



CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
May 31, 2000

Press Release #106-101
Contact: Christopher Frenze
Chief Economist to the V.C.
(202) 225-3923

NEW STUDY OF DISTRIBUTIONAL TAX ANALYSIS REVEALS MORE PROBLEMS – Tax Liability is Highly Dispersed in Each Income Group –

WASHINGTON, D.C. – Standard presentations of tax distribution statistics can be highly misleading and ignore the highly skewed dispersion of tax liabilities within each income group, according to a new Joint Economic Committee (JEC) study released by Vice Chairman Jim Saxton today. The new JEC study shows that the common reliance on averages to express changing tax liabilities of various income groups is a fundamental error because the variation in tax liability is very high in each income group examined. The study, *A Guide to Tax Policy Analysis: The Central Tendency of Federal Income Tax Liabilities in Distributional Analysis*, follows a previous JEC study on tax distribution data released earlier this year.

“Tax distribution data are the basis for many of the highly charged statements claiming that this or that tax legislation is slanted or unfair,” Saxton said. “However, these data are most often very misleading because the average tax liabilities in each income group actually represent a relatively small proportion of taxpayers. The link between income and tax liability is not nearly as strong as is often presumed, because many other factors can affect tax liability.

“For example, in the middle fifth of taxpayers ranked by adjusted gross income, only 36 percent of the taxpayers had income tax liabilities within 25 percent of the average for the group. In other words, 64 percent of this group had income tax liabilities that were either 25 percent more or less than the group average.

“In the bottom fifth, only 4 percent had income tax liabilities within 25 percent of the average for this group, and 66 percent had zero income tax liability. In this group 96 percent of filers paid more or less than 25 percent of the group average.

“In the top fifth, 70 percent of filers had tax liabilities less than 25 percent of the group average, while 13 percent paid at least 25 percent more than the average. The variation in tax liability was very high in all income fifths, though slightly less pronounced in the fourth quintile.

“In another startling finding, millions of taxpayers assigned to the second highest group had less income tax liability than did millions of taxpayers assigned to the next lowest (third) fifth. Similarly, millions of other taxpayers in the second highest group had higher tax liabilities than did millions of taxpayers in the highest income group.

“The bottom line is that the average tax liability in each fifth fails to accurately reflect the income tax liabilities of many, if not most, of the actual taxpayers. This fundamental fact must be emphasized whenever averages are used to represent tax liabilities or changes in tax liabilities for various income groups. Unfortunately, these and other facts needed to assess the accuracy of tax distribution analyses usually are not disclosed,” Saxton concluded.

The JEC study was based on a statistical analysis of public use data obtained from the Internal Revenue Service for the most recent available year, 1995.

For JEC research and studies on taxation, please see the JEC website at www.house.gov/jec.

###