# PRESENT LAW AND BACKGROUND REGARDING THE FEDERAL INCOME TAXATION OF SMALL BUSINESSES

Scheduled for a Public Hearing
Before the
TAX POLICY SUBCOMMITTEE of the
HOUSE COMMITTEE ON WAYS AND MEANS
on July 13, 2017


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of the
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# INTRODUCTION

The Tax Policy Subcommittee of the House Committee on Ways and Means has scheduled a public hearing on July 13, 2017, on issues relating to tax reform and small business. This document,[1] prepared by the staff of the Joint Committee on Taxation, describes present law and data relating to selected Federal income tax provisions that affect small businesses.

[1] This document may be cited as follows: Joint Committee on Taxation, *Present Law and Background Regarding the Federal Income Taxation of Small Businesses* (JCX-32-17), July 11, 2017. This document can also be found on the Joint Committee on Taxation website at www.jct.gov.

# I. PRESENT LAW: SELECTED TAX RULES AFFECTING SMALL BUSINESSES

## A. Business Entities

### 1. Definition of "small business"

Many special rules throughout the Code[2] 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,[3] gross receipts,[4] number of shareholders,[5] and number of employees.[6] For some purposes, the Code defines a small business in more than one way.[7]

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.[8] In contrast, a construction firm with average annual gross receipts of $10,000,000 or less in its three previous taxable years is not required to use the percentage of completion method of accounting.[9]

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

### 2. Small business entities

**<u>Overview</u>**

In 2014, there were approximately 1.6 million C corporations, 3.6 million partnerships, and 4.4 million S corporations. The number of passthrough entities (partnerships and

[2] Unless otherwise stated, all references to the Code are to the Internal Revenue Code of 1986, as amended.

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

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

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

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

[7] *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.

[8] Section 5801(b)(1).

[9] Section 460(e)(1)(B)(ii).

S corporations) surpassed the number of C corporations in 1987 and has nearly tripled since then, led by growth in small S corporations (those with less than $100,000 in assets) and limited liability companies taxed as partnerships.[10]

## Sole proprietorships

The vast majority of businesses in the United States are classified for Federal tax purposes as sole proprietorships. In 2014, there were more than 24.6 million nonfarm sole proprietorships and 1.8 million farm sole proprietorships out of 36.1 million total business returns. Unlike a C corporation, partnership, or S corporation, a sole proprietorship typically is not an entity distinct from its individual owner.[11] 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.

## C corporations

A C corporation[12] is subject to Federal income tax as an entity separate from its shareholders. A C corporation's income generally is taxed at the corporate level when earned and is taxed again to individual shareholders when distributed as dividends.[13] 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 share value, a shareholder may be taxed at capital gains rates upon sale or exchange (including certain redemptions) of the stock or upon liquidation of the corporation.[14] Foreign investors generally are exempt from U.S. income tax on capital gains, but are subject to

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[10] The portion of business entities that are passthroughs differs in other countries. See, for example, Joint Committee on Taxation, *Foreign Passthrough Entity Use In Five Selected Countries*, October 2013, Table 7.– Corporate and Individual Shares of Net Income from Business Activity in Selected Countries, page 11, available online at https://www.jct.gov/publications.html?func=download&id=4806&chk=4806&no_html=1 .

[11] A single-member unincorporated entity is treated as a disregarded entity for Federal tax purposes. Treas. Reg. sec. 301.7701-3(b)(1)(ii). Sole proprietorships often conduct business through such entities for nontax reasons.

[12] A C corporation is so named because its Federal tax treatment is governed by subchapter C of the Code.

[13] Distributions with respect to stock that exceed current and accumulated corporate earnings and profits are not taxed as dividend income to shareholders but 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).

[14] If stock is held until the death of the shareholder, the heirs are given a fair market value basis in the stock at death, resulting in no shareholder level income tax on appreciation prior to death if the heirs sell the stock to a third party, or receive corporate distributions in the form of a redemption (*i.e.*, a sale of their stock to the corporation).

withholding tax on dividends. Tax-exempt investors generally are not subject to tax on corporate distributions or on sales or exchanges of corporate stock.

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.[15]

**Partnerships**

In general

Partnerships generally are treated for Federal income tax purposes as pass-through entities not subject to tax at the entity level.[16] 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).[17] A partner's deduction for partnership losses is limited to the partner's adjusted basis in its partnership interest.[18] 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.[19] Partners generally may receive distributions of partnership property without recognition of gain or loss, subject to some exceptions.[20]

Partnerships provide partners with a significant amount of flexibility to vary their respective shares of partnership income. Unlike corporations, 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."[21] In general, an allocation has substantial

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[15] Sec. 311(b)(1).

[16] Sec. 701.

[17] Sec. 702(a).

[18] 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.

[19] Sec. 705.

[20] 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).

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

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.[22]

Limited liability companies

While States have long permitted businesses to organize as partnerships and corporations, over the last 40 years,[23] States have enacted laws providing for another form of entity, the limited liability company ("LLC"). 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 regulations promulgated in 1996, any domestic nonpublicly traded unincorporated entity with two or more members generally is treated as a partnership, while any single-member domestic unincorporated entity generally is treated as disregarded (*i.e.*, treated as not separate from its owner).[24] Instead of the applicable default treatment, however, an LLC may elect to be treated as a corporation for Federal income tax purposes.[25] These regulations, 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.

## S corporations

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 liability (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

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

[23] 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.

[24] Thus, where the single member is an individual, such a disregarded LLC is treated as a sole proprietorship. Where the single member is a corporation, the LLC is treated as a branch.

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

[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.

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]

Unlike a partnership, but like a C corporation, gain realized on the distribution of built-in gain property by the S corporation to its shareholders is recognized by the S corporation. The shareholders take their shares of such gain into account on their separate tax returns.

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 its shareholders, and may terminate its election with the consent of shareholders holding more than 50 percent of the stock.[30]

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.

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[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.

## B. 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.[31] 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.[32] 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.[33] 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.[34] 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.[35] Capitalized amounts are recovered when the business is sold, exchanged, or otherwise disposed.[36]

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.[37] 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.[38]

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

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

[33] 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).

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

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

[36] 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).

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

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

## C. Accounting Methods

### 1. 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.[39] 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.

### 2. 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.

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.[40] 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.[41] Accrual methods of accounting generally result in a more accurate measure of economic income than does the cash method and conform to generally accepted accounting principles. 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 for all prior years (including the prior taxable years of any predecessor of the entity) (the "gross

[39] Sec. 446.

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

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

receipts test"). The cash method may not be used by any tax shelter.[42] In addition, the cash method generally may not be used if the purchase, production, or sale of merchandise is an income producing factor.[43] Such taxpayers generally are required to keep inventories and use an accrual method with respect to inventory items.[44]

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.[45] Such farming businesses are not precluded from using the cash method regardless of whether they meet the gross receipts test.[46]

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.[47] Qualified personal service corporations are allowed to use the cash method without regard to whether they meet the gross receipts test.[48]

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[42] 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.

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

[44] Sec. 471; *Ibid*.

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

[46] 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.

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

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

**3. Uniform capitalization of inventory costs**

**Accounting for inventories**

In general, for Federal income tax purposes, taxpayers must account for inventories if the production, purchase, or sale of merchandise is a material income-producing factor to the taxpayer.[49] 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.[50] However, an exception is provided for taxpayers whose average annual gross receipts do not exceed $1 million.[51] 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 method under section 448.[52] 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.[53]

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.[54]

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

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

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

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

[53] 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.

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

## **<u>Capitalization and inclusion of certain expenses in inventory costs</u>**

<u>In general</u>

The uniform capitalization ("UNICAP") rules, which were enacted as part of the Tax Reform Act of 1986,[55] 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.[56] 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.[57]

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, 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;[58] 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.[59] 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.

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

[56] Sec. 263A.

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

[58] 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).

[59] Sec. 263A(h).

Special rules for farmers

Section 263A provides an exception to the general capitalization requirements for taxpayers who raise, harvest, or grow trees.[60] 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)).[61] 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.[62] 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.

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.[63] 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

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

[61] Sec. 263A(d).

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

[63] 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).

planting, maintenance, cultivation, or development of the property during the taxable year in which the replanting costs are paid or incurred.[64]

**4. 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.[65] 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.[66] 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.[67] 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.[68] The allocation of costs to a contract is made in accordance with regulations.[69] 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.[70]

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.[71] Thus, long-term contract income from small construction contracts must be reported consistently using the taxpayer's exempt contract method.[72] Permissible exempt contract methods include the

[64] 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).

[65] Sec. 460(a).

[66] 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.

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

[68] Sec. 460(c).

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

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

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

[72] 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.

completed contract method, the exempt-contract percentage-of-completion method, the percentage-of-completion method, or any other permissible method.[73]

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

## D. Expensing Depreciable Business Assets

A taxpayer generally must capitalize the cost of property used in a trade or business and recover such cost over time through annual deductions for depreciation or amortization. Tangible property generally is depreciated under the modified accelerated cost recovery system ("MACRS"), which determines depreciation by applying specific recovery periods, placed-in-service conventions, and depreciation methods to the cost of various types of depreciable property.[74]

To relieve some taxpayers of the requirement to calculate depreciation, 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.[75] The maximum amount a taxpayer may expense is $500,000 of the cost of qualifying property placed in service for the taxable year.[76] 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.[77] The $500,000 and $2,000,000 amounts are indexed for inflation for taxable years beginning after 2015.[78] 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.[79] 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).[80]

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[74] Sec. 168.

[75] 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.

[76] 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).

[77] 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).

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

[79] 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).

[80] 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 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.

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).[81] 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.[82]

No general business credit under section 38 is allowed with respect to any amount for which a deduction is allowed under section 179.[83] 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.[84]

An expensing election is made under rules prescribed by the Secretary.[85]

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

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

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

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

[85] Sec. 179(c).

## E. Small Business Research Credit Provisions

**Research credit**

General rule

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.[86] 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.[87]

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.[88] 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.[89] 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.

Relation to deduction

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

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[86] 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).

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

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

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

year.[90] Taxpayers may alternatively elect to claim a reduced research tax credit amount under section 41 in lieu of reducing deductions otherwise allowed.[91]

<u>Research credit allowed against alternative minimum tax for eligible small businesses</u>

For any taxable year, the general business credit (which is the sum of the various business credits, including the research credit) generally may not exceed the excess of the taxpayer's net income tax[92] over the greater of (1) the taxpayer's tentative minimum tax or (2) 25 percent of so much of the taxpayer's net regular tax liability[93] as exceeds $25,000.[94] Any general business credit in excess of this limitation may be carried back one year and forward up to 20 years.[95] The tentative minimum tax is an amount equal to specified rates of tax imposed on the excess of the alternative minimum taxable income over an exemption amount. Generally, the tentative minimum tax of a C corporation with average annual gross receipts that does not exceed $7.5 million for prior three-year periods is zero.[96]

In applying the tax liability limitation to a list of "specified credits" that are part of the general business credit, the tentative minimum tax is treated as being zero.[97] Thus, the specified credits generally may offset both regular tax and alternative minimum tax ("AMT") liabilities.

For taxable years beginning after December 31, 2015, an eligible small business may offset both the regular tax and AMT liabilities with its research credit determined for the taxable

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[90] 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).

[91] 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.

[92] The term "net income tax" means the sum of the regular tax liability and the alternative minimum tax, reduced by the credits allowable under sections 21 through 30D. Sec. 38(c)(1).

[93] The term "net regular tax liability" means the regular tax liability reduced by the sum of certain nonrefundable personal and other credits. Sec. 38(c)(1).

[94] Sec. 38(c)(1).

[95] Sec. 39(a)(1).

[96] Sec. 55(e).

[97] See section 38(c)(4)(B) for the list of specified credits.

year.[98] For this purpose, an eligible small business is, with respect to any taxable year, a corporation, the stock of which was not publicly traded, a partnership, or a sole proprietor, if the average annual gross receipts does not exceed $50 million.[99] A research credit determined with respect to a partnership or S corporation is not treated as a specified credit by a partner or shareholder unless the partner or shareholder meets the gross receipts test for the taxable year in which the research credit is treated as a current year business credit.[100]

### Research credit as a payroll tax credit for qualified small businesses

The Federal Insurance Contributions Act ("FICA") imposes tax on employers and employees based on the amount of wages (as defined for FICA purposes) paid to an employee during the year, often referred to as "payroll" taxes.[101] The tax imposed on the employer and on the employee is each composed of two parts: (1) the Social Security or old age, survivors, and disability insurance ("OASDI") tax equal to 6.2 percent of covered wages up to the taxable wage base ($127,200 for 2017); and (2) the Medicare or hospital insurance ("HI") tax equal to 1.45 percent of all covered wages.[102] The employee portion of the FICA tax generally must be withheld and remitted to the Federal government by the employer. An employer generally files quarterly employment tax returns showing its liability for FICA taxes with respect to its employees' wages for the quarter, as well as the employee FICA taxes and income taxes withheld from the employees' wages.

For taxable years beginning after December 31, 2015, a qualified small business may elect for any taxable year to claim a certain amount of its research credit as a payroll tax credit against its employer OASDI liability, rather than against its income tax liability.[103] If a taxpayer elects this payroll tax credit, the amount so elected is treated as a research credit for purposes of section 280C.[104]

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

[99] Sec. 38(c)(5)(C).

[100] Sec. 38(c)(5)(D).

[101] Secs. 3101-3128.

[102] For taxable years beginning after 2012, the employee portion of the HI tax under FICA (not the employer portion) is increased by an additional tax of 0.9 percent on wages received in excess of a threshold amount. The threshold amount is $250,000 in the case of a joint return, $125,000 in the case of a married individual filing a separate return, and $200,000 in any other case.

[103] Sec. 41(h). The credit does not apply against its employer HI liability or against the employee portion of FICA taxes the employer is required to withhold and remit to the government.

[104] Thus, taxpayers are either denied a section 174 deduction in the amount of the credit or may elect a reduced research credit amount. The election is not taken into account for purposes of determining any amount allowable as a payroll tax deduction.

A qualified small business is defined, with respect to any taxable year, as a corporation (including an S corporation) or partnership (1) with gross receipts of less than $5 million for the taxable year,[105] and (2) that did not have gross receipts for any taxable year before the five taxable year period ending with the taxable year.[106] An individual carrying on one or more trades or businesses also may be considered a qualified small business if the individual meets the conditions set forth in (1) and (2), taking into account its aggregate gross receipts received with respect to all trades or businesses.[107] A qualified small business does not include an organization exempt from income tax under section 501.[108]

The payroll tax credit portion is the least of (1) an amount specified by the taxpayer that does not exceed $250,000, (2) the research credit determined for the taxable year, or (3) in the case of a qualified small business other than a partnership or S corporation, the amount of the business credit carryforward under section 39 from the taxable year (determined before the application of section 41(h) to the taxable year).[109]

For purposes of the elective payroll tax credit, all members of the same controlled group or group under common control are treated as a single taxpayer.[110] The $250,000 amount is allocated among the members in proportion to each member's expenses on which the research credit is based.[111] Each member may separately elect the payroll tax credit, but not in excess of its allocated dollar amount.

A taxpayer may make an annual election under section 41(h), specifying the amount of its research credit not to exceed $250,000 that may be used as a payroll tax credit, on or before the due date (including extensions) of its originally filed return.[112] A taxpayer may not make an election for a taxable year if it has made such an election for five or more preceding taxable years.[113] An election to apply the research credit against OASDI liability may not be revoked

[105] For this purpose, gross receipts are determined under the rules of section 448(c)(3), without regard to subparagraph (A) thereof. Sec. 41(h)(3)(A)(i)(I).

[106] Sec. 41(h)(3)(A)(i)(II).

[107] Sec. 41(h)(3)(A)(ii).

[108] Sec. 41(h)(3)(B).

[109] Sec. 41(h)(2).

[110] For this purpose, all persons or entities treated as a single taxpayer under section 41(f)(1) are treated as a single person. Sec. 41(h)(5)(A).

[111] Sec. 41(h)(5)(B).

[112] Sec. 41(h)(4). See also IRS Notice 2017-23, 2017-16 I.R.B. 1100; and IRS Form 6765, Credit for Increasing Research Activities, Section D-Qualified Small Business Payroll Tax Election and Payroll Tax Credit.

[113] Sec. 41(h)(4)(B)(ii).

without the consent of the Secretary.[114] In the case of a partnership or S corporation, an election to apply the credit against its OASDI liability is made at the entity level.[115]

Application of credit against OASDI tax liability

The payroll tax portion of the research credit is allowed as a credit against the qualified small business's OASDI tax liability for the first calendar quarter beginning after the date on which the qualified small business files its income tax or information return for the taxable year.[116] The credit may not exceed the OASDI tax liability for a calendar quarter on the wages paid with respect to all employees of the qualified small business.[117]

If the payroll tax portion of the credit exceeds the qualified small business's OASDI tax liability for a calendar quarter, the excess is allowed as a credit against the OASDI liability for the following calendar quarter.[118]

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[114] Sec. 41(h)(4)(A)(iii).

[115] Sec. 41(h)(4)(C).

[116] Sec. 3111(f)(1). See also IRS Notice 2017-23, 2017-16 I.R.B. 1100; and IRS Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities.

[117] Sec. 3111(f)(2).

[118] Sec. 3111(f)(3).

## II. DATA RELATING TO SMALL BUSINESSES

**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. IRS Statistics of Income ("SOI") data on assets and total receipts show how small businesses (under a chosen definition) are arrayed across the different forms of organization.

Tables 1 through 5 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.[119] For sole proprietorships (Table 4) and farm proprietorships (Table 5), 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

[119] 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.

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 0.39 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.

**Table 1.–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 2.−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 | 31,923 | 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 3.−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 | 134,623 | 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 4.−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.

**Table 5.−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 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 6 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 6.−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 6 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.[120] 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 7 shows the distribution of section 179 deductions by size of the reporting entity's gross business 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 total business receipts.

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

[120] This eligible base is approximated by the sum of section 179 reported, bonus depreciation reported, and the remaining 3- through 20-year MACRS investment basis excluding listed property placed in service during 2014 tax year using the general depreciation system.

## Table 7.−Section 179 Expense Deduction by Size of Business 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%** |

Use of expensing by entity type

Tables 8 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 8, 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 8.−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 9 and 10 report data on the usage of the cash method of accounting by industry and by type of business entity. Most sole proprietorships and farms[121] by number of filers (97.2 percent) and by total receipts (87.0 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 business receipts in each sector is reported by firms 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 business 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, forestry, fishing, and hunting sector has the largest share (29.2 percent) of total receipts attributable to C Corporations that use the cash method of accounting.

Tables 11a, 11b, and 11c report data on use of the cash method of account by reporting entity and by gross receipts (or, in the case of farm sole proprietorships, gross income) of the taxpayer. 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.

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.

[121] 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 9.—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 10.−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 11a.–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 11b.–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 11c.–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.

**Select small business tax expenditures**

Table 12 contains tax expenditure estimates for select tax provisions related to small businesses.[122] Estimates are shown for the total tax expenditure for fiscal years 2016-2020.[123] 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 12.–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 |

[122] 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.

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

## 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,<br>• Partnership, or<br>• 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,<br>• Partnership, or<br>• 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— <br>• If a corporation, the outstanding stock of the corporation (either vote or value), or <br>• 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<br>• 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<br>• 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:<br>• A financial institution which uses the reserve method of accounting for bad debts<br>• described in sec. 585,<br>• An insurance company subject to tax under subchapter L,<br>• A corporation to which an election under sec. 936 applies, or<br>• A domestic international sales corporation (DISC) or former DISC | | | | • One class of stock<br>• 100 or fewer shareholders<br>• 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<br>• 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:<br>• 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<br>• 50 percent of the total shares of all other classes of stock, and other ownership requirements.<br>• 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<br>• 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<br>• an individual,<br>• an estate,<br>• an organization described in paragraph (2), (3), (4), or (5) of section 170(c), or<br>• 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<br>• 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<br><br>**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:<br>• A financial institution which uses the reserve method of accounting for bad debts described in sec. 585,<br>• An insurance company subject to tax under subchapter L,<br>• A corporation to which an election under sec. 936 applies, or<br>• A DISC or former DISC | | | | • One class of stock<br>• 100 or fewer shareholders<br>• Does not have as a shareholder:<br>o A person who is not an individual, other than an estate, a trust, or certain exempt organizations, or<br>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<br>• an individual,<br>• an estate,<br>• 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<br>• 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 | | |