



# Profits in the NIPAs: Benchmark Brings a Clearer Picture

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## From IRS to NIPA Profits Measure

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- **Begin: IRS “total receipts less total deductions”**
  - Adjust to include all current-production flows and only current-production flows.
- **Produces: NIPA equivalent of IRS receipts less deductions**
  - Substitute NIPA inventory accounting. NIPA values withdrawals at current cost.
  - Substitute NIPA capital consumption accounting. NIPA values allowances at current cost over consistent economic lives.
- **Produces: NIPA Profits from Current Production**



## The Featured NIPA Measure

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- Profits from current production =  
Corporate profits with IVA and CCAAdj  
where:
  - IVA = difference between NIPA and IRS inventory-accounting measures.
  - CCAAdj = difference between NIPA and IRS capital-consumption measures.



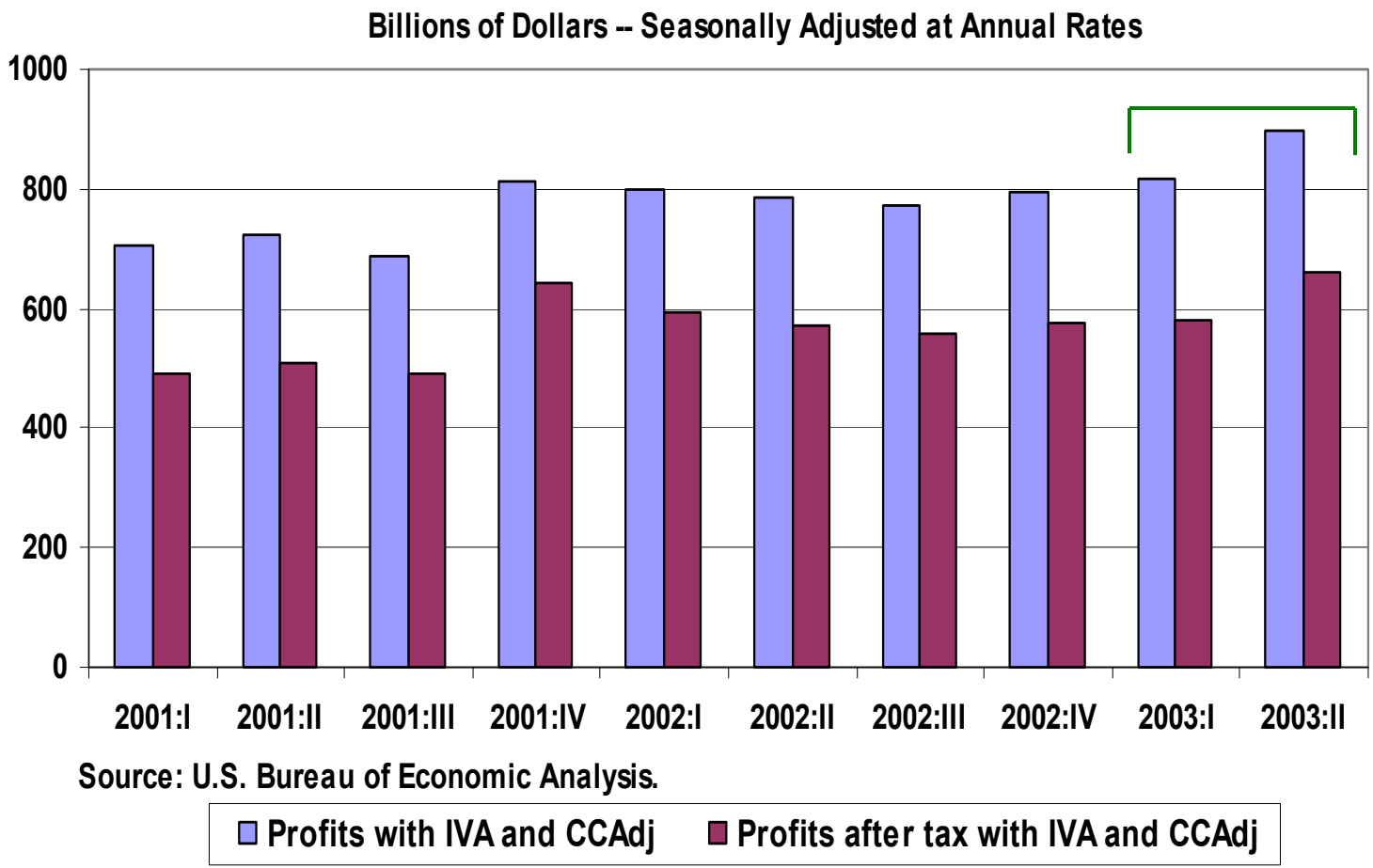
## NIPA Names for Other Profits Variants

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- **Begin: IRS “total receipts less total deductions”**
  - Adjust to include solely current-production flows.
- **Defined as NIPA measure: “Profits Before Tax”**
  - Substitute NIPA inventory accounting.
- **Defined as NIPA measure: “Corporate Profits with IVA”**
  - Substitute NIPA capital consumption accounting.
- **Defined as featured NIPA measure:**
  - “Corporate Profits with IVA and CCAAdj”



# Recent Profits Picture: Strong Growth and Tax Reductions





# News Release Profits Table, 1954 - 2003 (R.I.P.)

**Table 10. --Corporate Profits: Level**

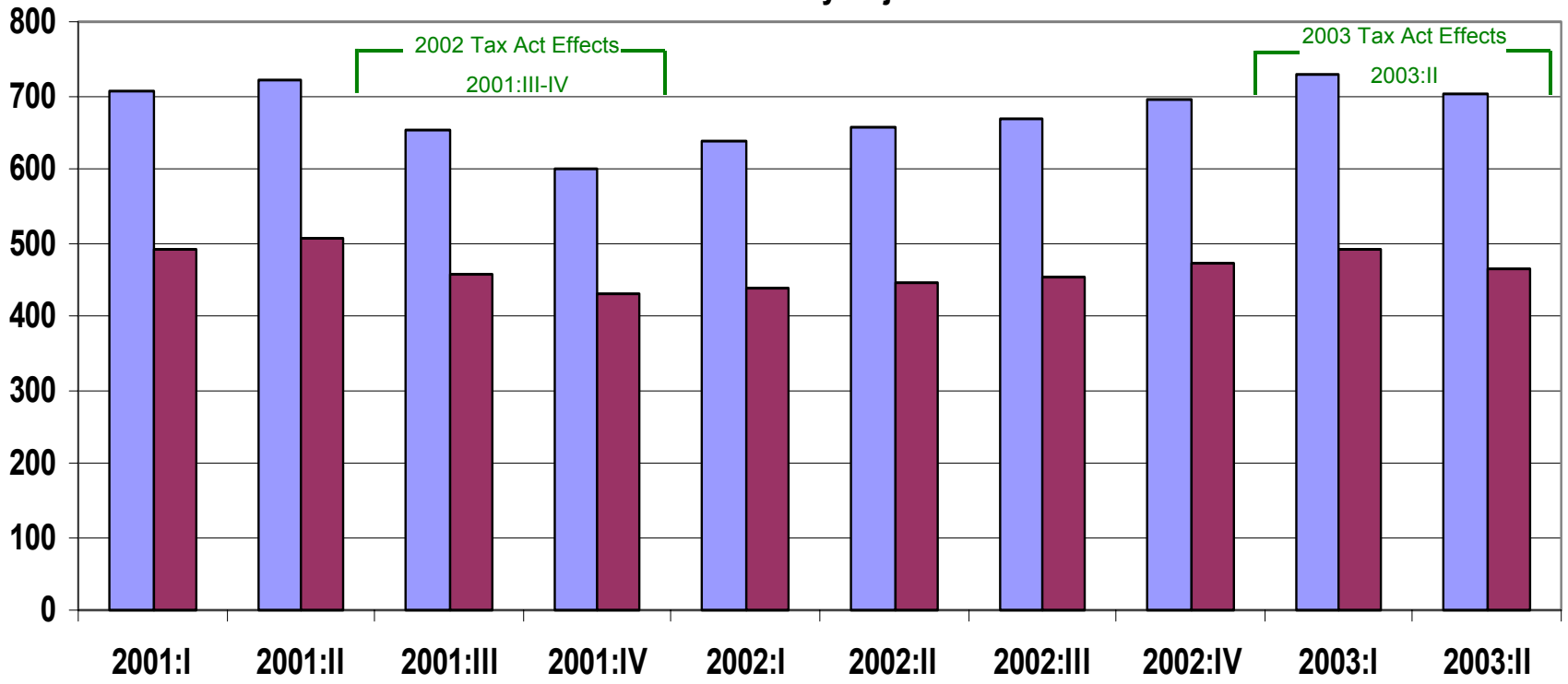
	Billions of dollars	
	2001	2002
<b>Corporate profits with IVA and CCAdj</b>	<b>732</b>	<b>787</b>
<b>Profits before tax</b>	<b>670</b>	<b>665</b>
Profits tax liability	199	213
<b>Profits after tax</b>	<b>471</b>	<b>452</b>
Dividends	410	434
Undistributed profits	61	18
Inventory valuation adjustment (IVA)	5	-7
Capital consumption adjustment (CCAdj)	57	129
<b>Addenda:</b>		
Corporate profits after tax with IVA and Ccadj	532	574
<b>Net cash flow with IVA and CCAdj</b>	<b>912</b>	<b>967</b>
Undistributed profits with IVA and CCAdj	123	140
Consumption of fixed capital	789	828
Less: Inventory valuation adjustment (IVA)	5	-6.9
<b>Equals: Net cash flow</b>	<b>907</b>	<b>974</b>

Source: U.S. Bureau of Economic Analysis.

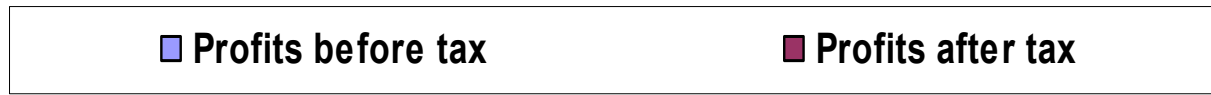


# Deduction Changes Affect These NIPA Profits Measures

Billions of Dollars -- Seasonally Adjusted at Annual Rates



Source: U.S. Bureau of Economic Analysis.







## 2003:2 News Reports were Confusing

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“Corporate profits surged \$88 billion in the second quarter...”

-Kiplinger Business Forecast

“After-tax profits of U.S. corporations fell by 3.4 percent in the second quarter...”

-Associated Press

“After-tax profits increased by less in the second quarter of 2003 than they had in the first quarter...”

-The Washington Post



## Recent Tax Acts: 1st Tax Act Increased Deductions

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- March 2002 - more generous depreciation and carryback made available retroactively:
  - Expensing for investment between Sept. 2001 and Sept. 2004
  - Relief for NYC damage on Sept. 11
  - Net operating loss carryback: 5 years instead of 2, for 2001 and 2002



# NIPA Profits Effects of Job Creation Act - March 2002

Effects of the Job Creation and Worker Assistance Act of 2002 on Corporate Profits  
[Seasonally adjusted at annual rates]

	Billions of dollars		
	level		
	2001:II	2001:III	2001:IV
Profits before tax	720	654	599
<b>Tax effect</b>	<b>0</b>	<b>-35</b>	<b>-181</b>
Excluding tax effect	720	689	780
Profits tax liability	213	196	171
<b>Tax effect</b>	<b>0</b>	<b>-12</b>	<b>-61</b>
Excluding tax effect	213	208	232
Profits after tax	507	458	428
<b>Tax effect</b>	<b>0</b>	<b>-23</b>	<b>-120</b>
Excluding tax effect	507	481	548
Profits from current production	721	687	811
<b>Tax effect</b>	<b>0</b>	<b>0</b>	<b>0</b>
Excluding tax effect	721	687	811
Profits from current production less tax liability	508	491	641
<b>Tax effect</b>	<b>0</b>	<b>12</b>	<b>61</b>
Excluding tax effect	508	479	580

Source: U.S. Bureau of Economic Analysis.



## Recent Tax Acts: 2nd Tax Act Increased Deductions Too

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- May 2003 - share of investment eligible for expensing raised to 50% from 30%, through 2004



# NIPA Profits Effects of Jobs and Growth Act - May 2003

Effects of the Jobs and Growth Tax Relief Reconciliation Act of 2003  
[Seasonally adjusted at annual rates]

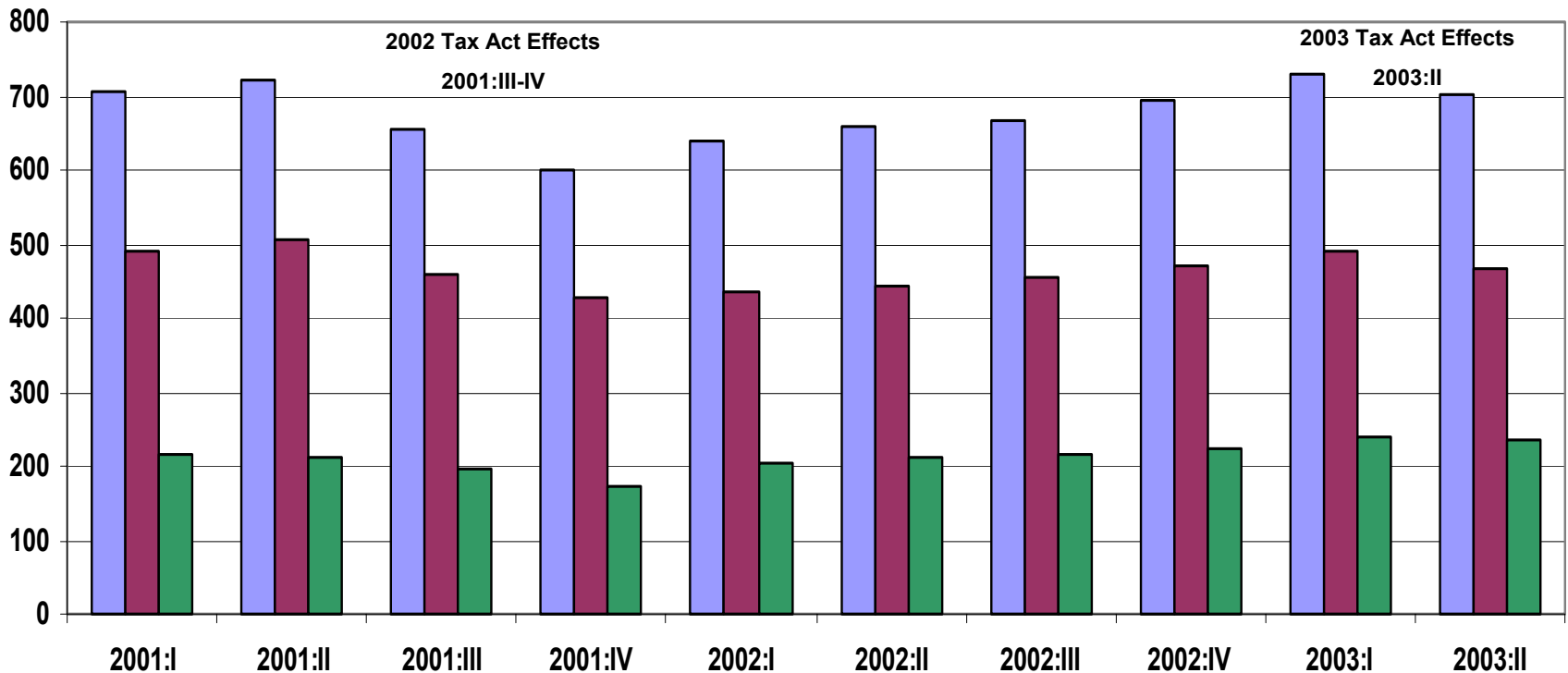
	Billions of dollars	
	Level	
	2003:I	2003:II
Profits before tax	728	708
<b>Tax effect</b>	<b>0</b>	<b>-75</b>
Excluding tax effect	728	783
Profits tax liability	238	234
<b>Tax effect</b>	<b>0</b>	<b>-19</b>
Excluding tax effect	238	253
Profits after tax	490	473
<b>Tax effect</b>	<b>0</b>	<b>-56</b>
Excluding tax effect	490	530
Profits from current production	816	905
<b>Tax effect</b>	<b>0</b>	<b>0</b>
Excluding tax effect	816	905
Profits from current production less tax liability	579	671
<b>Tax effect</b>	<b>0</b>	<b>19</b>
Excluding tax effect	579	652

Source: U.S. Bureau of Economic Analysis.



# Combined Effects on Tax Liability and on the Two After-Tax Measures

(Seasonally Adjusted at Annual Rates)



Source: U.S. Bureau of Economic Analysis.





# December 2003 Benchmark: New Profits Table

Table 11. --Corporate Profits: Level

	Billions of dollars	
	2001	2002
<b>Corporate profits with IVA and CCAAdj</b>	<b>732</b>	<b>787</b>
Less: Taxes on corporate income	199	213
<b>Equals: Profits after tax with IVA and CCAAdj</b>	<b>533</b>	<b>574</b>
Net dividends	410	434
Undistributed profits with IVA and CCAAdj		
Cash flow:		
<b>Net cash flow with IVA and CCAAdj</b>	<b>912</b>	<b>967</b>
Undistributed profits with IVA and CCAAdj	123	140
Consumption of fixed capital	57	129
Less: Inventory valuation adjustment (IVA)	5	-7
Equals: Net cash flow	907	974
<b>Addenda:</b>		
Profits before tax (without IVA and CCAAdj)	670	665
Profits after tax (without IVA and CCAAdj)	471	452
Inventory valuation adjustment (IVA)	5	-7
Capital consumption adjustment (CCAAdj)	56	129

Source: U.S. Bureau of Economic Analysis.



# BEA Expert

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- Corporate Profits

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