

The Reporting of Social Security Income in Adjusted Gross Income (AGI) on IRS Form 1040¹

Angela Wyse
University of Chicago

Ilina Logani
University of Oxford

Derek Wu
University of Virginia

Bruce D. Meyer
University of Chicago,
NBER, and AEI

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I. Overview

This note examines the question of how well adjusted gross income (AGI), as reported on IRS Form 1040, captures income from Old Age, Survivors, and Disability Insurance (OASDI) benefits. This question is motivated in part by prior work showing that about 12.3 percent of unemployment insurance recipients who file 1040s fail to report unemployment income on these forms (Meyer, Wu, Stadnicki, and Langeteig 2022).² In particular, we compare true OASDI receipt, as indicated in the Social Security Administration (SSA)'s Payment History Update System (PHUS) administrative dataset, to social security income reported on IRS Form 1040s for a representative sample of the U.S. population of tax filers. We find that AGI captures income from social security benefits at a much higher rate than unemployment insurance income, with only about 4.1 percent of filers who receive OASDI benefits failing to report this income on their 1040 form.

II. Methodology

We base our analyses on a dataset that is representative of the U.S. population of tax filers, which is formed by linking individuals from the 2016 Current Population Survey (CPS)'s Annual Social and Economic Supplement (ASEC) to IRS Form 1040s and keeping those who appear as a primary

¹ This memo is released to inform interested parties of research and to encourage discussion. Any views expressed are those of the authors and not those of the U.S. Census Bureau. The Census Bureau has reviewed this data product for unauthorized disclosure of confidential information and has approved the disclosure avoidance practices applied to this release, authorization number: CBDRB-FY2023-CES005-011. Authors can be contacted at the following email addresses: Angela Wyse (awyse@uchicago.edu); Ilina Logani (ilina.logani@history.ox.ac.uk); Derek Wu (derek.wu@virginia.edu); Bruce D. Meyer (meyer1@uchicago.edu).

² Among all unemployment insurance recipients, 24.3% do not report receiving this income on a 1040 form, either because they don't file a 1040 (13.7%) or because they do not report on a filed 1040 (10.6%).

or secondary filer in each year 2014 to 2018.³ Among tax unit-year combinations in the resulting dataset, about 60 percent of tax units contain just one filer and about 40 percent of tax units contain two filers. We obtain indicators and amounts for true OASDI receipt from CPS-linked PHUS extract files, which provide an extended history of OASDI benefit receipt for people surveyed in the CPS-ASEC. We measure OASDI receipt at the tax unit level, summing across primary and secondary filers in two-filer tax units.

III. Findings

Across tax years 2014 to 2018, we find that 19.6 percent of filers received OASDI benefits according to the CPS-PHUS extract files. Among these true recipients of OASDI benefits, around 75 percent correctly reported both receipt and the amount received on their IRS Form 1040 (with a tolerance of \$60), while an additional 20.9 percent of filers who received OASDI correctly reported positive receipt but not the correct amount. The remaining 4.1 percent of filers who received OASDI did not report receiving these benefits on their 1040s (false negative rate).⁴ The weighted absolute mean difference when OASDI benefit amounts were incorrectly reported (including false negatives, true recipients who reported the incorrect amount, and the small share of non-recipients who reported receipt on their 1040s) was \$4,976.

³ We drop a small number of individuals who link to a jointly filed tax return where the co-filer has not been assigned a linkage key because we cannot measure true OASDI receipt for these tax units.

⁴ The false positive rate is low, with only about 0.36 percent filers who do not receive OASDI benefits reporting receipt on 1040s. It is unclear whether these errors represent incorrect reporting or incompleteness of our administrative CPS-PHUS extract data. If we assume these individuals are true recipients who for some reason do not appear in the CPS-PHUS extracts, then we would estimate that about 1.5 percent of true recipients are incorrectly indicated as non-recipients in the administrative data.

IV. Table

Table 1: OASDI Benefit Reporting on 1040s Among Filers

Shares Conditional on True Receipt Status	
<i>True OASDI recipients (as indicated in CPS-PHUS extracts)</i>	
Share reporting receipt on 1040 (correct and incorrect amount)	0.959
Share reporting correct amount	0.750
Share reporting incorrect amount (\$60 tolerance)	0.209
Share not reporting receipt on 1040	0.041
<i>True OASDI non-recipients (as indicated in CPS-PHUS extracts)</i>	
Share reporting receipt on 1040	0.004
Share not reporting receipt on 1040	0.996
Shares Unconditional on True Receipt Status	
True OASDI recipients	0.195
True OASDI non-recipients	0.805
Share reporting OASDI receipt on 1040	0.190
Share not reporting OASDI receipt on 1040	0.810
Overall Misreporting	
<i>(Misreporting is defined to include false negatives, false positives, and true positives with incorrect amount.)</i>	
Share with misreported OASDI receipt	0.052
Mean absolute misreporting (cond. on incorrect amount) ¹	\$4,976
Sample Size	
Unweighted count (people x years)	67,000
Weighted count (people x years)	140,800,000

Sources: 2016 CPS-ASEC, CPS-PHUS extract files, 2014-2018 IRS 1040s

Notes: Sample consists of person-year combinations of individuals surveyed in 2016 CPS-ASEC who link to an IRS form 1040 in 2014-2018 where both the primary and secondary filer are assigned a linkage key (PIK). All shares are weighted using CPS-ASEC person weights.

¹The standard deviation of the mean absolute misreporting conditional on reporting the incorrect amount was \$6,283.