Over the Top: How Tax Returns Show that the Very Rich Are Different from You and Me

By Jenny Bourne and Lisa Rosenmerkel

Deciphering the connections between income and wealth adds to our knowledge of the distribution of economic well-being. Realized income may reveal little about true economic status for the very wealthy, but additional information about the types and timing of income received may help clarify the underlying relationship between yearly income flows and overall wealth. Linked income and estate tax records provide an excellent data source to explore these issues.

Our earlier work showed that portfolios differed significantly across wealth strata and that people with greater wealth tend to have smaller realized yields on their assets. This research used a unique data set that links together several years of income tax returns (Form 1040) for individuals who died between 1996 and 2002, as well as the Federal estate tax return (Form 706) where present. These persons were members of a panel representing the cohort of tax families (primary and secondary filers and their dependents) who filed Form 1040 in Tax Year 1987. We use subsets of these data to extend this line of research by: (1) better establishing the differences between decedents whose estates were required to file a Form 706 (F706 decedents) and those whose estates were not (non-F706 decedents), and (2) estimating wealth at the time of death from earlier income data using a Tobit model.

Perhaps our most important finding is that, at best, income only imperfectly mirrors available economic resources. For some types of income – wages, pensions, and taxable interest income, for instance– the mirror is so dim as to be nearly obscured.

I. Differences between F706 and non-F706 decedents

A. Distribution of observations

The data used in this section pertain to 6,053 individuals who died between 1996 and 2002 and who had the same Form 1040 filing status at death and for the 8 preceding years. Out of this group of decedents, a total of 3,205 also had wealth that exceeded the Form 706 filing threshold. Our analysis categorizes decedents by their gender and Form 1040 filing status (single female, single male, and joint filer) as well as by their Form 706 filing status. Table 1 shows more detail about the number of observations.

Table 1

Number of observations

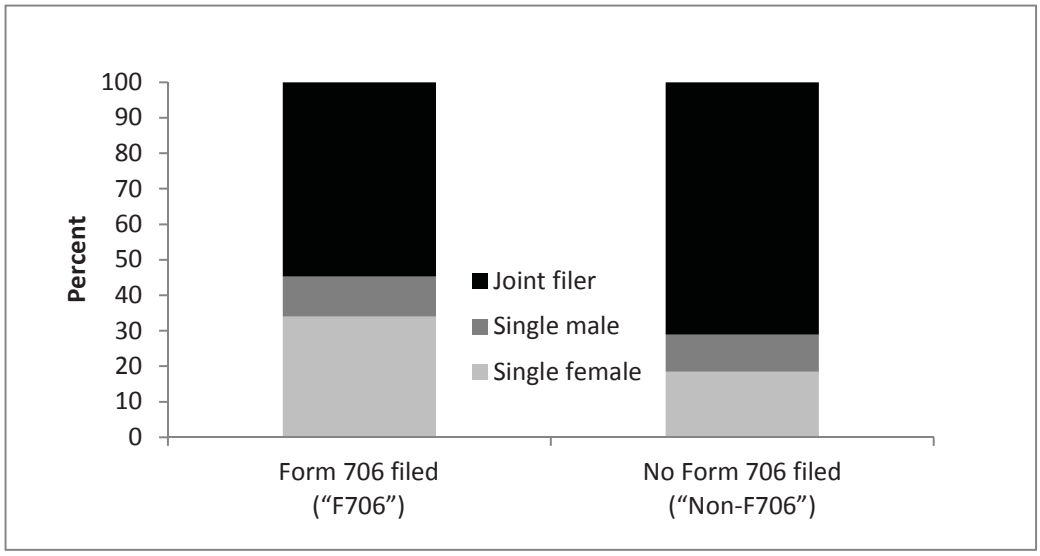
Gender and Form 1040 filing status	Total	Form 706 filed ("F706")	No Form 706 filed ("Non-F706")
Total decedents (1996-2002) with consistent Form-1040 filing status			
Unweighted	6,053	3,205	2,848
Weighted	4,592,095	478,141	4,113,954
Single female ("SF")			
Unweighted	840	462	378
Weighted	920,470	162,702	757,768
Single male ("SM")			
Unweighted	568	330	238
Weighted	486,316	53,763	432,552
Joint Form-1040 filer ("JT")			
Unweighted	4,645	2,413	2,232
Weighted	3,185,309	261,675	2,923,634

NOTE: "Consistent" means the same filing status for the year of death and the 8 preceding years.

By weighting the sample of 6,053 to reflect the population, we find that about 10.4 percent reported filing a Form 706. As Chart 1 shows, the demographic distribution differs for F706 and non-F706 decedents: the fraction of single females is far greater for the former. Chart 2 shows that F706 decedents tended to live slightly longer than non-F706 decedents.

Chart 1

Form 1040 Filing Distribution, by Form 706 Filing Status



NOTE: Distributions are based on weighted observations.

B. AGI distribution

Mean adjusted gross income (AGI) is higher for taxpayers who eventually file a Form 706, as Chart 3 depicts. Average AGI for F706 decedents who filed joint Forms 1040 is about 5 to 7 times as large as for their non-F706-decedent counterparts, whereas the comparable proportion is about 3 to 5 for decedents who filed individual Forms 1040. Perhaps the most notable feature of this chart is the escalation in mean real AGI as death approaches for joint-filer F706 decedents.

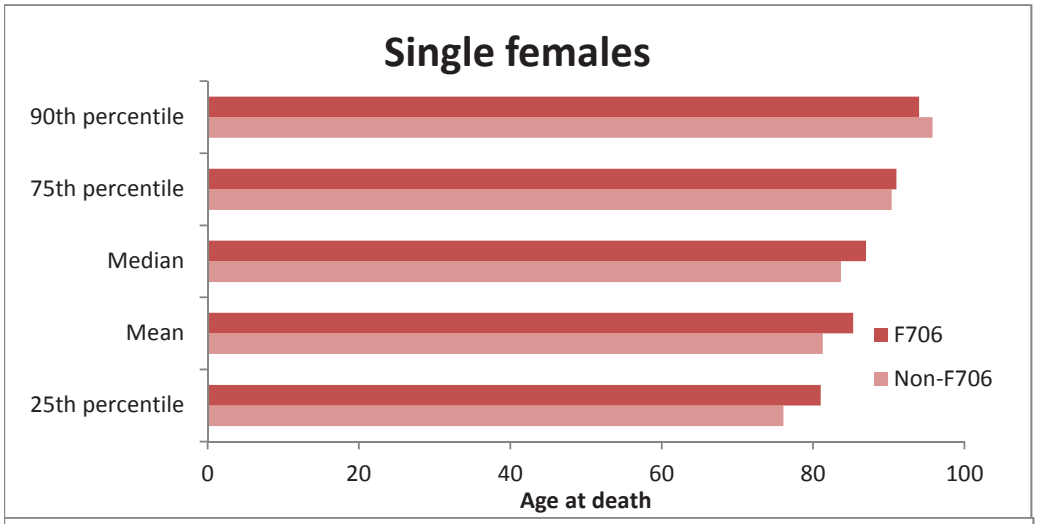
Chart 4 offers more information about the distribution of AGI three years before death. The distributions overlap but, not surprisingly, the charts show that the right tail extends much farther for F706 decedents. The most pronounced difference is for joint returns: the 90th percentile AGI for non-F706 decedents corresponds to about the 30th percentile for F706 decedents. The distributions for single Form-1040 filers—particularly females -- are more compressed and overlap more than for joint Form-1040 filers. The 90th percentile AGI for non-F706 decedents matches up with the 40th percentile for F706 decedents among single males; the same comparison for single females is the 90th percentile to the 50th percentile.

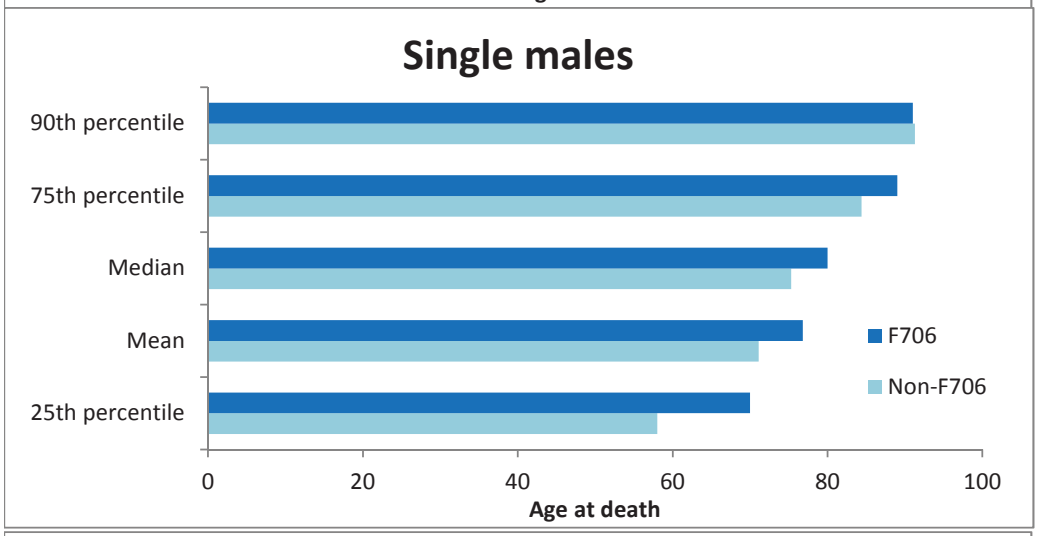
A powerful way to examine the distribution of AGI more closely is to aggregate all returns, calculate decile values for AGI, and then for each decile find the percentage of Form 1040 returns that belong to subsequent F706 decedents. What might we expect to find? Two extreme possibilities present themselves: (1) each decile contains the same percentage of F706 decedents as the entire sample, implying that AGI is unrelated to wealth, or (2) F706 decedents congregate at the very top of the AGI distribution, suggesting that top wealthholders also receive top income. Chart 5 illustrates these two possibilities.

Chart 6 shows that higher AGI deciles correspond to greater percentages of F706 decedents, but it does not portray the stark contrast shown at the bottom of Chart 5. What we see instead is that tax filers receiving above-median AGI are not necessarily wealthy: 70 to 80 percent of the Forms 1040 that reported AGI in the ninth decile belonged to individuals whose estate fell below the Form 706 filing threshold. Thus, we know that AGI is at best an imperfect measure of available economic resources.

Chart 2

Age Distribution at Death, by Form 1040 and Form 706 Filing Status





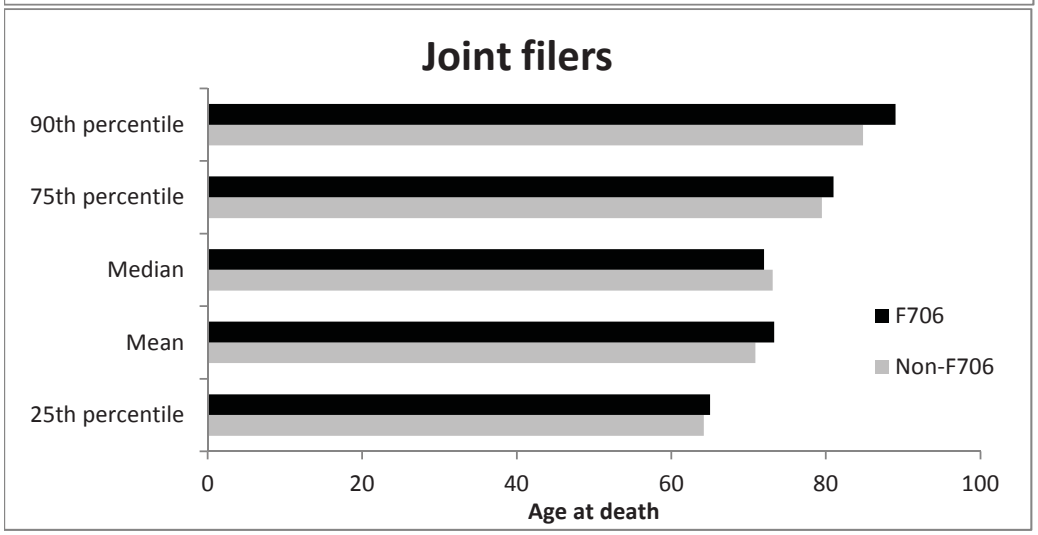
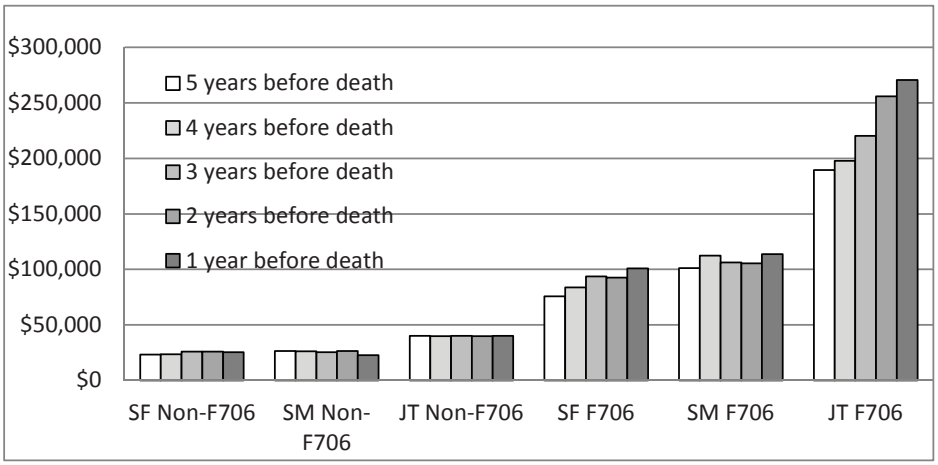


Chart 3

Mean Adjusted Gross Income (AGI) 1-5 years Before Death, by Form 1040 and Form 706 Filing Status



C. Distribution of Various Form 1040 Items

Several charts appear in each section below, with data separated by demographic group: (1) the average amount of a given Form 1040 item in each of the 5 years before death, (2) the average proportion of AGI represented by that item for Form 1040 filers with positive AGI in each of the 5 years before death, and (3) the percentage of F706 decedents by decile of the item 3 years before the person's death. What the first two types of charts show is that F706 decedents generally reported higher average amounts for many Form 1040 items, but the way in which AGI was earned differed considerably for F706 and non-F706 decedents. The decile/percentage charts highlight a key point: many types of income are distributed much differently from underlying wealth—most even more so than AGI. Finally, the average proportion of AGI given as a charitable contribution during life is quite similar for F706 and non-F706 decedents, and the decile/percentage chart reveals that wealth and inter vivos charitable giving do not necessarily go hand-in-hand.

1. Labor-Related Income

Two items on Form 1040 are associated primarily with labor-related activity: wages and salaries, and taxable pension and annuity income. Individuals who received labor-related income in the top decile tend to be wealthy people whose estates surpassed the Form 706 filing threshold—but so are those who received labor-related income below the median. These data confirm something economists have long realized: measures of wellbeing based upon labor income do not adequately reflect underlying wealth.

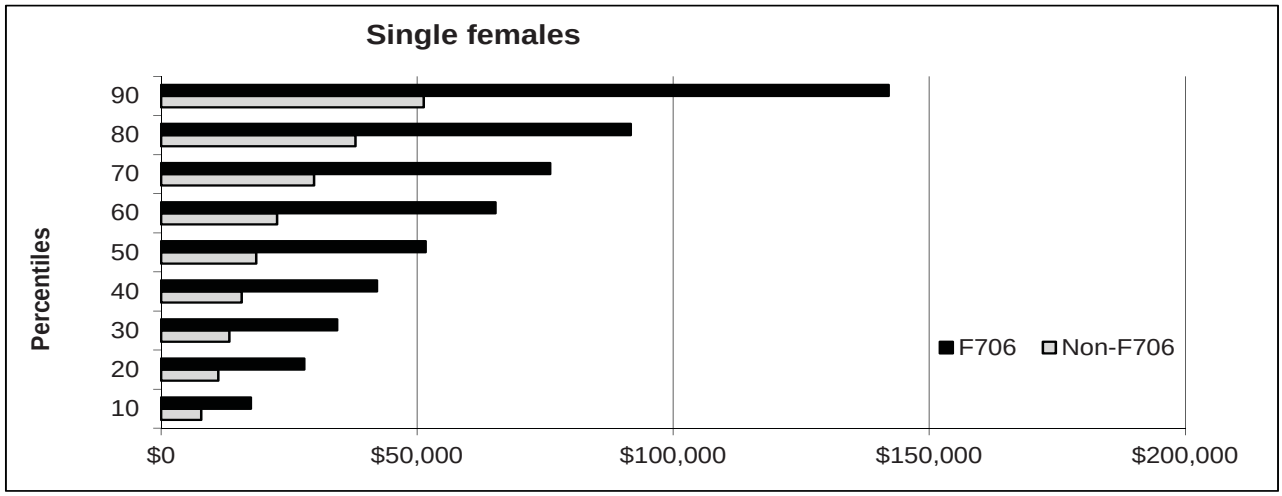
a) Wage and Salary Income

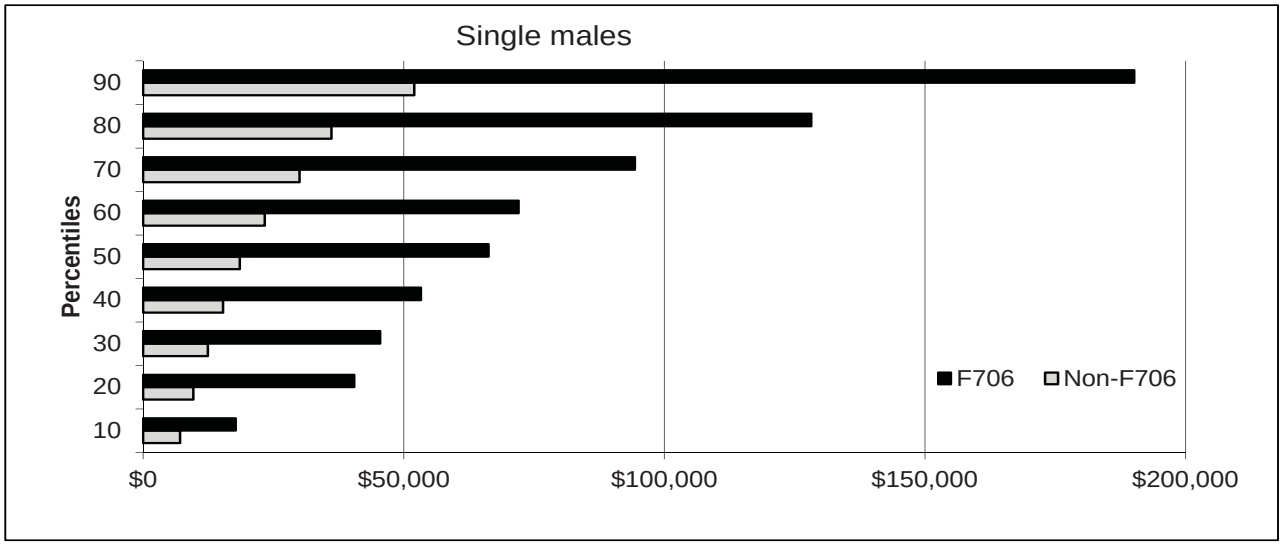
On average, F706 decedents who filed joint Forms 1040 or were single males received 2 to 3 times the salary of non-F706 decedents, as Chart 7 reveals. The difference in means occurs mostly because of salary received at the very top of the distribution: the median salary is zero for all groups. But the chart also shows that the proportion of AGI received as salary was smaller for F706 decedents who were joint filers or single males: 15-25 percent as compared to 25-35 percent. That is, less-wealthy Form 1040 filers (whether individual males or joint filers) received a greater share of AGI as salary. Both average amount and proportion fell as death approached for these decedents.

Perhaps most striking in this chart is the minuscule average amount of salary received by single females whose estate met the F706 filing threshold. In part, this is due to the age of many of these decedents – they simply no longer held employment when they filed their Forms 1040, if they ever did.

Chart 4

Adjusted Gross Income (AGI) Percentiles 3 Years Before Death, by Form 1040 and Form 706 Filing Status





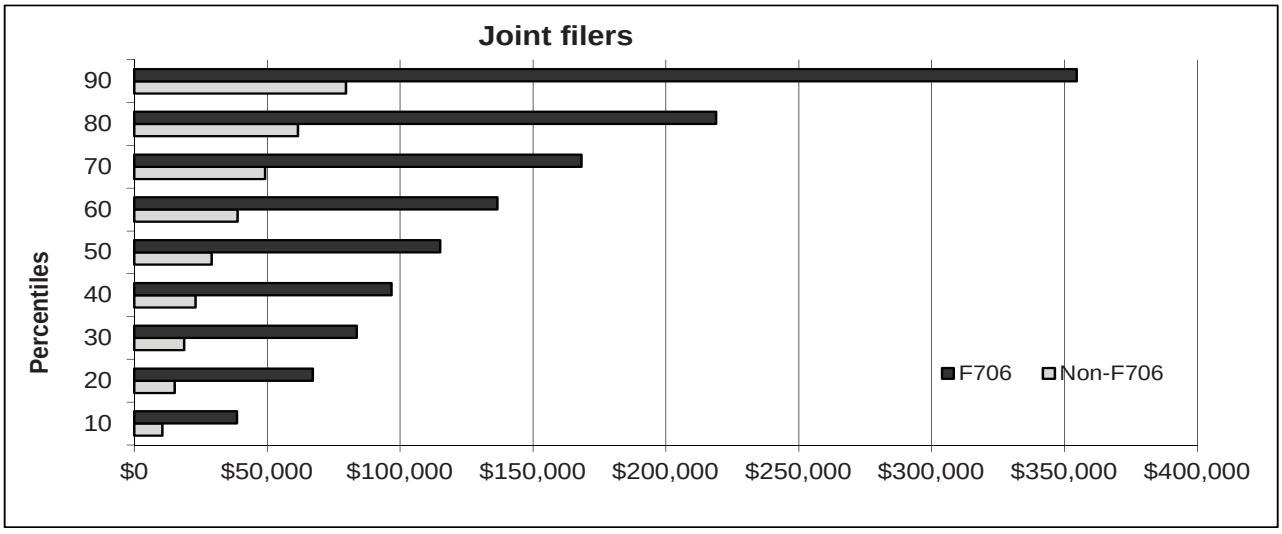


Chart 5

Examples of Two Distributional Extremes

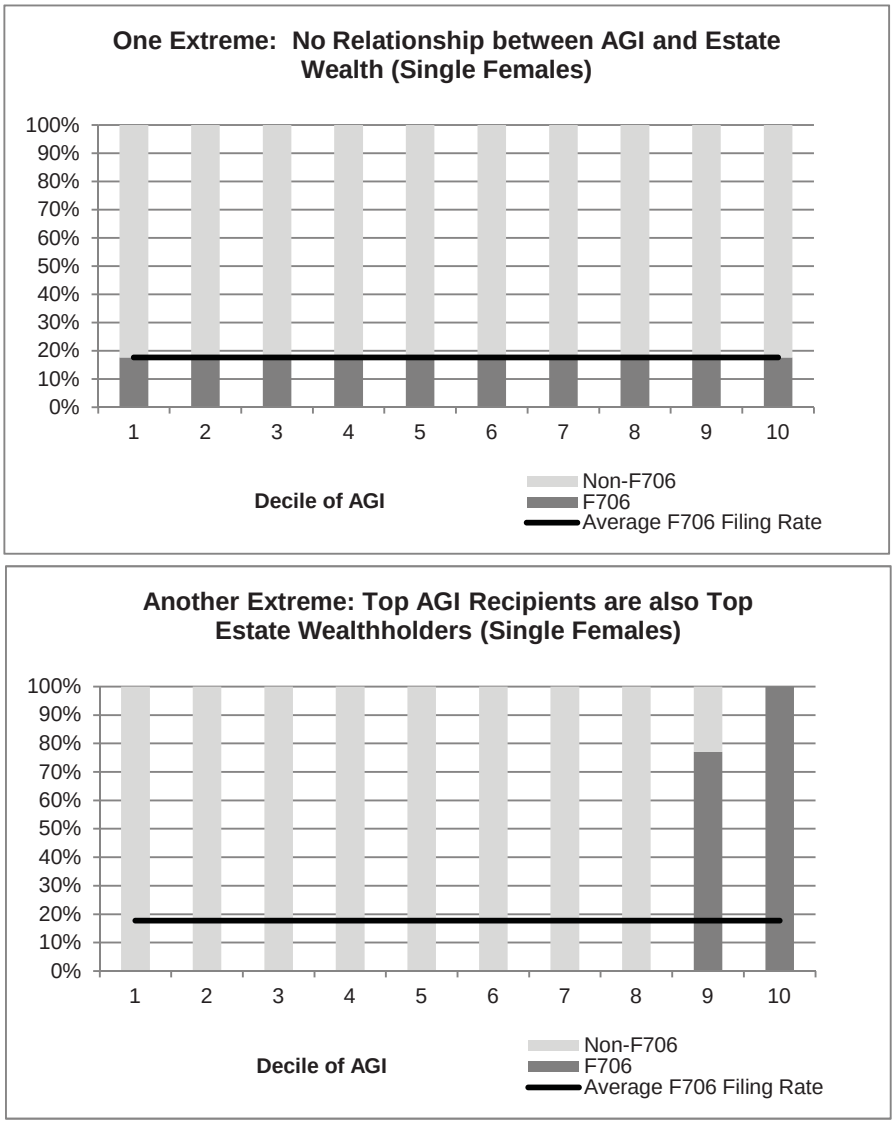


Chart 8 shows that more than 80 percent of Forms 1040 filed jointly or by single males that reported wages and salaries in the top decile belonged to taxpayers who did not meet the estate tax filing threshold; 95 percent in the next-to-the-top decile fell in that category. The figures are 92 and 85 percent for single females. Receiving a large salary thus does not necessarily connote large wealth, at least for persons fairly close to death.

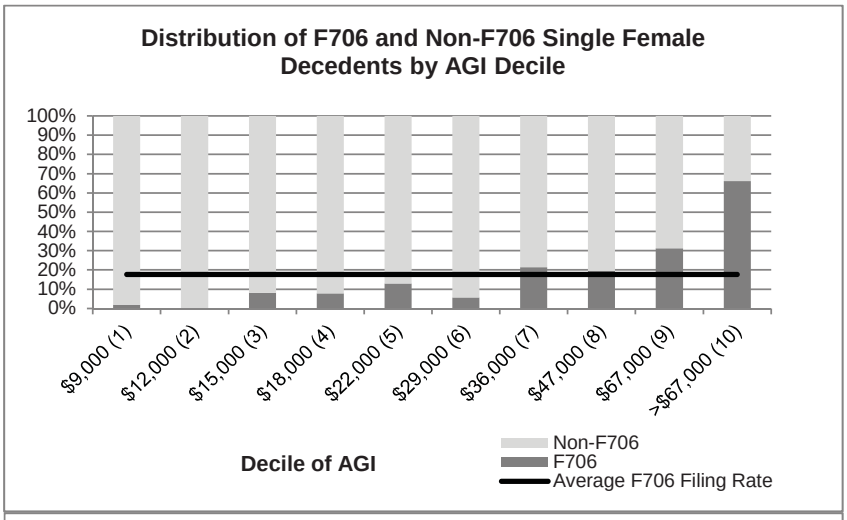
b) Taxable Pensions and Annuities

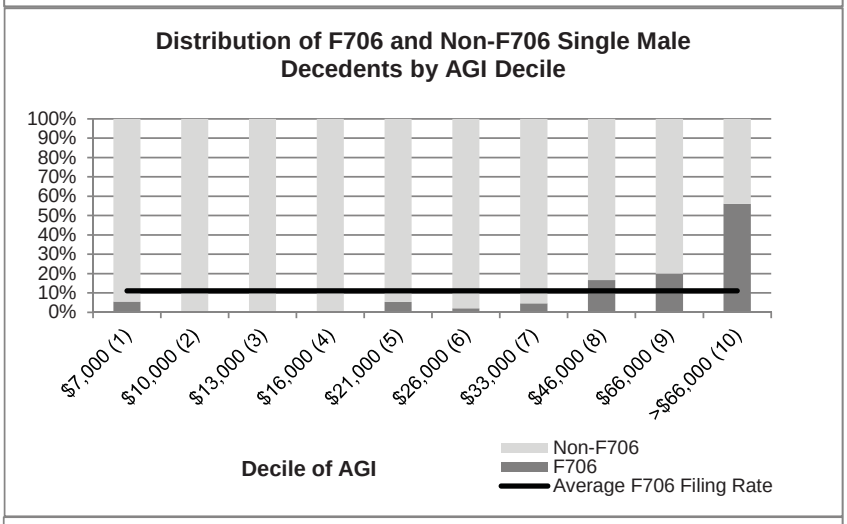
Mean taxable pension and annuity income for F706 and non-F706 decedents is not as far apart as salary income, as Chart 7 reveals. For single Form 1040 filers, the average is 1 to 1.25 as large; for joint filers, the average is about 1.75 as large.

Like the salary-AGI ratio, the average ratio of taxable pension and annuity income to AGI is substantially larger for non-F706 filers (31-42 percent as compared to 12-14 percent): people whose estate did not meet the filing threshold relied much more heavily on pension and annuity income to provide AGI than their wealthier counterparts.

Chart 6

Distribution of F706 and Non-F706 Decedents by Adjusted Gross Income (AGI) Decile, by Filing Status of Decedent





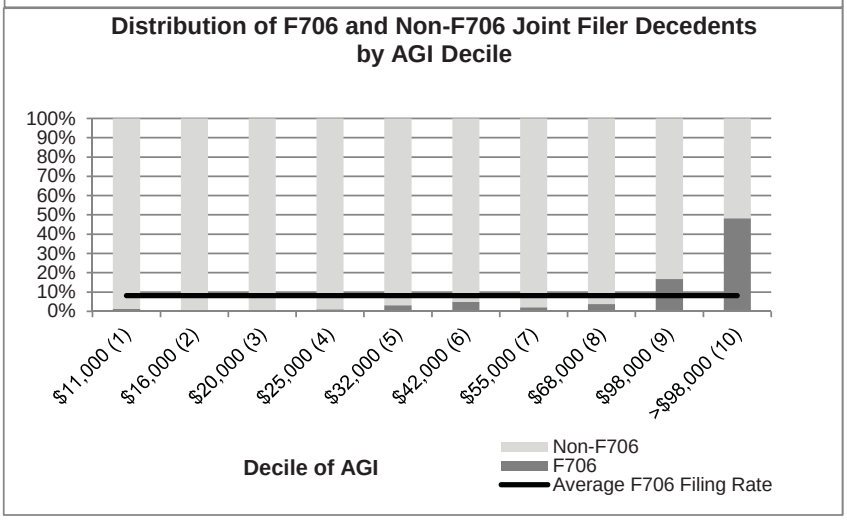


Chart 7

Labor-related Income Means 1 - 5 Years Before Death, by Form 1040 and Form 706 Filing Status

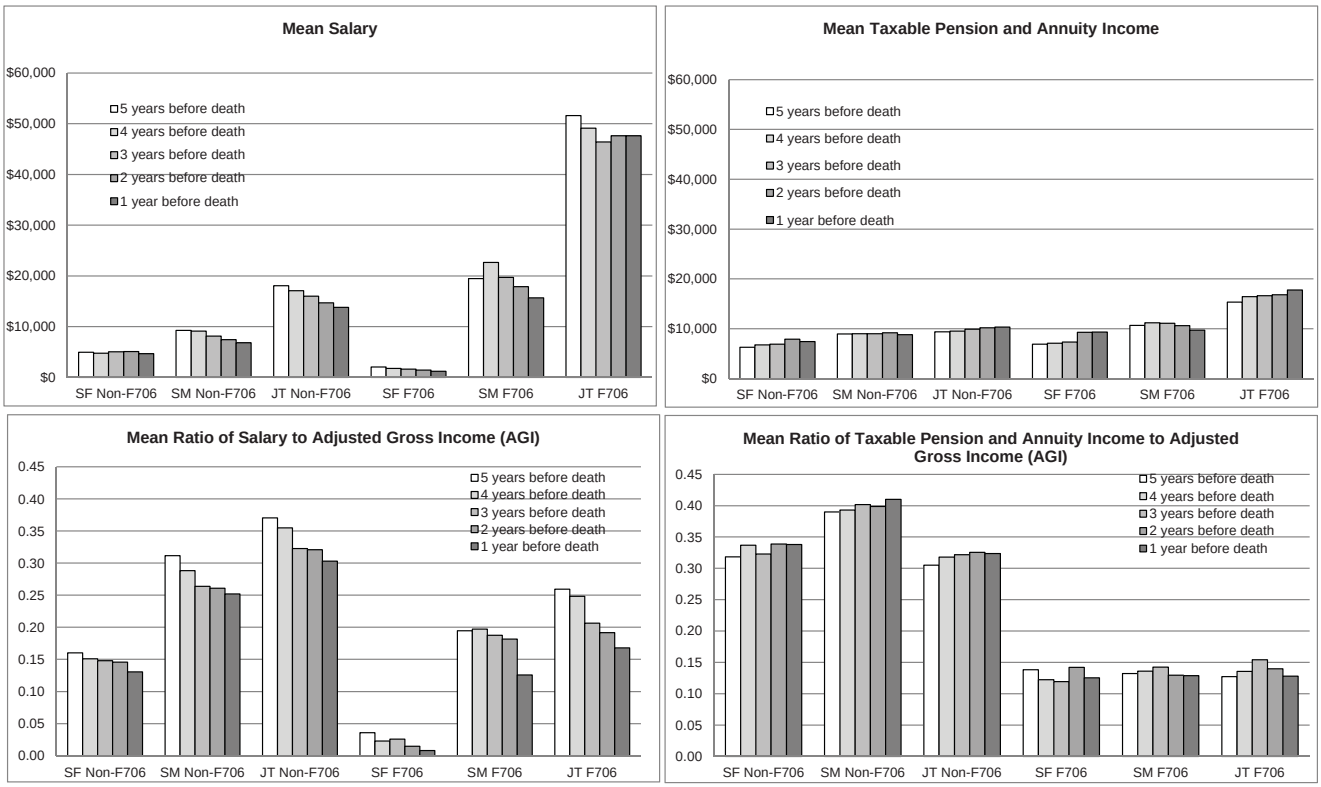


Chart 8 shows that F706 decedents bulk large below the median for taxable pension and annuity income. Single female F706 decedents make up 30 percent of Forms 1040 reporting in the 40-50th percentile of taxable pensions and annuities although these decedents filed only 17.7 percent of the forms, for instance. Non-F706 decedents feature prominently at the high end of the distribution, particularly in deciles just below the top one: they represent 90 to 95 percent of the Forms 1040 in percentiles 50 to 90. Given that pension and annuity income is typically related to earlier employment, this suggests (not surprisingly to most economists) that measures of wellbeing based upon labor-market activity could be quite different from those based on wealth, even for persons in the prime of life.

2. Capital-Related Income

Form 1040 reports a variety of forms of capital income, including taxable and tax-exempt interest, dividends, and schedule D income (capital gains and losses). Of these, tax-exempt interest income appears to be most closely related to wealth status.

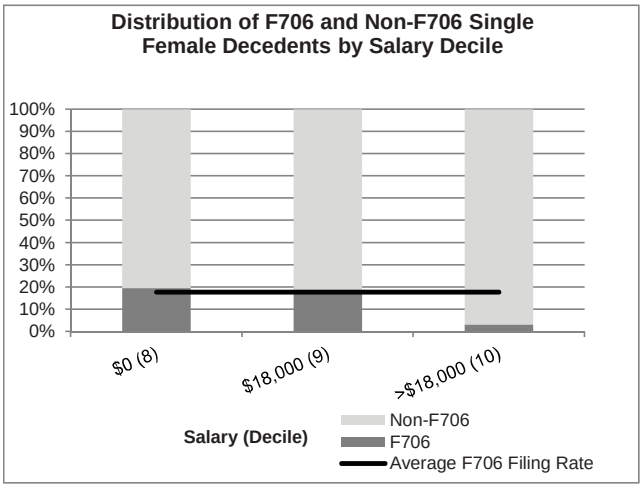
a) Taxable Interest

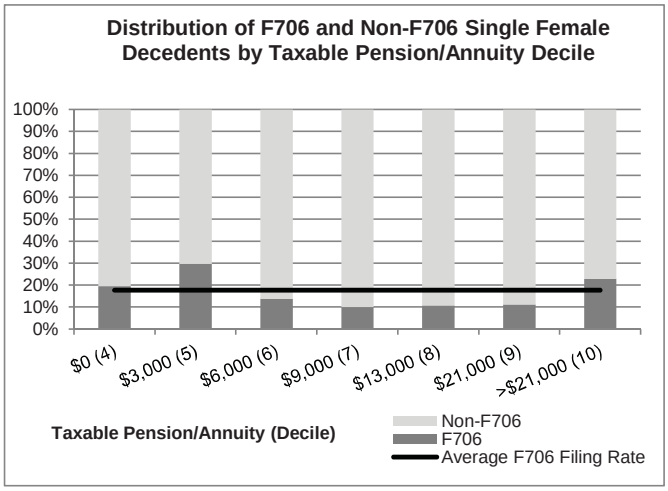
Single females stand out when it comes to taxable interest income, as Charts 9 and 10 reveal. Regardless of F706 status, single females took 25 to 35 percent of AGI as taxable interest, whereas the proportions are lower (12-20 percent) for the other groups. And single female F706 decedents received more than half of interest income in the top decile despite filing fewer than 20 percent of Forms 1040.

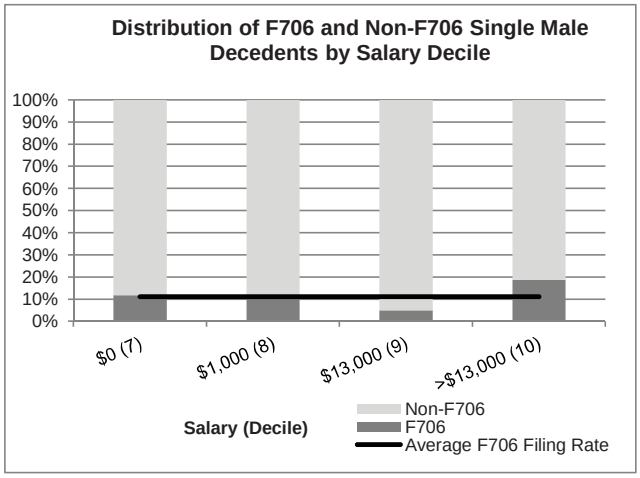
Still, taxable interest income went largely to the non-wealthy, even among those in the top deciles of interest income received. Among joint filers and single males, 85 percent or more of Forms 1040 represented in each decile above the median up to the ninth one belong to non-706 decedents. About 70 percent of the top decile corresponds to non-706 decedents. Between 75 and 90 percent of each decile from the median upward (aside from the top one) among single females belong to non-F706 decedents. Like labor-related income, a high level of taxable interest income may not indicate substantial wealth.

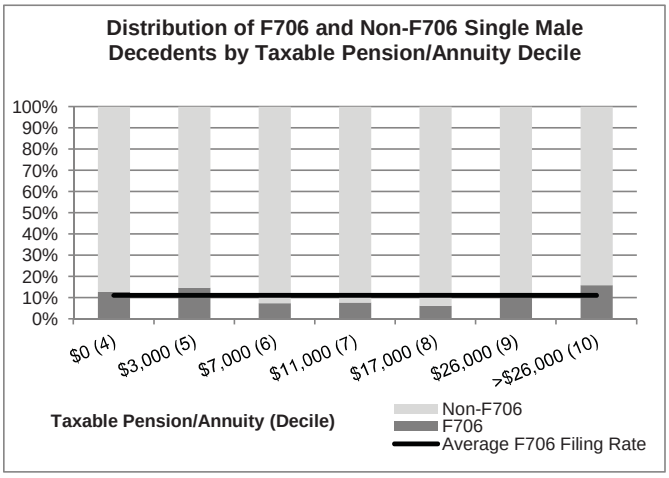
Chart 8

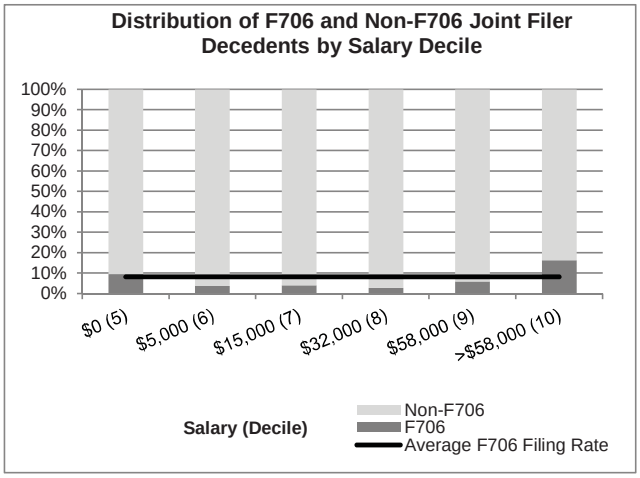
Labor-related Income Distributions

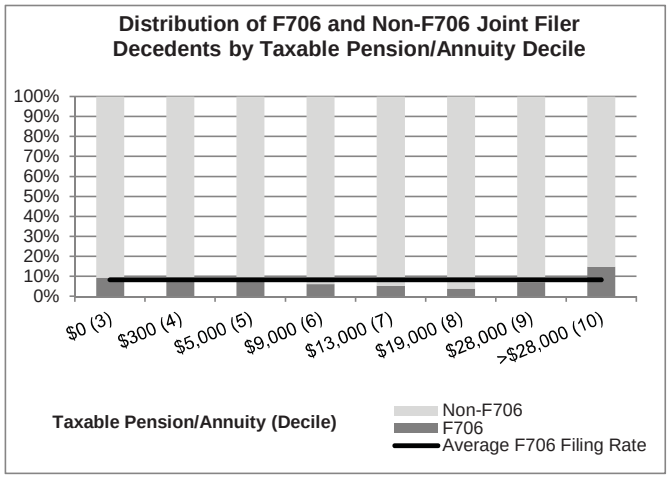












b) Tax-Exempt Interest

Chart 9 indicates that F706 decedents received far more tax-exempt interest on average than non-F706 decedents. What is more, the chart shows that tax-exempt interest income as a fraction of AGI is much larger for F706 decedents (13-62 percent) than for non-F706 decedents (1-2 percent). This is to be expected: we know that wealthier people tend to receive greater AGI and thus face higher marginal income tax rates, and the benefits of tax-free income are greater for those in higher tax brackets. Single male F706 decedents received a particularly large proportion 4 and 5 years before death—in part, this appears to be due to their reducing AGI by taking minimal income or even losses on Schedule D and Schedule E, as later charts will show.

Chart 9

Interest Income Means 1 - 5 Years Before Death, by Form 1040 and Form 706 Filing Status

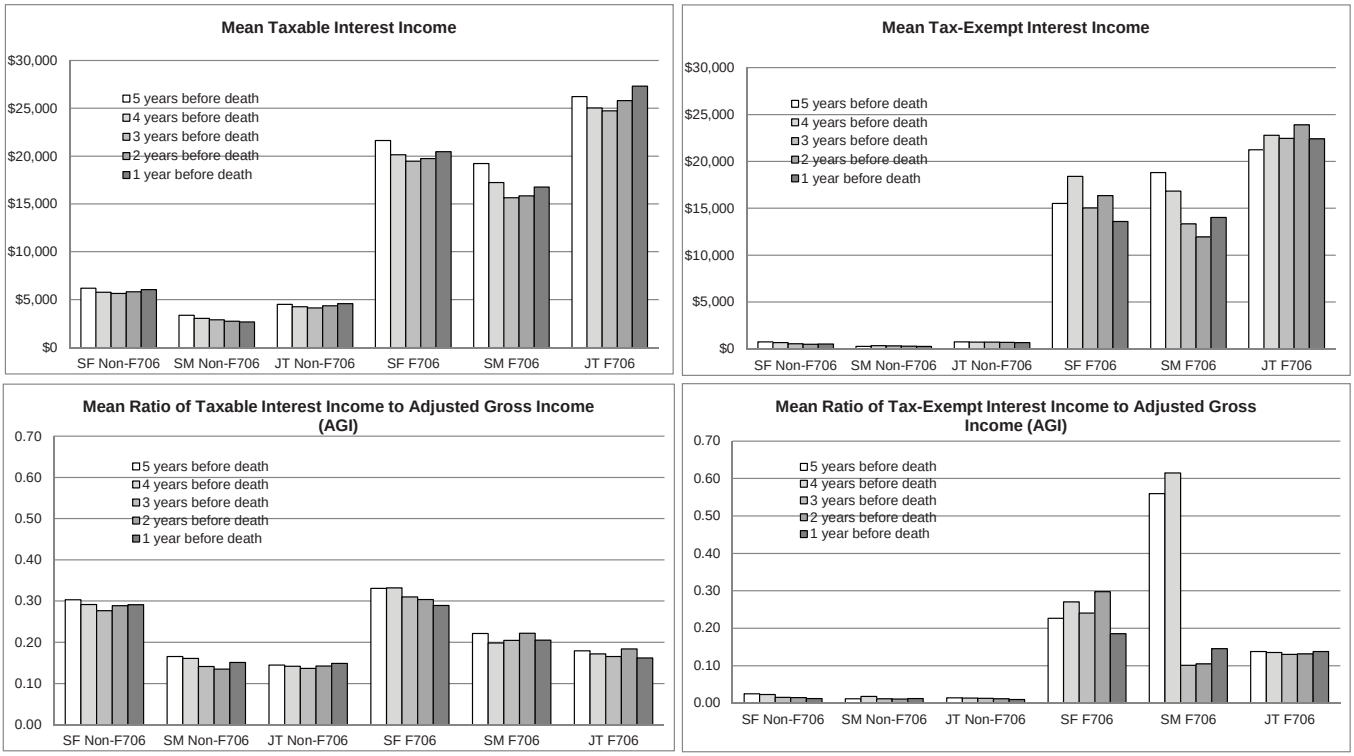


Chart 10 offers another view of the attractiveness of tax-exempt interest income to the wealthy. In the top decile of tax-exempt interest received, more than 40 percent of returns are F706 decedents for joint filers and single males; for single females, 75 percent are F706 decedents. The presence and amount of tax-exempt interest is thus much more indicative of high wealth than many other Form 1040 items. Still, it is worth noting that over half of Forms 1040 filed jointly or by single males that reported tax-exempt interest income in the top decile came from taxpayers who did not leave an estate that exceeded the filing threshold.

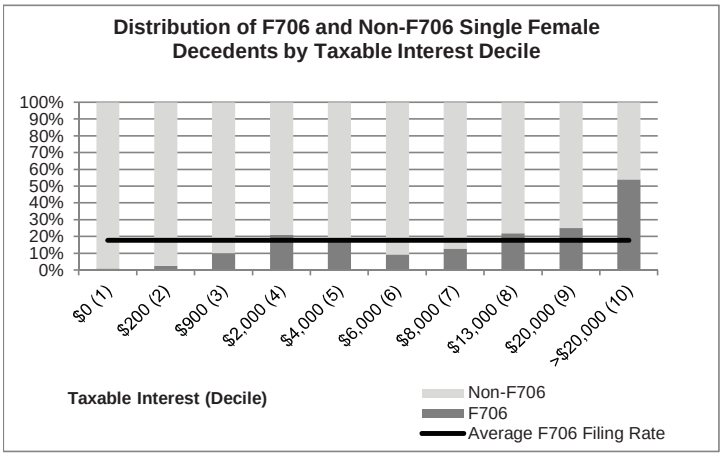
c) Dividends

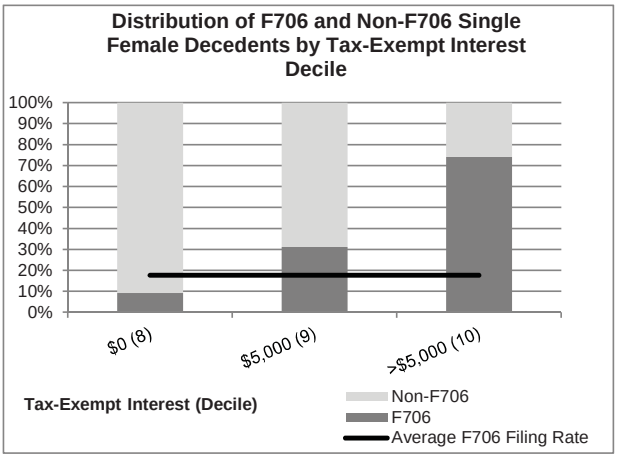
Like tax-exempt income, average dividends received are much greater for F706 decedents than for non-F706 decedents, as Chart 11 shows. This is particularly true for joint filers and single males: F706 decedents in these groups received 13 to 16 times the average dividends received by non-F706 decedents. For single females, the ratio is about 9.

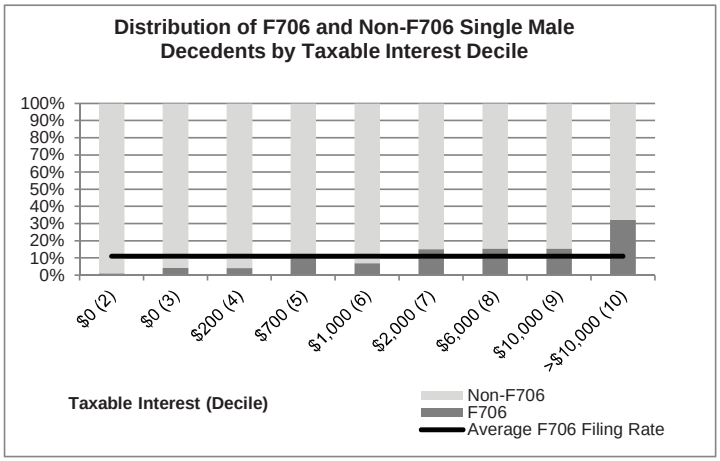
Chart 11 also portrays the average ratio of dividends to AGI. Three patterns emerge: (1) the ratio is far larger for F706 decedents (13-24 percent) than for non-F706 decedents (4-13 percent); (2) the ratio for single F706 decedents exceeds that for joint-filer F706 decedents (17-24 percent as compared to 12-13 percent); and

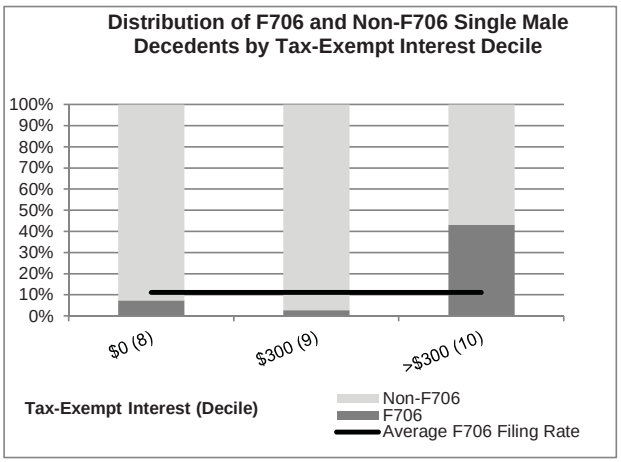
Chart 10

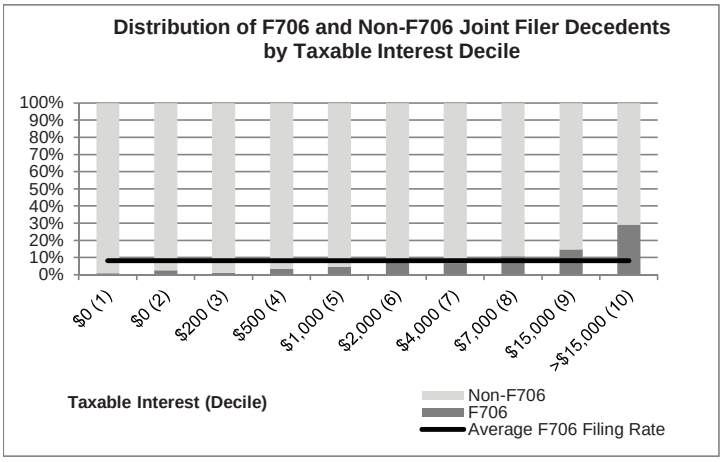
Interest Income Distributions

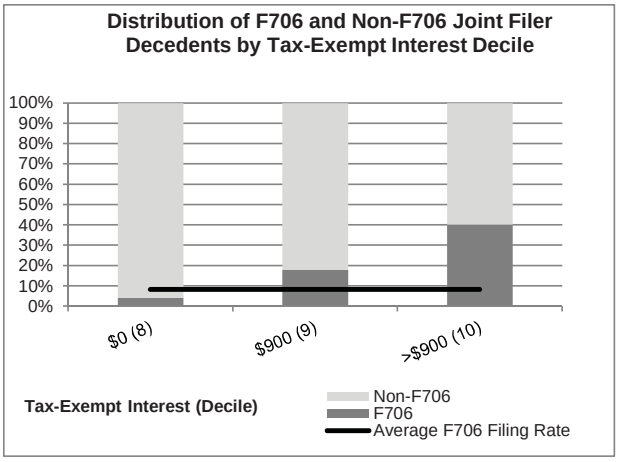










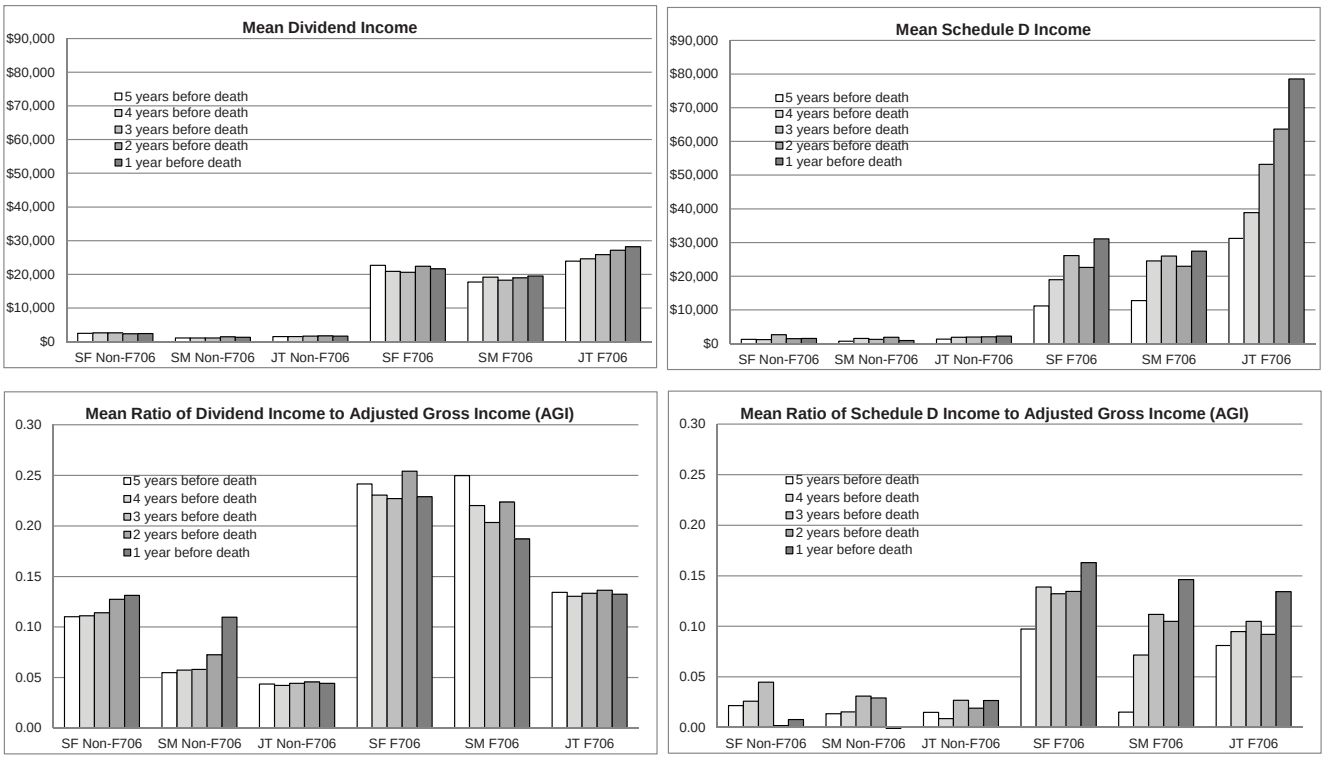


(3) the ratio for single female non-F706 decedents is larger (11-13 percent) than for other non-F706 decedents (4 percent for joint filers and 6-7 percent for single males, except in the last year before death).

As elsewhere, averages mask some important features characterizing F706 and non-F706 decedents. Chart 12 shows that F706 decedents figure quite large above the 90th percentile of dividend income. Single female

Chart 11

Dividend and Schedule D Income Means 1 - 5 Years Before Death, by Form 1040 and Form 706 Filing Status



F706 decedents generated nearly 70 percent of the returns in the top decile although they constituted less than 18 percent of returns overall, for instance. This still implies that 30 percent of Forms 1040 reporting dividends in the top decile belong to single females who did not leave a taxable estate. And non-F706 decedents are over-represented in the 60-70th percentile for joint filers and single males and in the 50-60th percentile for single females: people who received somewhat more than the median level of dividend income were disproportionately not wealthy individuals. The distribution of dividends, like that of many other income items, thus only imperfectly reflects wealth levels.

d) Schedule D Income

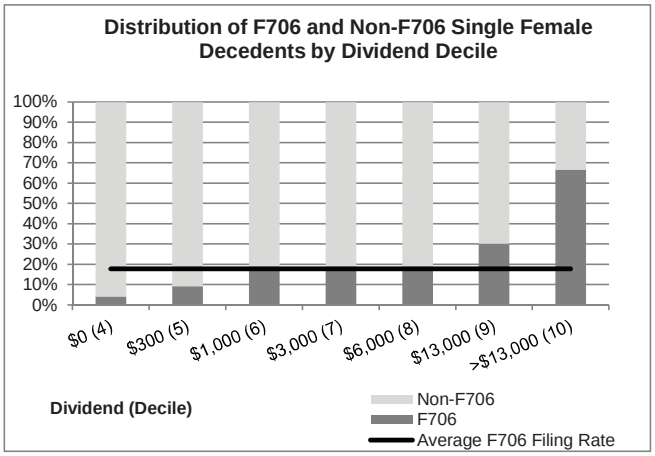
Taxpayers report capital gains and losses on schedule D of Form 1040. Notably, mean Schedule-D income tends to rise—particularly for joint filers—as death approaches for an F706 decedent, as Chart 11 reveals. What is more, the lowest decile indicates capital losses for joint filers and single males who subsequently generate a Form 706. As with tax-exempt income and dividends, F706 decedents received a greater proportion of their AGI as Schedule-D income on average than non-F706 decedents—10 to 17 percent as compared to less than 5 percent. Only a fifth to a third of non-F706 decedents even reported Schedule-D income, whereas over 80 percent of F706 decedents did. Still, 50 to 80 percent of Forms 1040 reporting Schedule-D income in the top decile came from persons who did not leave a taxable estate, as Chart 12 shows.

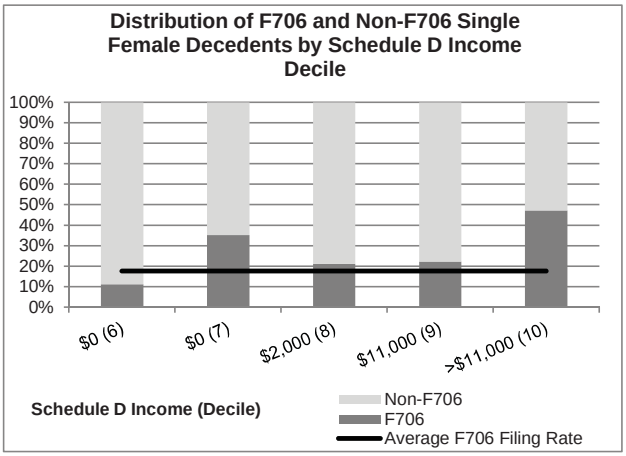
3. Labor/Capital Income: Schedule E and Schedule C

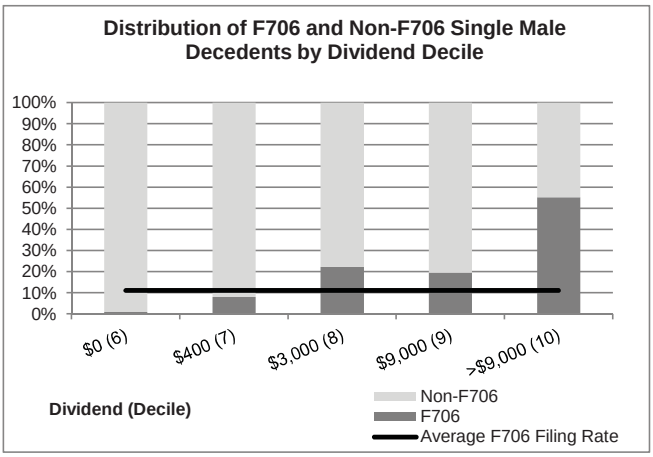
Schedule E reports income from rental real estate, royalties, partnerships, S corporations, estates, trusts, and real estate mortgage investment conduits. Schedule C reports business income from sole proprietorships. Chart 13 shows that both are greater on average for F706 decedents, with a larger discrepancy for Schedule-E income. Schedule-C income does not appear on most Forms 1040: single female non-F706 decedents report it on fewer than 2 percent of returns and their F706-decedent counterparts on fewer than 5 percent of returns.

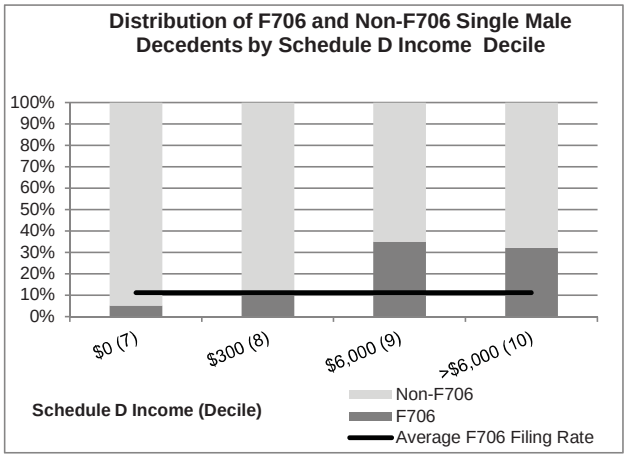
Chart 12

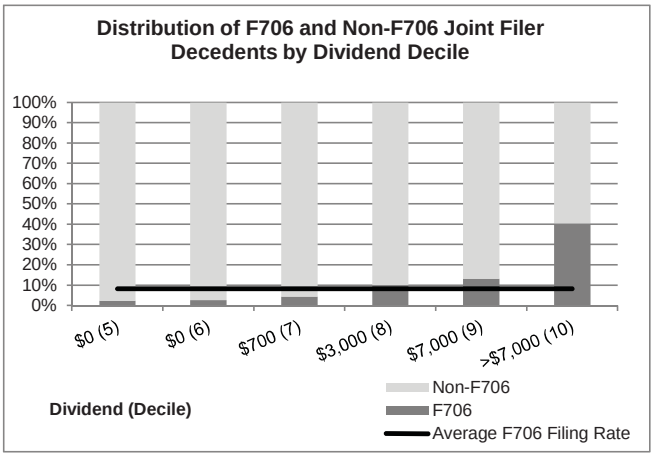
Dividend and Schedule D Income Distributions











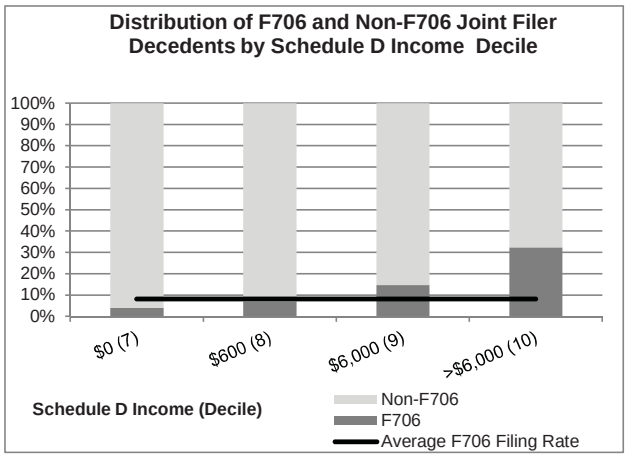


Chart 13

Schedule E and Schedule C Income Means 1 - 5 Years Before Death, by Form 1040 and Form 706 Filing Status

The figures for single males are 4 percent and 20 percent, and for joint filers are 15 percent and 22 percent. Schedule-E income appears on 15-20 percent of Forms 1040 for non-F706 decedents and 30-60 percent for F706 decedents. Like mean schedule-D income, mean schedule-E income rose for joint filers as death approached for an F706 decedent.

One interesting set of results is for single male F706 decedents as compared to other decedents. The average ratio of Schedule-E income to AGI is negative for the 4 years before death for this group, but single male F706 decedents are also disproportionately represented in the top two deciles (Chart 14). The ratio of Schedule-C income to AGI is also generally larger for these decedents as compared to other groups. These patterns seem to indicate a greater level of business-related activity shortly before death for single males whose estates exceed the filing threshold than for other F706 decedents.

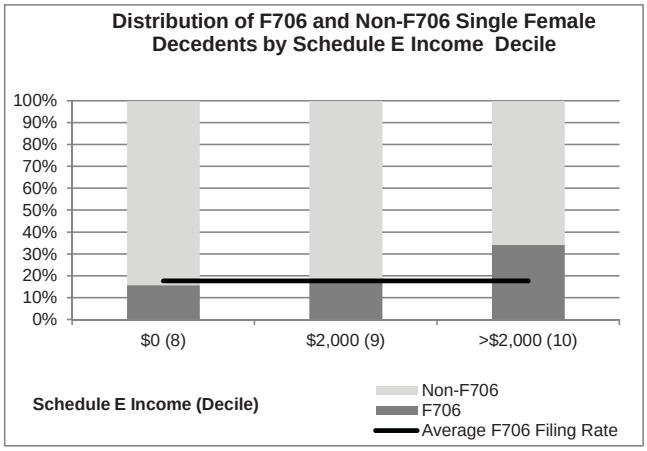
4. Charitable Contribution Deductions

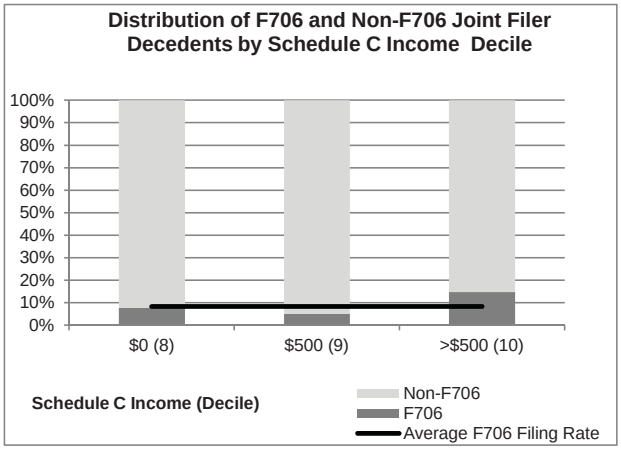
Charts 15 and 16 offer information on charitable contribution deductions. Not surprisingly, the amount given by F706 decedents is larger on average than for non-F706 decedents (Chart 15). But the fraction of AGI given in charitable contributions—both by itemizers and overall—is quite similar across decedents. The other notable feature of Chart 15 is the bump-up in the average charitable contribution deduction by joint filers in the year before one of the filers died with an estate exceeding the F706 filing threshold.

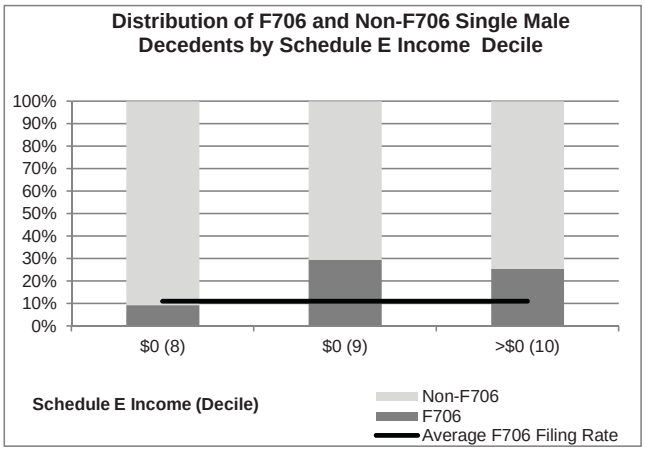
Chart 16 gives more detail on the distribution of charitable contribution deductions. Among itemizers, for example, 55-65 percent of Forms 1040 reporting deductions in the top decile belong to individuals who did not leave a taxable estate. The figure is 85-95 percent for the next decile down. Wealthy people contribute to charity during their lifetimes, certainly, but a substantial portion of the most generous givers are not among the ranks of the rich.

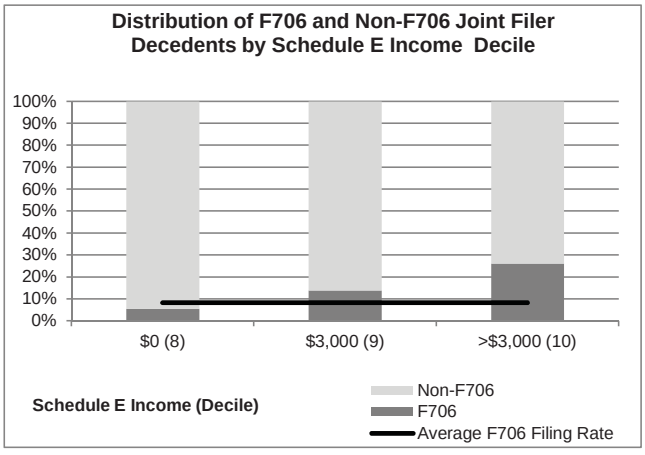
Chart 14

Schedule E and Schedule C Income Distributions









II. Tobit analysis: Relationship of wealth to income

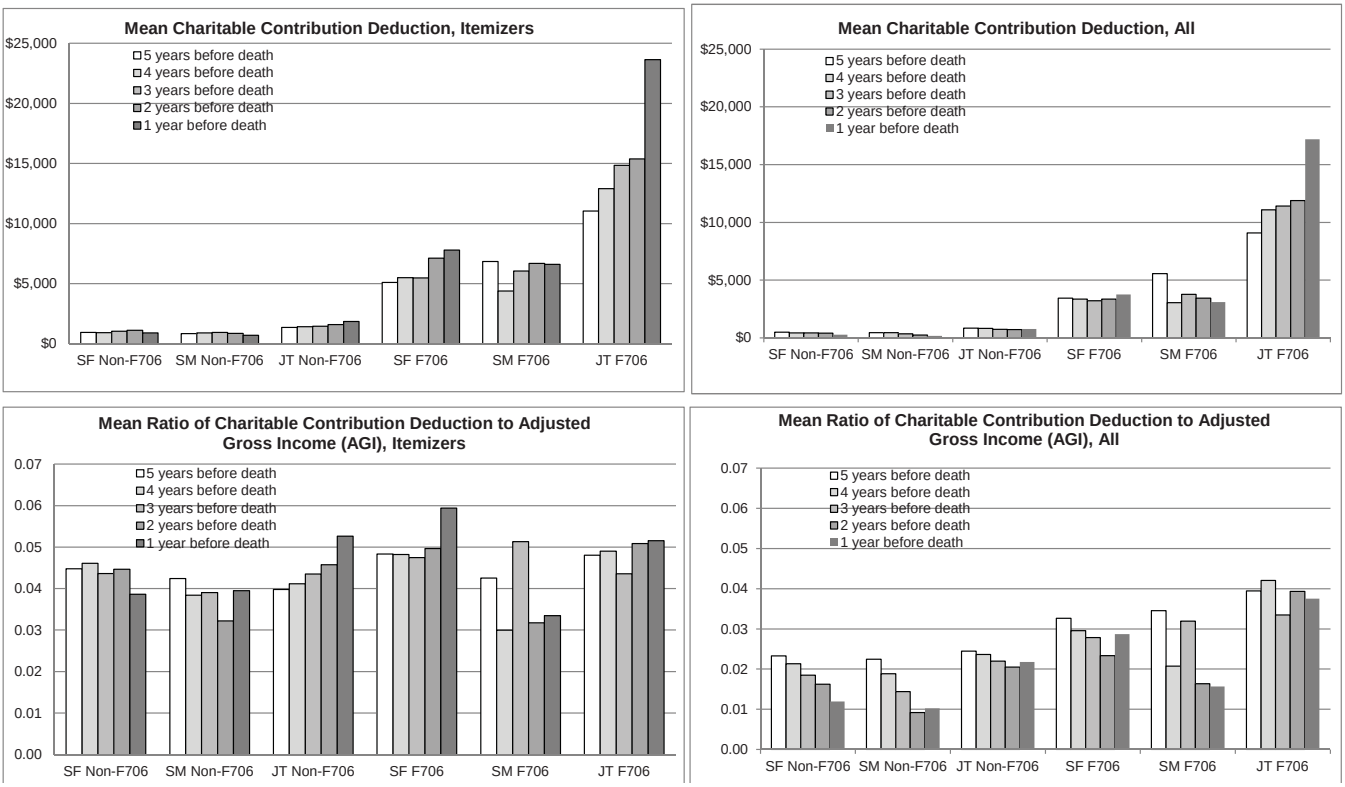
In our earlier research, we estimated individual wealth from Form 1040 data via a Heckman two-step (Heckit) approach correcting for selection bias. Several reviewers of our work suggested that, because we know the estate-tax filing threshold, we could instead use a Tobit model to estimate the wealth-income relationship.

Observed estate wealth is censored below by the filing threshold, so the Tobit model at first glance appears appropriate. Yet suppose that an outside observer would like to use income tax data to construct a reasonable estimate of underlying wealth. Also suppose that certain features of a Form 1040 help predict the probability that a taxpayer will ultimately generate a Form 706 (and thus generate a wealth observation), but these same features do not matter significantly in predicting the size of the estate. The advantage of the Heckit model over the Tobit is that it permits the selection equation to contain different variables than the substantive equation. If selection bias matters, then the Heckit is arguably preferable for constructing a model that predicts wealth from Form 1040 information.

We have the luxury of knowing the year of death for the individuals in our sample. Yet researchers interested in constructing wealth estimates from income information typically will not have that knowledge. In

Chart 15

Charitable Contribution Deduction Means 1 - 5 Years Before Death, by Form 1040 and Form 706 Filing Status



what follows, then, we choose a single year (1993) of income information, use constant dollar amounts, and construct a model designed to estimate end-of-life wealth (in constant dollars) from Form 1040 information. If our model is sound, we can potentially use the resulting coefficients to estimate implicit rates of return on various types of assets and to predict wealth from income information for individuals who are still alive.

In our earlier work, we combined all decedents and ran a single regression, controlling for gender and marital status. The evidence from the previous section of this paper suggests breaking our sample into demographic subsamples so as to permit the possibility of different coefficients on the various regressors for different subsamples. In this section, unlike the previous one, we designate marital status as of the time of death rather than controlling for Form-1040 filing status over a number of years. Consequently, "single" filers include not only long-single persons but also recently widowed individuals, whose income and wealth patterns might more closely resemble those for married decedents. In future work we hope to refine the filing status indicator in our regression analysis.

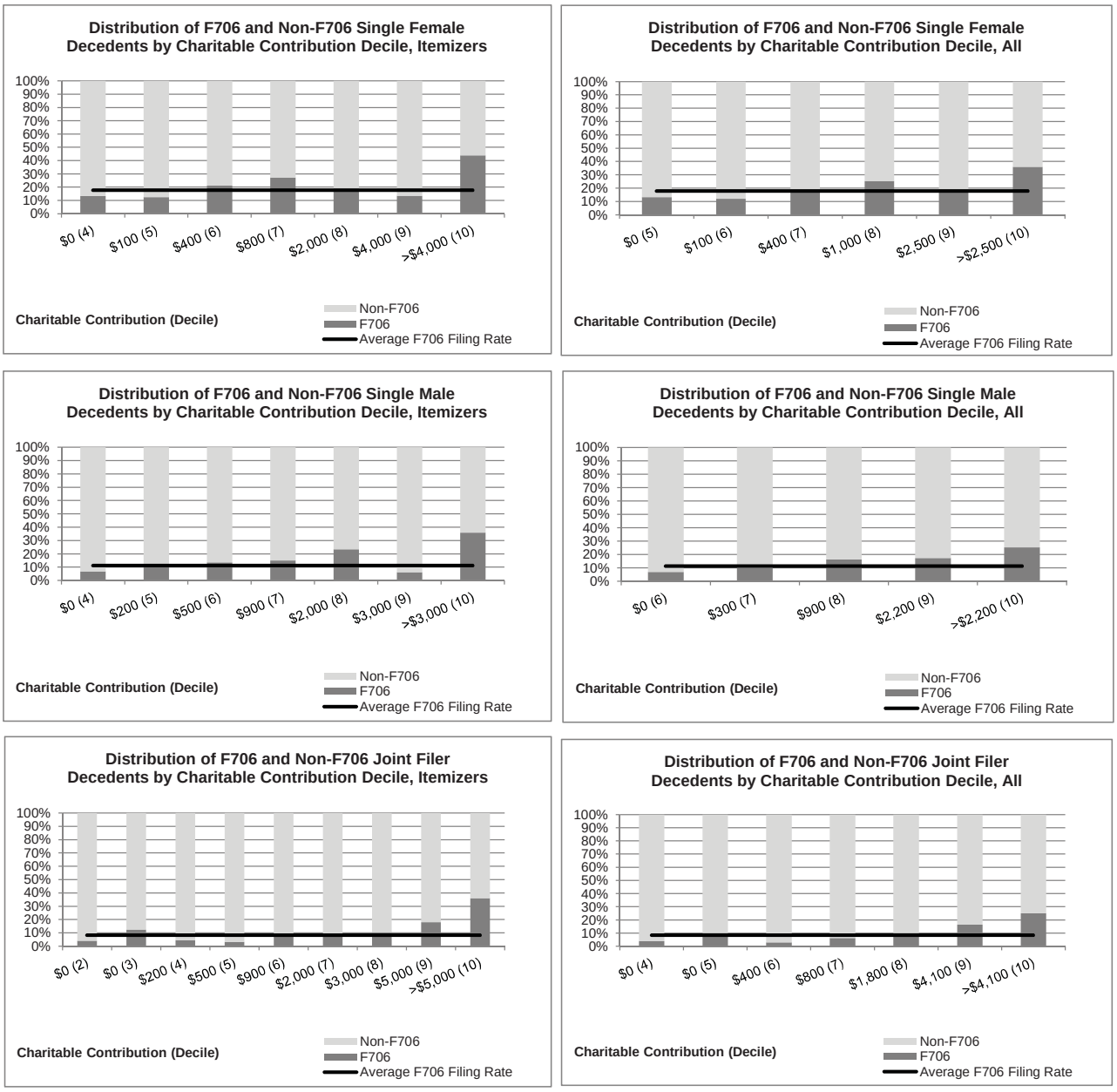
Table 2 gives coefficients pertaining to a simple regression of total gross estate on AGI in 1993. Three notable features emerge: (1) the two methods—Heckit and Tobit—yield similar coefficients, (2) the coefficients differ across demographic groups, with single females realizing particularly small implicit rates of return, and (3) adjusted R^2s are fairly small, especially for single males and joint filers.

The last feature suggests using the information from the previous section on differences between F706 and non-F706 decedents to build a more comprehensive regression model. Table 3 shows coefficients from a regression of total gross estate on a set of Form-1040 line items: total deductions, dividends, taxable interest, tax-exempt interest, Schedule-E income, Schedule-C income, and (in the Heckit) the selection variable lambda. Table 4 gives means for the variables used in the regression, with values rounded to the nearest thousand.

Variations in deductions are positively associated with variations in AGI, so finding a positive coefficient on this variable is not surprising. The coefficient on dividends is large, particularly for single males, implying a

Chart 16

Charitable Contribution Deduction Distributions



yield of about 1.5 percent on dividend-bearing assets for married decedents, less than 1 percent for single males, and about 2.6 percent for single females. As we noted in our earlier research, these low realized returns suggest that wealthy people choose investments in part to time income for tax purposes. Dividend-bearing (or potentially dividend-bearing) assets can appreciate in value, but most taxpayers do not pay taxes on an accrual basis. So these valuable assets show up in estate wealth but do not generate much in taxable realized income during the decedent's lifetime.

Interpreting the other coefficients is somewhat tricky. A negative coefficient probably does not imply that more income realized on a particular sort of asset causes lower wealth; instead, it could mean that taxpayers who

Table 2

Simple Regression Results, Heckit and Tobit Models, by Form 1040 Filing Status

Item	Single female		Single male		Joint filer	
	Heckit	Tobit	Heckit	Tobit	Heckit	Tobit
Adjusted gross income (AGI)	**25.09**	**23.31**	**14.63**	**13.59**	**11.55**	**10.73**
Lambda	ns	N/A	ns	N/A	**s**	N/A
Adjusted R squared	0.4466	N/A	0.0955	N/A	0.1775	N/A
N	504	504	441	441	2,943	2,943

NOTE: The first stage of the Heckit also includes dummy variables indicating the presence of tax-exempt interest, dividends, schedule E income, and schedule D income. All regressions also control for age of the decedent in 1993 and, in the regressions for married decedents, gender. Dependent variable=total gross estate if exceeds maximum filing threshold. Bolded coefficients are significant at the 5 percent level.
ns—Coefficients not significant at the 5 percent level are marked "ns."
s— Coefficients which are significant and positive are marked "s".
N/A— Not applicable

Table 3

More Complex Regression Results, Heckit and Tobit Models, by Form 1040 Filing Status

Item	Single female		Single male		Joint filer	
	Heckit	Tobit	Heckit	Tobit	Heckit	Tobit
Deductions	**10.77**	**10.35**	9.60	**9.91**	**27.33**	**27.22**
Dividends	**37.61**	**37.97**	**124.47**	**123.96**	**67.66**	**66.81**
Taxable interest	**18.91**	**19.40**	**50.42**	**50.59**	-3.31	**-3.73**
Tax-exempt interest	**19.82**	**20.66**	-16.24	**-19.13**	**12.15**	**10.31**
Schedule E income	**24.83**	**25.00**	-6.86	**-7.21**	**3.51**	**3.53**
Schedule C income	9.19	**9.42**	6.93	**6.33**	-5.01	**-5.27**
Lambda	ns	N/A	ns	N/A	**s**	N/A
Adjusted R squared	0.5587	N/A	0.6573	N/A	0.4774	N/A
N	504	504	441	441	2,943	2,943

NOTE: The first stage of the Heckit includes dummy variables indicating the presence of tax-exempt interest, dividends, and schedule E income. All regressions also control for age of the decedent in 1993 and, in the regressions for married decedents, gender. Bolded coefficients are significant at the 5 percent level.
ns—Coefficients not significant at the 5 percent level are marked "ns."
s—Coefficients which are significant and positive are marked "s".
N/A—Not applicable

Table 4

Means Used for the Regression Analysis, by Form 1040 Filing Status

	Single female	Single male	Joint filer
Deductions	$23,000	$24,000	$40,000
Dividends	$24,000	$21,000	$26,000
Taxable interest	$22,000	$19,000	$25,000
Tax-exempt interest	$22,000	$20,000	$25,000
Schedule E income	$6,000	$25,000	$29,000
Schedule C income	$0	$14,000	$6,000
Adjusted gross income (AGI)	$82,000	$133,000	$205,000
Gross estate	$2,586,000	$3,498,000	$3,064,000
Age (years)	85	76	74

realize larger losses are doing so strategically. Wealthier people who are more attuned to tax advantages might reasonably choose to take an S-corporation loss whereas their less-wealthy counterparts might continue to realize rental income from real estate, for example; this could yield a negative coefficient on schedule-E income. In a sense, this is a variant on the argument we make above: wealthier people choose to realize gains far smaller than they actually accrue on certain types of assets, and they also choose to realize larger losses than less-wealthy individuals. Both strategies help to minimize taxes paid.

How can we interpret the differences in coefficients for single males and single females? The implicit return on dividend- and taxable-interest-bearing assets is much smaller for men, for example, and the implicit return on tax-exempt-interest- and schedule-E-income-bearing assets appears negative for men and positive but small for women. One story we could tell is that men are savvier at investing and avoiding tax than women, or that men often hold the role of portfolio decision-maker whereas widows find themselves in a new position after the death of a spouse, at least among the generations of people represented in our sample. What about the negative coefficient on tax-exempt income for single males? This is only speculation on our part, but perhaps men who remain invested in tax-exempt investments (which tend to pay relatively low yields on average) are more cautious and end up with relatively less wealth than those who venture into other sorts of assets. In this interpretation, more income of a certain kind is associated with lower wealth. Finally, differences in the underlying age distribution of single men and single women may be driving results, at least in part. As Table 4 and Chart 2 shows, wealthy single women were relatively older—and the gender gap is greater than the estimated gender gap in life expectancy. Single women thus may have been moving into certain types of assets because they, more so than single men, knew they were contemplating death in the near future.

III. Conclusion

Decedents whose total gross estate exceeds the Form-706 filing threshold tend to have more income and more of each type of income listed on Form 1040 than decedents whose estate falls short of the threshold. This is not terribly surprising. What is more interesting is that the mix of income is quite different for these two types of decedents—again, not too surprising, because higher-income individuals face higher marginal income-tax rates and so might reasonably search for forms of income that bear relatively smaller tax rates. A bit more unexpected was the finding that charitable contributions as a proportion of AGI differed little across F706 and non-F706 decedents; in fact, the majority of taxpayers who contributed in the top two deciles were people who did not leave a taxable estate.

Perhaps most intriguing, however, is the evidence that income is quite flawed as a measure of available economic resources. Regression analysis reveals that higher-wealth, higher-income individuals not only seek lower-taxed forms of income, they also choose to realize less income than actually accrues (or even realize losses) on the underlying assets. What is more, a percentile analysis shows that more than 80 percent of Forms 1040 reporting wages and salaries in the top two deciles belonged to taxpayers who did not meet the estate tax filing threshold. More than half of Forms 1040 reporting schedule D income in the top decile likewise correspond to the non-wealthy. And taxable interest income accrued largely to persons who did not leave a taxable estate. In contrast, the presence and amount of tax-exempt interest income is much more indicative of wealth. This evidence from linked estate and income tax records strongly suggests that the decision to realize income—particularly taxable income—is very much a choice for wealthy people, and not one that especially reflects underlying assets.