

A stylized cartoon character with a large head and small body, holding a sign. The sign is yellow and contains the following text:

**Tax Compliance Research Opportunities  
In A Lean Budgetary Environment**

**Federation of Tax Administrators  
Revenue Estimating Conference  
September 22, 2003  
New Orleans, Louisiana**

by  
**Dick Gebhart**  
**Minnesota Department of Revenue**

The character is white with a blue outline and is holding the sign with both hands. The sign is tilted slightly to the right. The background of the sign is yellow, and the character is set against a light green background.

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## **Minnesota**

Legislature put Money into Compliance to:

- Hire People for Direct Compliance Activities
- Analytical Work
  - Warehouse Work
  - Unique Identifiers (Geocodes)
  - Compliance Measures

## **Warehouse Work**

- Income Tax Matched with Property Tax Homesteads
- Property Tax Refunds
  - Out of State Addresses
  - Homestead Designation/Clustering
- Drivers Licenses/Social Security Numbers with Income Tax Files
- Warehouse Integration/Data Mining

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## **Unique Identifiers**

- Drivers License Geocode (non Social Security Numbers) with Geocoded Income Tax Filers
- Federal W-2's → FEIN's → State W'2 → State ID Number

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## Compliance Measures

### Income Tax Gap Estimation

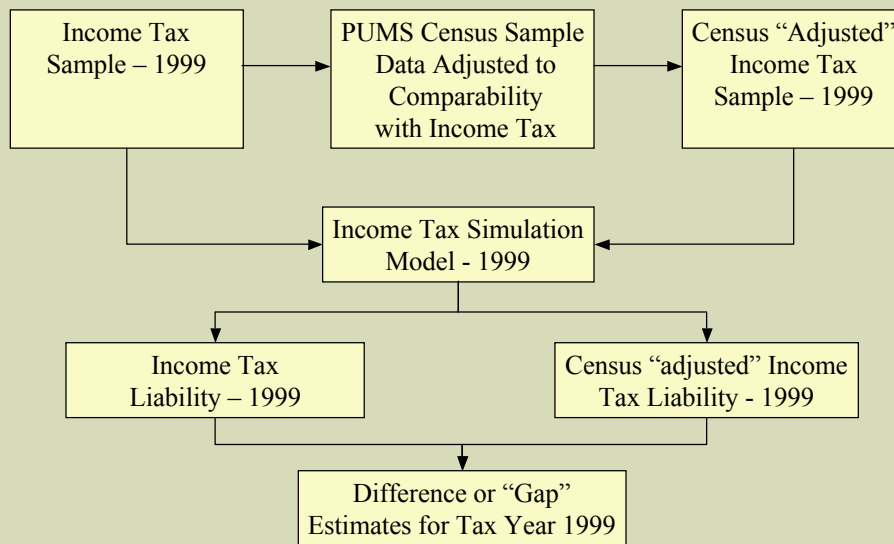
- Baseline
- Ongoing Measure

### Cooperative Effort Between

- Tax Research
- Individual Income Tax

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## Estimating Income Tax Gap Using 2000 Census Data



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## Filing Status for Gap Estimates

- Married filing joint return includes married filing separate returns, qualified widow(er)
- Head of Household
- Single
- Not required to file

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## Income Types for Gap Estimates

<u>Census Categories</u>	<u>Form 1040</u>
➤ 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 Workers Comp. (nontaxable)
➤ Other (e.g., VA payments, unemployment, child support, alimony) if received periodically	Alimony Unemployment Other income Nontaxable income
Census does not capture episodic or one-time income such as capital gains.	Capital gains Other gains

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## Components of Gap

Underreporting Directly from PUMS Sample  
by income type  
by filing status

Non-reporting – More Difficult Problem  
by filing status  
by total tax – not type of income

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## Preliminary Filing Comparisons

Federal Filing Status (1999)	Number of Income Tax Filers	
	1999 Income Tax Sample (residents only)	2000 Census 1% PUMS Sample
<b>Based on:</b>		
Not required to file	n/a	n/a
Single	1,087,000	1,159,000
Married filing joint return	953,000	1,103,000
Married filing separate	23,000	n/a
Head of household	192,000	215,000
Qualifying widow(er)	2,000	n/a
All	2,257,000	2,477,000

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### **Future Plans**

- Use 5% PUMS Sample to Refine Baseline Estimates for 1999
- Use Actual Non-filer Data to Refine Non-filer Estimates
- Use American Community Survey to Update Estimates
  - 2002 Micro Data Sample Due Winter 2004
  - Likely Schedule for Future Updates Follow Same Pattern
    - ◆ 2003 —→ Winter 2005
    - ◆ 2004 —→ Winter 2006
- Use as a Model for Future Cooperative Efforts Between Tax Research and Tax Administrators