

The Income and Wealth of 2007 Estate Tax Decedents

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The Statistics of Income Division (SOI) of the United States Internal Revenue Service has a long history of using data reported on federal estate tax returns to estimate the wealth of the living population. In the U.S., these returns provide the only complete administrative accounting of an individual's wealth portfolio. Using data reported for 2007 decedents, we construct estimates of the wealth of the nation's top wealth holders for the last full calendar year before the onset of the great recession. The relatively large size of the sample, 17,821 records, provides an unusually rich data source from which to study this economically important segment of the U.S. population. Although limited by the 2 million dollar statutory filing requirement, the data nevertheless allow for detailed analysis of the portfolios of the top 1.0 percent of the U.S. population, who combined, controlled 18.9 percent of U.S. household wealth in 2007.

Improvements in technology and data storage have allowed SOI for the first time to construct a longitudinal 8-year panel of income data, as reported on annual federal income tax returns filed for wealth holders in our 2007 sample. We will use these data to study the types of income reported by the wealthy and the rates of return realized on the assets in the portfolio. These data will allow us to answer several important questions. First, we will examine how the composition of realized income changes as the individuals in our sample age and estimate how these changes relate to portfolio reallocation. Second, we will look at how the income reported by these individuals relates to the overall U.S. distribution of income in each of the years of the panel, helping us to learn more about mobility at the very top of the income distribution over time. Finally, we will compare the income characteristics of our sample of decedents with those in similar age cohorts who did not die in 2007 in order to estimate the effects of approaching death on portfolio allocation decisions. This last point is essential for reconciling estimates of wealth derived from this rich administrative data source with existing survey data. By studying these issues, we hope to contribute to ongoing conversations about the role of the very wealthy in the U.S. economy and the implications of this role for crafting optimal tax and economic policies.