Industry Statistics and Their Limitations

The Corporation Income Tax Returns were classified according to the North American Industry Classification System (NAICS). The United States, Canada, and Mexico, in a combined effort, developed NAICS to provide a common, comparable industry classification for their economic statistics. A number of similar NAICS industries have been combined in order to keep the number of industries published for Statistics of Income comparable to prior years and to provide reliable statistical estimates. The data are listed under 22 sectors, 82 major groups, and 200 minor industries. When data are the same for minor and major industries, only the major industry is shown. When data are the same for minor, major and sector, only the sector is shown. Major groups are groupings of NAICS subsectors. Prior to 1998, the Standard Industrial Classification was used to classify the data and the result is that some of the data may not be comparable between the two classification systems. A comparison between the North American Industrial Classification System, the Standard Industrial Classification, 1987, and the groupings used for Statistics of Income, can be found in the 2002 revised copy of the "General Description of the Corporation Source Book," and the "Statistics of Income--1998, Corporation Income Tax Returns."

Even though the Statistics of Income classification system is designed to apply to the company rather than the establishment, its application to corporation income tax return statistics has limitations. A return is classified by industry based on the activity accounting for the largest percentage of total receipts. This means that large corporations with diversified activities are included in only one industry even though many of their business operations are unrelated to the industry in which they are classified. Therefore, statistics for an industry may be either understated by amounts reported by corporations whose principal activity lies elsewhere, or overstated by amounts reported by corporations classified in

the industry, but having substantial operations in other industries. When a company's operations are diversified among related minor industries, the diversification effect may be mitigated somewhat when data for related minor industries are aggregated into the major industries, and to a greater degree when related major industries are aggregated into sectors.

The 2003 Corporate Statistics of Income has been derived from a stratified probability sample of corporation income tax returns. The returns used were selected after revenue processing but before audit examination. Returns of the largest corporations are generally in the sample from year to year, but comparability of Source Book statistics is affected by consolidations and mergers, as well as by changes in the law, the tax forms, and the industrial classification systems used over the years. For information on the changes in law and the description of the sample and limitations of the data, see *Statistics of Income--2003, Corporation Income Tax Returns*.