CAPITAL GAINS DATA FROM THE WISCONSIN TAX MODEL

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I. INTRODUCTION

- Taxable capital gains as a component of income.
- Amounts of gains and losses by income class,
- Gains and losses by type of assets, holding periods.
- Historical data on capital gains.
- 60% capital gains exclusion.

II. DATA SOURCE

- Wisconsin Dept of Revenue's individual income tax model, consists of data captured from stratified sample of individual income tax returns.
- Samples have been conducted every other year for odd-numbered tax years since 1979.
- Sample stratification based on:
  - Income (WAGI) level
  - Type of activity (Schedules C and F)
  - Type of deduction (itemizer vs standardizer)
  - Homestead/Farmland Credit claimants
  - Other factors (e.g., alternative minimum tax, pro-raters)

II. DATA SOURCE (cont'd)

- For the 1999 sample, 23,600 individual income tax and Homestead returns were selected, weighted to represent the 2.54 million taxfiling population.
- Data were captured from a total of 1,300 fields from 23 separate federal and state schedules.
- Sampling process:
  - sampling "on the fly"
  - data available as early as December of the year in which the return is filed
  - logistical challenge: need to avoid delays to the regular processing of tax returns.

III. TAX TREATMENT OF CAPITAL GAINS

- Federal Law
  - Since 1987,capital gains net of capital losses are fully included in taxable income.
  - Net capital losses deductible up to $3,000. Excess losses carried forward.
  - While top individual income tax rate is 39.6%, maximum rate on capital gains is 20% (10% for those in the 15% bracket).
  - For assets held more than 5 years, special lower rate of 18% (8% for those in the 15% bracket).

III. TAX TREATMENT OF CAPITAL GAINS

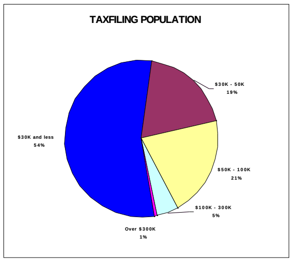
- Wisconsin Law
  - Pre-1982: all capital gains taxed as ordinary income.
  - Beginning in 1982, 60% exclusion phased in: 20% in 1982, 40% in 1983, 60% in 1984 and after.
  - Retained the 60% exclusion even after federal repeal. However, capital losses limited to $500 instead of $3,000.

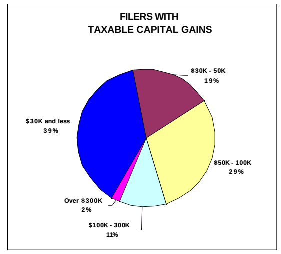
IV. DISTRIBUTION OF TAXABLE GAINS

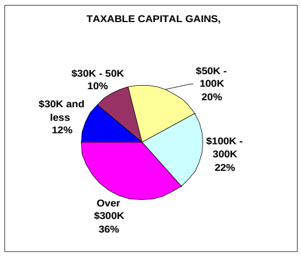
- Table 1
- Out of 2.54m taxfilers, 656,000 (26%) had taxable gains
- 18% for the $30,000 or less income class
- 88% for the over $300,000 income class
- Total amount of taxable gains = $3.1 billion

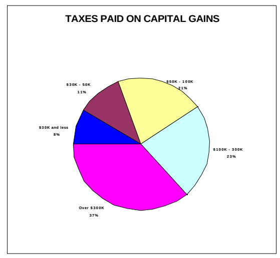
<$50000 income class: 72% of taxfilers, 57% of capital gains filers, 21% of taxable gains, 19.4% of capital gains taxes.

>$300000 income class:<1% of taxflers, 2% of capital gains filers, 36% of amount of taxable gains, and 36% of capital gains taxes.









V. CAPITAL GAINS AS COMPONENT OF INCOME

TABLE 2: COMPONENTS OF INCOME, WISCONSIN, TAX YEARS 1989-99

COMPONENTS OF INCOME	1989	1991	1993	1995	1997	1999
	(Amounts in $ million)					
Wages & Salaries	44,229.4	49,137.3	55,136.1	61,466.7	69,210.9	77,612.7
Taxable Interest	3,487.7	3,662.8	2,507.5	2,954.3	3,037.2	3,006.2
Dividends	1,358.3	1,392.4	1,494.8	1,683.2	2,085.5	1,917.4
Business Inc./Loss	1,721.7	1,991.3	2,274.7	2,382.5	2,546.0	2,781.8
Farm Income/Loss	332.5	55.3	(37.8)	(52.3)	(85.9)	62.2
Rents, Partnership Income	1,611.5	1,935.5	2,747.2	3,545.1	3,875.2	4,617.7
Taxable Capital Gains	924.8	793.1	1,229.6	1,294.5	2,550.5	3,102.4
Retirement Income						
Taxable IRA distributions	-	353.0	464.7	711.7	1,054.9	1,734.1
Taxable pensions	1,926.6	2,085.4	2,381.5	2,787.4	3,688.6	4,172.8
Taxable Soc.Security	285.2	356.1	447.8	554.9	752.9	917.5
Taxable Unemployment Comp.	206.5	356.6	359.5	297.5	314.1	338.5
Miscellaneous & all other income	95.9	214.1	322.1	206.5	188.6	148.5
Total Wisconsin Income	56,180.1	62,332.9	69,327.6	77,832.0	89,218.4	100,411.6
Taxable Capital Gains as % of Inc.	1.6%	1.3%	1.8%	1.7%	2.9%	3.1%

V. CAPITAL GAINS AS COMPONENT OF INCOME (Cont'd)

- Table 2
- TY99 Wis. gross income (bef.adjustments): $100.4 b
- Largest component of income is wages & salaries: 77.3%
- Taxable capital gains: $3.1 billion (3.1% of total income)
- Contribution of taxable capital gains has slowly increased over last 10 years, from <2% of gross income in 1989-95 to about 3% in 1997-99.
- However, capital gains as source of income varies by income class (Table 3)

TABLE 3:
TAXABLE CAPITAL GAIN INCOME
AS A PERCENT OF TOTAL WISCONSIN INCOME, 1989-99

WAGI ($)	1989	1991	1993	1995	1997	1999
30,000 and less	1.4%	0.8%	1.6%	1.7%	2.3%	2.0%
>30,000 - 50,000	0.8%	0.7%	0.9%	0.8%	1.3%	1.6%
>50,000 - 100,000	1.4%	1.0%	1.3%	1.1%	1.6%	1.7%
>100,000 - 300,000	3.5%	2.7%	3.4%	2.1%	3.8%	4.2%
>300,000	6.1%	5.6%	5.6%	6.1%	10.8%	11.0%
Total	1.6%	1.3%	1.8%	1.7%	2.9%	3.1%

- >$300,000 income class: capital gains accounted for 6% of their income in 1989; rising to 11% of their income by 1999.
- incomes at or below $30,000: taxable capital gains remained at 2% or less of total income over the 10-year period.
- $50K - 100K group: stable at 1.4 - 1.7% of total income.

TABLE 4: INCOME GROUPS' SHARES OF TOTAL TAXABLE CAPITAL GAINS TY1989-99						
WAGI ($)	1989	1991	1993	1995	1997	1999
	($ Million)					
30,000 and less	256.1	146.2	286.0	309.4	417.3	362.0
>30,000 - 50,000	135.1	129.9	157.1	151.0	251.8	301.5
>50,000 - 100,000	191.7	172.4	280.4	273.8	491.4	624.0
>100,000 - 300,000	157.0	145.9	246.5	195.6	479.0	695.9
>300,000	185.0	198.7	259.6	364.7	910.9	1119.0
Total	924.8	793.1	1229.6	1294.5	2550.5	3102.4

WAGI ($)	1989	1991	1993	1995	1997	1999
	% Distribution					
30,000 and less	27.7%	18.4%	23.3%	23.9%	16.4%	11.7%
>30,000 - 50,000	14.6%	16.4%	12.8%	11.7%	9.9%	9.7%
>50,000 - 100,000	20.7%	21.7%	22.8%	21.1%	19.3%	20.1%
>100,000 - 300,000	17.0%	18.4%	20.0%	15.1%	18.8%	22.4%
>300,000	20.0%	25.0%	21.1%	28.2%	35.7%	36.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

V. CAPITAL GAINS AS COMPONENT OF INCOME (Cont'd)

- Table 4: income group's share of total taxable gains:
  - $50,000-100,000 income group: share of total capital gains remained relatively stable (accounting for 20-22% of total taxable gains).
  - Over $300,000 income group: had 20% of total taxable gains in 1989. Their share has increased over the years, accounting for 36% in 1999.
  - $30,000 or less income group: Their share of taxable gains has declined from 28% in 1989 to 12% in 1999.
  - Over time, distribution of gains has drifted upwards. In large part, this upward drift is due to the rising real income of the average taxpayer.

VI. DISTRIBUTION OF CAPITAL GAINS & LOSSES BY ASSET TYPE

- 3 asset categories:
  - Capital assets (Schedule D assets) held for investment (e.g., stocks, bonds, shares in mutual funds, real estate except for personal residence, commodities).
  - Business assets (schedule 4797 assets) used in a trade or business (e.g., livestock, machinery and equipment, real estate).
  - "Other assets" consisting of capital gains distributions from mutual funds, installment sales, and capital gains from partnerships, S-corporations, fiduciaries.

VI. DISTRIBUTION OF CAPITAL GAINS & LOSSES BY ASSET TYPE (1999)

	All Holding Periods			
	Gain		Loss	
Asset	$ mill.	%	$ mill.	%
Capital Assets				
Stocks	2,875.33	35.3%	593.09	56.3%
Bonds and Notes	75.06	0.9%	23.82	2.3%
Mutual Funds	375.01	4.6%	104.18	9.9%
Non-Business Real Estate	377.52	4.6%	18.74	1.8%
Tangible Personal Property	1.79	0.0%	1.04	0.1%
Commodities	7.29	0.1%	0.53	0.1%
Qualified Small Business Stock	0.07	0.0%	0.00	0.0%
Partnership Interest	61.28	0.8%	39.85	3.8%
Unknown	304.36	3.7%	32.26	3.1%
Sub-Total	4,077.70	50.1%	813.52	77.3%
Business Assets				
Livestock	179.86	2.2%	13.61	1.3%
Farmland	112.58	1.4%	2.29	0.2%
Depreciable Farm Real Estate	18.32	0.2%	2.90	0.3%
Farm Equipment	59.90	0.7%	1.94	0.2%
Non-Farm Business Land	61.02	0.7%	2.11	0.2%
Depreciable Non-Farm Real Estate	402.87	5.0%	10.64	1.0%
Depreciable Personal Property	92.11	1.1%	9.54	0.9%
Timber, Gravel, Standing Crops, etc.	16.68	0.2%	0.36	0.0%
Partnerships, Sub-S, passthrough, etc.	456.82	5.6%	48.46	4.6%
Unknown Business Asset	24.74	0.3%	6.56	0.6%
Sub-Total	1,424.92	17.5%	98.40	9.3%
Other Assets				
Capital Gains Distribution	1,169.19	14.4%	-	0.0%
Partnerships, S-Corps., Fiduciaries	786.68	9.7%	119.57	11.4%
Installment Sales, Miscell.	679.77	8.4%	21.42	2.0%
Sub-Total	2,635.63	32.4%	140.99	13.4%
TOTAL	8,138.25	100.0%	1,052.91	100.0%

VI. DISTRIBUTION OF CAPITAL GAINS & LOSSES BY ASSET TYPE (Cont'd)

- Table 5A
- Stock holdings: single largest source of capital gains and losses in 1999 -- accounting for 35.3% of total capital gains, 56.3% of total capital losses.
- Capital gains distribution were second, accounting for 14.4% of total gains.
- Business assets as a group accounted for 17.5% of total gains and 9.3% of losses.

VI. DISTRIBUTION OF CAPITAL GAINS & LOSSES BY ASSET TYPE (Cont'd)

- Table 5B: comparison of 1989 & 1999 asset composition
- Schedule D assets: accounted for about one-third of total capital gains in 1989, 50% in 1999.
- Stocks: 24% in 1989 vs. 35% in 1999.
- Mutual funds: Gains were $375m. in 1999, $35 m. in 1989; in 1999: accounted for 5% of gains and 19% of losses; in 1989: 1.1% of gains, 6.4% of losses.

VI. DISTRIBUTION OF CAPITAL GAINS & LOSSES BY ASSET TYPE (Cont'd)

- Schedule D Assets: Tables 6A & 6B show the distribution by income class of gains/ losses for various Sched. D assets.
  - Stocks accounted for 70.5% of Schedule D gains.
  - With the exception of the negative income class, stocks were the major source of gains across all income classes, accounting for 44-80% of gains.
  - Mutual funds: accounted for 9% of Schedule D gains overall
  - Capital loss: stocks and mutual funds together accounted for nearly 86% of losses -- 73% for stocks, 13% for mutual funds.

VI. DISTRIBUTION OF CAPITAL GAINS & LOSSES BY ASSET TYPE (Cont'd)

- Business (Schedule 4797) gains and losses are shown in Tables 7A and 7B.
  - Farm assets (livestock, farm land and buildings, and farm equipment) accounted for 25% of business capital gains and 21% of losses, with livestock responsible for more than half of each.
  - At > $300,000 income, capital gains from partnerships and other pass-through entities, and depreciable real estate were the two primary sources of business capital gains (68% and 21% respectively).
  - On the loss side, nearly half of all business capital losses were from partnerships/pass-through entities.

VII. HOLDING PERIODS

- 2 ways to calculate average holding period:
  - Simple way: sum the holding periods for all transactions, and divide by the number of transactions.
  - The second way is to weight the holding period by the value of the gain (or loss).
- Consider the following example of 2 separate transactions:
  - Transaction #1:the asset has been held for 2 years and the amount of capital gains on its sales is $20,000.
  - Transaction #2: a 6-year old asset with capital gains of $100,000.

VII. HOLDING PERIODS (Cont'd)

- If average holding period is based on the number of transactions, the average holding period for the assets is 4 years (total holding period for the 2 transactions divided by number of transactions, or (2+6)/2.
- If the average holding period is weighted by the value of the transactions, the average holding period =

$$\left(\frac{20000}{20000+100000} \times 2\right) + \left(\frac{100000}{20000+100000} \times 6\right) = 5\ 1/3 \text{ years}$$

- There is little difference between the 2 if values of the transactions are about the same.

TABLE 8: AVERAGE HOLDING PERIOD (IN YEARS), TAX YEAR 1999

	Aver. Holding Period (Weighted)*		Aver. Holding Period (Unweighted)	
AssetType	Gains	Losses	Gains	Losses
Capital Assets	10.0	5.0	4.5	3.1
Stocks	8.6	4.5	4.0	2.5
Bonds & Notes	12.6	3.2	5.8	4.6
Mutual Funds	5.3	3.6	3.5	3.6
Nonfarm Real Estate	16.6	7.8	13.8	8.5
Personal Property	1.8	15.3	3.2	14.5
Commoditites	6.2	0.7	4.3	0.5
Qualif.Small Business Stock	-	-	-	-
Partnership Interest, Other	15.7	12.1	12.3	7.3
Unknown	4.4	3.2	3.0	6.8
Business Assets	13.3	3.8	7.9	3.2
Livestock	4.6	1.6	4.3	1.8
Farmland	17.3	2.9	17.1	1.7
Depreciable Farm Real Est.	18.5	12.1	20.8	19.7
Farm Implements	8.5	8.1	8.9	5.2
Non-Farm Land	9.2	7.8	8.4	9.4
Depreciable Real Estate	14.0	3.8	10.2	3.1
Depreciable Personal Prop.	15.0	2.3	6.5	2.8
Timber, Coal, Standing crop	11.7	1.7	13.1	1.7
Partnerships, Sub-S	8.4	3.1	4.4	3.5
Unknown	15.1	2.7	5.2	2.7

VII. HOLDING PERIOD (Cont'd)

- Weighted average holding period generally larger than the unweighted one.
- Range from 2 years for personal property to a high of 18.5 years for farm improvements.
- Business assets tend to be held slightly longer than Schedule D assets (13 years vs 10).

VII. HOLDING PERIOD (Cont'd)

- Tables 10 & 11: distribution of gains/losses by holding period, by asset type
- Schedule D assets: real estate and bonds have the smallest proportions of gains that are short term (<1 year)-- 3.5% and 4.4% of their respective gains are short-term; in contrast with tangible personal property and stocks (44% and 16%).
- Among assets held for one year or less, 86% of gains and 77% of losses were derived from stocks.
- In contrast for capital assets held over 20 years, stocks and real estate accounted for 51% and 39% of capital gains while stocks were responsible for 69%of capital losses.

VII. HOLDING PERIODS (Cont'd)

- Table 14 compares holding periods in 1999 with other years. In the area of capital gains:
- Stocks: declined from the 10-11 years of 1989 and 1991 to approximately 6.5 in 1993 and 1995, and moving back up again in 1997 and 1999.
- Mutual funds: holding period rose from 4 years in 1989 to 9 years in 1997 and has fallen to 5 in 1999.
- Bonds: increased to 12.6 years after several years where it was between 6-7 years.
- Farmland: declined from the 1989 high of 24 years to 17 years.

VIII. CAPITAL GAINS EXCLUSION

- One in five taxfilers had net capital gains.
- Tax savings for taxpayers from the state's 60% exclusion: $257 million.
- 11.4% of tax savings went to the $30,000 or less income class, and 59% to the >$100,000 income class.
- Elderly:
  – 36% of elderly taxfilers have net capital gains.
  – Average net gain is 55% higher than for nonelderly.
  – Tax savings from exclusion is $82 million, nearly a third of the total tax savings, even though they are only 13% of the taxfiling population.

VIII. CAPITAL GAINS EXCLUSION

- Farmers (Schedule F +$6000):
  – 58.3% of them have net capital gains.
  – They represent <2% of the taxfiling population, but account for nearly 5% of capital gains filers,
  – Their tax savings from the exclusion -- $12.7 million -- represent 5% of the total tax savings.