CONGRESS OF THE UNITED STATES
JOINT ECONOMIC COMMITTEE
JIM SAXTON, CHAIRMAN

Contact: Chris Frenze
Phone: 202-225-3923
Fax: 202-226-3950

CHRISTOPHER FRENZE
EXECUTIVE DIRECTOR

PRESS ADVISORY

*For Immediate Release* *June 13, 1997*

# Treasury Figures on Tax Plan Misleading
# -- You May Be Richer Than You Think --

**WASINGTON, D.C.** -- Today **Joint Economic Committee Chairman Jim Saxton (R-N.J.)** warned that Treasury data on the pending tax bill artificially inflate income levels and are thus misleading. Saxton called on the Treasury Department to provide an alternative view of the tax bill by using an income concept closer to that used by taxpayers on their tax returns. **The effect of the Treasury practice is to make tax benefits of middle class taxpayers appear as they are going to high income taxpayers.** Chairman Saxton's statement follows:

"The Treasury numbers on the tax bill are misleading because the income measure is inflated by items people normally would never consider part of their income. **When this Treasury data defines someone as in the highest fifth of taxpayers, a JEC analysis of tax return data indicates that this often-targeted group could include taxpayers now earning only $50,000, hardly a high income level.** Another thing to keep in mind is that future income levels are also boosted by inflation. This means that some middle class taxpayers may cross over into higher income groups in 1998 or following years. **The bottom line is that to avoid confusion we need a Treasury analysis based on something closer to the current income measures used by taxpayers on their tax returns.** The Treasury income concept is unrecognizable in the real world."

The items added back into taxpayer income for the Treasury analysis include the rental value of a taxpayer's home even if it is not rented; inside build-up in pensions, IRAs and certain other retirement vehicles; certain non-taxable transfer payments; fringe benefits, such as pension contributions, and life and health insurance; and other adjustments. The result is a measure of taxpayer income Treasury calls "Family Economic Income," (FEI) which is then used to classify taxpayers for the purpose of allocating tax burden changes provided by tax legislation. **By adding back these various measures of income, many taxpayers appear to have significantly higher incomes than they themselves would recognize based on commonly used income measures. Thus, the Treasury figures would be misleading to most taxpayers.** While the expanded income concept on which FEI is based may have some legitimate academic applications, it does lend itself to misleading applications in policy debate.

"Also, let us not forget that the Treasury analysis is a projection into the future, that these projections have often been proven wrong, and they are not accurate guides to policy decisions. In addition, as the JEC has documented, the mobility of taxpayers between income groups is very significant over the years. The U.S. is not a caste system, despite that implicit assumption underlying much of the use of these figures. Many who now are in the lower income groups will be in higher income groups in the future, while some in the middle and higher will be in lower income categories. Since the evidence shows that taxpayers are not cemented into specific income classes, the numbers are very shaky for this reason alone. **Finally, the exclusion of tax payments on a large portion of capital gains seriously undermines the validity of these Treasury statistics on the tax bill. Tax payments induced by lower capital gains tax rates should be included lest they skew the tax burden figures even more.**"

###

***Press Release: #105-55***

G-01 Dirksen Senate Office Building • Washington, DC 20510 • (202) 224-5171 Fax (202) 224-0240 • www.house.gov/jec/

JEC [Return Home](#)