

Comparison of BEA Estimates of Personal Income and IRS Estimates of Adjusted Gross Income

New Estimates for 2001

Revised Estimates for 1959–2000

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THE Bureau of Economic Analysis (BEA) measure of personal income and the Internal Revenue Service (IRS) measure of adjusted gross income are both widely used measures of household income. Adjusted gross income is the key before-tax definition of income that is used by the IRS in the calculation of individual income tax liabilities. Personal income, which is prepared as an integral part of the national income and product accounts (NIPAs), is the more comprehensive income measure. It represents current income received by persons from all sources, and it is often used in examining trends in national economic output, consumer spending, saving, and investment.

This article presents a comparison of the BEA measure of personal income and the IRS measure of adjusted gross income (AGI) of individuals by type of income for 1959–2001. For 2001, the most recent year for which data for adjusted gross income are available, the gap between personal income and adjusted gross income was \$812.8 billion. The relative gap—the gap as a percentage of total personal income—was 11.6 percent. The revisions to the relative gap for 1959–2000 were generally small.

The revised estimates for 1959–2000 reflect the incorporation of the results of the 2003 comprehensive NIPA revision, of the updated estimates of AGI for 2000 from the *Statistics of Income Bulletin*, and of improved estimates of some of the items that partly reconcile the two measures.¹ As part of the comprehensive revision, BEA incorporated changes in definitions and

statistical changes that affected the estimates of the AGI gap that generally reduced the gap. In addition, the presentation of the estimates of the AGI gap changed; see also the section “Sources of Revisions to the AGI Gap.”²

The article discusses the following topics:

- The major definitional and statistical differences between personal income and AGI;
- The uses of personal income and AGI;
- The reconciliation of the two measures in which personal income by type of income is converted to the same definitional basis as AGI;
- The sources of the unexplained differences between BEA’s estimates of AGI and the IRS estimates of AGI (referred to as the “AGI gap”) for 1959–2001, its trends, and the sources of revision to the AGI gap for 1959–2000;³ and
- The highlights of the changes to the reconciliation table due to the 2003 comprehensive NIPA revision.

Personal income. Personal income is the income received by persons from all sources (table 1).⁴ It is the sum of “compensation of employees (received),” pro-

2. For the new presentation of personal income, see Nicole Mayerhauser, Shelly Smith, and David F. Sullivan, “Preview of the 2003 Comprehensive Revision of the National Income and Product Accounts: New and Redesignated Tables,” *SURVEY* 83 (August 2003): 7–31; <www.bea.gov/bea/an1.htm>.

3. Annual and quarterly estimates of personal income are published monthly in NIPA table 2.1. IRS estimates of AGI are published annually in *Statistics of Income—Individual Income Tax Returns*. The estimates of the relationship between total personal income and total AGI will be presented annually in new NIPA table 7.19 (formerly table 8.28). All of the estimates presented in this article and most of the underlying data are available on BEA’s Web site at <www.bea.gov/bea/dn/nipaweb/index.asp>. The reconciliation by type of income for 1959–2001 is also available upon request; e-mail Mark.Ledbetter@bea.gov.

4. “Persons” consists of individuals, nonprofit institutions serving households, private noninsured welfare funds, and private trust funds. A new NIPA table will show incomes and outlays of households separately from those of nonprofit institutions serving households; see Charles Ian Meade, Clinton P. McCully, and Marshall B. Reinsdorf, “Income and Outlays of Households and of Nonprofit Institutions Serving Households,” *SURVEY* 83 (April 2003): 13–17.

1. See Brent R. Moulton and Eugene P. Seskin, “Preview of the 2003 comprehensive Revision of the National Income and Product Accounts: Changes in Definitions and Classifications,” *SURVEY OF CURRENT BUSINESS* 83 (June 2003): 17–34; Carol E. Moylan and Brooks B. Robinson, “Preview of 2003 Comprehensive Revision of the National Income and Product Accounts: Statistical Changes,” *SURVEY* 83 (September 2003): 17–32; Eugene P. Seskin and Daniel Larkins, “Improved Estimates of the National Income and Product Accounts for 1929–2002: Results of the Comprehensive Revision,” *SURVEY* 84 (February 2004): 7–29; <www.bea.gov/bea/an1/htm>. See also Internal Revenue Service, *Statistics of Income Bulletin* (Washington, DC: U.S. Government Printing Office, Fall 2003).

prietors' income, rental income, income receipts on assets, and current transfer receipts less contributions for government social insurance. Thus, personal income includes income that may not be reported to the IRS. Personal income excludes net gains from the sale of assets (capital gains), pension benefit payments, and employee and self-employed contributions for government social insurance.⁵

Adjusted gross income (AGI). AGI is the Federal income tax concept of net income for individuals that is based on Federal tax laws that are enacted by the U.S. Congress. It consists only of the taxable sources of income that are net of specific adjustments and that are reported on IRS Form 1040. Therefore, it excludes many types of income that are included in BEA's estimates of personal income. In general, gross income for Federal income tax purposes includes all income that is received in the form of money, property, and services and that is not explicitly exempt by law. Exempt income includes the following: The cost basis of pension, annuity, or individual retirement account distributions; tax-exempt interest on state and local government bonds; part of social security and railroad retirement benefits; part of qualified foreign earned income; part of the gains from the sale of principal residences; and voluntary contributions to thrift savings plans. For 2001, the allowable statutory adjustments to gross income to derive AGI included deductions for half of self-employment tax, for qualified contributions to self-employed retirement plans, for qualified contributions to individual retirement accounts and Keogh plans, for alimony paid, and for other statutory adjustments.⁶

Although personal income and AGI are based on different concepts and serve different purposes, they are often used jointly. In particular, estimates of personal income, which are available much sooner than estimates for AGI, can be used to extrapolate advance estimates of AGI. BEA prepares historically consistent series of estimates of personal income, but because major changes in the tax laws have disruptive effects on the IRS estimates of AGI, the AGI estimates cannot be

Table 1. Personal Income and Its Components

Personal income
Compensation of employees, received
Wage and salary disbursements
Private industries
Government
Supplements to wages and salaries
Employer contributions for employee pension and insurance funds
Employer contributions for government social insurance
Proprietors' income with inventory valuation and capital consumption adjustments
Rental income of persons with capital consumption adjustment
Personal income receipts on assets
Personal interest income
Personal dividend income
Personal current transfer receipts
Government social benefits to persons
Other current transfer receipts from business, net
Less: Contributions for government social insurance

compared with BEA estimates of personal income. However, the estimates of the personal income and the AGI gap can be used to prepare estimates of components of AGI so that the two sets of estimates can be compared.

BEA Estimates of AGI

Personal income and AGI each include items that the other omits, but AGI is more narrowly defined. Table 2 shows a reconciliation of personal income and AGI by type of income for 2000, and table 3 shows a reconciliation for 2001. In these tables, the reconciliation items that convert personal income to the IRS definition of AGI are shown in two groups: The first group of lines (lines 3–9) consists of the portion of personal income that is not included in AGI, and the second group (lines 11–15) consists of the portion of AGI that is not included in personal income. The reallocation items by type of income are also shown in two groups: The first group (lines 17–20) consists of the reallocation of certain NIPA income items, and the second group (lines 24–26) consists of certain IRS income items. These items are used to prepare estimates of BEA-derived AGI and in comparisons of personal income and AGI

5. For more information on NIPA methodologies, see footnote 1.

6. Other statutory adjustments are listed in the appendix.

by type of income.⁷ For a discussion about the items in each group, see the appendix to this article.

The AGI Gap

The "AGI gap" is defined as the difference between the BEA-derived AGI (tables 2 and 3, line 21) and the IRS AGI (tables 2 and 3, line 27). The AGI gap for each type of income (line 28) is the difference between the BEA-derived AGI (line 21) and the reallocated IRS AGI

7. For more information about personal income, see <www.bea.gov/bea/regional/articles/spi2001>.

for that type of income (line 27). The percent distribution of the AGI gap by type of income is shown on line 29. The relative AGI gap for each type of income (line 30) shows the AGI gap by type of income (line 28) as a percentage of the BEA-derived AGI by type of income (line 21).

The AGI gap results from several known factors. First, the source data used to estimate personal income, AGI, and their components contain errors and are unavailable for some items, such as income earned by individuals who are not legally required to file in-

Table 2. Comparison of Personal Income with Adjusted Gross Income by Type of Income, for 2000

[Billions of dollars]

Line	Personal Income											Income not included in personal income	
	Total	Wage and salary disbursements	Proprietors' income with IVA and CCAj		Rental income of persons with CCAj	Income receipts on assets		Taxable pensions and annuities	Taxable unemployment compensation	Taxable social security ¹	Other personal income ²		
			Farm	Nonfarm		Personal dividend income	Personal interest income						
Personal income	1	8,429.7	4,829.2	22.7	705.7	150.3	376.1	1,011.0	³ 3.0	20.7	97.3	1,213.8	0.0
Less: Portion of personal income not included in adjusted gross income	2	2,971.3	124.9	10.5	38.6	107.4	271.3	787.2	0.0	0.0	0.0	1,572.8	58.6
Nontaxable transfer payments to persons.....	3	962.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	962.0	0.0
Employer contributions for employee pension and insurance funds.....	4	609.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	609.9	0.0
Imputed income in personal income ⁴	5	265.8	11.5	0.2	2.7	88.2	0.0	163.3	0.0	0.0	0.0	0.0	0.0
Investment income retained by life insurance carriers and pensions plans ⁵	6	497.3	0.0	0.0	0.0	1.6	58.0	437.7	0.0	0.0	0.0	0.0	0.0
Investment income received by nonprofit institutions and retained by fiduciaries.....	7	75.6	0.0	0.0	0.5	7.6	19.5	47.1	0.0	0.0	0.0	0.9	0.0
Differences in accounting treatment between NIPAs and tax regulations, net.....	8	159.4	0.0	10.3	35.4	10.0	18.5	85.2	0.0	0.0	0.0	0.0	0.0
Other personal income exempt or excluded from adjusted gross income.....	9	401.4	113.4	0.0	0.0	0.0	175.4	54.0	0.0	0.0	0.0	0.0	⁶ 58.6
Plus: Portion of adjusted gross income not included in personal income	10	1,667.1	23.8	0.0	4.4	3.4	0.0	0.0	414.3	0.0	0.0	358.0	863.2
Contributions for government social insurance.....	11	359.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	359.2	0.0
Net gain from sale of assets.....	12	645.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	645.4
Taxable pensions ⁷	13	414.2	0.0	0.0	0.0	0.0	0.0	0.0	414.2	0.0	0.0	0.0	0.0
Small business corporation income.....	14	128.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	128.2
Other types of income.....	15	120.0	23.8	0.0	4.4	3.4	0.0	0.0	0.0	0.0	0.0	-1.1	89.5
Plus: Reallocation by type of NIPA income	16	0.0	8.8	0.0	-0.9	0.0	59.4	-59.4	-8.8	0.0	0.0	0.9	0.0
Fiduciaries' share of partnership income ⁸	17	0.0	0.0	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.0
Interest received by nonfarm proprietors.....	18	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest distributed by regulated investment companies.....	19	0.0	0.0	0.0	0.0	0.0	59.4	-59.4	0.0	0.0	0.0	0.0	0.0
Taxable disability income payments.....	20	0.0	8.8	0.0	0.0	0.0	0.0	0.0	-8.8	0.0	0.0	0.0	0.0
Equals: BEA-derived adjusted gross income	21	7,125.4	4,737.0	12.2	670.6	46.2	164.1	164.4	408.4	20.7	97.3	0.0	804.5
IRS adjusted gross income	22	6,365.4	4,456.2	-9.0	213.9	25.1	147.0	199.3	325.8	16.9	90.0	95.7	804.5
Plus: Reallocation by type of IRS income	23	0.0	0.0	0.0	88.4	7.4	0.0	0.0	0.0	0.0	0.0	-95.7	0.0
Estate or trust income.....	24	0.0	0.0	0.0	3.7	7.4	0.0	0.0	0.0	0.0	0.0	-11.0	0.0
Partnership income.....	25	0.0	0.0	0.0	84.7	0.0	0.0	0.0	0.0	0.0	0.0	-84.7	0.0
Other reallocations.....	26	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IRS adjusted gross income (reallocated)	27	6,365.4	4,456.2	-9.0	302.2	32.5	147.0	199.3	325.8	16.9	90.0	0.0	804.5
Adjusted gross income (AGI) gap (line 21 - line 27)	28	760.1	280.8	21.2	368.4	13.8	17.1	-34.9	82.6	3.8	7.3	0.0	0.0
Percent distribution of AGI gap.....	29	100.0	36.9	2.8	48.5	1.8	2.3	-4.6	10.9	0.5	1.0	.....	.....
Relative AGI gap ⁹	30	10.7	5.9	174.1	54.9	29.8	10.4	-21.3	20.2	18.3	7.5	.....	.....
Addendum: Misreporting adjustment included in personal income	31	378.3	99.8	.....	293.3	1.6	.....	-16.4	.....	.....	.....	.....	.....

1. Taxable social security benefits also include a social security equivalent benefit portion of tier 1 railroad retirement benefits.

2. Consists primarily of employer contributions for employee pension and insurance funds and nontaxable transfer payments to persons less contributions to government social insurance.

3. Includes tier 2 railroad retirement benefits that are taxed as if the benefits were paid under private employer retirement plans.

4. Consists of all the imputations in personal income in NIPA table 7.12 except for employer contributions for health and life insurance premiums; these premiums are included in line 4.

5. Consists of imputed interest received by persons from life insurance carriers (NIPA table 7.11) and the investment income of private and government employee pension plans.

6. Statutory adjustments or specific adjustments ("above-the-line deductions") from total income included to arrive at AGI.

7. Consists of the taxable portion of private and government employee retirement plan benefit payments.

8. Consists of partnership income retained by fiduciaries.

9. Adjusted gross income gap (line 28) as a percentage of the BEA-derived AGI (line 21).

AGI Adjusted gross income

BEA Bureau of Economic Analysis

CCAj Capital consumption adjustment

IVA Inventory valuation adjustment

IRS Internal Revenue Service

NIPAs National income and product accounts

come tax returns.⁸ The gap is also due to certain statistical differences between personal income and AGI that would require extensive research to explain.

Second, the IRS estimates of total AGI and its components are affected by sampling and measurement errors. The estimates are based on a stratified probability sample of unaudited individual income tax returns

8. Some individuals who are not required to file tax returns because of their low income levels, file returns to secure refunds of withheld income taxes or to receive refunds through the Earned Income Tax Credit or the Child Tax Credit. The value of the income earned by these individuals may not be reported on tax returns; it is an important, difficult-to-measure component that is missing from the IRS side of the reconciliation.

that are not adjusted for misreporting. However, sample returns are edited to force consistency with statistical definitions and to correct for missing entries in order to produce consistency with other entries on the returns and accompanying schedules.⁹

Third, the estimates of BEA-derived AGI include both explicit and implicit adjustments for misreport-

9. For more information, see IRS, "SOI Sampling Methodology and Data Limitations," *Statistics of Income Bulletin*, no. 1136 (Winter 2002-2003): 231-233; and IRS Source Of Income Division, "Description of the Sample," *Individual Income Tax Returns* (April 2003): 19-21; <www.irs.gov/pub/irs-soi/00insec2.pdf>.

Table 3. Comparison of Personal Income with Adjusted Gross Income by Type of Income, for 2001

(Billions of dollars)

Line	Personal Income											Income not included in personal income	
	Total	Wage and salary disbursements	Proprietors' income with IVA and CCAAdj		Rental income of persons with CCAAdj	Income receipts on assets		Taxable pensions and annuities	Taxable unemployment compensation	Taxable social security ¹	Other personal income ²		
			Farm	Nonfarm		Personal dividend income	Personal interest income						
Personal income	1	8,713.1	4,942.9	25.0	745.6	163.1	371.2	1,003.7	³ 3.0	32.2	101.3	1,325.0	0.0
Less: Portion of personal income not included in adjusted gross income	2	3,117.0	130.7	15.9	61.4	117.7	268.4	764.0	0.0	0.0	0.0	1,698.5	60.6
Nontaxable transfer payments to persons.....	3	1,054.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,054.9	0.0
Employer contributions for employee pension and insurance funds.....	4	642.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	642.6	0.0
Imputed income in personal income ⁴	5	292.8	11.6	0.2	2.7	98.5	0.0	179.7	0.0	0.0	0.0	0.0	0.0
Investment income retained by life insurance carriers and pensions plans ⁵	6	455.7	0.0	0.0	0.0	1.6	52.2	401.9	0.0	0.0	0.0	0.0	0.0
Investment income received by nonprofit institutions and retained by fiduciaries.....	7	69.0	0.0	0.0	0.5	7.8	18.1	41.7	0.0	0.0	0.0	0.0	0.0
Differences in accounting treatment between NIPAs and tax regulations, net.....	8	177.5	0.0	15.7	58.2	9.7	19.4	74.5	0.0	0.0	0.0	0.0	0.0
Other personal income exempt or excluded from adjusted gross income.....	9	424.5	119.0	0.0	0.0	0.0	178.8	66.1	0.0	0.0	0.0	0.0	⁶ 60.6
Plus: Portion of adjusted gross income not included in personal income	10	1,387.3	22.3	0.0	4.2	3.5	0.0	0.0	435.9	0.0	0.0	372.5	548.9
Contributions for government social insurance.....	11	373.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	373.6	0.0
Net gain from sale of assets.....	12	324.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	324.6
Taxable pensions ⁷	13	435.8	0.0	0.0	0.0	0.0	0.0	0.0	435.8	0.0	0.0	0.0	0.0
Small business corporation income.....	14	130.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	130.6
Other types of income.....	15	122.6	22.3	0.0	4.2	3.5	0.0	0.0	0.0	0.0	0.0	-1.1	93.6
Plus: Reallocation by type of NIPA income	16	0.0	9.3	0.0	-0.9	0.0	51.5	-51.5	-9.3	0.0	0.0	0.9	0.0
Fiduciaries' share of partnership income ⁸	17	0.0	0.0	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.0
Interest received by nonfarm proprietors.....	18	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest distributed by regulated investment companies.....	19	0.0	0.0	0.0	0.0	0.0	51.5	-51.5	0.0	0.0	0.0	0.0	0.0
Taxable disability income payments.....	20	0.0	9.3	0.0	0.0	0.0	0.0	0.0	-9.3	0.0	0.0	0.0	0.0
Equals: BEA-derived adjusted gross income	21	6,983.4	4,843.9	9.1	687.6	48.9	154.3	188.2	429.5	32.2	101.3	0.0	488.3
IRS adjusted gross income	22	6,170.6	4,565.2	-11.0	216.8	29.7	119.5	198.2	338.7	26.9	93.6	104.7	488.3
Plus: Reallocation by type of IRS income	23	0.0	0.0	0.1	97.5	7.1	0.0	0.0	0.0	0.0	0.0	-104.7	0.0
Estate or trust income.....	24	0.0	0.0	0.0	3.1	7.1	0.0	0.0	0.0	0.0	0.0	-10.2	0.0
Partnership income.....	25	0.0	0.0	0.1	94.4	0.0	0.0	0.0	0.0	0.0	0.0	-94.5	0.0
Other reallocations.....	26	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IRS adjusted gross income (reallocated)	27	6,170.6	4,565.2	-10.9	314.3	36.8	119.5	198.2	338.7	26.9	93.6	0.0	488.3
Adjusted gross income (AGI) gap (line 21 - line 27)	28	812.8	278.7	20.0	373.3	12.1	34.8	-10.0	90.8	5.3	7.7	0.0	0.0
Percent distribution of AGI gap.....	29	100.0	34.3	2.5	45.9	1.5	4.3	-1.2	11.2	0.7	0.9	.....	.....
Relative AGI gap ⁹	30	11.6	5.8	219.9	54.3	24.8	22.6	-5.3	21.1	16.6	7.6	.....	.....
Addendum: Misreporting adjustment included in personal income	31	396.9	104.3	.....	308.0	1.8	.....	-17.2	.....	.....	.....	.....	.....

1. Taxable social security benefits also include a social security equivalent benefit portion of tier 1 railroad retirement benefits.
 2. Consists primarily of employer contributions for employee pension and insurance funds and nontaxable transfer payments to persons less contributions to government social insurance.
 3. Includes tier 2 railroad retirement benefits that are taxed as if the benefits were paid under private employer retirement plans.
 4. Consists of all the imputations in personal income in NIPA table 7.12 except for employer contributions for health and life insurance premiums; these premiums are included in line 4.
 5. Consists of imputed interest received by persons from life insurance carriers (NIPA table 7.11) and the investment income of private and government employee pension plans.

6. Statutory adjustments or specific adjustments ("above-the-line deductions") from total income included to arrive at AGI.
 7. Consists of the taxable portion of private and government employee retirement plan benefit payments.
 8. Consists of partnership income retained by fiduciaries.
 9. Adjusted gross income gap (line 28) as a percentage of the BEA-derived AGI (line 21).
 BEA Bureau of Economic Analysis
 CCAAdj Capital consumption adjustment
 IVA Inventory valuation adjustment
 IRS Internal Revenue Service
 NIPAs National income and product accounts

ing on tax returns that account for a major part of the AGI gap. The estimates of personal income are mainly based on source data from the payers of income. Explicit adjustments for misreporting (line 31) are made to estimates of wage and salary disbursements, non-farm proprietors' income, royalty payments, and personal interest income and are based on SOI data—the same source data as the AGI.¹⁰ Thus, the AGI gap for these components largely reflects the explicit misreporting adjustments (tables 2 and 3, line 31) that are added to the source data.

Implicit adjustments are made to some components of personal income because the source data are from Government administrative records other than individual income tax return information system. For example, NIPA estimates of wage and salary disbursements are based on tabulations of wages and salaries of employees covered by state unemployment insurance from the Bureau of Labor Statistics, on wages for Federal Government employees from the Bureau of Labor Statistics, and on wages of other uncovered employees from other sources; these estimates are adjusted by BEA to fit NIPA definitions. The estimates of personal dividend income are based primarily on tabulations of corporate income tax returns that are adjusted by BEA for income misreporting and to meet the NIPA concept of corporate income.¹¹ The estimates of transfer

payments are based on data from the *Budget of the United States* and from the Census Bureau's surveys of employee-retirement systems of state and local governments, of public employment, and of state and local government finances.¹²

Fourth, the AGI gap may also be attributable to the misreporting of income that is excluded from personal income—such as net gains from the sale of assets, income from small business corporations, and alimony—and that is not adjusted for misreporting.

Fifth, each July, as part of the annual NIPA revisions, personal income estimates for the most recent 3 years are revised to incorporate source data that are more complete, more detailed, and more appropriate than those that were previously published. Every 4 or 5 years, as part of the comprehensive NIPA revision, estimates for all years are revised to incorporate definitional and statistical changes.¹³

The IRS estimates of AGI are based on a sample from all individual income tax returns except tentative and amended returns that are processed during a calendar year.¹⁴ The AGI estimates are intended to represent all of the returns filed for a tax liability year from January 1 to December 31, but about 2 to 3 percent of the returns processed in a calendar year are for tax liability years that end on another date or for previous years. Unlike personal income, AGI estimates are not updated to incorporate late-arriving information.

10. BEA makes three adjustments to IRS estimates of net income for income that is not reported on tax returns. The first two adjustments are estimates of underreported income of tax return filers: The Taxpayer Compliance Measurement Program (TCMP) audit adjustment and the Information Returns Program (IRP) adjustment. The TCMP audit adjustment is the difference between SOI tabulated amounts of revenues and amounts corrected through audits; this difference was estimated using the ratios of corrected to reported income; and these ratios have been held constant since 1988. After information returns became available, special IRP studies were conducted to determine the amount of income missed by its absence. These studies produced blowup factors that were applied to TCMP results in order to estimate the total levels of underreporting on tax returns; the factors have been held constant since 1988.

The third adjustment represents the value of income earned by individuals who do not file tax returns (nonfiler adjustment) based on the Census Bureau's exact match studies for 1972, 1977, 1990, 1996, and 1999 that attempt to match individuals in social security administrative records and the income that they reported in the March income supplement to the Current Population Survey (CPS) against the income reported on individual income tax returns. Nonfilers were individuals who reported income in the CPS but who did not match with IRS tax return records. An annual time series of nonfiler income is estimated by interpolating between exact match studies and extrapolating for years after the latest study.

For additional information, see Robert P. Parker, "Improved Adjustments for Misreporting of Tax Return Information Used To Estimate the National Income and Product Accounts, 1977" *SURVEY 64* (June 1984): 17–25; and Moylan and Robinson, 20.

11. In the NIPAs, personal dividends income is calculated as net corporate dividend payments less dividends received by state and local governments. The annual estimates of dividends for domestic corporations are based primarily on annual IRS tabulations of corporate income tax returns from *Statistics of Income: Corporation Income Tax Returns*. BEA adds dividends paid by Federal Reserve banks and other federally sponsored credit agencies and an estimate of U.S. receipts of dividends from abroad net of payments abroad from BEA's international transactions accounts to the IRS dividends to arrive at a NIPA definition of personal dividends. In addition, adjustments are made to IRS dividends that are included in NIPA dividends, such as capital gains distributions of regulated investment companies, interest payments to regulated investment companies, and dividends received by U.S. corporations.

12. Information from IRS audit studies indicate that these payments are subject to misreporting on individual income tax returns.

13. For the major changes in definitions and classifications, see Moulton and Seskin, 17–34, and for statistical changes, see Moylan and Robinson, 17–32.

14. Tentative returns are mainly estimated returns filed by individuals who do not file their tax returns by the due date, and they are excluded from the population because the revised returns may be sampled later; amended returns are excluded because the original returns have already been sampled. For more details, see Peter Sailer, Michael Weber, and William Wong, "Attrition in a Panel of Individual Income Tax Returns, 1992–1997," at <www.irs.gov/pub/irs-soi/indpnlnt.pdf>.

The AGI Gap by Type of Income for 1959–2001

Table 4 shows the estimates of the total AGI gap and the gap for each type of income for 1959–2001, and table 5 shows the total relative AGI gap and the relative gap for each type of income for 1959–2001. Over this period, the relative AGI gap for total income averaged

about 10.8 percent. It declined from 10.7 percent for 1959 to an average of 10.0 percent for the 1960s and 1970s; for 1984, it increased to a high of 13.5 percent, and for the 1980s, it averaged 11.9 percent. For the 1990s, it decreased on average to 11.4 percent; for 2000 and 2001, it averaged 11.2 percent.

The relative AGI gap for wage and salary disburse-

Table 4. The BEA and IRS Measures of AGI and the AGI Gap by Type of Income, 1959-2001

[Billions of dollars]

Year	BEA-derived AGI	IRS AGI	AGI gap	Wage and salary disbursements	Proprietors' income with IVA and CCAj		Rental income of persons with CCAj	Income receipts on assets			Taxable pension and annuities	Taxable unemployment compensation	Taxable social security benefits
					Farm	Nonfarm		Total	Personal dividend income	Personal interest income			
1959	341.8	305.1	36.7	7.8	9.4	7.7	2.6	7.6	0.8	6.8	1.7	0.0	0.0
1960	354.0	315.5	38.5	8.9	8.7	8.1	2.6	8.4	1.2	7.3	1.9	0.0	0.0
1961	368.0	329.9	38.1	7.6	8.4	8.8	2.8	8.5	1.2	7.3	2.1	0.0	0.0
1962	390.0	348.7	41.3	9.2	9.0	9.3	2.7	9.0	1.2	7.8	2.2	0.0	0.0
1963	411.0	368.8	42.2	8.3	6.4	13.4	3.0	8.9	1.3	7.6	2.4	0.0	0.0
1964	443.9	396.7	47.2	10.0	5.7	15.3	3.4	10.9	2.0	9.0	2.8	0.0	0.0
1965	480.6	429.2	51.4	10.8	6.5	15.6	3.7	12.7	2.3	10.4	3.2	0.0	0.0
1966	521.2	468.5	52.7	11.4	6.7	16.8	3.1	11.3	0.5	10.8	3.5	0.0	0.0
1967	551.3	504.8	46.4	8.1	5.1	16.6	0.7	12.0	0.5	11.6	4.0	0.0	0.0
1968	605.6	554.4	51.1	10.2	4.9	17.1	1.7	13.1	0.9	12.2	4.3	0.0	0.0
1969	659.8	603.5	56.3	9.0	7.0	18.7	1.6	14.9	0.7	14.2	5.0	0.0	0.0
1970	696.4	631.7	64.7	10.6	8.6	20.5	1.9	17.1	1.0	16.1	6.1	0.0	0.0
1971	742.8	673.6	69.1	12.1	7.5	23.7	1.7	17.3	1.4	15.8	7.1	0.0	0.0
1972	824.5	746.0	78.6	10.6	10.0	28.8	2.5	18.4	2.0	16.4	8.2	0.0	0.0
1973	925.0	827.2	97.8	16.4	15.7	32.1	2.1	22.9	3.4	19.5	8.6	0.0	0.0
1974	1,003.5	905.5	97.9	8.8	16.8	37.8	0.8	24.3	2.7	21.6	9.5	0.0	0.0
1975	1,046.8	947.8	99.0	13.6	11.6	41.7	1.2	20.3	1.0	19.2	10.7	0.0	0.0
1976	1,168.0	1,053.9	114.1	13.2	10.8	53.1	0.5	24.8	3.8	20.9	11.8	0.0	0.0
1977	1,296.1	1,158.5	137.6	19.2	8.9	60.8	2.8	33.7	6.2	27.5	12.3	0.0	0.0
1978	1,466.4	1,302.4	164.0	24.5	11.9	72.9	2.9	36.8	7.3	29.5	14.9	0.0	0.0
1979	1,654.1	1,465.4	188.7	19.5	14.0	83.8	3.8	48.6	9.2	39.4	18.5	0.4	0.0
1980	1,830.3	1,613.7	216.6	21.0	18.3	88.2	5.8	59.1	12.5	46.6	23.4	0.8	0.0
1981	2,016.3	1,772.6	243.7	20.8	19.9	89.5	10.4	73.5	22.4	51.1	28.8	0.9	0.0
1982	2,098.6	1,852.1	246.5	16.3	16.1	94.6	13.7	70.4	19.9	50.5	33.5	2.0	0.0
1983	2,225.6	1,942.6	283.0	23.0	28.2	109.2	16.6	64.1	23.3	40.8	39.3	2.6	0.0
1984	2,472.6	2,139.9	332.7	26.0	27.6	140.5	20.4	65.1	28.8	36.4	47.2	1.3	4.6
1985	2,631.6	2,306.0	325.6	39.9	23.9	146.3	23.4	39.3	22.0	17.3	48.2	1.4	3.2
1986	2,853.2	2,481.7	371.5	53.3	28.5	146.6	21.2	51.8	19.4	32.4	65.7	1.2	3.1
1987	3,121.1	2,773.8	347.3	74.4	31.5	122.0	16.8	42.3	27.3	15.1	55.0	2.6	2.8
1988	3,411.9	3,083.0	328.9	77.7	36.3	123.6	7.1	37.2	23.0	14.1	42.4	1.9	2.8
1989	3,649.7	3,256.4	393.3	104.9	30.5	128.0	2.6	66.7	43.0	23.7	54.9	2.4	3.0
1990	3,798.4	3,405.4	393.0	106.4	27.7	134.8	4.2	59.2	44.7	14.6	54.5	2.8	3.0
1991	3,856.8	3,464.5	392.3	92.1	29.8	138.7	8.2	66.1	45.2	20.9	50.1	3.6	3.2
1992	4,092.0	3,629.1	462.9	121.9	30.6	162.7	12.5	65.2	34.4	30.8	56.6	8.3	4.5
1993	4,245.4	3,723.3	522.1	139.3	38.1	195.6	12.3	65.4	31.2	34.2	57.1	7.4	6.1
1994	4,473.7	3,907.5	566.2	146.1	27.0	214.8	15.4	86.5	48.1	38.4	64.0	3.8	8.0
1995	4,759.8	4,189.4	570.4	153.5	36.9	233.1	17.0	49.0	31.2	17.9	68.6	2.6	8.8
1996	5,144.5	4,536.0	608.5	178.2	31.2	259.3	16.1	44.8	40.0	4.8	70.2	3.2	7.2
1997	5,578.0	4,970.0	608.0	190.2	31.3	264.4	16.4	23.8	43.8	-20.0	71.3	3.1	6.5
1998	6,120.2	5,416.0	704.3	227.6	26.3	286.0	15.8	71.0	47.2	23.8	72.2	3.1	2.3
1999	6,553.5	5,855.5	698.0	251.1	25.4	322.9	16.6	-5.1	6.3	-11.4	77.0	3.3	6.9
2000	7,125.4	6,365.4	760.1	280.8	21.2	368.4	13.8	-17.8	17.1	-34.9	91.4	3.8	7.3
2001	6,983.4	6,170.6	812.8	278.7	20.0	373.3	12.1	24.8	34.8	-10.0	90.8	5.3	7.7

AGI Adjusted gross income
BEA Bureau of Economic Analysis
IRS Internal Revenue Service
CCAj Capital consumption adjustment
IVA Inventory valuation adjustment

ments is the smallest among the types of income, primarily because withholding income tax at the source is required for most wage and salary disbursements. For 1959–2001, the relative AGI gap for wage and salary disbursements averaged about 3.0 percent. For the 1960s, it maintained an average of 2.7 percent. For the 1970s, it reached its lowest level on average of 1.8 per-

cent. For the 1980s, it averaged 2.2 percent, and for the 1990s, it averaged 4.6 percent. For 2000, it reached its highest level of 5.9 percent.

The trends in the relative AGI gaps for nonwage incomes show contrasting patterns (see addenda to table 5). For nonwage incomes that are subject to the requirements for filing information returns by employ-

Table 5. The Relative AGI Gap by Type of Income, 1959-2001
[Percent]

Year	Total	Wage and salary disbursements	Proprietors' income with IVA and CCAj		Rental income of persons with CCAj	Income receipts on assets			Taxable pension and annuities	Taxable unemployment compensation	Taxable social security benefits	Addenda	
			Farm	Nonfarm		Total	Personal dividend income	Personal interest income				The sum of income items except wages, subject to the requirements for filing information returns ¹	The sum of income items not subject to the requirements for filing information returns ²
1959.....	10.7	3.0	94.2	20.1	42.4	35.6	7.6	60.8	53.3	0.0	0.0	37.8	36.1
1960.....	10.9	3.3	94.3	21.3	41.9	36.6	10.8	59.0	54.1	0.0	0.0	38.9	36.3
1961.....	10.4	2.8	93.7	21.9	43.6	35.4	10.7	56.4	53.5	0.0	0.0	38.0	36.1
1962.....	10.6	3.1	93.4	22.0	42.1	33.7	10.3	52.2	48.5	0.0	0.0	35.8	36.0
1963.....	10.3	2.7	66.1	30.7	45.0	30.1	9.9	45.3	47.4	0.0	0.0	32.7	38.0
1964.....	10.6	3.0	64.5	32.3	50.9	33.1	14.1	47.0	47.2	0.0	0.0	35.3	38.8
1965.....	10.7	3.0	61.8	31.1	54.5	34.4	15.1	48.0	47.0	0.0	0.0	36.3	38.2
1966.....	10.1	2.9	58.4	31.3	45.5	29.3	3.4	45.0	44.0	0.0	0.0	31.8	37.0
1967.....	8.4	1.9	56.5	29.8	16.0	29.3	3.2	43.7	44.2	0.0	0.0	32.0	32.5
1968.....	8.4	2.2	56.5	28.7	29.9	29.0	5.5	42.1	41.8	0.0	0.0	31.4	32.1
1969.....	8.5	1.8	62.4	30.5	29.6	29.7	4.5	42.0	42.1	0.0	0.0	32.1	35.0
1970.....	9.3	2.0	71.4	32.9	33.0	31.2	6.2	42.2	43.5	0.0	0.0	33.7	38.7
1971.....	9.3	2.1	73.6	35.3	30.1	30.0	8.4	39.1	43.2	0.0	0.0	32.9	39.7
1972.....	9.5	1.7	67.2	38.6	35.1	29.4	10.6	37.4	42.8	0.0	0.0	32.5	42.8
1973.....	10.6	2.3	64.4	39.6	26.2	31.0	15.3	37.7	39.5	0.0	0.0	33.0	44.0
1974.....	9.8	1.1	72.7	43.1	10.9	28.7	11.5	35.3	36.2	0.0	0.0	30.4	46.9
1975.....	9.5	1.7	71.1	45.3	15.5	23.7	4.6	30.7	33.9	0.0	0.0	26.4	47.0
1976.....	9.8	1.5	70.4	48.3	6.1	25.3	13.6	30.1	32.4	0.0	0.0	27.2	48.5
1977.....	10.6	1.9	88.6	48.9	29.5	29.2	18.7	33.5	29.6	0.0	0.0	29.3	50.4
1978.....	11.2	2.2	71.4	51.4	28.5	28.7	19.5	32.5	31.3	0.0	0.0	29.4	52.0
1979.....	11.4	1.6	82.7	54.4	36.4	31.2	21.6	34.8	33.1	30.7	0.0	31.7	56.0
1980.....	11.8	1.5	107.3	57.1	47.7	29.6	24.3	31.4	35.1	27.0	0.0	30.9	61.1
1981.....	12.1	1.4	162.5	62.2	65.6	29.2	32.7	27.9	35.7	27.3	0.0	30.8	69.7
1982.....	11.7	1.0	255.5	64.6	79.2	25.2	27.6	24.3	35.8	21.8	0.0	27.7	73.2
1983.....	12.7	1.4	149.5	64.3	96.9	24.0	32.4	21.0	36.0	27.1	0.0	27.5	74.9
1984.....	13.5	1.4	207.5	67.9	122.8	22.4	37.1	17.1	37.0	17.8	36.7	27.0	79.6
1985.....	12.4	2.0	212.6	66.1	132.0	14.2	28.5	8.7	33.6	17.6	25.0	20.9	77.3
1986.....	13.0	2.6	137.1	64.6	176.9	18.4	23.9	16.2	37.9	15.0	22.6	25.6	75.6
1987.....	11.1	3.3	102.0	52.0	134.5	15.2	29.0	8.2	30.6	17.2	18.1	21.0	61.2
1988.....	9.6	3.2	101.0	45.3	81.8	12.3	22.9	7.0	23.4	13.9	16.4	16.4	52.6
1989.....	10.8	4.1	96.1	44.4	41.5	18.1	34.6	9.7	27.2	16.8	14.6	21.0	49.4
1990.....	10.3	3.9	96.1	44.0	38.5	16.2	35.8	6.0	25.5	15.5	13.2	19.2	48.1
1991.....	10.2	3.3	105.2	44.5	50.4	18.7	36.9	9.1	22.1	13.5	13.1	19.5	49.6
1992.....	11.3	4.2	103.8	45.7	49.4	21.3	30.6	15.9	23.3	21.0	16.2	21.8	50.1
1993.....	12.3	4.6	107.9	49.8	42.0	23.7	28.1	20.7	22.8	21.0	20.0	22.9	53.7
1994.....	12.7	4.6	134.4	50.5	43.3	29.3	36.9	23.3	23.8	15.8	17.2	25.6	53.5
1995.....	12.0	4.6	125.7	51.7	43.8	16.4	24.8	10.3	23.7	11.8	16.2	19.4	55.3
1996.....	11.8	5.0	127.7	52.2	38.0	14.2	27.7	2.8	22.7	14.0	12.0	17.7	54.4
1997.....	10.9	5.0	125.2	51.0	36.7	7.5	26.7	-13.2	21.5	15.3	9.5	14.2	53.1
1998.....	11.5	5.5	141.5	50.7	35.3	19.3	28.5	11.8	20.5	15.5	3.2	18.3	52.3
1999.....	10.7	5.7	129.5	52.2	36.3	-1.7	4.5	-6.9	20.2	15.7	8.4	10.4	53.3
2000.....	10.7	5.9	174.1	54.9	29.8	-5.4	10.4	-21.3	21.9	18.3	7.5	9.8	55.3
2001.....	11.6	5.8	219.9	54.3	24.8	7.2	22.6	-5.3	21.1	16.6	7.6	14.2	54.4

1. Consists of personal dividend income, personal interest income, taxable pensions, taxable unemployment compensation, and taxable social security benefits. These types of income have been subject to varying degrees of withholding since 1984.

2. Consists of farm proprietors' income, nonfarm proprietors' income, and rental income of persons.

NOTE: The relative AGI gap is the AGI gap as a percentage of the BEA-derived AGI as shown in line 30 of tables 2 and 3.

AGI Adjusted gross income

BEA Bureau of Economic Analysis

CCAj Capital consumption adjustment

IVA Inventory valuation adjustment

ers, the combined relative AGI gap declined from 37.8 percent for 1959 to 9.8 percent for 2000, and it then increased to 14.2 percent for 2001.¹⁵ For incomes not subject to the filing requirements, the combined relative AGI gap increased from 36.1 percent for 1959 to a high of 79.6 percent for 1984, and then it fell to 54.4 percent for 2001.

Estimates for 1959–2001. The estimates of the BEA-derived AGI for 2001 are based on preliminary IRS estimates of data from individual income tax returns, corporate income tax returns, nonfarm sole proprietorship income taxes, and partnership income taxes, and extrapolated estimates for tax exempt income taxes and for private foundation income taxes. The revised estimates for 2000 reflects the incorporation of final data for these components.

The AGI gap for personal income for 2001 is \$812.8 billion (table 3). The estimate includes a misreporting adjustment of \$396.9 billion, which leaves an unexplained gap of \$415.9 billion. The relative AGI gap is 11.6 percent, 0.8 percentage point higher than the 10.8-percent average for 1959–2001 and 0.2 percentage point higher than the average for the 1990s (table 5).

The AGI gap for wage and salary disbursements for 2001 is \$278.7 billion; the misreporting adjustment accounts for \$104.3 billion, so \$174.4 billion is unexplained. The relative AGI gap is 5.8 percent, 2.8 percentage points higher than the 3.0-percent average for 1959–2001, and 1.2 percentage points higher than the average for the 1990s.

The AGI gap for farm proprietors' income for 2001 is \$20.0 billion. For nonfarm proprietors' income, it is \$373.3 billion; the misreporting adjustment accounts for \$308 billion, so \$65.3 billion is unexplained. The relative AGI gap for farm proprietors' income is 219.9 percent, and for nonfarm proprietors' income, it is

54.3 percent. For the 1990s, the relative AGI gap for farm proprietors' income averaged 119.7 percent, and for nonfarm proprietors' income, it averaged 49.2 percent.

The AGI gap for rental income of persons for 2001 is \$12.1 billion. The misreporting adjustment accounts for \$1.8 billion; \$10.3 billion is unexplained. The relative AGI gap is 24.8 percent; for 1959–2001, it averaged 49.8 percent.

The AGI gap for personal dividend income for 2001 is \$34.8 billion. The relative AGI gap is 22.6 percent; for 1959–2001, it averaged 19.3 percent.

The AGI gap for personal interest income is $-\$10.0$ billion (the estimate is negative because the AGI estimate is more than BEA's estimate of AGI). The misreporting adjustment accounts for $-\$17.2$ billion. The relative AGI gap is -5.3 percent; for 1959–2001, it averaged 26.0 percent, and for the 1990s, it averaged 8.0 percent.

The AGI gap for taxable pensions and annuities is \$90.8 billion. The relative AGI gap is 21.1 percent, 1.1 percentage points less than the average for the 1990s.

The AGI gap for taxable unemployment compensation is \$5.3 billion. The relative AGI gap is 16.6 percent, 0.7 percentage point higher than the average for the 1990s.

The AGI gap for taxable social security benefits is \$7.7 billion. The relative AGI gap is 7.6 percent; for the 1990s, it averaged 12.9 percent.

Sources of the Revisions to the AGI Gap

Table 6 shows the revisions to personal income, the reconciliation items, BEA-derived AGI, and the AGI gap for 1959–2000. The revisions to the AGI gap reflect the definitional and statistical changes that resulted from the 2003 comprehensive NIPA revision. The revisions also reflect the incorporation of revised SOI estimates. In general, the revisions to the AGI gap result from three sources: The revisions to personal income that are due to the 2003 comprehensive NIPA revision and that carry through to the AGI gap (see table 7); the revisions to the reconciliation items that are unrelated to revisions to personal income or to AGI; and the revisions to AGI that carry through to the AGI gap. The major revisions to the AGI gap are statistical changes that reflect the use of new and improved methodologies and the incorporation of newly available and revised source data.

For 2000, the AGI gap was revised down \$31.8 billion (table 2, line 28), reflecting an upward revision of \$23.1 billion to personal income (line 1), which was more than offset by net revisions of $-\$20.2$ billion to

15. Employers and other payers of income including partnerships and nonprofit organizations are required to file information returns with the IRS for certain payments made during the year in the course of the employers' trade or business. Nonwage incomes subject to filing information returns primarily consist of personal dividend income and personal interest income. In recent years, estimating the AGI gap for these types of income has been difficult for various reasons: The taxable portion of interest received by individuals from mutual funds is reallocated from personal interest income to personal dividend income (line 18 in tables 2, 3, and 6) to match the classification of these payments in personal income; the allocation of the income received from private noninsured pension plans (part of line 6) between interest and dividends is based on incomplete data; and some individuals may inadvertently report income from mutual funds as interest rather than as dividends. Thus, tables 4 and 5 show the AGI gap for dividend and interest income combined and the AGI gaps for each type of income. Since 1984, taxes have been withheld on taxable pension benefit payments unless recipients elect not to have the tax withheld, and they are withheld on interest and dividends if recipients fail to furnish a correct taxpayer identification number or if they earn interest or dividends that were underreported on past returns.

Table 6. Sources of Revision to the AGI Gap for 1959–2000

[Billions of dollars]

	Line ¹	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Personal Income	1	-1.2	-1.2	-1.3	-1.2	-1.4	-1.2	-1.6	-2.5	-2.1	-2.4	-2.4	-2.3	-1.6	-1.6
Less: Portion of personal income not included in AGI	2	-3.9	-3.8	-3.4	-3.3	-3.2	-2.9	-2.4	-2.0	2.1	1.3	1.1	0.5	0.4	-0.6
Nontaxable transfer payments	3	0.0	0.0	0.0	0.0	0.2	0.3	0.3	0.0	0.4	0.5	0.7	0.3	-0.1	0.0
Employer contributions for employee pension and insurance funds	4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Imputed income in personal income	5	-1.0	-1.1	-1.0	-1.1	-1.2	-1.2	-1.4	-1.7	-1.8	-2.2	-2.1	-1.9	-1.1	-1.0
Investment income of life insurance carriers and pension plans	6	0.4	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.4	0.4	0.4	0.5	0.7	0.7
Investment income received by nonprofit institutions and retained by fiduciaries	7	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1
Differences in accounting treatment between NIPAs and tax regulations, net	8	-3.3	-3.1	-2.9	-2.9	-2.9	-3.0	-3.0	-3.1	0.2	-0.8	-0.9	-0.7	-0.3	-0.6
Other personal income exempt or excluded from adjusted gross income	9	0.0	0.0	0.0	0.0	0.1	0.4	1.1	2.1	2.9	3.4	2.9	2.2	1.2	0.2
Plus: Portion of adjusted gross income not included in personal income	10	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contributions for government social insurance	11	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net gain from sale of assets	12	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxable pensions	13	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Small business corporation income	14	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other types of income	15	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equals: BEA-derived adjusted gross income	21	2.7	2.5	2.1	2.1	1.8	1.6	0.8	-0.5	-4.1	-3.7	-3.4	-2.9	-2.0	-1.0
IRS adjusted gross income	22	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted gross income (AGI) gap	28	2.7	2.5	2.1	2.1	1.8	1.6	0.8	-0.5	-4.1	-3.7	-3.4	-2.9	-2.0	-1.0
Relative AGI Gap	30	0.7	0.6	0.5	0.5	0.4	0.3	0.1	-0.1	-0.7	-0.6	-0.5	-0.4	-0.2	-0.1
		1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Personal Income	1	-2.7	-3.0	3.3	-0.6	-3.9	-10.6	-19.3	-16.0	-8.1	6.9	13.8	14.7	11.7	9.9
Less: Portion of personal income not included in AGI	2	-1.6	-1.1	4.5	0.5	-2.5	-7.4	-15.0	-14.7	-8.2	3.0	13.9	15.4	10.0	5.1
Nontaxable transfer payments	3	0.0	0.9	2.5	1.7	-0.4	0.3	1.1	0.4	1.1	0.7	1.5	6.7	4.0	1.9
Employer contributions for employee pension and insurance funds	4	0.7	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.1	0.4	0.3	0.2	0.1
Imputed income in personal income	5	-2.8	-2.4	1.4	-1.6	-2.5	-6.7	-12.2	-15.9	-17.1	-12.9	-2.4	-9.6	-6.3	-11.9
Investment income of life insurance carriers and pension plans	6	0.8	0.9	1.0	1.3	1.8	1.2	-2.0	1.4	7.7	15.5	16.4	20.1	18.1	26.7
Investment income received by nonprofit institutions and retained by fiduciaries	7	0.0	-0.0	-0.0	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1	-0.0	0.1	0.0	0.0	0.0
Differences in accounting treatment between NIPAs and tax regulations, net	8	-0.3	11.4	-0.5	-0.8	-1.6	-2.4	-1.9	-0.8	-0.1	-0.4	-2.1	-3.2	-4.5	-3.3
Other personal income exempt or excluded from adjusted gross income	9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	-1.6	-8.5
Plus: Portion of adjusted gross income not included in personal income	10	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contributions for government social insurance	11	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net gain from sale of assets	12	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxable pensions	13	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Small business corporation income	14	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other types of income	15	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equals: BEA-derived adjusted gross income	21	-1.1	-1.9	-1.1	-1.1	-1.4	-3.2	-4.4	-1.3	0.1	3.9	-0.1	-0.7	1.7	4.8
IRS adjusted gross income	22	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted gross income (AGI) gap	28	-1.1	-1.9	-1.1	-1.1	-1.4	-3.2	-4.4	-1.3	0.1	3.9	-0.1	-0.7	1.7	4.8
Relative AGI Gap	30	-0.1	-0.2	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1	0.0	0.2	0.0	0.0	0.1	0.1
		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Personal Income	1	-15.1	-18.4	-12.0	-24.7	-34.4	-28.3	-51.4	-45.5	-48.6	-26.8	-21.9	-3.1	25.2	23.1
Less: Portion of personal income not included in AGI	2	-10.8	-14.5	-2.8	-9.7	-26.5	-12.1	-36.3	-32.9	-41.1	-18.5	-5.0	1.6	31.4	76.4
Nontaxable transfer payments	3	-1.0	-0.4	3.1	0.9	-3.5	-2.4	-8.6	-6.5	-8.4	-3.7	-11.0	-5.1	-2.3	15.8
Employer contributions for employee pension and insurance funds	4	-4.7	-5.5	-3.8	-10.6	-6.6	-5.0	-8.2	-11.9	-1.0	5.0	24.8	41.8	55.4	68.6
Imputed income in personal income	5	-26.4	-32.3	-30.8	-31.7	-30.8	-16.9	-33.1	-38.6	-56.0	-61.6	-81.4	-88.8	-93.4	-104.8
Investment income of life insurance carriers and pension plans	6	22.8	21.3	22.1	25.4	13.7	12.3	10.7	11.2	10.4	14.2	19.6	13.3	4.7	27.7
Investment income received by nonprofit institutions and retained by fiduciaries	7	-0.1	-0.1	-0.1	0.0	0.1	0.1	0.3	0.3	0.2	4.0	14.7	-3.3	4.8	9.6
Differences in accounting treatment between NIPAs and tax regulations, net	8	-2.8	2.0	2.1	0.7	-4.0	-2.0	-1.1	8.5	10.9	22.9	28.1	40.8	51.9	52.1
Other personal income exempt or excluded from adjusted gross income	9	1.4	0.6	4.6	5.6	4.5	1.8	3.7	4.1	2.8	0.7	0.3	2.9	10.4	7.4
Plus: Portion of adjusted gross income not included in personal income	10	0.0	0.0	0.1	0.2	0.3	-0.1	0.5	0.7	1.0	1.2	0.6	1.2	33.4	56.2
Contributions for government social insurance	11	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	0.9	1.0	0.8
Net gain from sale of assets	12	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	47.6	71.8
Taxable pensions	13	0.0	0.0	0.1	0.2	0.3	-0.1	0.4	0.6	0.9	1.0	0.8	1.2	1.6	1.5
Small business corporation income	14	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.1	5.3	8.4
Other types of income	15	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.2	-22.0	-26.3	
Equals: BEA-derived adjusted gross income	21	-4.3	-3.9	-9.0	-14.8	-7.6	-16.3	-14.6	-12.0	-6.6	-7.1	-16.3	-3.4	27.2	3.0
IRS adjusted gross income	22	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.9	34.8
Adjusted gross income (AGI) gap	28	-4.3	-3.9	-9.0	-14.8	-7.6	-16.3	-14.6	-12.0	-6.6	-7.1	-16.3	-3.4	23.3	-31.8
Relative AGI Gap	30	-0.1	-0.1	-0.2	-0.3	-0.2	-0.4	-0.3	-0.2	-0.1	-0.1	-0.3	0.0	0.3	-0.5

1. Line numbers in this table correspond to those in tables 2 and 3

AGI Adjusted gross income
BEA Bureau of Economic Analysis
IRS Internal Revenue Service

the reconciliation items (lines 2 and 10).¹⁶ The downward revision to the AGI gap reflects a downward revision of \$10.7 billion to personal income as a result of statistical changes that were not offset by revisions to the reconciliation items. The revision also reflects net upward revisions of \$53.3 billion to reconciliation items that were unrelated to the revisions to personal income. The IRS estimate of AGI (line 22) was revised up \$34.8 billion.¹⁷

Not all of the \$23.1 billion upward revision to personal income carried through to the AGI gap because this upward revision was more than offset by a \$33.8 billion revision to the reconciliation items. The revision to personal income included an \$82.6 billion downward revision that was attributable to definitional changes and that was offset by revisions to reconciliation items.¹⁸ The \$10.7 billion difference between the revisions to personal income and the offsetting revisions to the reconciliation items reflected downward statistical revisions to some components of personal income that carried through to the AGI gap.

The definitional change that produced the largest revision to personal income was the new treatment of banking services; as a result of this change, personal interest income for 2000 was revised down \$105.4 billion. This downward revision was partly offset by upward revisions of \$22.4 billion to personal interest income and to personal income as a result of the redefinition of insurance services. As a result of statistical revisions, personal income was revised up \$105.7 billion, reflecting revisions to wage and salary disbursements, supplements to wages and salaries, proprietors' income, rental income, interest income, dividend income, and personal current transfer receipts.¹⁹

As a result of the changes due to the 2003 comprehensive NIPA revision, personal income for 2000 was revised up 0.3 percent. The AGI gap (line 28) was revised down 4.2 percent, and the IRS estimate of AGI (line 22) was revised up 0.5 percent or \$34.8 billion.

The "portion of personal income not included in AGI" was revised up 2.6 percent or \$76.4 billion (line 2). The upward revision was partly attributable to the incorporation of IRS data on income for nonprofit organizations and for fiduciaries. As a result, "investment income of nonprofit institutions serving households

and retained by fiduciaries" (line 7) was revised up 12.7 percent.²⁰ The income of these nonprofit institutions was revised up \$7.5 billion, and the earnings retained by fiduciaries was revised up \$2.1 billion.

The "portion of personal income not included in AGI" also reflects an upward revision of 32.7 percent or \$52.1 billion to "differences in accounting treatment between the NIPAs and the IRS tax code" (line 8). This upward revision was primarily due to a \$55.2 billion upward revision to nonfarm proprietors' income that was caused by a statistical change as part of the comprehensive NIPA revision and by the incorporation of revised SOI data. This upward revision was partly offset by a \$9.2 billion downward revision to the capital consumption adjustment.²¹

Rental income of persons with the capital consumption adjustment was revised down (NIPA table 1.12, line 12). The revision was partly due to a definitional change that reclassified farm housing to the real estate industry from the agriculture industry, and it was partly due to a downward revision to the estimates of the capital consumption adjustment.

Financial portfolio interest and corporate partnership income, which are included in "differences in accounting treatment between NIPA and tax regulations" (table 2, line 8), were revised up. The upward revisions reflected a reduction in the double-counting adjustment for nonfarm proprietors' interest income.²²

"Employer contributions for employee pension and insurance funds" (line 4) was revised upward 11.2 percent or \$68.6 billion. The revision was due to statistical improvements.

The AGI gap was not affected by a definitional change that reclassified "miscellaneous compensation" to wages and salaries from other labor income.

"Nontaxable transfer payments" (line 3) was revised up 1.6 percent or \$15.8 billion. The revision reflected statistical changes to Medicare and Medicaid benefit calculations.

"Investment income retained by life insurance carriers and pension plans" (line 6) was revised up 5.6 percent or \$27.7 billion. The revision reflects a definitional change to the NIPA treatment of property and casualty insurance that now includes premium supple-

16. For more information on the effects of the revisions to personal income, see Seskin and Larkins, 7–30.

17. The \$10.7 billion = Line 1 – (Line 3 + Line 4 + Line 5 + Line 6 + Line 9 – Line 11 – Line 13). The \$53.3 billion = Line 14 – (Line 7 + Line 8). The \$33.8 billion = \$23.1 billion from the change in personal income plus \$10.7 billion.

18. Seskin and Larkins, 19.

19. See table 15 in Seskin and Larkins, 19.

20. In the NIPAs, both private trust funds and nonprofit institutions serving households are defined as persons and their incomes are in the household sector.

21. The capital consumption adjustment is the difference between a BEA-derived measure of economic depreciation and the value of tax depreciation allowed by the IRS.

22. Financial portfolio interest and corporate partnership income affect BEA estimates of nonfarm proprietors' income.

Table 7. Changes to the Reconciliation Tables

	Effects on NIPA personal income and its components	Effects on the tables
Definitional changes		
Improved measure of property and casualty insurance services	Personal income now includes flows of premium supplements and net insurance settlements.	Imputed income in personal income (line 5) includes premium supplements in personal interest income and net insurance settlements in other personal income.
Improved measure of banking services	Personal interest income now includes lower imputed interest received by persons because the value of imputed financial services are now allocated to borrowers and to depositors.	Imputed income in personal income (line 5) reflect smaller values for personal interest income.
Recognition of compensation-in-kind for Federal government employee mass transit benefits	Compensation of Federal Government employees includes in-kind mass transit benefits.	Nontaxable transfer payments (line 3) includes the in-kind mass transit benefits in wage and salary disbursements for 1998 forward.
Reclassification of farm housing from the agriculture to the real estate industry	Rental income of persons with capital consumption adjustment includes the imputed value of services rendered by farm housing.	Imputed income in personal income (line 5) now reflects the net value of farm housing in rental income of persons with capital consumption adjustment.
Reclassification of "miscellaneous compensation" of employees as wage and salary disbursements	Wage and salary disbursements now includes the value of "miscellaneous compensation" of employees, such as judicial fees, witness fees, and compensation of prison inmates.	Personal income (line 1) includes the value of this compensation in wage and salary disbursements.
Redefinition of "intermediate goods and services consumed" to include inventories of farm materials and supplies	Farm proprietors' income now includes the value of the inventories of farm materials and supplies, which is subtracted from "intermediate goods and services consumed" in the calculation of this component.	"Differences in accounting treatment between the NIPAs and tax regulations" (line 8) for 1991 forward reflects the increased value of farm proprietors' income that results from accounting for these inventories.
Statistical changes		
Improved measure of nonprofit institutions serving households	Imputed interest income received by these institutions is distinguished from the income received by persons in NIPA table 7.11.	Imputed income in personal income (line 5) does not change, because both components remain in the household sector.
Improved measure of employer contributions to pension plans	Employer contributions to pension and profit sharing plans is now measured on an accrual accounting basis. An improved adjustment expanded the coverage of these contributions to multiemployer Keogh-type plans, and a new adjustment was added for the employer contributions to SEPs and SIMPLEs.	Employer contributions for employee pension and insurance funds (line 4) reflects the change in "other personal income" for 1978 forward.
Improved measure of employer contributions for health insurance	Employer contributions for health insurance reflects the incorporation of the annual growth rates from the medical expenditures panel survey, adjusted for different types of health insurance family plans and other adjustments.	Employer contributions for employee pension and insurance funds (line 4) reflects the change in "other personal income" for 1993 forward.
Improved measure of imputed interest	Data from the American Council of Life Insurance replaced IRS data as the source for imputing the interest income paid to policyholders by life insurance carriers.	Employer contributions for employee pension and insurance funds (line 4) and investment income of life insurance carriers and pension plans (line 6) for 1977 forward reflect this change.
Improved measure of nonfarm partnership income	Nonfarm proprietors' income reflects the elimination of a double-counting adjustment for income remitted by partnerships.	"Differences in accounting treatment between the NIPAs and tax regulations" (line 8) results in changes to nonfarm proprietors' income for 1987 forward.
Improved measure of Federal Medicare social benefits	Federal Government Medicare social benefits is measured on an accrual, not a cash, accounting basis, using data from the Centers for Medicare and Medicaid Services.	Nontaxable transfer payments (line 3) reflects the statistical change in taxable social security for 1967 forward.
Improved measure of state and local Medicaid social benefits	State and local Medicaid social benefits is now estimated using Federal Medicaid grant data from the <i>Monthly Treasury Statement</i> to account for timing differences in billings and payments.	Nontaxable transfer payments (line 3) reflects this statistical change to "other personal income" for 1991 forward.

SEPs Simplified employee pension plans

SIMPLEs Saving incentive match plans for employees of small employers

ments and a statistical change to the estimates of imputed interest income and to the reserves of property and casualty insurance companies.

“Other personal income exempt or excluded from AGI” (line 9) was revised up 1.8 percent or \$7.4 billion. The revision was due to an upward revision of \$2.0 billion to IRS-reported statutory adjustments, to an upward revision of \$5.5 billion to military exempt income that included tax regulation adjustments, to a new estimate of \$1.2 billion for military combat pay, and to corrections for inconsistencies between military service branches.²³

The “portion of AGI not included in personal income” (line 10) was revised up 3.4 percent or \$56.2 billion. These revisions were accounted for by the incorporation of revised IRS data. The revision reflected an upward revision of 11.1 percent or \$71.8 billion to “net gain from the sale of assets” (line 12), an upward revision of 6.6 percent or \$8.4 billion to “small business corporation income” (line 14); these upward revisions were partly offset by a downward revision of 21.9 percent or \$26.3 billion to “other types of income” (line 15).

Appendix

In this appendix, the reconciliation items in tables 2, 3, and 6 are explained. The first group of items is included in personal income but not in AGI; the second group is included in AGI but not in personal income; and the third group includes reallocation items by type of income that facilitate the comparison of BEA estimates and IRS estimates of AGI by type of income.

Personal income items not in AGI

The first group of reconciliation items (lines 3–9) consists of the portion of personal income that is not taxed and that, therefore, is not included in AGI.

Nontaxable transfer payments to persons (line 3). Most government social benefit payments to persons and all business current transfers payments to persons are nontaxable.²⁴ Government social benefits consist of payments from social insurance funds—such as old-age, survivors, and disability insurance (social security), hospital insurance, supplementary medical insurance, and unemployment insurance and from certain other programs (NIPA table 3.12). Business current transfer payments consist primarily of liability

23. More information on the combat pay adjustment is provided in the appendix.

24. The taxable portion of social benefit payments to persons from governments consists primarily of unemployment compensation benefit payments and a portion of social security and railroad retirement benefit payments.

payments for personal injury, net insurance settlements, and of corporate gifts to nonprofit institutions serving households (NIPA table 7.7).

Employer contributions for employee pension and insurance funds (line 4). The nontaxable components of employer contributions for employee pension and insurance funds include employer contributions to pension and profit-sharing plans, to private group health and life insurance, to privately administered workers’ compensation plans, and to supplemental unemployment benefit plans.²⁵ (Taxable pension benefit payments are included in line 13, and supplemental unemployment benefit payments are included in line 15.)

Imputed income in personal income (line 5). Personal income includes imputations in order to place a market value on transactions that are not observable in business records.²⁶ The imputations include the following:

- Three categories of wages and salaries in kind, the largest of which is the value of food furnished to military personnel and to other employees;
- The value of farm products consumed on farms, which is included in farm proprietors’ income;
- The income of persons who participate in the construction of their houses (the margins on owner-built housing, which is included in nonfarm proprietors’ income);
- The net rental income of owner-occupants of farm and nonfarm dwellings;²⁷ and
- The services furnished to persons without payment by all financial intermediaries except life, property, and casualty insurance carriers.

Investment income retained by life insurance carriers and pension plans (line 6). This investment income is included in personal income in the year in which it is accrued.²⁸ Investment income of life insurance carriers that is attributed to persons is included in personal interest income.²⁹ As a result of the definitional and statistical changes introduced in the 2003 comprehensive revision, the imputed interest from

25. NIPA table 6.11 shows employer contributions for employee pension and insurance funds by industry group and type.

26. Employer-paid health and life insurance premiums, which are treated as an imputation in the NIPAs, are included in line 4. NIPA table 7.12 shows the imputations in personal income.

27. As part of the 2003 comprehensive NIPA revision, the imputed net rental income from owner-occupied farm dwellings was reclassified to rental income of persons from farm proprietors’ income. See Moulton and Seskin, 28–29.

28. For more information, see Brent R. Moulton, Robert P. Parker, and Eugene Seskin, “A Preview of the 1999 Comprehensive Revision of the National Income and Product Accounts: Definitional and Classificational Changes,” *SURVEY* 79 (August 1999): 12.

29. NIPA table 7.11 (line 63) shows imputed interest to persons from life insurance carriers.

investment earnings of insurance policyholders—called premium supplements—is recognized as accruing to policy holders not to insurance firms or to the insurance industry.³⁰ Imputed investment income (interest) from property and casualty insurance is assigned to personal interest income. The investment income from pension plans is recorded as if it were received by persons in rental income of persons, personal dividend income, and personal interest income.

Investment income received by nonprofit institutions and retained by fiduciaries (line 7). The investment income of both fiduciaries and nonprofit institutions serving households is included, but not usually identified, in nonfarm proprietors' income, rental income, interest income, and dividend income.³¹ As a result of the 2003 comprehensive revision, the interest income of these nonprofit institutions is now shown in NIPA table 7.11, and the rental income of households and nonprofit institutions is shown in NIPA table 7.9. The portion of the income that is retained by the fiduciaries is taxable to fiduciaries and is included in line 7. (The portion of the income of fiduciaries that is distributed to beneficiaries is taxable to individuals.)

“Differences in accounting treatment between NIPAs and tax regulations, net” (line 8). The differences between NIPA accounting and income tax accounting for the income included in personal income and AGI consist mainly of the differences in the valuation of inventories and depreciation, in the methods of accounting for interest on bonds, and in the measurement of the earnings of individual retirement accounts and Keogh plans.

The inventory valuation adjustment for nonfarm proprietors' income is the difference between the cost of inventory withdrawals valued at their acquisition (historical) cost and the cost of inventory withdrawals valued at their replacement cost—the concept that underlies the NIPAs. The difference is an estimate of inventory profits, but with the sign reversed; these profits are excluded from personal income, but they are included in AGI.

The NIPA measure of depreciation, the consumption of fixed capital, is based on geometric depreci-

ation of real values of the existing stock of fixed assets: the IRS measure of depreciation is based on other depreciation formulas applied to the historical cost of fixed assets.³² The adjustment consists of the differences between the NIPA depreciation and the IRS depreciation for proprietors' income and rental income of persons excluding the depreciation of owner-occupied dwellings (which is a NIPA imputation and is included in line 5).

Interest on U.S. savings bonds, state and local government bonds, and corporate bonds is included in personal income on an accrual basis, but it is mainly reported on a cash basis in AGI. Similarly, the earnings excluding capital gains of individual retirement accounts (IRAs) and Keogh plans are included in personal income on an accrual basis, but they are included as benefit payments in AGI.

Other personal income exempt or excluded from AGI (line 9). Other types of personal income that are excluded from AGI consist mainly of voluntary contributions by employees to thrift savings plans, tax exempt interest received by individuals, tax exempt military pay and allowances, and incomes subject to the small business corporation dividend adjustment and to statutory adjustments (as published by the IRS) to AGI. Qualified employee contributions to thrift savings plans, primarily 401(k) plans, are included in personal income as wage and salary disbursements. Tax exempt interest received by individuals, primarily on state and local government bonds, is included in personal interest income.

The following types of pay and cash allowances to members of the armed forces are included in personal income but are excluded from AGI: Basic pay; bonus and special allowances for military personnel in a combat zone; allowances to defray a portion of the cost of subsistence; compensation for civilian housing as a substitute for government quarters; housing and cost-of-living abroad allowances; certain educational and training expenses; separation allowances; death gratuity payments; dislocation and other moving expenses; travel allowances; disability payments; ROTC educational and subsistence allowances; uniform allowances; and “other miscellaneous allowances.”

A new adjustment to combat pay is incorporated into the estimates of tax exempt military pay. Combat pay is included in the estimate of personal income, but

30. See Baoline Chen and Dennis J. Fixler, “Measuring the Services of Property-Casualty Insurance in the NIPAs: Changes in Concepts and Methods,” *SURVEY 83* (October 2003): 10–26.

31. These nonprofit institutions and private trust funds are classified as persons. See NIPA table 2.9 “Personal Income and Its Disposition by Households and by Nonprofit Institutions Serving Households.” As part of the 2003 comprehensive NIPA revision, the rental value of nonresidential fixed assets owned and used by these institutions was redefined from the business sector to the households and institutions sector. See Mead, McCully, and Reinsdorf, 13–17.

32. The NIPA methodology for depreciation reflects empirical evidence on prices of used equipment and structures in resale markets, which has shown that depreciation for most types of assets approximates a geometric pattern. See Barbara M. Fraumeni, “The Measurement of Depreciation in the U.S. National Income and Product Accounts,” *SURVEY 77* (July 1997): 7–23.

it is excluded from AGI. The Department of Defense (DOD) does not include on W-2 forms the pay earned in support of operations or in a combat zone, which is a geographic area declared by a presidential executive order. According to Federal tax law, those who serve for a least a day in a month in a combat zone or in support operations are not required to report any basic pay, bonuses, incentives, or any type of special pay for the month to the IRS. DOD certifies other locations for combat zone tax benefits. The tax exclusion is unlimited for enlisted military personnel, but officers are subject to a threshold set by the IRS.

The small business corporation (S corporation) dividend adjustment is the difference between the S corporation distributions that are included in personal income as personal dividend income and the S corporation distributions that are considered dividends in AGI. In the NIPAs, these distributions to individuals have always been treated as personal dividend income. In AGI, at different times, they have been treated as dividends, as partnership income, and as small business corporation income.³³

Statutory adjustments are specific adjustments to total income that are allowed as deductions in the calculation of AGI. For 2001, the statutory adjustments included the following: Contributions to Keogh plans, to simplified employee pension plans (SEPs), and to saving incentive match plans for employees of small employers (SIMPLEs), certain contributions to IRAs, half of the self-employment tax, a portion of self-employed health insurance premiums, forfeited interest and penalties incurred by persons who prematurely withdraw funds from time savings accounts, alimony payments, contributions to medical savings accounts, certain moving expenses, foreign housing exclusion, repayments of supplemental unemployment compensation, certain expenses of qualified performing artists, jury duty pay that was reported on Form 1040 and that was repaid by employers, qualified tuition reduction, a portion of student loan interest, contributions to section 501(c)(18) pension plans, deduction for clean-fuel vehicles, and a limited amount of educator and adoption expenses.

33. Before 1983, the IRS instructed taxpayers to report actual S corporation distributions to individuals as dividends on the Schedule B (Form 1040) and to report S corporation retained earnings as part of supplemental income on Schedule E (Form 1040), which was tabulated as "small business corporation income" in AGI. Beginning in 1983, individuals were instructed to report only the distributions from pre-1983 accumulated earnings and profits as dividends on Schedule B (Form 1040) and to report other distributions as supplemental income on Schedule E (Form 1040).

AGI items not in personal income

The second group of reconciliation items (lines 11–15) consists of the portion of AGI that is excluded from personal income.

Contributions for government social insurance (line 11) is subtracted in the calculation of personal income.

Net gains from the sale of property (line 12) includes net gains from the sale of property held for personal use or for investment (capital assets) and the sale of property that is used in a business activity (business assets).

Taxable pensions (line 13) are benefit payments from pension plans. These payments are excluded from personal income because of the NIPA treatment of pension plans.

Small business corporation income (line 14) is the amount of distributions from small business corporations that is taxable to individuals as ordinary income. The amount of S corporation income that is taxable to individuals as dividends is in the IRS measure of dividends. In the NIPAs, the distribution of S corporation income to individuals is treated as personal dividend income.

Other types of income (line 15) consists of the income of U.S. citizens living abroad for more than a year, supplemental unemployment benefit payments, and "other AGI items" excluded from personal income. The AGI includes their income because the IRS generally taxes U.S. citizens on their income regardless of how long they have been living abroad; this income mainly consists of wages, but it also includes a small amount of nonfarm proprietors' income. Personal income excludes the income of U.S. citizens living abroad for more than a year, because for NIPA purposes, they are considered nonresidents of the United States.³⁴

Additional AGI items that are not included in personal income include withdrawals from IRAs and Keogh plans, alimony received, state income tax refunds, net operating loss, gambling earnings, prizes, awards, sweepstakes winnings, and supplemental unemployment benefit payments from company-fi-

34. In the NIPAs, most U.S. citizens who reside outside the United States for a year or more are considered nonresidents; this definition excludes Federal employees, such as diplomats and members of the armed forces. The reconciliation captures a portion of the foreign earned income by including the "foreign earned income exclusion" in BEA-adjusted AGI. AGI is based on a sample of individual income tax returns that is drawn from filers of forms 1040, 1040A, and 1040EZ, including electronic returns; the sample excludes filers of forms 1040NR and 1042, which are used by IRS-defined nonresident aliens to report their income.

nanced funds, which are reported as wages in AGI.

Reallocation items by type of income

The third group of reconciliation items consists of reallocation items by type of income. The types of income that are used for the reconciliation in tables 2 and 3 represent the types of income that are included in both personal income and AGI. However, certain components of personal income and of AGI do not fit into this income classification or the classification differs; these income components are reallocated, if possible, so that the BEA estimates of AGI are comparable with IRS estimates of AGI by type of income. The reallocations that affect personal income are shown in lines 17–20, and the allocations that affect AGI are shown in lines 24–26. The reallocated personal income by type of income is shown in line 16, and the reallocated AGI is shown in line 23.

Reallocation by type of NIPA income

Fiduciaries' share of partnership income (line 17). Partnership income retained by fiduciaries is reallocated to farm and nonfarm proprietors' income. This partnership income is included in "income retained by fiduciaries," (line 7) which is tabulated by SOI for this reconciliation. Proprietorships' share of the partnership income is reallocated to the partnership category, so that BEA's estimate of AGI for this category will equal zero.³⁵

Interest received by nonfarm proprietors (line 18). The interest received by, but not related to the business operations of, nonfinancial proprietors and partnerships is treated in the NIPAs as personal interest income. For 1959–86, this interest is reallocated from personal interest income to nonfarm proprietors' income, because it was tabulated in AGI as part of the income of proprietors and partnerships.

Interest distributed by regulated investment companies (line 19). The taxable interest received by individuals from regulated investment companies (mutual funds) is reallocated from personal interest income to personal dividend income, because the IRS requires that the interest be reported as dividends. Because of the difficulty in allocating the taxable interest paid by regulated investment companies, the estimated amount reallocated from interest to dividends must be regarded as an approximation; the estimates of BEA-derived AGI for interest and for dividends are therefore

less reliable than the combined estimate of interest and dividends.³⁶

Taxable disability income payments (line 20). The taxable disability income payments that are received before an individual's minimum retirement age are reallocated from taxable pension benefit payments to wage and salary disbursements because these payments are reported as wages on tax returns, but they are treated as pension benefit payments in personal income.

Reallocation by type of IRS income

The AGI components that require a reallocation are estate and trust income (line 24), partnership income (line 25), and "other reallocations" (line 26). Estate and trust income is not used for the reconciliation; this income is reallocated to farm proprietors' income, nonfarm proprietors' income, and rental income of persons. Partnership income is reallocated to farm and nonfarm proprietors' income because the IRS distributes partnership income to individual partners.

"Other reallocations" includes several reallocations that are not shown separately and that are no longer applicable. For certain AGI components, the AGI classification has changed, and the earlier classification must be adjusted to conform with the present classification and with the types of income that are used for the reconciliation. Before 1963, the IRS business or professions net profits were reallocated to farm and nonfarm proprietors' income because the IRS did not separately tabulate farm proprietors' income. For 1958–65, the dividends distribution by small business corporations were reallocated from partnership income to personal dividend income; these dividends were tabulated by the IRS as partnership income because the two types of business organizations were treated the same under tax laws. For 1957–65, Form 1040A wages that were not subject to withholding were tabulated by the IRS as other income; this amount is reallocated to wages. For 1964–65, estate and trust income was tabulated as part of "other income" in AGI; this amount is reallocated to farm proprietors' income, nonfarm proprietors' income, and rental income of persons. For 1961, wage earners who had \$200 or less of dividends and interest income could report the combined amount as a single value; this amount is reallocated to personal interest income and to personal dividend income.

35. The fiduciaries share of partnership income is reallocated to proprietors' income to comply with the IRS treatment of partnership income. Partnership income is distributed to its partners according to their allocated share on Schedule K-1.

36. Several statistical problems also cause the separate estimates of the AGI gap for interest and those for dividends to be less reliable than the combined estimates of the two. See footnote 15.