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Congress of the United States

JOINT COMMITTEE ON TAXATION
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ROBERT P. HARVEY
DEPUTY CHIEF OF STAFF

December 3, 2021

Honorable Jason Smith
 U.S. House of Representatives
 2418 Rayburn House Office Building
 Washington, D.C. 20515

Dear Mr. Smith:

This letter is in response to your request of November 10, 2021, for an analysis of the number and proportion of taxpayers making under \$400,000 per year who would be impacted by a modified version of the proposal to “Introduce Comprehensive Financial Account Reporting to Improve Tax Compliance,” in Treasury’s “General Explanations of the Administration’s Fiscal Year 2022 Revenue Proposals” (the “Green Book”). The October 19th modified version you reference changes the inflow/outflow threshold that triggers reporting from \$600 to \$10,000 and provides an exclusion for “wage and salary earners and federal program beneficiaries.”¹

For this response, we consider “taxpayers” to be primary filers of individual tax returns who are not claimed as a dependent on someone else’s return. For 2023, the first year for which bank account information would be reported under the proposal, we project 148 million taxpayers out of 151 million total taxpayers will report less than \$400,000 in adjusted gross income (“AGI”).²

To estimate the number of taxpayers whose account information would be reported under the proposal, we start by noting that approximately 95 percent of U.S. households maintain checking or savings accounts.³ Some households include multiple taxpayers, and other households do not include any taxpayers, but the overall percentage of taxpayers with bank accounts is close to 95 percent. To estimate the effect of the \$10,000 inflow and outflow threshold, we use AGI as a proxy, though it is not a perfect proxy because many banking inflows do not contribute to AGI and not all income is deposited into bank accounts. We project that approximately 134 million taxpayers will report between \$10,000 and \$400,000 in AGI on their 2023 tax returns.

Next, we consider the exclusion for wage and salary earners and Federal program beneficiaries. As you note, the \$10,000 outflow threshold could undermine the exclusion for W-2 earnings and certain Federal payments if the amount of W-2 earnings and Federal payments are not excluded from the outflow threshold. If these payments are excluded from the outflow

¹ Available at <https://home.treasury.gov/news/press-releases/jy0415>.

² We interpret “making under \$400,000” as reporting less than \$400,000 in AGI. We use reported AGI rather than true AGI, which is reported AGI plus unreported AGI, because the distribution of unreported income is not well identified.

³ Based on the 2019 FDIC Survey, which is available at <https://www.fdic.gov/analysis/household-survey/>.

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Page 2

threshold as well, the number of taxpayers whose account information would be reported might be significantly less. To estimate how much less, as a proxy, we subtract income reported on Form 1040, lines 1 (wages, salaries, tips, etc.) and 5b (taxable social security benefits), from AGI. We project that approximately 40 million taxpayers would be above this threshold and below \$400,000 in reported AGI. However, the ability of banks to identify these payments is unclear. Banks might be able to identify wages and salaries paid by certain large payroll processors. We do not have information on the percentage of taxpayers paid by these processors.

Given the terms of the proposal and the uncertainty with respect to the efficacy of the exclusion, we estimate the number of taxpayers reporting less than \$400,000 who would have their account information reported to be greater than 40 million (27 percent) and less than 134 million (90 percent). The average of this estimated range is 87 million (59 percent) and represents a reasonable point estimate.

I hope this information is helpful to you. If we can be of further assistance in this matter, please let me know.

Sincerely,



Thomas A. Barthold