

How The US Federal Tax System Informs Us about Us: About Some Troubled Waters

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Two Perspectives on the State of US Economic Data

The Tax Foundation

<https://us02web.zoom.us/j/89318560016?pwd=kNjV0jpWWDxVmpPsPHr10u385NZwkC.1#success>

1. A bit about me

- Aging [82] athlete, claims to fame:
 - Kelce brothers attended same high school as I did [Cleveland Heights High School, Ohio, VP of Graduating HS class, Natl Honor Society, varsity tennis]
 - In baseball summer league, once struck out Tommy Mack [dad was Indians coach], Tommy is in the NFL Hall of Fame
 - But for my partner's missing an overhead 3 feet from the net, would have been semifinalist in Ohio high school doubles tournament; was 1st man at LSE
- Husband [Celeste 46 years] Father [Sarah, David, Elena], Grandfather [Madeleine, Lilianne]
- Aging Academic: UNC Economics (10 years), CMU (47 years), 4,200 Google counts
- Old-fashioned, expect students to learn w/o being accused of harassing them, and to become capable of thinking from various perspectives. Expect them to do 12 hours work/week for 12 unit hour course

1. A bit about me (II)

- Have been responsible for changing current federal law while at Treasury and JCT: 2 presidential pens [Nixon & Ford], thank you letters from W&M Chair Wilbur Mills [revenue sharing award], Gov Hugh Carey [for bailing out NYC], chief energy savings estimator of the US House and Senate during energy crisis, co-designed refundable EITC etc.
- Responsible for statutorily requiring IRS 1040 to collect the residence address of federal income taxpayers which enabled Census to get the individual master file to do annual small area population and income estimates [over the opposition of IRS]
- Original and continuing member of IRS/SOI Consultant's Panel since 1980's
- Co-author of 2007 National Academies book, *State and Local Statistics at the Crossroads*
- Been watching very carefully the erosion of the contractual SOI provision of tax return statistics to BEA to enable what we can know about ourselves.
- Am going to talk about what I view as increasingly troubled waters about this.

2. Some Primary Assumptions about Economic Statistics

- Federal privacy about individual income are to be expected/required of IRS [6103] and receiving federal statistical agencies
- Statistical competition between federal statistical agencies as well as private organizations are essential to maintaining confidence in federal statistics
- Data on GNP, Personal Income, Profits, Employment, Prices, Wages, Interest Rates must be independently, accurately, and promptly measured and disclosed.
- Independence of statistical reporting systems is crucial to credibility
- Measurement is hard when technology and tastes are changing rapidly
- Everybody likes good news over bad news.
 - Earnings Management in the private sector
 - Elected officials of any level/party prefer happy news over bad news, especially during periods of duress

2. Examples of Measurement/Wishful Thinking Manipulation/Errors

- 1970 Penn Central Bankruptcy just after a AAA rating agency bond rating
- 1971 Enron/Arthur Anderson Debacle
- 1971-3: POTUS/Nixon meddled over BLS unemployment rate, fired BLS Commissioner Moore
- LIBOR fixing 2005-9 led to 2012 Barclays, UBS, Deutsche Bank, Royal Bank of Scotland (RBS), Rabobank, Citigroup paying big fines
- 2021 NY: not reporting bad nursing home death statistics during Covid led to a governor resigning
- Bad stuff happens all the time without independent supervision & disclosure. Curious? Read the *Financial Times* of London daily. US media doesn't pay much attention.

3. What do we know directly from SOI? For the public from your browser, you can know about ourselves/federal tax system at:

- <https://www.irs.gov/statistics>
- In particular:

Business tax statistics

- [Corporations](#)
- [International](#)
- [Partnerships](#)
- [Nonfarm sole proprietorships](#)
- [S corporations](#)
- [All topics](#)

Charitable & exempt organizations statistics

- [Charities](#)
- [Private foundations](#)
- [Exempt org. population data](#)
- [Trusts](#)
- [Tax-exempt bonds](#)
- [All topics](#)

Individual tax statistics

- [Individual income tax](#)
- [Estate & gift tax](#)
- [Filing season stats](#)
- [International](#)
- [Personal wealth](#)
- [All topics](#)

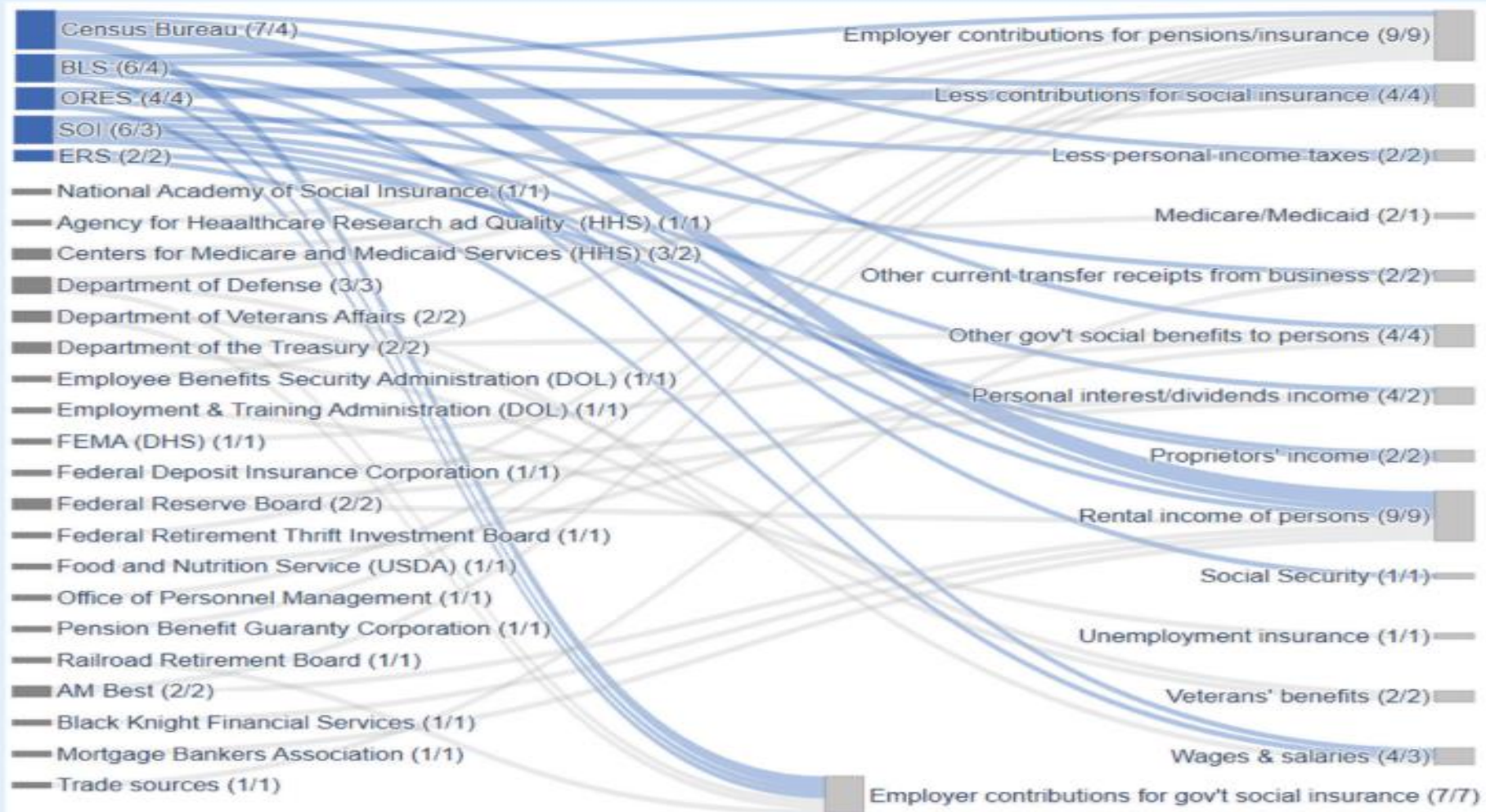
Products, publications and papers

- [SOI Bulletins](#)
- [IRS Data Books](#)
- [Archive](#)
- [SOI working papers](#)
- [U.S. population migration data](#)
- [Historical data tables](#)
- [Statistics by form](#)
- [All topics](#)

4. So what's to worry about? It's a little complicated but important.

- Understand and believe that Americans increasingly don't like telling the Census Bureau or Federal Reserve what their income and wealth are. A long term trend.
- Under various federal statutes IRS is **allowed** to share confidential information with other agencies to enable them to construct more accurate micro files and also macro-economic aggregates like BEA personal income and its components
- Under the Anti-Deficiency Act of 1894 and The Economy Act of 1932, federal agencies receiving tax information **must** have in place an agreement, and actually pay with appropriated monies for such data. No signed agreement, no money changing hands, no data from IRS to BEA etc.
- Following graphic is from American Statistical Association July 2025 showing the to/from importance of SOI to BEA Personal Income [about 70% of GDP]
- Also, see:
https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.bea.gov%2Fsites%2Fdefault%2Ffiles%2F2026-02%2FPersonal-Income-and-Outlays_Major-Source-Data-Table.xlsx&wdOrigin=BROWSELINK

FIGURE 2.3. Data Providers for Aggregate Components of Annual Personal Income Estimates (number of uses/unique products)



Did BEA Disclose this failure to receive the data?

*"BEA also typically incorporates Internal Revenue Service Statistics of Income (SOI) tabulations of tax returns for corporations, for sole proprietorships, and for partnerships during annual updates. **BEA was unable to purchase SOI data for this year's update.**"*

<https://www.bea.gov/information-updates-national-economic-accounts-2025>

- Anybody notice? Wrong question. Lots of people/organizations have known, on the Hill, JEC, OMB, FED, Treasury, CEA, NBER etc.
- Anybody find the \$1 million to get it done? To my knowledge and belief, nope.

5.0 What's the real issue? No signed MOU, no payment, no data exchange.

- The nub of the issue: is ensuring BEA does its job using historical data sources, MOUs, etc. an oath of office obligation?

Reminder:

“I do solemnly swear (or affirm) that I will support and defend the Constitution of the United States against all enemies, foreign and domestic; that I will bear true faith and allegiance to the same; that I take this obligation freely, without any mental reservation or purpose of evasion; and that I will well and faithfully discharge the duties of the office on which I am about to enter. So help me God.” [1]

6.0 What else is going on in the world of financial measurement these days? According to Chatgpt:

“SEC is currently under intense pressure regarding accounting and disclosure standards in the Form 10-K. However, the pushback is not a singular effort; instead, it is a highly polarized battleground between corporate advocacy groups demanding a reduction in compliance burdens and investor advocacy groups warning against the systemic degradation of financial information.”

7. Conclusions?

There's in fact plenty to worry about. Actually more than Michael Bloomberg noted in the WSJ earlier this year since he missed the SEC matter.

- <https://www.mikebloomberg.com/news/op-ed-in-washingtons-war-on-data-the-economy-and-public-will-lose/>
- Why? Financial markets without creditable information, let alone taxpayers in a democracy wondering what's going on in the aggregate economy, let alone the accuracy of who pays what, could easily get antsy.
- When financial risk goes up, interest rates go up, and that makes the federal budgetary deficit larger [and larger].

Hope you found these remarks interesting.