

Section 1

Introduction

This report presents statistical estimates based on a stratified sample of approximately 110,000 unaudited returns selected from the nearly 5.7 million active corporate returns filed for Tax Year 2005 (defined to include accounting periods ending July 2005 through June 2006).

The report is divided into 6 sections. Section 1 provides statistics summarizing overall corporate activity for Tax Year 2005. Section 2 discusses changes in laws and regulations between this report and that for Tax Year 2004. Section 3 describes in detail the sample of income tax returns upon which the statistics are based, as well as the method of estimation used, the sampling variability of the data, and other limitations.

Section 4 presents basic tables that contain detailed statistics on 2005 assets, liabilities, receipts, deductions, net income, income tax liability, tax credits, and other financial data. Form 1120S returns, which are included in this section, unless specifically excluded, are also shown separately toward the end of this section. These statistics are presented by industry, asset size, business receipts size, tax form type, accounting period ended, and other selected classifiers. Section 5 contains detailed explanations of the terms used in this report. In most instances, the explanations include definitions of terms used, as well as adjustments made in preparing the statistics and any limitations inherent in the data. Section 6 consists of the key corporation tax return forms.

The industry classification used in this report is based on the North American Industry Classification System (NAICS), which replaced the Standard Industrial Classification (SIC) system used in years prior to 1998. For this Statistics of Income report, the data are listed under 22 industrial sectors, 82 major industries, and 200 minor industries. Table 1 which begins on page 19, presents selected financial data for all minor industries.

The statistics in this publication present data primarily by major industries, sectors, return types, and specific categories. The statistics in the 2005 *Corporation Source Book of Statistics of Income* differ from this report by providing data by minor industry and size of total assets for balance sheet, income statement, tax, and selected other items.

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Overall Corporate Summary

Figure A presents corporation summary statistics for Tax Years 2004 and 2005 for number of returns, total assets, total receipts, net income (less deficit), income subject to tax, total income tax before credits, and total income tax after credits.

The number of active corporate tax returns filed for Tax Year 2005 increased by approximately 2.0 percent. For Tax Year 2004 corporations that met certain criteria could electronically file their tax return; approximately 43,000 corporate tax filers elected to do so. For Tax Year 2005, certain corporations were required to file electronically and the number of electronically filed returns increased to approximately 550,000. Total assets reached an all-time high of \$66.4 trillion, an increase of approximately 10.5 percent from Tax Year 2004. The largest increases were found in the Manufacturing sector, which increased from \$9.3 trillion to \$10.4 trillion, an increase of over 12.5 percent. The Finance and Insurance sector was also a large contributor to the increase in assets from \$27.1 trillion to \$30.4 trillion, a 12.3 percent gain. The smallest increase in total assets was in the Educational Services sector, which reported an increase in assets of \$3.8 billion, a rise of nearly 16.9 percent. Total receipts from operations and investments increased from \$22.7 trillion to \$25.5 trillion, an increase of 12.3 percent. This increase was primarily reflected in business receipts which increased by 9.1 percent from \$20.0 trillion to \$21.8 trillion. Two sectors, Manufacturing and Finance and Insurance, accounted for 48.4 percent of the increase in total receipts and approximately 39.5 percent of the increase in business receipts. Total receipts for the Manufacturing sector rose from \$6.4 trillion to \$7.3 trillion in 2005, an increase of 14.5 percent; while business receipts rose from \$5.9 trillion to \$6.5 trillion, or 10.4 percent. The Finance and Insurance sector experienced an increase of 14.9 percent in total receipts, from \$2.9 trillion to \$3.3 trillion; while business receipts increased from \$1.7 to \$1.8 trillion, an increase of approximately 6.4 percent. Overall total deductions rose from \$21.6 trillion to \$23.6 trillion, an increase of 9.1 percent. Cost of goods sold, the largest component of total deductions grew from \$12.5 trillion to \$13.8 trillion in 2005, an increase of 10.6 percent. Corporate pre-tax profits, or net income (less deficit) rose for all companies by 75.3 percent, from \$1.1 trillion to \$1.9 trillion (Figure B). Pre-tax profits increased from \$710.0 billion to \$1.4 trillion or 94.4 percent when excluding pass-through entities. Income subject to tax (the tax base), grew during 2005 from \$857.4

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billion to \$1.20 trillion, an increase of 40.1 percent. Total income tax before credits increased from \$299.6 billion to \$419.2 billion, an increase of 40.0 percent. Income tax increased 40.6 percent during Tax Year 2005, from \$296.2 billion to \$416.3 billion. Total income tax after credits, the amount paid to the U.S. Government, increased by \$87.7 billion from \$224.4 billion to \$312.1 billion.

From the 5.7 million active corporations for Tax Year 2005, approximately 3.7 million were pass-

through entities. These pass-through entities include: regulated investment companies (RIC's), real estate investment trust (REIT's) and S corporations [1]. These entities pay little or no Federal income tax at the corporate level. Instead, they are required by law to pass any profits or losses to their shareholders, where they are taxed at the individual rate. Pretax profits of pass-through entities, mirrored the increase seen by all corporations rising 41.5 percent or \$166.7 billion during 2005 (Figure C).

Figure A. --Returns of Active Corporations: Number of Returns, Total Assets, Total Receipts, Net Income (Less Deficit), Income Subject to Tax, Total Income Tax Before Credits, Total Income Tax After Credits, by Size of Total Assets, Tax Years 2004 and 2005

(All figures are estimates based on samples--money amounts are in thousands of dollars and size of total assets are in whole dollars)

| Year and size of total assets | Number of returns | Total assets | Total receipts | Net income (less deficit) [1] | Income subject to tax [2] | Total income tax before credits [3] | Total income tax after credits [4] |
|--|-------------------|-----------------------|-----------------------|-------------------------------|---------------------------|-------------------------------------|------------------------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 2004 | | | | | | | |
| Total..... | 5,557,965 | 60,117,759,331 | 22,711,863,939 | 1,111,692,655 | 857,391,889 | 299,555,304 | 224,435,343 |
| Zero assets..... | 701,095 | - | 360,362,431 | 3,638,790 | 15,385,659 | 4,503,520 | 4,076,062 |
| \$1 under \$500,000..... | 3,966,884 | 383,379,360 | 1,733,209,411 | 63,850,452 | 8,436,457 | 1,568,850 | 1,536,268 |
| \$500,000 under \$1,000,000..... | 356,184 | 249,055,234 | 597,725,892 | 14,816,460 | 4,081,325 | 980,508 | 959,562 |
| \$1,000,000 under \$5,000,000..... | 386,689 | 815,358,509 | 1,689,794,715 | 33,992,927 | 12,214,740 | 3,650,293 | 3,519,333 |
| \$5,000,000 under \$10,000,000..... | 61,121 | 426,030,168 | 888,688,357 | 15,832,565 | 7,562,341 | 2,548,235 | 2,445,679 |
| \$10,000,000 under \$25,000,000..... | 39,986 | 615,452,514 | 1,149,705,508 | 21,556,461 | 10,694,167 | 3,684,759 | 3,511,343 |
| \$25,000,000 under \$50,000,000..... | 15,012 | 517,736,115 | 736,571,938 | 17,698,834 | 10,076,304 | 3,492,074 | 3,281,627 |
| \$50,000,000 under \$100,000,000..... | 9,567 | 679,159,194 | 657,697,549 | 16,973,223 | 12,037,344 | 4,182,888 | 3,917,585 |
| \$100,000,000 under \$250,000,000..... | 8,984 | 1,435,685,928 | 880,104,503 | 33,894,141 | 23,779,435 | 8,393,447 | 7,529,446 |
| \$250,000,000 under \$500,000,000..... | 4,654 | 1,696,308,446 | 781,541,962 | 36,091,025 | 26,919,212 | 9,452,646 | 8,521,926 |
| \$500,000,000 under \$2,500,000,000..... | 5,602 | 6,651,534,467 | 2,708,116,017 | 152,854,905 | 117,538,488 | 41,743,088 | 35,658,675 |
| \$2,500,000,000 or more..... | 2,188 | 46,648,059,396 | 10,528,345,657 | 700,492,871 | 608,666,417 | 215,354,993 | 149,477,837 |
| 2005 | | | | | | | |
| Total..... | 5,671,257 | 66,445,429,787 | 25,504,789,203 | 1,948,655,133 | 1,201,325,339 | 419,209,279 | 312,086,477 |
| Zero assets..... | 774,622 | - | 445,036,031 | 33,390,285 | 19,086,398 | 5,779,882 | 5,094,162 |
| \$1 under \$500,000..... | 3,962,278 | 388,401,406 | 1,850,210,074 | 82,595,074 | 9,223,476 | 1,766,772 | 1,698,911 |
| \$500,000 under \$1,000,000..... | 370,562 | 260,923,167 | 642,832,416 | 22,774,074 | 4,473,747 | 1,077,862 | 1,043,493 |
| \$1,000,000 under \$5,000,000..... | 406,543 | 858,170,772 | 1,792,529,109 | 52,164,359 | 14,935,227 | 4,567,870 | 4,372,716 |
| \$5,000,000 under \$10,000,000..... | 66,278 | 463,000,889 | 971,980,526 | 25,702,212 | 9,367,290 | 3,164,228 | 3,060,316 |
| \$10,000,000 under \$25,000,000..... | 42,736 | 654,348,093 | 1,223,997,461 | 32,680,034 | 13,506,966 | 4,646,895 | 4,456,998 |
| \$25,000,000 under \$50,000,000..... | 15,808 | 555,194,699 | 812,566,876 | 24,835,726 | 13,459,430 | 4,678,404 | 4,366,840 |
| \$50,000,000 under \$100,000,000..... | 9,887 | 699,918,213 | 693,615,075 | 24,174,538 | 14,239,710 | 4,973,109 | 4,624,285 |
| \$100,000,000 under \$250,000,000..... | 9,316 | 1,490,548,405 | 1,012,405,328 | 48,660,813 | 31,250,096 | 10,983,815 | 9,935,667 |
| \$250,000,000 under \$500,000,000..... | 4,809 | 1,741,949,089 | 817,354,678 | 49,740,866 | 32,014,740 | 11,273,507 | 10,150,832 |
| \$500,000,000 under \$2,500,000,000..... | 6,012 | 7,372,297,893 | 3,063,700,726 | 279,799,010 | 171,339,765 | 60,459,095 | 50,364,959 |
| \$2,500,000,000 or more..... | 2,405 | 51,960,677,162 | 12,178,560,901 | 1,272,138,140 | 868,428,494 | 305,837,840 | 212,917,298 |

¹ Includes taxable income before net operating loss deduction and special deductions.

² Includes taxable income less net operating loss deduction and special deductions.

³ Includes income tax, personal holding company tax, all recapture and other taxes, alternative minimum tax; excess net passive income tax (Form 1120S); branch

tax (Form 1120-F); taxes from Parts II, III, and IV, and sections 856 & 857 (Form 1120-REIT); tax from Schedule J, line 3b (Form 1120-RIC); tax from page 1, line 5 (Form 1120-PC); and adjustments to income tax and total tax.

⁴ Credits include foreign tax, U.S. possessions tax, nonconventional source fuel, qualified electric vehicle, general business, prior-year minimum tax, qualified zone academy bond, clean renewable energy bond, and gulf bond credit.

Notes: Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

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**Figure B.-- Corporate Pretax Profits by North American Industry Classification System (NAICS) Sector,
Tax Years 2004 and 2005**

[Money amounts are in thousands of dollars]

| Industrial sector | Pre-tax Profits [1],[2] | | | |
|--|-------------------------|----------------------|-------------|-------------------|
| | 2004 | 2005 | Difference | Percentage change |
| | (1) | (2) | (3) | (4) |
| All industries..... | 1,111,692,655 | 1,948,655,132 | 836,962,477 | 75.29% |
| Agriculture, forestry, fishing, and hunting..... | 2,580,512 | 4,723,729 | 2,143,217 | 83.05% |
| Mining..... | 18,694,454 | 46,784,960 | 28,090,506 | 150.26% |
| Utilities..... | 4,162,291 | 20,830,603 | 16,668,312 | 400.46% |
| Construction..... | 46,624,667 | 74,356,808 | 27,732,141 | 59.48% |
| Manufacturing..... | 291,038,821 | 680,058,202 | 389,019,381 | 133.67% |
| Wholesale and retail trade..... | 161,987,422 | 214,851,252 | 52,863,830 | 32.63% |
| Wholesale trade..... | 80,088,103 | 106,255,014 | 26,167,001 | 32.67% |
| Retail trade..... | 81,910,565 | 108,612,236 | 26,701,671 | 32.60% |
| Wholesale and retail trade not allocable..... | -11,246 | -15,998 | -4,752 | 42.26% |
| Transportation and warehousing..... | 5,724,498 | 18,910,404 | 13,185,906 | 230.34% |
| Information..... | 22,530,595 | 75,408,348 | 52,877,753 | 234.69% |
| Finance and insurance..... | 363,427,888 | 500,563,173 | 137,135,285 | 37.73% |
| Real estate and rental and leasing..... | 9,553,391 | 29,777,730 | 20,224,339 | 211.70% |
| Professional, scientific, and technical services..... | 17,864,065 | 30,931,686 | 13,067,621 | 73.15% |
| Management of companies (holding companies)..... | 116,033,731 | 161,499,246 | 45,465,515 | 39.18% |
| Administrative and support, and waste management and remediation services..... | 10,594,085 | 22,980,942 | 12,386,857 | 116.92% |
| Educational services..... | 2,352,859 | 2,659,365 | 306,506 | 13.03% |
| Health care and social assistance..... | 20,261,024 | 26,796,387 | 6,535,363 | 32.26% |
| Arts, entertainment, and recreation..... | 2,759,386 | 4,117,704 | 1,358,318 | 49.23% |
| Accommodation and food services..... | 12,207,573 | 27,759,730 | 15,552,157 | 127.40% |
| Other services..... | 3,250,105 | 5,660,308 | 2,410,203 | 74.16% |
| Not allocable..... | 45,288 | -15,443 | -60,731 | -134.10% |

[1] Pretax profits are net income (less deficit) in the statistics.

[2] Excludes net long-term capital gain reduced by net short-term capital loss of regulated investment companies and portfolio income (including capital gains) for S corporations (qualifying corporations electing to be taxed through their shareholders).

NOTE: Detail may not add to totals because of rounding.

The remaining 2.0 million returns reported total receipts of \$19.8 trillion, an increase of 12.2 percent from 2004 to 2005. During the same time period, income subject to tax increased from \$856.4 billion to \$1.2 trillion, a 40.1 percent increase; while total income tax after credits increased 39.0 percent from \$224.0 billion to \$311.4 billion. Excluding the pass-through entities [2], approximately 1.0 million corporations reported net income for Tax Year 2005 and 66.8 percent of those corporations had a tax liability, compared to 21.0 percent of all corporations with net income.

The number of returns with total assets of \$2.5 billion or more represented only 0.04 percent of the total number of returns, but 78.2 percent of total assets. These 2,405 returns for 2005 accounted for 47.8 percent of the total receipts; 65.3 percent of net income (less deficit); 72.3 percent of income subject to tax; 73.0 percent of total income tax before credits; and 68.2 percent of total income tax after credits. Roughly 60.8 percent of all returns with net income and total assets greater than \$2.5 billion had a tax liability for 2005.

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Activities Covered

The estimates in this report encompass corporate business activities in the United States, as well as certain foreign activities as reported on returns of domestic corporations, and foreign corporations with U.S. business activities. The term domestic corporation refers to companies incorporated in the United States, but does not necessarily imply that all their activities are domestic. For instance, data for a U.S. corporation conducting business abroad through foreign subsidiaries may include dividends remitted from those subsidiaries and, to a certain extent, their undistributed earnings. The effect of foreign activity on the statistics varies by type of industry and by size of assets. Income from foreign activity is reflected to a greater extent in manufacturing industries than other industries. Also, foreign activity is almost entirely concentrated among returns with assets of \$250 million or more [3]. For foreign corporations (defined as those incorporated abroad) engaged in trade or business in the United States, only income that was considered effectively connected with the conduct of a trade or business in the United States was included in the statistics; any investment income from U.S. sources was excluded from the data. Most foreign corporations are concentrated in the "Finance and Insurance" and "Real Estate and Rental and Leasing" sectors. Other foreign corporations, incorporated abroad and not engaged in trade or business in the U.S., were liable for tax only on investment income from U.S. sources, and these returns were excluded from this report.

Section 6012 of the Internal Revenue Code requires that all corporations in existence at any time during the tax year file returns, regardless of whether they had income or not. This applied to active and inactive domestic corporations, unless they were

expressly exempt from filing, as well as to active foreign corporations with insufficient taxes withheld at the source to satisfy their U.S. tax liability on income earned in the United States. However, inactive corporations have been excluded from these statistics. See Section 3 for more information on the sample.

In addition to legally defined corporations, the Internal Revenue Code recognized many types of businesses as corporations including: joint stock companies and unincorporated associations (such as business trusts, savings and loan associations, certain partnerships, mutual savings banks, and cooperative banks). These organizations possess characteristics typical of the corporate form, such as continuity of life, centralization of management apart from ownership, limited liability of owners, and transferability of shares of capital ownership.

Time Period Employed

The estimates in this report are based on data from returns with accounting periods that coincided with the calendar year and returns with accounting periods that were for noncalendar years ending during the span of months July 2005 through June 2006. This span, in effect, defines the tax year in such a way that the noncalendar year accounting periods are centered at the calendar year ended in December.

There are 12 accounting periods covered in this report. Code section 441 specified that, in general, a taxpayer's accounting period ends on the last day of the month. There is a span of 23 months between the first-included accounting period, which began on August 1, 2004, and closed on July 31, 2005, and the end of the last-included accounting period, which began on July 1, 2005, and closed on June 30, 2006. This report, therefore, shows income received

Figure C. -- Pretax profits and Pretax profits with certain inclusions for All Corporations, Regulated Investment Companies, and S Corporations, Tax Years 2004 and 2005

(Money amounts are in thousands of dollars)

| Item | Tax Year | All Corporations | Regulated Investment Companies | S Corporations |
|---|----------|----------------------|--------------------------------|----------------|
| Pretax profits [1]..... | 2005 | 1,948,655,132 | 214,965,672 | 282,903,509 |
| | 2004 | 1,111,692,655 | 137,018,774 | 217,378,830 |
| Pretax profits with certain inclusions [2]..... | 2005 | 2,210,067,320 | 398,238,803 | 361,042,566 |
| | 2004 | 1,241,134,481 | 208,440,778 | 275,398,651 |

[1] Pretax profits are net income (less deficit) in the statistics.

[2] The inclusions to pre-tax profits are: net long-term capital gain reduced by net short-term capital loss for regulated investment companies and investment, rental, and portfolio income (including capital gains) for S corporations. The amounts listed under "All Corporations" include both aforementioned items.

or expenses incurred during any or all of the months in the 23-month span. For balance sheet items, the

report shows a corporation's position only at the end of its accounting period. Corporations were required

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by Code section 441 to file returns for the accounting period customarily used in keeping their books.

Figure D shows that calendar year returns made up 86.6 percent of the number of returns and 74.5 percent of net income (less deficit) for 2005. In addition, these returns accounted for 76.5 percent of the total assets, 74.8 percent of the total receipts, 76.2 percent of the income subject to tax, 76.5 percent of the total income tax before credits, and 73.4 percent of total income tax after credits. Corporations were usually required to file within two-and-one-half months after the close of the corporate

accounting period. However, in accordance with Code section 6081, most corporations could receive filing extensions of an additional 6 months. In addition to returns with accounting periods that spanned 12 months, the total number of active corporations includes returns with accounting periods of shorter duration. Such returns are referred to as part-year returns and were filed, for the most part, by continuing corporations changing their accounting periods, to include corporations in existence less than 12 months, merging corporations, and liquidating corporations.

Figure D. --Returns of Active Corporations: Number of Returns, Total Assets, Total Receipts, Net Income (Less Deficit), Income Subject to Tax, Total Income Tax Before Credits, and Total Income Tax After Credits, by Ending Accounting Period for Tax Year 2005

(All figures are estimates based on samples--money amounts are in thousands of dollars)

| Ending Accounting Period [1] | Number of returns | Total assets | Total receipts | Net income (less deficit) [2] | Income subject to tax [3] | Total income tax before credits [4] | Total income tax after credit [5] |
|------------------------------------|-------------------|-----------------------|-----------------------|-------------------------------|---------------------------|-------------------------------------|-----------------------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| Total..... | 5,671,257 | 66,445,429,787 | 25,504,789,203 | 1,948,655,133 | 1,201,325,339 | 419,209,279 | 312,086,477 |
| December 2005..... | 4,911,220 | 50,843,368,778 | 19,068,015,602 | 1,451,023,092 | 915,397,058 | 320,589,482 | 228,908,567 |
| Noncalendar Year Total..... | 760,037 | 15,602,061,009 | 6,436,773,601 | 497,632,040 | 285,928,281 | 98,619,797 | 83,177,910 |
| July 2005..... | 46,562 | 801,371,075 | 219,840,723 | 19,820,235 | 8,354,578 | 2,860,566 | 2,526,521 |
| August 2005..... | 50,887 | 1,172,111,018 | 327,902,511 | 26,754,260 | 11,317,976 | 3,928,814 | 3,568,295 |
| September 2005..... | 154,071 | 1,839,106,708 | 1,098,009,211 | 63,201,140 | 36,795,585 | 12,784,463 | 10,586,720 |
| October 2005..... | 66,819 | 1,907,679,261 | 473,517,500 | 62,773,704 | 17,431,452 | 6,057,009 | 4,623,194 |
| November 2005..... | 36,086 | 3,200,257,243 | 319,149,926 | 37,853,546 | 22,371,888 | 7,796,342 | 5,586,441 |
| January 2006..... | 42,058 | 948,326,792 | 1,128,042,106 | 75,805,056 | 61,678,940 | 21,491,152 | 20,249,885 |
| February 2006..... | 33,244 | 579,129,640 | 243,609,992 | 19,409,903 | 7,188,532 | 2,476,949 | 2,330,441 |
| March 2006..... | 96,553 | 2,437,137,442 | 1,056,882,976 | 74,946,468 | 41,038,728 | 13,616,679 | 12,108,094 |
| April 2006..... | 40,328 | 503,081,480 | 247,760,892 | 22,545,137 | 9,363,200 | 3,257,796 | 2,571,125 |
| May 2006..... | 44,398 | 611,488,166 | 350,228,234 | 28,429,500 | 16,861,950 | 5,840,459 | 4,609,184 |
| June 2006..... | 149,031 | 1,602,372,184 | 971,829,532 | 66,093,092 | 53,525,451 | 18,509,568 | 14,418,009 |

[1] Includes full and part-year returns.

[2] Includes taxable income before net operating loss deduction and special deductions.

[3] Includes taxable income less net operating loss deduction and special deductions.

[4] Includes income tax, personal holding company tax, all recapture and other taxes, alternative minimum tax, excessive net passive income tax (Form 1120S); branch tax (Form 1120-F); taxes from Parts II, III, IV, and sections 856 & 857 (Form 1120-REIT); tax from Schedule J, line 3b (Form 1120-RIC); tax from page 1, line 5 (Form 1120-PC); and adjustments to income tax and total tax.

[5] Credits include foreign tax, U.S. possessions tax, nonconventional source fuel, qualified electric vehicle, general business, prior-year minimum tax, qualified zone academy bond, clean renewable energy bond and gulf bond credit.

Notes: Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

Notes and References

[1] For more detailed information on S corporations, see Luttrell, Kelly, "S Corporation Returns, 2003," *Statistics of Income Bulletin*, Volume 25, Number 4, Spring 2006, pp. 91 - 165.

[2] Includes returns filed on Forms 1120, 1120-A, 1120-F, 1120-L and 1120-PC.

[3] For more detailed information, see Masters and Oh, "Controlled Foreign Corporations, 2002," *Statistics of Income Bulletin*, Volume 25, Number 4, Spring 2006, pp. 193-232.