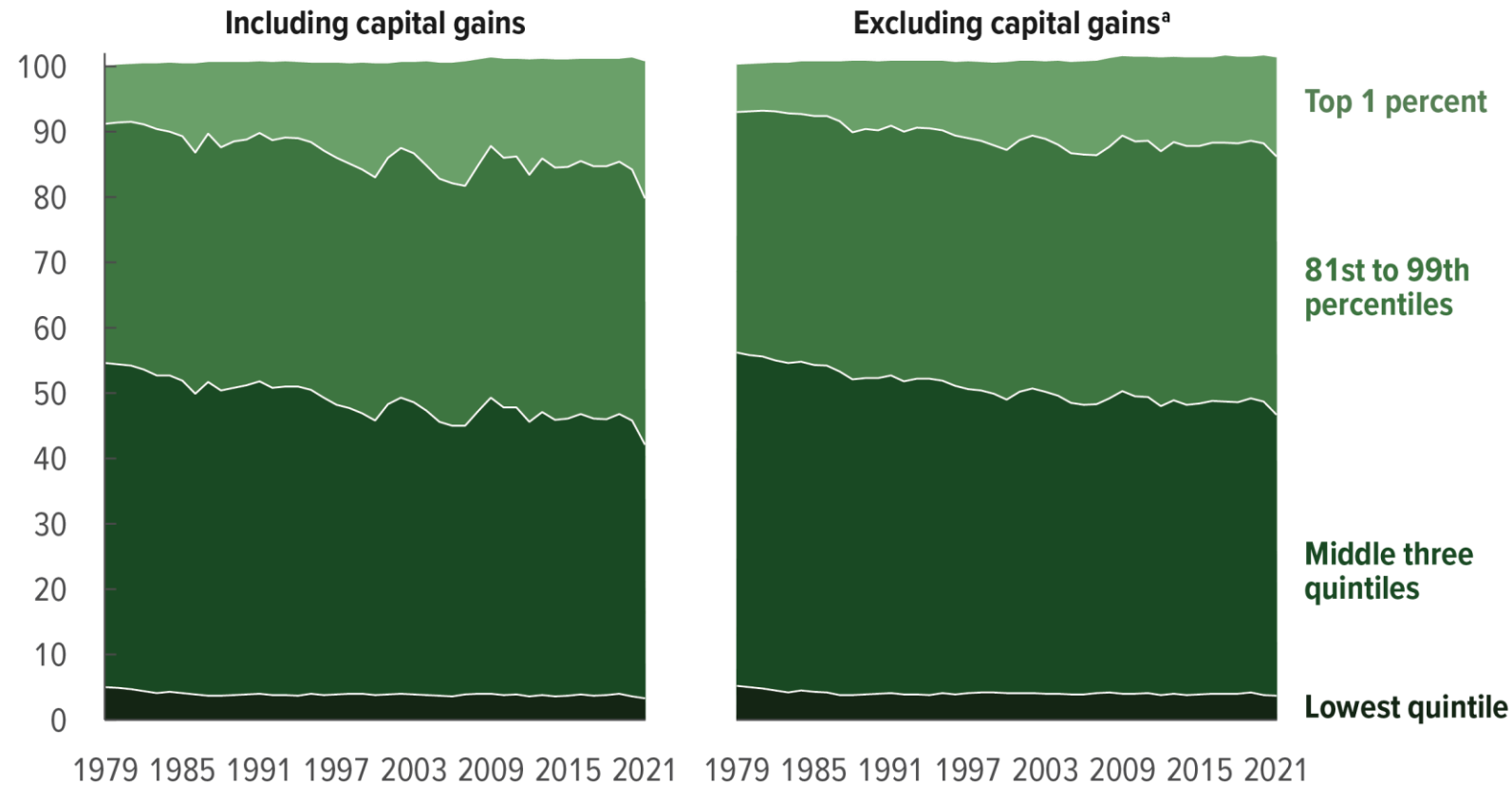
# Cumulative Growth of Income Before Transfers and Taxes



The cumulative growth of income among all groups in the distribution is not very sensitive to realized capital gains.

# Share of Income Before Transfers and Taxes

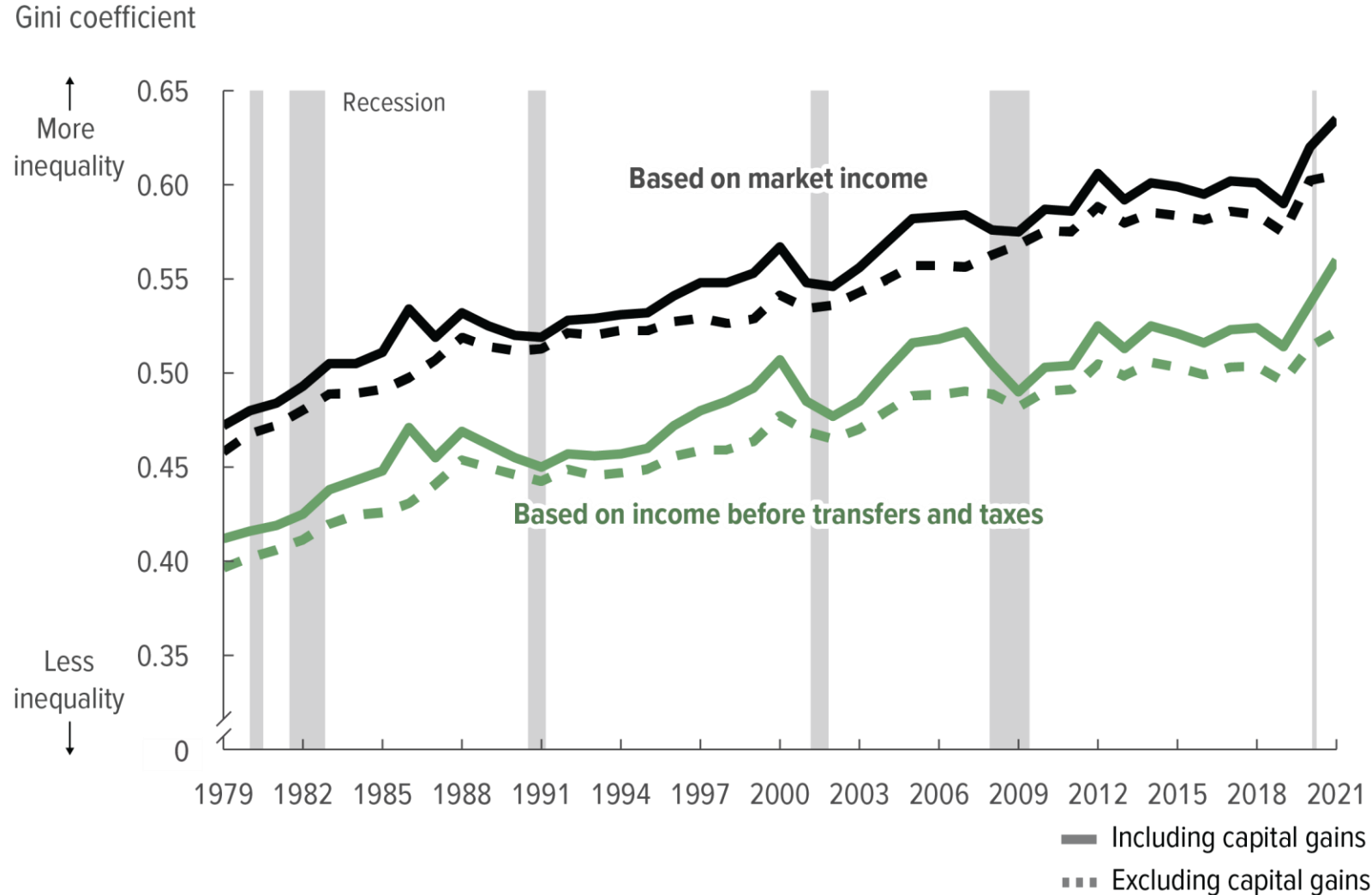
Percent



Excluding realized capital gains from the measure of household income reduces the share of income mainly at the top of the distribution.

a. Households are reranked on the basis of a measure of income that excludes realized capital gains.

# Income Inequality as Measured by the Gini Coefficient



Excluding realized capital gains from measures of household income reduces income inequality as measured by the Gini coefficient. However, broader trends in income inequality are not sensitive to realized capital gains.



# Key Terms

**Income before transfers and taxes** consists of market income plus social insurance benefits (including benefits from Social Security, Medicare, unemployment insurance, and workers' compensation).

**Market income** consists of wages and other forms of labor income (including cash wages, employers' contributions for health insurance premiums, and payroll taxes paid by employers), business income, capital income (including capital gains), and other income.

**Means-tested transfers** are cash payments and in-kind services provided through federal, state, and local government assistance programs. Eligibility to receive such transfers is determined primarily on the basis of income, which must be below certain thresholds.

**Federal taxes** consist of individual income taxes, payroll taxes, corporate income taxes, and excise taxes (which are taxes levied on purchases of specific types of goods or services).

## Key Terms (Continued)

The **Gini coefficient** is a standard statistical measure of income inequality that summarizes an entire distribution in a single number that ranges from zero to one. At the extremes, a value of zero means that income is distributed equally among all households, whereas a value of one indicates that all income is received by a single household (and none is received by any other households).

**Income groups** were created by ranking households by their size-adjusted income before transfers and taxes. A household consists of people sharing a housing unit, regardless of their relationship. The income **quintiles** (or fifths of the distribution) contain approximately the same number of people but slightly different numbers of households. Similarly, each full **percentile** (or hundredth of the distribution) contains approximately the same number of people but a different number of households. If a household has negative income (that is, if its business or investment losses exceed its other income), it is excluded from the lowest income group but included in totals.

## About This Document

This document was prepared to enhance the transparency of the work of the Congressional Budget Office and to encourage external review of that work. In keeping with CBO's mandate to provide objective, impartial analysis, the document makes no recommendations.

Naveen Singhal of CBO's Tax Analysis Division prepared the document with guidance from Edward Harris and John McClelland. Bilal Habib and Ellen Steele contributed to the analysis, and Daniel Page fact-checked the document.

Jeffrey Kling reviewed the document, Scott Craver edited it, and Casey Labrack created the graphics.

CBO seeks feedback to make its work as useful as possible. Please send comments to [communications@cbo.gov](mailto:communications@cbo.gov).