DISCUSSION

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I come to this session with a strong bias: IRS data can never be made available too soon. Incomplete and even inaccurate data can often prove better than no data at all. I make this strong a statement after observing the Congress of the United States make tax policy over the past eight years. For seven years on the Joint Committee on Taxation, and recently with the Senate Budget Committee, I have prepared revenue estimates for everything from the Roth-Kemp rate cut to farm valuation under the estate tax. I was often put in the position of making an assumption in lieu of data to complete a revenue estimate because the Ways and Means Committee was going to act with or without the information. It is one thing to tell them that a technical change costs less than five million dollars based upon anecdotal information, but it is quite another to tell them that the 1976 tax increase on Americans living abroad would raise only $40 million only to find out a year later that the estimate was understated by a factor of ten, for lack of timely information [1]. It is this kind of experience which prompts me to rank timeliness of IRS data well ahead of accuracy and coverage.

Most of the revenue estimates used in the formulation of tax policy on Capitol Hill are prepared by ten economists on the Joint Committee on Taxation. Half of their estimates are generated by computer models which use Statistics of Income data supplied by the IRS annually on computer tape. Because the Joint Committee on Taxation receives a tape copy of the SOI sample file well in advance of the publication of the complete report and because its computer models generate many more tabulations than are ever published, the published data receive much less use than the computer sample file.

A preliminary Individual Statistics of Income computer file with detail on itemized deductions is produced every other year and transmitted to the Treasury Department's Office of Tax Analysis. To prepare the Treasury Individual Income Tax Model, OTA draws their own subsample from the file, corrects errors, and extropolates three to five years into the future to arrive at a current year data file. This is a very difficult task and requires up to six months of effort by several analysts. Once this effort is complete, a copy is delivered to the Joint Committee on Taxation.

At this point, the estimated level of the Treasury model is locked in for the next year. It is always possible to substitute a hand estimate for the computer estimate if later data is in sharp variance to that of the model, but, in practice, this is a rare occurrence. Consequently, I would place a high premium on the IRS completing its preliminary SOI tapes by the end of calendar years in which itemized deduction detail is provided, so that the Treasury can begin its work. On several occasions in the past, the Joint Committe has experienced serious delays in receiving current model files, thus leaving them dependent on models which were painfully out of date.

For the above reasons, I heartily endorse the changes which have been mentioned by the previous speakers. Increased Master File usage and advancing the closeout date will aid timeliness. Nor will I miss prior-year returns. The SOI Bulletin is a fine idea, if it represents less overall effort devoted to the time consuming task of preparing publications.

The changes discussed here today are certainly worth pursuing. The SOI "product" will focus more on the needs of primary users. Much of the SOI processing will be standardized (and, in some instances, simplified), which will result in budget savings and accelerated processing schedules. Large elaborate publications will become smaller basic publications, and special studies will concentrate on the needs of users and on methods for improving the quality of the data. While I encourage these efforts, I would hope that careful attention would be paid to managing these changes, so that they do not produce delays in the reporting of IRS statistics.

I must admit, however, that I am suspicious of the implication by several speakers that we can streamline the IRS data procedures to achieve budgetary savings and, at the same time improve the quality of the data. There must be some price to pay for those budget cuts and for changing the data procedures. I am very concerned that that price not be delay in the transmission of data to Treasury or the Joint Committee.

One additional observation must be stressed--the Economic Recovery Tax Act of 1981 makes far reaching changes in the tax law. "Short-form" taxpayers can now claim charitable deductions; a marriage penalty deduction has been added for two earner couples; anyone can set up an Individual Retirement Account; and many more changes, too numerous to list, have been implemented. I assure you that there will be future efforts to modify these provisions, which will depend upon the SOI program for information. It has been said that the 1981 Act is the largest tax cut in history, and there will be no more tax cuts. Don't believe it! There will be other tax bills sooner than most people think.

The current IRS Statistics of Income program is a good one. The proposed changes are reasonable and desirable under the regime of reduced budgets. Whatever happens with this program, let us insure that the data is released in as timely a fashion as possible. Thank you.

FOOTNOTE

[1] Studies in the area of United States citizens living abroad are conducted by IRS every four years. For the 1975 study, returns were being filed at the time the 1976 legislation was being considered; thus, current IRS data was not available for use. The schedule for the 1979 study was accelerated to provide information for congressional action this past spring.