

Relationship Between Personal Income and Adjusted Gross Income, 1991-92

THIS REPORT UPDATES and extends the reconciliation of two widely used measures of the income of U.S. households, the Bureau of Economic Analysis (BEA) measure of personal income and the Internal Revenue Service (IRS) measure of adjusted gross income (AGI). It presents estimates for 1991-92 by type of income of the reconciliation and of the "AGI gap"; the estimates for 1991 have been revised to reflect the annual revision of the

national income and product accounts (NIPA's) and the revised IRS estimates of the AGI for 1991.¹

Tables 1 and 2 show the reconciliation between personal income and AGI, by type of income, for 1991 and 1992, respectively.

1. The reconciliation for total personal income and AGI for 1990-92 was published in NIPA table 8.24 in the July 1994 SURVEY OF CURRENT BUSINESS. The reconciliation by type of income for 1990 was published in the November 1993 SURVEY on page 68 and that for 1988-89 in the May 1992 SURVEY on pages 33-34. The reconciliation for 1947-87 also is available. For order information, write to the Government Division (BE-57), Bureau of Economic Analysis, U.S. Department of Commerce, Washington, DC 20230.

NOTE.—This report was prepared by Thae S. Park.

Table 1.—Reconciliation of Personal Income and Adjusted Gross Income, by Type of Income, 1991

[Billions of dollars]

Line		Personal income	Wages and salaries	Proprietors' income ¹		Personal dividend income	Rental income of persons ²	Personal interest income	Taxable pensions and annuities	Taxable unemployment compensation	Taxable social security benefits ³	Other personal income	Income not included in personal income
				Farm	Nonfarm								
1	Personal income	4,860.3	2,816.1	36.7	339.5	150.5	-10.5	695.1	492.6	27.1	24.6	688.7	0
2	Less: Portion of personal income not included in adjusted gross income	1,490.3	30.2	-1.3	37.5	65.6	-38.9	441.9	0	0	0	920.5	34.7
3	Transfer payments except taxable military retirement, taxable government pensions, and taxable social security benefits	625.8	0	0	0	0	0	0	0	0	0	625.8	0
4	Other labor income except fees	294.4	0	0	0	0	0	0	0	0	0	294.4	0
5	Imputed income in personal income ⁶	97.3	12.8	.4	4.4	0	-49.2	129.0	0	0	0	0	0
6	Investment income retained by life insurance carriers and private nonsured pension funds ⁷	199.8	0	0	0	0	0	199.8	0	0	0	0	0
7	Investment income received by nonprofit institutions or retained by fiduciaries	52.4	0	0	.3	12.0	3.7	36.2	0	0	0	.3	0
8	Differences in accounting treatment between NIPA's and tax regulations, net	88.9	0	-1.7	32.8	18.7	6.6	32.4	0	0	0	0	0
9	Other personal income exempt or excluded from adjusted gross income	131.7	17.3	0	0	35.0	0	44.7	0	0	0	0	34.7
10	Plus: Portion of adjusted gross income not included in personal income	530.4	5.2	0	1.1	0	2.2	0	151.7	0	0	236.2	134.0
11	Personal contributions for social insurance	236.2	0	0	0	0	0	0	0	0	0	236.2	0
12	Net gain from sale of assets	94.3	0	0	0	0	0	0	0	0	0	0	94.3
13	Taxable private pensions ⁹	151.7	0	0	0	0	0	151.7	0	0	0	0	0
14	Small business corporation income	34.3	0	0	0	0	0	0	0	0	0	0	34.3
15	Other types of income	13.9	5.2	0	1.1	0	2.2	0	0	0	0	0	5.4
16	Plus: Intercomponent reallocation (personal income)	0	5.2	0	4.4	37.1	0	-43.4	-5.2	0	0	-4.4	6.3
17	Fees in other labor income	0	0	0	4.7	0	0	0	0	0	0	-4.7	0
18	Fiduciaries' share of partnership income ¹⁰	0	0	0	-3	0	0	0	0	0	0	.3	0
19	Interest received by nonfarm proprietors	0	0	0	0	0	0	0	0	0	0	0	0
20	Interest distributed by regulated investment companies	0	0	0	0	43.4	0	-43.4	0	0	0	0	0
21	Taxable disability income payments	0	5.2	0	0	0	0	0	-5.2	0	0	0	0
22	Capital gain dividends	0	0	0	0	-6.3	0	0	0	0	0	0	6.3
23	Equals: BEA-derived adjusted gross income	3,900.4	2,796.3	38.0	307.5	121.9	30.5	209.8	239.2	27.1	24.6	0	105.6
24	Adjusted gross income of IRS (as reported)	3,464.5	2,674.3	-2.9	141.9	77.3	5.2	209.4	176.5	23.3	21.4	32.6	105.6
25	Plus: Intercomponent reallocation	0	0	.8	28.8	0	3.0	0	0	0	0	-32.6	0
26	Estate or trust income	0	0	0	.7	0	3.0	0	0	0	0	-3.7	0
27	Partnership income	0	0	.8	28.1	0	0	0	0	0	0	-28.9	0
28	Other reallocations	0	0	0	0	0	0	0	0	0	0	0	0
29	Adjusted gross income of IRS (reallocated)	3,464.5	2,674.3	-2.0	170.6	77.3	8.2	209.4	176.5	23.3	21.4	0	105.6
30	Adjusted gross income (AGI) gap	435.8	122.0	40.0	136.9	44.6	22.3	.4	62.7	3.8	3.2	0	0
31	Percent distribution of AGI gap	100.0	28.0	9.2	31.4	10.2	5.1	.1	14.4	.9	.7		
32	AGI gap as a percentage of BEA-derived AGI	11.2	4.4	105.3	44.5	36.6	73.1	.2	26.2	14.0	13.1		

See the footnotes at the end of table 2.

In these tables, the reconciliation items that convert personal income to the IRS definition of AGI are shown in three groups. The first group (lines 3–9) consists of the portion of personal income that is not included in AGI; the largest items in this group are transfer payments (line 3) and other labor income except fees (line 4). The second group (lines 11–15) consists of the portion of AGI that is not included in personal income; the largest items in this group are personal contributions for social insurance (line 11), net gain from sale of assets (line 12), and taxable private pension payments (line 13). The third group (lines 17–22 and 26–28) consists of “intercomponent reallocations,” which are needed to arrive at comparable BEA and IRS estimates of AGI by type of income; the reallocations affecting personal income are shown in

lines 17–22, and those affecting the IRS-reported AGI are shown in lines 26–28.

The AGI gap for a type of income (line 30) is the difference between the BEA-derived AGI for that type of income (line 23) and the reallocated IRS AGI for that income (line 29). The percent distribution of the AGI gap by type of income is shown in line 31, and the “relative AGI gap” for a type of income, which is the AGI gap for that type of income (line 30) as a percentage of the BEA-derived AGI by that income type (line 23), is shown in line 32.

The AGI gap can be considered an indicator of noncompliance with the Federal tax code because the BEA and the IRS measures of AGI are derived from different sources. The BEA measure of

Table 2.—Reconciliation of Personal Income and Adjusted Gross Income, by Type of Income, 1992

[Billions of dollars]

Line	Personal income	Wages and salaries	Proprietors' income ¹		Personal dividend income	Rental income of persons ²	Personal interest income	Taxable pensions and annuities	Taxable unemployment compensation	Taxable social security benefits ³	Other personal income	Income not included in personal income	
			Farm	Nonfarm									
1	Personal income	5,154.3	2,974.8	44.4	374.4	161.0	-5.5	665.2	⁴ 98.9	39.7	27.9	⁵ 773.7	0
2	Less: Portion of personal income not included in adjusted gross income	1,595.0	27.5	1.0	32.8	73.1	-40.6	448.5	0	0	0	1,017.9	34.8
3	Transfer payments except taxable military retirement, taxable government pensions, and taxable social security benefits	693.7	0	0	0	0	0	0	0	0	0	693.7	0
4	Other labor income except fees	323.9	0	0	0	0	0	0	0	0	0	323.9	0
5	Imputed income in personal income ⁶	109.8	13.3	.4	4.8	0	-52.2	143.5	0	0	0	0	0
6	Investment income retained by life insurance carriers and private noninsured pension funds ⁷	202.5	0	0	0	0	0	202.5	0	0	0	0	0
7	Investment income received by nonprofit institutions or retained by fiduciaries	48.6	0	0	.3	11.7	4.5	31.8	0	0	0	.3	0
8	Differences in accounting treatment between NIPA's and tax regulations, net	79.5	0	.7	27.7	19.2	7.1	24.9	0	0	0	0	0
9	Other personal income exempt or excluded from adjusted gross income	137.0	14.2	0	0	42.3	0	45.7	0	0	0	0	⁸ 34.8
10	Plus: Portion of adjusted gross income not included in personal income	589.2	6.0	0	1.3	0	2.3	0	160.8	0	0	248.7	170.1
11	Personal contributions for social insurance	248.7	0	0	0	0	0	0	0	0	0	248.7	0
12	Net gain from sale of assets	101.4	0	0	0	0	0	0	0	0	0	0	101.4
13	Taxable private pensions ⁹	160.8	0	0	0	0	0	160.8	0	0	0	0	0
14	Small business corporation income	47.0	0	0	0	0	0	0	0	0	0	0	47.0
15	Other types of income	31.4	6.0	0	1.3	0	2.3	0	0	0	0	0	21.8
16	Plus: Intercomponent reallocation (personal income)	0	4.9	0	4.6	36.1	0	-42.6	-4.9	0	0	-4.5	6.4
17	Fees in other labor income	0	0	0	4.8	0	0	0	0	0	0	-4.8	0
18	Fiduciaries' share of partnership income ¹⁰	0	0	0	-3	0	0	0	0	0	0	.3	0
19	Interest received by nonfarm proprietors	0	0	0	0	0	0	0	0	0	0	0	0
20	Interest distributed by regulated investment companies	0	0	0	0	42.6	0	-42.6	0	0	0	0	0
21	Taxable disability income payments	0	4.9	0	0	0	0	0	-4.9	0	0	0	0
22	Capital gain dividends	0	0	0	0	-6.4	0	0	0	0	0	0	6.4
23	Equals: BEA-derived adjusted gross income	4,148.6	2,958.3	43.3	347.4	124.0	37.4	174.1	254.8	39.7	27.9	0	141.8
24	Adjusted gross income of IRS (as reported)	3,639.5	2,815.0	-1.7	150.8	77.5	9.9	158.5	189.1	31.6	23.6	43.5	141.8
25	Plus: Intercomponent reallocation	0	0	2.0	38.3	0	3.2	0	0	0	0	-43.5	0
26	Estate or trust income	0	0	0	.6	0	3.2	0	0	0	0	-3.8	0
27	Partnership income	0	0	2.0	37.7	0	0	0	0	0	0	-39.7	0
28	Other reallocations	0	0	0	0	0	0	0	0	0	0	0	0
29	Adjusted gross income of IRS (reallocated)	3,639.5	2,815.0	.3	189.1	77.5	13.1	158.5	189.1	31.6	23.6	0	141.8
30	Adjusted gross income (AGI) gap	509.0	143.3	43.0	158.3	46.5	24.3	15.6	65.7	8.2	4.3	0	0
31	Percent distribution of AGI gap	100.0	28.1	8.5	31.1	9.1	4.8	3.1	12.9	1.6	.8
32	AGI gap as a percentage of BEA-derived AGI	12.3	4.8	99.3	45.6	37.5	65.0	9.0	25.8	20.5	15.3

1. With inventory valuation and capital consumption adjustments.

2. With capital consumption adjustment.

3. Also includes a small amount of taxable railroad retirement benefits.

4. Consists of the taxable portion of government employee pension payments included in personal income—nondisability military retirement pay and the taxable portion of Federal Government and of State and local government employee pension payments.

5. Consists primarily of other labor income, the nontaxable portion of government transfer payments to persons, business transfer payments, less personal contributions for social insurance.

6. Consists of the imputations included in personal income (line 58) except for employer-paid health and life insurance premiums (line 115) in table 8.18 of the July 1994 Survey of Current Business. In this table, these premiums

are included in line 4.

7. Equals imputed interest received by persons from life insurance carriers and private noninsured pension plans (line 51) in table 8.17 in the July 1994 Survey.

8. Statutory adjustments. These are adjustments to total income, such as payments to an individual retirement arrangement, which are allowed as deductions in arriving at AGI for income tax purposes.

9. Consists of the taxable portion of private pension benefit payments received by individuals.

10. Consists of partnership income retained by fiduciaries.

BEA Bureau of Economic Analysis

IRS Internal Revenue Service

NIPA's National income and product accounts

AGI is derived from estimates of personal income that are largely based on sources other than individual income tax returns; for the estimates that are based on tax returns, BEA accounts for incomes that are misreported by making adjustments primarily using information from audits of taxpayer compliance. In contrast, the IRS measure of AGI is based entirely on unaudited individual income tax return data.²

In addition to indicating noncompliance, the AGI gap includes income earned by low-income individuals who are not required to file income tax returns, the net effect of errors in personal income and in the IRS measure of AGI, and gross errors and omissions in the estimates of the reconciliation items. The largest known omission is an adjustment to the personal income meas-

2. The noncompliance indicated by the AGI gap is limited to the types of income that are included in personal income, which excludes income such as unreported capital gains and unreported illegal income. Thus, the AGI gap is not a measure of the size of the underground economy. For additional information, see Carol S. Carson, "The Underground Economy: An Introduction," SURVEY 64 (July 1984): 109. For a discussion of the misreporting adjustments that are incorporated in personal income, see Robert P. Parker, "Improved Adjustments for Misreporting of Tax Return Information Used to Estimate the National Income and Product Accounts, 1977," SURVEY 64 (June 1984): 17-25.

Table 3.—Revisions to the Reconciliation Estimates for 1991

(Billions of dollars)

Line ¹		Previously published	Revised	Revision
1	Personal income	4,850.9	4,860.3	9.4
2	Less: Portion of personal income not included in adjusted gross income	1,458.4	1,490.3	31.9
3	Transfer payments except taxable military retirement, taxable government pensions, and taxable social security benefits	623.6	625.8	2.2
4	Other labor income except fees	292.1	294.4	2.3
5	Imputed income in personal income	95.2	97.3	2.1
6	Investment income retained by life insurance carriers and private noninsured pension funds	203.7	199.8	-3.9
7	Investment income received by nonprofit institutions or retained by fiduciaries	48.5	52.4	3.9
8	Differences in accounting treatment between NIPA's and tax regulations, net	93.9	88.9	-5.0
9	Other personal income exempt or excluded from adjusted gross income	101.3	131.7	30.4
10	Plus: Portion of adjusted gross income not included in personal income	537.2	530.4	-6.8
11	Personal contributions for social insurance ...	237.8	236.2	-1.6
12	Net gain from sale of assets	88.7	94.3	5.6
13	Taxable private pensions	153.9	151.7	-2.2
14	Small business corporation income	35.9	34.3	-1.6
15	Other types of income	20.9	13.9	-7.0
23	Equals: BEA-derived adjusted gross income	3,929.7	3,900.4	-29.3
29	Adjusted gross income of IRS	3,471.5	3,464.5	-7.0
30	Adjusted gross income (AGI) gap	458.2	435.8	-22.4
32	AGI gap as a percentage of BEA-derived AGI	11.7	11.2	-.5

1. Line numbers in this table correspond to those in table 1.
 BEA Bureau of Economic Analysis
 IRS Internal Revenue Service
 NIPA's National income and product accounts

ure of wages and salaries to account for employee contributions to deferred compensation agreements, such as those allowed under IRS Code section 401(k). All these contributions are excluded from the IRS measure of AGI; however, since 1985, an unknown amount of these contributions has been included in the personal income and BEA-derived AGI measures of wages and salaries, which resulted in an overestimation of the gap for wages and salaries. According to estimates from Social Security Administration tabulations of contributions to deferred compensation plans reported on Form W-2, these contributions amounted to about \$38 billion for 1990.

Revisions to the AGI gap for 1991

The AGI gap for 1991 was revised down \$22.4 billion (table 3). Revisions to the AGI gap stem from three sources: Revisions to personal income that carry through to the AGI gap, revisions to the IRS measure of AGI that carry through to the AGI gap, and revisions to the reconciliation items that are unrelated to the revisions to personal income and the IRS measure of AGI.

Personal income (line 1) was revised up \$9.4 billion, and the reconciliation items that are offsets to components of personal income (lines 3-6, most of line 9, and line 11) were revised up \$31.9 billion. Thus, the revisions to personal income that carried through to the AGI gap reduced the gap \$22.5 billion; most of the reduction was accounted for by a downward revision to personal interest income.

The IRS measure of AGI (line 29) was revised down \$7.0 billion, and the reconciliation items that are offsets to the revision to the IRS measure of AGI (lines 12, 14, and 15) were revised down \$3.0 billion. Thus, the revisions to the IRS measure of AGI that carried through to the AGI gap increased the gap \$4.0 billion.

The reconciliation items that are either unrelated or indirectly related to the revisions to personal income or to the IRS measure of AGI (lines 7-8, part of line 9, and 13) were revised up \$3.9 billion. Thus, these revisions, all of which carry through to the AGI gap, reduced the gap \$3.9 billion.

The \$22.4 billion downward revision to the total AGI gap was primarily accounted for by the gap for interest income, which reflected a downward revision to the interest component of personal income. In addition, there were large, but mostly offsetting revisions to the gaps for farm and nonfarm proprietors' income; the gap for farm proprietors' income was revised up \$13.6 billion and the gap for nonfarm proprietors' income was revised down \$13.9 billion. These revisions primarily reflect a correction to the intercomponent reallocation for fiduciaries' share of partnership income; intercomponent reallocations do not affect the total AGI gap.³

3. This correction also affects the gaps for these types of income for 1990: The gap for farm proprietors' income is raised \$9.4 billion, to \$36.6 billion, and the gap for nonfarm proprietors' income is reduced \$9.4 billion, to \$122.8 billion.