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Improved Measures of Regulated Investment Companies and Real Estate Investment Trusts for the U.S. National Economic Accounts

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As part of the 2023 comprehensive update of the National Economic Accounts (NEAs) to be released in September, the U.S. Bureau of Economic Analysis (BEA) will implement several methodological improvements to its treatment of investment funds, specifically regulated investment companies (RICs) and real estate investment trusts (REITs). This article provides a more detailed explanation of these improvements and their effects on the NEAs.[1]

Comprehensive updates, as well as annual updates, provide the opportunity to introduce major improvements, including statistical changes that incorporate new data and methodologies. The changes described in this article are important steps toward meeting BEA's objective to maintain and improve the accuracy and reliability of its statistics, as described in its Strategic Plan.[2] The methodological changes to RICs and REITs are as follows:

- Update the treatment of RICs beginning with 1979 to be more consistent with their status as "pass-through institutions" that receive property income, pass most of this income back to shareholders, and have minimal saving on their own. This new treatment is more consistent with international guidelines, as outlined in the *System of National Accounts 2008* (*SNA 2008*).[3] The new treatment is also more consistent with BEA's current treatment of defined contribution pension plans and the current treatment of RICs in the Federal Reserve Board's Financial Accounts of the United States.
- Harmonize the classification of equity REITs with the latest version of the North American Industry Classification System (NAICS) beginning with 2002 by moving all of their activities from the financial sector to the real estate industry within the nonfinancial sector.
- Improve the treatment of REITs (and other corporate real estate businesses) beginning with 2002 by removing capital gains from dividends paid to shareholders. According to international guidelines as explained in the *SNA 2008*, capital gains should not be included as part of current production income.

These statistical improvements will not result in presentational changes to published NEA tables. They will provide a more realistic picture of the activities of RICs and REITs, as well as a more accurate allocation of total national savings to businesses and households.

Updating the Treatment of Regulated Investment Companies

RICs include several types of investment funds. Investors purchase shares in these funds for the purpose of investing in a variety of financial assets. The most prominent type of RIC is a mutual fund, which typically invests in a specific class of financial assets, such as stocks, corporate bonds and notes, Treasury securities, or municipal securities. Shareholders receive returns from current interest and dividends, distributions of realized capital gains, and an accumulation of unrealized capital gains. RICs also include other investment funds that invest in financial assets, such as exchange traded funds (ETFs), closed-end funds, and money market mutual funds.[4]

RICs are required by law to function as "pass-through" financial institutions and to distribute nearly all of their investment income, after deducting expenses, to their shareholders. A RIC that does not distribute almost all of its net income may be subject to an excise tax by the Internal Revenue Service (IRS). RICs are allowed to pass through the taxes on income earned through investments to individual investors, thereby avoiding double taxation of both the RIC and the investors. Consistent with these rules and incentives, RICs distribute virtually all of their earnings net of expenses to shareholders, according to data from the IRS *Statistics of Income Bulletin (SOI).*

RICs have become increasingly popular as investment vehicles over time because they allow investors to pool their resources and take advantage of economies of scale to reduce investment expenses, diversify their portfolio, and access professional management services. From 2000 to 2022, according to the Financial Accounts of the United States, the financial assets of these types of RICs grew from $7.2 trillion to $29.3 trillion and now exceed the financial assets of both private depository institutions and defined benefit pension funds. The growing importance of RICs as savings vehicles underscores the need to account for them appropriately in the NEAs.

Current treatment. A review of BEA's source data for RICs highlights some of their key features. BEA's annual estimates for RICs are based on IRS *SOI* tax return data, compiled from submissions of Form 1120–RIC. Part I of the form records income, deductions for expenses and other items, and net income. "Investment company taxable income" equals the portion of net income that remains after subtracting dividends paid to shareholders. Part II of the form calculates capital gains, deducting capital gain dividends from net capital gains. RICs pay taxes on net income that is not distributed, but since RICs distribute nearly all their net income, these taxes tend to be minimal. RICs tend to have few if any employees and pay minimal compensation. They tend to pay for funds management services as an intermediate input—an expense in the tax form. Another key feature of RICs is that they have minimal income from explicit fees; instead, they retain a portion of shareholder returns.

National accounts statisticians have long recognized that the measurement of the financial intermediation services requires special treatment because financial institutions often embed a charge for services in the returns they provide. For example, depository institutions, such as commercial banks, provide implicit services to depositors and borrowers without charging explicit fees; these depository institutions are instead remunerated through adjustments to interest rates that are referred to as "financial intermediation services indirectly measured" (FISIM) or as "imputed interest."[5] Similarly, the NEAs account for the operating expenses of defined benefit (DB) and defined contribution (DC) pension plans by imputing a service charge paid by households.[6] The current and improved treatment of RICs also includes an imputation for implicit services.

To understand the current treatment of RICs in the NEAs, consider the stylized, simplified RIC example in table 1.[7] This RIC has $100 in income from interest ($40), dividends ($25), and capital gains ($35). It retains $30 for expenses (for funds management), and consistent with the rules and incentives for RICs, it distributes the

remaining $70 to shareholders. In addition to monetary costs, the RIC also incurs an implicit imputed cost for financial services ($3) provided by other financial institutions, such as banks and securities dealers.[8] The RIC has no employees or fixed assets.

Table 1: GDP, GDI, Net Interest, and Corporate Profits from a RIC: Current and Proposed Treatment

[Dollars, based on stylized RIC t-account]

Line	Series	Current treatment	Updated treatment	Revision
	GDP/gross value added (production approach)			
1	Gross output (implicit services, equal to expenses)	33.0	33.0	0.0
	Less:			
2	Intermediate inputs	33.0	33.0	0.0
3	Purchased (monetary expenses or total deductions)	30.0	30.0	0.0
4	Imputed financial services	3.0	3.0	0.0
	Equals:			
5	Value added (GDP)	0.0	0.0	0.0
	GDI (income approach)			
6	Net interest paid	18.0	0.0	−18.0
7	Net imputed interest paid	30.0	0.0	−30.0
8	Imputed interest paid	33.0	3.0	−30.0
9	Imputed interest received	3.0	3.0	0.0
10	Net monetary interest paid	−12.0	0.0	12.0
11	Monetary interest paid	28.0	40.0	12.0
12	Monetary interest received	40.0	40.0	0.0
13	Corporate profits	−18.0	0.0	18.0
14	Net dividends paid	−7.5	0.0	7.5
15	Dividends paid	17.5	25.0	7.5
16	Dividends received	25.0	25.0	0.0
17	Undistributed (retained) profits (saving)	−10.5	0.0	10.5
18	Value added (GDI, lines 6 plus 13)	0.0	0.0	0.0
	Addenda:			
19	Net capital gains paid (not used for the NIPAs)	−10.5	0.0	10.5
20	Capital gains distributed	24.5	35.0	10.5
21	Capital gains received	35.0	35.0	0.0

GDI Gross domestic income

GDP Gross domestic product

NIPA National Income and Product Accounts

RIC Regulated investment company

Note. The values shown in this table are for illustrative purposes only. This RIC has $100 in income from interest ($40), paid dividends ($25), and capital gains ($35). It pays for $30 of monetary expenses by a reduction in the returns received by shareholders, who receive $70. In addition to monetary costs, the RIC also receives implicit financial services ($3) provided by other financial institutions.

The gross output of the RIC ($33, line 1) reflects the funds management services it provides, measured as the sum of its monetary and implicit operating expenses. Because the RIC does not explicitly charge shareholders for its services, the value of gross output is imputed and set equal to intermediate expenses (lines 2–4). In this stylized RIC example, value added thus equals zero (line 5).

Because this production-based estimate of value added must in principle equal the income-based measure of value added or gross domestic income (GDI), the components of GDI must also sum to zero. For RICs, GDI consists of net interest paid (both monetary and imputed) and corporate profits (which include net dividends paid and undistributed profits or saving). Compensation, taxes on production and imports, and current transfers are set to zero.

The current treatment of RICs classifies the imputed financial services of RICs (all of gross output) as imputed interest paid (line 8), just as the implicit financial services of depository institutions are classified as imputed interest. Accordingly, net imputed interest paid by RICs, equal to imputed interest paid less imputed interest received for intermediate services (line 9), is substantial and positive ($30, line 7).

Net monetary dividends paid and net monetary interest paid, on the other hand, are consistently negative under the current treatment because RICs reduce returns paid to shareholders in order to cover expenses. The treatment of monetary income is complicated by the fact that the RIC receives investment income in the form of interest, dividends, and capital gains, but the IRS refers to all payments to shareholders as "dividends" or "distributions." The NEAs reclassify these IRS-reported "dividend" distributions as interest, dividends, or capital gains, depending on the types of income RICs receive. BEA relies on *SOI* data on the shares of income received by RICs to estimate the shares of IRS-reported "dividends" that are classified in the NEAs as interest, dividends, and capital gains. Because total IRS-reported "dividends" are net of expenses, the estimated interest, dividends, and capital gains paid by RICs are each net of a share of expenses. As a result, net monetary interest paid (paid less received, $28−$40=−$12, lines 10–12) and net dividends paid (−$7.5, lines 14–16) are negative.

Net capital gains paid are also negative (−$10.5, lines 19–21), but capital gains are not counted as income in the NEAs. Net interest paid (line 6) remains positive because the negative value for net monetary interest paid is more than offset by the positive value for net imputed interest paid. With positive net interest paid and value added equal to zero, both total profits and undistributed profits (saving) are consistently negative. One way to think about this treatment is that profits must be negative because RICs incur expenses to obtain capital gains, but capital gains are not counted as income. RICs are therefore persistent net borrowers in the NEAs.

Most of the interest and dividend income paid by RICs is received by households as part of personal income (not shown in the table). The contribution of RICs to personal saving equals the increase in personal income less an imputed service payment by households for the implicit services of RICs (equal to the RIC's expenses for these services and included in personal consumption expenditures, or PCE).[9] The contribution of RICs to the receipts and saving of businesses and state and local governments is far smaller.

This stylized explanation makes several simplifying assumptions. For example, RICs may engage in a very limited range of other activities, so that their value added may not be exactly zero as assumed here. Another assumption is that all the deductible distributions occur within the same accounting period. Timing issues can lead to differences between dividends deducted on the tax form and dividends paid during the year. The biggest timing issue may be the treatment of capital losses, which a RIC can carry forward for years.[10]

Despite these simplifications, the stylized example highlights key features of the current treatment of RICs. Net imputed and net total interest paid are usually positive. Net monetary interest paid, profits, net dividends paid, and undistributed profits are usually negative. Taxes are minimal. Most of the interest and dividend payments go to households, while the rest go to businesses and state and local government. Net operating surplus and value added for RICs are not exactly zero but are "small" relative to average values for most other industries.

While BEA does not publish separate statistics for RICs, their activities are included within several more aggregate published statistics, such as those for NAICS industry 525—funds, trusts, and other financial vehicles—within the financial sector. The size and sign of published statistics for NAICS 525 are often similar to what one would expect for RICs, based on the current NEA treatment. For NAICS 525, corporate profits before tax (National Income and Product Account (NIPA) table 6.17D), corporate profits after tax (NIPA table 6.19D), and undistributed corporate profits by industry (NIPA table 6.21D) are typically negative. For NAICS 525, value added in the GDP by Industry Accounts, compensation (NIPA table 6.2D) and fixed investment (in BEA's Fixed Assets Accounts, table 3.7ESI) are all relatively small.[11] The substantial imputed and monetary interest payments of RICs are included in more aggregate series in NIPA table 7.11, and dividends paid and received are included in NIPA table 7.10.[12]

Problems with current treatment. While the current treatment of RICs is entirely consistent with the use of imputed output to account for implicit financial services elsewhere in the NEAs, the substantial negative net savings under the current treatment is counterintuitive. RICs should arguably have roughly zero net saving because as pass-through institutions, they receive money from shareholders, invest in financial assets, remove a share to cover expenses, and send virtually all the remaining returns to shareholders. The expenses incurred associated with capital gains income could be funded from other income or from funds received to purchase shares, rather than through negative saving. The *SNA 2008* can be interpreted as recommending that investment funds have zero net saving, and several countries (the United Kingdom, the Netherlands, Canada, and others) treat investment funds this way.[13]

The NEA treatment for RICs is also inconsistent with their treatment in the Federal Reserve Board's Financial Accounts of the United States.[14] For these investment funds, the Financial Accounts set net acquisition of financial assets equal to net share issues (liabilities), implying net lending of zero. The stock of assets is set equal to the stock of liabilities, implying net worth of zero. The negative net lending estimates from the NEAs appear as "gross saving" and a "discrepancy" in net lending in the Financial Accounts.

The current treatment of RICs is also inconsistent with the treatment of DC pensions in the NEAs. DC pensions (see NIPA table 7.25) and RICs are similar in many ways. Both take contributions from investors (households), invest in equities and interest-bearing assets, and receive income in the form of interest, dividends, and capital gains. Both are mainly pass-through institutions and send all (or nearly all) returns to the investors. Both have no fixed assets or employees and obtain funds for management services as an intermediate expense, paid for by reductions in shareholder returns rather than by explicit charges. In the NEAs, imputed output for both pensions and RICs is set equal to expenses, and therefore value added is zero. But under the current NEA treatment for DC pensions, net interest paid, net dividends paid, corporate profits, undistributed profits, net income, net saving, and net lending are all set at zero. A key reason for these different measures is the treatment of implicit services: pension plans treat these imputed services as an imputed payment but not as imputed interest.

Improved treatment. The new treatment is similar to the NEA treatment of DC pension plans. Continuing with the stylized example in table 1, imputed gross output is still $33 (all expenses), and value added remains zero (lines 1–5). But the imputed output will now be classified as an imputed charge to shareholders rather than as imputed interest. Imputed interest paid (line 8) is set equal to imputed interest received (line 9, the expenses for imputed interest) and therefore net imputed interest paid (line 7) equals zero.

Consistent with the treatment of DC plans, the new treatment no longer removes a share of monetary interest, dividends, and capital gains paid to shareholders to cover expenses because these expenses are now paid for with the imputed service charge. Monetary interest, dividends, and capital gains paid (lines 11, 15, and 20) are revised up and set equal to monetary interest, dividends, and capital gains received, respectively (lines 12, 16, and 21). As a result, net monetary interest, net dividends, and net capital gains paid (lines 10, 14, and 19) are now zero.

The RIC now receives the imputed service charge from shareholders, so corporate profits is revised upward by an amount that equals monetary expenses less the upward revision to monetary interest paid ($30−$12=$18, line 13). Profits and undistributed profits (saving) are revised upward and set to zero. The upward revision to the profits of RICs ($18) equals the downward revision to net interest, so that value added remains zero. The upward revision to undistributed profits equals the upward revision to capital gains paid (the RIC no longer funds capital gains-related expenses through negative profit). There are no revisions to value added, GDI, GDP, gross output, PCE, government, or business spending for imputed RIC services. Only the allocation of the components of GDI is revised: net interest is revised down, and profits is revised up.

Table 2 shows a preliminary estimate of revisions for RICs in 2017. Net interest paid (line 1) is revised down, reflecting downward revisions to imputed interest paid (line 6) that more than offset upward revisions to monetary interest paid (line 3). The downward revision to net interest is offset by an upward revision to corporate profits (line 8), which, in turn, reflects an upward revision to both dividends paid (line 10) and undistributed profits, or saving (line 12).[15] Under the updated treatment, profits, saving, and value added will not be exactly zero, because of several complicating issues, but they will be much closer to zero than under the current treatment.

Table 2: Updated Treatment of RICs: Revisions to RICs and Shareholders of RICs, 2017

[Billions of dollars]

Line	Series	Previous estimate	Revised estimate	Revision
	Revisions to RICs			
1	Net interest paid	94.0	−0.1	−94.1
2	Net monetary interest paid	−28.7	−3.5	25.2
3	Monetary interest paid	198.0	223.2	25.2
4	Monetary interest received	226.7	226.7	0.0
5	Net imputed interest paid	122.7	3.4	−119.3
6	Imputed interest paid	141.0	21.7	−119.3
7	Imputed interest received	18.3	18.3	0.0
8	Corporate profits	−82.2	11.9	94.1
9	Net dividends paid	−14.0	0.0	14.0
10	Dividends paid	288.8	302.8	14.0
11	Dividends received	302.8	302.8	0.0
12	Undistributed profits (savings)	−68.2	11.9	80.1
	Revisions to income or saving			
13	RICs	−68.2	11.9	80.1
	RIC shareholders:			
14	Households	...	...	−76.7
15	State and local government	...	...	−0.8
16	Business (other than RICs)	...	...	−2.6
17	Total	...	...	0.0
18	**Revisions to GDI or value added**	**...**	**...**	**0.0**

GDI Gross domestic income

RICs Regulated investment companies

Harmonizing the Classification of Equity REITs

Real estate investment trusts (REITs) are another type of investment fund that allow individual investors to buy shares in commercial real estate portfolios that receive income from a variety of properties. REITs, like RICs, are "pass-through" institutions that are required to pass virtually all income, net of expenses, to their shareholders. There are two main types of REITs. Equity REITs buy, own, and manage income-producing real estate, both residential and nonresidential. Revenues are generated through rents, although equity REITs can also receive capital gains and interest. Mortgage REITs lend money to real estate owners and operators, either through mortgages and loans or through the acquisition of mortgage-backed securities. Their dividends are generated mainly by the net interest spread between the interest they earn on mortgage loans and the cost of funding these loans. Hybrid REITs combine the activities of both equity and mortgage REITs. Both types of REITs have provided substantial dividends for shareholders.

Beginning with 2002, the classification of all income flows for REITs will be updated in the NEAs to reflect the 2022 NAICS. Specifically, all activities of equity and hybrid REITs will be classified within the real estate industry (NAICS 531). All activities of mortgage REITs will remain within the financial industry (NAICS 525, funds, trusts, and other financial vehicles).

The NAICS is the official industry classification system for the United States. It was developed during the 1990s through a collaborative effort by the United States, Canada, and Mexico and is regularly updated every 5 years.[16] By organizing establishments based on their production methods and processes rather than on the products they produce, NAICS provides a strong conceptual basis for industrial classification as well as international comparisons. Maintaining consistency with NAICS is thus an important goal for BEA.

The 2022 NAICS recognizes the different production processes of these two different types of REITs. In the 1997 and 2002 versions of the NAICS, both equity and mortgage REITs were classified as "real estate investment trusts" (NAICS 525930) within the financial industry. Beginning with the 2007 NAICS, equity REITs were reclassified to the real estate industry (NAICS 531) within nonfinancial business. This reclassification was more consistent with the production processes of equity REITs, which typically own and manage real estate properties. Mortgage REITs, which invest in financial assets like RICs, remain in the financial industry.[17]

Currently in the NEAs, the classification of the activities of REITs is not fully consistent with the latest version of the NAICS. Estimates of corporate profits, interest, and the capital consumption allowance (tax-based depreciation) for both equity and mortgage REITs remain classified within NAICS 525–funds, trusts, and other financial vehicles—within financial business.[18] Similarly, the NEA estimates of fixed investment and consumption of fixed capital (CFC, or economic depreciation) for all REITs remain classified within financial corporate business. These estimates are thus inconsistent with the latest NAICS.[19] However, for the industry-level estimates for the Fixed Assets Accounts, including industry-level fixed investment, net stocks, and CFC, the activities of equity REITs are included in NAICS 531 (real estate) and the activities of mortgage REITs are included in NAICS 525, consistent with the latest NAICS.

With this comprehensive update, the classification of the activities of equity and mortgage REITs in the NEAs will be fully consistent with the latest NAICS from 2002 forward. The estimates of corporate profits, interest, and capital consumption allowances for equity REITs will be moved to the real estate industry (NAICS 531) within nonfinancial corporate business. Similarly, the estimates of CFC and fixed investment for equity REITs will be moved to nonfinancial corporate business. The activities of mortgage REITs will remain in the financial corporate business sector, within NAICS 525.

Table 3 shows revisions to the nonfinancial and financial corporate sectors that will result from this reclassification of equity REITs in 2017. For nonfinancial corporate business, net monetary interest paid, monetary interest received, and monetary interest paid will be revised up. Nonfinancial corporate profits, net dividends paid, and CFC will also be revised up. The downward revision to nonfinancial undistributed profits (saving) occurs because, for equity REITs, substantial dividends paid often exceed profits, so that undistributed profits are negative (note that these revisions are calculated before the removal of capital gains from REIT dividends, described in the next section). Offsetting revisions will occur for financial corporate business. This reclassification will not lead to revisions to total GDI, GDP, value added, corporate profits, interest, or depreciation.

Table 3: Effects of Moving Transactions of Equity REITs from Financial to Nonfinancial Corporate Business, 2017

[Billions of dollars]

Line	Series	Revisions, nonfinancial corporate business	Revisions, financial corporate business
1	Net monetary interest paid	15.0	−15.0
2	Monetary interest paid	20.7	−20.7
3	Monetary interest received	5.7	−5.7
4	Corporate profits	40.4	−40.4
5	Net dividends paid	97.0	−97.0
6	Undistributed profits	−56.9	56.9
7	Corporate taxes	0.3	−0.3
8	CFC	2.3	−2.3

CFC Consumption of fixed capital

REIT Real estate investment trusts

Note. These revisions reflect the movement of interest, corporate profits, and CFC (consumption of fixed capital, which is the National Income and Product Account measure of economic depreciation) from financial corporate business (NAICS 525, funds, trusts, and other financial vehicles) to nonfinancial corporate business (NAICS 531, real estate). The revisions are measured before the removal of capital gains from dividends, described later in the article.

The NEAs do not report separate statistics for REITs, but these revisions will appear as revisions to aggregates in several NIPA tables. This change will lead to offsetting revisions between NAICS 531 and 525 industries in tables showing corporate profits before and after tax by industry (NIPA tables 6.17D and 6.19D), net corporate dividends paid by industry (NIPA table 6.20D), and undistributed corporate profits by industry (NIPA table 6.21D). These changes will also appear as revisions to NIPA table 7.11 (“Interest Paid and Received by Sector and Legal Form of Organization”) and NIPA table 7.10 (“Dividends Paid and Received by Sector”), and as offsetting revisions to estimates for nonfinancial and financial corporate business in NIPA table 1.14.

Improving the Treatment of Dividends of REITs and Other Real Estate Companies

As part of the 2023 comprehensive update, BEA will also improve the treatment of dividends paid by REITs and other real estate companies by removing capital gains from paid dividends for 2002 forward. According to international standards for national accounts, as outlined in the *SNA 2008*, capital gains and losses are excluded from measures of current production income because they result from the revaluation of existing assets rather than from current production. Thus, for example, the NEA estimate of personal income includes ordinary dividends paid to shareholders but excludes capital gains that accrue to those shareholders as a result of rising stock prices.

REITs provide substantial dividends for shareholders. These dividends can reflect income from the services of REITs, such as the collection of rents from the management of properties. But these dividends can also reflect capital gains from the purchase and sales of properties, especially during periods in which real estate property values are rising. Because REITs, unlike many corporate businesses, are "pass-through" institutions that are required to pass virtually all of their income to their shareholders, the dividends paid to shareholders will most likely reflect these substantial capital gains as well as current income.[20]

The NEA estimates of corporate profits, which are also based on data from tax returns compiled by the *SOI*, remove capital gains and losses to provide estimates of business income from current production. This is shown in NIPA table 7.16 as a subtraction of "gains, net of losses, from sale of property." The NEA estimates of corporate dividends also remove capital gain distributions of RICs (part of "posttabulation amendments" for dividends in NIPA table 7.16). But estimates of dividends from REITs do not currently attempt to remove dividends that arise from capital gains.

This inclusion of capital gain dividends from REITs distorts estimates of undistributed corporate profits, personal income, and personal saving. The removal of capital gains from corporate profits of REITs, and the inclusion of capital gain dividends, frequently leads to substantial negative undistributed profits (saving) for REITs (see table 3). At the same time, the inclusion of capital gains dividends, which flow to households, biases upward the estimates of personal income and saving from current production for the household sector.

Under the new treatment, BEA will remove income from capital gains from dividends paid by REITs (and, for consistency, from dividends paid by other corporate real estate businesses). This change will generally result in downward revisions to REIT dividends paid and offsetting upward revisions to undistributed profits of REITs, and thus business saving. This change will lead to similar downward revisions to dividends received by shareholders (households), to personal income, and to personal saving. This change will not lead to revisions to GDI, GDP, value added by industry, or national saving. The main advantage of this change is that it will provide a more realistic allocation of total saving across the business and household sectors. This improvement will be implemented in the NEAs beginning with 2002, and the size of the revisions will vary by year. Table 4 shows revisions for 2017. [21]

Table 4: Effects of Removing Capital Gains from Equity REITs and Other Corporate Real Estate Businesses, 2017

[Billions of dollars]

Line	Series	Revisions
	Real estate industry (NAICS 531)	
1	Corporate profits	0.0
2	Net dividends paid	−48.2
3	Undistributed profits	48.2
	Households	
4	Personal income	−48.2
5	Personal saving	−48.2
6	Value added, GDP and GDI	0.0

GDI Gross domestic income

GDP Gross domestic product

NAICS North American Industry Classification System

REIT Real estate investment trusts

Note. The revisions are measured after the reclassification of equity REITs to the real estate industry, NAICS 531.

Conclusions

These improvements will provide a more realistic allocation of total savings to businesses and to households. The updated treatment of RICs will lead to downward revisions to imputed interest paid by RICs and upward revisions to monetary interest and dividends paid, total corporate profits, and undistributed profits or saving of RICs. As a result, RICs will have net savings closer to zero in the NEAs, consistent with their role as pass-through institutions with minimal saving. The removal of capital gains from dividends paid by REITs will lead to downward revisions to these dividends and upward revisions to undistributed profits or saving, so that the savings of REITs will also be closer to zero, also more consistent with their role as pass-through institutions with limited saving.

For total corporate business, these changes will together lead to upward revisions to total corporate profits and undistributed profits or saving, downward revisions to interest paid (because of the downward revision to imputed interest paid), and mixed effects on dividends. Total property income paid (interest plus dividends) to shareholders will in most periods be revised downward as a result of all of these changes. Revisions for total corporate business will be exactly offset by revisions (downward in most periods) to property income and saving for the shareholders of RICs and REITs—mainly households. Total national savings, GDI, GDP, and value added are not affected by these improvements.

In addition to providing a more realistic picture of the activities of RICs and REITs, and the saving behavior of businesses and households, these changes will improve consistency with international guidelines for national accounts (*SNA 2008*) and the Federal Reserve's Financial Accounts of the United States, as well as with NAICS. These improvements will not result in presentational changes to published NIPA tables. In future work, BEA will continue to research and refine its treatment of the financial sector and measures of income and saving.[22]

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Footnotes

1. A forthcoming *Survey of Current Business* article will describe the other major statistical changes planned for the 2023 comprehensive update of the NEAs. A *Survey* article following the September 2023 comprehensive update will discuss the results of the update.
2. BEA's Strategic Plan can be found on the BEA website.
3. The *System of National Accounts 2008* can be found on the United Nations Statistics Division website.
4. An ETF is similar to a mutual fund, but its shares are traded on stock exchanges at market prices that reflect the performance of its underlying assets. A closed-end fund issues only a fixed number of shares after an initial public offering; these shares can be bought and sold on a stock exchange. While these types of RICs often invest in longer-term assets, money market mutual funds invest in short-term, liquid, low-risk assets that pay its shareholders returns that reflect short-term interest rates and are thus close substitutes for commercial bank deposits. For more information on RICs, see the description of financial sectors and instruments in the table descriptions of the Federal Reserve Board's Financial Accounts of the United States.
5. See Brent R. Moulton and Eugene P. Seskin, "Preview of the 2003 Comprehensive Revision of the National Income and Product Accounts," *Survey of Current Business* 83 (June 2003): 23–27; see also Dennis J. Fixler, Marshall B. Reinsdorf, and George M. Smith, "Measuring the Services of Commercial Banks: Changes in Concepts and Methods," *Survey* 83 (September 2003): 33–44. For updates to this treatment, see Kyle K. Hood, "Measuring the Services of Commercial Banks in the National Income and Product Accounts: Changes in Concepts and Methods in the 2013 Comprehensive Revision," *Survey* 93 (February 2013): 8–19; and Jason W. Chute, Stephanie H. McCulla, and Shelly Smith, "Preview of the 2018 Comprehensive Update of the National Income and Product Accounts: Changes in Methods, Definitions, and Presentations," *Survey* 98 (April 2018).
6. See "Preview of the 2013 Comprehensive Revision of the National Income and Product Accounts: Changes in Definitions and Presentations," *Survey* 93 (March 2013): 13–39
7. This description of how RICs are treated in the NEAs, and the stylized t-account, borrows from an internal memo (August 2012) written by Howard Krakower and Martin Simmons (BEA), and an internal 2012 BEA memo by Brent Moulton. For a more detailed explanation of the treatment of RICs and REITs and possible alternatives see "Investment Funds in the U.S. National Accounts," Robert Kornfeld, BEA working paper, July 2019.
8. These implicit services are equal to direct commissions plus implicit commissions earned on mutual fund assets.
9. See the NIPA Handbook, Chapter 5: Personal Consumption Expenditures.
10. To reduce spurious volatility in property income paid by RICs that may arise from these and other timing issues, BEA's method for estimating property income is based on a 2-year moving average of the shares of interest and dividend income to total income, with capital gains income estimated as a residual. See Nicole M. Mayerhauser and Sarah J. Pack, "Preview of the 2013 Comprehensive Revision of the National Income and Product Accounts: Statistical Changes," *Survey* 93 (May 2013).
11. Undistributed profits for NAICS 525 is negative also because of REITs, under the current treatment of REITs. On the other hand, net dividends paid are negative for RICs but positive for REITs and for NAICS 525 (NIPA table 6.20D). The treatment of REITs will also be updated as part of this comprehensive update, as explained later in this article.
12. Monetary interest payments paid by RICs are directly reported in NIPA 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." Because the IRS labels RIC payments to shareholders obtained from interest receipts as dividends rather than interest, BEA subtracts the estimate of interest payments of RICs from IRS-reported corporate profits and dividends to obtain corporate profits and dividends.

13. From the *SNA 2008*, paragraph 7.151: "Investment income attributed to holders of shares…in investment funds (including mutual funds and unit trusts) is shown as two separate items. The first… is the dividends distributed to… shareholders. The second is retained earnings attributed to… shareholders." Also, paragraph 7.152: "The dividend component is recorded in…the same manner as dividends for individual corporations…. The retained earnings component is recorded using the same principles as those described for foreign direct investment enterprises but is calculated excluding any reinvested earnings on foreign direct investment. That is to say, the remaining retained earnings are distributed to the shareholders (leaving the investment fund with no saving) and are reinjected into the fund by the shareholders in a transaction recorded in the financial account."

14. The Financial Accounts have tables for money market funds (tables F.121 and L.121), mutual funds (tables F.122 and L.122), closed-end funds (tables F.123 and L.123), and ETFs (tables F.124 and L.124).

15. The new treatment of RICs will also be reflected in revisions to NIPA 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." The imputed service charge will appear as a post-tabulation amendment. The calculations still remove the estimate of interest income paid from profits and reclassify these payments as interest, but interest paid now equals total interest received rather than just a portion of interest received that remains after removing some expenses. Profits are thus revised upward by the sum of monetary expenses less the upward revision to monetary interest paid, consistent with the stylized example.

16. More information on the NAICS is available on the U.S. Census Bureau website.

17. More specifically, equity REITs were moved to NAICS 531110 (lessors of residential buildings), NAICS 531120 (lessors of nonresidential buildings), NAICS 531130 (miniwarehouse and self-storage operators), and NAICS 531190 (lessors of other real estate property).

18. BEA's estimates of the activities of REITs are based mainly on data from tax returns compiled by the IRS *SOI*, based on tabulations of form 1120–REIT. Although the *SOI* converted to the 2007 NAICS in 2007, the NEA series remain in financial business.

19. These estimates are based on source data from the U.S. Census Bureau.

20. REITs are also allowed to pass through the taxes on income earned through investments to individual investors, avoiding double taxation of both the company and the investors.

21. Table 4 shows revisions that result from removing capital gains from equity REITs and other corporate businesses in the real estate industry (NAICS 531). Capital gains will also be removed from dividends paid by mortgage REITs, which remain in the financial industry, although these capital gains tend to be smaller (under $5 billion in 2017, for example).

22. In the integrated macroeconomic accounts (IMAs), these improvements will reduce the statistical discrepancies in net lending or borrowing between the capital account (based on the NEAs) and the current account (based on the Financial Accounts). The IMAs are available on BEA's website.

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