

Using Census Data in Tax Analysis

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By
Rod Hoheisel
Minnesota Department of Revenue

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Two Studies:

- Individual Income Tax Gap Study
- Tax Incidence Study

Census data components include:

Type of housing

- e.g., single family, apartment, mobile home, other

Household characteristics

- Head of household
- Household size
- Relationships of persons
- Presence of unrelated persons

Employment status and industry

Income data by type

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Income Comparison

Census categories	Form 1040
Wage and salary	Wage and salary
Self-employment income	Business income, Farm income
Interest, dividends, net rental income, royalties, income from trusts and estates	Taxable interest Tax-exempt interest Dividends Schedule E income
Social security retirement	Social security
Supplemental security (SSI)	Not taxable
Public assistance	Not taxable
Pensions (other than social security)	IRA distribution, Pensions, (taxable and nontaxable)
Other (e.g., VA payments, unemployment, child support, alimony) if received periodically	Alimony, Unemployment Other income
Census does not capture episodic or one-time income such as capital gains.	Capital gains Other gains

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Census Data Analysis



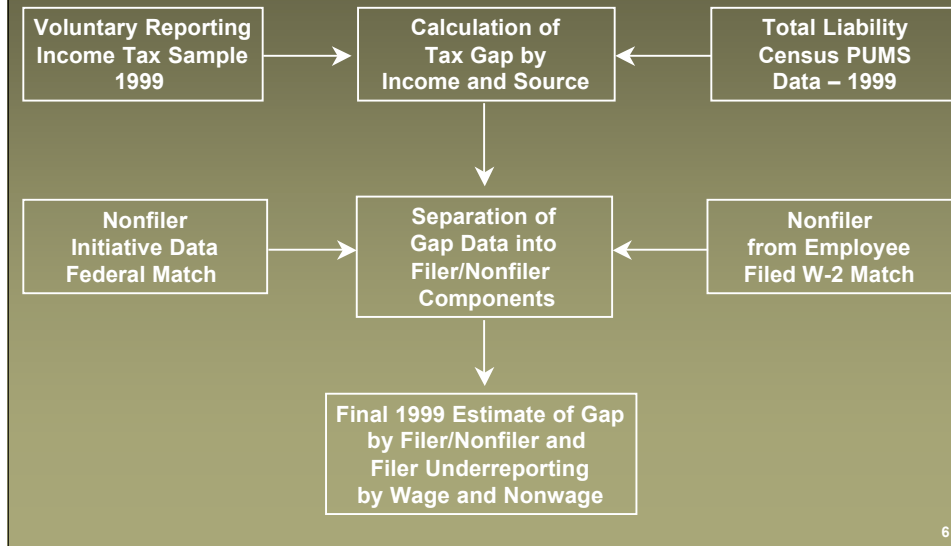
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Differences Between Census Households and Tax Filing Households

- Relatives in Households:**
- Adult children
 - Parents
 - Other relatives
- Unrelated persons in Households:**
- Unmarried partner
 - Other unrelated persons
- Group quarters persons:**
- Elderly (mostly in nursing homes)
 - Others

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Estimating Minnesota's income tax gap using 2000 Census data

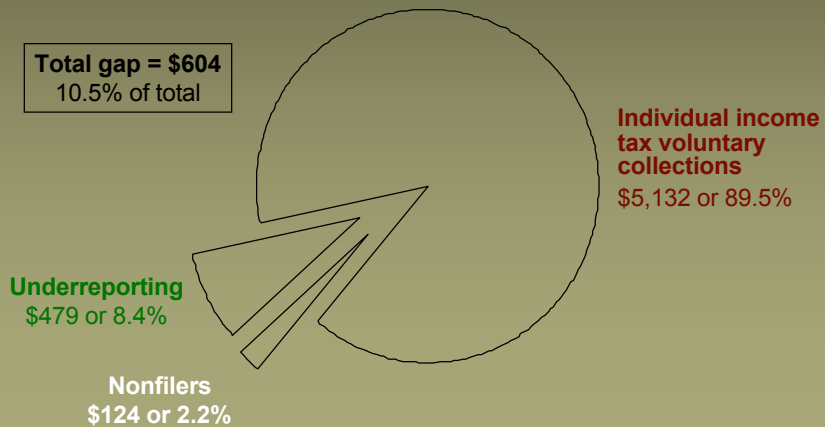


Tax Gap Analysis Method

- Applied census data (e.g., top codes) to income tax sample.
- Compared top coded sample to census data.
- Scaled tax liability figures to estimate total liability had all census households and incomes been included in sample.
- Difference equals tax gap:
 - * Nonfilers
 - * Underreporting

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Minnesota individual income tax as percent of total tax due Calendar Year 1999 (\$ Millions)



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Minnesota Individual Income Tax Gap Study

Strengths

- Uses an available data source (2000 Census).
- Does not require a special sampling effort or interfere with audit selection.
- Contains most of the income components found on the income tax return.
- Census data can provide insight into industry and occupation of nonfilers.
- Census plans to update its sample data, making it possible to repeat this study. (American Community Survey)
- Makes use of administratively discovered nonfilers in estimation process.

Weaknesses

- Census data is not verifiable.
- Census income components are "top coded" to prevent disclosure.
- Census income components, except wages, are commingled and capital gains is missing.
- Census household relationships are used to place into filing types.

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Future possibilities

Update gap estimates using:

- American Community Survey for 2002 (Census Bureau) for universe.
- Future income tax sample data for voluntary filers.
- Nonfiler data from ongoing initiatives.

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Legislative mandate

Minnesota Statute 270.0682 Tax Incidence Report

Subdivision 1. Biennial report. The commissioner of revenue shall report to the legislature by March 1 of each odd-numbered year on the overall incidence of the income tax, sales and excise taxes, and property tax.

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Sources of data on household income

Initial source of household records	Source of income data		
	Individual Income tax return	Property Tax refund returns	Nontax source
Households filing individual income tax returns (Approximately 84% of households)			
Households added from property tax refund returns (Approximately 6% of households)			
(Households added from other sources Approximately 10% of households)			

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Census Data for Incidence Analysis

Additional Information for:

- Low-income household data (no tax returns are filed).
- Renter versus homeowner data by income level.
 - ↑ Counts by type
 - ↑ Gross rent for property tax estimates
 - ↑ Property tax paid
- More comprehensive income data for lower incomes, and by income type.

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Future Census Data Incidence Work

- Direct source for household income information (low-income households)
- Use overall Property Tax Information from Census Data
- Compare and merge overall Census Data to available Tax Data to add information