

APPENDIX A

DEFINITIONS OF COMPONENTS OF INCOME,
EXPENDITURES, ASSETS AND LIABILITIES

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DEFINITIONS OF COMPONENTS OF INCOME,
EXPENDITURES, ASSETS, AND LIABILITIES

Definitions are provided below for each of the income, expenditure, **asset**, and liability components used in income and wealth definitions. The detailed classification of sources of **income** (component groups A-F) was determined in the following way. A basic distinction **commonly** made in discussing sources of income is between earnings (income derived from the sacrifice of time and effort by the recipient) and unearned income (**income** not requiring such a sacrifice). **In** describing the functional distribution of income, economists often further subdivide earnings into labor income (group **A**) and business income (group **B**), depending on whether the work is performed **for pay**, or as a self-employed **entrepreneur**. A distinction is also drawn between property income (group **C**) and transfer payments (groups D-F) **within the category of unearned income**.

These four categories define the classes often used in analyzing **the** functional division of income. However, such a broad classification **is inadequate** to distinguish among many income concepts. Thus, a **more** detailed disaggregation was necessary. Little guidance was available for determining this finer level of detail except that contained in the income definitions themselves. The categories chosen reflect the focus of this study, as well **as the** need for finer classification. Thus, transfer payments have been grouped into public cash transfers, public transfers paid in kind, and private transfers. Within the public transfer **groups**, individual program payments have been identified. In the labor and business income groups, detail is determined according to more traditional criteria, such as distinguishing civilian from military pay, business from **farm** income, or market from **nonmarket** activity. Sources of **property income**, such as interest, dividends, and capital gains, have been distinguished. Finally, private transfer **income** has been **disaggregated** to distinguish such items as alimony, gifts, bequests, trust income, and **voluntary support** provided by others.

The need to define components for income definitions which differ conceptually in their accounting basis, accounting period, and recipient unit leads to the definition of components which are mutually incompatible within a single **income** definition. Examples of this will clarify the problem. Concepts which

use accrual ('when earned') accounting will include **employer** contributions to a pension **fund** (item **A.11**) when paid by the employer and interest earnings of funds held in such plans (C.1) as they **accrue**; other concepts using cash ('when paid') accounting may ignore the former components, but credit payments from a pension fund (**C.9** and **C.10**) when these are received by the **retired** employee. Either approach may be perfectly reasonable, depending on the use of the income measure. **However**, to include both in a single definition of **income** is not reasonable and represents doublecounting.

A similar problem exists with **respect** to capital **gains** (items C.5 and C.6). **An** accrual accounting system will recognize capital gains over the accounting period, whether or not realized. A cash system will include only gains realized in the period, but **will** measure the total gain based on cost of **acquisition**, not **simply** the gain during the accounting period. Other inconsistencies may stem from differences **in** recipient units. For instance, a recipient unit defined as family members living together would include in family income an allotment **of pay** (item F.8) **from** an absent relative (such as a spouse serving overseas in **the military**). However, the spouse's **pay** would not be included. Were the recipient unit redefined to include the absent spouse, inclusion of his or her pay (A.7 or **A.8**) but not the allotment (F.8) would be the appropriate procedure.

Many of the distinctions drawn among components of income and wealth are necessary in order **to reflect** the detailed items used in household surveys. Others reflect distinctions made between countable and excluded components of income and wealth. **used** for **eligibility** determination by income-support **programs**. Many of the individual items defined for these purposes are not the same items which are important for conceptual reasons. An attempt has been made to adopt a level **of** detail which supports all the purposes. However, **this** often leads to "awkward" definitions, and to the conjoining of items which are broadly distributed and significant in size, with other items relevant to only a few individuals in special circumstances.

For the **above** reasons, the components below should not be thought of as defining income, that is, one should not add together **all** components and call the result a "comprehensive" income measure. For similar reasons, one should not deduct all expenditure components to arrive at net income. The appropriate

components to include in each income definition discussed in this report are presented in the tables accompanying the text.

Issues of Definition and Valuation

Another complicating factor in defining income components at this level of detail **stems from** professional differences in the appropriate definition or valuation procedure. One **instance** of this appears in the case of medical and other forms of insurance. When insurance coverage is provided, whether by an employer (item **A.10**) or by the government (items **E.3**, E.4, and **E.5**), two procedures have been used to impute income. Some use their imputation on the premium necessary to secure such coverage (assuming that all **covered** individuals benefit equally). Alternatively, others count only actual benefits paid, and **value these** benefits according to one **of the procedures discussed** below. The choice is similar to the choice of using accrual versus cash accounting, with the additional complication that receipt of income is uncertain and irregularly distributed under the **second** procedure.

Definitional problems exist with other components of income and expenditures. Consider work-related expenditures (items G.1-G.6). Conceptually, only the necessary cost element in such expenditures as **commuting** or child-care should be deducted. But there is no agreement on what is a necessary level. As a practical matter, tax and program authorities tend to accept reported expenses up to given limits (except when fraud is suspected). The definitions reflect this practice.

Many of the income items which appear below may be received in forms other than cash. The appropriate procedure to use in valuing income received in kind is a matter of professional dispute. Four distinct procedures have been commonly used: (1) value in-kind income at the cost of providing the goods or services; (2) valuing the goods or services received at market prices; **(3)** estimating the cash-equivalent value which the recipient would place on the income (i.e., the cash transfer which would exactly compensate the recipient for the loss of the in-kind income); or **(4)** valuing the in-kind income according to the reduction in cash outlay which it produces.

The first two approaches have the advantage **of being** based on observable prices; however, theoretical analyses suggest that they are likely to **over-**state the valuation by the recipient of **income** paid in kind. The third

procedure **requires strong** assumptions about the nature of individual tastes and preference:. **The** fourth procedure suggests a zero value for the in-kind income when purchase of comparable goods and **services** was not previously made.¹ **To resolve these** questions of valuation is beyond the scope of this **paper**. Rather, an asterisk **indicates** components in the **typology** for which this **valuation** problem exists. Inclusion of these **components** in an income concept requires a decision **on the** appropriate valuation procedure.

¹ See Section 4.5 for more extended discussion.

- A. Labor income -- This category includes all forms of income derived from the performance of tasks under the control or direction of another, as well as the value of time spent in home activity, pursuing an education, or enjoying leisure.
- A.1 Civilian wages -- Gross **earnings** before taxes and mandatory or optional deductions from employment, paid in cash. This item applies to employees paid according to actual hours of work at hourly rates. Bonuses, commissions, *severance pay*, *back pay*, etc., **are** included.
- A.2 Civilian salaries -- Gross earnings before taxes and mandatory or optional deductions from employment, paid in cash. This item applies to employees paid salaries at a *weekly*, *monthly*, or annual rate. Bonuses, commissions, **severance** pay, *back pay*, etc., are included.
- A.3 Tips and gratuities -- Payments received from parties **other than** one's employer for services rendered in a nonprofessional capacity.
- A.4 Honoraria and awards -- Payments from one's employer or other parties **which are** made in recognition of achievement **within** one's profession, **but** not as payment for a specific product, patent, or service.
- A.5 Sick pay -- Compensation **of an** employee paid during a period of illness necessitating absence from work.
- A.6 **WIN Payments** -- Payments to AFDC recipients who agree to participate in the Work Incentive Program.
- A.7 Active military pay/nonhazardous duty -- Gross earnings of members of **the Armed** Services, who are not **servicing** in a combat zone or hospitalized as a result of injuries incurred while in a combat zone.
- A.8 Active military pay/hazardous duty -- Gross earnings of members of the Armed Services, who are **servicing** in a combat zone or hospitalized as a result of injuries incurred while in a combat zone.
- A.9 Military reserve Pay -- Pay for temporary service with a Military **Reserve or** National Guard unit.
- A.10 Insurance provided by employer -- Value of coverage under an **employer-**provided life, health, disability, medical, dental or legal insurance plan. (*)

- A.11 **Employer contribution** to a pension plan -- Value of payments by an employer to a company controlled or independent pension trust or account, whether **or** not vested in the employee. (*)¹
- A.12 Earnings paid in kind -- Value of services from or the receipt of items such as meals, shelter, clothing, tools, recreation, transportation, and travel services which are made available to employees without charge. (*)²
- A.13 Value of bargain purchases **from** employer -- Such **forms** of compensation as stock options, discounts on general **merchandise offered** to store employees, **and** special prices offered by manufacturers to their **workers**. (*)
- A.14 **Imputed** income from home activity -- Value of **time** spent on housekeeping, childcare, home **improvements**, etc. (*)
- A.15 Imputed income while attending school -- Value of time spent attending school. (*)
- A.16 Value of leisure time -- Value of time spent in **leisure** activities. (*)

¹ An employer's contribution to Social Security is not normally included in this item. However, National Income does include it. See Chapter 6.

² Included in this category are such disparate items as housing and meals provided to farm laborers, travel and expenses related to attendance at professional meetings which is paid by employers, use of company cars and airplanes, use of company-owned recreational facilities for no or nominal charges, and meals and entertainment paid through expense accounts.

- B. Business¹ Income -- This category includes income derived from **self-**employment.
- B.1 Net income from business proprietorship -- The difference between gross value of sales or receipts and expenses, including cost of goods sold, depreciation of property, operating expenses, selling expenses, taxes, licenses, etc. Professional fees received by employees from parties other than their employer are included in this category.
- B.2 Net income from business partnership -- The share of net business income (as defined in B.1 above) received from a business partnership.
- B.3 Net income from farm proprietorship -- The difference between gross farm receipts and expenses as described above.
- B.4 Net income from farm partnership -- The share **of the** net income (as defined in B.3 **above**) received from a farm partnership.
- B.5** Value of food and fuel produced and consumed by owner(s) of farm -- Home grown produce and fuel not sold, and therefore not included in B.3 above. (*)
- B.6 Gambling winnings or losses -- The net **gain** or loss from gambling activity, after allowances for the costs of wagering.

¹ The **term** 'business,' as used here, includes professional practice by individuals, either Mependently'or in partnership with others.

- C. Property income -- This category includes all forms of income which are derived from the ownership of property or from legal rights to property held in trust.
- C.1 Interest -- Interest **paid** by banks, savings institutions, bonds, notes, mortgages, and life insurance proceeds held under an agreement to pay interest thereon. **Financial** services provided in lieu of interest are sometimes included.¹ (*)
- c.2 Dividends -- Dividends paid to owners of stock, in cash or in the form of shares, options, or warrants.
- c.3 Net income from rental property -- **Gross** rental income, less expenses.
- c.4 Royalties -- Payments made **under** a license agreement resulting from a **patent or** copyright, **or from the** exploitation of natural **resources**.
- C.5 Realized capital gains or losses -- **Increase** or decrease in **the** value of owned property, as realized through sale or exchange.
- C.6 Unrealized capital gains or losses -- Increase or-decrease in the value of property not sold or exchanged.
- c.7 **Imputed** rent on owner-occupied home -- The rental equivalent of an owner-occupied home, after allowance for the costs of home ownership.(*)
- C.8 Imputed service value of durable goods -- Services provided by one's automobile(s), boats, furnishings, appliances, entertainment equipment, or other major durable goods.(*)
- c.9 Receipts from a private pension plan -- Payments from a company or individual pension trust to a **former** employee or his or her **survivor(s)**.
- C.10 Receipts from a public pension plan -- Payments from a federal, state, or local government employee pension plan to a former employee or his or her survivor(s).
- C.11 Income from a trust -- Payments received under the terms of a trust agreement.

¹ When financial services are included in a specific income definition, this has been noted in the text and table presenting that definition.

C.12 **Retained earnings** of corporations -- Undistributed profits retained and reinvested by corporations on behalf of shareholders.

C.13 Corporate income tax liability -- Accrued liability for taxes on corporate income (borne indirectly by shareholders).

- D. Public Cash Transfer Payments -- This category includes all cash transfer payments from public sources. A transfer payment is income which is neither current or deferred compensation for services rendered nor income from property. Chiefly, the receipt of a transfer requires that an individual qualify by being aged, retired, disabled, unemployed, or have income inadequate to meet needs.'
- D.1 Social Security retirement benefits -- Payments to an individual qualified by age to receive benefits under the Old Age provisions of the Social Security Act and to his or her dependents.
- D.2 Social Security disability benefits -- Payments to a person qualified by disability to receive benefits under the Disability provisions of the Social Security Act and to his or her dependents.
- D.3 Social Security survivors benefits -- Payments to a person qualified to receive benefits under the Survivors provisions of the Social **Security Act.**
- D.4 Railroad Retirement benefits -- Payments to an individual qualified by age or disability to receive benefits under the Railroad Retirement Act, and to his or her dependents or survivors.
- D.5 Unemployment benefits -- Payments by a federal or state agency to individuals unable to find work, and Payments by private parties under a Supplemental Unemployment Benefit agreement. (*)
- D.6 Workmen's Compensation payments -- Payments **by a federal** or state agency as a result of death or disability of an employee.² (*)
- D.7 Veteran's disability pension - service connected -- Payments by the Veteran's Administration as a result of a disability **deemed** to be caused by military service.
- D.8 Veteran's disability pension - nonservice connected -- Payments by the **Veteran's** Administration as **a result of** a **disability** deemed not the result of military service.

¹ Although primarily cash-transfer program's, certain of these programs also provide employment, health, social and neighborhood services, etc. which are provided in kind. These carry an asterisk to indicate a valuation problem with respect to these services.

² Includes Payments to disabled coal miners or their survivors.

- D.9 Pension for survivors of **veterans** -- Payments by the Veteran's **Administration** to widows, children, or parents of veterans who are deceased.
- D.10 Veterans education benefits -- Payments to veterans who are pursuing approved courses **of study.**¹ (*)
- D.11 Aid to Families with Dependent **Children** -- Payments to families who qualify for federally supported state programs **of assistance** to families with dependent children. (*)
- 0.12 Supplemental Security Income -- Payments to aged, blind, or disabled individuals and their dependents under the Supplemental Security Income **program** of the Social Security Act.
- D.13 General **Assistance** -- Payments to needy individuals under state **and** local programs of general assistance. (*)
- D.14 Other public assistance -- Cash payments from all other federal, state, or local assistance programs (includes such programs as trade readjustment allowances, assistance to Indians, refugees, **farm** laborers, and relocation payments, (*)

¹ Since benefits are paid only to those pursuing approved courses of study, evaluation of these benefits by respondents may be less than their cash value.

- E.** Public In-kind Transfers -- **This** category includes public transfers to **individuals** or families which are provided in forms other than cash. (*)
- E.1** Bonus Value of Food Stamps -- Value of food stamp distributions. (*)
- E.2** School Meal Subsidy -- Value of subsidy paid for school lunches. (*)
- E.3** Medicare Benefits -- Value of coverage of medical and hospital charges under the Medicare **program**, less monthly premium paid by the eligible participant. (*)
- E.4** Medicaid Benefits -- Value of coverage of medical and hospital charges under **the Medicaid program.**² (*)
- E.5** Medical care provided by VA -- Value of entitlement to medical services provided in a Veteran's Administration facility, and to extended care and prescription drug services provided **elsewhere.**² (*)
- E.6** Public housing subsidy -- Value of the subsidy provided through a low rent public housing unit. (*)
- E.7** Assistance to homeowners (Section 235 and **502**) -- Value of insurance on mortgage loans and subsidies on interest payments provided to homeowners by HUD under the **provisions** of Section 235 or by the U.S. Department of Agriculture under the Section **502** program. (*)
- E.8** Assistance to renters (Sections 8, 23, 101, 236, **513**) -- Value of subsidies provided either by direct payment to the landlord (**Section 8** and 231 or by providing insured loans and/or interest subsidies (Section 101, 236, **and 515**). (*)
- E.9** Net subsidy to enrollee in public institutions of higher education -- Value of subsidized higher education. (*)
- E.10** Scholarships and fellowships -- Value of payments from public agencies for tuition, fees, books, and subsistence received by students. (*)

¹ Certain programs, which provide benefits both in cash and in kind, have been included in Section D. See footnote 1 on page A-11.

² Although in most cases, providers of medical services bill the government directly without **recipients** being **involved** in the financial process, occasionally recipients who have paid for services directly are reimbursed in cash by the government.

- F. Private Transfers in Cash or in Kind -- ~~This~~ category includes transfer income **received** from all private sources, in the form of cash, property, or services.
- F.1 Alimony and child support receipts -- Receipts under the terms of a divorce or separate maintenance agreement.
- F.2 **Gifts** -- Payments received in cash or in kind, which are not related to employment or represent payment for goods or services rendered, from private parties outside the family unit. (*)
- F.3 **Bequests** -- Proceeds from the settlement of an estate. (*)
- F.4** Damages (net of associated costs) -- If proceeds from an insurance settlement or court decree exceed the associated loss and all legal ~~ex-~~ expenses required to effect settlement, the excess is income to the recipient. If the reverse is true, the resultant loss would be entered as an expense (see G.24 Casualty losses).
- F.5 Scholarships *and* Fellowships -- Cash awards for tuition, fees, books, supplies and subsistence received from private educational institutions or other parties, and the cash equivalent of tuition and fees remitted by private educational institutions.' (*)
- F.6 Training by Employer -- Value of training provided by employer directly, by contracted services, or by payment of tuition and fees for formal education. (*)
- F.7 Prizes and awards -- Receipts which are not otherwise classified under A.4 Honoraria and Awards, or F.2 Gifts, and represent an unsolicited and unexpected windfall.
- F.8** Support provided by others -- **Room**, board, and other living expenses provided in cash or in kind by another individual (if outside the recipient unit defined for the relevant **income** concept) or by a charitable institution. This item includes pay allotments by service-persons not residing in the household. (*)
- F.9 Proceeds from life insurance -- Payments received due to the death of the insured; does not include surrender of policy owned by a **member** of the recipient unit.

- G. Expenditures -- **This** category includes expenditures related to earning income, **expenditures** for basic needs, and tax-deductible expenditures. Outlays belonging to one or more of the expenditure components described below are sometimes deducted from gross income when a net income definition is used.
- G.1 **Commuting cost** -- Expenses for **public** transportation to and from work, or expenses of **operating** a private automobile attributable to commuting.
- G.2 Childcare -within **the home** -- Expenses **for care** of children or a dependent adult **requiring** care at home, necessary in order to secure employment.
- G.3 Child care - outside the home -- Expenses for care **of children or** a dependent adult, outside the home, **necessary** in order to secure employment.
- G.4 Union dues -- Dues to a labor union.
- G.5 Dues to **professional** organizations -- Dues to an organization representing one's' profession.
- G.6 Clothing **and tools required** in work -- Expenses for items required in one's profession or trade and not provided by employer.
- G.7 Educational expenses -- Tuition, fees, books and supplies purchased or paid while **pursuing** a course of study.
- G.8 Medical expenses -- Payments to hospitals, extended care-facilities, physicians, dentists and other medical practitioners, prescription drugs, **other medical supplies**, and transportation to obtain medical care, in excess of insurance reimbursement.
- G.9 **Medical** insurance premium -- Expense of **obtaining** insurance covering medical expenses.
- G.10 Rent -- **Expenses** of occupied rental **housing**.
- G.11 Mortgage principal and interest -- **Payments** for principal and interest on a home occupied by recipient unit.
- G.12 **Insurance** on home -- Payments **for** insurance on home.
- G.13 Utility payments -- Payments for electricity, natural gas. fuel oil, and local telephone service for an owner-occupied home or rental housing.

- G.14 Federal Income Taxes -- Federal Income Taxes withheld, plus estimated tax **payments**, less any refund received (**or** plus any final payment **made**).
- G.15 F.I.C.A. Taxes -- F.I.C.A. **tax** payments paid by employee.
- G.16 State income taxes -- State income taxes withheld, plus estimated tax payments, less any refund received (or plus any final payment paid).
- G.17. **Local** wage or income taxes -- County or municipal wage or income tax paid.
- G.18 State sales or excise taxes -- State (or local) sales and excise taxes paid (**or** an estimate thereof).
- G.19 State and local property taxes -- State and local taxes on real and/
or personal **property**.
- G.20 Moving expenses -- Expenses of relocating a residence.
- G.21 Interest paid -- Payments **for** interest on mortgages, loans, and installment or revolving credit accounts.
- G.22 Charitable contributions -- Contributions in cash or in kind to charitable, religious, or other nonprofit institutions, as permitted by Federal Income Tax regulations.
- G.23 Alimony and child support payments -- Payments to individuals outside the recipient unit under a divorce decree **or** separate **maintenance** agreement.
- G.24 Casualty **losses** -- Decrease in value due to fire, theft, storm or accident of one's real or personal property, to the extent not reimbursed by insurance or legal recovery.
- G.25 Payments for support **of others** -- Payments in cash or in kind for the support of individuals outside the **recipient unit**.

- H. Assets -- This category includes asset items (various components of a family's wealth). **certain** assets are defined so that they are consistent with program definitions. Other assets are defined in such a way that they may be used for a variety of purposes, e.g., obtaining better data on total household assets.
- H.1 Value of **home** -- Value of **owner-occupied** home.¹ (*)
- H.2 Value of home furnishings -- Value of furniture, carpeting, appliances, etc. (*)
- H.3 Value of vehicle(s) -- Value of **vehicles**² owned by recipient unit members. (*)
- H.4 Value of business property -- Value **of the share of** recipient unit members in a business, including real assets, liquid assets, **inventories, and good** will. (*)
- H.5 Value of farm or ranch -- Value of the share of family members **in** a farm or ranch, including real assets, liquid assets, inventory or stock, etc. (*)
- H.6 Value of father real property -- Value of rental properties, undeveloped land, mineral rights, vacation home, etc. (*)
- H.7 Value of other personal property -- Value of tangible property (boats, airplanes, jewelry, collections, etc.) and intangible personal property (e.g., patents, copyrights, commodity agreements, etc.). (*)
- H.8 Bonds -- Co-rate, federal, state, foreign, and municipal (tax exempt) bonds, notes, bills, debentures, and mortgages.
- H.9 Securities -- Common and **preferred** stock, options, warrants, mutual funds shares, real estate investment trusts, etc.

¹ A home is a residence, and may be a detached dwelling, semidetached or row house, apartment, condominium, cooperative, etc. An owner-occupied home is a dwelling owned and occupied by the resident.

² Vehicles include cars, trucks, vans, motorcycles, and recreation vehicles such as campers and snowmobiles.

- H.10 Checking accounts -- Demand deposits **in** a commercial or mutual savings bank.
- H.11 Savings accounts -- Interest bearing deposits in a commercial or mutual savings bank, savings and loan association, **credit** union, amounts deposited with a life insurance company, **etc.**¹
- H.12 Cash value of life **insurance** -- Cash (surrender) value of life insurance policies.
- H.13 Loans owned by individuals -- Balance owned by others on loans extended by recipient unit **members**.
- H.14 Present value of pension rights -- The larger of: **(1) liquidatable** value of amounts accumulated in a pension trust or **(2)** the present value of pension rights payable in the future, based on expectations of retirement age and longevity. **(*)**²
- H.15 Other amounts due -- Accrued and unpaid wages, salaries or commissions, tax refunds due, **other amounts** accrued but unpaid in settlement of transactions, etc.
- H.16 Net (depreciated) value of human capital -- Present value of expected earned income over the remainder of one's lifetime. **(*)**

¹ Recent regulatory changes allow the payment of interest on certain types of checking accounts. These are included in **item** H.10.

² **Unvested** pensions have no value under definition one: their value under the second definition will be reduced by the uncertainty of **ever** receiving them.

- J. Liabilities -- This category includes the various sorts of debts a unit **may owe**. Items J.1 - 5.6 represent debt secured by corresponding asset components. 5.7 - **J.10** are unsecured debts, and therefore do not have a corresponding asset component.
- J.1 Mortgage debt on home -- Balance **due** on owner-occupied home mortgage(s).
- 5.2 **Installment** credit debt -- **Balance** due on installment credit accounts, other than automobile loans.
- J.3 Outstanding debt **on car loan** -- Balance due **on** automobile loan.
- 5.4 Debt secured by business property -- Balance due on liens, mortgages, etc. secured by business assets.
- 3.5 Mortgage debt **on** farm or ranch -- Mortgages and other loans secured by farm or ranch assets.
- J.6 Mortgage debt on other real property -- Balance on mortgage on other **real property**.
- 5.7 Debt to brokers and dealers -- Balance due on loan by security **brokers or** dealers.
- 5.8 Personal loan balance outstanding -- Balance due on unsecured loans from banks or other **credit** institutions.
- J.9 Amount owned to other individuals -- Balance due on unsecured loans from individuals.
- J.10** Other amounts payable -- Amounts due **on revolving** credit agreements. accrued and unpaid taxes, other accounts payable, not classified elsewhere.