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COMPOSITION OF INCOME ON RETURNS WITH WAGES AND SALARIES

The preceding chapter showed that wages and salary income in the past two decades has had strikingly high coverage on tax returns. In explanation of its uniqueness, two points were made: (a) it is subject to precise recording and easy identification and (b) it is the primary source of income for most persons with employment income. Employees who sought escape from income taxation without lowering their participation in the labor force usually had to find it through either increased underreporting of income from other sources or conversion of income from employment into a form subject to lower rates. Examples of the latter are employer contributions to pension and welfare funds, and stock options. Their quantitative relation to reported wages and salaries was discussed in Chapter 2. The major concern of this chapter is with other income sources reported on the returns of employees.[1]

Wages and Salaries in Relation to Total Income Reported by Employees

Table 5 showed income from wages and salaries to be over 80 per cent of total income reported on tax returns since 1952. It therefore must be an even larger fraction of income if attention is restricted to those returns on which wages and salaries were reported. It is possible to estimate with fair precision the amount of adjusted gross income (AGI) reported on these returns (Table 9).[2] For 1964, out of a total AGI of

[1] It may be recalled that "employee" means any person reporting wage or salary income.

[2] As shown in the notes to Table 9, the difference between our estimates and totals tabulated by IRS was less than one-tenth of 1 per cent for 1961 and 1962, the only two years for which IRS published AGI on returns with wages and salaries separately.

TABLE 9

Wages and Salaries as Percentage of Estimated AGI on Returns with That Source, 1937–64
(dollars in billions)

Year	AGI on Returns with Wages and Salaries (1)	Wages and Salaries: Amount Reported (2)	Wages and Salaries: As Percentage of AGI Reported (3)
1937	17.8	14.2	79.8
1938	16.2	13.3	82.1
1939	19.7	16.5	83.8
1940	31.6	27.7	87.7
1941	51.6	47.1	91.3
1942	71.0	65.6	92.4
1943	89.3	82.8	92.7
1944	97.7	91.1	93.2
1945	99.3	91.7	92.3
1946	108.5	99.2	91.4
1947	123.8	114.8	92.7
1948	137.3	125.9	91.7
1949	135.7	124.9	92.0
1950	152.4	139.1	91.3
1951	172.6	160.5	93.0
1952	188.2	174.3	92.6
1953	201.5	187.7	93.2
1954	201.3	186.0	92.4
1955	218.4	200.7	91.9
1956	234.1	215.6	92.1
1957	246.6	228.1	92.5
1958	245.0	227.6	92.9
1959	268.2	247.4	92.2
1960	279.0	257.9	92.4
1961	290.6	266.9	91.8
1962	307.8	283.4	92.1
1963	326.5	299.4	91.7
1964	351.8	320.4	91.1

Source: Col. 1: Estimated by multiplying average adjusted gross income for all returns in each income group for which data are tabulated for a given year (37 for 1960) by the frequency of returns with wages and salaries. For 1961 and 1962, the actual amount of AGI reported on returns with wages and salaries was obtained from *Statistics of Income*. For both years, the tabulated figure is only very slightly below that obtained with the method employed for other years. For 1961, the actual figure is $290,576 million compared to the estimated $290,739 million. The tabulated figure is thus only 0.06 per cent less than the estimated. For 1962, the estimated figure is $308.0 billion compared to the actual $307.8 billion.

Col. 2: Treasury Department, *Statistics of Income*.

TABLE 10

Percentage of Income from Other Sources Reported on Returns with Income from Sole Proprietorship, Partnership, Dividends or Interest, and Wages and Salaries, Selected Years, 1949–64

Year	Sole Proprietorship	Partnership	Dividends or Interest, or Both	Wages and Salaries
1949	37.0	44.9	n.a.	8.0
1955	49.3	50.3	n.a.	8.1
1959	52.8	55.9	n.a.	7.8
1961	54.9	60.9	86.4	8.2
1963	57.8	64.1	n.a.	8.0
1964	58.0	64.3	n.a.	8.9

Source: For the sole proprietors' and partners' percentages, see C. Harry Kahn, *Business and Professional Income Under the Personal Income Tax,* Princeton University Press for NBER, 1964, Table 19; for dividends and interest, the percentage was computed from Tables 4 and 9, *Statistics of Income, Individual Income Tax Returns, 1961.*

$396.7 billion reported for all taxpayers, employees reported an estimated $351.8 billion. Reported wages and salaries were $320.4 billion, which leaves $76.3 billion of income other than wages and salaries reported on all returns. Of this, an estimated $31.4 billion,[3] or 41 per cent, was reported on returns with wages and salaries. Employees thus account for a large share of total reported other income, but the latter was small relative to their wages and salaries.

After 1941, there was remarkably little change in the ratio of reported wages and salaries to AGI of employees. In that year, wages and salaries were 91.3 per cent of their reported income from all sources; in 1964, 91.1 per cent. Over the two decades encompassed by these years the ratio fluctuated within a two-point range: between 91 and 93 per cent. Thus, on the average, only 8 cents of every dollar of income reported on tax returns with wages or salaries originates from other sources, either from property or from self-employment. By comparison, the percentage of income from other sources reported on returns of sole proprietors and partners is very large (Table 10).

[3] Table 9, column 1 minus column 2. Total "other income" was obtained by subtracting column 1 from column 2 in Table 5.

There is probably some understatement in the amount of nonemployment income reported relative to that from employment, so that the true percentage of other income would be higher than 8 per cent after appropriate adjustments. Dividends, interest, rents, and self-employment income were probably not reported by employees with the same accuracy as their wages and salaries. As may be seen in Table 8, the tax return coverage of nonemployment income for 1964 was 72 per cent, compared to 97 per cent for income from employment. If one assumes that the 72 per cent coverage of nonemployment income does not vary between returns of employees and those of others, upward adjustment of nonemployment income to the same coverage ratio as wages and salaries would result in a somewhat higher proportion, i.e., 12 per cent, of income from other sources (Table 11). Because so much of an employee's total income originates from employment, and because wages and salaries as such appear to be almost completely reported on tax returns, even after the adjustment shown in Table 11, a very high fraction, 94 per cent, of the estimated AGI of employees is reported.

The small average amount of income from other sources relative to total AGI of employees reflects the large number of returns on which no income other than wages and salaries was reported. For the three

TABLE 11

Estimate of Wages and Salaries, Total AGI and Reported AGI on Returns with Wages and Salaries, 1951, 1961, and 1964

	1951	1961	1964
1. Estimated total wages and salaries	166.7	273.7	328.9
2. Other income of employees			
a. reported	12.1	23.7	31.4
b. estimated total	17.5	32.9	43.6
3. Estimated AGI of employees, adjusted for undercoverage	184.2	306.6	372.5
4. Reported AGI of employees	172.6	290.6	351.8
5. Line 1 as percentage of line 3	90.5	89.3	88.3
6. Line 4 as percentage of line 3	93.7	94.8	94.4

Source: Line 1: Col. 2, Table 4; line 2a: Col. 1 minus col. 2, Table 9; line 2b: Line 2a divided by ratio shown in col. 3, Table 8; line 3: Line 1 plus line 2b; Line 4: Table 9, col. 1.

years 1961–63, IRS tabulations permit separation of returns on which all of the AGI reported consisted of wages and salaries from those including other sources in addition to wages and salaries (Table 12). A remarkably large number, over one-half, reported only wages or salaries. In 1961 and 1962, two-thirds of wage and salary returns are tabulated as single-source returns; for 1963, the figure dropped to 56 per cent.[4] Because the IRS pattern-of-sources tabulations exclude the catchall "other sources" [5] category used on the tax return, the single-source frequencies are somewhat overstated and the multiple-source frequencies understated. The omission of "other sources" is significant mainly because it includes dividends and interest received by those filing the short-form return, 1040A. This form may only be used by taxpayers whose total income is less than $10,000, all of which, except for a maximum of $200, is from wages subject to withholding. The $200 maximum of "other income" may consist only of dividends, interest, and wages not subject to withholding. In 1963, out of 17.6 million 1040A returns, 2.6 million had such "other income." [6] If one assumes that all 2.6 million had dividends or interest, the percentage of returns with wages and salaries and no other income is reduced from 56 per cent to 51 per cent. The same adjustment lowers the 1961 percentage to 65, and that for 1962 to 66.[7]

[4] The sharp drop in single-source returns is probably the result of the requirement that information returns be filed with the Treasury Department by corporations and banks on dividends and interest in excess of $10 per year to any one payee, with a copy of this information return to be sent to the payee. The stricter information returns went into effect January 1, 1963.

[5] The other-sources category includes any income subject to tax for which no entry was provided on the return form. Examples are alimony received, prizes, awards, gambling profits, and the taxpayer's share of current-year taxable income of small business corporations which elected not to be taxed as corporations. Also included in other sources are interest, dividends, and wages not subject to withholding reported on Form 1040A (*Statistics of Income, Individual Income Tax Returns, 1963,* p. 19). Such forms could be filed by anyone whose income from the above three sources did not exceed $200, whose income aside from that was entirely from wages subject to withholding, and whose total income did not exceed $10,000.

[6] *Statistics of Income,* Table 7.

[7] These proportions are not out of line with those found for earlier years in Census surveys. Herman P. Miller notes that nearly one-half of all families and individuals in the U.S. in 1939 and 1949 had wage or salary income and less than $50 of nonwage income. See "Changes in Income Distribution in the United States," *Journal of the American Statistical Association,* December 1951, p. 439. Tax returns with wages or salaries as the sole reported source constituted 45 per cent of all individual returns filed in 1963.

TABLE 12

Percentage of Returns with Wages and Salaries Showing Income from Other Sources as Specified, by Income Groups

Adjusted Gross Income (thousand dollars)	No Other Source			Dividends or Interest		Rents and Royalties		Sole Proprietorship or Partnership		Capital Gain or Loss	Frequency of Specified Sources Per Return [b]
	1961	1962	1963	1955	1961	1959	1963 [a]	1955	1959	1962	
Negative AGI	–	4.0	–	15.2	19.7	23.8	22.1	92.9	85.4	28.9	2.40
0–2	86.0	89.2	79.7	3.3	4.0	3.2	2.1	6.1	6.6	1.7	1.16
2–3	77.6	81.3	72.3	5.5	7.0		4.1	8.4		2.9	
3–5	73.0	75.9	62.4	7.8	9.0	5.9	5.4	7.6	8.8	3.8	1.26
5–10 [c]	60.5	62.1	46.9	16.7	17.0	9.3	9.1	8.5	8.8	6.8	1.40
10–25	32.4	33.0	22.3	54.5	44.4	15.3	13.7	21.6	15.7	21.7	1.95
25–50	3.2	4.1	2.0	87.2	87.8	29.1	26.6	41.4	39.2	63.5	3.21
50–100	0.7	0.7	0.4	94.7	95.7	35.2	31.6	46.9	49.2	79.8	3.63
100–500	0.2	0.2	–	97.8	98.3	41.3	36.2	54.2	53.3	90.6	3.86
500 or more	–	0.1	–	99.8	97.3	53.0	41.8	62.9	65.3	97.8	4.21
Totals	67.6	69.1	55.9	10.6	14.3	7.0	7.2	8.4	8.9	6.8	1.35

Source: Treasury Department, *Statistics of Income* (individuals), 1955 (Table 6), 1959 (Table 8), 1961 (Table 9), 1962 (Table 7), and 1963 (Table 11).

[a] Rents only.

[b] The figures shown measure the average frequency with which wages and salaries, sole proprietorship, partnership, dividends, interest, rents and royalties, and capital gain or loss was reported. The data for 1959 were used except for dividends and interest, for which 1961 frequencies were available, and capital gains (losses), for which 1962 frequencies were available.

[c] Includes all nontaxable returns with AGI $5,000 or more.

When the returns with no other income are eliminated, the remaining 44 per cent reported wages and salaries equal to 86 per cent of their AGI for 1963.[8] The major source of other income was property of some kind. Only 9 per cent reported income from unincorporated enterprise, which in many cases was undoubtedly work on own account after hours of regular employment (Table 12). About 14 per cent reported income from dividends or interest [9] or both (1961), 7 per cent reported capital gains or losses (1962), and another 7 per cent reported rental income (1963). The number reporting various income sources is of course not necessarily indicative of the relative importance of these sources in dollar terms. Although capital gains (losses) and rental income are reported with about the same relative frequency on the returns of persons with employment income, the amount of net capital gain for 1962 was close to $3 billion, whereas net rental income reported for 1963 was only $0.8 billion (Table 13). Dividends and interest comprised the major part of reported property income, $7.6 billion for 1961. Sole proprietorship net income from business, farm, or profession reported on returns with employment income for 1962 amounted to $6.3 billion, or about 26 per cent of income other than wages and salaries reported on these returns.[10] On returns with annual AGI in the $3,000–$10,000 income

[8] If the 2.6 million 1040A returns with "other income" are included, the percentage becomes only slightly higher, 87.0 instead of 86.4.

[9] The percentage is raised to 16.7 if all 1040A returns with "other income" are counted as dividends or interest returns.

[10] The IRS tabulations for years since 1950 do not include dollar amounts of partnership income reported on returns with wages and salaries. Only the frequency of returns with both of these sources is readily available, most recently for 1959. One can infer a likely magnitude of partnership income on returns with wages and salaries from the frequencies by assuming that for each AGI group given (35 for 1959) the average partnership income on returns with wages and salaries is the same as on all returns on which partnership income was reported. For each AGI group, the ratio of returns with both wages and salaries and partnership income to all returns with partnership income was computed. By multiplying the ratios obtained for each income group by the partnership income reported for 1961 in each respective income group, an estimate of $4,711 million for that year is obtained. For 1962 an estimate of $4,924 million is obtained by the same method. These estimates are more likely to be too high than too low, since it is assumed that average partnership income for given AGI groups is as great on returns with wages and salaries as on all other returns with that source. Much of the partnership income, though it is difficult to determine just how much, must be viewed as property income. The fact that sole proprietorship and partnership income are nearly as large as the strict property income items shown in Table 13 does not, therefore, contradict the statement in the text that the greater part of income from other sources on returns with wages and salaries is from property.

TABLE 13

Amounts of Selected Other Sources of Income Reported on Returns with Wages and Salaries, by Income Groups
(million dollars)

AGI (thousand dollars)	Dividends 1961	Interest 1961	Rent (profit less loss) 1963	Capital Gains (less loss) 1962	Sole Proprietorship Profit (less loss) Total 1962	Sole Proprietorship Profit (less loss) Farm 1963
AGI less than 0	7.8	12.2	–34.0	17.8	–332.6	–206.9
0–2	37.3	119.8	28.5	9.0	11.6	–47.1
2–3	47.5	127.4	39.1	33.9	201.5	42.8
3–5	137.1	316.7	62.1	50.7	757.9	107.3
5–10	558.2	914.3	118.0	244.5	2,144.6	265.3
10–25 [a]	1,258.1	860.0	299.6	578.1	2,275.9	161.2
25–50	930.5	323.6	172.0	422.3	918.1	3.8
50–100	730.7	151.8	81.0	440.1	274.6	–17.4
100–500	756.4	85.4	22.5	691.8	18.0	–23.9
500 and over	242.2	14.2	0.1	474.6	–5.5	–4.5
Totals	4,705.8	2,925.4	789.0	2,962.8	6,264.1	280.6

Sources: *Statistics of Income, Individual Tax Returns, 1961,* Table 9; 1962, Table 7; 1963, Tables 9 and 11. Where figures shown in *Statistics of Income* were the combined total for two or more income groups, their distribution between such income groups was estimated by assuming the same relative distribution as existed for the total of that component over the particular income range for the year in question.

[a] Includes amounts on nontaxable returns with AGI in excess of $10,000.

range, sole proprietorship was as important a source of other income as property. But for all returns with other income, the major part of the latter is from property, that is, the result of past saving.

The other-income component, as was shown in Table 5, has been a virtually unchanging percentage of total reported income since 1941. In view of the high growth rate of public and private retirement systems, which were beginning to come to the fore at that time, the steadiness of this percentage is significant. It is consistent with the *surmise* [11] that

[11] Challis A. Hall concluded on a priori grounds that the most likely effect of the growth of deferred payments plans on annual savings would be to increase them. See "Retirement Contributions, the Spending Stream, and Growth," *Federal Tax Policy for Economic Growth and Stability,* Joint Committee on the Economic Report, 1955, pp. 787–788. More recently, empirical evidence of the effect on savings propensities of coverage under retirement plans has been presented by Phillip Cagan. Cagan found from a careful examination of a large

the growth of the pension system may have increased the rate of saving of employees. Had the deferral of income which employees obtain through the pension system caused them to make corresponding reductions in their other savings, this might have resulted in a reduction over time in the fraction of nonwage income which employees report. No such reduction appears to have taken place in recent times.[12] However, the evidence cited should be counted as no more than consistent with increased employee saving. Since the percentage of nonwage income does not represent saving as such but merely has as its major component the return on assets of all kinds, its steadiness may be the result of a number of possibly conflicting developments.[13]

The Pattern of Reported Income by Income Size

The frequencies with which other sources are reported on returns with wages or salaries rise sharply with the size of reported annual AGI (Table 12). Only the small number of returns with negative income for the year are an exception: these for the most part are evidently the returns of taxpayers whose major occupation is business enterprise, the losses from which account for their negative total income, and whose position at the bottom of the distribution of annual income may be temporary. About nine-tenths of that group report profit or loss from unincorporated business, and the average frequency of income sources per return was 2.4 compared to 1.4 for all returns.

sample of employees, all subscribers to Consumers Union, that those covered by a pension plan save more on average than those not covered, and do so by amounts slightly larger than the addition to their savings on account of payments into retirement plans. See *The Effect of Pension Plans on Aggregate Savings*, New York, NBER, 1965, pp. 6–7 and Chap. 3, especially Table 4.

[12] As will be shown below, the sharp rise in reported wages and salaries relative to income which appears in Table 9 for years before 1941 is probably caused by changes in the composition of the tax return universe. Even if the increase is genuine, it does not seem likely that it could have been caused by the growth of group retirement plans. The social security system was of course initiated several years earlier, but private plans had scarcely begun to grow. "The number of plans qualified for favored tax treatment increased from about 659 at the end of 1939 to 9,370 by August 31, 1946, with 7,423 of the number initiated after September 1, 1942." Hall, "Retirement Contributions," p. 787.

[13] For instance, it is possible that the amount saved by employees out of current money income declined in relation to the latter, and that any resulting decline in property income was offset by a rise in income from sole proprietorship and partnership; or the savings rate out of money income may have declined but the rise in interest rates in the postwar years may have offset it, thereby helping to hold the percentages in Table 9 steady.

TABLE 14

Percentage of Wage and Salary Returns Showing Income from Dividends, Interest, Sole Proprietorship or Partnership, by Income Groups

Adjusted Gross Income (thousand dollars)	Percentage of Returns with Wages and Salaries and Income from:							
	Dividends		Interest		Sole Proprietorship			Partnership
	1955	1961	1955	1961	1959	1962	1963 (farm only)	1959
Negative AGI	4.6	8.2	12.4	16.3	77.3	75.0	36.0	14.1
0–2	1.1	1.2	2.8	3.5	6.1	4.3	2.3	0.6
2–3	2.0	2.3	4.5	6.4		7.5	3.7	
3–5	2.8	2.9	6.5	8.1	7.9	8.5	3.6	1.2
5–10	6.7	5.9	13.6	15.2	7.3	8.1	2.5	1.7
10–25	36.8	24.2	40.8	38.7	10.7	10.3	2.1	6.2
25–50	75.1	72.1	66.8	75.2	20.9	21.2	4.2	23.7
50–100	88.1	87.6	76.1	83.3	22.5	20.4	6.1	34.5
100–500	94.9	94.3	83.8	86.5	23.3	22.5	10.2	40.2
500 or more	98.5	95.5	89.0	91.1	29.6	27.6	18.8	52.1
Totals	4.8	6.0	8.6	12.7	7.5	7.8	2.8	1.7

Source: See notes to Table 12.

A further breakdown of the categories presented in Table 12 shows that unincorporated business income reported by employees with 0–$10,000 AGI is predominantly from sole proprietorship and only to a small extent from partnership (Table 14). The combination of income from employment and from sole proprietorship is common among farm proprietors,[14] who often derive substantial amounts from employment; among employed persons, who supplement the income from their job with own-account work, as in the building trades; among employed professionals, such as college teachers; and among some public em-

[14] IRS tabulations for 1963 show that of 3.2 million returns with net profit or loss from farm sole proprietorship, 1.6 million, or one-half, also showed income from wages or salaries. However, farm income was modest, both on average and in the aggregate. Of the 1.6 million taxpayers with both sources, nearly one-half reported a net loss from farming. *Individual Income Tax Returns for 1963,* Table 9.

ployees. Whereas at the lowest income level of wage and salary returns the frequency of sole proprietorship income is ten times as great as that for partnership, above the $25,000 level partnership income is more common. A somewhat similar pattern may be observed for dividends and interest: both become increasingly frequent with rising income, but the dividend rise is steeper than that for interest.

The frequency pattern of other sources of income reported by taxpayers with wages and salaries is only mildly reflected in the ratio of the dollar amounts of wages and salaries to AGI reported by them. Though the frequency of other income sources rises throughout the 0–$10,000 income range (Table 12), the share of other income in the total does not rise (Table 15). For 1964, over the four income groups in that range, wages and salaries declined from 101.5 to 95.7 per cent of AGI, but the decline is entirely attributable to returns with negative AGI.

A significant decline in the share of wages and salaries sets in only above the $10,000 level, that is, for about one-tenth of the returns. As is shown in the lower half of Table 15, the ratio of wages and salaries to total reported income of employees for 1949, 1952, 1959, and 1964 varies little over a span of eight deciles and is close to unity: the difference between the second and ninth decile for all four years is no greater than one percentage point. For the lowest tenth of returns, wages and salaries exceed total income because of the inclusion of returns with negative AGI. For the highest tenth, the percentage of wages and salaries drops abruptly below the level of the preceding eight deciles.

The decline in 1964 was from 94 per cent of total reported income in the ninth decile to 80 per cent in the tenth. Since the ninth decile begins at $12,129, it of course contains most of the salaried corporate executives and employed professionals. These, by virtue of their higher incomes, have higher savings ratios, and therefore a larger proportion of property income, than those in lower income groups. It is surprising that no similar increase in the share of nonemployment income is evident in the reported incomes of the preceding eight deciles for any of the years 1949–64. However, for 1939 the expected pattern of decline in the ratio of wages and salaries to total income of employees can be observed: from 94 per cent for the three-tenths of returns in the second to fourth deciles, to 90 per cent for the eighth decile, and 88 per cent for

TABLE 15

Wages and Salaries as Percentage of Estimated AGI on Returns with That Source, by Income Size Groups and by Deciles from Lowest to Highest Income, Five Selected Years, 1939–64

AGI (thousand dollars)	1939 (per cent)	1949 (per cent)
Less than 2	95.8	98.1
2–3	91.6	97.2
3–5	87.4	96.8
5–10	79.4	92.1
10–25	66.9	74.2
25–50	52.6	60.0
50–100	41.3	47.9
100–500	27.6	30.0
500 or more	4.5	6.5

Deciles	Upper Decile Limit	1939 (per cent)	Upper Decile Limit	1949 (per cent)
Lowest	$1,167	103.0	$ 743	108.9
2nd	1,402		1,288	97.0
3rd	1,636	94.0	1,761	96.7
4th	1,870		2,194	96.9
5th	2,198	92.3	2,604	97.2
6th	2,593	91.4	3,010	97.3
7th	2,891	92.0	3,480	97.3
8th	3,457	90.0	4,093	97.1
9th	4,463	87.6	5,218	96.0
Highest	–	67.5	–	79.8
Totals		83.7		92.0

(continued)

the ninth. From the ninth to the tenth decile there is a drop of 20 percentage points—to 68 per cent.

Probably the rise, noted earlier, in the ratio of wages and salaries to total reported income of employees between prewar and postwar years is a purely statistical phenomenon caused by the increased population coverage of the income tax which followed the reduction in personal

TABLE 15 (concluded)

AGI (thousand dollars)	1952 (per cent)	1959 (per cent)	1964 [a] (per cent)
Less than 2	99.2	102.2	101.5
2–3	96.7	95.9	94.6
3–5	97.3	96.4	95.3
5–10	95.4	96.2	95.7
10–25	79.5	87.3	91.6
25–50	62.1	64.1	68.9
50–100	49.8	52.7	52.8
100–500	31.5	33.5	32.4
500 or more	5.6	6.6	6.4

Deciles	Upper Decile Limit	1952 (per cent)	Upper Decile Limit	1959 (per cent)	Upper Decile Limit	1964 [a] (per cent)
Lowest	$ 830	113.9	$ 919	128.0	$ 953	124.3
2nd	1,196	96.7	1,804	96.1	1,954	94.9
3rd	2,114	96.7	2,700	95.7	3,070	94.7
4th	2,696	96.6	3,546	96.1	4,044	95.1
5th	3,250	97.0	4,367	96.4	5,215	95.6
6th	3,806	97.3	5,197	96.9	6,311	95.9
7th	4,423	97.5	6,106	97.7	7,489	95.8
8th	5,255	96.9	7,275	96.3	8,928	95.7
9th	6,605	96.3	9,161	95.3	12,129	94.2
Highest	–	81.1	–	81.1	–	79.7
Totals		92.6		92.2		91.1

Source: Treasury Department, *Statistics of Income*, for the respective years.

Note: For dollar amounts see Appendix B. Adjusted gross income for returns with wages and salaries was estimated by using the *reported* average adjusted gross income for all returns for each income class and multiplying by wage and salary frequencies for that class. The income classes used in the computations had narrower intervals than those shown in the table above. The number of classes varied from year to year, but were always in excess of twenty-five, excepting 1964, for which nineteen classes were available.

Decile group limits, adjusted gross income, and wages and salaries estimated by straightline interpolation of *Statistics of Income* data. For method, see Appendix B.

[a] For 1964 the class limits are $10,000–$20,000 and $20,000–$50,000.

TABLE 16

Number of Returns with Wages and Salaries and Wages and Salaries as Percentage of AGI on Returns in the Top 2 Per Cent and in the 3rd, 4th, and 5th Percentage Bands of the Population, by Income Groups, Selected Years, 1939–64

	Number of Returns with Wages and Salaries (thousands)			Wages and Salaries as Percentage of AGI on These Returns		
Year	Total	Top 2 Per Cent of Population	3rd, 4th, and 5th Percentage Bands of Population	Total	Top 2 Per Cent	3rd, 4th, 5th Percentage Bands
1939	6,286	660	1,208	83.8	67.9	89.2
1942	31,683	637	1,159	92.4	66.2	91.6
1943	38,259	644	1,134	92.7	61.3	90.8
1947	47,658	617	1.053	92.7	62.1	86.7
1948	45,001	567	1,022	91.7	57.2	84.7
1949	44,168	602	1,103	92.0	59.9	86.8
1952	49,843	672	1,169	92.6	59.7	86.8
1959	52,851	676	1,491	92.2	59.6	87.1
1960	53,604	702	1,533	92.4	61.2	87.6
1961	54,015	687	1,531	91.8	58.8	86.9
1962	55,096	705	1,472	92.1	60.6	86.2
1963	56,303	843	1,266	91.7	62.1	85.1
1964	57,524	872	1,213	91.1	58.9	84.8

Source: Total population was taken from the *Statistical Abstract of the United States,* 1965, p. 5. It includes armed forces abroad. Total population on tax returns: 1939–43, from Kuznets' worksheets for Table 111, Col. 8, *Shares of Upper Income Groups;* 1947, total number of exemptions in *Statistics of Income;* 1948–64, total number of exemptions less those for age and blindness, *Statistics of Income.*

AGI cutoff points were obtained by counting down 2 per cent and 5 per cent of total U.S. population on the tax return AGI distributions. Interpolations were made by assuming Pareto-type income distributions; i.e., as income rises proportionally, the number of persons with that or higher income falls in proportion. Number of returns with wages and salaries, and wages and salaries and AGI, on these returns was then estimated above that cutoff point, using the interpolation formulas in Kahn, *Business and Professional Income,* Appendix F.

No rearray adjustment was made for years prior to 1948, after which income splitting made it advantageous for husbands and working wives to file jointly. If anything, omission of this adjustment would create a downward bias in wages and salaries as a percentage of AGI in years after 1947 as compared to earlier years; or, put differently, the ratios for 1939–47 are if anything too high in comparison to later years. The drop in the ratio in 1948 may then be somewhat overstated.

exemptions and rise in incomes in the 1940's. Since, as can be seen in Table 15, the share of wages and salaries in employees' total income is highest at the bottom of the income distribution, the omission of low incomes from tax returns must result in a lowering of the weighted average ratio in question. The reduction of exemptions must of course have had the opposite effect.

To eliminate the effect of changing the filing requirements on the ratio of wages and salaries to total employee income, the upper 5 per cent of the total U.S. population for selected years was counted off on tax returns and the ratio of wages and salaries to AGI in this group was computed.[15] The assumption underlying this procedure was that, over time, the coverage of a relatively high-income percentage band of the population would not be affected by changes in exemptions and filing requirements. Among both the upper 2 per cent and upper 3 to 5 per cent of the population, the ratio of employment income to total reported income of employees does not rise between prewar and postwar years, but actually shows some decline (Table 16).[16] This tends to confirm that employees' "other income" has not declined in relation to their income from employment.

[15] This is essentially the same procedure as was used by Simon Kuznets in *Shares of Upper Income Groups in Income and Savings,* New York, NBER, 1953. For details, see notes to Table 16, below.

[16] Actually, the data in Table 16 should be divided into two subperiods, 1939–47 and 1948–64. Some decline in the ratio of wages and salaries to AGI of upper-income returns was to be expected between the two subperiods. Before the institution of income splitting on joint returns of husbands and wives (1948), some husbands may have donated property to wives to escape high tax rates on their income. This, of course, would tend to raise the ratio of employment income to total income of husbands. The filing of joint returns after 1948 removed the bias created by property arrangements, whatever its previous importance may have been.

The statement in the text noting a decline in the ratio between prewar and postwar years is based on the 1939–47 experience. Since 1948, it may be noted, the ratio for the upper 2 per cent has risen and that for the upper 3 to 5 per cent band has changed little in either direction.