
The Bureau of Economic Analysis and the Internal Revenue Service

Ralph Kozlow, Bureau of Economic Analysis

These remarks were presented when I served as a discussant at the August 1997 Joint Statistical Meetings in Anaheim. The topic for my panel was: "Case Studies in Partnerships: How Administrative Agencies and Statistical Agencies Cooperate in the Use of Administrative Records for Statistical Purposes." I discussed the BEA-SOI partnership from the perspective of the Bureau of Economic Analysis (BEA), and Tom Petska discussed the partnership from SOI's perspective. Also on this panel, Gerald Gates discussed the Census-Social Security Administration partnership from Census's perspective, and Faye Aziz discussed that partnership from the Social Security Administration's perspective.

The views expressed are those of the author and do not necessarily represent those of BEA.

■ How and Why the Partnership Started

BEA first gained access to SOI data at least as early as the Franklin Roosevelt administration, largely because the Treasury Department recognized that BEA access to confidential IRS statistical data was critical to the accuracy of major components of the national income and product accounts (NIPA). For example, SOI data are the primary source data for annual estimates of the following components of gross domestic product: corporate profits, net interest, nonfarm proprietors' income, capital consumption allowances, dividends, Federal corporate tax liability, the donations components of business transfer payments, and the royalty component of rental income of persons.

With access to microlevel data, BEA is able to align source data more closely to national economic accounting concepts, is able to determine whether major transactions of a specific company are consistently reported, and is better able to explain the causes of large or unexpected changes in key data series. For example, access facilitates making adjustments to remove duplication in BEA's corporate profits and proprietors' income source

data, when corporations are members of partnerships. Also, the SOI program benefits from the partnership because it utilizes BEA's constructive feedback and analyses to better understand trends in its published data. To help accommodate these needs and uses, a statistical use subsection is included in the Internal Revenue Code --section 6103(j)(1)--which explicitly permits BEA to have access to IRS corporate data, for the purpose of structuring censuses and the national economic accounts, and related statistical activities authorized by law. BEA also has limited access to noncorporate IRS data, used principally in preparing regional tabulations of income, generally via special contracts with IRS. The SOI program uses suppressed tabulations of noncorporate IRS data that BEA produces to augment and improve its own work and analyses.

■ What Makes the Relationship Work

The BEA-SOI relationship is highly successful because there is a high degree of trust and respect between BEA and SOI. SOI is responsive to BEA's needs, and BEA takes very seriously its responsibility to protect the confidential data that it receives from all its data providers, including SOI. BEA has established record-keeping procedures and security practices to ensure that IRS confidentiality provisions under Title 26 U.S.C. are strictly upheld. The BEA-SOI relationship has led to lower reporting burden, reduced agency costs, and improved operating efficiency.

Perhaps another reason the relationship has been so successful is that confidential information now flows in one direction only--from SOI to BEA. SOI is a statistical agency, but because it is located in IRS and subject to IRS statutes, there may be circumstances where some of its data could be used for nonstatistical purposes. This issue does not complicate the BEA-SOI relationship at the present time, due to the one-way flow of information.

For statistical data sharing to be successful, there

must be safeguards to assure that shared data are used solely for statistical purposes. Also, there must be a public perception that there is a firewall between the statistical data provided to a statistical agency and any nonstatistical parts of its organization.

The Office of Management and Budget (OMB) is aware of the potential problem involving public perception and has taken several steps to avoid it. The proposed Statistical Confidentiality Act mandates that shared statistical data be used solely for statistical purposes. Also, OMB has issued an Order Providing for the Confidentiality of Statistical Information. This order clarifies that data furnished by respondents for Federal statistical programs must not be used for any other purpose. Also, Section 6 requires that designated statistical agencies, including BEA and SOI, complete a review of their activities, identify any statutes or rules that might interfere with the protection of statistical data, and, if necessary, develop a plan for complying with the order. Thus, there will be strong and enhanced firewalls and legal protections for shared statistical data.

Perhaps another reason that the relationship works so well is that BEA shares with SOI much of the cost of producing the data provided to BEA. Thus, SOI is not spending entirely its own funds to satisfy NIPA needs.

■ A Suggestion for Building New Relationships in the Era of Devolution

It is important to the consistency of the statistical system that the same entity be classified by industry in the same way across all agencies. For coding to be consistent across agencies, agencies need to be able to share industry code information, but much interagency data sharing is now restricted or prohibited. This may partly be out of concern that some agencies that code establishments or enterprises, including IRS and some state agencies, are not solely statistical. However, unless they can receive industry coding information, consistency in coding across agencies will not be achieved.

An important question is: Should we be willing to consider industry codes, and only such other information as is necessary to identify the entities to be coded, as being not confidential and able to be freely shared

with statistical and nonstatistical agencies? Much industry code information is already in the public domain, and many businesses appear to view industry code information as less sensitive than other types of information. If industry code information were not considered to be confidential, it could be shared with IRS and individual States without the need for them to have access to other data that would remain confidential. BEA would, however, be reluctant to allow full sharing of mailing list information (including company names and addresses) along with the industry codes. Thus, sharing would consist of the receiving agency providing the source agency with a list of the companies or establishments for which it wishes industry codes; the source agency would provide the codes, but no other information, for the entities on the list; also, it would not provide codes or other information for any entities not on the list.

■ Limitations on Partnerships

What limitations on partnerships should there be? These are some of the more important constraints to have on data sharing:

- Data that are shared for statistical purposes must not be used for any nonstatistical purposes (regulation, taxation, investigation, litigation, etc.).
- Confidentiality must be assured. Individuals with access to confidential data must be sworn to protect privacy; a receiving agency's site should be inspected to assure that appropriate controls are in place to protect confidentiality; and there should be civil and/or criminal penalties for unlawful disclosure of confidential data.
- Data that are requested or shared must support the receiving agency's mission, and access should not be granted to agencies or units without a firewall between their statistical and nonstatistical units.

Finally, we need to answer the question of whether certain agencies should be explicitly excluded from re-

ceiving data, such as those that are, or are perceived to be, integral parts of agencies with legislative, tax, investigatory, or regulatory functions.

■ **What Helps To Ensure the Successful Establishment and Support of Partnerships?**

One of the most important elements in establishing and maintaining a successful partnership is a desire on the part of both the sharing and receiving agencies for the partnership to be successful. Where this exists, innovative ways may be found to share data despite potential impediments. Even if data-sharing legislation were not promptly enacted, there are probably numerous opportunities for new and broader partnerships within the context of present confidentiality regulations and statutes.

Administration interest in promoting data sharing is high, and this has helped to increase interest in data-sharing partnerships in general. Hopefully, this interest will translate into wider support for passage of broad data-sharing legislation.

As to the future... BEA strongly endorses the passage of broad data-sharing legislation. Passage would stimulate the construction of new and broader partner-

ships and increased efficiency. However, in touting its benefits, it is important not to oversell the merits of data sharing, and to stress that the immediate effect of enacting data-sharing legislation would probably not be to reduce agency costs. In fact, at least initially, some agency costs may increase, as agencies attempt to link their data sets to improve the accuracy, usefulness, and quantity of their output.

For BEA, probably the greatest benefit accruing from the passage of data-sharing legislation would be the ability of agencies that supply data to BEA to share their confidential data with each other. BEA's role is to integrate a wide variety of data from other agencies into a consistent set of accounts for the entire economy. By promoting greater consistency of data among IRS, Census, and the Bureau of Labor Statistics, the quality of the accounts BEA produces from the data would be significantly improved. Also, passage might facilitate the creation of data **collection** partnerships. For example, gross domestic income is now overstated by an unknown amount because of differences between the NIPA and tax accounting treatment of purchases of computer software. If broad data-sharing legislation were enacted, BEA and SOI could consider joint sponsorship of a survey to determine the extent to which businesses capitalize versus fully expense in a single year their purchases of computer software.