CHAPTER 13: CORPORATE PROFITS

(September 2012)

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Corporate profits represents the portion of the total income earned from current production that is accounted for by U.S. corporations. The estimates of corporate profits are an integral part of the national income and product accounts (NIPAs), a set of accounts prepared by the Bureau of Economic Analysis (BEA) that provides a logical and consistent framework for presenting statistics on U.S. economic activity (see "Chapter 2: Fundamental Concepts").

Corporate profits is one of the most closely watched U.S. economic indicators. Profitability provides a summary measure of corporate financial health and thus serves as an essential indicator of economic performance. Profits are a source of retained earnings, providing much of the funding for capital investments that raise productive capacity. The estimates of profits and of related measures may also be used to evaluate the effects on corporations of changes in policy or in economic conditions.

Profits are also frequently used in measuring the rate of return on investment and the relationship between earnings and equity valuation. For example, the estimates of corporate profits before and after tax, along with estimates of corporate net value added, are used in preparing BEA's annual measures of aggregate rates of returns for domestic nonfinancial corporations.[1]

BEA's featured measure of corporate profits—profits from current production—provides a comprehensive and consistent economic measure of the income earned by all U.S. corporations. As such, it is unaffected by changes in tax laws, and it is adjusted for nonreported and misreported income. It excludes dividend income, capital gains and losses, and other financing flows and adjustments, such as deduction for "bad debt." Thus, the NIPA measure of profits is a particularly useful analytical measure of the health of the corporate sector. For example, in contrast to other popular measures of corporate

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[1] See Andrew W. Hodge, Robert J. Corea, James M. Green, and Bonnie A. Retus, "Returns for Domestic Nonfinancial Business," *Survey of Current Business* 91 (June 2011): 24–28.

profits, the NIPA measure did not show the large run-up in profits during the late 1990s that was primarily attributable to capital gains.

In addition, BEA prepares associated measures of payments from corporate profits. Taxes on corporate income consists of taxes on income paid to government and to the rest of the world. Corporate taxes are an important source of funding for federal and for state and local government operations. Net dividend payments consists of payments to shareholders by U.S. corporations. Corporate dividends paid to shareholders measures investment returns to them in the form of current income, including dividends paid to persons as a component of the NIPA measure of personal income.

Definitions and Concepts

Corporate profits measures the income, before deducting income taxes, of organizations treated as corporations in the NIPAs. These organizations consist of all entities required to file federal corporate tax returns, including mutual financial institutions and cooperatives subject to federal income tax; nonprofit organizations that primarily serve business; Federal Reserve banks; and federally sponsored credit agencies. Reflecting the concepts of national economic accounting, income in the NIPAs is defined as that arising from current production. This income is measured as receipts less expenses as defined in federal tax law, but with several important differences.[2]

Table 13.1 shows the types of transactions that are included in, and excluded from, corporate profits.

Table 13.1—Content of Corporate Profits

Category of transaction	Comments
Corporate profits before tax	Includes all U.S. corporations, including private corporations and S corporations. Includes other organizations that do not file federal corporate tax returns—such as certain mutual financial institutions and cooperatives, nonprofits that primarily serve business, Federal Reserve banks, and federally sponsored credit agencies. Receipts exclude gains, net of losses, from the sale of property. Receipts exclude dividends received. Expenses include distributions to shareholders of regulated investment companies that represent interest income, which are classified as interest payments in the NIPAs. Excludes the cost of trading and issuing corporate securities. Expenses exclude deductions for bad debt, depletion, and state and local taxes on corporate income. Expenses exclude expensing for, and include depreciation of, intangible amortization, software, and mining

[2] The NIPA measures of corporate profits are closely related to the measures for corporations in the System of National Accounts (SNA). However, the SNA definition has a broader definition of the corporate sector that includes most federal government and state and local government enterprises and private entities such as limited liability partnerships and nonprofit institutions that are primarily engaged in market production. (See Charles Ian Mead, Karin E. Moses, and Brent R. Moulton, "The NIPAs and the System of National Accounts," *Survey* 84 (December 2004): 17–32.)

	exploration, shafts, and wells.
Inventory valuation adjustment	Inventory withdrawals are valued at current cost.
Capital consumption adjustment	Depreciation is valued at current cost.

Most businesses report profits on both a financial-accounting basis and a tax-accounting basis.[3] Both financial accounting and tax accounting calculate profits as the difference between receipts and expenses; however, they differ in the definitions of some receipts and expenses, in the timing of when the receipts and expenses are recorded, and in the purposes for which the information is prepared. Financial-accounting measures, which reflect "generally accepted accounting principles," underlie the reports to stockholders, to lenders, and to government regulatory agencies; tax-accounting measures underlie corporate income tax returns. The Internal Revenue Service (IRS) has tabulated an information return (the M-3) that reconciles various items (such as employee stock options) reported on financial reports with the same items reported on most corporate tax returns, beginning with 2005. The annual and quarterly financial reports prepared by individual companies provide the basis for another widely followed set of indicators of corporate profits—the Standard and Poor's (S&P) 500 measures of reported earnings, operating earnings, and earnings per share, which reflect the aggregate earnings of the 500 corporations that compose the S&P stock index.[4]

When available, BEA uses data collected on a tax-accounting basis as the primary source of information on corporate profits. These data are based on well-specified, consistent accounting definitions that, in general, more closely parallel NIPA concepts and definitions. For example, in financial accounting, corporations sometimes record the value of extraordinary losses before they actually incur the expenses associated with the losses. Financial accounting also allows some flexibility in the way definitions are applied by corporations—for example, in the selection of service lives and in the valuation of liabilities. In addition, the tax-accounting tabulations are comprehensive, covering all incorporated businesses—both publicly traded and privately held—and all industries, while financial-accounting tabulations cover a subset of the corporate universe. However, financial-accounting information is more timely than the tax-return data, so it is used by BEA to derive the estimates for the most recent year and for the current quarters. Neither set of accounting data is entirely suitable for implementing the NIPA concept of profits from current production. Consequently, BEA's procedure for estimating NIPA corporate profits mainly consists of adjusting, incorporating, and supplementing these data.[5]

[3] For a general discussion of the NIPA accounting framework and of the underlying accounting principles, see the section "Accounting Framework," in chapter 2. For an in-depth discussion, see "An Introduction to National Economic Accounting," Methodology Paper No. 1 (updated), September 2007; go to www.bea.gov, and click on "National" and then on "Methodologies."
[4] The NIPA and S&P measures of profits differ significantly in purpose, coverage, source data, definitions, and methodologies; see Andrew W. Hodge, "BEA Briefing: Comparing NIPA Profits With S&P 500 Profits," *Survey* 91 (March 2011): 22–27.
[5] See the section "Overview of Source Data and Estimating Procedures." In addition, for an in-depth discussion of estimation issues regarding corporate profits, see Dylan G. Rassier, "The Role of Profits and Income in the National Accounts," *Survey* 91 (February 2012): 8–22.

Profits from current production, the featured measure of corporate profits in the NIPAs, is derived as the sum of profits before tax (PBT) and of two adjustments—the inventory valuation adjustment (IVA) and the capital consumption adjustment (CCAdj).

PBT—sometimes referred to as "book profits"—reflects corporate income regardless of any redistribution of income made through taxes. The PBT estimates are primarily based on tax-return information provided by the IRS in *Statistics of Income: Corporation Income Tax Returns*, which is then adjusted to conform to BEA coverage and definitions.[6] PBT is distributed to government as taxes on corporate income and to shareholders in other sectors as dividends or is retained as undistributed profits. The estimates of PBT are prior to the IVA and CCAdj (which are discussed in the following two paragraphs), so PBT reflects the charges used in business tax accounting for inventory withdrawals and for depreciation.

As prices change, businesses that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. In the NIPAs, these gains or losses that result from holding goods in inventory are not considered income from current production and thus are removed from business income. The IVA converts the business-accounting valuation of withdrawals from inventory, which is based on a mixture of historical and current costs, to a current-cost basis by removing the capital-gain-like or the capital-loss-like element that results from valuing these withdrawals at prices of earlier periods.[7]

Depreciation measured on a business-accounting basis must be adjusted to reflect consistent economic-accounting measures that are valued at current-replacement cost. The CCAdj is a two-part adjustment that (1) converts valuations of depreciation that are based on a mixture of service lives and depreciation patterns specified in the tax code to valuations that are based on uniform service lives and empirically based depreciation patterns; and (2) like the IVA, converts the measures of depreciation to a current-cost basis by removing from profits the capital-gain-like or capital-loss-like element that arises from valuing the depreciation of fixed assets at the prices of earlier periods.[8]

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[6] For more information, see "Business Tax Statistics, Corporations," at www.irs.gov/taxstats.

[7] For more information, see "Chapter 7: Change in Private Inventories," 7–4.

[8] After the September 11, 2001, attacks on the World Trade Center and the Pentagon and the subsequent perceived weakness in the economy, legislation was passed to stimulate business investment by temporarily modifying tax-based depreciation rules. As part of the Job Creation and Worker Assistance Act of 2002, businesses were permitted to depreciate a "bonus" amount during the first year, over and above that allowed under traditional tax accounting rules. Because total depreciation cannot exceed the amount of the investment, the amount of depreciation remaining to be taken in future years was reduced. Hence, depreciation was raised during the "bonus" span and lowered thereafter, and because depreciation is an expense in calculating profits, PBT was understated during the "bonus" span and overstated thereafter. A number of subsequent economic stimulus acts also included provisions for "bonus" depreciation; therefore, the effects of tax acts of later years are net of offsetting bonus depreciation that was claimed in previous years.

Profits from current production (PBT with IVA and CCAdj) was not affected by the acts, because it does not depend on the depreciation-accounting practices used for federal income tax purposes; instead, this measure of profits is based on an estimate of the value of fixed capital actually used up in the production

The composition of profits from current production—that is, corporate profits with IVA, and CCAdj—is illustrated below.

	2008 estimate (billions of dollars)
Corporate profits with IVA and CCAdj	1,248.4
PBT	1,359.9
IVA	-44.5
CCAdj	-67.1
For consistent accounting at historical cost	93.1
For current-cost valuation	–160.2

The NIPAs include tabulations for both "national" profits and "domestic" profits.[9] The profits component of national income includes "profits originating in the rest of the world." This measure is calculated as receipts by all U.S. residents, including both corporations and persons, of dividends from foreign corporations, and, for U.S. corporations, their share of the reinvested earnings of their incorporated foreign affiliates, and the earnings of unincorporated foreign affiliates, net of corresponding payments. The profits component of domestic income excludes the income earned abroad by U.S. corporations and includes the income earned in the United States by foreign residents. These relationships are illustrated below.

	2008 estimate (billions of dollars)
Corporate profits with IVA and CCAdj	1,248.4
Less: Rest of the world	406.6
Receipts from the rest of the world	581.9
Less: Payments to the rest of the world	175.3
Corporate profits with IVA and CCAdj, domestic industries	841.8

process. However, because the acts reduced tax liability, profits from current production on an after-tax basis was adjusted by the net effect of the tax acts. Because the acts affect tax depreciation, the CCAdj was also adjusted by the same amount. BEA estimates of the adjustment are based on data from the Office of Tax Analysis (OTA) of the U.S. Department of Treasury and on other source data (for more information, see OTA's working paper "Corporate Response to Accelerated Tax Depreciation: Bonus Depreciation for Tax Years 2002–2004" at www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/ota98.pdf).

[9] For a general discussion of domestic and national measures in the NIPAs, see the section "Geographic coverage" in chapter 2.

Other principal profits measures that are presented in the NIPAs (see NIPA table 1.12) are defined as follows:

Taxes on corporate income consists of taxes paid on corporate earnings to federal, state, and local governments and to foreign governments. These earnings include capital gains and other income excluded from PBT. The taxes are measured on an accrual basis, net of applicable tax credits.

Profits after tax with IVA and CCAdj is equal to corporate profits with IVA and CCAdj less taxes on corporate income. It provides an after-tax measure of profits from current production.

Net dividends consists of payments in cash or other assets, excluding the corporation's own stock, made by corporations located in the United States and abroad to stockholders who are U.S. residents. The payments are netted against dividends received by U.S. corporations, thereby providing a measure of the dividends paid by U.S. corporations to other sectors.

Undistributed corporate profits with IVA and CCAdj is equal to corporate profits with IVA and CCAdj less taxes on corporate income and less net dividends. It measures corporate saving from profits.

Net cash flow with IVA is equal to undistributed corporate profits with IVA and CCAdj plus consumption of corporate fixed capital less capital transfers paid (net). It is a profits-related measure of internal funds available for investment.

Consumption of fixed capital (CFC) is the economic charge for the using up of fixed capital. It is defined as the decline in the value of the stock of assets due to wear and tear, obsolescence, aging, and accidental damage except that caused by a catastrophic event.[10]

Capital transfers paid (net) is the net measure of unrequited transfers associated with the acquisition or disposal of assets between the corporate sector and other sectors.

Corporate profits with IVA is defined in the same way as corporate profits with IVA and CCAdj, except corporate profits with IVA reflects the depreciation-accounting practices used for federal income tax returns. Profits by industry is shown on this basis because estimates of the CCAdj by industry are not available.

[10] In the 2009 comprehensive revision, BEA introduced a new treatment of major disasters (those in which either the associated property losses or the insurance payouts exceed 0.1 percent of GDP) that records them as “changes in the volume of assets” rather than as CFC; see Eugene P. Seskin and Shelly Smith, “Preview of the 2009 Comprehensive Revision of the NIPAs: Changes in Definitions and Presentations,” *Survey* 89 (March 2009): 11–15.

Profits after tax without IVA and CCAdj is equal to PBT less taxes on corporate income. It consists of net dividends and undistributed corporate profits. This measure is often used in comparisons with the S&P measures of reported earnings.

Undistributed corporate profits without IVA and CCAdj is equal to PBT less taxes on corporate income and less net dividends. It measures corporate saving from book profits.

In addition, BEA prepares estimates of *gross corporate value added* (see NIPA table 1.14), which is defined as the total value of all goods and services produced by the corporate sector (gross output) less the value of those goods and services that are used up in production (total intermediate inputs). For a discussion of the derivation of gross corporate value added and of related measures, see the appendix to this chapter.

Recording in the NIPAs

As described in chapter 2, the NIPAs can be viewed as aggregations of accounts belonging to individual transactors in the economy. In the seven summary accounts of the NIPAs, corporate profits with IVA and CCAdj appears in the Private Enterprise Account (account 2), and undistributed corporate profits with IVA and CCAdj appears in the Domestic Capital Account (account 6). Taxes on corporate income appears in the Private Enterprise Account, the Government Receipts and Expenditures Account (account 4), and the Foreign Transactions Current Account (account 5). Corporate dividends appears in the Private Enterprise Income Account, the Personal Income and Outlay Account (account 3), the Government Receipts and Expenditures Account, and the Foreign Transactions Current Account.

The NIPAs include a substantial number of tables that present aggregate and detailed current-dollar estimates of corporate profits. In most of the NIPA tables, the totals are shown on a national basis. In tables showing industry detail, profits on a national basis are shown as the total of profits for domestic industries and for the "rest-of-the-world" industry. The NIPA tables that present estimates of corporate profits are identified in table 13.2 below.

Table 13.2--Measures of Corporate Profits in NIPA Tables[1]

Profits measures	National total	Rest of the world	Domestic			
			Total		Financial[2]	Nonfinancial
			Aggregate	Industry detail		
Current production measures:						
Corporate profits with IVA & CCAdj	1.7.5, 1.12, 1.16, 6.16	NA	1.10, 1.13, 1.14	NA	NA	1.14
Less: Taxes on corporate income[3]	1.10, 1.12, 1.16, 3.1, 6.18, 7.16	6.18	1.10, 1.14, 6.18	6.18	NA	1.14
Equals: Profits after tax with IVA & CCAdj	1.12, 1.16	NA	1.10, 1.14	NA	NA	1.14
Less: Net dividends[4]	1.12, 1.16, 6.20, 7.10, 7.16	6.20, 7.10, 7.16	1.10, 1.14, 7.10	6.20	7.10	1.14, 7.10
Dividends paid	7.10	1.16, 4.1, 7.10	7.10	NA	7.10	7.10
Less: Dividends received	7.10	1.16, 4.1, 7.10	7.10	NA	7.10	7.10
Equals: Undistributed profits with IVA & CCAdj	1.12, 1.16, 5.1	NA	1.10, 1.14	NA	NA	1.14
Plus: Consumption of fixed capital	1.12, 7.5	NA	1.14, 7.5	NA	7.5	7.5, 1.14
Less: Capital transfers paid (net)	5.10, 1.12	NA	NA	NA	NA	NA
Equals: Net cash flow with IVA	1.12	NA	NA	NA	NA	NA
Derivation from "book profits":						
Profits before tax (PBT) or "book profits"	1.12, 6.17, 7.16	1.13, 6.17	1.14, 6.17	6.17	NA	1.14
Plus: IVA	1.12, 5.1, 6.14	NA	1.14, 6.14	6.14	NA	1.14
Equals: Corporate profits with IVA	1.12, 6.16	6.16	6.16	6.16	6.16	6.16
Plus: CCAdj	1.12, 1.13, 5.1, 7.13	NA	1.14, 7.6	NA	7.6	1.14, 7.6
Equals: Corporate profits with IVA & CCAdj						
Other "book" measures:						
Profits after tax	1.12, 6.19, 7.16	6.19	1.14, 6.19	6.19	NA	1.14
Undistributed profits	1.12, 6.21, 5.1	6.21	6.21	6.21	NA	NA

NA Not available
CCAdj Capital consumption adjustment
IVA Inventory valuation adjustment
NIPA National income and product accounts

1. The "Selected" NIPA tables appear monthly in the Survey of Current Business and present annual and quarterly estimates that are seasonally adjusted at annual rates: tables 1.7.5, 1.10, 1.12, 1.14, 3.1, 5.1, and 6.16. Other NIPA tables appear annually in the Survey and present annual estimates only: tables 1.13, 5.10, 1.16, 6.14, 6.17, 6.18, 6.19, 6.20, 6.21, 7.5, 7.6, 7.10, 7.13, and 7.16.
2. Financial corporations consist of finance and insurance and of banks and other holding companies.
3. Federal taxes on corporate income are shown in "Selected" table 3.2; seasonally unadjusted quarterly estimates appear in table 3.22 annually. State and local taxes on corporate income are shown in "Selected" table 3.3; seasonally unadjusted quarterly estimates appear in table 3.23 annually. State taxes on corporate income are shown in table 3.20 annually; local taxes on corporate income are shown in table 3.21 annually.
4. Personal dividend income, a component of personal income, is shown in NIPA tables 2.1, 2.6, and 7.10.

In addition, estimates of gross corporate value added and of real gross corporate value added for nonfinancial domestic corporate business are presented in NIPA table 1.14, and estimates of price, costs, and profit per unit of real gross value added of nonfinancial domestic corporate business are presented in NIPA table 1.15. For a description of these estimates, see the appendix to this chapter.

Overview of Source Data and Estimating Procedures

As described earlier in the handbook, the NIPA estimates, including those for corporate profits, are prepared using a wide variety of source data (see "Chapter 3: Principal Source Data") and using estimating methods that adjust the source data to the required NIPA concepts and that fill in gaps in coverage and timing (see "Chapter 4: Estimating Methods"). As discussed earlier in the chapter, corporate profits from current production is derived as the sum of PBT, IVA, and CCAdj. The primary source for the PBT estimates is tax return information provided by the IRS in *Statistics of Income: Corporation Income Tax Returns (Corporation Returns)*; BEA makes a series of adjustments to these data to conform them to NIPA coverage and definitions. BEA then adjusts the PBT estimate with the IVA and the CCAdj in order to derive an estimate of income earned from current production that is consistent with NIPA concepts.

This section describes the sources and methods used for estimating PBT and for estimating the distributions of PBT.[11] Payments from PBT to government as taxes on corporate income and to shareholders in other sectors as dividends are estimated independently and are discussed below. Undistributed profits—that is, profits that are retained by corporations—are derived by subtracting taxes on corporate income and net dividends from PBT.

Table 13.A at the end of the main text summarizes the source data and estimating methods that are used to prepare the annual estimates and the current quarterly estimates of corporate profits for the industry categories shown in NIPA table 6.16.

Annual (except most-recent-year) estimates

For all but the most recent year, the annual estimates of PBT, taxes on corporate income, and net dividends for domestic industries are based primarily on annual tabulations of corporate income tax returns. The annual estimates of PBT and of net dividends for the rest of the world are from BEA's international transactions accounts (ITAs).[12]

The tabulations of corporate income tax returns are prepared by the IRS and published in *Statistics of Income: Corporation Income Tax Returns*. The tabulations are based on a stratified sample of unaudited tax returns that currently includes all active corporations with more than $50 million of assets (with certain exceptions) and smaller firms on a probability basis. The information on the returns is edited by the IRS in the course of preparing the tabulations. The tabulations provide the basis for estimates for the

[11] For information on the derivation of the estimates of the IVA and the CCAdj, see "Chapter 7: Change in Private Inventories," and see U.S. Bureau of Economic Analysis, *Fixed Assets and Consumer Durable Goods in the United States, 1925–97,* September 2003.
[12] For a detailed description of the ITA's, see "U.S. International Transactions Accounts: Concepts and Estimation Methods" (June 2011) under "International Economic Accounts, Methodologies," at www.bea.gov.

corporate totals—by industry—for many of the items on the corporate income tax returns, including receipts and expenses, tax liabilities, and balance-sheet items.

The IRS totals are the starting point for preparing the NIPA estimates. The preliminary and final IRS tabulations become available about 2 years and 3 years, respectively, after the year to which they refer, and this timing determines the incorporation of these data into the NIPA estimates. For example, in the July 2011 annual revision of the NIPAs, the final IRS tabulations for 2008 became the primary source for the estimates of corporate profits for 2008 (replacing the preliminary tabulations as the source), and the preliminary IRS tabulations for 2009 became the primary source for the profits estimates for 2009. The estimates for the most recent year, 2010, were obtained by extrapolating the 2009 estimates (see the section "Most-recent-year estimates").

The adjustments that BEA makes to the IRS tabulations are summarized in the following section, and they are described in detail in the technical note to this chapter.

Adjustments to the IRS tax return data

As discussed, the IRS corporate tax return data are the primary source for BEA's estimates of corporate profits. A reconciliation of the IRS and the NIPA measures is presented annually in NIPA table 7.16, which is reproduced for the year 2008 in table 13.3 below.

Table 13.3—Relation of NIPA Corporate Profits, Taxes, and Dividends to Corresponding Measures as Published by the IRS
[Billions of dollars]

Line in NIPA table 7.16	NIPA line item	2008
1	**Total receipts less total deductions, IRS**	**903.0**
2	Plus: Adjustment for misreporting on income tax returns	286.8
3	Posttabulation amendments and revisions [1]	84.4
4	Income of organizations not filing corporation income tax returns	46.0
5	Federal Reserve banks	35.4
6	Federally sponsored credit agencies [2]	6.7
7	Other [3]	3.9
8	Depletion on domestic minerals	16.3
9	Adjustment to depreciate expenditures for mining exploration, shafts, and wells	48.9
10	State and local taxes on corporate income	47.4
11	Interest payments of regulated investment companies	–176.8
12	Bad debt expense	253.9
13	Disaster adjustments (net) [4]	7.3

	Less: Tax return measures of:	
14	Gains, net of losses, from sale of property	69.4
15	Dividends received from domestic corporations	206.7
16	Income on equities in foreign corporations and branches (to U.S. corporations)	288.0
17	Costs of trading or issuing corporate securities [5]	–0.1
18	Plus: Income received from equities in foreign corporations and branches (by all U.S. residents, net of corresponding payments)	406.6
19	**Equals: Profits before taxes, NIPAs**	**1,359.9**
20	**Federal income and excess profits taxes, IRS**	**342.4**
21	Plus: Posttabulation amendments and revisions, including results of audit and renegotiation and carryback refunds	–26.7
22	Amounts paid to U.S. Treasury by Federal Reserve banks	31.7
23	State and local taxes on corporate income	47.4
24	Taxes paid by domestic corporations to foreign governments on income earned abroad	28.0
25	Less: U.S. tax credits claimed for foreign taxes paid	100.4
26	Investment tax credit [6]	….
27	Other tax credits [6]	13.2
28	**Equals: Taxes on corporate income, NIPAs**	**309.0**
29	**Profits after tax, NIPAs (line 19 minus line 28)**	**1,050.9**
30	**Dividends paid in cash or assets, IRS**	**1,420.9**
31	Plus: Posttabulation adjustments and revisions [7]	–336.9
32	Dividends paid by Federal Reserve banks and certain federally sponsored credit agencies [2]	3.1
33	U.S. receipts of dividends from abroad, net of payments to abroad	180.5
34	Earnings remitted to foreign residents from their unincorporated U.S. affiliates	10.7
35	Interest payments of regulated investment companies	–176.8
36	Less: Dividends received by U.S. corporations	311.2
37	Earnings of U.S. residents remitted by their unincorporated foreign affiliates	3.5
38	**Equals: Net corporate divided payments, NIPAs**	**786.9**

1. Consists largely of an adjustment to expense all meals and entertainment, of oilwell bonus payments written off, of adjustments for insurance companies and savings and loan associations, of amortization of intangible assets, and of tax-exempt interest income.
2. Consists of the Farm Credit System and the Federal Home Loan Banks.
3. Consists of nonprofit organizations serving business and of credit unions.
4. Consists of disaster losses valued at historic-cost basis less net insurance receipts for disaster-related losses valued at replacement cost.
5. Includes the imputed financial service charge paid by corporations to domestic securities dealers who do not charge an explicit commission.
6. Beginning with 1984, the investment tax credit is included in other tax credits (line 27).
7. Consists largely of an adjustment to remove capital gains distributions of regulated investment companies.

The major adjustments to IRS "total receipts less total deductions" (line 1) required to arrive at PBT for domestic industries consist of the following:

- An allowance for the misreporting of corporate income (line 2), based on IRS audit data;
- IRS deductions that are not elements of costs of current production: depletion on domestic minerals (line 8), expensing of expenditures for mining exploration, shafts, and wells (line 9), state and local taxes on corporate income (line 10), and bad debt expense (line 12);
- Elements of costs of production that are not IRS current deductions: interest payments of regulated investment companies (line 11), net disaster adjustments (line 13), and costs of trading or issuing corporate securities (line 17).
- Elements of IRS income that are not income from current domestic production: gains, net of losses, from the sale of property (line 14), dividends received from domestic corporations (line 15), and income on equities in foreign corporations and branches (line 16).

To arrive at PBT on a national basis, rest-of-the-world profits, derived from the ITAs, is added (line 18).

The adjustments to IRS "federal income and excess profits taxes" (line 20) that are required to arrive at NIPA taxes on corporate income consist of the following:

- Tax liability disclosed by audit, renegotiation, and carryback refunds (part of line 21);[13]
- Elements of NIPA taxes on corporate income that are not included in IRS federal income and excess profits taxes: payments to the U.S. Treasury by Federal Reserve banks (line 22) and state and local taxes on corporate income (line 23);
- Taxes paid by domestic corporations to foreign governments on income earned abroad (nonresident taxes) (line 24);
- IRS tax credits deducted in arriving at NIPA taxes on corporate income: foreign tax credits (line 25), investment tax credit (line 26), and other tax credits (line 27).

The adjustments to IRS "dividends paid in cash or assets" (line 30) required to arrive at NIPA dividends consist of the following:

- Posttabulation amendments and revisions (line 31);
- Elements of NIPA dividends not included in IRS dividends paid in cash or assets: dividends paid by Federal Reserve banks and other federally sponsored credit agencies (line 32) and measures of U.S. receipts of dividends from the rest of the world net of payments to the rest of the world (lines 33, 34, and 37);

[13] "Carryback refunds" are refunds claimed by corporations with losses in the current year against taxes that they had paid in preceding years.

- Elements of IRS dividends paid in cash or assets that are not included in NIPA dividends: capital gains distributions of regulated investment companies (part of line 31), interest payments of regulated investment companies (line 35), and dividends received by U.S. corporations (line 36).

NIPA dividends shown as net corporate dividend payments are found on line 38. This net number accounts for dividend payments made to persons and to government (also shown on line 15 of NIPA table 7.10, which shows a breakdown of dividends paid and received by sector). Dividends payments made to government (federal plus state and local governments on line 11 of table 7.10) are subtracted from total net corporate dividend payments to arrive at personal dividend income (line 18 of table 7.10).[14]

Most-recent-year estimates

Profits before tax

For PBT, the estimates for the most recent year are prepared by extrapolating the estimates for the preceding year (for a general description of the extrapolation method, see "Interpolation and extrapolation using an indicator series" in chapter 4). The extrapolations are carried out separately for each of about 75 industries using indicators that are based on a variety of source data. Two of the principal sources are the Census Bureau's *Quarterly Financial Report* and BEA tabulations of samples of shareholder reports.

The *Quarterly Financial Report* is the source for the indicators for the following industries: mining; manufacturing; wholesale trade; retail trade; information; and professional, scientific, and technical services, except legal services. The indicators are based on tabulations of corporate income statements collected and published quarterly by the Census Bureau. They are derived by taking the *Quarterly Financial Report* measure "income (loss) before taxes" and subtracting the following items where possible: (1) dividend income, (2) nonrecurring items, including gain (loss) on sale of assets, restructuring costs, and asset write-downs, and (3) net income (loss) of foreign branches and equity in earnings (losses) of nonconsolidated subsidiaries, net of foreign taxes.

Aggregated shareholder reports are the source for the indicators for *all* of the components of the following industries: construction; administrative and waste management services; educational services; health care and social assistance; arts, entertainment, and recreation; and other services, except government. In addition, they are the source for the indicators for *most* of the components of the following industries: utilities; transportation and warehousing; finance and insurance; and real estate and rental and leasing. The indicators are based on income from samples of shareholder reports, including data drawn from S&P's Compustat database for all public U.S. corporations

[14] For more information on the derivation of dividend payments received by state and local governments, see NIPA methodology paper "Government Transactions" (September 2005) available at www.bea.gov. Dividends received by the federal government are primarily on the preferred stock purchased through the Troubled Assets Relief Program (TARP).

that have reported data for the current and the prior year. For each industry, the indicator used is “pre-tax income” less “special charges” (unusual or nonrecurring items reported by the company before the deduction of taxes). In addition to the removal of special charges, BEA judgmentally removes certain other non-operating charges, such as unrealized mark-to-market gains or losses, asset write-downs, and other valuation gains or losses.

For some financial industries, the indicators are based on information from reports filed with various government regulatory agencies, such as *Call Reports* with the Federal Financial Institutions Examination Council, and from the annual reports of the various financial institutions. The indicators for the few remaining domestic industries are based on judgmental trends. For the rest-of-the-world industry, the estimates are from the ITAs. (For more information, see table 13.A.)

Taxes on corporate income

For the three tax series for which the annual estimates are not based on IRS tabulations of corporate income tax returns—nonresident taxes, state and local taxes on corporate income, and taxes paid by Federal Reserve banks to the U.S. Treasury—the estimates for the most recent year are prepared using the same methods as those used for the preceding year (see the technical note to this chapter, table 13.7, lines 22–24).

For federal taxes other than payments by Federal Reserve banks, the estimates of the carryback refunds adjustment for the most recent year are prepared using the same methods as those for the preceding annual estimates, while the audit tax adjustment is a judgmental estimate (see the technical note, table 13.7, line 21). For federal taxes (net of tax credits), the estimates for each industry are prepared by extrapolation, using indicators that are based on the same sources as those used for the PBT estimates. The industry estimates are summed and then forced to match a control total by absorbing proportionate shares of the difference. The control total is primarily based on data on tax collections from the *Monthly Treasury Statement*, separated by liability year using information from the Department of the Treasury’s Office of Tax Analysis.

Net dividends

For IRS dividends paid in cash or assets, the estimates for the most recent year are extrapolated, using indicators that are based on the same sources as those used for the PBT estimates. For dividends received by U.S. corporations from abroad, the IRS-based estimates are extrapolated using dividends paid by foreign corporations from the ITAs. For regulated investment companies, the estimates are extrapolated based on data from the Investment Company Institute. For Federal Reserve banks and for federally sponsored credit agencies, the estimates for dividends are prepared using the same methods as those used for the preceding year (see the technical note, table 13.8, line 32). As with the preceding annual estimates, total net corporate dividends less dividend payments made to government yields personal dividend income.

Current quarterly estimates

The current quarterly estimates of PBT are derived by extrapolating the most-recent-year estimates (for an explanation of this method, see "Interpolation and extrapolation using an indicator series" in chapter 4). The industry indicators used for the quarterly extrapolations are generally based on the same source data as those used for the most-recent-year estimates (see table 13.A).

For nonresident taxes and taxes paid by Federal Reserve banks to the U.S. Treasury, the current quarterly estimates are prepared using the same methods as those used for the annual estimates. Other federal taxes are estimated by industry by dividing the PBT estimates by the implicit quarterly tax rate from the most recent year and judgmentally adjusting for outliers. This technique is based on the assumption that tax laws have not changed much from the previous year; if tax laws change appreciably, further judgmental adjustments are made. For state and local taxes, the estimates are based on tax collections data and on a timing factor that, in turn, is a function of the quarter-to-quarter change in NIPA profits before tax and the average tax rate.[15]

Quarterly estimates of gross flows of domestic corporate dividends paid and received are not prepared. Therefore, the current quarterly estimate of net national dividends is derived as a residual in the calculation of the current quarterly personal dividends.

For the first, second, and third quarters of the calendar year, preliminary quarterly estimates of PBT, taxes on corporate income, and net dividends are released approximately 55 days after the end of the quarter (along with the "second" estimates of GDP), and revised quarterly estimates are released approximately 85 days after the end of the quarter (along with the "third" estimates of GDP). In general, the preliminary quarterly estimates are based on less complete information than the revised estimates. For example, for industries extrapolated with information from the *Quarterly Financial Report*, the preliminary estimates are based on a subsample of the information that becomes available a month later. For the fourth quarter of the year, preliminary estimates are not prepared, and the only current estimates for that quarter are released approximately 85 days after the end of the quarter. This delay occurs because the fiscal year for most corporations ends in the fourth quarter, and they need additional time to complete their more comprehensive end-of-year reports.

As part of the calculation of dividends received by persons, an estimate of net *national* dividends paid by corporations becomes available on the same schedule as the estimates of GDP, approximately 25 days, 55 days, and 85 days after the end of the quarter. In a reversal of the accounting identities used for preparing the annual estimates of dividends, personal dividends received are estimated first. Monthly estimates of personal dividends are prepared using as an indicator the 3-month moving average of

[15] See Eugene P. Seskin and Alyssa E. Holdren, "Annual Revision of the National Income and Product Accounts," *Survey* 92 (August 2012): 25.

seasonally adjusted dividends paid based on a Compustat sample. The monthly estimates are averaged to derive quarterly estimates of personal dividends, which are then added to dividends received by government to derive net national dividends. Rest-of-the-world dividends are subtracted to derive net domestic dividends, which are then split into financial and nonfinancial sectors using data from the Compustat sample.

Table 13.A—Summary of Methodology Used to Prepare Estimates of Corporate Profits				
Line in NIPA table 6.16	Component	Annual (except most-recent-year) estimates	Most-recent-year estimates (Indicator series used to extrapolate prior annual estimate)	Current quarterly estimates (Indicator series used to extrapolate most-recent-year estimate)
1	**Corporate profits with inventory valuation adjustment (IVA) and capital consumption adjustment:**			
8	**Corporate profits with IVA:**			
9	**Domestic industries:**			
10	Financial:			
11	Federal Reserve banks	Net income before tax—current net earnings less assessments for the Board of Governors and currency costs—from the annual report of the Board of Governors of the Federal Reserve System.	Same as for annual.	Profits before tax, based on information from the Federal Reserve Board.
12	Other financial:			
	Credit intermediation and related activities	<u>Commercial banking, savings institutions, and other depository credit intermediation</u>: receipts less deductions from IRS tabulations of corporate income tax returns, adjusted for understatement of income on tax returns and for conceptual differences. <u>Credit unions</u>: net income after dividend payments to shareholders and after interest refunds, from the National Credit Union Administration. <u>Federally sponsored credit agencies</u>: net income as reported in the annual reports of the following agencies: the Federal Home Loan Bank Board, the Federal Home Loan Mortgage Corporation, and the Farm Credit System. <u>Nondespository credit intermediation:</u> receipts less deductions from IRS tabulations of corporate income tax	<u>Commercial banking, savings institutions, and other depository credit intermediation</u>: net income before tax—income before security gains and losses plus provisions for loan losses—for insured commercial banks and savings institutions reported to bank regulatory agencies and compiled by the FDIC in *Quarterly Banking Profile*. <u>Credit unions</u>: same as for annual. <u>Federally sponsored credit agencies</u>: same as for annual. <u>Nondepository credit intermediation</u>: net income from BEA tabulations of samples of shareholder reports.	<u>Commercial banking, savings institutions, and other depository credit intermediation</u>: for the revised estimate, same as for most recent year; for the preliminary estimate, if the *Quarterly Banking Profile* is not available, BEA tabulations of data from Federal Financial Institutions Examination Council *Call Reports*. <u>Credit unions</u>: judgmental trend. <u>Federally sponsored credit agencies</u>: same as for annual. <u>Nondepository credit intermediation</u>: same as for most recent year.

Table 13.A—Summary of Methodology Used to Prepare Estimates of Corporate Profits

Line in NIPA table 6.16	Component	Annual (except most-recent-year) estimates	Most-recent-year estimates (Indicator series used to extrapolate prior annual estimate)	Current quarterly estimates (Indicator series used to extrapolate most-recent-year estimate)
		returns, adjusted for understatement of income on tax returns and for conceptual differences.		
	Securities, commodity contracts, and investments	Receipts less deductions from IRS tabulations of corporate income tax returns, adjusted for understatement of income on tax returns and for conceptual differences.	Net income before tax from BEA tabulations of samples of shareholder reports.	Same as for most recent year.
	Insurance carriers and related activities	Receipts less deductions from IRS tabulations of corporate income tax returns, adjusted for understatement of income on tax returns and for conceptual differences.	Life insurance carriers: net income before tax from BEA tabulations of samples of shareholder reports. Property and casualty insurance carriers: net income before tax—investment income plus net underwriting gains less dividends paid to policyholders—and a portion of catastrophic losses from the Insurance Service Office. Insurance agencies, brokerages, and related services: judgmental trend.	Life insurance carriers: same as for most recent year. Property and casualty insurance carriers: for revised estimate, same as for most recent year; for preliminary estimate, BEA tabulations of samples of shareholder reports, and a portion of catastrophic losses that is judgmentally trended. Insurance agencies, brokerages, and related services: same as for most recent year.
	Funds, trusts, and other financial vehicles	Receipts less deductions from IRS tabulations of corporate income tax returns, adjusted for understatement of income on tax returns and for conceptual differences.	Real estate investment trusts: net income before tax from BEA tabulations of samples of shareholder reports. Regulated investment companies and other financial vehicles: judgmental trend.	Same as for most recent year.
	Management of companies and enterprises	Receipts less deductions from IRS tabulations of corporate income tax returns, adjusted for understatement of income on tax returns and for conceptual differences.	Bank holding companies: net income before tax—income before security gains and losses plus provisions for loan losses—for insured commercial banks reported to bank regulatory agencies and compiled by the FDIC in *Quarterly Banking Profile*. Other holding companies: judgmental trend.	Bank holding companies: for the revised estimate, same as for most recent year; for the preliminary estimate, if the *Quarterly Banking Profile* is not available, BEA tabulations of data from the FDIC *Call Reports*. Other holding companies: same as for

Table 13.A—Summary of Methodology Used to Prepare Estimates of Corporate Profits				
Line in NIPA table 6.16	Component	Annual (except most-recent-year) estimates	Most-recent-year estimates (Indicator series used to extrapolate prior annual estimate)	Current quarterly estimates (Indicator series used to extrapolate most-recent-year estimate)
				most recent year.
13	Nonfinancial:			
14	Utilities	Receipts less deductions from IRS tabulations of corporate income tax returns, adjusted for understatement of income on tax returns and for conceptual differences.	<u>Power generation and natural gas distribution (including combination electric and gas)</u>: net income before tax from BEA tabulations of samples of shareholder reports. <u>Water, sewage, and other systems</u>: judgmental trend.	Same as for most recent year.
15	Manufacturing	Receipts less deductions from IRS tabulations of corporate income tax returns, adjusted for understatement of income on tax returns and for conceptual differences.	Net income before tax from the Census Bureau *Quarterly Financial Report*, with adjustments for conceptual differences.	Same as for most recent year.
28	Wholesale trade	Receipts less deductions from IRS tabulations of corporate income tax returns, adjusted for understatement of income on tax returns and for conceptual differences.	Net income before tax from the Census Bureau *Quarterly Financial Report*, with adjustments for conceptual differences.	Same as for most recent year.
29	Retail trade	Receipts less deductions from IRS tabulations of corporate income tax returns, adjusted for understatement of income on tax returns and for conceptual differences.	Net income before tax from the Census Bureau *Quarterly Financial Report*, with adjustments for conceptual differences.	Same as for most recent year.
30	Transportation and warehousing	Receipts less deductions from IRS tabulations of corporate income tax returns, adjusted for understatement of income on tax returns and for conceptual differences.	<u>Air transportation, rail transportation, water transportation, truck transportation, pipeline transportation, and other transportation and support activities</u>: net income before tax from BEA tabulations of samples of shareholder	Same as for most recent year.

Table 13.A—Summary of Methodology Used to Prepare Estimates of Corporate Profits				
Line in NIPA table 6.16	Component	Annual (except most-recent-year) estimates	Most-recent-year estimates (Indicator series used to extrapolate prior annual estimate)	Current quarterly estimates (Indicator series used to extrapolate most-recent-year estimate)
			reports. Transit and ground passenger transportation and warehousing and storage: judgmental trend.	
31	Information	Receipts less deductions from IRS tabulations of corporate income tax returns, adjusted for understatement of income on tax returns and for conceptual differences.	Net income before tax from the Census Bureau *Quarterly Financial Report*, with adjustments for conceptual differences.	Same as for most recent year.
32	Other nonfinancial:			
	Agriculture, forestry, fishing, and hunting	Receipts less deductions from IRS tabulations of corporate income tax returns, adjusted for understatement of income on tax returns and for conceptual differences.	Farms: BEA estimates of net farm income, based on information from the U.S. Department of Agriculture. Other: judgmental trend.	Same as for most recent year.
	Mining	Receipts less deductions from IRS tabulations of corporate income tax returns, adjusted for understatement of income on tax returns and for conceptual differences.	Net income before tax from the Census Bureau *Quarterly Financial Report*, with adjustments for conceptual differences.	Same as for most recent year.
	Professional, scientific, and technical services	Receipts less deductions from IRS tabulations of corporate income tax returns, adjusted for understatement of income on tax returns and for conceptual differences.	Computer systems design and related services and miscellaneous professional, scientific, and technical services: net income before tax from the Census Bureau *Quarterly Financial Report*, with adjustments for conceptual differences. Legal services: judgmental trend.	Same as for most recent year.
	Other	Receipts less deductions from IRS tabulations of corporate income tax returns, adjusted for understatement of income on tax returns and for conceptual differences.	Construction; real estate; administrative and waste management services; educational services; health care and social assistance; arts, entertainment, and recreation; accommodation and food services; and other	Same as for most recent year.

Table 13.A—Summary of Methodology Used to Prepare Estimates of Corporate Profits

Line in NIPA table 6.16	Component	Annual (except most-recent-year) estimates	Most-recent-year estimates (Indicator series used to extrapolate prior annual estimate)	Current quarterly estimates (Indicator series used to extrapolate most-recent-year estimate)
			services, except government: net income before tax from BEA tabulations of samples of shareholder reports. Rental and leasing services and lessors of intangible assets: judgmental trend.	
33	**Rest of the world**	Receipts and payments from BEA's international transactions accounts, adjusted to NIPA concepts and definitions.	Same as for annual.	Same as for annual.

BEA Bureau of Economic Analysis
FDIC Federal Deposit Insurance Corporation
IRS Internal Revenue Service
NIPAs National income and product accounts

Technical Note: Adjustments to IRS Tax Return Data

This technical note provides detailed descriptions of the adjustments that are made to the IRS corporate tax return data on profits, taxes, and dividends in order to conform them to NIPA concepts and definitions. These adjustments are published annually in “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.” Reproductions of portions of this table are shown below in tables 13.4, 13.7, and 13.8.

Corporate profits before tax

The starting point for the derivation of the estimates of profits before tax (PBT) is “Total receipts less total deductions, IRS” shown on line 1 in table 13.4 below. For each industry, total receipts less total deductions is obtained from *Corporation Income Tax Returns.* (This item differs from income subject to tax, as defined on the corporate tax return, in that it includes tax-exempt interest and excludes special statutory deductions that are available for corporations.) The adjustments to the IRS data are discussed below in the order shown in the table.

Table 13.4—Relation of NIPA Corporate Profits to Corresponding Measures as Published by the IRS
[Billions of dollars]

Line in NIPA table 7.16	NIPA line item	2008
1	**Total receipts less total deductions, IRS**	**903.0**
2	Plus: Adjustment for misreporting on income tax returns	286.8
3	Posttabulation amendments and revisions[1]	84.4
4	Income of organizations not filing corporation income tax returns	46.0
5	Federal Reserve banks	35.4
6	Federally sponsored credit agencies[2]	6.7
7	Other[3]	3.9
8	Depletion on domestic minerals	16.3
9	Adjustment to depreciate expenditures for mining exploration, shafts, and wells	48.9
10	State and local taxes on corporate income	47.4
11	Interest payments of regulated investment companies	–176.8
12	Bad debt expense	253.9
13	Disaster adjustments (net)[4]	7.3
	Less: Tax return measures of:	
14	Gains, net of losses, from sale of property	69.4

15	Dividends received from domestic corporations	206.7
16	Income on equities in foreign corporations and branches (to U.S. corporations)	288.0
17	Costs of trading or issuing corporate securities[5]	–0.1
18	Plus: Income received from equities in foreign corporations and branches (by all U.S. residents, net of corresponding payments)	406.6
19	**Equals: Profits before taxes, NIPAs**	**1,359.9**

8. Consist largely of an adjustment to expense all meals and entertainment, of oilwell bonus payments written off, of adjustments for insurance companies and savings and loan associations, of amortization of intangible assets, and of tax-exempt interest income.
9. Consists of the Farm Credit System and the Federal Home Loan Banks.
10. Consists of nonprofit organizations serving business and of credit unions.
11. Consists of disaster losses valued at historic-cost basis less net insurance receipts for disaster-related losses valued at replacement cost.
12. Includes the imputed financial service charge paid by corporations to domestic securities dealers who do not charge an explicit commission.

Adjustment for misreporting on income tax returns (line 2). This adjustment is primarily based on IRS audit data. Unlike the tax-return source data, which reflects a specific tax year, the audit data is based on the year the audit is resolved and collected. For the audit data, it is assumed there is a 1-year lag between the referenced tax year and the year in which the majority of audits for that tax year are resolved. Thus, for the misreporting adjustment, the most recent audit data is used to derive an adjustment for the preceding tax year. For example, in the 2011 annual revision of the NIPAs, 2009 was the most recent tax year, and 2008 was the year for which the available audit data were used to prepare the misreporting adjustment. For subsequent years, the adjustment was judgmentally extrapolated.

The IRS audit consists of three steps. First, the IRS audits a small sampling of corporations and recommends how much, if any, additional tax liability is owed. Next, the corporations can appeal those recommendations. Finally, a resolution between the corporation and the IRS is reached, and the corporation pays the IRS.

The methodology for the misreporting adjustment is to capture only the amount of tax actually collected (see the section "Taxes on Corporate Income"), raise it to a universe total, and then convert it from a tax-liability measure to a profits measure. The IRS publishes data on the recommended additional tax liability owed, stratified by asset size, but the amount actually collected is provided only for the total. Therefore, a ratio of additional collected tax to recommended additional tax is developed and applied to the recommended amounts on an asset-by-size basis to derive a universal total for additional tax liability. Finally, this tax-liability estimate is converted to a profits estimate using the statutory tax rate.

The above methodology applies to corporations that are paying taxes on positive net income. For companies that report deficits and pay no taxes, the percentage of corporate deficits reported by IRS (based on historical research) is added to the above estimate of profits misreporting to arrive at the corporate misreporting adjustment.

Posttabulation amendments and revisions (line 3). This adjustment includes a number of various items. They are described briefly in table 13.5 below.

Table 13.5—Current Posttabulation Amendments and Revisions to IRS "Total Receipts Less Total Deductions"

Adjustment	Start year	Estimates (millions of dollars)		Type and purpose of adjustment[1]	Sources and methods
		Start year	2007		
Special assessments	1946	-4	-601	Definitional adjustment: To reflect the inclusion of assessments for the costs of improvements, such as streets and curbs, that benefit property owners as expenses in calculating NIPA profits.	Adjustments are based on Census Bureau data on state and local government receipts.
Oil well bonus payments	1946	77	338	Definitional adjustment: To reflect the exclusion of bonus payments for drilling rights to land owners and lessors as expenses in calculating NIPA profits.	Adjustments are based on Energy Information Administration annual estimates of dry-hole expenses.
Fines	1978	-31	-1,054	Definitional adjustment: To reflect the inclusion of fines as an expense in calculating NIPA profits.	Adjustments are based on federal budget data and on information on court awards.
Intangible amortization	1981	409	64,200	Definitional adjustment: To reflect the exclusion of the amortization of intangible assets as an expense in calculating NIPA profits.	Adjustments are based on *CITR* data.
Imputed tax returns	1984	1,009	0	Coverage adjustment: To replace imputed tax data for a year with the tax return data for that year	Adjustments are based on IRS data.
1120-S pass through	1987	2,223	-4,208	Definitional adjustment: To restate profits of small business corporations to reflect the income and expenses that are passed to shareholders rather than reported by the corporation.	Adjustments are based on *CITR* tabulations.
Business entertainment	1987	2,586	20,731	Definitional adjustment: To treat all the expenses for business meals and beverages and entertainment as expenses	Adjustments are based on BEA's input-output calculations. Corporate share is based on *CITR* tabulations.

				in calculating NIPA profits.	
Net software depreciation adjustment	1959	3	20,809	Definitional adjustment: Business and government expenditures for software are recognized as fixed investment.	Adjustments are primarily based on BEA investment data.
Insurance adjustments	1985	-1,196	-3,194	Definitional adjustment: To remove all unpaid premiums and losses from receipts and deductions so that the profits of property and casualty insurance companies and of mutual life insurance companies are restated and reflect the amounts paid to policyholders as dividends.	Adjustments are based on *CITR* tabulations.
Dividends received from Federal Reserve banks (FRBs) and Federal Home Loan Banks (FHLBs)	1959	-7	-2,447	Definitional adjustment: To reflect the exclusion of taxable dividends received by commercial banks from Federal Reserve banks and by savings and loan associations from FHLBs, which are included in *CITR* "other receipts," from NIPA profits.[1]	Adjustments are based on FRB and FHLB data.
Domestic production activities deduction	2005	9,339	21,109	Definitional adjustment: To remove the deduction for domestic production activities from the calculation of NIPA profits.	Adjustments are based on *CITR* data.

BEA Bureau of Economic Analysis
CITR *Corporation Income Tax Returns*
IRS Internal Revenue Service
NIPA National income and product accounts

1. Dividends received by domestic corporations are excluded from NIPA profits; see line 15 of NIPA table 7.16.

Income of Federal Reserve banks and other federally sponsored credit agencies (lines 5 and 6). Federal Reserve banks, Federal Home Loan Banks, and the Farm Credit System are included in the corporate sector of the NIPAs. Because these institutions do not file tax returns, their income and expenses are not included in *Corporation Income Tax Returns*. Through this adjustment, the profits of these institutions are included in PBT, based on information on net income from their annual reports.

Other organizations not filing corporation income tax returns (line 7). Personal injury trusts, the Universal Service Administration Company (USAC), and nonprofit organizations serving business that are exempt from income tax under section 501(c) are included in the NIPA corporate sector. Personal injury trusts are business-established independent legal entities that administer payments for damages resulting from product liability claims. These payments are considered transfer payments from business to persons at the time the funds are disbursed. Receipts and payments data are collected from individual trust fund reports. USAC earnings are measured as receipts less outlays, from the *Monthly Treasury Statement.* The earnings (surplus) of agricultural organizations, business leagues, chambers of commerce, real estate boards, boards of trade, and organizations to finance crop operations are based on IRS tabulations of information returns filed by tax-exempt organizations.

The earnings of credit unions are treated as PBT in the NIPAs; however, they are not reflected in *Corporation Income Tax Returns*, because income of these institutions is not taxed. The adjustment consists of net income less dividends to shareholders and interest refunds as tabulated by the National Credit Union Administration for state-chartered and federally chartered credit unions.

<u>Depletion on domestic minerals (line 8)</u>. Natural resource discoveries are not considered to be capital formation in the NIPAs; consequently, depletion—the charge for the using up of these resources—is not a charge against current production. In contrast, the IRS permits depletion to be charged as an expense. Through this adjustment, the *Corporation Income Tax Returns* expense “depletion” is reduced by the domestic depletion claimed on tax returns, thereby increasing profits. The adjustment is calculated as the difference between depletion from *Corporation Income Tax Returns* and an estimate of foreign depletion based on special IRS studies. (The effect of foreign depletion is removed in line 16.)

<u>Adjustment to depreciate expenditures for mining exploration, shafts, and wells (line 9)</u>. Expenditures for mining exploration, shafts, and wells are treated as capital formation in the NIPAs. In contrast, the IRS permits some of these expenditures to be charged as current expense. Therefore, “other deductions” in *Corporation Income Tax Returns* are adjusted to remove the expensed portion of the current year’s investment and to add depreciation charges on investment made in the current and in previous years.

Estimates of oil and natural gas drilling expenses are obtained from data on drilling footage and on prices from the American Petroleum Institute’s *Joint Association Survey on Drilling Costs*, BLS producer price indexes (PPIs), and until 1995, the Census Bureau’s Annual Survey of Oil and Gas. Beginning with 2006, prices are based on the Census Bureau’s Annual Capital Expenditures Survey and on PPIs. Estimates of expenses for the construction of mine shafts (for minerals other than petroleum and natural gas) are based on the quinquennial economic census and on capital expenditures from the Annual Capital Expenditures Survey. Depreciation charges for investment in mining exploration, shafts, and wells are estimated using a perpetual inventory calculation in which the investment is depreciated over time.

The adjustment is prepared as an aggregate for all business and is allocated by legal form of organization and by industry, based on IRS tax-return data.

State and local taxes on corporate income (line 10). PBT is measured before deduction of income taxes. Because state and local income taxes are expense items on the federal tax return, they must be added to *Corporation Income Tax Returns* "total receipts less deductions." The estimate of taxes is based on state and local government receipts compiled by the Census Bureau in *Quarterly Summary of State and Local Tax Revenue*. The industry distribution of these taxes is based on data from *Corporation Income Tax Returns* for federal income tax liability.

Interest payments of regulated investment companies (line 11). Interest payments of regulated investment companies are not reflected as expenses in the *Corporation Income Tax Returns* measure of total deductions. The adjustment adds interest payments as an expense in calculating NIPA profits and is estimated as the portion of cash distribution generated by interest income, based on *Corporation Income Tax Returns* tabulations for regulated investment companies.

Bad debt expense (line 12). Bad debt expenses are not considered to be expenses associated with current production and thus should not be reflected as expenses in calculating NIPA profits. The adjustment removes these expenses, based on the bad-debt expense item in the *Corporation Income Tax Returns*.

Disaster adjustments (net) (line 13). In the NIPAs, the loss of capital as a result of a catastrophic disaster and the insurance payouts that result from them do not affect income associated with current production. The adjustment consists of (1) the net of the value of losses recorded as depreciation (a current business expense) and (2) the insurance payouts made by insurance companies as a charge against profits less the income received by the claim holders.[16]

Depreciation estimates are based on data on insured damages at current cost, broken down by type, from the Insurance Service Office. The amount is adjusted for uninsured damages, distributed by industry according to regional impact using data from the Census Bureau's *County Business Patterns*, and converted to historic-cost depreciation using various service lives and price indexes. In contrast, the IRS allows all uninsured disaster losses to be charged as current business expenses in "other deductions" on Form 4684.

Insurance payouts and receipts are also based on data from the Insurance Service Office, supplemented by government insurance fund transactions. Income receipts are distributed by industry using the above information on historic-cost depreciation.

[16] In the 2009 comprehensive revision, BEA introduced a new treatment of major disasters (those in which either the associated property losses or the insurance payouts exceed 0.1 percent of GDP) that records them as "changes in the volume of assets" rather than as consumption of fixed capital; see Eugene P. Seskin and Shelly Smith, "Preview of the 2009 Comprehensive Revision of the NIPAs: Changes in Definitions and Presentations," *Survey* 89 (March 2009): 11–15.

Gains, net of losses, from sale of property (line14). Gains (net of losses) from sales of fixed assets and securities are not considered to be income from current production. *Corporation Income Tax Returns* total receipts less total deductions are adjusted to remove these gains and losses. The adjustment consists of the following items from *Corporation Income Tax Returns*: (1) the excess of net short-term capital gain over net long-term capital loss, from Schedule D, (2) the excess of net long-term capital gain over short-term capital loss (except for regulated investment companies), from schedule D, and (3) the net gain or loss from Form 4797 with two modifications for cases in which the gain or loss reflects current production.

The first modification relates to income from the sale of timber, coal, iron ore, livestock, and unharvested crops. This income is treated as a gain or a loss for tax purposes, but should be included in NIPA profits because it reflects current production. Therefore, an estimate of such gains or losses, based on data from *Corporation Income Tax Returns* and from BEA special studies, is subtracted from the *Corporation Income Tax Returns* net gains.

The second modification relates to "normal" accidental damage to fixed business capital.[17] In *Corporation Income Tax Returns,* the net gains items include the excess of insurance payments for accidental damage over the historical-cost book value of the damaged property. In the NIPAs, this amount is not considered a capital gain: the insurance payment is an expense of current production for insurance carriers, and the historical cost of the damaged property is treated as depreciation. Thus, the *Corporation Income Tax Returns* net gains items are modified to exclude the amount of excess, which is estimated as the difference between the insurance payments, based on data on insurance losses from *Best's Aggregates and Averages: Property-Casualty*, and BEA estimates of normal accidental damage to fixed capital other than repairable damage (see NIPA table 7.13, line 5).

Dividends received from domestic corporations (line 15). These dividends are not part of corporate income from current production. However, receipts by corporations of dividends paid to them by other domestic corporations are included in total receipts less deductions in *Corporation Income Tax Returns.* This adjustment, based on information from *Corporation Income Tax Returns,* removes these dividends.

Income on equities in foreign corporations and branches (to U.S. corporations) (line 16). This adjustment places total receipts less total deductions from *Corporation Income Tax Returns* on a domestic basis by removing the income earned abroad by U.S. corporations that is included in this total. The adjustment is estimated as the sum of (1) dividends received from abroad, from *Corporation Income Tax Returns;* (2) other foreign-source income reported in support of claims for foreign tax credits, from special IRS tabulations of Form 1118; and (3) income earned by U.S. corporations from operations in U.S. commonwealths and territories, from special IRS tabulations.

[17] The NIPA treatment of the loss of capital as a result of a catastrophic disaster was covered in the above discussion of line 13.

Costs of trading or issuing corporate securities (line 17). The costs of trading and issuing corporate securities are treated as expenses of the current period in calculating NIPA profits. In contrast, in tax accounting, these costs are usually deferred, so an adjustment is needed. This adjustment can be divided into two parts: commissions (both explicit and implicit) and flotation costs (the costs of issuing debt or equity securities).

The securities trading costs adjustment converts tax data, which treat expenses for brokers' commissions as a reduction in future capital gains income, to a current-period expense for the purchase of brokers' services. Most corporate capital gains are excluded by subtracting net gains reported on IRS tax forms using IRS source data associated with Schedule D of IRS Form 1120. However, this adjustment does not account for the capital gains on own-account trading of securities brokers and dealers, which reflect the imputed financial service charge paid by corporations to domestic securities dealers who do not charge an explicit commission. Thus, a separate adjustment is needed to exclude these types of capital gains.

The securities trading costs adjustment treats commissions to brokers, commercial banks, and savings institutions from securities trading as an expense in the current period rather than as a reduction in future capital gains income. This adjustment applies to both explicit commissions and commissions indirectly charged through markups or "spreads" between the cost of acquiring a security and its sales price.

The estimates of trading costs are based on product-line data on gains from brokering and dealing equities, debt securities, and derivatives from the Census Bureau's 2002 Economic Census. These data are used to estimate total indirect commissions received, which are treated as expenses of the corporations purchasing securities from broker-dealers, and are allocated by type of buyer using Federal Reserve Board flow of funds data on securities holdings. Estimates of direct commissions are derived similarly. For commercial banks and for savings institutions, capital gains are estimated as the sum of trading account gains and fees and of securities gains from the Federal Deposit Insurance Corporation data, less indirect commissions. For security brokers and dealers, estimates of capital gains through 2006 are based on data on gains from dealing and trading accounts from the Census Bureau's Service Annual Survey, less indirect commissions; thereafter, they are extrapolated based on company financial reports.[18]

For flotation costs, the adjustment is made to treat them as an expense in the current period rather than as amortized costs. The estimate is based on tabulations of new offerings of corporate securities and of associated expenses by the Securities and Exchange Commission (SEC). The allocation by industry is based on the SEC tabulations and on data on holdings of long-term mortgages and capital stocks from *Corporation Income Tax Returns*.

Income received from equities in foreign corporations and branches by all U.S. residents, net of corresponding payments (line 18). As noted previously, the adjustments to total

[18] For additional information on securities trading adjustments, see Clinton P. McCully and Steven Payson, "Preview of the 2009 Comprehensive Revision: Statistical Changes," *Survey* 89 (May 2009): 13–14.

receipts less total deductions thus far produce estimates of PBT for domestic industries and exclude rest-of-world profits. To arrive at PBT on a national basis, rest-of-the-world profits, derived from BEA's international transactions accounts (ITAs), are added as an adjustment. The derivation of the adjustment is shown in table 13.6 below.

Table 13.6--Derivation of the Rest-of-the-World Profits Measures
[Millions of dollars]

	Profits measures (receipts less payments) 2007 estimate	Receipts from rest of the world		Payments to rest of the world[1]	
		ITA item	2007 estimate	ITA item	2007 estimate
Profits before tax (PBT)	350,879		510,594		159,715
	258,856	Earnings on USDIA (table 7, line 2)	363,315	Earnings on FDIUS (table 7, line 67)	104,459
	260,226	Earnings (net of withhholding taxes)	362,516	Earnings (net of withhholding taxes)	102,290
	-1,370	Cross-border (withholding taxes)	799	Cross-border (withholding taxes)	2,169
	61,221	Other private receipts (part)	116,147	Other private receipts (part)	54,926
	30,802	Income of U.S. commonwealths and territories[2]	31,132	Income of U.S. commonwealths and territories[2]	330
Taxes on corporate income[3]	0		0		0
Net dividends	144,774		248,980		104,206
	83,553	Distributed earnings on USDIA (table 7, line 3)	132,833	Distributed earnings on FDIUS (table 7, line 68)	49,280
	84,922	Distributed (net of withhholding taxes)	132,033	Distributed (net of withhholding taxes)	47,111
	-1,370	Cross-border (withholding taxes)	799	Cross-border (withholding taxes)	2,169
	61,221	Other private receipts (part)	116,147	Other private receipts (part)	54,926
	52,057	Other private (net of withholding taxes)	101487	Other private (net of withholding taxes)	49,430
	9,165	Cross-border (withholding taxes)	14,660	Cross-border (withholding taxes)	5,495
Undistributed profits	206,105		261,614		55,509
	175,303	Reinvested earnings on USDIA (table 7, line 4)	230,482	Reinvested earnings on FDIUS (table 7, line 69)	55,179
	30,802	Income of U.S. commonwealths and territories[2]	31,132	Income of U.S. commonwealths and territories[2]	330

FDIUS Foreign direct investment in the United States
USDIA U.S. direct investment abroad
1. Sign reversed.
2. The addition of the income for U.S. commonwealths and territories reflects the geographic coverage of the national income and product accounts.
3. Assumes that the foreign tax credit equals tax liability on income earned abroad.

Note. Profits from the rest of the world do not include an inventory valuation adjustment. The estimates in this table are derived from tables 1 and 7 in the international transactions accounts, as published in "U.S. International Transactions: First Quarter 2010," Survey of Current Business 90 (July 2010): 54-101.

The adjustment consists of receipts by all U.S. residents, including both corporations and persons, of earnings (both distributed and reinvested) of foreign affiliates of U.S. direct investors and of the dividends portion of "other" private receipts, less corresponding outflows. All items are recorded net of income taxes and of capital gains and losses—except the dividend portions of both direct investment income and portfolio income, which are recorded before the deduction of nonresident taxes withheld.

The data from the ITAs are adjusted to remove the transactions of the Commonwealth of Puerto Rico and of other U.S. commonwealths and territories in order to conform to the geographic coverage in the NIPAs—the 50 states and the District of Columbia (see the section "Geographic coverage" in "Chapter 2: Fundamental Concepts").

Taxes on corporate income

The starting point for the derivation of taxes on corporate income is IRS total income tax, which is shown as "Federal income and excess profits taxes, IRS" on line 20 in table 13.7 below. For each industry, this item is obtained from *Corporation Income Tax Returns.* It measures total income taxes before allowances for tax credits, and it is the gross federal income tax liability on income from all sources. The adjustments to the IRS data are discussed below in the order shown in the table.

Table 13.7—Relation of NIPA Corporate Taxes to Corresponding Measures as Published by the IRS
[Billions of dollars]

Line in NIPA table 7.16	NIPA line item	2008
20	**Federal income and excess profits taxes, IRS**	**342.4**
21	Plus: Posttabulation amendments and revisions, including results of audit and renegotiation and carryback refunds	–26.7
22	Amounts paid to U.S. Treasury by Federal Reserve banks	31.7
23	State and local taxes on corporate income	47.4
24	Taxes paid by domestic corporations to foreign governments on income earned abroad	28.0
25	Less: U.S. tax credits claimed for foreign taxes paid	100.4
26	Investment tax credit[6]	….
27	Other tax credits[6]	13.2
28	**Equals: Taxes on corporate income, NIPAs**	**309.0**
29	**Profits after tax, NIPAs (line 19 minus line 28)**	**1,359.9**

1. Beginning with 1984, the investment tax credit is included in other tax credits (line 27).

Posttabulation amendments and revisions, including results of audit and renegotiation and carryback refunds (line 21). An adjustment for the results of audit, renegotiation, and carryback refunds is necessary because *Corporation Income Tax Returns* tabulations are compiled from samples of unaudited tax returns. The audit adjustment is the amount of additional tax liability owed by firms that are actually audited. It is actual tax settlements derived in the first step of the calculation of the audit adjustment for PBT (line 2 in table 13.4). The adjustment is distributed by industry in the same way as the audit adjustment for PBT. The audit adjustment is unique among tax adjustments in that the source data are not available to adjust the preliminary IRS tabulations; for that estimate, the adjustment is made judgmentally.

In the NIPAs, tax refunds resulting from net operating losses are viewed as reducing tax liability in the year of the loss. IRS permits corporations with such losses to carry the loss back to claim a refund for taxes paid in preceding years and to carry forward the amount of the loss to offset profits in future years. BEA obtains data on carryback refunds from IRS tabulations of applications for carryback refunds. The adjustment is allocated by industry on the basis of deficits reported in *Corporation Income Tax Returns.* No adjustment is required for carry-forward losses, because the lower tax payments are reflected in *Corporation Income Tax Returns.* As indicated in table 13.5, several of the posttabulation adjustments to profits also have a tax impact.

<u>Amounts paid to U.S. Treasury by Federal Reserve banks (line 22)</u>. Federal Reserve banks are included in the corporate sector of the NIPAs but are not included in *Corporation Income Tax Returns.* Federal Reserve banks are required to turn over their profits (less operating expenses) to the U.S. Treasury. Consequently, these payments, treated as taxes in the NIPAs, must be added to the IRS federal income taxes. Data for this adjustment are from the Federal Reserve Board.

<u>State and local taxes on corporate income (line 23)</u>. In the NIPAs, taxes on corporate income includes federal, state, and local taxes. Because state and local taxes are an expense item on the federal tax return, they must be added to the *Corporation Income Tax Returns* item, which includes only federal taxes. The estimate of taxes is based on state and local government receipts compiled by the Census Bureau in *Quarterly Summary of State and Local Tax Revenue*. The industry distribution of these taxes is based on data from *Corporation Income Tax Returns* for federal income tax liability. The adjustment is the same as that for PBT (shown on line 10 in table 13.4).

<u>Taxes paid by domestic corporations to foreign governments on income earned abroad (line 24)</u>. This adjustment records the payment of nonresidential taxes on the exports of services and income. The estimates are based on the ITAs. The annual total is allocated to industries using the industry distribution of foreign tax credits, based on data from *Corporation Income Tax Returns.*

<u>Tax credits (lines 25–27)</u>. The NIPA measure of taxes on corporate income reflects actual tax liability; consequently, tax credits must be subtracted from the *Corporation Income Tax Returns* tax item, which is before allowance for tax credits. Data for the adjustments by industry are from *Corporation Income Tax Returns*.

U.S. tax credits claimed for foreign taxes paid (line 25). The adjustment consists of the foreign tax credit (1929 forward) and the American Samoa economic development credit (2007 forward).

Investment tax credit (line 26). The adjustment is shown separately from 1962 through 1983; beginning with 1984, the investment tax credit is included in "other tax credits" (line 27).

Other tax credits (line 27). The adjustment includes all other corporate tax credits, whether they are always accounted for separately by the IRS, are always included within the general business credit, or were at first accounted for separately but later included within the general business credit. The general business credit (1984 forward) combined the investment tax credit, the targeted jobs credit (1977 forward), the alcohol fuel credit (1980 forward), and the employee stock ownership credit (1982–86, then eliminated) and became the umbrella category under which most later tax credits are included and not listed separately.

Tax credits that are always listed separately are the prior year (alternative) minimum tax credit (1988 forward) and the credit to holders of tax credit bonds (2008 forward), which includes the qualified zone academy bond credit (1998 forward).

Tax credits that were listed separately at first but later included within the general business credit are the nonconventional source fuel credit (1980 forward, included beginning with 2006), the research activities credit (1981 forward, included beginning with 1986), and the orphan drug credit (1984 forward, included beginning with 1986).

Corporate dividends

The starting point for the derivation of dividends is IRS distributions to stockholders, cash and property except in own stock, which is shown as “Dividends paid in cash or assets, IRS” on line 30 in table 13.8 below. For each industry, this item is obtained from *Corporate Income Tax Returns.* It consists of cash and noncash payments out of current or retained earnings, and it does not include liquidating dividends or other distributions of paid-in capital. The adjustments to the IRS data are discussed below in the order shown in the table.

Table 13.8—Relation of NIPA Corporate Dividends to Corresponding Measures as Published by the IRS
[Billions of dollars]

Line in NIPA table 7.16	NIPA line item	2008
30	**Dividends paid in cash or assets, IRS**	**1,420.9**
31	Plus: Posttabulation amendments and revisions[7]	–336.9
32	Dividends paid by Federal Reserve banks and certain federally sponsored credit agencies[2]	3.1
33	U.S. receipts of dividends from abroad, net of payments to abroad	180.5
34	Earnings remitted to foreign residents from their unincorporated U.S. affiliates	10.7
35	Interest payments of regulated investment companies	–176.8
36	Less: Dividends received by U.S. corporations	311.2
37	Earnings of U.S. residents remitted by their unincorporated foreign affiliates	3.5
38	**Equals: Net corporate divided payments, NIPAs**	**786.9**

1. Consists of the Farm Credit System and the Federal Home Loan Banks.
2. Consists largely of an adjustment to remove capital gains distributions of regulated investment companies.

Posttabulation amendments and revisions (line 31). Several of the posttabulation adjustments to profits have an impact on dividends as well. These and other posttabulation adjustments are described in table 13.9 below.

Table 13.9--Posttabulation Adjustments and Revisions to IRS "Dividends paid in Cash or Assets"

Adjustment	Period	Estimates (millions of dollars)		Type and purpose of adjustment[1]	Sources and methods
Personal foreign dividends	1959–present	1959	-35	Coverage adjustment: To include the dividends received by U.S. residents in "dividends received from the rest of world."	Adjustments are based on *CITR* dividends and data from BEA's international transactions accounts.
		2007	0		
Dividends received from Federal Reserve banks and Federal Home Loan Banks	1929–present	1929	10	Definitional adjustment: See table 13.5.	See table 13.5.
		2007	2,457		
Capital gains distributions	1940–present	1940	-2	Definitional adjustment: To remove these distributions by regulated investment companies.	Adjustments are based on *CITR* data for regulated investment companies.
		2007	-382,482		
Other[3]	1959–present	1959	-25	"Other" adjustment: To reflect the exclusion of distributions that are not from current or retained earnings from dividends in the NIPAs.	Adjustments are based on IRS tabulations and shareholder reports.
		2007	-5,230		

BEA Bureau of Economic Analysis
CITR *Corporation Income Tax Returns*
IRS Internal Revenue Service
NIPAs National income and product accounts

1. The timing, coverage, definitional, and "other" adjustments are the differences between *CITR* "dividends paid in cash or assets" and dividends in the NIPAs.
2. According to the Tax Code, certain current-year distributions by these companies can be counted in the previous tax year.
3. These adjustments are grouped to avoid the disclosure of information.

Dividends paid by Federal Reserve banks and certain federally sponsored credit agencies (line 32). Federal Reserve banks, Federal Home Loan Banks, and the Farm Credit System are included in the corporate sector of the NIPAs. Because these institutions do not file tax returns, their income and expenses are not included in *Corporation Income Tax Returns.* Through this adjustment, the dividends paid by these institutions are included in NIPA dividends, based on information from their annual reports.

U.S. receipts of dividends from abroad, net of payments to abroad (line 33). The *Corporation Income Tax Returns* item “dividends received from foreign sources” includes only the dividends received by corporations. To arrive at dividends on a national accounts basis, their *Corporation Income Tax Returns* item is removed, and the ITA measure of dividends received by all U.S. residents is added. A corresponding adjustment is made to outflows. The foreign dividend measure used for this adjustment includes the distributed earnings of unincorporated affiliates of U.S. and foreign direct investors.

<u>Earnings remitted to foreign residents from their unincorporated U.S. affiliates (line 34)</u>. By this adjustment, the distributions of unincorporated U.S. affiliates to their foreign direct investors are included as dividends paid. Net dividend payments by domestic industries are increased by this adjustment, and the receipt of these distributions by the rest of the world is reflected in the adjustments made to outflows in line 33. The annual total is allocated to industries based on data on dividends received from domestic corporations in *Corporation Income Tax Returns.*

<u>Interest payments of regulated investment companies (line 35)</u>. Interest payments of regulated investment companies, primarily from money market funds, are included in the *Corporation Income Tax Returns* measure of cash distributions. This adjustment reclassifies such payments from dividends to interest. The adjustment is estimated as the portion of cash distributions generated by interest income, based on data for regulated investment companies from *Corporation Income Tax Returns*.

<u>Dividends received by U.S. corporations (line 36)</u>. As noted earlier in the discussion of adjustments to PBT, the items for dividends received by corporations in *Corporation Income Tax Returns* are subtracted (line 15 plus a portion of line 16 in table 13.4) because they are not part of current production. This adjustment is made to the dividends component in order to obtain the appropriate measure of undistributed profits (which is calculated as PBT less taxes and dividends). The resulting measure of net dividends paid equals the dividend receipts of persons, government, and foreigners. The adjustment consists of domestic and foreign dividends received from *Corporation Income Tax Returns.*

<u>Earnings of U.S. residents remitted by their unincorporated foreign affiliates (line 37)</u>. By this adjustment, the distributions of unincorporated foreign affiliates to U.S. residents are included as dividends received. Net dividend payments by domestic industries are reduced by this adjustment, and the payment of these distributions by the rest of the world is reflected in line 33. The annual total is allocated to industries based on data on dividends received from foreign corporations in *Corporation Income Tax Returns.*

Appendix: Domestic Corporate Gross Value Added and Related Measures

This appendix discusses the NIPA measure of domestic corporate gross value added and several related measures of corporate-sector activity that are presented in NIPA tables 1.14 and 1.15. Corporate gross value added is defined as the total value of all goods and services produced by the corporate sector (gross output) less the value of the goods and services that are used up in production (total intermediate inputs). It is derived as the sum of consumption of fixed capital, compensation of employees, taxes on production and imports less subsidies, and net operating surplus. The calculations of domestic gross corporate value added, net value added, and gross and net operating surplus are illustrated in the table below, which is based on NIPA table 1.14.

	2008 estimate (billions of dollars)
Compensation of employees	**5,025.9**
Wage and salary accruals	4,167.0
Supplements of wages and salaries	858.9
Plus: Taxes on production and imports less subsidies	**661.0**
Taxes on production and imports	666.5
Less: Subsidies	5.5
Plus: Net operating surplus	**1,283.7**
Net interest and miscellaneous payments	338.7
Net interest	316.7
Rents and royalties	22.0
Federal rents and royalties	10.0
State and local rents and royalties	12.0
Business current transfer payments (net)	103.2
Business payments to persons	32.0
Business payments to government	64.2
Net insurance settlements	7.0
Corporate profits with IVA and CCAdj	841.8
Equals: Net value added	**6,970.5**
Plus: Consumption of fixed capital	**1,028.5**
Equals: Domestic corporate gross value added	**7,999.0**
Less: Compensation of employees	5,025.9
Less: Taxes on production and imports less subsidies	661.0
Equals: Gross operating surplus	**2,312.2**

IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

In addition to the domestic total, estimates of gross value added are prepared for the financial and nonfinancial sectors. For the nonfinancial sector, estimates of gross value added in “real” terms—that is, adjusted for inflation—are also prepared. These estimates are derived by dividing the current-dollar estimates by the gross value added chain-type price index for nonfinancial industries from BEA’s GDP-by-industry accounts. Application of this index usually occurs with the first release of the profits estimates following the GDP-by-industry annual revision. For periods when this price index is not available, the chain-type price index for GDP goods and structures is used. This index is not published, although separate indexes for goods and for structures are shown in NIPA table 1.2.4. Incorporation of this index occurs with each release of the profits estimates. Estimates of real net value added are then derived as the difference between real gross value added and real consumption of fixed capital.

Information on prices, costs, profits, and value added are used to derive per unit measures for nonfinancial corporate business. These measures are presented in NIPA table 1.15, which is reproduced for the year 2008 below.

Line in NIPA table 1.15	NIPA line item	2008 estimate [dollars]
1	**Price per unit of real gross value added of nonfinancial corporate business**	**1.073**
2	**Compensation of employees (unit labor cost)**	**0.682**
3	**Unit nonlabor cost**	**0.276**
4	Consumption of fixed capital	0.133
5	Taxes on production and imports less subsidies plus business current transfer payments (net)	0.103
6	Net interest and miscellaneous payments	0.040
7	**Corporate profits with IVA and CCAdj (unit profits from current production)**	**0.116**
8	Taxes on corporate income	0.035
9	Profits after tax with IVA and CCAdj	0.081

IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

The per-unit measures are computed by dividing current-dollar nonfinancial gross value added and its components—compensation of employees, consumption of fixed capital, taxes on production and imports less subsidies, business current transfer payments (net), net interest, and corporate profits—by real (chained-dollar) nonfinancial gross value added. The resulting quotients (divided by 100) provide the value-added implicit price index and the parts of the price index that are associated with each component. Value-added unit costs attribute the changes in the value-added unit prices to its components in proportion to each component's share of current-dollar value added. Therefore, year-to-year changes in component shares of current-dollar value added result in changes in the contributions of the cost components to value-added prices even if the prices do not change.