

Taking Account...

BEA handbook adds chapter on profits

The Bureau of Economic Analysis (BEA) has made available two more chapters in its national income and product accounts (NIPA) handbook, which is being released in stages on the BEA Web site.

The NIPAs are a critical component of the broad U.S. national economic accounts, providing the value and composition of national output and the distribution of incomes generated in its production. The NIPA handbook describes the fundamental concepts, definitions, classifications, and accounting framework that underlie the accounts and the source data and methodologies used to calculate the estimates.

The two newly available chapters focus on compensation of employees (chapter 10) and corporate profits (chapter 13). Additional chapters on proprietors' income (chapter 11) and rental income of persons (chapter 12) are currently under development. Their release schedule will be determined following the publication of the results of the 2013 comprehensive revision of the NIPAs in July.

This *Taking Account* will discuss corporate profits. Last month, this column focused on compensation of employees.

Corporate profits represents the portion of the total income earned from current production accounted for by U.S. corporations. As such, corporate profits

is one of the most closely watched U.S. economic indicators, as it provides a good measure of corporate financial health. Profits are a source of retained earnings, providing much of the funding for capital investments. Profits and related measures may also be used to evaluate the effects on corporations of changes in policy or in economic conditions.

In addition, profits are used to measure 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.

Organizations treated as corporations in the NIPAs include all entities required to file federal corporate tax returns, including mutual financial institutions and cooperatives subject to federal income tax; nonprofits that primarily serve business; Federal Reserve banks; and federally sponsored credit agencies.

BEA's featured measure of corporate profits—profits from current production—provides a consistent economic measure of the income earned by all U.S. corporations. This measure is unaffected by changes in tax laws, and it is adjusted for non-reported and misreported income. It excludes dividend income, capital gains and losses,

and other financing flows and adjustments, such as deductions for "bad debt."

This helps make corporate profits a useful analytical measure of the health of the corporate sector. For example, in contrast to other popular measures of corporate profits, the NIPA measure did not show the large runup 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, a component of the NIPA personal income measure.

The NIPA handbook in its entirety can be accessed at www.bea.gov/methodologies/index.htm#national_meth.

Guidance on citing BEA material available

For people who cite BEA information as part of their work, the agency has developed a concise online citation guide that can be accessed at www.bea.gov/about/BEAciting.htm.