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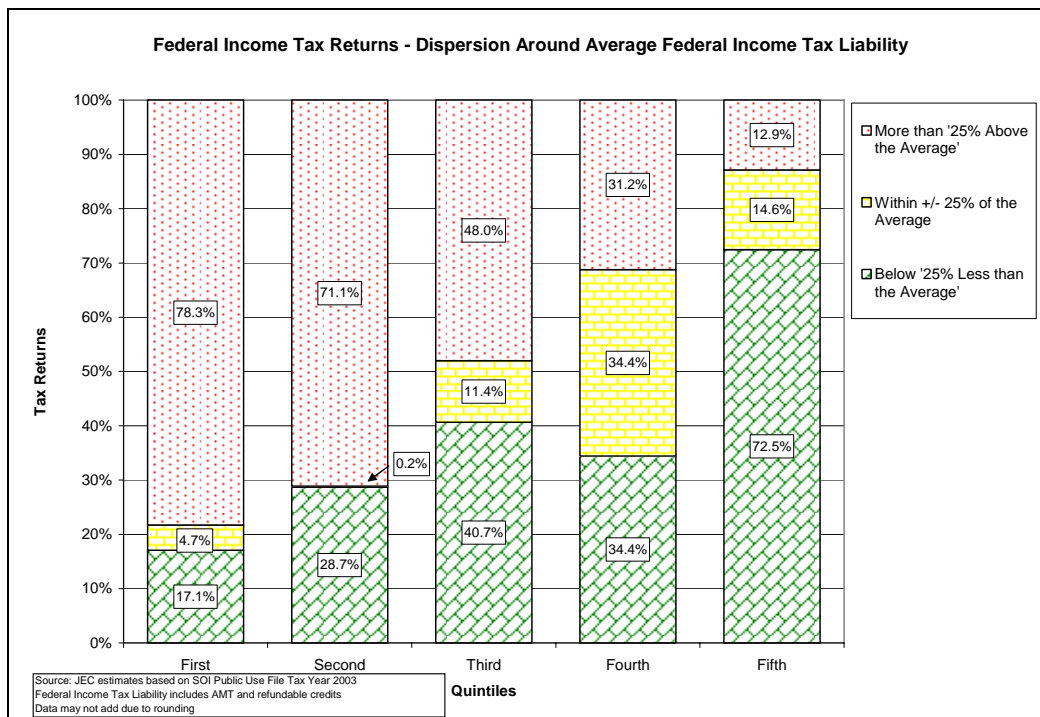


TAX DISTRIBUTION TABLES CAN BE MISLEADING

Some special interest groups often use tax distribution tables to support tax increases or attack tax relief legislation. These tables usually purport to show that tax relief, however structured, provides massive tax benefits for the “rich” and very little, if anything, for poor and middle-income households.

These tax distribution tables are promoted by much of the media and often have a negative impact on tax policy. However, *these distribution tables typically hide important information and distort the impact of tax relief legislation for most taxpayers.* Nonetheless, in coming months, the liberal attacks on proposals for tax reform, AMT relief, tax gap, and on the tax reduction bills passed over the last several years will continue to rely on this misinformation. Almost all such distribution tables rely on averages of projected tax changes

for various income groups. For example, such tables typically rank taxpayers by income, lowest to highest, and then divide them into fifths. Then comparisons of tax relief benefits are calculated, typically contrasting the huge benefits provided to the top fifth to the small benefits of the bottom fifth of tax filers. These tables make almost all tax relief bills look unfair. *But these tables are distorted and misleading for several reasons.* One central assumption is that tax filers within each income group have tax payments that are close to the group average. It can then be assumed that the impact of tax relief is also more or less the same for all taxpayers in the group, and this change can be accurately expressed as an average. However, as JEC research demonstrates, *most tax filers in each group actually do not have tax liabilities or benefits that are close to the group averages.*



In other words, the average tax payment of each group misrepresents the actual tax payments of most tax filers in each group. Thus comparisons of average tax liabilities between groups are invalid and misleading. The misuse of averages in tax distribution tables has the effect of supporting arguments based on class warfare notions and fails to inform the public on the actual distribution of tax liability across the income spectrum.

As the above chart shows, the average is actually the least representative measure in the context of tax distribution analysis. Using the most recently available public tax data, the chart shows the distribution around the 2003 average tax liability for each income quintile. The data show that most tax filers in each quintile had income tax liabilities that were at least 25 percent larger or smaller than the average liability of the relevant quintile.

As can be seen, in each group the average tax liability misrepresents the majority of taxpayers. For example, in the middle fifth of taxpayers, the average tax liability represents the burden of approximately 11 percent of the taxpayers in this group. The majority of taxpayers in this group (88.7%) have tax burdens at least 25 percent larger or smaller than the average. In other words, the average tax burden for the middle fifth of taxpayers is not at all representative of actual tax burdens in this group.

The liberals who propose tax increases and attack tax relief legislation almost always rely on comparisons of average tax benefits between these different groups, even though such comparisons are a misrepresentation. This JEC research proves how misleading the liberal attacks are by analyzing official IRS tax figures.

For further information, please see the following Joint Economic Committee studies by visiting the JEC website www.house.gov/jec, or contacting the JEC at (202) 226-3234.

For further information please see:

- *A Comparison of Tax Distribution Tables: How Missing or Incomplete Information Distorts Perspectives* (December 2003)
- *The Misleading Effects of Averages in Tax Distribution Analysis* (September 2003)
- *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)