Business Income and Business Taxation in the United States since the 1950s

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Abstract

In theory, the U.S. tax system aims to attribute and tax all business income to individuals. But the timing and treatment of this income varies. Pass-through income is taxed when earned; capital-gains income is taxed when realized; dividends when distributed; other forms of business income may escape taxation entirely. In addition, business owners often have control over the timing and character of their income: They can often choose, for example, between reporting business income or deducting it as wages or fringe benefits. We integrate a wide variety of tax data to document several large, long-run changes in the structure of business income and business taxation in the United States. These include the degree to which such incomes are taxed on a current versus an accrual basis, the extent to which taxation is deferred, and the share of business income that is ultimately subject to taxation. We also document the evolution of individual income components — dividends, and capital gains — and how they interact over time with business incomes and business entities. And we consider how tax reforms affected income shifting between different types of entities and different components of those entities' income and costs.

1 Introduction

Most economic activity is organized through businesses. As a result, the compensation of business owners — be they entrepreneurs or other equity holders — is a major part of national income. But businesses can be organized and can compensate their owners in a variety of complex and shifting ways. In particular, the structure of businesses organizations and the style of owner compensation are sensitive to tax incentives. In this paper, we document long-term trends in the structure and composition of business income in the United States. Many of these trends are shaped by tax law. We highlight the shift from corporate to pass-through taxation that started with legal changes in the second half of the twentieth century and culminated in the Tax Reform Act of 1986. As a result of this change, business incomes are increasingly taxed through personal income taxes rather than through a combination of corporate and personal taxes. The shift from corporations to passthroughs also suggests changes in the timing of business taxation —shifts toward taxation based on accrual.

These broad shifts have wide implications for how tax data is used in economics research. For example, tax data is a natural starting point for studying the income distribution. But tax concepts are not the same as economic concepts. The sheer multitude of business forms available — and the availability of alternative ways of compensating investors — puts researchers in a bind. Researchers must either engage in the daunting task of identifying the underlying economic (rather than tax) income characteristics they want to study — and then try to tease those characteristics out of the data — or they must rely on an extremely broad definition of income that combines all tax categories. The latter path is followed by **Piketty and Saez (2003) and many others**. But this path is riddled with difficulties.

By focusing on the shifting composition of business income, we highlight two difficulties of using tax data to study economic income concepts. The first problem is timing. Large shifts in how firms are organized, in how capital gains are realized, and in which firms pay dividends has produced substantial changes in the timing of taxable income. A second

problem is the rise of non-taxable or tax-advantaged owners. Tax-exempt institutions, tax-advantaged retirement accounts, and foreign individuals have generally grown in importance — and this secular growth has challenged the comprehensiveness of the tax base. On the other hand, we also document a major shift *away* from the retention of earnings in the corporate sector; this shift may suggest that personal income taxation better targets business income than it used to. Our ongoing work (**Clarke and Kopczuk, 2016**) and work in other countries (**Alstadsaeter at al, 2016; Chile**) explores the implications of these changes for the measurement of income and income inequality.

We are by no means the first to notice these broad trends in business income and business taxation. But we attempt to systematically document the magnitude and importance of these issues in one place, using a variety of aggregate and micro data. We attempt to offer a systematic account of the ways in which the organizational structure and tax status of the business sector has changed since the 1970s. These changes matter. Among other things, they have occurred alongside major changes in the individual income distribution. But changes in the structure and tax status of the corporate sector interact with the taxation and visibility of incomes that appear on individual tax returns. As the result, understanding the evolution of inequality and the nature of individual income requires a careful accounting of organizational changes — a path that we are pursuing in our ongoing other work.

2 A rough guide to business taxation in the U.S.

Businesses can be organized in many different ways: as sole proprietorships, as partnerships with or without limited liability, as closely-held corporations, or as publicly traded corporations with seveal different classes of shareholders. Many factors influence the choice of organizational form, including liability, financing, and managerial decision-making. But taxation is also crucial, for the obvious reason that different organizational forms are taxed in different ways.

Broadly speaking, there are two main approaches to taxing business incomes. One is to

impose an entity-level tax, like the U.S. corporate tax, that takes a bite out of firm-level income as it is earned. These entity-level taxes are usually combined with a system of taxing income as it is distributed to owners. The second approach is to allocate income to shareholders as it is earned. This approach — which integrates business taxation with personal income taxation — is commonly referred to as "pass-through" taxation, and we follow that convention here.

Both systems of business taxation can be seen as responses to the same dilemma. Most jurisdictions tax income when realized, presumably as and reasonable and administratively convenient way of getting at individual increases in wealth or ability to consume. But we also allow individuals to start separate legal entities called firms. If we taxed income only when dollars entered individual bank accounts, it would be too easy for individuals to defer taxation[1] or avoid it entirely by keeping their income inside firms **(Schizer 2016, Graetz 2008)**. As a result, shareholder-level taxation is supplemented by a separate entity-level taxa — an administratively blunt and distributively ambiguous tool. On the other hand, treating all entities as pass-throughs would raise problems of its own: We would face the invidious task of allocating firm-level income in large complex entities to many dispersed owners.[2] And so, in countries like the United States, the system is mixed: Some firms are treated more like separate taxable entities, and others are treated more like aggregations of taxable individuals.

A corporate tax is an entity level tax imposed on (appropriately defined) profits. In the U.S., the corporate tax applies only to a particular form of corporation, called C-corporations because they are taxed under subchapter C of the Internal Revenue Code. Shareholders of these corporations are then additionally taxed either when money leaves the firm through dividends, or when the shareholders sell their equity stake and are subject

[1] There are many reasons why deferring taxation can be advantageous. A non-exhaustive list might include: the non-neutral treatment of compounding, arbitrage across rates over time, option value due to idiosyncratic risk or policy uncertainty (changes in tax law, tax holidays, etc.), the availability of future tax preferences or deductible losses, or the ability to convert future income realizations to a different tax regime (e.g., capital gains).

[2] One option (not in use in the U.S.) would be a corporate tax integration that would provide divident recipients with a credit for corporate taxes paid. While this approach could in principle effectively eliminate "double taxation" of dividend income, it would still raise complicated deferral problems and other issues.

to capital gains taxation. Blurring the line between dividends and capital gains are share repurchases, which give shareholders cash that is taxable as a capital gain. These instruments do not, by any means, exhaust all possible channels for getting money out of a firm. Businesses may be financed through debt, and interest expenses can thus be an alternate way of compensating owners. Instruments that blur the line between equity and debt can allow businesses to achieve both tax efficient and economically desirable objectives, and are subject to a bewildering variety of legal rules. Active shareholders may also simply be compensated as employees through wages or through other instruments, including incentive pay, fringe benefits, and rents. Finally, abusing tax law may allow for consumption within a firm: owners can try to deduct their private consumption expenses as legitimate business costs **(Auerbach).** Even if such moves aren't illegal, they point toward the conceptual difficulty of distinguishing between consumption and expenses; think, for example, of Donald Trump's much-bragged-about corporate jet.

Pass-through treatment applies to a wide variety of organizational forms, including sole proprietorships, partnerships, limited liability companies, and corporations taxed under subchapter S of the Code ("S-corporations"). Income of each of these types of firms is typically not taxed at all at the entity level and instead is allocated to owners as it is earned.

This distinction has two noteworthy implications.[3] First, different forms of entity taxation suggest that businesses may choose an organizational form to minimize the tax consequences. While there are, as mentioned above, other considerations in play in the choice of the organizational form, differently taxed organizational forms are often close substitutes. In particular, for firms with a small but still sizable (up to 100) number of common shareholders, there are few differences between S and C corporate form other than tax treatment. Second, at least on the surface, pass-through entities are taxed on an accrual basis, while C-corporations are only partially taxed on accrual through the corporate tax — and, espe-

[3]There are of course other tax considerations that may influence decisions. For example, income of partnerships is treated as self-employment compensation with Social Security/Medicare self-employment tax implications, while income of S-corporations is not. The ability to deduct particular kinds of expenses and take advantage of tax credits may vary with the organizational form.

cially in international context, deferral possibilities loom large — and then taxed again at a future time that is often up to the discretion of the owners. Indeed, the owners of small firms often have complete control over the timing of profit distributions or capital gains realizations.

The mix of incentives to pick different entities for tax reasons has varied dramatically over the last 60 years. Two big things have changed. The first is the combination of corporate and individual rates. Before the Tax Reform Act of 1986, the top corporate tax rate was considerably lower than the top individual tax rate. This meant that individuals in a high bracket had an incentive to use C-corporations to defer individual taxes: Firms could be used to earn and reinvest money without paying the high individual rate **(Warren 1981)**. The tax reform changed these incentives by inverting the individual and corporate rates: For the first time in modern U.S. tax history, the top individual rate fell below the top corporate rate. This gave those same investors an incentive to switch out of C-corporations and into pass-through entities, which they did in droves. C-corporations have diminshed in importance since then; now, the great bulk of C corporate income is earned by a very small number of large publicly traded firms, which cannot convert to S corporate status because S-corporation stock cannot be listed on a public exchange. For this reason, it it sometimes said that the contemporary corporate tax is best conceptualized as a tax on firms that are publicly traded.

The second important change is less remarked upon, but perhaps equally important to the trajectory of modern U.S. business taxation: Legal changes that made differently taxed legal entities closer economic substitutes. The first of these changes was the Subchapter S Revision Act of 1982, which made S-corporations a more plausible substitute for a much wider swath of existing C-corporations — and thus enabled the great migration from C to S that occurred after the Tax Reform Act of 1986. The original S-corporation was restrictive entity, designed to spare only the smallest business entities from double taxation: It could have a maximum of ten shareholders, for example **(Coven and Hess 1983)**. The Revision Act expanded this cap to 35, which was expanded once again to 100 in 1996. The second

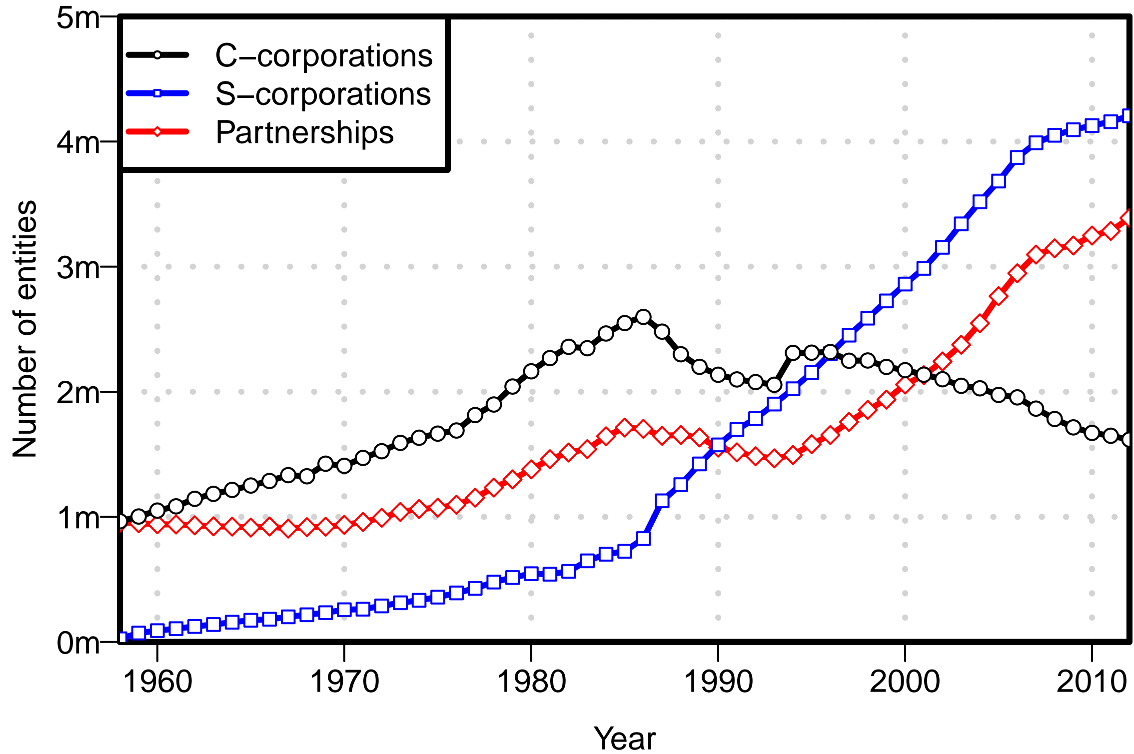
of these changes was the creation of the modern LLC, a state law entity that is taxed like a partnership but reaps the benefits of limited liability (**Hamill 2005**). The first LLC statute was passed in the state of Wyoming in 1977, but it would take eleven years for the IRS to issue a stable Revenue Ruling stating that such entities would be entitled to partnership tax treatment despite their limited liability. A third important change was the rise of so-called "check the box" rules, which, starting in 1997, allowed entities to elect whether they would be taxed as partnerships or corproations. These three changes made the relatively rapid and large-scale shifting between entities a reality.

3 Data and coverage

In what follows, we rely largely on publicly available IRS reports, NIPA tables, and public use individual tax return micro data to collect and illustrate trends in business incomes and the corresponding tax base. While almost all of the data we use is publicly available, much of what we describe is assembled here for the first time.

We focus on data starting with 1958. The choice of a starting point will always be a little arbitrary. For many of the issues we study, the available data extend back farther in time — in some cases to the beginning of the Twentieth Century, if not earlier. But our choice isn't random. The S-corporation — a pass-through entity that is now the most common business organization in the United States, and that now accounts for a fifth of all business-level income — first debuted in 1958. Subchapter K — the portion of the internal revenue code that governs partnership taxation — was adopted in 1954 after a prolonged debate **(Gergen 2005)**. The IRS began publishing its annual Corporation Income Tax Return Report the same year. And many of the other data series on which rely also begin in the 1950s and 60s. In short, many of the tax changes we study —tax changes that found their crucible in the reforms of the 1980s —have roots that extend back to the 1950s. A minor revolution in tax data began around the same time. These features make the 1950s the natural place to begin our story of broad changes in business structure and taxation.

Figure 1: Number of active business entities



4 Trends in organizational form and taxability of businesses

In Figure 1 and Table A.1, we document basic facts about the number and income of various types of business entities (other than sole proprietors) over time. The number of partnerships and C-corporations was about the same in 1958. But the growth of partnerships did not keep pace with C-corporations over the following decades: while the number of both types of entity grew, by the mid-1980s there were 50% more C-corporations than partnerships. At the same time, the number of S-corporations increased from non-existent before 1958 to 800,000 in 1986. As the result of this rise, the number of C-corporations and the combined number of pass-through entities (S corps or partnership) was about the same by the time of the 1986 Tax Reform Act. But, in the aftermath of TRA 1986, the number of S-corporations increased by over 35% and the number of C-corporations declined for the first time. That initial decline has continued. By 2012, the number of C-corporations was down

to 1.6 million from the peak of 2.6 million in 1986, while the number of S-corporations has quintupled since 1986, and is now over 4 million. The consistent growth in S-corporations after 1986 was at first accompanied by a slight decline in the number of partnerships, but since the mid-1990s their ranks have increased steadily — doubling to over 3 million by 2012. This is due to the introduction of Limited Liability Partnership statues in almost all states. In particular, in 1993 (the first year in which IRS reports the number of LLCs), there were just 17,000 of them constituting less than 2% of total partnerships. By 2012, the number of LLCs increased to 2.2 million, or about 2/3 of all partnerships (and the number of all other types of partnerships has declined). As a result of these changes — and in stark contrast to the lay of the land in the pre-1986 era — there were by 2012 over 4 times as many pass-through entities as C-corporations.

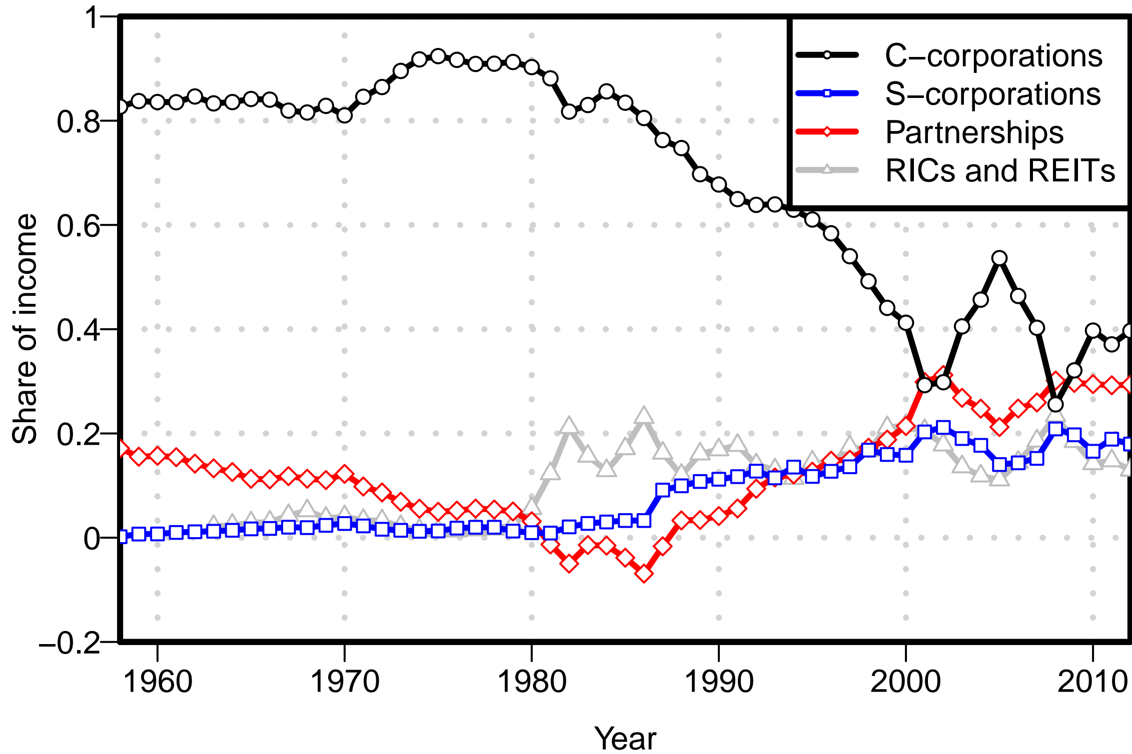
Partnerships and S-corporations tend to be smaller on average than C-corporations. Before 1987, tax incentives for successful firms tilted toward organizing a firm as C-corporation and this is reflected in net income data presented in Table A.2 and Figure 2 which shows the composition of income from C- and S-corporations and partnerships. We also singled out Regulated Investment Companies (RICs) and Real Estate Investment Trusts (REITs).

RICs and REITs are harder to categorize, but are best conceptualized as passthrough entities. The primary distinguishing feature of these entities is that they are exempt from corporate income taxation to the extent that they distribute their current profits to shareholders. Entities can elect this tax treatment as long as they earn at least 90% of their income from certain qualifying sources — broadly, investment income — and also meet certain reporting requirements, diversification requirements, and distribution requirements.

RICs have grown rapidly over the last 30 years. Most mutual funds are regulated investment companies, and the growth of RICs is intertwined with the rapid growth in mutual funds. In the 1990s, U.S. households increasingly selected diversified and indirect investments through such funds, a trend that has been examined (and critiqued) exhaustively elsewhere (**Malkiel 2013, Greenwood & Scharfstein 2013**).

Before TRA'86, the net income of C-corporations was much larger than that of passthrough

Figure 2: Share of business income accounted of different types of entities



Note: Share of income from C-corporations, S-corporations and partnerships as reported in Table A.2.

entities, despite the fact that there were a similar number of C-corps and passthroughts. All C-corporations combined had $200 billion profits in 1986, compared to just $8 billion for S-corporations, negative net income for all partnerships and $60 billion for REITs and RICs. The net income of S-corporations more than tripled from 1986 to 1987 and partnership net income began to rise in the aftermath of the reform as well. By late 1990s, the net income of pass-through entities matched that of C-corporations, and it exceeds it nowadays.

Net income from partnerships and S-corporations alone was $1.12 trillion compared to $1.05 for the C-corporate sector. The explosion of the importance of RICs and REITs took place in the early 1980s and their share in the overall income fluctuated but remained fairly stable since.

In Table A.3 we compare IRS reports of the net income from pass-through entities' business tax returns with reports on personal income tax returns. These two sources of

information need not match, and indeed do not match, for three possible reasons. First, some pass-through income may flow to non-taxable investors. Second, losses are fully reported on business tax returns but not necessarily fully deductible on personal income tax returns. Third, the net income of pass-through entities includes portfolio income that may pass-through to partners/shareholders but appears on individual income tax returns as part of a different income category (like dividends or capital gains) rather than as partnership income. We can generally observe about 70% of S-corporation income on individual tax returns.

Until 1991, the partnership income appearing on individual tax returns actually exceeded overall partnership net income reported at the entity level. This indicates the importance of non-deductible losses. Since 1991, the partnership income showing up on Schedule E has become a much smaller share of the total entity-level income reported by the partnerships themselves. The primary reason for this is the increase in the importance of pass-through portfolio income, which now actually constitutes the bulk of partnership net income. We can decompose partnership income more precisely starting in 1993. Following the NIPA reporting, partnership income in Table A.3 consists of ordinary business income and portfolio income without capital gains. In Table A.4, we separate ordinary business income from portfolio income and report both short-term and long-term capital gains. Portfolio income is generally passed through to partners; hence it is ordinary business income that can be more directly related to the partnership income reported on individual income tax returns. Likewise, with S-corporations, personal income tax returns used to capture about 70 to 80% of ordinary partnership income, although the share has been smaller after 2000 and larger in 2008 (which may reflect individuals' inability to fully deduct losses). The non-capital gain component of portfolio income has generally been of the order of the ordinary business income, while capital gains are large but naturally very volatile.

In Table A.6, we document changes in the effective taxation of dividend income — the canonical way of compensating shareholders of C-corporations. The share of corporate dividends that are taxable on personal income tax returns has been trending downwards

over time from about 80% in the late 1950s to about 50% more recently. This is due in large part to changes in the characteristics of owners. Ownership of U.S. equities of all kinds by foreigners (as measured by the Federal Reserve) has increased from about 2% in 1960 to over 16% in 2014. Another category of investors that are not subject to personal income taxation are tax exempt or advantaged ones — which we discuss in the next section.

Hence, it is clear that the importance of pass-through income has dramatically increased over time and that, furthermore, the remaining C-corporate income distributed to shareholders is taxed to a lesser extent through personal income taxation. TRA 1986 has been a turning point, but these changes are not a one-time level shift and instead there is a long term trend away from C-corporate form and toward S-corporations.

5 Tax-exempt entities and tax-advantaged accounts

If the personal income tax system is not capturing all of the income of business entities, where does it go? One possibility is tax-advantaged investors. There are two kinds of owners with a tax advantaged status: Tax-exempt entities and individual with tax-advantaged retirement accounts.

The modern structure governing tax exempt entities dates back to the Revenue Acts of 1950 and 1954, which narrowed the purposes for which tax-exempt entities could be formed and established the first 501(c) tax exempt organizations. Most tax-exempt organizations are now organized under section 501(c) of the Internal Revenue Code, which currently lists 29 categories of organization that are exempt from federal income taxation. The largest and most common form of these organizations is the 501(c)(3), which exempts from income taxation entities that are "organized and operated exclusively for religious, charitable, scientific" and a variety of other purposes (e.g., "to foster national or international amateur sports competition"). 26 U.S.C. 501(c)(3).

The IRS first started compiling asset data from tax-exempt entities in the mid-1970s, and did so in a systematic fashion in the mid-1980s. These data show a large increase in the

assets held by tax exempt organizations (Column 2 of Table A.6). What's less obvious from the SOI data is whether these entities own an increasingly large share of total corporate equity. In the second column of Table A.6, we report the share of assets of 501c(3) entities that is held in the form of equities — that share has been relatively stable. However, despite the large nominal growth, the size of the overall sector relative to the overall size of equities does not appear to have increased over time.

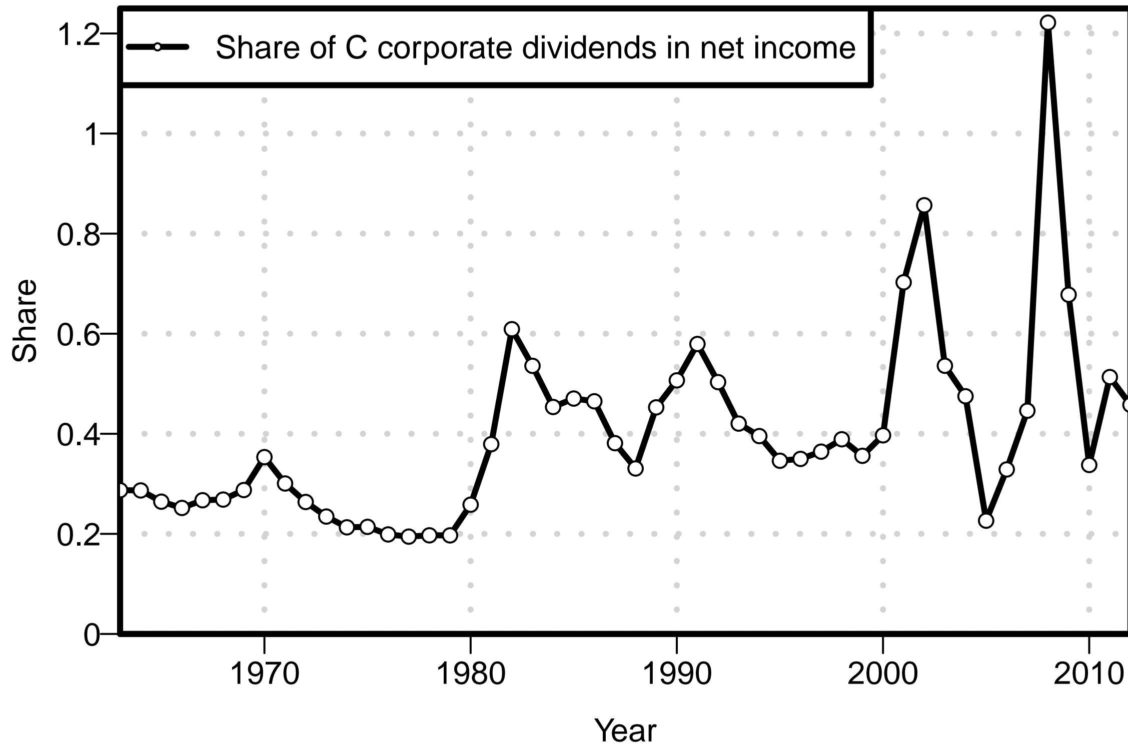
A more rapid and proportionally meaningful change seems to have occurred with the assets in tax-advantaged accounts. The two most important categories here are IRAs and 401(k)s (and related) accounts. This doesn't quite include all the categories of tax-advantaged retirement savings, but it includes all the major categories. Government pension funds that cover many groups of federal, state and local employees are also exempt from taxation. Assets controlled by them are nowadays of the same order of magnitude as those in individual retirement accounts, but they have been growing somewhat more slowly.

Taken together tax exempts and tax-advantaged accounts hold assets approaching the total value of U.S. equities. While we are not able to precisely assess how much equities they hold (other than for 501c(3) entities), this is obviously an important component of equity ownership.

6 The timing of taxation

The taxation of pass-through entities is — at least on the surface — pretty straightforward in terms of timing: income is supposed to be taxed when it accrues (although, of course, that depends on the nature of income; capital gains, for example, continue to be taxed at realization). This is not the case with C-corporations. In particular, a corporation can retain its earnings instead of distributing them to shareholders. Figure 3 shows the aggregate importance of dividends for C-corporations, expressed as a share of their current net income. Normalization by net income induces strong counter-cyclicality due to well-known smoothness of dividends over time, but nevertheless there is a marked increase in

Figure 3: Share of dividends in net income of C-corporations

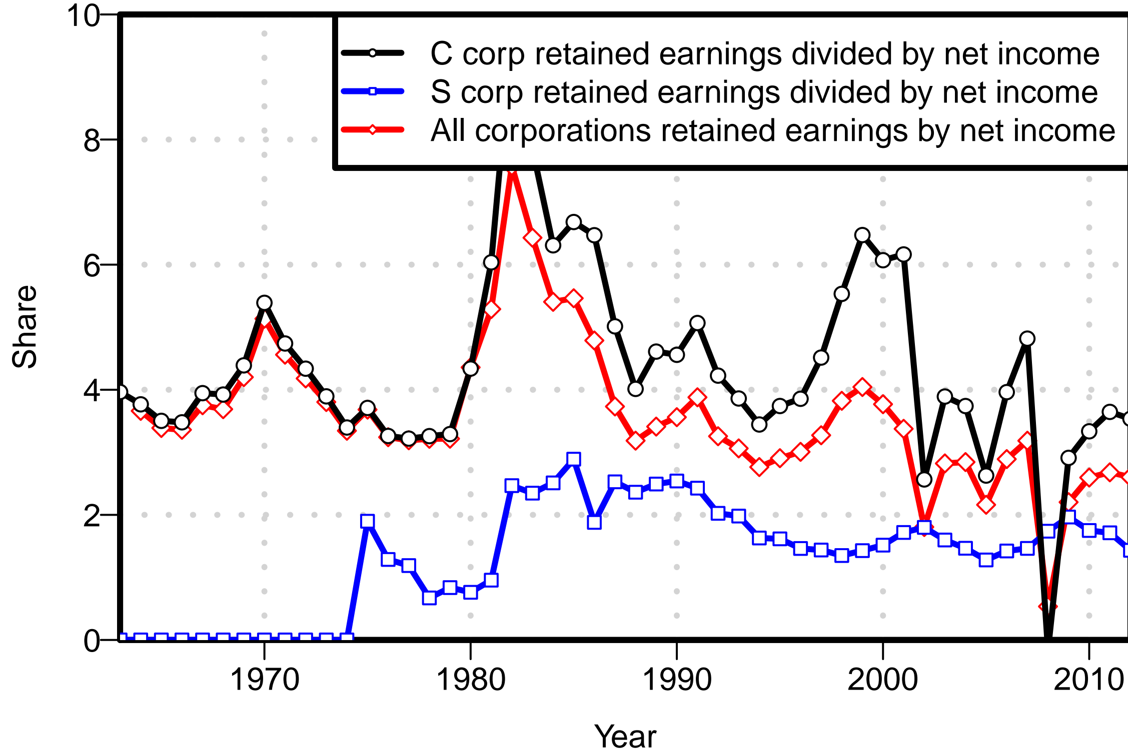


the level of dividends starting in the very early 1980s. Prior to the 1980s, dividends were of the order of 20% of net profits, rarely exceeding 30%. Afterwards, they rarely fall under 40%.

Figure 4 shows the ratio of the stock of retained earnings to net income for C- and S-corporations separately and for the whole corporate sector. This is one way of illustrating how the role of retained earnings changed over time. Overall, the stock of retained earnings is nowadays much lower than it was in the 1970s. However, this followed a period of very tumultuous changes. This measure of normalized aggregate earnings increased massively in the early 1980s and started falling (with wide fluctuations) afterwards. The pattern is about the same in aggregate and for C-corporations alone. In contrast, for S-corporations — entities for which retained earnings do not have first-order tax consequences — the level has been much lower and the pattern has been much more stable.

A different way of normalizing the level of retained earning is by comparing the stock

Figure 4: Retained earnings relative to net income of corporations

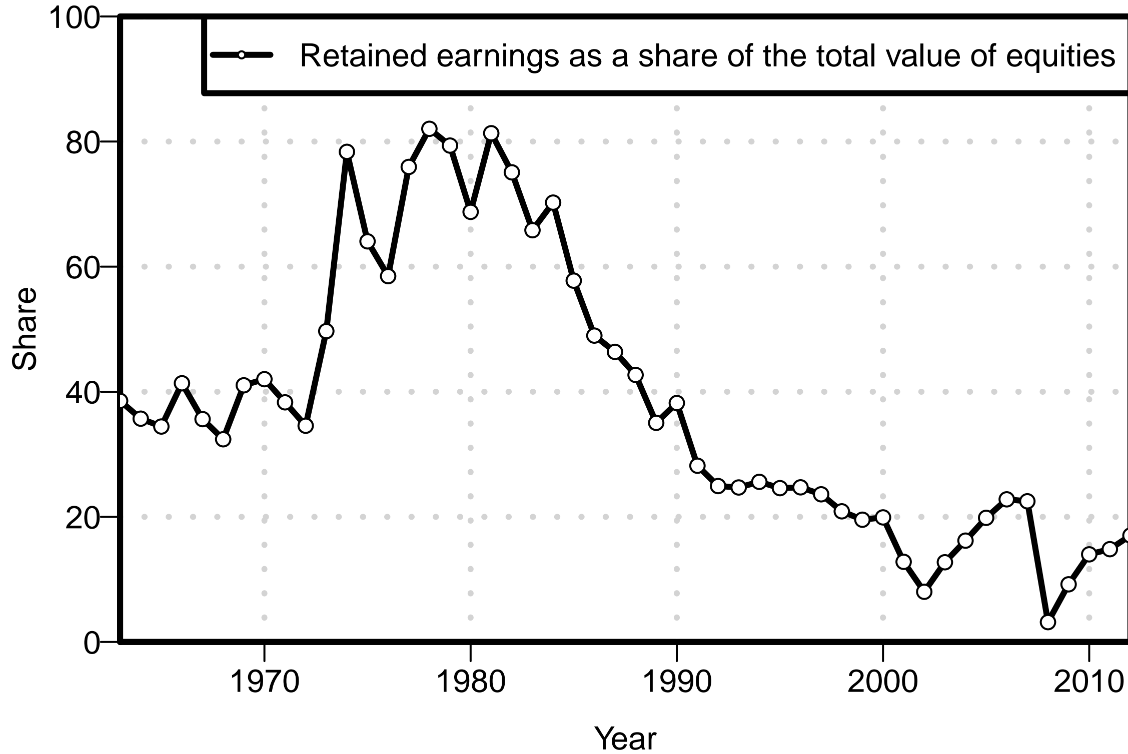


of such earnings to the total value of corporate equities, Figure 5. This figures makes clear that the late 1970s and 1980s were a very unusual period in which retained earnings corresponded to a massive share of the value of corporate equities. Since then, the role of retained earnings has notably declined.

Taken together, these figures suggest that many of the important changes in the role of retained earnings actually precede the Tax Reform Act of 1986 and have their origins in the changes in incentives in the late 1970s or 1980s.

If businesses retain rather than distribute earnings, those retentions should correspond to changes in equity valuation. In Figure 6**,** we show that over a longer term changes in equity values for the corporate sector as a whole actually follow reasonably well trends in earnings retentions. Of course, this is a very simplistic way of thinking about equity values that does not take into account the value of future profits. Naturally, it cannot also explain short-term fluctuations. Still, over a longer term increases in equity values have to reflect

Figure 5: Retained earnings relative to net income of C-corporations

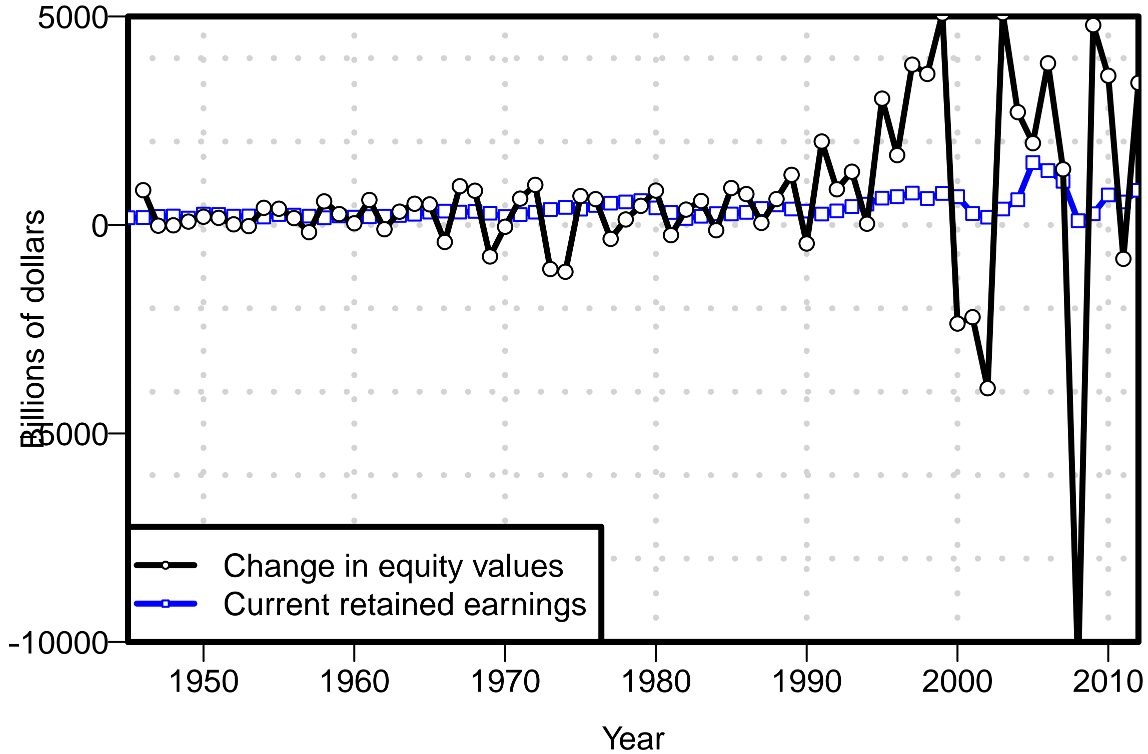


either retentions or *changes* in future opportunities and for the economy as a whole the latter component needn't be large (or even positive). As the figure illustrates, changes in equity valuations fluctuate around but do not deviate from the path of changes in retained earnings.

When firms do not distribute their earnings, shareholders that want to cash out can do so by realizing capital gains. Figure 7 shows taxable capital gains realizations from the IRS data expressed as a share of the aggregate value of equities. It also shows net capital gains realizations from the IRS "Sales of Capital Assets Reported on Individual Tax Returns" studies that incorporate losses *without* limiting them by the (net) $3000 deductibility limit. These reports are available for 1981, 1985 and all years since 1998. In normal years, that distinction is not huge, but deductibility of losses plays a large loss in down market years (2001, 2002, 2008 and 2009).

The important point for our purposes is that capital gains realizations increased dramat-

Figure 6: Changes in equity value and current retained earnings

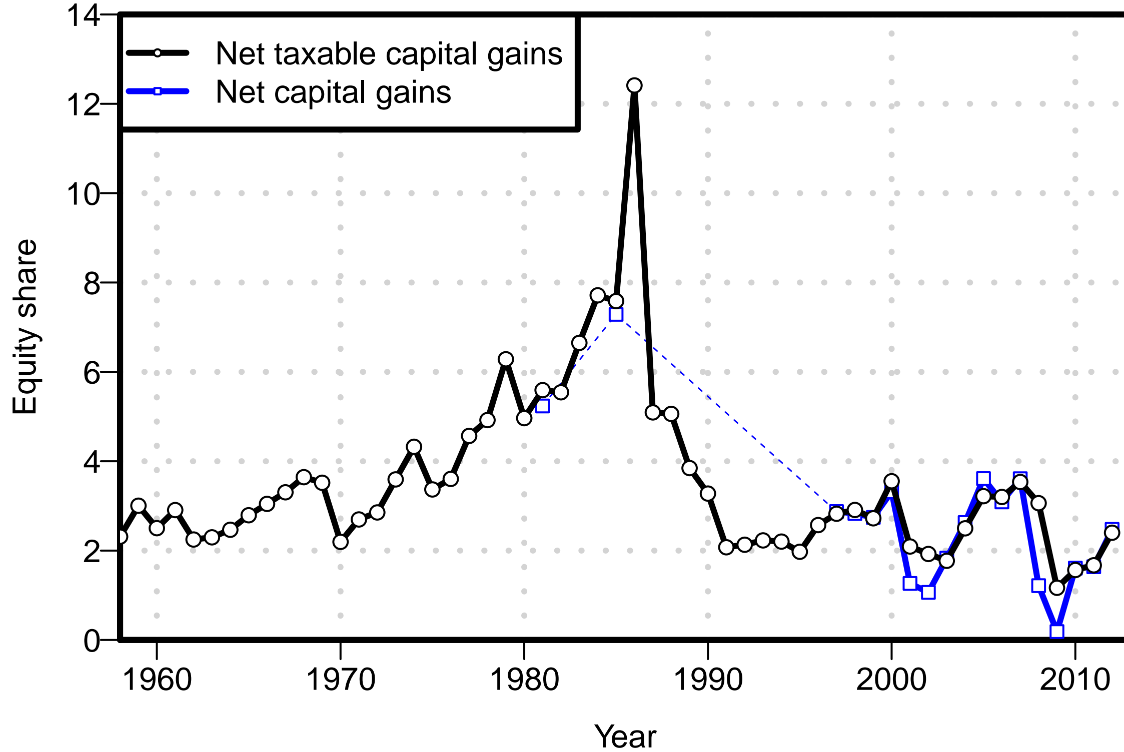


Note: Change in Equity Values (NIPA tables) and Current Retained Earnings A.2.

ically in the early 1980s. This follows the period of dramatic increase in retained earnings relative to the value of equities that we documented on Figure 5

Of course, capital gains realizations do not only correspond to sales of equities or other business assets. On Figure 8 we show, relying on Sales of Capital Assets reports, the role that different categories of capital gains play. We focus on business and equity related assets. Corporate stock (including non-bond mutual funds) has always accounted for about half of capital gains realizations. The other business assets category includes sales of partnership, S-corporation, and estate or trust interests, depreciable business property and capital gain distributions and — while non-trivial — it is a smaller component of overall realizations. Capital gains that are pass-through (and whose detail is not known) are comparable to direct stock sales. In fact, and not surprisingly given our previous discussion, compared to the 1980s, pass-through gains are nowadays much more important (as a share of capital

Figure 7: Capital gains realizations as a share of total equities



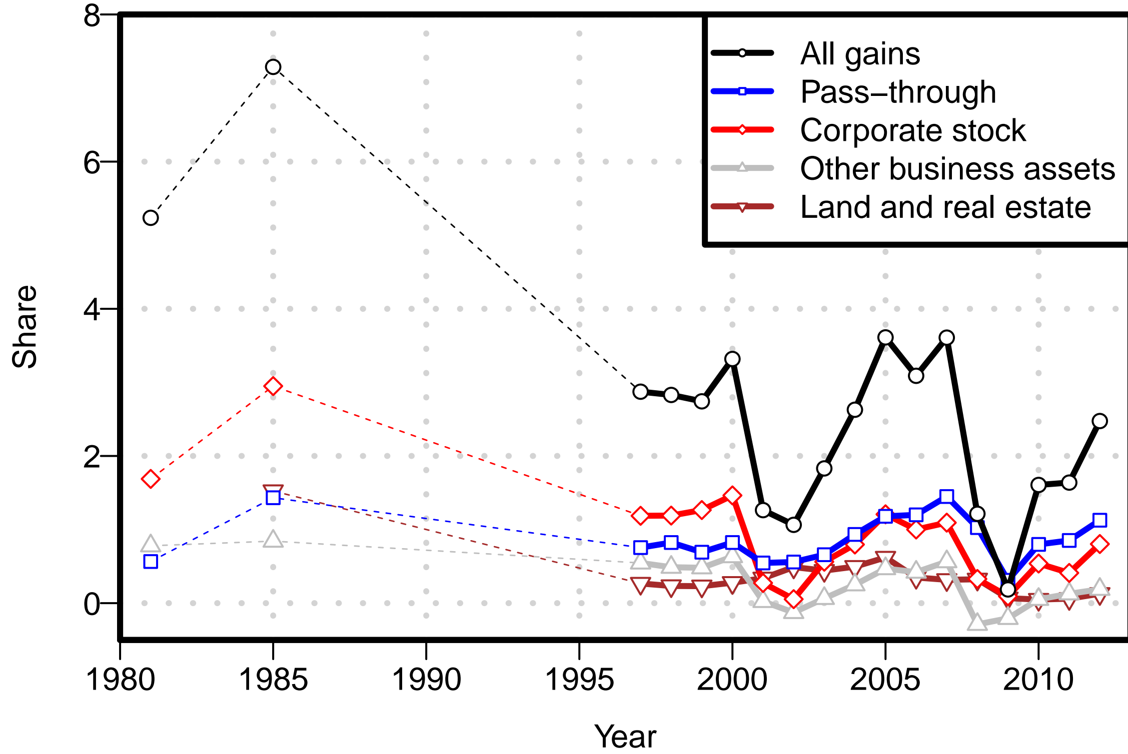
Note:

gains realizations) than they were in the past. Taken together, these three business-related categories of assets constitute the bulk of capital gains realizations. The main remaining component is real estate (residential and rental) and land — it is small relative to business-related categories taken together, but it is not as cyclical so that it constitutes a larger share of the overall realizations when capital gains are otherwise small.

7 Conclusions

We document trends in composition of organizational forms of businesses in the United States and changes in how entrepreneurs and investors are compensated, highlighting in particular the role of tax incentives in shaping the trends

Figure 8: Capital gains realizations as a share of total equities



Note:

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Greenwood & Scharfstein 2013).

Hamill (2005)

IRS

Malkiel 2013

Piketty and Saez (2003)

Schizer (2016)

Warren (1981)

A Appendix

Table A.1: Number of active business entities

Year	C corporations	S corporations	Partnerships	Self-proprietors
1958	965,178	25,203	953,840	8,799,711
1959	1,002,980	71,140	949,396	9,142,359
1960	1,050,353	90,221	940,560	9,089,985
1961	1,084,240	106,046	938,966	9,241,755
1962	1,144,376	123,666	932,181	9,182,586
1963	1,184,085	139,112	924,276	9,135,954
1964	1,215,662	157,855	922,160	9,192,746
1965	1,250,570	173,410	914,215	9,078,466
1966	1,286,874	181,851	922,680	9,086,714
1967	1,333,576	200,784	906,182	9,126,082
1968	1,324,486	217,184	917,500	9,211,613
1969	1,425,014	233,806	920,831	9,429,822
1970	1,408,002	257,475	936,133	9,399,653
1971	1,471,264	262,068	958,912	9,744,640
1972	1,524,854	287,906	992,012	10,172,792
1973	1,591,590	313,080	1,039,092	10,648,202
1974	1,632,795	333,099	1,062,268	10,873,822
1975	1,665,234	358,413	1,073,094	10,881,969
1976	1,690,500	391,700	1,096,441	11,358,235
1977	1,813,683	428,204	1,153,398	11,345,616
1978	1,898,100	478,679	1,234,157	12,017,953
1979	2,041,887	514,907	1,299,593	12,329,982
1980	2,163,458	545,389	1,379,654	8,931,712
1981	2,268,966	541,489	1,460,502	9,584,790
1982	2,359,272	564,219	1,514,212	10,105,515
1983	2,348,162	648,267	1,541,539	10,703,921
1984	2,465,843	701,339	1,643,581	11,262,390
1985	2,549,091	724,749	1,713,603	11,928,573
1986	2,598,271	826,214	1,702,952	12,393,700
1987	2,480,440	1,127,905	1,648,032	13,091,132
1988	2,299,896	1,257,191	1,654,245	13,679,302
1989	2,199,081	1,422,967	1,635,164	14,297,558
1990	2,136,032	1,575,092	1,553,529	14,782,738
1991	2,098,641	1,698,271	1,515,345	15,180,722
1992	2,077,518	1,785,371	1,484,752	15,495,419
1993	2,055,982	1,901,505	1,467,567	15,848,119
1994	2,310,703	2,023,754	1,493,963	16,153,871
1995	2,312,382	2,153,119	1,580,900	16,423,872
1996	2,317,886	2,304,416	1,654,256	16,955,023
1997	2,248,065	2,452,254	1,758,627	17,176,487
1998	2,249,970	2,588,088	1,855,348	17,408,809
1999	2,198,740	2,725,775	1,936,919	17,575,643
2000	2,172,705	2,860,478	2,057,500	17,904,731
2001	2,136,756	2,986,486	2,132,117	18,338,190
2002	2,100,074	3,154,377	2,242,169	18,925,517
2003	2,047,593	3,341,606	2,375,374	19,710,079
2004	2,027,613	3,518,334	2,546,877	20,590,691
2005	1,974,961	3,684,086	2,763,625	21,467,566
2006	1,955,147	3,872,766	2,947,116	22,074,953
2007	1,865,232	3,989,893	3,096,334	23,122,698
2008	1,782,478	4,049,944	3,146,006	22,614,483
2009	1,715,306	4,094,562	3,168,728	22,659,976
2010	1,671,149	4,127,554	3,248,481	23,003,656
2011	1,648,540	4,158,572	3,285,177	23,426,940
2012	1,617,739	4,205,452	3,388,561	23,553,850

Table A.2: Net income less deficit of business entities

Year	C corporations	S corporations	Partnerships	RIC & REIT	Self-proprietors	Total
1958	39,200,000	88,890	8,116,274		20,777,789	68,182,953
1959	47,700,000	395,299	8,844,708		21,516,876	78,456,883
1960	44,500,000	382,479	8,360,373		21,067,090	74,309,942
1961	47,000,000	564,447	8,688,622		22,696,990	78,950,059
1962	50,800,000	681,950	8,531,019		23,894,781	83,907,750
1963	54,300,000	799,453	8,668,166	1,400,000	23,770,528	88,938,147
1964	61,333,000	1,040,197	9,244,464	1,767,000	25,555,837	98,940,498
1965	72,257,000	1,447,857	9,699,145	2,443,000	27,887,417	113,734,419
1966	78,496,738	1,655,084	10,445,061	2,803,262	30,030,195	123,430,340
1967	75,392,000	1,853,187	10,865,953	3,908,000	30,407,572	122,426,712
1968	82,273,000	1,947,530	11,405,163	5,227,000	31,870,535	132,723,228
1969	78,569,000	2,247,184	10,486,453	3,531,000	33,867,537	128,701,174
1970	64,790,000	2,173,592	9,790,396	3,210,000	33,214,737	113,178,725
1971	78,800,000	2,100,000	9,146,110	3,100,000	34,450,038	127,596,148
1972	95,904,000	1,795,873	9,618,447	3,596,000	39,113,220	150,027,540
1973	119,730,000	1,888,607	9,216,034	2,870,000	46,673,063	180,377,704
1974	145,925,000	1,947,275	8,864,873	2,275,000	45,855,023	204,867,171
1975	143,900,000	2,003,254	7,737,570	2,100,000	44,611,260	200,352,084
1976	183,990,000	3,671,196	10,422,811	2,610,000	49,500,188	250,194,195
1977	215,880,000	4,750,479	13,264,168	3,620,000	51,388,971	288,903,618
1978	242,979,438	5,348,741	14,446,809	4,420,562	59,027,286	326,222,836
1979	275,625,000	3,795,578	15,205,908	7,375,000	60,758,789	362,760,275
1980	236,487,630	2,518,912	8,248,656	14,671,749	54,947,219	316,874,165
1981	185,868,913	1,870,746	-2,734,897	25,909,303	53,071,628	263,985,693
1982	120,180,204	3,047,943	-7,314,587	31,105,996	50,573,163	197,592,719
1983	154,156,433	5,075,351	-2,610,041	29,082,144	60,359,153	246,063,040
1984	196,435,483	6,906,667	-3,500,024	29,558,446	70,766,610	300,167,182
1985	192,991,940	7,602,450	-8,883,674	39,524,630	78,772,578	310,007,924
1986	203,018,630	8,293,241	-17,370,860	58,218,369	90,423,763	342,583,143
1987	250,706,247	30,017,036	-5,419,105	53,365,950	105,460,627	434,130,755
1988	327,131,666	43,536,518	14,493,114	52,447,631	126,323,251	563,932,180
1989	289,721,555	44,779,347	14,099,275	66,819,244	132,737,680	548,157,101
1990	270,925,138	44,831,241	16,609,540	67,457,384	141,430,193	541,253,496
1991	248,113,316	44,745,093	21,406,607	67,671,565	141,515,783	523,452,364
1992	291,866,888	58,329,739	42,916,649	63,933,826	153,960,246	611,007,348
1993	368,912,105	66,233,497	66,652,288	75,113,178	156,458,803	733,369,871
1994	426,082,290	91,676,443	82,183,076	77,243,699	166,798,668	843,984,176
1995	514,751,182	99,128,672	106,829,196	122,543,160	169,262,336	1,012,514,546
1996	574,553,924	125,245,496	145,218,248	138,792,224	176,755,693	1,160,565,585
1997	607,541,446	153,063,011	168,240,726	196,132,514	186,643,910	1,311,621,607
1998	532,246,228	181,788,303	186,704,627	181,117,938	202,274,720	1,284,131,816
1999	535,289,061	193,756,411	228,438,105	256,317,862	207,946,977	1,421,748,416
2000	517,937,235	198,535,888	268,990,758	270,479,156	214,715,298	1,470,658,335
2001	270,774,336	187,686,917	276,334,824	190,296,836	217,385,116	1,142,478,029
2002	258,673,938	183,478,933	270,667,169	154,371,152	221,113,286	1,088,304,478
2003	455,433,845	213,681,780	301,398,218	152,980,175	230,308,100	1,353,802,117
2004	709,985,922	275,398,651	384,738,394	184,327,903	247,567,189	1,802,018,058
2005	1,380,200,460	361,042,566	546,210,103	285,551,163	269,919,995	2,842,924,288
2006	1,247,874,961	386,202,310	666,718,610	389,570,016	278,032,643	2,968,398,540
2007	1,060,790,902	400,730,264	683,367,402	488,793,640	280,557,010	2,914,239,219
2008	388,739,523	317,090,536	458,185,323	355,576,129	264,508,362	1,784,099,872
2009	443,166,636	272,466,326	409,878,549	254,897,611	244,821,815	1,625,230,937
2010	800,837,632	334,093,927	593,727,733	286,646,613	267,699,702	2,283,005,607
2011	737,025,579	375,437,189	580,896,723	293,475,191	282,649,926	2,269,484,608
2012	1,051,906,039	475,998,050	777,924,476	344,010,230	304,895,911	2,954,734,706

Table A.3: Firm tax returns vs personal income tax reports of pass-through income

Year	S Corp - Total	S Corp - PIT	Share	Part. - Total	Part. - PIT	Share
1959	395,299			8,844,708		
1960	382,479			8,360,373		
1961	564,447			8,688,622		
1962	681,950			8,531,019	9,515,036	111.5%
1963	799,453			8,668,166		
1964	1,040,197			9,244,464	9,646,222	104.3%
1965	1,447,857			9,699,145		
1966	1,655,084	1,581,048	95.5%	10,445,061	10,822,635	103.6%
1967	1,853,187	1,524,263	82.3%	10,865,953	12,036,145	110.8%
1968	1,947,530			11,405,163	13,629,558	119.5%
1969	2,247,184	1,819,254	81.0%	10,486,453	12,287,954	117.2%
1970	2,173,592	1,689,522	77.7%	9,790,396	10,609,042	108.4%
1971	2,100,000	1,979,080	94.2%	9,146,110	10,314,584	112.8%
1972	1,795,873	2,220,079	123.6%	9,618,447	10,633,211	110.6%
1973	1,888,607	2,212,917	117.2%	9,216,034	10,787,828	117.1%
1974	1,947,275	2,712,006	139.3%	8,864,873	11,407,353	128.7%
1975	2,003,254	2,023,950	101.0%	7,737,570	10,550,195	136.4%
1976	3,671,196	1,875,725	51.1%	10,422,811	11,681,707	112.1%
1977	4,750,479	1,974,025	41.6%	13,264,168	13,311,856	100.4%
1978	5,348,741	2,284,272	42.7%	14,446,809	15,044,481	104.1%
1979	3,795,578	2,230,700	58.8%	15,205,908	12,772,478	84.0%
1980	2,518,912	670,167	26.6%	8,248,656	9,618,001	116.6%
1981	1,870,746	-816,257	-43.6%	-2,734,897	-112,948	
1982	3,047,943	-854,479	-28.0%	-7,314,587	-731,790	
1983	5,075,351	2,089,095	41.2%	-2,610,041	-2,319,481	
1984	6,906,667	6,570,254	95.1%	-3,500,024	-7,777,096	
1985	7,602,450	6,624,897	87.1%	-8,883,674	-8,939,052	
1986	8,293,241	7,678,491	92.6%	-17,370,860	-12,492,759	
1987	30,017,036	18,354,700	61.1%	-5,419,105	8,465,251	
1988	43,536,518	35,331,569	81.2%	14,493,114	22,459,972	155.0%
1989	44,779,347	36,801,499	82.2%	14,099,275	28,585,207	202.7%
1990	44,831,241	36,999,266	82.5%	16,609,540	30,994,858	186.6%
1991	44,745,093	32,248,009	72.1%	21,406,607	33,193,502	155.1%
1992	58,329,739	49,411,635	84.7%	42,916,649	40,531,246	94.4%
1993	66,233,497	50,233,285	75.8%	66,652,288	41,726,692	62.6%
1994	91,676,443	71,869,598	78.4%	82,183,076	43,780,598	53.3%
1995	99,128,672	78,102,196	78.8%	106,829,196	49,105,591	46.0%
1996	125,245,496	88,092,104	70.3%	145,218,248	59,329,804	40.9%
1997	153,063,011	102,583,171	67.0%	168,240,726	66,054,249	39.3%
1998	181,788,303	114,472,839	63.0%	186,704,627	71,414,238	38.2%
1999	193,756,411	124,986,203	64.5%	228,438,105	85,194,498	37.3%
2000	198,535,888	128,349,218	64.6%	268,990,758	86,715,885	32.2%
2001	187,686,917	130,049,750	69.3%	276,334,824	93,629,463	33.9%
2002	183,478,933	139,000,444	75.8%	270,667,169	101,476,293	37.5%
2003	213,681,780	148,667,629	69.6%	301,398,218	107,191,948	35.6%
2004	275,398,651	193,824,854	70.4%	384,738,394	122,014,498	31.7%
2005	361,042,566	243,003,818	67.3%	546,210,103	145,647,212	26.7%
2006	386,202,310	270,514,591	70.0%	666,718,610	153,019,987	23.0%
2007	400,730,264	258,088,167	64.4%	683,367,402	160,546,280	23.5%
2008	317,090,536	238,299,123	75.2%	458,185,323	142,753,098	31.2%
2009	272,466,326			409,878,549		
2010	334,093,927			593,727,733		
2011	375,437,189			580,896,723		
2012	475,998,050			777,924,476		

Note: Taxable share omitted when the total is negative

Table A.4: Composition of partnership income

Year	Ordinary	PIT Share	Portfolio	Portfolio - non CG	Short term CG	Long term CG
1993	51,418,125	81.2%	44,314,395	22,152,787	5,170,055	16,991,553
1994	56,304,445	77.8%	45,105,521	26,895,306	-1,054,112	19,264,327
1995	60,858,305	80.7%	77,342,327	40,135,924	4,495,804	32,710,599
1996	89,857,772	66.0%	108,149,024	46,776,289	8,123,363	53,249,372
1997	92,866,348	71.1%	140,336,774	57,508,865	12,518,579	70,309,330
1998	88,767,531	80.5%	161,897,547	70,733,949	1,147,207	90,016,391
1999	107,481,261	79.3%	206,713,189	85,641,114	18,891,946	102,180,129
2000	119,168,367	72.8%	275,827,300	114,870,157	13,134,895	147,822,248
2001	114,217,614	82.0%	152,983,983	118,901,383	-11,062,075	45,144,675
2002	126,212,499	80.4%	110,667,014	106,280,157	-4,764,774	9,151,631
2003	154,485,912	69.4%	188,901,446	116,698,706	22,681,210	49,521,530
2004	206,502,522	59.1%	355,581,512	149,290,946	27,837,829	178,452,737
2005	308,977,137	47.1%	535,267,067	215,051,948	42,563,416	277,651,703
2006	357,055,417	42.9%	722,426,524	291,617,721	54,613,689	376,195,114
2007	305,747,126	52.5%	980,860,693	382,248,320	87,431,982	511,180,391
2008	110,805,898	128.8%	370,840,964	363,558,164	-125,438,062	132,720,862
2009	137,813,309		222,071,989	271,912,958	64,099,636	-113,940,605
2010	254,553,535		618,879,004	332,751,900	73,322,513	212,804,591
2011	255,751,530		665,684,115	314,788,089	17,653,581	333,242,445
2012	392,228,047		903,348,369	347,672,413	59,443,290	496,232,666

Table A.5: Overall dividends, taxable dividends and foreign ownerships

Year	Corporate Dividends	Taxable Dividends	Share	Foreign owners
1958	11	9	80.0%	2.2%
1959	12	10	79.4%	2.3%
1960	13	10	76.7%	2.2%
1961	13	10	77.2%	2.3%
1962	14	11	77.9%	2.0%
1963	16	12	78.2%	2.2%
1964	18	13	72.2%	2.1%
1965	19	14	72.2%	2.0%
1966	20	15	74.9%	1.9%
1967	20	15	75.9%	3.1%
1968	22	17	77.4%	3.0%
1969	23	17	76.1%	3.2%
1970	23	17	74.2%	3.3%
1971	24	17	70.5%	3.2%
1972	25	18	72.7%	3.3%
1973	28	20	71.5%	3.6%
1974	31	22	72.3%	3.8%
1975	31	23	75.0%	4.0%
1976	37	26	70.8%	4.6%
1977	42	28	67.9%	4.9%
1978	48	32	66.2%	4.9%
1979	54	35	64.5%	4.8%
1980	61	40	65.5%	5.0%
1981	70	48	68.1%	5.4%
1982	73	54	73.8%	5.7%
1983	83	50	60.5%	5.9%
1984	89	50	56.1%	5.9%
1985	91	57	62.8%	6.0%
1986	94	62	65.7%	6.8%
1987	96	67	70.1%	7.0%
1988	108	77	71.2%	7.0%
1989	131	81	61.7%	7.2%
1990	137	80	58.3%	6.9%
1991	144	77	53.5%	6.0%
1992	147	78	53.1%	5.7%
1993	155	80	51.6%	5.4%
1994	168	82	48.7%	5.6%
1995	178	95	53.3%	5.7%
1996	201	104	51.7%	6.0%
1997	221	120	54.2%	6.7%
1998	207	118	57.0%	7.3%
1999	191	132	69.3%	7.5%
2000	206	147	71.5%	8.6%
2001	190	120	63.1%	9.3%
2002	222	103	46.5%	9.9%
2003	244	115	47.1%	10.2%
2004	337	147	43.6%	10.3%
2005	313	166	53.1%	10.3%
2006	410	199	48.5%	10.6%
2007	473	237	50.1%	11.7%
2008	475	219	46.1%	12.6%
2009	300	163	54.3%	13.4%
2010	270	184	68.0%	13.8%
2011	378	195	51.5%	15.1%
2012	482	260	54.0%	15.3%

Table A.6: The size of tax exempt sector relative to overall equity holdings

Year	501(c)(3) and Foundations	Share of equities in 501(c)(3)	501(c)(3) and Foundations relative to all equities	IRAs	Other tax deferred accounts	Government plans	All tax exempts and govt. plans relative to all equities
1974							
1975				3			
1976				6			
1977				9			
1978				14			
1979				20			
1980				25			
1981				38			
1982				68			
1983				107			
1984				159			
1985				241			
1986				329			
1987		33.0%		404		1,592	
1988	826	34.8%	26.8%	469		1,702	
1989	923	33.9%	24.2%	546		1,908	
1990	986	36.3%	27.9%	636		2,041	
1991	1,102	36.7%	22.7%	776		2,191	
1992	1,196	37.8%	22.1%	873		2,471	
1993	1,297	37.7%	20.6%	993		2,627	
1994	1,395	43.7%	22.1%	1,056	980	2,794	98.5%
1995	1,609	45.1%	19.0%	1,288	1,224	2,996	83.9%
1996	1,828	46.5%	18.8%	1,467	1,468	3,293	83.0%
1997	2,052	33.2%	16.3%	1,728	1,762	3,519	72.2%
1998	2,049	39.5%	13.4%	2,150	2,072	3,787	65.8%
1999	2,370	37.0%	12.4%	2,651	2,433	4,072	60.2%
2000	2,363	35.2%	13.7%	2,629	2,367	4,273	67.2%
2001	2,418	35.2%	15.6%	2,619	2,255	4,511	75.9%
2002	2,550	37.8%	20.6%	2,533	2,102	4,739	96.3%
2003	2,765	38.0%	16.7%	2,993	2,589	5,107	81.1%
2004	2,993	37.9%	15.9%	3,299	2,904	5,643	78.6%
2005	3,223	40.6%	15.6%	3,652	3,162	5,973	77.7%
2006	3,674	10.1%	15.2%	4,220	3,632	6,372	74.3%
2007	3,770	34.5%	14.9%	4,736	3,892	6,672	75.3%
2008	3,433	42.4%	22.5%	3,572	2,968	6,807	110.1%
2009	3,748	45.1%	18.9%	4,363	3,616	7,204	95.6%
2010	4,127	42.3%	17.8%	4,839	4,096	7,933	90.3%
2011	4,220	45.7%	18.8%	4,872	4,144	8,190	95.5%
2012	4,559		17.6%	5,407	4,572	8,501	89.1%

Note: All numbers in billions of dollars. Total assets reported for each of the following categories: (1) the sum of all assets from all 501(c) categories for which data is available plus private foundations, (2) IRAs (Source: ICI, end of year data) and (3) 401(k), 403(b) and 457 plans. "All equities" are from Federal Reserve L.223 line 10 (all equity holdings at market value).