

of small business where State of filing generally represents location of business, and also are useful in terms of measuring the workload in tax administration.

Use of Tax Return Data for Tax and Economic Policy

One of the major uses of tax return data is for tax research and the development of economic policy. This involves a number of agencies such as the Office of Tax Analysis of the Treasury, the Joint Committee on Internal Revenue Taxation, the Council of Economic Advisers, and the Bureau of the Budget. Special studies and tabulations are prepared for the use of these agencies and are often included in the Statistics of Income program. In order to make it responsive to their needs, the representatives of these agencies are asked each year to review the program.

In addition to the use of these publications and tabulations for this purpose the advent of the electronic computer has made it possible to develop a powerful analytical tool for tax analysis, a tax simulation model. The 1964 Individuals Tax Model consists of three reels of tape containing the data for a one-fourth subsample of the Statistics of Income sample—approximately 95,000 returns from the population of 66 million. This file can be further subsampled through the use of a Select Code which permits random partitioning of each sample class into equal subgroups. The data record contains all items from the tax return required for tax computation together with codes indicating sample class, district, form of deduction, marital status, and use of certain special provisions.

The file can be manipulated through a generalized program using variable parameters so that the tax on each return is computed under different conditions. These might represent a proposed tax plan or a projection to a future level and distribution of income. The changes are introduced by the use of control cards so that a new tape file is produced with the desired changes.

In addition to the manipulation program there is a flexible table generator program which can be used to weight and tabulate the file produced by the manipulation program. It can also be used to prepare tables from the existing 1954 file. For some purposes it is desirable to operate on returns selected for particular characteristics, since some tax proposals affect only one segment of taxpayers. This can be done by both the manipulation program and the table generator program.

The Tax Model has made it possible to determine the revenue effect and taxpayer impact of legislative proposals on very short notice. Also, this can be done, not just for one change at a time, but for combinations of several changes simultaneously, an almost impossible task prior to the Model. These changes might involve new tax rates, exemption allowances, floor and ceiling limitations on certain deductions, partial income exclusion (such as sick pay or dividends), capital gains treatment, and substitution of tax credits for deductions from income.

Earlier IRS Tax Models—those for 1960 and 1962 which were nowhere near as flexible as the 1964 model—have proved invaluable to the Treasury and to the Congress in development of the Revenue Act of 1964 and the Tax Adjustment Act of 1966. In the latter instance innumerable runs were made on various plans for graduated withholding to determine the varying impact of underwithholding and overwithholding. Suggestions to reduce overwithholding made at Ways and Means Committee sessions could be run through the Tax Model and the results presented within a day or two. What this means is that it is no longer necessary to use rough estimates or guesses when faced with the problem of measuring the impact and effect on revenue of new tax proposals or of determining what tax revenues will be in the future under various assumptions as to the tax structure and level of income.

The Individual Tax Model data tape file can be purchased by anyone doing research for about \$350. The data record contains no item identifying the taxpayer so that IRS regulations against disclosure are not violated.

Uses by Other Agencies

Data from tax returns are the basis for considerable further analysis and estimation by other Government agencies. Significant parts of the system of national income accounts prepared by the Office of Business Economics, Department of Commerce, find their origin in SOI. The corporate profit segments of the national accounts and the unincorporated business income are based on SOI. Other parts of the accounts use data on interest, depreciation, personal income, the size distribution of income and State distributions of income. In addition, wholesale and retail mark-up rates are determined from tax returns in order to estimate the value of consumer purchases of commodities.