



Office of Tax Analysis
Working Paper 109
September 2016

Using a Reconciliation of NIPA Personal Income and IRS AGI to Analyze Tax Expenditures

Tracy Foertsch

The OTA Working Papers Series presents original research by the staff of the Office of Tax Analysis. These papers are intended to generate discussion and critical comment while informing and improving the quality of the analysis conducted by the Office. The papers are works in progress and subject to revision. Views and opinions expressed are those of the authors and do not necessarily represent official Treasury positions or policy. Comments are welcome, as are suggestions for improvements, and should be directed to the authors. OTA Working Papers may be quoted without additional permission.

USING A RECONCILIATION OF NIPA PERSONAL INCOME AND IRS AGI TO ANALYZE TAX EXPENDITURES

September 2016

Tracy Foertsch¹

This paper provides a detailed reconciliation of the sources of differences between National Income and Product Accounts (NIPA) personal income and Internal Revenue Service (IRS) adjusted gross income (AGI). The reconciliation items include both methodological differences between the two measures (such as certain accounting conventions or imputations for certain non-cash income of households) and the more explicit exclusions or deductions that result from the tax system. In the executive summary below, we focus on these latter reconciliation items and describe differences between NIPA personal income and IRS AGI relative to a NIPA personal income that is less methodological adjustments (“adjusted NIPA personal income”).

NIPA personal income is the broadest measure of economic income accruing to American households. Hence, a comparison of income reported to the IRS with NIPA personal income provides a measure how much income is not subject to tax because of exclusions and deductions.

Keywords: Income Tax Base and NIPA Personal Income

JEL Codes: H20 and E01

¹ Tracy Foertsch: Office of Tax Analysis, U.S. Department of the Treasury, Tracy.Foertsch@treasury.gov.

Executive Summary

This paper provides a detailed reconciliation of the sources of differences between National Income and Product Accounts (NIPA) personal income and Internal Revenue Service (IRS) adjusted gross income (AGI). The reconciliation items include both methodological differences between the two measures (such as certain accounting conventions or imputations for certain non-cash income of households) and the more explicit exclusions or deductions that result from the tax system.² In the executive summary below, we focus on these latter reconciliation items and describe differences between NIPA personal income and IRS AGI relative to a NIPA personal income that is less methodological adjustments (“adjusted NIPA personal income”). NIPA personal income is the broadest measure of economic income accruing to American households. Hence, a comparison of income reported to the IRS with NIPA personal income provides a measure how much income is not subject to tax because of exclusions and deductions.

Aggregate Exclusions and Deferrals

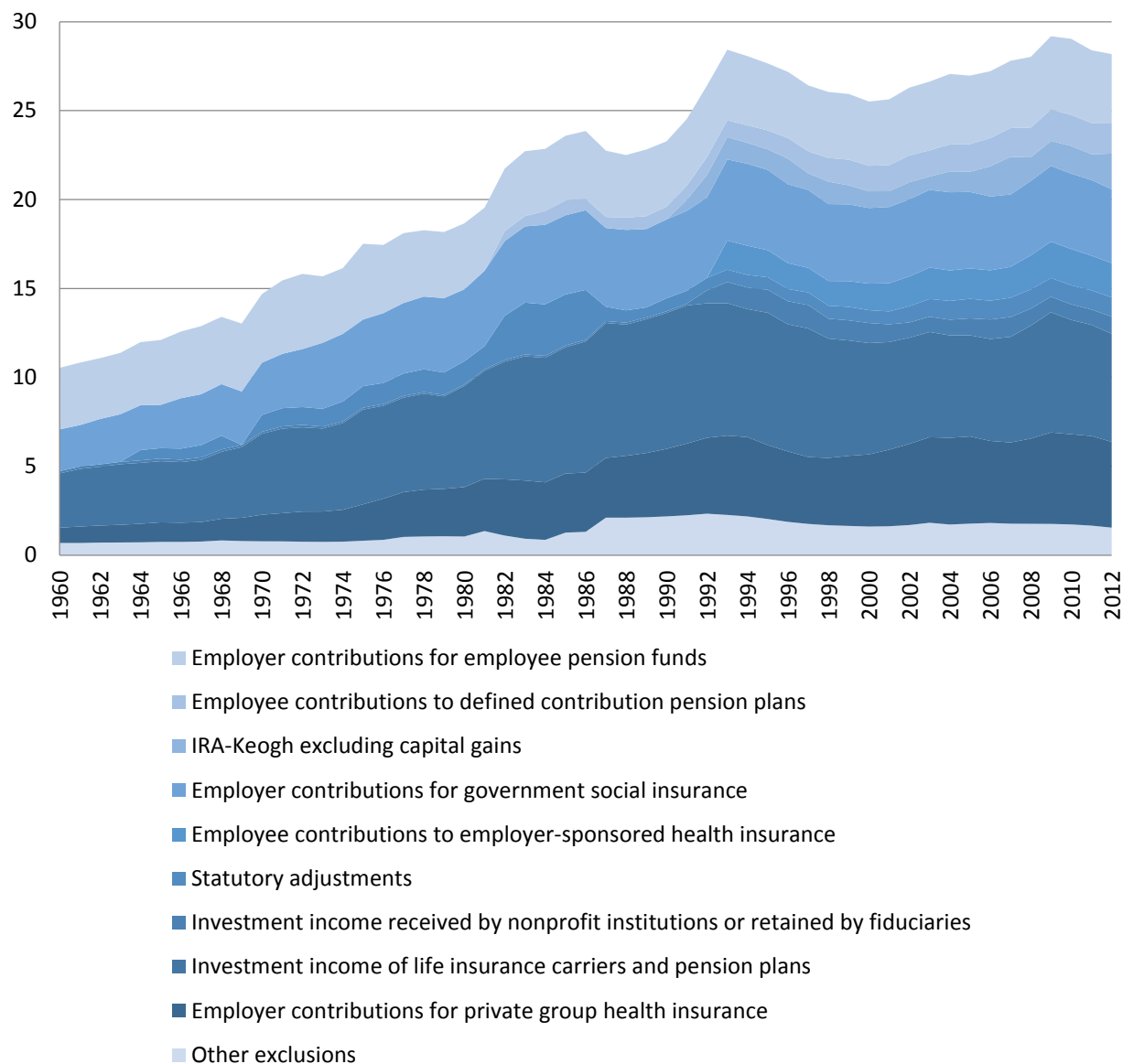
Aggregate IRS AGI equals 71.1 percent of adjusted NIPA personal income in 2012. IRS AGI is smaller than adjusted NIPA personal income because almost 39.1 percent of income earned in 2012 is excluded or deferred from tax. The narrowing of the tax base is offset in part because AGI includes certain types of income that are not included in NIPA personal income such as net gains from the sale of assets, employee and self-employed contributions for government social insurance, and taxable pensions. These additional AGI inclusions cumulatively equal 17 percent of adjusted NIPA income in 2012 but only 12 percent in 1993. Net gains from the sale of assets and taxable pensions are substantial contributors to this increase.

Nontaxable personal current transfer receipts (Medicare, Medicaid, non-taxable Social Security benefits, unemployment compensation, and other government social benefits to persons) represent the largest category of income excluded from tax. They equal 15.9 percent of adjusted NIPA personal income in 2012 and 13.3 percent in 1993. The investment income of insurance carriers and pension plans is the second largest category. The paper calculates a net market income as adjusted NIPA personal income less nontaxable personal current transfer receipts plus total contributions for government social insurance. The investment income of insurance carriers and pension plans and the investment income received by nonprofit institutions and retained by fiduciaries jointly equal 7 percent of this net market income in 2012. Employer contributions for insurance funds and employee-contributions to employer-sponsored health insurance account for another 7.4 percent of net market income.

Figure 1 illustrates how selected exclusions from IRS AGI have evolved since 1960 as a percent of net market income.

² A small residual gap between IRS AGI and our derivation of IRS AGI after taking all reconciliation items into account equals 3.7 percent of NIPA personal income less methodological differences in 2012.

Figure 1. Exclusions and Deferrals from IRS AGI as a Percent of Net Market Income



Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: IRS = Internal Revenue Service; AGI = adjusted gross income; IRA = Individual Retirement Account. Data from 1960 are not available for all exclusions shown in Figure 1, including employee contributions to employer-sponsored health insurance, the investment income received by nonprofit institutions or retained by fiduciaries, and the earnings excluding capital gains of IRA and Keogh plans.

- The increasing cost of employer contributions for insurance funds is among the largest contributors to the narrowing of the tax base. In Figure 1, employer contributions for private group health insurance rise from about 1.5 percent of net market income in 1970 to 2.8 percent in 1980, 3.8 percent in 1990, 4.1 percent in 2000, and 4.8 percent in 2012. At the same time, employer contributions for employee pension funds (defined benefit and defined contribution) have changed little, equaling 3.9 percent of net market income in 1970 and 2012.
- Employee contributions to defined contribution pension plans have expanded from 0.6 percent of net market income in 1987 to 1.7 percent in 2012.
- The investment income of life insurance carriers and pension plans increases as a percent of net market income through the early 1990s but generally trends down thereafter, equaling 7.8 percent of net market income in 1991 and 6.1 percent in 2012. This downward trend in part reflects the decline in personal income receipts on assets (personal interest income and personal dividend income combined) as share of adjusted NIPA personal income.
- Statutory adjustments are adjustments to total income that are allowed as deductions in the calculation of AGI.³ In 2012, they are 1.1 percent of net market income. They increase steadily from 1970 through 1986 but account for a smaller share of net market income thereafter.

Exclusions and Deferrals by Income Source

The fraction of income subject to tax varies substantially by source. In 2012, IRS salaries and wages are 73.4 percent of adjusted NIPA compensation of employees.⁴ In comparison, IRS taxable interest income and dividend income are 24.7 percent of adjusted NIPA personal income receipts on assets while IRS net income (less loss) of nonfarm proprietorships and partnerships is 48.5 percent of adjusted NIPA non-farm proprietors' income. Within the various categories of income, the amount of income excluded or deferred has generally increased over time.

Adjusted NIPA compensation of employees is by far the largest component of adjusted NIPA personal income, representing about 67.1 percent of all adjusted NIPA personal income in 2012. In 2012, just over 9.7 percent of adjusted NIPA compensation of employees is excluded from tax because it is paid as employer contributions for private group health insurance or as employee contributions to employer-sponsored health insurance. Employer contributions for employee insurance funds (including private group health insurance) are the single largest exclusion related to compensation of employees. An additional 10.6 percent of adjusted NIPA compensation of employees is deferred from tax through employee contributions to defined-contribution plans (e.g., 401k/403b/408k plans) and employer contributions for employee pension funds (defined benefit and defined contribution). Employer contributions for government social insurance,

³ In 2012, the largest statutory adjustments include the deductible part of the self-employment tax, contributions to self-employed retirement plans, and the self-employed health insurance deduction.

⁴ Adjusted NIPA compensation of employees is NIPA compensation of employees less methodological adjustments. Adjusted NIPA personal income receipts on assets are NIPA personal income receipts on assets less methodological adjustments. Adjusted NIPA nonfarm proprietors' income is NIPA nonfarm proprietors' income less methodological adjustments.

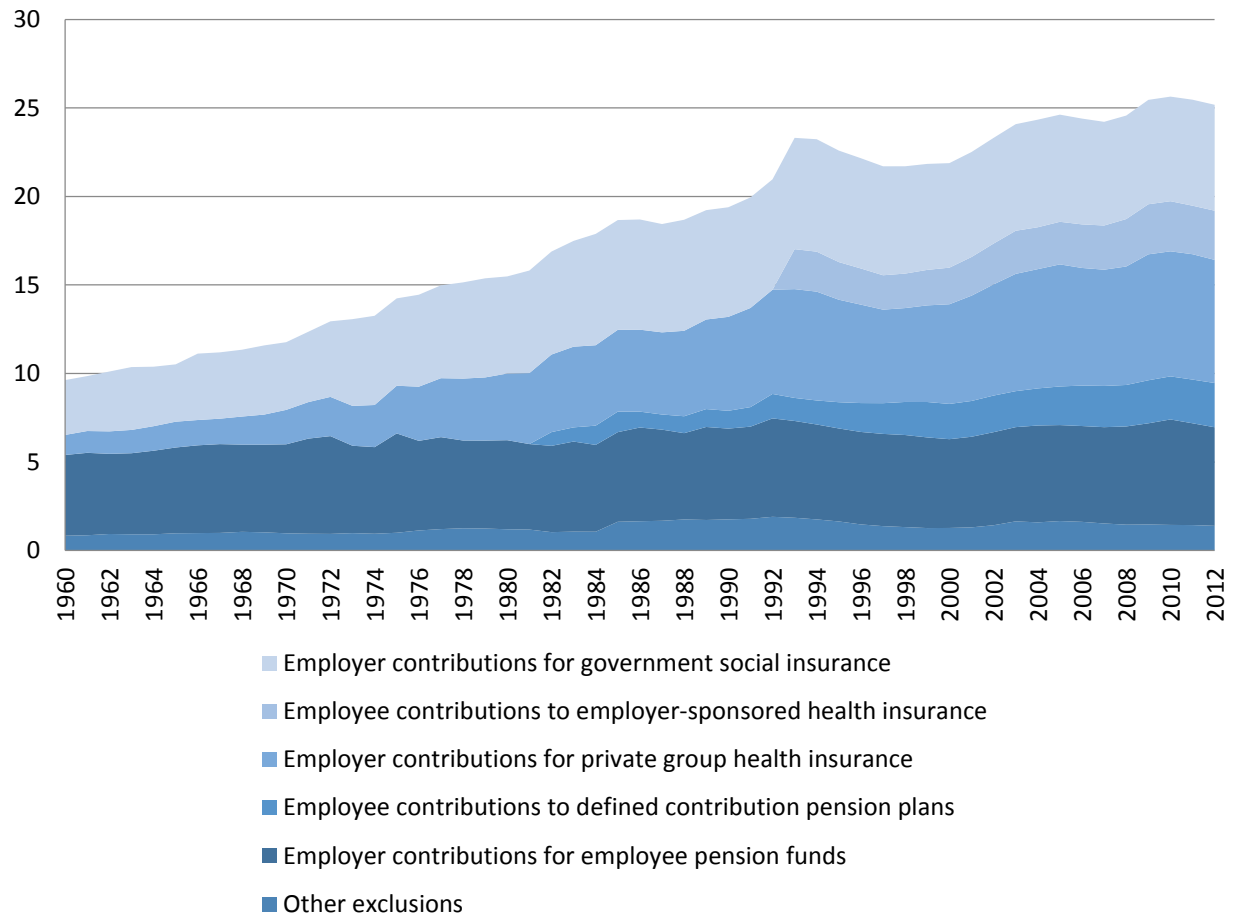
which are included in NIPA compensation of employees but excluded from IRS AGI, represent almost 6 percent of adjusted NIPA compensation of employees. Other exclusions, such as tax-exempt military pay, are small.

Figure 2 illustrates how selected exclusions from IRS salaries and wages have evolved over time. In 2012, 25.2 percent of adjusted NIPA compensation of employees is excluded or deferred from tax compared to 21.9 percent in 2000, 19.4 percent in 1990, 15.5 percent in 1980, and 11.8 percent in 1970. Employer contributions for private group health insurance contribute 5 percentage points to this 13.4-percentage-point increase in the share excluded or deferred from tax between 1970 and 2012. Employee contributions to defined contribution plans and employer contributions for government social insurance contribute 4.7 percentage points. Other exclusions, such as employer contributions to employee pension funds, change very little as a percent of adjusted NIPA compensation of employees.

Adjusted NIPA personal income receipts on assets are the second largest component of adjusted NIPA personal income, representing 11.8 percent of all adjusted NIPA personal income in 2012. In 2012, nearly 66.4 percent of adjusted NIPA personal income receipts on assets accrues as the investment income of life insurance carriers and pension plans or as the earnings, excluding capital gains, of Individual Retirement Accounts (IRA) and Keogh plans. An additional 4.7 percent is received in the form of tax-exempt interest and 6.3 percent as investment income received by nonprofit institutions or retained by fiduciaries.

Figure 3 illustrates how selected exclusions from IRS taxable interest income and dividend income have changed over time. In 2012, 77.4 percent of adjusted NIPA personal income receipts on assets is excluded or deferred from tax compared to 67.2 percent in 1993. The share of adjusted NIPA personal income receipts on assets accruing to IRA and Keogh plans has more than doubled, from 7.9 percent of adjusted NIPA personal income receipts on assets in 1993 to 16.5 percent in 2012. At the same time, the share of adjusted NIPA personal income receipts on assets accounted for collectively by tax-exempt interest, the investment income of life insurance carriers and pension plans, and the investment income received by nonprofit institutions and retained by fiduciaries has changed little, equaling 59.3 percent of adjusted NIPA personal income receipts on assets in 1993 and 61 percent in 2012.

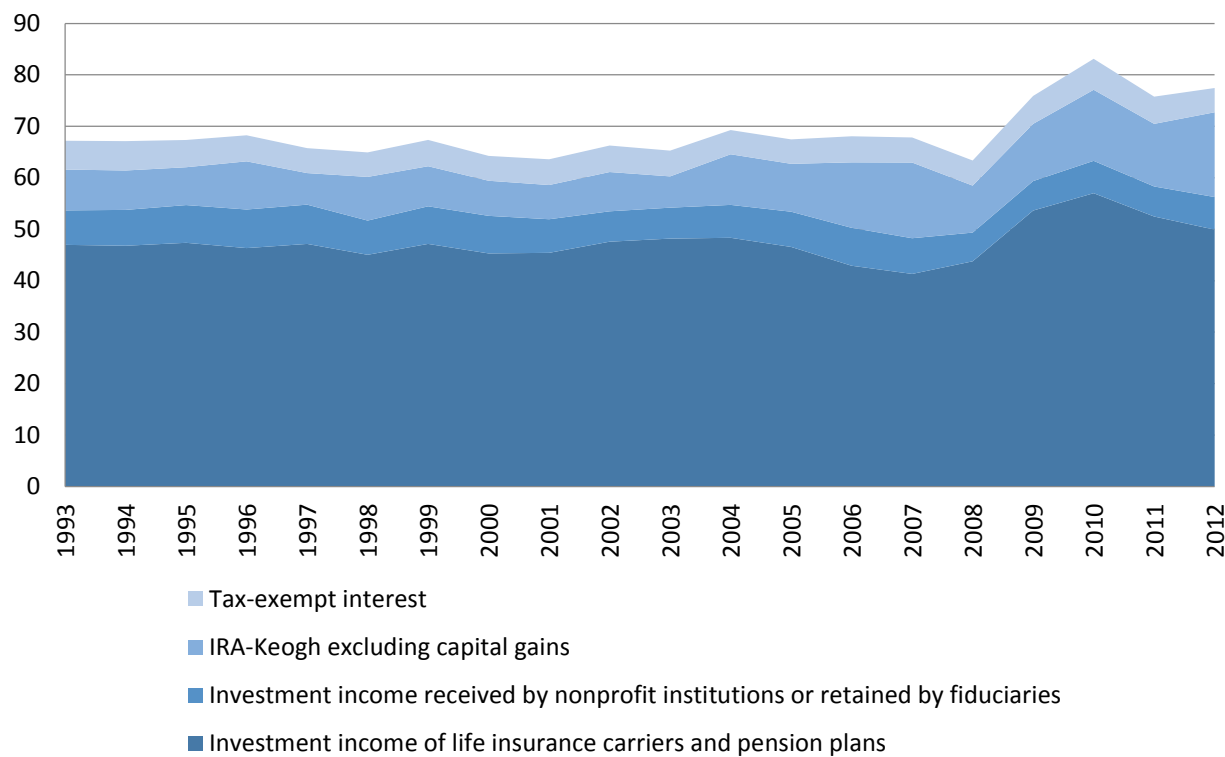
Figure 2. Exclusions and Deferrals from IRS Salaries and Wages as a Percent of Adjusted NIPA Compensation of Employees



Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: IRS = Internal Revenue Service; NIPA = National Income and Product Accounts.

Figure 3. Exclusions from IRS Taxable Interest Income and Dividend Income as a Percent of Adjusted NIPA Personal Income Receipts on Assets



Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: IRS = Internal Revenue Service; NIPA = National Income and Product Accounts.

Adjusted NIPA nonfarm proprietors' income is 8.3 percent of all adjusted NIPA personal income in 2012. IRS S-corporation income and net income (less loss) of nonfarm proprietorships and partnerships is 43.8 percent of S-corporation dividends in personal income and adjusted NIPA nonfarm proprietors' income in 2012, compared to 50.2 percent in 1993. Adjustments for misreporting on income tax returns represent the largest "exclusion", equaling 31.2 percent of S-corporation dividends in personal income and adjusted NIPA nonfarm proprietors' income in 2012 and 41.6 percent in 1993. Statutory adjustments associated with self-employment account for an additional 5 percent of S-corporation dividends in personal income and adjusted NIPA nonfarm proprietors' income in 1993 and 2012. An adjustment for differences in the BEA and IRS definitions of S-corporation income and partnership income account for 2.5 percent of S-corporation dividends in personal income and adjusted NIPA nonfarm proprietors' income in 1993 and 18.9 percent in 2012.

The Payroll Tax Base

For the payroll tax base with respect to the Medicare Part A Hospital Insurance (HI) program, the fractions of adjusted NIPA compensation of employees and adjusted NIPA nonfarm

proprietors' income that are subject to Federal Insurance Contribution Act (FICA) taxes and Self-Employment Contribution Act (SECA) taxes, respectively, have generally declined. Adjusted NIPA personal income subject to payroll taxes has also generally fallen. Since 1994, the FICA tax base (and the SECA tax base) for the Medicare Part A HI program has not been limited by a maximum taxable income level. Because the FICA tax base for the Old-Age, Survivors, and Disability (OASDI) trust fund is limited to maximum taxable earnings (\$118,500 in 2016), a smaller fraction of adjusted NIPA compensation of employees is subject to the OASDI payroll tax than is subject to the HI payroll tax. In 2012, OASDI taxable wage and salary earnings account for 62.7 percent of adjusted NIPA compensation of employees compared to 65.6 percent in 1994.

In contrast, HI taxable wage and salary earnings represent 77 percent of adjusted NIPA compensation of employees in 2012 compared to 77.2 percent in 1994. In 2012, employer contributions for private group health insurance and employee contributions to employer-sponsored health insurance are among the largest exclusions from FICA taxes, jointly accounting for 9.7 percent of adjusted NIPA compensation of employees. Employer contributions for employee pension funds account for another 5.6 percent of adjusted NIPA compensation of employees. Employer contributions for employee pension funds have changed little since 1994 as a share of adjusted NIPA compensation of employees. However, employer contributions for private group health insurance and employee contributions to employer-sponsored health insurance have increased by 1.3 percentage points of adjusted NIPA compensation of employees.

HI taxable self-employed earnings (nonfarm) are 46.4 percent of adjusted NIPA nonfarm proprietors' income in 2012 compared to 49.4 percent in 1994. The primary driver of this 3-percentage-point reduction is an increase in adjustments for misreporting on income tax returns as a percent of adjusted NIPA nonfarm proprietors' income. Changes in the composition of national income have also contributed to changes in HI taxable wage and salary earnings and HI taxable self-employed earnings. Adjusted NIPA compensation of employees has declined as a share of adjusted NIPA personal income, from 70.5 percent in 1994 to 67.1 percent in 2012. Adjusted NIPA nonfarm proprietors' income has increased as a share of adjusted NIPA personal income, from 7.5 percent in 1994 to 8.3 percent in 2012. Hence, a decreasing share of NIPA personal income is now attributable to compensation of employees and an increasing share to nonfarm proprietors' income, of which approximately half is not subject to tax. Consistent with this, HI taxable wage and salary earnings and HI taxable self-employed earnings have declined from 58.4 percent of adjusted NIPA personal income in 1994 to 55.6 percent in 2012.

I. Introduction

How large are tax expenditures? Tax expenditures are revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability. Tax expenditures are often scrutinized in tax reform efforts and their size and growth are often used as motivation for tax reform.

On an annual basis, both the Joint Committee on Taxation (JCT) and the U.S. Treasury Department provide estimates of individual tax expenditures. However, this list is not comprehensive, and producing consistent estimates of how tax expenditures change over time using these estimates is difficult. This is because the value of tax expenditures arises from many sources, including tax rate changes and credits. Moreover, tax expenditures are not additive making the aggregate of a list of tax expenditures misleading.

This paper presents alternative measures of the largest source of tax expenditures: those arising from exclusions and similar provisions that narrow the tax base. We provide an alternative approach to analyzing the size of exclusions by reconciling National Income and Product Accounts (NIPA) personal income with Internal Revenue Service (IRS) adjusted gross income (AGI). The reconciliation items that we identify account for much of the difference between NIPA personal income and IRS AGI, resulting in a ‘derived’ AGI that closely approximates IRS AGI. Among the reconciliation items that we subtract from NIPA personal income to obtain our derived measure of IRS AGI are various components of personal income that are excluded or deferred from tax. By using this ‘reconciliation method’ to assess such exclusions and deferrals rather than the ‘accretive’ method used by JCT and Treasury (which measures them one by one), we provide a more comprehensive estimate of their size. In addition, because of the longer time horizon over which consistent NIPA personal income and IRS AGI data are available, we can assess how exclusions and deferrals from tax have changed over time.

Between 1993 and 2012, our derived measure of IRS AGI accounts for an average of 75.1 percent of NIPA personal income less methodological adjustments. Not all of NIPA personal income appears on an IRS Form 1040 because some components of NIPA personal income are nontaxable and thus excluded from IRS AGI while taxation of other components (e.g., employee contributions to private defined contribution plans) is deferred. Misreporting further reduces how much of NIPA personal income is included in IRS AGI. Offsetting this, some components of IRS AGI are not part of NIPA personal income. The methodological adjustments that we subtract from NIPA personal income include imputed income in personal income and differences between NIPA accounting and income tax accounting (e.g., because of differences in the valuation of inventories and depreciation) for the income included in NIPA personal income and IRS AGI. They are subtracted so that exclusions and deferrals can be compared to a baseline that focuses on tax-related issues.

We find that exclusions and similar provisions that narrow the tax base have generally become larger over time. Between 1993 and 2012, the portion of NIPA personal income that is excluded or deferred from tax has increased, from 36.4 percent of NIPA personal income less

methodological adjustments in 1993 to 39.1 percent in 2012. It was highest in 2010 at 40.4 percent of NIPA personal income less methodological adjustments. At the same time, our derived measure of IRS AGI has fluctuated, equaling 72.2 percent of NIPA personal income less methodological adjustments in 1993 and 73.8 percent in 2012. This is because the portion of AGI that is not part of NIPA personal income (e.g., employee and self-employed contributions for government social insurance, net gains from the sale of assets, taxable pensions) has generally increased as a share of NIPA personal income less methodological adjustments, from 12.0 percent in 1993 to 17.0 percent in 2012. Consistent with this, the difference between our derived measure of IRS AGI and the portion of AGI that is not part of NIPA personal income has fallen from 60.2 percent of NIPA personal income less methodological adjustments in 1993 to 56.8 percent in 2012.

The remainder of this paper proceeds as follows: Section II broadly summarizes the reconciliation of NIPA personal income and IRS AGI. Section III describes in detail the line items comprising the individual reconciliation tables that we combine to produce the summary reconciliation data presented in Section II. These individual tables reconcile different types of NIPA personal income to their counterparts in IRS AGI. Section III also considers how the individual reconciliations tables for NIPA compensation of employees, NIPA nonfarm proprietors' income, and NIPA personal income receipts on assets can be reorganized to answer questions about how the share of income subject to tax has changed over time.⁵

Section IV uses the reconciliation data from Section III to categorize more broadly components of NIPA compensation of employees, NIPA government and business transfer payments, NIPA proprietors' income, NIPA rental income, and NIPA personal income receipts on assets as taxed components, untaxed components, deferred components, and methodological adjustments. It then considers trends in these four categories from 1993 to 2012 to identify whether the untaxed, deferred, and methodological categories grow over time as a share of NIPA personal income. In general, we find no large changes in the taxed components, untaxed components, deferred components, and methodological adjustments as a percent of NIPA personal income.

Section V considers the implications of the reconciliation data for the payroll tax base. It reconciles NIPA compensation of employees to taxable wage and salary earnings for the Medicare Part A Hospital Insurance (HI) program and NIPA nonfarm proprietors' income to nonfarm taxable self-employed earnings for the Medicare Part A HI program. Appendix A to the paper presents reconciliations of NIPA compensation of employees to IRS salaries and wages and NIPA nonfarm proprietors' income to IRS net income (less loss) of business and professions (nonfarm proprietorships) and partnerships that extend back to 1960.

II. Overview of the Reconciliation of NIPA Personal Income and IRS AGI

Our starting point is the reconciliation of NIPA personal income and IRS AGI published by the

⁵ Individual reconciliation tables are reorganized if the reconciliation accounts for a substantial portion of the difference between the type of NIPA personal income in question and its equivalent in IRS AGI.

U.S. Bureau of Economic Analysis (BEA) until 2009.⁶ This reconciliation is useful for understanding how BEA derives NIPA personal income from source data. It is also valuable for revealing how taxable income, which is determined by tax concepts, tax incentives, and tax administration practicalities, compares to the more theoretical notion of “economic income,” which NIPA personal income attempts to capture.

The reconciliation starts with the broadest measure of income accruing to households—NIPA personal income—and subtracts out those portions of personal income not included in AGI (e.g., nontaxable personal current transfer receipts) and adds in portions of AGI not included in personal income (e.g., net gains from the sale of assets) to arrive at a ‘BEA-derived’ AGI.⁷ The reconciliation is done by type of income—compensation of employees, nonfarm and farm proprietors’ income, rental income, personal income receipts on assets (personal interest income and personal dividend income), other personal income not included in AGI (nontaxable government and business transfers, nontaxable employer contributions to pension and insurance funds), and other income included in AGI but not NIPA personal income (employee and self-employed contributions to social insurance or payroll taxes, net capital gains from the sale of assets, taxable pensions, and certain other types of AGI).

BEA attributed the residual gap between BEA-derived AGI and IRS AGI to several sources, including the unavailability of source data (e.g., for income earned by individuals not required to file federal income tax returns as well as for the underreported income of federal income tax return filers), errors in the source data used for NIPA personal income and in the IRS measure of AGI (because estimates are based on a probability sample), and errors in the calculation of the reconciliation items.⁸ In 2004 and 2005 (the last years for which BEA published reconciliation

⁶ The BEA reconciliation of NIPA personal income and IRS AGI was published as NIPA Table 7.19. See the NIPA tables published at the time of the preliminary 2009, Q1 gross domestic product news release (at <http://www.bea.gov/histdata/histChildLevels.cfm?HMI=7>) for the last published NIPA Table 7.19. See Mark Ledbetter (2007), “Comparison of BEA Estimates of Personal Income and IRS Estimates of Adjusted Gross Income,” *Survey of Current Business*, November, pp. 35-41, available at http://www.bea.gov/scb/pdf/2007/11%20November/1107_pi_agi.pdf, for the last published *Survey of Current Business* article discussing NIPA Table 7.19.

⁷ The reconciliation also included an intercomponent reallocation. The intercomponent reallocation ensured that BEA-derived AGI was comparable to IRS AGI for certain income types. Thus, the intercomponent reallocation included a reallocation of disability pensions taxed as wages from taxable pensions to wages and salaries and a reallocation of regulated investment company (RIC) interest to dividends from personal interest income to personal dividend income. We do not consider the intercomponent reallocation here because we are primarily interested in the aggregate reconciliation of NIPA personal income to IRS AGI. In aggregate, items included in the intercomponent reallocation sum to zero. Because we do not consider the intercomponent reallocation, we reconcile NIPA personal income receipts on assets to IRS taxable interest income and dividend income rather than showing separate reconciliations of NIPA personal interest income to IRS taxable interest income and NIPA personal dividend income to IRS dividend income.

⁸ For a discussion of the AGI gap, see Thae S. Park (1996), “Relationship between Personal Income and Adjusted Gross Income,” *Survey of Current Business*, May, pp. 78-92, available at <http://www.bea.gov/scb/pdf/national/niparel/1996/0596gd.pdf>. Also see Mark Ledbetter (2004), “Comparison of BEA Estimates of Personal Income and IRS Estimates of Adjusted Gross Income,” *Survey of Current Business*, April, pp. 8-22, available at <http://www.bea.gov/scb/pdf/2004/04April/0404PI&AG.pdf>.

data), the gap between BEA-derived AGI and IRS AGI was between 8 percent and 9 percent of BEA-derived AGI.⁹

We recreate and update BEA's reconciliation of NIPA personal income and IRS AGI for 1993 through 2012 (see Table 1).¹⁰ Our reconciliation accounts for much of the difference between NIPA personal income and IRS AGI. For example, the gap between our measure of BEA-derived AGI and IRS AGI averages 4.3 percent of BEA-derived AGI over the 20-year period.¹¹ It is smallest in 2010 at 2.1 percent of BEA-derived AGI. In Table 1, other personal income exempt or excluded from AGI includes statutory adjustments. Statutory adjustments (line 23 through line 36 on IRS Form 1040) are adjustments to total income that are allowed as deductions in the calculation of AGI. In 2012, they include the health savings account deduction, moving expenses, one half of the self-employment tax, contributions to self-employed retirement plans, the self-employed health insurance deduction, alimony payments, Individual Retirement Account (IRA) deductions, student loan interest, the tuition and fees deduction, the domestic production activities deduction, and other adjustments (see Table 1A).¹² Between 1993 and 2012, contributions to self-employed retirement plans and IRA deductions fell from 45.6 percent of total statutory adjustments to 24.4 percent of total statutory adjustments. At the same time, the self-employed health insurance deduction generally rose from 5.7 percent of total statutory adjustments to 19.2 percent of total statutory adjustments.

Rearranging Table 1 allows us to characterize how much of NIPA personal income is included in the income tax base (see Table 1B). Between 1993 and 2012, BEA-derived AGI is on average 75.1 percent of NIPA personal income less methodological adjustments. Some components of NIPA personal income are nontaxable and thus excluded from IRS AGI while taxation of other components (e.g., employee contributions to private defined contribution plans) is deferred. An adjustment for misreporting on income tax returns further reduces how much of NIPA personal income is included in IRS AGI. Offsetting this, some components of IRS AGI are not part of NIPA personal income (e.g., employee and self-employed contributions to social insurance, net gains from the sale of assets, taxable pensions). The methodological adjustments include differences between NIPA accounting and income tax accounting (e.g., because of differences in

⁹ See Table 1 and Table 2 in Ledbetter (2007). The gap reported by BEA included a misreporting adjustment in personal income. Without the misreporting adjustment, the gap between BEA-derived AGI and IRS AGI was between 14 percent and 15 percent of BEA-derived AGI in 2004 and 2005.

¹⁰ With the exception of employee contributions to employer-sponsored health insurance, we have complete data for all reconciliation items in Table 1 from 1993. Appendix A presents a reconciliation of NIPA compensation of employees and NIPA nonfarm proprietors' income to their IRS AGI equivalents from 1960. We have complete data for most reconciliation items in the Appendix A tables, with the exception of employee contributions to employer-sponsored health insurance and a few other small reconciliation items.

¹¹ IRS AGI in Table 1 can be found in Table 1.4 of Statistics of Income, *Individual Income Tax Returns Publication 1304 (Complete Report)*, available at [http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-\(Complete-Report\)](http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-(Complete-Report)). NIPA personal income in Table 1 can be found in line 1 of NIPA Table 2.1 at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 28, 2014 revision of NIPA Table 2.1.

¹² See Table 1.4 in Statistics of Income, *Individual Income Tax Returns Publication 1304 (Complete Report)*, available at [http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-\(Complete-Report\)#_sec4](http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-(Complete-Report)#_sec4). Table 1A shows selected components of statutory adjustments over the 20-year period we consider. In 2012, the selected components account for over 98 percent or more of the total statutory adjustments.

the valuation of inventories and depreciation) for the income included in NIPA personal income and IRS AGI. They also include BEA imputed income in personal income. For NIPA personal income receipts on assets, imputed income in personal income includes imputed income from depositor services furnished to persons without payment. For NIPA rental income, imputed income in personal income includes imputed rental income from owner-occupied housing (net of subsidies). Such imputed income in personal income is not included in IRS AGI. We also do not include it in the baseline to which we compare the components of personal income that are excluded or deferred from tax.

Table 1B presents the sources of differences between NIPA personal income and a measure of the personal income tax base (‘BEA-derived current-income AGI’ in Table 1B) that is the difference between BEA-derived AGI and the portion of AGI not included in personal income. BEA-derived current-income AGI has declined from 60.2 percent of NIPA personal income less methodological adjustments in 1993 to 56.8 percent in 2012 (see Panel B of Figure 1). Concomitantly, the portion of NIPA personal income that is excluded from IRS AGI or deferred has generally increased, from 36.4 percent of NIPA personal income less methodological adjustments in 1993 to 39.1 percent in 2012 (see Panel A of Figure 1). BEA-derived AGI has generally fluctuated as a percent of NIPA personal income less methodological adjustments, equaling 72.2 percent in 1993 and 73.8 percent in 2012 (see Panel D of Figure 1). This is because the portion of IRS AGI that is not part of NIPA personal income has fluctuated but generally risen as a percent of NIPA personal income less methodological adjustments, from 12.0 percent in 1993 to 17.0 percent in 2012 (see Panel C of Figure 1). This rise in the portion of IRS AGI that is not part of NIPA personal income is attributable to increases in net gains from the sale of assets, taxable pensions, and S-corporation income. Section III of the paper provides a detailed decomposition of the sources of these differences by type of income.

Table 1C offers an alternative reorganization of Table 1. Table 1C derives a “net market income” by first subtracting from NIPA personal income less (select) methodological adjustments nontaxable personal current transfer receipts and then adding to the difference total contributions for government social insurance. It includes a separate category for business income adjustments. These business income adjustments incorporate an adjustment for misreporting on income tax returns, an adjustment for Non-schedule E partnership income, and an adjustment for S-corporation income.¹³ In Table 1C, BEA-derived AGI increases from 74.7 percent of net market income in 1993 to 76.4 percent in 2012, a 1.7 percentage point increase that is comparable in magnitude to the 1.6 percentage point increase in BEA-derived AGI as a share of NIPA personal income less methodological adjustments in Table 1B. However, in Table 1C, the business income adjustments rise from 3.8 percent of net market income in 1993 to 6.9 percent in 2012. At the same time, the components of personal income excluded or deferred from tax change little as a percent of net market income, equaling 28.4 percent in 1993 and 28.2 percent in 2012. This is because in Table 1B nontaxable personal current transfer receipts account for 2.6 percentage

¹³ The adjustment for S-corporation income is the difference between S-corporation dividends in personal income and S-corporation income. S-corporation dividends in personal income, S-corporation income, and Non-schedule E partnership income are discussed in greater detail in Section III.

points of the overall 2.7 percentage point increase in the components of personal income excluded or deferred as a share of NIPA personal income less methodological adjustments.

Decomposing 2012 BEA-derived current-income AGI by source—compensation of employees, proprietors' income (nonfarm and farm), rental income, personal income receipts on assets (interest income and dividend income), taxable unemployment compensation and Social Security benefits, other personal income not in AGI, and AGI not in personal income—shows how much of each element of NIPA personal income is included in the tax base (see Table 1D and Table B1 in Appendix B).¹⁴ For instance, in 2012, about 80.8 percent of NIPA compensation of employees less methodological adjustments is included in BEA-derived current-income AGI and thus included in the tax base (compensation of employees in Table 1D). Excluded forms of compensation, such as employer contributions to insurance funds and employee contributions to employer-provided health insurance, and deferred compensation, such as employer contributions for employee pension funds, account for much of the difference. Employer contributions for government social insurance, which are a portion of AGI not included in personal income, reduce BEA-derived salaries and wages as a percent of NIPA compensation of employees less methodological adjustments, but to only about 75.5 percent.¹⁵

Table 1D demonstrates that a much greater fraction of compensation of employees is included in the tax base than some other types of income. For example, BEA-derived current-income net income (less loss) of nonfarm and farm proprietorships and partnerships (proprietors' income in Table 1D) is 52.0 percent of NIPA proprietors' income less methodological adjustments. It is only roughly half of NIPA proprietors' income less methodological adjustments because of adjustments for misreporting on income tax returns.

Similarly, BEA-derived current-income taxable interest and dividend income (personal income receipts on assets in Table 1D) is only 22.6 percent of NIPA personal income receipts on assets less methodological adjustments. It is about one-fifth of NIPA personal income receipts on assets in large part because the investment income of life insurance carriers and pension plans, the investment income received by nonprofit institutions or retained by fiduciaries, and tax exempt interest (primarily from state and local bonds) are excluded from tax. Overall, these three components of personal income that are excluded or deferred from tax are 61.0 percent of NIPA personal income receipts on assets less methodological adjustments. Another 16.5 percent of NIPA personal income receipts on assets less methodological adjustments are accounted for by the earnings, excluding capital gains, of Individual Retirement Accounts (IRA) and Keogh plans.

¹⁴ Other personal income not in AGI includes nontaxable personal current transfer receipts (government and business), statutory adjustments, and total contributions for government social insurance. AGI not in personal income includes net gains from the sale of assets, taxable pensions, S-corporation income, and other types of income. Table B1 in Appendix B provides a more detailed decomposition of 2012 BEA-derived current-income AGI by source.

¹⁵ In Table 1D, adding the negative of employer contributions for government social insurance (-\$513.9 billion under compensation of employees) to total contributions for government social insurance (\$951.2 billion under other personal income not in AGI) gives employee and self-employed contributions for government social insurance of \$437.3 (under total).

Finally, how much of NIPA personal income is included in the tax base and the composition of NIPA personal income and BEA-derived AGI has changed over time. Table 1E summarizes the decomposition of NIPA personal income less methodological adjustments and BEA-derived AGI by source in Table 1D for 1993, 1997, 2001, 2005, 2009, and 2012. The “other” category in Table 1E is the sum of taxable unemployment compensation and social security, other personal income not in AGI, and AGI not in personal income in Table 1D. Other personal income not in AGI includes nontaxable personal current transfer receipts (government and business), statutory adjustments, and total (employer and employee) contributions for government social insurance. AGI not in personal income includes net gains from the sale of assets, taxable pensions, S-corporation income, and other types of income.

Between 1993 and 2012, compensation of employees has generally declined as a share of total NIPA personal income less methodological adjustments, from 70.1 percent in 1993 to 67.1 percent in 2012. BEA-derived salaries and wages have similarly fallen as a share of total BEA-derived AGI, from 75.0 percent in 1993 to 68.7 percent in 2012. At the same time, nonfarm proprietors’ income has risen as a share of total NIPA personal income less methodological adjustments, from 7.1 percent in 1993 to 8.3 percent in 2012. BEA-derived net income (less loss) of nonfarm proprietorships and partnerships has climbed from 5.0 percent of total BEA-derived AGI in 1993 to 5.6 percent in 2012. Looking at BEA-derived AGI by income source as a share of NIPA personal income less methodological adjustments by income source, both BEA-derived salaries and wages and BEA-derived net income (less loss) of nonfarm proprietorships and partnerships have slipped as a share of NIPA personal income less methodological adjustments over the last 20 years.

III. Detailed Reconciliation Analysis

Our reconciliation of NIPA personal income and IRS AGI is done by type of income. Table 1 in Section II is a summation of these individual reconciliations (Table 2 through Table 7, Table 8A and Table 8B, Table 9A and 9B) by type of income.

Compensation of Employees¹⁶

NIPA compensation of employees includes wage and salary disbursements and supplements to wages and salaries, specifically employer contributions for employee pension and insurance funds and employer contributions for government social insurance (see Table 2A). Employer contributions for pension and insurance funds, which include private pension plans and private group health insurance, and employer contributions for government social insurance (‘payroll tax adjustment’ in Table 2) are nontaxable and, thus, excluded from AGI. Table 2 removes the full value of these components of personal income so that their BEA-derived AGI is implicitly zero.

The reconciliation of NIPA compensation of employees to IRS salaries and wages consists of five primary reconciliation items related to wage and salary disbursements (see Table 2).¹⁷ The

¹⁶ Appendix A presents a reconciliation of NIPA compensation of employees to IRS salaries and wages that extends back to 1960. Table 2 presents a reconciliation that extends from 1993.

¹⁷ Table 1 in Robert L. Brown, et al. (2006), “The Feasibility of Producing Personal Income to Adjusted Gross Income (PI-AGI) Reconciliations by State,” Bureau of Economic Analysis (BEA) Working Paper WP2006-05,

portion of personal income not included in AGI includes imputed income in personal income from NIPA Table 7.12, specifically food furnished to employees, standard clothing issued to military personnel, and employees' lodging (see Table 2B).¹⁸ It also includes other personal income that is exempt or excluded from AGI.¹⁹ Among these other types of personal income are tax-exempt military pay and employee nontaxable contributions to the federal government's Thrift Savings Plan (TSP) and to private defined contribution (401k/403b/408k) plans.²⁰ The portion of AGI not included in personal income includes (under "other types of income") the sum of supplemental unemployment insurance benefits (from NIPA Table 6.11C and NIPA Table 6.11D) and foreign-earned income of U.S. citizens living abroad for more than one year.²¹

Tax-exempt military pay is calculated using three sources, U.S. General Accountability Office (GAO) studies of military compensation, the Defense Department's Quadrennial Review of Military Compensation (QRMC), and budget materials from the Office of the Under Secretary of Defense (Comptroller). All three sources provide data on the components of total cash compensation, including basic pay, housing allowances, subsistence allowances, and other allowances, for selected years.²² We arrive at an imputed value for tax-exempt military pay by multiplying NIPA military wages and salaries (from NIPA Table 6.3C and NIPA Table 6.3D) by the ratio of housing, subsistence, and other allowances to total cash military compensation from the GAO/QRMC data and the Comptroller data.²³ For the years for which GAO/QRMC data are

January, available at <https://www.bea.gov/papers/pdf/PI-AGI.pdf>, details the line items comprising the reconciliation of NIPA wage and salary disbursements with IRS salaries and wages.

¹⁸ See line 203 through line 205 in NIPA Table 7.12 at

<http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 6, 2014 revision of NIPA Table 7.12.

¹⁹ Brown, et al. (2006) include nontaxable mass transit benefits under other personal income exempt or excluded from AGI. They indicate that BEA used national estimates of the federal government's transit subsidy (from the Department of Transportation). For 2000, the tax-exempt mass transit benefit line item amounted to less than \$50 million (see Table 1 in Brown, et al. (2006)). We do not include an equivalent reconciliation line item in Table 1.

²⁰ For 1993 to 2009, data on employee nontaxable contributions to TSP are taken from the Employee Benefit Research Institute (EBRI) Databook, Table 18.2a through Table 18.2c, available at

<http://www.ebri.org/publications/books/?fa=databook>. For 2010 to 2012, they are taken from Financial Statements of Thrift Savings Fund, available at <http://www.frtib.gov/ReadingRoom/FinStmnts/TSP-FS-Dec2010.pdf>,

<http://www.frtib.gov/ReadingRoom/FinStmnts/TSP-FS-Dec2012.pdf>, and

<https://www.tsp.gov/PDF/formspubs/financial-stmt.pdf>. For 1993 to 2012, data on employee nontaxable contributions to private defined contribution plans are taken from Table A4 of U.S. Department of Labor, Private Pension Plan Bulletins Abstract of Form 5500 Annual Reports, available at

<https://www.dol.gov/agencies/ebsa/researchers/statistics/retirement-bulletins/private-pension-plan>. For 1984 to 1992, employee nontaxable contributions to private defined contribution plans are based on tax expenditure data.

²¹ See line 42 in NIPA Table 6.11C and line 44 in NIPA Table 6.11D at

<http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1> for data on supplemental unemployment insurance benefits. We used the August 5, 2014 revision of NIPA Table 6.11C and NIPA Table 6.11D. Ledbetter (2004) and Brown et al. (2006) indicate that "other types of income" include supplemental unemployment insurance benefits and the income of U.S. citizens living abroad for more than one year. The foreign-earned income of U.S. citizens living abroad consists mainly, but not exclusively, of wages and salaries. In Table 2, we include all foreign earned income, net of self-employment income reported on IRS Form 2555, as a reconciliation item for NIPA compensation of employees.

²² Ledbetter (2004) indicates that tax-exempt military pay should also include bonuses and special allowances for military personnel in combat zones. Such bonuses and allowances are omitted from our calculations.

²³ See line 80 of NIPA Table 6.3C and line 90 of NIPA Table 6.3D at

<http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 2014

missing and Comptroller data are unavailable (1986 through 1989), we interpolate to obtain ratios of allowances to total cash military compensation. GAO/QRMC data are available for 1985, 1990 through 1997, 2000, 2004, 2006, and 2010.²⁴ Comptroller data are available for every year between 1997 and 2012.²⁵

The total foreign-earned income of U.S. citizens living abroad is calculated using data from the Statistics of Income (SOI). SOI provides data on total (from IRS Form 2555 and IRS Form 2555EZ) foreign-earned income for 1996, 2001, 2006, and 2011; it provides data on foreign-earned income on IRS Form 2555 for 1991, 1996, 2001, 2006, and 2011.²⁶ Foreign-earned income on IRS Form 2555 includes wages and salaries, allowances, noncash income less excludable meals and lodging, self-employment income (business and professional income (less losses) and partnership income (less losses)), and other foreign income. Values for total foreign-earned income in the intervening years are obtained by growing total foreign-earned income at the same rate as total wages, salaries, bonuses, commissions, etc. reported on line 19 of Form 2555. Values for total wages, salaries, bonuses, commissions, etc. are available from the Individual Statistics of Income Complete Report File for 1995 through 2012. Values for 1991 through 1994 are obtained by backcasting total wages, salaries, bonuses, commissions, etc. using data on the foreign-earned income exclusion and a time trend.²⁷ Table 2 gives total foreign-

revisions of NIPA Table 6.3C and NIPA 6.3D. Wages and salaries in NIPA Table 6.3 include monetary remuneration of the military and in-kind compensation such as housing allowances. See BEA Frequently Asked Questions, “What is included in federal government employee compensation?”, available at http://www.bea.gov/faq/index.cfm?faq_id=553.

²⁴ For fiscal year (FY) 2010 data, see Figure 2-1 (p. 17) of the U.S. Department of Defense (2012), *Report of the Eleventh Quadrennial Review of Military Compensation: Main Report*, June, available at <http://militarypay.defense.gov/References/QRMC/>. For FY 2006 data, see Table 3 (p. 41) of U.S. General Accountability Office (2007), *Military Personnel: DOD Needs to Establish a Strategy and Improve Transparency over Reserve and National Guard Compensation to Manage Significant Growth in Cost*, June, GAO-07-828, available at <http://www.gao.gov/products/GAO-07-828>. For FY year 2004 and FY 2000, see Table 2 (p. 19) of U.S. Government Accountability Office (2005), *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of its Military Compensation System*, July, GAO-05-798, available at <http://www.gao.gov/new.items/d05798.pdf>. For FY 1990 through FY 1997, see Appendix I and Appendix II (pp. 19-29) of U.S. General Accounting Office (1996), *Defense Budget: Trends in Active Personnel Compensation Accounts for 1990-97*, July, GAO/NSIAD-96-183, available at <http://www.gao.gov/products/NSIAD-96-183>. For FY 1985, see Appendix IV (pp. 33-40) of U.S. General Accounting Office (1986), *Military Compensation: Comparisons with Civilian Compensation and Related Issues*, June, NSIAD-86-131BR, available at <http://www.gao.gov/assets/80/75436.pdf>.

²⁵ Budget materials from the Under Secretary of Defense (Comptroller) are available at <http://comptroller.defense.gov/BudgetMaterials.aspx>. Select the files associated with “Military Personnel Programs (M-1)” for FY 1999 through FY 2016.

²⁶ See Table 1 (Individual Income Tax Returns with Form 2555: Source of Income, Deduction, Tax Items, and Foreign-earned Income and Exclusions) from Statistics of Income, SOI Tax Stats-Individual Foreign Earned Income/Foreign Tax Credit, available at <http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Foreign-Earned-Income-Foreign-Tax-Credit>. We obtain an estimate of total foreign-earned income for 1991 by grossing up 1991 foreign-earned income on Form 2555 only by one minus the 1996 ratio of Form 2555EZ foreign-earned income to total foreign-earned income.

²⁷ Data on the foreign-earned income exclusion is available from Table 1.4 in Statistics of Income, *Individual Income Tax Returns Publication 1304 (Complete Report)*, available at [http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-\(Complete-Report\)#_sec4](http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-(Complete-Report)#_sec4).

earned income of U.S. citizens living abroad minus self-employment income on Form 2555. Table 3 gives self-employment income on Form 2555.²⁸

For the years between 1993 and 2012, the difference between our measure of BEA-derived salaries and wages and IRS salaries and wages ranges from a minimum of 1.7 percent of BEA-derived salaries and wages in 1993 to a maximum of 4.2 percent of BEA-derived salaries and wages in 2003.²⁹ It averages 2.9 percent of BEA-derived salaries and wages. Excluding data on employee contributions to employer-sponsored health insurance, which are not among the reconciliation items included in the discontinued NIPA Table 7.19, increases the discrepancy. But the average difference between our measure of BEA-derived salaries and wages and IRS salaries and wages is still less than 6 percent of BEA-derived salaries and wages over the 20-year period.

Data on employee contributions to employer-sponsored health insurance for 2004 to 2013 are from a special tabulation done by the Office of the Actuary in the Center for Medicare and Medicaid Services, the group that creates the National Health Expenditure Accounts.³⁰ We backcast to 1993 total (employer and employee) premiums for employer-sponsored health insurance from this special tabulation using NIPA data on employer contributions to private group health insurance.³¹ We then use data from the special tabulation to calculate the ratio of employee contributions to total premiums for employer-sponsored health insurance from 2004 to 2012. We apply the 2004 ratio to our backcast total contributions for 1993 through 2003. A 2014 Kaiser Family Foundation survey of employer health benefits gives average percentages of premiums for employer-sponsored health insurance paid by workers for single coverage and family coverage from 1999 to 2014.³² The overall levels of the average percentages from the Kaiser Family Foundation survey are roughly comparable to ratios calculated using data from the special tabulation. Using the Kaiser Family Foundation survey data, the weighted average of the

²⁸ Table 1 (Individual Income Tax Returns with Form 2555: Source of Income, Deduction, Tax Items, and Foreign-earned Income and Exclusions) from Statistics of Income, SOI Tax Stats-Individual Foreign Earned Income/Foreign Tax Credit, available at <http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Foreign-Earned-Income-Foreign-Tax-Credit>, provides data on business and professional income (less losses) and partnership income (less losses) on IRS Form 2555 for 1991, 1996, 2001, 2006, and 2011. Values for the intervening years are obtained using a linear interpolation.

²⁹ IRS salaries and wages in Table 2 can be found in Table 1.4 of Statistics of Income, *Individual Income Tax Returns Publication 1304 (Complete Report)*, available at [http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-\(Complete-Report\)](http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-(Complete-Report)). NIPA wage and salary disbursements in Table 2 can be found in line 3 of NIPA Table 2.1 at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 28, 2014 revision of NIPA Table 2.1.

³⁰ National Health Expenditure (NHE) Accounts projections of total premiums (employer plus employee contributions) for employer-sponsored health insurance are available in Table 17 of the *NHE Projections 2012-2022 Forecast Summary*, available at <https://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/downloads/proj2012.pdf>.

³¹ See line 17 in NIPA Table 7.8 at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 5, 2014 revision of NIPA Table 7.8.

³² See Exhibit 6.1 (p. 85), Exhibit 6.3 (p. 87), and Exhibit 6.4 (p. 88) of Kaiser Family Foundation and Health Research & Educational Trust (2014), *Employer Health Benefits 2014 Annual Survey*, available at <https://kaiserfamilyfoundation.files.wordpress.com/2014/09/8625-employer-health-benefits-2014-annual-survey6.pdf>.

average percentages of premiums for employer-sponsored health insurance paid by workers with single coverage and family coverage falls by about 1.1 percentage point from 2004 to 1999.

Implications for Income Subject to Tax

Table 2C reorganizes Table 2 to help clarify how much of NIPA compensation of employees is paid out in salaries and wages that are subject to tax. The first section of Table 2C subtracts from NIPA compensation of employees imputed income in personal income. The second section subtracts from NIPA compensation of employees less imputed income a net measure of employer contributions to pension and insurance funds and government social insurance. In 2012, employer contributions to pension funds account for 5.6 percent of NIPA compensation of employees less imputed income while employer contributions to insurance funds account for another 7.9 percent. Other deferred or untaxed components of NIPA compensation of employees account for 5.7 percent. Overall, in 2012, BEA-derived salaries and wages (excluding the foreign-earned income of U.S. citizens living abroad for more than one year) are 74.8 percent of NIPA compensation of employees less imputed income; they average 76.4 percent of NIPA compensation of employees less imputed income between 1993 and 2012.

Between 1993 and 2012, net employer contributions to pension funds change little as a percent of NIPA compensation of employees less imputed income. Net employer contributions to insurance funds rise slightly from 7.7 percent to 7.9 percent, reflecting an increase in net employer contributions to private group health insurance from 6.1 percent of NIPA compensation of employees less imputed income in 1993 to 7 percent in 2012. Other deferred or untaxed components of NIPA compensation of employees also increase, from 3.9 percent of NIPA compensation of employees less imputed income in 1993 to 5.7 percent in 2012.

Nonfarm Proprietors' Income³³

The reconciliation of NIPA nonfarm proprietors' income to the IRS net income (less loss) of business and professions (nonfarm proprietorships) and partnerships is based largely on NIPA Table 7.14.³⁴ It consists of six reconciliation items (see Table 3). The portion of AGI not included in personal income (under "other types of income") takes account of foreign-earned self-employment income (business and professional income (less losses) and partnership income

³³ Appendix A presents a reconciliation of NIPA nonfarm proprietors' income to IRS net income (less loss) of business and professions (nonfarm proprietorships) and partnerships that extends back to 1960. Table 3 presents a reconciliation that extends from 1993.

³⁴ See line 1 through line 11 in NIPA Table 7.14 at

<http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 5, 2014 revision of NIPA Table 7.14. The IRS net income (less loss) of business and professions can be obtained from Table 1.4 of Statistics of Income, *Individual Income Tax Returns Publication 1304 (Complete Report)*, available at [http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-\(Complete-Report\)](http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-(Complete-Report)), by subtracting business and profession net income from business and profession net loss. Table 1.4 also includes partnership and S-corporation net income and net loss. Partnership net income (less loss) is obtained by subtracting from the published aggregate for partnerships and S-corporations S-corporation income (less loss). S-corporation income (less loss) is the sum of S-corporation nonpassive and passive income (less loss) from Part II of Schedule E of IRS Form 1040. S-corporation nonpassive income (less loss) is obtained by subtracting from nonpassive S-corporation income S-corporation Section 179 expense deductions and S-corporation nonpassive losses. Schedule E data are from the Individual Statistics of Income Complete Report File.

(less losses)) reported on IRS Form 2555.³⁵ The portion of personal income not included in AGI takes account of both investment income received by fiduciaries (line 7 in NIPA Table 7.14) and investment income received by tax-exempt cooperatives (line 8 of NIPA Table 7.14). It also includes net differences in accounting treatment between NIPA and tax regulations. Ledbetter (2004) indicates that differences between NIPA accounting and income tax accounting for the income included in NIPA personal income and IRS AGI arise in part because of differences in the valuation of inventories and depreciation. As such, Table 3 includes an inventory valuation adjustment (from NIPA Table 6.14C and NIPA Table 6.14D).³⁶ It also includes a capital consumption adjustment (from NIPA Table 7.6).³⁷

Table 3 consolidates a number of other adjustments from NIPA Table 7.14 under the heading nonfarm proprietors' income (see Table 3A). Those adjustments include post-tabulation amendments and revisions (line 3 in NIPA Table 7.14), depletion of domestic minerals (line 4 NIPA Table 7.14), an adjustment to depreciate expenditures for mining exploration, shafts, and wells (line 5 in NIPA Table 7.14), bad debt expense (line 6 in NIPA Table 7.14), an adjustment to depreciate expenditures for intellectual property products (line 9 NIPA Table 7.14), and a net disaster adjustment (line 10 in NIPA Table 7.14). All of these adjustments have counterparts in NIPA Table 7.16, which is the reconciliation of NIPA (corporate) profits before taxes with IRS total (corporate) receipts less total (corporate) deductions.³⁸ They are described in greater detail in Chapter 11 and Chapter 13 of the BEA *NIPA Handbook*.³⁹

- In NIPA Table 7.14, post-tabulation amendments and revisions account for several adjustments to IRS net profit (less loss) of nonfarm proprietorships and partnerships, plus payments to partners, including adjustments for portfolio interest (for interest received by financial partnerships), corporate partners net interest (reflecting the inclusion of corporate partnership income in corporate profits and not nonfarm proprietors' income), double counting (for interest received by partnerships from other partnerships), meals and

³⁵ Park (2000) indicates that a small amount of AGI from abroad is included in the reconciliation of NIPA nonfarm proprietors' income to IRS net income (less loss) of business and professions (nonfarm proprietorships) and partnerships. See Thae S. Park (2000), "Comparison of BEA Estimates of Personal Income and IRS Estimates of Adjusted Gross Income," *Survey of Current Business*, February, pp. 12-22, available at <http://www.bea.gov/scb/pdf/NATIONAL/NIPAREL/2000/0200agi.pdf>.

³⁶ See line 15 in NIPA Table 6.14C and line 14 in NIPA Table 6.14D at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 7, 2013 revision of NIPA Table 6.14C and the August 5, 2014 revision of NIPA Table 6.14D.

³⁷ See line 16 in NIPA Table 7.6 at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 5, 2014 revision of NIPA Table 7.6.

³⁸ See Table 7.16 (Relation of Corporate Profits, Taxes, and Dividends in the National Income and Product Accounts to Corresponding Measures as Published by the Internal Revenue Service) at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>.

³⁹ See pp. 11-15 through 11-20 in Chapter 11 (Nonfarm Proprietors' Income) and pp. 13-22 through 13-31 in Chapter 13 (Corporate Profits) of U.S. Bureau of Economic Analysis (2015), *NIPA Handbook: Concepts and Methods of the U.S. National Income and Product Accounts*, available at http://www.bea.gov/methodologies/index.htm#national_meth.

entertainment, and foreign distributions (removing from partnership income any income that is from a foreign source).⁴⁰

- BEA includes an adjustment for the depletion of domestic minerals to remove depletion as an expense when calculating NIPA nonfarm proprietors' income. It does so because depletion is not considered capital formation in the NIPA.
- Expenditures for mining exploration, shafts, and wells are considered to be capital formation in the NIPA and current expenses for tax purposes. In NIPA Table 7.14, the adjustment to depreciate expenditures for mining exploration, shafts, and wells removes the expensed part of the investment from IRS net profit (less loss) of nonfarm proprietorships and partnerships, plus payments to partners, but adds depreciation charges for investments made in current and previous years.
- BEA removes bad debts as a deduction when calculating NIPA nonfarm proprietors' income.
- Intellectual property products (IPP) include software (prepackaged, own-account, and custom), research and development (manufacturing and nonmanufacturing/service types), and artistic originals (music, movies, long-lived television programs, etc.). BEA includes an adjustment to depreciate expenditures for intellectual property products because expenditures for IPP are considered capital formation in the NIPA but are at least in part expensed for tax purposes. In NIPA Table 7.14, the adjustment to depreciate expenditures for IPP removes the expensed part of the investment from IRS net profit (less loss) of nonfarm proprietorships and partnerships, plus payments to partners, but adds depreciation charges for investments made in current and previous years.
- The net disaster adjustment consists of two parts: the net of the value of losses recorded as depreciation and the payouts made by insurance companies. In the NIPA, the loss of capital and insurance payouts resulting from a catastrophic event do not affect income associated with current production.

Two additional adjustments that are not among the reconciliation items included in the discontinued NIPA Table 7.19 are introduced into Table 3 to reduce the difference between BEA-derived AGI and IRS AGI. They are Non-schedule E partnership income and adjustments for misreporting on income tax returns (line 2 in NIPA Table 7.14). With these two adjustments, for the years between 1993 and 2012, the difference between our BEA-derived net income (less loss) of nonfarm proprietorships and partnerships and IRS net income (less loss) of nonfarm proprietorships and partnerships is 2 percent or less of BEA-derived net income (less loss) of nonfarm proprietorships and partnerships.

The adjustment for Non-schedule E partnership income is methodological. Non-schedule E partnership income is included as a reconciliation item because NIPA Table 7.14 reconciles NIPA nonfarm proprietors' income to the net profit (less loss) of nonfarm proprietorships and partnerships, plus payments to partners. The net profit (less loss) of nonfarm proprietorships and partnerships, plus payments to partners, exceeds IRS net income (less loss) of nonfarm proprietorships (from IRS Form 1140 Schedule C) and partnerships (from IRS Form 1140 Schedule E). An adjustment is calculated by taking the difference between the net profit (less

⁴⁰ For a description of each adjustment, see Table 11.4 (pp. 11-16 and 11-17) in BEA (2015).

loss) of nonfarm proprietorships and partnerships, plus payments to partners, in NIPA Table 7.14 and IRS net income (less loss) of nonfarm proprietorships and partnerships in Table 3.

Implications for Income Subject to Tax

Table 3B reorganizes Table 3 to help clarify how much of NIPA nonfarm proprietors' income is subject to tax. The first section of Table 3B subtracts from NIPA nonfarm proprietors' income all net differences in the accounting treatment between NIPA and tax regulations; it also subtracts the adjustment for Non-schedule E partnership income. The second section subtracts from NIPA nonfarm proprietors' income less methodological adjustments deferred or untaxed components of NIPA nonfarm proprietors' income. In Table 3B, these components are not large. However, in every year between 1993 and 2012, adjustments for misreporting on income tax returns are roughly 50 percent or more of NIPA nonfarm proprietors' income less methodological adjustments; they average 53 percent. Over the same period, BEA-derived net income (less loss) of nonfarm proprietorships and partnerships averages 46.6 percent of NIPA nonfarm proprietors' income less methodological adjustments.

Table 3C is similar to Table 3B. However, Table 3C adds to NIPA nonfarm proprietors' income S-corporation dividends in personal income to ask how much of non-C-corporation income is subject to tax.⁴¹ The methodological adjustments in the first section of Table 3C include only net differences in accounting treatment between NIPA accounting and income tax accounting for the income included in NIPA nonfarm proprietors' income. The adjustment for Non-schedule E partnership income is now in the second section of Table 3C. The second section of Table 3C subtracts from S-corporation dividends in personal income and NIPA nonfarm proprietors' income less methodological adjustments deferred or untaxed components of NIPA nonfarm proprietors' income and adjustments for misreporting on income tax returns. It also subtracts several statutory adjustments associated with self-employment. Table 3C omits an adjustment for foreign-earned self-employment income. Between 1993 and 2012, S-corporation income and BEA-derived net income (less loss) of nonfarm proprietorships and partnerships (domestic) has fallen from 50.2 percent of S-corporation dividends in personal income and NIPA nonfarm proprietors' income less methodological adjustments to 44.4 percent, a decline of 5.8 percentage points.

Farm Proprietors' Income

The reconciliation of NIPA farm proprietors' income to IRS net income (less loss) of farms consists of five reconciliation items (see Table 4). All six reconciliation items are components of the portion of personal income not included in AGI. All but one reconciliation item, imputed income in personal income (from NIPA Table 7.12) from farm products consumed on farms, are components of the net difference in accounting treatment between NIPA and tax regulations.⁴²

⁴¹ S-corporation dividends in personal income is the sum of total property distributions, including cash, other than dividends and total dividend distributions paid from accumulated earnings and profits on Schedule K of IRS Form 1120S. See the sub-section (later in Section III) on personal income receipts on assets for more details.

⁴² See line 199 in NIPA Table 7.12 at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 6, 2014 revision of NIPA Table 7.12.

Brown, et al. (2006) include among the differences in accounting treatment between sole proprietorship income and tax regulations for farm proprietorships an excess change in farm inventories, excess tax depreciation, a capital consumption adjustment, and Section 1231 (net) capital gains from the sale of livestock. We add an adjustment (under the heading farm proprietors' income) for farm housing expenses excluding depreciation. The capital consumption adjustment is taken from NIPA Table 7.6.⁴³ The adjustment for farm housing expenses is taken from NIPA Table 7.15.⁴⁴ In NIPA Table 7.15, BEA adds farm housing expenses excluding depreciation (among other line items) to U.S. Department of Agriculture (USDA) net farm income to arrive at NIPA farm proprietors' income.

In NIPA Table 7.15, BEA also adds the change in farm materials and supplies inventories to USDA net farm income to arrive at NIPA farm proprietors' income. Brown, et al. (2006) define the excess change of farm inventories as the IRS change in farm inventories minus the BEA change in farm inventories. NIPA Table 5.7.5B gives the BEA change in farm inventories.⁴⁵ However, calculating the change in IRS farm inventories is complicated because Schedule F of IRS Form 1040 includes lines for farm inventories of livestock, produce, grains, and other products (lines 45-48) but the Individual Statistics of Income Complete Report File contains no corresponding variables. Line 6 in NIPA Table 7.15 and line 13 in NIPA Table 7.3.5 give the change in farm materials and supplies inventories.⁴⁶ Line 7 in NIPA Table 7.3.5 also gives the change in farm finished goods inventories. Table 4 uses the sum of line 13 and line 7 in NIPA Table 7.3.5 in place of a calculation of excess farm inventories.

Brown, et al. (2006) do not explain why two capital-consumption-related items—the capital consumption adjustment (from NIPA Table 7.6) and excess tax depreciation—are included in the reconciliation of NIPA farm proprietors' income to IRS net income (less loss) of farms. However, for nonfarm proprietorships, the accounting difference between NIPA depreciation and IRS depreciation is fully accounted for by the capital consumption adjustment because for nonfarm proprietorships the starting point for NIPA depreciation is IRS depreciation.⁴⁷ For farm proprietors' income, the starting point for NIPA depreciation is not IRS depreciation. Rather BEA's measure of farm proprietors' depreciation is estimated using USDA source data.

⁴³ See line 15 in NIPA Table 7.6 at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 5, 2014 revision of NIPA Table 7.6.

⁴⁴ See line 3 in NIPA Table 7.15 (Relation of Net Farm Income in the National Income and Product Accounts to Net Farm Income as Published by the U.S. Department of Agriculture) at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We omit two additional line items in NIPA Table 7.15 that BEA adds to USDA net farm income to obtain NIPA farm proprietors' income. Those line items are monetary interest received by farm corporations and a valuation adjustment for Commodity Credit Corporation loans. We used the August 5, 2014 revision of NIPA Table 7.15.

⁴⁵ See line 2 in NIPA Table 5.7.5B at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>.

⁴⁶ See NIPA Table 7.3.5 (Farm Sector Output, Gross Value Added, and Net Value Added) at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 5, 2014 revision of NIPA Table 7.3.5.

⁴⁷ Email from Pamela Kelly (forwarded by Adam Looney) on August 25, 2014.

As a result, for farm proprietors' income, the capital consumption adjustment does not include two conversions. For nonfarm proprietors' income, the capital consumption adjustment includes a conversion of "inconsistent" IRS depreciation based on service lives and depreciation schedules that vary over time to "consistent" BEA depreciation based on economic service lives and depreciation rates that are constant. The result is a historical cost series with "consistent" accounting. The capital consumption adjustment also includes a conversion of the historical cost series with "consistent" accounting to current replacement cost. For farm proprietors' income, the capital consumption adjustment reflects only this second conversion. Communication with BEA indicates that USDA depreciation can be used as an estimate of a consistent accounting basis for depreciation at historical cost. Thus, for farm proprietorships, we define excess tax depreciation as the difference between IRS farm depreciation and USDA farm depreciation.

For Table 4, excess tax depreciation is calculated by subtracting the sum of sole proprietorship and partnership IRS farm depreciation from noncorporate USDA farm depreciation. USDA farm depreciation is taken from line 2 of NIPA Table 7.15. A noncorporate component of USDA farm depreciation is obtained by multiplying USDA farm depreciation by the ratio of sole proprietorship and partnership IRS farm depreciation to total IRS farm depreciation. Sole proprietorship IRS farm depreciation is taken from line 14 of Schedule F of IRS Form 1040.⁴⁸ Partnership IRS farm depreciation is taken from the Statistics of Income partnership statistics.⁴⁹ Total IRS farm depreciation is obtained by adding corporate IRS farm depreciation (S-corporation and C-corporation) to sole proprietorship and partnership IRS farm depreciation.⁵⁰

Finally, Section 1231 property is property used in trade or business. It includes livestock held for draft, breeding, dairy, and sport purposes.⁵¹ Net gains from the sale of such livestock are included in USDA net farm income and, hence, NIPA farm proprietors' income but are excluded from IRS net income (less loss) of farms. This is because the net gains are not reported on Schedule F of IRS Form 1040 but instead on IRS Form 4797 (Sales of Business Property).⁵² A 1993 U.S. GAO report indicates that for 1981 BEA in part reconciles NIPA farm proprietors'

⁴⁸ A variable for Schedule F farm depreciation and Section 179 expense is available on the Individual Statistics of Income Complete Report File from 1990.

⁴⁹ See Table 1 (All Partnerships, Data Presented: Total Assets, Trade or Business Income and Deductions, Portfolio Income, Rental Income, and Total Net Income) of Statistics of Income, Partnership Statistics by Sector or Industry, available at <http://www.irs.gov/uac/SOI-Tax-Stats-Partnership-Statistics-by-Sector-or-Industry>. Table 1 is available from 1993. Farm partnership depreciation is the sum of depreciation in crop production and animal production.

⁵⁰ For 1998 to 2011, corporate IRS agricultural production (farm) depreciation is obtained from Table 6 (Returns of Active Corporations: Balance Sheet, Income Statement, Tax, and Selected Other Items, by Major Industry) of Statistics of Income, Corporation Complete Report, available at <http://www.irs.gov/uac/SOI-Tax-Stats-Corporation-Complete-Report>. For 1993 through 1997, corporate IRS farm depreciation is obtained from Statistics of Income, *Corporation Source Book: Balance Sheet, Income Statement, Tax, and Selected Items by Major and Minor Industries, Size of Assets*. We use tables for the returns of active corporations with or without net income.

⁵¹ See Chapter 3 of Internal Revenue Service, *Sales and Other Disposition of Assets*, Publication 544, available at <http://www.irs.gov/pub/irs-pdf/p544.pdf>.

⁵² USDA net farm income data are available at [http://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics/us-and-state-level-farm-income-and-wealth-statistics-\(includes-the-us-farm-income-forecast-for-2015\).aspx](http://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics/us-and-state-level-farm-income-and-wealth-statistics-(includes-the-us-farm-income-forecast-for-2015).aspx). Click on the link for value added by U.S. agriculture. USDA net farm income is the sum of cash receipts (which include the value of livestock and crop cash receipts), direct government payments, farm-related income (which includes forest products sold as well as machine hire and custom work), nonmoney income (which includes the gross imputed rental value of farm dwellings), and an inventory adjustment minus total expenses.

income with IRS net farm income by reducing NIPA farm proprietors' income by \$2.7 billion for net gains from the sale of livestock. The \$2.7 billion net gain for 1981 cited in the U.S. GAO report matches published SOI sales of capital assets (SOCA) data for sales of livestock as business property.⁵³ SOCA data for sales of livestock for subsequent years are available from SOI.⁵⁴ We use a linear interpolation of the ratio of the net gain from the sale of livestock to the USDA value of livestock (and products) cash receipts to obtain a net gain for years for which SOCA data are unavailable.⁵⁵

Between 1993 and 2012, the differences between our BEA-derived net income (less loss) of farms and IRS net income (less loss) of farms are substantial.⁵⁶ However, the differences as a share of BEA-derived net income (less loss) of farms are comparable to what BEA has reported for various years in the *Survey of Current Business*. For example, for 2000, the BEA "relative AGI gap" (i.e., the difference between BEA-derived AGI and IRS AGI as a percent of BEA-derived AGI) for farm proprietors' income was 174.1 percent; for 2001, it was 219.9 percent.⁵⁷ For 2004, the BEA relative AGI gap was 279.3 percent; for 2005, it was 182.7 percent.⁵⁸ In Table 4, the difference between our BEA-derived net income (less loss) of farms and IRS net income (less loss) of farms as a share of BEA-derived net income (less loss) of farms ranges between 108.8 percent and 195.9 percent.

The relative AGI gap is so large and persistent for farm proprietors' income in part because IRS and USDA develop net farm income data using two different sample populations (GAO (1993)). Specifically, IRS net income (less loss) of farms in Table 4 is calculated using data from individuals and partnerships that report farm income and expenses on Schedule F of IRS Form 1040. USDA net farm income, on which NIPA farm proprietors' income relies, is calculated using farm establishment production, price, income, and expenditure data from the National Agricultural Statistics Service (NASS), the annual Agricultural Resource Management Survey (ARMS) Phase III, and the Farm Service Agency Commodity Credit Corporation (CCC).⁵⁹ ARMS data as an example cover a population of all farms in the 48 contiguous states that meet the official USDA definition of a farm, or all establishments that have sold or would normally have sold at least \$1000 of agricultural products during the previous year. These farm establishments include traditional agricultural farms and ranching operations as well as specialty

⁵³ See Table 1 on page 84 of Bobby Clark and David Paris (1986), "Sales of Capital Assets, 1981 and 1982," SOI Bulletin, Winter, pp. 65-89, available at <http://www.irs.gov/pub/irs-soi/81-82socassets.pdf>.

⁵⁴ SOI SOCA data are available at <http://www.irs.gov/uac/SOI-Tax-Stats-Sales-of-Capital-Assets-Reported-on-Individual-Tax>Returns>. See Table 1A, Short-term and Long-term Capital Gains and Losses by Asset Type.

⁵⁵ SOCA data are available for 1981, 1985, 1997-99, and 2007-09.

⁵⁶ IRS net income (less loss) of farms in Table 4 can be found in Table 1.4 of Statistics of Income, *Individual Income Tax Returns Publication 1304 (Complete Report)*, available at [http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-\(Complete-Report\)](http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-(Complete-Report)). NIPA farm proprietors' income in Table 4 can be found in line 10 of NIPA Table 2.1 at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 28, 2014 revision of NIPA Table 2.1.

⁵⁷ See Table 2 and Table 3 in Ledbetter (2004).

⁵⁸ See Table 1 and Table 2 in Ledbetter (2007).

⁵⁹ See U.S. Department of Agriculture, Economic Research Service, "General Documentation: Current Data Sources for Farm Income and Expenditure Estimates 2009-12," available at <http://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics/general-documentation.aspx>.

farms.⁶⁰ In contrast, the IRS data include tax filers with less than \$1000 in farms sales. They omit farms with annual farm-related sales in excess of \$1000 if a federal tax return is not filed. Finally, GAO (1993) notes that IRS reported in 1988 that IRS net farm income figures are understated as a result of misreporting of tax items.

Rental Income of Persons

The reconciliation of NIPA rental income of persons to IRS total rental and royalty net income (less loss) consists of six reconciliation items (see Table 5). All six reconciliation items are components of the portion of personal income not included in AGI and are thus subtracted from NIPA rental income.⁶¹ The imputed rental income of persons in personal income from owner-occupied housing (net of subsidies) is taken from NIPA Table 7.12.⁶² The rental income of private employee pension funds imputed to persons (investment income of pension plans in Table 5) is taken from NIPA Table 7.9.⁶³ The rental income from tenant-occupied housing owned by nonprofit institutions (investment income received by nonprofits institutions in Table 5) is also taken from NIPA Table 7.9.⁶⁴ Table 6 in Brown, et al. (2006) gives three additional reconciliation items, rental income retained by fiduciaries, excess tax depreciation, and a rental income capital consumption adjustment. The rental income capital consumption adjustment is taken from NIPA Table 7.6.⁶⁵

We use IRS Form 1041 (U.S. Income Tax Return for Estates and Trusts) data to determine values for not just the rent and royalty income retained by fiduciaries but also the interest income (taxable and nontaxable) and dividend income (ordinary) retained by fiduciaries. SOI fiduciary return data are available for only select tax years (1997 and 2000 through 2012).⁶⁶ In addition,

⁶⁰ For a description of the 2013 ARMS statistical methodology, see pages 44-47 of U.S. Department of Agriculture, National Agricultural Statistics Service (2014), "Farm Production Expenditures 2013 Summary," August, available at <http://usda.mannlib.cornell.edu/usda/nass/FarmProdEx//2010s/2014/FarmProdEx-08-01-2014.pdf>.

⁶¹ Brown, et al. (2006) also include a reconciliation item for the special assessments that local governments impose on business property owners to cover the costs of public improvements. They classify the reconciliation item as a component of the portion of AGI not included in personal income (under other types of income). Table 4 in Brown, et al. (2006) includes a similar adjustment in the reconciliation of NIPA nonfarm proprietors' income to IRS net income (less loss) of nonfarm proprietorships and partnerships. The adjustment is small for both NIPA nonfarm proprietors' income and NIPA rental income. We omit it in our reconciliations of both types of NIPA personal income.

⁶² Subtract line 158 (subsidies) from line 163 (rental income of persons with capital consumption adjustment) in NIPA Table 7.12 at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 6, 2014 revision of NIPA Table 7.12.

⁶³ See line 7 NIPA Table 7.9 at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 5, 2014 revision of NIPA Table 7.9.

⁶⁴ See line 14 in NIPA Table 7.9.

⁶⁵ See line 20 in NIPA Table 7.6 at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 5, 2014 revision of NIPA Table 7.6.

⁶⁶ See Table 1 (Fiduciary Income Tax Returns, Income Source, Deductions, and Tax Liability, by Tax Status and Size of Total Income) from Statistics of Income, Income from Estates and Trust Statistics, available at <http://www.irs.gov/uac/SOI-Tax-Stats-Income-from-Estates-and-Trusts-Statistics>. Table 1 is available for filing years 1998 and 2001 through 2013. Filing years 1998 and 2001 through 2013 correspond to tax years 1997 and 2000 through 2012, with estates and trusts filing income tax returns primarily for income earned in the previous year. For an explanation, see Lisa Schreiber (2005), "Fiduciary Income Tax Returns, Filing Years 2003 and 2004," *Statistics*

SOI publishes only an aggregate “rents, royalties, partnerships, other estate and trusts, etc.” income from IRS Form 1041. We use year-over-year growth rates calculated from SOI data for total rental and royalty net income (less loss), partnership income, and estate and trust income; interest income; and dividend income from IRS Form 1040 to obtain missing values for the three types of fiduciary income.⁶⁷ We then use shares calculated from SOI data for total rental and royalty net income (less loss), partnership income, and estate and trust income from IRS Form 1040 to obtain a value for just rents and royalties retained by fiduciaries.⁶⁸

Brown, et al. (2006) suggest that excess tax depreciation in the case of NIPA rental income is the difference between relevant BEA and IRS measures of depreciation. For Table 5, we define the BEA measure of depreciation as the sum of BEA current-cost depreciation for the tenant-occupied residential fixed assets of households and sole proprietorships and partnerships as well as the noncorporate part of the current-cost depreciation of private nonresidential fixed assets (equipment and structures) in the real estate sector (North American Industry Classification System (NAICS) sector 531).⁶⁹

The noncorporate component of the current-cost depreciation of NAICS sector 531 is calculated by multiplying the BEA NAICS sector 531 current-cost depreciation of private nonresidential fixed assets by the ratio of sole proprietorship and partnership IRS depreciation in NAICS sector 531 to total IRS depreciation in NAICS sector 531. Sole proprietorship IRS depreciation in NAICS sector 531 is taken from SOI nonfarm sole proprietorship statistics.⁷⁰ Partnership IRS depreciation in NAICS sector 531 is taken from SOI partnership statistics.⁷¹ Total IRS depreciation in NAICS sector 531 is obtained by adding corporate IRS depreciation (S-

of *Income Bulletin*, Fall, pp. 130-161, available at <http://www.irs.gov/pub/irs-soi/04fidart.pdf>. Fiduciary income tax return data for 1982 is available from Table 1 and Table 2 of Gary J. Estep (1985), “Fiduciary Income Tax Returns, 1982,” *Statistics of Income Bulletin*, Spring, pp. 39-59, available at <http://www.irs.gov/pub/irs-soi/82fiintr.pdf>.

⁶⁷ IRS total rental and royalty net income (less loss), interest income, and dividend income from Form 1040 can be found in Table 1.4 of Statistics of Income, *Individual Income Tax Returns Publication 1304 (Complete Report)*, available at [http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-\(Complete-Report\)](http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-(Complete-Report)).

⁶⁸ IRS estate and trust income from Form 1040 can be found in Table 1.4 of Statistics of Income, *Individual Income Tax Returns Publication 1304 (Complete Report)*, available at [http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-\(Complete-Report\)](http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-(Complete-Report)). Table 1.4 also includes partnership and S-corporation net income (less loss). Partnership net income (less loss) is obtained by subtracting from the published aggregate for partnerships and S-corporations S-corporation income (less loss). S-corporation income (less loss) is obtained by summing S-corporation nonpassive and passive income (less loss) from Part II of Schedule E of IRS Form 1040. Schedule E data are from the Individual Statistics of Income Complete Report File.

⁶⁹ For BEA’s detailed current-cost depreciation data for residential and nonresidential fixed assets, see U.S. Bureau of Economic Analysis, “Detailed Data for Fixed Assets and Consumer Goods,” available at <http://www.bea.gov/national/FA2004/Details/Index.htm>. For the detailed residential data, download ‘detailresidential.xlsx’; for the detailed nonresidential data, download ‘detailnonres_dep1.xlsx’. We used the detailed fixed asset data updated on September 17, 2014.

⁷⁰ See Table 1 (Nonfarm Sole Proprietorships: Business Receipts, Selected Deductions, Payroll, and Net Income, by Industrial Sectors), of Statistics of Income, Nonfarm Sole Proprietorship Statistics, available at <http://www.irs.gov/uac/SOI-Tax-Stats-Nonfarm-Sole-Proprietorship-Statistics>. Table 1 is available from 1996.

⁷¹ See Table 1 (All Partnerships, Data Presented: Total Assets, Trade or Business Income and Deductions, Portfolio Income, Rental Income, and Total Net Income) of Statistics of Income, Partnership Statistics by Sector or Industry, available at <http://www.irs.gov/uac/SOI-Tax-Stats-Partnership-Statistics-by-Sector-or-Industry>. Table 1 is available from 1993.

corporation and C-corporation) in NAICS sector 531 to sole proprietorship and partnership IRS depreciation in NAICS sector 531.⁷² For purposes of calculating excess tax depreciation, we define the IRS measure of depreciation as the sum of IRS Form 1040 Schedule E rental depreciation (line 20), IRS Form 4835 farm rental depreciation (line 12), and IRS sector 531 partnership depreciation.⁷³

For 1993 through 2012, the difference between our BEA-derived total rental and royalty net income (less loss) and IRS total rental and royalty net income (less loss) as a share of BEA-derived total rental and royalty net income (less loss) ranges between 39.1 percent and 79.5 percent.⁷⁴ For 2004 and 2005, Ledbetter (2007) reports BEA relative AGI gaps that are substantially smaller, 0.3 percent in 2004 and 11.3 percent 2005.⁷⁵ However, Ledbetter (2007) calculates the BEA relative AGI gap using a reallocated IRS AGI. BEA obtains its reallocated IRS AGI for total rental and royalty net income (less loss) by reallocating estate and trust income (which is a component of IRS AGI) to rental income. We do not include a similar reallocation on Table 5. The BEA relative AGI gap for NIPA rental income without such a reallocation of estate and trust income is 23.5 for 2004 and 33.2 for 2005.

Personal Income Receipts on Assets

The reconciliation of NIPA personal income receipts on assets (personal interest income and personal dividend income combined) to IRS taxable interest income and dividend income consists of seven reconciliation items (see Table 6). All seven reconciliation items are components of the portion of personal income not included in AGI. The imputed personal interest income of persons in personal income consists of depositor services furnished to persons without payment and premium supplements for property and casualty insurance received by persons (net of premium supplements to owner-occupied housing); we obtain data from NIPA Table 7.12.⁷⁶ We obtain data for the imputed interest received from life insurance carriers and

⁷² For 1994 to 2011, corporate IRS depreciation for NAICS sector 531 is obtained from Table 6 (Returns of Active Corporations: Balance Sheet, Income Statement, Tax, and Selected Other Items, by Major Industry) of Statistics of Income, Corporation Complete Report, available at <http://www.irs.gov/uac/SOI-Tax-Stats-Corporation-Complete-Report>. For 1993, corporate IRS depreciation for NAICS sector 531 is obtained from Statistics of Income, *Corporation Source Book: Balance Sheet, Income Statement, Tax, and Selected Items by Major and Minor Industries, Size of Assets*. We use tables for the returns of active corporations with or without net income.

⁷³ The variables for Schedule E rental depreciation and IRS Form 4835 farm rental depreciation and Section 179 expense deductions are available on the Individual Statistics of Income Complete Report File from 1991.

⁷⁴ IRS total rent and royalty net income (less loss) in Table 5 can be found in Table 1.4 of Statistics of Income, *Individual Income Tax Returns Publication 1304 (Complete Report)*, available at [http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-\(Complete-Report\)](http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-(Complete-Report)). NIPA rental income in Table 5 can be found in line 12 of NIPA Table 2.1 at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 28, 2014 revision of NIPA Table 2.1.

⁷⁵ See Table 1 and Table 2 in Ledbetter (2007). Table 1 and Table 2 also include small misreporting adjustments for NIPA rental income as addenda items.

⁷⁶ Subtract line 184 from the sum of line 170 and line 181 in NIPA Table 7.12 at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 6, 2014 revision of NIPA Table 7.12.

employee pensions plans from NIPA Table 7.11.⁷⁷ NIPA Table 7.10 in turn gives the dividend income that BEA imputes to persons from employee defined benefit pension plans and employee defined contribution pension plans.⁷⁸ We obtain values for taxable interest income, nontaxable interest income, and ordinary dividend income retained by fiduciaries using data from IRS Form 1041 (U.S. Income Tax Return for Estates and Trusts), as discussed in the previous sub-section on rental income of persons. Interest income and dividend income received by nonprofit institutions is obtained from NIPA Table 2.9.⁷⁹

Brown, et al. (2006), Ledbetter (2004), and Park (2000) identify the remaining three reconciliation items included in Table 6. Ledbetter (2004) indicates that net differences in accounting treatment between NIPA and tax regulations incorporate the earnings, excluding capital gains, of Individual Retirement Accounts (IRA) and Keogh plans. This is because the earnings of IRA and Keogh plans are included in NIPA personal income on an accrual basis but in IRS AGI on a cash basis.⁸⁰ In addition, Brown, et al. (2006), Park (2000), and Park (1992) indicate that other personal income exempt or excluded from AGI incorporates the tax-exempt interest received by individuals, primarily from state and local government bonds. Park (1992) suggests that BEA adjusts tax-exempt interest to take account of Federal Reserve Flow of Funds (now Financial Accounts of the United States) data. We do not make such an adjustment but instead use unadjusted SOI individual income tax data from IRS Form 1040.⁸¹

Finally, Brown, et al. (2006) and Park (1992) indicate that an adjustment for S-corporation dividends in personal income is included as part of other personal income exempt or excluded from AGI. Brown, et al. (2006) define the adjustment for S-corporation dividends in personal income as the sum of total property distributions, including cash, other than dividends and total dividend distributions paid from accumulated earnings and profits on Schedule K of IRS Form 1120S.⁸² In the reconciliation of NIPA personal income to IRS AGI, S-corporation distributions that are included in NIPA personal dividend income but not regarded as dividend income in AGI

⁷⁷ Add line 68 and line 70 in NIPA Table 7.11 at

<http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 5, 2014 revision of NIPA Table 7.12.

⁷⁸ See line 14 in NIPA Table 7.10 at

<http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 5, 2014 revision of NIPA Table 7.10.

⁷⁹ See line 50 and line 51 in NIPA Table 2.9 at

<http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the October 27, 2014 revision of NIPA Table 7.12. Data in Table 2.9 are available from 1992.

⁸⁰ Brown, et al. (2006) and Park (1992) also include among the net differences in accounting treatment between NIPA and tax regulations an adjustment for the excess interest accrued over interest paid for corporate bonds and state and local government bonds. We omit this adjustment. See footnote 6 (p. 41) in Thae S. Park (1992), “Relationship between Personal Income and Adjusted Gross Income, *Survey of Current Business*, May, pp. 33-43, available at <http://www.bea.gov/scb/pdf/1992/0592cont.pdf>.

⁸¹ IRS tax-exempt interest from Form 1040 can be found in Table 1.4 of Statistics of Income, *Individual Income Tax Returns Publication 1304 (Complete Report)*, available at [http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-\(Complete-Report\)](http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-(Complete-Report)).

⁸² Line 16d of Schedule K of IRS Form 1120S gives total property distributions; line 17c gives dividend distributions paid from accumulated earnings and profits. Schedule K data are from the SOI Corporate File.

are removed. IRS S-corporation income is then introduced (see Table 9A) as a part of the portion of AGI not included in personal income.

Ledbetter (2004) and Brown, et al. (2006) do not explain how BEA obtains the earnings of IRA and Keogh plans. We use data from the 2014 Investment Company Institute (ICI) Fact Book and the ICI Retirement Market Data (second quarter of 2014 (2014Q2)) to calculate earnings for IRA holdings in mutual funds (equity, bond, and money market funds), bank and thrift deposits, and other assets. For IRA holdings in equity, bond, and money market mutual funds, we begin by calculating the year-over-year change in the value of IRA holdings in each type of fund.⁸³ We then obtain earnings for each type of fund using a three-step process.

- First, we calculate how much of the change in the value of IRA holdings is attributable to net new cash flow by multiplying the year-over-year change in the value of IRA holdings by the ratio of the net new cash flow of long-term mutual funds and money market funds to the year-over-year change in the value of the total net assets of the mutual fund industry.⁸⁴
- We obtain a total return on IRA holdings by subtracting the net new cash flow for IRA holdings (from above) from the year-over-year change in the value of IRA holdings.
- We split the total return to IRA holdings between dividends (i.e., earnings) and capital gains by multiplying the total return on IRA holdings by the ratio of the (paid and reinvested) dividends of long-term mutual funds and money market funds to the total return of long-term mutual funds and money market funds.⁸⁵ The total return of long-term mutual funds and money market funds is the difference between the year-over-year change in the value of the total net assets and the net new cash flow.

We calculate earnings of IRA and Keogh accounts in bank and thrift deposits by multiplying the value of assets (in year $t-1$) in bank and thrift deposits, which include Keogh deposits, by an annual 3-month Treasury bill rate (in year t).⁸⁶ We calculate the earnings of IRA and Keogh accounts in other assets (including securities held in brokerage accounts) using a similar methodology to that used for IRA holdings in mutual funds. However, we impute net new cash

⁸³ Data on the value of assets in equity, bond, and money market mutual funds are obtained from Table 15 of the 2014Q2 ICI Retirement Market Data. A value for equity funds is obtained by summing holdings in domestic equity, world equity, and hybrid funds. Comparable (although revised) data are available from Table 16 of the Investment Company Institute (2016), “The U.S. Retirement Market,” First Quarter 2016,” June, available at <https://www.ici.org/research/stats/retirement>. Data are available from 1990.

⁸⁴ Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges. Data on the net new cash flow of long-term mutual funds (equity, hybrid, and bond funds) are taken from Table 19 of Investment Company Institute (2014), *2014 Investment Company Fact Book*, available at <https://www.ici.org/research/stats/factbook>. Data on the net new cash flow of money market funds are taken from Table 41 of ICI (2014). Data on the total net assets of the mutual fund industry (equity funds, hybrid funds, bond funds, and money market funds) are taken from Table 3 of ICI (2014). In Table 19, Table 41, and Table 3, data are available from 1984.

⁸⁵ Data on the paid and reinvested dividends of long-term mutual funds are taken from Table 31 of ICI (2014). Data on the paid and reinvested dividends of money market funds are taken from Table 42 of ICI (2014). In Table 31 and Table 42, data are available from 1984.

⁸⁶ Data on the value of assets in bank and thrift deposits are from Table 6 of the 2014Q2 ICI Retirement Market Data. The same data are available from Table 7 of ICI (2016). Data are available from 1975. Historical data for 3-month Treasury bill rates (secondary market) are from data release H.15 (Selected Interest Rates) of the Board of Governors of the Federal Reserve System, available at <http://www.federalreserve.gov/releases/h15/data.htm>.

flow, total return, and earnings for IRA holdings of other assets using values for net new cash flow, total return, and earnings that we calculate for IRA holdings of equity mutual funds.⁸⁷

Our calculated earnings of IRA and Keogh plans are used to reconcile both NIPA personal interest income to IRS taxable interest income and NIPA personal dividend income to IRS dividend income. In general, all earnings from holdings of IRA and Keogh plans in mutual funds are used to reconcile NIPA personal interest income to IRS taxable interest income. The earnings of holdings of IRA and Keogh plans in interest-bearing assets (i.e., bank and thrift deposits) are also used to reconcile NIPA personal interest income to IRS taxable interest income. Only the earnings of holdings of IRA and Keogh plans in dividend-yielding assets (i.e., other assets) are used to reconcile NIPA personal dividend income to IRS dividend income. As a result, the earnings of IRA and Keogh plans account for a much larger adjustment to NIPA personal interest income than they do to NIPA personal dividend income.⁸⁸

Regardless, the adjustment to NIPA personal interest income for the earnings of IRA and Keogh plans is initially small for 2000 (just over \$28 billion in 2000 compared to \$85 billion in Table 8 of Brown, et al. (2006)).⁸⁹ To compensate, we add earnings from equity, bond, and money market mutual fund holdings in defined contribution plans. We calculate earnings for defined contribution plan holdings in each type of mutual fund using ICI data and a methodology similar to that outlined above for IRA holdings in mutual funds.⁹⁰ In other words, we use ICI data for total net assets and (paid and reinvested) dividends in long-term mutual funds and money market funds to calculate ratios that we apply to the data we have for the year-over-year change in the value of mutual fund holdings in defined contribution plans. Including earnings from defined contribution plans increases the adjustment to NIPA personal interest income for the earnings of IRA and Keogh plans to just over \$71 billion in 2000.

For 1993 through 2012, the difference between our BEA-derived taxable interest income and dividend income and IRS taxable interest income and dividend income as a share of BEA-derived taxable interest income and dividend income ranges from -53.3 percent in 2010 to 35.0 percent in 2003 but averages around 11.7 percent.⁹¹ Ledbetter (2007) reports similar BEA

⁸⁷ ICI (2014) does not include data on net new cash flow and total net assets for other assets.

⁸⁸ For 2000, the earnings of mutual funds and bank and thrift deposits in IRA and Keogh plans subtract \$28.3 billion from NIPA personal interest income. The earnings of other assets in IRA and Keogh plans subtract \$5.2 billion from NIPA personal dividend income. In Table 7 of Brown, et al. (2006), IRA and Keogh dividend earnings subtract \$18.5 billion from NIPA personal dividend income.

⁸⁹ The total given for net differences in accounting treatment between NIPA and tax regulations in Table 8 of Brown, et al. (2006) also includes an adjustment for excess interest accrued over interest paid. We assume that the adjustment for interest accrued over paid is a small part of the total given for differences in accounting treatment.

⁹⁰ Data on defined contribution plan holdings of mutual funds are taken from Table 13 of the 2014Q2 ICI Retirement Market Data. Comparable (although revised) data are available from Table 14 of ICI (2016). Data are available from 1992.

⁹¹ IRS taxable interest income and IRS (ordinary) dividend income in Table 6 can be found in Table 1.4 of Statistics of Income, *Individual Income Tax Returns Publication 1304 (Complete Report)*, available at [http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-\(Complete-Report\)](http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-(Complete-Report)). NIPA personal interest income and NIPA personal dividend income can be found in line 14 and line 15 of NIPA Table 2.1 at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 28, 2014 revision of NIPA Table 2.1.

relative AGI gaps (for personal interest income and personal dividend income combined) for 2004 and 2005. For example, for 2004, the BEA relative AGI gap is 35.1 percent; for 2005, it is 32.3 percent.

Implications for Income Subject to Tax

Table 6A reorganizes Table 6 to help clarify how much of NIPA personal income receipts on assets is paid out in dividends and interest income that are subject to tax. The first section of Table 6A subtracts from NIPA personal income receipts on assets imputed income in personal income and S-corporation dividends in personal income. Non-S-corporation dividends and cash interest income are the result. In 2012, BEA-derived taxable income and dividend income are 22.6 percent of non-S-corporation dividends and cash interest income because a large percentage of the components of NIPA personal income receipts on assets are deferred or not subject to tax. For example, the investment income of life insurance carriers and pension plans accounts for nearly 50 percent of non-S-corporation dividends and cash interest income; tax-exempt interest accounts for another 4.7 percent. The percentage of non-S-corporation dividends and cash interest income deferred or not subject to tax averaged about 33.5 percent between 1993 and 2008. In 2009 through 2012, it declined markedly, averaging 21.9 percent.

Other Personal Income Not Included in AGI

Other personal income not included in AGI consists of nontaxable government transfer payments to persons and nontaxable business transfer payments to persons (see Table 7). No part of business transfer payments to persons is assumed taxable and, thus, included in AGI. Table 7 removes the full value of this type of NIPA personal income and its BEA-derived AGI equals zero.

Government transfer payments to persons include taxable and nontaxable components. Table 7 removes only the nontaxable components. The taxable components remain as part of the reconciliation of NIPA personal income and IRS AGI with an associated positive BEA-derived AGI (see Table 8A and Table 8B). For example, Ledbetter (2004) suggests that the railroad retirement benefit part of benefits from social insurance funds is taxable.⁹² We therefore subtract from NIPA government transfer payments to persons NIPA railroad retirement benefits (from NIPA Table 3.12).⁹³ We also subtract from NIPA government transfer payments to persons NIPA unemployment compensation (from NIPA Table 2.1) and taxable Social Security benefits (from SOI individual income tax return statistics) to obtain nontaxable government transfer payments to persons.⁹⁴

⁹² See footnote 3 in Table 2 of Ledbetter (2004).

⁹³ See line 12 in NIPA Table 3.12 at

<http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 5, 2014 revision of NIPA Table 3.12. The NIPA treat railroad retirement benefits as a government social insurance fund. See Chapter III of U.S. Bureau of Economic Analysis (2015), “State Personal Income and Employment: Concepts, Data Sources, and Statistical Methods,” September, available at <http://www.bea.gov/regional/pdf/spi2014.pdf>.

⁹⁴ NIPA Table 2.1 is available at

<http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. See line 17 for NIPA government social benefits to persons, line 24 for NIPA net other current transfer receipts from business, line 7 for

Other Income Included in AGI but Not NIPA Personal Income

Other income included in AGI but not NIPA personal income consists of a payroll tax adjustment, net gains from the sale of assets, taxable pensions, S-corporation income, and other types of income. SOI individual income tax return statistics provide data for net gains from the sale of assets, taxable pensions (and annuities), and other types of income.⁹⁵ S-corporation income is calculated using data from Schedule E of IRS Form 1040 from the Individual Statistics of Income Complete Report File.

- Net gains from the sale of assets are the sum of net gains (less losses) from the sales of capital assets reported on Schedule D of IRS Form 1040, capital gains distributions reported on IRS Form 1040, and net gains (less losses) from sales of property other than capital assets.
- Other types of income are obtained by summing taxable IRA distributions, alimony received, state income tax refunds, gambling earnings, cancellation of debt, taxable health savings account distributions, and other net income (less loss) and subtracting from the result net operating losses and the foreign-earned income exclusion.
- S-corporation income is the sum of S-corporation nonpassive income (less loss) and S-corporation passive income (less loss) from Part II of Schedule E of IRS Form 1040. S-corporation nonpassive income (less loss) is obtained by subtracting from nonpassive S-corporation income S-corporation Section 179 expense deductions and S-corporation nonpassive losses.

Table 9A adds to NIPA personal income IRS net gains from the sale of assets, taxable pensions, S-corporation income, and other types of income. NIPA personal income includes no counterparts with the exception of railroad retirement benefits. NIPA railroad retirement benefits are excluded from nontaxable government personal current transfer receipts in Table 7; they are reintroduced in the first row of Table 9A so that Table 1 accounts for all components of NIPA personal income. The first row of Table 9B gives total contributions for government social insurance (in NIPA Table 2.1).⁹⁶ Taking the difference between the employer contributions for government social insurance that are a part of NIPA compensation of employees (in the first row of Table 2) and total contributions for government social insurance gives employee and self-employed contributions for government social insurance. In Table 1, employee and self-employed contributions are reintroduced as a component of IRS AGI not in NIPA personal income so that the BEA-derived AGI associated with them is zero. Similarly, in Table 9B, total

NIPA employer contributions for employee and pension insurance funds, and line 21 for NIPA unemployment compensation. We used the August 28, 2014 revision of NIPA Table 2.1. IRS taxable Social Security benefits (and unemployment compensation) from Form 1040 can be found in Table 1.4 of Statistics of Income, *Individual Income Tax Returns Publication 1304 (Complete Report)*, available at [http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-\(Complete-Report\)](http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-(Complete-Report)).

⁹⁵ Data on IRS taxable pensions, net gains from the sale of assets, and other types of AGI in Table 9A can be found in Table 1.4 of Statistics of Income, *Individual Income Tax Returns Publication 1304 (Complete Report)*, available at [http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-\(Complete-Report\)](http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-(Complete-Report)).

⁹⁶ NIPA Table 2.1 is available at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. See line 8 for employer contributions for government social insurance and line 25 for total (employer, employee, and self-employed) contributions for government social insurance. We used the August 28, 2014 revision of NIPA Table 2.1.

contributions for government social insurance are reintroduced as a portion of AGI not included in personal income so that BEA-derived AGI is zero.

IV. Implications for the Income Tax Base: Taxed Components, Untaxed Components, Deferred Components, and Methodological Adjustments

Table 10 uses reconciliation data from Table 1 through Table 9B to categorize components of NIPA compensation of employees, NIPA government and business transfer payments, NIPA farm and nonfarm proprietors' income, NIPA rental income, and NIPA personal income receipts on assets as taxed components, untaxed components, deferred components, and methodological adjustments. It builds up to NIPA personal income. Thus, Table 10 does not incorporate any components of Table 1 through Table 9B that are part of AGI but not part of NIPA personal income. Such components include net gains from the sale of assets, taxable pensions, and S-corporation income.

A component is placed in the taxed category if it is part of AGI. A component is placed in the untaxed category if it is not part of AGI (but is part of NIPA personal income). Otherwise the component is placed among the deferred components and methodological adjustments. The deferred components and methodological adjustments take in employer and employee contributions to pension plans. They also include reconciliation items arising because of differences between income tax accounting and NIPA accounting such as in the valuation of inventories and depreciation .

- The taxed components include salaries and wages on IRS Form 1040, taxable unemployment compensation, taxable Social Security benefits, IRS net income (less loss) of proprietorships (farm and nonfarm) and partnerships, IRS total rental and royalty net income (less loss), IRS taxable interest income, IRS dividend income, and railroad retirement benefits.⁹⁷
- The untaxed components include employer contributions for government social insurance, employee contributions to employer-sponsored health insurance, exempt military pay, employer contributions for insurance funds, nontaxable personal current transfer receipts, investment income of life insurance carriers and pension plans, investment income received by nonprofit institutions or retained by fiduciaries, tax-exempt interest, and the earnings (excluding capital gains) of IRA and Keogh plans.⁹⁸
- The deferred components include employee nontaxable contributions to the federal government's Thrift Savings Plan and private defined contribution (401k/403b/408k) plans as well as employer contributions for pension funds.⁹⁹

⁹⁷ Railroad retirement benefits are obtained from line 8 of NIPA Table 7.8. NIPA Table 7.8 is available at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>. We used the August 5, 2014 revision of NIPA Table 7.8.

⁹⁸ Employer contributions for insurance funds are obtained by subtracting employer contributions for pension funds from total employer contributions for employee pension and insurance funds.

⁹⁹ Employer contributions for pension funds are obtained by summing line 6 (federal civilian pension plans), line 7 (federal military pension plans), line 10 (state and local employee retirement), and line 11 (private pension plans) in NIPA Table 7.8.

- The methodological adjustments include imputed income in personal income, S-corporation dividends in personal income, other net differences in the accounting treatment between NIPA and tax regulations, and Non-schedule E partnership income.

A NIPA accounting adjustment that combines total contributions for government social insurance and adjustments for misreporting on income tax returns is added to ensure that the line items in Table 10 sum to NIPA personal income.¹⁰⁰ The “gap” in Table 10 is obtained by summing the differences between BEA-derived AGI and IRS AGI for salaries and wages (see Table 2), taxable unemployment compensation (see Table 8A), farm and nonfarm proprietors’ income (see Table 3 and Table 4), rental income (see Table 5), and personal income receipts on assets (Table 6).

There have been some changes in the taxed components, untaxed components, deferred components, and methodological adjustments as a percent of NIPA personal income over the 20-year period considered (see Figure 2). The taxed components have declined as a percent of NIPA personal income, from 59.7 percent in 1993 to 54.3 percent in 2012. The deferred components have risen slightly, from 4.6 percent in 1993 to 5 percent in 2012. The untaxed components account for approximately 34 percent of NIPA personal income in 1993 and 2012. Within the taxed components, IRS salaries and wages comprise the largest share at 85.8 percent in 1993 and 83.5 percent in 2012 (see Figure 3A). Looking at the taxed components excluding IRS wages and salaries, IRS net income (less loss) of proprietorships and partnerships are 40.5 percent of the total taxed components excluding IRS wages and salaries in 1993 and 41.2 percent in 2012 (see Figure 3B). Taxable Social Security benefits have also expanded, from 5.2 percent in 1993 to nearly 18.0 percent in 2012. At the same time, IRS taxable interest income has slipped, from 27.4 percent in 1993 to 9 percent in 2012.

The importance of various untaxed components of NIPA personal income has changed over the 20-year period considered (see Figure 4). The investment income of life insurance carriers and pension plans and the investment income received by nonprofit institutions or retained by fiduciaries have declined as a percent of the total untaxed components, from 23.6 percent in 1993 to 18.6 percent in 2012. Tax-exempt interest has also fallen as a percent of the total untaxed components, from 2.4 percent in 1993 to 1.5 percent in 2012. At the same time, the largest untaxed component of NIPA personal income, nontaxable personal current transfer receipts (government and business), comprises a higher percent of the total untaxed components in 2012 than it does in 1993, 37.7 percent in 1993 and 43.3 percent in 2012. Earnings on IRA and Keogh plans excluding capital gains have also expanded as a percent of the total untaxed components, from 3.4 percent in 1993 to 5.3 percent in 2012.

Within the deferred components of NIPA personal income, employee contributions to pension accounts have become more prominent (see Figure 5). Employee nontaxable contributions to TSP and to private defined contribution plans have grown as a percent of the total deferred

¹⁰⁰ The NIPA accounting adjustment is obtained by summing adjustments for misreporting on income tax returns with the negative of total contributions for government social insurance (shown in the first row of Table 9B).

components, from 19.2 percent in 1993 to 31 percent in 2012. At the same time, employer contributions for pension funds have slipped from 80.8 percent in 1993 to 69 percent in 2012.

V. Implications for Payroll Tax Base

In the final section, we first reconcile NIPA compensation of employees to taxable wage and salary earnings for the Medicare Part A Hospital Insurance (HI) program. We then reconcile NIPA nonfarm proprietors' income to nonfarm taxable self-employed earnings for the Medicare Part A HI program. In general, the reconciliation items that we identify account for much of the difference between NIPA compensation of employees and HI taxable wage and salary earnings. They also account for much of the difference between NIPA nonfarm proprietors' income and nonfarm HI taxable self-employed earnings. We find small reductions in how much of NIPA compensation of employees and NIPA nonfarm proprietors' income are subject to payroll taxes. NIPA personal income less methodological adjustments subject to payroll taxes has also generally fallen.

Medicare Hospital Insurance (HI) Taxable Wage and Salary Earnings

Federal Insurance Contributions Act (FICA) taxes are paid into the Old-Age, Survivors, and Disability (OASDI) trust fund and the Medicare HI trust fund. They are based solely on income from labor and cover all but the self-employed owners of three types of business entities—sole proprietorships, general partnerships, and limited partnerships. A “reasonable compensation” for the labor of owners of S corporations is included in the FICA tax base.¹⁰¹ The FICA tax base as it pertains to OASDI is limited to maximum taxable earnings (\$118,500 in 2016) that are adjusted annually with changes in a national average wage index. All earnings above the maximum taxable amount are exempt from taxes for OASDI. Since 1994, the FICA tax base for the Medicare HI program has not been limited by a maximum taxable income level.¹⁰² For this reason, we reconcile NIPA compensation of employees to Medicare HI taxable wage and salary earnings from 1994.

From 1994, Medicare HI taxable wage and salary earnings are larger than IRS wages and salaries subject to the individual income tax (see Table 11 and Table 12). Like IRS wages and salaries subject to the individual income tax, they exclude employer contributions to retirement and pension plans, employer (and employee) contributions to employer-sponsored health insurance, and employer contributions to private workers' compensation and private supplemental unemployment insurance. However, they include employer contributions to private group life insurance and employee contributions to private defined contribution plans.¹⁰³ Hence, Table 11

¹⁰¹ See Section 15, “Special Rules for Various Types of Services and Payments,” of Internal Revenue Service (2014a), *Publication 15 (Circular E), Employer's Tax Guide*, available at <http://www.irs.gov/publications/p15>. See also Congressional Budget Office (2012), “The Taxation of Capital and Labor through the Self-Employment Tax,” September, available at <https://www.cbo.gov/sites/default/files/09-27-SECA.pdf>.

¹⁰² The maximum taxable earnings were the same for OASDI and HI from 1966 through 1990. Separate HI maximum taxable earnings of \$125,000, \$130,200, and \$135,000 were applicable for 1991 through 1993. After 1993, there was no limitation on HI taxable wage and salary earnings (see <http://www.ssa.gov/oact/cola/cbb.html>).

¹⁰³ See Section 15, “Special Rules for Various Types of Services and Payments,” of IRS (2014a). Specifically, group-term life insurance costs are exempt except for the cost of group-term life insurance that can be included in an

does not remove the value of private group life insurance (under employer contributions for employee pension and insurance funds) and the value of employee contributions to TSP and 401k/403b/408k plans (under other personal income exempt or excluded from HI taxable wage and salary earnings) from NIPA compensation of employees.

Table 11 does not add to NIPA compensation of employees either supplemental unemployment insurance benefits or all of foreign-earned income of U.S. citizens living abroad for more than one year (under other types of income that are a portion of HI taxable wage and salary earnings not included in personal income). Supplemental unemployment insurance benefits are subject to the individual income tax but exempt from Social Security and Medicare taxes under certain conditions.¹⁰⁴ We assume that not all income reported on IRS Form 2555 is subject to Social Security and Medicare taxes. Specifically, for Table 11, salaries and wages, allowances, and noncash income net excludable meals and lodging reported on IRS Form 2555 are assumed subject to Social Security and Medicare taxes.¹⁰⁵ Other foreign income reported on IRS Form 2555 and the difference between total foreign-earned income (on IRS Form 1040 and IRS Form 2555) and foreign-earned income on IRS Form 2555 are assumed not subject to Social Security and Medicare taxes.¹⁰⁶

For the years between 1994 and 2012, the difference between our measure of BEA-derived HI taxable wage and salary earnings and HI taxable wage and salary earnings fluctuates between 1 percent and 2 percent of BEA-derived HI taxable wage and salary earnings. Excluding from the reconciliation data on employee contributions to employer-sponsored health insurance gives a difference that ranges from 3 percent to 5 percent of BEA-derived HI taxable wage and salary earnings. Unpublished estimates of HI taxable wage and salary earnings from 1993 are provided by the Office of the Chief Actuary of the Social Security Administration. Published data on HI taxable wage and salary earnings are available for 1997 through 2012 from Table 4.B12 of *Annual Statistical Supplement to the Social Security Bulletin* (beginning in 2000).¹⁰⁷

employee's gross income. See also Internal Revenue Service (2014b), *Publication 15-B Employer's Guide to Fringe Benefits*, available at <http://www.irs.gov/pub/irs-pdf/p15b.pdf>.

¹⁰⁴ See Section 15 of IRS (2014a). Also Internal Revenue Service (2014c), *Publication 15-A Employer's Supplemental Tax Guide*, available at <http://www.irs.gov/pub/irs-pdf/p15a.pdf>, gives the conditions under which supplemental unemployment compensation plan benefits are excluded from wages for Social Security and Medicare tax purposes.

¹⁰⁵ SOI data for all but IRS Form 2555 salaries and wages and allowances are only available every 5 years from 1991. We grow the sum of salaries and wages, allowances, and noncash income net excludable meals and lodging reported on IRS Form 2555 at same rate as salaries and wages reported on IRS Form 2555.

¹⁰⁶ Table 11 assumes that 100 percent of IRS Form 2555 salaries and wages, allowances, and noncash income net excludable meals and lodging is subject to U.S. Social Security and Medicare taxes. However, U.S. citizens working overseas for foreign affiliates of American employers and other private employers would be exempt from U.S. Social Security and Medicare taxes unless an American employer by agreement covers U.S. citizens employed by its foreign affiliates or the U.S. citizen works for an American employer. See Section 15, "Special Rules for Various Types of Services and Payments," of IRS (2014a).

¹⁰⁷ Each Annual Statistical Supplement contains only one year of data for HI taxable wage and salary earnings. Because the Social Security Administration continuously receives reports of changes in wage and salary earnings for prior years, the HI taxable wage and salary earnings data shown in Table 11 do not match estimates published in prior releases of the Annual Statistical Supplement. See <http://www.ssa.gov/policy/docs/statcomps/> for prior releases of the Annual Statistical Supplement.

Rearranging Table 11 allows us to characterize how much of NIPA compensation of employees appears in HI taxable wage and salary earnings (see Table 12). Between 1994 and 2012, employer contributions for insurance funds and government social insurance fluctuate but change little as a share of NIPA compensation of employees less imputed income, equaling 13.7 percent in 1994 and 13.8 percent in 2012. Other components of NIPA personal income that are excluded or deferred from tax increase only slightly as a percent of NIPA compensation of employees less imputed income, equaling 7.9 percent in 1994 to 8.8 percent in 2012. As a result, BEA-derived HI taxable wage and salary earnings decline only slightly between 1994 and 2012 as a share of NIPA compensation of employees less imputed income. They average 79.1 percent of NIPA compensation of employees less imputed income over the period.

Medicare Hospital Insurance (HI) Taxable Self-Employed Earnings

Self-Employment Contributions Act (SECA) taxes are paid into the OASDI trust fund and the Medicare HI trust fund. They are based on net business income and apply to the self-employed owners of sole proprietorships, general partnerships, and limited partnerships. The SECA tax base as it pertains to OASDI is limited to maximum taxable earnings (\$118,500 in 2016). Since 1994, the SECA tax base as it pertains to the Medicare HI program has not been limited by a maximum taxable income level. For this reason, we reconcile NIPA nonfarm proprietors' income to nonfarm Medicare HI taxable self-employed earnings from 1994.¹⁰⁸

We approximate nonfarm HI taxable self-employed earnings by multiplying total (farm and nonfarm) HI taxable self-employed earnings by the ratio of IRS Schedule SE (Form 1040), line 2 net business profit (loss) to the sum of IRS Schedule SE, line 2 net business profit (loss) and IRS Schedule SE, line 1a net farm profit (loss). For 2014, line 1a of IRS Schedule SE (Section A and Section B) combines net farm profit (loss) from line 34 of IRS Schedule F (Form 1040) with self-employment earnings (loss) from Box 14 of IRS Schedule K-1 (Form 1065).¹⁰⁹ Line 2 of IRS Schedule SE combines net business and professions profit (loss) from line 31 of IRS Schedule C (Form 1040) and line 3 of IRS Schedule C-EZ (Form 1040) with self-employment earnings (loss) from Box 14 of IRS Schedule K-1 (Form 1065).¹¹⁰

The reconciliation of NIPA nonfarm proprietors' income to nonfarm HI taxable self-employed earnings follows the reconciliation of NIPA nonfarm proprietors' income to IRS net income (less loss) of business and professions and partnerships with four exceptions (see Table 3 and Table 13). First, it excludes an adjustment for Non-schedule E partnership income. Second, it adds to NIPA nonfarm proprietors' income 92.35 percent of church employee income reported on line 5a

¹⁰⁸We use data on total self-employed earnings in covered employment from Table 4.B2 of the Social Security Administration's 2014 Annual Statistical Supplement. From 1994, total self-employed earnings in covered employment equal reported HI taxable self-employed earnings. This is not the case for total wage and salary earnings in covered employment and reported HI taxable wage and salary earnings. See U.S. Social Security Administration (2015), *Annual Statistical Supplement to the Social Security Bulletin, 2014*, available at <http://www.ssa.gov/policy/docs/statcomps/supplement/2014/index.html>.

¹⁰⁹ Self-employment earnings (loss) are also reported in Box 9 of Schedule K-1 of IRS Form 1065-B.

¹¹⁰ IRS Schedule SE, line 2 net business profit (loss) can include the earnings of a minister, a member of a religious order, or a Christian Science practitioner that are not considered church employee income if the minister, member of the religious order, or Christian Science practitioner has not filed IRS Form 4361 for exemption from self-employment tax.

of Section B of IRS Schedule SE (under portion of HI taxable self-employed earnings (nonfarm) not included in personal income).

Third, it includes an adjustment for definitional differences in the IRS measures of partnership income underlying NIPA nonfarm proprietors' income and HI taxable self-employed earnings. NIPA Table 7.14 reconciles NIPA nonfarm proprietors' income to IRS net profit (less loss) of nonfarm proprietorships and partnerships, plus payments to partners. IRS net profit (less loss) of nonfarm proprietorships is reported on line 31 of IRS Schedule C (and line 3 of IRS Schedule C-EZ); it is also included in line 2 of Section B (or Section A) of IRS Schedule SE. This means that NIPA nonfarm proprietors' income and HI taxable self-employed earnings are based on the same measure of net business income (receipts minus expenses) for sole proprietorships.

This is not the case with respect to nonfarm partnerships. BEA defines IRS net profit (less loss) of nonfarm partnerships, plus payments to partners, as the sum of ordinary business income (loss), net rental real estate income (loss), other net rental income (loss), and guaranteed payments as reported on IRS Form 1065 and Schedule K of IRS Form 1065.¹¹¹ The self-employment earnings (loss) of partners that are included in line 2 of IRS Schedule SE are reported separately on Schedule K-1 (Box 14 of Part III) of IRS Form 1065. For general partners, self-employment earnings from Schedule K-1 equal guaranteed payments plus the partners' share of net business income. However, for limited partners, they equal only the guaranteed payments (CBO, 2012).

We obtain a definitional adjustment ("adjustment for definitional differences in IRS measure of partnership income" in Table 13) by taking the difference between nonfarm IRS net profit (less loss) of partnerships, plus payments to partners, as defined by BEA and implied IRS Schedule K-1 self-employment earnings.¹¹² Implied IRS Schedule K-1 earnings are obtained by taking the difference between IRS Schedule SE, line 2 net business profit (loss) and IRS net business and professions profit (less loss) as reported on line 31 of IRS Schedule C (and line 3 of IRS Schedule C-EZ).

Finally, the reconciliation of NIPA nonfarm proprietors' income to nonfarm HI taxable self-employed earnings includes an adjustment for an IRS Schedule SE reduction in net business profit subject to self-employment taxes. Line 4 of IRS Schedule SE multiplies positive dollar amounts on line 1a and line 2 by 92.35 percent.¹¹³ The corresponding adjustment ("adjustment for reduction in income subject to tax") included in Table 13 is obtained by taking the difference between IRS Schedule SE, line 2 net profit (loss) and the sum of 92.35 percent of (positive)

¹¹¹ See pp. 11-7 through 11-9 in Chapter 11 (Nonfarm Proprietors' Income) of BEA (2015).

¹¹² SOI makes available partnership statistics by industry for 1993 through 2012. See Table 1 ("All Partnerships: Total Assets, Trade or Business Income and Deductions, Portfolio Income, Rental Income, and Total Net Income by Selected Industrial Groups"), available at <http://www.irs.gov/uac/SOI-Tax-Stats-Partnership-Statistics-by-Sector-or-Industry>, for data on partnership ordinary business income (loss), net rental real estate income (loss), other net rental income (loss), and guaranteed payments for all industries and farms. We define farm industries as crop production and animal production.

¹¹³ Net farm profit and net business profit are multiplied by 92.35 percent on line 4 of IRS Schedule SE because a self-employed individual pays the employer and employee halves of Social Security and Medicare taxes. Self-employment taxes are reduced by reducing the income subject to Social Security and Medicare taxes by 7.65 percent, or the sum of OASDI taxes (12.4 percent) and Medicare HI taxes (2.9 percent) divided by two.

business and professions net income from line 31 of IRS Schedule C, all business and professions net loss from line 31 of IRS Schedule C, and 92.35 percent implied self-employment earnings.¹¹⁴

For the years between 1994 and 2003, the difference between our measure of BEA-derived HI taxable self-employed earnings (nonfarm) and HI taxable self-employed earnings (nonfarm) averages -2.1 percent of BEA-derived self-employed earnings (nonfarm). In absolute value, the difference between the two ranges from a high of 4.0 percent in 2004 to a low of 0.0 percent in 2010 (see Table 13). Table 14 rearranges Table 13 to show that BEA-derived HI taxable self-employed earnings (nonfarm) decline as a percent of NIPA nonfarm proprietors' income less methodological adjustments, from 48.7 percent in 1994 to 46.7 percent in 2012. Concomitantly, adjustments for misreporting on income tax returns rise as a percent of NIPA nonfarm proprietors' income less methodological adjustments, from 46.4 percent in 1994 to 48.7 percent in 2012.

Implications for NIPA Personal Income Subject to Payroll Taxes

NIPA personal income less methodological adjustments subject to FICA taxes has generally fallen (see Table 15). Our BEA-derived HI taxable wage and salary earnings have declined from 55.6 percent of NIPA personal income less methodological adjustments in 1994 to 52.4 percent in 2012. At the same time, NIPA personal income subject to SECA taxes has changed little, with our BEA-derived taxable self-employed earnings equaling 3.9 percent of NIPA personal income less methodological adjustments in 1994 and 4.0 percent in 2012. These results are consistent with NIPA compensation of employees less imputed income generally slipping as a share of NIPA personal income less methodological adjustments from 70.5 percent in 1994 to 67.1 percent in 2012 and with NIPA nonfarm proprietors' income less methodological adjustments increasing slightly as share of NIPA personal income less methodological adjustments from 7.5 percent in 1994 to 8.3 percent in 2012 (see Table 1E).

VI. Conclusion

This paper presents alternative measures of some of the largest sources of tax expenditures by reconciling NIPA personal income with IRS AGI. Our reconciliation of NIPA personal income and IRS AGI is done by type of income. The reconciliation items that we identify yield a BEA-derived AGI that closely approximates IRS AGI, with the gap between our BEA-derived AGI and IRS AGI falling as low as 2.1 percent of BEA-derived AGI in 2010 and averaging 4.3 percent of BEA-derived AGI between 1993 and 2012. Among the reconciliation items that we subtract from NIPA personal income to obtain a BEA-derived AGI are components of NIPA personal income that are excluded or deferred from tax. Those components reflect many factors including the expansion of employee contributions to defined contribution pension plans and the growth of both employer and employee contributions to employer-provided health insurance.

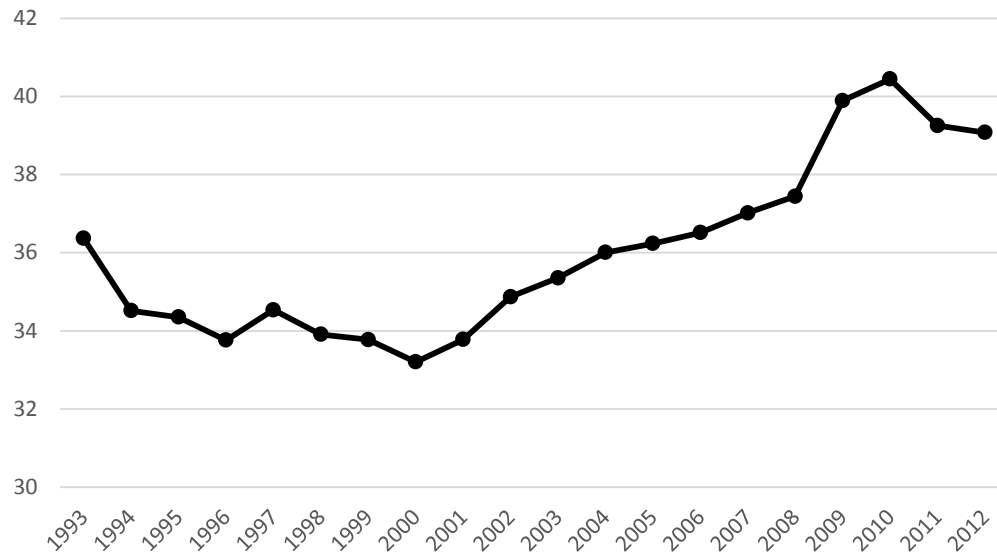
¹¹⁴ Business and professions net income and net loss from line 31 of IRS Schedule C for 1994 to 2012 can be obtained from Table 1.4 of Statistics of Income, Individual Income Tax Returns Publication 1304 (Complete Report), available at [http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-\(Complete-Report\)](http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-(Complete-Report)).

Between 1993 and 2012, we find that the portion of NIPA personal income that is excluded or deferred from tax has increased, from 36.4 percent of NIPA personal income less methodological adjustments in 1993 to 39.1 percent in 2012.

At the same time exclusions and deferrals have increased as a share of NIPA personal income less methodological adjustments, the portion of AGI that is not part of NIPA personal income has also generally increased as a share of NIPA personal income less methodological adjustments. Some of the increase in the portion of AGI not included in NIPA personal income is driven by increases in net gains from the sale of assets as a share of NIPA personal income less methodological adjustments. Some of the increase is also associated with increases in taxable pensions as a share of NIPA personal income less methodological adjustments. As a result, BEA-derived AGI has risen slightly as a share of NIPA personal income less methodological adjustments over the last 20 years, equaling 72.2 percent of NIPA personal income less methodological adjustments in 1993 and 73.8 percent in 2012.

Figure 1. BEA-Derived Current-Income AGI and BEA-Derived AGI, Percent of NIPA Personal Income less Methodological Adjustments

Panel A: Components of Personal Income Excluded or Deferred from Tax



Panel B. BEA-Derived Current-Income AGI

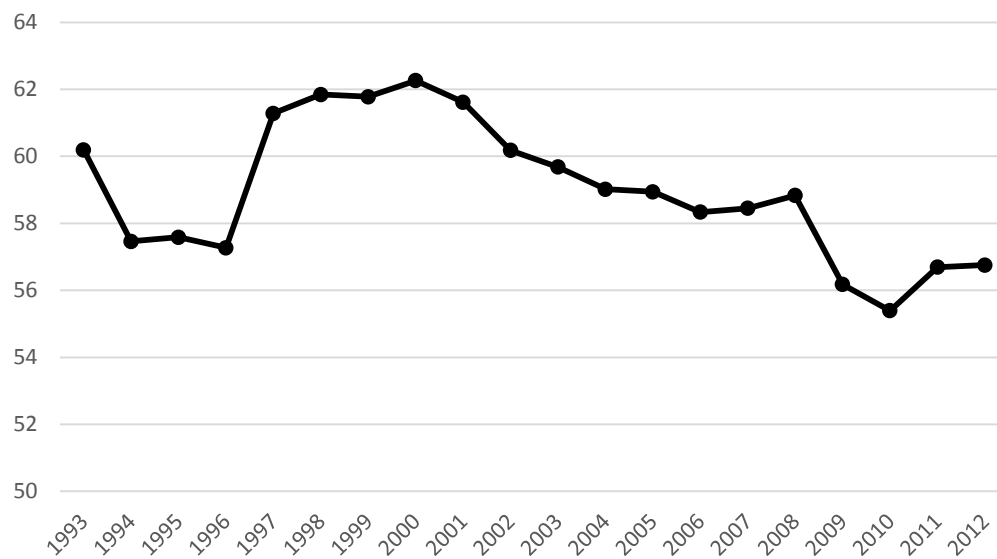
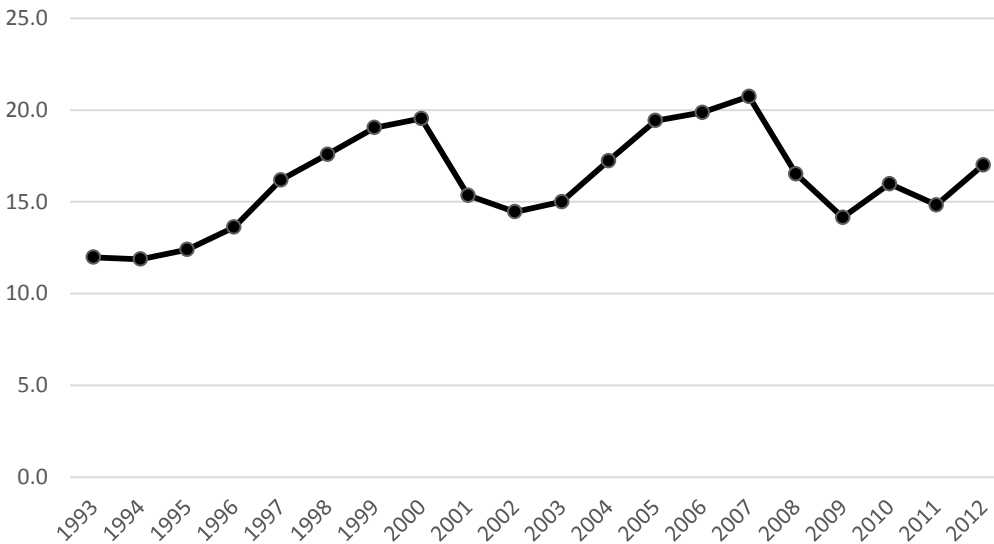
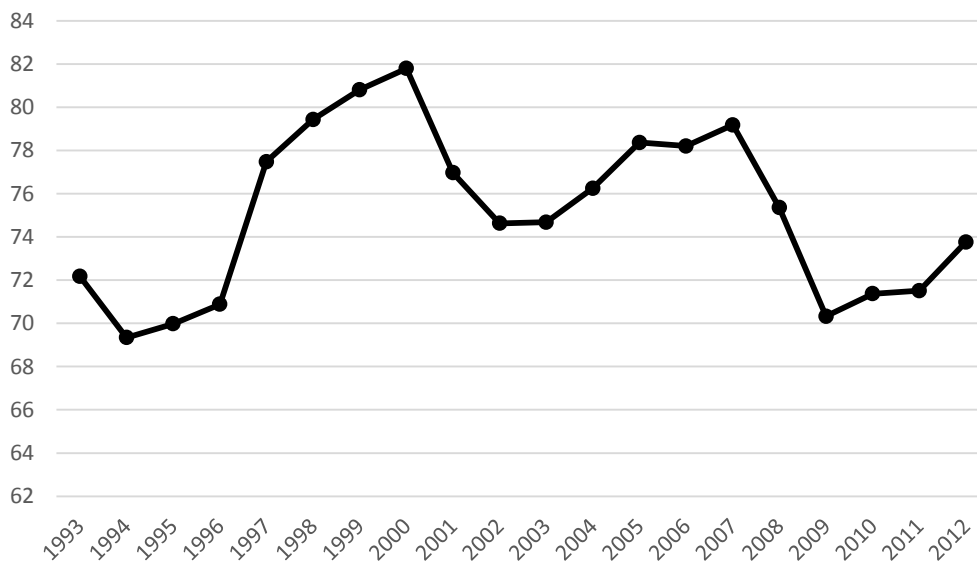


Figure 1. BEA-Derived Current-Income AGI and BEA-Derived AGI, Percent of NIPA Personal Income less Methodological Adjustments, Cont'd.

Panel C. Portion of AGI not included in Personal Income



Panel D. BEA-Derived AGI



Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: AGI = adjusted gross income; BEA = Bureau of Economic Analysis; NIPA = National Income and Product Accounts.

See notes to Table 1 and Table 1B.

Table 1. Reconciliation of NIPA Personal Income and IRS Adjusted Gross Income, Billions of U.S. Dollars

	1993	1997	2001	2005	2009	2012
NIPA Personal Income	5646.9	7075.0	8987.1	10609.4	12087.5	13887.8
Less: Portion of Personal Income not included in AGI						
Nontaxable personal current transfer receipts	723.6	859.3	1054.2	1346.2	1823.8	2032.1
Employer contributions for employee pension and insurance funds	501.7	548.3	734.1	966.8	1077.5	1160.5
Imputed income in personal income	158.6	222.8	294.8	350.3	419.4	577.2
Investment income of life insurance carriers and pension plans	391.2	478.3	504.9	565.8	727.3	752.2
Investment income received by nonprofit institutions or retained by fiduciaries	62.3	87.0	83.1	95.0	93.9	118.2
Differences in accounting treatment between NIPA and tax regulations, net	55.7	29.7	106.1	-50.2	209.3	105.3
Other personal income exempt or excluded from adjusted gross income	196.3	308.3	432.1	612.5	684.0	832.8
Non-schedule E partnership income ^a	12.2	58.9	90.5	215.1	47.3	268.1
Employee contributions to employer-sponsored health insurance ^a	86.0	91.3	131.8	170.2	219.8	238.5
Adjustments for misreporting on income tax returns ^a	187.1	280.4	386.2	479.4	443.9	533.9
Plus: Portion of AGI not included in Personal Income						
Payroll tax adjustment (employee and self-employed contributions for government social insurance)	237.7	297.6	375.2	445.2	506.3	437.3
Net gains from sale of assets	140.3	354.6	324.6	671.7	213.5	613.5
Taxable pensions	194.0	259.7	338.7	420.1	523.3	612.5
S-corporation income	51.1	102.6	130.6	250.7	205.4	321.2
Other types of income	28.2	71.4	118.7	142.8	148.5	193.3
Equals: BEA-derived AGI	3923.5	5196.7	6457.1	7789.0	7938.5	9446.9
IRS AGI^b	3723.3	4969.9	6170.6	7422.5	7626.4	9100.1
Difference as a Percent of BEA-derived AGI	5.1	4.4	4.4	4.7	3.9	3.7

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: NIPA = National Income and Product Accounts; IRS = Internal Revenue Service; AGI = adjusted gross income; TSP = Thrift Savings Plan; BEA = Bureau of Economic Analysis; NA = not available. Table 1 shows the reconciliation of NIPA personal income and IRS adjusted gross income for selected years. Reconciliation data for all years between 1993 and 2012 are available upon request.

- a. This adjustment is not among the reconciliation items included in the discontinued NIPA Table 7.19. It is added to reduce the gap between BEA-derived AGI and IRS AGI. It is discussed in greater detail in next section of the paper.
- b. The discontinued NIPA Table 7.19 also included the calculation of a reallocated IRS AGI. BEA obtained a reallocated IRS AGI by reallocating partnership income to proprietors' income (farm and nonfarm) and estate and trust income to proprietors' income and rental income. For reallocated IRS AGI in 2004 and 2005, see Table 1 and Table 2 in Mark Ledbetter (2007), "Comparison of BEA Estimates of Personal Income and IRS Estimates of Adjusted Gross Income," *Survey of Current Business*, November, pp. 35-41, available at http://www.bea.gov/scb/pdf/2007/11%20November/1107_pi_agi.pdf. BEA calculated its AGI gap by subtracting reallocated IRS AGI from BEA-derived AGI. Table 1 omits reallocated IRS AGI because we are interested in the aggregate reconciliation of NIPA personal income to IRS AGI. In aggregate, reallocated IRS AGI equals IRS AGI.

Table 1A. Selected Components of the Statutory Adjustments

	1993	1997	2001	2005	2009	2012
Total Statutory Adjustments, Billions of U.S. Dollars	36.6	47.0	60.6	109.4	113.0	134.0
<i>As a Percent of Total Statutory Adjustments^a</i>						
Health savings account deduction	0.0	0.0	0.0	0.5	2.3	2.5
Moving expenses	0.0	3.9	3.6	2.8	1.9	2.3
Deductible part of the self-employment tax	32.4	31.7	29.9	20.8	21.1	20.5
Contributions to self-employed retirement plans	22.3	21.8	21.7	19.4	16.7	15.6
Self-employed health insurance deduction	5.7	8.2	13.5	18.0	19.3	19.2
Alimony payments	14.5	13.4	12.3	8.2	8.7	8.3
IRA deductions	23.3	18.4	12.2	11.0	9.9	8.8
Student loan interest	0.0	0.0	4.5	4.6	7.4	8.0
Tuition and fees deduction	0.0	0.0	0.0	9.9	4.8	3.5
Domestic production activities deduction	0.0	0.0	0.0	2.2	5.0	8.3
Other adjustments ^b	1.5	1.9	1.6	1.3	1.1	1.5

Source: Table 1.4 in Statistics of Income, *Individual Income Tax Returns Publication 1304 (Complete Report)*, available at [http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-\(Complete-Report\)#_sec4](http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax>Returns-Publication-1304-(Complete-Report)#_sec4).

Notes: IRA = Individual Retirement Account.

- a. The components of the statutory adjustments not listed in Table 1A are educator expenses; certain business expenses of reservists, performing artists, and fee-based government officials; interest and penalties on early withdrawal of savings; Archer medical savings account deduction; and the foreign housing deduction. In 2012, these excluded components cumulatively account for less than 1.6 percent of total statutory adjustments.
- b. In 2012, other adjustments include the amount of jury duty pay reported on line 21 of IRS Form 1040 that was repaid by employers, deductible expenses related to income on line 21 of IRS Form 1040 from the rental of personal property engaged in for profit, repayments of supplemental unemployment compensation, contributions to section 501(c)(18)(D) pension plans, contributions by certain chaplains to section 403(b) plans, attorney fees and court costs paid for actions involving certain unlawful discrimination claims (but only to the extent of gross income from such actions), and attorney fees and court costs paid in connection with an award from the IRS for information provided that helped the IRS detect tax law violations (but only to the amount of the award includable in gross income).

Table 1B. How Much of NIPA Personal Income is Subject to Tax?

	1993	1997	2001	2005	2009	2012
(Billions of U.S. Dollars)						
NIPA Personal Income	5646.9	7075.0	8987.1	10609.4	12087.5	13887.8
Less: Methodological Adjustments^a	210.9	367.4	597.9	670.1	799.3	1080.0
Equals: NIPA Personal Income less Methodological Adjustments	5436.0	6707.6	8389.2	9939.3	11288.2	12807.8
Less: Components of Personal Income Excluded or Deferred from Tax	1976.8	2316.6	2833.8	3601.3	4502.9	5004.8
Nontaxable personal current transfer receipts	723.6	859.3	1054.2	1346.2	1823.8	2032.1
Employer contributions for insurance funds	293.2	303.1	425.1	583.2	633.5	682.2
Private group health insurance	234.3	248.7	359.0	487.8	552.7	597.2
Other	58.9	54.4	66.1	95.4	80.8	85.0
Investment income of life insurance carriers and pension plans	391.2	478.3	504.9	565.8	727.3	752.2
Investment income received by nonprofit institutions or retained by fiduciaries	62.3	87.0	83.1	95.0	93.9	118.2
Other personal income exempt or excluded from adjusted gross income ^b	96.5	108.6	129.8	190.2	220.9	240.3
Employee contributions to employer-sponsored health insurance	86.0	91.3	131.8	170.2	219.8	238.5
IRA-Keogh excluding capital gains	65.9	62.0	73.8	113.1	150.8	248.3
TSP (employee portion)	3.5	4.8	6.7	14.4	16.7	18.1
401k/403b/408k (employee portion)	46.1	76.9	115.2	139.9	172.2	196.7
Employer contributions for employee pension funds	208.5	245.2	309.0	383.5	444.1	478.2
Defined benefit	155.1	176.3	219.4	272.9	311.2	328.7
Defined contribution	53.4	68.9	89.3	110.6	133.1	149.5

Table 1B. How Much of NIPA Personal Income is Subject to Tax?, Billions of U.S. Dollars, Cont'd.

	1993	1997	2001	2005	2009	2012
(Billions of U.S. Dollars)						
Less: Adjustments for Misreporting on Income Tax Returns	187.1	280.4	386.2	479.4	443.9	533.9
Equals: BEA-derived Current Income AGI	3272.2	4110.6	5169.2	5858.6	6341.4	7269.2
Plus: Portion of AGI not included in Personal Income	651.4	1086.0	1287.9	1930.5	1597.1	2177.8
Payroll tax adjustment (employee and self-employed contributions for government social insurance)	237.7	297.6	375.2	445.2	506.3	437.3
Net gains from sale of assets	140.3	354.6	324.6	671.7	213.5	613.5
Taxable pensions	194.0	259.7	338.7	420.1	523.3	612.5
S-corporation income	51.1	102.6	130.6	250.7	205.4	321.2
Other types of income	28.2	71.4	118.7	142.8	148.5	193.3
Equals: BEA-derived AGI	3923.5	5196.7	6457.1	7789.1	7938.4	9447.0
(As a Percent of NIPA Personal Income less Methodological Adjustments)						
Components of Personal Income Excluded or Deferred from Tax	36.4	34.5	33.8	36.2	39.9	39.1
Nontaxable personal current transfer receipts	13.3	12.8	12.6	13.5	16.2	15.9
Employer contributions for insurance funds	5.4	4.5	5.1	5.9	5.6	5.3
Investment income of life insurance carriers and pension plans	7.2	7.1	6.0	5.7	6.4	5.9
Employee contributions to employer-sponsored health insurance	1.6	1.4	1.6	1.7	1.9	1.9
401k/403b/408k (employee portion)	0.8	1.1	1.4	1.4	1.5	1.5
Employer contributions for employee pension funds	3.8	3.7	3.7	3.9	3.9	3.7

Table 1B. How Much of NIPA Personal Income is Subject to Tax?, Billions of U.S. Dollars, Cont'd.

	1993	1997	2001	2005	2009	2012
(As a Percent of NIPA Personal Income less Methodological Adjustments)						
Adjustments for Misreporting on Income Tax Returns	3.4	4.2	4.6	4.8	3.9	4.2
BEA-derived Current Income AGI	60.2	61.3	61.1	58.9	56.2	56.8
Portion of AGI not included in Personal Income	12.0	16.2	15.4	19.4	14.1	17.0
Payroll tax adjustment (employee and self-employed contributions for government social insurance)	4.4	4.4	4.5	4.5	4.5	3.4
Net gains from sale of assets	2.6	5.3	3.9	6.8	1.9	4.8
Taxable pensions	3.6	3.9	4.0	4.2	4.6	4.8
S-corporation income	0.9	1.5	1.6	2.5	1.8	2.5
Other types of income	0.5	1.1	1.4	1.4	1.3	1.5
BEA-derived AGI	72.2	77.5	77.0	78.4	70.3	73.8
IRS AGI	68.5	74.1	73.6	74.7	67.6	71.1

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: IRA = Individual Retirement Account. Otherwise see notes to Table 1.

- a. Methodological adjustments include imputed income in personal income, Non-schedule E partnership income, S-corporation dividends in personal income, and differences in accounting treatment between NIPA and tax regulations. Differences in accounting treatment between NIPA and tax regulations arise because of differences between NIPA accounting and income tax accounting (e.g., because of differences in the valuation of inventories and depreciation) for the income included in NIPA personal income and IRS AGI. Table 3 through Table 6 in Section III discuss the components of this reconciliation item in greater detail. In Table 1B, differences in accounting treatment between NIPA and tax regulations exclude the earnings, excluding capital gains, of IRA and Keogh plans.
- b. In Table 1B, “other personal income exempt or excluded from adjusted gross income” under components of personal income excluded or deferred from tax includes statutory adjustments, exempt military pay, and tax-exempt interest. It excludes employee contributions to the federal government’s TSP and to private defined contribution (401k/403b/408k) plans, which are included separately under components of personal income excluded or deferred from tax.

Table 1C. How Much of NIPA Personal Income is Subject to Tax?

	1993	1997	2001	2005	2009	2012
(Billions of U.S. Dollars)						
NIPA Personal Income	5646.9	7075.0	8987.1	10609.4	12087.5	13887.8
Less: Methodological Adjustments^a	148.5	190.5	327.1	187.0	477.9	434.2
Equals: NIPA Personal Income less Methodological Adjustments	5498.4	6884.5	8660.0	10422.4	11609.6	13453.6
Less: Nontaxable Personal Current Transfer Receipts	723.6	859.3	1054.2	1346.2	1823.8	2032.1
Plus: Payroll Tax Adjustment (total contributions for government social insurance)	477.4	587.2	733.2	873.3	964.4	951.2
Equals: Net Market Income	5252.3	6612.4	8338.9	9949.5	10750.3	12372.7
Less: Components of Personal Income Excluded or Deferred from Tax	1492.9	1746.8	2137.6	2683.2	3137.3	3486.6
Employer contributions for insurance funds	293.2	303.1	425.1	583.2	633.5	682.2
Investment income of life insurance carriers and pension plans	391.2	478.3	504.9	565.8	727.3	752.2
Investment income received by nonprofit institutions or retained by fiduciaries	62.3	87.0	83.1	95.0	93.9	118.2
Other personal income exempt or excluded from adjusted gross income ^b	96.5	108.6	129.8	190.2	220.9	240.3
Employee contributions to employer-sponsored health insurance	86.0	91.3	131.8	170.2	219.8	238.5
Payroll tax adjustment (employer contributions for government social insurance)	239.7	289.6	358.0	428.1	458.1	513.9
IRA-Keogh excluding capital gains	65.9	62.0	73.8	113.1	150.8	248.3
TSP (employee portion)	3.5	4.8	6.7	14.4	16.7	18.1
401k/403b/408k (employee portion)	46.1	76.9	115.2	139.9	172.2	196.7
Employer contributions for employee pension funds	208.5	245.2	309.0	383.5	444.1	478.2

Table 1C. How Much of NIPA Personal Income is Subject to Tax?, Billions of U.S. Dollars, Cont'd.

	1993	1997	2001	2005	2009	2012
(Billions of U.S. Dollars)						
Less: Business Income Adjustments	198.4	354.7	526.3	711.8	559.9	858.5
Non-schedule E partnership income	12.2	58.9	90.5	215.1	47.3	268.1
Adjustment for S-corporation income ^c	-0.9	15.4	49.6.	17.3	68.7	56.5
Adjustments for Misreporting on Income Tax Returns	187.1	280.4	386.2	479.4	443.9	533.9
Plus: Portion of AGI not included in Personal Income^d	362.5	685.8	782.0	1234.6	885.3	1419.3
Net gains from sale of assets	140.3	354.6	324.6	671.7	213.5	613.5
Taxable pensions	194.0	259.7	338.7	420.1	523.3	612.5
Other types of income ^e	28.2	71.4	118.7	142.8	148.5	193.3
Equals: BEA-derived AGI	3923.5	5196.7	6457.1	7789.1	7938.4	9447.0
(As a Percent of Net Market Income)						
Components of Personal Income Excluded or Deferred from Tax	28.4	26.4	25.6	27.0	29.2	28.2
Business income adjustments	3.8	5.4	6.3	7.2	5.2	6.9
Portion of AGI not included in Personal Income	6.9	10.4	9.4	12.4	8.2	11.5
Net gains from sale of assets	2.7	5.4	3.9	6.8	2.0	5.0
Taxable pensions	3.7	3.9	4.1	4.2	4.9	5.0
Other types of income	0.5	1.1	1.4	1.4	1.4	1.6
BEA-derived AGI	74.7	78.6	77.4	78.3	73.8	76.4
IRS AGI	70.9	75.2	74.0	74.6	70.9	73.6

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: IRA = Individual Retirement Account. Otherwise see notes to Table 1.

- a. Methodological adjustments include imputed income in personal income and differences in accounting treatment between NIPA and tax regulations. Differences in accounting treatment between NIPA and tax regulations arise because of differences between NIPA accounting and income tax accounting (e.g., because of differences in the valuation of inventories and depreciation) for the income included in NIPA personal income and IRS AGI. Table 3 through Table 6 in Section III discuss the components of this reconciliation item in greater detail. In Table 1C, differences in accounting treatment between NIPA and tax regulations exclude the earnings, excluding capital gains, of IRA and Keogh plans.
- b. In Table 1C, “other personal income exempt or excluded from adjusted gross income” under components of personal income excluded or deferred from tax includes statutory adjustments (see Table 1A for the components of statutory adjustments), exempt military pay, and tax-exempt interest. It excludes employee contributions to the federal government’s TSP and to private defined contribution (401k/403b/408k) plans, which are listed separately under components of personal income exclude or deferred from tax.
- c. The adjustment for S-corporation income is the difference between S-corporation dividends in personal income and S-corporation income. Both S-corporation dividends in personal income and S-corporation income are explained in greater detail in Section III.
- d. In Table 1B, the portion of AGI not included in personal income also includes employee and self-employed contributions for government social insurance and S-corporation income. In Table 1C, it excludes employee and self-employed contributions for government social insurance and S-corporation income. In Table 1C, employee and self-employed contributions for government social insurance are obtained by taking the difference between total contributions for government social insurance and employer contributions for government social insurance (listed among components of personal income excluded or deferred from tax).
- e. Under the portion of AGI not included in personal income, other types of income include supplemental unemployment insurance benefits, the foreign-earned income of U.S citizens living abroad for more than one year, and miscellaneous other types of income that are included in AGI but not NIPA personal income (e.g., alimony received, state income tax refunds).

Table 1D. Decomposition of 2012 BEA-Derived AGI

	Personal Income							AGI not in Personal Income ^b
	Total	Com- pensation of Employees	Proprietors' Income	Rental Income	Personal Income Receipts on Assets	Taxable Unemployment Compensation and Social Security	Other Personal Income not in AGI ^a	
(Billions of U.S. Dollars)								
NIPA Personal Income	13887.8	8606.5	1260.2	533.0	2088.6	307.2	1080.9	11.4
Less: Methodological Adjustments	1080.0	18.1	129.2	351.2	581.4			
Equals: NIPA Personal Income less Methodological Adjustments	12807.8	8588.4	1131.0	181.8	1507.2	307.2	1080.9	11.4
Less: Components of Personal Income Excluded or Deferred from Tax	5004.8	1648.9	8.7	13.7	1167.3		2166.1	
Nontaxable personal current transfer receipts	2032.1						2032.1	
Employer contributions for insurance funds	682.2	682.2						
Private group health insurance	597.2	597.2						
Other	85.0	85.0						
Investment income of life insurance carriers and pension plans	752.2			-0.2	752.4			
Investment income received by nonprofit institutions or retained by fiduciaries	118.2		8.7	13.9	95.5			
Other personal income exempt or excluded from adjusted gross income	240.3	35.2			71.1		134.0	

Table 1D. Decomposition of 2012 BEA-Derived AGI, Cont'd.

Personal Income								AGI not in Personal Income ^b
Total	Com- pensation of Employees	Proprietors' Income	Rental Income	Personal Income Receipts on Assets	Taxable Unemployment Compensation and Social Security	Other Personal Income not in AGI ^a		
(Billions of U.S. Dollars)								
Employee contributions to employer-sponsored health insurance	238.5	238.5						
IRA-Keogh excluding capital gains	248.3				248.3			
TSP (employee portion)	18.1	18.1						
401k/403b/408k (employee portion)	196.7	196.7						
Employer contributions for employee pension funds	478.2	478.2						
Defined benefit	328.7	328.7						
Defined contribution	149.5	149.5						
Less: Adjustments for Misreporting on Income Tax Returns	533.9		533.9					
Equals: BEA-derived Current Income AGI	7269.2	6939.5	588.4	168.0	339.9	307.2	-1085.2	11.4
Plus: Portion of AGI not included in Personal Income	2177.8	-452.1	3.7				951.2	1675.0
Equals: BEA-derived AGI	9447.0	6487.4	592.0	168.0	339.9	307.2	-134.0	1686.4

Table 1D. Decomposition of 2012 BEA-Derived AGI, Cont'd.

	Personal Income						AGI not in Personal Income ^b
	Total	Com- pensation of Employees	Proprietors' Income	Rental Income	Personal Income Receipts on Assets	Taxable Unemployment Compensation and Social Security	Other Personal Income not in AGI ^a
(As a Percent of NIPA Personal Income less Methodological Adjustments)							
Components of Personal Income Excluded or Deferred from Tax	39.1	19.2	0.8	7.6	77.4		
Adjustments for Misreporting on Income Tax Returns	4.2	0.0	47.2	0.0	0.0		
BEA-derived Current Income AGI	56.8	80.8	52.0	92.4	22.6		
Portion of AGI not included in Personal Income	17.0	-5.3	0.3	0.0	0.0		
BEA-derived AGI	73.8	75.5	52.3	92.4	22.6		
IRS AGI	71.1	73.4	45.3	29.2	24.7		

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 1 and Table 1B. Table B1 in Appendix B provides a more detailed decomposition of 2012 BEA-derived AGI by source.

- a. Other personal income not in AGI includes nontaxable personal current transfer receipts (government and business), statutory adjustments, and total (employer and employee) contributions for government social insurance.
- b. AGI not in personal income includes net gains from the sale of assets, taxable pensions, S-corporation income, and other types of income.

Table 1E. Changes in the Composition of NIPA Personal Income

	1993	1997	2001	2005	2009	2012
(Billions of U.S. Dollars)						
NIPA Personal Income less Methodological Adjustments	5436.0	6707.6	8389.2	9939.3	11288.2	12807.8
Compensation of Employees	3812.6	4705.6	6036.4	7073.8	7770.1	8588.4
Nonfarm Proprietors' Income	387.5	536.7	700.3	905.0	840.6	1067.8
Farm Proprietors' Income	37.4	26.2	25.3	39.2	26.9	63.2
Rental Income	54.8	65.7	61.6	67.2	118.5	181.8
Personal Income Receipts on Assets	830.4	1011.4	110.7	1215.4	1356.2	1507.2
Other ^a	313.4	362.0	454.9	638.7	1175.8	1399.5
BEA-derived AGI	3923.5	5196.7	6457.1	7789.0	7938.5	9446.9
BEA-derived Salaries and Wages	2942.2	3713.7	4703.8	5373.6	5847.0	6487.3
BEA-derived Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships	197.4	252.7	312.0	423.1	392.6	528.8
BEA-derived Net Income (Less Loss) of Farms	37.4	26.2	25.3	39.2	26.9	63.2
BEA-derived Total Rental and Royalty Net Income (Less Loss)	50.6	58.9	54.0	60.2	109.5	168.0
BEA-derived Taxable Interest Income and Dividend Income	272.4	346.3	404.3	395.5	326.8	339.9
Other ^a	423.6	798.8	957.7	1497.5	1235.7	1859.6
IRS AGI	3723.3	4969.9	6170.6	7422.5	7626.4	9100.1
IRS Salaries and Wages	2892.1	3613.9	4565.2	5155.4	5707.1	6301.4
IRS Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships	197.4	252.4	311.2	421.3	384.6	518.0
IRS Net Income (Less Loss) of Farms	-3.7	-6.8	-11.0	-12.2	-14.1	-5.5
IRS Total Rental and Royalty Net Income (Less Loss)	13.4	22.4	32.9	28.2	22.5	53.1
IRS Taxable Interest Income and Dividend Income	210.9	292.2	317.7	328.9	331.5	372.2
Other ^a	413.2	795.9	954.5	1500.8	1194.9	1861.0

Table 1E. Changes in the Composition of NIPA Personal Income, Cont'd.

	1993	1997	2001	2005	2009	2012
As a Percent of Total NIPA Personal Income						
less Methodological Adjustments						
Compensation of Employees	70.1	70.2	72.0	71.2	68.8	67.1
Nonfarm Proprietors' Income	7.1	8.0	8.3	9.1	7.4	8.3
Farm Proprietors' Income	0.7	0.4	0.3	0.4	0.2	0.5
Rental Income	1.0	1.0	0.7	0.7	1.1	1.4
Personal Income Receipts on Assets	15.3	15.1	13.2	12.2	12.0	11.8
Other ^a	5.8	5.4	5.4	6.4	10.4	10.9
As a Percent of Total BEA-derived AGI						
BEA-derived Salaries and Wages	75.0	71.5	72.8	69.0	73.7	68.7
Income and BEA-derived Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships	5.0	4.9	4.8	5.4	4.9	5.6
BEA-derived Net Income (Less Loss) of Farms	1.0	0.5	0.4	0.5	0.3	0.7
BEA-derived Total Rental and Royalty Net Income (Less Loss)	1.3	1.1	0.8	0.8	1.4	1.8
BEA-derived Taxable Interest Income and Dividend Income	6.9	6.7	6.3	5.1	4.1	3.6
Other ^a	10.8	15.4	14.8	19.2	15.6	19.7
As a Percent of Total IRS AGI						
IRS Salaries and Wages	77.7	72.7	74.0	69.5	74.8	69.2
IRS Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships	5.3	5.1	5.0	5.7	5.0	5.7
IRS Net Income (Less Loss) of Farms	-0.1	-0.1	-0.2	-0.2	-0.2	-0.1
IRS Total Rental and Royalty Net Income (Less Loss)	0.4	0.5	0.5	0.4	0.3	0.6
IRS Taxable Interest Income and Dividend Income	5.7	5.9	5.1	4.4	4.3	4.1
Other ^a	11.1	16.0	15.5	20.2	15.7	20.5

Table 1E. Changes in the Composition of NIPA Personal Income, Cont'd.

	1993	1997	2001	2005	2009	2012
BEA-derived AGI as a Percent of NIPA Personal Income less Methodological Adjustments (by income source)						
BEA-derived Salaries and Wages	77.2 ^b	78.9	77.9	76.0	75.3	75.5
BEA-derived Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships	51.0	47.1	44.5	46.8	46.7	49.5
BEA-derived Net Income (Less Loss) of Farms	100.0	100.0	100.0	100.0	100.0	100.0
BEA-derived Total Rental and Royalty Net Income (Less Loss)	92.2	89.7	87.6	89.5	92.4	92.4
BEA-derived Taxable Interest Income and Dividend Income	32.8	34.2	36.4	32.5	34.1	22.6
Other ^a						

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: IRA = Individual Retirement Account. Otherwise see notes to Table 1.

- a. Following Table 1D, "other" in Table 1E is the sum of taxable unemployment compensation and social security, other personal income not in AGI, and AGI not in personal income.
- b. Calculated as BEA-derived salaries and wages divided by NIPA compensation of employees less methodological adjustments. Hence $100 * 2942.2 / 3812.6 = 77.2$ percent.

Table 2. Reconciliation of NIPA Compensation of Employees and IRS Salaries and Wages, Billions of U.S. Dollars

	1993	1997	2001	2005	2009	2012
NIPA Compensation of Employees	3820.7	4714.7	6046.5	7086.9	7787.0	8606.5
Less: Portion of Personal Income not included in AGI						
Employer contributions for employee pension and insurance funds	501.7	548.3	734.1	966.8	1077.5	1160.5
Imputed income in personal income ^a	8.1	9.1	10.1	13.1	16.9	18.1
Other personal income exempt or excluded from adjusted gross income	63.0	94.3	135.6	177.4	223.2	250.0
Exempt military pay	13.4	12.6	13.7	23.1	34.3	35.2
TSP (employee portion)	3.5	4.8	6.7	14.4	16.7	18.1
401k/403b/408k (employee portion)	46.1	76.9	115.2	139.9	172.2	196.7
Employee contributions to employer-sponsored health insurance ^b	86.0	91.3	131.8	170.2	219.8	238.5
Plus: Portion of AGI not included in Personal Income						
Payroll tax adjustment (employer contributions for government social insurance)	-239.7	-289.6	-358.0	-428.1	-458.1	-513.9
Other types of income	20.0	31.6	26.9	42.2	55.5	61.8
Equals: BEA-derived Salaries and Wages	2942.2	3713.7	4703.8	5373.6	5847.0	6487.3
IRS Salaries and Wages	2892.1	3613.9	4565.2	5155.4	5707.1	6301.4
Difference as a Percent of BEA-derived Salaries and Wages	1.7	2.7	2.9	4.1	2.4	2.9

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 1.

- a. Imputed income in personal income includes food furnished to employees, standard clothing issued to military personnel, and employees' lodging.
- b. This adjustment is not among the reconciliation items included in the discontinued NIPA Table 7.19. It is added to reduce the gap between BEA-derived AGI and IRS AGI.

Table 2A. Components of NIPA Supplements to Wages and Salaries, Billions of U.S. Dollars

	1993	1997	2001	2005	2009	2012
Employer Contributions for Employee Pension and Insurance Funds	501.7	548.3	734.1	966.7	1077.6	1160.4
Federal pension plans (civilian and military)	32.2	30.2	34.4	43.9	56.3	67.8
Federal defined benefit pension plans	30.7	28.0	31.1	39.3	50.0	60.1
Federal defined contribution pension plans	1.4	2.2	3.2	4.6	6.3	7.7
State and local employee retirement	69.6	88.5	117.9	158.2	184.6	200.2
State and local defined benefit pension plans	67.3	84.9	112.1	150.1	174.4	190.1
State and local defined contribution pension plans	2.4	3.6	5.7	8.1	10.3	10.1
Private pension plans	106.7	126.5	156.7	181.4	203.2	210.2
Private defined benefit pension plans	57.1	63.4	76.2	83.5	86.8	78.5
Private defined contribution pension plans	49.6	63.1	80.4	97.9	116.5	131.7
Private group health insurance	234.3	248.7	359.0	487.8	552.7	597.2
Publicly administered government employee insurance funds	0.0	0.0	0.0	10.8	10.8	10.5
Private group life insurance	8.6	10.8	13.0	13.2	11.1	12.4
Private workers' compensation	47.0	41.4	52.2	70.9	57.9	61.6
Private supplemental unemployment insurance	3.3	2.2	0.9	0.5	1.0	0.5
 Employer Contributions for Government Social Insurance	 239.5	 289.4	 357.8	 428.0	 458.0	 513.7
Old-age, survivors, and disability (OASDI) insurance	153.2	191.5	243.8	276.8	307.6	332.5
Railroad retirement and pension benefit guaranty	3.5	3.7	3.7	3.8	5.1	5.9
Federal health insurance	40.3	54.1	69.1	78.9	86.3	95.7
State, federal, and railroad unemployment insurance	28.0	28.1	27.6	43.8	38.9	59.2
Federal and state workers' compensation	12.9	11.1	12.3	21.6	15.2	14.8
Other ^a	1.6	0.9	1.3	3.1	4.9	5.6
 Total Supplements to Wages and Salaries	 741.2	 837.7	 1091.9	 1394.7	 1535.6	 1674.1
 Total Compensation of Employees	 3820.7	 4714.7	 6046.5	 7086.8	 7787.0	 8606.5

Source: NIPA Table 7.8, NIPA Table 7.22 through NIPA Table 7.25

Notes: NIPA = National Income and Product Accounts.

a. Other includes veterans life insurance, military medical insurance, and temporary disability insurance.

Table 2B. Components of Imputed Income in NIPA Compensation of Employees, Percent of Total Imputed Income

	1993	1997	2001	2005	2009	2012
Food furnished to employees, including military and domestic service	90.1	90.1	90.1	92.4	92.3	94.5
Standard clothing issued to military personnel	3.7	3.3	3.0	3.1	3.0	2.2
Employees' lodging	6.2	6.6	6.9	4.6	4.7	3.3

Source: Line 203 through line 205 in NIPA Table 7.12 at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>.

Notes: NIPA = National Income and Product Accounts.

Table 2C. How Much of NIPA Compensation of Employees is Subject to Tax?

	1993	1997	2001	2005	2009	2012
(Billions of U.S. Dollars)						
NIPA Compensation of Employees	3820.7	4714.7	6046.5	7086.9	7787.0	8606.5
Less: Imputed Income in Personal Income	8.1	9.1	10.1	13.1	16.9	18.1
Equals: NIPA Compensation of Employees less Imputed Income	3812.6	4705.6	6036.4	7073.8	7770.1	8588.4
Less: Net Employer Contributions to Pension and Insurance Funds and Government Social Insurance	739.6	835.7	1091.3	1394.0	1534.8	1673.9
Employer contributions for employee pension and insurance funds	501.7	548.3	734.1	966.8	1077.5	1160.5
Pension funds ^a	208.5	245.2	309.0	383.5	444.1	478.2
Defined benefit	155.1	176.3	219.4	272.9	311.2	328.7
Defined contribution	53.4	68.9	89.3	110.6	133.1	149.5
Insurance funds ^b	293.2	303.1	425.1	583.2	633.5	682.2
Private group health insurance	234.3	248.7	359.0	487.8	552.7	597.2
Other insurance	58.9	54.4	66.1	95.4	80.8	85.0
Payroll tax adjustment (employer contributions for government social insurance)	239.7	289.6	358.0	428.1	458.1	513.9
Supplemental unemployment insurance	-1.8	-2.2	-0.8	-0.9	-0.8	-0.5
Less: Other Untaxed or Deferred Components of NIPA Compensation of Employees	149.0	185.6	267.5	347.5	443.0	488.5
Exempt military pay	13.4	12.6	13.7	23.1	34.3	35.2
TSP (employee portion)	3.5	4.8	6.7	14.4	16.7	18.1
401k/403b/408k (employee portion)	46.1	76.9	115.2	139.9	172.2	196.7
Employee contributions to employer-sponsored health insurance	86.0	91.3	131.8	170.2	219.8	238.5

Table 2C. How Much of NIPA Compensation of Employees is Subject to Tax?, Cont'd.

	1993	1997	2001	2005	2009	2012
Equals: BEA-derived Salaries and Wages (Domestic)	2923.9	3684.4	4677.7	5332.2	5792.3	6426.0
IRS Salaries and Wages	2892.1	3613.9	4565.2	5155.4	5707.1	6301.4
Less: Foreign-Earned Income of U.S. Citizens Living Abroad for More Than 1 Year	18.2	29.4	26.1	41.3	54.8	61.3
Equals: IRS Salaries and Wages (Domestic)	2873.9	3584.5	4539.1	5114.1	5652.3	6240.1

Table 2C. How Much of NIPA Compensation of Employees is Subject to Tax?, Cont'd.

	1993	1997	2001	2005	2009	2012
(As a Percent of NIPA Compensation of Employees less Imputed Income)						
Net Employer Contributions to Pension and Insurance Funds and Government Social Insurance	19.4	17.8	18.1	19.7	19.8	19.5
Employer contributions for employee pension and insurance funds	13.2	11.7	12.2	13.7	13.9	13.5
Defined benefit pension funds	4.1	3.7	3.6	3.9	4.0	3.8
Defined contribution pension funds	1.4	1.5	1.5	1.6	1.7	1.7
Private group health insurance	6.1	5.3	5.9	6.9	7.1	7.0
Other insurance	1.5	1.2	1.1	1.3	1.0	1.0
Payroll tax adjustment (employer contributions for government social insurance)	6.3	6.2	5.9	6.1	5.9	6.0
Other Untaxed or Deferred Components of NIPA Compensation of Employees	3.9	3.9	4.4	4.9	5.7	5.7
Exempt military pay	0.4	0.3	0.2	0.3	0.4	0.4
TSP (employee portion)	0.1	0.1	0.1	0.2	0.2	0.2
401k/403b/408k (employee portion)	1.2	1.6	1.9	2.0	2.2	2.3
Employee contributions to employer-sponsored health insurance	2.3	1.9	2.2	2.4	2.8	2.8
BEA-derived Salaries and Wages (Domestic)	76.7	78.3	77.5	75.4	74.5	74.8
IRS Salaries and Wages (Domestic)	75.4	76.2	75.2	72.3	72.7	72.7

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 2.

- a. See Table 2A. Employer contributions for pension funds include employer contributions to federal pension plans, state and local employee retirement, and private pension plans.
- b. See Table 2A. Employer contributions for insurance funds include employer contributions for private group health insurance (by far the largest component), publicly administered government employee insurance funds, private group life insurance, private workers' compensation, and private supplemental unemployment insurance.

Table 3. Reconciliation of NIPA Nonfarm Proprietors' Income and IRS Net Income (Less Loss) of Business and Professions and Partnerships, Billions of U.S. Dollars

	1993	1997	2001	2005	2009	2012
NIPA Nonfarm Proprietors' Income	399.2	555.5	804.7	932.6	937.5	1187.9
Less: Portion of Personal Income not included in AGI						
Investment income received by nonprofit institutions or retained by fiduciaries	3.6	4.5	3.4	4.6	7.1	8.7
Fiduciary Income	1.0	1.2	1.4	1.5	1.5	1.8
Nonprofit Income	2.6	3.3	2.0	3.1	5.6	6.9
Differences in accounting treatment between NIPA and tax regulations, net	-0.4	-40.1	14.0	-187.6	49.6	-148.0
Inventory valuation adjustment	-0.4	1.0	1.0	-4.6	-4.6	-10.0
Nonfarm (or farm) proprietors' income ^a	-18.9	-70.3	-61.0	-249.3	-86.1	-297.1
Capital consumption adjustment	18.9	29.2	74.0	66.3	140.3	159.1
Non-schedule E partnership income ^b	12.2	58.9	90.5	215.1	47.3	268.1
Adjustments for misreporting on income tax returns ^b	187.1	280.4	386.2	479.4	443.9	533.9
Plus: Portion of AGI not included in Personal Income						
Other types of income	0.7	0.9	1.3	2.1	3.0	3.7
Equals: BEA-derived Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships	197.4	252.7	312.0	423.1	392.6	528.8
IRS Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships	197.4	252.4	311.2	421.3	384.6	518.0
Difference as a Percent of BEA-derived Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships	0.0	0.1	0.2	0.4	2.0	2.0

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 1.

- a. Table 3 consolidates a number of adjustments from NIPA Table 7.14 under the heading nonfarm proprietors' income. Those adjustments include post-tabulation amendments and revisions, depletion of domestic minerals, an adjustment to depreciate expenditures for mining exploration, shafts, and wells, bad debt expense, an adjustment to depreciate expenditures for intellectual property products, and a net disaster adjustment (see Table 3A).
- b. This adjustment is not among the reconciliation items included in the discontinued NIPA Table 7.19. It is added to reduce the gap between BEA-derived AGI and IRS AGI.

Table 3A. Components of “Nonfarm Proprietors’ Income” under Differences in Accounting Treatment between NIPA and Tax Regulations, Net, Billions of U.S. Dollars

	1993	1997	2001	2005	2009	2012
Post-tabulation amendments and revisions ^a	-24.2	-84.6	-90.3	-296.5	-129.8	-340.5
Depletion on domestic minerals	0.8	0.9	1.1	1.9	1.4	2.2
Adjustment to depreciate expenditures for mining exploration, shafts, and wells	-1.2	2.9	6.5	25.5	-4.0	12.0
Bad debt expense	3.7	6.9	13.4	15.3	40.3	25
Adjustment to depreciate expenditures for intellectual property products	2.0	3.6	8.4	7.1	6.0	5.5
Disaster adjustments (net)	0.0	0.0	-0.1	-2.6	0.0	-1.3
Total: Nonfarm proprietors’ income (from Table 3)	-18.9	-70.3	-61.0	-249.3	-86.1	-297.1

Source: See line 3 through line 6 and line 9 through line 10 in NIPA Table 7.14 at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>.

Notes: NIPA = National Income and Product Accounts.

- a. Post-tabulation amendments and revisions account for several adjustments to IRS net profit (less loss) of nonfarm proprietorships and partnerships, plus payments to partners, including adjustments for portfolio interest (for interest received by financial partnerships), corporate partners net interest (reflecting the inclusion of corporate partnership income in corporate profits and not nonfarm proprietors’ income), double counting (for interest received by partnerships from other partnerships), meals and entertainment, and foreign distributions (removing from partnership income any income that is from a foreign source). For a description of each adjustment, see Table 11.4 (pp. 11-16 and 11-17) in U.S. Bureau of Economic Analysis (2015), *NIPA Handbook: Concepts and Methods of the U.S. National Income and Product Accounts*, available at http://www.bea.gov/methodologies/index.htm#national_meth.

Table 3B. How Much of NIPA Nonfarm Proprietors' Income is Subject to Tax?

	1993	1997	2001	2005	2009	2012
(Billions of U.S. Dollars)						
NIPA Nonfarm Proprietors' Income	399.2	555.5	804.7	932.6	937.5	1187.9
Less: Methodological Adjustments	11.7	18.8	104.4	27.6	96.9	120.1
Differences in accounting treatment between NIPA and tax regulations, net	-0.4	-40.1	14.0	-187.6	49.6	-148.0
Inventory valuation adjustment	-0.4	1.0	1.0	-4.6	-4.6	-10.0
Nonfarm (or farm) proprietors' income	-18.9	-70.3	-61.0	-249.3	-86.1	-297.1
Capital consumption adjustment	18.9	29.2	74.0	66.3	140.3	159.1
Non-schedule E partnership income	12.2	58.9	90.5	215.1	47.3	268.1
Equals: NIPA Nonfarm Proprietors' Income less Methodological Adjustments	387.5	536.7	700.3	905.0	840.6	1067.8
Less: Untaxed or Deferred Components of NIPA Nonfarm Proprietors' Income	3.6	4.5	3.4	4.6	7.1	8.7
Investment income received by nonprofit institutions or retained by fiduciaries	3.6	4.5	3.4	4.6	7.1	8.7
Fiduciary Income	1.0	1.2	1.4	1.5	1.5	1.8
Nonprofit Income	2.6	3.3	2.0	3.1	5.6	6.9
Less: Adjustments for Misreporting on Income Tax Returns	187.1	280.4	386.2	479.4	443.9	533.9
Plus: Foreign-earned Self-Employment Income	0.7	0.9	1.3	2.1	3.0	3.7
Equals: BEA-derived Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships	197.4	252.7	312.0	423.1	392.6	528.8
IRS Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships	197.4	252.4	311.2	421.3	384.6	518.0

Table 3B. How Much of NIPA Nonfarm Proprietors' Income is Subject to Tax?, Cont'd.

	1993	1997	2001	2005	2009	2012
(As a Percent of NIPA Nonfarm Proprietors' Income less Methodological Adjustments)						
Untaxed or Deferred Components of NIPA Personal Income Receipts on Assets	0.9	0.8	0.5	0.5	0.8	0.8
Investment income received by nonprofit institutions or retained by fiduciaries	0.9	0.8	0.5	0.5	0.8	0.8
Fiduciary Income	0.3	0.2	0.2	0.2	0.2	0.2
Nonprofit Income	0.7	0.6	0.3	0.3	0.7	0.6
Adjustments for Misreporting on Income Tax Returns	48.3	52.2	55.2	53.0	52.8	50.0
BEA-derived Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships	51.0	47.1	44.5	46.8	46.7	49.5
IRS Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships	51.0	47.0	44.4	46.5	45.8	48.5

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 3.

Table 3C. How Much of S-Corporation Income and NIPA Nonfarm Proprietors' Income are Subject to Tax?

	1993	1997	2001	2005	2009	2012
(Billions of U.S. Dollars)						
NIPA Nonfarm Proprietors' Income	399.2	555.5	804.7	932.6	937.5	1187.9
Less: Methodological Adjustments	-0.4	-40.1	14.0	-187.6	49.6	-148.0
Inventory valuation adjustment	-0.4	1.0	1.0	-4.6	-4.6	-10.0
Nonfarm (or farm) proprietors' income	-18.9	-70.3	-61.0	-249.3	-86.1	-297.1
Capital consumption adjustment	18.9	29.2	74.0	66.3	140.3	159.1
Plus: S-Corporation Dividends in Personal Income	50.2	118.1	180.3	268.0	274.2	377.7
Equals: S-Corporation Dividends and NIPA Nonfarm Proprietors' Income less Methodological Adjustments	449.9	713.7	971.0	1388.2	1162.1	1713.5
Less: Untaxed or Deferred Components of NIPA Nonfarm Proprietors' Income	3.6	4.5	3.4	4.6	7.1	8.7
Less: Adjustments for Misreporting on Income Tax Returns	187.1	280.4	386.2	479.4	443.9	533.9
Less: Adjustments for S-corporation and Partnership Differences	11.3	74.3	140.1	232.4	116.0	324.6
Non-schedule E partnership income	12.2	58.9	90.5	215.1	47.3	268.1
Adjustment for S-corporation income ^a	-0.9	15.4	49.6	17.3	68.7	56.5
Less: Statutory Adjustments	22.1	29.0	39.4	66.0	70.2	85.2
Deductible part of the self-employment tax	11.9	14.9	18.1	22.7	23.8	27.5
Contributions to self-employed retirement plans	8.2	10.2	13.1	21.3	18.9	20.8
Self-employed health insurance deduction	2.1	3.9	8.2	19.6	21.8	25.7
Domestic production activities deduction	0.0	0.0	0.0	2.4	5.7	11.2

Table 3C. How Much of S-Corporation Income and NIPA Nonfarm Proprietors' Income are Subject to Tax?, Cont'd.

	1993	1997	2001	2005	2009	2012
Equals: S-Corporation Income and BEA-derived Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships (Domestic)^b	225.8	325.5	401.9	605.8	524.9	761.1
IRS Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships	197.4	252.4	311.2	421.3	384.6	518.0
Plus: S-Corporation Income	51.1	102.6	130.6	250.7	205.4	321.2
Less: Foreign-earned Self-Employment Income	0.7	0.9	1.3	2.1	3.0	3.7
Less: Statutory Adjustments	22.1	29.0	39.4	66.0	70.2	85.2
Adjusted IRS S-Corporation Income and Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships (Domestic)	225.8	325.2	401.1	603.9	516.9	750.3

Table 3C. How Much of S-Corporation Income and NIPA Nonfarm Proprietors' Income are Subject to Tax?, Cont'd.

	1993	1997	2001	2005	2009	2012
(As a Percent of S-Corporation Dividends and NIPA Nonfarm Proprietors' Income less Methodological Adjustments)						
Untaxed or Deferred Components of NIPA Personal Income Receipts on Assets	0.8	0.6	0.4	0.3	0.6	0.5
Adjustments for Misreporting on Income Tax Returns	41.6	39.3	39.8	34.5	38.2	31.2
Adjustments for S-corporation and Partnership Differences	2.5	10.4	14.4	16.7	10.0	18.9
Statutory Adjustments	4.9	4.1	4.1	4.8	6.0	5.0
S-Corporation Income and BEA-derived Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships (Domestic)^a	50.2	45.6	41.4	43.6	45.2	44.4
Adjusted IRS S-Corporation Income and Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships (Domestic)	50.2	45.6	41.3	43.5	44.5	43.8

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 3.

- a. The adjustment for S-corporation income is the difference between S-corporation dividends in personal income and S-corporation income. Both S-corporation dividends in personal income and S-corporation income are explained in greater detail later in Section III. Subtracting the adjustment for S-corporation income from S-corporation dividends in personal income gives S-corporation income.
- b. Table 3C excludes foreign-earned self-employment income from BEA-derived net income (less loss) of nonfarm proprietorships and partnerships

Table 4. Reconciliation of NIPA Farm Proprietors' Income and IRS Net Income (Less Loss) of Farms, Billions of U.S. Dollars

	1993	1997	2001	2005	2009	2012
NIPA Farm Proprietors' Income	31.4	32.4	32.1	46.4	35.5	72.3
Less: Portion of Personal Income not included in AGI						
Imputed income in personal income ^a	0.2	0.2	0.1	0.2	0.1	0.2
Differences in accounting treatment between NIPA and tax regulations, net	-6.2	6.0	6.7	7.0	8.5	8.9
Nonfarm (or farm) proprietors' income	3.2	4.2	6.1	7.7	10.1	10.6
Excess farm inventories	-6.2	3.2	0.0	0.2	-1.6	-8.6
Excess tax depreciation	0.7	2.1	3.3	2.4	4.9	10.5 ^b
Capital consumption adjustment	-5.5	-5.0	-4.6	-5.5	-6.4	-5.8
Gain on Section 1231 assets	1.6	1.5	1.9	2.2	1.6	2.2
Equals: BEA-derived Net Income (Less Loss) of Farms	37.4	26.2	25.3	39.2	26.9	63.2
IRS Net Income (Less Loss) of Farms	-3.7	-6.8	-11.0	-12.2	-14.4	-5.5
Difference as a Percent of BEA-derived Net Income (Less Loss) of Farms	109.8	126.2	143.5	131.1	152.4	108.8

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 1.

a. Imputed income in personal income includes farm products consumed on farms.

b. Excess tax depreciation was calculated for 2012 using 2011 data for the ratio of sole proprietorship and partnership IRS farm depreciation to total IRS farm depreciation. See the text for an explanation of the calculation of excess tax depreciation for Table 4.

Table 5. Reconciliation of NIPA Rental Income and IRS Total Rental and Royalty Net Income (Less Loss), Billions of U.S. Dollars

	1993	1997	2001	2005	2009	2012
NIPA Rental Income	93.6	152.0	207.5	238.4	333.7	533.0
Less: Portion of Personal Income not included in AGI						
Imputed income in personal income ^a	42.3	84.6	134.2	154.0	214.8	355.2
Investment income of life insurance carriers and pension plans	1.2	1.4	0.4	-0.1	-0.1	-0.2
Investment income received by nonprofit institutions or retained by fiduciaries	3.1	5.3	7.2	7.1	9.1	13.9
Fiduciary Income	1.3	2.1	2.9	2.2	1.8	3.9
Nonprofit Income	1.8	3.2	4.3	4.9	7.3	10.0
Differences in accounting treatment between NIPA and tax regulations, net	-3.5	1.7	11.7	17.2	0.4	-4.0
Excess tax depreciation	4.7	10.9	23.2	32.9	15.0	10.1 ^b
Capital consumption adjustment	-8.2	-9.2	-11.5	-15.7	-14.6	-14.1
Equals: BEA-derived Total Rental and Royalty Net Income (Less Loss)	50.6	58.9	54.0	60.2	109.5	168.0
IRS Total Rental and Royalty Net Income (Less Loss)	13.4	22.4	32.9	28.2	22.5	53.1
Difference as a Percent of BEA-derived Total Rental and Royalty Net Income (Less Loss)	73.5	62.0	39.1	53.1	79.5	68.4

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 1.

- a. The imputed income in personal income includes rental income of persons from owner-occupied housing (net of subsidies).
- b. Excess tax depreciation was calculated for 2012 using 2011 data for ratio of sole proprietorship and partnership IRS depreciation in North American Industry Classification System (NAICS) sector 531 to total IRS depreciation in NAICS sector 531. See the text for an explanation of the calculation of excess tax depreciation for Table 5.

Table 6. Reconciliation of NIPA Personal Income Receipts on Assets^a and IRS Taxable Interest Income and Dividend Income, Billions of U.S. Dollars

	1993	1997	2001	2005	2009	2012
NIPA Personal Income Receipts on Assets	988.6	1258.4	1441.4	1666.4	1818.0	2088.6
Less: Portion of Personal Income not included in AGI						
Imputed income in personal income ^b	108.0	128.9	150.4	183.0	187.6	203.7
Investment income of life insurance carriers and pension plans	390.0	476.9	504.5	565.9	727.4	752.4
Investment income received by nonprofit institutions or retained by fiduciaries	55.7	77.2	72.5	83.2	77.7	95.5
Fiduciary Income	23.6	31.4	34.0	38.0	38.8	51.5
Nonprofit Income	32.1	45.8	38.5	45.2	38.9	44.0
Differences in accounting treatment between NIPA and tax regulations, net	65.9	62.0	73.8	113.1	150.8	248.3
IRA-Keogh excluding capital gains	65.9	62.0	73.8	113.1	150.8	248.3
Other personal income exempt or excluded from adjusted gross income	96.7	167.1	235.9	325.7	347.7	448.8
Tax-exempt interest	46.5	49.0	55.6	57.7	73.6	71.1
S-corporation dividends in personal income	50.2	118.1	180.3	268.0	274.2	377.7
Equals: BEA-derived Taxable Interest Income and Dividend Income	272.4	346.3	404.3	395.5	326.8	339.9
IRS Taxable Interest Income and Dividend Income	210.9	292.2	317.7	328.9	331.5	372.2
Difference as a Percent of BEA-derived Taxable Interest Income and Dividend Income	22.6	15.6	21.4	16.8	-1.4	-9.5

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 1.

- a. NIPA personal income receipts on assets is the sum of NIPA personal interest income and NIPA personal dividend income.
- b. The imputed income in personal income consists of depositor services furnished to persons without payment and premium supplements for property and casualty insurance received by persons (net of premium supplements to owner-occupied housing).

Table 6A. How Much of NIPA Personal Income Receipts on Assets are Subject to Tax?

	1993	1997	2001	2005	2009	2012
(Billions of U.S. Dollars)						
NIPA Personal Income Receipts on Assets	988.6	1258.4	1441.4	1666.4	1818.0	2088.6
Less: Methodological Adjustments	158.2	247.0	330.7	451.0	461.8	581.4
Imputed income in personal income	108.0	128.9	150.4	183.0	187.6	203.7
S-corporation dividends in personal income	50.2	118.1	180.3	268.0	274.2	377.7
Equals: Non-S-Corporation Dividends and Cash Interest Income	830.4	1011.4	1110.7	1215.4	1356.2	1507.2
Less: Untaxed or Deferred Components of NIPA Personal Income Receipts on Assets	558.0	665.1	706.4	819.9	1029.5	1167.3
Investment income of life insurance carriers and pension plans	390.0	476.9	504.5	565.9	727.4	752.4
Investment income received by nonprofit institutions or retained by fiduciaries	55.7	77.2	72.5	83.2	77.7	95.5
Fiduciary Income	23.6	31.4	34.0	38.0	38.8	51.5
Nonprofit Income	32.1	45.8	38.5	45.2	38.9	44.0
IRA-Keogh excluding capital gains	65.9	62.0	73.8	113.1	150.8	248.3
Tax-exempt interest	46.5	49.0	55.6	57.7	73.6	71.1
Equals: BEA-derived Taxable Interest Income and Dividend Income	272.4	346.3	404.3	395.5	326.8	339.9
IRS Taxable Interest Income and Dividend Income	210.9	292.2	317.7	328.9	331.5	372.2

Table 6A. How Much of NIPA Personal Income Receipts on Assets are Subject to Tax?, Cont'd.

	1993	1997	2001	2005	2009	2012
(As a Percent of Non-S-Corporation Dividends and Cash Interest Income)						
Untaxed or Deferred Components of NIPA Personal Income Receipts on Assets	67.2	65.8	63.6	67.5	75.9	77.4
Investment income of life insurance carriers and pension plans	47.0	47.2	45.4	46.6	53.6	49.9
Investment income received by nonprofit institutions or retained by fiduciaries						
Fiduciary Income	2.8	3.1	3.1	3.1	2.9	3.4
Nonprofit Income	3.9	4.5	3.5	3.7	2.9	2.9
IRA-Keogh excluding capital gains	7.9	6.1	6.6	9.3	11.1	16.5
Tax-exempt interest	5.6	4.8	5.0	4.7	5.4	4.7
BEA-derived Taxable Interest Income and Dividend Income	32.8	34.2	36.4	32.5	24.1	22.6
IRS Taxable Interest Income and Dividend Income	25.4	28.9	28.6	27.1	24.4	24.7

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 6.

Table 7. Reconciliation of NIPA Other Personal Income Not Included in IRS AGI, Billions of U.S. Dollars

	1993	1997	2001	2005	2009	2012
NIPA Other Personal Income	723.6	859.3	1054.2	1346.2	1823.8	2032.1
Less: Portion of Personal Income not included in AGI						
Nontaxable personal current transfer receipts	723.6	859.3	1054.2	1346.2	1823.8	2032.1
Government	709.5	839.9	1007.4	1320.5	1785.1	1989.0
Business	14.1	19.4	46.8	25.7	38.7	43.1
Equals: BEA-derived Other Personal Income	0.0	0.0	0.0	0.0	0.0	0.0
IRS Other Personal Income	0.0	0.0	0.0	0.0	0.0	0.0
Difference as a Percent of BEA-derived Other Personal Income						

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 1.

Table 8A. Reconciliation of NIPA Unemployment Compensation to IRS Unemployment Compensation, Billions of U.S. Dollars

	1993	1997	2001	2005	2009	2012
NIPA Unemployment Compensation	34.8	20.1	31.9	31.8	131.2	83.6
Equals: BEA-derived Unemployment Compensation	34.8	20.1	31.9	31.8	131.2	83.6
IRS Unemployment Compensation	27.6	17.2	26.9	27.9	83.5	71.2
Difference as a Percent of BEA-derived Unemployment Compensation	20.7	14.3	15.7	12.4	36.3	14.8

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 1.

Table 8B. Reconciliation of NIPA Taxable Social Security Benefits to IRS Taxable Social Security Benefits, Billions of U.S. Dollars

	1993	1997	2001	2005	2009	2012
NIPA Taxable Social Security Benefits^a	24.6	61.6	93.6	124.8	174.6	223.6
Equals: BEA-derived Taxable Social Security Benefits	24.6	61.6	93.6	124.8	174.6	223.6
IRS Taxable Social Security Benefits	24.6	61.6	93.6	124.8	174.6	223.6
Difference as a Percent of BEA-derived Taxable Social Security Benefits	0.0	0.0	0.0	0.0	0.0	0.0

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 1.

- a. Footnote 1 to Table 2 in Ledbetter (2004) indicates that NIPA taxable Social Security benefits include a Social Security equivalent benefit portion of Tier 1 railroad retirement benefits. We treat all NIPA railroad retirement benefits as taxable pensions.

Table 9A. Reconciliation of Other Income Included in AGI but Not NIPA Personal Income, Billions of U.S. Dollars

	1993	1997	2001	2005	2009	2012
NIPA Personal Income^a	7.8	8.2	8.4	9.2	10.6	11.4
Plus: Portion of AGI not included in personal income						
Net gains from sale of assets	140.3	354.6	324.6	671.7	213.5	613.5
Taxable pensions	194.0	259.7	338.7	420.1	523.3	612.5
S-corporation income	51.1	102.6	130.6	250.7	205.4	321.2
Other types of income	7.5	39.0	90.4	98.5	90.0	127.8
Equals: BEA-derived AGI	400.8	764.1	892.8	1450.2	1042.9	1686.4
IRS AGI	393.0	755.9	884.4	1441.1	1032.3	1675.0
Difference as a Percent of BEA-derived AGI	1.9	1.1	0.9	0.6	1.0	0.7

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 1.

- a. Ledbetter (2004) suggests that the (Tier 2) railroad retirement benefit part of NIPA benefits from social insurance funds is taxable. As a result, NIPA railroad retirement benefits are subtracted from NIPA government transfer payments to persons. They are reintroduced in the first row of Table 9A so that Table 1 accounts for all components of NIPA personal income. See Mark Ledbetter (2004), "Comparison of BEA Estimates of Personal Income and IRS Estimates of Adjusted Gross Income," *Survey of Current Business*, April, pp. 8-22, available at <http://www.bea.gov/scb/pdf/2004/04April/0404PI&AG.pdf>.

Table 9B. Reconciliation of Total Contributions for Government Social Insurance, Billions of U.S. Dollars

	1993	1997	2001	2005	2009	2012
NIPA Personal Income^a	-477.4	-587.2	-733.2	-873.3	-964.4	-951.2
Plus: Portion of AGI not included in personal income						
Payroll tax adjustment (total contributions for government social insurance)	477.4	587.2	733.2	873.3	964.4	951.2
Equals: BEA-derived AGI	0.0	0.0	0.0	0.0	0.0	0.0
IRS AGI	0.0	0.0	0.0	0.0	0.0	0.0
Difference as a Percent of BEA-derived AGI						

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 1.

- a. The first row of Table 9B gives total NIPA contributions for social insurance. NIPA personal income is calculated by summing all types of personal income (i.e., compensation of employees, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with a capital consumption adjustment, personal interest income, personal dividend income, and personal current transfer receipts) and subtracting from this total (employer and employee) contributions for government social insurance

Table 10. Taxed Components, Untaxed Components, Deferred Components, and Methodological Adjustments, Billions of U.S. Dollars

	1993	1997	2001	2005	2009	2012
Taxed Components						
IRS salaries and wages ^a	2892.1	3613.9	4565.2	5155.4	5707.1	6301.4
Taxable unemployment compensation	27.6	17.2	26.9	27.9	83.5	71.2
Taxable Social Security benefits	24.6	61.6	93.6	124.8	174.6	223.6
IRS net Income (less loss) of nonfarm proprietorships and partnerships	197.4	252.4	311.2	421.3	384.6	518.0
IRS net income (less loss) of farms	-3.7	-6.8	-11.0	-12.2	-14.1	-5.5
IRS total rental and royalty net income (less loss)	13.4	22.4	32.9	28.2	22.5	53.1
IRS taxable interest income	131.1	171.7	198.2	162.4	168.0	111.8
IRS dividend income	79.7	120.5	119.5	166.5	163.5	260.4
Railroad retirement benefits	7.8	8.2	8.4	9.2	10.6	11.4
Plus: Untaxed Components						
Employer contributions for social insurance	239.7	289.6	358.0	428.1	458.1	513.9
Employee contributions to employer-sponsored health insurance	86.0	91.3	131.8	170.2	219.8	238.5
Exempt military pay	13.4	12.6	13.7	23.1	34.3	35.2
Employer contributions for insurance funds	293.2	303.1	425.2	583.3	633.6	682.5
Nontaxable personal current transfer receipts						
Government	709.5	839.9	1007.4	1320.5	1785.1	1989.0
Business	14.1	19.4	46.8	25.7	38.7	43.1
Investment income of life insurance carriers and pension plans	391.2	478.3	504.9	565.8	727.3	752.2
Investment income received by nonprofit institutions or retained by fiduciaries	62.3	87.0	83.1	95.0	93.9	118.2
Tax-exempt interest	46.5	49.0	55.6	57.7	73.6	71.1
IRA-Keogh excluding capital gains	65.9	62.0	73.8	113.1	150.8	248.3

Table 10. Taxed Components, Untaxed Components, Deferred Components, and Methodological Adjustments, Billions of U.S. Dollars, Cont'd.

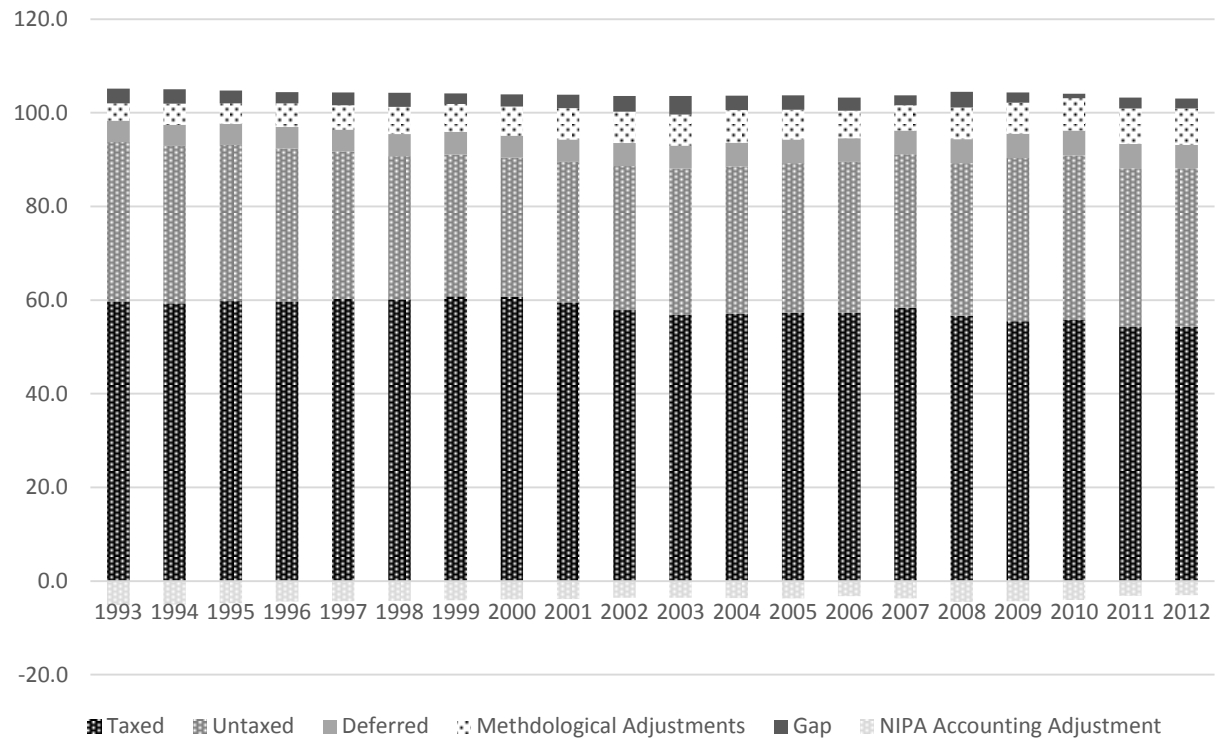
	1993	1997	2001	2005	2009	2012
Plus: Deferred Components						
TSP (employee portion)	3.5	4.8	6.7	14.4	16.7	18.1
401k/403b/408k (employee portion)	46.1	76.9	115.2	139.9	172.2	196.7
Employer contributions for pension funds	208.5	245.2	309.0	383.5	444.1	478.2
Plus: Methodological Adjustments						
Imputed income in personal income	158.6	222.8	294.8	350.3	419.4	577.2
S-corporation dividends in personal income	50.2	118.1	180.3	268.0	274.2	377.7
Other differences in accounting treatment between NIPA and tax regulations, net	-10.1	-32.3	32.3	-163.3	58.5	-143.0
Non-schedule E partnership income	12.2	58.9	90.5	215.1	47.3	268.1
Plus: NIPA Accounting Adjustment	-290.3	-306.8	-347.0	-393.9	-520.5	-417.3
Equals: NIPA Personal Income Less Gap	5470.6	6880.8	8727.1	10279.9	11827.3	13592.9
Plus: Gap^b	176.3	194.2	260.1	329.5	260.4	295.1
NIPA Personal Income	5646.9	7075.0	8987.2	10609.4	12087.7	13888.0

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 1.

- a. IRS salaries and wages on IRS Form 1040 include the foreign-earned income of U.S. citizens living abroad for more than one year.
- b. The “gap” is calculated by summing the differences between BEA-derived AGI and IRS AGI for salaries and wages (see Table 2), taxable unemployment compensation (see Table 8A), farm and nonfarm proprietors’ income (see Table 3 and Table 4), rental income (see Table 5), and personal income receipts on assets (see Table 6).

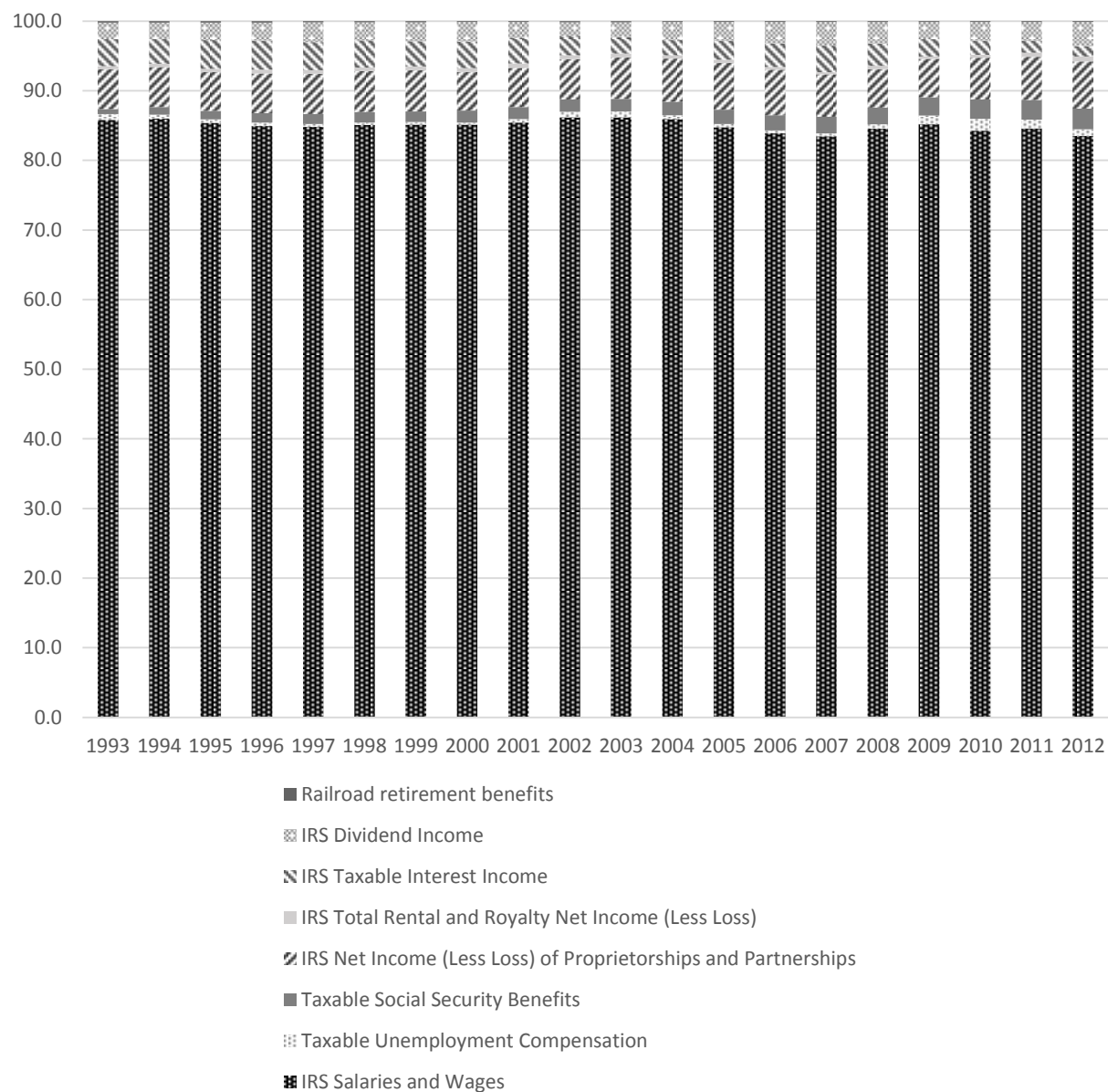
Figure 2. Taxed Components, Untaxed Components, Deferred Components, and Methodological Adjustments, Percent of NIPA Personal Income



Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: NIPA = National Income and Product Accounts.

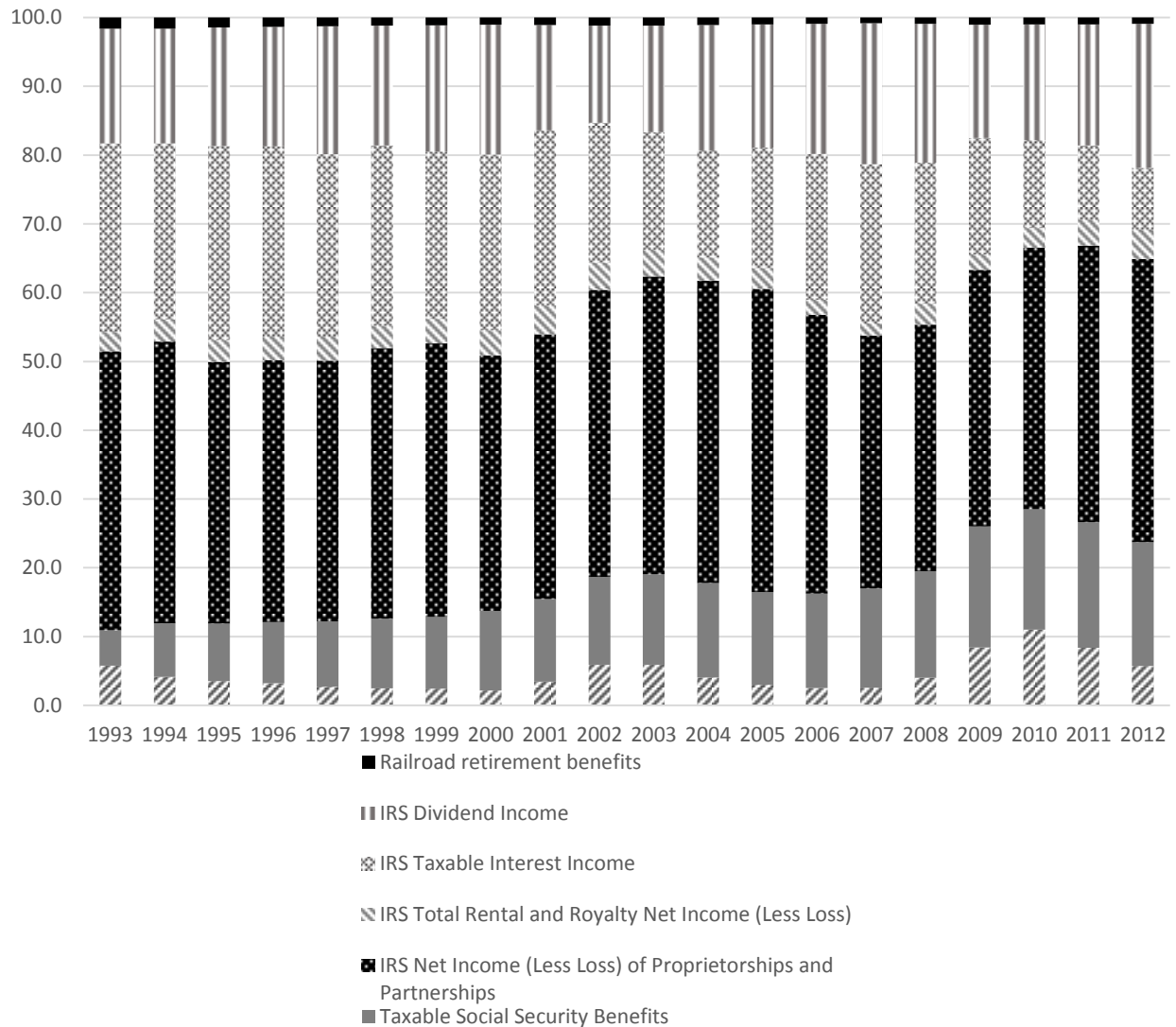
Figure 3A. Taxed Components of NIPA Personal Income, Percent of Total Taxed Components



Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: NIPA = National Income and Product Accounts; IRS = Internal Revenue Service.

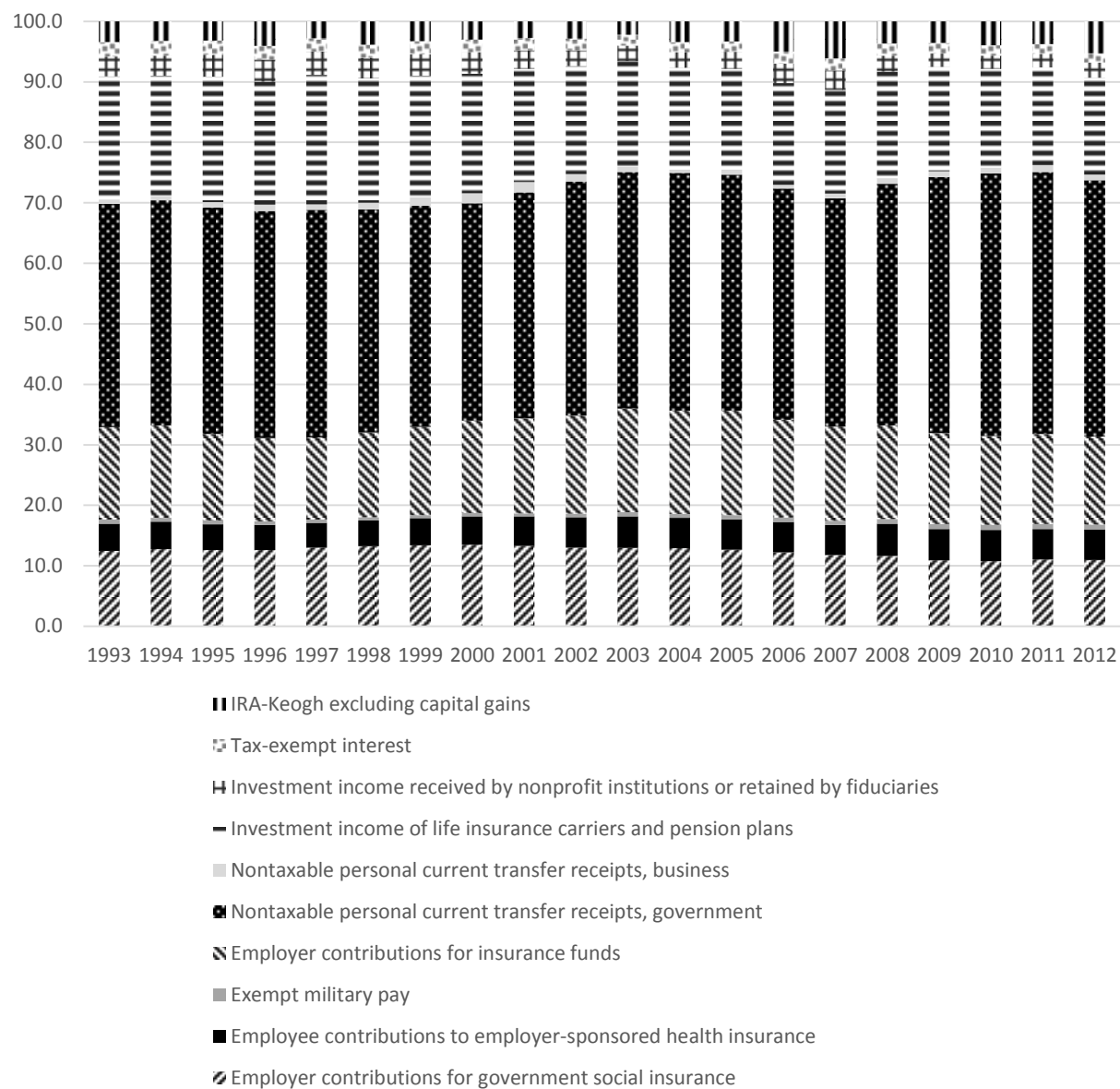
Figure 3B. Taxed Components Excluding IRS Salaries and Wages, Percent of Total Taxed Components Excluding IRS Salaries and Wages



Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: IRS = Internal Revenue Service.

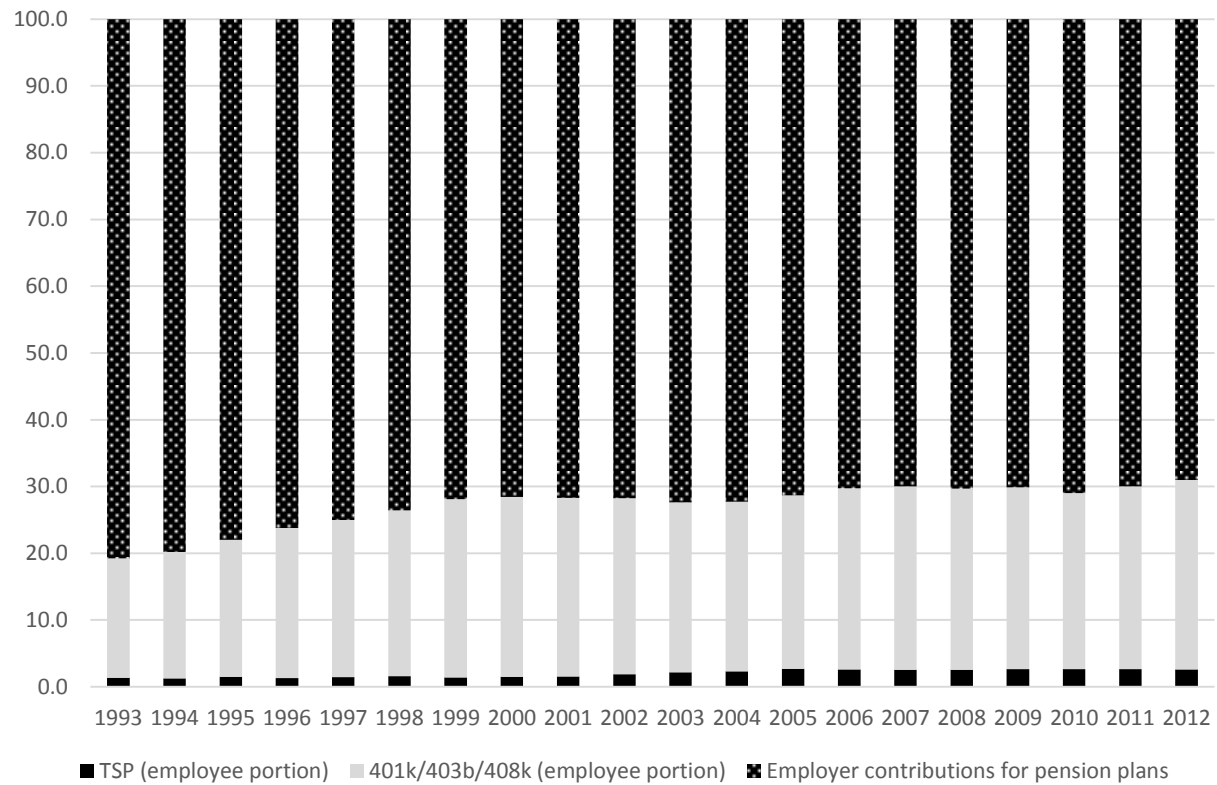
Figure 4. Untaxed Components of NIPA Personal Income, Percent of Total Untaxed Components



Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: NIPA = National Income and Product Accounts.

Figure 5. Deferred Components of NIPA Personal Income, Percent of Total Deferred Components



Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: TSP = Thrift Savings Plan; IRA = Individual Retirement Account.

Table 11. Reconciliation of NIPA Compensation of Employees and Medicare Hospital Insurance (HI) Taxable Wage and Salary Earnings, Billions of U.S. Dollars

	1994 ^d	1997	2001	2005	2009	2012
NIPA Compensation of Employees	4010.1	4714.7	6046.5	7086.9	7787.0	8606.5
Less: Portion of Personal Income not included in HI Taxable Wage and Salary Earnings						
Employer contributions for employee pension and insurance funds	510.3	537.5	721.1	953.5	1066.5	1148.0
Federal pension plans (civilian and military)	31.8	30.2	34.4	43.9	56.3	67.8
State and local employee retirement	73.6	88.5	117.9	158.2	184.6	200.2
Private pension plans	109.2	126.5	156.7	181.4	203.2	210.2
Private group health insurance	246.0	248.7	359.0	487.8	552.7	597.2
Publicly administered government employee insurance funds ^a	0.0	0.0	0.0	10.8	10.5	8.3
Private group life insurance	0.0	0.0	0.0	0.0	0.0	0.0
Private workers' compensation	47.0	41.4	52.2	70.9	57.9	61.6
Private supplemental unemployment insurance	2.7	2.2	0.9	0.5	1.0	0.5
Imputed income in personal income ^b	8.3	9.1	10.1	13.1	16.9	18.1
Other personal income exempt or excluded from HI taxable wage and salary earnings	12.8	12.6	13.7	23.1	34.3	35.2
Exempt military pay	12.8	12.6	13.7	23.1	34.3	35.2
TSP (employee portion)	0.0	0.0	0.0	0.0	0.0	0.0
401k/403b/408k (employee portion)	0.0	0.0	0.0	0.0	0.0	0.0
Employee contributions to employer-sponsored health insurance	90.3	91.3	131.8	170.2	219.8	238.5

Table 11. Reconciliation of NIPA Compensation of Employees and Medicare Hospital Insurance (HI) Taxable Wage and Salary Earnings, Billions of U.S. Dollars, Cont'd.

	1994 ^d	1997	2001	2005	2009	2012
Plus: Portion of HI Taxable Wage and Salary Earnings not included in Personal Income						
Payroll tax adjustment (employer contributions for government social insurance)	-254.2	-289.4	-357.8	-428.0	-458.0	-513.7
OASDI	-161.9	-191.5	-243.8	-276.8	-307.6	-332.5
Railroad retirement and pension benefit guaranty	-3.6	-3.7	-3.7	-3.8	-5.1	-5.9
Federal health insurance	-44.7	-54.1	-69.1	-78.9	-86.3	-95.7
State, federal, and railroad unemployment insurance	-29.3	-28.1	-27.6	-43.8	-38.9	-59.2
Federal and state workers' compensation	-13.3	-11.1	-12.3	-21.6	-15.2	-14.8
Other ^c	-1.4	-0.9	-1.3	-3.1	-4.9	-5.6
Other types of income	16.7	24.5	21.7	34.4	45.4	53.4
Equals: BEA-derived HI Taxable Wage and Salary Earnings	3150.8	3799.2	4833.7	5533.4	6036.9	6706.4
HI Taxable Wage and Salary Earnings	3088.4	3739.8	4777.8	5456.6	5969.8	6615.3
Difference as a Percent of BEA-derived HI Taxable Wage and Salary Earnings	2.0	1.6	1.2	1.4	1.1	1.4
Addenda:						
OASDI Taxable Wage and Salary Earnings^e	2624.5	3104.3	3950.1	4490.5	4985.7	5388.9

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 1.

Notes: TSP = Thrift Savings Plan; OASDI = Old-age, Survivors, and Disability Insurance.

- a. Publicly administered government employee insurance funds include the Medicare-eligible Retiree Health Care Fund. See notes to NIPA Table 6.11D at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>.
- b. Imputed income in personal income includes food furnished to employees (military and civilian), standard clothing issued to military personnel, and employees' lodging (see Table 2B). Table 11 assumes that all three types of imputed income are exempt from Social Security and Medicare taxes. However, meals and lodging are only exempt if they are provided for the employer's convenience, on the employer's premises, and as condition of employment. They are subject to Social Security and Medicare taxes if they are considered payments in kind. See Internal Revenue Service (2014a), *Publication 15 (Circular E), Employer's Tax Guide*, available at <http://www.irs.gov/publications/p15>.
- c. "Other" includes veterans life insurance, temporary disability insurance, and military medical insurance.
- d. Since 1994, the FICA tax base as it pertains to the Medicare HI program has not been limited to maximum taxable earnings. For this reason, we reconcile NIPA compensation of employees to Medicare HI taxable wage and salary earnings from 1994. For a reconciliation prior to 1994, BEA-derived HI taxable wage and salary earnings would need to be scaled to reflect the existence of a maximum taxable income level.
- e. Data on total OASDI taxable wage and salary earnings are taken from Table 4.B11 of the Social Security Administration's 2014 Annual Statistical Supplement. See U.S. Social Security Administration (2015), *Annual Statistical Supplement to the Social Security Bulletin, 2014*, available at <http://www.ssa.gov/policy/docs/statcomps/supplement/2014/index.html>.

Table 12. How Much of NIPA Compensation of Employees is Subject to Federal Insurance Contributions Act (FICA) Taxes for Medicare Hospital Insurance (HI)?

	1994	1997	2001	2005	2009	2012
(Billions of U.S. Dollars)						
NIPA Compensation of Employees	4010.1	4714.7	6046.5	7086.9	7787.0	8606.5
Less: Imputed Income in Personal Income	8.3	9.1	10.1	13.1	16.9	18.1
Equals: NIPA Compensation of Employees less Imputed Income	4001.8	4705.6	6036.4	7073.8	7770.1	8588.4
Less: Employer Contributions for Insurance Funds and Government Social Insurance	549.9	581.7	769.9	998.0	1080.4	1183.5
Employer contributions for insurance funds	295.7	292.3	412.1	570.0	622.4	669.8
Payroll tax adjustment (employer contributions for government social insurance)	254.2	289.4	357.8	428.0	458.0	513.7
Less: Other Components of Personal Income Excluded or Deferred from Tax	317.7	349.2	454.5	576.8	698.2	751.9
Other personal income exempt or excluded from adjusted gross income	12.8	12.6	13.7	23.1	34.3	35.2
Employee contributions to employer-sponsored health insurance	90.3	91.3	131.8	170.2	219.8	238.5
TSP (employee portion)	0.0	0.0	0.0	0.0	0.0	0.0
401k/403b/408k (employee portion)	0.0	0.0	0.0	0.0	0.0	0.0
Employer contributions for employee pension funds	214.6	245.2	309.0	383.5	444.1	478.2
Plus: Foreign-Earned Income of U.S. Citizens Living Abroad for More Than 1 Year	16.7	24.5	21.7	34.4	45.4	53.4

Table 12. . How Much of NIPA Compensation of Employees is Subject to Federal Insurance Contributions Act (FICA) Taxes for Medicare Hospital Insurance (HI)?, Cont'd.

	1994	1997	2001	2005	2009	2012
(Billions of U.S. Dollars)						
Equals: BEA-derived HI Taxable Wage and Salary Earnings	3150.8	3799.2	4833.7	5533.4	6036.9	6706.4
HI Taxable Wage and Salary Earnings	3088.4	3739.8	4777.8	5456.6	5969.8	6615.3
Addenda:						
OASDI Taxable Wage and Salary Earnings	2624.5	3104.3	3950.1	4490.5	4985.7	5388.9
(As a Percent of NIPA Compensation of Employees less Imputed Income)						
Employer Contributions for Insurance Funds and Government Social Insurance	13.7	12.4	12.8	14.1	13.9	13.8
Other Components of Personal Income Excluded or Deferred from Tax	7.9	7.4	7.5	8.2	9.0	8.8
BEA-derived HI Taxable Wage and Salary Earnings	78.7	80.7	80.1	78.2	77.7	78.1
HI Taxable Wage and Salary Earnings	77.2	79.5	79.1	77.1	76.8	77.0
OASDI Taxable Wage and Salary Earnings	65.6	66.0	65.4	63.5	64.2	62.7

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 11.

Table 13. Reconciliation of NIPA Nonfarm Proprietors' Income and Medicare Hospital Insurance (HI) Taxable Self-Employed Earnings (Nonfarm), Billions of U.S. Dollars

	1994	1997	2001	2005	2009	2012
NIPA Nonfarm Proprietors' Income	424.8	555.5	804.7	932.6	937.5	1187.9
Less: Portion of Personal Income not included in HI Taxable Self-Employed Earnings (Nonfarm)						
Investment income received by nonprofit institutions or retained by fiduciaries	4.2	4.5	3.4	4.6	7.1	8.7
Fiduciary Income	1.1	1.2	1.4	1.5	1.5	1.8
Nonprofit Income	3.1	3.3	2.0	3.1	5.6	6.9
Differences in accounting treatment between NIPA and tax regulations, net	-21.6	-40.1	14.0	-187.6	49.6	-148.0
Inventory valuation adjustment	-0.7	1.0	1.0	-4.6	-4.6	-10.0
Nonfarm (or farm) proprietors' income	-35.4	-70.3	-61.0	-249.3	-86.1	-297.1
Capital consumption adjustment	14.5	29.2	74.0	66.3	140.3	159.1
Adjustment for reduction in income subject to self-employment tax	20.0	23.1	29.1	38.0	40.6	45.8
Adjustment for definitional differences in IRS measure of partnership income	-8.7	33.5	52.1	183.9	-35.9	239.1
Adjustments for misreporting on income tax returns	211.2	280.4	386.2	479.4	443.9	533.9
Plus: Portion of HI Taxable Self-Employed Earnings (Nonfarm) not included in Personal Income						
Other types of income ^a	0.6	0.8	1.2	1.9	2.7	3.4
Church employee income	1.4	1.5	0.6	0.8	0.7	0.9

Table 13. Reconciliation of NIPA Nonfarm Proprietors' Income and Medicare Hospital Insurance (HI) Taxable Self-Employed Earnings (Nonfarm), Billions of U.S. Dollars, Cont'd.

	1994	1997	2001	2005	2009	2012
Equals: BEA-derived HI Taxable Self-Employed Earnings (Nonfarm)	221.8	256.5	321.8	417.0	435.6	512.7
HI Taxable Self-Employed Earnings (Nonfarm)	224.8	263.1	325.4	429.5	437.8	508.9
Difference as a Percent of BEA-derived HI Taxable Self-Employed Earnings (Nonfarm)	-1.4	-2.6	-1.1	-3.0	-0.5	0.7

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 1.

- a. We assume that 92.35 percent of foreign-earned self-employment income (business and professional income (less losses) and partnership income (less losses)) reported on IRS Form 2555 is subject to U.S. self-employment taxes.

Table 14. How Much of NIPA Nonfarm Proprietors' Income is Subject to Self-Employment Contributions Act (SECA) Taxes for Medicare Hospital Insurance (HI)?

	1994	1997	2001	2005	2009	2012
(Billions of U.S. Dollars)						
NIPA Nonfarm Proprietors' Income	424.8	555.5	804.7	932.6	937.5	1187.9
Less: Methodological Adjustments	-30.3	-6.6	66.0	-3.6	13.7	91.1
Differences in Accounting Treatment between NIPA and Tax Regulations, Net	-21.6	-40.1	14.0	-187.6	49.6	-148.0
Adjustment for definitional differences in IRS measure of partnership income	-8.7	33.5	52.1	183.9	-35.9	239.1
Equals: NIPA Nonfarm Proprietors' Income less Methodological Adjustments	455.1	562.1	738.7	936.2	923.8	1096.8
Less: Components of Personal Income Excluded from Tax	24.2	27.6	32.5	42.6	47.7	54.5
Investment income received by nonprofit institutions or retained by fiduciaries	4.2	4.5	3.4	4.6	7.1	8.7
Adjustment for reduction in income subject to self-employment tax	20.0	23.1	29.1	38.0	40.6	45.8
Less: Adjustments for Misreporting on Income Tax Returns	211.2	280.4	386.2	479.4	443.9	533.9
Plus: Portion of HI Taxable Self-Employed Earnings (Nonfarm) not included in Personal Income	2.0	2.3	1.8	2.7	3.4	4.3
Equals: BEA-derived HI Taxable Self-Employed Earnings (Nonfarm)	221.8	256.5	321.8	417.0	435.6	512.7
HI Taxable Self-Employed Earnings (Nonfarm)	224.8	263.1	325.4	429.5	437.8	508.9

Table 14. How Much of NIPA Nonfarm Proprietors' Income is Subject to Self-Employment Contributions Act (SECA) Taxes for Medicare Hospital Insurance (HI)?, Cont'd.

	1994	1997	2001	2005	2009	2012
(As a Percent of NIPA Nonfarm Proprietors' Income less Methodological Adjustments)						
Components of Personal Income Excluded from Tax	5.3	4.9	4.4	4.6	5.2	5.0
Adjustments for Misreporting on Income Tax Returns	46.4	49.9	52.3	51.2	48.1	48.7
BEA-derived HI Taxable Self-Employed Earnings (Nonfarm)	48.7	45.6	43.6	44.5	47.1	46.7
HI Taxable Self-Employed Earnings (Nonfarm)	49.4	46.8	44.0	45.9	47.4	46.4

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 13.

Table 15. How Much of NIPA Personal Income (less Methodological Adjustments) is Subject to Payroll Taxes

	1994	1997	2001	2005	2009	2012
(Billions of U.S. Dollars)						
NIPA Personal Income less Methodological Adjustments	5669.9	6707.6	8389.2	9939.3	11288.2	12807.8
BEA-derived HI Taxable Wage and Salary Earnings	3150.8	3799.2	4833.7	5533.4	6036.9	6706.4
BEA-derived HI Taxable Self-Employed Earnings (Nonfarm)	221.8	256.5	321.8	417.0	435.6	512.7
(As a Percent of NIPA Personal Income less Methodological Adjustments)						
BEA-derived HI Taxable Wage and Salary Earnings	55.6	56.6	57.6	55.7	53.5	52.4
BEA-derived HI Taxable Self-Employed Earnings (Nonfarm)	3.9	3.8	3.8	4.2	3.9	4.0
Note:						
(As a Percent of NIPA Personal Income less Methodological Adjustments)						
HI Taxable Wage and Salary Earnings	54.5	55.8	57.0	54.9	52.9	51.7
HI Taxable Self-Employed Earnings (Nonfarm)	4.0	3.9	3.9	4.3	3.9	4.0
Total	58.4	59.7	60.8	59.2	56.8	55.6

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 13.

Appendix A: Extended Reconciliation of NIPA Compensation of Employees and NIPA Nonfarm Proprietors' Income to IRS Equivalents, 1960-2012

For 2012, NIPA compensation of employees accounts for roughly 62.0 percent of NIPA personal income. It is by far the largest component of personal income. The next largest components are government social benefits to persons, comprising 16.6 percent, and proprietors' income, comprising 9.1 percent. In this appendix, we reconcile NIPA compensation of employees (see Table A1) and NIPA nonfarm proprietors' income (see Table A3) with their IRS AGI equivalents back to 1960. We then consider over a 53-year period changes in the taxed components, untaxed components, deferred components, and methodological adjustments (see Table A2 and Table A4). We reconcile the other components of NIPA personal income with their IRS AGI equivalents back to 1960. However, the reconciliations are most complete for NIPA compensation of employees and NIPA nonfarm proprietors' income, which together account for approximately 70.5 percent of NIPA personal income in 2012.¹¹⁵

Extending the reconciliations of these two components of NIPA personal income back to 1960 (from 1993 in Table 2 and Table 3) does not reduce the extent to which we can account for differences with IRS salaries and wages and IRS income (less loss) of nonfarm proprietorships and partnerships. Looking at NIPA compensation of employees between 1960 and 1992, the difference between our measure of BEA-derived salaries and wages and IRS salaries and wages is largest in 1960 at 5 percent of BEA-derived salaries and wages. It is smallest in 1982 at 0.2 percent of BEA-derived salaries and wages. Looking at NIPA nonfarm proprietors' income between 1960 and 1992, the differences between our measure of BEA-derived net income (less loss) of nonfarm proprietorships and partnerships and the IRS income (less loss) of nonfarm proprietorships and partnerships remains at approximately 1 percent or less (in absolute value) of BEA-derived net income (less loss) of nonfarm proprietorships and partnerships.

We do not have all components of the reconciliations of these two types of NIPA personal income with their IRS AGI equivalents back to 1960. For example, in Table A1, values for employee contributions to private defined contribution (401k/403b/408k) plans are from 1982.¹¹⁶ Values for 1984 to 2012 are taken from tax expenditure data and U.S. Department of Labor Form 5500 Annual Reports. Values for 1982 and 1983 are obtained by backcasting employee contributions to private defined contribution plans using NIPA wages and salaries. We do not backcast to 1979, the year following the introduction of Subsection (k) of Section 401 into the Internal Revenue Code, because the IRS only proposed in 1981 regulations clarifying that 401(k) contributions could be made from employees' wages and salaries (and not just from profit-sharing bonuses).

In addition, in Table A1, values for exempt military pay are from only 1985 while values for other types of income that are a part of AGI but not personal income include from only 1991 the

¹¹⁵ For these extended reconciliations, we rely upon NIPA data already cited in the paper as well as archived SOI Individual Income Tax Reports. Archived SOI Individual Income Tax Reports are available at <http://www.irs.gov/uac/SOI-Tax-Stats-Archive---1934-to-1999-Tax-Information-from-Individuals>.

¹¹⁶ In Table A1, values for contributions to the federal government's TSP are from 1987. TSP was established by Congress in the Federal Employees' Retirement System Act of 1986.

foreign-earned salaries and wages, allowances, and noncash incomes (less excludable meals and lodging) of U.S. citizens living abroad for more than one year. SOI data on total (from IRS Form 2555 and IRS Form 2555EZ) foreign-earned income are available from 1996; SOI data on foreign-earned income on IRS Form 2555 are available from 1991. This limited availability of data for IRS Form 2555 also means that in Table A3 values for the other types of income in AGI but not personal income include from only 1991 the foreign-earned self-employment income and partnership income reported on IRS Form 2555.

Taxed Components, Untaxed Components, Deferred Components, and Methodological Adjustments

For NIPA compensation of employees, the taxed component consists entirely of salaries and wages on IRS Form 1040 (of which foreign-earned income is a part). The untaxed components include employer contributions for government social insurance, employee contributions to employer-sponsored health insurance, exempt military pay, and employer contributions for insurance funds. The deferred components include employee nontaxable contributions to the federal government's TSP, employee nontaxable contributions to private defined contribution plans, and employer contributions for pension plans. The methodological adjustments consist entirely of imputed income in personal income.

Over the 53-year period considered, the untaxed components and the deferred components have increased and the taxed components decreased as a percent of NIPA compensation of employees (see Figure A1 and Figure A2). For example, the taxed components are 85.3 percent of NIPA compensation of employees in 1960 but 73.3 percent in 2010. Concomitantly, the untaxed components are 5.2 percent of NIPA compensation of employees in 1960 but 17.2 percent in 2010 while the deferred components are 4.5 percent of NIPA compensation of employees in 1960 and 8.4 percent in 2010.

For NIPA nonfarm proprietors' income, we do not see similar trends in the taxed components, untaxed components, and methodological adjustments as a percent of NIPA nonfarm proprietors' income (see Figure A3).¹¹⁷ The taxed components consist of IRS net income (less loss) of proprietorships (nonfarm) and partnerships (of which foreign-earned income is a part). The untaxed components include investment income received by nonprofit institutions or retained by fiduciaries. The methodological adjustments comprise Non-schedule E partnership income and other net differences in accounting treatment between NIPA and tax regulations.¹¹⁸ In Figure A4, the taxed components fluctuate between 68.2 percent of NIPA nonfarm proprietors' income in 1960 and 43.2 percent in 2010. The untaxed components generally decline from 1.3 percent of NIPA nonfarm proprietors' income in 1960 to 0.7 percent in 2010. However, the adjustment for misreporting on income tax returns generally increases from 25.1 percent of NIPA nonfarm proprietors' income in 1960 to 48.8 percent in 2010.

¹¹⁷ Table A4 and Figure A3 do not include deferred components,

¹¹⁸ These other differences in accounting treatment include an inventory valuation adjustment, a capital consumption adjustment, and a number of adjustments from NIPA Table 7.14 consolidated under the heading nonfarm proprietors' income in Table A3. In absolute value, the largest adjustment in NIPA Table 7.14 consolidated under the heading nonfarm proprietors' income corresponds to post-tabulation amendments and revisions.

Table A1. Reconciliation of NIPA Compensation of Employees and IRS Salaries and Wages, Billions of U.S. Dollars

	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2010
NIPA Compensation of Employees	301.9	406.4	625.1	950.1	1626.2	2389.0	3342.7	4202.6	5856.6	7086.9	7961.5
Less: Portion of Personal Income not included in AGI											
Employer contributions for employee pension and insurance funds	19.7	29.5	49.7	88.6	163.9	258.7	395.0	520.5	685.5	966.8	1114.6
Imputed income in personal income	1.6	1.9	2.6	3.6	6.0	6.6	7.5	8.7	9.9	13.1	16.4
Other personal income exempt or excluded from adjusted gross income	NA	NA	NA	NA	NA	39.5	47.5	75.1	129.6	177.4	228.9
Exempt military pay ^a	NA	NA	NA	NA	NA	11.9	14.0	12.9	13.2	23.1	35.6
TSP (employee portion) ^b	0.0	0.0	0.0	0.0	0.0	0.0	1.2	4.2	6.0	14.4	17.5
401k/403b/408k (employee portion) ^b	0.0	0.0	0.0	0.0	0.0	27.6	32.4	58.0	110.4	139.9	175.8
Employee contributions to employer-sponsored health insurance ^a	NA	NA	NA	NA	NA	NA	NA	89.2	120.9	170.2	224.9
Plus: Portion of AGI not included in Personal Income											
Payroll tax adjustment (employee and self-employed contributions for government social insurance)	-9.3	-13.1	-23.8	-46.7	-88.9	-147.7	-206.5	-264.1	-345.2	-428.1	-469.4
Other types of income	0.1	0.1	0.2	0.5	6.7	1.2	2.4	26.2	33.8	42.2	60.3

Table A1. Reconciliation of NIPA Compensation of Employees and IRS Salaries and Wages, Billions of U.S. Dollars, Cont'd.

	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2010
Equals: BEA-derived Salaries and Wages	271.4	362.0	549.2	811.7	1374.1	1937.7	2688.5	3271.3	4599.3	5373.6	5967.7
IRS Salaries and Wages	257.9	347.2	531.9	795.4	1349.8	1928.2	2599.4	3201.5	4456.2	5155.4	5837.4
Difference as a Percent of BEA-derived Salaries and Wages	5.0	4.1	3.2	2.0	1.8	0.5	3.3	2.1	3.1	4.1	2.2

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: NA = not available. Otherwise see notes to Table 1 and Table 2.

- a. Data on the components of total military cash compensation included in exempt military pay in Table A1 and Table 2 (basic pay, housing allowances, subsistence allowances, and other allowances) are available from 1985. Data on employee contributions to employer-sponsored health insurance are available from 2004.
- b. Employee contributions to the federal government's Thrift Savings Plan (TSP) began in 1987. Table A1 includes values for employee contributions to private defined contribution (401k/403b/408k) plans from 1982. Values for 1984 to 2012 are taken from tax expenditure data and Table A4 of U.S. Department of Labor, Private Pension Plan Bulletins Abstract of Form 5500 Annual Reports, available at <https://www.dol.gov/agencies/ebsa/researchers/statistics/retirement-bulletins/private-pension-plan>. Values for 1982 and 1983 are obtained by backcasting employee contributions to private defined contribution plans using NIPA wages and salaries. Subsection (k) of Section 401 of the Internal Revenue Code was added in 1978. However, it was not until 1981 that the IRS proposed regulations under the new Section 401(k) clarifying that 401(k) contributions could be made from an employee's ordinary wages and salary, not just from a profit-sharing bonus.

Table A2. Taxed Components, Untaxed Components, Deferred Components, and Methodological Adjustments, NIPA Compensation of Employees, Billions of U.S. Dollars

	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2010
Taxed Components											
IRS salaries and wages	257.9	347.2	531.9	795.4	1349.8	1928.2	2599.4	3201.5	4456.2	5155.4	5837.4
<i>Portion of AGI not included in personal income^a</i>	<i>0.1</i>	<i>0.1</i>	<i>0.2</i>	<i>0.5</i>	<i>6.7</i>	<i>1.2</i>	<i>2.4</i>	<i>26.2</i>	<i>33.8</i>	<i>42.2</i>	<i>60.3</i>
Plus: Untaxed Components											
Employer contributions for government social insurance	9.3	13.1	23.8	46.7	88.9	147.7	206.5	264.1	345.2	428.1	469.4
Employee contributions to employer-sponsored health insurance	NA	NA	NA	NA	NA	NA	NA	89.2	120.9	170.2	224.9
Exempt military pay	NA	NA	NA	NA	NA	11.9	14.0	12.9	13.2	23.1	35.6
Employer contributions for insurance funds	6.3	10.0	18.5	35.7	82.6	138.4	224.3	300.2	392.6	583.3	641.5
Plus: Deferred Components											
TSP (employee portion)	0.0	0.0	0.0	0.0	0.0	0.0	1.2	4.2	6.0	14.4	17.5
401k/403b/408k (employee portion)	0.0	0.0	0.0	0.0	0.0	27.6	32.4	58.0	110.4	139.9	175.8
Employer contributions for pension funds	13.7	19.6	31.3	53.1	81.5	120.6	171.0	220.3	293.1	383.5	473.3
Plus: Methodological Adjustments											
Imputed income in personal income	1.6	1.9	2.6	3.6	6.0	6.6	7.5	8.7	9.9	13.1	16.4

Table A2. Taxed Components, Untaxed Components, Deferred Components, and Methodological Adjustments, NIPA Compensation of Employees, Billions of U.S. Dollars, Cont'd.

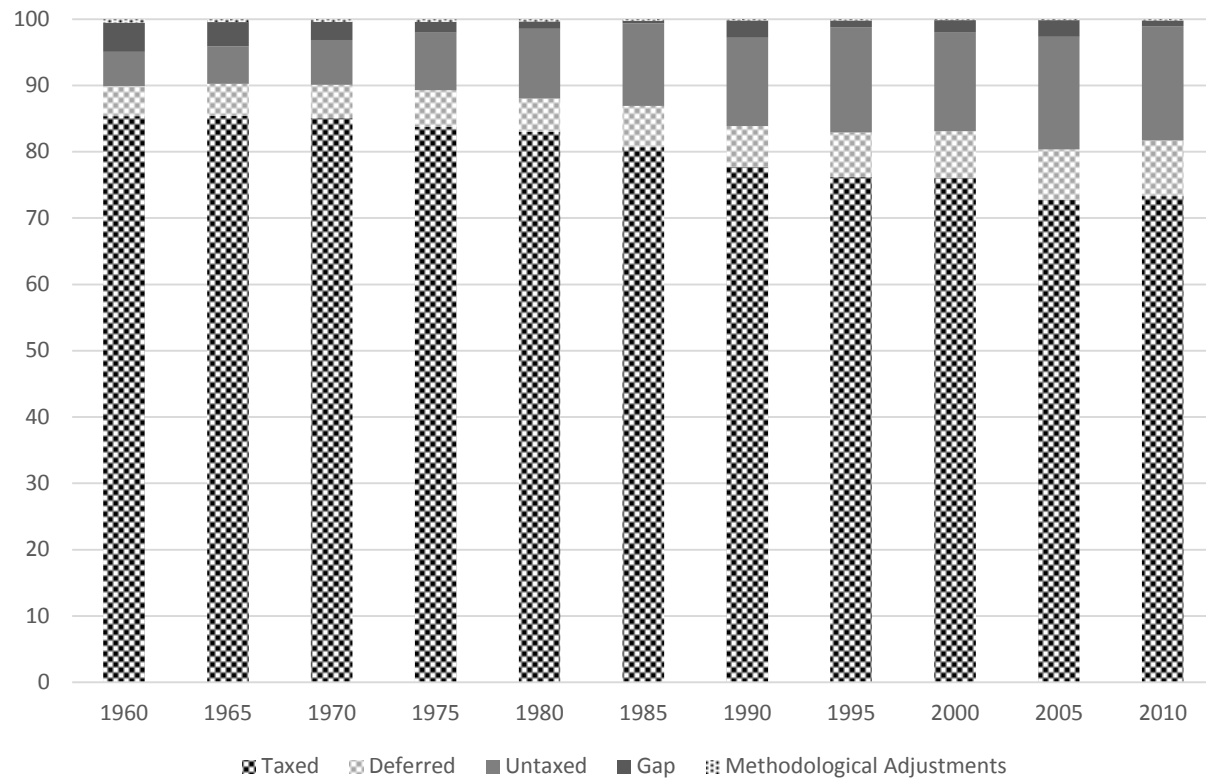
	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2010
Equals: NIPA Compensation of Employees Less Gap	288.8	391.8	608.1	934.5	1608.8	2381.0	3256.2	4159.0	5747.4	6910.9	7891.7
Plus: Gap^a	13.4	14.7	17.1	15.8	17.6	8.3	86.8	43.6	109.4	176.0	70.0
NIPA Compensation of Employees	302.2	406.5	625.2	950.3	1626.4	2389.3	3343.0	4202.6	5856.8	7086.9	7961.7

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 1, Table 2, Table 10, and Table A1.

- a. In Table A2, the gap excludes the portion of AGI not included in personal income. For 1991 through 2012, the portion of AGI not included in personal income consists of the foreign-earned income of U.S. citizens living abroad for more than one year and the sum of supplemental unemployment insurance benefits, which would not be part of NIPA compensation of employees. Statistics of Income (SOI) data on total (from IRS Form 2555 and IRS Form 2555EZ) foreign-earned income are available for 1996, 2001, 2006, and 2011; SOI data on foreign-earned income on IRS Form 2555 are available for 1991, 1996, 2001, 2006, and 2011. Before 1991, the portion of AGI not included in personal income includes only supplemental unemployment insurance benefits, with the exception of 1979 and 1980. In 1979 and 1980, it also includes data on income earned abroad in AGI from Table 1.3 of archived SOI Individual Income Tax Reports, available at <http://www.irs.gov/uac/SOI-Tax-Stats-Archive---1934-to-1999-Tax-Information-from-Individuals>.

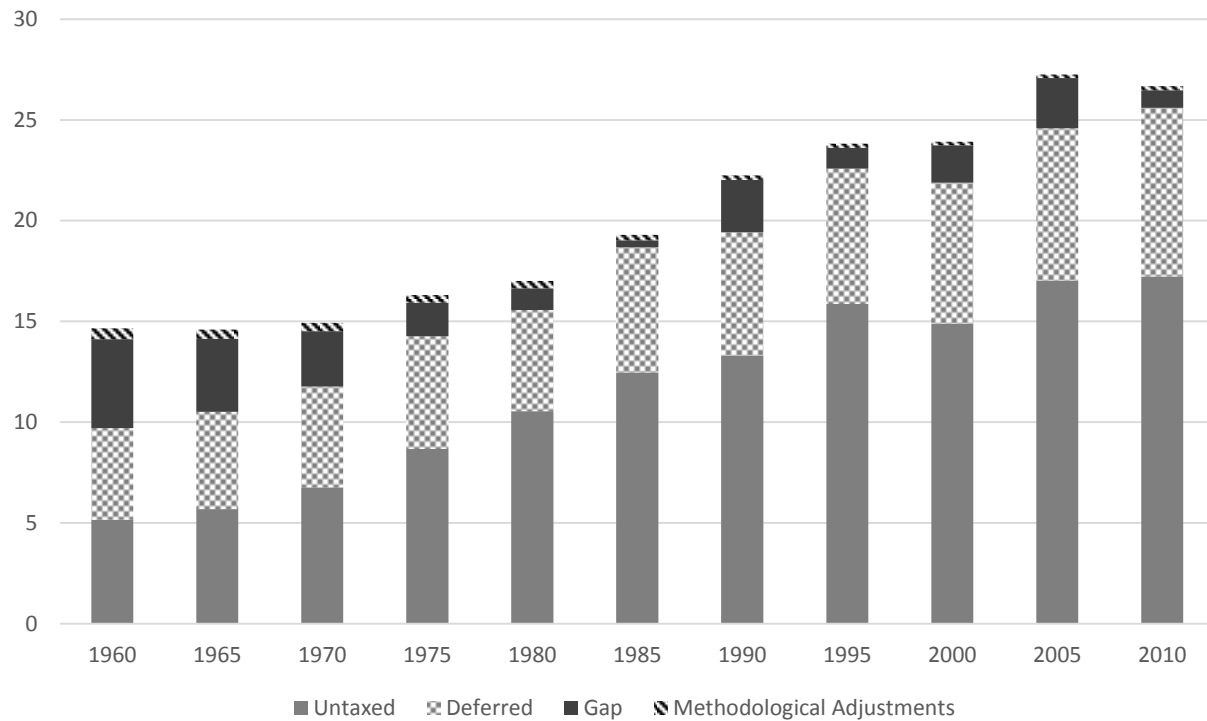
Figure A1. Taxed Components, Untaxed Components, Deferred Components, and Methodological Adjustments, Percent of NIPA Compensation of Employees



Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: NIPA = National Income and Product Accounts

Figure A2. Untaxed Components, Deferred Components, and Methodological Adjustments, Percent of NIPA Compensation of Employees



Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: NIPA = National Income and Product Accounts

Table A3. Reconciliation of NIPA Nonfarm Proprietors' Income and IRS Net Income (Less Loss) of Business and Professions and Partnerships, Billions of U.S. Dollars

	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2010
NIPA Nonfarm Proprietors' Income	39.9	51.6	64.9	96.2	159.9	220.1	322.3	462.4	726.3	932.6	986.7
Less: Portion of Personal Income not included in AGI											
Investment income received by nonprofit institutions or retained by fiduciaries	0.5	0.8	0.9	1.2	1.6	2.2	3.1	4.3	3.2	4.6	7.4
Fiduciary Income	0.1	0.3	0.4	0.4	0.5	0.6	0.9	1.1	1.3	1.5	1.6
Nonprofit Income	0.4	0.5	0.5	0.8	1.1	1.6	2.2	3.2	1.9	3.1	5.8
Differences in accounting treatment between NIPA and tax regulations, net	2.3	1.7	2.3	2.9	5.4	15.0	25.8	-24.0	-36.6	-187.6	-72.6
Inventory valuation adjustment	0.0	-0.2	-0.5	-1.1	-2.9	-0.2	-1.1	-1.5	-1.7	-4.6	1.4
Nonfarm (or farm) proprietors' income	2.4	2.1	3.2	5.3	6.7	-16.5	6.6	-37.6	-89.5	-249.3	-225.0
Capital consumption adjustment	-0.1	-0.2	-0.4	-1.3	1.6	31.7	20.3	15.1	54.6	66.3	151.0
Non-schedule E partnership income	0.0	-0.3	0.0	-1.1	2.7	8.3	-31.8	31.4	94.6	215.1	152.0
Adjustments for misreporting on income tax returns	10.0	14.3	20.4	43.2	86.1	125.2	153.7	234.8	367.1	479.4	481.8
Plus: Portion of AGI not included in Personal Income											
Other types of income ^a	NA	NA	NA	NA	NA	NA	NA	0.7	1.2	2.1	3.2

Table A3. Reconciliation of NIPA Nonfarm Proprietors' Income and IRS Net Income (Less Loss) of Business and Professions and Partnerships, Billions of U.S. Dollars, Cont'd.

	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2010
Equals: BEA-derived Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships	27.1	35.1	41.3	50.0	64.0	69.4	171.5	216.6	299.2	423.1	421.4
IRS Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships	27.2	35.2	41.5	50.2	64.6	69.9	172.1	216.8	298.6	421.3	426.6
Difference as a Percent of BEA-derived Net Income (Less Loss) of Nonfarm Proprietorships and Partnerships	-0.5	-0.4	-0.4	-0.4	-0.8	-0.7	-0.3	-0.1	0.2	0.4	-1.3

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 1 and Table 3.

- a. The portion of AGI not included in personal income (other types of income) takes account of foreign-earned self-employment income (business and professional income (less losses) and partnership income (less losses)) reported on IRS Form 2555. The Statistics of Income (SOI) provides data on business and professional income (less losses) and partnership income (less losses) on IRS Form 2555 for 1991, 1996, 2001, 2006, and 2011. Values for the intervening years are obtained using a linear interpolation.

Table A4. Taxed Components, Untaxed Components, and Methodological Adjustments, NIPA Nonfarm Proprietors' Income, Billions of U.S. Dollars

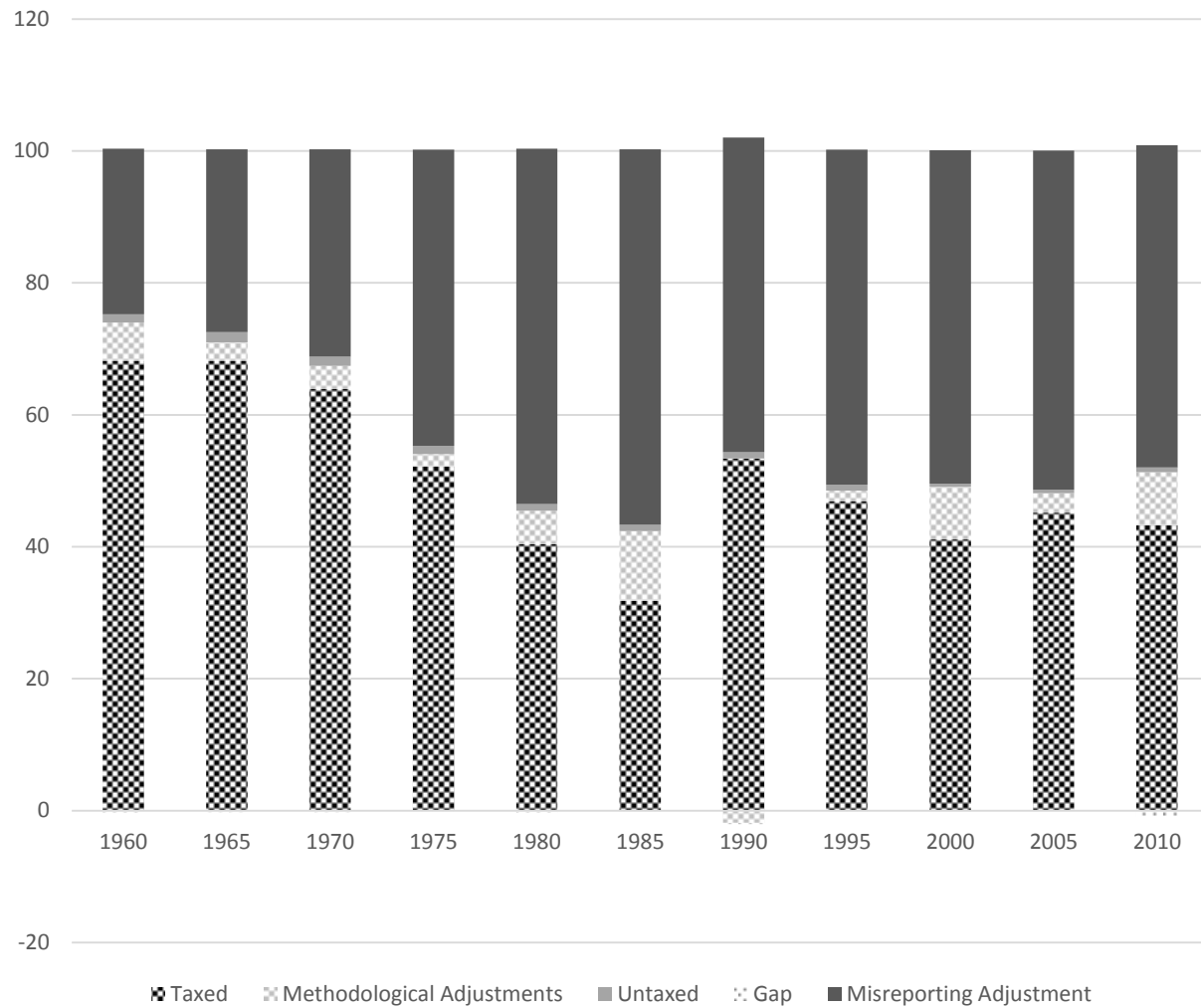
	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2010
Taxed Components											
IRS net Income (less loss) of nonfarm proprietorships and partnerships	27.2	35.2	41.5	50.2	64.6	69.9	172.1	216.8	298.6	421.3	426.6
<i>Portion of AGI not included in personal income^a</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	1.2	2.1	3.2
Plus: Untaxed Components											
Investment income received by nonprofit institutions or retained by fiduciaries	0.5	0.8	0.9	1.2	1.6	2.2	3.1	4.3	3.2	4.6	7.4
Plus: Methodological Adjustments											
Other differences in accounting treatment between NIPA and tax regulations, net ^b	2.3	1.7	2.3	2.9	5.4	15.0	25.8	-24.0	-36.6	-187.6	-72.6
Non-schedule E partnership income	0.0	-0.3	0.0	-1.1	2.7	8.3	-31.8	31.4	94.6	215.1	152.0
Plus: Adjustment for Misreporting on Income Tax Returns	10.0	14.3	20.4	43.2	86.1	125.2	153.7	234.8	367.1	479.4	481.8
Equals: NIPA Nonfarm Proprietors' Income Less Gap	40.0	51.7	65.1	96.4	160.4	220.6	322.9	463.3	726.9	932.8	995.2
Plus: Gap^a	-0.1	-0.1	-0.2	-0.2	-0.5	-0.5	-0.6	-0.9	-0.6	-0.2	-8.5
NIPA Nonfarm Proprietors' Income	39.9	51.6	64.9	96.2	159.9	220.1	322.3	462.4	726.3	932.6	986.7

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

See notes to Table 1, Table 3, and Table A3.

- a. In Table A4, the gap excludes the portion of AGI not included in personal income. For 1991 through 2012, the portion of AGI not included in personal income consists of foreign-earned self-employment income (business and professional income (less losses) and partnership income (less losses)) reported on IRS Form 2555, which would not be part of NIPA nonfarm proprietors' income.
- b. Other differences in accounting treatment between NIPA and tax regulations, net includes an inventory valuation adjustment, a capital consumption adjustment, and a number of adjustments from NIPA Table 7.14 consolidated under the heading nonfarm proprietors' income. See Section III of the paper for a detailed discussion of nonfarm proprietors' income.

Figure A3. Taxed Components, Untaxed Components, and Methodological Adjustments, Percent of NIPA Nonfarm Proprietors' Income



Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: NIPA = National Income and Product Accounts

Appendix B: Glossary and Detailed Table 1D

Appendix B presents a more detailed version of Table 1D in Section II of the paper (see Table B1). It also includes definitions of some of the reconciliation items appearing in Table 1D and Table B1.

Glossary

Imputed income in personal income:

In Table B1, values shown for imputed income in personal income are taken from NIPA Table 7.12. For compensation of employees (column (2)), imputed income in personal income includes food furnished to employees, standard clothing issued to military personnel, and employees' lodging. For farm proprietors' income (column (3)), it includes farm products consumed on farms. For rental income (column (4)), it includes the imputed rental income of persons from owner-occupied housing (net of subsidies). For personal income receipts on assets (column (5)), it is the imputed personal interest income of persons in personal income. The imputed personal interest income of persons consists of depositor services furnished to persons without payment and premium supplements for property and casualty insurance received by persons (net of premium supplements to owner-occupied housing).

Non-schedule E partnership income:

The reconciliation of NIPA nonfarm proprietors' income to the IRS net income (less loss) of business and professions (nonfarm proprietorships) and partnerships is based largely on NIPA Table 7.14. Non-schedule E partnership income is included as a reconciliation item because NIPA Table 7.14 reconciles NIPA nonfarm proprietors' income to the net profit (less loss) of nonfarm proprietorships and partnerships, plus payments to partners. The net profit (less loss) of nonfarm proprietorships and partnerships, plus payments to partners, exceeds IRS net income (less loss) of nonfarm proprietorships (from IRS Form 1140 Schedule C) and partnerships (from IRS Form 1140 Schedule E). An adjustment is calculated by taking the difference between the net profit (less loss) of nonfarm proprietorships and partnerships, plus payments to partners, in NIPA Table 7.14 and IRS net income (less loss) of nonfarm proprietorships and partnerships in Table 3.

S-corporation dividends in personal income

The adjustment for S-corporation dividends in personal income is calculated using data from Schedule K of IRS Form 1120S. It is the sum of (i) total property distributions, excluding cash, other than dividends and (ii) total dividend distributions paid from accumulated earnings and profits. These S-corporation distributions are included in NIPA personal dividend income but not IRS AGI and, thus, must be removed from NIPA personal income receipts on assets to obtain a BEA-derived taxable interest income and dividend income. S-corporation income which is included in IRS AGI is then introduced as a component of AGI not in personal income (column (8)).

Gain on Section 1231 assets

Section 1231 property is property used in trade or business. It includes livestock held for draft, breeding, dairy, and sport purposes. Net gains from the sale of such livestock are included in USDA net farm income and, hence, NIPA farm proprietors' income but are excluded from IRS net income (less loss) of farms. This is because the net gains are not reported on Schedule F of IRS Form 1040 but instead on IRS Form 4797 (Sales of Business Property).

Nonfarm (or farm) proprietors' income

For nonfarm proprietors' income, a number of adjustments from NIPA Table 7.14 are consolidated under the heading 'nonfarm proprietors' income' (under differences in accounting treatment between NIPA and tax regulations, net). Those adjustments include post-tabulation amendments and revisions; depletion of domestic minerals; an adjustment to depreciate expenditures for mining exploration, shafts, and wells; bad debt expense; an adjustment to depreciate expenditures for intellectual property products; and a net disaster adjustment. All of these adjustments are described in greater detail in Section III of the paper.

For farm proprietors' income, we add an adjustment under the heading farm proprietors' income (under differences in accounting treatment between NIPA and tax regulations, net) for farm housing expenses excluding depreciation (from NIPA Table 7.15).

Excess farm inventories

Brown, et al. (2006) define the excess change of farm inventories as the IRS change in farm inventories minus the BEA change in farm inventories. NIPA Table 5.7.5B gives the BEA change in farm inventories. However, calculating the change in IRS farm inventories is complicated because Schedule F of IRS Form 1040 includes lines for farm inventories of livestock, produce, grains, and other products (lines 45-48) but the Individual Statistics of Income Complete Report File contains no corresponding variables. As an alternative, we calculate excess farm inventories as the sum of line 13 in NIPA Table 7.3.5 (the change in farm materials and supplies inventories) and line 7 in NIPA Table 7.3.5 (the change in farm finished goods inventories).

Excess tax depreciation

For rental income (column (4)), excess tax depreciation is the difference between relevant BEA and IRS measures of depreciation. For farm proprietors' income (column (3)), it is the difference between IRS farm depreciation and USDA farm depreciation. See Section III of the paper for details on the calculation of excess tax depreciation.

Nontaxable personal current transfer receipts

Other personal income not included in AGI consists of nontaxable government transfer payments to persons and nontaxable business transfer payments to persons. No components of business transfer payments to persons are taxable. Thus, the value given for nontaxable personal current transfer receipts includes the full value of this type of NIPA personal income. Government transfer payments to persons include taxable and nontaxable components. The value given for

nontaxable personal current transfer receipts excludes the taxable components. The taxable components include NIPA railroad retirement benefits (from NIPA Table 3.12), NIPA unemployment compensation (from NIPA Table 2.1), and taxable Social Security benefits (from SOI individual income tax return statistics).

Employer contributions for employee pension and insurance funds

Supplements to wages and salaries include employer contributions for employee pension and insurance funds. Employer contributions for employee pension funds (from NIPA Table 7.8 and NIPA Table 7.22 through NIPA Table 7.25) include employer contributions to federal pension plans, state and local employee retirement, and private defined benefit and defined contribution pension plans. Employer contributions for employee insurance funds include employer contributions to private group health insurance, private group life insurance, private workers' compensation, and private supplemental unemployment insurance. In Table B1, employer contributions for employee insurance funds are included among the components of personal income excluded from tax. Employer contributions for employee pension funds are included among the components of personal income deferred from tax.

Statutory adjustments

Statutory adjustments (line 23 through line 36 on IRS Form 1040) are adjustments to total income that are allowed as deductions in the calculation of AGI. In 2012, they include the health savings account deduction, moving expenses, one half of the self-employment tax, contributions to self-employed retirement plans, the self-employed health insurance deduction, alimony payments, IRA deductions, student loan interest, the tuition and fees deduction, the domestic production activities deduction, and other adjustments. All data on statutory adjustments are obtained from Table 1.4 of the Statistics of Income publication *Individual Income Tax Returns Publication 1304 (Complete Report)*.

IRA-Keogh excluding capital gains

Ledbetter (2004) indicates that net differences in accounting treatment between NIPA and tax regulations incorporate the earnings, excluding capital gains, of IRA and Keogh plans. This is because the earnings of IRA and Keogh plans are included in NIPA personal income on an accrual basis but in IRS AGI on a cash basis. See Section III of the paper for details on the calculation of the earnings, excluding capital gains, of IRA and Keogh plans.

Payroll tax adjustment

Employer contributions for social insurance are a component of NIPA compensation of employees. NIPA personal income (from NIPA Table 2.1) is calculated by summing all types of personal income (i.e., compensation of employees, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with a capital consumption adjustment, personal interest income, personal dividend income, and personal current transfer receipts) and subtracting from this total (employer and employee) contributions for government social insurance. Table 1D and Table B1 take this into account by including a payroll tax adjustment as a portion of AGI not included in personal income. In column (1), which is the

summation of columns (2) through (8), the payroll tax adjustment gives employee and self-employed contributions for government social insurance. In column (2), it gives the negative of employer contributions for government social insurance. It gives the negative of employer contributions for government social insurance because employer contributions need to be subtracted from NIPA compensation of employees to arrive at a BEA-derived salaries and wages equivalent to IRS salaries and wages. In column (7), the payroll tax adjustment gives the positive of total (employer and employee) contributions for government social insurance. Summing the payroll tax adjustments in column (2) and column (7) gives employee and self-employed contributions for government social insurance in column (1).

Net gains from sale of assets

Net gains from the sale of assets are the sum of net gains (less losses) from the sales of capital assets reported on Schedule D of IRS Form 1040, capital gains distributions reported on IRS Form 1040, and net gains (less losses) from sales of property other than capital assets.

S-corporation income

S-corporation income is the sum of S-corporation nonpassive income (less loss) and S-corporation passive income (less loss) from Part II of Schedule E of IRS Form 1040. S-corporation nonpassive income (less loss) is obtained by subtracting from nonpassive S-corporation income S-corporation Section 179 expense deductions and S-corporation nonpassive losses.

Other types of income

In column (2) of Table B1, other types of income (under portion of AGI not included in personal income) include both supplemental unemployment insurance benefits (from NIPA Table 6.11C and NIPA Table 6.11D) and the total foreign-earned income of U.S. citizens living abroad for more than one year minus foreign-earned self-employment income. The total foreign-earned income of U.S. citizens living abroad is calculated using data from the Statistics of Income (SOI) based on IRS Form 2555 and IRS Form 2555EZ. Foreign-earned income on IRS Form 2555 includes wages and salaries, allowances, noncash income less excludable meals and lodging, self-employment income (business and professional income (less losses) and partnership income (less losses)), and other foreign income. Other types of income in column (3) include only the foreign-earned self-employment income (business and professional income (less losses) and partnership income (less losses)) reported on IRS Form 2555.

In column (8), other types of income are obtained by summing taxable IRA distributions, alimony received, state income tax refunds, gambling earnings, cancellation of debt, taxable health savings account distributions, and other net income (less loss) and subtracting from the result net operating losses and the foreign-earned income exclusion. All data on other types of income in column (8) are obtained from Table 1.4 of the Statistics of Income publication *Individual Income Tax Returns Publication 1304 (Complete Report)*.

Table B1. Detailed Decomposition of 2012 BEA-Derived AGI, Billions of U.S. Dollars

	Personal Income							AGI not in Personal Income
	Total	Com- pensation of Employees	Proprietors' Income	Rental Income	Personal Income Receipts on Assets	Taxable Unemployment Compensation and Social Security	Other Personal Income not in AGI	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
NIPA Personal Income	13887.8	8606.5	1260.2	533.0	2088.6	307.2	1080.9	11.4
Less: Methodological Adjustments	1080.0	18.1	129.2	351.2	581.4			
Imputed Income in Personal Income	577.2	18.1	0.2	355.2	203.7			
Non-schedule E partnership income	268.1		268.1					
S-corporation dividends in personal income	377.7				377.7			
Differences in accounting treatment between NIPA and tax regulations, net	-143.0		-139.0	-4.0				
Gain on Section 1231 assets	2.2		2.2					
Inventory valuation adjustment	-10.0		-10.0					
Nonfarm (or farm) proprietors' income	-286.5		-286.5					
Excess farm inventories	-8.6		-8.6					
Excess tax depreciation	20.6		10.5	10.1				
Capital consumption adjustment	139.2		153.3	-14.1				
Equals: NIPA Personal Income less Methodological Adjustments	12807.8	8588.4	1131.0	181.8	1507.2	307.2	1080.9	11.4

Table B1. Detailed Decomposition of 2012 BEA-Derived AGI, Billions of U.S. Dollars, Cont'd.

Personal Income								AGI not in Personal Income
	Total	Com- pensation of Employees	Proprietors' Income	Rental Income	Personal Income Receipts on Assets	Taxable Unemployment Compensation and Social Security	Other Personal Income not in AGI	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Less: Components of Personal Income Excluded or Deferred from Tax	5004.8	1648.9	8.7	13.7	1167.3		2166.1	
Nontaxable personal current transfer receipts	2032.1						2032.1	
Employer contributions for insurance funds	682.2	682.2						
Private group health insurance	597.2	597.2						
Other	85.0	85.0						
Investment income of life insurance carriers and pension plans	752.2			-0.2	752.4			
Investment income received by nonprofit institutions or retained by fiduciaries	118.2		8.7	13.9	95.5			
Other personal income exempt or excluded from adjusted gross income	240.3	35.2			71.1		134.0	
Statutory adjustments	134.0						134.0	
Exempt military pay	35.2	35.2						
Tax-exempt interest	71.1				71.1			
Employee contributions to employer-sponsored health insurance	238.5	238.5						
IRA-Keogh excluding capital gains	248.3				248.3			
TSP (employee portion)	18.1	18.1						

Table B1. Detailed Decomposition of 2012 BEA-Derived AGI, Billions of U.S. Dollars, Cont'd.

Personal Income								AGI not in Personal Income
	Total	Com- pensation of Employees	Proprietors' Income	Rental Income	Personal Income Receipts on Assets	Taxable Unemployment Compensation and Social Security	Other Personal Income not in AGI	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
401k/403b/408k (employee portion)	196.7	196.7						
Employer contributions for employee pension funds	478.2	478.2						
Defined benefit	328.7	328.7						
Defined contribution	149.5	149.5						
Less: Adjustments for Misreporting on Income Tax Returns	533.9		533.9					
Equals: BEA-derived Current Income AGI	7269.2	6939.5	588.4	168.0	339.9	307.2	-1085.2	11.4
Plus: Portion of AGI not included in Personal Income	2177.8	-452.1	3.7				951.2	1675.0
Payroll tax adjustment	437.3	-513.9					951.2	
Net gains from sale of assets	613.5							613.5
Taxable pensions	612.5							612.5
S-corporation income	321.2							321.2
Other types of income	193.3	61.8	3.7					127.8
Equals: BEA-derived AGI	9447.0	6487.4	592.0	168.0	339.9	307.2	-134.0	1686.4

Source: U.S. Treasury Department, Office of Tax Analysis (OTA)

Notes: NIPA = National Income and Product Accounts; BEA = Bureau of Economic Analysis; AGI = adjusted gross income; IRA = Individual Retirement Account; and TSP = Thrift Savings Plan.