COMMENTS

"MODERNIZATION AND RE-ENGINEERING OF THE ANNUAL SURVEY OF STATE GOVERNMENT TAX COLLECTIONS" BY ELIZABETH ACCETTA AND MELISSA BRAYBROOKS, U. S. BUREAU OF CENSUS

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As one of the user group that the paper identifies as those engaged in "...public finance, economics, public policy, fiscal federalism, tax policy, research and analysis related to government functions, and comparative analysis," I want to express my great appreciation for both the Annual Survey of State Government Tax Collections and the Quarterly Summary of State and Local Government Tax Revenue. Few weeks go by in which I have not gone to www.census.gov to track down some number, or set of numbers, in one or both of those sources. It is not an exaggeration to say that a whole community of researchers and analysts, when confronted with a new tax policy question, react immediately by seeing what the data in these sources tell them about the question. It probably will not be the only source they turn to, but it is likely to be the first. These products make the public finance world easier to understand and to analyze.

What matters to researchers and analysts using the data? First, a standard classification across states is important, with an understanding of what particular tax in a state falls into what category. Details matter, so that a researcher can do some reclassification if necessary for the question at hand. Second, consistency in classification over time is important. This is not easy because states do rescind, adopt, restructure, and re-label their taxes, and it is not always clear what goes where. Significant taxes do emerge from the miscellaneous pile (excises on gambling being the most recent example) and having a consistent and disaggregated time series helps greatly here. Publishing data on the newly-significant helps policy researchers. Third, accuracy of reporting to categories is vital. Because the Division depends on the states and localities reporting the data, this requires eternal vigilance and effort. Finally, understanding how the classification close calls are determined is important, because knowing where to alter the data to meet particular needs is vital. The modernization discussed in this paper makes a useful contribution in each of these areas.

Now about the paper, which contains a good batch of helpful information about the data products as well as describing the modernization reforms.

First, it is interesting and useful to understand the distinctions between the Annual and Quarterly data. I had pondered the inconsistencies I found between the data sets and wondered if I were doing something wrong. I will now relax, secure in the knowledge that it is actually ok for them not to quite match. It would be good to post the explanation somewhere around the places in which the data themselves can be found.

Second, I really wonder about the two-out-of-three rule as applied for distinguishing between what taxes are state and what taxes are local. I am not sure that imposition, collection, and retention are the right three to work with. My problem is with using what entity collects (the administrators) as playing a part in the state/local distinction. Think about this: a growing number of local governments are arranging with private firms to collect their local sales taxes. Does that mean that, for these jurisdictions, the tax is half of the way to being not even a tax because a private firm is doing the collecting? I think not, but the current two-out-of-three rule would tell us that. Who actually collects a tax seems to me to be not very useful in determining whether a tax is state or local. A much more useful third component in the division would be the geographical scope of application of the tax – a tax levied in only a small portion of a state probably is not truly a state tax, particularly if imposition or retention are not at the state level. Lots of tax analysis across states gets confused if a tax that is less than statewide in application gets counted as a state tax. At a minimum, instances in which the rule has to be applied should be identified in a footnote or the like in the Census reports, so that analysts or researchers could make adjustments if they needed a different interpretation for what they were working on at the moment. The distinction usually is clear on the face and not an issue. However, when there is a suspect tax, it usually is being levied in an economically significant area (like sales taxes in Maricopa County, Arizona, or the counties of the New York Metropolitan Commuter Transportation District) and where the revenues go make a significant difference in state versus local collections. That is why knowing where the collections are being counted is important.

Third, as I understand them, the flags would appear to be a useful step in the process. They look like a computerized equivalent of a "sniff test" – a test for when data reported just do not look right and merit some checking. Because the Governments Division is dependent on responses from state and local governments, the efforts at data perfection are vital. If a respondent misclassifies or mistakenly includes a state collected local tax as part of state tax revenue (as we know has frequently happened in the past), for instance, numbers just are not right. Unless data users have considerable experience with the state taxes, research and analysis gets done with wrong data. This is truly important work if the research community is to use the data produced by the Division. Flagging strange data, contacting researchers to verify data patterns, and working to get good responses from the states (and localities) is extremely valuable.

Fourth, the work on classification is important but not straightforward. Clearly the gross receipts tax revenue does not belong with the corporate net income tax revenue and moving it to another location is useful. That means some separate identification for the Washington business and occupation tax, the Ohio commercial activity tax, the Delaware gross receipts tax, and the District of Columbia gross receipts tax (the baseball stadium tax). But if the changed data classification is to go backward into history, as well as forward for new data, where would the Indiana corporate gross income tax go in the later years of its existence? It served as an alternate minimum tax to the tax on corporate profits, so is it best classified as a part of the corporate income tax or as a gross receipts tax? And where are the Delaware and Ohio taxes even now, as well as in historical data series? And where does the Texas margins tax go? Is it a gross receipts tax or a badly-designed corporate profits tax? Researchers and analysts need to know where these taxes are going to show up in the data if they are to do work that accurately reflects the taxes in application.

Now, a couple of comments outside the paper. I have worked with Governments Division state tax collections data for years and deeply appreciate the efforts of the Division in providing a timely and consistently categorized data set on state taxes. Their classifications do not always match what I need for my research, and I regularly make adjustments to their data, as do most researchers in the area. What is important to us is to understand what conventions the Division uses in classifying taxes. I do not always find the explanations provided sufficient and wonder if some more specific footnoting on special cases would be feasible and helpful to more people than just me. I recall more footnotes in the old paper version of State Tax Collections than appear in the electronic version. That would allow analysts to make revisions in the data so that they would fit the research question they are working on. Giving additional insights into what lies within the data would have many uses for research and analysis and surely would not be costly for the Division to provide.

A second point has also bothered me for years – I have, on various occasions, tried to "reverse engineer" the state tax collections data, usually involving state sales taxes, by starting with state sources and building those data up to the STC reported data. I have tried starting with budget data, tax department annual report data, state auditor data, and probably other sources that I cannot recall now – and I have never been successful in my efforts with tax data. I am always close, but it would thrill me to no end if some time I could get an exact match. The only success I have had is recently with state lottery data – I got a match with a couple of lottery commission annual reports and, because of knowing the data source, I was able to do a revision that prevented a significant error in some cross-state comparisons that I was preparing. It would be useful to better understand the data sourcing so that better research, and avoidance of unforced errors, could be possible.

None of my observations should be seen as criticisms of the work of the Governments Division in preparing either the Annual Survey or the Quarterly Summary. Both reports represent outstanding contributions to the efforts of public finance research and analysis and the modernization efforts will be applauded by all researchers.