

## DATA DESCRIPTION

The 2004 volume of the Utah Statistics of Income series summarizes and analyzes tax return data available from the Internal Revenue Service (IRS) through the federal-state exchange program. The data are based on those federal income tax returns that list a Utah address and were processed by the IRS as of late August 2005.

Two different data tapes are available from the IRS. The first, called the master file, contains very basic information from the 1040 form, such as federal taxes, adjusted gross income (AGI), deductions and the number of exemptions claimed. The second source contains most of the individual tax form lines, such as detail on deductions and sources of income. The detailed source is not updated to reflect amendments and is not as thoroughly edited for errors as the first source. Thus, the data are not 100 percent correct, but in most cases are reliable for general orders of magnitude and averages. Since the two sources are not at the same phase in processing when the state tapes are made, totals from the two sources are generally not identical, although usually very close. Either differences in IRS processing speed or the timeliness of taxpayers in filing returns will cause discrepancies. This may result in slight differences on some tables in items such as AGI, deductions, or the number of taxpayers.

The IRS's tax data always contain information from prior-year returns that are filed late. We generally include prior-year returns since their omission would result in a serious under-reporting of the various income and tax magnitudes. In a sense, 2004 prior-year (2003) data is a proxy for returns for 2004 that will be filed late. Prior-year returns are included as a separate "county" in the county tables and are not included in either the city or ZIP Code data, since we believe the inclusion of the data at the state level is reliable, but that its allocation to lower level geographic units is questionable.

In addition to state, county, city, and ZIP Code data on adjusted gross income, federal taxes, exemptions, and returns by income level, this volume reports statewide data on itemized deductions, adjustments to income, sources of income, and other important magnitudes from federal tax schedules C through F, as well as for various credits and tax payments.

The data on Utah's income is AGI, which is not the same concept as either the census definition or personal income. AGI includes capital gains, which most definitions of income do not cover, and only captures a portion of social security income and pension income. In addition, a list of adjustments, such as IRA and Keogh plans, self employed health insurance, moving expenses, alimony paid, etc. are subtracted to arrive at AGI. AGI also excludes the imputed income included in personal income measures.

We are subject to the way taxpayers fill out their forms as far as addresses are concerned. If they use a wrong ZIP Code, we are forced to live with it. Probably the most important error of this type is in the "city" taxpayers claim. Some residents of the smaller communities, for example, may list Salt

Lake City as a city rather than Sandy, or Murray, for example. This also happens for residents of unincorporated areas. Some taxpayers will also use their professional address or post office box rather than their actual residence.

**To understand what is included in federal taxes, please consult the attached form 1040. This figure is what is reported on the total tax line, but self-employment taxes are not included, while alternative minimum taxes are included as well as some other small items. Credits have been subtracted, except the earned income tax, which is considered a payment by the IRS.**

In addition, average values are only averages for taxpayers using a particular form or line.

## **FAMILY-BASED STATISTICS OF INCOME**

This report represents an ongoing effort at the Utah State Tax Commission's Economic and Statistical Unit to calculate family-based data from individual returns. Since the raw data is based on tax returns and tax definitions of income, and since the aggregation is not perfect, this data should not be expected to conform to other sources of family or household data. This report groups returns into larger units, such as households or families. It groups returns that show the same last name, ZIP Code, and first part of the address into a unit, generally a family. This method adds minors with their parents, if they use the same name and address. It also groups a married couple living with the husband's parents (same last name). However, it would not group a married couple living with the wife's parents (different last names).

### **A NOTE FOR 2004**

This years tax tape had some fields with very large numbers, frequently with many zeros. They were not many but the numbers were large enough to make aggregate data unreliable. We have omitted those records.

In past years we have been sent records listing Utah as their most current address regardless of where they lived when the return was filed. This means we got move ins and not move outs if new addresses were filed. This year we got all returns filed with a Utah address, regardless of their current address, but showing their current address. This means we did not get move ins but kept move outs, but with there current address. For state data that is probably not a big change unless we had significant migration. But for sub-units it makes interpretation difficult. For example, Sandy data will not include move ins since they did not file from Sandy and will not include move outs since there address maybe Denver, for example.