PRESENT LAW AND DATA RELATED TO THE TAXATION OF BUSINESS INCOME

Scheduled for a Public Hearing
Before the
SENATE COMMITTEE ON FINANCE
on September 19, 2017

Prepared by the Staff
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INTRODUCTION

The Senate Committee on Finance has scheduled a public hearing on September 19, 2017, entitled "Business Tax Reform." This document,[1] prepared by the staff of the Joint Committee on Taxation, describes present law and data relating to the taxation of business entities and business income.

[1] This document may be cited as follows: Joint Committee on Taxation, *Present Law and Data Related to the Taxation of Business Income* (JCX-42-17), September 15, 2017. This document can also be found on the Joint Committee on Taxation website at www.jct.gov.

I. PRESENT LAW

A. Business Entities

1. Overview

Business income is taxed under rules relating to the type of entity conducting the business. The principal business entities for Federal income tax purposes are C corporations, partnerships, S corporations, and sole proprietorships. Partnerships and S corporations are often referred to as "pass-through" entities because their income is included in the gross income of the owners of the entities rather than in the income of the entities themselves.

In 2014, there were approximately 1.6 million C corporations, 3.6 million partnerships, 4.4 million S corporations, 24.6 million nonfarm sole proprietorships, and 1.8 million farm sole proprietorships. Before 1987, there were more C corporations than S corporations and partnerships combined. In 1987, the number of S corporations and partnerships exceeded the number of C corporations. Since 1987, the combined number of pass-through entities has more than tripled. The growth has been led by large increases in the number of small S corporations (those with less than $100,000 in assets) and limited liability companies ("LLCs") taxed as partnerships.

2. C corporations

In general

A C corporation is subject to Federal income tax as an entity separate from its shareholders.[2] A corporation's income generally is taxed once at the corporate level when earned and then again to individual shareholders when distributed as dividends.[3] Corporate deductions and credits reduce only corporate income (and corporate income taxes) and are not passed through to shareholders.

Corporate income that is not distributed to shareholders generally is subject to current tax at the corporate level only. To the extent that income retained at the corporate level is reflected in an increased stock price, however, shareholders may be taxed at capital gains rates upon sale or exchange (including certain redemptions) of the stock or upon liquidation of the corporation.

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[2] A C corporation is any corporation that is not an S corporation. The letter "C" appears to reflect that subchapter C of chapter 1 of the Code is entitled "corporate distributions and adjustments." Unless otherwise stated, all references to the Code are to the Internal Revenue Code of 1986, as amended.

[3] Distributions with respect to stock that exceed current and accumulated corporate earnings and profits are not taxed as dividend income to shareholders but instead are treated as tax-free returns of capital that reduce the shareholder's basis in the stock. Distributions in excess of current and accumulated corporate earnings and profits that exceed a shareholder's basis in the stock are treated as amounts received in exchange for the stock, which generally are taxed to the shareholder at capital gains rates. Sec. 301(c).

The gain on appreciated corporate assets generally is subject to corporate-level tax if the assets are distributed to the shareholders, yielding the same tax result as if the assets had been sold by the corporation and the proceeds distributed to the shareholders.

The corporate tax rate structure provides marginal rates of 15, 25, 34, and 35 percent. The 35-percent marginal rate applies to taxable income over $10 million. A corporation with taxable income of $18,333,333 or more is effectively subject to a flat rate of 35 percent.[4] No separate rate structure exists for corporate capital gains.

Dividends generally are not deductible by the corporation and are taxed as income to the shareholders (generally at the same preferential rates that apply to capital gains).[5] Foreign investors are subject to withholding tax on dividends paid by domestic corporations, and generally are exempt from U.S. income tax on capital gains from the sale of corporate stock (irrespective of whether the corporation is domestic or foreign). Tax-exempt investors generally are not subject to tax on either dividends or on sales or exchanges of corporate stock.

A corporate shareholder (*i.e.*, a corporation that owns shares of another corporation) that receives a dividend generally is eligible for a dividends-received deduction that results in the recipient corporation being taxed on at most 30 percent and possibly on none of the dividend received by the shareholder.[6]

Consolidated returns of affiliated groups of corporations

An affiliated group of corporations may elect to file a consolidated return in lieu of separate returns.[7] A condition of electing to file a consolidated return is that all corporations that are members of the affiliated group must consent to all the consolidated return regulations prior to the last day prescribed by law for filing the consolidated return. The Treasury Department has issued extensive consolidated return regulations under its authority to provide such rules. The regulations generally are directed toward preventing double taxation of income earned within the group, while preserving tax attributes if assets or corporations that were members leave the

[4] For taxable income from $15,000,000 to $18,333,333, the lower rates are phased out at a rate of 38 percent. Sec. 11(b)(1).

[5] Sec. 1(h)(11).

[6] Sec. 243. The recipient corporation generally can claim a 100 percent dividends-received deduction if the recipient corporation owns 80 percent or more of the distributing corporation. If the recipient corporation owns less than 80 percent but at least 20 percent of the distributing corporation, the dividends-received deduction is 80 percent. If the recipient corporation owns less than 20 percent of the distributing corporation, the dividends-received deduction is 70 percent.

[7] Sec. 1504. An affiliated group for this purpose includes a parent corporation that directly owns 80 percent of the vote and value of the stock (excluding certain nonvoting preferred stock) of at least one subsidiary (causing that subsidiary to be a qualified member of the group) and other corporations of which qualified upper tier members in turn hold such stock ownership. Foreign corporations and certain other entities are not eligible to be members of such a group.

group and preventing avoidance of tax via the shifting of attributes in the course of intragroup transactions.[8]

Personal holding companies

In addition to the regular corporate income tax, the Code provides for taxes designed to prevent retention of corporate earnings so as to avoid individual income tax. The personal holding company tax is imposed on certain undistributed personal holding company income, generally where the corporation meets certain closely held stock requirements and more than 60 percent of the adjusted ordinary gross income (as defined) consists of certain passive-type income such as dividends, interest, and similar items.[9]

3. Pass-through entities and sole proprietorships

While a large portion of business income is taxed under the corporate income tax, some business income – such as that earned through partnerships, S corporations, and sole proprietorships – is taxed only at the individual level. In the case of individuals, the tax rate depends on the individual's filing status and income. For each filing status, the rate schedules are broken into several ranges of income and the marginal tax rate increases as a taxpayer's income increases (rising from 10 percent to 39.6 percent). Capital gains and certain dividends are taxed at lower rates, up to a maximum of 20 percent.[10]

Partnerships

In general

Partnerships generally are treated for Federal income tax purposes as pass-through entities not subject to tax at the entity level.[11] Items of income (including tax-exempt income), gain, loss, deduction, and credit of the partnership are taken into account by the partners in computing their income tax liability (based on the partnership's method of accounting and regardless of whether the income is distributed to the partners).[12] A partner's deduction for

[8] Sec. 1502.

[9] Secs. 541-547. In addition, the accumulated earnings tax can be imposed on certain earnings in excess of $250,000 ($150,000 for certain service corporations in certain fields) accumulated beyond the reasonable needs of the business. However, the rate is 20 percent. Secs. 531-537.

[10] Investment income may be subject to additional tax or higher marginal rates because of the 3.8-percent net investment income ("NII") tax under section 1411 and numerous phase-outs of tax benefits, such as the phase-out of the alternative minimum tax exemption (section 55(d)(3)), the overall limitation on itemized deductions (section 68), and the phase-out of personal exemptions (section 151(d)(3)).

[11] Sec. 701.

[12] Sec. 702(a).

partnership losses is limited to the partner's adjusted basis in its partnership interest.[13] Losses not allowed as a result of that limitation generally are carried forward to the next year. A partner's adjusted basis in the partnership interest generally equals the sum of (1) the partner's capital contributions to the partnership, (2) the partner's distributive share of partnership income, and (3) the partner's share of partnership liabilities, less (1) the partner's distributive share of losses allowed as a deduction and certain nondeductible expenditures, and (2) any partnership distributions to the partner.[14] Partners generally may receive distributions of partnership property without recognition of gain or loss, subject to some exceptions.[15]

Partnerships provide partners with a significant amount of flexibility to vary their respective shares of partnership income. In contrast with a corporation and its shareholders (for which the Code prescribes rules that generally do not allow different treatment of similarly situated shareholders), partnerships may allocate items of income, gain, loss, deduction, and credit among the partners, provided the allocations have what the Code refers to as "substantial economic effect."[16] In general, an allocation has substantial economic effect to the extent the partner to which the allocation is made receives the economic benefit or bears the economic burden of such allocation and the allocation substantially affects the dollar amounts to be received by the partners from the partnership independent of tax consequences.[17]

Limited liability companies

While States have long permitted businesses to organize as partnerships and corporations, over the last 40 years States have enacted laws providing for another form of entity, the LLC.[18] LLCs are neither partnerships nor corporations under applicable State law, but they generally provide limited liability to their owners with respect to obligations of the business.

Under Treasury regulations promulgated in 1996, any domestic nonpublicly traded unincorporated entity with two or more members generally is treated as a partnership for federal income tax purposes, while any single-member domestic unincorporated entity generally is treated as disregarded for Federal income tax purposes (*i.e.*, treated as not separate from its

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[13] Sec. 704(d). In addition, passive loss and at-risk limitations limit the extent to which certain types of income can be offset by partnership deductions (sections 469 and 465). These limitations do not apply to corporate partners (except certain closely-held corporations) and may not be important to individual partners who have partner-level passive income from other investments.

[14] Sec. 705.

[15] Sec. 731. Gain or loss may nevertheless be recognized, for example, on the distribution of money or marketable securities, distributions with respect to contributed property, or in the case of disproportionate distributions (which can result in ordinary income).

[16] Sec. 704(b)(2).

[17] Treas. Reg. sec. 1.704-1(b)(2).

[18] The first LLC statute was enacted in Wyoming in 1977. All States (and the District of Columbia) now have an LLC statute, though the tax treatment of LLCs for State tax purposes may differ.

owner). Instead of the applicable default treatment, however, an LLC may elect to be treated as a corporation for Federal income tax purposes.[19] The regulations providing this election, known as the "check-the-box" regulations, were a response, in part, to the growth in popularity of LLCs as a form of doing business.

Publicly traded partnerships

Under present law, a publicly traded partnership generally is treated as a corporation for Federal tax purposes.[20] For this purpose, a publicly traded partnership means any partnership if interests in the partnership are traded on an established securities market or interests in the partnership are readily tradable on a secondary market (or the substantial equivalent thereof).[21]

An exception from corporate treatment is provided for certain publicly traded partnerships, 90 percent or more of whose gross income is qualifying income.[22] However, this exception does not apply to any partnership resembling a mutual fund (*i.e.*, that would be described in section 851(a) if it were a domestic corporation), which includes a corporation registered under the Investment Company Act of 1940[23] as a management company or unit investment trust.[24]

Qualifying income is defined to include interest, dividends, and gains from the disposition of a capital asset (or of property described in section 1231(b)) that is held for the production of income that is qualifying income.[25] Qualifying income also includes rents from real property, gains from the sale or other disposition of real property, and income and gains from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil, or products thereof), or the marketing of any mineral or natural resource (including fertilizer, geothermal energy, and timber), industrial source carbon dioxide, or the transportation or storage of certain fuel mixtures, alternative fuel, alcohol fuel, or biodiesel fuel. It also includes income and gains from commodities (not described in section 1221(a)(1)) or futures, options, or forward contracts with respect to such commodities (including

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[19] Treas. Reg. sec. 301.7701-3.

[20] Sec. 7704(a). The reasons for change stated by the Ways and Means Committee when the provision was enacted provide in part: "[t]he recent proliferation of publicly traded partnerships has come to the committee's attention. The growth in such partnerships has caused concern about long-term erosion of the corporate tax base." H.R. Rep. 100-391, Omnibus Reconciliation Act of 1987, October 26, 1987, p. 1065.

[21] Sec. 7704(b).

[22] Sec. 7704(c)(2).

[23] Pub. L. No. 76-768 (1940).

[24] Sec. 7704(c)(3).

[25] Sec. 7704(d).

foreign currency transactions of a commodity pool) where a principal activity of the partnership is the buying and selling of such commodities, futures, options, or forward contracts.

S corporations

Generally

For Federal income tax purposes, an S corporation[26] generally is not subject to tax at the corporate level.[27] Items of income (including tax-exempt income), gain, loss, deduction, and credit of the S corporation are taken into account by the S corporation shareholders in computing their income tax liabilities (based on the S corporation's method of accounting and regardless of whether the income is distributed to the shareholders). A shareholder's deduction for corporate losses is limited to the sum of the shareholder's adjusted basis in its S corporation stock and the indebtedness of the S corporation to such shareholder. Losses not allowed as a result of that limitation generally are carried forward to the next year. A shareholder's adjusted basis in the S corporation stock generally equals the sum of (1) the shareholder's capital contributions to the S corporation and (2) the shareholder's pro rata share of S corporation income, less (1) the shareholder's pro rata share of losses allowed as a deduction and certain nondeductible expenditures, and (2) any S corporation distributions to the shareholder.[28]

To be eligible to elect S corporation status, a corporation may not have more than 100 shareholders and may not have more than one class of stock.[29] Only individuals (other than nonresident aliens), certain tax-exempt organizations, and certain trusts and estates are permitted shareholders of an S corporation. A corporation may elect S corporation status only with the consent of all of its shareholders, and may terminate its election with the consent of shareholders holding more than 50 percent of the stock.[30] Although there are limitations on the types of shareholders and stock structure an S corporation may have, businesses organized as S corporations may be as large as those organized as C corporations or partnerships. Certain corporations may not elect S corporation status, including financial institutions using the reserve

[26] An S corporation is so named because its Federal tax treatment is governed by subchapter S of the Code.

[27] Secs. 1363 and 1366.

[28] Sec. 1367. If any amount that would reduce the adjusted basis of a shareholder's S corporation stock exceeds the amount that would reduce that basis to zero, the excess is applied to reduce (but not below zero) the shareholder's basis in any indebtedness of the S corporation to the shareholder. If, after a reduction in the basis of such indebtedness, there is an event that would increase the adjusted basis of the shareholder's S corporation stock, such increase is instead first applied to restore the reduction in the basis of the shareholder's indebtedness. Sec. 1367(b)(2).

[29] Sec. 1361. For this purpose, a husband and wife and all members of a family are treated as one shareholder. Sec. 1361(c)(1).

[30] Sec. 1362.

method of accounting for bad debts and insurance companies subject to tax under subchapter L.[31]

In general, an S corporation shareholder is not subject to tax on corporate distributions unless the distributions exceed the shareholder's basis in the stock of the corporation.

S corporations that were previously C corporations

There are two principal exceptions to the general pass-through treatment of S corporations. Both are applicable only if the S corporation was previously a C corporation. The first applies when the C corporation has appreciated assets, and the second applies when the C corporation has accumulated earnings and profits.[32]

First, if a C corporation elects to be an S corporation (or transfers assets to an S corporation in a carryover basis transaction), certain net built-in gains that are attributable to the period in which it was a C corporation, and that are recognized during the first five years in which the former C corporation is an S corporation, are subject to corporate-level tax.[33]

Second, an S corporation with accumulated earnings and profits is subject to corporate tax on excess net passive investment income (but not in excess of its taxable income, subject to certain adjustments), if more than 25 percent of its gross receipts for the year are passive investment income.[34]

Further, while an S corporation shareholder generally is not subject to tax on corporate distributions unless the distributions exceed the shareholder's basis in the stock of the corporation, distributions from an S corporation generally are taxed to shareholders as dividends to the extent of the S corporation's accumulated earnings and profits.[35]

Sole proprietorships

Unlike a C corporation, partnership, or S corporation, a business conducted as a sole proprietorship is not treated as an entity distinct from its owner for Federal income tax

[31] Sec. 1361(b)(2).

[32] The second also applies to appreciated assets that are transferred by a C corporation to an S corporation in a carryover basis transaction.

[33] Sec. 1374. The period was seven years for taxable years beginning in 2009 and 2010, and five years for taxable years beginning in 2011, 2012, 2013, and 2014.

[34] Sec. 1375. Subchapter C earnings and profits generally refers to the earnings of the corporation prior to its subchapter S election which would have been taxable as dividends if distributed to shareholders by the corporation prior to its subchapter S election. If the S corporation continues to have C corporation earnings and profits and has gross receipts more than 25 percent of which are passive investment income in each year for three consecutive years, the S corporation election is automatically terminated. Sec. 1362(d)(3).

[35] Sec. 1368.

purposes.[36] Rather, the business owner is taxed directly on business income, and files Schedule C (sole proprietorships generally), Schedule E (rental real estate and royalties), or Schedule F (farms) with his or her individual tax return. Furthermore, transfer of a sole proprietorship is treated as a transfer of each individual asset of the business. Nonetheless, a sole proprietorship is treated as an entity separate from its owner for employment tax purposes, [37] for certain excise taxes,[38] and certain information reporting requirements.[39]

4. Comparison of features of C corporations, partnerships, S corporations, and sole proprietorships

Although for Federal tax purposes S corporations and partnerships are pass-through entities, the partnership and S corporation tax rules differ from one another in several significant ways. First, corporate liabilities are not included in a shareholder's basis in its S corporation stock, whereas a partner's share of partnership-level debt generally is included in the partner's basis in its partnership interest. An S corporation shareholder, however, may take corporate deductions against both the shareholder's adjusted basis in its S corporation stock and indebtedness of the S corporation to such shareholder. Thus, an S corporation shareholder might be able to create basis against which to take corporate deductions by borrowing and then lending such borrowed amounts to the S corporation.

Further, S corporations have only one class of stock and so do not offer the same flexibility as partnerships to allocate income and loss among investors.

If a tax-exempt entity (including any individual retirement account or qualified retirement plan) is an equity investor in a partnership, its share of business income of the partnership is subject to unrelated business income tax. Similarly, if a tax-exempt entity is a shareholder in an S corporation, its share of business income of the S corporation generally is subject to unrelated business income tax, except that an employee stock ownership plan ("ESOP") is permitted to be a shareholder in an S corporation without unrelated business income tax.[40]

Debt and equity investments also provide different consequences to certain types of investors in the pass-through regimes of partnerships and S corporations. In a partnership, tax-exempt or foreign persons generally are not taxed on interest on debt of the partnership, but generally are taxed on their distributive shares of partnership income attributable to an equity

[36] As noted above, a single-member unincorporated entity is disregarded for Federal income tax purposes, unless its owner elects to be treated as a C corporation. Treas. Reg. sec. 301.7701-3(b)(1)(ii). Sole proprietorships often are conducted through legal entities for nontax reasons. While sole proprietorships generally may have no more than one owner, a married couple that files a joint return and jointly owns and operates a business may elect to have that business treated as a sole proprietorship under section 761(f).

[37] Treas. Reg. sec. 301.7701-2(c)(2)(iv).

[38] Treas. Reg. sec. 301.7701-2(c)(2)(v).

[39] Treas. Reg. sec. 301.7701-2(c)(2)(vi).

[40] Sec. 512(e)(3).

interest as a partner in the partnership. The S corporation rules generally do not permit tax-exempt investors or foreign investors to own stock of an S corporation. Those tax-exempt investors that may own S corporation stock, with the exception of employee stock ownership plans, are subject to an unrelated business income tax on their share of S corporation income. These factors can lead to a preference for structuring partnership or S corporation investment by such investors as debt.

A C corporation may convert to an S corporation, but not a partnership, without immediate recognition of gain at either the corporate or the shareholder level. Since 1986, the liquidation of a C corporation has required the corporation to recognize gain on its assets. A conversion of a C corporation to a partnership is treated as a liquidation of the C corporation. However, the conversion of a C corporation to an S corporation (achieved through electing S corporation status) is not treated as a liquidation of the C corporation. (Certain built-in gain of a C corporation that elects S corporation status remains subject to C corporation tax if recognized within five years after the conversion.) Thus, if a C corporation can satisfy the limits on the number and types of shareholders, the single class of stock requirement, and other requirements for S corporation status, a conversion of a C corporation to an S corporation is not taxable, and all post-conversion income and appreciation of assets in the entity are subject only to shareholder-level tax.

Unlike a partnership or S corporation, a sole proprietorship generally is disregarded as an entity separate from its owner. An entity may not qualify as a sole proprietorship if it has more than one owner, while an entity may not qualify as a partnership unless it has more than one owner. S corporations may, but are not required to, have more than one owner.

The following chart lists the principal differences in the taxation of C corporations, partnerships, S corporations, sole proprietorships, and their owners.

Principal Differences in Taxation of C Corporations, Partnerships, S Corporations, and Sole Proprietorships

Item	C Corporations	Partnerships	S Corporations	Sole Proprietorships
Maximum number of owners	No maximum number.	No maximum number.	Maximum number of shareholders is 100. For this purpose, family members are treated as one shareholder.	One individual, or spouses filing jointly who materially participate in a trade or business that is a qualified joint venture.
Maximum number of classes of ownership interests	No limitation.	No limitation.	One class of stock. Voting rights are disregarded in making this determination.	Not applicable.
Permissible owners	No restrictions.	No restrictions.	Individuals (other than nonresident aliens), certain tax-exempt organizations, ESOPs, and certain trusts and estates.	Individuals.
Foreign taxpayers as owners	Eligible to be a shareholder; dividends subject to withholding tax with possible reduced treaty rate; generally no tax on sale of stock.	Eligible to be a partner; treated as engaged in a U.S. trade or business; certain income subject to withholding tax.	Ineligible to be a shareholder.	Eligible to be an owner; treated as engaged in a U.S. trade or business; certain income subject to withholding tax.
Restrictions on trade or business activities or on place of organization	None.	None.	S corporations may not be foreign corporations, financial institutions using reserve method of accounting, insurance	None.

Item	C Corporations	Partnerships	S Corporations	Sole Proprietorships
			companies, or DISCs or former DISCs.	
Tax-exempt taxpayers as owners	Eligible to be a shareholder; dividends generally not subject to unrelated business income tax.	Eligible to be a partner; income subject to unrelated business income tax.	Tax-exempt taxpayers (other than charities and qualified retirement plans) ineligible to be shareholders. All items of income and loss of charities and qualified retirement plans (other than ESOPs) included in unrelated business taxable income; items of income and loss of ESOPs not included in unrelated business taxable income.	Ineligible to be an owner.
Trusts as owners	Eligible to be a shareholder; usual trust taxation rules apply.	Eligible to be a partner; usual trust taxation rules apply.	Only qualified subchapter S trusts and electing small business trusts eligible as shareholders; special taxation rules apply.	Ineligible to be an owner.
Allocation of income and losses to owners	Not applicable (income and losses do not pass through).	Allocation in accordance with partnership agreement so long as allocation has substantial economic effect, or is in accordance with the partner's interest in the partnership.	Pro rata among shares on a daily basis.	All income and losses allocated to owner.

Item	C Corporations	Partnerships	S Corporations	Sole Proprietorships
Limitation on deductibility of losses	Losses are deductible against corporate income; losses of certain closely-held corporations limited to corporation's amount at risk in the business and subject to circumscribed passive loss limitations.	Losses allocated to partners are limited to basis in partnership interest, which includes partner's share of partnership debt; losses subject to at-risk rules at owner level; passive loss limitations apply at owner level.	Losses allocated to shareholders are limited to basis in stock and indebtedness of corporation to shareholder; no inclusion of corporate debt in shareholder basis; losses subject to at-risk rules at owner level; passive loss limitations apply at owner level.	Losses are limited to owner's amount at risk in the business; passive loss limitations apply.
Net operating losses	NOLs generally can be carried back two years and forward 20 years at the entity level.	NOLs generally can be carried back two years and forward 20 years at the owner level.	NOLs generally can be carried back two years and forward 20 years at the owner level.	NOLs generally can be carried back two years and forward 20 years at the owner level.
Capital losses	Capital losses limited to capital gains; net capital losses generally can be carried back three years and forward five years at the entity level.	Capital losses of partners who are individuals are limited to capital gains plus $3,000; net capital losses generally can be carried forward indefinitely at the owner level.	Capital losses of shareholders who are individuals are limited to capital gains plus $3,000; net capital losses generally can be carried forward indefinitely at the owner level.	Capital losses limited to capital gains plus $3,000; net capital losses generally can be carried forward indefinitely.
Contributions of property to entity	Tax-free if transferors are in control of the company after the exchange; possible exception where	Tax-free; built-in gain or loss allocated to contributing partner.	Tax-free (if control requirement met); no special rules allocating built-in gain or loss to contributor.	Not applicable.

Item	C Corporations	Partnerships	S Corporations	Sole Proprietorships
	contributed property is subject to debt.			
Distributions of property (liquidating or otherwise)	Any gain in distributed property is taxable to the corporation; shareholder taxed if amount of distribution exceeds stock basis.	Generally tax-free; carryover or substituted basis to partner; partnership may elect to make basis adjustment in partnership property to reflect adjustments to distributee partner.	Any gain in distributed property is taxable to the shareholders; fair market value basis to shareholder; no basis adjustments to corporate property.	Not applicable.
Transfer of equity interests	Gain generally treated as capital; reorganization rules for specified corporate transactions provide tax-free treatment if requirements for transactions are met.	Gain generally treated as capital, except gain treated as ordinary income to extent of ordinary income on assets held by partnership; partnership may elect to adjust basis of its assets with respect to transferee partner to reflect purchase price.	Gain treated as capital; no ordinary income look-through provision; no adjustments to basis of corporate property.	Transfer of ownership treated as a sale of the assets of the business.
Treatment of C corporation converting to partnership, S corporation, or sole proprietorship	Not applicable.	Gain or loss generally recognized to corporation and shareholders.	Generally no taxation upon election; corporate tax is imposed on built-in gain if assets sold during five-year period after election effective; distribution of subchapter C earnings and profits taxable as a dividend;	Gain or loss generally recognized to corporation and shareholders.

Item	C Corporations	Partnerships	S Corporations	Sole Proprietorships
			special rules applicable to a corporation with accumulated earnings and profits and excess net passive investment income.	
Mergers and other reorganizations with corporations	Generally tax-free.	Not eligible to engage in tax-free reorganization with corporation.	Eligible party to a tax-free corporate reorganization.	Not applicable (treated as asset acquisition or contribution).
Corporate tax rules of subchapter C	Rules applicable.	Rules inapplicable.	Rules generally applicable.	Rules inapplicable.
Wholly-owned corporate subsidiary	Corporate parent not subject to tax on dividends or liquidating distributions of subsidiary.	Subsidiary treated as separate entity.	Subsidiary may elect to be treated as part of parent S corporation.	Sole proprietorship owner treated as holding subsidiary stock directly.
Application of employment and self-employment (OASDI and HI) taxes to owners	Amounts paid as compensation to a shareholder-employee are wages subject to FICA; no amounts are net earnings from self-employment; dividend payments to owners not subject to employment or self-employment tax.	Partner's share of net business income is generally net earnings from self-employment except in certain cases involving a limited partner not performing services.	Amounts paid as compensation to a shareholder-employee are wages subject to FICA; no amount of shareholder's share of S corporation income is net earnings from self-employment; case law provides "reasonable compensation" is wages subject to FICA.	Owner's net business income is net earnings from self-employment.

Item	C Corporations	Partnerships	S Corporations	Sole Proprietorships
Treatment of earnings as investment income for purposes of the NII tax	Dividends paid to individuals by C corporations are treated as investment income for the NII tax.	Business income of limited partners who are not performing services is treated as investment income for the NII tax.	Business income of S corporation shareholders not active in the business is treated as investment income for the NII tax.	Owner's net business income not subject to NII tax.

B. Taxable Income of Businesses

1. Generally

Taxable income of businesses generally comprises gross income less allowable deductions, with the specific rules depending on the choice of business entity. 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, incidental materials and supplies, contributions to profit-sharing and pension plans and other employee benefit programs, repairs, bad debts, taxes (other than Federal income taxes), contributions to charitable organizations (subject to an income limitation), advertising,[41] interest expense, certain losses, selling expenses, and other expenses. 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. A net operating loss incurred in one taxable year generally may be carried back two years and carried forward 20 years.[42] A corporation may not deduct the amount of capital losses in excess of capital gains for any taxable year,[43] and may carry disallowed capital losses back three years and forward five years,[44] while individuals' capital loss deductions are limited to capital gains plus $3,000,[45] and may be carried forward indefinitely.[46] Moreover, a deduction is allowed for a portion of the amount of income attributable to certain manufacturing activities.[47]

Certain expenditures may not be deducted, such as dividends paid to shareholders, expenses associated with earning tax-exempt income,[48] certain entertainment expenditures, certain executive compensation in excess of $1,000,000 per year, a portion of the interest on

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[41] Advertising expenses generally are deductible as ordinary and necessary business expenses in the year in which they are paid or incurred.

[42] Sec. 172(b)(1)(A).

[43] Sec. 1211(a).

[44] Sec. 1212(a)(1).

[45] Sec. 1211(b).

[46] Sec. 1212(b)(1).

[47] Sec. 199.

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

certain high-yield debt obligations of corporations that resemble equity, as well as fines, penalties, bribes, kickbacks, and illegal payments.

2. Accounting methods

In general

A taxpayer must compute its taxable income under a method of accounting on the basis of which the taxpayer regularly keeps its books so long as, in the opinion of the Secretary of the Treasury (the "Secretary"), such method clearly reflects the taxpayer's income.[49] Among the permissible methods of accounting are the cash receipts and disbursements method (the "cash method"), an accrual method, any other method permitted or required under the Code, or any hybrid method allowed under regulations. A taxpayer may change its method of accounting with the consent of the Secretary.

Special statutory rules allow farmers and small businesses to use accounting methods that are unavailable to larger taxpayers. Many of these rules are designed to alleviate the tax accounting burdens of small businesses, while other rules are designed to provide a tax incentive. Some of these special rules are described below.

Cash and accrual methods

Taxpayers using the cash method generally recognize items of income when actually or constructively received and items of expense when paid. The cash method is administratively easy and provides the taxpayer flexibility in the timing of income recognition. It is the method generally used by most individual taxpayers, including farm and nonfarm sole proprietorships.

Taxpayers using an accrual method generally accrue items of income 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.[50] Taxpayers using an accrual method of accounting generally may not deduct items of expense prior to when all 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.[51] Accrual methods of accounting generally result in a more accurate measure of economic income than does the cash method. The accrual method is often used by businesses for financial accounting purposes.

A C corporation, a partnership that has a C corporation as a partner, or a tax-exempt trust or corporation with unrelated business income generally may not use the cash method. Exceptions are made for farming businesses, qualified personal service corporations, and the aforementioned entities to the extent their average annual gross receipts do not exceed $5 million

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[49] Sec. 446.

[50] See, *e.g.*, sec. 451.

[51] See, *e.g.*, sec. 461.

for all prior years (including the prior taxable years of any predecessor of the entity) (the "gross receipts test"). The cash method may not be used by any tax shelter.[52] In addition, the cash method generally may not be used if the purchase, production, or sale of merchandise is an income producing factor.[53] Such taxpayers generally are required to keep inventories and use an accrual method with respect to inventory items.[54]

A farming business is defined as a trade or business of farming, including operating a nursery or sod farm, or the raising or harvesting of trees bearing fruit, nuts, or other crops, timber, or ornamental trees.[55] Such farming businesses are not precluded from using the cash method regardless of whether they meet the gross receipts test.[56]

A qualified personal service corporation is a corporation: (1) substantially all of whose activities involve the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, and (2) substantially all of the stock of which is owned by current or former employees performing such services, their estates, or heirs.[57] Qualified personal service corporations are allowed to use the cash method without regard to whether they meet the gross receipts test.[58]

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[52] Secs. 448(a)(3), 448(d)(3), and 461(i)(3) and (4). For this purpose, a tax shelter includes: (1) any enterprise (other than a C corporation) if at any time interests in such enterprise have been offered for sale in any offering required to be registered with any Federal or State agency having the authority to regulate the offering of securities for sale; (2) any syndicate (within the meaning of section 1256(e)(3)(B)); or (3) any tax shelter as defined in section 6662(d)(2)(C)(ii). In the case of a farming trade or business, a tax shelter includes any tax shelter as defined in section 6662(d)(2)(C)(ii) or any partnership or any other enterprise other than a corporation which is not an S corporation engaged in the trade or business of farming, (1) if at any time interests in such partnership or enterprise have been offered for sale in any offering required to be registered with any Federal or State agency having authority to regulate the offering of securities for sale or (2) if more than 35 percent of the losses during any period are allocable to limited partners or limited entrepreneurs.

[53] Treas. Reg. secs. 1.446-1(c)(2) and 1.471-1.

[54] Sec. 471; *Ibid*.

[55] Secs. 263A(e)(4) and 448(d)(1).

[56] However, section 447 generally requires a farming C corporation (and any farming partnership if a C corporation is a partner in such partnership) to use an accrual method of accounting. Section 447 does not apply to nursery or sod farms, to the raising or harvesting of trees (other than fruit and nut trees), nor to farming C corporations meeting a gross receipts test with a $1 million threshold. For family farm C corporations, the threshold under the gross receipts test is $25 million. For farmers, nurserymen, and florists not required by section 447 to capitalize preproductive period expenses, section 352 of the Revenue Act of 1978 (Pub. L. No. 95-600) provides that such taxpayers are not required to inventory growing crops.

[57] Sec. 448(d)(2).

[58] Sec. 448(b)(2).

3. 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[59] and recovered over time through depreciation, amortization, or depletion allowances.[60] In addition, if the production, purchase, or sale of merchandise is an income-producing factor to a taxpayer, the taxpayer must generally account for inventories.[61]

Depreciation

A taxpayer is allowed to recover through annual depreciation deductions the capitalized costs of certain property used in a trade or business or for the production of income.[62] Under the modified accelerated cost recovery system ("MACRS"), the amount of the depreciation deduction allowed with respect to tangible property for a taxable year is determined for different types of property based on an assigned applicable depreciation method, recovery period, and convention.[63]

Bonus depreciation

An additional first-year depreciation deduction is allowed equal to 50 percent of the adjusted basis of qualified property acquired and placed in service before January 1, 2020 (January 1, 2021 for certain longer-lived and transportation property).[64] The 50-percent allowance is phased down for taxable years beginning after 2017 (after 2018 for certain longer-lived and transportation property). Special rules are provided for passenger automobiles and certain plants bearing fruits and nuts.

The additional first-year depreciation deduction is allowed for both the regular tax and the alternative minimum tax ("AMT"),[65] but is not allowed in computing earnings and profits.[66] The basis of the property and the depreciation allowances in the year of purchase and later years are appropriately adjusted to reflect the additional first-year depreciation deduction.[67] The

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[59] See sec. 263(a).

[60] See secs. 167, 168, 197, and 611.

[61] See secs. 471, 472, and 263A. See also Treas. Reg. sec. 1.471-1.

[62] Sec. 167(a).

[63] Sec. 168. See also Rev. Proc. 87-56, 1987-2 C.B. 674.

[64] Sec. 168(k). The additional first-year depreciation deduction is subject to the general rules regarding whether a cost must be capitalized under section 263A.

[65] Sec. 168(k)(2)(G). See also Treas. Reg. sec. 1.168(k)-1(d).

[66] Treas. Reg. sec. 1.168(k)-1(f)(7).

[67] Sec. 168(k)(1)(B).

amount of the additional first-year depreciation deduction is not affected by a short taxable year.[68] The taxpayer may elect out of additional first-year depreciation for any class of property for any taxable year.[69] In addition, a corporation otherwise eligible for additional first-year depreciation may elect to claim additional AMT credits in lieu of claiming additional depreciation with respect to "eligible qualified property."[70]

Expensing

Section 179 permits a taxpayer to elect to currently deduct (or "expense") the cost of qualifying property, rather than recover such costs through depreciation deductions, subject to limitation.[71] The maximum amount a taxpayer may expense is $500,000 of the cost of qualifying property placed in service for the taxable year.[72] The $500,000 amount is reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the taxable year exceeds $2,000,000.[73] The $500,000 and $2,000,000 amounts are indexed for inflation for taxable years beginning after 2015.[74] In general, qualifying property is defined as depreciable tangible personal property that is purchased for use in the active conduct of a trade or business.[75] Qualifying property also includes off-the-shelf computer software and qualified real property (*i.e.*, qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property).[76]

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[68] *Ibid*.

[69] Sec. 168(k)(2)(D)(iii). For the definition of a class of property, see Treas. Reg. sec. 1.168(k)-1(e)(2).

[70] Sec. 168(k)(4).

[71] Additional section 179 incentives have been provided with respect to qualified property meeting applicable requirements that is used by a business in an enterprise zone (sec. 1397A), a renewal community (sec. 1400J), the New York Liberty Zone (sec. 1400L(f)), or the Gulf Opportunity Zone (sec. 1400N(e)). In addition, section 179(e) provides for an enhanced section 179 deduction for qualified disaster assistance property.

[72] For the years 2003 through 2006, the relevant dollar amount is $100,000 (indexed for inflation); in 2007, the dollar amount is $125,000; for the 2008 and 2009 years, the relevant dollar amount is $250,000; and for 2010 and thereafter, the relevant dollar amount is $500,000. Sec. 179(b)(1).

[73] For the years 2003 through 2006, the relevant dollar amount is $400,000 (indexed for inflation); in 2007, the relevant dollar amount is $500,000; for the 2008 and 2009 years, the relevant dollar amount is $800,000; and for 2010 and thereafter, the relevant dollar amount is $2,000,000. Sec. 179(b)(2).

[74] Sec. 179(b)(6).

[75] Qualifying property does not include any property described in section 50(b). Sec. 179(d)(1). Passenger automobiles subject to the section 280F limitation are eligible for section 179 expensing only to the extent of the dollar limitations in section 280F. For sport utility vehicles above the 6,000 pound weight rating, which are not subject to the limitation under section 280F, the maximum cost that may be expensed for any taxable year under section 179 is $25,000. Sec. 179(b)(5).

[76] Sec. 179(d)(1)(A)(ii) and (f). For taxable years beginning after 2009 and before 2016, of the $500,000 expense amount available under section 179, the maximum amount available with respect to qualified real property

The amount eligible to be expensed for a taxable year may not exceed the taxable income for such taxable year that is derived from the active conduct of a trade or business (determined without regard to this provision).[77] Any amount that is not allowed as a deduction because of the taxable income limitation may be carried forward to succeeding taxable years (subject to limitations). In the case of a partnership (or S corporation), the $500,000, $2,000,000, and taxable income limitations are applied at the partnership (or corporate) and partner (or shareholder) levels.[78]

No general business credit under section 38 is allowed with respect to any amount for which a deduction is allowed under section 179.[79] If a corporation makes an election under section 179 to deduct expenditures, the full amount of the deduction does not reduce earnings and profits. Rather, the expenditures that are deducted reduce corporate earnings and profits ratably over a five-year period.[80]

An expensing election is made under rules prescribed by the Secretary.[81]

Capitalization of costs into inventories

Inventories generally

In general, for Federal income tax purposes, taxpayers must account for inventories if the production, purchase, or sale of merchandise is an income-producing factor to the taxpayer.[82] Treasury regulations also provide that in any case in which it is necessary to use an inventory, the accrual method must be used with regard to purchases and sales.[83] However, an exception is provided for taxpayers whose average annual gross receipts do not exceed $1 million.[84] A second exception is provided for taxpayers in certain industries whose average annual gross receipts do not exceed $10 million and that are not otherwise prohibited from using the cash

was $250,000 for each taxable year. The Protecting Americans from Tax Hikes Act of 2015, Pub. L. No. 114-113, Division Q (the "PATH Act"), removed this limitation for taxable years beginning after 2015.

[77] Sec. 179(b)(3).

[78] Sec. 179(d)(8).

[79] Sec. 179(d)(9).

[80] Sec. 312(k)(3)(B).

[81] Sec. 179(c).

[82] Sec. 471(a) and Treas. Reg. sec. 1.471-1.

[83] Treas. Reg. sec. 1.446-1(c)(2).

[84] Rev. Proc. 2001-10, 2001-1 C.B. 272 (December 6, 2000).

method under section 448.[85] Such taxpayers may account for inventory as materials and supplies that are not incidental (*i.e.*, "non-incidental materials and supplies") under Treasury Regulation section 1.162-3.[86]

In those circumstances in which a taxpayer is required to account for inventory, the taxpayer must maintain inventory records to determine the cost of goods sold during the taxable period. Cost of goods sold generally is determined by adding the taxpayer's inventory at the beginning of the period to the purchases made during the period and subtracting from that sum the taxpayer's inventory at the end of the period.

Because of the difficulty of accounting for inventory on an item-by-item basis, taxpayers often use conventions that assume certain item or cost flows. Among these conventions are the first-in, first-out ("FIFO") method, which assumes that the items in ending inventory are those most recently acquired by the taxpayer, and the last-in, first-out ("LIFO") method, which assumes that the items in ending inventory are those earliest acquired by the taxpayer. In 1986, Congress enacted a simplified dollar-value LIFO method for taxpayers with average annual gross receipts of $5 million or less for the three preceding tax years.[87]

<u>Capitalization and inclusion of certain costs in inventories</u>

The uniform capitalization ("UNICAP") rules, which were enacted as part of the Tax Reform Act of 1986,[88] require certain direct and indirect costs allocable to real or tangible personal property produced by the taxpayer to be either included in inventory or capitalized into the basis of such property, as applicable.[89] For real or personal property acquired by the taxpayer for resale, section 263A generally requires certain direct and indirect costs allocable to such property to be either included in inventory or capitalized into the basis of such property, as applicable. Section 263A generally requires the capitalization of the direct and indirect costs allocable to the production of any property in a farming business, including animals and plants without regard to the length of their preproductive period.[90]

Direct costs generally are the costs directly associated with the production of a good (*i.e.*, the materials and labor applied in the production of the good). Indirect costs are costs associated with functions removed from the direct production of the good (*e.g.*, overhead and administrative costs). In determining whether indirect costs are allocable to production or resale activities,

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[85] Rev. Proc. 2002-28, 2002-1 C.B. 815 (April 12, 2002).

[86] Under Treas. Reg. sec. 1.162-3(a)(1), a deduction is generally permitted for the cost of non-incidental materials and supplies in the taxable year in which they are first used or are consumed in the taxpayer's operations.

[87] Secs. 474(a) and (c).

[88] Sec. 803(a) of Pub. L. No. 99-514 (1986).

[89] Sec. 263A.

[90] Treas. Reg. sec. 1.263A-4(b)(1).

taxpayers are allowed to use various methods so long as the method employed reasonably allocates indirect costs to production and resale activities.

Section 263A provides a number of exceptions to the general uniform capitalization requirements. One such exception exists for taxpayers who acquire property for resale and have $10 million or less of average annual gross receipts for the preceding three-taxable year period;[91] such taxpayers are not required to include additional section 263A costs in inventory costs.

Freelance authors, photographers, and artists also are exempt from section 263A for any qualified creative expenses.[92] Qualified creative expenses are defined as amounts paid or incurred by an individual in the trade or business of being a writer, photographer, or artist. However, such term does not include any expense related to printing, photographic plates, motion picture files, video tapes, or similar items.

Special rules for farmers

Section 263A provides an exception to the general capitalization requirements for taxpayers who raise, harvest, or grow trees.[93] Under this exception, section 263A does not apply to trees raised, harvested, or grown by the taxpayer (other than trees bearing fruit, nuts, or other crops, or ornamental trees) and any real property underlying such trees. Similarly, the UNICAP rules do not apply to any plant having a preproductive period of two years or less or to any animal, which is produced by a taxpayer in a farming business (unless the taxpayer is required to use an accrual method of accounting under section 447 or 448(a)(3)).[94] Hence, in general, the UNICAP rules apply to the production of plants that have a preproductive period of more than two years, and to taxpayers required to use an accrual method of accounting.

Plant farmers otherwise required to capitalize preproductive period costs may elect to deduct such costs currently, provided the alternative depreciation system described in section 168(g)(2) is used on all farm assets and the preproductive period costs are recaptured upon disposition of the product.[95] The election is not available to taxpayers required to use the accrual method of accounting. Moreover, the election is not available with respect to certain costs attributable to planting, cultivating, maintaining, or developing citrus or almond groves.

[91] Sec. 263A(b)(2)(B). No statutory exception is available for small taxpayers who produce property subject to section 263A. However, a *de minimis* rule under Treasury regulations treats producers that use the simplified production method and incur total indirect costs of $200,000 or less in a taxable year as having no additional indirect costs beyond those normally capitalized for financial accounting purposes. Treas. Reg. sec. 1.263A-2(b)(3)(iv).

[92] Sec. 263A(h).

[93] Sec. 263A(c)(5).

[94] Sec. 263A(d).

[95] Sec. 263A(d)(3), (e)(1), and (e)(2).

Section 263A does not apply to costs incurred in replanting edible crops for human consumption following loss or damage due to freezing temperatures, disease, drought, pests, or casualty.[96] The same type of crop as the lost or damaged crop must be replanted. However, the exception to capitalization still applies if the replanting occurs on a parcel of land other than the land on which the damage occurred provided the acreage of the new land does not exceed that of the land to which the damage occurred and the new land is located in the United States. This exception may also apply to costs incurred by persons other than the taxpayer who incurred the loss or damage, provided (1) the taxpayer who incurred the loss or damage retains an equity interest of more than 50 percent in the property on which the loss or damage occurred at all times during the taxable year in which the replanting costs are paid or incurred, and (2) the person holding a minority equity interest and claiming the deduction materially participates in the planting, maintenance, cultivation, or development of the property during the taxable year in which the replanting costs are paid or incurred.[97]

4. Amortization of intangibles

Under section 197, when a taxpayer acquires intangible assets held in connection with a trade or business, any value properly attributable to a "section 197 intangible" is amortizable on a straight-line basis over 15 years.[98] Such intangibles include: goodwill; going concern value; workforce in place including its composition and terms and conditions (contractual or otherwise) of its employment; business books and records, operating systems, or other information base; any patent, copyright, formula, process, design, pattern, knowhow, format, or similar item; customer-based intangibles; supplier-based intangibles; and any other similar item.[99] The definition of a section 197 intangible also includes: any license, permit, or other rights granted by governmental units (even if the right is granted for an indefinite period or is reasonably expected

[96] Sec. 263A(d)(2). Such replanting costs generally include costs attributable to the replanting, cultivating, maintaining, and developing of the plants that were lost or damaged that are incurred during the preproductive period. Treas. Reg. sec. 1.263A-4(e)(1). The acquisition costs of the replacement trees or seedlings must still be capitalized under section 263(a) (see, *e.g.*, T.D. 8897, 65 FR 50638, Treas. Reg. sec. 1.263A-4(e)(3), Examples 1 - 3, and TAM 9547002 (July 18, 1995)), potentially subject to the special bonus depreciation deduction in the year of planting under section 168(k)(5).

[97] Sec. 263A(d)(2)(B). Material participation for this purpose is determined in a similar manner as under section 2032A(e)(6) (relating to qualified use valuation of farm property upon death of the taxpayer).

[98] Sec. 197(a) and (c). A franchise is included in the definition of a section 197 intangible. Sec. 197(d)(1)(F) and (f)(4). A franchise is defined as "an agreement which gives one of the parties to the agreement the right to distribute, sell, or provide goods, services, or facilities, within a specified area." Sec. 1253(b)(1).

[99] Sec. 197(d)(1).

to be renewed indefinitely);[100] any covenant not to compete; and any franchise, trademark, or trade name.[101]

5. Special cost recovery rules for certain energy-related expenditures

The Code has specific provisions for the recovery of costs incurred in connection with certain energy-related expenditures. For example, special rules apply to certain fossil fuel expenses that might otherwise be capitalized, such as geological and geophysical costs[102] and intangible drilling costs.[103]

Similarly, investments in certain solar or wind property are recoverable over five years.[104] In addition, contributions to qualified nuclear decommissioning funds are currently deductible.[105] Other special rules apply to various energy-related activities.[106]

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[100] Sec. 197(d)(1)(D). Examples include a liquor license, a taxi-cab medallion, an airport landing or take-off right, a regulated airline route, or a television or radio broadcasting license. Renewals of such governmental rights are treated as the acquisition of a new 15-year asset. Treas. Reg. sec. 1.197-2(b)(8). A license, permit, or other right granted by a governmental unit is a franchise if it otherwise meets the definition of a franchise. Treas. Reg. sec. 1.197-2(b)(10). Section 197 intangibles do not include certain rights granted by a government not considered part of the acquisition of a trade or business. Sec. 197(e)(4)(B) and Treas. Reg. sec. 1.197-2(c)(13).

[101] Sec. 197(d)(1)(F).

[102] Under section 167(h), geological and geophysical expenditures (“G&G costs”) (*e.g.*, expenditures for geologists, seismic surveys, gravity meter surveys, and magnetic surveys) incurred by independent producers and smaller integrated oil companies in connection with oil and gas exploration in the United States generally may be amortized over 24 months. Major integrated oil companies are generally required to amortize all G&G costs over seven years. In the case of abandoned property, remaining basis may not be recovered in the year of abandonment, but instead must continue to be amortized over the remaining applicable amortization period.

[103] Sec. 263(c). Under section 263(c), an operator or working interest owner that pays or incurs intangible drilling and development costs (“IDCs”) in the development of an oil or gas property located in the United States may elect either to expense or capitalize those costs. If an election to expense IDCs is made, the taxpayer generally deducts the amount of the IDCs as an expense in the taxable year the cost is paid or incurred. Generally, if IDCs are not expensed, but are capitalized, they may be recovered through depletion or depreciation, as appropriate. For an integrated oil company that has elected to expense IDCs, 30 percent of the IDCs on productive wells must be capitalized and amortized over a 60-month period. Sec. 291(b)(1)(A). In addition, pursuant to a special exception, the uniform capitalization rules do not apply to IDCs incurred with respect to oil or gas wells that are otherwise deductible under the Code. Sec. 263A(c)(3).

[104] Secs. 168(e)(3)(B)(vi) and 48(a)(3)(A).

[105] Sec. 468A.

[106] See Joint Committee on Taxation, *Present Law and Analysis of Energy-Related Tax Expenditures* (JCX-46-16), June 9, 2016.

6. Accounting for long-term contracts

In general, in the case of a long-term contract, the taxable income from the contract is determined under the percentage-of-completion method.[107] Under this method, the taxpayer must include in gross income for the taxable year an amount equal to the product of (1) the gross contract price and (2) the percentage of the contract completed during the taxable year.[108] The percentage of the contract completed during the taxable year is determined by comparing costs allocated to the contract and incurred before the end of the taxable year with the estimated total contract costs.[109] Costs allocated to the contract typically include all costs (including depreciation) that directly benefit or are incurred by reason of the taxpayer's long-term contract activities.[110] The allocation of costs to a contract is made in accordance with regulations.[111] Costs incurred with respect to the long-term contract are deductible in the year incurred, subject to general accrual method of accounting principles and limitations.[112]

An exception from the requirement to use the percentage-of-completion method is provided for certain construction contracts ("small construction contracts"). Contracts within this exception are those contracts for the construction or improvement of real property if the contract: (1) is expected (at the time such contract is entered into) to be completed within two years of commencement of the contract and (2) is performed by a taxpayer whose average annual gross receipts for the prior three taxable years do not exceed $10 million.[113] Thus, long-term contract income from small construction contracts must be reported consistently using the taxpayer's exempt contract method.[114] Permissible exempt contract methods include the completed contract method, the exempt-contract percentage-of-completion method, the percentage-of-completion method, or any other permissible method.[115]

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[107] Sec. 460(a).

[108] See Treas. Reg. sec. 1.460-4. This calculation is done on a cumulative basis. Thus, the amount included in gross income in a particular year is that proportion of the expected contract price that the amount of costs incurred through the end of the taxable year bears to the total expected costs, reduced by the amounts of gross contract price included in gross income in previous taxable years.

[109] Sec. 460(b)(1).

[110] Sec. 460(c).

[111] Treas. Reg. sec. 1.460-5.

[112] Treas. Reg. secs. 1.460-4(b)(2)(iv) and 1.460-1(b)(8).

[113] Secs. 460(e)(1)(B) and (e)(4).

[114] Since such contracts involve the construction of real property, they are subject to the interest capitalization rules without regard to their duration. See Treas. Reg. sec. 1.263A-8.

[115] Treas. Reg. sec. 1.460-4(c)(1).

7. Research and experimental expenditures

Business expenses associated with the development or creation of an asset having a useful life extending beyond the current year generally must be capitalized and depreciated over such useful life.[116] Taxpayers, however, may elect to deduct currently the amount of certain reasonable research or experimentation expenditures paid or incurred in connection with a trade or business.[117] If taxpayers choose to forgo a current deduction, they may capitalize their research expenditures and recover them ratably over the useful life of the research, but in no case over a period of less than 60 months.[118] In the alternative, taxpayers may elect to amortize their research expenditures over a period of 10 years.[119] Generally, such deductions are reduced by the amount of the taxpayer's research credit (discussed in more detail below under "research credit").[120] Research and experimental expenditures deductible under section 174 are not subject to capitalization under either section 263(a)[121] or section 263A.[122]

Amounts defined as research or experimental expenditures under section 174 generally include all costs incurred in the experimental or laboratory sense related to the development or improvement of a product.[123] In particular, qualifying costs are those incurred for activities intended to discover information that would eliminate uncertainty concerning the development or improvement of a product.[124] For purposes of section 174, the term "product" includes any pilot model, process,[125] formula, invention, technique, patent, or similar property whether used by the

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[116] Secs. 167 and 263(a).

[117] Sec. 174(a) and (e).

[118] Sec. 174(b). Taxpayers generating significant short-term losses often choose to defer the deduction for their research and experimentation expenditures under this section. Additionally, section 174 amounts are excluded from the definition of "start-up expenditures" under section 195 (section 195 generally provides that start-up expenditures in excess of $5,000 either are not deductible or are amortizable over a period of not less than 180 months once an active trade or business begins). So as not to generate significant losses before beginning their trade or business, a taxpayer may choose to defer the deduction and amortize its section 174 costs beginning with the month in which the taxpayer first realizes benefits from the expenditures.

[119] Secs. 174(f)(2) and 59(e). This special 10-year election is available to mitigate the effect of the alternative minimum tax adjustment for research expenditures set forth in section 56(b)(2). Taxpayers with significant losses also may elect to amortize their otherwise deductible research and experimentation expenditures to reduce amounts that could be subject to expiration under the net operating loss carryforward regime.

[120] Sec. 280C(c). Taxpayers may alternatively elect to claim a reduced research credit amount under section 41 in lieu of reducing deductions otherwise allowed. Sec. 280C(c)(3).

[121] Sec. 263(a)(1)(B).

[122] Sec. 263A(c)(2).

[123] Treas. Reg. sec. 1.174-2(a)(1) and (2).

[124] Treas. Reg. sec. 1.174-2(a)(1).

[125] Treas. Reg. sec. 1.174-2(a)(11), Example 10, provides an example of new process development costs eligible for section 174 treatment.

taxpayer in its trade or business or held for sale, lease, or license.[126] Uncertainty exists when information available to the taxpayer is not sufficient to ascertain the capability or method for developing, improving, and/or appropriately designing the product.[127] The determination of whether expenditures qualify as deductible research expenses depends on the nature of the activity to which the costs relate, not the nature of the product or improvement being developed or the level of technological advancement the product or improvement represents. Examples of qualifying costs include salaries for those engaged in research or experimentation efforts, amounts incurred to operate and maintain research facilities (*e.g.*, utilities, depreciation, rent), and expenditures for materials and supplies used and consumed in the course of research or experimentation (including amounts incurred in conducting trials).[128] In addition, under administrative guidance, the costs of developing computer software have been accorded treatment similar to research expenditures.[129]

Research or experimental expenditures under section 174 do not include expenditures for quality control testing; efficiency surveys; management studies; consumer surveys; advertising or promotions; the acquisition of another's patent, model, production or process; or research in connection with literary, historical, or similar projects.[130] For purposes of section 174, quality control testing means testing to determine whether particular units of materials or products conform to specified parameters, but does not include testing to determine if the design of the product is appropriate.[131]

Generally, no current deduction under section 174 is allowable for expenditures for the acquisition or improvement of land or of depreciable or depletable property used in connection with any research or experimentation.[132] In addition, no current deduction is allowed for research expenses incurred for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other mineral, including oil and gas.[133]

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[126] Treas. Reg. sec. 1.174-2(a)(3).

[127] Treas. Reg. sec. 1.174-2(a)(1).

[128] See Treas. Reg. sec. 1.174-2. The definition of research and experimental expenditures also includes the costs of obtaining a patent, such as attorneys' fees incurred in making and perfecting a patent. Treas. Reg. sec. 1.174-2(a)(1).

[129] Rev. Proc. 2000-50, 2000-2 C.B. 601.

[130] Treas. Reg. sec. 1.174-2(a)(6).

[131] Treas. Reg. sec. 1.174-2(a)(7).

[132] Sec. 174(c).

[133] Sec. 174(d). Special rules apply with respect to geological and geophysical costs (section 167(h)), qualified tertiary injectant expenses (section 193), intangible drilling costs (sections 263(c) and 291(b)), and mining exploration and development costs (sections 616 and 617).

8. Start-up and organizational expenditures

A taxpayer may elect to deduct up to $5,000 of start-up expenditures in the taxable year in which the active trade or business begins.[134] A corporation or a partnership may elect to deduct up to $5,000 of organizational expenditures in the taxable year in which the active trade or business begins.[135] However, in each case, the $5,000 amount is reduced (but not below zero) by the amount by which the cumulative cost of start-up expenditures (in the case of section 195) or organizational expenditures (in the case of sections 248 and 709) exceeds $50,000.[136] Pursuant to such elections, the remainder of such start-up expenditures or organizational expenditures may be amortized over a period of not less than 180 months, beginning with the month in which the trade or business begins.[137] A taxpayer is deemed to make an election to deduct and amortize start-up or organizational expenditures for the applicable taxable year, unless the taxpayer affirmatively elects to capitalize such amounts on a timely-filed (including extensions) Federal income tax return.[138] Capitalized amounts are recovered when the business is sold, exchanged, or otherwise disposed.[139]

Start-up expenditures are amounts that would have been deductible as trade or business expenses had they not been paid or incurred before business began.[140] Organizational expenditures are expenditures that are incident to the creation of a corporation or the organization of a partnership, are chargeable to capital, and that would be eligible for amortization had they been paid or incurred in connection with the organization of a corporation or partnership with a limited or ascertainable life.[141]

9. Deduction for qualified production activities

Lower rates apply to income from certain domestic production activities.[142] This rate reduction is effected by the allowance of a deduction equal to a percentage of qualifying domestic production activities income. Specifically, present law generally provides a deduction

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[134] Sec. 195(b)(1)(A).

[135] Secs. 248(a)(1) and 709(b)(1)(A).

[136] Secs. 195(b)(1)(A)(ii), 248(a)(1)(B), and 709(b)(1)(A)(ii). However, for taxable years beginning in 2010, the Small Business Jobs Act of 2010, Pub. L. No. 111-240, increased the amount of start-up expenditures a taxpayer could elect to deduct to $10,000, with a phase-out threshold of $60,000. Sec. 195(b)(3).

[137] Secs. 195(b)(1)(B), 248(a)(2), and 709(b)(1)(B).

[138] Treas. Reg. secs. 1.195-1(b), 1.248-1(c), and 1.709-1(b)(2).

[139] Secs. 195(b)(2) and 709(b)(2). See also Treas. Reg. sec. 1.709-1(b)(3) and *Kingsford Co. v. Commissioner*, 41 T.C. 646 (1964).

[140] Sec. 195(c)(1).

[141] Secs. 248(b) and 709(b)(3).

[142] Sec. 199.

from taxable income (or, in the case of an individual, adjusted gross income) that is equal to nine percent of the lesser of the taxpayer's qualified production activities income or taxable income for the taxable year.[143] For corporations subject to the 35-percent corporate income tax rate, the nine-percent deduction effectively reduces the corporate income tax rate to slightly less than 32 percent on qualified production activities income. A similar reduction applies to the graduated rates applicable to individuals with qualifying domestic production activities income.

In general, qualified production activities income is equal to domestic production gross receipts reduced by the sum of: (1) the costs of goods sold that are allocable to those receipts and (2) other expenses, losses, or deductions which are properly allocable to those receipts.

Domestic production gross receipts generally are gross receipts of a taxpayer that are derived from: (1) any sale, exchange, or other disposition, or any lease, rental, or license, of qualifying production property[144] that was manufactured, produced, grown, or extracted by the taxpayer in whole or in significant part within the United States; (2) any sale, exchange, or other disposition, or any lease, rental, or license of qualified film[145] produced by the taxpayer; (3) any lease, rental, license, sale, exchange, or other disposition of electricity, natural gas, or potable water produced by the taxpayer in the United States; (4) construction of real property performed in the United States by a taxpayer in the ordinary course of a construction trade or business; or (5) engineering or architectural services performed in the United States for the construction of real property located in the United States.

The amount of the deduction for a taxable year is limited to 50 percent of the wages paid by the taxpayer, and properly allocable to domestic production gross receipts, during the calendar year that ends in such taxable year.[146]

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[143] If a taxpayer has oil-related qualified production activities income ("QPAI"), the deduction is reduced by three percent of the least of the taxpayer's oil-related QPAI, QPAI, or taxable income. Sec. 199(d)(9).

[144] Qualifying production property generally includes any tangible personal property, computer software, and sound recordings.

[145] Qualified film includes any motion picture film or videotape (including live or delayed television programming, but not including certain sexually explicit productions) if 50 percent or more of the total compensation relating to the production of the film (including compensation in the form of residuals and participations) constitutes compensation for services performed in the United States by actors, production personnel, directors, and producers.

[146] For purposes of the provision, "wages" include the sum of the amounts of wages as defined in section 3401(a) and elective deferrals that the taxpayer properly reports to the Social Security Administration with respect to the employment of employees of the taxpayer during the calendar year ending during the taxpayer's taxable year.

10. Credits

Research credit

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.[147] Thus, the research credit is generally available with respect to incremental increases in qualified research. An alternative simplified credit (with a 14-percent rate and a different base amount) may be claimed in lieu of this credit.[148]

A 20-percent research tax credit also is available with respect to the excess of (1) 100 percent of 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, as adjusted for inflation.[149] This separate credit computation commonly is referred to as the basic research credit.

A research credit is available for a taxpayer's expenditures on research undertaken by an energy research consortium.[150] 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.

Certain startup small businesses (companies less than five years old with less than $5 million in gross receipts) may claim up to $250,000 per year of the credit against their payroll tax liability (after first applying the credit to any income tax liability).[151] The research credit is also allowed against the alternative minimum tax for corporations the stock of which is not publicly traded, for partnerships, and for sole proprietorships, if the average annual gross receipts of such entities or proprietorships do not exceed $50 million.[152]

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[147] Sec. 41(a)(1). Generally, the taxpayer's "base amount" is the product of (1) the percentage which the aggregate qualified research expenses of the taxpayer for taxable years beginning after December 31, 1983, and before January 1, 1989, is of the aggregate gross receipts of the taxpayer for such taxable years, and (2) the average annual gross receipts of the taxpayer for the four taxable years preceding the taxable year for which the credit is being determined. Sec. 41(c).

[148] Sec. 41(c)(5).

[149] Sec. 41(a)(2) and (e). The base period for the basic research credit generally extends from 1981 through 1983.

[150] Sec. 41(a)(3).

[151] Sec. 41(h).

[152] Sec. 38(c)(4)(B)(ii).

Deductions allowed to a taxpayer under section 174 (or any other section) are reduced by an amount equal to 100 percent of the taxpayer's research tax credit determined for the taxable year.[153] Taxpayers may alternatively elect to claim a reduced research tax credit amount under section 41 in lieu of reducing deductions otherwise allowed.[154]

Low-income housing credit

The low-income housing tax credit ("LIHTC") may be claimed over a 10-year period for the cost of building rental housing occupied by tenants having incomes below specified levels.[155] 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 applicable percentage is designed to produce a credit with a present value equal to a fixed percentage of the qualified basis of the 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. Eligible basis is generally adjusted basis at the close of the first taxable year of the credit period.

Renewable electricity production credit and energy credit

Production and investment tax credits are available for many renewable and alternative energy projects and investments. Many of these credits expired at the end of 2016 for new projects and investments. Several that remain are a 2.4 cent per kilowatt-hour credit for producing electricity from wind,[156] a 30-percent investment credit for solar electric and solar hot

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[153] Sec. 280C(c). For example, assume that a taxpayer makes credit-eligible research expenditures of $1 million during the year and that the base period amount is $600,000. Under the standard credit calculation (*i.e.*, where a taxpayer may claim a research credit equal to 20 percent of the amount by which its qualified expenses for the year exceed its base period amount), the taxpayer is allowed a credit equal to 20 percent of the $400,000 increase in research expenditures, or $80,000 (($1 million - $600,000) * 20% = $80,000). To avoid a double benefit, the amount of the taxpayer's deduction under section 174 is reduced by $80,000 (the amount of the research credit), leaving a deduction of $920,000 ($1 million - $80,000).

[154] Sec. 280C(c)(3). Taxpayers making this election reduce the allowable research credit by the maximum corporate tax rate (currently 35 percent). Continuing with the example from the prior footnote, an electing taxpayer would have its credit reduced to $52,000 ($80,000 - ($80,000 * 0.35%)), but would retain its $1 million deduction for research expenses. This option might be desirable for a taxpayer who cannot claim the full amount of the research credit otherwise allowable due to the limitation imposed by the alternative minimum tax.

[155] Sec. 42.

[156] Sec. 45. Credit rates are adjusted annually for inflation. The credit is available for electricity produced during the first 10 years after a facility has been placed in service. Taxpayers may also elect to get a 30-percent investment tax credit in lieu of this production tax credit. The available production tax credit or investment tax credit is reduced by 20 percent for facilities the construction of which begins in 2017, by 40 percent for facilities the construction of which begins in 2018, and by 60 percent for facilities the construction of which begins in 2019. No credit is available for facilities the construction of which begins after 2019.

water property,[157] and a 10-percent investment credit for equipment to produce energy from a geothermal deposit.[158]

Orphan drug tax credit

Taxpayers may claim a 50-percent credit (the "orphan drug tax credit") for expenses related to human clinical testing of drugs for the treatment of certain rare diseases and conditions, generally those that afflict less than 200,000 persons in the United States.[159] Qualifying expenses are those paid or incurred by the taxpayer after the date on which the drug is designated as a potential treatment for a rare disease or disorder by the Food and Drug Administration ("FDA") in accordance with section 526 of the Federal Food, Drug, and Cosmetic Act.

Other credits

Other tax credits applicable to businesses include investment tax credits applicable to the rehabilitation of certain real property, the empowerment zone employment credit (applicable to wages paid to certain residents of, or employees in, empowerment zones), the work opportunity credit (applicable to wages paid to individuals from certain targeted groups), and the disabled access credit (applicable to expenditures by certain small businesses to make the businesses accessible to disabled individuals). Unused credits generally may be carried back one year and carried forward twenty years.[160]

A foreign tax credit is available, subject to limitations, for certain foreign income taxes paid or accrued. Foreign income taxes limited in a tax year may be carried back one year or forward ten years.[161]

[157] Sec. 48. The investment credit rate is reduced to 26 percent for property the construction of which begins in 2020, to 22 percent for property the construction of which begins in 2021, and to 10 percent for property the construction of which begins after 2021.

[158] Sec. 48. The investment credit for geothermal property does not expire.

[159] Sec. 45C.

[160] Sec. 39.

[161] Sec. 904(c).

C. Federal Tax Definitions of "Small Business"

Many special rules throughout the Code apply to businesses that satisfy certain requirements, which often take the form of limits related to size. There is no single definition of a "small business" entitled to such tax benefits, however. Rather, numerous definitions apply in different contexts, and rely on various criteria and varying thresholds. Examples of the criteria include a business's gross assets,[162] gross receipts,[163] number of shareholders,[164] and number of employees.[165] For some purposes, the Code defines a small business in more than one way.[166]

Even when a criterion such as gross receipts is the same across definitions, the definitions still may use different thresholds. For example, one excise tax applies at a reduced rate to importers and manufacturers with gross receipts in the previous taxable year of less than $500,000.[167] In contrast, a construction firm with average annual gross receipts of $10,000,000 or less in its three previous taxable years may not be required to use the percentage of completion method of accounting.[168]

A nonexhaustive list of tax provisions relating to small businesses is set forth in the Appendix at the end of this document.

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[162] *E.g.*, see section 1202(d)(1).

[163] *E.g.*, see section 474(c).

[164] *E.g.*, see section 1361(b)(1).

[165] *E.g.*, see section 41(b)(3)(D)(iii).

[166] *E.g.*, section 44(b) defines an "eligible small business" as any person if either (a) the gross receipts for the preceding year did not exceed $1 million or (b) the business did not employ more than 30 full-time employees during the preceding year.

[167] Sec. 5801(b)(1).

[168] Sec. 460(e)(1)(B)(ii).

II. DATA ON BUSINESS ENTITIES AND TAX RATES

A. Data on the Number and Size of Business Entities in the United States

Returns filed by C corporations, S corporations, partnerships, nonfarm sole proprietors, and farming enterprises

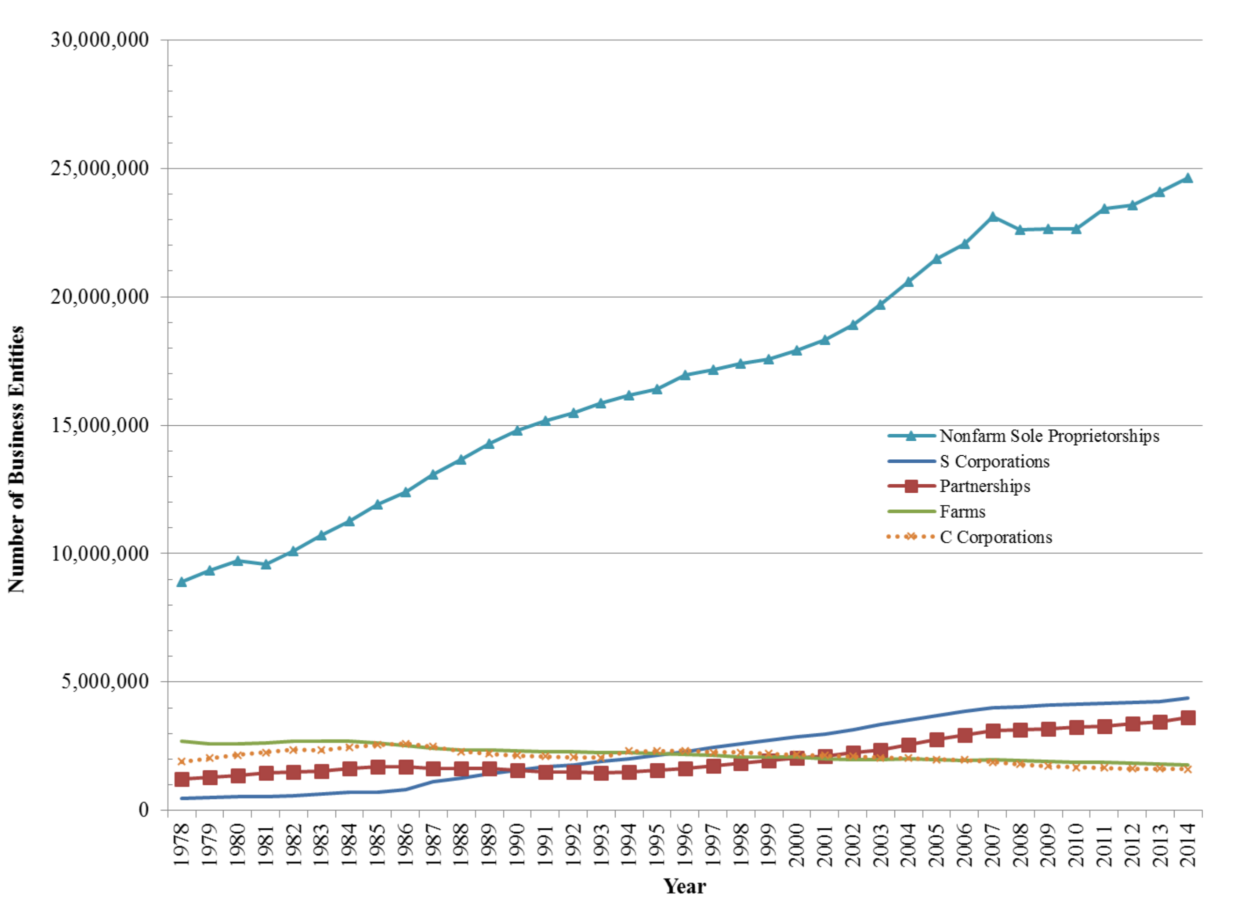
For tax purposes, businesses may be organized as various entities including as C corporations, S corporations, partnerships, or sole proprietorships.[169] Throughout the period 1978 to 2014, nonfarm[170] sole proprietorships made up the vast majority of businesses, as shown in Figure 1 and Table 1. The S corporation is the second most prevalent business form. In 2014, S corporations constituted 12.2 percent of all business entities. By contrast, as recently as 1988, S corporations accounted for less than six percent of all business entities. The growth in the number of S corporations was most dramatic immediately following 1986, while the number of C corporations declined each year from 1987 through 1993. After an increase in the number of C corporation returns in the mid-1990s, the number of C corporation returns has again declined each year since 1998.[171] The number of partnership returns filed reached a peak in 1985 and then generally declined until 1993. Since 1993, partnership returns filed and S corporation returns filed have grown at approximately the same rate. As described below, LLCs generally are taxed, at the election of the owners, either as partnerships or as corporations. In the great majority of cases involving U.S. businesses, LLCs are taxed as partnerships. The number of farm returns (that is, individuals operating farms as sole proprietorships and reporting their income on Schedule F of Form 1040) generally declined throughout the period.

[169] The IRS's Statistics of Income division ("SOI") tabulates the number of tax returns filed by different forms of business organizations. These data are based upon returns filed by individuals and entities. The numbers reported for nonfarm sole proprietorships and for farm returns are based upon the number of taxpayers who file a business return as a sole proprietor (Schedule C of Form 1040) and who file a farm income return (Schedule F of Form 1040). One taxpayer may report more than one business organized as a sole proprietorship; in that circumstance, the data reported here count only one sole proprietorship per taxpayer. On the other hand, the data for C corporations, S corporations, and partnerships count the number of tax returns and information returns filed by C corporations, S corporations, and partnerships. One taxpayer may own more than one corporation. When this occurs, unlike the case in sole proprietorships, the data reported here count each corporation as a separate entity. Two (or more) corporations can also form a partnership. Thus, the data are not perfectly comparable across entity classification.

[170] In these data, farms are measured solely by reference to those individuals who report income (or loss) on Schedule F of Form 1040. Other individuals engaged in agricultural enterprises may conduct their farm business through a separate legal entity. When this occurs, the data reported below report that entity among the totals of C corporations, S corporations, or partnerships.

[171] For an analysis of the decline in publicly-traded corporations and a discussion of related issues, see Kathleen M. Kahle and Rene M. Stulz, "Is the US Public Corporation in Trouble?," *Journal of Economic Perspectives*, vol. 31, no. 3, Summer 2017, pp. 67-88.

Figure 1.−Number of Different Types of Business Returns, 1978-2014



Source: Internal Revenue Service, Statistics of Income, published and unpublished data.

Table 1.−Number of Different Types of Business Returns, 1978-2014

Year	Nonfarm Sole Proprietorships	C Corporations	S Corporations	Partnerships	Farms	Total
1978	8,908,289	1,898,100	478,679	1,234,157	2,704,794	15,224,019
1979	9,343,603	2,041,887	514,907	1,299,593	2,605,684	15,805,674
1980	9,730,019	2,165,149	545,389	1,379,654	2,608,430	16,428,641
1981	9,584,790	2,270,931	541,489	1,460,502	2,641,254	16,498,966
1982	10,105,515	2,361,714	564,219	1,514,212	2,689,237	17,234,897
1983	10,703,921	2,350,804	648,267	1,541,539	2,710,044	17,954,575
1984	11,262,390	2,469,404	701,339	1,643,581	2,694,420	18,771,134
1985	11,928,573	2,552,470	724,749	1,713,603	2,620,861	19,540,256
1986	12,393,700	2,602,301	826,214	1,702,952	2,524,331	20,049,498
1987	13,091,132	2,484,228	1,127,905	1,648,035	2,420,186	20,771,486
1988	13,679,302	2,305,598	1,257,191	1,654,245	2,367,527	21,263,863
1989	14,297,558	2,204,896	1,422,967	1,635,164	2,359,718	21,920,303
1990	14,782,738	2,141,558	1,575,092	1,553,529	2,321,153	22,374,070
1991	15,180,722	2,105,200	1,696,927	1,515,345	2,290,908	22,789,102
1992	15,495,419	2,083,652	1,785,371	1,484,752	2,288,218	23,137,412
1993	15,848,119	2,063,124	1,901,505	1,467,567	2,272,407	23,552,722
1994	16,153,871	2,318,614	2,023,754	1,493,963	2,242,324	24,232,526
1995	16,423,872	2,321,048	2,153,119	1,580,900	2,219,244	24,698,183
1996	16,955,023	2,326,954	2,304,416	1,654,256	2,188,025	25,428,674
1997	17,176,486	2,257,829	2,452,254	1,758,627	2,160,954	25,806,150
1998	17,398,440	2,260,757	2,588,081	1,855,348	2,091,845	26,194,471
1999	17,575,643	2,210,129	2,725,775	1,936,919	2,067,883	26,516,349
2000	17,902,791	2,184,795	2,860,478	2,057,500	2,086,789	27,092,353
2001	18,338,190	2,149,105	2,986,486	2,132,117	2,006,871	27,612,769
2002	18,925,517	2,112,230	3,154,377	2,242,169	1,995,072	28,429,365
2003	19,710,079	2,059,631	3,341,606	2,375,375	1,997,116	29,483,807
2004	20,590,691	2,039,631	3,518,334	2,546,877	2,004,898	30,700,431
2005	21,467,566	1,987,171	3,684,086	2,763,625	1,981,249	31,883,697
2006	22,074,953	1,968,032	3,872,766	2,947,116	1,958,273	32,821,140
2007	23,122,698	1,878,956	3,989,893	3,096,334	1,989,690	34,077,571
2008	22,614,483	1,797,278	4,049,943	3,146,006	1,948,054	33,555,764
2009	22,659,976	1,729,984	4,094,562	3,168,728	1,924,214	33,577,464
2010	22,659,976	1,686,171	4,127,554	3,248,481	1,886,058	33,608,240
2011	23,426,940	1,664,553	4,158,572	3,285,177	1,867,208	34,402,450
2012	23,553,850	1,635,369	4,205,452	3,388,561	1,835,687	34,618,919
2013	24,074,684	1,629,895	4,257,909	3,460,699	1,812,920	35,236,107
2014	24,631,831	1,621,366	4,380,125	3,611,255	1,784,483	36,029,060

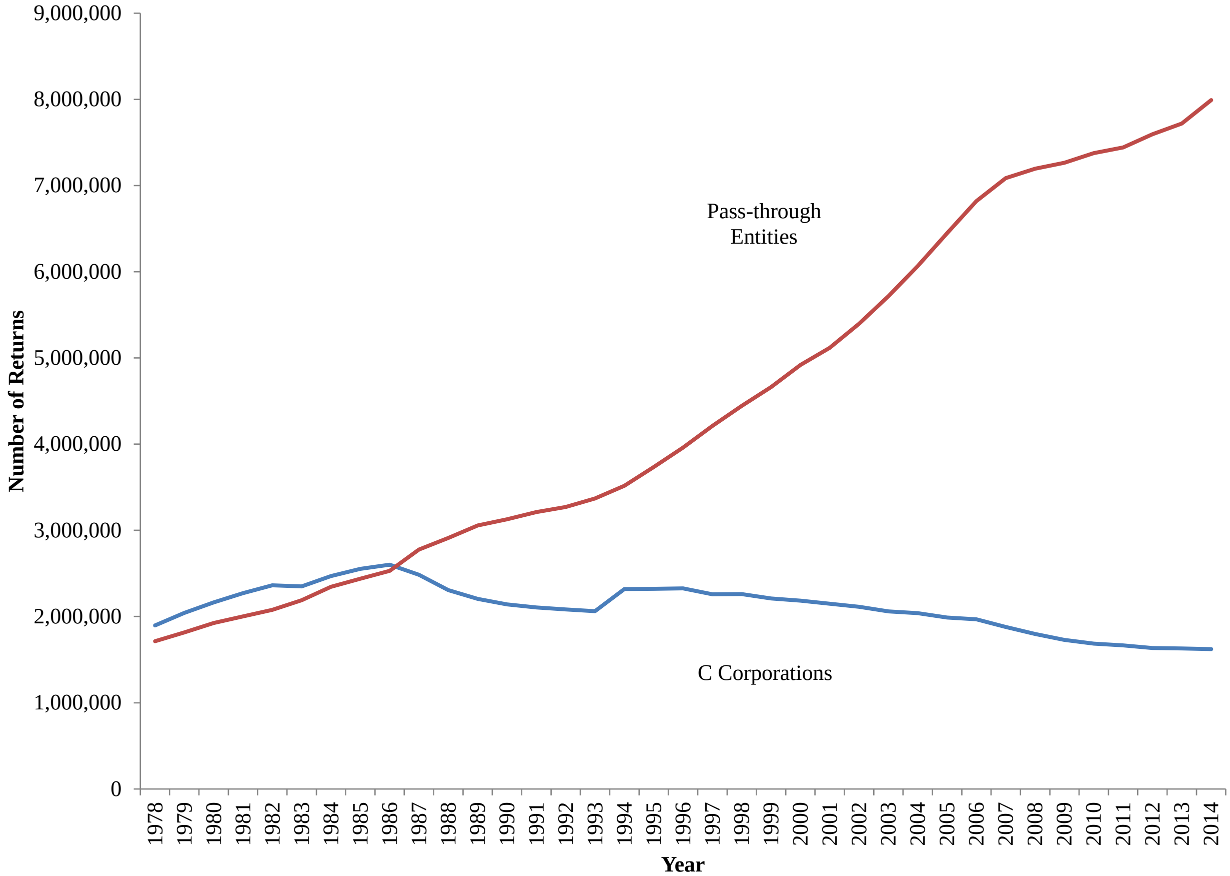
Source: Internal Revenue Service, Statistics of Income, published and unpublished data.

Business ventures organized (or reorganized) as a separate legal entity are generally taxable as a C corporation, S corporation, or partnership for Federal tax purposes. A major tax difference among them is that business ventures organized as C corporations are subject to tax at the entity level, with the owners subject to tax on subsequent distributions of income from the C corporation, while ventures organized as S corporations and partnerships are not subject to tax at the entity level. The income of S corporations and partnerships passes through to the owner or partner in whose hands it is subject to tax.

Figure 2, below, reports the trend over the past 36 years of the number of C corporation returns filed compared to the sum of S corporation and partnership returns.[172] The last year in which the number of C corporation returns exceeded the number of returns from pass-through legal entities was 1986. As Figure 2 reports, while the number of C corporations has generally declined in the United States since 1986 by a third, the number of pass-through entities has tripled.

[172] The data reported in this section comparing C corporations and pass-through entities are derived from entity-level returns filed with the Internal Revenue Service. The subsequent comparisons based either on assets or gross receipts include some double counting of assets or gross receipts because these items may be passed through from pass-through entities to the returns of a C corporation partner or a partner that is itself a pass-through entity. For example, some partnerships are partnerships of C corporations, some are partnerships of other partnerships, and some are partnerships of individuals and C corporations or other partnerships.

Figure 2.−Number of C Corporation Returns Compared to the Sum of S Corporation and Partnership Returns, 1978-2014



Source: JCT staff calculations on SOI data.

<u>The growth of limited liability companies</u>

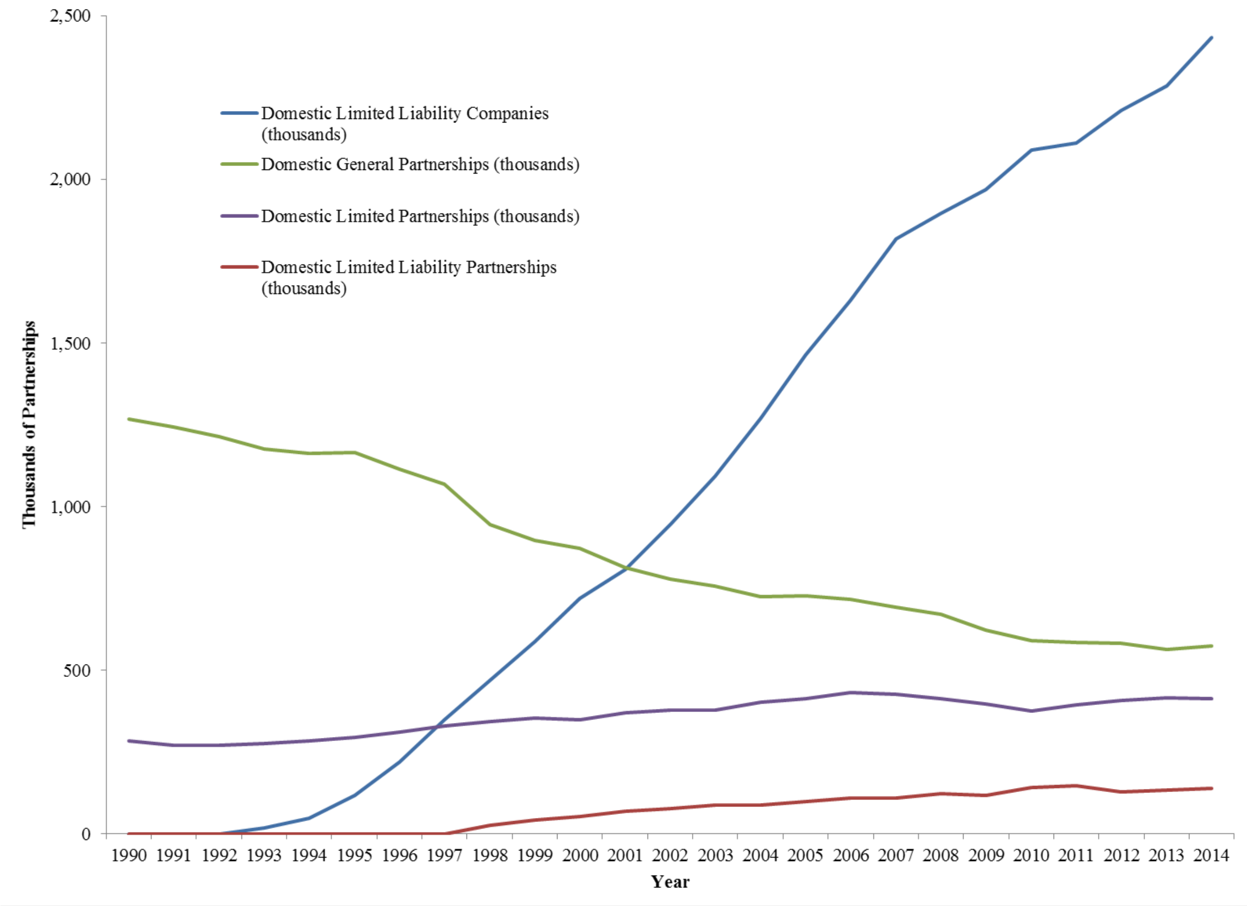
Most LLCs elect to be taxed as partnerships for Federal reporting purposes and their numbers are counted among the partnership data reported in Table 1 and Figures 1 and 2 above. Figure 3, below, decomposes the number of partnerships for the period 1990 through 2014 into general partnerships, limited partnerships, and LLCs.[173] Figure 3 documents the rapid growth of LLCs relative to other forms of business organization that are taxed as partnerships over the past several years.[174] Since 1996, LLCs have grown at a rate of approximately 14 percent per year. In addition to reporting numbers of general partnerships, limited partnerships, and LLCs, Table 2

[173] The data in Table 2 may not sum to the total number of partnerships reported in Table 1 because of rounding. Also, this decomposition excludes those businesses that checked the "other" box on Form 1065, Schedule B, line 1.

[174] For ease of exposition, Figure 3 does not include domestic limited liability partnerships, foreign partnerships, and certain other partnerships.

provides information on the number of limited liability partnerships and foreign partnerships filing partnership returns.

Figure 3.−Domestic Partnership Returns by Type of Partnership, 1990-2014



Source: IRS Statistics of Income.

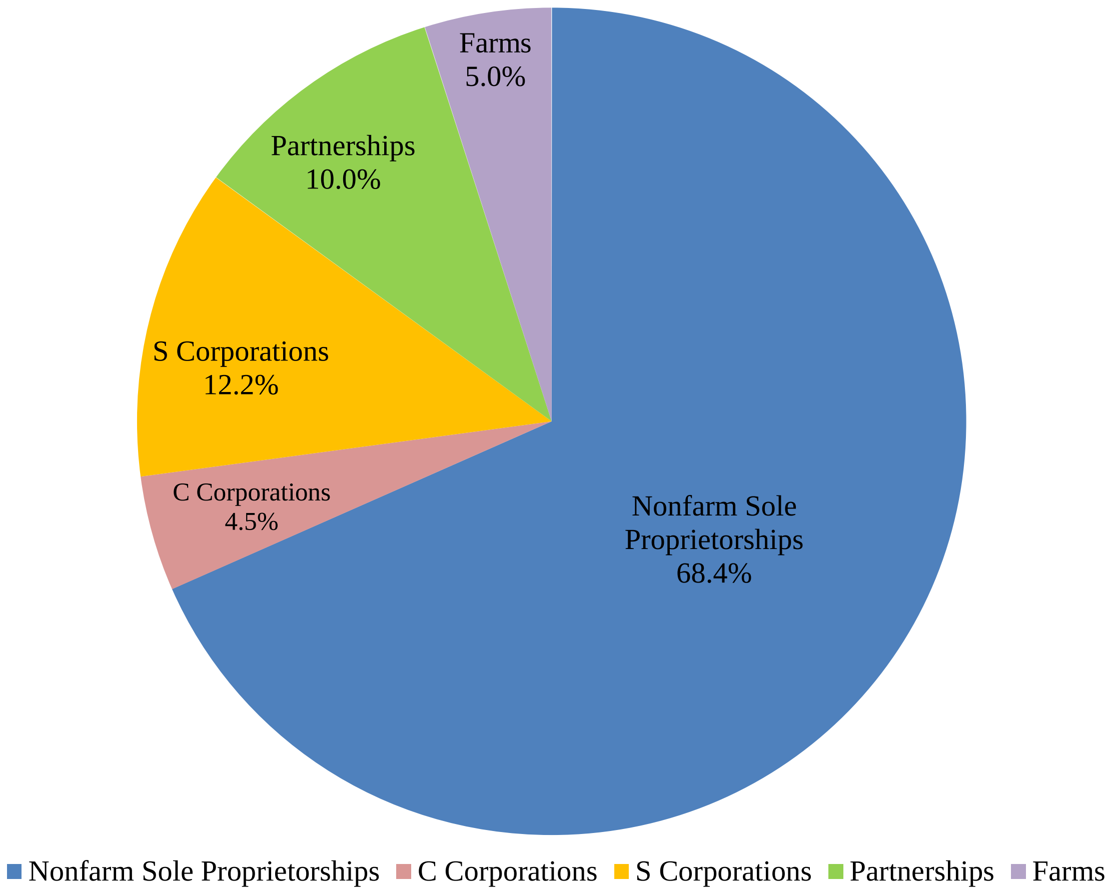
Table 2.−Number of Partnership Returns by Type, 1990-2014

	Type of Partnership					
Year	Domestic General Partnerships (thousands)	Domestic Limited Partnerships (thousands)	Domestic Limited Liability Companies (thousands)	Domestic Limited Liability Partnerships (thousands)	Foreign Partnerships (thousands)	Other Partnerships (thousands)
1990	1,267	285	n.a.	n.a.	n.a.	n.a.
1991	1,245	271	n.a.	n.a.	n.a.	n.a.
1992	1,214	271	n.a.	n.a.	n.a.	n.a.
1993	1,176	275	17	n.a.	n.a.	n.a.
1994	1,163	283	48	n.a.	n.a.	n.a.
1995	1,167	295	119	n.a.	n.a.	n.a.
1996	1,116	311	221	n.a.	n.a.	5
1997	1,069	329	349	n.a.	n.a.	13
1998	945	343	470	26	n.a.	71
1999	898	354	589	42	n.a.	52
2000	872	349	719	53	3	61
2001	815	369	809	69	5	65
2002	780	377	946	78	3	58
2003	757	379	1,092	88	3	55
2004	725	403	1,270	89	4	56
2005	729	414	1,465	100	5	50
2006	718	433	1,630	109	7	50
2007	694	426	1,819	110	8	40
2008	670	412	1,898	122	11	33
2009	624	397	1,969	118	12	48
2010	590	375	2,090	142	13	38
2011	586	394	2,111	148	14	32
2012	583	407	2,211	129	16	43
2013	563	416	2,286	134	15	48
2014	575	414	2,433	140	17	34

n.a.: not available
Sources: Bill Pratt, "Partnership Returns, 2000," SOI Bulletin, 22, Fall 2002; Nina Shumofsky and Lauren Lee, "Partnership Returns, 2009," SOI Bulletin, 31, Fall 2011; and Ron DeCarlo and Nina Shumofsky, "Partnership Returns, Tax Year 2014," SOI Bulletin, 36, Fall 2016.

Figure 4 shows the fraction of business returns by type of entity for 2014. More than two-thirds of all business returns were nonfarm sole proprietorships, 12.2 percent of business returns were S corporations. Partnerships represented an all-time high of 10.0 percent of business returns. Farms and C corporations represented approximately five percent of returns each.

Figure 4.−Business Returns by Type of Entity, 2014



Source: JCT staff calculations on IRS Statistics of Income data.

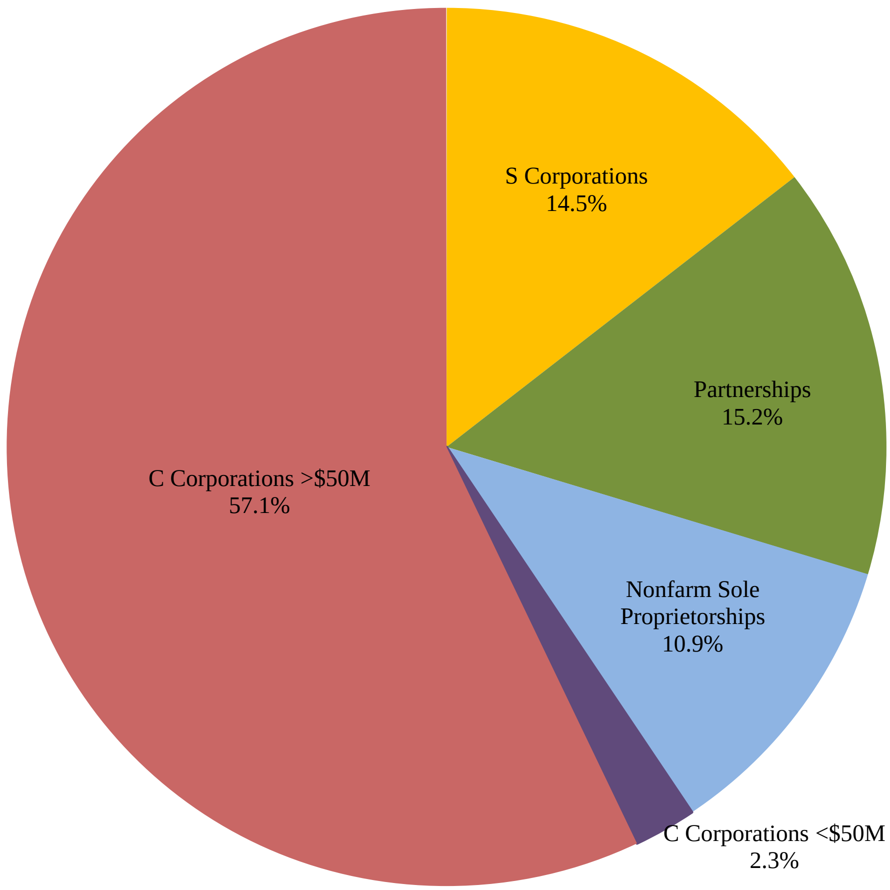
Business income by entity type

Figure 5 reports the share of business net income by entity type for 2014.[175] While the majority of business returns are filed by nonfarm sole proprietorships, such businesses represent only 10.9 percent of business net income. C corporations, though they file 4.5 percent of business returns, represent more than half of all business net income. Regulated investment companies ("RICs") and real estate investment trusts ("REITs") and are included with C corporations in this section. The 1.27 percent of C corporations with gross receipts in excess of $50 million report 51.7 percent of all business net income for 2014, while the remaining 98.73 percent report 2.3 percent of all business net income. S corporations and partnerships are

[175] The data reported in this section comparing C corporations and pass-through entities are derived from entity-level returns filed with the Internal Revenue Service. The subsequent comparisons based either on assets or gross receipts include some double counting of assets or gross receipts because these items may be passed through from pass-through entities to the returns of a C corporation partner or a partner that is itself a pass-through entity. For example, some partnerships are partnerships of C corporations, some are partnerships of other partnerships, and some are partnerships of individuals and C corporations or other partnerships.

responsible for roughly the same share of overall business net income. Farm proprietorships, which represent 5.0 percent of all returns, are not shown in Figure 5 because they collectively report an overall net loss for 2014.[176]

Figure 5.−Distribution of Net Income by Business Entity Type, 2014



Source: JCT staff calculations on IRS Statistics of Income data.

<u>Trends in business income</u>

For tax purposes, businesses may be organized in various forms, including as C corporations, partnerships, S corporations, RICs, REITs, or as sole proprietorships. SOI tabulates tax returns filed by different forms of business organizations. SOI compiles statistical data to form the SOI Integrated Business Dataset ("IBD"). The IBD is assembled from the annual SOI cross-sectional studies of corporations (including C corporations, S corporations,

176 Farms have collectively reported an overall net loss on Schedule F for every year since 1980.

RICs, and REITs), partnerships, and nonfarm[177] sole proprietorships.[178] The dataset combines data from these types of organizations to enable examination of changes in business composition. For purposes of this section, RICs and REITs are accounted for separately from C corporations.

Figure 6 reports the share of total net income (less deficit)[179] earned by businesses in each form.[180] Since 1980, C corporations have accounted for the largest share of net income of all business forms in all but three years (2001, 2002, and 2008), when partnerships accounted for a larger share; however, that share has varied significantly. At the beginning of the period, C corporations accounted for nearly three-quarters of all business profits, followed by nonfarm sole proprietorships with 17.3 percent, while REITs and RICs, S corporations, and partnerships together accounted for less than 10 percent. Throughout the early 1980s, the C corporate share of business net income fell, as did that of partnerships, while the other business forms' shares increased or held steady. Partnerships during this period actually had net losses, consistent with many tax shelters being organized in this form. Following passage of the Tax Reform Act of 1986, C corporations continued their decline while sole proprietorships, S corporations, and partnerships rose.

Beginning in the early 1990s, partnerships began to increase their share of business net income, first at the expense of sole proprietorships, whose share of net income peaked at 27.0 percent in 1991, but then at the expense of C corporations. C corporations earned approximately 50 percent of net income from 1989 through 1996, with a brief dip for the recession in 1991 through 1992. Over the subsequent five years, C corporations would see their share of net income fall in half from 46.3 percent in 1997 to 23.7 percent in 2001. That year marks the first time the partnership share of net income exceeded the C corporate share of net income. By 2005, C corporations experienced a rapid increase in profitability, earning about half of all net income that year. However, in 2008, C corporations would account for the smallest

[177] Data from farm sole proprietorships are not included. For this purpose, farm sole proprietorships are measured solely by reference to those individuals who report income (or loss) on Schedule F of Form 1040. Farm sole proprietorships have reported negative aggregate farm net income (less deficit) every year since 1980. Other individuals engaged in agricultural enterprises may conduct their farm business through a separate legal entity. When this occurs, the data reported below report that entity among the totals for C corporations, S corporations, or partnerships.

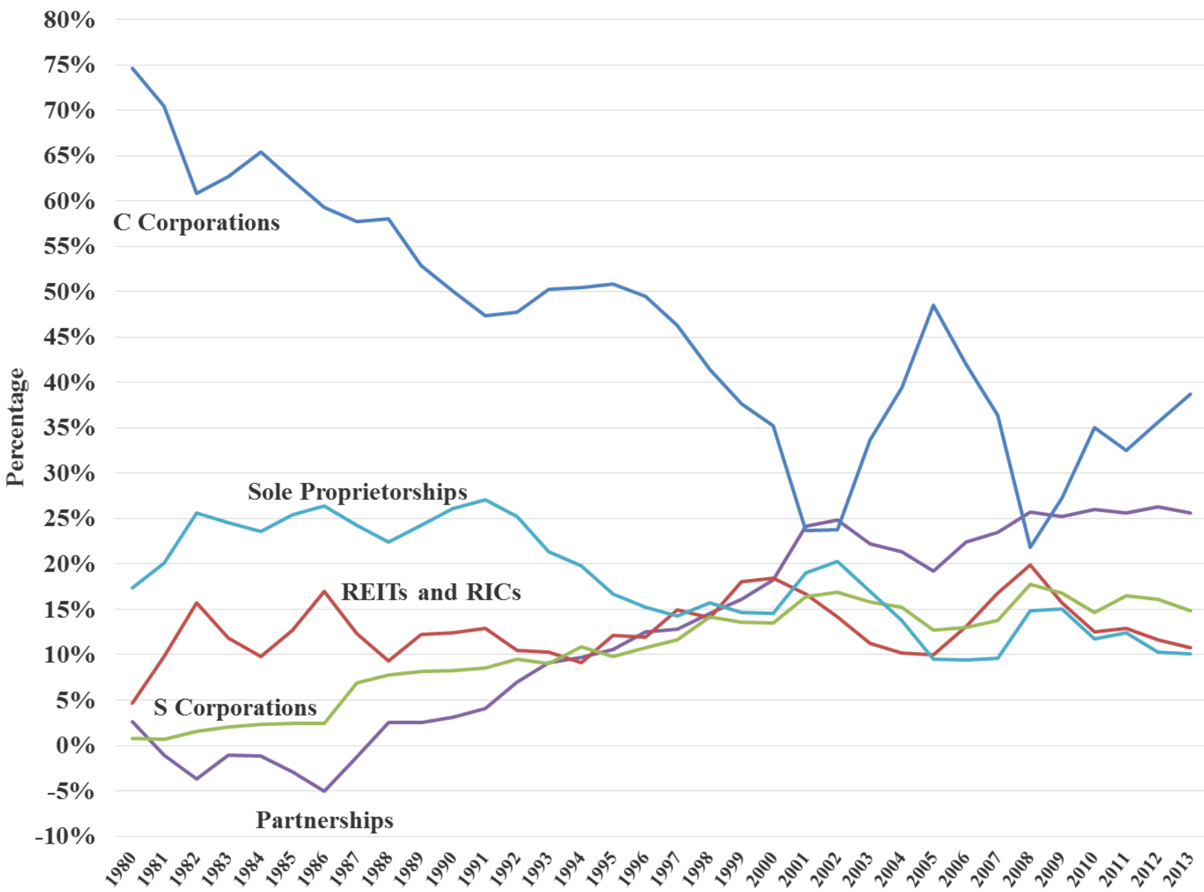
[178] Data from exempt organizations with unrelated business income (Form 990-T) are not included. For 2013, over 46,000 organizations filed Form 990-T to report unrelated business income. Of these, 37,536 returns reported approximately $909.5 million of unrelated business taxable income (less deficit).

[179] Unlike data in some SOI tabulations, net income (less deficit) used here is the more comprehensive "total net income" for S corporations for tax years after 1986. This concept includes trade or business income plus portfolio income, as well as real estate and rental activity incomes distributed directly to shareholders. For partnerships, net income (less deficit) includes ordinary business income (or loss), interest income, dividend income, royalties, net rental real estate income (or loss) from Form 8825, and other net rental income (or loss), but does not include net short-term capital gain or net long-term capital gain.

[180] Data may include some double counting because items may be passed through from pass-through entities to the returns of a C corporate partner or a partner that is itself a pass-through entity. For example, some partnerships are partnerships of C corporations, some are partnerships of other partnerships, and some are partnerships of individuals and C corporations or other partnerships. Estimates suggest that approximately five percent of the amount of total net income of partnerships is income passed through to other partnerships.

share of net income recorded since 1980, before recovering to just under 40 percent of net income of all businesses. For 2013, the most recent year for which complete data are available, C corporations accounted for 38.7 percent, partnerships for 25.6 percent, S corporations for 14.9 percent, REITs and RICs for 10.7 percent, and nonfarm sole proprietorships for 10.1 percent of net income (less deficit).

Figure 6.−Share of Net Income (Less Deficit) by Form of Business, 1980-2013



Source: Internal Revenue Service Statistics of Income and JCT staff calculations.

Size distribution of business entities

Present law does not impose a limit on the size of a business that is conducted in the form of a sole proprietorship, a partnership, an S corporation, or a C corporation, and there is no legal requirement of any correspondence between the size of the business and the form of business organization. While many small businesses are organized as a sole proprietorship, a partnership, or an S corporation, not all businesses organized in those forms are small, and not all businesses organized as C corporations are large. SOI data on assets and total receipts show how small businesses (under a chosen definition) are arrayed across the different forms of organization.

Tables 3 through 7 display 2014 SOI data on C corporations, S corporations, entities taxed as partnerships (which category includes most LLCs), nonfarm sole proprietorships, and farm proprietorships. For the first three forms of organization, the tables classify all taxpayers using that form of organization both by the size of assets and total receipts.[181] For sole proprietorships (Table 6) and farm proprietorships (Table 7), there is no tax data on assets, so the table uses only total receipts as a classifier. When businesses are classified by asset size, one can see that there are a significant number of C corporations of small size. More than 725,000 C corporations have assets under $50,000, approximately 45 percent of the total number of C corporations. Approximately one-half of S corporations have assets under $50,000.

The concentration of assets differs among the three entity forms. C corporations have the largest disparity in asset holdings. Firms with over $100 million in assets, which represent approximately 1.45 percent of all C corporations, hold more than 97 percent of all assets owned by C corporations. By comparison, S corporations with $100 million or more in assets constitute only 0.09 percent of all S corporations and account for nearly 40 percent of all assets owned by S corporations. Partnerships with $100 million or more in assets constitute 0.72 percent of all entities classified for tax purposes as partnerships; these businesses own more than 75 percent of all assets owned by partnerships.

When businesses are classified by total receipts, a picture emerges that is similar to that seen in the asset data. There are a substantial number of relatively small C corporations: more than 415,000 C corporations report total receipts of $25,000 or less, approximately 25 percent of the total number of C corporations. A slightly smaller percentage of S corporations also report total receipts of $25,000 or less. However, across the other forms of organization there are higher percentages of businesses with small amounts of total receipts. For partnerships and nonfarm sole proprietorships, the percentage of businesses with total receipts of $25,000 or less are 72 percent and 70 percent, respectively.

As with assets, the dispersion of total receipts across the classifications is more skewed for C corporations and partnerships than for S corporations. C corporations with over $50 million in receipts, which represent approximately 1.27 percent of all C corporations, collect over 90 percent of total receipts of all C corporations. For partnerships, the approximately 0.29 percent of partnerships with total receipts over $50 million report over 71 percent of all partnership receipts. For S corporations, the 0.41 percent of S corporations with total receipts in excess of $50 million report almost 40 percent of all S corporation receipts. For nonfarm sole proprietorships, less than 0.002 percent of such businesses report total receipts in excess of $50 million, and these businesses report less than five percent of all nonfarm sole proprietorship receipts.

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[181] Total receipts are used in lieu of business receipts to classify statistics for finance and insurance and management of companies (holding companies) sectors. Total receipts may be negative due to the addition of negative items (*e.g.*, net capital losses) to business receipts. Total assets may also be negative if, for example, balance sheet assets reflect depreciation of assets held in a lower tier partnership. This could occur if the balance sheet were prepared using tax accounting rather than generally accepted accounting principles. For example, a partnership may hold an interest in a lower tier partnership that in turn holds leveraged assets that have been depreciated for Federal tax purposes. The depreciated basis of the assets may be less than debt encumbering the assets. In some cases this could be reflected as a negative asset value for the underlying partnership interest.

Table 3.−Distribution of C Corporations, 2014

Firms Classified by Assets	Number of Returns	Total Assets (millions)	Cumulative Percentage Returns	Cumulative Percentage Total Assets
$0 or less	294,351	$0	18.15%	0.00%
$1 to $25,000	310,255	2,197	37.29%	0.00%
$25,001 to $50,000	123,979	4,036	44.94%	0.01%
$50,001 to $100,000	151,339	10,246	54.27%	0.02%
$100,001 to $250,000	208,643	32,426	67.14%	0.05%
$250,001 to $500,000	155,988	55,540	76.76%	0.11%
$500,001 to $1,000,000	125,369	89,245	84.49%	0.21%
$1,000,001 to $10,000,000	186,269	543,989	95.98%	0.80%
$10,000,001 to $50,000,000	33,734	750,620	98.06%	1.62%
$50,000,001 to $100,000,000	8,002	569,113	98.55%	2.24%
More than $100,000,000	23,438	89,815,847	100.00%	100.00%
All Assets	1,621,366	$91,873,259		

Firms Classified by Receipts	Number of Returns	Total Receipts (millions)	Cumulative Percentage Returns	Cumulative Percentage Total Receipts
$0 or less	209,944	-$1,472	12.95%	-0.01%
$1 to $2,500	45,558	41	15.76%	-0.01%
$2,501 to $5,000	27,602	103	17.46%	-0.01%
$5,001 to $10,000	39,694	308	19.91%	0.00%
$10,001 to $25,000	95,732	1,641	25.81%	0.00%
$25,001 to $50,000	109,367	4,057	32.56%	0.02%
$50,001 to $100,000	145,377	10,648	41.53%	0.07%
$100,001 to $250,000	231,445	38,692	55.80%	0.24%
$250,001 to $500,000	190,705	69,019	67.56%	0.54%
$500,001 to $1,000,000	167,597	119,724	77.90%	1.06%
$1,000,001 to $10,000,000	287,706	879,558	95.64%	4.91%
$10,000,001 to $50,000,000	50,059	1,052,748	98.73%	9.51%
More than $50,000,000	20,579	20,705,610	100.00%	100.00%
All Receipts	1,621,366	$22,880,678		

* Details may not add to totals due to rounding.
Source: JCT staff calculations on SOI data.

Table 4.−Distribution of S Corporations, 2014

Firms Classified by Assets	Number of Returns	Total Assets (millions)	Cumulative Percentage: Returns	Cumulative Percentage: Total Assets
$0 or less	826,311	$0	18.87%	0.00%
$1 to $25,000	1,042,193	7,870	42.66%	0.20%
$25,001 to $50,000	405,025	13,903	51.91%	0.55%
$50,001 to $100,000	461,243	31,895	62.44%	1.34%
$100,001 to $250,000	622,083	98,528	76.64%	3.81%
$250,001 to $500,000	393,819	139,344	85.63%	7.31%
$500,001 to $1,000,000	258,686	180,709	91.54%	11.83%
$1,000,001 to $10,000,000	325,470	905,407	98.97%	34.52%
$10,000,001 to $50,000,000	36,945	731,577	99.81%	52.85%
$50,000,001 to $100,000,000	4,254	295,581	99.91%	60.26%
More than $100,000,000	4,096	1,586,158	100.00%	100.00%
All Assets	4,380,125	$3,990,973		

Firms Classified by Receipts	Number of Returns	Total Receipts (millions)	Cumulative Percentage: Returns	Cumulative Percentage: Total Receipts
$0 or less	574,875	-$4,807	13.12%	-0.07%
$1 to $2,500	82,121	89	15.00%	-0.07%
$2,501 to $5,000	58,138	214	16.33%	-0.06%
$5,001 to $10,000	83,879	622	18.24%	-0.05%
$10,001 to $25,000	202,636	3,538	22.87%	0.00%
$25,001 to $50,000	266,442	9,900	28.95%	0.13%
$50,001 to $100,000	430,521	31,921	38.78%	0.57%
$100,001 to $250,000	779,795	129,097	56.58%	2.35%
$250,001 to $500,000	607,297	217,884	70.45%	5.35%
$500,001 to $1,000,000	502,318	355,996	81.92%	10.25%
$1,000,001 to $10,000,000	688,964	1,907,652	97.65%	36.52%
$10,000,001 to $50,000,000	85,247	1,714,349	99.59%	60.12%
More than $50,000,000	17,890	2,896,464	100.00%	100.00%
All Receipts	4,380,125	$7,262,922		

* Details may not add to totals due to rounding.
Source: JCT staff calculations on SOI data.

Table 5.−Distribution of Partnerships, 2014

Firms Classified by Assets	Number of Returns	Total Assets (millions)	Cumulative Percentage Returns	Cumulative Percentage Total Assets
$0 or less	935,838	-$86,625	25.91%	-0.33%
$1 to $25,000	368,786	3,117	36.13%	-0.32%
$25,001 to $50,000	141,647	5,153	40.05%	-0.30%
$50,001 to $100,000	219,593	16,071	46.13%	-0.24%
$100,001 to $250,000	348,914	58,391	55.79%	-0.01%
$250,001 to $500,000	350,668	127,518	65.50%	0.47%
$500,001 to $1,000,000	342,385	241,858	74.98%	1.40%
$1,000,001 to $10,000,000	738,662	2,245,748	95.44%	9.99%
$10,000,001 to $50,000,000	120,675	2,494,683	98.78%	19.54%
$50,000,001 to $100,000,000	17,984	1,264,727	99.28%	24.38%
More than $100,000,000	26,103	19,758,293	100.00%	100.00%
All Assets	3,611,255	$26,128,933		

Firms Classified by Receipts	Number of Returns	Total Receipts (millions)	Cumulative Percentage Returns	Cumulative Percentage Total Receipts
$0 or less	2,304,486	$0	63.81%	0.00%
$1 to $2,500	73,926	70	65.86%	0.00%
$2,501 to $5,000	39,815	150	66.96%	0.00%
$5,001 to $10,000	54,584	422	68.48%	0.01%
$10,001 to $25,000	134,623	2,420	72.20%	0.06%
$25,001 to $50,000	116,199	4,152	75.42%	0.14%
$50,001 to $100,000	135,253	9,966	79.17%	0.33%
$100,001 to $250,000	204,878	33,618	84.84%	0.96%
$250,001 to $500,000	147,614	52,776	88.93%	1.97%
$500,001 to $1,000,000	137,773	98,175	92.74%	3.83%
$1,000,001 to $10,000,000	218,935	636,434	98.80%	15.90%
$10,000,001 to $50,000,000	32,860	681,275	99.71%	28.83%
More than $50,000,000	10,308	3,750,549	100.00%	100.00%
All Receipts	3,611,255	$5,270,009		

* Details may not add to totals due to rounding.
Source: JCT staff calculations on SOI data.

Table 6.−Distribution of Nonfarm Sole Proprietorships, 2014

Firms Classified by Receipts	Number of Returns	Total Receipts (millions)	Cumulative Percentage Returns	Cumulative Percentage Total Receipts
$0 or less	1,288,176	$0	5.23%	0.00%
$1 to $2,500	4,772,315	5,650	24.60%	0.41%
$2,501 to $5,000	2,613,195	9,667	35.21%	1.11%
$5,001 to $10,000	3,313,237	24,352	48.66%	2.87%
$10,001 to $25,000	5,291,020	84,925	70.14%	9.00%
$25,001 to $50,000	2,845,026	101,414	81.69%	16.33%
$50,001 to $100,000	1,996,575	141,318	89.80%	26.54%
$100,001 to $250,000	1,565,039	243,694	96.15%	44.15%
$250,001 to $500,000	549,558	190,936	98.39%	57.95%
$500,001 to $1,000,000	247,729	168,168	99.39%	70.10%
$1,000,001 to $10,000,000	146,095	306,621	99.98%	92.26%
$10,000,001 to $50,000,000	3,537	63,375	100.00%[1]	96.84%
More than $50,000,000	329	43,725	100.00%	100.00%
All Receipts	24,631,831	$1,383,845		

* Details may not add to totals due to rounding.
[1] The actual figure is 99.9986 percent which rounds to 100.00 percent.

Source: JCT staff calculations on SOI data.

Table 7.−Distribution of Farm Sole Proprietorships, 2014

Farms Classified by Gross Income	Number of Returns	Gross Income (millions)	Cumulative Percentage Returns	Cumulative Percentage Gross Income
$0 or less	264,122	-$182	14.49%	-0.10%
$1 to $2,500	360,854	386	34.28%	0.12%
$2,501 to $5,000	161,465	591	43.14%	0.45%
$5,001 to $10,000	184,317	1,328	53.25%	1.21%
$10,001 to $25,000	249,479	4,031	66.93%	3.50%
$25,001 to $50,000	145,841	5,211	74.93%	6.46%
$50,001 to $100,000	135,950	9,606	82.39%	11.92%
$100,001 to $250,000	149,777	24,445	90.60%	25.82%
$250,001 to $500,000	90,087	31,840	95.54%	43.92%
$500,001 to $1,000,000	52,893	36,498	98.44%	64.67%
$1,000,001 to $5,000,000	26,999	46,017	99.93%	90.83%
$5,000,001 to $10,000,000	892	5,882	99.97%	94.17%
$10,000,001 to $15,000,000	208	2,533	99.99%	95.61%
$15,000,001 to $25,000,000	143	2,739	99.99%	97.17%
$25,000,001 to $50,000,000	80	2,618	100.00%[1]	98.65%
More than $50,000,000	29	2,367	100.00%	100.00%
All Receipts	1,823,136	$175,908		

* Details may not add to totals due to rounding.

[1] The actual figure is 99.9983 percent which rounds to 100.00 percent.

Source: JCT staff calculations on SOI data.

Distribution of businesses by primary business activity

Taxpayers filing returns as C corporations, S corporations, partnerships, and nonfarm sole proprietorships are asked to self-report the primary industry in which the business operates. Table 8, below, reports the distribution of entities by number of returns and by assets across various industry classifications. Sole proprietorships do not provide data on assets.

Distributing by number of returns, for C corporations, the three most prevalent industries are professional, scientific, and technical services, real estate and rental leasing, and retail trade. These three industries account for approximately 33 percent of all C corporations. For S corporations, the three most prevalent industries are professional, scientific, and technical services, construction, and real estate and rental leasing. These three industries account for approximately 40 percent of all S corporations. Over half of all entities taxed as partnerships are in the real estate and rental leasing industry, with finance and insurance and professional, scientific, and technical services rounding out the three most prevalent industries. These three industries account for approximately two-thirds of all partnerships. Nonfarm sole proprietorships are most likely to report being in the industry of professional, scientific, and technical services, other services, or construction. These three industries account for almost 38 percent of all nonfarm sole proprietorships.

Distributing by assets, for C corporations, the three largest sectors are finance and insurance, holding companies, and manufacturing. These three sectors account for more than 83 percent of all assets reported by all C corporations. For S corporations, the three largest sectors are holding companies, manufacturing, and wholesale trade. These three sectors account for 37 percent of all assets reported by all S corporations. For partnerships, the two largest industries by far are finance and insurance and real estate, followed by manufacturing at a distant third. These three industries account for more than 81 percent of all assets reported on all partnership returns.

Table 8.−Distribution of Certain Business Entities and Assets by Industry, 2014

	C Corporations		S Corporations		Partnerships		Nonfarm Sole Proprietorships	
Sector	Percent of Returns	Percent of Total Assets	Percent of Returns	Percent of Total Assets	Percent of Returns	Percent of Total Assets	Percent of Returns	Percent of Total Assets
Agriculture	3.12	0.08	2.04	2.31	3.97	0.84	1.25	-
Mining	0.75	1.32	0.58	1.71	0.87	2.44	0.49	-
Utilities	0.21	2.00	0.08	0.14	0.14	1.53	0.06	-
Construction	9.21	0.36	12.76	9.86	3.95	0.82	11.09	-
Manufacturing	5.03	13.36	3.54	11.74	1.85	3.20	1.49	-
Wholesale Trade	9.32	2.85	5.67	11.30	2.28	1.07	1.41	-
Retail Trade	9.83	1.72	9.47	10.77	4.67	0.81	9.74	-
Transportation and Warehousing	4.14	0.80	3.66	2.66	1.29	2.19	5.26	-
Information	2.87	3.28	1.79	1.48	1.17	2.92	1.53	-
Finance and Insurance	4.98	50.72	3.62	10.38	9.26	56.40	2.54	-
Real Estate and Rental and Leasing	11.12	1.98	10.94	9.51	50.31	21.57	4.65	-
Professional, Scientific, and Technical Services	12.01	1.05	16.71	4.44	6.09	0.97	13.52	-
Holding Companies	2.14	19.14	0.79	14.15	0.91	2.68	0.00	-
Administrative and Support and Waste Management and Remediation Services	4.33	31.00	4.83	1.94	1.84	0.35	10.72	-
Educational Services	0.77	0.04	1.09	0.29	0.80	0.02	3.35	-
Health Care and Social Services	6.02	0.35	8.41	2.20	2.35	0.62	8.71	-
Arts, Entertainment, and Recreation	1.96	0.10	2.27	0.97	2.05	0.49	6.27	-
Accommodation and Food Services	4.43	0.43	5.43	2.96	3.83	0.96	1.98	-
Other Services	7.75	0.10	6.34	1.20	2.37	0.10	13.27	-
Not Allocable	0.00	0.00	0.00	0.00	0.00	0.00	2.67	-
Total[1]	1,621,366	91,873,259	4,380,125	3,990,973	3,611,255	26,128,933	24,631,831	-

[1] The totals show the actual numbers of returns in the 'Percent of Returns' columns and the total assets in millions of dollars for the 'Percent of Total Assets' columns. Details may not add to 100 percent due to rounding.

Source: JCT staff calculations on SOI data.

Distribution of income by entity type and entity size

While the category with gross receipts of $0 or less is always anomalous, on average, in any given year, relatively smaller businesses are more likely to operate at a loss. Tables 9 and 10, below, classify businesses by size of their reported total receipts. The tables report the aggregate income, or loss, reported within a class by entity type. Tables 9a and 9b report results for S corporations, partnerships, and sole proprietorships, while Tables 10a and 10b report results for C corporations. Tables 9 and 10 are not directly comparable because the net income of C corporations may include investment income (*e.g.*, interest income) while S corporations and partnership returns generally provide that investment income be reported separately on the owner's or partner's individual income tax return. Similarly, investment income of the owner of a sole proprietorship is not reported as part of Schedule C of Form 1040.

Table 9a reports that in 2014, on average, S corporations with gross receipts below $25,000 report a loss. Consistent with these data, Table 9b reports that among S corporations reporting $10,000 or fewer in total receipts, more than 50 percent of such entities operated at a loss in 2014. Partnerships with positive gross receipts below $100,000, as shown in Table 9a, also report losses on average. Nonfarm sole proprietorships more consistently reported profits at all size classes but the very smallest, those with $5,000 or fewer in total receipts.

Tables 10a and 10b report similar results for C corporations. Overall, 44 percent of all C corporations reported net operating losses in 2014. For C corporations reporting $25,000 or fewer in total receipts, more than 50 percent reported net operating losses in 2014. In contrast to comparably sized S corporations and partnerships, 34 to 42 percent of C corporations reporting total receipts between $100,000 and $1 million reported net operating losses, and the losses were of sufficient magnitude that aggregate C corporate income in those size categories was a loss. Less than one quarter of the largest C corporations reported losses.

Table 9a.−Distribution of Net Income by Gross Receipts and Entity Type, 2014

Net Income (millions of dollars)

Firms Classified by Receipts	S Corporations	Partnerships	Nonfarm Sole Proprietorships
$0 or less	-2,093	48,809	-5,468
$1 to $2,500	-416	-731	-7,655
$2,501 to $5,000	-539	-537	-516
$5,001 to $10,000	-390	-832	7,349
$10,001 to $25,000	-539	-2,234	40,525
$25,001 to $50,000	573	-1,111	40,911
$50,001 to $100,000	5,227	-1,078	51,623
$100,001 to $250,000	17,939	570	74,894
$250,001 to $500,000	23,696	3,426	48,172
$500,001 to $1,000,000	32,787	6,339	31,837
$1,000,001 to $10,000,000	132,571	48,521	33,011
$10,000,001 to $50,000,000	90,619	44,811	3,105
More than $50,000,000	121,345	294,619	-730
All Receipts	420,780	440,573	317,058

Table 9b.−Percent of Firms with a Net Operating Loss by Gross Receipts and Entity Type, 2014

Firms Classified by Receipts	S Corporations	Partnerships	Nonfarm Sole Proprietorships
$0 or less	57	24	82
$1 to $2,500	80	69	40
$2,501 to $5,000	68	68	29
$5,001 to $10,000	53	77	21
$10,001 to $25,000	46	41	12
$25,001 to $50,000	34	50	10
$50,001 to $100,000	23	44	10
$100,001 to $250,000	22	37	9
$250,001 to $500,000	22	31	9
$500,001 to $1,000,000	19	31	11
$1,000,001 to $10,000,000	17	26	12
$10,000,001 to $50,000,000	15	24	21
More than $50,000,000	13	20	38
All Receipts	29	30	23

* Details may not add to totals due to rounding.
Source: JCT staff calculations on SOI data.

Table 10a.−Distribution of Net Income by Gross Receipts of C Corporations, 2014

Firms Classified by Receipts	Net Income (millions of dollars)
$0 or less	$26,603
$1 to $2,500	-2,737
$2,501 to $5,000	-793
$5,001 to $10,000	-1,367
$10,001 to $25,000	-2,345
$25,001 to $50,000	-3,240
$50,001 to $100,000	-2,070
$100,001 to $250,000	-3,789
$250,001 to $500,000	-1,801
$500,001 to $1,000,000	-1,929
$1,000,001 to $10,000,000	5,373
$10,000,001 to $50,000,000	54,475
More than $50,000,000	1,657,714
All Receipts	$1,724,095

Table 10b.−Percent of C Corporations with a Net Operating Loss by Gross Receipts, 2014

Firms Classified by Receipts	C Corporations
$0 or less	76
$1 to $2,500	64
$2,501 to $5,000	64
$5,001 to $10,000	59
$10,001 to $25,000	53
$25,001 to $50,000	52
$50,001 to $100,000	46
$100,001 to $250,000	42
$250,001 to $500,000	36
$500,001 to $1,000,000	34
$1,000,001 to $10,000,000	27
$10,000,001 to $50,000,000	22
More than $50,000,000	23
All Receipts	44

* Details may not add to totals due to rounding.
Source: JCT staff calculations on SOI data.

Use of section 179 expensing

The discussion below includes several tables that show the distribution of the section 179 deduction. These tables are broken down by the industry of the taxpayer, by size of the taxpayer's gross receipts, and by the form of the reporting entity. Included in the tables are several usage measures that provide an estimate of the intensity of section 179 usage.

Use of section 179 expensing by industry

Table 11 shows the distribution of section 179 deductions by industry. The aggregate amount of section 179 expense deductions across all industries totaled $114.55 billion in 2014. Agriculture and related industries, construction, wholesale and retail trade, manufacturing, and professional, scientific and technical services reported the largest share of section 179 deductions.

Table 11.−Section 179 Expense Deduction, 2014
(Billions of Dollars)

Sector	Total Sec. 179 Deduction Reported	Percentage Distribution of Sec. 179 Reported	Approximation of Sec. 179 Eligible Base	Sec. 179 Usage Index
Agriculture, Forestry, Fishing and Hunting	53.35	46.6%	90.61	58.9%
Mining	1.73	1.5%	51.38	3.4%
Utilities	0.11	0.1%	83.35	0.1%
Construction	11.52	10.1%	32.25	35.7%
Manufacturing	7.27	6.3%	206.13	3.5%
Wholesale and Retail Trade	9.66	8.4%	128.24	7.5%
Transportation and Warehousing	4.14	3.6%	66.31	6.2%
Information	1.03	0.9%	50.80	2.0%
Finance and Insurance	1.32	1.2%	35.43	3.7%
Real Estate and Rental and Leasing	2.47	2.2%	52.92	4.7%
Professional, Scientific, and Technical Services	6.06	5.3%	23.61	25.7%
Management of Companies	0.53	0.5%	20.85	2.5%
Administrative and Support and Waste Management and Remediation Services	3.78	3.3%	13.73	27.5%
Education Services	0.34	0.3%	1.71	20.0%
Health Care and Social Assistance	4.74	4.1%	15.89	29.8%
Arts, Entertainment, and Recreation	1.40	1.2%	6.96	20.2%
Accomodation and Food Services	2.11	1.8%	17.41	12.1%
Other Services	2.91	2.5%	8.54	34.1%
Unclassified	0.07	0.1%	0.41	16.7%
TOTAL	**114.55**	**100.0%**	**906.55**	**12.6%**

NOTE: Totals may not equal sum of components due to rounding.

Table 11 also shows a section 179 usage index. The reported "usage index" is the percentage of section 179 deductions divided by the Joint Committee staff's estimate of the eligible base.[182] The eligible base for 2014 was approximately $906.55 billion. Taxpayers that make substantial annual purchases of eligible assets are not eligible to expense those acquisitions under section 179 because of the phase-out threshold ($2,000,000 in 2014). Consequently, the usage index is high for sectors with heavy concentrations of small businesses such as agriculture, construction, and service industries, and the index is low for sectors with concentrations of larger or more capital intensive businesses such as utilities.

Use of section 179 expensing by size of gross receipts

Table 12 shows the distribution of section 179 deductions by size of the reporting entity's gross receipts. Due to the phase-out threshold, section 179 is limited to taxpayers with qualified investment below specified levels. As a result, larger businesses have a clear drop off in section 179 deductions. As shown, $99.87 billion of the total $114.55 billion section 179 deductions, or approximately 87 percent of these deductions, are reported by businesses with less than $10 million in gross receipts.

The overall measure of section 179 usage is 45.6 percent for businesses with less than $10 million in gross receipts. The section 179 usage index falls off to 12.9 percent for businesses with gross receipts between $10 million and $250 million. Usage is negligible for business with gross receipts in excess of $250 million.

The 45.6 percent usage index for businesses with less than $10 million in gross receipts is lower than one might expect given that as much as $500,000 of qualified property could be expensed in 2014. An important reason for this usage index may be the taxable income limitation of section 179 (*i.e.*, the amount eligible to be expensed under section 179 for a taxable year may not exceed the taxable income for a taxable year that is derived from the active conduct of a trade or business (determined without regard to section 179)).

[182] This eligible base is approximated by the sum of section 179 expense deductions reported, bonus depreciation reported, and the remaining three- through 20-year MACRS investment basis excluding listed property placed in service during the 2014 tax year using the general depreciation system.

Table 12.−Section 179 Expense Deduction by Size of Gross Receipts, 2014
(Billions of Dollars)

Sector	Less than $10 million			$10 million to $250 million			Over $250 million		
	Total Sec. 179 Deduction Reported	Percentage Distribution of Sec. 179 Reported	Sec. 179 Usage Index	Total Sec. 179 Deduction Reported	Percentage Distribution of Sec. 179 Reported	Sec. 179 Usage Index	Total Sec. 179 Deduction Reported	Percentage Distribution of Sec. 179 Reported	Sec. 179 Usage Index
Agriculture, Forestry, Fishing and Hunting……………….	53.11	53.2%	60.9%	0.25	1.7%	9.8%	0.00	0.0%	0.0%
Mining…………………………………………………	1.51	1.5%	33.0%	0.22	1.5%	3.4%	0.00	0.0%	0.0%
Utilities…………………………………………………	0.10	0.1%	12.8%	0.01	0.1%	0.6%	0.00	0.4%	0.0%
Construction……………………………………………	9.28	9.3%	46.9%	2.21	15.4%	24.5%	0.03	10.7%	0.8%
Manufacturing…………………………………………	3.66	3.7%	39.5%	3.59	24.9%	13.7%	0.02	6.5%	0.0%
Wholesale and Retail Trade………………………………	4.91	4.9%	37.8%	4.60	31.9%	24.1%	0.15	57.7%	0.2%
Transportation and Warehousing…………………………	3.55	3.6%	23.0%	0.57	4.0%	5.9%	0.02	8.7%	0.1%
Information………………………………………………	0.78	0.8%	33.7%	0.25	1.7%	5.4%	0.00	0.2%	0.0%
Finance and Insurance……………………………………	1.10	1.1%	34.3%	0.21	1.4%	4.3%	0.01	4.6%	0.0%
Real Estate and Rental and Leasing………………………	2.37	2.4%	15.6%	0.10	0.7%	1.1%	0.00	0.2%	0.0%
Professional, Scientific, and Technical Services………….	4.99	5.0%	43.9%	1.05	7.3%	18.4%	0.01	4.4%	0.2%
Management of Companies………………………………	0.48	0.5%	37.9%	0.05	0.3%	1.6%	0.00	0.0%	0.0%
Administrative and Support and Waste Management and Remediation Services……………….	3.44	3.4%	48.0%	0.34	2.3%	14.3%	0.01	2.9%	0.2%
Education Services………………………………………	0.30	0.3%	40.5%	0.04	0.3%	8.0%	0.01	1.9%	1.0%
Health Care and Social Assistance………………………	4.33	4.3%	49.7%	0.41	2.8%	18.3%	0.00	1.0%	0.1%
Arts, Entertainment, and Recreation………………………	1.34	1.3%	32.2%	0.07	0.5%	6.1%	0.00	0.6%	0.1%
Accomodation and Food Services…………………………	1.77	1.8%	24.2%	0.34	2.4%	9.8%	0.00	0.1%	0.0%
Other Services……………………………………………	2.79	2.8%	39.8%	0.13	0.9%	17.1%	0.00	0.0%	0.0%
Unclassified………………………………………………	0.07	0.1%	16.7%	0.00	0.0%	n/a	0.00	0.0%	n/a
TOTAL……………………………………………………	**99.87**	**100.0%**	**45.6%**	**14.41**	**100.0%**	**12.9%**	**0.26**	**100.0%**	**0.0%**

<u>Use of expensing by entity type</u>

Table 13 presents the section 179 deductions and usage index measures broken down by the underlying reporting entity: sole proprietor and farm (grouped together), partnership, S corporation, and C corporation. As shown in Table 13, S corporations account for the largest amount of section 179 deductions at $64.19 billion, followed by sole proprietorships and farms with $30.99 billion, C corporations with $12.89 billion, and partnerships with $6.51 billion. In percentage terms, S corporations account for 56.0 percent of section 179 deductions, followed by sole proprietorships and farms with 27.1 percent, C corporations with 11.2 percent, and partnerships with approximately 5.6 percent.

The section 179 deduction usage index for partnerships (67.7 percent) is substantially higher than that of other entities due almost entirely to usage by partnerships in the agricultural sector. The section 179 deduction usage index for S corporations is 39.2 percent while sole proprietorships and farms have the next highest usage index, 35.0 percent, due to the generally smaller scale of these businesses relative to C corporations. C corporations have a section 179 deduction usage index of 2.0 percent.

Table 13.−Section 179 Expense Deduction by Reporting Entity, 2014
(Billions of Dollars)

Sector	Farm & Nonfarm Sole Props			Partnerships			S Corporations			C Corporations		
	Total Sec. 179 Deduction Reported	Percentage Distribution of Sec. 179 Reported	Sec. 179 Usage Index	Total Sec. 179 Deduction Reported	Percentage Distribution of Sec. 179 Reported	Sec. 179 Usage Index	Total Sec. 179 Deduction Reported	Percentage Distribution of Sec. 179 Reported	Sec. 179 Usage Index	Total Sec. 179 Deduction Reported	Percentage Distribution of Sec. 179 Reported	Sec. 179 Usage Index
Agriculture, Forestry, Fishing and Hunting........	14.92	48.2%	34.6%	6.42	98.6%	98.3%	30.13	46.9%	84.7%	1.88	14.6%	34.7%
Mining..	0.61	2.0%	31.8%	0.00	0.1%	1.0%	0.87	1.4%	21.1%	0.24	1.9%	0.5%
Utilities...	0.01	0.0%	3.5%	0.00	0.0%	0.0%	0.07	0.1%	37.7%	0.03	0.2%	0.0%
Construction...	2.78	9.0%	39.4%	0.01	0.2%	29.6%	7.03	11.0%	40.9%	1.70	13.2%	21.3%
Manufacturing...	0.66	2.1%	49.6%	0.01	0.1%	3.4%	4.50	7.0%	21.9%	2.09	16.2%	1.1%
Wholesale and Retail Trade.........................	1.35	4.4%	30.5%	0.01	0.2%	6.5%	5.94	9.3%	24.3%	2.36	18.3%	2.4%
Transportation and Warehousing...................	1.78	5.7%	26.7%	0.00	0.1%	0.8%	1.71	2.7%	12.7%	0.68	5.3%	1.5%
Information..	0.27	0.9%	54.5%	0.00	0.0%	0.4%	0.50	0.8%	27.1%	0.26	2.0%	0.5%
Finance and Insurance..............................	0.53	1.7%	42.5%	0.00	0.1%	6.5%	0.47	0.7%	26.1%	0.32	2.5%	1.0%
Real Estate and Rental and Leasing................	0.94	3.0%	26.5%	0.01	0.2%	1.5%	1.18	1.8%	9.1%	0.33	2.6%	0.9%
Professional, Scientific, and Technical Services..	1.98	6.4%	41.7%	0.01	0.2%	20.9%	3.17	4.9%	47.1%	0.90	7.0%	7.5%
Management of Companies.........................	0.00	0.0%	0.0%	0.00	0.0%	5.6%	0.24	0.4%	34.2%	0.29	2.2%	1.4%
Administrative and Support and Waste Management and Remediation Services.......	1.26	4.1%	45.9%	0.00	0.1%	17.5%	2.04	3.2%	37.4%	0.48	3.7%	8.6%
Education Services..................................	0.19	0.6%	40.4%	0.00	0.0%	4.2%	0.11	0.2%	28.7%	0.04	0.3%	5.0%
Health Care and Social Assistance.................	1.25	4.0%	50.3%	0.01	0.1%	11.0%	2.94	4.6%	45.9%	0.54	4.2%	7.8%
Arts, Entertainment, and Recreation...............	0.67	2.1%	35.1%	0.00	0.1%	7.3%	0.60	0.9%	27.1%	0.14	1.1%	5.0%
Accomodation and Food Services..................	0.50	1.6%	22.3%	0.01	0.1%	7.5%	1.29	2.0%	21.1%	0.32	2.4%	3.5%
Other Services.......................................	1.22	3.9%	36.1%	0.00	0.0%	15.5%	1.40	2.2%	41.4%	0.30	2.3%	16.8%
Unclassified...	0.07	0.2%	16.7%	0.00	0.0%	n/a	0.00	0.0%	n/a	0.00	0.0%	n/a
TOTAL..	**30.99**	**100.0%**	**35.0%**	**6.51**	**100.0%**	**67.7%**	**64.19**	**100.0%**	**39.2%**	**12.89**	**100.0%**	**2.0%**

Use of cash method of accounting

Tables 14a and 14b report data on the usage of the cash method of accounting by industry and by type of business entity. The first column of each panel reports the number of businesses of that type that use the cash method of accounting, by category of gross receipts. The second column reports the percentage of all business of each type that filers using the cash method represent. The third column reports the amount (in billions of dollars) of gross receipts reported by filers using the cash method of accounting. The fourth column reports the percentage of total receipts by all businesses of each type that total receipts by filers using the cash method represent.

Most sole proprietorships and farms[183] by number of filers (97.3 percent) and by total receipts (87.8 percent) use the cash method of accounting. For each industrial sector more than 90 percent of these businesses use the cash method of accounting. A majority of total gross receipts in each sector is reported by proprietorships using the cash method, except for the utilities sector. A similarly high percentage of personal service corporations also use the cash method of accounting. The 89.2 percent of personal service corporations using the cash method receive 82.6 percent of the total gross receipts of all personal service corporations.

While a majority of partnerships (73.8 percent) and S corporations (69.8 percent) also use the cash method of accounting, those that do represent a much smaller share of total receipts (15.4 percent and 24.8 percent, respectively) than sole proprietorships, farms, and personal service corporations that use the cash method. A majority of C corporations other than personal service corporations (51.3 percent) do not use the cash method of accounting. Only 1.8 percent of total receipts are attributable to C corporations that use the cash method, though this varies by industry. The agriculture sector has the largest share (29.2 percent) of total receipts attributable to C Corporations that use the cash method of accounting.

Tables 15a, 15b, and 15c report data on use of the cash method of accounting by reporting entity and by gross receipts (or, in the case of farm sole proprietorships, gross income) of the taxpayer. Use of the cash method of accounting generally falls as gross receipts rises for all types of businesses. One exception is farm sole proprietorships, virtually all (99.4 percent) of which use the cash method, including 100 percent of farms with gross income of more than $50 million. While a C corporation, a partnership that has a C corporation as a partner, or a tax-exempt trust or corporation with unrelated business income generally may not use the cash method if its average annual gross receipts exceed $5 million, qualified personal service corporations are allowed to use the cash method without regard to whether they meet the gross receipts test. Indeed, more than 90 percent of personal service corporations with gross receipts in excess of $5 million use the cash method of accounting. Exceptions to the gross receipts test also apply for farming businesses. It is likely that the 47 C corporations with gross receipts in excess of $50 million that use the cash method are farming businesses.

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[183] For this purpose, farm sole proprietorships are measured solely by reference to those individuals who report income (or loss) on Schedule F of Form 1040. Other individuals engaged in agricultural enterprises may conduct their farm business through a separate legal entity. When this occurs, the data reported below report that entity among the totals for C corporations, S corporations, or partnerships.

Table 14a.−Use of Cash Method by Reporting Entity other than C Corporations, 2014
(Receipts in Billions of Dollars)

Sector	Farm & Nonfarm Sole Proprietorships				Partnerships				S Corporations			
	Number of Filers Using Cash Method	Percentage of Filers Using Cash Method	Receipts of Cash Method Filers	Percentage of Total Receipts	Number of Filers Using Cash Method	Percentage of Filers Using Cash Method	Receipts of Cash Method Filers	Percentage of Total Receipts	Number of Filers Using Cash Method	Percentage of Filers Using Cash Method	Receipts of Cash Method Filers	Percentage of Total Receipts
Agriculture, Forestry, Fishing and Hunting………	2,110,325	99.0%	166.65	94.0%	132,592	92.4%	10.69	32.3%	74,858	84.0%	63.26	53.7%
Mining……………………………………………	114,565	94.4%	12.79	89.7%	20,224	64.2%	18.26	8.8%	20,860	82.7%	21.26	36.8%
Utilities……………………………………………	13,083	92.7%	0.37	34.6%	494	9.8%	0.96	0.5%	1,559	46.3%	1.99	21.4%
Construction………………………………………	2,665,632	97.4%	187.85	89.6%	93,963	65.9%	47.70	17.9%	382,593	68.4%	258.81	26.4%
Manufacturing……………………………………	347,839	95.7%	21.90	67.3%	40,285	60.3%	12.58	1.1%	61,876	39.9%	36.02	4.0%
Wholesale and Retail Trade………………………	2,586,854	94.8%	164.83	67.9%	135,130	53.8%	58.58	4.8%	280,344	42.3%	219.55	7.4%
Transportation and Warehousing…………………	1,261,581	97.0%	100.90	94.3%	33,879	72.6%	27.32	11.5%	125,582	78.4%	110.18	44.7%
Information………………………………………	372,187	98.6%	11.43	85.0%	31,722	75.2%	12.12	3.6%	56,513	72.3%	29.84	32.9%
Finance and Insurance……………………………	614,841	97.8%	73.34	93.8%	216,877	64.8%	110.06	16.0%	124,576	78.6%	53.18	43.2%
Real Estate and Rental and Leasing………………	1,122,345	97.9%	62.49	94.7%	1,405,900	77.4%	111.02	33.0%	361,606	75.4%	63.10	53.0%
Professional, Scientific, and Technical Services…	3,251,775	97.7%	166.32	94.5%	186,049	84.6%	282.08	61.8%	605,144	82.7%	346.49	63.1%
Management of Companies………………………	0	n/a	0.00	n/a	18,533	56.6%	7.46	13.3%	21,665	62.5%	4.96	50.0%
Administrative and Support and Waste Management and Remediation Services………	2,585,507	97.9%	68.55	94.3%	51,813	78.0%	42.37	38.2%	162,411	76.8%	131.55	50.8%
Education Services………………………………	810,440	98.0%	11.46	96.6%	25,305	87.8%	2.31	34.8%	38,863	81.7%	11.41	42.5%
Health Care and Social Assistance………………	2,099,896	97.8%	113.02	95.7%	68,170	80.2%	106.05	41.9%	329,469	89.5%	261.88	80.0%
Arts, Entertainment, and Recreation………………	1,503,499	97.2%	33.83	87.4%	61,860	83.7%	10.64	15.5%	81,002	81.5%	45.28	65.3%
Accomodation and Food Services…………………	466,156	95.8%	44.92	76.3%	74,637	54.0%	26.24	13.3%	126,801	53.3%	67.95	27.1%
Other Services……………………………………	3,195,894	97.6%	95.19	92.3%	68,780	80.3%	13.24	40.0%	202,809	73.0%	65.96	46.4%
Unclassified………………………………………	631,592	96.1%	7.19	95.8%	0	n/a	0.00	n/a	0	n/a	0.00	n/a
TOTAL…………………………………………	**25,712,331**	**97.3%**	**1,343.04**	**87.8%**	**2,666,212**	**73.8%**	**899.68**	**15.4%**	**3,058,530**	**69.8%**	**1,792.66**	**24.8%**

NOTE: Totals may not equal sum of components due to rounding.

Table 14b.−Use of Cash Method by C Corporations, 2014
(Receipts in Billions of Dollars)

Sector	Personal Service Corporations (PSCs)				C Corporations (excluding PSCs)			
	Number of Filers Using Cash Method	Percentage of Filers Using Cash Method	Receipts of Cash Method Filers	Percentage of Total Receipts	Number of Filers Using Cash Method	Percentage of Filers Using Cash Method	Receipts of Cash Method Filers	Percentage of Total Receipts
Agriculture, Forestry, Fishing and Hunting.........	0	n/a	0.00	n/a	40,519	80.0%	22.17	29.2%
Mining..	0	n/a	0.00	n/a	6,583	53.8%	4.55	1.0%
Utilities..	0	n/a	0.00	n/a	786	23.6%	0.15	0.0%
Construction..	264	74.6%	0.07	82.3%	78,556	52.7%	47.52	10.5%
Manufacturing..	0	n/a	0.00	n/a	16,037	19.7%	89.96	1.3%
Wholesale and Retail Trade..........................	0	n/a	0.00	n/a	100,440	32.4%	61.74	1.0%
Transportation and Warehousing....................	1,660	99.9%	0.49	99.8%	41,816	63.9%	19.73	3.2%
Information...	56	9.5%	0	61.0%	22,773	49.5%	9.45	1.0%
Finance and Insurance...............................	543	67.4%	0.53	66.0%	25,226	40.4%	7.54	0.3%
Real Estate and Rental and Leasing.................	467	62.0%	0.16	63.6%	103,150	58.2%	16.94	10.2%
Professional, Scientific, and Technical Services...	36,384	88.7%	82.35	84.6%	86,331	56.2%	36.26	5.6%
Management of Companies..........................	*	*	*	*	10,658	31.0%	0.09	0.0%
Administrative and Support and Waste Management and Remediation Services.........	278	96.5%	0.24	53.3%	42,719	61.1%	15.66	5.5%
Education Services....................................	437	100.0%	0.27	100.0%	6,379	53.1%	2.51	7.4%
Health Care and Social Assistance..................	54,638	91.4%	115.35	81.3%	26,088	69.0%	13.80	5.3%
Arts, Entertainment, and Recreation................	2,586	81.1%	1.61	86.8%	17,404	60.9%	3.01	5.9%
Accomodation and Food Services...................	255	98.7%	0.04	60.1%	39,974	55.9%	15.24	5.7%
Other Services...	520	94.8%	0.07	85.1%	60,892	48.7%	12.39	15.0%
TOTAL..	**98,368**	**89.2%**	**201.21**	**82.6%**	**726,331**	**48.7%**	**378.72**	**1.8%**

NOTE: Totals may not equal sum of components due to rounding.

* Data suppressed due to too few filers.

Table 15a.–Use of Cash Method by Proprietorships by Gross Receipts
(Receipts/Gross Income in Billions of Dollars)

Gross Receipts (Gross Income for Farms)	Nonfarm Sole Proprietorships				Farm Sole Proprietorships			
	Number of Filers Using Cash Method	Percentage of Filers Using Cash Method	Receipts of Cash Method Filers	Percentage of Total Receipts	Number of Filers Using Cash Method	Percentage of Filers Using Cash Method	Gross Income of Cash Method Filers	Percentage of Total Gross Income
$0 or less..	1,261,053	96.1%	-0.14	94.4%	264,114	100.0%	-0.18	99.5%
$1 to $2,500..	4,658,698	97.6%	5.53	97.9%	359,732	99.7%	0.39	99.8%
$2,501 to $5,000..	2,554,336	97.7%	9.45	97.8%	159,401	98.7%	0.58	98.8%
$5,001 to $10,000..	3,237,594	97.9%	23.80	98.0%	184,115	99.9%	1.33	99.9%
$10,001 to $25,000..	5,158,733	97.6%	82.76	97.5%	247,628	99.3%	3.99	99.1%
$25,001 to $50,000..	2,772,621	97.1%	98.79	97.1%	145,812	100.0%	5.21	100.0%
$50,001 to $100,000..	1,950,949	97.6%	137.99	97.6%	134,287	98.8%	9.51	99.0%
$100,001 to $250,000......................................	1,510,222	96.9%	234.29	96.7%	148,002	98.8%	24.13	98.7%
$250,001 to $500,000......................................	506,911	94.0%	176.71	93.9%	89,198	99.0%	31.52	99.0%
$500,001 to $1,000,000....................................	209,409	88.2%	142.02	87.9%	52,099	98.5%	35.95	98.5%
$1,000,001 to $5,000,000................................	114,410	82.0%	197.92	79.0%	26,607	98.5%	45.33	98.5%
$5,000,001 to $10,000,000..............................	4,773	63.5%	32.81	64.2%	885	99.2%	5.83	99.1%
$10,000,001 to $15,000,000............................	1,240	64.8%	14.47	64.2%	205	98.6%	2.50	98.6%
$15,000,001 to $25,000,000............................	422	39.8%	8.04	40.2%	139	97.2%	2.66	97.2%
$25,000,001 to $50,000,000............................	166	22.8%	5.76	24.3%	79	98.8%	2.59	98.9%
More than $50,000,000....................................	142	43.2%	22.95	52.7%	29	100.0%	2.37	100.0%
TOTAL..	**23,941,679**	**97.2%**	**1,193.16**	**87.0%**	**1,812,331**	**99.4%**	**173.70**	**98.7%**

NOTE: Totals may not equal sum of components due to rounding.

Table 15b.–Use of Cash Method by Partnerships and S Corporations by Gross Receipts
(Receipts in Billions of Dollars)

Gross Receipts (Gross Income for Farms)	Partnerships				S Corporations			
	Number of Filers Using Cash Method	Percentage of Filers Using Cash Method	Receipts of Cash Method Filers	Percentage of Total Receipts	Number of Filers Using Cash Method	Percentage of Filers Using Cash Method	Receipts of Cash Method Filers	Percentage of Total Receipts
$0 or less..	728,910	76.5%	0.00	n/a	422,758	71.3%	0.00	n/a
$1 to $2,500..	300,113	74.0%	0.23	79.6%	64,830	82.9%	0.07	83.3%
$2,501 to $5,000..	108,350	88.8%	0.42	89.5%	41,239	72.2%	0.15	72.5%
$5,001 to $10,000..	133,007	86.9%	0.95	86.3%	64,236	77.9%	0.48	78.6%
$10,001 to $25,000..	270,371	84.4%	4.64	84.8%	163,224	81.0%	2.88	81.8%
$25,001 to $50,000..	220,753	83.1%	7.92	82.3%	209,560	79.2%	7.78	79.1%
$50,001 to $100,000..	252,402	80.2%	18.17	79.4%	355,403	83.0%	26.42	83.3%
$100,001 to $250,000......................................	268,453	72.0%	43.12	71.2%	608,093	78.1%	100.16	77.6%
$250,001 to $500,000......................................	146,395	67.3%	51.50	66.9%	436,591	72.1%	155.82	71.7%
$500,001 to $1,000,000....................................	106,834	60.9%	75.54	60.8%	330,998	66.0%	233.90	65.8%
$1,000,001 to $5,000,000................................	108,568	49.2%	222.68	47.1%	312,230	52.9%	619.81	50.1%
$5,000,001 to $10,000,000...............................	12,964	32.7%	89.64	32.3%	33,256	34.6%	222.90	33.6%
$10,000,001 to $15,000,000.............................	3,911	25.9%	47.38	25.6%	7,586	22.3%	91.54	22.2%
$15,000,001 to $25,000,000.............................	2,589	19.0%	49.13	18.8%	4,982	16.8%	92.56	16.4%
$25,000,001 to $50,000,000.............................	1,485	14.0%	49.76	13.5%	2,211	10.5%	75.68	10.4%
More than $50,000,000....................................	1,107	9.2%	238.60	6.0%	1,335	7.5%	162.52	5.7%
TOTAL...	**2,666,212**	**73.8%**	**899.68**	**15.4%**	**3,058,530**	**69.8%**	**1,792.66**	**24.8%**

NOTE: Totals may not equal sum of components due to rounding.

Table 15c.–Use of Cash Method by C Corporations by Gross Receipts
(Receipts in Billions of Dollars)

Gross Receipts (Gross Income for Farms)	Personal Service Corporations (PSCs)				C Corporations (excluding PSCs)			
	Number of Filers Using Cash Method	Percentage of Filers Using Cash Method	Receipts of Cash Method Filers	Percentage of Total Receipts	Number of Filers Using Cash Method	Percentage of Filers Using Cash Method	Receipts of Cash Method Filers	Percentage of Total Receipts
$0 or less..	5,766	79.4%	0.00	n/a	111,739	46.6%	0.00	n/a
$1 to $2,500...	1,281	72.8%	[1]	82.2%	20,443	60.4%	0.02	63.2%
$2,501 to $5,000..	1,476	86.0%	0.01	86.8%	16,303	74.1%	0.06	74.8%
$5,001 to $10,000..	1,198	100.0%	0.01	100.0%	25,304	71.5%	0.20	72.1%
$10,001 to $25,000..	4,410	99.9%	0.07	99.9%	57,807	67.2%	0.98	66.1%
$25,001 to $50,000..	4,926	90.9%	0.18	92.2%	67,536	67.1%	2.50	66.8%
$50,001 to $100,000..	5,557	83.8%	0.41	86.4%	84,685	62.7%	6.18	62.4%
$100,001 to $250,000......................................	16,318	86.9%	2.71	86.8%	119,541	57.3%	19.85	56.8%
$250,001 to $500,000......................................	15,416	90.6%	5.50	90.4%	93,221	54.8%	33.64	54.6%
$500,001 to $1,000,000....................................	16,610	92.8%	11.65	93.6%	64,419	43.8%	46.11	43.7%
$1,000,001 to $5,000,000.................................	18,202	89.6%	40.68	89.6%	58,693	27.7%	124.00	26.1%
$5,000,001 to $10,000,000...............................	3,704	90.6%	26.71	91.4%	5,204	12.3%	35.65	12.2%
$10,000,001 to $15,000,000.............................	1,515	97.1%	18.91	97.1%	747	4.7%	8.94	4.6%
$15,000,001 to $25,000,000.............................	1,086	89.8%	20.45	89.1%	453	3.4%	8.22	3.2%
$25,000,001 to $50,000,000.............................	564	90.7%	19.88	91.6%	187	1.6%	6.05	1.5%
More than $50,000,000....................................	340	76.5%	54.05	65.4%	47	0.3%	86.31	0.5%
TOTAL...	**98,368**	**89.2%**	**201.21**	**82.6%**	**726,331**	**48.7%**	**378.72**	**1.8%**

NOTE: Totals may not equal sum of components due to rounding.

[1] Less than $5 million.

Use of interest expense

Tables 16a through 16d show data for nonfinancial C corporations, S corporations, partnerships, and nonfarm sole proprietorships, respectively, as reported on income tax returns for 2014. For this purpose, nonfinancial firms are firms other than those in the finance and insurance industry based on the primary business activity code reported on the tax return. Firms are classified by gross receipts. For purposes of these tables, gross receipts do not include items such as income from investments and from incidental or outside sources that are included in the definition of gross receipts under section 448(c), such as interest (including original issue discount and tax-exempt interest within the meaning of section 103), dividends, rents, royalties, and annuities, regardless of whether such amounts are derived in the ordinary course of the taxpayer's trade or business. This is relevant when interpreting the rows for firms with gross receipts of $0 or less, which are often anomalous.

The first column of each table reports the total number of returns for each level of gross receipts. The second column reports the subset of those total returns that report any interest expense, including both investment interest expense and business interest expense. The third column divides the second column by the first to report the returns with interest expense as a percent of the total returns.

Columns four and five report net income before interest expense and interest expense, respectively, in millions of dollars. Column six shows the distribution of total interest by reporting the percent of total interest expense reported by firms in each category of gross receipts.

Columns seven through nine show statistics on the ratio of interest expense to net income before interest expense. Column seven reports the overall average ratio of interest expense to net income before interest expense for each category and is calculated by dividing the number in column five by the number in column four. For purposes of calculating the statistics in columns eight and nine, the ratio of interest expense to net income before interest expense is first calculated for each firm. These firm-ratios are then ordered to determine the ratio of the median firm, that is, the ratio of the firm for which half of the firms have a ratio equal to or less than the number reported in column eight and half of the firms have a ratio equal to or greater than that number. Column nine reports the ratio for the firm at the 90th percentile of the distribution.

Column ten calculates the average interest expense in dollars per return that reports interest expense.

A majority of nonfinancial firms have no interest expense at all; only 38.03 percent of C corporations, 40.02 percent of S corporations, 17.24 percent of partnerships, and 6.91 percent of sole proprietorships claimed any interest expense. Across all of these firms, 86.28 percent claim no deduction for interest expense. The percentage of returns with interest expense generally increases with the size of the firm as measured by gross receipts. For all types of firms, the smallest percentage with debt is for those with gross receipts of $1 to $2,500 or $2,500 to $5,000 while the highest percentage with debt is for those firms with gross receipts of more than $50 million.

C corporations' interest expense, in the aggregate ($515.997 billion) and as an overall average ratio of interest expense to net income before interest expense (32 percent), exceeds the comparable figures for S corporations ($37.867 billion; 9 percent), partnerships ($78.942 billion; 18 percent), and sole proprietorships ($8.036 billion; 3 percent). C corporations may have a Federal income tax incentive to incur debt, as interest is deductible in determining the corporate tax. By contrast, S corporations, partnerships, and sole proprietorships are not subject to an entity-level tax, though interest expense is generally deductible in the hands of their owners. Partnership interest expense, in the aggregate and as a percentage of net income before interest expense, exceeds that of S corporations and sole proprietorships. Among other factors, these differences may reflect the difference in tax rules for determining basis of partners' and S corporation shareholders' interests in the entity.

Most interest expense is concentrated among the largest firms. Almost 90 percent of the interest expense claimed by C corporations is claimed by the top 2.6 percent of returns with interest expense ranked by gross receipts. Among S corporations, almost half of the interest expense is claimed by the top 5.0 percent of firms, while among partnerships almost two-thirds of the interest expense is claimed by the top 5.6 percent of firms with interest expense.

Many small firms have losses, even before taking into account any deduction for interest expense. C corporations with positive gross receipts less than $1 million have aggregate losses at every level of gross receipts. After interest expense, only the largest C corporations, those with more than $10 million of gross receipts, have positive net income as a group. Other small firms are also likely to have losses, though at smaller gross receipts thresholds than for C corporations.

The median C corporation, S corporation, partnership, and sole proprietorship all have a ratio of interest expense to net income before interest expense of zero, that is, at least half the firms have no interest expense or are in a loss position before interest expense. For many categories of gross receipts, the firm at the 90th percentile of the distribution also has a ratio of interest expense to net income before interest expense of zero. This suggests that relatively few highly leveraged firms are responsible for most of the interest and that average amounts of interest expense are likely to exceed those amounts for the typical firm.

Table 16a.–Income and Interest Expense of Nonfinancial C Corporations, 2014

Firms classified by gross receipts	Total Number of Returns	Number of Returns with Interest Expense	Returns with Interest Expense as a Percent of Total	Net Income before Interest Expense (millions)	Interest Expense (millions)	Percent of Total Interest Expense	Ratio of Interest Expense to Net Income before Interest Expense: Overall Average	Firm Level Median	Firm Level 90th percentile	Average Interest Expense per Return with Interest Expense (dollars)
$0 or less	225,939	32,674	14.46%	67,231	25,433	4.93%	0.38	0.00	0.00	778,381
$1 to $2,500	34,405	2,855	8.30%	-575	35	0.01%	-0.06	0.00	0.00	12,373
$2,500 to $5,000	23,123	1,823	7.88%	-301	35	0.01%	-0.12	0.00	0.00	19,121
$5,001 to $10,000	35,973	5,843	16.24%	-846	60	0.01%	-0.07	0.00	0.00	10,315
$10,001 to $25,000	87,704	13,801	15.74%	-1,200	131	0.03%	-0.11	0.00	0.00	9,518
$25,001 to $50,000	103,221	18,812	18.22%	-2,118	285	0.06%	-0.13	0.00	0.03	15,149
$50,001 to $100,000	137,080	36,374	26.53%	-840	390	0.08%	-0.46	0.00	0.17	10,714
$100,001 to $250,000	219,954	69,991	31.82%	-1,512	1,135	0.22%	-0.75	0.00	0.26	16,222
$250,001 to $500,000	181,869	76,055	41.82%	-173	1,213	0.24%	-7.01	0.00	0.33	15,951
$500,001 to $1,000,000	159,848	88,682	55.48%	-214	1,758	0.34%	-8.22	0.00	0.71	19,827
$1,000,001 to $5,000,000	226,442	154,867	68.39%	3,095	6,286	1.22%	2.03	0.00	0.74	40,587
$5,000,001 to $10,000,000	45,179	34,102	75.48%	3,776	3,655	0.71%	0.97	0.03	0.80	107,172
$10,000,001 to $50,000,000	43,355	34,990	80.71%	20,800	14,318	2.77%	0.69	0.04	0.73	409,199
More than $50,000,000	16,519	14,964	90.59%	1,511,874	461,263	89.39%	0.31	0.07	0.90	30,824,818
Total	1,540,612	585,833	38.03%	1,598,998	515,997	100.00%	0.32	0.00	0.38	880,792

Table 16b.– Income and Interest Expense of Nonfinancial S Corporations, 2014

Firms classified by gross receipts	Total Number of Returns	Number of Returns with Interest Expense	Returns with Interest Expense as a Percent of Total	Net Income before Interest Expense (millions)	Interest Expense (millions)	Percent of Total Interest Expense	Ratio of Interest Expense to Net Income before Interest Expense: Overall Average	Firm Level Median	Firm Level 90th percentile	Average Interest Expense per Return with Interest Expense (dollars)
$0 or less	572,145	53,832	9.41%	14,308	2,151	5.68%	0.15	0.00	0.00	39,957
$1 to $2,500	75,798	9,114	12.02%	-402	37	0.10%	-0.09	0.00	0.00	4,076
$2,500 to $5,000	54,238	9,302	17.15%	-487	44	0.12%	-0.09	0.00	0.00	4,734
$5,001 to $10,000	81,050	9,107	11.24%	-322	37	0.10%	-0.11	0.00	0.00	4,031
$10,001 to $25,000	193,169	27,858	14.42%	-416	88	0.23%	-0.21	0.00	0.00	3,146
$25,001 to $50,000	251,550	51,837	20.61%	827	175	0.46%	0.21	0.00	0.01	3,376
$50,001 to $100,000	410,326	109,995	26.81%	5,399	417	1.10%	0.08	0.00	0.10	3,789
$100,001 to $250,000	745,437	274,311	36.80%	17,934	1,218	3.22%	0.07	0.00	0.10	4,442
$250,001 to $500,000	578,115	302,682	52.36%	23,516	1,698	4.48%	0.07	0.00	0.19	5,609
$500,001 to $1,000,000	486,399	288,198	59.25%	33,159	2,718	7.18%	0.08	0.00	0.27	9,432
$1,000,001 to $5,000,000	577,213	398,235	68.99%	93,110	8,053	21.27%	0.09	0.01	0.35	20,222
$5,000,001 to $10,000,000	94,849	71,059	74.92%	42,254	3,436	9.07%	0.08	0.01	0.34	48,358
$10,000,001 to $50,000,000	83,708	68,723	82.10%	91,525	7,333	19.36%	0.08	0.02	0.38	106,702
More than $50,000,000	17,603	15,194	86.31%	115,001	10,462	27.63%	0.09	0.04	0.40	688,541
Total	4,221,598	1,689,445	40.02%	435,406	37,867	100.00%	0.09	0.00	0.16	22,414

Table 16c.– Income and Interest Expense of Nonfinancial Partnerships, 2014

Firms classified by gross receipts	Total Number of Returns	Number of Returns with Interest Expense	Returns with Interest Expense as a Percent of Total	Net Income before Interest Expense (millions)	Interest Expense (millions)	Percent of Total Interest Expense	Ratio of Interest Expense to Net Income before Interest Expense: Overall Average	Firm Level Median	Firm Level 90th percentile	Average Interest Expense per Return with Interest Expense (dollars)
$0 or less	2,020,854	107,989	5.34%	23,208	13,038	16.52%	0.56	0.00	0.00	120,734
$1 to $2,500	72,335	8,877	12.27%	-708	39	0.05%	-0.05	0.00	0.00	4,351
$2,500 to $5,000	36,788	7,480	20.33%	-597	62	0.08%	-0.10	0.00	1.37	8,349
$5,001 to $10,000	54,506	8,665	15.90%	-638	44	0.06%	-0.07	0.00	0.00	5,110
$10,001 to $25,000	134,238	22,348	16.65%	-1,955	177	0.22%	-0.09	0.00	0.00	7,914
$25,001 to $50,000	105,792	18,656	17.63%	-1,028	97	0.12%	-0.09	0.00	0.00	5,200
$50,001 to $100,000	128,685	30,474	23.68%	-1,013	287	0.36%	-0.28	0.00	0.03	9,404
$100,001 to $250,000	201,360	76,597	38.04%	2,354	921	1.17%	0.39	0.00	0.18	12,025
$250,001 to $500,000	139,548	59,776	42.84%	4,506	1,217	1.54%	0.27	0.00	0.23	20,364
$500,001 to $1,000,000	132,430	63,167	47.70%	7,137	1,545	1.96%	0.22	0.00	0.21	24,458
$1,000,001 to $5,000,000	177,025	106,944	60.41%	31,702	5,735	7.26%	0.18	0.00	0.33	53,625
$5,000,001 to $10,000,000	32,168	22,384	69.58%	20,798	2,996	3.80%	0.14	0.00	0.39	133,849
$10,000,001 to $50,000,000	31,226	23,636	75.69%	47,951	9,847	12.47%	0.21	0.00	0.41	416,623
More than $50,000,000	9,755	7,894	80.92%	306,198	42,937	54.39%	0.14	0.01	0.53	5,439,198
Total	3,276,709	564,886	17.24%	437,916	78,942	100.00%	0.18	0.00	0.11	139,749

Table 16d.– Income and Interest Expense of Nonfinancial Nonfarm Sole Proprietorships, 2014

Firms classified by gross receipts	Total Number of Returns	Number of Returns with Interest Expense	Returns with Interest Expense as a Percent of Total	Net Income before Interest Expense (millions)	Interest Expense (millions)	Percent of Total Interest Expense	Ratio of Interest Expense to Net Income before Interest: Overall Average	Ratio of Interest Expense to Net Income before Interest: Firm Level Median	Ratio of Interest Expense to Net Income before Interest: Firm Level 90th percentile	Average Interest Expense per Return with Interest Expense (dollars)
$0 or less	1,146,125	49,530	4.32%	-4,974	226	2.81%	-0.05	0.00	0.00	4,557
$1 to $2,500	4,529,023	76,867	1.70%	-7,399	126	1.56%	-0.02	0.00	0.00	1,634
$2,500 to $5,000	2,501,595	49,802	1.99%	-324	106	1.32%	-0.33	0.00	0.00	2,124
$5,001 to $10,000	3,188,213	78,909	2.48%	7,528	144	1.79%	0.02	0.00	0.00	1,820
$10,001 to $25,000	5,132,237	156,597	3.05%	40,269	272	3.38%	0.01	0.00	0.00	1,735
$25,001 to $50,000	2,736,362	215,834	7.89%	40,449	446	5.56%	0.01	0.00	0.00	2,068
$50,001 to $100,000	1,899,260	249,799	13.15%	49,634	650	8.09%	0.01	0.00	0.00	2,601
$100,001 to $250,000	1,474,766	381,482	25.87%	70,937	1,495	18.60%	0.02	0.00	0.07	3,919
$250,001 to $500,000	501,644	179,570	35.80%	44,246	1,084	13.49%	0.02	0.00	0.13	6,038
$500,001 to $1,000,000	221,153	103,111	46.62%	28,658	1,008	12.54%	0.04	0.00	0.21	9,775
$1,000,001 to $5,000,000	132,985	72,761	54.71%	28,542	1,500	18.66%	0.05	0.00	0.25	20,611
$5,000,001 to $10,000,000	7,335	4,796	65.39%	3,671	316	3.93%	0.09	0.00	0.48	65,929
$10,000,001 to $50,000,000	3,527	2,565	72.72%	3,182	412	5.13%	0.13	0.01	0.65	160,798
More than $50,000,000	250	197	78.80%	483	252	3.13%	0.52	0.01	0.78	1,277,939
Total	23,474,478	1,621,821	6.91%	304,903	8,036	100.00%	0.03	0.00	0.00	4,955

Select small business tax expenditures

Table 17 contains tax expenditure estimates for select tax provisions related to small businesses.[184] Estimates are shown for the total tax expenditure for fiscal years 2016-2020.[185] The largest tax expenditure by far is expensing under section 179 of depreciable business property with a tax expenditure estimate of $248.2 billion. The next largest item, reduced rates of tax on the first $10 million of corporate taxable income, is less than one-tenth as large at $15.9 billion. Exceptions that permit the use of the cash method of accounting for businesses other than agriculture businesses is the third largest item at $11.5 billion.

Table 17.–Select Small Business Tax Expenditures, Fiscal Years 2016-2020

Tax Expenditure	Total Amount (Billions of Dollars)
Expensing under section 179 of depreciable business property	248.2
Reduced rates on first $10,000,000 of corporate taxable income	15.9
Cash accounting, other than agriculture	11.5
Exclusion for gain from certain small business stock	6.2
Completed contract rules	5.5
Tax credit for small businesses purchasing employer insurance	4.7
Tax-exempt status and election to be taxed only on investment income for certain small property and casualty insurance companies	0.5
Amortization of business startup costs	0.4
Cash accounting for agriculture	0.1

[184] A tax expenditure estimate is not the same as a revenue estimate for the repeal of the tax expenditure provision. First, unlike revenue estimates, tax expenditure estimates do not incorporate the effects of the behavioral changes that are anticipated to occur in response to the repeal of a tax expenditure provision, other than simple additions or deletions in filing tax forms, what the Joint Committee staff refers to as "tax form behavior." Second, tax expenditure calculations are concerned with changes in the reported tax liabilities of taxpayers without concern for the short-term timing of tax payments, whereas revenue estimates are concerned with changes in Federal government tax receipts that are affected by the timing of all tax payments. Third, tax expenditure estimates reflect only the income tax effects of provisions. A revenue estimate would consider interactions between the income tax and other Federal taxes such as payroll, excise, and the estate and gift taxes.

[185] Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2016-2020* (JCX-3-17), January 30, 2017.

B. Comparison of U.S. and International Tax Rates

Table 18, below, presents the top combined statutory corporate income tax rates in countries in the Organization for Economic Cooperation and Development ("OECD") from 2007 to 2017 and reflects tax rates set by central governments as well as sub-central governments and accounts for some (but not always all) surtaxes and deductions.[186] For each year, the cell corresponding to the country with the highest tax rate is shaded pink, while the cell associated with the country with the lowest tax rate is shaded blue. For most OECD countries, top combined statutory income tax rates have declined over the last decade. The rate in 2017 was lower than in 2007 for 21 of the 35 OECD countries. Rates were higher in 2017 for only six countries. From 2007 to 2012, the United States had the second highest combined statutory corporate income tax rate among OECD countries, and had the highest rate from 2013 to 2017.[187]

[186] See OECD, *OECD Tax Database Explanatory Annex Part II: Taxation of Corporate and Capital Income*, April 2017, available http://www.oecd.org/ctp/tax-policy/corporate-and-capital-income-tax-explanatory-annex.pdf. For the United States in 2017, the combined statutory corporate tax rate of 38.9 percent equals the (top) Federal corporate income tax rate of 35 percent minus 2.1 percent (to account for the section 199 deduction for domestic production activities and the deductibility of State corporate income taxes) plus a weighted average State corporate income tax rate of 6.01 percent. The weighted average tax rate equals the sum of the top corporate tax rate for each State multiplied by the State's share in total personal income. The OECD weighting methodology is not consistent across countries.

[187] For estimates of average and effective corporate tax rates across the Group of Twenty ("G20") countries for 2012, see Congressional Budget Office, *International Comparisons of Corporate Tax Rates*, March 2017. Average and effective corporate tax rates account for features of tax systems besides statutory corporate tax rates, such as cost recovery provisions and investment incentives. The Congressional Budget Office estimates, for the United States in 2012, an average corporate tax rate of 29.0 percent and an effective corporate tax rate of 18.6 percent, which were among the highest in the G20.

Table 18.−Top Combined Statutory Corporate Income Tax Rates in the OECD (Central and Sub-Central Governments): 2007-2017

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Australia	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Austria	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Belgium	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0
Canada	34.0	31.4	30.9	29.4	27.7	26.1	26.2	26.2	26.7	26.7	26.7
Chile	17.0	17.0	17.0	17.0	20.0	20.0	20.0	21.0	22.5	24.0	25.0
Czech Republic	24.0	21.0	20.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0
Denmark	25.0	25.0	25.0	25.0	25.0	25.0	25.0	24.5	23.5	22.0	22.0
Estonia	22.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	20.0	20.0	20.0
Finland	26.0	26.0	26.0	26.0	26.0	24.5	24.5	20.0	20.0	20.0	20.0
France	34.4	34.4	34.4	34.4	36.1	36.1	38.0	38.0	38.0	34.4	34.4
Germany	38.9	30.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2	30.2
Greece	25.0	25.0	25.0	24.0	20.0	20.0	26.0	26.0	26.0	29.0	29.0
Hungary	20.0	20.0	20.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	9.0
Iceland	18.0	15.0	15.0	18.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Ireland	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5
Israel	29.0	27.0	26.0	25.0	24.0	25.0	25.0	26.5	26.5	25.0	24.0
Italy	37.3	31.4	31.4	31.4	31.4	31.3	31.3	31.3	31.3	31.3	27.8
Japan	39.5	39.5	39.5	39.5	39.5	39.5	37.0	37.0	32.1	30.0	30.0
Korea	27.5	27.5	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2
Latvia	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Luxembourg	29.6	29.6	28.6	28.6	28.8	28.8	29.2	29.2	29.2	29.2	27.1
Mexico	28.0	28.0	28.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Netherlands	25.5	25.5	25.5	25.5	25.0	25.0	25.0	25.0	25.0	25.0	25.0
New Zealand	33.0	30.0	30.0	30.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0
Norway	28.0	28.0	28.0	28.0	28.0	28.0	28.0	27.0	27.0	25.0	24.0
Poland	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0
Portugal	26.5	26.5	26.5	26.5	28.5	31.5	31.5	31.5	29.5	29.5	29.5
Slovak Republic	19.0	19.0	19.0	19.0	19.0	19.0	23.0	22.0	22.0	22.0	21.0
Slovenia	23.0	22.0	21.0	20.0	20.0	18.0	17.0	17.0	17.0	17.0	19.0
Spain	32.5	30.0	30.0	30.0	30.0	30.0	30.0	30.0	28.0	25.0	25.0
Sweden	28.0	28.0	26.3	26.3	26.3	26.3	22.0	22.0	22.0	22.0	22.0
Switzerland	21.3	21.2	21.2	21.2	21.2	21.2	21.2	21.2	21.2	21.2	21.2
Turkey	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
United Kingdom	30.0	28.0	28.0	28.0	26.0	24.0	23.0	21.0	20.0	20.0	19.0
United States	39.3	39.3	39.2	39.2	39.2	39.1	39.1	39.1	39.0	38.9	38.9

Source: OECD Tax Database.

APPENDIX: SELECTED DEFINITIONS OF SMALL BUSINESS IN THE INTERNAL REVENUE CODE

Code Section	Type of Entity	Assets	Gross Receipts/Income	Number of Employees/ Participants	Number of Shareholders/ Ownership Restrictions	Outlays/Output
Graduated corporate tax rates (sec. 11(b)(1))	Corporation, not including certain personal service corporations		Taxable income of $10 million or less			
Certain credits of eligible small business allowed against alternative minimum tax (sec. 38(c)(4)(B)(ii))	• Nonpublicly traded corporation, • Partnership, or • Sole proprietorship		Average annual gross receipts for immediately preceding three-taxable-year period do not exceed $50 million			
Five-year carryback for certain credits of eligible small business (sec. 39(a)(4))	• Nonpublicly traded corporation, • Partnership, or • Sole proprietorship		Average annual gross receipts for immediately preceding three-taxable-year period do not exceed $50 million			
Small agri-biodiesel producer credit (sec. 40A(b)(4))						Production of not more than 15,000,000 gallons of qualified agri-biodiesel per taxable year, which must be sold by the producer to a person using it (or must be used by the producer) in production of a qualified biodiesel mixture, as a fuel, or for retail sale, in the person's or producer's business

Code Section	Type of Entity	Assets	Gross Receipts/Income	Number of Employees/ Participants	Number of Shareholders/ Ownership Restrictions	Outlays/Output
100 percent of qualified contract energy research expenses paid to eligible small business included in calculation of research credit (sec. 41(b)(3)(D))				Small business has annual average of 500 or fewer employees during either of the two preceding calendar years	With respect to small business, taxpayer cannot own 50 percent or more of— • If a corporation, the outstanding stock of the corporation (either vote or value), or • If not a corporation, the capital and profits interests of the small business	
Research credit allowed against payroll tax for qualified small business (secs. 41(h) and 3111(f))			Gross receipts for the taxable year are less than $5,000,000, and such person did not have gross receipts for any taxable year preceding the five-taxable-year period ending with such taxable year (in the case of a person that is not a corporation or a partnership, taking into account all trades and businesses of the person)			

Code Section	Type of Entity	Assets	Gross Receipts/Income	Number of Employees/ Participants	Number of Shareholders/ Ownership Restrictions	Outlays/Output
Tax credit for eligible small business for expenditures to provide access to disabled individuals (sec. 44)			Gross receipts of $1 million or less during the preceding taxable year **OR**	30 or fewer full-time employees during the preceding taxable year		
New markets tax credit for payments to specialized small business investment company (sec. 45D(c)(2), by reference to sec. 1044(c)(3))	Partnership or corporation licensed by the Small Business Administration under section 301(d) of the Small Business Investment Act of 1958 (as in effect on May 13, 1993)					
Tax credit for small employer pension plan start-up costs (sec. 45E(c)(1), by reference to sec. 408(p)(2)(C)(i))				100 or fewer employees who received at least $5,000 of compensation from the employer for the preceding year		
Tax credit for small business refiner for production of low sulfur diesel fuel (sec. 45H(c)(1))				1,500 or fewer individuals engaged in the refinery operations of the business on any day during such taxable year		Average daily domestic refinery run or average retained production of all the taxpayer's facilities for the one-year period ending on Dec. 31, 2002, did not exceed 205,000 barrels

Code Section	Type of Entity	Assets	Gross Receipts/Income	Number of Employees/ Participants	Number of Shareholders/ Ownership Restrictions	Outlays/Output
Tax credit for employee health insurance expenses of eligible small employer (sec. 45R(d)(1))				• 25 or fewer full-time equivalent employees for the taxable year with average annual wages of $50,000 or less, indexed for inflation after 2013, and • Contribution arrangement in effect		
Exemption from alternative minimum tax for small corporations (sec. 55(e))	Corporation		Average annual gross receipts of $7,500,000 or less for all three-taxable-year periods ending before such taxable year			
Exclusion for gains on sale of certain small business stock (sec. 57(a)(7), by reference to sec. 1202)	Domestic corporation	Aggregate gross assets of $50 million or less (before and after issuance)				
Simplified rules for cafeteria plans available to an eligible employer (sec. 125(j)(1), (5))				Average of 100 or fewer employees on business days during either of the two preceding years		
Expensing of depreciable business property (sec. 179)		Not phased out if $2,000,000 or less of eligible assets placed in service during the taxable year				Up to $500,000 may be expensed, subject to phase-out

Code Section	Type of Entity	Assets	Gross Receipts/Income	Number of Employees/ Participants	Number of Shareholders/ Ownership Restrictions	Outlays/Output
Deduction for small business refiner for capital costs incurred in complying with sulfur regulations (sec. 179B(a), by reference to sec. 45H(c)(1))				1,500 or fewer individuals engaged in the refinery operations of the business on any day during such taxable year		Average daily domestic refinery run or average retained production of all of the taxpayer's facilities for the one-year period ending on Dec. 31, 2002, did not exceed 205,000 barrels
Expensing and amortization of start-up expenditures (sec. 195)		Not phased out if $50,000 or less of start-up expenditures incurred				• Up to $5,000 may be expensed, subject to phase-out • Remainder amortized over 180 months
Small employer defined for Archer MSA purposes (sec. 220(c)(4))				Average of 50 or fewer employees on business days during either of the two preceding calendar years		
100 percent deduction for dividends received by small business investment company (sec. 243(a)(2))	Small business investment company operating under the Small Business Investment Act of 1958					
Expensing and amortization of organizational expenditures (sec. 248)	Corporation	Not phased out if $50,000 or less of organizational expenditures incurred				• Up to $5,000 may be expensed, subject to phase-out

Code Section	Type of Entity	Assets	Gross Receipts/Income	Number of Employees/ Participants	Number of Shareholders/ Ownership Restrictions	Outlays/Output
						• Remainder amortized over 180 months
Exemption from capitalization and inclusion in inventory costs of certain expenses by resellers (sec. 263A(b)(2))			Average annual gross receipts for the three-taxable year period ending with such prior taxable year of $10 million or less			
Exemption for small business corporations from inclusion in golden parachute payments (sec. 280G(b)(5), by reference to sec. 1361(b) (but without regard to (1)(C)))	Domestic corporation, not including: • A financial institution which uses the reserve method of accounting for bad debts • described in sec. 585, • An insurance company subject to tax under subchapter L, • A corporation to which an election under sec. 936 applies, or • A domestic international sales corporation (DISC) or former DISC				• One class of stock • 100 or fewer shareholders • Does not have as a shareholder a person who is not an individual, other than an estate, a trust, or certain exempt organizations	

Code Section	Type of Entity	Assets	Gross Receipts/Income	Number of Employees/ Participants	Number of Shareholders/ Ownership Restrictions	Outlays/Output
Simple retirement account treatment limited to eligible employers (sec. 408(p)(2)(C)(i))				100 or fewer employees received at least $5,000 of compensation for the preceding year		
Special rules for eligible combined defined benefit plans and qualified cash or deferred arrangements maintained by small employers (sec. 414(x)(2), by reference to sec. 4980D(d)(2))				Average of at least two but not more than 500 employees on business days during the preceding calendar year		
Exception for small plans from valuation date requirements for plan assets and liabilities (sec. 430(g)(2)(B))				100 or fewer participants in plan on each day during the preceding plan year		
Small plan not treated as at-risk for plan year (sec. 430(i)(6))				500 or fewer participants in plan on each day during the preceding plan year		

Code Section	Type of Entity	Assets	Gross Receipts/Income	Number of Employees/ Participants	Number of Shareholders/ Ownership Restrictions	Outlays/Output
Exception from required use of accrual method of accounting for farming corporations (sec. 447(c), (d))	Corporation or partnership with a corporate partner engaged in the business of farming, other than the operation of a nursery or sod farm or the raising or harvesting of trees (other than fruit and nut trees)		• Non-family corporation with gross receipts of $1 million or less for any tax year beginning after 1975 • Family corporation with gross receipts of $25 million or less for any tax year beginning after 1985		Family corporation meets one of the following requirements: • Members of the same family own at least 50 percent of the total combined voting power of all classes of voting stock and at least 50 percent of the total shares of all other classes of stock • 50 percent of the total shares of all other classes of stock, and other ownership requirements. • Members of two families have owned, directly or indirectly, since Oct. 4, 1976, at least 65 percent of the total combined voting power of all classes of voting stock and at least 65 percent of the total shares of all other	

Code Section	Type of Entity	Assets	Gross Receipts/Income	Number of Employees/ Participants	Number of Shareholders/ Ownership Restrictions	Outlays/Output
					classes of stock • Members of three families have owned, directly or indirectly, since Oct. 4, 1976, at least 50 percent of the total combined voting power of all classes of voting stock, and other ownership requirements	
Exception from percentage of completion method for certain long-term construction contracts completed within two years (sec. 460(e))			Average annual gross receipts for the three taxable years preceding the taxable year in which such contract is entered into of $10 million or less			
Small business eligible for simplified dollar-value LIFO method (sec. 474(a), (c))			Average annual gross receipts of the taxpayer for the three preceding taxable years of $5 million or less			
Personal holding company defined (sec. 542(a)(2), (c)(7))	Domestic corporation, with several exceptions, among which are any life insurance company, certain lending or finance companies, and any				At any time during the last half of the taxable year more than 50 percent in value of its outstanding stock is owned, directly or indirectly, by or for	

Code Section	Type of Entity	Assets	Gross Receipts/Income	Number of Employees/ Participants	Number of Shareholders/ Ownership Restrictions	Outlays/Output
	small business investment company licensed by the Small Business Administration and operating under the Small Business Investment Act of 1958 which is actively engaged in the business of providing funds to small business concerns under that Act				not more than 5 individuals	
Tax imposed on electing small business trust holding S corporation stock (sec. 641(c), by reference to sec. 1361(e)(1))	Trust				Trust does not have as a beneficiary any person other than • an individual, • an estate, • an organization described in paragraph (2), (3), (4), or (5) of section 170(c), or • an organization described in section 170(c)(1) which holds a contingent interest in such trust and is not a potential current beneficiary	

Code Section	Type of Entity	Assets	Gross Receipts/Income	Number of Employees/ Participants	Number of Shareholders/ Ownership Restrictions	Outlays/Output
Expensing and amortization of organizational expenditures (sec. 709)	Partnership	Not phased out if incur $50,000 or less of organizational expenditures				• Up to $5,000 may be expensed, subject to phase-out • Remainder amortized over 180 months
Small life insurance company deduction (sec. 806)		Life insurance company's assets less than $500,000,000 at the close of the taxable year	Deduction for 60 percent of tentative life insurance company taxable income is phased out for incomes from $3,000,000 to $15,000,000			
Alternative tax for small insurance companies (sec. 831(b))	Insurance company (other than a life insurance company)	20 percent or less of the net written premiums (or, if greater, direct written premiums) of such company for the taxable year are attributable to any one policyholder **OR** (see ownership restrictions)	Net written premiums (or, if greater, direct written premiums) for the taxable year of $2,200,000 or less		If asset restriction not met, no specified holder of an interest in such insurance company holds a percentage of the entire interests in such insurance company that exceeds the specified holder's percentage of interests in the specified assets of the insurance company by more than a *de minimis* amount	

Code Section	Type of Entity	Assets	Gross Receipts/Income	Number of Employees/ Participants	Number of Shareholders/ Ownership Restrictions	Outlays/Output
De minimis exception from foreign base company income and gross insurance income (sec. 954(b)(5))	Controlled foreign corporation		Lesser of five percent of controlled foreign corporation gross income or $1 million			
Rollover of gain from publicly traded securities to newly-purchased common stock or partnership interests in Specialized small business investment companies (sec. 1044(a), (c)(3))	Partnership or corporation licensed by the Small Business Administration under section 301(d) of the Small Business Investment Act of 1958 (as in effect on May 13, 1993)					
Rollover of gain from qualified small business stock to newly-purchased qualified small business stock (sec. 1045(a), (b)(1), by reference to sec. 1202(c))	Domestic corporation	Aggregate gross assets $50 million or less (before and after issuance)				
Partial exclusion for gain from certain qualified small business stock (sec. 1202(a)(1), (d))	Domestic corporation	Aggregate gross assets $50 million or less (before and after issuance)				

Code Section	Type of Entity	Assets	Gross Receipts/Income	Number of Employees/ Participants	Number of Shareholders/ Ownership Restrictions	Outlays/Output
Ordinary loss on certain small business investment company stock (sec. 1242)	Small business investment company operating under the Small Business Investment Act of 1958					
Ordinary loss on small business investment company stock received pursuant to conversion of certain convertible debt (sec. 1243)	Small business investment company operating under the Small Business Investment Act of 1958					
Ordinary loss on sale or exchange of certain small business corporation stock (sec. 1244(c)(3))	Domestic corporation				Aggregate amount of money and other property received by the corporation for stock, as a contribution to capital, and as paid-in surplus, of $1 million or less (as determined at the time of issuance including amounts received for such stock)	
Debt instruments arising from sale or exchange of farm by small business corporation (secs. 1274(c)(3)(A)(i)(II), 1244)	Domestic corporation				Aggregate amount of money and other property received by the corporation for stock, as a contribution to capital, and as paid-in surplus, of $1 million or less	

Code Section	Type of Entity	Assets	Gross Receipts/Income	Number of Employees/ Participants	Number of Shareholders/ Ownership Restrictions	Outlays/Output
					(as determined at the time of issuance, but including amounts received for such stock)	
S corporation defined (sec. 1361(b))	Domestic corporation, not including: • A financial institution which uses the reserve method of accounting for bad debts described in sec. 585, • An insurance company subject to tax under subchapter L, • A corporation to which an election under sec. 936 applies, or • A DISC or former DISC				• One class of stock • 100 or fewer shareholders • Does not have as a shareholder: o A person who is not an individual, other than an estate, a trust, or certain exempt organizations, or o A nonresident alien	
Electing small business trust allowed as eligible S corporation shareholder (sec. 1361(e)(1); see also sec. 641(c))	Trust				Trust does not have as a beneficiary any person other than • an individual, • an estate, • an organization described in paragraph (2), (3), (4), or (5) of section 170(c),	

Code Section	Type of Entity	Assets	Gross Receipts/Income	Number of Employees/ Participants	Number of Shareholders/ Ownership Restrictions	Outlays/Output
					or • an organization described in section 170(c)(1) which holds a contingent interest in such trust and is not a potential current beneficiary	
Exemption from excise tax for small manufacturers (sec. 4182(c))					Manufacturer, producer, or importer of pistols, revolvers, or firearms that manufacturers, produces, or imports fewer than 50 in the calendar year	
Exception from tax for failure to satisfy COBRA continuation coverage requirements for group health plans (sec. 4980B(d)(1))				All employers maintaining the plan during the preceding calendar year normally employed fewer than 20 employees on a typical business day		
Small employer exception from tax for failure to meet certain group health plan requirements (sec. 4980D(d))				Average of at least two but not more than 50 employees on business days during the preceding calendar year		

Code Section	Type of Entity	Assets	Gross Receipts/Income	Number of Employees/ Participants	Number of Shareholders/ Ownership Restrictions	Outlays/Output
Credit for small domestic producers (sec. 5041(c))						Production of 250,000 wine gallons of wine or less during the calendar year; credit is phased out ratably for each 1,000 wine gallons of wine exceeding 150,000
Reduced rate of excise tax for certain domestic production (sec. 5051(a)(2))						Production of 2 million barrels of beer or less during the calendar year; reduced rate applies to first 60,000 barrels
Reduced rate of excise tax for small importers and manufacturers (sec. 5801(b))			Gross receipts for the previous taxable year are less than $500,000			
Permission to use prior year's tax return in calculating corporate estimated tax payments (sec. 6655(d)(2) and (g)(2))	Corporation		Taxable income of less than $1 million during any of the three immediately preceding taxable years			
Lower penalty limits for failure to file correct information returns (sec. 6721(d))			Average annual gross receipts of $5 million or less for the most recent three taxable years			

Code Section	Type of Entity	Assets	Gross Receipts/Income	Number of Employees/ Participants	Number of Shareholders/ Ownership Restrictions	Outlays/Output
Exemption from requirement of parity in mental health and substance use disorder benefits for small employer (sec. 9812(c)(1))				Average of at least two (or one in the case of an employer residing in a State that permits small groups to include a single individual) but not more than 50 employees on business days during the preceding calendar year		