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CONGRESSMAN JIM SAXTON

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INCOME MOBILITY IS OFTEN IGNORED IN TAX POLICY DEBATES

WASHINGTON, D.C. – Congress should consider the income mobility of tax filers in setting tax policy and not be unduly influenced by often faulty and incomplete tables purporting to show the distribution of tax benefits from tax relief proposals, Congressman Jim Saxton said today. Several years ago the Joint Economic Committee (JEC) had requested and released data from the Treasury Department showing a significant degree of movement among tax filers between various income levels. More recently Saxton requested an update of similar information that would include an analysis of the movement of tax filers between income quintiles over an extended period of time.

“The flexibility and dynamism of the U.S. economy result in considerable income mobility over time,” Saxton said. “Over a ten year period, for example, over half of tax filers can be expected to have moved to higher or lower income quintiles. This is to be expected given normal fluctuation in wages and salaries, as well as investment income.

“Unfortunately, there are some who view the U.S. economy as a kind of caste system in which tax filers are cemented into particular income strata for extended periods of time. When changes in tax policy are considered, tables are often produced purporting to show the projected benefits to a specific income group. These tables often lead to the notion that a particular group of taxpayers will receive a certain amount of tax benefits in the future.

“However, not only do different taxpayer characteristics produce widely divergent tax liabilities even within a given income group, but over time many members of the group will exit and move as their income changes. Thus a one-year snapshot of estimated tax benefits will not be meaningful to the growing number of tax filers whose income change significantly over time. The income classes in a distribution table suggest stability, whereas the composition of such income classes is in reality in constant flux. Not only can income fluctuate, but also filing status, deductions, exemptions and many other things can change, including non-economic circumstances.

“In the last Congress I asked for an update of data of income mobility so that policymakers can make more informed judgments on tax legislation. It would be useful if such information were made available in the near future,” Saxton concluded.

For more information on taxation, see the JEC website at www.house.gov/jec.