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CHAIRMAN JIM SAXTON

PRESS RELEASE

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Contact: Christopher Frenze
Executive Director
(202) 225-3923

TAX DISTRIBUTION TABLES OFTEN ARE UNRELIABLE

-- Validity, Quality, Integrity, and Reliability of Simulations in Doubt --

WASHINGTON, D.C. – Commonly used tax distribution numbers are statistically compromised and include conjectures and guesswork that make their reliability unknowable, Joint Economic Committee Chairman (JEC) Jim Saxton said today. Saxton noted that minimum standards should be observed and disclosed, similar to those commonly used by academic and government statisticians. For example, OMB circular A-130 requires disclosure of data limitations including measures of statistical reliability "so that users are fully aware of the quality and integrity of the information."

"Good public policy cannot be based on unreliable, incomplete and misleading information," Saxton said. "Information considered by Congress should be subject to minimum standards of statistical quality, reliability, and completeness. The selective release of synthetic numbers not subject to standards of verification or measures of statistical reliability should not influence government policy," Saxton concluded.

Saxton's remarks addressed the practice of ranking households or persons by income, and then dividing them into various fifths and other percentile groupings to simulate the effects of tax changes. Research performed by the Joint Economic Committee over the years has identified a number of methodological problems with common approaches used in constructing tax distribution tables:

- Valid data from multiple sources, such as the Internal Revenue Service and Census Bureau, are combined in a way that makes it impossible to measure the statistical reliability of the results. The resulting numbers are statistically compromised and the reliability of the final product is thus unknowable, even to those producing the tables.
- A separate and equally serious problem arises from combining IRS and Census public use files that are blurred to protect confidentiality and prevent matching. Efforts to match data designed to be unmatchable produces synthetic numbers whose statistical accuracy is impossible to verify. Issuers of such simulations themselves have no idea how valid or reliable these synthetic numbers are.
- Contrary to what these tables suggest, within each income group tax payments are not centered around a group average, but are widely divergent. Most taxpayers have tax liabilities greater than, or less than, 25 percent of the group average. Thus, broad changes in tax policy will also affect taxpayers within each income group very differently, producing widely divergent outcomes masked in distributional tables.
- Disclosure typically is not made of the proportion of tax payments paid by each income group before and after a tax change is taken into account.
- Income mobility is ignored. As the JEC has stressed for 10 years, the U.S. is not a caste system. Over a nine or ten year period about 60 percent of households will exit the quintile they started the period in.
- The false precision conveyed in commonly used distribution tables is misleading since the reliability and validity of their contents are unknown.

For more information on problems with tax distribution tables please visit the JEC website at 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).*

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