

The requirements that the Census Bureau uses to calculate the median household income are as follows:

Median income

Median income is the amount which divides the income distribution into two equal groups, half having incomes above the median, half having incomes below the median. The medians for households, families, and unrelated individuals are based on all households, families, and unrelated individuals, respectively. The medians for people are based on people 15 years old and over with income.

Income measurement:

For each person in the sample 15 years old and over, the CPS asks questions on the amount of money income received in the preceding calendar year from each of the following sources:

1. Earnings
2. Unemployment compensation
3. Workers' compensation
4. Social security
5. Supplemental security income
6. Public assistance
7. Veterans' payments
8. Survivor benefits
9. Disability benefits
10. Pension or retirement income
11. Interest
12. Dividends
13. Rents, royalties, and estates and trusts
14. Educational assistance
15. Alimony
16. Child support
17. Financial assistance from outside of the household
18. Other income

It should be noted that although the income statistics refer to receipts during the preceding calendar year, the demographic characteristics, such as age, labor force status, and family or household composition, are as of the survey date. The income of the family/household does not include amounts received by people who were members

during all or part of the income year if these people no longer resided in the family/ household at the time of interview. However, the CPS collects income data for people who are current residents but did not reside in the household during the income year.

Data on consumer income collected in the CPS by the Census Bureau cover money income received (exclusive of certain money receipts such as capital gains) before payments for personal income taxes, social security, union dues, medicare deductions, etc. Therefore, money income does not reflect the fact that some families receive part of their income in the form of non cash benefits, such as food stamps, health benefits, rent-free housing, and goods produced and consumed on the farm. In addition, money income does not reflect the fact that non cash benefits are also received by some nonfarm residents which often take the form of the use of business transportation and facilities, full or partial payments by business for retirement programs, medical and educational expenses, etc. Data users should consider these elements when comparing income levels. Moreover, readers should be aware that for many different reasons there is a tendency in household surveys for respondents to underreport their income. Based on an analysis of independently derived income estimates, the Census Bureau determined that respondents report income earned from wages or salaries much better than other sources of income and that the reported wage and salary income is nearly equal to independent estimates of aggregate income.

The Census Bureau collects data for the following income sources:

1. Earnings. The Census Bureau classifies earnings from longest job (or self-employment) and other employment earnings into three types:

a. Money wage or salary income is the total income people receive for work performed as an employee during the income year. This category includes wages, salary, armed forces pay, commissions, tips, piece-rate payments, and cash bonuses earned, before deductions are made for items such as taxes, bonds, pensions, and union dues.

b. Net income from nonfarm self-employment is the net money income (gross receipts minus expenses) from one's own business, professional enterprise, or partnership. Gross receipts include the value of all goods sold and services rendered. Expenses include items such as costs of goods purchased, rent, heat, power, depreciation charges, wages and salaries paid, and business taxes (not personal income taxes). In general, the Census Bureau considers inventory changes in determining net income from nonfarm self-employment; replies based on income tax returns or other official records do reflect inventory changes. However, when respondents do not report values of inventory changes, interviewers will accept net income figures exclusive of inventory changes. The Census Bureau does not include the value of saleable

merchandise consumed by the proprietors of retail stores as part of net income.

c. Net income from farm self-employment is the net money income (gross receipts minus operating expenses) from the operation of a farm by a person on their own account, as an owner, renter, or sharecropper. Gross receipts include the value of all products sold, payments from government farm programs, money received from the rental of farm equipment to others, rent received from farm property if payment is made based on a percent of crops produced, and incidental receipts from the sale of items such as wood, sand, and gravel. Operating expenses include items such as cost of feed, fertilizer, seed, and other farming supplies; cash wages paid to farmhands; depreciation charges; cash rent; interest on farm mortgages; farm building repairs; and farm taxes (not state and federal personal income taxes). The Census Bureau does not include the value of fuel, food, or other farm products used for family living as part of net income. In determining farm self-employment income, the Census Bureau considers inventory changes in determining net income only when they are accounted for in replies based on income tax returns or other official records which reflect inventory changes; otherwise, the Census Bureau does not take inventory changes into account.

- 2.** Unemployment compensation includes payments the respondent received from government unemployment agencies or private companies during periods of unemployment and any strike benefits the respondent received from union funds.
- 3.** Workers' compensation includes payments people receive periodically from public or private insurance companies for injuries received at work.
- 4.** Social security includes social security pensions and survivors' benefits and permanent disability insurance payments made by the Social Security Administration prior to deductions for medical insurance. The Census Bureau does not include medicare reimbursements for health services as social security benefits.
- 5.** Supplemental security income includes federal, state, and local welfare agency payments to low-income people who are 65 years old and over or people of any age who are blind or disabled.
- 6.** Public assistance or welfare payments include cash public assistance payments low-income people receive, such as aid to families with dependent children (AFDC, ADC), temporary assistance to needy families (TANF), general assistance, and emergency assistance.

7. Veterans' payments include payments disabled members of the armed forces or survivors of deceased veterans receive periodically from the Department of Veterans Affairs for education and on-the-job training, and means-tested assistance to veterans.

8. Survivor benefits include payments people receive from survivors' or widows' pensions, estates, trusts, annuities, or any other types of survivor benefits. Respondents can report payments from ten different sources: private companies or unions; federal government (Civil Service); military; state or local governments; railroad retirement; workers' compensation; Black lung payments; estates and trusts; annuities or paid-up insurance policies; and other survivor payments.

9. Disability benefits include payments people receive as a result of a health problem or disability (other than those from social security). Respondents can report payments from ten sources: workers' compensation; companies or unions; federal government (Civil Service); military; state or local governments; railroad retirement; accident or disability insurance; Black lung payments; state temporary sickness; or other disability payments.

10. Pension or retirement income includes payments people receive from eight sources: companies or unions; federal government (Civil Service); military; state or local governments; railroad retirement; annuities or paid-up insurance policies; individual retirement accounts (IRAs), Keogh, or 401(k) payments; or other retirement income.

11. Interest income includes payments people receive (or have credited to accounts) from bonds, treasury notes, IRAs, certificates of deposit, interest-bearing savings and checking accounts, and all other investments that pay interest.

12. Dividends include income people receive from stock holdings and mutual fund shares. The CPS does not include capital gains from the sale of stock holdings as income.

13. Rents, royalties, and estates and trusts include net income people receive from the rental of a house, store, or other property, receipts from boarders or lodgers, net royalty income, and periodic payments from estate or trust funds.

14. Educational assistance includes Pell Grants; other government educational assistance; any scholarships or grants; or financial assistance students receive from employers, friends, or relatives not residing in the student's household.

15. Alimony includes all periodic payments people receive from ex-spouses. Alimony excludes one-time property settlements.

16. Child support includes all periodic payments a parent receives from an absent parent for the support of children, even if these payments are made through a state or local government office.

17. Financial assistance from outside of the household includes periodic payments people receive from non-household members. This type of assistance excludes gifts or sporadic assistance.

18. Other income includes all other payments people receive regularly that are not included elsewhere on the questionnaire. Some examples are state programs such as foster child payments, military family allotments, and income received from foreign government pensions.

19. Government transfers include payments people receive from the following sources: (1) unemployment compensation, (2) state workers' compensation, (3) social security, (4) Supplemental Security Income (SSI), (5) public assistance, (6) veterans' benefits, (7) government survivor benefits, (8) government disability benefits, (9) government pensions, and (10) government educational assistance.

The Census Bureau does not count the following receipts as income: (1) capital gains people received (or losses they incur) from the sale of property, including stocks, bonds, a house, or a car (unless the person was engaged in the business of selling such property, in which case the CPS counts the net proceeds as income from self-employment); (2) withdrawals of bank deposits; (3) money borrowed; (4) tax refunds; (5) gifts; and (6) lump-sum inheritances or insurance payments.

The Census Bureau combines all sources of income into two major types:

- 1.** Total money earnings is the algebraic sum of money wages and salary and net income from farm and nonfarm self-employment.
- 2.** Income other than earnings is the algebraic sum of all sources of money income except wages and salaries and income from self-employment.

Alternative Measures of income

1. Money income excluding capital gains before taxes. This is the official definition used in Census Bureau reports.

a. Money income after taxes (without earned income credit (EIC)). This is definition 1 minus federal and state income taxes exclusive of the EIC, minus payroll taxes, plus capital gains, and minus capital losses.

b. Money income after taxes (including EIC). This is definition 1a plus the EIC.

2. Definition 1 less government cash transfers. Government cash transfers include nonmeans-tested transfers such as social security payments, unemployment compensation, and government educational assistance (e.g., Pell Grants), as well as means-tested transfers such as aid to families with dependent children (AFDC, ADC), temporary assistance to needy families (TANF), and supplemental security income (SSI). (For a complete listing of transfer income, see definitions 9 and 12.)

3. Definition 2 plus capital gains. Realized capital gains and losses are simulated as part of the Census Bureau's federal individual income tax estimation procedure.

4. Definition 3 plus imputed health insurance supplements to wage and salary income. Employer-paid health insurance coverage is treated as part of total work compensation.

5. Definition 4 less payroll taxes. Payroll taxes are payments for social security old age, survivors, and disability insurance, and for hospital insurance (medicare).

6. Definition 5 less federal income taxes. Definition 7 shows the effect of the earned income credit (targeted to low-income workers) separately.

7. Definition 6 plus the earned income credit.

8. Definition 7 less state income taxes.

9. Definition 8 plus nonmeans-tested government cash transfers. Nonmeans-tested government cash transfers include social security payments, unemployment compensation, workers' compensation, nonmeans-tested veterans' payments, U.S. railroad retirement, Black lung payments, Pell Grants, and other government educational assistance. (Pell Grants are income-tested but are included here because they are very different from the assistance programs included in the means-tested category.)

10. Definition 9 plus the value of medicare. Medicare is counted at its fungible value.¹

11. Definition 10 plus the value of regular-price school lunches.

12. Definition 11 plus means-tested government cash transfers. Means-tested government cash transfers include AFDC, ADC, TANF, SSI, other public assistance

programs, and means-tested veterans' payments.

13. Definition 12 plus the value of medicaid. This definition counts medicaid at its fungible value.

14. Definition 13 plus the value of other means-tested government non cash transfers, including food stamps, rent subsidies, and free and reduced-price school lunches.

15. Definition 14 less medical programs. This is cash income plus all non cash income except imputed income from own home, minus the fungible values of medicaid and medicare.

16. Definition 14 plus net imputed return on equity in one's own home. This definition includes the estimated annual benefit of converting one's home equity into an annuity, net of property taxes.

1 The fungible approach for valuing medical coverage assigns income to the extent that having the insurance would free up resources that would have been spent on medical care. The estimated fungible value depends on family income, the cost of food and housing needs, and the market value of the medical benefits. If family income is not sufficient to cover the family's basic food and housing requirements, the fungible value methodology treats medicare and medicaid as having no income value. If family income exceeds the cost of food and housing requirements, the fungible value of medicare and medicaid is equal to the amount which exceeds the value assigned for food and housing requirements (up to the amount of the market value of an equivalent insurance policy (total cost divided by the number of participants in each risk class)).

If you have any other questions or need assistance please call:

SCVWD Tax Hotline: (408) 265-2607 extension **2810**

Our fax number is **(408) 979-5620** if you would prefer to fax your questions