

### XIII. GLOSSARY

**Allocation procedures.**—Allocation procedures are used in the derivation of the estimates of State and county personal income, because the data that are available for many of the components of personal income at the State and county levels may not be as comprehensive or as reliable as the data that are available at the national level. The national estimate of a component is allocated to the States in proportion to the States' shares of an economic, or allocating, series that is a measure of the component or that is related to the component that is being allocated; the State estimates are then allocated to counties. For example, the national estimate of personal dividend income received by individuals is allocated to the States—and the State estimates are allocated to counties—in proportion to the series for dividends reported by individuals on their Federal income tax returns. *See also "Allocation procedures" in Section II.*

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

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

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

**Corporate business.**—*See Sectors and legal form of organization.*

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

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<sup>1</sup> For a description of the economic areas and the methodology used to define them, see "Redefinition of the BEA Economic Areas," *Survey of Current Business* 75 (February 1995): 75-81. This article and a list of the economic areas and their constituent counties and county equivalents are available on BEA's Web site.

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

**County equivalents.**—*See County.*

**Disclosure-avoidance procedures.**—*See “Disclosure-avoidance procedures” in Section XII.*

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

**Dual allocation.**—*See “Dual allocation” in Section XII.*

**Earnings.**—This aggregate is the sum of three components of personal income—wage and salary disbursements, supplements to wages and salaries, and proprietors' income. Net earnings is also presented: This measure is calculated as earnings less contributions for government social insurance plus an adjustment to convert it from a place of work to a place of residence basis. *See also Net labor earnings.*

**Employment.**—The BEA employment series for States and local areas comprises estimates of the number of jobs, full-time plus part-time, by place of work. Full-time and part-time jobs are counted at equal weight. Employees, sole proprietors, and partners (excluding limited partners) are included, but unpaid family workers and volunteers are not included. *See also “Employment” in Section XII.*

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

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

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

**Extrapolation.**—*See “Interpolation and extrapolation” in Section XII.*

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

**Geographic areas.**—The estimates of personal income are prepared for the following geographic areas: Counties, metropolitan areas, BEA Economic Areas, States, and regions. The eight regional classifications, Far West, Great Lakes, Mideast, New England, Plains, Rocky Mountain, Southeast, and Southwest, were developed in the mid-1950's. They are based on the homogeneity of the States in terms of economic

characteristics, such as the industrial composition of the labor force, and in terms of demographic, social, and cultural characteristics.<sup>3</sup>

**Government enterprise.**—See *Sectors and legal form of organization*.

**Income subject to adjustment.**—See *Net Labor earnings*.

**Imputation.**—Imputations place a market value on certain transactions that do not occur in the market economy or that are not observable in its records. They are included in personal income and in other NIPA aggregates in most cases to keep the NIPA aggregates invariant to how certain activities are carried out. See also "Imputation" in Section XII.

**Interpolation.**—See "Interpolation and extrapolation" in the "Technical Notes."

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

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

**Metropolitan areas.**—Metropolitan areas are defined for Federal statistical purposes by the Office of Management and Budget.<sup>4</sup> Generally, they are defined in terms of counties. Metropolitan areas consist of metropolitan statistical areas, metropolitan divisions, and combined statistical areas. See also *Geographic areas*.

**Net labor earnings.**—This aggregate is the sum of wage and salary disbursements and supplements to wages and salaries less contributions for government social insurance. This measure and a slightly modified version—termed "income subject to adjustment"—are used in the residence adjustment procedure for both the annual and the quarterly estimates of State personal income and for the annual county estimates. See also *Earnings*.

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

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<sup>3</sup> For a brief description of the regional classification of States used by BEA, see U.S. Department of Commerce, Bureau of the Census, *Geographic Areas Reference Manual*, Washington, DC, U.S. Government Printing Office, November 1994, pp. 6-18—6-19.

<sup>4</sup> The list of the metropolitan areas and their constituent counties and county equivalents is available on BEA's Web site at <http://www.bea.gov>.

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

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

**Other private business.**—*See Sectors and legal form of organization.*

**Partnership.**—A partnership is an unincorporated business association of two or more partners. *See also Sectors and legal form of organization.*

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

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

**Personal contributions for government social insurance.**—These contributions, which are subtracted in the calculation of personal income, consist of the contributions, or payments, by employees, by the self-employed, and by other individuals who participate in the following government programs: Old-age, survivors, and disability insurance (social security); hospital insurance; supplementary medical insurance; unemployment insurance; railroad retirement; veterans life insurance; and temporary disability insurance. These contributions are excluded from personal income by definition, but the components of personal income upon which these contributions are based—mainly wage and salary disbursements and proprietors' income—are presented gross of these contributions. *See also Earnings, Net labor earnings, and Personal income.*

**Personal current taxes.**—Personal current taxes are tax payments (net of refunds) by persons that are not chargeable to business expense and certain other payments that are made by persons to government agencies (except government enterprises) that are treated like taxes. Personal taxes includes taxes on income, including realized net capital gains, and on personal property.<sup>5</sup> Contributions for government social insurance are not included. Personal current taxes are used in the derivation of disposable personal income, which is calculated as personal income less personal current taxes.

**Personal current transfer receipts.**—These receipts (formerly called transfer payments) are benefits received by persons for which no current services are performed.

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<sup>5</sup> Personal current taxes exclude payments of both real estate taxes and sales taxes. Real estate taxes are excluded because, in the calculation of the imputed rental income of owner-occupied housing, they are considered business expenses. Sales taxes are included in the selling price of the commodity and are treated as being paid by the seller.

It consists of payments to individuals and to nonprofit institutions by Federal, State, and local governments and by businesses. Government payments to individuals include retirement and disability insurance benefits, medical payments (mainly Medicare and Medicaid), income maintenance benefits, unemployment insurance benefits, veterans benefits, and Federal grants and loans to students. Government payments to nonprofit institutions exclude payments by the Federal Government for work under research and development contracts. Business payments to persons consist primarily of liability payments for personal injury and of corporate gifts to nonprofit institutions.

**Personal dividend income.**—This component of personal income consists of the payments in cash or other assets, excluding the corporation's own stock, made by corporations located in the United States or abroad to persons who are U.S. residents. It excludes that portion of dividends paid by regulated investment companies (mutual funds) related to capital gains distributions.

**Personal income.**—Personal income is the income that is received by persons from participation in production, from both government and business transfer payments, and from government interest (which is treated like a transfer payment). It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance. The personal income of an area is the income that is received by, or on behalf of, all the individuals who live in the area; therefore, the estimates of personal income are presented by the place of residence of the income recipients. *See also Earnings; Net labor earnings; Supplements to wages and salaries; Employer contributions for government social insurance; Personal contributions for government social insurance; Personal dividend income; Personal interest income; Persons; Proprietors' income; Rental income of persons; Residence adjustment; Residence, place of; Personal current transfer receipts; and Wage and salary disbursements.*

**Personal interest income.**—This component of personal income is the interest income (monetary and imputed) of persons from all sources.

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

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

**Quarterly Census of Employment and Wages (QCEW).**—The QCEW is data from the administration of the State unemployment insurance system. It originates from

employers' quarterly contributions reports filed on form ES 202 with the State employment security agencies. The data, which are provided to BEA by the Bureau of Labor Statistics, include quarterly number of establishments and wage and salary disbursements and monthly employment by county and industry. *See also ES-202 and Wage and salary disbursements.*

**Quasi-individuals.**—*See Persons.*

**Region.**—*See Geographic areas.*

**Rental income of persons with capital consumption adjustment.**—This component of personal income is the net income of persons from the rental of real property except for the income of persons primarily engaged in the real estate business; the imputed net rental income of owner-occupied housing, and the royalties received by persons from patents, copyrights, and rights to natural resources. *See also Capital consumption adjustment and Proprietors' income.*

**Residence adjustment.**—The residence adjustment is the net inflow of the net labor earnings of interarea commuters. The State and county estimates of personal income are presented by the State and county of residence of the income recipients. However, the source data for most of the components of wage and salary disbursements, supplements to wages and salaries, and contributions for government social insurance are on a place-of-work basis. Consequently, a residence adjustment is made to convert the estimates based on these source data to a place-of-residence basis.<sup>6</sup> *See also Net labor earnings and "Geographic characteristics of the source data" in Section II.*

**Residence, place of.**—The place of residence of individuals is the State and county in which they live. The residence of military personnel is the State and county in which they live while they are on military assignment, not their permanent or legal State and county of residence. The residence of seasonal migrant workers, except those working in Alaska, is the State and county in which they live while they are working, not their usual State and county of residence. These definitions of residence are not fully consistent with the population statistics prepared by the Census Bureau; for example, on their census forms, some seasonal migrant workers report their usual State and county of residence rather than the State and county in which they are living and working when the decennial census of population is taken. The Census Bureau's annual estimates of population by State and county, which are used by BEA to calculate per capita personal income, reflect this reporting anomaly. *See also Personal income, Persons, and Residence adjustment.*

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

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<sup>6</sup> In the tables on this disc, each of the components of net labor earnings—wage and salary disbursement, supplements to wages and salaries, and contributions for government social insurance—is presented by place of work. The residence adjustment is estimated for net labor earnings, and that statistic is presented by place of residence.

**Sectors and legal form of organization.**—In the national income and product accounts (NIPAs), gross domestic product and other major aggregates are presented in terms of three economic sectors: Business, households and institutions, and general government. Businesses are classified into five categories, generally according to legal form of organization: Corporations, sole proprietorships, partnerships, "other" private business, and government enterprises. **Corporate business** consists of entities required to file Federal corporate tax returns (Internal Revenue Service (IRS) form 1120 series) and the following entities: Mutual financial institutions and cooperatives subject to Federal income tax, private noninsured pension funds, nonprofit organizations that primarily serve businesses, Federal Reserve banks, and federally sponsored credit agencies. **Sole proprietorships** are all entities that are required to file IRS Schedule C (Profit or Loss from Business) or Schedule F (Farm Income and Expenses).<sup>7</sup> **Partnerships** are all entities required to file Federal partnership income tax returns, IRS Form 1065 (U.S. Partnership Return of Income). **Other private business** consists of all entities that are required to report rental and royalty income in IRS Schedule E (Supplemental Income and Loss), tax-exempt cooperatives, owner-occupants of housing, and the services of buildings and equipment owned and used by nonprofit institutions that primarily serve individuals.<sup>8</sup> **Government enterprises** are government agencies that cover a substantial portion of their operating costs by selling goods and services to the public and that maintain separate accounts.<sup>9</sup>

**Sole proprietorship.**—A sole proprietorship is an unincorporated business owned by a person. *See also Sectors and legal form of organization and Proprietors' income.*

**Standard Industrial Classification (SIC).**—The SIC is an establishment-industry classification system that was prepared by the Office of Management and Budget for use by all federal statistical agencies.<sup>10</sup> The SIC is used in the presentation of the State and local area estimates of earnings by industry through 2001 for States and 2000 for counties. It is used by BEA for the estimates for the private sector only, although it is designed to cover both public and private economic activities. In the SIC, establishments are classified by the primary activity in which they are engaged, and each establishment is assigned an industry code.<sup>11</sup> *See also North American Industry Classification System.*

**State.**—*See Geographic areas.*

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<sup>7</sup> Also included in sole proprietorships are similar entities operated by individuals who do not meet the reporting requirements.

<sup>8</sup> Also included in other private business are entities with rental and royalty income whose individual owners who do not meet the reporting requirements.

<sup>9</sup> For further information, see U.S. Department of Commerce, Bureau of Economic Analysis, *Methodology Paper Series MP-5, Government Transactions* (Washington, DC: U.S. Government Printing Office, November 1988). This publication is available on BEA's Internet site: Go to [www.bea.gov](http://www.bea.gov) and select "Methodologies."

<sup>10</sup> See Executive Office of the President, Office of Management and Budget, *Standard Industrial Classification Manual, 1997*, National Technical Information Service order no. PB 87-100012. The Manual is available on the Web site of the Occupational Safety and Health Administration: Go to [www.osha.gov/oshstats/sicser.html](http://www.osha.gov/oshstats/sicser.html).

<sup>11</sup> Establishments, as defined in the SIC, are economic units, generally at a single physical location, where business is conducted or where services or industrial operations are performed.

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

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

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

**Wage and salary disbursements.**—This component of personal income consists of the monetary remuneration of employees, including the compensation of corporate officers; commissions, tips, and bonuses; and receipts in kind, or pay-in-kind, such as the meals furnished to the employees of restaurants.<sup>12</sup> It reflects the amount of wages and salaries disbursed, but not necessarily earned, during the year. This component is measured before deductions, such as social security contributions and union dues. *See also Earnings, Net labor earnings, Pay-in-kind, and Supplements to wages and salaries.*

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<sup>12</sup> Voluntary employee contributions to certain deferred compensation plans, such as 401(k) plans, are not deducted. (Employer contributions to deferred compensation plans are included in supplements to wages and salaries.)