RECENT EFFORTS TO MAXIMIZE BENEFITS FROM THE STATISTICS OF INCOME ADVISORY PANEL

Presented at the 2003 American Statistical Association Meetings

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Key words: Advisory panel; administrative records; statistical operations; microsimulation modeling.

The Internal Revenue Service's Statistics of Income (SOI) Division has had, for over 15 years, a Consultants' Panel whose membership consists of a distinguished group of individuals from academia, nonprofit organizations, State and local government, and the private sector. The Panel has always had a keen interest in helping SOI fulfill its mission by assisting SOI staff to improve its overall performance and in providing guidance and advice to make SOI ever more efficient, forward thinking, and responsive to its many customers in and outside of the public sector. In addition, the Panel has served as a management sounding board on issues, including strategic planning, data dissemination, and project prioritization.

For many years, this assistance was primarily as a result of periodic meetings in which SOI staff presented ongoing plans and operations to Panel members and invited guests from the public to solicit feedback, guidance, and direction. While these efforts were beneficial, both Panel members and SOI staff agreed that greater involvement in the core operations of SOI could be mutually beneficial. This paper is a progress report on how SOI has solicited greater involvement from its Panel members, what has been accomplished to date, and what approaches and initiatives are being planned for the future.

Background Information

The SOI function goes back to the enactment of the modern income tax in 1913. In the 1916 Act, it was written that "the Secretary (of the Treasury) shall prepare and publish not less than annually statistics reasonably available with respect to the operations of the internal revenue laws." Despite many revisions to the tax law, the original requirement of that Act continues to this day.

The mission of the SOI program is to collect and process data so that they become meaningful information and to disseminate this information to customers and users. The SOI Division conducts for the Internal Revenue Service and Treasury Department studies on the operations of tax laws with respect to individuals, corporations, partnerships, sole proprietorships, estates, nonprofit organizations, and trusts, as well as specialized studies covering both inbound and outbound international activities.

The SOI Division has produced studies and published reports for over 85 years. However, around 1980, with the advent of modern computing and microsimulation modeling by policy and revenue estimation functions at Treasury and elsewhere, it became apparent that SOI had not kept up. In the first half of the 1980's, under the direction of then Director Fritz Scheuren, a major overhaul of SOI's methodologies and key business processes began. By mid-decade, several developments and accomplishments were of note:

1. A renewed emphasis on quality that had come to the Internal Revenue Service was closely embraced within SOI.
2. SOI began to attract many new technical staff who could help lead the retooling of projects.
3. SOI began to develop its own "minicomputer network," replacing reliance on IRS mainframe technologies where statistical programs were a low priority.
4. An SOI "Consultants Advisory Group" was formed to help guide and direct these efforts.

Minicomputers were placed in SOI's headquarters in Washington, as well as in two key field sites, Ogden, Utah and Cincinnati, Ohio. Pilot projects began to develop a one-pass approach to the complex data editing operations that were a substantial improvement over the multi-iterative approach used on the IRS mainframe computer systems. Each year, SOI staff made regular and continuous improvements to the systems, so that, over time, SOI's data processing and analytical capabilities became quite sophisticated.

Early Involvement by the Panel

The Consultants' Panel evolved from discussions and involvement with the late Joe Pechman, a scholar at The Brookings Institution, who saw the large public value in greater access to and dissemination of tax return data. In the early 1960's, SOI had developed its first public-use microdata file, a non-identifiable subset of the annual sample of individual tax returns, at Pechman's urging, as an invaluable tool for tax policy

analysts outside of the Government who did not have access to SOI's rich data files. The success of the public-use file and the potential gain for the policy analyst community prompted him to host periodic meetings at Brookings and eventually suggest the formation of a formal advisory board in the mid-1980's.

The formation of an advisory group by IRS's Statistics of Income Division was not unique to the Federal statistical agency community. Most of the major Federal statistical agencies have a long history of using one or more advisory groups as a mechanism for inviting the participation of private citizens in their decision-making processes. [1] In 1986, the SOI Division was a relative latecomer to this arena and chose a less formal arrangement by forming an ad hoc group as opposed to an advisory committee operating under the provisions of the Federal Advisory Committee Act (FACA; Public Law 92-463, 92nd Congress, House of Representatives 4383, October 6, 1972). From the beginning, the SOI Division obtained advice from the individual members of its advisory group rather than from the group as a whole.

The SOI Consultants Panel formally began in the spring of 1986 with a general mission of use as a sounding board and a source of ideas and innovations. Planning sessions between Joe Pechman and then SOI Director Fritz Scheuren in preparation for the first meeting established the scope and character of the Panel. Initially, they determined that the main purpose of the Panel was to help shape the SOI program so its products would be given wider use in the research (academic/business/policymaking) community. The spring was chosen for the first meeting to coincide with the completion of SOI's multiyear planning process, and it focused on the current SOI program with special emphasis on future directions and changes. A follow-up meeting was suggested for the fall of that year because it would serve as a checkpoint on the degree to which SOI could incorporate changes into its plans in preparation for the next multiyear plan. It was also thought that a spring 1987 meeting would provide the forum for reviewing the new plans resulting from the above process and for deciding on the periodicity of meetings thereafter. Thus was born, 17 years ago, a framework for SOI to gain more systematic input about how well it was doing as an organization and how it might improve service to its customers that has become an integral part of the SOI culture.

Seventeen years ago, at the fall 1986 meeting, SOI concluded the session by giving all Panel members and participants an opportunity to identify those issues they felt the Division should be most concerned with. Many of the areas mentioned then were, and still are, a major focus of the SOI program, perhaps underscoring their significance, and yet also indicating SOI's need to continually work to improve what it does best. Some of the issues raised at that session that still resonate today include: risk of disclosure for microdata; public access and confidentiality issues; archiving and documenting historical files; the implications of electronic filing on the SOI program; and the development of more longitudinal data. It is also true that, while many topics have been repeated on the agendas over the years, there has also been much variety introduced into the sessions. Some noteworthy examples include conducting offsite meetings at two IRS service centers; inviting guest speakers; and organizing the session as a workshop. Many Panel meetings were organized around particular themes, some focused on technological innovations, while others included online demonstrations of SOI's computer systems.

The focus of the Panel meetings has included tax policy data needs, statistical disclosure research, computer modernization, microsimulation modeling, tax reform, and individual and corporation data. Early Panel meetings in the late 1980's and early 1990's regularly included updates on the SOI Division's individual, corporation, partnership, foreign, and special studies programs. These meetings frequently included presentations by Panel members on such topics as State tax statistics, household surveys with tax data, analyzing SOI panel data, individual tax model research, and economic statistics initiatives. Later, such topics as the earned income tax credit, tax gap, the Survey of Consumer Finances, use of SOI data in emerging tax issues, data sharing legislation, and data warehousing were covered.

Panel Feedback and Input

While each Panel meeting agenda throughout the years comprised different, specific topics, which were interesting and educational, discussions of SOI programs or systems between SOI staff and Panel members were often the most revealing and beneficial. Though SOI periodically received much praise for the quality, usefulness, and importance of its data and the professionalism and caliber of its staff, it also recognized that it needed to do more, in some part because of the feedback and input from Panel meeting discussions. As was hoped when the Consultants Panel was originally formed, ideas for improvements were presented, suggestions were made in a neutral environment, and general underlying themes kept recurring that eventually pinpointed a number of program shortcomings. One result was that SOI immediately undertook initiatives to address program limitations and deficiencies. [2] Former Director Fritz Scheuren and current Director Tom Petska, who was at

the time Chief of the Division's Coordination and Publications Staff, developed a list of items from these initiatives to present to Panel members for consideration and comment. These items were discussed as a "research and improvement agenda" at one of the Panel meetings in the early nineties. Discussions focused on tradeoffs among improvement priorities, and Panel members were polled for their own individual rankings. Five initiatives include the needs for greater program timeliness, improved data consistency, better tracking of demographic changes, preservation of historical information, and public access. These five are summarized below.

- **Timeliness--**The fact that users never have enough current information from tax returns is an inherent weakness of the SOI program. Timeliness of SOI studies has been a focus for improvement and one in which some success has been achieved. In all major SOI studies, there is an ongoing commitment to complete statistical processing within a minimum time after the close of the sampling period. Delivery dates have improved as a result. Preliminary data are also provided as early as possible.

- **Data Consistency--**Problems of data consistency are of two general types, statistical and conceptual. Despite extensive validity testing, inconsistent or erroneous data still escape undetected for a variety of reasons in some SOI data files. Efforts continue to rid these out of the system. Improving the conceptual clarity and year-to-year consistency of the content of tax and information returns is also a problem that has no easy solution. Where possible, efforts have been made to ensure consistency in time series data.

- **Tracking Demographic Changes--**The redesign of the individual program at the request of Treasury's Office of Tax Analysis (OTA) underscored the need to improve longitudinality in SOI studies. Transactions such as capital asset realizations, that can have multiyear ramifications, can only be examined by means of a panel data base. A similar need for greater longitudinality also applied to business sector studies. Tax reforms, particularly those affecting individual and corporate tax rates, have increased the occurrence of changes of legal form, such as switching from a corporation to a limited partnership. Developing panel data in the individual and corporate areas has been a major focus of SOI work over the past 10 years.

- **Preservation of Historical Information--** Although current efforts are focused on better meeting current and future customer needs, SOI has become "keeper" of an abundance of tax information documents in a variety of media. Much of this information, though cumbersome to use, is irreplaceable. However, as new technologies become available, the cost of moving this information into more user-friendly formats will drop considerably. A difficult decision has been and continues to be how many current resources should be diverted from present work to safeguard this historical information.

- **Public Access--**Tax returns are protected by law from public scrutiny, and strict procedures govern the handling of returns and computer tape files containing such information. Even after specific identifiers (e.g., name, address, and Social Security number) are removed, the remaining tax return data are usually still confidential. While SOI's primary customers are authorized to receive detailed tax return microdata files, other users may have only summary tabulations. Public-use microdata files of individual tax data have been produced regularly since 1960 and are the only source of certain information. An ongoing issue for SOI has been how to make more tax microdata publicly available to researchers outside of Government. This will continue to be studied in both the individual and corporate areas.

These items are all crucial to the growth, development, and success of SOI if it is to be considered a world-class statistical organization. Panel members' opinions on these topics during Panel meeting discussions over the years were certainly one of the factors that helped shape SOI's thinking and decision-making as the Division sought to make continual improvements to its programs.

Panel Membership

With rotating membership, the Consultants' Panel has met virtually every year since 1986. The 10-15 members of the Panel represent academia, the corporate world, economic research centers, State governments, and nonprofit "think tanks." Attendees at Panel meetings include the members themselves, SOI staff, and invited guests. These include members of the Treasury's Office of Tax Analysis (OTA); the Congressional Joint Committee on Taxation (JCT); the

Congressional Budget Office (CBO); the General Accounting Office (GAO); the Census Bureau; the Federal Reserve Board; and others from research organizations and academia. The daylong meetings are usually held at The Brookings Institution in the spring or fall. SOI reimburses Panel members only for travel and per diem; so, their advice and guidance are largely *pro bono*.

The Panel was originally chaired by the late Joe Pechman of Brookings and consisted of 12 additional members. Of those 12, the 4 who remain to this day are:

- Martin David, the University of Wisconsin and The Urban Institute
- Dan Feenberg, the National Bureau of Economic Research
- Gene Steuerle, The Urban Institute
- Bob Strauss, Carnegie Mellon University

In addition to the above, the current Panel membership has added the following members, all of whom have served at least 5-10 years:

- Bill Gale, The Brookings Institution and Panel Chair
- Steve Caldwell, Cornell University
- Virginia Hodgkinson, Georgetown University
- Tom Neubig, Ernst & Young
- George Plesko, MIT
- Joel Slemrod, University of Michigan
- Lin Smith, PricewaterhouseCoopers
- Phil Spilberg, California Franchise Tax Board
- Jenny Wahl, Carlton College
- Sally Wallace, Georgia State University

Benefits from the SOI Consultants' Panel

Over the years, the SOI Consultants' Panel has become a critical part of the communication process between SOI and its customers. While other statistical agencies, like the Census Bureau and the National Center for Health Statistics, hold major user conferences on a regular basis to receive input from their customers, SOI has chosen this small-scale and relatively inexpensive approach to keep its customers informed.

There have been many benefits to SOI from the Panel. These include:

- The Panel provides an opportunity to tap into an extensive knowledge base of tax experts, some of whom are regular SOI data users.
- SOI staff members have given presentations to the Panel on technological and methodological improvements in SOI programs or quality initiatives that affect SOI projects. These occasions have been valuable learning experiences for staff members and resulted in specific suggestions, which have led to further improvements.
- A continuous theme from the Consultants' Panel has been the need for more timely and electronically available data. In the early 1990's, this led to the development of the SOI Electronic Bulletin Board, the forerunner of the current Tax Stats on the IRS website.
- Demonstrations of online systems have led to improved understanding by users of how SOI data are processed.
- Discussions of statistical innovations by SOI staff have resulted in valuable comments that led to further improvements in SOI methodology.
- Panel members also strongly advocated the need for developing metadata systems, which more fully document a study's processes from start to finish.
- Input from microsimulation modeling experts has helped SOI to provide better data for its tax policy analysts at Treasury and the Joint Committee on Taxation.

New Directions

All Panel members believe it is important to have public-use data on the functioning of the tax system and have given time and energy to ensure that SOI continually improves its capabilities to make available timely, high quality data from tax and information returns. Under the tutelage of new SOI Director Tom Petska, the Panel once again meets biannually, and members have been asked to get more involved in areas of SOI modernization.

As noted above, the SOI Division has produced annual Public-Use Files (PUF's) since the early 1960's, and, while there has been periodic and anecdotal feedback from PUF users on how SOI could best suppress the data to minimize analytical pursuits, the Division never had a formal PUF users' group. In the spring of 2001, a group was formed and, after 2 years, has become an unqualified success. PUF data users have welcomed the opportunity to contribute to overall plans for disclosure suppressions.

The PUF users' group has six members from the user community, two of whom are Panel members. The success of the PUF Users' Group as a way to improve communications with users, to obtain users' advice, and to revise data files in a way most useful to data users is an excellent model for forming similar subgroups from the SOI Consultants' Panel membership. As a result, SOI Director Petska decided to seek additional Panel involvement and assistance to streamline SOI

operations in four additional areas. His expectation was that every Panel member will become a member of one of these subgroups and help SOI explore possibilities for systematic improvements in its key operations. These areas are:

1. Modernizing SOI's website to efficiently disseminate data;
2. Guiding research in estates and gift taxation and personal wealth;
3. Improving SOI's publications and tables; and
4. Advising on how to improve training and employee development.

Each of these areas, and the roles for assistance from the Panel members, are described below.

1. **Web modernization team.--**In the fall of 2002, an inhouse team of SOI's Internet "visionaries" was commissioned to scope out the best capabilities and Internet features and a new look for SOI's website, "Tax Stats." This team sought support from members of the Consultants' Panel as resources in making improvements to the website. One initial task was to visit the 60+ websites listed in FEDSTATS, the Federal agencies' primary source point for statistics, to scope out best practices and then broaden the search. The SOI goal is to implement the group's proposals by redesigning the SOI website. This team currently consists of nine SOI staff members and three additional Panel members who are familiar with tools, capabilities, and features of state-of-the-art websites to help this effort achieve SOI's goal of making Tax Stats the best website in its class.

2. **Evaluation of SOI table content and publications.--**SOI has a long history of publishing since its original mandate in 1916. Today, the Division publishes the quarterly *Statistics of Income Bulletin*, the annual Individual and Corporation complete reports, the annual Corporation Source Book, the annual report in the Methodology series, and the annual IRS *Data Book*. In addition, SOI publishes periodic compendiums and, most recently, the proceedings for the newly established annual IRS Research Conference. A tremendous amount of time and effort goes into publishing these reports, but considerably less time has been spent evaluating the content, frequency, and dissemination of the publications. Some of the tasks that a subgroup plans to undertake are: review content and frequency of all SOI publications, examine how to make them more useful, look at methods of advertising and disseminating, and look at what is not being published that perhaps should be, e.g., new types of *Bulletin* articles. A standing committee of senior SOI staff, working with three Panel members, has been formed to help anticipate these needs and make data more useful to a wider audience of researchers and practitioners. Expanding the regular statistical content of publicly available data in publications and/or the website would make SOI data more useful to a broader audience, and also eliminate needs for "ad hoc" data requests, which can be disruptive.

3. **Research in estates, gift, and wealth.--**The focus of research in the estate, gift, and wealth areas, including SOI support of the Federal Reserve Board's Survey of Consumer Finances (SCF), is closely tied to the needs of the Office of Tax Analysis and the Joint Committee on Taxation. For the SCF, a contractual agreement between the Federal Reserve Board and SOI regulates the use of administrative data and protects individuals from disclosure of their financial and tax data. However, it is beneficial to review the scope and direction, as well as the item content, of these areas of research. One Panel member already works with SOI staff members on the estate, gift, and wealth team. Three additional Panel members have recently joined this group to look at the recent body of work in these areas and help provide insights to SOI on the focus of this work. The group is also interested in exploring innovative ways to make these data more valuable and more available, not only to Treasury and the Joint Committee, but also to outside users.

4. **Teaching and training SOI staff.--** Periodically, SOI has hosted invited speakers describing the importance of SOI data and how they use them in forecasting and economic or policy analysis. The two areas that have done this more systematically are SOI's new employee orientations and infrequent formal training classes. Concerning new employee organization, some years ago, a series of a dozen orientation briefings was developed for all new employees that concluded with presentations by SOI's principal external customers at Treasury, the Joint Committee on Taxation, and the Bureau of Economic Analysis. Although new

employees may not have been ready to grasp the complexities of the work of these agencies, other SOI employees asked to attend. Also in the early 1990's, a 10-part course in Public Finance was designed and taught by invited senior public policy analysts (including some Panel members) to lecture on their work in public finance practice and how it relates to theory. What this group seeks is to add Panel members to a new inhouse staff, initially to periodically brief SOI on policy analysis using tax and other microdata. Next, working with SOI staff, training needs in tax law, policy analysis, the Federal statistical system, and statistical project management will be assessed, and inhouse training modules and short courses will be developed.

With the four new subgroups, long-term plans are to encourage frequent, periodic meetings, as needed, of the subgroups but to host semiannual meetings for the entire Panel. As requested by some members, periodic reports from the subgroups will be distributed to all Panel members at least once between the semiannual meetings. The general Panel meetings have traditionally been open to the public and widely announced. However, as the workings of the small subgroups progress, some thought is being given to restricting the general meeting, which is open to the public, to once per year so that more attention can be given to improvements to SOI's internal operations and policies.

Summary and Conclusions

The SOI Consultants' Panel is a capable and energetic group of distinguished tax scholars, policy analysts, academics, and researchers in the public and private sectors who have generously offered their assistance to improve SOI operations. Not to accept their offer of assistance would be a travesty. This paper is an interim report on how this work has been structured, with an expectation of tangible benefits in the not-too-distant future. As it learns of these initial attempts, SOI plans to refocus the talents of the Panel members to other aspects of SOI operations.

Notes and References

[1] Eldridge, Marie D., "The Status of Advisory Committees to the Federal Statistical Agencies," *The American Statistician*, May 1990, Volume 44, Number 2, pp. 154-162.

[2] Petska, Tom, "Statistics on Federal Taxation: The Statistics of Income Program of the IRS," *Turning Administrative Systems Into Information Systems: 1994*, Internal Revenue Service, 1995.