

Mobility of Top Incomes in Germany

How mobile is the top of the German income distribution?

Motivation

- Income concentration has grown in many countries over the last decades. The most pronounced increase occurred in Anglo-American countries.
- This observation is primarily based on annual data. It is therefore unclear, whether the tax units at the top are the same in all years.
- If the top of the income distribution consists of different tax units in each year, then
 - long-term income is less concentrated.
 - high annual concentration is less problematic from a normative point of view.

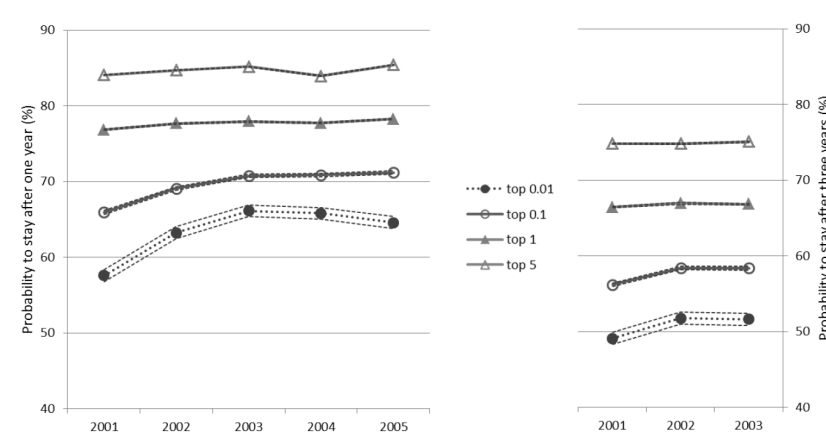
This paper explores how much tax units in top income quantile groups move in terms of quantile groups and income ranks (mobility analysis), and how this mobility impacts on long term income concentration (concentration analysis).

Mobility

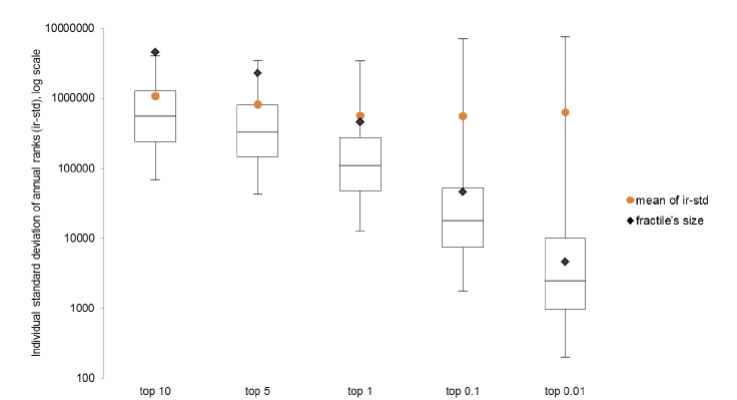
The mobility analysis answers two questions:

- (1) How many members of annual top income quantile groups are still in that quantile group after a given period of time?
- (2) How far do members of top income quantile groups move in terms of annual income ranks?

(1) Share of tax units that stay in their annual top income quantile group after one year and after three years



(2) Distribution of the individual standard deviation of annual ranks by top income quantile group



Concepts

Top Income Quantile Groups

- Members of top income quantile group „top X“ are the X percent income richest tax units. We use the following groups:
 - top 5
 - top 1
 - top 0.1
 - top 0.01

Income

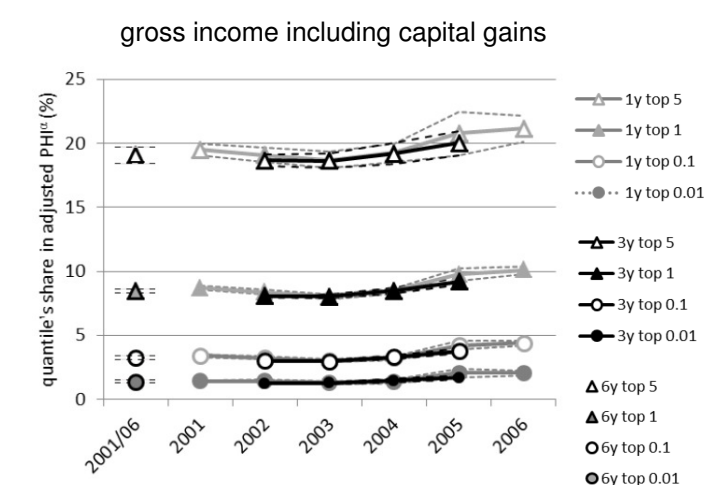
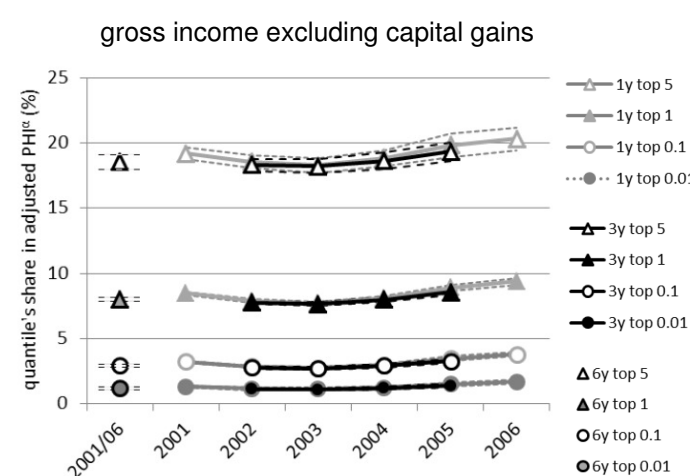
- Income is measured as gross income before all deductions and allowances.
- All identifiable income components are included, even if they are not fully taxable.
- Capital gains are included in the concentration analysis, but not in the mobility analysis.

Concentration

The concentration analysis answers two questions:

- (1) What share of aggregate German household income do the different top income quantile groups receive?
 - These top income shares are the measure of income concentration used in the top income literature.
- (2) How does this share change when we use long-term income instead of annual income?
 - The difference between annual concentration and long-term concentration can be seen as the effect of income mobility.

The figures show the top income quantile groups shares in aggregate household income for annual income, three-year average income and six-year average income.



Data

Database: German Taxpayer Panel 2001-2006

- Panel of annual German income tax data on micro level (2001-2006)
- composed by German federal statistical office
- 5%-sample (weighted) of all tax units, who filed an income tax return in all six years
- About 18 million weighted observations in each year (unweighted: about 900.000)
- Highly oversampled at the top (85%-sample)
- Precise information on income size and composition

Conclusions

- Mobility of top income tax units is low.
- German top income mobility is of comparable magnitude to top income mobility in Canada and France.
- Many tax units who leave their annual top income quantile group return in the following years.
- Tax units at the top change their annual income rank to a much lesser degree than middle-income tax units.
- Income concentration in long-term income is very similar to annual concentration.