CORPORATE TAX RECEIPTS
AND CORPORATE TAX LIABILITIES

Scheduled for a Public Hearing
Before the
HOUSE COMMITTEE ON WAYS AND MEANS
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Prepared by the Staff
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ERRATA FOR JCX-4-20

Corporate Tax Receipts and Corporate Tax Liabilities

The published edition of JCX-4, *Corporate Tax Receipts and Corporate Tax Liabilities*, should be corrected as follows:

On page 25, in table 4, dividends for 2018 were reported as $122.3 billion. The correct amount is $58.9 billion.

On page 25, in table 4, taxable income excluding sec. 965, GILTI, and sec. 250 deductions for 2018 was reported to as $174.2 billion. The correct amount is $228.2 billion.

On page 26, in table 5, dividends for 2018 were reported as $59.3 billion. The correct amount is $40.5.

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INTRODUCTION

The House Committee on Ways and Means has scheduled a hearing for February 11, 2020, entitled "The Disappearing Corporate Income Tax." This document,[1] prepared by the staff of the Joint Committee on Taxation, provides a summary of present law and accounting rules relevant to the Federal income tax liabilities and tax receipts of corporations. This document also discusses possible behavioral responses to Federal income tax and describes a review of 50 large C corporations undertaken by the Joint Committee staff related to corporate tax receipts.

[1] This document may be cited as follows: Joint Committee on Taxation, *Corporate Tax Receipts and Corporate Tax Liabilities* (JCX-4-20), February 10, 2020. This document can also be found on the Joint Committee on Taxation website at www.jct.gov.

I. CORPORATE INCOME TAX

In general

Corporations organized under the laws of any of the 50 States or the District of Columbia generally are subject to the U.S. corporate income tax on their U.S.-source and certain foreign-source income.[2] Foreign corporations generally are subject to the U.S. corporate income tax only on income that is effectively connected with a U.S. trade or business.

Taxable income

The taxable income of a corporation generally is its gross income less allowable deductions, computed based on the corporation's methods of accounting. Large C corporations (*i.e.*, those with average annual gross receipts for the three-taxable-year period ending with the prior taxable year that exceed $26 million (for 2020[3])) are generally required to use an accrual method of accounting.[4] Under the accrual method of accounting, items of income generally accrue when all the events have occurred that fix the right to receive the income and the amount of the income can be determined with reasonable accuracy, but no later than the taxable year in which such income is included as revenue for book purposes.[5] Items of expense generally may not be deducted prior to when all the events have occurred that fix the obligation to pay the liability, the amount of the liability can be determined with reasonable accuracy, and economic performance has occurred.[6]

Special rules for taxable year of inclusion.–An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018,[7] often referred to as the Tax Cuts and Jobs Act ("TCJA"), revised the rules associated with the timing of income recognition under the all events test of section 451 for taxable years beginning after 2017. Specifically, TCJA modified the all events test to provide that sales, gross receipts, and other items of gross income that have been realized are included in income no later than the

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[2] Under subchapter S of the Internal Revenue Code of 1986 (the "Code"), a small business corporation may elect not to be subject to the corporate income tax (*i.e.*, may make an "S corporation election"). If an S corporation election is made, the income of the corporation flows through to the shareholders and is taxable directly to them.

[3] Rev. Proc. 2019-44, 2019-47 I.R.B. 1093.

[4] Sec. 448. Special methods of accounting that provide an exception to the all events test may apply (*e.g.*, special methods for long term contracts subject to section 460). Unless otherwise stated, all section references are to the Code.

[5] Sec. 451.

[6] Sec. 461.

[7] Pub. L. No. 115-97.

taxable year in which such income is included as revenue for book purposes.[8] In addition, certain bonds and debt instruments are now subject to the all events test,[9] and advance payments may generally only be deferred using a one-year deferral method.[10]

Gross income generally is income derived from any source, including gross profit from the sale of goods and services to customers, rents, royalties, interest (other than interest from certain indebtedness issued by State and local governments), dividends, gains from the sale of business and investment assets, and other income.

Allowable deductions include ordinary and necessary business expenditures, such as salaries, wages, contributions to qualified retirement plans and certain other employee benefit programs, repairs, bad debts, taxes (other than Federal income taxes), contributions to charitable organizations (subject to an income limitation), advertising, interest expense (subject to limitation), certain losses, selling expenses, and other expenses. In the event these deductions exceed gross income, a net operating loss ("NOL") deduction may be allowed in other years, as described below. Deductions are also allowed for certain amounts despite the lack of a direct expenditure by the taxpayer. For example, a deduction is allowed for all or a portion of the amount of dividends received by a corporation from another corporation (provided certain ownership requirements are satisfied).

Limitation on deduction for interest.–TCJA modified the limitation on the deduction for business interest for taxable years beginning after 2017. Specifically, the deduction for business interest is limited to the sum of: (1) business interest income; (2) 30 percent of adjusted taxable income; and (3) floor plan financing interest.[11] Taxpayers with average annual gross receipts for the three-taxable-year period ending with the prior taxable year that do not exceed $26 million (for 2020[12]) and certain regulated public utilities are not subject to this limitation. Taxpayers in real property or farming trades or businesses[13] may elect not to be subject to this limitation.

NOL deduction.–TCJA changed the rules governing carrybacks and carryovers of NOLs and imposed a limitation on the deduction for NOLs. For NOLs arising in taxable years beginning after 2017, the NOL deduction is generally limited to 80 percent of taxable income and excess losses generally may be carried forward indefinitely, but not back (with certain

[8] Sec. 451(b). The provision does not apply to taxpayers without an applicable financial statement (as defined in section 451(b)(3)).

[9] Sec. 451(b)(2). In the case of income from a debt instrument having original issue discount, the provision applies to taxable years beginning after 2018.

[10] Sec. 451(c).

[11] See sec. 163(j).

[12] Rev. Proc. 2019-44, 2019-47 I.R.B. 1093.

[13] As defined in sec. 163(j)(7)(B) and (C).

exceptions).[14] Prior to TCJA, an NOL incurred in one taxable year generally could be carried back two years or forward 20 years.

Deduction for income attribution to domestic production activities.–Prior to TCJA, a deduction was allowed for a portion of the amount of income attributable to certain manufacturing activities.[15] TCJA repealed the provision, effective for taxable years beginning after December 31, 2017.

Recovery of capital expenditures

Expenditures that produce benefits in future taxable years to a taxpayer's business or income-producing activities (such as the purchase of plant and equipment) generally are capitalized and recovered over time through depreciation, amortization, or depletion allowances. In some instances, taxpayers can recover their costs more quickly than under the general rules.

Section 179 expense.–A taxpayer may elect to deduct (or "expense") up to $1,040,000 of the cost of section 179 property placed in service during the 2020 taxable year. This amount is reduced (but not below zero) by the amount by which the cost of qualifying property exceeds $2,590,000. These limits are indexed for inflation.[16] Prior to TCJA (*i.e.*, for property placed in service in taxable years beginning after 2009 and before 2018), the amount a taxpayer could expense under section 179 was generally $500,000, reduced (but not below zero) by the amount by which the cost of qualifying property exceeded $2,000,000.

Additional first-year depreciation deduction.–An additional first-year depreciation deduction is allowed equal to up to 100 percent of the adjusted basis of qualified property.[17] The portion of basis allowable as additional first-year depreciation depends on both the date the qualified property is acquired and the year the qualified property is placed in service. Used property acquired in arms-length transactions may qualify for the additional first-year depreciation deduction. Generally, property used by businesses not subject to the limitation on interest expense (*e.g.*, regulated public utilities and electric cooperatives and taxpayers in a trade or business that has had floor plan financing indebtedness) is excluded from the definition of qualified property. Prior to TCJA (*i.e.*, generally for property acquired and placed in service before September 28, 2017), the additional first-year depreciation deduction was 50 percent and used property did not qualify for the deduction.

[14] See sec. 172.

[15] See former section 199. Deductions of income amounts can be viewed as substitutes for exemption or rate reductions for the affected income.

[16] See sec. 179 and Rev. Proc. 2019-44, 2019-47 I.R.B. 1093.

[17] See sec. 168(k).

Deduction limitations

Certain expenditures may not be deducted, such as dividends paid to shareholders, expenses associated with earning tax-exempt income,[18] certain meal and entertainment expenses, certain qualified transportation fringe and commuter benefits, certain executive compensation in excess of $1 million per year, a portion of the interest on certain high-yield debt obligations that resemble equity, as well as fines, penalties, bribes, kickbacks, illegal payments, and settlements subject to nondisclosure agreements paid in connection with sexual harassment or abuse.

Disallowance of certain meal and entertainment expenses and fringe benefits.–TCJA changed the rules governing the deductibility of meal and entertainment expenses to generally prohibit deductions for entertainment expenses, including meals and other items, activities, and facilities that constitute entertainment. A 50-percent deduction disallowance applies to expenses associated with providing meals and facilities that qualify as de minimis under section 132(e), including meals for the convenience of the employer under section 119.[19] TCJA also added rules to disallow deductions to employers for expenses associated with providing qualified transportation fringe benefits unless amounts are reported and properly included in employee compensation, and to disallow deductions for other commuter benefits generally.

Limitation on deduction for certain executive compensation in excess of $1 million per year.–TCJA substantially expanded the application of section 162(m), including striking the exceptions for performance-based compensation and commissions and changing the definitions of a covered employee and publicly held corporation.

U.S. tax rules applicable to foreign activities of U.S. persons

In general, income earned directly by a U.S. corporation from the conduct of a foreign business is taxed currently, while income earned indirectly through certain related foreign legal entities is taxed either in the year earned or not at all. In particular, the indirect earnings from certain related foreign legal entities (*i.e.*, controlled foreign corporations ("CFCs")) may constitute subpart F income to U.S. shareholders.[20] Subpart F income generally includes certain passive income and certain other related-party income that is readily movable from one jurisdiction to another. After the enactment of TCJA, U.S. shareholders of a CFC also may be subject to tax on their pro rata shares of certain other income of the CFC (referred to as global

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[18] For example, the carrying costs of tax-exempt State and local obligations and the premiums on certain life insurance policies are not deductible.

[19] See sec. 274.

[20] Secs. 951-964. A CFC is generally defined as any foreign corporation where U.S. persons own (directly, indirectly, or constructively) more than 50 percent of the corporation's stock (measured by vote or value), taking into account only those U.S. persons that are within the meaning of the term "United States shareholder," which refers only to those U.S. persons who own at least 10 percent of the stock (measured by vote or value). Secs. 951(b), 957, and 958.

intangible low-taxed income ("GILTI")).[21] Subpart F income is taxed at full rates, while GILTI is taxed at preferential rates, both without regard to whether the income is distributed to shareholders. The preferential rate on GILTI is achieved by means of allowing corporations a 50-percent deduction (a "section 250 deduction") on their GILTI (and the corresponding section 78 gross up amount).[22] A foreign tax credit generally is available to offset, in whole or in part, the U.S. tax owed on foreign-source income.[23] Also after TCJA, dividends received by corporate U.S. shareholders from their CFCs are generally eligible for a 100-percent dividends received deduction.[24] Corporations meeting certain requirements are subject to a base erosion and anti-abuse tax that is in the nature of a minimum tax and payable in addition to all other tax liabilities.[25]

Corporate tax liability

In general

A corporation's income tax liability generally is determined by applying a 21-percent rate to its taxable income. Prior to 2018, the corporate income tax included a four-step graduated tax rate schedule, with a top corporate tax rate of 35 percent on taxable income in excess of $10 million, as well as an alternative minimum tax ("AMT") that was payable (in addition to all other tax liabilities) to the extent that it exceeded the corporation's regular income tax liability.[26] TCJA eliminated the graduated corporate rate structure and repealed the corporate AMT, effective for taxable years beginning after December 31, 2017. As part of the repeal of the corporate AMT, a corporation may offset its entire regular tax liability for a taxable year with its

[21] Secs. 951-964. GILTI means, with respect to any U.S. shareholder, the excess of its pro rata share of certain CFC income over a 10-percent return (reduced by certain interest expense incurred by CFCs) on its pro rata share of the aggregate of the average quarterly adjusted bases in certain depreciable tangible property of each CFC with respect to which it is a U.S. shareholder.

[22] Sec. 250(a)(1)(B). The section 250 deduction for GILTI is only available for C corporations that are neither regulated investment companies ("RICs") nor real estate investment trusts ("REITs"). The section 250 deduction also applies with respect to foreign-derived intangible income of certain corporations, discussed in more detail below.

[23] Foreign tax credits limited in a tax year generally may be carried back one year or forward 10 years. Sec. 904(c). In contrast with the general rules allowing carrybacks and carryovers of excess foreign tax credits, no carrybacks or carryovers of excess foreign tax credits are allowed in the GILTI foreign tax credit limitation category. In addition, a 20-percent foreign tax credit disallowance applies to foreign income taxes paid with respect to GILTI. Sec. 960(d). Foreign tax credits are not available for foreign taxes paid or accrued with respect to dividends qualifying for the 100-percent dividends received deduction. Sec. 245A(d).

[24] Sec. 245A.

[25] Sec. 59A. The base erosion and anti-abuse tax is discussed in more detail below.

[26] If a corporation was subject to AMT in any taxable year, the amount of AMT was allowed as an AMT credit in any subsequent taxable year to the extent the corporation's regular tax liability exceeded its tentative minimum tax in the subsequent year. See sec. 53.

AMT credit(s) carried forward from prior taxable years. In addition, the corporate AMT credit is allowable and refundable for taxable years beginning after 2017 and before 2022.

In contrast to the treatment of capital gains in the individual income tax, no separate rate structure exists for corporate capital gains. A corporation may not deduct the amount of capital losses in excess of capital gains for any taxable year. Disallowed capital losses may be carried back three years or carried forward five years.

Corporations generally are taxed at lower rates on their foreign-derived intangible income ("FDII").[27] The preferential rate is accomplished by the allowance of a 37.5-percent deduction under section 250, resulting in an effective tax rate of 13.125 percent on FDII.

Corporations may reduce their tax liability by any applicable tax credits.[28] The three largest dollar amount credits are the research credit, the low-income housing tax credit, and the renewable electricity production credit, which target intangible investment, real property investment, and electricity production, respectively.[29]

The research credit is generally available with respect to incremental increases in qualified research.[30] A research credit is also available with respect to corporate cash expenses paid for basic research conducted by universities (and certain nonprofit scientific research organizations) above a certain floor.[31] Finally, a research credit is available for a taxpayer's expenditures on research undertaken by an energy research consortium.[32]

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[27] A corporation's FDII is its deemed intangible income multiplied by the percentage of its income (computed with certain exceptions) derived from serving foreign markets. A corporation's deemed intangible income is the excess of its income (computed with certain exceptions) over a 10-percent return on the aggregate of its average quarterly adjusted bases in certain depreciable tangible property. The deduction for FDII is not available for RICs or REITs. Sec. 250.

[28] Business credits also apply to the business income of individuals.

[29] See Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2019-2023* (JCX-55-19), December 18, 2019.

[30] For general research expenditures, a taxpayer may claim a research credit equal to 20 percent of the amount by which the taxpayer's qualified research expenses for a taxable year exceed its base amount for that year. Sec. 41(a)(1). An alternative simplified research credit (with a 14-percent rate and a different base amount) may be claimed in lieu of this credit. Sec. 41(c)(5).

[31] This 20-percent credit is available with respect to the excess of (1) corporate cash expenses (including grants or contributions) paid for basic research conducted by universities (and certain nonprofit scientific research organizations) over (2) the sum of (a) the greater of two minimum basic research floors plus (b) an amount reflecting any decrease in nonresearch giving to universities by the corporation as compared to such giving during a fixed-base period adjusted for inflation. Sec. 41(a)(2) and (e).

[32] This separate credit computation commonly is referred to as the energy research credit. Unlike the other research credits, the energy research credit applies to all qualified expenditures, not just those in excess of a base amount. Sec. 41(1)(3).

The low-income housing tax credit may be claimed over a 10-year period by owners of certain residential rental property for the cost of rental housing occupied by tenants having incomes below specified levels.[33] The amount of the credit for any taxable year in the credit period is the applicable percentage of the qualified basis of each qualified low-income building. The qualified basis of any qualified low-income building for any taxable year equals the applicable fraction of the eligible basis of the building.

An income tax credit may be claimed during a 10-year period beginning after a qualified facility is originally placed in service for the production of electricity from qualified energy resources at qualified facilities (the "renewable electricity production credit"). Qualified energy resources comprise wind, closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower production, and marine and hydrokinetic renewable energy. Qualified facilities are, generally, facilities that generate electricity using qualified energy resources. To be eligible for the credit, electricity produced from qualified energy resources at qualified facilities must be sold by the taxpayer to an unrelated person.[34]

In addition, there are credits applicable to businesses including investment tax credits (applicable to investment in certain renewable energy property and the rehabilitation of certain real property), the work opportunity credit (applicable to wages paid to individuals from certain targeted groups), the employer-provided child care credit (applicable to certain expenditures to provide child care for employees), the employer credit for paid family and medical leave (applicable to wages paid to employees on family and medical leave), and the disabled access credit (applicable to expenditures by certain small businesses to make the businesses accessible to disabled individuals), among others.[35] Unused credits generally may be carried back one year and carried forward 20 years.

<u>The base erosion and anti-abuse tax ("BEAT")</u>

The BEAT applies to a corporation (1) that is not a RIC or REIT, (2) that has average annual gross receipts of at least $500 million over the prior three taxable years, and (3) whose

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[33] Sec. 42.

[34] Sec. 45. In lieu of this credit, taxpayers may claim a 30 percent investment credit for property placed in service at facilities that would otherwise qualify for the renewable electricity production credit. Sec. 48(a)(5). For both the production credit and the investment credit in lieu of the production credit, a phaseout applies for wind facilities the construction of which begins after December 31, 2016. Under this phaseout rule, for wind power facilities the construction of which begins in calendar year 2020, the credit is reduced by 40 percent. Generally, no credit is allowed for renewable power facilities the construction of which begins after December 31, 2020.

[35] Certain of these credits are scheduled to expire in 2020 or later. For more information on expiring provisions of the Code, see Joint Committee on Taxation, *List of Expiring Federal Tax Provisions 2020-2029* (JCX-1-20), January 16, 2020.

base erosion tax benefits, as a share of certain outlays made by the corporation, exceed three percent.[36]

A corporation's BEAT liability is generally the excess, if any, of 10 percent (five percent in the case of taxable years beginning in calendar year 2018) of its modified taxable income over an amount equal to its regular tax liability reduced (but not below zero) by certain credits under chapter 1 of the Code.[37] Special rules for computing the base erosion minimum tax apply to banks and securities dealers.

A corporation's modified taxable income is its taxable income determined without regard to a certain portion of any NOL deduction allowed for the taxable year and without regard to any base erosion tax benefit with respect to certain items (*i.e.*, "base erosion payments"), including (1) certain deductible payments made to foreign related parties, (2) deductions allowed for depreciation (or amortization in lieu of deprecation) with respect to property acquired from foreign related parties, and (3) reinsurance premiums paid to foreign related parties.[38]

Transition tax on U.S. shareholders of certain controlled foreign corporations

TCJA made many changes to the taxation of the foreign activities of U.S. persons, which had the effect of moving the United States from a worldwide system with limited deferral toward a participation exemption system with current inclusion of certain additional income. As part of the transition to this new participation exemption system, TCJA enacted a one-time tax (the "transition tax") on undistributed foreign earnings that accrued before the effective date of the new system. The transition tax allowed for the uniform applicability of the participation exemption with respect to post-enactment foreign earnings of foreign subsidiaries.

The transition tax requires certain foreign corporations to include as subpart F income the untaxed and undistributed foreign earnings that were accumulated by those corporations in taxable years since 1986. The U.S. shareholders of those corporations are subject to the transition tax with respect to the shareholders' pro rata shares of such subpart F income.

The transition tax generally applies for the last taxable year beginning before January 1, 2018, requiring that any U.S. shareholder of a specified foreign corporation must include in income its pro rata share of the accumulated post-1986 deferred foreign income of the corporation. However, a portion of that pro rata share of foreign earnings is deductible, depending on the proportion of the deferred earnings that are held in cash or other assets. The

[36] Sec. 59A(e).

[37] Credits that reduce regular tax liability (*i.e.*, increase the base erosion minimum tax amount, if any) are all section 38 credits except for (1) the research credit and (2) applicable section 38 credits. Applicable section 38 credits are the low-income housing credit, the renewable electricity production credit, and the energy investment credit. The exception for applicable section 38 credits generally may not reduce the base erosion minimum tax amount by more than 80 percent (determined without regard to the exception for applicable section 38 credits). Sec. 59A(b).

[38] Sec. 59A(c).

structure of the allowable deduction results in a bifurcated rate of tax on amounts required to be included in income: the rate is 15.5 percent for cash assets and eight percent for noncash assets. A corresponding portion of the credit for foreign taxes paid with respect to such income is disallowed, thus limiting the credit to the taxable portion of the included income.[39] A U.S. shareholder may elect to forgo the use of an NOL deduction to offset the amount included under the transition tax, and if the U.S. shareholder so elects, neither the section 951 inclusion nor any related deemed paid foreign tax credits may be taken into account in computing the NOL deduction for that year.[40]

A taxpayer may elect to pay the transition tax over an eight-year period without accruing underpayment interest. Special rules are provided for S corporations and REITs.

Affiliated group

Domestic corporations that are affiliated through 80-percent or more corporate ownership may elect to file a consolidated return in lieu of filing separate returns. Corporations filing a consolidated return generally are treated as a single corporation; thus, the losses of one corporation can offset the income (and thus reduce the otherwise applicable tax) of other affiliated corporations.

Treatment of corporate distributions

The taxation of a corporation generally is separate and distinct from the taxation of its shareholders. A distribution by a corporation to one of its shareholders generally is taxable as a dividend to the shareholder to the extent of the corporation's current or accumulated earnings and profits.[41] Thus, the amount of a corporate dividend generally is taxed twice: once when the income is earned by the corporation and again when the dividend is distributed to the shareholder.[42] Conversely, some amounts paid as interest to the debtholders of a corporation may be subject to only one level of tax (at the recipient level) since the corporation is allowed a deduction for part or all of the amount of interest expense paid or accrued.

Amounts received by a shareholder in complete liquidation of a corporation generally are treated as full payment in exchange for the shareholder's stock. A liquidating corporation recognizes gain or loss on the distributed property as if such property were sold to the distributee

[39] The separate foreign tax credit limitation rules of section 904 continue to apply, with coordinating rules.

[40] Sec. 965(n).

[41] A distribution in excess of the earnings and profits of a corporation generally is a tax-free return of capital to the shareholder to the extent of the shareholder's adjusted basis (generally, cost) in the stock of the corporation; such distribution is a capital gain if in excess of basis. A distribution of property other than cash generally is treated as a taxable sale of such property by the corporation and is taken into account by the shareholder at the property's fair market value. A distribution of stock of the corporation generally is not a taxable event to either the corporation or the shareholder.

[42] This double taxation is mitigated by a reduced tax rate generally applicable to the qualified dividend income of individuals.

for its fair market value. However, if a corporation liquidates a subsidiary corporation of which it has 80-percent or more control, no gain or loss generally is recognized by either the parent corporation or the subsidiary corporation.

Accumulated earnings and personal holding company taxes

Taxes at a rate of 20 percent (the top rate generally applicable to dividend income of individuals) may be imposed on the accumulated earnings or personal holding company income of a corporation. The accumulated earnings tax may be imposed if a corporation retains earnings in excess of reasonable business needs. The personal holding company tax may be imposed on the excessive passive income of a closely held corporation. The accumulated earnings tax and the personal holding company tax, when they apply, in effect impose the shareholder-level tax in addition to the corporate-level tax on accumulated earnings or undistributed personal holding company income.

II. FEDERAL TAX RECEIPTS FROM CORPORATIONS

Table 1 shows Federal tax receipts received by the U.S. Treasury, net of refunds, paid by corporations.[43] Receipts from corporations declined by one-third from 2017 to 2018.

Table 1.–Corporate Tax Receipts
(Billions of Dollars, by Calendar Year)

Year	Receipts
2014	$349
2015	$332
2016	$290
2017	$286
2018	$194
2019	$243

Source: The Monthly Treasury Statement of Receipts and Outlays of the United States Government.

Corporate tax receipts for a calendar year do not precisely match the amount of corporate tax liability for that year. Corporations file their tax returns months after the close of their tax year. Also, payments to the U.S. Treasury are affected by the timing of the claims for refunds, estimated tax payments, and whether a taxpayer applies an overpayment from a prior tax year to offset current liability. For example, a calendar-year taxable year corporation makes estimated tax payments during that year but may either pay more tax or seek a refund of some of the estimated tax paid when it files its tax return in the next calendar year. In addition, corporate tax receipts differ from what corporations report on their financial statements. Financial statement reporting uses different timing methods and reflects different amounts in order to carry out its separate purpose to provide information about a company to investors and creditors.

[43] Federal tax receipts by fiscal year are shown in the Appendix on Table A-1.

III. BEHAVIORAL RESPONSES RELATING TO TAX BENEFITS

In general, taxpayers may respond to taxes by: (1) changing the timing of activity; (2) restructuring transactions or positions to qualify for more favorable tax treatment; or (3) changing real economic behavior. Due to the time value of money, taxpayers generally have an incentive to accelerate deductions and defer income. When the benefit from reducing tax liability in an earlier year exceeds the benefit from reducing tax liability in later years, taxpayers will shift taxable income in this way. With a corporate tax rate decrease, such as when the corporate tax rate decreased from 35 percent to 21 percent as enacted by TCJA, the incentive is strengthened as both the rate difference and the time value of money encourage shifting taxable income to later periods to minimize tax liability. Taxpayers may make decisions both with and without economic significance to achieve this shift in taxable income. Taxpayers make decisions under uncertainty, and implemented changes in taxes as well as changes in expectations about taxes may both modify taxpayer behavior.

A. Behavioral Responses Relating to Acceleration of Deductions

Taxpayers may utilize changes in accounting methods to shift deductions between tax years without having to alter their underlying behaviors. These methods reduce the tax liability in the higher tax rate year at the expense of increasing the tax liability in the lower tax rate year. Due to the decreased tax rate in subsequent years, what otherwise would be a temporary, timing difference becomes a permanent tax reduction. For example, taxpayers may elect to deduct qualifying prepaid expenses in the year of prepayment rather than in the year that they receive the benefit of such prepayment. Further, taxpayers may scrutinize existing assets to identify opportunities to change to an accelerated recovery method. For example, a taxpayer amortizing internally developed software costs may change to a method of immediate expensing and deduct all remaining cost basis in the year of the higher tax rate.

In addition to utilizing accounting method changes, taxpayers may in fact alter their underlying behaviors in order to reduce their tax liability in the higher tax rate year. For example, taxpayers may alter their incentive compensation plans or invoke action by their boards of directors in order to fix their bonus liability and accelerate the deductibility of accrued bonuses. Taxpayers may even be willing to increase their current year cash outlays in exchange for reducing their tax liability in the higher tax rate year. For example, taxpayers may opt to make a prepayment for goods or services by the end of the year where they otherwise would have waited until the subsequent year in order to accelerate the deduction. Similarly, taxpayers may opt to make voluntary pension fund contributions, deciding to forgo the current cash in order to reduce their tax liability.

B. Behavioral Responses Relating to Deferral of Income

Taxpayers may also utilize changes in accounting methods to shift deductions between tax years. For example, taxpayers may change from a full inclusion method of accounting for advance payments to a one-year deferral method in order to shift the income from 2017 to 2018. Similarly, taxpayers following their financial accounting treatment for unbilled receivables may file an accounting method change to defer the recognition of qualifying unbilled receivables until 2018. Many taxpayers will also have to file accounting method changes for 2018 to apply the new rules of section 451, which generally are effective for taxable years beginning after 2017. The application of such rules may accelerate additional income into 2018 that would otherwise have been recognized in subsequent years under prior law.

While taxpayers may also have an increased incentive to alter underlying behaviors to shift income, there may be other factors that prevent such shifting in practice. For example, a taxpayer could delay making sales towards the end of a higher tax rate year with the intention of making the same sales at the beginning of the following lower tax rate year. However, customers may have immediate need for the taxpayer’s products and/or the taxpayer may not be willing to report reduced sales, even in a higher tax rate year, as it could be interpreted negatively by investors or shareholders.

C. Behavioral Responses Relating to the Additional First-Year Depreciation Deduction

Expensing, or allowing a deduction for the cost of business property in the year it is placed in service, provides a tax benefit of a greater present value than depreciation, including accelerated depreciation, because the full cost of the property is recovered in the first year rather than in subsequent years. Expensing the full cost of the property is economically equivalent to exempting from tax the so-called "normal" return on investment, assuming tax rates remain the same. Faster cost recovery defers a taxpayer's tax liability. For a fixed income stream, deferral of the tax increases the return to investment. Front-loading of depreciation deductions and the concomitant lessening of the taxpayer's tax liability in the early years increase the present value of cash flows.

Under present law, an additional first-year depreciation deduction is allowed equal to up to 100 percent of the adjusted basis of qualified property through 2026.[44] The portion of basis allowable as additional first-year depreciation depends on both the date the qualified property is acquired and the year the qualified property is placed in service. Used property acquired in arms-length transactions may qualify for the additional first-year depreciation deduction. Prior to TCJA (*i.e.*, generally for property acquired and placed in service before September 28, 2017), the additional first-year depreciation deduction was 50 percent and used property did not qualify for the deduction. Therefore, taxpayers considering the purchase of qualified property or property that would be considered qualified after TCJA (*e.g.*, used property) may have had an incentive to delay such purchases until after September 27, 2017.

As discussed above, when the corporate tax rate decreased from 35 percent to 21 percent, taxpayers had an incentive to accelerate deductions to the high tax rate years and defer income to the low tax rate years. As such, taxpayers may have been able to maximize the benefit of such a provision by purchasing and placing in service qualified property during the period of September 28, 2017, to December 31, 2017, and thus applying the 100-percent additional first-year depreciation deduction against the 35-percent rate. Further, by delaying the purchase and placing in service of qualifying used property until after September 27, 2017, taxpayers were able to apply the 100-percent additional first-year depreciation deduction where they previously (*i.e.*, prior to September 28, 2017) would not have qualified for any additional first-year depreciation deduction.

A countervailing factor that might have mitigated such behavior, however, was the timing of the enactment of TCJA. Specifically, the framework for tax reform that was released on September 27, 2017, included a proposal to allow "businesses to immediately write off (or 'expense') the cost of investments in depreciable assets other than structures made after

[44] See sec. 168(k). The 100-percent allowance is subject to a 20-percent per calendar year phasedown in 2023 through 2026. In addition, the additional first-year depreciation deduction is available through 2027 for certain longer-lived and transportation property, subject to a phasedown in 2024 through 2027. For a detailed description of section 168(k) and the changes made by TCJA, see Joint Committee on Taxation, *General Explanation of Public Law No. 115-97* (JCS-1-18), December 2018. This document can be found on the Joint Committee on Taxation website at www.jct.gov.

September 27, 2017, for at least five years."[45] However, the legislation that ultimately provided for temporary 100-percent expensing for certain business assets was not enacted until December 22, 2017.[46] Taxpayers may not, therefore, have had sufficient time in 2017 to change their behavior to maximize this tax benefit.

[45] See the "Unified Framework for Fixing our Broken Tax Code" available at https://www.treasury.gov/press-center/press-releases/Documents/Tax-Framework.pdf.

[46] See Pub. L. No. 115-97. For a detailed discussion of the intervening tax bills and what was agreed to at Conference, see the Conference Report to accompany H.R. 1, H.R. Rep. No. 115-466, December 15, 2017.

D. Behavioral Incentives Relating To Changes in Tax Treatment of NOLs and NOL Carryovers

The NOL rules determine the timing of a taxpayer's deduction for NOLs by permitting the carryover of excess losses to future taxable years, and by limiting the deduction for a taxable year to 80 percent of adjusted taxable income.[47] By contrast, prior law permitted the carryback of excess losses to the two preceding years but limited carryforwards to 20 years (with certain exceptions), and did not impose the 80-percent limitation.[48]

Under prior law, the carryback of losses to prior years could give rise to an immediate refund of prior-year tax. In response to the incentive to use a carryback to generate a refund, taxpayers might selectively defer the recognition of gain or income to a subsequent year, or accelerate recognition of a loss or expense, so as to maximize the amount of a tax refund attributable to a loss carryback.

Under present law, however, the absence of a carryback rule for many types of NOLs may alter taxpayers' incentives. The stronger incentive may be to manage the timing of income, expense, gain, and loss recognition to minimize tax payments in the current and immediately following taxable years. Thus, all else being equal, taxpayers may have an incentive to spread income, expenses, gains, and losses evenly over their taxable years to maximize the offset of NOL carryovers against income and minimize annual income tax liability, rather than to bunch losses as under prior law to generate a carryback giving rise to a tax refund.

The imposition of the present law 80-percent limitation on the deductibility of NOLs may also alter taxpayers' incentives for selective income or loss deferral or acceleration, compared to prior law. The 80-percent limitation means that NOL carryovers are likely less valuable as a tax savings mechanism than under prior law. If only 80 percent of adjusted taxable income can be offset by NOL carryovers, the period over which carryovers are consumed is longer and the present value of the carryover is less than it would be without the 80-percent limitation. Stockpiling NOL carryovers may be less compelling than under prior law as a result. The incentive to accelerate loss recognition or to defer income recognition may be reduced for taxpayers bound by this limitation.

For any particular taxpayer, though, these incentives may be accentuated, mitigated, or offset by other tax attributes or by additional, possibly unrelated factors. For example, placing in service property eligible for the additional first-year depreciation deduction could create a bulge in the NOL carryover amount arising in a single year that may be undesirable for different tax planning reasons. A taxpayer with expiring credits may want to defer capital expenditures to a

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[47] For a detailed description of section 172 and the changes made by TCJA, see Joint Committee on Taxation, *General Explanation of Public Law No. 115-97* (JCS-1-18), December 2018. This document can be found on the Joint Committee on Taxation website at www.jct.gov.

[48] However, if a corporation was subject to AMT, its NOL carryover generally could not reduce its AMT liability by more than 90 percent of its alternative minimum taxable income, determined without the NOL deduction.

future year or elect out of the additional first-year depreciation for one or more classes of property for the year in order to minimize overall tax liability.[49] Alternatively, a taxpayer with a large stock of NOLs may also respond similarly if applicable State law does not provide for additional first-year depreciation. In that circumstance, the taxpayer may find that the detriment of keeping track of a separate and different State-law depreciation calculation outweighs the benefit of taking additional first-year depreciation for Federal tax purposes.

[49] See sec. 168(k)(7).

IV. DATA ON CORPORATE TAX LIABILITY

Corporate net income, taxable income, and tax liability

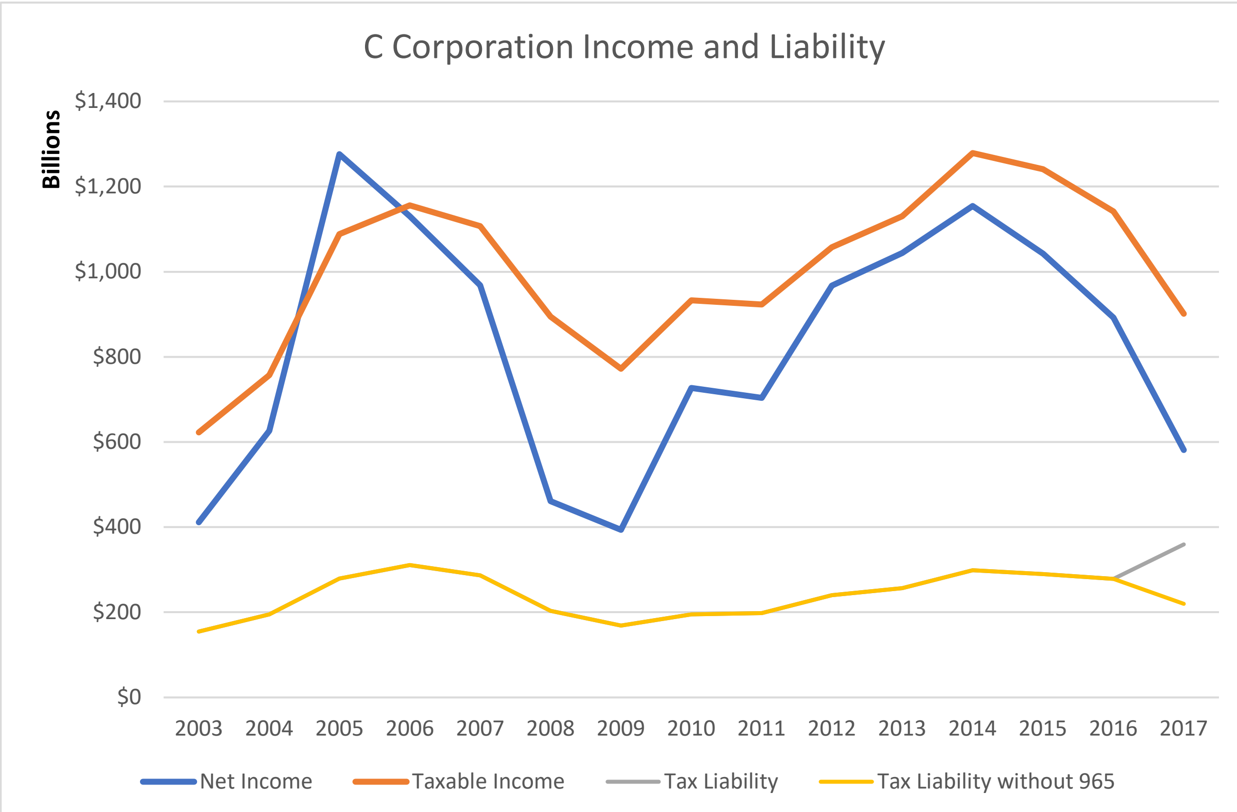
Changes in receipts are affected generally by changes in the economy. Changes in corporate tax receipts are also affected specifically by changes in corporate net income, taxable income, and tax liability. The amounts of these tax attributes for any particular corporation for a taxable year may not exactly equal the amounts taken into account in determining corporate tax receipts for the calendar year. Rather, some portion of these amounts may be reflected in corporate tax receipts for a preceding or following calendar year.

Figure 1 shows the amount of net income, taxable income, and tax liability reported by all corporations on tax returns for tax years 2003-2017.[50] Tax years represent the taxable year of the corporation, and do not necessarily line up with calendar year receipts received by the U.S. Treasury reported in Table 1 above. As can be seen in Figure 1, there is substantial variance in income, with a particularly sharp decline in the years around the recession of 2008 and 2009. Corporate tax liability net of credits also fell during this timeframe. Between 2016 and 2017, net income and taxable income also fell despite an overall positive economic outlook for these years. The upper tax liability line includes the full amount of section 965 liability without taking into account any election to pay in installments. The lower line removes the section 965 liability. Reflecting the decline in net income, 2017 income tax liability after adjusting for the new section 965 liability also declines.[51]

[50] Net income, taxable income, and tax liability are from Form 1120, U.S. Corporation Income Tax Return, lines 28, 30, and 31, respectively.

[51] Corporations did not have section 965 liability prior to 2017.

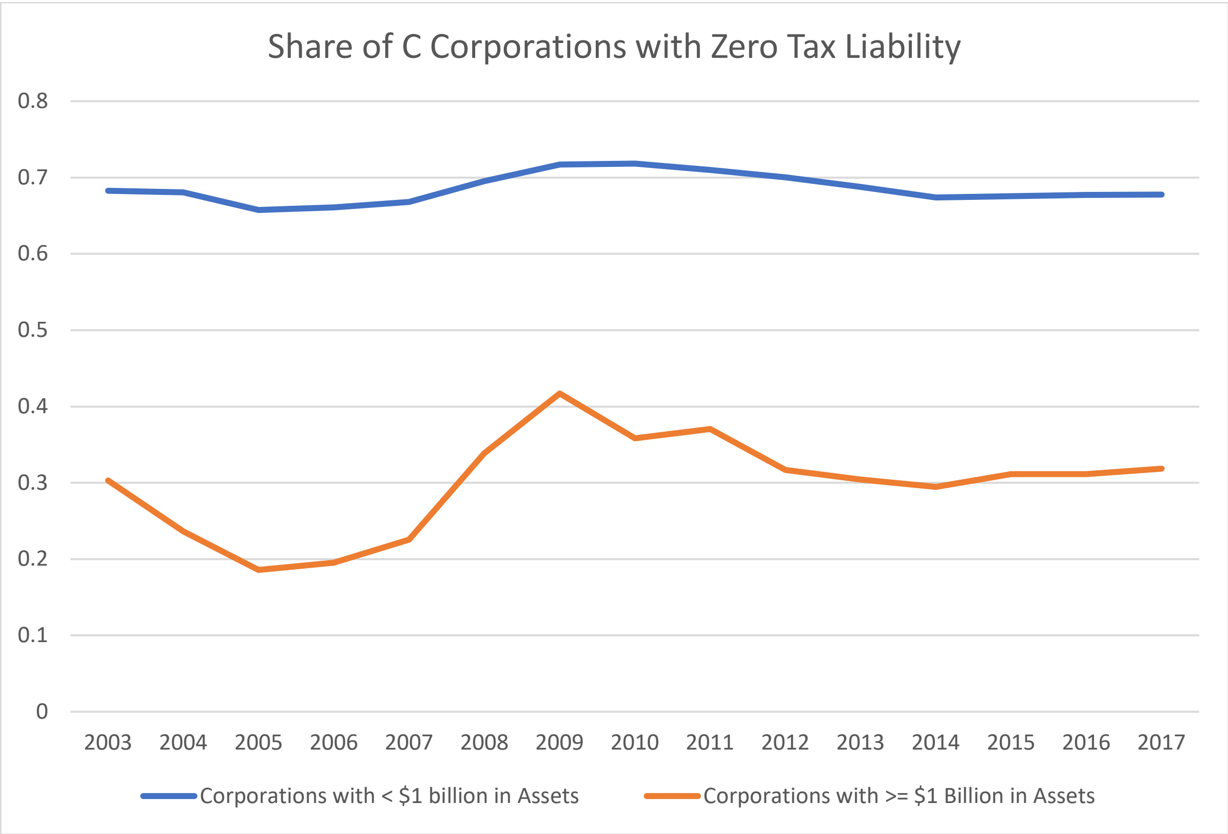
Figure 1.–Corporate Net Income, Taxable Income, and Tax Liability by Tax Year, 2003 - 2017



Source: Joint Committee staff tabulations of 2003 – 2017 IRS Statistics of Income Division corporation income tax return files.

The difference between net income and taxable income, shown above, reflects corporations with a net loss. Generally, loss corporations have zero tax liability. Approximately one-third of corporations with assets greater than $1 billion and two-thirds of those with assets less than $1 billion report no Federal income tax liability net of credits, in any given year.[52] Figure 2 shows that this phenomenon has been persistent during the 2003 through 2017 time period.[53]

Figure 2.–Share of C Corporations Reporting No Tax Liability by Tax Year



Source: Joint Committee staff tabulations of 2003 – 2017 IRS Statistics of Income Division corporation income tax return files.

[52] Tax liability is from Form 1120, U.S. Corporation Income Tax Return, line 31, and is net of any allowable credits.

[53] Form 1120 filers only. Does not include taxpayers that file Form 1120-RIC, Form 1120-REIT, Form 1120-S, Form 1120-L, or Form 1120-PC.

Review and analysis of 50 large corporations

In general

To analyze the potential behavioral effects that led to the decline in corporate receipts in 2018 observed in Table 1, the Joint Committee staff selected 50 large C corporations to review. These corporations are among the 100 C corporations reporting the largest income in 2016.[54] While 50 corporations represent a small portion of the 1.6 million C corporations, these 50 corporations hold more than one-quarter of the assets reported on corporate tax returns. Most of these corporations report holding assets in excess of $20 billion. Table 2 shows the size of these corporations in relation to all other C corporations. In 2016, these 50 corporations reported approximately 20 percent of the income and 20 percent of the tax liability of all C corporations.

Table 2.–Size of the 50 Selected Corporations as a Percentage of All C Corporations

	2014	2015	2016	2017
Assets	26.5%	27.2%	27.0%	25.4%
Total Income	17.8%	18.0%	19.2%	19.4%
Total Deductions	16.4%	16.7%	18.1%	18.7%
Tax Liability	16.6%	17.8%	19.2%	16.8%

Source: Joint Committee staff tabulations of 2014 – 2017 IRS Statistics of Income Division corporation income tax return files.

Income, deductions, credits, net operating losses, and liabilities

Table 3 below shows the total income, deductions, net income, certain credits, NOL deductions, and liabilities, as reported on Form 1120, U.S. Corporation Income Tax Return, for the 50 corporations as a group during the 2014-2018 period. Total income in 2017 increased by 3.8 percent from 2016, while total deductions increased by almost 11 percent. The combination of moderate growth in income with significant growth in deductions resulted in a lower level of net income. Net income dropped from $265 billion in 2016 to $173 billion in 2017. The NOL deduction declined in 2017 by 35 percent to $8.2 billion before doubling in 2018, while special deductions remained relatively constant at $0.8 billion. Combining the NOL deduction and special deductions with the lower level of net income resulted in a 31-percent drop in taxable

[54] The selection criteria are outlined in Part VI of this pamphlet.

income in 2017 to $181 billion.[55] Credits in the form of general business credits and foreign tax credits both experienced a drop relative to 2016, suggesting corporations preferred accelerating deductions into 2017 rather than using up credits.[56] The combination of these pieces resulted in a decline in total tax liability, including any section 965 liability paid in 2017, from an average of $51.6 billion for 2014-2016 to $35.3 billion in 2017, *i.e.*, a decline of 32 percent. Excluding the section 965 liability paid in 2017 results in a decline in regular tax liability by 38 percent to $32.4 billion.

In tax year 2018, the 50 corporations had a large increase in income of more than $650 billion. The biggest contributors to the increase in income was more than $300 billion in the section 965 inclusion amount, almost $200 billion in other income, and almost $66 billion in GILTI. Total deductions increased in 2018 by six percent. This resulted in net income increasing to $730 billion in 2018.

Taxable income is calculated after allowing for the NOL deduction and a variety of special deductions, including the section 965 deduction, and the section 250 deduction for GILTI and FDII. While there was a decline in the NOL deduction for 2017, in 2018 there was an increase in loss deductions. The section 965 onetime tax on previously untaxed unrepatriated foreign earnings taxed those earnings at a rate of eight and 15.5 percent depending on whether the income was in cash or cash equivalents. The lower rate of tax for the section 965 income is achieved with a deduction in an amount necessary to reach the rate equivalent percentage to the top corporate income tax rate. For 2018, the deduction claimed for section 965 income was more than $160 billion, or approximately 52 percent. The section 250 deduction for GILTI and FDII was $57 billion. The large section 250 deduction suggests that a significant portion is owing to the FDII deduction. After allowing for the special deductions for NOL deduction, section 965 income, and section 250 deductions, taxable income for 2018 was $471 billion. Much of this increase is related to section 965, as can be seen by looking at taxable income excluding section 965, GILTI, and the section 250 deduction. This measure of taxable income, which is equivalent to the measure used for the prior years, returns to the pre-2017 trend. Total tax liability (after credits and section 965 installment amounts) increases from 2017 by 40 percent to $50 billion.

[55] The corporate income tax return (Form 1120) groups several deductions together as special deductions, which include a portion of dividends received from partially- and wholly-owned subsidiaries and the deductions allowed by sections 250 and 965. The special deductions are calculated on Form 1120, Schedule C.

[56] Some corporations may have had their credits limited by the AMT in tax year 2017, which resulted in some credits being carried forward to tax year 2018. The AMT on corporations was repealed for tax years after 2017.

Table 3.–50 Corporations Income, Deductions, Credits, Tax Liability[57]
(Billions of Dollars)

	2014	2015	2016	2017	2018
Total Income	1585.1	1629.2	1748.4	1815.1	2467.9
Sales less COGS and Allowances	1034.2	1070.9	1109.4	1183.9	1115.3
Dividends	63.5	73.7	76.9	53.4	69.0
Sec. 965 Inclusion Amount*				n.a.	315.7
GILTI					65.7
Total Income Excluding Sec. 965 & GILTI	1585.1	1629.2	1748.4	1815.1	2086.5
Total Deductions	1273.6	1333.4	1483.5	1642.4	1739.0
Net Income	311.5	295.8	265.0	172.8	728.9
Net Operating Loss Deduction	21.2	21.2	13.4	8.2	19.1
Sec. 965 Deduction*				n.a.	164.3
Sec. 250 Deduction					56.7
Special Deductions Excluding Sec. 965 & 250	0.8	0.7	0.7	0.8	18.1
Taxable Income	293.9	278.9	262.6	181.0	470.6
Taxable Income Excluding Sec. 965, GILTI, & 250	293.9	278.9	262.6	181.0	310.3
General Business Credits	11.7	13.2	13.4	11.1	17.0
Foreign Tax Credits	41.4	32.8	25.2	18.6	31.6
Total Tax Liability After Credits, Including Sec. 965	49.7	51.7	53.5	35.3	49.6
Paid Sec. 965 Liability After Credits				2.9	2.1
Total Sec. 965 Liability before Installments				28.1	n.a.

Source: Joint Committee staff tabulations of 2014 – 2017 IRS Statistics of Income Division corporation income tax return files and 2018 corporation income tax returns.
* The 2017 data does not separately break out the section 965 inclusion and deduction amounts for 2017.

Thirty of the selected 50 corporations reported owing section 965 liability. While some of these 30 corporations reported less than $10 million of section 965 liability, some of the 30 corporations reported section 965 liability in excess of $1 billion. These 30 corporations have more than 96 percent of the GILTI inclusion income in the sample of 50 corporations.

[57] Income, deduction, and liability amounts are from Form 1120, U.S. Corporation Income Tax Return. Net income, taxable income, and tax liability are from lines 28, 30, and 31 of the front page of Form 1120, respectively.

Table 4.–30 Large Corporations with Section 965 Liability, Income, Deductions, Credits, Tax Liability[58]
(Billions of Dollars)

	2014	2015	2016	2017	2018
Total Income	951.5	1053.9	1114.6	1151.7	1689.5
Sales less COGS and Allowances	594.9	677.9	701.0	738.9	667.7
Dividends	44.3	55.9	51.0	42.2	122.3
Sec. 965 Inclusion Amount*				n.a.	315.7
GILTI					63.4
Total Income Excluding Sec. 965 & GILTI	951.5	1053.9	1114.6	1151.7	1310.4
Total Deductions	751.7	836.8	915.1	1027.1	1067.5
Net Income	199.8	217.1	199.5	124.5	622.0
Net Operating Loss Deduction	5.0	8.7	5.9	4.8	1.6
Sec. 965 Deduction*				n.a.	164.3
Sec. 250 Deduction					53.9
Special Deductions Excluding Sec. 965 & 250	0.67	0.60	0.52	0.53	13.1
Taxable Income	194.9	207.7	194.6	120.1	389.0
Taxable Income Excluding Sec. 965, GILTI, & 250	194.9	207.7	194.6	120.1	174.2
General Business Credits	8.2	10.5	12.1	7.5	12.7
Foreign Tax Credits	17.6	19.1	12.6	10.0	23.2
Total Tax Liability After Credits, Including Sec. 965	42.4	43.1	43.3	27.3	45.0
Paid Sec. 965 Liability After Credits				2.9	2.1
Total Sec. 965 Liability before Installment				28.1	n.a.

Source: Joint Committee staff tabulations of 2014 – 2017 IRS Statistics of Income Division corporation income tax ~~returns~~ files and 2018 corporation income tax returns.
* The 2017 data does not separately break out the section 965 inclusion and deduction amounts for 2017.

[58] Income, deduction, and liability amounts are from Form 1120, U.S. Corporation Income Tax Return. Net income, taxable income, and tax liability are from lines 28, 30, and 31 of the front page of Form 1120, respectively.

Table 5 shows the sum of total income, deductions, net income, certain credits, NOL deductions, and liabilities for the portion of the group of 50 corporations self-reporting as in the manufacturing industry.

Table 5.–Selected Manufacturing Corporations: Income, Deductions, Credits, Tax Liability[59] (Billions of Dollars)

	2014	2015	2016	2017	2018
Total Income	482.2	476.0	475.6	482.8	817.5
Sales less COGS and Allowances	335.6	320.6	303.8	316.1	299.0
Dividends	47.4	59.0	62.5	40.6	59.3
Sec. 965 Inclusion Amount*				n.a.	290.0
GILTI					18.8
Total Income Excluding Sec. 965 & GILTI	482.2	476.0	475.6	482.8	508.7
Total Deductions	338.0	362.0	382.3	418.9	375.1
Net Income	144.2	113.9	93.3	63.9	442.4
Net Operating Loss Deduction	7.5	6.2	2.1	1.1	1.9
Sec. 965 Deduction*				n.a.	154.8
Sec. 250 Deduction				n.a.	28.3
Special Deductions Excluding Sec. 965 & 250	0.1	0.1	0.1	0.1	6.4
Taxable Income	138.4	110.9	100.4	67.5	250.9
Taxable Income Excluding Sec. 965, GILTI, & 250	138.4	110.9	100.4	67.5	125.2
General Business Credits	2.1	2.7	2.9	2.3	3.9
Foreign Tax Credits	32.6	24.9	19.5	13.1	25.4
Total Tax Liability After Credits, Including Sec. 965	13.8	11.3	12.8	18.8	23.5
Paid Sec. 965 Liability After Credits				1.2	1.6
Total Sec. 965 Liability before Installment				10.8	n.a.

Source: Joint Committee staff tabulations of 2014 – 2017 IRS Statistics of Income Division corporation income tax returns files and 2018 corporation income tax returns.
* The 2017 data does not separately break out the section 965 inclusion and deduction amounts for 2017.

59 Income, deduction, and liability amounts are from Form 1120, U.S. Corporation Income Tax Return. Net income, taxable income, and tax liability are from lines 28, 30, and 31 of the front page of Form 1120, respectively.

Corporations that report no Federal income tax liability

An average of less than 10 of the selected 50 corporations reported no Federal income tax liability after credits in each year 2014 through 2016. For 2017 and 2018, the average increased to more than 10. Consistent with corporations accelerating deductions into 2017 and delaying income into 2018, tax year 2017 had the most corporations reporting no tax liability. In several cases, the corporation did not report tax liability in at least three consecutive tax years during the 2014 to 2018 period.

Behavior

While the 50 selected corporations account for a large part of the corporate sector, they are not representative of all corporations. However, selected line items on Form 1120 filed by the 50 selected corporations provide some insight as to the potential behaviors undertaken by corporations in response to the enactment of TCJA with the understanding that a few large corporations may be skewing results.

TCJA gave rise to behavioral incentives for taxpayers to defer income to a later taxable year, or to accelerate deductions, if possible, depending on the taxpayer's circumstances. The review of the data indicates some deferral of income to 2018 and acceleration of deductions to 2017. Another provision effective in 2018, however, may require taxpayers to include income in an earlier year than under pre-2018 law (section 451). Income inclusions in 2018 may be larger than would otherwise result just from the behavioral incentive of the tax rate reduction.

After examining the returns of the 50 selected corporations, some deductions claimed on the front of the Form 1120 may have been accelerated from tax years 2018 to 2017. The deduction for contributions to employee benefits programs increased by nine percent in 2017, which was followed by a decline of almost 15 percent in 2018. Bad debt expense increased by more than 10 percent in 2017 before falling more than five percent in 2018. The amount claimed for taxes paid declined by more than five percent in 2018. While the deductions for salaries and wages grew at four percent for 2016 and 2018, the deduction for salaries and wages grew by more than 10 percent in tax year 2017.

Not all the data comport with predicted changes to a decrease in the tax rate. As discussed above, NOL deduction usage dropped in 2017 and increased in 2018. Also, many corporations do not use their entire stock of NOLs carried over from the prior tax year. The use of general business credits and foreign tax credits declined in 2017 and increased in 2018 as shown on the tables above. The claiming of AMT credits, which are refundable starting in 2018, grew strongly in 2017 and 2018 although these credits are much smaller in magnitude than general business credits and foreign tax credits.

Net depreciation deductions fell by eight percent in 2018 after growing by more than 10 percent every year from $107 billion in 2014 to $177 billion in 2017. The manufacturing corporations in the sample of 50 corporations were responsible for much of the decline.

Timing of payments

Payments claimed on the tax returns (*e.g.*, in the form of estimated tax payments and overpayments credited from the prior year) of the 50 selected corporations increased every year from 2014 to 2017 before falling in 2018. However, payments in excess of tax liability was at least 150 percent greater in 2017 relative to any other year. This may show corporations applying overpayments from 2016 and paying estimated taxes in 2017 before recognizing that TCJA would be enacted. Corporations were then able to shift deductions into 2017 and income into 2018 resulting in a final tax liability below their expectation at the time they filed their 2017 return. Accordingly, refund claims may have increased and tax payments to the U.S. Treasury declined when 2017 returns were filed in 2018.

V. INTERACTION OF FEDERAL INCOME TAX AND FINANCIAL ACCOUNTING RULES

Just as corporate tax receipts do not precisely match the amount of corporate tax liabilities for a tax year, the financial statement reporting of income and tax liabilities does not line up perfectly with the corporate income tax return reporting of tax liabilities or cash taxes paid, as discussed below.

Financial reporting in general

The Financial Accounting Standards Board ("FASB") establishes and interprets the financial accounting standards that govern U.S. Generally Accepted Accounting Principles ("GAAP") and are used by publicly-traded companies in compiling their annual reports filed with the Securities and Exchange Commission ("SEC"). Companies that are not publicly traded often provide financial statements prepared in accordance with GAAP to investors and creditors.

The primary purpose of financial reporting is to provide information about a company to investors and creditors. By contrast, corporations calculate their taxable income in accordance with the Code. The primary purpose of tax accounting is to measure annual income for the purpose of calculating the Federal income tax. The tax laws also have been used as instruments of social and fiscal policy.

Financial accounting for income taxes

Temporary and permanent differences

The Code generally requires that a corporation's taxable year and overall method of accounting conform to those used for financial record keeping purposes.[60] However, many specific differences are permitted (and, in some cases, required) between financial and tax accounting, which may result in an effective tax rate that differs from the applicable statutory tax rate.

Many differences between financial and tax accounting (hereinafter referred to as "book-tax differences") are caused by the timing of income or expense recognition under the two systems. Timing differences are often referred to as "temporary" differences because, over time, the total income and expense recognized (as measured in undiscounted nominal dollars) for these items is the same under both systems. For example, expenses are generally accrued under GAAP if they are probable and their amount can be reasonably estimated. In contrast, expenses generally are not deductible for tax purposes until all events have occurred which determine the fact of liability, the amount of the liability can be determined with reasonable accuracy, and economic performance has occurred.[61] These general principles often result in the recognition of

[60] Secs. 441 and 446.

[61] Sec. 461(h).

an accrued expense in an earlier year for financial statement purposes and in a later year for tax purposes; however, eventually the same amount of expense is reported under both systems.[62]

The treatment of capital costs is a prominent temporary difference; accelerated depreciation and expensing for small businesses generally result in deductions for capital costs being reflected in taxable income earlier than when such amounts are reflected in financial statement income.[63] Other examples include bad debts, an estimate of which must be accrued for financial statement purposes while no tax deduction generally is taken until an account is actually written off,[64] and nonqualified deferred compensation expenses, which are accrued as the employee earns the income for financial statement purposes but generally are not deductible for tax purposes until included in the gross income of the employee (*i.e.*, when paid by the employer).[65]

In addition to the temporary differences caused by the timing of income and expense recognition, other book-tax differences are caused by the inclusion of an item of income or expense for one system but not the other. These are referred to as "permanent differences." Permanent differences include adjustments to income, for example, the exclusion from income of interest on tax-exempt bonds. Permanent differences also include adjustments to expenses, for example, the disallowance of tax deductions for a portion of meals and entertainment expenses, fines and penalties, and compensation in excess of tax deductible limits, each of which is taken into account as an expense in determining financial accounting income but not taxable income. Permanent differences that adjust expenses may also include special tax deductions, for example,

[62] If a GAAP estimate of an accrued expense ultimately proves incorrect, the company generally adjusts its books when the correct amount is determined. For example, corporations often accrue a contingency reserve for ongoing legal disputes, with the accrual adjusted at a later date, as needed, to reflect the actual amount of the settlement or judgment payment.

[63] The straight-line method of depreciation is often used for financial accounting purposes, although other methods are permitted. The cost of a capital asset generally is recovered in equal expense amounts during each year of the asset's depreciable life. Under GAAP, recovery periods generally are intended to reflect an asset's useful life, and therefore often differ from the recovery periods used for tax purposes. Taxpayers may wish to align the recovery period with the tax rules for administrative convenience. However, if the number of years specified for tax purposes for recovery deductions for an asset does not fall within a reasonable range of the asset's useful life, the recovery deductions may not be used as depreciation expense for financial reporting purposes. See Accounting Standards Codification ("ASC") 360-10-35, *Property, Plant, and Equipment: Overall: Subsequent Measurement*. For further discussion, see Joint Committee on Taxation, *Background and Present Law Relating to Cost Recovery and Domestic Production Activities* (JCX-19-12), March 6, 2012, pp. 13-18.

[64] In general, section 166 allows a tax deduction for wholly worthless debts in the year such debts become wholly worthless and partially worthless debts in the year in which such debts become partially worthless, but only to the extent that the partially worthless debts have been charged off before the end of that taxable year. However, many companies wait until an account is completely written off (*i.e.*, removed from receivables and any corresponding reserve account) before taking the tax deduction. See also section 582 for special rules for worthless securities held by banks.

[65] Sec. 404(a)(5). However, amounts paid within 2.5 months of the year in which the amounts were earned by the employee generally are deductible when accrued for financial statement purposes. See Treas. Reg. sec. 1.404(b)-1T.

the deduction for income attributable to domestic production activities under former section 199,[66] which are not reflected in financial statement income. Finally, permanent differences also include special tax items, such as the credit for research activities, which, rather than adjusting an item of income or expense, instead offset the taxpayer's tax liability for the year.

Table 6 below shows the summary reconciliation of financial statement net income (loss) with taxable income (loss) before NOL and special deductions for the 50 large corporations reviewed in this pamphlet,[67] as reported on Schedule M-3 (Form 1120) for tax years 2014 through 2017.

Table 6.–50 Large Corporations' Reconciliation of Income (Loss) per Books with Income (Loss) per Return (Billions of Dollars)

	2014	2015	2016	2017
Net income (loss) per books	349.3	372.2	390.4	398.3
Total temporary differences	14.4	(33.1)	(48.9)	(135.7)
Total permanent differences	(36.0)	(32.3)	(64.8)	(80.1)
Taxable income before NOLs and special deductions	311.5	295.8	265.0	172.8

Note: Totals may not equal sum of components due to rounding.
Source: Joint Committee staff tabulations of 2014 – 2017 IRS Statistics of Income Division corporation income tax return files.

GAAP recognition of income tax expense

Under GAAP, income tax expense generally is recognized when the income to which it relates is recognized in the financial statements, regardless of when the income is actually taxed.[68] Permanent differences affect the net income, earnings per share, and effective tax rate reported within the financial statements. In contrast, temporary items, while they may temporarily increase (or decrease) a company's cash flow, do not affect net income, earnings per share, or the effective tax rate reported within the financial statements.

[66] The TCJA repealed section 199 for taxable years beginning after December 31, 2017.

[67] For a discussion of the selection criteria used to choose the 50 corporations, see Part VI, Overview of Selection Criteria, of this pamphlet.

[68] See ASC 740, *Income Taxes*.

For example, consider a corporation which has $600 of gross income but incurs a $100 fine during the year.[69] Pretax financial statement income is $500. Because the fine is not deductible for tax purposes, taxable income is $600 and the corporation will owe $126 in Federal income tax.[70] The $100 book-tax difference related to the nondeductible fine is permanent, so its effect (an additional $21 in tax expense)[71] is reflected in the financial statements in the period in which the permanent item (*i.e.*, the nondeductible fine) occurs. For the year, the corporation reports $126 of tax expense and net income after taxes of $374.[72]

In contrast, if the $100 book-tax difference is a temporary item related to depreciation which causes taxable income to be $600, a corporation which has $500 of pretax financial statement income reports $105 of total income tax expense[73] and net income after taxes of $395,[74] regardless of the fact that the corporation owes $126 in Federal income tax for the current year.

When a temporary difference arises, a company typically records both a current income tax expense and a deferred income tax expense/(benefit). The current and deferred portions are added together to arrive at total income tax expense, which affects current net income and current earnings per share. Current income tax expense represents an estimate of taxes payable on the tax return for the current year, while deferred income tax expense/(benefit) is comprised of the estimated future tax effects attributable to temporary differences and carryforwards.[75] In the example above for a $100 temporary difference, the company reports current income tax expense of $126 ($600 in taxable income at the 21-percent statutory tax rate) and a deferred tax benefit of ($21) ($100 temporary difference at the 21-percent statutory tax rate) to arrive at total income tax expense of $105.

When evaluated in isolation, each temporary difference generally results in either (1) taxable income being greater than financial reporting income currently, but taxable income

[69] For simplicity, the examples in this document assume a Federal income tax rate of 21 percent on all corporate taxable income. In addition, all other taxes, including foreign and State income taxes, are ignored.

[70] Taxable income of $600 times the 21-percent statutory tax rate results in $126 of tax.

[71] If taxable income were equal to the pretax financial statement income of $500, the corporation would have reported a tax expense of $105 ($500 pretax financial statement income times the 21-percent statutory tax rate), instead of $126 (a difference of $21).

[72] The net income after taxes of $374 is equal to $500 pretax financial statement income reduced by $126 income tax expense.

[73] The net income tax expense of $105 equals current income tax expense of $126 ($600 taxable income times the 21-percent statutory rate) less the deferred tax benefit of $21 ($100 book-tax difference times the 21-percent statutory tax rate). The deferred tax benefit of $21 is also reported as a $21 deferred tax asset on the company's balance sheet.

[74] The net income after taxes of $395 is equal to $500 pretax financial statement income less $105 of income tax expense.

[75] ASC 740-10-10: *Income Taxes: Overall: Objectives*.

being less than financial reporting income when the temporary difference reverses in the future, or (2) taxable income being less than financial reporting income currently, but taxable income being greater than financial reporting income when the temporary difference reverses in the future. Given this future reversal, financial reporting rules generally require the taxpayer to establish a deferred income tax expense/(benefit) that offsets the current income tax (benefit)/expense attributable to the temporary differences and carryforwards. Deferred income tax expense is recorded as a liability on the company's balance sheet to reflect the amount of tax which will become payable in the future (referred to as a "deferred tax liability"). Deferred tax benefit is recorded as an asset on the company's balance sheet to reflect the expected amount of tax which will be used to offset other taxes (or refunded) in the future (referred to as a "deferred tax asset"). The difference between the income tax expense reported on the income statement and the income tax due on taxable income for the year is tracked within the financial statements through the use of deferred tax assets and deferred tax liabilities.

GAAP effective tax rate ("ETR")

In general

The distinction between temporary and permanent differences is also relevant for purposes of calculating a company's "effective tax rate" for presentation within the company's financial statements (referred to herein as the "GAAP effective tax rate").[76] "Effective tax rate" is a percentage term financial accountants use to refer to the company's total income tax expense (as reported within the financial statements) divided by pretax financial statement income. A corporation which has only temporary differences and no permanent differences generally has a GAAP effective tax rate equal to the maximum statutory tax rate. However, because permanent differences change the total amount of tax to be paid over time, they cause a company's GAAP effective tax rate to differ from the statutory tax rate. In the example above involving the permanent difference for a nondeductible fine, the company's GAAP effective tax rate is 25.2

[76] A public company must disclose a reconciliation, using either percentages or dollar amounts, of the reported amount of income tax expense attributable to current year pretax financial statement income (the GAAP effective tax rate, when presented using a percentage) to the amount of income tax expense that would result from applying the statutory tax rate to pretax financial statement income. This disclosure generally takes the form of a reconciliation of the statutory tax rate to the company's GAAP effective tax rate, with line item detail showing the change in the tax rate attributable to each significant reconciling item. See ASC 740-10-50: *Income Taxes: Overall: Disclosure.* Rule 4-08(h) of SEC Regulation S-X requires disclosure of individual reconciling items that are more than five percent of the amount computed by multiplying pretax financial statement income by the statutory tax rate (*i.e.*, any individual reconciling items that increase or decrease the tax rate by 1.05 percent, assuming a 21-percent statutory tax rate). A nonpublic company, while not required to disclose such a reconciliation, must disclose the nature of any significant reconciling items. Note that on March 25, 2019, FASB issued a proposed ASU, *Disclosure Framework--Changes to the Disclosure Requirements for Income Taxes* (the "proposed ASU"), that would, in relevant part, require a public business entity to disclose the income tax rate reconciliation in a manner consistent with Rule 4-08(h) of SEC Regulation S-X. In light of the reduction in the corporate tax rate by the TCJA, FASB Board members requested comments on whether five percent is the appropriate threshold. See Question 6 on p. 4 of the proposed ASU.

percent,[77] rather than the statutory 21-percent tax rate. However, a permanent difference may also reduce a company's GAAP effective tax rate.

Consider the example in Table 7, where a company has pretax financial statement income of $50,000,000 and is entitled to a credit for research activities of $3,500,000. The company subtracts the $3,500,000 (line b of Table 7 research credit from its pre-credit tax liability for the year of $10,500,000[78] to determine current income tax expense of $7,000,000 (line e of Table 7). As the book-tax difference related to research activities is a permanent item, there is no deferred income tax expense related to this item (line f of Table 7). The GAAP effective tax rate of 14 percent (line h of Table 7) is lower than the 21-percent statutory tax rate because a portion of the company's tax liability for the year was permanently reduced by the research credit. The seven percent (line i of Table 7) reduction in the GAAP effective tax rate is equal to the amount of the credit (line b in Table 7) divided by pretax financial statement income (line a in Table 7).

Table 7.–ETR Adjusted for the Research Credit

Pretax financial statement income....................	a	$50,000,000
Permanent differences:		
Research credit..	b	(3,500,000)
Taxable income......................................	c=a	$50,000,000
Statutory income tax rate............................	d	21.0%
Current income tax expense...........................	e=(d*c)+b	$ 7,000,000
Deferred income tax expense.........................	f	none
Total income tax expense............................	g=e+f	$ 7,000,000
GAAP effective tax rate.............................	h=g/a	14.0%
Statutory income tax rate............................	d	21.0%
Research credit..	i=b/a	-7.0%
GAAP effective tax rate.............................	h	14.0%

As noted above, temporary differences generally do not affect a company's GAAP effective tax rate. Consider the example in Table 8, where a company has the same facts as Table 7 except that it also has a book-tax difference of $8,500,000 due to accelerated tax depreciation in excess of GAAP depreciation (line c of Table 8). The company's total income tax expense of $7,000,000 (line h from Table 8) and GAAP effective tax rate of 14 percent (line i

[77] The effective tax rate of 25.2 percent equals the income tax expense (as reported in the financial statements) of $126 divided by pretax financial statement income of $500.

[78] Taxable income of $50,000,000 times 21-percent statutory tax rate.

in Table 8) are unchanged from Table 7. However, $1,785,000[79] (line g of Table 8) of the income tax expense has now been reclassified from current income tax expense to deferred income tax expense as it represents income tax expense related to current year pretax financial income which will be due in a subsequent year when the depreciation book-tax difference reverses.

Table 8.–ETR Adjusted for Research Credit and Accelerated Tax Depreciation

Pretax financial statement income....................	a	$50,000,000
Permanent differences:		
Research credit..	b	(3,500,000)
Temporary differences:		
Accelerated tax depreciation.........................	c	(8,500,000)
Taxable income.......................................	d=a+c	$41,500,000
Statutory income tax rate............................	e	21.0%
Current income tax expense...........................	f=(d*e)+b	$ 5,215,000
Deferred income tax expense..........................	g=-c*e	1,785,000
Total income tax expense............................	h=f+g	$ 7,000,000
GAAP effective tax rate.............................	i=h/a	14.0%
Statutory income tax rate............................	e	21.0%
Research credit..	j=b/a	-7.0%
GAAP effective tax rate.............................	i	14.0%

The above examples help to illustrate some of the differences between the financial statement versus Federal income tax return reporting of net income and the applicable tax rate. As illustrated, these differences can vary greatly.

[79] The tax depreciation in excess of GAAP depreciation of $8,500,000 times the 21-percent statutory tax rate.

VI. OVERVIEW OF SELECTION CRITERIA

The 50 corporations reviewed in this pamphlet were chosen from a list of the 100 C corporations that reported the greatest amount of total income on Form 1120 filed for tax year 2016. Corporations that filed Form 1120-L, 1120-PC, Form 1120-REIT, Form 1120-RIC, or Form 1120-S were not part of the review.

Data sources and limitations

Corporation income tax return file

The Statistics of Income Division ("SOI") of the IRS provides the Joint Committee staff with large micro-level data sets consisting of statistically sampled and edited tax returns. Data for tax years 2014, 2015, 2016, and 2017 is taken from SOI's corporation income tax returns data sets. A sample of approximately 75,000 C corporations is drawn from a total population of 1.6 million returns. All large C corporations are included in the sample.

Business returns transactions file

Data for 2018 is taken from the IRS business returns transaction file ("BRTF") and from copies of taxpayer returns. The BRTF contains tax return data from corporations and other business entities. Returns posted to this file includes returns filed electronically and on paper. Information posted to this file reflect math error corrections but not all adjustments. It is not otherwise edited or designed for statistical analysis. Accordingly, discrepancies may exist between BRTF and other IRS data sources. While the Joint Committee staff made efforts to check the veracity of the data by looking at copies of taxpayer returns, some discrepancies may remain.

APPENDIX

Table A-1.−Federal Receipts by Source, 1970-2019
(millions of dollars)

Fiscal Year	Individual Income Tax	Corporate Taxes	Social Insurance Taxes [1]	Excise Taxes	Estate and Gift Taxes	Other Receipts [2]	Total
1970	90,412	32,829	44,362	15,705	3,644	5,855	192,807
1971	86,230	26,785	47,325	16,614	3,735	6,450	187,139
1972	94,737	32,166	52,574	15,477	5,436	6,919	207,309
1973	103,246	36,153	63,115	16,260	4,917	7,109	230,800
1974	118,952	38,620	75,071	16,844	5,035	8,702	263,224
1975	122,386	40,621	84,534	16,551	4,611	10,387	279,090
1976	131,603	41,409	90,769	16,963	5,216	12,101	298,061
1977	157,626	54,892	106,485	17,548	7,327	11,681	355,559
1978	180,988	59,952	120,967	18,376	5,285	13,993	399,561
1979	217,841	65,677	138,939	18,745	5,411	16,690	463,303
1980	244,069	64,600	157,803	24,329	6,389	19,922	517,112
1981	285,917	61,137	182,720	40,839	6,787	21,872	599,272
1982	297,744	49,207	201,498	36,311	7,991	25,015	617,766
1983	288,938	37,022	208,994	35,300	6,053	24,256	600,563
1984	298,415	56,893	239,376	37,361	6,010	28,382	666,437
1985	334,531	61,331	265,163	35,992	6,422	30,598	734,037
1986	348,959	63,143	283,901	32,919	6,958	33,275	769,155
1987	392,557	83,926	303,318	32,457	7,493	34,536	854,287
1988	401,181	94,508	334,335	35,227	7,594	36,393	909,238
1989	445,690	103,291	359,416	34,386	8,745	39,576	991,104
1990	466,884	93,507	380,047	35,345	11,500	44,674	1,031,957
1991	467,827	98,086	396,015	42,402	11,138	39,519	1,054,987
1992	475,964	100,270	413,688	45,569	11,143	44,574	1,091,208
1993	509,680	117,520	428,299	48,057	12,577	38,201	1,154,334
1994	543,055	140,385	461,475	55,225	15,225	43,202	1,258,567
1995	590,244	157,004	484,473	57,484	14,763	47,822	1,351,790
1996	656,417	171,824	509,414	54,014	17,189	44,195	1,453,053
1997	737,466	182,293	539,371	56,924	19,845	43,333	1,579,232
1998	828,586	188,677	571,831	57,673	24,076	50,885	1,721,728
1999	879,480	184,680	611,833	70,414	27,782	53,263	1,827,452
2000	1,004,462	207,289	652,852	68,865	29,010	62,713	2,025,191
2001	994,339	151,075	693,967	66,232	28,400	57,069	1,991,082
2002	858,345	148,044	700,760	66,989	26,507	52,491	1,853,136
2003	793,699	131,778	712,978	67,524	21,959	54,376	1,782,314
2004	808,959	189,371	733,407	69,855	24,831	53,691	1,880,114
2005	927,222	278,282	794,125	73,094	24,764	56,124	2,153,611
2006	1,043,908	353,915	837,821	73,961	27,877	69,387	2,406,869
2007	1,163,472	370,243	869,607	65,069	26,044	73,550	2,567,985
2008	1,145,747	304,346	900,155	67,334	28,844	77,565	2,523,991
2009	915,308	138,229	890,917	62,483	23,482	74,570	2,104,989
2010	898,549	191,437	864,814	66,909	18,885	122,112	2,162,706
2011	1,091,473	181,085	818,792	72,381	7,399	132,336	2,303,466
2012	1,132,206	242,289	845,314	79,061	13,973	137,145	2,449,988
2013	1,316,405	273,506	947,820	84,007	18,912	134,453	2,775,103
2014	1,394,568	320,731	1,023,458	93,368	19,300	170,062	3,021,487
2015	1,540,802	343,797	1,065,257	98,279	19,232	182,519	3,249,886
2016	1,546,075	299,571	1,115,065	95,026	21,354	190,870	3,267,961
2017	1,587,120	297,048	1,161,897	83,823	22,768	163,526	3,316,182
2018	1,683,538	204,733	1,170,701	94,986	22,983	152,963	3,329,904
2019 [3]	1,717,857	230,245	1,243,087	98,915	16,672	155,421	3,462,196

[1] Social insurance taxes comprise old-age and survivors insurance, disability insurance, hospital insurance, railroad retirement, railroad social security equivalent account, employment insurance, employee share of Federal employees retirement, and certain non-Federal employees retirement.

[2] Other receipts are primarily composed of (1) customs duties and fees, and (2) deposits of earnings by the Federal Reserve system

[3] Data for FY1970-2018 comes from OMB historical tables (not yet updated with data for FY2019); FY2019 data comes from Monthly Treasury Statement of Receipts and Outlays.

Sources: Office of Management and Budget, Historical Tables, Budget of the U.S. Government, Fiscal Year 2020; Department of the Treasury, Bureau of the Fiscal Service, Final Monthly Treasury Statement of Receipts and Outlays Fiscal Year 2019 through September 30, 2019; Joint Committee on Taxation staff calculations.

Table A-2.−Federal Receipts by Source, as a Percentage of GDP, 1970-2019

Fiscal Year	Individual Income Tax	Corporate Taxes	Social Insurance Taxes [1]	Excise Taxes	Estate and Gift Taxes	Other Receipts [2]	Total
1970	8.6	3.1	4.2	1.5	0.3	0.6	18.4
1971	7.7	2.4	4.2	1.5	0.3	0.6	16.7
1972	7.8	2.6	4.3	1.3	0.4	0.6	17.0
1973	7.6	2.7	4.7	1.2	0.4	0.5	17.0
1974	8.0	2.6	5.1	1.1	0.3	0.6	17.7
1975	7.6	2.5	5.2	1.0	0.3	0.6	17.3
1976	7.4	2.3	5.1	0.9	0.3	0.7	16.6
1977	7.8	2.7	5.2	0.9	0.4	0.6	17.5
1978	7.9	2.6	5.3	0.8	0.2	0.6	17.5
1979	8.5	2.6	5.4	0.7	0.2	0.6	18.0
1980	8.7	2.3	5.6	0.9	0.2	0.7	18.5
1981	9.1	1.9	5.8	1.3	0.2	0.7	19.1
1982	9.0	1.5	6.1	1.1	0.2	0.8	18.6
1983	8.2	1.0	5.9	1.0	0.2	0.7	17.0
1984	7.5	1.4	6.1	0.9	0.2	0.7	16.9
1985	7.8	1.4	6.2	0.8	0.2	0.7	17.2
1986	7.7	1.4	6.3	0.7	0.2	0.7	17.0
1987	8.2	1.8	6.3	0.7	0.2	0.7	17.9
1988	7.8	1.8	6.5	0.7	0.1	0.7	17.6
1989	8.0	1.9	6.5	0.6	0.2	0.7	17.8
1990	7.9	1.6	6.4	0.6	0.2	0.8	17.4
1991	7.7	1.6	6.5	0.7	0.2	0.6	17.3
1992	7.4	1.6	6.4	0.7	0.2	0.7	17.0
1993	7.5	1.7	6.3	0.7	0.2	0.6	17.0
1994	7.5	2.0	6.4	0.8	0.2	0.6	17.5
1995	7.8	2.1	6.4	0.8	0.2	0.6	17.8
1996	8.2	2.2	6.4	0.7	0.2	0.6	18.2
1997	8.7	2.1	6.4	0.7	0.2	0.5	18.6
1998	9.3	2.1	6.4	0.6	0.3	0.6	19.2
1999	9.2	1.9	6.4	0.7	0.3	0.6	19.2
2000	9.9	2.0	6.4	0.7	0.3	0.6	20.0
2001	9.4	1.4	6.6	0.6	0.3	0.5	18.8
2002	7.9	1.4	6.4	0.6	0.2	0.5	17.0
2003	7.0	1.2	6.3	0.6	0.2	0.5	15.7
2004	6.7	1.6	6.1	0.6	0.2	0.4	15.6
2005	7.2	2.2	6.2	0.6	0.2	0.4	16.7
2006	7.6	2.6	6.1	0.5	0.2	0.5	17.6
2007	8.1	2.6	6.1	0.5	0.2	0.5	17.9
2008	7.8	2.1	6.1	0.5	0.2	0.5	17.1
2009	6.3	1.0	6.2	0.4	0.2	0.5	14.6
2010	6.1	1.3	5.8	0.5	0.1	0.8	14.6
2011	7.1	1.2	5.3	0.5	0.0	0.9	15.0
2012	7.1	1.5	5.3	0.5	0.1	0.9	15.3
2013	8.0	1.7	5.7	0.5	0.1	0.8	16.8
2014	8.1	1.9	5.9	0.5	0.1	1.0	17.5
2015	8.6	1.9	5.9	0.5	0.1	1.0	18.1
2016	8.4	1.6	6.0	0.5	0.1	1.0	17.7
2017	8.3	1.5	6.1	0.4	0.1	0.9	17.3
2018	8.3	1.0	5.8	0.5	0.1	0.8	16.5
2019 [3]	8.1	1.1	5.9	0.5	0.1	0.7	16.3
1950-2019 Avg	7.8	2.5	5.0	1.1	0.2	0.6	17.2

[1] Social insurance taxes comprise old-age and survivors insurance, disability insurance, hospital insurance, railroad retirement, railroad social security equivalent account, employment insurance, employee share of Federal employees retirement, and certain non-Federal employees retirement.

[2] Other receipts are primarily composed of (1) customs duties and fees, and (2) deposits of earnings by the Federal Reserve system.

[3] Data for FY1970-2018 comes from OMB historical tables (not yet updated with data for FY2019); FY2019 data comes from Monthly Treasury Statement of Receipts and Outlays and BEA quarterly GDP releases.

Sources: Office of Management and Budget, Historical Tables, Budget of the U.S. Government, Fiscal Year 2020; Department of the Treasury, Bureau of the Fiscal Service, Final Monthly Treasury Statement of Receipts and Outlays, Fiscal Year 2019 through September 30, 2019; Bureau of Economic Analysis Gross Domestic Product, Seasonally adjusted at annual rates; Joint Committee on Taxation staff calculations.

Table A-3.−Federal Receipts by Source, as a Percentage of Total Revenues, 1970-2019

Fiscal Year	Individual Income Tax	Corporate Taxes	Social Insurance Taxes [1]	Excise Taxes	Estate and Gift Taxes	Other Receipts [2]
1970	46.9	17.0	23.0	8.1	1.9	3.0
1971	46.1	14.3	25.3	8.9	2.0	3.4
1972	45.7	15.5	25.4	7.5	2.6	3.3
1973	44.7	15.7	27.3	7.0	2.1	3.1
1974	45.2	14.7	28.5	6.4	1.9	3.3
1975	43.9	14.6	30.3	5.9	1.7	3.7
1976	44.2	13.9	30.5	5.7	1.7	4.1
1977	44.3	15.4	29.9	4.9	2.1	3.3
1978	45.3	15.0	30.3	4.6	1.3	3.5
1979	47.0	14.2	30.0	4.0	1.2	3.6
1980	47.2	12.5	30.5	4.7	1.2	3.9
1981	47.7	10.2	30.5	6.8	1.1	3.6
1982	48.2	8.0	32.6	5.9	1.3	4.0
1983	48.1	6.2	34.8	5.9	1.0	4.0
1984	44.8	8.5	35.9	5.6	0.9	4.3
1985	45.6	8.4	36.1	4.9	0.9	4.2
1986	45.4	8.2	36.9	4.3	0.9	4.3
1987	46.0	9.8	35.5	3.8	0.9	4.0
1988	44.1	10.4	36.8	3.9	0.8	4.0
1989	45.0	10.4	36.3	3.5	0.9	4.0
1990	45.2	9.1	36.8	3.4	1.1	4.3
1991	44.3	9.3	37.5	4.0	1.1	3.7
1992	43.6	9.2	37.9	4.2	1.0	4.1
1993	44.2	10.2	37.1	4.2	1.1	3.3
1994	43.1	11.2	36.7	4.4	1.2	3.4
1995	43.7	11.6	35.8	4.3	1.1	3.5
1996	45.2	11.8	35.1	3.7	1.2	3.0
1997	46.7	11.5	34.2	3.6	1.3	2.7
1998	48.1	11.0	33.2	3.3	1.4	3.0
1999	48.1	10.1	33.5	3.9	1.5	2.9
2000	49.6	10.2	32.2	3.4	1.4	3.1
2001	49.9	7.6	34.9	3.3	1.4	2.9
2002	46.3	8.0	37.8	3.6	1.4	2.8
2003	44.5	7.4	40.0	3.8	1.2	3.1
2004	43.0	10.1	39.0	3.7	1.3	2.9
2005	43.1	12.9	36.9	3.4	1.1	2.6
2006	43.4	14.7	34.8	3.1	1.2	2.9
2007	45.3	14.4	33.9	2.5	1.0	2.9
2008	45.4	12.1	35.7	2.7	1.1	3.1
2009	43.5	6.6	42.3	3.0	1.1	3.5
2010	41.5	8.9	40.0	3.1	0.9	5.6
2011	47.4	7.9	35.5	3.1	0.3	5.7
2012	46.2	9.9	34.5	3.2	0.6	5.6
2013	47.4	9.9	34.2	3.0	0.7	4.8
2014	46.2	10.6	33.9	3.1	0.6	5.6
2015	47.4	10.6	32.8	3.0	0.6	5.6
2016	47.3	9.2	34.1	2.9	0.7	5.8
2017	47.9	9.0	35.0	2.5	0.7	4.9
2018	50.6	6.1	35.2	2.9	0.7	4.6
2019 [3]	49.6	6.7	35.9	2.9	0.5	4.5
1950-2019 Avg	45.2	14.7	28.7	6.7	1.4	3.3

[1] Social insurance taxes comprise old-age and survivors insurance, disability insurance, hospital insurance, railroad retirement, railroad social security equivalent account, employment insurance, employee share of Federal employees retirement, and certain non-Federal employees retirement.

[2] Other receipts are primarily composed of (1) customs duties and fees, and (2) deposits of earnings by the Federal Reserve system.

[3] Data for FY1970-2018 comes from OMB historical tables (not yet updated with data for FY2019); FY2019 data comes from Monthly Treasury Statement of Receipts and Outlays

Sources: Office of Management and Budget, Historical Tables, Budget of the U.S. Government, Fiscal Year 2020; Department of the Treasury, Bureau of the Fiscal Service, Final Monthly Treasury Statement of Receipts and Outlays, Fiscal Year 2019 through September 30, 2019; Joint Committee on Taxation staff calculations.