



CONGRESS OF THE UNITED STATES

# *JOINT ECONOMIC COMMITTEE*

CHAIRMAN JIM SAXTON

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## PRESS RELEASE

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For Immediate Release  
May 31, 2001

Press Release #107-28  
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### **NEW TAX DATA SHOW SHORTCOMINGS OF TAX DISTRIBUTION TABLES**

#### **-- JEC Statistical Analysis of Latest Available Tax Data Confirms High Dispersion --**

**WASHINGTON, D.C.** – A new statistical analysis of the latest available tax data confirms the high dispersion of tax payments within each income group, Joint Economic Committee (JEC) Chairman Jim Saxton said today. The degree of this dispersion is so high as to make comparisons of average tax payments of various income groups highly misleading because they misrepresent the tax liabilities of most tax filers in each group. Comparisons of average tax liabilities over time are also misleading for the same reason. Saxton's release addresses commonly used distributional data that rank households or tax filers by income and divide them into fifths, or quintiles.

According to the statistical analysis, most tax filers have tax liabilities at least 25 percent greater than or less than the average tax liability of the income quintile they are in, a finding confirmed in the 1996 public use data recently made available by the IRS. For example, in the middle fifth, about 7.4 million tax filers had income tax liabilities less than \$1,400, while 8 million taxpayers in the same quintile had tax liabilities greater than \$2,300. In other words, these 8 million taxpayers paid at least 66.6 percent more in taxes than did 7.4 million taxpayers *in the same income group*.

Similarly, 6.4 million tax filers in the fourth quintile had tax liabilities less than or equal to \$3,300, while 5.1 million taxpayers in the same income group had tax liabilities of about \$5,500 or greater. These 5.1 million taxpayers had tax liabilities at least 66.6 percent larger than did the other group in the same income quintile.

“These new statistical results confirm the high dispersion of tax liabilities that makes comparisons of group averages misleading,” Saxton said. “In reality, the tax payments made by most taxpayers are misrepresented by group averages. Average tax liabilities and changes in these liabilities do not accurately reflect the circumstances of most tax filers. Needless to say, comparisons of such averages over long periods of time are also misleading.

“In addition, as I have pointed out for many years, the existence of income mobility also makes comparisons of average income levels and average tax liabilities of various quintiles and percentiles largely irrelevant. Over a ten year period, most of the people in a given income group have moved to another income level. Thus changes in the average income or tax liability of a given group are irrelevant to those who have exited and moved to another income group.

“Finally, the blending of sample survey data from different sources for the purpose of producing distribution tables fails to meet minimal government or academic standards of statistical reliability. In any particular case, with blended data it is impossible to evaluate whether the numbers or changes in the numbers are statistically valid or meaningful, because their validity and reliability are unknown even to those producing the figures. The numbers produced are statistically compromised and are not valid empirical data subject to standard measures of statistical reliability and verification,” Saxton concluded.

For more information on problems with tax distribution tables please visit the JEC website at [www.house.gov/jec](http://www.house.gov/jec) and see: *A Guide to Tax Policy Analysis: The Central Tendency of Federal Income Tax Liabilities in Distributional Analysis* (May, 2000); *A Guide to Tax Policy Analysis: Problems with Distributional Tax Tables* (January 2000); *Treasury Department Estimates of Tax Changes: A Review and Analysis* (July 1997).