

## XI. GLOSSARY

**Allocation procedures.**—Allocation procedures are used in the estimation of state and county personal income because the available state and county data for many of components of personal income may not be as comprehensive or as reliable as the national data. A national estimate of a component is allocated to states in proportion to their shares of an economic, or allocating, series that is a measure of the component or that is related to the component that is being allocated; the state estimates are then allocated to counties. For example, the national estimate of personal dividend income received by individuals is allocated to states—and the state estimates are allocated to counties—in proportion to dividends reported by individuals on their Federal income tax returns. *See also “Allocation procedures” in Chapter X Technical Notes.*

**Annual rates.**—The quarterly estimates of state personal income are presented at annual rates, which show the value that would be registered if the seasonally adjusted rate of activity measured for a quarter were maintained for a full year. Annual rates are used so that periods of different lengths—for example, quarters and years—may be easily compared. *See also Seasonal adjustment.*

**BEA economic areas.**—A set of geographic areas, defined in terms of counties, that exhaust the area of the Nation. Each of the BEA economic areas consists of one or more economic nodes—metropolitan or micropolitan statistical areas that serve as regional centers of economic activity—and the surrounding counties that are economically related to the node.<sup>1</sup> *See also Geographic areas.*

**Capital consumption adjustment (CCAdj).**—The capita consumption adjustment is the difference between private consumption of fixed capital (CFC) and private capital consumption allowances. Private CFC is a charge for the using up of private fixed capital. It is based on studies of prices of used equipment and structures in resale markets.<sup>2</sup> Private capital consumption allowances consist of tax-return-based depreciation charges for corporations and nonfarm proprietorships and of historical-cost depreciation, calculated by BEA, for farm proprietorships, rental income of persons, and nonprofit institutions. In personal income, CFC is used in the estimation of proprietors’ income—both farm and nonfarm—and rental income of persons.

**Compensation.**—Compensation is the income accruing to employees as remuneration for their work. As a component of personal income, compensation is the sum of wage and salary *disbursements* and supplements to wages and salaries; as a component of Gross Domestic Product by state, compensation is the sum of wage and salary *accruals* and supplements to wages and salaries. The difference between disbursements and accruals is typically very small and arises when employees receive

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<sup>1</sup> For a description of the economic areas and the methodology used to define them, see Kenneth P. Johnson and John R. Kort, “2004 Redefinition of the BEA Economic Areas,” *Survey of Current Business* 84 (November 2004): 68-75. This article and a list of the economic areas and their constituent counties and county equivalents are available on BEA’s Web site at <http://www.bea.gov>.

<sup>2</sup> For further information, see Arnold J. Katz and Shelby W. Herman, “Improved Estimates of Fixed Reproducible Tangible Wealth,” *Survey* 77 (May 1997): 69-92; and Barbara M. Fraumeni, “The Measurement of Depreciation in the U.S. National Income and Product Accounts,” *Survey* 77 (July 1997): 7-23.

retroactive wage payments. Such payments are recorded in wage and salary accruals when earned and in wage and salary disbursements when paid.

**Contributions for government social insurance.**—Contributions for government social insurance is deducted from earnings in the derivation of personal income. It consists of payments by employers, employees, the self-employed, and other individuals who participate in the following government programs: Old-age, Survivors, and Disability Insurance; Medicare; unemployment insurance; railroad retirement; pension benefit guarantee; veterans' life insurance; publicly-administered workers' compensation; military medical insurance; and temporary disability insurance. *See also Employer contributions for employee pension and insurance funds and Employee and self-employed contributions for government social insurance.*

**Corporate business.**—Corporate business consists of entities required to file Federal corporate tax returns (Internal Revenue Service (IRS) Form 1120 series) and the following entities: Mutual financial institutions and cooperatives subject to Federal income tax, private noninsured pension funds, nonprofit organizations that primarily serve businesses, Federal Reserve banks, and federally sponsored credit agencies. *See also Sectors and legal form of organization.*

**County.**—Counties consist of counties and county equivalents, such as the parishes of Louisiana, the boroughs and census areas of Alaska, the independent cities of Maryland, Missouri, Nevada, and Virginia, and the District of Columbia. The estimates for Kalawao County, Hawaii and the small independent cities of Virginia—generally those with fewer than 100,000 residents—are combined with those for adjacent counties. *See also Geographic areas.*

**County equivalents.**—*See County.*

**Disclosure-avoidance procedures.**—*See “Disclosure-avoidance procedures” in Chapter X Technical Notes.*

**Disposable personal income.**—Disposable personal income is personal income less personal current taxes. It is personal income that is available for spending and saving. *See also Personal income and Personal current taxes.*

**Dual allocation.**—*See “Dual allocation” in Chapter X Technical Notes.*

**Earnings by place of work.**—Earnings by place of work is the sum of three components of personal income—wage and salary disbursements, supplements to wages and salaries, and proprietors' income. . *See also Net earnings by place of residence and Net labor earnings.*

**Employment.**—Employment is a count of jobs, full-time plus part-time, by place of work. Full-time and part-time jobs are given equal weight. Employees, sole proprietors, and general partners are included, but unpaid family workers and volunteers are not.

**Employee and self-employed contributions for government social insurance.**—Employee and self-employed contributions for government social insurance (formerly called personal contributions for government social insurance) consist of the contributions, or payments, by employees, by the self-employed, and by other individuals who participate in the following government programs: Old-age, Survivors, and Disability Insurance (social security); Hospital Insurance (Medicare Part A); Supplementary Medical Insurance (Medicare Parts B and D); unemployment insurance; railroad retirement; veterans' life insurance; and temporary disability insurance. These

contributions are excluded from personal income by definition, but the components of personal income upon which these contributions are based—mainly wage and salary disbursements and proprietors' income—are presented gross of these contributions. *See also Earnings by place of work, Net labor earnings, and Personal income.*

**Employer contributions for employee pension and insurance funds.**—Employer contributions for employee pension and insurance funds consists of employer payments to private and government employee retirement plans, private group health and life insurance plans, privately administered workers' compensation plans, and supplemental unemployment benefit plans. It was formerly called other labor income.

**Employer contributions for government social insurance.**—Employer contributions for government social insurance is a component of earnings and compensation. It consists of employer payments under the following Federal and state and local government programs: Old-age, Survivors, and Disability Insurance (OASDI); Hospital Insurance (HI); unemployment insurance; railroad retirement; pension benefit guaranty; veterans' life insurance; publicly-administered workers' compensation; military medical insurance; and temporary disability insurance. These contributions are excluded from personal income by definition, but as part of supplements to wages and salaries, they are included in earnings by place of work and compensation.

**ES-202.**—The reporting form used by the Quarterly Census of Employment and Wages (QCEW). *See also Quarterly Census of Employment and Wages.*

**Extrapolation.**—*See “Interpolation and extrapolation” in Chapter X Technical Notes.*

**Farm income.**—Farm income is the sum of wage and salary disbursements, employer contributions for employee pension and insurance funds, and proprietors' income in the farm industry (crop production and animal production only—NAICS subsectors 111 and 112). It comprises the net income of sole proprietors, partners, and hired laborers arising directly from the current production of agricultural commodities, both livestock and crops, and specifically excludes the income of non-family farm corporations.

**Fiduciary.**—Fiduciaries are individuals or legal entities that serve as administrators or trustees of private trust funds (including estates) and are classified as persons in the National Income and Product Accounts. A fiduciary is required to report the income that the private trust fund receives on behalf of the beneficiaries of the estate or trust to the Internal Revenue Service.

**Geographic areas.**—The estimates of personal income are prepared for the following geographic areas: counties, metropolitan areas, micropolitan areas, BEA Economic Areas, states, and regions.—*See also County, Metropolitan areas, BEA Economic Areas, and Regions.*

**Government enterprise.**—Government enterprises are government agencies that cover a substantial portion of their operating costs by selling goods and services to the public and that maintain separate accounts. *See also Sectors and legal form of organization.*

**Income subject to adjustment.**—Income subject to adjustment is the sum of wage and salary disbursements and supplements to wages and salaries less contributions for government social insurance.

**Imputation.**— An imputation constructs a transaction or places a market value on a transaction so that the measurement of personal income and its components is invariant to how certain activities are carried out, or attributes the income of one sector or legal form of organization to another. *See also “Imputation” in Chapter X Technical Notes.*

**Interpolation.**—*See “Interpolation and extrapolation” in Chapter X Technical Notes.*

**Inventory valuation adjustment (IVA).**—The inventory valuation adjustment is made in the estimation of nonfarm proprietors’ income to reflect the difference between the cost of inventory withdrawals as valued in the source data used to determine profits and the cost of withdrawals valued at replacement cost. It is needed because inventories as reported in the source data are often charged to cost of sales (that is, withdrawn) at their acquisition (historical) cost rather than at their replacement cost (the concept underlying the NIPAs). As prices change, companies that value inventory withdrawals at acquisition cost may realize profits or losses. Inventory profits, a capital-gains-like element in profits, result from an increase in inventory prices, and inventory losses, a capital-loss-like element in profits, result from a decrease in inventory prices. Inventory profits or losses equal the IVA with the sign reversed. No adjustment is needed to farm proprietors’ income because inventories reported in the source data are measured on a current-market basis that approximates current replacement cost.

**Local areas.**—Local areas consist of counties, metropolitan areas, micropolitan areas and BEA economic areas. *See also Geographic areas.*

**Metropolitan areas.**—A metropolitan area consists of a large population nucleus together with adjacent communities having a high degree of economic and social integration with the nucleus. Metropolitan areas are defined for Federal statistical purposes by the Office of Management and Budget.<sup>3</sup> In New England metropolitan areas are defined in terms of both cities and towns and in terms of counties. BEA uses the county-based definitions. Metropolitan areas consist of metropolitan statistical areas, metropolitan divisions, and combined statistical areas. *See also Geographic areas.*

**Net earnings by place of residence.**—Net earnings by place of residence is earnings by place of work less contributions for government social insurance plus an adjustment to convert it from a place of work to a place of residence basis. *See also Earnings by place of work.*

**Net labor earnings.**—Net labor earnings is the sum of wage and salary disbursements and supplements to wages and salaries less contributions for government social insurance. This measure, also known as “income subject to adjustment,” is used in the residence adjustment procedure for both the annual and the quarterly estimates of state personal income and for the annual county estimates. *See also Earnings by place of work.*

**North American Industry Classification System (NAICS).**—NAICS is an industry classification system that classifies economic units that have similar production processes in the same industry. This is a supply-based or production-oriented economic concept. Statistics Canada, Mexico’s Instituto Nacional de Estadística Geografía e Informática (INEGI), and the Economic Classification Policy Committee (ECPC) of the United States, acting on behalf of the Office of Management and Budget, created a

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<sup>3</sup> The list of the metropolitan areas and their constituent counties and county equivalents is available on BEA’s Web site at <http://www.bea.gov>.

common classification system that replaced the existing classification systems of each country, the Standard Industrial Classification (1980) of Canada, the Mexican Classification of Activities and Products (1994), and the Standard Industrial Classification (1987) of the United States. NAICS is used in the presentation of state and local area estimates of earnings and employment by industry from the year 2001 forward. It is used by BEA for the estimates of the private sector only, although it is designed to cover both public and private earnings and employment activities. *See also Standard Industrial Classification.*

**Other labor income.**—*See Employer contributions for employee pension and insurance funds.*

**Other private business.**—Other private business consists of tax-exempt cooperatives and all entities required to report rental and royalty income on Schedule E of IRS Form 1040 (*Supplemental Income and Loss*). *See also Sectors and legal form of organization.*

**Partnership.**—A partnership is an unincorporated business association required to file IRS Form 1065 (*U.S. Return of Partnership Income*). *See also Sectors and legal form of organization.*

**Pay-in-kind.**—Pay-in-kind is an imputed component of wage and salary disbursements. The estimates of pay-in-kind reflect the value of the food, lodging, clothing, and miscellaneous goods and services received by employees from their employers as full or partial payment for services performed. *See also “Imputation” in Chapter X Technical Notes.*

**Per capita personal income.**—This measure of income is calculated as the total personal income of the residents of an area divided by the population of the area. Per capita personal income is often used as an indicator of the character of consumer markets and of the economic well-being of the residents of an area. *See also “Per capita personal income” in Chapter I Introduction.*

**Personal current taxes.**—Personal current taxes are payments, net of refunds, made by persons that are not chargeable to business expense. Personal current taxes consist of taxes on income, including realized net capital gains, taxes on personal property, payments for motor vehicle licenses, and several miscellaneous taxes, licenses, and fees. Social security and Medicare taxes are excluded from personal current taxes. They are treated as an employer (or employee or self-employed) contribution for government social insurance. Personal current taxes also exclude taxes on real property, sales taxes, and certain penalty taxes. Taxes on real property paid by persons, except those primarily engaged in the real estate business, are treated as a business expense that is deducted from both gross monetary rental income and gross imputed rental income in the derivation of net rental income. Real property taxes paid by persons primarily engaged in the real estate business are also treated as a business expense and are deducted in the derivation of proprietors' income. Sales taxes are included in personal consumption expenditures. Penalty taxes such as the penalty tax on early IRA withdrawals are treated as a personal current transfer payment to government.

**Personal current transfer receipts.**—Personal current transfer receipts (formerly called transfer payments) are benefits received by persons for which no current services are performed. It consists of benefits received by individuals and nonprofit institutions that primarily serve individuals from Federal, state, and local governments and from

businesses. Benefits received by individuals from government include retirement and disability insurance benefits, medical benefits (mainly Medicare and Medicaid), income maintenance benefits, unemployment insurance compensation, veterans' benefits, and Federal education and training assistance. Benefits received by nonprofit institutions from government exclude payments by the Federal Government for work under research and development contracts. Benefits received by persons from businesses consist primarily of compensation for personal injury, corporate gifts to nonprofit institutions, and net insurance settlements when actual insured losses exceed normal losses (as in disasters).

**Personal dividend income.**—Personal dividend income consists of payments in cash or in other assets, excluding the corporation's own stock, made by corporations located in the United States or abroad to persons who are U.S. residents. Personal dividend income includes the net income of S Corporations received by individuals as well as their receipt of dividends from C Corporations. Personal dividend income does not include interest from regulated investment companies reported as dividends on individual income tax returns. The dividend income of noninsured pension funds is imputed to persons and counted as part of personal dividend income.

**Personal income.**—Personal income is the income received by persons from participation in production, plus transfer receipts from government and business, plus government interest (which is treated like a transfer receipt). It is defined as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance. Because the personal income of an area represents the income that is received by, or on behalf of, all the persons who live in that area, and because the estimates of some components of personal income (wage and salary disbursements, supplements to wages and salaries, and contributions for government social insurance) are made on a place-of-work basis, state personal income includes an adjustment for residence. The residence adjustment represents the net flow of compensation (less contributions for government social insurance) of interstate commuters. *See also Contributions for government social insurance; Personal current transfer receipts; Personal dividend income; Personal interest income; Persons; Proprietors' income with inventory valuation and capital consumption adjustments; Rental income of persons with capital consumption adjustment; Residence adjustment; Residence, place of; Supplements to wages and salaries; and Wage and salary disbursements.*

**Personal interest income.**—Personal interest income is the interest income (monetary and imputed) of persons from all sources. The property income earned on the reserves that property, casualty, and life insurance carriers hold to pay claims and the interest income of noninsured pension funds is imputed to persons and counted as part of personal interest income.

**Persons.**—Persons consist of individuals and quasi-individuals that serve individuals or that act on behalf of individuals. Quasi-individuals consist of nonprofit institutions that primarily serve individuals, private noninsured welfare funds, and private trust funds.

**Population.**—Number of individuals (both civilian and military) who reside in an area as of July 1. *See also Residence, place of.*

**Property income.**—Property income is another name for income received in the form of dividends, interest, rents, and royalties.

**Proprietors' income with inventory valuation and capital consumption adjustments.**—Proprietors' income with inventory valuation and capital consumption adjustments is the current-production income (including income in kind) of sole proprietorships, partnerships, and tax-exempt cooperatives. Corporate directors' fees are included in proprietors' income. Proprietors' income excludes dividends and monetary interest received by nonfinancial business and rental income received by persons not primarily engaged in the real estate business; these incomes are included in dividends, net interest, and rental income of persons, respectively. *See also Capital consumption adjustment and Inventory valuation adjustment.*

**Quarterly Census of Employment and Wages (QCEW).**—The Quarterly Census of Employment and Wages is a program of the Bureau of Labor Statistics (BLS) which collects data from the administration of the state unemployment insurance system. The data originate from employers' quarterly contributions reports filed on form ES 202 with state employment security agencies. The data, which are provided to BEA by the BLS, include quarterly wages and monthly employment by county and industry. *See also ES-202 and Wage and salary disbursements.*

**Quasi-individuals.**—Quasi-individuals consist of nonprofit institutions that primarily serve individuals, private noninsured welfare funds, and private trust funds. *See also Persons.*

**Regions.**—BEA developed a regional classification of the states and the District of Columbia in the mid-1950s.<sup>4</sup> The eight regional classifications, Far West, Great Lakes, Mideast, New England, Plains, Rocky Mountain, Southeast, and Southwest, are based on the homogeneity of the states in terms of economic characteristics, such as the industrial composition of the labor force, and in terms of demographic, social, and cultural characteristics. *See also Geographic areas.*

**Rental income of persons with capital consumption adjustment.**—Rental income of persons with capital consumption adjustment is the net income of persons from the rental of real property except for the income of persons primarily engaged in the real estate business, the imputed net rental income of owner-occupants of housing, and the royalties received by persons from patents, copyrights, and rights to natural resources. The rental income of noninsured pension funds is imputed to persons and counted as part of rental income of persons with capital consumption adjustment. *See also Capital consumption adjustment and Proprietors' income.*

**Residence adjustment.**—The residence adjustment is the net flow of net labor earnings of interarea commuters. The state and county estimates of personal income are presented by the state and county of residence of the income recipients. However, the source data for most of the components of wage and salary disbursements, supplements to wages and salaries, and contributions for government social insurance are on a place-of-work basis. Consequently, a residence adjustment is made to convert the estimates

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<sup>4</sup> See Charles Schwartz, Robert Graham, Henry Shryock, and Morris Ullman, (1955) *Description of Commerce Department's Proposed New Regional Classification of States*. A list of the regions and their constituent states is available on BEA's Web site at <http://www.bea.gov>.



based on these source data to a place-of-residence basis.<sup>5</sup> See also *Net labor earnings and “Geographic characteristics of the source data” in Chapter I Introduction.*

**Residence, place of.**—The place of residence of an individual is the state and county in which he or she lives. The residence of military personnel is the state and county in which they live while they are on military assignment, not their permanent or legal state and county of residence. The residence of seasonal migrant workers, except those working in Alaska, is the state and county in which they live while they are working; this may differ from the usual state and county of residence they report on the decennial census of population. See also *Personal income, Persons, and Residence adjustment.*

**Seasonal adjustment.**—The quarterly estimates of state personal income are adjusted, where appropriate, to remove from the time series of the source data the average effect of variations that normally occur at about the same time and in about the same magnitude each year—for example, weather and holidays. After seasonal adjustment, cyclical and other short-term changes in the economy stand out more clearly. For the income components for which no state-level quarterly source data are available, the quarterly series are estimated from the trend in the annual state estimates, and the resulting estimates are on a seasonally adjusted basis. See also *Annual rates.*

**Sectors and legal form of organization.**—In the national income and product accounts (NIPAs), gross domestic product and other major aggregates are presented in terms of three economic sectors: Business, household and institution, and general government. Businesses are classified into five categories, generally according to legal form of organization: Corporations, sole proprietorships, partnerships, other private business, and government enterprises. **Corporate business** consists of entities required to file Federal corporate tax returns (IRS Form 1120 series) and the following entities: Mutual financial institutions and cooperatives subject to Federal income tax, private noninsured pension funds, nonprofit organizations that primarily serve businesses, Federal Reserve banks, and federally sponsored credit agencies. **Sole proprietorships** are all entities that are required to file IRS Schedule C (*Profit or Loss from Business*) or Schedule F (*Farm Income and Expenses*).<sup>6</sup> **Partnerships** are all entities required to file Federal partnership income tax returns, IRS Form 1065 (*U.S. Partnership Return of Income*). **Other private business** consists of tax-exempt cooperatives and all entities that are required to report rental and royalty income on IRS Schedule E (*Supplemental Income and Loss*).<sup>7</sup> **Government enterprises** are government agencies that cover a substantial portion of their operating costs by selling goods and services to the public and that maintain separate accounts.<sup>8</sup>

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<sup>5</sup> In BEA’s state and local data tables, each of the components of net labor earnings—wage and salary disbursements, supplements to wages and salaries, and contributions for government social insurance—is presented by place of work. The residence adjustment is estimated for net labor earnings, and that statistic is presented by place of residence.

<sup>6</sup> Also included in sole proprietorships are similar entities operated by individuals who do not meet the reporting requirements.

<sup>7</sup> Also included in other private business are entities with rental and royalty income whose individual owners who do not meet the reporting requirements.

<sup>8</sup> For further information, see U.S. Department of Commerce, Bureau of Economic Analysis, *Methodology Paper Series MP-5, Government Transactions* (Washington, DC: U.S. Government Printing Office, November 1988). This publication is available on BEA’s Internet site: Go to [www.bea.gov](http://www.bea.gov) and select “Methodologies.”



**Sole proprietorship.**—A sole proprietorship is any entity required to file IRS Schedule C (*Profit or Loss from Business*) or Schedule F (*Farm Income and Expenses*). *See also Sectors and legal form of organization and Proprietors' income with inventory valuation and capital consumption adjustments.*

**Standard Industrial Classification (SIC).**—The SIC is an establishment-industry classification system that was prepared by the Office of Management and Budget for use by all federal statistical agencies.<sup>9</sup> The SIC is used in the presentation of the state and local area estimates of earnings by industry through 2001 for states and 2000 for counties. It is used by BEA for the estimates for the private sector only, although it is designed to cover both public and private economic activities. In the SIC, establishments are classified by the primary activity in which they are engaged, and each establishment is assigned an industry code.<sup>10</sup> *See also North American Industry Classification System.*

**Supplements to wages and salaries.**—Supplements to wages and salaries consists of employer contributions for government social insurance and employer contributions for employee pension and insurance funds.

**Tax-exempt cooperative.**—A tax-exempt cooperative is a nonprofit business organization that is collectively owned by its members. Although tax-exempt cooperatives are incorporated, in the NIPAs these institutions are classified in the other private business sector, and their income is classified as part of proprietors' income. *See also Sectors and legal form of organization.*

**Transfer payments.**—*See Personal current transfer receipts.*

**Wage and salary disbursements.**—Wage and salary disbursements consists of the monetary remuneration of employees (including the salaries of corporate officers, commissions, tips, bonuses, and severance pay); employee gains from exercising nonqualified stock options; distributions from nonqualified deferred compensation plans; and an imputation for pay-in-kind (such as the meals furnished to the employees of restaurants). It reflects the amount of wages and salaries disbursed, but not necessarily earned (or accrued), during the year. This component is measured before deductions, such as social security contributions, union dues, and voluntary employee contributions to defined contribution pension plans, such as 401(k) plans. *See also Pay-in-kind.*

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<sup>9</sup> See Executive Office of the President, Office of Management and Budget, *Standard Industrial Classification Manual, 1997*, National Technical Information Service order no. PB 87-100012. The Manual is available on the Web site of the Occupational Safety and Health Administration: Go to [www.osha.gov/oshstats/sicser.html](http://www.osha.gov/oshstats/sicser.html).

<sup>10</sup> Establishments, as defined in the SIC, are economic units, generally at a single physical location, where business is conducted or where services or industrial operations are performed.