

REJOINDER

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The discussant's observations are, of course, most appreciated and exhibit a grasp of the Sole Proprietorship Link Study's fundamental problem: as a first time study, it had to cope with how much was simply unknown.

The decision to employ the 1979/1980 file of Form 941/943 records and omit the 1978/1979 file as well as the fiscal filing period possibility was due to two factors: higher processing costs and the 1979 calendar filing period assumption. Higher costs of additional linkage processing for files not originally designed for the link studies per se (i.e., the SOI-perfected sole proprietorship sample file and the Census-perfected Form 941/943 population file) were deemed unwarranted primarily because (a) for Tax Year 1979 some 99% of all Forms 1040 had calendar year 1979 filing periods and (b) of those which had fiscal or non-1979 filing periods, many were probably filed for members of partnerships.

Other than what is known of false matches obtained from match processing as well as the increase in aggregate data resulting from reweighting for false non-matches (increases of 16% for number of businesses, 10% for payroll, and 11% for employment), nothing is known of this processing decision's direct impact on false matches and non-matches. Probably it had little impact since match problems in general were thought to be attributable primarily to the Employer Identification Number (or lack of it) on the sole proprietorship's business schedule. The second Sole Proprietorship Link Study (Tax Year 1982) is expected to benefit from the 1979 experience in this regard primarily because such tradeoff decisions as necessitated for the 1979 Study will be precluded by the 1982 sample file format design.

No sole proprietorships were contacted during the study's match processing phase

primarily due to resource constraints. Although the payroll/deductions discrepancy was designed to catch "hidden payroll" on the business return, the 1982 study probably will compare payroll to proxy payroll. This change is suggested by the 1979 experience which has led us to believe that hidden payroll is less of a potential problem than the overstating of proxy payroll--primarily due to its inclusion of contract labor payments as well as payroll not reportable on Form 941/943 for certain employee classes. Again though, it is important to err on the conservative side (particularly when examining the payroll/deductions relationship) by building a sound match base, due to the large weights on some sample business records. Reweighting is thought to overcome potential problems of omission by compensating for any marginal matches missed through groups of solid match records with similar characteristics. Further, it was a desirable step in order to provide the Small Business Administration (SBA) with as full a data set as possible to meet SBA's own analytic needs.

The discussant's suggestion to replace the Form 941 file with W-3 file counterpart information (total compensation for payroll, number of W-2's attached as an employment proxy) would be desirable if control problems currently confronting the W-2/W-3 tapes--annually provided to IRS by SSA for the Combined Annual Wage Reporting Agreement Form 941/943 reconciliation effort--could be overcome. SSA is planning to overhaul its current computer processing system in 1987, which might be a more appropriate time to reconsider such an approach. In the meantime, however, it might be worthwhile to pursue this idea with the thought of supplementing Form 943 information--weakened in the past by reporting qualifications as well as the general problem of reporting employment only for the March 12 pay period.