

Mental Accounting Effects of Income Tax Shifting

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Discussion by

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Summary - 1

Aim of the paper (WHAT):

Test for presence of *mental accounting* in individual decision making
(behavioral extensions of life-cycle model)

Methodology (HOW):

Decrease in 1992 U.S. federal income tax withholding \Rightarrow individual
long term retirement saving

Relevance (WHY):

- Direct evidence of a fiscal policy change “at play” (focus on retirement saving)
- Lack of real world situations allowing for similar exercises

Summary - 2

The policy change:

Decrease in withholding from wages/salaries throughout the tax year & no change on the status quo marginal tax rates



- a. Less taxes are withheld and the final tax burden is unchanged
- b. Exogenous money shift from a *lump sum* tax refund to *monthly payments* in individual paycheck
- c. Change in timing of tax payments

⇒ is MPC (at the period level) affected ?
standard LC/PI models vs. behavioral models

Summary - 3

Main findings:

- *Negative effect* of the policy change on the probability to save for retirement
- No conflict between long-term and short-term saving
- No empirical evidence of liquidity constraints

Comments - 1

- Paper very clearly written, well structured, robustness checks
- Outstanding example of how to combine *administrative* (tax return files) and *survey data* (CEX).

Comments - 2

- Role of *size affects*?

p.6:

Single taxpayer with yearly wage income subject to federal withholding under \$53,200, took home an extra \$14.38 a month or \$172 a year.

Married households, with yearly wage income subject to federal withholding under \$90,200, took home an extra \$28.74 a month or \$345 a year if single-earner and \$57.50 a month or \$690 a year if dual-earner.

Can this explain violation of fungibility?

Comments - 3

- Successful policy change ?

Claimed purpose of the announced policy:

To provide “money people can use to help pay for clothing, college or a new car”

Welfare analysis ?

conjunctural goals \neq structural goals

Minor Comments

- The structure of the paper is missing
- p. 2 : “contributions to IRAs represent fairly long term saving for the average individual and are subject to penalties in most cases for early withdrawal”
 - monetary penalties?
 - what size?