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JEC Chairman Asks Treasury for Understandable Tax Analysis
-- Internal Inconsistency Found in Current Treasury Method --

WASHINGTON, D.C. -- Today Joint Economic Committee (JEC) Chairman Jim Saxton (R-NJ) released a letter he wrote to Treasury Secretary Robert Rubin requesting that the Department's analysis of pending tax legislation be grounded in income concepts familiar to American taxpayers and media. Treasury projections of the effects of tax changes currently are presented using an arcane notion of income the Department calls **Family Economic Income (FEI)**. By inflating taxpayer income with the inclusion of items such as imputed rent, fringe benefits, and other nontaxed items, middle class taxpayers can appear to be upper income taxpayers.

"The reason this letter is needed is that Treasury is using a notion of income in its analysis of tax legislation that the overwhelming majority of Americans have never heard of and 99.9 percent of taxpayers do not understand," Saxton said. "In fact, only a tiny handful of specialists in the whole country would know what Family Economic Income is. The Treasury Department has a responsibility to provide tax information that is understandable to taxpayers. This is why I am asking that the Treasury also provide its analysis of tax legislation based on adjusted gross income (AGI), the same definition of income actually used by taxpayers on their tax returns," Saxton noted.

FEI is an unfamiliar concept to the overwhelming majority of taxpayers since most taxpayers do not consider items such as the imputed rental value of their homes, employer provided health insurance and pension contributions, or inside build-up of IRAs and pension plans to be components of their income. Because FEI inflates income levels, the effect is to make the tax benefits provided to middle class taxpayers appear to be going to upper income taxpayers. Because FEI can produce these misleading results, another point of reference based on more conventional and familiar income definitions is urgently needed.

Another problem with the Treasury methodology is that taxes paid by taxpayers selling assets because of a lower capital gains tax rate are treated in an internally inconsistent manner. These tax payments from unlocking are acknowledged to exist when Treasury estimates the revenue effects of a capital gains tax rate reduction, but are ignored in the Treasury's distributional analysis of tax benefits, thereby skewing the results. This same approach was once used by the Congressional Joint Committee on Taxation (JCT), but was dropped by the majority in the 103rd Congress. Since that time, JCT consistently takes these unlocked tax payments into account when appropriate in preparing its distributional analysis of tax legislation.

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