



JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

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TAX DISTRIBUTION COMPARISONS OFTEN ARE FAULTY

**-- Statistical Analysis Reveals Many Taxpayers
Are Misrepresented --**

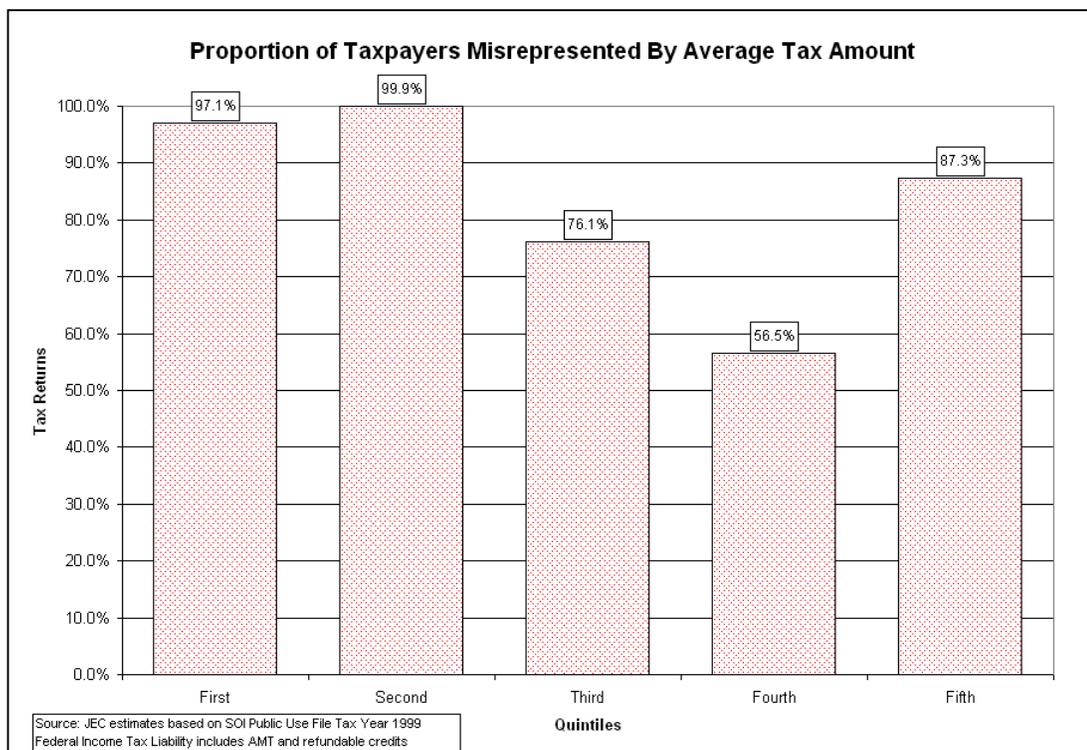
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WASHINGTON, D.C. – Comparisons of the effects of tax legislation on taxpayers in various income groups often misrepresent the impact of the tax system on most taxpayers, according to a Joint Economic Committee (JEC) study released today by Vice Chairman Jim Saxton. According to the study, *The Misleading Effects of Averages in Tax Distribution Analysis*, such comparisons are often misleading because the average tax liabilities commonly used are very different from the income tax liabilities actually borne by most taxpayers in each income group. The study is a statistical analysis of Internal Revenue Service income tax data from its Statistics of Income division.

Distributional analysis usually proceeds by ranking tax filers from low to high incomes, and then dividing them into subgroups, often fifths. The average income tax liability of each fifth can then be calculated with seemingly great precision, and then compared. However, what is not disclosed is that most taxpayers in each fifth have tax liabilities at least 25 percent more or less than the average of the fifth to which they are assigned.

“Tax distribution data are often used to attack changes in tax policy as tilted or unfair,” Saxton said. “However, these data often misrepresent the tax impact on most taxpayers. Thus the comparisons based on these data are misleading because they do not accurately reflect the tax payments of most taxpayers. Distributional analysis has an aura of precision, but it is all too often a false precision.

“For example, it is very common to calculate the average tax liability of taxpayers in the middle fifth, and compare this average to others. The problem is that less than a quarter of tax filers in the middle have tax liabilities within 25 percent of the average for this group. Several other fifths have much smaller shares of tax filers within this range. The bottom line is that inaccurate and misleading data should not have an influence on tax policy,” Saxton concluded.



For a copy of the JEC study, *The Misleading Effects of Averages in Tax Distribution Analysis*, please visit the JEC website at www.house.gov/jec.

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