Comments on BEA's Personal Income Distribution

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These comments embody work undertaken for the staff of the Joint Committee on Taxation, but as members of both parties and both houses of Congress comprise the Joint Committee on Taxation, this work should not be construed to represent the position of any member of the Committee.

Outline

1) Income mobility

2) Income Gaps: CPS to PI, Tax/SCF data, dividends

3) Underreported business income

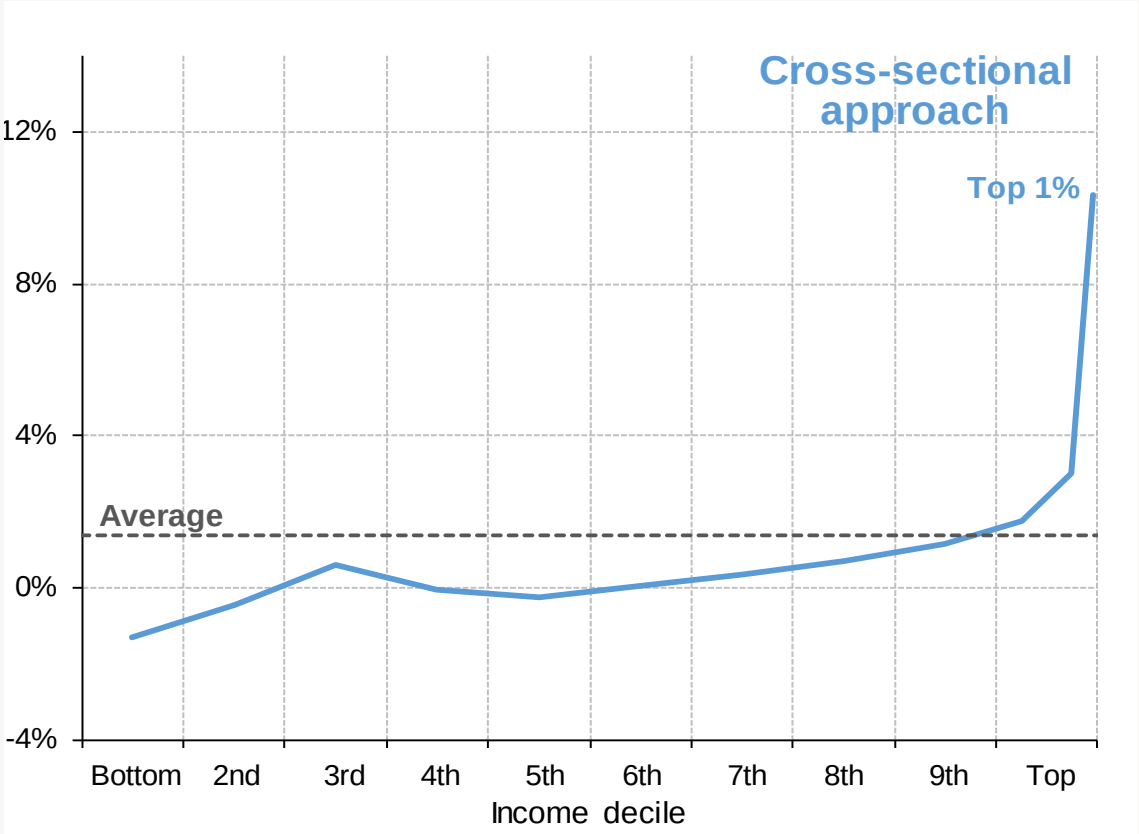
4) Timing issues

5) New data sources, etc.

1) Income Mobility

Cross-sectional changes suggests all growth to top 10%

Real annual fiscal income change, 1980-2014



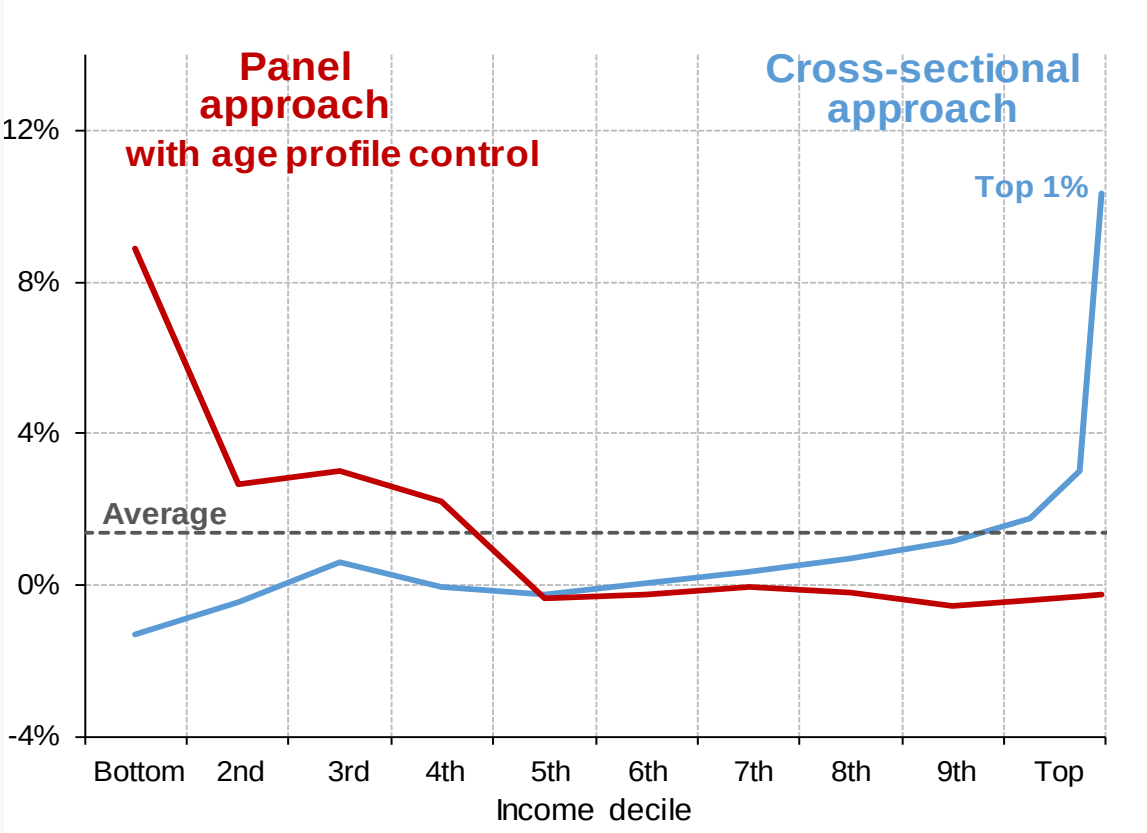
Source: Splinter (2019, Progressive Growth: Comparing Cross-sectional and Panel Approaches).

1) Income Mobility

Cross-sectional changes suggests all growth to top 10%

But it's different people in cross-sections. Growth is progressive.

Real annual fiscal income change, 1980-2014



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1) Income Mobility

Cross-sectional changes do NOT show how growth distributed

- With annual data, cannot allocate macroeconomic growth to individuals, which is what is understood by the terms “distribution of growth” or question “who receives economic growth?”
- Reason: individuals move in and out of annual groups
  Adults starting in bottom decile rose 27 percentiles after 10 years (Splinter, 2019)
  Over half tax units exit top 1% after 5 years (Auten, Gee, & Turner, 2013)
- Not sure how we should talk about anonymous group
  58% of growth in Personal Income accrued to top quintile [not quite right]
  Changes in the anonymous top quintile equaled 58% of the increase in PI [clunky]
  People in the top quintile in 2007 had avg. per capita PI of $73K. For those in the top quintile in 2016 it was $80K. Although these were different people, this change represents 58% of the increase in total PI.

Panel data needed to estimate distrib. of growth (as normally understood)

- Literature on anonymous vs. non-anonymous growth curves

2) Income gaps: CPS to PI

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Big additions to CPS: proprietor income, interest, dividends
AMI adds ~1.5b, not sure where that goes.

	Tax data	CPS	Pers. Inc.	PI - CPS
Earnings				
Wages and salaries	5,896	6,152	6,372	220
Self-employment/farm (40% proprietor)	398	482	443	-39
Other private income				
Partnership/S corporation/rent/ royalty/estates/trusts (60% proprietor)	440	---	665	**665**
Rental income (imputed rent)	---	74	394	320
Interest and Dividends	381	258	1,782	**1,524**
Pensions, annuities/IRS less SI contr. (PI)	930	703	569	-134
Other private income/alimony	96	13	---	-13
Transfer income				
Unemployment insurance	141	97	139	41
Social Security and disability benefits	696	603	690	96
Other transfers: Medicare, Medicaid, etc.	---	201	1,496	1,295
Total Income, 2010 ($billions)	**8,979**	**8,583**	**12,552**	**3,968**

2) Income gaps: CPS to PI

Can you break out aggregate amounts for imputed financial income in various years?

- Proprietor income, interest, & dividends
- Subgroups within each of these

How much gap from differences in definitions?

- Is CPS capturing same business income?

Scaling up CPS values proportionally

- More nuanced approach possible?

2a) Income Gaps: Use of tax/SCF data

Tax Data Imputation

- Use tax returns with AGIs >$0.5m [including CGs?]
- ~Top 1% of tax units & top 0.5% of the CPS households
- Replace CPS households with pseudo income >$0.5m with imputed amount: mean from $0.84m to $1.28m (+50%)
- Components each adjusted proportionally to target PI aggregates

SCF Imputations

Rent-to-income ratios

Imputed interest mostly by DC assets (or also DB assets?)

DB employer contributions by wages: too much to bottom/top?

2b) Income Gaps: Major Concern

Dividends

- In 2012, $123b dividends in CPS to **~$800b total dividends in PI**
  53% to ~top 0.5% households, or $65b reported + 363b imputed = $428b
- **AS: 53%** top 0.5 of **~$300b taxable dividends** (CBO: 57% top 1 of **$270b**)
- **RETIREMENT OWNERSHIP SHARES (DB+DC)**
  Get nearly all non-taxable dividends: ~56% of corp. ownership (see AS tab C12)
  SCF: **8%** top 1 (Devlin-Foltz, Henriques, and Sabelhaus, 2016)
  AS: **10%** top 1
  PSZ: **14%** top 1 (but relies on rollovers and wages)
- **Suggestion**
  Allocate % dividends to retirement accounts building off your SCF approach
  Top 1% share would drop ~1pp: ~$400b*40% = $160b ÷ $16t = 1%

3) Underreported Income in Tax Data

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Audits find little change in distribution for filers (non-filers can lower inequality) means substantial re-ranking when accounting for underreporting

AGI	Estimated True AGI	Reported AGI
Bottom 10%	0.3	0.1
10%–20%	1.6	1.6
20%–30%	2.7	2.7
30%–40%	3.9	3.9
40%–50%	5.2	5.2
50%–60%	6.7	6.8
60%–70%	8.8	8.9
70%–80%	11.5	11.7
80%–90%	15.6	16.0
90%–95%	10.9	11.0
95%–99%	14.9	14.4
99.0%–99.5%	3.8	3.7
Top 0.5%	14.0	14.1
Total	100.0	100.0

Source: Johns & Slemrod (2010)

3) Underreported Business Income

AS allocate to reported income groups based on audit data
PSZ allocate by positive reported business income
***But*: Losses important & underreporting rates lowest at top**

Reported AGI group	PSZ % of pos. bus. income	AS % of underrep. income
losses	1%	13%
0-40	6%	27%
40-80	19%	32%
80-95	16%	16%
95-99	20%	7%
Top 1%	38%	5%
Total	100%	100%

Source: 1988 TCMP audit data (sole prop, part., S-corps).

3) Underreported Business Income

AS allocate to reported income groups based on audit data
PSZ allocate by positive reported business income
***But*: Losses important & underreporting rates lowest at top**

BEA allocation like PSZ, but lots of CPS business underreporting
possibly need to allocate MORE business income to top
Top 1% share could grow ~1pp: ~$600b*(50% - assumed 20%*1.5) = $120b ÷ $16t

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Retirement income

- Explain what's distribution vs. accrual basis and what that means for annual inequality

Deficit spending

- PI includes transfers but does not deduct taxes: Give impression of a free lunch?

5) New data, etc.

New (better?) distributional data

- Matched Census/Admin data: Bee & Mitchell
- Comprehensive Income Data from Meyer et al.
- Tax Household Data: Larrimore, Mortenson & Splinter
- Will the BEA remain flexible for data sources?

Satellite measures if go back to 1970s?

- Corp. retained earnings becomes important

More discussion of low-income results?

- Contribution of using non-tax data & broad income