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1917
2007

Statistics of Income

A Collection of Historical Articles

Introduction

In 2007, the 90th anniversary of the Statistics of Income (SOI) function, we looked back on a long and proud history filled with dedicated staff, operational innovations, and significant accomplishments. The 16th Amendment to the Constitution, which gave Congress the power to levy taxes, became effective in 1913, and the Revenue Act of 1916 included a requirement for the "preparation and publication of statistics reasonably available with respect to the operation of the income tax law." A year later, in 1917, the predecessor of SOI was created, and the first statistical report was published in the following year.

Despite the many changes in people, methodologies, logistics, and technologies, the mission of SOI has remained virtually the same: to collect, analyze, and disseminate information on federal taxation for the Treasury Department; Congressional Committees; the Internal Revenue Service in its administration of the tax laws; other organizations engaged in economic and financial analysis; and the general public.

As part of our anniversary celebration, beginning with the summer 2007 issue of the *SOI Bulletin* and ending with the winter 2008 issue, we published a series of articles that present historic SOI data on a variety of topics. These articles are assembled here for your enjoyment and reference. While we look back in celebration, we also look forward to a bright future for SOI – one of expanding data products and statistical services, as well as extending our customer base. I hope you will enjoy our celebratory articles, which are also available as part of the SOI paper series on the Tax Stats Web site at www.irs.gov/taxstats, click on "SOI Paper Series."

Tom Petska, Director

90 1917 2007 Statistics of Income

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SOI Trailblazers

by James Dalton

As SOI celebrates its 90th year of doing business and meeting the needs of its many customers, it is time to look back at the exceptional trailblazers who have made SOI products and services possible.

Dr. Edward White was the George Washington of Statistics of Income. He arrived in 1918 at an annual salary that today is less than one biweekly paycheck for a journeyman mathematical statistician at SOI—$2,000. Naturally, as the premier head of a new organization, his resume is a list of firsts:

- first SOI report on personal and corporate income tax returns (for 1916 in 1918)
- first data on sole proprietorships (for 1917 in 1919)
- first data on estate tax returns (for 1916-1922 in 1925)
- first complete income statements for corporations (for 1922 in 1925)
- first gift tax return statistics (for 1925 in 1926)
- first *Source Book* of corporation tax data (for 1926 in 1928)
- first separate individual and corporation reports (for 1934 in 1936)
- first fiduciary income statistics (for 1937 in 1940) and
- first detailed partnership statistics (for 1939 in 1945).

Dr. White took SOI from nonelectric comptometers to punch cards and machine tabulation around 1928. Sampling of individual income tax returns was introduced under his leadership, and, later in his tenure, stratified systematic samples of individual returns were also implemented. It is safe to say that his 29-year tenure (1918-1946) will probably never be surpassed.

James Turner, an IRS employee, replaced Dr. White in 1946. But possibly no one could replace Dr. White, for his successor had the shortest tenure of any SOI Director to date. He served 3 years (1946-1949).

Turner's elevation to Director was perhaps IRS recognition of his greatest achievement, as he is credited with development of the standard deduction. In IRS annals, this is quite an achievement. Today, all Americans facing their tax responsibilities can say a collective "thank you, Jim Turner" for the relief offered from their burden through the deduction.

Bryce Bratt, another IRS employee, took charge in 1949 and extended sampling, previously limited to individual returns, to corporation returns and then to returns for other SOI programs. For the corporate study, he achieved a sampling rate of 41.5 percent, handling 285,000 returns out of a total population of 687,000. But his 4-year tenure (1949-1953) faced backlogs of statistical reporting that could not be processed, finalized, or delivered due to World War II.

The task was overwhelming. Within 5 years, he was gone. A new era was about to dawn, not only for SOI but also for the Internal Revenue Service itself.

Ernest Enquist, the fourth Director of SOI, arrived in 1953 and brought about the IRS computer age. In 1954, his second year as Director, he funded half of the cost of a Remington Rand UNIVAC 1 purchased with the Census Bureau, where he had been a statistician. The UNIVAC was IRS's and, of course, SOI's first computer.

To achieve his vision, Enquist doubled SOI staffing and reassigned manual statistical processing to the field. This transition allowed SOI to establish the first quality control program to maintain integrity of data and also enabled focus on specialized areas like partnership returns, taxpayer usage studies, advance tabulations of individual data, capital gains, corporate foreign tax credit, sales of capital assets, depletion, and depreciation. In 1962, Enquist saw to the implementing of Public Law 87-870, which allowed SOI to conduct special studies for reimbursement, and, thus, it can be said that his 11-year tenure (1953-1964) laid the groundwork for most of what SOI now delivers.

The fifth Director of SOI, **Vito Natrella**, was a former Securities and Exchange Commission statistician. He took charge in 1964 and used the computer to identify returns for sample selection (previously a

manual process). This revitalized the individual program, among others.

Natrella also introduced integer weights, or the rounding of weights to an integer value, to SOI weighting procedures. This eased data review procedures and assured that publication totals added evenly. But it was controversial.

Natrella finalized a one-time study on depletion (for 1960 in 1966) and initiated the first SOI estimates of personal wealth based on estate tax returns (for 1962 in 1967). These estimates involved use of the estate multiplier concept. He then published the first corporation report on the foreign tax credit (for 1961 in 1967) and the first corporation supplement on controlled foreign corporations (for 1962 in 1969).

Natrella widened the focus of SOI studies to include high-income taxpayers and the incomes of U.S. citizens working abroad, as well as corporate income from U.S. possessions, international boycott participation, employee benefit plans, and private foundations. He also implemented the use of Master File data for individual income tax studies, which previously relied on data that had been processed independently. The Natrella Era (1964-1980) set the stage for the sixth Director of SOI to create the organization widely known today.

Fritz Scheuren, former Social Security Administration chief statistician, became Director of SOI in 1980. His passion for print led to the founding of several publications that form the cornerstone of the SOI mission "to collect, analyze, and disseminate information on Federal taxation for the Treasury Department's Office of Tax Analysis, Congressional committees, the Internal Revenue Service in its administration of the tax laws, other organizations engaged in economic and financial analysis, and for the general public." Scheuren published the first issue of the quarterly *Statistics of Income Bulletin* in 1981 and the first issue of SOI's methodological report series in 1982, when the Statistical Division became the Statistics of Income Division.

He then instituted an annual program on tax-exempt organizations and published the only SOI statistics to date on employee benefit plans (for 1977 in 1982). He published the first SOI compendiums on international income and taxes (for 1979-1983) and partnerships (for 1978-1982) in 1985. He also established the estate tax return program as an annual study in 1986.

One of the greatest innovations of his era (1980-1993) was convening the first meeting of the SOI Advisory Panel to involve academics, business representatives, and tax policymakers in SOI work processes in 1986. Throughout his tenure, he invested in human capital, seeing that economists and mathematical statisticians had the training necessary to meet the computer programming needs of the Division. Scheuren also spearheaded the TQO (Total Quality Organization) initiative at SOI.

In 1989, he established SOI's Statistical Information Services. Its mission to answer phone, walk-in, and written requests, and later e-mail requests, for SOI products and services continues to this day. Scheuren's mission to raise SOI visibility in any form possible also led to the SOI electronic bulletin board, which began disseminating data in 1992 and today, as SOI's Tax Stats Web site, contains an ever-growing wealth of material, including data tables and the latest articles and papers developed by SOI economists and mathematical statisticians, as well as other researchers.

The seventh Director of SOI, **Dan Skelly**, was a former economics instructor and pension fund manager, who combined both academic and corporate experience when he came to SOI in 1983. He had supervised the Foreign Statistics Branch, now known as the Special Studies Branch, for 10 years and left his mark on international, estate, nonprofit, and excise tax studies before taking the SOI helm in 1993. He believed in the mantra that "people are the organization" and invested in a Divisionwide recruitment effort to attract and hire the best and the brightest.

As much as a good resume impressed Skelly, he knew that team spirit moves an organization, and so he picked candidates who could work well together. He hired many of SOI's present staff members and conducted most of the interviews himself. "Top of the morning," he used to say, and top of the candidates is what he got.

Skelly also emphasized training in order to keep SOI competitive with other statistical organizations and measured success not only in the number of annual studies conducted (60) but in the number of careers developed. "The quality of statistics," he liked to say, "depends on the quality of those you hire."

Toward that end, his recruitment tours and speaking engagements at local colleges and universities were well-known events.

He finetuned a number of SOI initiatives on his watch, bolstered the estate and gift audit selection program through estate and gift studies, and facilitated a separate audit program for exempt organizations through nonprofit studies. Perhaps for his most tangible human capital achievement, Skelly was instrumental in seeking and filling new senior technical positions throughout SOI, because he strongly believed that SOI staff perform at a high level. Remembered for his people skills and the bright optimism he encouraged throughout the Division, as well as for leading SOI into the Internet Age and the 21st Century, the Skelly Era (1993-2001) set the stage for its present Director.

Tom Petska, a former BEA and SSA economist and Chief of SOI's Special Studies Branch, became Director of SOI in 2001 and used his influence from day one to increase SOI standing in the statistical community. He led the way in maintaining high visibility as a world-class organization by encouraging staff to present papers at major conferences: the American Accounting Association (AAA), the American Economic Association (AEA), the American Statistical Association (ASA), and the National Tax Association (NTA). He himself presented papers on tax-exempt organizations, tax shelters, business organizational choice, individual income distributions, interagency data sharing, and the greater use of Master File data and was inducted as an American Statistical Association Fellow in 2004.

Petska does not believe that SOI should operate in a Federal statistical vacuum and has re-established the SOI Advisory Panel Meeting as a semiannual event in 2001. Now in its 22nd year, this meeting provides Government economists and statisticians with much needed outside perspectives and views from academia, nonprofit think tanks, and accounting firms. Under Petska's leadership, SOI not only reports on 130 projects and functions in semiannual reports to Treasury's Office of Tax Analysis (OTA) and the Congressional Joint Committee on Taxation (JCT) but has finished virtually every one on or ahead of schedule with some of the highest quality levels it has ever achieved.

Petska also advocates the effective management of "white space," those often overlooked places where areas of expertise intersect and where, as in economic terms, common ground becomes a public good. To share best practices across branches, he has commissioned an inhouse team for Web modernization and subject-matter experts for publications improvement. A Johnny Unitas fan, his management philosophy comes straight from the gridiron, "Find out where statistics are going, and move in those directions."

Petska, who went as a Federal consultant to the Republic of South Africa to help its government restructure their revenue agency, is now shaping SOI beyond his own tenure. He is leading efforts to develop a strategic vision, SOI 2016, and is working with RAS Director Mark Mazur, former Treasury Deputy Assistant Secretary Bob Carroll, and OTA Director Don Kiefer to project SOI to the future. He has spared no effort to think and act "SOI-global" in his agency's move to Graphical User Interface (GUI) systems, in its deployment of split-screen editing technologies, and its successful contributions to the Modernized e-File (MeF) initiatives.

When asked where SOI stops in building bridges to the statistical community and its many customers throughout the world, the Petska answer has always been, "Why stop?" Petska believes that SOI's future lies in having more, not fewer, leaders and that by joining the ranks of SOI's "highest performers"—its "All-Pros"—its starting lineup will be "All Stars" in every sense of the word. SOI's continued success is thereby assured.

The Estate Tax: Ninety Years and Counting

by Darien B. Jacobson, Brian G. Raub, and Barry W. Johnson

For the past 90 years and at key points throughout American history, the Federal Government has relied on estate and inheritance taxes as sources of funding. Proponents have frequently advocated that these taxes are effective tools for preventing the concentration of wealth in the hands of a relatively few powerful families, while opponents believe that transfer taxes discourage capital accumulation, curbing national economic growth. This tension, along with fiscal and other considerations, has led to periodic revisions of Federal estate tax laws, affecting both the size of the decedent population subject to the tax and the revenue collected.

The Statistics of Income Division's Estate Tax Studies

The Statistics of Income Division (SOI) and its predecessor organizations have compiled statistics on estates that file Federal estate tax returns since the inception of the tax in 1916. These data have been instrumental in both administering the tax and forming a better understanding of the financial arrangements employed by the nation's wealthiest individuals.

Data from estate tax returns are regularly used to estimate annual revenues and to project future receipts. These data have also been used to support the analysis and debates that occurred in crafting the tax law changes chronicled in this paper. In this context, estate tax data have frequently been used to evaluate the effects of the tax laws on the economic and social behavior of the very wealthy. For example, the effects of estate taxation on the longevity of businesses and farms, as well as the effects of the tax on a decedent's propensity to make charitable bequests, have been important considerations to policymakers when debating changes in estate tax laws.

In addition to using estate tax data directly for tax policy administration, these data have formed the foundation for periodic estimates of personal wealth held by the living population. These wealth estimates are produced from estate tax data using the estate multiplier technique and are an important tool for studying the U.S. macroeconomy, as well as a valuable supplement to information collected through surveys, which frequently underrepresent the very wealthy.[1] SOI first published estimates of personal wealth derived from estate tax data for 1962, following in the footsteps of scholars like Horst Mendershausen and Robert Lampman, who had published similar estimates for earlier decades using SOI tabulated data. SOI estate tax data have also been used to study the transmission of wealth between generations, and, combined with data from income tax returns filed by decedents prior to death, to derive measures of economic well-being.

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Historical Overview

The term "death tax" has been used to describe a variety of different taxes related to the "power to transmit or the transmission or receipt of property by death."[2] Stamp taxes or duties, are taxes on the recordation of legal documents such as wills. Estate taxes are excise taxes on the privilege of transferring property at death and are usually graduated based on the size of the decedent's entire estate. An inheritance or legacy tax is an excise tax levied on the privilege of receiving property from the decedent. These taxes are usually graduated based on the amount of property received by each beneficiary and on each beneficiary's relationship to the decedent.[3]

Taxation of property transfers at death can be traced back to ancient Egypt as early as 700 B.C.[4] Nearly 2,000 years ago, Roman Emperor Caesar Augustus imposed the *Vicesina Hereditatium*, a tax on successions and legacies to all but close relatives.[5] Taxes imposed at the death of a family member were quite common in feudal Europe, often amounting to a family's annual property rent. By the 18th century, stamp duties and registration fees on wills, inventories, and other documents related to property transfers at death had been adopted by many nations, including that of the newly formed United States of America.

[1] For more detail on using the estate multiplier technique to estimate wealth, see: Johnson, B. and L. Woodburn (1993), "Estate Multiplier Technique, Recent Improvements for 1989," *Compendium of Federal Estate Tax and Personal Wealth Studies*, 391-400, Statistics of Income Division.

[2] Silberstein, Debra Rahmin, (2003) "A History of the Death Tax—A Source of Revenue or Vehicle for Wealth Redistribution," *Brandeis Graduate Journal,* Vol. 1, Issue 1 www.brandeis.edu/gradjournal, p. 1.

[3] Bittker, Boris I, Elias Clark, and Grayson M.P. McCouch (2005) *Federal Estate and Gift Taxation*, 9th Ed., Thompson/ West, St. Paul, MN p. 9.

[4] Paul, Randolph E. (1954), *Taxation in the United States*, Little, Brown, and Company, Boston, MA.

[5] Smith, Adam (1913), *An Inquiry into the Nature and Causes of the Wealth of Nations*, E.P. Dutton, New York.

The Stamp Tax of 1797

In 1797, the U.S. Congress chose a system of stamp duties as a source of revenue in order to raise funds for a Navy to defend the nation's interests in response to an undeclared war with France that had begun in 1794. Federal stamps were required on wills offered for probate, as well as on inventories and letters of administration. Stamps also were required on receipts and discharges from legacies and intestate distributions of property.[6] Taxes were levied as follows: 10 cents on the inventories of the effects of deceased persons, and 50 cents on the probate of wills and letters of administration. The tax on the receipt of legacies was levied on bequests larger than $50, from which widows (but not widowers), children, and grandchildren were exempt. Bequests between $50 and $100 were taxed 25 cents; those between $100 and $500 were taxed 50 cents; and an additional $1 was added for each subsequent $500 bequest. In 1802, the crisis ended, and the tax was repealed.[7]

The Revenue Act of 1862

In the years immediately preceding the American Civil War, revenue from tariffs and the sale of public lands provided the bulk of the Federal budget. The advent of the Civil War again forced the Federal Government to seek additional sources of revenue, and a Federal death tax was included in the Revenue Act of 1862 (12 Stat. 432). However, the 1862 tax differed from its predecessor, the stamp tax of 1797, in that the 1862 tax package included a legacy or inheritance tax in addition to a stamp tax on the probate of wills and letters of administration. Originally, the legacy tax only applied to personal property, and tax rates were graduated based on the legatee's relationship to the decedent, not on the value of the bequest or size of the estate. Rates ranged from 0.75 percent on bequests to ancestors, lineal descendants, and siblings to 5 percent on bequests to distant relatives and those not related to the decedent. Estates of less than $1,000 were exempted, as were bequests to the surviving spouse. Bequests to charities were taxed at the 5-percent rate, despite pleas from many in Congress that the tax should be used to encourage such gifts.[8] The stamp tax was graduated and ranged from 50 cents on estates valued at less than $2,500 to $20 on estates valued from $100,000 to $150,000, with an additional $10 assessed on each $50,000 or fraction thereof over $150,000.

Figure A

1864 Death Tax Rates

Relationship	Rate on property (percent)	Rate on legacies (percent)
Lineal descendants, ancestors	1.0	1.0
Siblings	2.0	1.0
Descendants of siblings	2.0	2.0
Uncle, aunt, and their descendants	4.0	4.0
Great uncle, aunt, and their descendants	5.0	5.0
Other relatives, unrelated individuals	6.0	6.0
Charities	6.0	6.0

By 1864, the mounting cost of the Civil War led to the reenactment of the 1862 Act, with some modifications.[9] These changes included the addition of a succession tax—a tax on bequests of real estate—and an increase in legacy tax rates (Figure A). In addition, the tax was applied to any transfers of real estate made during the decedent's life for less than adequate consideration, except for wedding gifts, thus establishing the nation's first gift tax. Transfers of real estate to charities, were taxed at the highest rates. Bequests to widows, but not widowers, were exempt from the succession tax, as were bequests of less than $1,000 to minor children. The end of the Civil War, and subsequent discharge of the debts associated with the war, gradually eliminated the need for extra revenue provided by the 1864 Act. Therefore, in 1870, the legacy and succession taxes were repealed.[10] The stamp tax was repealed in 1872.[11] Between 1863 and 1871, these taxes had contributed a total of about $14.8 million to the Federal budget.

The War Revenue Act of 1898

Throughout the last half of the 19th century, the industrial revolution brought about profound changes in the U.S. economy. Industry replaced agriculture as the primary source of wealth and political power

[6] Stamp Act of 1797, 1 Stat. 527.
[7] Zaritsky, H. and T. Ripy (1984), *Federal Estate, Gift, and Generation Skipping Taxes: A Legislative History and Description of Current Law*, Report No. 84-156A.
[8] Office of Tax Analysis (1963), *Legislative History of Death Taxes in the United States*, unpublished manuscript.
[9] Internal Revenue Law of 1864 §124-150, 13 Stat. 285.
[10] Internal Taxes, Customs Duties Act of 1870 §27, 16 Stat. 269.
[11] Internal Revenue Act of 1867, 14 Stat. 169, Customs Duties and Internal Revenue Taxes Act of 1872 §36, 17 Stat 256.

Figure B

1898 Legacy Tax Rates

Relationship	Rates by size of estate				
	$10,000 under $25,000 (percent)	$25,000 under $100,000 (percent)	$100,000 under $500,000 (percent)	$500,000 under $1 million (percent)	$1 million or more (percent)
	(1)	(2)	(3)	(4)	(5)
Lineal descendants, ancestors, siblings	0.750	1.125	1.500	1.875	2.250
Descendants of siblings	1.500	2.250	3.000	3.750	4.500
Uncle, aunt, and their descendants	3.000	4.500	6.000	7.500	9.000
Great uncle, aunt, and their descendants	4.000	6.000	8.000	10.000	12.000
All others	5.000	7.500	10.000	12.500	15.000

NOTE: Estates under $10,000 were exempt from the tax.

in the United States. Tariffs and real estate taxes had traditionally been the primary sources of Federal revenue, both of which fell disproportionately on farmers, leaving the wealth of industrialists relatively untouched. Many social reformers advocated taxes on the wealthy as a way of forcing the wealthy to pay their fair share, while opponents argued that such taxes would destroy incentives to accumulate wealth and stunt the growth of capital markets.[12]

Against this backdrop, a Federal legacy tax was proposed in 1898 as a means to raise revenue for the Spanish-American War. Unlike the two previous Federal death taxes levied in times of war, the 1898 tax proposal provoked heated debate. Despite strong opposition, the legacy tax was made law.[13] Although called a legacy tax, it was a duty on the estate itself, not on its beneficiaries, and served as a precursor to the present Federal estate tax. Tax rates ranged from 0.75 percent to 15 percent, depending both on the size of the estate and on the relationship of a legatee to the decedent (Figure B). Only personal property was subject to taxation. A $10,000 exemption was provided to exclude small estates from the tax; bequests to the surviving spouse also were excluded. In 1901, certain gifts were exempted from tax, including gifts to charitable, religious, literary, and educational organizations and gifts to organizations dedicated to the encouragement of the arts and the prevention of cruelty to children.[14] The end of the Spanish-American War came in 1902, and the tax was repealed later that year.[15] Although short-lived, the tax raised about $14.1 million.

The Modern Estate Tax

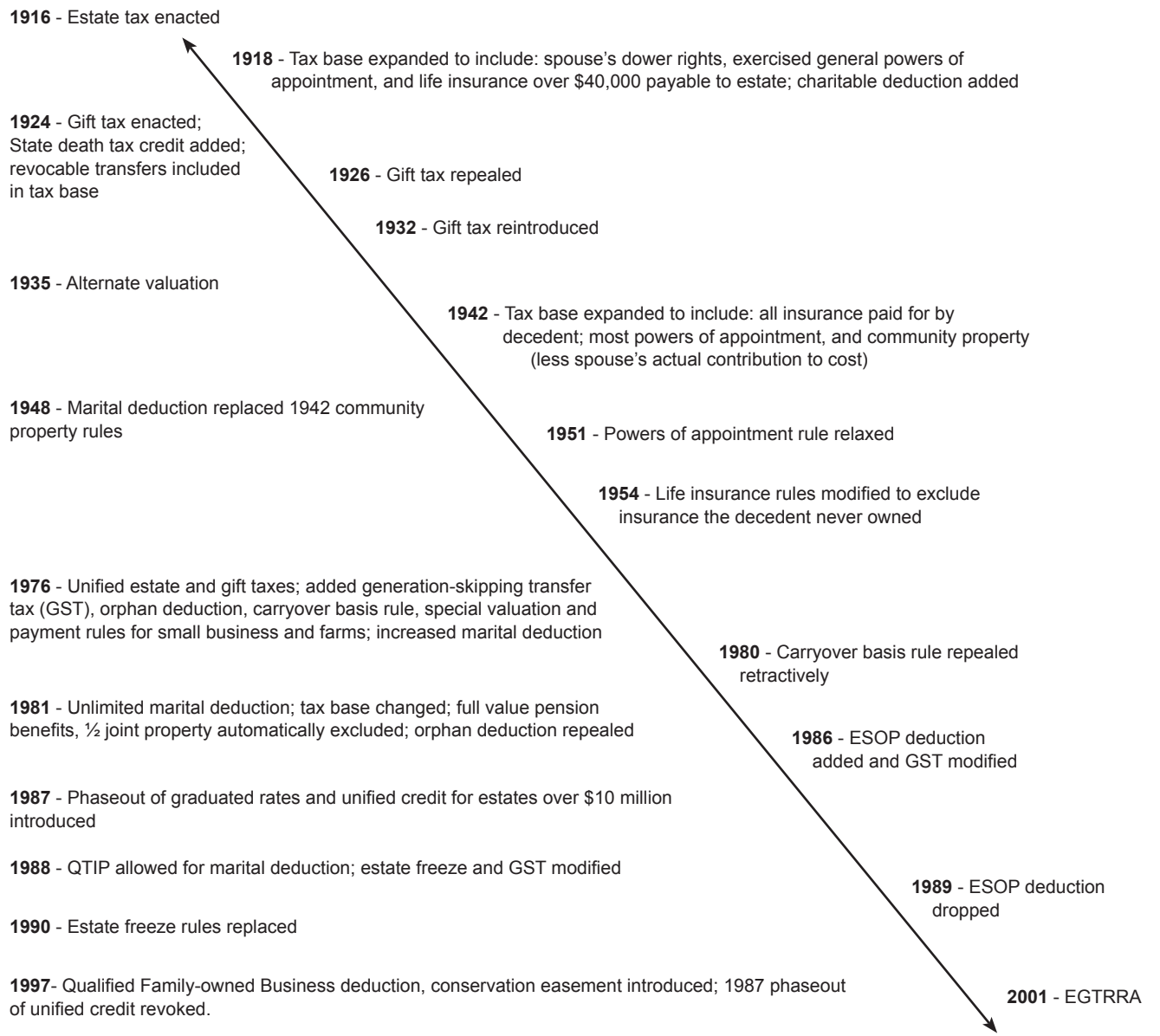
The years immediately following the repeal of the inheritance tax were witness to an unprecedented number of mergers in the manufacturing sector of the economy, fueled by the development of a new form of corporate ownership, the holding company. This resulted in the concentration of wealth in a relatively small number of powerful companies and in the hands of the businessmen who headed them. Along with such wealth came great political power, fueling fears over the rise of an American plutocracy and sparking the growth of the progressive movement. Progressives, including President Theodore Roosevelt, advocated both an inheritance tax and a graduated income tax as tools to address inequalities in wealth.[16] This thinking eventually led to the passage of the 16th Amendment to the Constitution and the enactment of the Federal income tax. It was not until the advent of another war, World War I, that Congress would enact the Federal estate tax.

The Revenue Act of 1916 (39 Stat. 756) created a tax on the transfer of wealth from an estate to its beneficiaries, and thus was levied on the estate, as opposed to an inheritance tax that is levied directly on beneficiaries. It applied to net estates, defined as the total property owned by a decedent, the gross estate, less deductions. An exemption of $50,000 was allowed for residents; however nonresidents who owned property in the United States received no exemption. Tax rates were graduated from 1 percent on the first $50,000 to 10 percent on the portion exceeding $5 million. According to the act, taxes were due

[12] Bittker, Clark and McCouch, p. 4.
[13] War Revenue Act of 1898, 30 Stat. 448, 464.
[14] War Revenue Reduction Act of 1901, 31 Stat. 956.
[15] War Revenue Repeal Act of 1902, §7, 32 Stat. 92.
[16] See, for example, Bittker, Clark, and McCouch pp. 3-9.

Figure C

Significant Estate Tax Law Changes: 1916 to Present



1 year after the decedent's death, and a discount of 5 percent of the amount due was allowed for payments made within 1 year of death. A late payment penalty of 6 percent was assessed unless the delay was deemed "unavoidable."

Over the 9 decades since the inception of the Federal estate tax, the U.S. Congress has enacted important additions to, and revisions of, the estate tax structure (Figure C). There have also been occasional adjustments to the filing thresholds, tax brackets, and marginal tax rates (Figure D). The history of major changes to the estate tax structure can be divided into two main eras: 1916 through 1948 and 1976 to the present.

Significant Tax Law Changes: 1916 through 1948

Following the enactment of the estate tax in 1916, the first major change in structure was the addition

Figure D

Estate Tax Exemptions and Tax Rates

Year	Exemption (dollars)	Initial rate (percent)	Top rate (percent)	Top bracket (dollars)
	(1)	(2)	(3)	(4)
1916	50,000	1.0	10.0	5,000,000
1917	50,000	2.0	25.0	10,000,000
1918-1923	50,000	1.0	25.0	10,000,000
1924-1925	50,000	1.0	40.0	10,000,000
1926-1931	100,000	1.0	20.0	10,000,000
1932-1933	50,000	1.0	45.0	10,000,000
1934	50,000	1.0	60.0	10,000,000
1935-1939	40,000	2.0	70.0	50,000,000
1940 [1]	40,000	2.0	70.0	50,000,000
1941	40,000	3.0	77.0	10,000,000
1942-1976	60,000	3.0	77.0	10,000,000
1977 [2]	120,000	18.0	70.0	5,000,000
1978	134,000	18.0	70.0	5,000,000
1979	147,000	18.0	70.0	5,000,000
1980	161,000	18.0	70.0	5,000,000
1981	175,000	18.0	70.0	5,000,000
1982	225,000	18.0	65.0	4,000,000
1983	275,000	18.0	60.0	3,500,000
1984	325,000	18.0	55.0	3,000,000
1985	400,000	18.0	55.0	3,000,000
1986	500,000	18.0	55.0	3,000,000
1987-1997 [3]	600,000	18.0	55.0	3,000,000
1998	625,000	18.0	55.0	3,000,000
1999	650,000	18.0	55.0	3,000,000
2000-2001	675,000	18.0	55.0	3,000,000
2002	1,000,000	18.0	50.0	3,000,000
2003	1,000,000	18.0	49.0	3,000,000
2004	1,500,000	18.0	48.0	3,000,000
2005	1,500,000	18.0	47.0	3,000,000
2006	2,000,000	18.0	46.0	3,000,000
2007	2,000,000	18.0	45.0	3,000,000

[1] 10-percent surtax was added.
[2] Unified credit replaces exemption.
[3] Graduated rates and unified credits phased out for estates greater than $10,000,000.

of a tax on inter vivos gifts, a gift tax, which became a permanent feature of the transfer tax system in 1932.[17] This tax was imposed because Congress realized that wealthy individuals could avoid the estate tax by transferring wealth during their lifetimes. Under the 1932 rules, a donor could transfer $50,000 free of tax during his or her lifetime with a $5,000 per donee annual exclusion from gift tax.

The Revenue Act of 1935 (49 Stat. 1014) introduced the optional valuation date election. While the value of the gross estate at the date of death determined whether an estate tax return had to be filed, the act allowed an estate to be valued, for tax purposes, 1 year after the decedent's death. With this revision, for example, if the value of a decedent's gross estate dropped significantly after the date of death—a situation faced by estates during the Great Depression of 1929—the executor could choose to value the estate at its reduced value after the date of death. The optional valuation date, today referred to as the alternate valuation date, later was changed to 6 months after the decedent's date of death.

Most outstanding among the pre-1976 changes to estate tax law was the establishment of estate and gift tax marital deductions, introduced by the Revenue Act of 1948 (62. Stat. 110). The estate tax marital deduction, as enacted by the 1948 Act, permitted a decedent's estate to deduct the value of property passing to a surviving spouse, whether passing under the will or otherwise. However, the deduction was limited to one-half of the decedent's adjusted gross estate—the gross estate less debts and administrative expenses. The act also created a similar deduction for inter vivos gifts to a spouse.

Significant Tax Law Changes: 1976 to the Present

After 1948, the Congressional Record remained relatively free of reference to the estate tax and the entire transfer tax system until the enactment of the Tax Reform Act (TRA) of 1976 (90 Stat 1521). This act created a unified estate and gift tax framework that consisted of a "single, graduated rate of tax imposed on both lifetime gifts and testamentary dispositions."[18] Prior to the act, "it cost substantially more to leave property at death than to give it away during life," due to the lower tax rate applied to gifts.[19] The Tax Reform Act of 1976 also merged the estate tax exclusion and the lifetime gift tax exclusion into a "single, unified estate and gift tax credit, which may be used to offset gift tax liability during the donor's lifetime but which, if unused at death, is available to offset the deceased donor's estate tax liability."[20] An annual gift exclusion of $3,000 per donee was

[17] This tax was first introduced in the Revenue Act of 1924, 43 Stat. 253, then repealed by the Revenue Act of 1926, 44 Stat. 9, and then reintroduced by the Revenue Act of 1932, 47 Stat. 169.
[18] Zaritsky and Ripy, p. 18.
[19] Bittker, Boris I., and Elias Clark (1990), *Federal Estate and Gift Taxation*, Little, Brown, and Company, Boston, MA, p. 20.
[20] Zaritsky and Ripy, p. 18.

retained. In addition, the act provided for annual increases in the estate tax filing exemption beginning with an increase from $60,000 to $120,000 for 1977 decedents, resulting in a filing threshold of $175,625 for decedents dying after 1980.

The 1976 tax reform package also introduced a tax on generation-skipping transfer trusts (GSTs). Prior to passage of the act, a transferor, for example, could create a testamentary trust and direct that the income from the trust be paid to his or her children during their lives and then, upon the children's deaths, that the principal be paid to the transferor's grandchildren. The trust assets included in the transferor's estate would be taxed upon the transferor's death. Then, any trust assets included in the grandchildren's estates would be taxed at their deaths. However, the intervening beneficiaries, the transferor's children in this example, would pay no estate tax on the trust assets, even though they had enjoyed the income derived from those assets. Congress responded to the GST tax leakage by creating a series of rules that were designed to treat the termination of the intervening beneficiaries' interests as a taxable event. Under these rules, a grantor was allowed to transfer up to $1,000,000 to a GST tax-free, with amounts over that taxed at the highest marginal estate tax rate. As with the gift tax exclusion, married persons may combine their GST tax exemptions, allowing couples a $2-million exemption. Overall, the GST tax "ensures that the transmission of hereditary wealth is taxed at each generation level."[21]

The Economic Recovery Tax Act (ERTA) of 1981 (95 Stat. 172) brought several notable changes to estate tax law. Prior to 1982, the marital deduction was permitted only for transfers of property in which the decedent's surviving spouse had a terminable interest—an interest that grants the surviving spouse power to appoint beneficiaries of the property at his or her own death. Such property is, ultimately, included in the surviving spouse's estate. However, the ERTA of 1981 allowed the marital deduction for life interests that were not terminable, as long as the property was "qualified terminable interest property" (QTIP), defined as property in which the (surviving) spouse has sole right to all income during his or her life, payable at least annually, but no power to transfer the property at death. To utilize the deduction, however, the QTIP must be included in the surviving spouse's gross estate. The 1981 Act also introduced unlimited estate and gift tax marital deductions, thereby eliminating quantitative limits on the amount of estate and gift tax deductions available for spousal transfers.

The ERTA of 1981 increased the unified transfer tax credit, the credit available against both the gift and estate taxes. The increase, from $47,000 to $192,800, was to be phased in over 6 years, effectively raising the tax exemption from $175,625 to $600,000 over the same period. The ERTA of 1981 also raised the annual gift tax exclusion to $10,000 per donee; an unlimited annual exclusion from gift tax was allowed for the payment of a donee's tuition or medical expenses. Also, through ERTA, Congress enacted a reduction in the top estate, gift, and generation-skipping transfer tax rates from 70 percent to 50 percent, applicable to transfers greater than $2.5 million. The reduction was to be phased in over a 4-year period; however, subsequent legislation delayed this decrease. The issue was resolved with the passage of the Omnibus Budget Reconciliation Act of 1993 (107 Stat. 312). This act created a new marginal tax rate of 53 percent on taxable transfers between $2.5 million and $3 million and set the maximum marginal tax rate to 55 percent on taxable transfers exceeding $3 million.

In 1997, the 105th Congress passed the Taxpayer Relief Act of 1997 (111 Stat. 788). Among the most significant changes to estate and gift tax laws included in this act was the incremental increase of the unified credit to $345,800 by 2006, effectively raising the estate tax filing threshold to $1 million. There was also legislation in the 1997 Act that added a family business deduction for estates in which a business made up at least 50 percent of the total gross estate. Also significant in the 1997 Act, a number of thresholds and limits were indexed for inflation. Among these were the annual gift tax exclusion and the lifetime generation-skipping transfer tax exemption, as well as the ceiling on the reduction in value allowed under special rules for valuing real estate used by a farm or business.

The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 (115 Stat. 38) provided for sweeping changes to the transfer tax system, the most significant of which was the eventual repeal of

[21] Bittker and Clark, p. 30.

Figure E

Federal Transfer Tax Rates and Exemptions, by Year of Transfer, 2005-2011

Year of transfer	Estate tax exemption (dollars)	Generation-skipping transfer (GST) tax exemption (dollars)	Gift tax exemption (dollars)	Maximum unified credit (dollars)	Highest estate and GST tax rate (percent)
	(1)	(2)	(3)	(4)	(5)
2005	1,500,000	1,500,000	1,000,000	555,800	47.0
2006	2,000,000	2,000,000	1,000,000	780,800	46.0
2007	2,000,000	2,000,000	1,000,000	780,800	45.0
2008	2,000,000	2,000,000	1,000,000	780,800	45.0
2009	3,500,000	3,500,000	1,000,000	1,455,800	45.0
2010	Unlimited	Unlimited	1,000,000	N/A	N/A
2011	1,000,000	1,000,000	1,000,000	345,800	55.0

N/A- Not applicable

the tax. Specifically, the law provided for periodic increases in the exemption amount for decedents who die after December 31, 2001, so that the effective filing threshold will be $3.5 million by 2009. The tax is then repealed for decedents who die in 2010.[22] The act also specified changes in the tax rate schedule, replaced the credit for death taxes paid to States with a deduction, and increased the lifetime gift tax exemption. Barring further Congressional action, however, all of the provisions of EGTRRA will expire in 2011, and all affected tax laws will revert back to their 2001 status. As a result, the estate tax would be reinstated for deaths occurring in 2011 and later, with a $1 million exemption.

Current Estate Tax Law

Under current estate tax law, a Federal estate tax return must be filed for every deceased U.S. citizen whose gross estate, valued on the date of death, combined with adjusted taxable gifts made by the decedent after December 31, 1976, and total specific exemptions allowed for gifts made after September 8, 1976, equals or exceeds the amount shown in Figure E. The estates of nonresident aliens also must file if property held in the United States exceeds $60,000. All of a decedent's assets, as well as the decedent's share of jointly owned and community property assets, are included in the gross estate for tax purposes. Also considered are most life insurance proceeds, property over which the decedent possessed a general power of appointment, and certain transfers made during life that were revocable or made for less than full consideration. An estate is allowed to value assets on a date up to 6 months after a decedent's death if the value of assets declined during that period. Special valuation rules and a tax deferment plan are available to an estate that is primarily comprised of a small business or farm.

Expenses and losses incurred in the administration of the estate, funeral costs, and the decedent's debts are allowed as deductions against the estate for the purpose of calculating the tax liability. A deduction is allowed for the full value of bequests to the surviving spouse, including bequests in which the spouse is given only a life interest, subject to certain restrictions. Likewise, bequests to charities and death taxes paid to States are fully deductible. A unified tax credit, or applicable credit amount and a credit for gift taxes the decedent may have paid during his or her lifetime are also allowed.[23] The estate tax return (Form 706) must be filed within 9 months of the decedent's death unless a 6-month extension is requested. Taxes owed for generation-skipping transfers in excess of the decedent's exemption and taxes on certain retirement fund accumulations are due concurrent with any estate tax liability. Interest accumulated on U.S. Treasury bonds redeemed to pay these taxes is exempt from taxation.

Scope of the Transfer Tax System

The scope of the transfer tax system, as measured by the size of the population directly affected by the system, is quite narrow. The number of taxable estate tax returns filed for selected years of death between

[22] Under pre-EGTRRA law, capital gains on appreciated assets were not subject to income tax at death, and heirs who sold inherited assets paid taxes only on gains earned after the decedent's death. Under the provisions of EGTTRA, once the estate tax is repealed, this "step-up" in basis for inherited assets that have capital gains is repealed, subject to an exemption.

[23] The unified credit or applicable credit amount is equivalent to the estate tax calculated on the exemption amount applicable for a decedent's year of death. The credit can be used to offset both gift taxes incurred on lifetime transfers and estate taxes owed incurred at death.

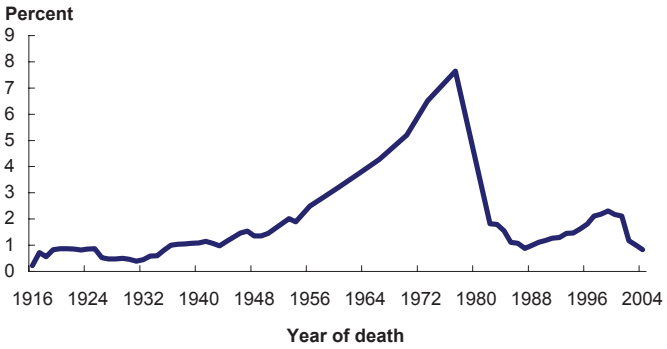
1916 and 2004 as a percentage of all adult deaths is shown in Figure F. For most years during this period, the number of taxable estate tax returns represented less than 2 percent of all adult deaths. For deaths after 1954, a growing percentage of estates were taxed, hitting a peak of nearly 8 percent in 1976, when more than 139,000 taxable returns were filed. The Tax Reform Act in 1976 doubled the effective exemption of $60,000 that had stood unchanged since 1954. Periodic increases in the estate tax filing threshold in the years that followed have kept the size of the affected decedent population relatively small.

When compared to revenue generated by taxes on individual or corporate income, the scope of the transfer tax system is also narrow (Figure G). With few exceptions, revenue from Federal estate and gift taxes has lingered between 1 percent and 2 percent of Federal budget receipts since World War II, reaching a post-war high of 2.6 percent in 1972. In recent years, Federal estate and gift taxes have made up about 1 percent of total budget receipts.

Figure H shows the total amount of gross estate and net estate tax, in constant 2004 dollars, reported on taxable returns between 1916 and 2004. Both total gross estate and net estate tax increased significantly in real terms during this time period, a product of changes in both the estate tax law and the economy. The effect of the former can be seen by comparing Figure H to Figures D and F, shown above. During the period 1917 and 1950, the total gross estate remained between $20 billion and $40 billion, in 2004 dollars. However, the total net estate tax increased considerably, from less than $1 billion in 1917 to more than $4 billion in 1950. This corresponds with the increasing tax rates during this period. After 1950, the total gross estate and total net estate tax increased rapidly, as the $60,000 exemption remained unchanged until 1977. Periodic increases in the exemption amount and reductions in the top tax rate after this date kept the total gross estate and total net estate tax below their 1976 high, in real terms, until new peaks were reached during the late 1990s. Real declines in both of these measures after 1999 correspond with exemption increases and

Figure F

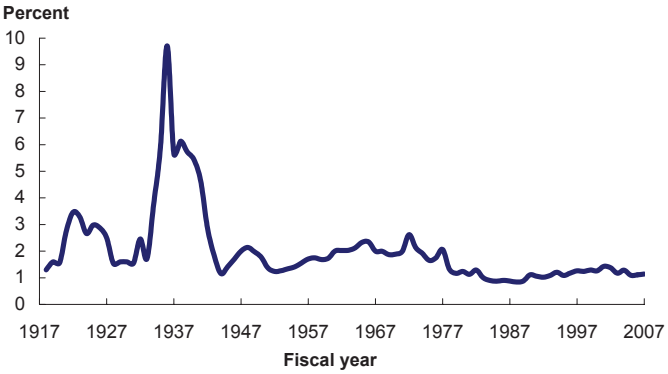
Taxable Estate Tax Returns As a Percentage of All Adult Deaths, 1916-2004



NOTE: Adult deaths are U.S. residents, age 20 and older.

Figure G

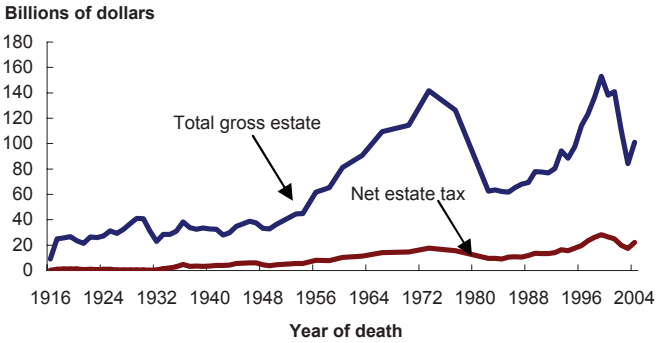
Estate and Gift Receipts as a Percentage of Total Revenue, 1917-2007



NOTE: Data for 2006 and 2007 are estimates.
SOURCES: Joulfaian, David (1998), *The Federal Estate and Gift Tax: Description, Profile of Taxpayers, and Economic Consequences*, OTA Paper 80; *IRS Data Book*, Fiscal Year 2007; and Midsession Review Budget of the U.S. Government.

Figure H

Total Gross Estate and Net Estate Tax Reported on Taxable Returns, 1916-2004, in Constant 2004 Dollars



NOTE: Money amounts converted to constant 2004 dollars using CPI-U.

tax rate decreases resulting from the Taxpayer Relief Act of 1997 and EGTRRA in 2001.

Charitable Giving

In addition to its direct economic and fiscal impacts, some researchers have shown that estate tax rates can influence both the incidence and level of charitable giving, due to the availability of an unlimited charitable deduction provided by estate tax law. Figure I shows the number of estates that claimed a deduction for charitable bequests as a percentage of all filers, between Filing Years 1976 and 2004, for all decedents whose gross estate was at least $1 million in constant 2004 dollars. During this period, there was a slight increase in the percentage of decedents who made charitable bequests, increasing from a little more than 20 percent of all decedents prior to 1983, to an average of nearly 24 percent in more recent years. Figure I also shows the share of gross estate that these decedents bequeathed to charity. In general, the value of property bequeathed to charities, as a percentage of total gross estate, was lower in the years immediately following the passage of ERTA in 1981 than in 1976.[24] ERTA included two provisions that may have contributed to this difference. First, the introduction of the unlimited marital deduction may have induced some decedents to shift bequests from charities to the surviving spouse, since, after ERTA, gifts to charities no longer provided a tax advantage over bequests to a spouse. In such cases, it is possible that some married couples may have simply altered the timing of their charitable gifts, either by making larger lifetime donations or by deferring charitable bequests until the death of the surviving spouse. Second, under ERTA, the top marginal estate tax rate was reduced from 77 percent to 55 percent, and, according to some research, tax rates affect the charitable giving at death in both the size of charitable bequests and the number of charitable organizations named as beneficiaries.[25]

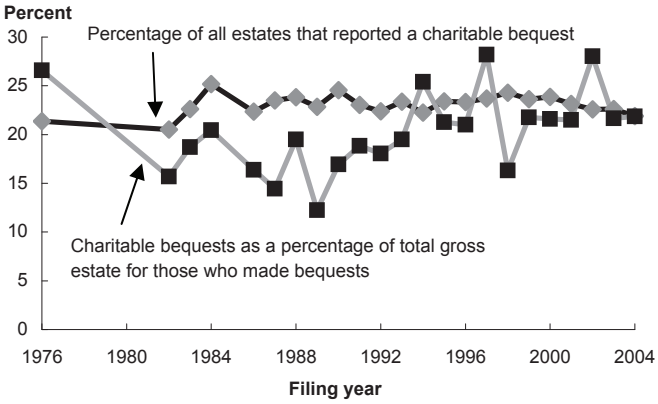
Asset Composition

The asset composition of wealthy decedents as reported on estate tax returns is a topic of interest to many researchers because of what it may reveal about the U.S. economy and investment markets

Figure I

Charitable Giving, 1976-2004

Decedents with Total Gross Estates of $1 Million or More, in Constant 2004 Dollars



NOTES: No data are available for filing years 1977-1981. Money amounts converted to constant 2004 dollars using CPI-U.

over time. Figure J shows estates' asset composition reported for decedents with gross estates of at least $1 million in constant 2004 dollars between Filing Years 1976 and 2004. Total stock, including stock held in mutual funds, made up the largest share of assets for these decedents during most of this period, comprising between 30 percent and 43 percent of gross estate. Some of the variation in this percentage can be explained by movements in the overall stock market. For instance, after 1995, the percentage of gross estate held in stock increased steadily from 30 percent to a high of 43 percent in 1999, when more than $84 billion in stock, in constant 2004 dollars, was reported. During these years, the stock market as a whole experienced very strong performance, reflected by an increase of more than 165 percent in the S&P 500 index between January 1994 and January 1999.[26] By 2004, the percentage of gross estate held in stocks declined to less than 31 percent, which is consistent with a drop of 34 percent in the S&P 500 index by January 2004 from its peak in August 2000.

Total real estate, including commercial real estate and farm land, generally made up a higher percentage of total gross estate during the period 1976 through 1990 than in the years that followed, peaking at a high of more than 32 percent in 1983. While the

[24] SOI estate tax return data do not exist for 1977-1981.

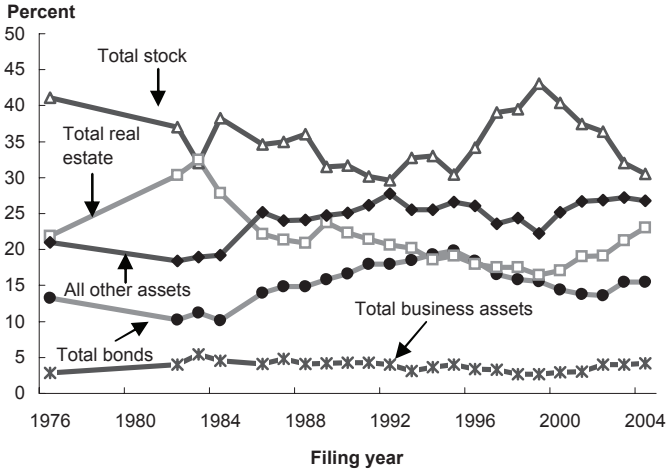
[25] Joulfaian, D. (1991), "Charitable Bequests and Estate Taxes," *National Tax Journal*, 44(2), pp. 169-180.

[26] See http://www2.standardandpoors.com.

Figure J

Asset Composition of Estates' Tax Returns, 1976-2004

Decedents with Total Gross Estates of $1 Million or More, in Constant 2004 Dollars



NOTES: Money amounts converted to constant 2004 dollars calculated using CPI-U. Total stock includes publicly traded and closely held stock. Total business assets include small businesses, limited partnerships, and farms, but exclude farm real estate.

portion of total gross estate held in stock increased significantly during the late 1990s, the portion held in real estate fell to less than 17 percent in 1999. After 1999, the portion of total gross estate held in real estate increased each year, reaching 23 percent in 2004, when a record $46 billion in real estate was reported for decedents with $1 million or more in gross estate. This is consistent with both the rise in housing prices —42 percent between the first quarter of 1999 and the first quarter of 2004—and the decline in the overall stock market after 2000.[27]

During most years between 1976 and 2004, total bonds, including those issued by corporations, Federal, State and local governments, and mutual funds invested primarily in some type of bond, comprised between 13 percent and 20 percent of gross estate for decedents with total gross estate of at least $1 million in constant 2004 dollars. All other assets, including cash and mortgages and notes, made up between 18 percent and 27 percent of gross estate during this period.

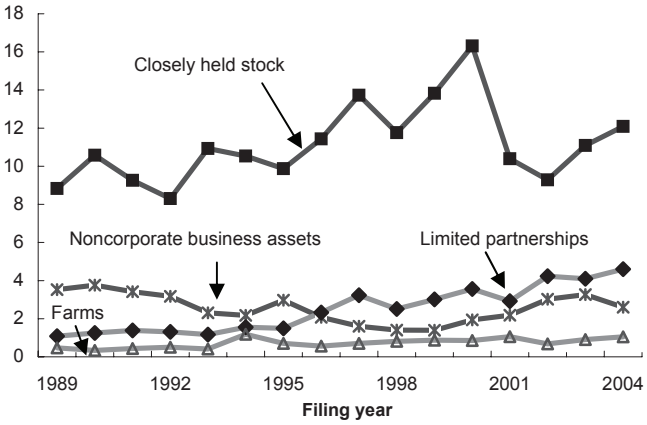
As shown in Figure J, total business assets, including small businesses, farms (but not farm land), and limited partnerships, comprised 5 percent or less of total gross estate during the period 1976-2004. Despite making up a relatively small portion of the total gross estate, these assets are of particular interest to many researchers and policymakers because of concerns about the impact of the estate tax on small farms and family businesses.

Figure K shows the real value of closely held corporations and unincorporated business assets reported on estate tax returns with total gross estates of at least $1 million, in constant 2004 dollars, between 1989 and 2004.[28] Although the values reported in each asset category show significant variance over time, several trends emerge. The value of stock in closely held corporations (included in the category "total stock" shown in Figure J) tended to be lower pre-1995 than in the years that followed. This trend may be due, in part, to changes in the top individual income tax rate during the period 1989-2004. Research has shown that tax rates can exert a significant influence on a company's choice of organizational form.[29] Income earned by firms that are organized as

Figure K

Closely Held Corporations and Noncorporate Business Assets Reported on Estate Tax Returns, 1989-2004

Decedents with Total Gross Estates of $1 Million or More, in Constant 2004 Dollars



NOTES: Money amounts converted constant 2004 dollars calculated using CPI-U. Noncorporate business assets include proprietorships, general partnerships, and unspecified business interests. Farms exclude farm real estate.

[27] Change in housing prices was calculated using the Office of Federal Housing Enterprise Oversight (OFHEO) House Price Index, http://www.ofheo.gov/HPI.asp.

[28] Detailed data on business asset holdings are not available for filing years prior to 1989.

[29] Caroll, R. and D. Joulfaian (1997), "Taxes and Corporate Choice of Organization Form," Office of Tax Analysis working paper, http://www.ustreas.gov/offices/tax-policy/library/ota73.pdf.

C corporations is taxed under the corporate income tax system, while income earned by businesses with other organizational forms, such as sole proprietorships, partnerships, and S corporations, is taxed under the individual income tax system. While the top corporate tax rate changed only slightly during this time period, from 34 percent for 1989-1992 to 35 percent after 1992, the top individual tax rate increased from 28 percent for 1989 and 1990 to 31 percent for 1991 and 1992 and to 39.6 percent for 1993-2000. Thus, the trends shown in Figure K may represent a shift from noncorporate to corporate organizational forms induced by the relatively higher individual income tax rates after 1993. Another possible factor contributing to this trend may have been the strong performance of the stock market during the mid- to late- 1990s, as the factors that increased the value of publicly traded corporations may have done the same for closely held corporations. The total reported value of limited partnerships increased significantly in real terms, from $1.1 billion to $4.6 billion, between 1989 and 2004. Among the factors likely contributing to this increase is the growth in venture capital funds and hedge funds during this period. Between 1995 and 2000, annual investments by venture capital funds are estimated to have increased from $8 billion to $107 billion.[30] Though the level of these investments fell sharply in 2001 and 2002, they remained well above the levels reported for the mid-1990s. Hedge funds experienced similar dramatic growth during this time period. According to one industry survey, total assets managed by hedge funds increased from $35 billion in 1992 to $592 billion in 2003.[31]

The reported value of farm assets, excluding farm real estate, experienced year-to-year fluctuations but remained relatively stable between 1989 and 2004. The lowest total was $340 million, in constant 2004 dollars, reported for 1990. The highest total was reported for 1994, $1.2 billion.

Conclusion

Taxes on transfers of wealth and property at death have been enacted throughout U.S. history. Originally used only as a source of revenue in times of crisis, a Federal estate tax has been an enduring feature of the U.S. tax code since 1916. The current tax, while affecting a small fraction of estates, and raising a small amount of revenue compared to the individual and corporate income tax systems, has been the subject of significant interest among policy makers, researchers and the general public. Reasons for this interest range from divergent views on the fairness of the tax to interest in the effects of taxing transfers at death on the overall U.S. economy. This paper has provided a brief history of the estate tax and its impact on the U.S. budget. It has also examined the ways in which the economic behavior of the affected population has changed over time in response to market, technological, and political stimuli.

Acknowledgments

The authors wish to express a special note of thanks to Martha Eller Gangi, whose prior paper with Barry W. Johnson, "Federal Taxation of Inheritance and Wealth Transfers," provided source material and inspiration for this article.

Data Sources and Limitations

The data used for this paper were collected by the Statistics of Income Division of the Internal Revenue Service (IRS), or its predecessor organizations, for statistical purposes and made available to the general public in tabulated form. Data were collected from returns received and processed by the IRS during a given calendar, the majority of which were filed for decedents' who had died during the previous calendar year. SOI collected data from the population of returns filed annually from 1917 through 1951. Data were also collected from the population of returns filed during calendar years 1954, 1955, 1957, 1959, 1961 and 1963. For calendar years 1965, 1970, 1973, 1977 and 1982-2004, data were collected from samples of returns. The populations were stratified by size of gross estate for sampling purposes prior to the 1982 study. Beginning in 1982, the population was further stratified by age and year of death, and the samples were designed to facilitate both calendar year estimates and periodic estimates for specific decedent cohorts. Estate tax statistics were collected while returns were being processed for administrative purposes, and do not reflect any changes arising from audit examination or those reported on amended returns.

[30] See National Venture Capital Association, http://www.nvca.org/ffax.html.
[31] See Hennessey Group, LLC, http://www.hennesseegroup.com/information/index.html.

A History of Controlled Foreign Corporations and the Foreign Tax Credit

by Melissa Redmiles and Jason Wenrich

As U.S. corporations have expanded their businesses overseas in the last several decades, the United States Tax Code has been modified to account for increasingly complex international corporate structures and transactions. Two important international tax concepts that have emerged over the years are the corporate foreign tax credit and controlled foreign corporations. The corporate foreign tax credit was created to alleviate the burden of double taxation. The income of controlled foreign corporations has become increasingly subject to U.S. tax after initially presenting a potential tax deferral advantage over foreign branches. A brief history of the foreign tax credit and controlled foreign corporations is presented below.[1]

Corporate Foreign Tax Credit

The United States generally taxes U.S. companies on their worldwide incomes. Since other countries may also impose a tax on income earned within their borders, U. S. companies with foreign-source income face potential double taxation. When the income tax was first created, Congress addressed this issue by allowing taxpayers to deduct their foreign taxes when computing taxable income. In 1918, after the cost of World War I pushed up both domestic and many foreign tax rates, Congress passed the foreign tax credit provisions to provide greater relief in cases of double taxation. These provisions permit taxpayers the option of either deducting their foreign taxes when computing their taxable incomes or taking a dollar for dollar credit for them against their U.S. tax liabilities. Corporations report the foreign income and taxes related to the credit on *Form 1118, Computation of Foreign Tax Credit—Corporations*.

Creditable Taxes

To be eligible for the credit, the tax paid had to be a foreign income tax. Although the precise definition of a foreign income tax has changed somewhat over the years, the basic idea remains today. Other taxes, such as value-added taxes, excise, property, and payroll taxes, can be deducted from foreign-source income but not credited. Income taxes paid to a local authority, such as a province, are eligible for the credit. Taxes paid for a specific right or service, like a royalty payment for the right to mine, generally cannot be credited. After the Technical Amendments Act of 1958, taxpayers could carry their unused foreign taxes forward for 5 years or back for 2. Figure A shows foreign tax credit amounts for select years between 1925 and 2004, in constant 2004 dollars.

U.S. companies generally are not taxed on the earnings of their foreign subsidiaries until those earnings are distributed to the parent company, and thus cannot claim a direct credit for the foreign taxes paid by the subsidiary. The foreign tax credit provisions, however, allow taxpayers an indirect credit for the foreign "taxes deemed paid." Taxes deemed paid are computed as a share of the foreign taxes on the earnings out of which the distribution was made proportionate to the ratio of the distribution to the total earnings. To be eligible for the indirect credit, the U.S. company must own a certain percentage of the foreign subsidiary's voting stock. In 1962, the ownership percentage was lowered from the original 50 percent to 10 percent. Until 1976, taxpayers could claim the credit down to the second tier of ownership, as long as the second tier corporation was at least 50-percent owned by the first tier corporation.

Figure A

Corporate Foreign Tax Credit, in Constant 2004 Dollars, Selected Tax Years 1925-2002 [1]

[Money amounts are in millions of dollars]

Tax year	U.S. income tax before credits	Foreign tax credit	Percentage
	(1)	(2)	(3)
1925	12,629	216	1.7
1930	8,054	328	4.1
1940	28,929	783	2.7
1950	123,757	3,637	2.9
1960	139,544	7,811	5.6
1970	160,414	22,147	13.8
1980	238,030	57,037	24.0
1990	172,617	36,115	20.9
2000	292,106	53,210	18.2
2004	299,555	56,872	19.0

[1] For comparability, money amounts have been adjusted for inflation to 2004 constant dollars.

Melissa Redmiles and Jason Wenrich are economists with the Special Studies Returns Analysis Section. This article was prepared under the direction of Chris Carson, Chief.

[1] For a more detailed description of international taxation, see Doernberg, Richard L. (1999), *International Taxation*, West Group, St. Paul, MN.

The Tax Reform Act of 1976 expanded the level of ownership to three tiers and changed the percentage requirements to 10 percent for all tiers, provided that the combined percentage ownership of all tiers is at least 5 percent. Congress gradually expanded the level of ownership down to six tiers, but the 5-percent rule remains in effect.

Limitations and Reductions

As originally enacted, the foreign tax credit had a major drawback. Since companies could credit an unlimited amount of tax paid to countries with tax rates that exceeded the U.S. rate, they could offset some of their tax on domestic income with the credit for taxes on foreign income. To remedy this, Congress added a limitation to the foreign tax credit in the Revenue Act of 1921. The limitation essentially caps foreign taxes credited to the U.S. rate, by limiting the amount of credit to a corporation's U.S. income tax liability multiplied by the ratio of foreign-source income to worldwide income. When first enacted, taxpayers computed the limitation using total foreign-source taxable income. A limitation computed using this method later become known as an overall limitation.

One problem with the limitation was that taxpayers could still offset some domestic tax liability by combining amounts of income earned in high-tax countries with income in low-tax countries, in their computation of the credit limitation. What, if anything, should be done about this issue has been the driving force behind much subsequent foreign tax credit legislation. Beginning in 1932, Congress required taxpayers to compute the limitation on a per country basis. In addition, the sum of all allowable credits from all countries could not exceed the overall limitation. The latter requirement was removed from the Internal Revenue Code in 1954. Public Law 86-780, enacted in 1960, granted taxpayers the ability to elect either an overall limitation or a per country limitation. In 1962, Congress introduced a separate limitation for nonbusiness-related interest. This prevented taxpayers from making interest-bearing investments abroad to generate additional, low-taxed foreign income that could be combined with higher tax income.[2]

Congress placed further restrictions on the foreign tax credit in the Tax Reduction Act of 1975 and the Tax Reform Act of 1976. These laws eliminated the per country limitation option and added a new limitation category, dividends from a Domestic International Sales Corporation (DISC).[3] Income that did not fit into the interest category or DISC dividend category fell into an overall or general limitation category. This legislation also introduced a reduction in credit for taxes paid on foreign oil and gas extraction income equivalent to the amount of foreign taxes paid, accrued, or deemed paid on foreign oil and gas extraction income that exceeded a certain percentage of foreign oil and gas extraction taxable income. The percentage has changed over time and is currently set at the highest rate of corporate tax, 35 percent for Tax Year 2006. In addition, the 1976 Act included boycott legislation. Now, taxpayers who agree to participate in an unsanctioned boycott may need to reduce their foreign credits or their foreign taxes eligible for credit.

Finally, these laws added an overall foreign loss recapture. The intent of the overall loss recapture was to limit the amount of domestic tax liability that could be offset by foreign losses. Before this legislation, if a taxpayer had an overall foreign loss in one year and an overall foreign gain in a subsequent year, the taxpayer could use all of his or her foreign-source taxable income in the year with the gain in computing the foreign tax credit limit. Since 1976, in the years when taxpayers have an overall foreign gain, they must treat the smaller of all overall losses from previous years or 50 percent of their current foreign-source income as domestic source income.

In 1985, the Treasury Department recommended reinstating the per country limitation. U.S. companies with substantial foreign-source income objected, and Congress compromised by greatly expanding the categories of income requiring a separate limitation in the Tax Reform Act of 1986.[4] Beginning with Tax

[2] Andersen, Richard E. (1996), *Foreign Tax Credits*, Warren, Gorham & Lamont, Boston, MA.

[3] *Dividends from a DISC or former DISC* refer to dividends from a Domestic International Sales Corporation (DISC) that are treated as foreign-source income. A DISC is a small domestic corporations whose activities are primarily exported-related. A portion of the DISC's income was not subject to tax until it was distributed to shareholders. Tax advantages of DISCs were repealed in 1984.

[4] Gustafson, Charles H.; Robert J. Peroni; and Richard Crawford Pugh (2001), *Taxation of International Transactions, Materials, Text and Problems*, West Group, St. Paul, MN.

Year 1987, the limitation categories included: general limitation income, passive income, high withholding tax interest, financial services income, shipping income, dividends from a DISC, taxable income attributable to foreign trade income, certain distributions from a Foreign Sales Corporation (FSC) or former FSC, section 901(j) income, and dividends from each noncontrolled foreign corporation.[5]

Passive income generally includes dividends, net capital gains, interest, rents, royalties (except for rents and royalties derived in an active trade or business from an unrelated person), annuities, and certain commodities transactions. Passive income subject to an effective foreign tax rate that is greater than the highest U.S. corporate rate must be "kicked out" to the general limitation category. High withholding tax interest is interest income subject to a withholding rate of 5 percent or more. (An exception exists for interest received in the conduct of financing certain export activities.) Financial services income pertains to a company whose gross income is composed of 80 percent or more of financial services income. It includes income derived from the active conduct of banking, insurance or financing, export financing interest excluded by the exception from the high withholding interest basket, and other income related to financial services income. Shipping income is income related to that industry. Taxpayers cannot claim a credit for taxes paid or accrued by a Foreign Sales Corporation (FSC) on its taxable income attributable to foreign trade, as defined by Internal Revenue Code section 923(b), and must compute a separate limitation on such income. Distributions from a FSC include distributions from the earnings and profits of the FSC's foreign trade income and interest and carrying charges from transactions that create foreign trade income. Section 901(j) countries are those considered hostile to the United States.[6] Taxpayers must calculate a separate limitation for each section 901(j) country and may not credit any taxes paid to them.

Dividends from a noncontrolled foreign corporation were defined as dividends from foreign subsidiaries of which the U.S. corporation owns at least 10 percent of the voting stock and the U.S. shareholders who own at least 10 percent of the voting stock together own 50 percent or more of either the voting stock or the value of the stock. A separate limitation had to be computed for each noncontrolled corporation. If the foreign corporation did not meet the definition of a 10/50 company, the dividends were placed into a limitation category based on the type of income that generated the dividends. These provisions are often referred to as the look-through rules. Congress has since phased out the separate limitation on each noncontrolled corporation basket. Now these dividends are categorized according to the look-through rules.

In 1988, a new category, income resourced by treaty, was added. It refers to income that would otherwise be considered domestic income that has been resourced to foreign source per tax treaty provision. Taxpayers must compute a separate limitation for each occurrence where income has been resourced.

Recent Changes

The most recent major revision of the foreign tax credit provisions was the American Jobs Creation Act of 2004. The law adjusts how taxpayers calculate the foreign tax credit for the purposes of the alternative minimum tax. It also modifies the rules that govern how companies allocate their interest expenses between foreign and domestic incomes so that multinational corporations will be able to allocate less interest to their foreign-source incomes, and thus increase their foreign tax credit limitations. The new law adds an overall domestic loss recapture that complements the rules on overall foreign loss. Now, if a taxpayer is unable to take a foreign tax credit during a year with foreign gains but an overall loss, the taxpayer will be able to resource some of the domestic income to foreign income in a subsequent year, which will increase the foreign tax credit limitation. Next, the carryback period for foreign taxes in excess of the limitation has been reduced to 1 year, while the carryforward period has been increased to 10 years. Finally, the separate limitation categories will be reduced to four: passive income, general limitation income, section 901(j) income, and income resourced by treaty. These provisions will be fully implemented by Tax Year 2009.

[5] A Foreign Sales Corporations (FSC) is a company incorporated abroad, created to promote U.S. exports and usually controlled by a U.S. person. A portion of the FSC "foreign trade income" was exempt from U.S. taxation. Congress repealed the FSC provisions in 1999 and the transition rules that permitted some FSC activity to continue in 2006.

[6] Current Section 901(j) countries include Cuba, Iran, North Korea, Sudan, and Syria.

Figure B

U.S. Corporations and Their Controlled Foreign Corporations, 1962-1980, Selected Years
(Money amounts are in thousands of dollars)

Tax year	Number of domestic corporation returns [1]	Controlled Foreign Corporations			
		Number of returns [2]	Net current earnings and profits after taxes [3]	Foreign income and profits taxes	Dividends paid to domestic corporations filing Form 2952
	(1)	(2)	(3)	(4)	(5)
1962	2,642	12,073	2,558,999	1,622,282	1,133,348
1965	3,513	17,668	3,564,260	2,168,369	1,457,561
1966	3,732	19,617	4,453,291	2,533,206	1,525,137
1980	4,799	35,471	31,181,131	16,440,451	14,172,649

[1] For 1962, both active and inactive domestic corporation returns with Form 2952, *Information Return with Respect to Controlled Foreign Corporations,* are included. For 1965, 1966, and 1980, only active domestic corporation returns are included.
[2] For 1962, domestic corporations were required to report for only two tiers of foreign ownership. For 1965, 1966, and 1980, the reporting requirement was for at least three tiers of foreign ownership.
[3] For 1962, this was reported as "Net profit before taxes" on Form 2952. For 1965, 1966, and 1980, "current earnings and profits after foreign income and profits taxes" were required to be reported on Form 2952.

Controlled Foreign Corporations

The history of controlled foreign corporations in United States tax law is characterized by reduction of the tax deferral advantages of United States corporations operating businesses overseas through foreign corporations. Four major pieces of legislation have defined and extended the concept of a controlled foreign corporation and the mechanism by which foreign corporation earnings are includable in the U.S. shareholder's taxable income.

In the aftermath of World War II, political and economic developments, such as the Marshall Plan, encouraged international expansion by U.S. businesses. Congress enacted Public Law 86-780 in 1960 in part to obtain information on the overseas activities of U.S. corporations. This law required each U.S. corporation to provide, as a part of its tax return, information on all foreign corporations directly-controlled by the U.S. corporation ("first-tier" subsidiaries) and any foreign corporations controlled by a directly-controlled foreign corporation ("second-tier" subsidiaries). A controlled foreign corporation (CFC) was defined as any foreign corporation in which more than 50 percent of the voting stock was directly owned by one or more U.S. corporations on any day of the taxable year of the foreign corporation. A controlled "second tier" subsidiary was defined as a foreign corporation in which more than 50 percent of the voting stock was owned by a directly-controlled foreign corporation. Information on first- and second-tier CFCs was reported on Form 2952, *Information Return by a Domestic Corporation with Respect to Controlled Foreign Corporations*. The penalty for failing to timely file a Form 2952 for each CFC was a 10-percent reduction of foreign tax credits attributable to all foreign corporations or their foreign subsidiaries.

Initially, foreign income earned by CFCs was not taxable to the U.S. shareholder until it was repatriated to the United States in the form of a dividend. This is in contrast to foreign operations conducted through a foreign branch whose income was taxable to the U.S. corporation when it was earned. U.S. corporations could maximize the tax deferral opportunity of foreign corporations by organizing their international structures and transactions with foreign subsidiaries in such a way as to accumulate profits in foreign corporations organized in low-tax countries and repatriate the earnings in years when the U.S. parent corporation had losses or excess foreign tax credits. Additionally, when U.S. corporations disposed of their stock in CFCs the tax-deferred accumulated earnings and profits of the foreign corporation could be repatriated to the United States at the lower capital gains tax rate.

The Revenue Act of 1962 reduced the tax deferral advantages of CFCs by refining the concept of a "controlled" foreign corporation and by adding Subpart F to the Internal Revenue Code. The 1962 Act redefined a foreign corporation as controlled if more than 50 percent of the voting stock of the foreign corporation was owned by U.S. shareholders for an uninterrupted period of 30 days or more during the foreign corporation's tax year. For purposes of determining control, the voting stock of only those U.S. shareholders owning at least 10 percent of the voting stock

Figure C

U.S. Corporations with Total Assets of $250 Million or More and Their Controlled Foreign Corporations, 1976-1984, Selected Years

(Money amounts are in thousands of dollars)

Tax year	Number of U.S. corporation returns	Controlled Foreign Corporations				
		Number of returns	Current earnings and profits (less deficit) before taxes	Foreign income taxes (net)	Total distributions	Total Subpart F income
	(1)	(2)	(3)	(4)	(5)	(6)
1976	757	21,071	23,478,736	8,814,825	6,569,018	822,674
1982	1,034	26,993	36,696,077	14,077,332	14,650,375	4,466,139
1984	1,103	27,008	48,591,785	19,663,431	17,429,494	4,420,024

of the foreign corporation was included. Attribution rules were introduced in the 1962 Act to account for various ownership structures that would otherwise avoid the requirements for declaring a foreign corporation a controlled foreign corporation. For example, if 6 individuals each wholly owned a separate U.S. corporation, and, in turn, the individuals and their respective corporations each owned an equal amount of voting stock of a foreign corporation, in the absence of attribution rules, the foreign corporation would not be a CFC. By attributing the voting stock of the foreign corporation owned by each U.S. corporation to its individual owner, the 10-percent voting stock ownership threshold would be met for each U.S. shareholder, and, collectively, all U.S. shareholders would own more than 50 percent of the voting stock of the foreign corporation. The foreign corporation in this example would be a "controlled" foreign corporation and would be required to file Form 2952.

The 1962 legislation also increased the Form 2952 filing requirement by extending the definition of a controlled foreign corporation to include any foreign corporation within a chain of control. A U.S. shareholder was "deemed" to control an unlimited number of lower-tier foreign corporations when it owned more than 50 percent of the voting stock of a first-tier corporation which owned more than 50 percent of the voting stock of a second-tier corporation, and so forth. Additionally, the Form 2952 filing requirement was extended to include not only U.S. corporations but U.S. citizens and residents, domestic partnerships, estates, and trusts, as well. The penalty for failing to timely file Form 2952 was amended to a reduction of the foreign tax credit in the amount of the greater of $10,000 or the income of the foreign corporation with respect to which the reporting failure occurred.

The most significant effect of the Revenue Act of 1962 for controlled foreign corporations was the introduction of Subpart F to the Internal Revenue Code. The Subpart F inclusion rules restricted U.S. shareholders' ability to defer taxes on certain types of income by requiring the income to be included in the U.S. shareholders' current-year taxable incomes regardless of their repatriation to the United States. The pro rata share of foreign income includable in the U.S. shareholder's income consisted of Subpart F income, previously excluded Subpart F income withdrawn from investments in less-developed countries, increases in investment of earnings of CFCs in United States property, and previously excluded Subpart F income withdrawn from export trade corporation assets (these categories are collectively referred to as "Subpart F income"). The majority of Subpart F income is made up of "passive" income like dividends, interest, royalties, and rents and income derived from insurance of United States risks. U.S. shareholders were not required to include their pro rata shares of Subpart F incomes in their taxable income if the Subpart F income accounted for 30 percent or less of the CFCs gross income or if distributions of the CFCs income were made so that the combined payment of foreign and U.S. taxes were 90 percent or more of the U.S. rate. Since Subpart F income is generally includable in the U.S. shareholder's taxable income when it is earned, no additional U.S. tax is imposed when it is repatriated to the United States. Finally, the 1962 Act restricted the conversion of tax-deferred earnings into capital gains for purposes of repatriating the income at the lower capital-gain tax rate.

The Tax Reduction Act of 1975 expanded what constituted Subpart F income and increased the likelihood that such income would be included in a U.S. shareholder's taxable income. Some types of

Figure D

U.S. Corporations with Total Assets of $500 Million or More and Their 7,500 Largest Controlled Foreign Corporations, 1986-2002, Selected Years

(Money amounts are in thousands of dollars)

Tax year	Number of U.S. corporation returns	Controlled Foreign Corporations [1]			
		Current earnings and profits (less deficit) before taxes	Foreign income taxes (net)	Distributions from earnings and profits	Subpart F income
	(1)	(2)	(3)	(4)	(5)
1986	714	56,590,619	19,229,025	21,730,762	4,223,316
1988	744	79,811,427	23,929,652	45,524,746	12,101,074
1990	731	88,688,406	23,936,971	46,429,916	17,841,936
1992	749	69,613,140	18,471,643	42,971,551	13,217,040
1994	801	98,427,640	23,267,744	50,383,707	16,317,803
1996	890	141,010,411	32,394,527	68,813,441	22,943,983
1998	996	143,840,451	34,744,726	74,188,419	20,238,440
2000	1,087	207,576,012	43,143,111	94,882,197	29,372,318
2002	1,079	200,670,364	38,610,284	97,011,345	31,420,940

[1] This figure presents data for the largest 7,500 Controlled Foreign Corporations (CFCs) ranked by assets owned by U.S. corporations with $500 million or more in total assets. The largest CFCs are selected independently for each tax year study.

shipping income received by CFCs were added to the definition of Subpart F income. The 1975 Act also lowered the Subpart F percentage of a CFCs gross income necessary for Subpart F income to be taxable to the U.S. shareholder from 30 percent to 10 percent. Minor amendments to the definition of Subpart F income have occurred since 1975.

Form 2952 was replaced in 1983 by Form 5471, *Information Return with Respect to Certain Foreign Corporations*.[7] Form 5471 significantly increased the amount of information required to be reported for each controlled foreign corporation, although not all filers were required to complete all schedules. Form 5471 included an expanded income statement schedule, a cost of goods sold schedule, a foreign taxes paid schedule, a balance sheet schedule, and earnings and profit analysis schedules.

The Tax Reform Act of 1986 again refined the controlled foreign corporation concept in part to address the issue of U.S. shareholders transferring 50 percent of the voting stock of a foreign corporation to "friendly" foreign shareholders and avoiding the "controlled foreign corporation" designation while still maintaining 50-percent voting stock of the corporation and most of the value. The 1986 legislation expanded the definition of a CFC to include foreign corporations for which 50 percent or more of the voting power of all classes of stock entitled to vote or the total value of all shares of stock is owned by one or more U.S. persons (including U.S. corporations, partnerships, trusts, and estates). Only the voting stock of those U.S. persons directly, indirectly, or constructively owning at least 10 percent of either the voting stock or value of the voting stock of the foreign corporation is considered for purposes of determining if the 50-percent threshold is met.

The American Job Creation Act of 2004 is the most recent piece of legislation affecting controlled foreign corporations. This act, in an effort to encourage U.S. corporations to repatriate their accumulated foreign earnings and reinvest them in U.S. projects, allowed for a one-time 85-percent dividends received deduction for cash dividends received from controlled foreign corporations. To receive this deduction, the U.S. corporation must have had a qualified reinvestment plan and receive the cash dividends in the U.S. corporation's last tax year beginning before October 22, 2004, or the first tax year beginning in the 1-year period after that date.

Statistics of Income (SOI) has collected data on Forms 2952 and 5471 every other tax year since 1962. In Tax Year 1962, there were 12,073 Forms 2952 filed by 2,642 United States corporations.[8] In Tax Year 2002, there were 75,579 Forms 5471 filed by 2,119 U.S. parent corporations with $500 million or more in assets.[9] Figures B, C, and D include

[7] In addition to Form 2952, Form 5471 replaced Form 957, *U.S. Information Return by an Officer, Director, or U.S. Shareholder of a Foreign Personal Holding Company*, Form 958, *U.S. Annual Information Return by an Officer or Director of a Foreign Personal Holding Company*, Form 959, *Return by an Officer, Director, or Shareholder With Respect to the Organization or Reorganization of a Foreign Corporation and Acquisition of Its Stock*, and Form 3646, *Income from Controlled Foreign Corporation*.

[8] *Foreign Income and Taxes, Corporation Income Tax Returns* (Publication 479), Statistics of Income, April 1973.

[9] Based on unpublished data.

additional information from SOI studies covering this period.

Data Sources and Limitations

Two of the largest studies of international income and taxes conducted by Statistics of Income are the Corporate Foreign Tax Credit and Controlled Foreign Corporation studies. The foreign tax credit studies are derived from returns in the corporation Statistics of Income sample. The foreign tax credit is understated to the extent that it does not include foreign taxes carried back.

The Controlled Foreign Corporation study, usually conducted every other tax year, has changed since the first study conducted for Tax Year 1962. Initially, population estimates were tabulated using data collected from all Forms 2952 filed by U.S. parent corporations in the Statistics of Income corporate sample. For Tax Years 1974, 1976, 1982, and 1984, data were collected from Forms 2952 filed by U.S. parent corporations with greater than $250 million in total assets. Population estimates were again tabulated for Tax Year 1980. For Tax Years 1986 through 2002, data were collected for all Forms 5471 filed by U.S. parent corporations with greater than $500 million in total assets. During these years, data were published for the largest 7,500 controlled foreign corporations ranked by assets.

Data for both studies do not include adjustments made during audit. Data for recent study years can be found on the Statistics of Income Web site (www.irs.gov/taxstats).

Celebrating Ninety Years of SOI: Selected Corporate Data, 1916-2004

by Marty Harris and Ken Szeflinski

The Statistics of Income Division of the Internal Revenue Service has been collecting and publishing data on corporate business operations and activity since 1916. The Revenue Act of 1916 required the annual publication of "facts deemed pertinent and valuable" with respect to income tax law. The 1916 Statistics of Income report was released in the summer of 1918 and was the first to fulfill the new requirement. The SOI Division is in the midst of its 90th anniversary of tax publications with the 2005 corporate data scheduled for publication in early 2008. This article presents a brief look at the history of corporate data published in the Statistics of Income series.

Definitions

Returns—The Statistics of Income series includes domestic corporations and foreign corporations subject to Federal income tax. The statistics also reflect data from small corporations, including those taxed at the shareholder level. Through 1950, information was collected from the population of returns filed. Beginning in 1951 and continuing to this day, a stratified sample has been selected. The stratification of the sample has changed over time to include industry (1951), size of business receipts (1952—1958), and size of total assets (1952 and 1959—present).

Year—Each annual report consists of data from corporate tax returns with accounting periods ending from July of one year through June of the following year. For example, the latest publication (for Tax Year 2004) includes corporations with accounting periods that end at any time during the period from July 2004 through June 2005.

Industry—Industrial classification has always been a prominent part of the corporate statistics. A single industry code is assigned to each corporate return based on the industrial activity that represents the largest percentage of the total business receipts. Although the list of industries has both increased and changed many times since 1918, the Statistics of Income reports have tried to maintain the year-to-year comparability among the data classified by industrial activity.

Data Items—Although the legal definitions may have changed slightly over the years, there is a core unit of corporate data that appears in every corporate report. The items included in the annual reports are Number of Returns, Gross Income, Total Deductions, Net Income/Deficit, Income Tax, and Industry. Currently, there are over one thousand data items collected, with nearly 200 items published.

Marty Harris and Ken Szeflinski are chiefs of the Corporation Returns Analysis Section and Corporation Research Section, respectively. Emily Shammas provided technical assistance on tables. This article was written under the direction of Doug Shearer, Chief, Corporation Statistics Branch.

The Early Years

From 1916 through 1933, only one report was prepared annually, and it included data from both individual and corporate tax returns and, beginning in 1917, data from other types of returns. Beginning in 1934, separate reports were published due to the increased data collected and the growing number of return types being processed.

In the earliest years, the published data for corporations were very limited, consisting mainly of the industrial activity, the State where the return was filed, and a few financial entries such as gross income, deductions, net income/deficit, and tax. In the 1920s, size classifications and additional items were added.

Major Changes to the Corporate Tables and Publications

1917	Two income items and six deduction items by industry.
1918	Six net income-size classifications.
1919	Invested capital by size of capital investment.
1920	Invested capital by industry.
1922	Distributions to stockholders by industry and by State.
1922	Income statement items classified by 20 industries.
1926	Balance sheet items classified by 20 industries.
1928	Data on consolidated corporations by 20 industries.

The 1931 publication became the standard for 28 years. The four primary tables are described below.

1. Receipts (9 items) and deductions (10 items) classified by major industrial groups for all returns, returns with net income, and returns with no net income.

2. Corporations submitting balance sheets, classified by major industrial groups for returns with net income and returns with no net income: asset items (8), liability items (8), and all items from Table 1.

3. Corporations submitting balance sheets, classified by total asset-size classes for all returns, returns with net income, and returns with no net income: items were the same as in Table 2.

4. Corporations submitting balance sheets cross-classified by total asset classes and major industrial groups for returns with net income and without net income: 16 items of assets, liabilities, income, and distributions to shareholders.

Between 1932 and 1958, these four tables remained the basis for the corporate publication. In 1938, the number of major industries was increased from 20 to over 60. In 1954, the number of total asset classes was increased to 14. By 1958, the number of items published in the cross-classified Table 4 had increased to 20.

Later Changes

In 1958, separate tables were produced for small business corporations that filed the new form 1120-S. By 1959, balance sheet items were available for all active corporations. That year also saw the introduction of size of business receipts as a new measure of corporate business activity. For a brief period, 1959-1965, financial ratios were produced and published. A few of the ratios included were net income to business receipts, business receipts to total assets, business receipts to inventory, and net worth to total assets.

By 1975, the corporate publication included tables classified by total assets, size of business receipts, income tax before credits, income tax after credits, investment credit, accounting period, and minor, major, and division industry levels. These classifications have remained fairly constant since 1975.

Current Publications

The Corporation Statistics Branch publishes two annual reports based on corporate tax return filings. The *Corporation Source Book* is a 600-plus-page report containing data classified by 12 total asset categories and over 250 industrial activities. Separate data for S corporations are also included. The *Corporation Income Tax Returns* report is a 350-page publication with 31 tables and detailed sections on the changes in the tax law, the sample design and limitations, and an explanation of terms. The 31 tables are classified by assets, business receipts, income tax after credits, industry, and accounting period. Recent improvements have significantly reduced the time necessary to prepare the publications for printing. Within 3 months of the final file closeout and data review, printed copies of the publications will be available. Web versions of the data tables will be available even earlier.

Introduction to Historical Data

This article presents selected data for corporations included in the Statistics of Income sample for Tax Years 1916 through 2004, with years earlier than 1980 described in 5-year intervals. The descriptive analysis focuses on data prior to 1980 since the series is appended to a previously published series.[1] Some key findings are framed and summarized within an historical context and are presented in Table 1. Table 3 presents these same data in 1990 constant dollars, and they are also represented in Figures A through F for Total Receipts and Net Income (less Deficit). This article also presents the same selected data for subchapter S corporations, partnerships, and sole proprietorships for 1960, 1965, 1970, and 1975 in Table 2. As with the overall corporation data, these have been appended to the previously published series for 1980-2002 as cited above. In both cases, data for

[1] From "An Analysis of Business Organizational Structure and Activity from Tax Data" presented at the 2005 National Tax Association Conference. The paper is available at http://www.irs.gov/pub/irs-soi/05petska.pdf.

Celebrating Ninety Years of SOI: Selected Corporate Data, 1916-2004

Figure A

Total Receipts of Corporations in 1990 Constant Dollars, Tax Years 1920-2004

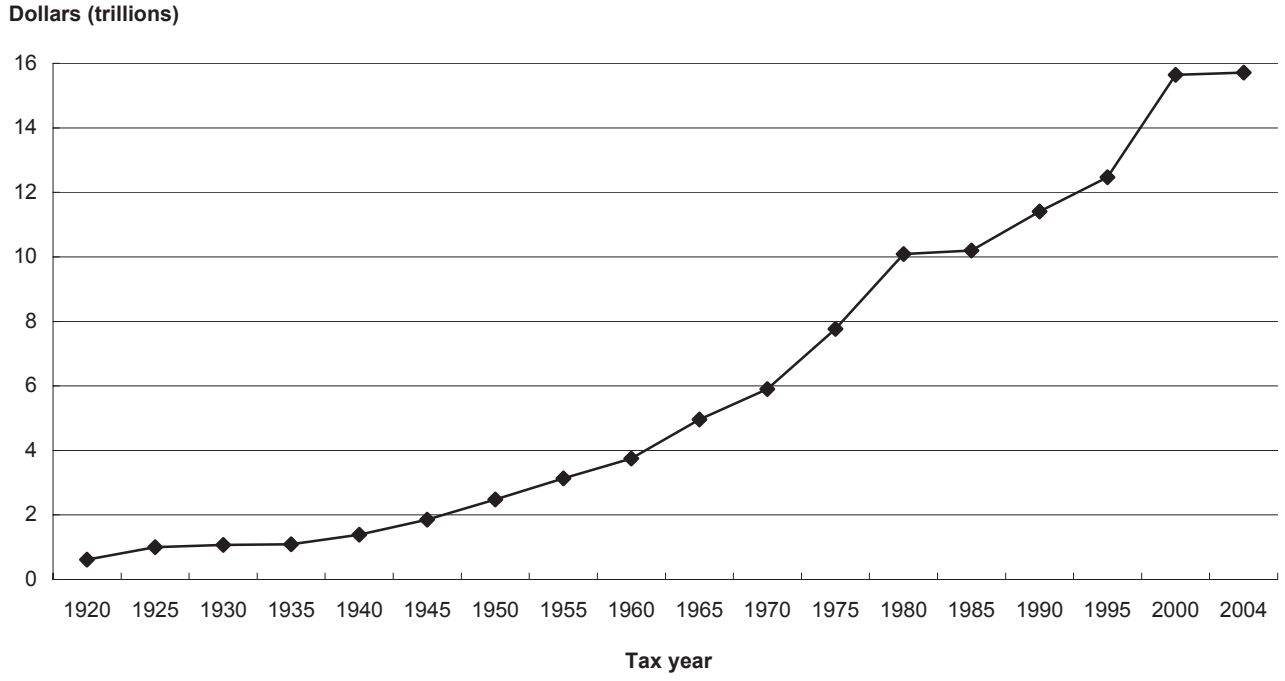


Figure B

Total Receipts of Corporations in 1990 Constant Dollars, Tax Years 1920-1945

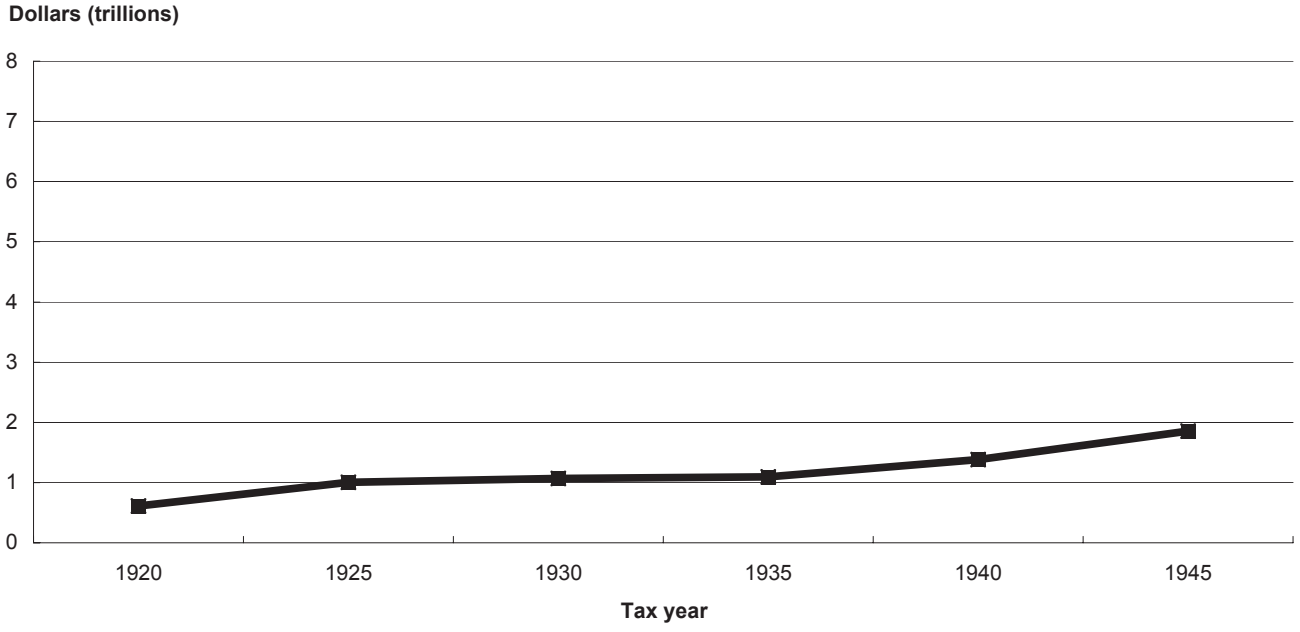


Figure C

Total Receipts of Corporations in 1990 Constant Dollars, Tax Years 1945-1975

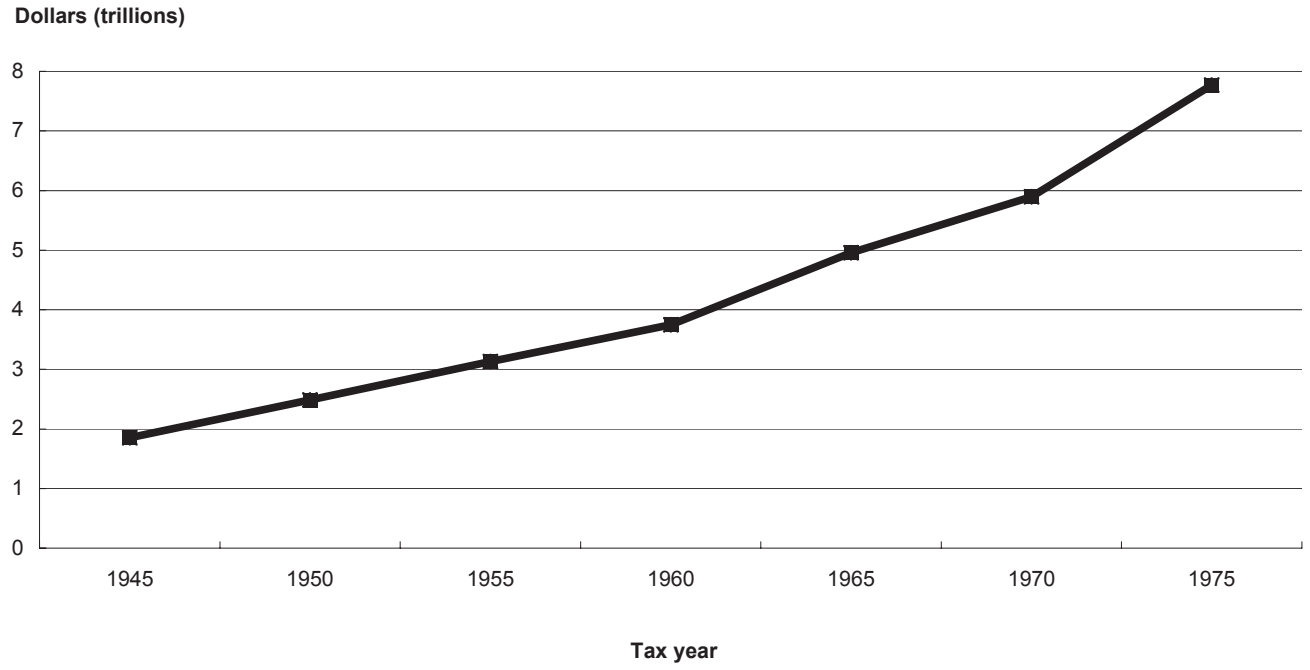


Figure D

Corporation Net Income (Less Deficit) in 1990 Constant Dollars, Tax Years 1916-2004

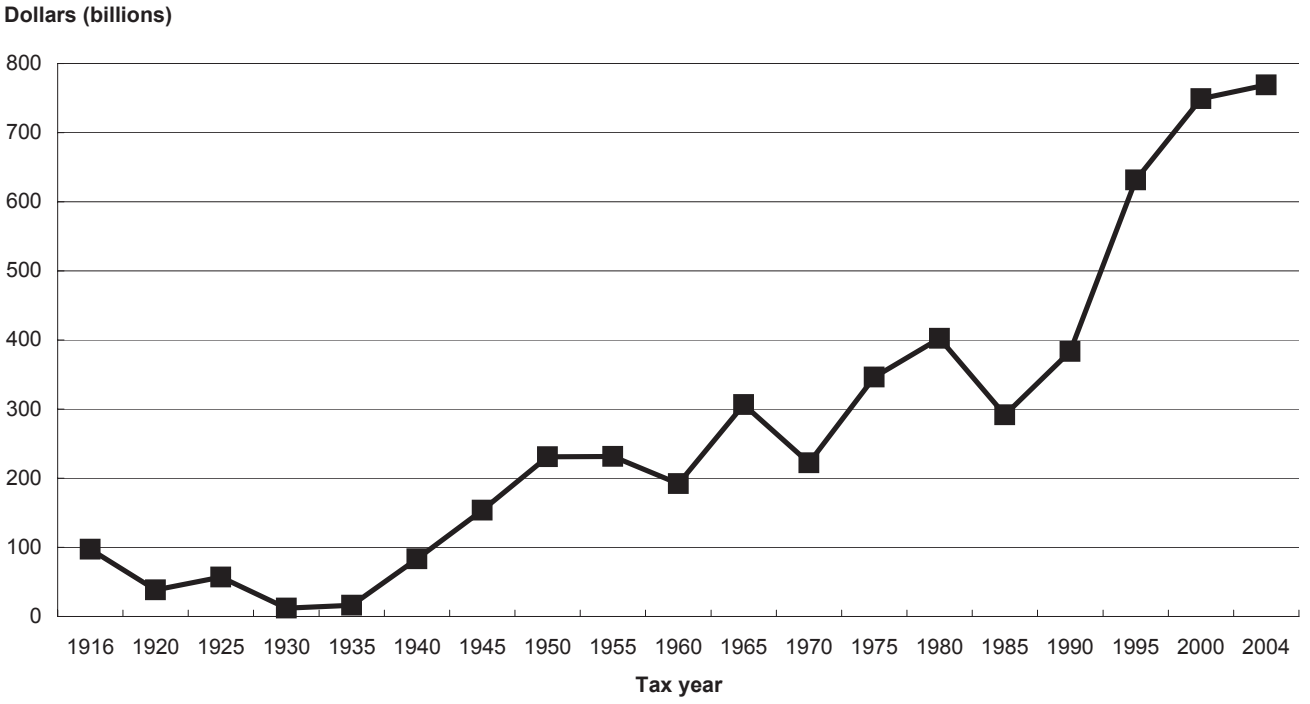


Figure E

Corporation Net Income (Less Deficit) in 1990 Constant Dollars, Tax Years 1916-1945

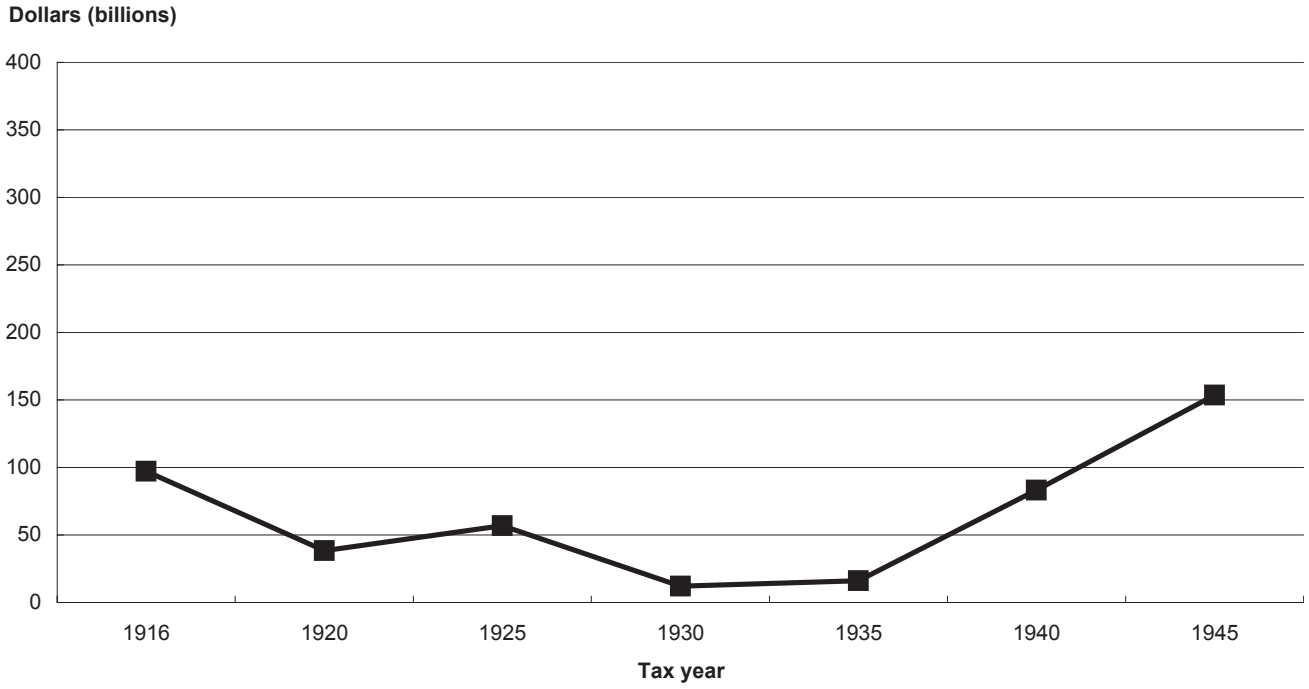
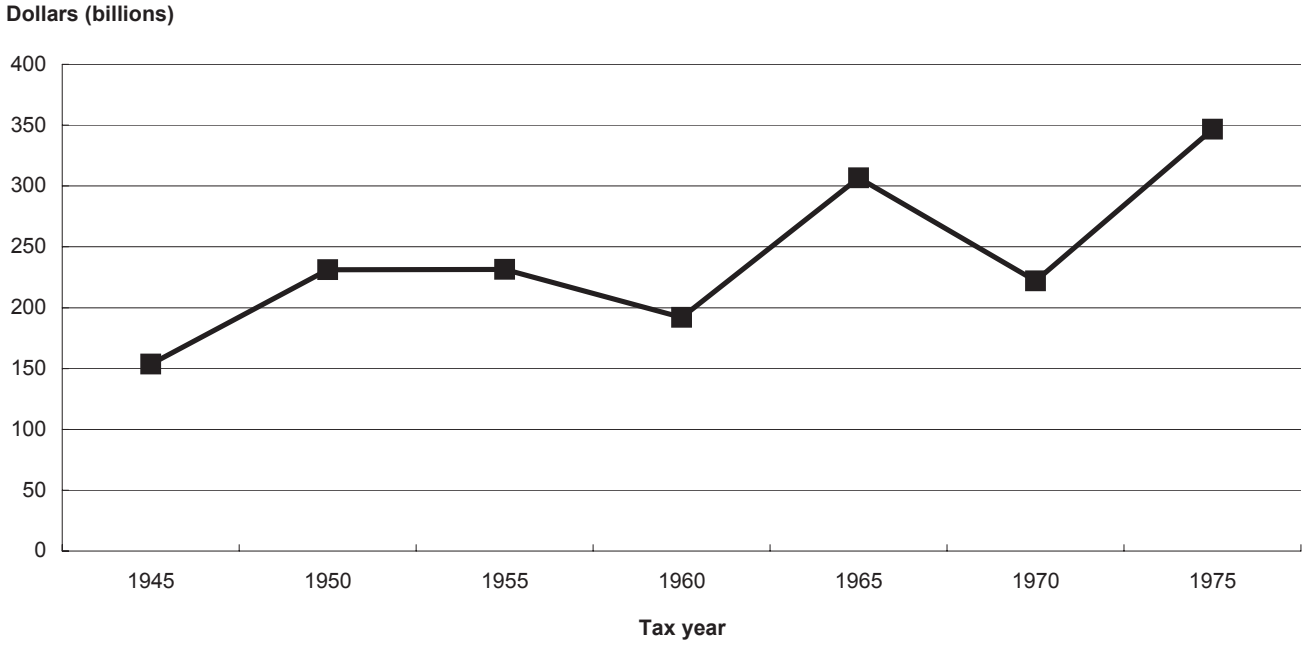


Figure F

Corporation Net Income (Less Deficit) in 1990 Constant Dollars, Tax Years 1945-1975



Tax Years 2003 and 2004 have now been included. Figure G shows the growth in the number of reporting corporations from 1916 through 2004.

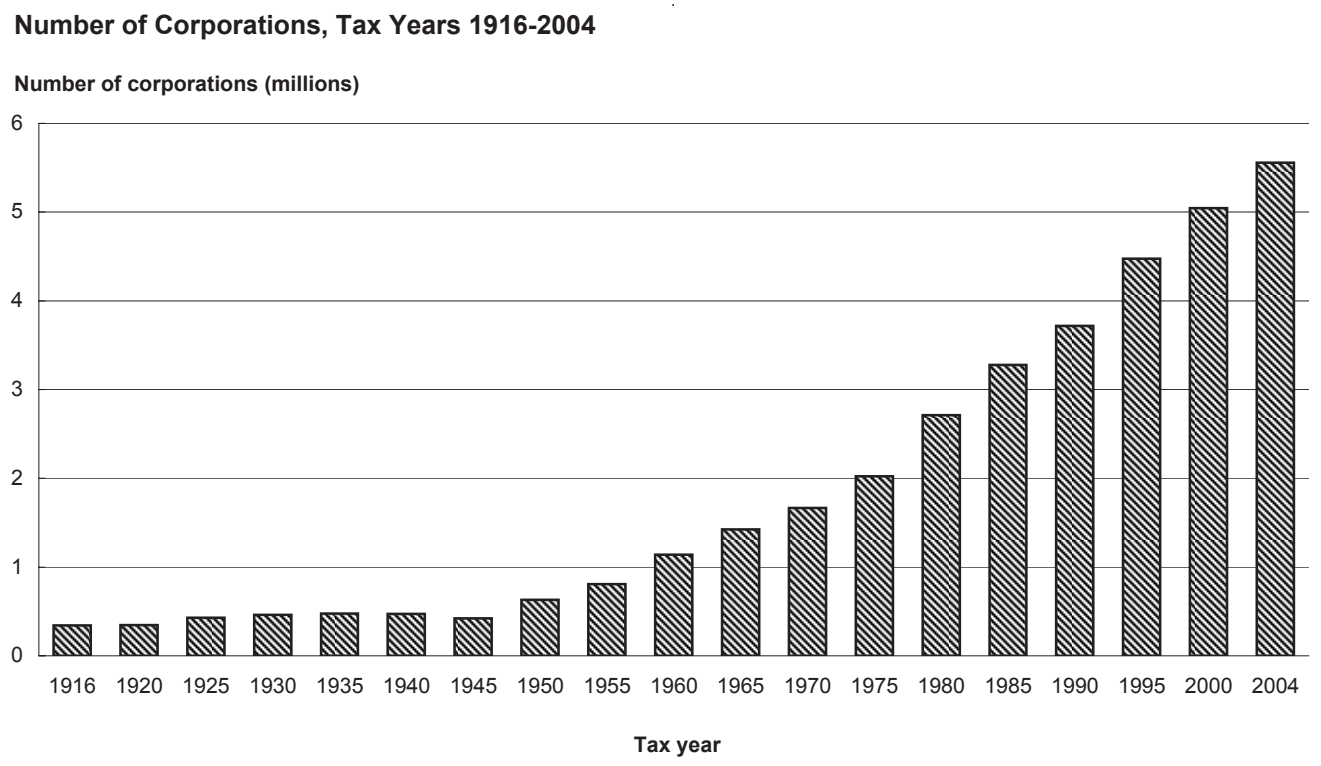
Highlights from the Early Years (1916-1945)

In the years characterized by industrialization and leading up to the Depression of 1929, the number of businesses classified as corporations grew from 341,253 in 1916 to 463,036 in 1930, a total increase of approximately 33 percent. For the same time period, income accruing to these business entities, as measured by Total Receipts, grew from $93.8 billion beginning in 1920 to $136.6 billion, amounting to an increase of nearly 45 percent. The measure of current-day corporate profits, Net Income (less deficit), declined at the outset, before turning up to nearly $7.6 billion in 1925. It then declined significantly to about $1.5 billion in 1930, a decrease of approximately 80 percent between 1925 and 1930. This decline may have been due to a combination of the capitalization costs associated with corporations establishing themselves in the new industrialized era along with the approaching Depression of 1929. In comparing data between 1930 and 1935, the influence of the Depression years can be seen in the decreases in both Total and Business Receipts and Net Income, though the decrease in Net Income was not as pronounced as it was between 1925 and 1930. By 1945, however, the data in Table 1 reflect a strong resurgence. Receipts, both Total and Business, for example, more than doubled (61 percent in constant terms) from 1935 levels, and Net Income (less deficit) grew from $1.6 billion in 1935 to $21.1 billion in 1945. The increase was approximately 500 percent in constant terms. Between each of the years 1935, 1940, and 1945, Net Income approximately doubled, while Net Deficit declined nearly two-thirds between 1935 and 1945. Meanwhile, the number of reporting corporations declined by approximately 12 percent, from 477,113 to 421,125 returns.

Highlights from the Years 1945-1975

The data in Table 1 also reflect that the post-World War II years were growth periods. For example, Net

Figure G



Income (less Deficit) more than tripled from $21.1 billion to over $73.9 billion from 1945 through 1965. Total Receipts and Business Receipts grew more than four times as reflected in the change in Total Receipts from $.25 trillion to approximately $1.2 trillion between 1945 and 1965. Increases between 1945 and 1965 for total receipts, business receipts, and net income (less deficit) were approximately 100 percent in constant terms. Likewise, the number of reporting corporations more than tripled from over 421,000 in 1945 to more than 1.4 million in 1965.

Between 1970 and 1975, there was an increase of over 100 percent in Net Income (less deficit) from $65.9 billion to approximately $142.6 billion. Though the component Net Deficit increased between 1970 and 1975, the growth of Net Income was such that it helped to drive the overall rise. The growth in both Total and Business Receipts between 1970 and 1975 was approximately 83 percent (32 percent in constant terms), while the number of reporting corporations steadily grew.

Additional Data from Other Business Entity Types

Table 2 shows the same items as Table 1 for S corporations, partnerships, and sole proprietorships for Tax Years 1960 through 2004. The year 1960 was chosen since it is the earliest year for which data for all three of these business entities are consistently available.

The number of S corporations increased the most between 1960 and 1975 compared to partnerships and sole proprietorships, increasing from 90,221 to 358,413, due to the establishment of S corporations as a new corporate entity. The number of partnerships and sole proprietorships surpasses the number of S corporations historically, except that, beginning in Tax Year 1990, the number of S corporations exceeds those of partnerships. Comparatively, the amount of Receipts (both Total and Business), Net Income (less deficit), and Net Income continued to be greatest for sole proprietorships, partnerships, and S corporations in that order throughout the years shown 1960-1975.

Table 1. Corporations: Number of Businesses, Total Receipts, Business Receipts, Net Income (Less Deficit), Net Income, Deficit, Selected Tax Years 1916-2004

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Tax year	Number of businesses	Total receipts [1]	Business receipts [2]	Net income (less deficit)	Net income	Deficit
	(1)	(2)	(3)	(4)	(5)	(6)
1916	341,253	N.A.	N.A.	8,109,005	8,765,909	656,904
1920	345,595	93,824,000	N.A.	5,873,231	7,902,655	2,029,424
1925	430,072	134,779,997	106,832,147	7,621,056	9,583,684	1,962,628
1930	463,036	136,588,000	123,208,000	1,551,218	6,428,813	4,877,595
1935	477,113	114,649,717	105,121,226	1,695,949	5,164,723	3,468,774
1940	473,042	148,236,787	139,124,352	8,919,429	11,203,224	2,283,795
1945	421,125	255,447,753	244,030,015	21,138,956	22,165,206	1,026,250
1950	629,314	458,130,069	439,881,532	42,613,304	44,140,741	1,527,437
1955	807,000	642,248,036	612,682,730	47,478,271	52,511,158	5,032,887
1960	1,140,574	849,131,939	802,790,920	43,505,174	50,382,345	6,877,171
1965	1,423,980	1,194,600,662	1,120,381,727	73,889,821	80,796,801	6,906,980
1970	1,665,477	1,750,776,503	1,620,886,576	65,901,614	83,710,924	17,809,310
1975	2,023,647	3,198,627,860	2,961,729,640	142,636,826	169,483,336	26,846,510
1980	2,710,538	6,361,284,012	5,731,616,337	253,678,291	311,497,470	57,819,180
1981	2,547,410	7,026,351,839	6,244,678,064	213,648,962	301,440,778	87,791,816
1982	2,925,933	7,024,097,766	6,156,994,009	154,334,143	274,352,942	120,018,799
1983	2,999,071	7,135,494,059	6,334,602,711	188,313,928	296,932,146	108,618,218
1984	3,170,743	7,860,711,226	6,948,481,893	232,900,596	349,179,415	116,278,819
1985	3,277,219	8,398,278,426	7,369,538,953	240,119,020	363,867,384	123,748,365
1986	3,428,515	8,669,378,501	7,535,482,221	269,530,240	408,860,760	139,330,520
1987	3,612,133	9,580,720,701	8,414,537,647	334,089,233	468,631,779	134,542,546
1988	3,562,789	10,264,867,461	8,949,846,244	423,115,815	561,646,539	138,530,724
1989	3,627,863	10,934,973,405	9,427,277,533	401,320,146	563,402,110	162,081,965
1990	3,716,650	11,409,520,074	9,860,441,633	383,213,763	N.A.	N.A.
1991	3,802,788	11,436,474,767	9,965,628,799	360,529,974	542,341,802	181,811,828
1992	3,869,024	11,742,134,728	10,360,428,795	414,130,453	581,920,697	167,790,244
1993	3,964,629	12,269,721,709	10,865,542,520	510,258,780	670,480,179	160,221,400
1994	4,342,369	13,360,007,157	11,883,614,940	595,002,432	756,502,169	161,499,736
1995	4,474,167	14,539,050,115	12,785,797,708	736,423,014	900,524,657	164,101,644
1996	4,631,369	15,525,718,006	13,659,470,309	838,591,644	1,016,135,059	177,543,415
1997	4,710,083	16,609,707,302	14,460,928,696	956,736,971	1,155,242,666	198,505,695
1998	4,848,887	17,323,955,004	15,010,264,802	895,152,469	1,144,026,382	248,873,914
1999	4,935,904	18,892,385,693	16,313,971,384	985,363,334	1,282,481,469	297,118,135
2000	5,045,273	20,605,808,071	17,636,551,348	986,952,279	1,391,008,755	404,056,474
2001	5,135,591	20,272,957,625	17,504,288,630	648,758,089	1,155,497,718	506,739,630
2002	5,266,607	19,749,426,052	17,297,125,146	596,524,023	1,084,179,817	487,655,794
2003	5,401,237	20,689,574,291	18,264,393,898	779,988,635	1,175,608,990	395,620,355
2004	5,557,965	22,711,863,939	19,975,875,761	1,111,692,655	1,455,796,796	344,104,141

N.A.—Not available.
[1] For years prior to 1960, Total Receipts are also referred to as Total Compiled Receipts.
[2] For years in which they are separately published, receipts from gross sales and gross receipts from operations comprise Business receipts.

Table 2. Number of Businesses, Total Receipts, Business Receipts, Net Income, and Deficit: S Corporations, Partnerships, and Sole Proprietorships, Selected Tax Years 1960-2004

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Form of business, item	Tax year				
	1960	1965	1970	1975	1980
	(1)	(2)	(3)	(4)	(5)
S Corporations					
Number of businesses	90,221	173,410	257,475	358,413	545,389
Total receipts	23,417,799	46,442,511	77,631,396	128,016,555	210,322,424
Business receipts	22,946,017	45,433,118	76,097,159	125,333,032	204,887,368
Total net income (less deficit) [1]	382,479	1,447,857	1,851,508	3,242,098	2,518,912
Net income	678,476	1,969,400	3,029,581	5,497,416	8,085,439
Deficit	295,997	521,543	1,178,073	2,255,318	5,566,527
Partnerships					
Number of businesses	940,560	914,215	936,133	1,073,094	1,379,654
Total receipts [2]	74,307,629	75,258,639	93,348,080	148,417,529	291,998,115
Business receipts	72,894,735	73,588,349	90,208,834	142,505,781	271,108,832
Net income (less deficit)	8,360,373	9,699,145	9,790,396	7,737,570	8,248,655
Net income	9,373,289	11,267,913	14,419,124	22,431,931	45,061,756
Deficit	1,012,916	1,568,768	4,628,728	14,694,361	36,813,100
Nonfarm Sole Proprietorships					
Number of businesses	9,089,985	9,078,466	5,769,741	7,221,346	8,931,712
Total receipts	171,257,205	199,384,594	198,582,172	273,954,741	411,205,713
Business receipts	171,257,205	199,384,594	198,582,172	273,954,741	411,205,713
Net income (less deficit)	21,067,090	27,887,417	30,537,426	39,636,453	54,947,219
Net income	24,269,011	31,637,317	33,735,732	45,624,890	68,010,051
Deficit	3,201,921	3,749,900	3,198,306	5,988,437	13,062,832

Form of business, item	Tax year				
	1981	1982	1983	1984	1985
	(6)	(7)	(8)	(9)	(10)
S Corporations					
Number of businesses	541,489	564,219	648,267	701,339	724,749
Total receipts	212,514,030	243,056,569	300,248,422	385,026,843	430,641,781
Business receipts	206,357,914	235,010,755	290,764,938	372,732,439	416,041,188
Total net income (less deficit) [1]	1,870,746	3,047,943	5,075,351	6,906,667	7,602,450
Net income	8,454,022	10,992,022	14,575,149	18,706,344	21,159,865
Deficit	6,583,276	7,944,079	9,499,798	11,799,677	13,557,415
Partnerships					
Number of businesses	1,460,502	1,514,212	1,541,539	1,643,581	1,713,603
Total receipts [2]	272,129,807	296,690,303	291,318,703	375,192,511	367,117,315
Business receipts	230,027,336	251,608,987	243,248,370	318,342,380	302,733,374
Net income (less deficit)	-2,734,897	-7,314,587	-2,610,041	-3,500,024	-8,883,674
Net income	50,567,190	53,556,856	60,308,114	69,696,922	77,044,693
Deficit	53,302,086	60,871,442	62,918,155	73,196,946	85,928,367
Nonfarm Sole Proprietorships					
Number of businesses	9,584,790	10,105,515	10,703,921	11,262,390	11,928,573
Total receipts	427,063,055	433,664,897	465,168,637	516,036,944	540,045,430
Business receipts	427,063,055	433,664,897	465,168,637	516,036,944	540,045,430
Net income (less deficit)	53,071,628	50,573,163	60,359,153	70,766,610	78,772,578
Net income	68,552,791	68,647,384	78,618,410	89,849,570	98,775,563
Deficit	15,481,162	18,074,220	18,259,256	19,082,960	20,002,986

Footnotes at end of table.

Table 2. Number of Businesses, Total Receipts, Business Receipts, Net Income, and Deficit: S Corporations, Partnerships, and Sole Proprietorships, Selected Tax Years 1960-2004—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Form of business, item	Tax year				
	1986	1987	1988	1989	1990
	(11)	(12)	(13)	(14)	(15)
S Corporations					
Number of businesses	826,214	1,127,905	1,257,191	1,422,967	1,575,092
Total receipts	483,986,301	972,246,266	1,263,988,377	1,463,966,315	1,620,702,664
Business receipts	466,712,837	951,305,832	1,236,906,216	1,434,527,066	1,588,070,882
Total net income (less deficit) [1]	8,293,241	30,017,036	43,536,518	44,779,347	44,831,241
Net income	23,942,506	48,391,165	63,908,830	70,404,449	N.A.
Deficit	15,649,265	18,374,129	20,372,312	25,625,102	N.A.
Partnerships					
Number of businesses	1,702,952	1,648,032	1,654,245	1,635,164	1,553,529
Total receipts [2]	397,302,544	442,802,234	498,378,098	505,222,543	518,994,886
Business receipts	327,428,647	411,457,126	463,956,020	464,951,817	483,417,504
Net income (less deficit)	-17,370,860	-5,419,105	14,493,114	14,099,275	16,609,540
Net income	80,214,873	87,654,011	111,384,545	113,885,966	116,317,801
Deficit	97,585,733	93,073,116	96,891,431	99,786,691	99,708,261
Nonfarm Sole Proprietorships					
Number of businesses	12,393,700	13,091,132	13,679,302	14,297,558	14,782,738
Total receipts	559,384,259	610,822,732	671,969,931	692,810,938	730,606,020
Business receipts	559,384,259	610,822,732	671,969,931	692,810,938	730,606,020
Net income (less deficit)	90,423,763	105,460,627	126,323,251	132,737,680	141,430,193
Net income	110,496,952	123,782,540	145,517,755	152,416,377	161,657,252
Deficit	20,073,189	18,321,913	19,194,505	19,678,697	20,227,059

Form of business, item	Tax year				
	1991	1992	1993	1994	1995
	(16)	(17)	(18)	(19)	(20)
S Corporations					
Number of businesses	1,698,271	1,785,371	1,901,505	2,023,754	2,153,119
Total receipts	1,682,984,576	1,821,882,961	1,997,596,803	2,210,945,344	2,405,073,461
Business receipts	1,655,481,071	1,790,836,830	1,967,936,737	2,173,454,305	2,366,453,853
Total net income (less deficit) [1]	44,745,093	58,329,739	66,233,497	91,676,443	99,128,672
Net income	72,571,565	91,138,122	98,558,092	123,970,916	134,958,619
Deficit	27,826,472	32,808,383	32,324,595	32,294,473	35,829,947
Partnerships					
Number of businesses	1,515,345	1,484,752	1,467,567	1,493,963	1,580,900
Total receipts [2]	515,461,121	551,548,871	606,190,516	703,827,410	814,704,090
Business receipts	483,164,395	514,827,003	560,999,120	656,158,602	760,617,695
Net income (less deficit)	21,406,607	42,916,649	66,652,288	82,183,076	106,829,196
Net income	113,408,221	121,834,358	137,440,684	150,927,743	178,650,950
Deficit	92,001,615	78,917,710	70,788,396	68,744,668	71,821,755
Nonfarm Sole Proprietorships					
Number of businesses	15,180,722	15,495,419	15,848,119	16,153,871	16,423,872
Total receipts	712,567,989	737,082,032	757,215,452	790,630,020	807,363,638
Business receipts	712,567,989	737,082,032	757,215,452	790,630,020	807,363,638
Net income (less deficit)	141,515,783	153,960,246	156,458,803	166,798,668	169,262,336
Net income	162,426,709	173,472,549	179,983,281	187,845,139	191,728,953
Deficit	20,910,927	19,512,304	23,524,477	21,046,471	22,466,617

Footnotes at end of table.

Table 2. Number of Businesses, Total Receipts, Business Receipts, Net Income, and Deficit: S Corporations, Partnerships, and Sole Proprietorships, Selected Tax Years 1960-2004—Continued

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Form of business, item	Tax year				
	1996	1997	1998	1999	2000
	(21)	(22)	(23)	(24)	(25)
S Corporations					
Number of businesses	2,304,416	2,452,254	2,588,088	2,725,775	2,860,478
Total receipts	2,618,094,172	2,895,237,519	3,061,133,169	3,300,868,762	3,617,477,105
Business receipts	2,571,988,996	2,840,623,943	3,004,118,934	3,242,797,429	3,557,650,166
Total net income (less deficit) [1]	125,245,496	153,063,011	181,788,303	193,756,411	198,535,888
Net income	161,896,380	192,122,074	223,972,910	240,561,633	254,216,205
Deficit	36,650,884	39,059,063	42,184,607	46,805,222	55,680,317
Partnerships					
Number of businesses	1,654,256	1,758,627	1,855,348	1,936,919	2,057,500
Total receipts [2]	1,002,579,987	1,249,789,312	1,474,879,256	1,754,972,413	2,218,639,870
Business receipts	915,844,403	1,141,963,405	1,356,655,904	1,615,762,245	2,061,764,235
Net income (less deficit)	145,218,248	168,240,726	186,704,627	228,438,105	268,990,758
Net income	228,157,635	262,373,206	297,874,299	348,467,958	409,972,787
Deficit	82,939,388	94,132,480	111,170,672	120,029,853	140,982,029
Nonfarm Sole Proprietorships					
Number of businesses	16,955,023	17,176,487	17,408,809	17,575,643	17,904,731
Total receipts	843,233,843	870,392,286	918,268,196	969,347,038	1,020,957,283
Business receipts	843,233,843	870,392,286	918,268,196	969,347,038	1,020,957,283
Net income (less deficit)	176,755,693	186,643,910	202,274,720	207,946,977	214,715,298
Net income	200,123,896	210,464,545	226,189,570	233,404,991	245,230,626
Deficit	23,368,202	23,820,635	23,914,850	25,458,013	30,515,328

Form of business, item	Tax year			
	2001	2002	2003	2004
	(26)	(27)	(28)	(29)
S Corporations				
Number of businesses	2,986,486	3,154,377	3,341,606	3,518,334
Total receipts	3,761,512,350	3,910,926,701	4,232,565,964	4,737,162,166
Business receipts	3,691,120,151	3,841,281,106	4,152,365,102	4,645,693,720
Total net income (less deficit) [1]	187,686,917	183,478,933	213,681,780	275,398,651
Net income	248,863,846	246,533,627	276,531,538	339,948,836
Deficit	61,176,929	63,054,694	62,849,757	64,550,185
Partnerships				
Number of businesses	2,132,117	2,242,169	2,375,375	2,546,877
Total receipts [2]	2,462,461,787	2,582,060,669	2,722,174,031	3,021,683,261
Business receipts	2,278,200,526	2,414,187,093	2,545,612,266	2,818,861,323
Net income (less deficit)	276,334,824	270,667,169	301,398,218	384,738,394
Net income	446,069,172	439,761,741	468,552,382	566,231,686
Deficit	169,734,347	169,094,572	167,154,164	181,493,292
Nonfarm Sole Proprietorships				
Number of businesses	18,338,190	18,925,517	19,710,079	20,590,691
Total receipts	1,016,834,678	1,029,691,760	1,050,202,446	1,139,523,760
Business receipts	1,016,834,678	1,029,691,760	1,050,202,446	1,139,523,760
Net income (less deficit)	217,385,116	221,113,286	230,308,100	247,567,189
Net income	250,178,322	257,292,855	269,089,168	290,486,159
Deficit	32,793,206	36,179,568	38,781,068	42,918,970

N.A.—Not available.

[1] Prior to Tax Year 1987, "Total net income (less deficit)" from S Corporations only includes "Net income (less deficit)" from S Corporations and is not as comprehensive as data in future years.

[2] For consistency purposes of this article, what Statistics of Income normally publishes as Partnership "Total income" is labeled as "Total receipts."

Table 3. Corporations: Number of Businesses, Total Receipts, Business Receipts, Net Income (Less Deficit), Net Income, Deficit, Selected Tax Years 1916-2004, in 1990 Constant Dollars [1]

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Tax year	Number of businesses	Total receipts [2]	Business receipts [3]	Net income (less deficit)	Net income	Deficit
	(1)	(2)	(3)	(4)	(5)	(6)
1916	341,253	N.A.	N.A.	97,233,665	105,110,487	7,876,821
1920	345,595	613,139,840	N.A.	38,381,565	51,643,850	13,262,286
1925	430,072	1,006,614,035	797,883,521	56,918,401	71,576,429	14,658,027
1930	463,036	1,068,985,126	964,268,599	797,883,521	50,314,123	38,173,752
1935	477,113	1,093,775,037	1,002,871,842	16,179,601	49,272,211	33,092,610
1940	473,042	1,383,896,290	1,298,825,200	83,269,241	104,590,098	21,320,858
1945	421,125	1,854,834,518	1,771,929,053	153,492,308	160,944,024	7,451,715
1950	629,314	2,484,547,719	2,385,581,586	231,102,026	239,385,678	8,283,652
1955	807,000	3,132,157,399	2,987,971,374	231,545,150	256,089,864	24,544,714
1960	1,140,574	3,749,376,501	3,544,755,853	192,098,860	222,465,287	30,366,427
1965	1,423,980	4,956,644,652	4,648,694,975	306,584,114	335,242,600	28,658,485
1970	1,665,477	5,897,589,921	5,460,048,337	221,993,323	281,984,994	59,991,671
1975	2,023,647	7,770,644,262	7,195,131,300	346,517,345	411,737,398	65,220,053
1980	2,710,538	10,090,046,364	9,091,289,505	402,375,639	494,086,400	91,710,762
1981	2,547,410	10,102,796,319	10,102,796,319	307,193,832	433,424,749	126,230,917
1982	2,925,933	9,513,467,130	8,339,058,207	209,030,803	371,584,762	162,553,959
1983	2,999,071	9,363,544,915	8,312,576,047	247,114,763	389,648,910	142,534,148
1984	3,170,743	9,888,305,652	8,740,775,586	292,975,052	439,246,868	146,271,816
1985	3,277,219	10,201,254,556	8,951,661,163	291,668,735	441,983,895	150,315,161
1986	3,428,515	10,338,392,063	8,986,200,057	321,419,730	487,573,917	166,154,188
1987	3,612,133	11,022,889,046	9,681,162,592	384,379,074	539,174,063	154,794,989
1988	3,562,789	11,340,812,994	9,887,953,543	467,466,078	620,517,351	153,051,273
1989	3,627,863	11,525,814,710	9,936,654,626	423,004,380	593,843,998	170,839,620
1990	3,716,650	11,409,520,074	9,860,441,633	383,213,763	N.A.	N.A.
1991	3,802,788	10,974,649,428	9,563,198,855	345,971,128	520,441,068	174,469,941
1992	3,869,024	10,938,681,461	9,651,518,485	385,793,658	542,102,887	156,309,229
1993	3,964,629	11,097,942,058	9,827,864,411	461,528,184	606,448,162	144,919,979
1994	4,342,369	11,782,408,471	10,480,354,067	524,742,361	667,171,616	142,429,254
1995	4,474,167	12,468,857,284	10,965,247,772	631,564,881	772,300,346	140,735,465
1996	4,631,369	12,933,150,691	11,378,539,002	698,559,132	846,455,400	147,896,267
1997	4,710,083	13,525,786,569	11,775,971,218	779,099,826	940,749,012	161,649,186
1998	4,848,887	13,891,048,583	12,035,838,096	717,769,495	917,326,676	199,557,181
1999	4,935,904	14,821,337,395	12,798,535,774	773,031,139	1,006,124,418	233,093,279
2000	5,045,273	15,639,832,258	13,386,162,957	749,097,926	1,055,777,261	306,679,333
2001	5,135,591	14,910,948,574	12,874,566,820	477,167,598	849,879,301	372,711,703
2002	5,266,607	14,348,248,944	12,566,616,212	433,383,490	787,672,607	354,289,118
2003	5,401,237	14,696,344,347	12,973,675,448	554,046,275	835,065,734	281,019,459
2004	5,557,965	15,714,349,480	13,821,317,956	769,180,678	1,007,266,497	238,085,819

N.A.—Not available.

[1] Based upon the Consumer Price Index as published by the U.S. Department of Commerce, Bureau of Economic Analysis.

[2] For years prior to 1960, Total Receipts are also referred to as Total Compiled Receipts.

A History of the Tax-Exempt Sector: An SOI Perspective

by Paul Arnsberger, Melissa Ludlum, Margaret Riley, and Mark Stanton

The origins of the tax-exempt sector in the United States predate the formation of the republic. Absent an established Governmental framework, the early settlers formed charitable and other "voluntary" associations, such as hospitals, fire departments, and orphanages, to confront a wide variety of issues and ills of the era. These types of voluntary organizations have continued to thrive in the United States for centuries. In 1831, during his historic visit to the United States, Alexis de Tocqueville observed:

> "Americans of all ages, conditions, and dispositions constantly unite together. Not only do they have commercial and industrial associations to which all belong but also a thousand other kinds, religious, moral, serious, futile…Americans group together to hold fetes, found seminaries, build inns, construct churches, distribute books…They establish prisons, schools by the same method…I have frequently admired the endless skill with which the inhabitants of the United States manage to set a common aim to the efforts of a great number of men and to persuade them to pursue it voluntarily."[1]

Voluntary associations comprised two distinct types of organizations—public-serving and member-serving.[2,3] Early public-serving, or charitable, organizations included schools, churches, and other voluntary organizations designed to provide services to the public. The popularity of voluntary charitable organizations in the United States, even in the midst of strengthening State and Federal governments, suggests that perhaps these organizations, with their well-established structures and programs, were able to fill a gap in social welfare programs where the young Government's efforts proved insufficient. Another suggestion is that many early Americans embraced charitable organizations over Government programs because they feared "the rebirth of monarchy, or bureaucracy."[4]

By the end of the 19th century, private philanthropy, as typified by the modern private foundation, had joined voluntary associations as an important component of the public-serving charitable sector of the United States. The foundation originated from the charitable trust, a tool for giving that became widely used in this period.[5] In the early 20th century, a number of American industrialists, wishing to direct their newly acquired wealth toward a broad range of altruistic endeavors, created private foundations that remain prominent today. Unlike other early charitable organizations, private foundations generally were controlled and funded by a single source, such as an individual, corporation, or family. Andrew Carnegie articulated the vision of these early philanthropists in his essay, "The Gospel of Wealth," where he argued that a wealthy individual should "consider all surplus revenues which come to him simply as trust funds, which he is called upon to administer, and strictly bound as a matter of duty to administer in the manner which, in his judgment, is best calculated to produce the most beneficial results for the community…"[6]

Member-serving associations, including fraternal societies, were also popular among early Americans. The Freemasons, for example, have roots in 17th century England and count a number of this Nation's founding fathers as members. By the 19th century, mutual benefit associations, serving members in areas such as banking and insurance, began to flourish. Additionally, labor and agricultural organizations, established to promote the interests of their members, started to take root across the Nation around this time.

Voluntary associations and philanthropic vehicles continue to coexist and forge a relationship with

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[1] Tocqueville, Alexis de, *Democracy in America* (2003), Penguin Books, London, England, p. 596

[2] For the most part, public-serving organizations are those that are now described under section 501(c)(3) of the Internal Revenue Code. Member-serving organizations are those covered under other subsections of 501(c). Appendix A at the end of this article provides detailed information on organizations exempt under section 501(c).

[3] See: Salamon, Lester M. (1992), *America's Nonprofit Sector: A Primer*, The Foundation Center, New York, NY, p. 14.

[4] Ibid., p. 7.

[5] Chester, Ronald (1982), *Inheritance, Wealth, and Society*, Indiana University Press, Bloomington, Indiana, p. 95.

[6] Carnegie, Andrew (2001), "The Gospel of Wealth," *The Nature of the Nonprofit Sector*, editor J. Steven Ott. Westview Press, Boulder, CO, p. 68.

Government that remains into the 21st century. A significant component of this relationship is Government's recognition of the importance of the charitable and voluntary sector, and the support of its organizations in the form of an exemption from income and certain other taxes. This article explores the legislative history of tax exemption and presents historical data that highlight recent financial trends among tax-exempt organizations.

Legislative History of the Tax-Exempt Sector

The structure of tax exemption granted to the charitable and voluntary sector outlined in the United States Tax Code was developed through legislation enacted between 1894 and 1969. Over that 75-year period, Congress established the basic principles and requirements of tax exemption, identified business activities of tax-exempt organizations that were subject to taxation, and defined and regulated private foundations as a subset of tax-exempt organizations. Figure A shows a timeline of major legislative actions relevant to tax-exempt organizations, while a more complete history can be found in Appendix B at the end of this article.

Early Legislation, 1894-1936

The privileged tax treatment that the Government grants to charitable and member-serving organizations can be traced to the earliest versions of United States tax law. Early tax-exemption regulations developed around three major principles. First, organizations that operated for charitable purposes were granted exemption from the Federal income tax. Second, charitable organizations were required to be free of private inurement—that is, a charitable organization's income could not be used to benefit an individual related to the organization. Finally, an income tax deduction for contributions, designed to encourage charitable giving, was developed.

The Wilson-Gorman Tariff Act of 1894, one of the earliest statutory references to the tax-exempt status enjoyed by charitable organizations, established the requirement that tax-exempt, charitable organizations operate for charitable purposes. While establishing a flat 2-percent tax on corporate income, the act stated "nothing herein contained shall apply to… corporations, companies, or associations organized and conducted solely for charitable, religious, or

Figure A

Major Exempt Organization Legislation, 1894-Present

- **Tariff Act of 1894** - Earliest statutory reference to tax exemption for certain organizations.
- **Revenue Act of 1909** - Introduced language prohibiting private inurement.
- **Revenue Act of 1913** - Established income tax system with tax exemption for certain organizations.
- **Revenue Act of 1917** - Introduced individual income tax deduction for charitable donations.
- **Revenue Act of 1918** - Estate tax deduction for charitable bequests added.
- **Revenue Act of 1934** - Set limits on lobbying activities by charitable organizations.
- **Revenue Act of 1936** - Introduced corporate tax deduction for charitable contributions.
- **Revenue Act of 1943** - Required first Forms 990 to be filed.
- **Revenue Act of 1950** - Established unrelated business income tax.
- **Revenue Act of 1954** - Modern tax code established, including section 501(c) for exempt organizations. Also, limits on political activities established.
- **Revenue Act of 1964** - Raised the limitation on deduction for donations to public charities to 30 percent of adjusted gross income (AGI).
- **Tax Reform Act of 1969** - Established private foundation rules, including a minimum charitable payout requirement and a 4-percent excise tax on net investment income, and raised the limitation on the deduction for donations to operating private foundations and public charities to 50 percent of AGI.
- **Revenue Act of 1978** - Reduced the net investment income excise tax for private foundations to 2 percent.
- **Deficit Reduction Act of 1984** - Raised the limitation on the deduction for donations to nonoperating private foundations to 30 percent of AGI and introduced other more favorable rules for donors to these organizations. Also, exempted certain operating foundations from the net investment income tax and reduced the tax to 1 percent for foundations meeting other requirements.
- **Revenue Reconciliation Act of 1993** - Imposed a proxy tax on certain lobbying and political expenditures made by membership organizations.
- **Tax Payer Bill of Rights 2 (1996)** - Introduced intermediate sanction rules for excess benefit transactions.
- **Tax Payer Relief Act of 1997** - Revoked tax exemption of certain organizations providing commercial-type insurance.
- **Pension Protection Act of 2006** - Required section 501(c)(3) organizations to make their Forms 990-T available for public inspection.

NOTE: For more extensive information, see Appendix B.

educational purposes, including fraternal beneficiary associations." Though the law was declared unconstitutional by the Supreme Court in 1895, the exemption language contained in the act would provide the cornerstone for tax legislation involving charitable organizations for the next century.

The Revenue Act of 1909 mirrored and expanded the language from the 1894 act. Under this statute, tax exemption was granted to "any corporation or association organized and operated exclusively for religious, charitable, or educational purposes, no part of the net income of which inures to the benefit of any private stockholder or individual." This important addition set forth the idea that tax-exempt charitable organizations should be free of private inurement—in other words, nonprofit.

Ratification of the Sixteenth Amendment granted Congress the power to levy income tax. The subsequent Revenue Act of 1913 established the modern Federal income tax system. For charitable organizations, the act used identical language as that found in the Tariff Acts of 1894 and 1909 with regard to charitable purpose and private inurement.

The Revenue Act of 1917 established, for the first time, an individual income tax deduction for contributions made to tax-exempt charitable organizations. This deduction was conceived as a way to encourage charitable contributions at a time when income tax rates were rising in order to fund World War I. One year later, the Revenue Act of 1918 provided that charitable bequests were entitled to a similar deduction on estate tax returns. Finally, corporations were able to claim the charitable deduction beginning in 1936.

The Revenue Act of 1950

Before the 1950s, tax-exempt organizations could earn tax-free income from both mission-related activities and commercial business activities that were unrelated to the purpose for which they were exempt, as long as they used the net profits for exempt purposes. However, in the 1940s, concerns grew in Congress over the perception that tax-exempt organizations were permitted an unfair competitive advantage over taxable entities. As a result, Congress established the "unrelated business income tax" (UBIT) as part of the Revenue Act of 1950. For tax years beginning after December 31, 1950, UBIT was imposed on the "unrelated business income" (UBI) of charitable organizations (except churches); labor and agricultural organizations; chambers of commerce, business leagues, and real estate boards; certain trusts; and certain title holding companies.[7]

Income was considered UBI if it was produced from an activity deemed a "trade or business" that was "regularly carried on" and was not "substantially related" to the organization's exempt purpose(s), regardless of whether or not the profits from the unrelated trade or business were used solely for exempt purposes. Passive income and certain gains and losses from the disposition of property were not subject to tax.

The Revenue Act of 1950 addressed several other issues regarding the unrelated activities of tax-exempt organizations. Tax exemption was no longer permitted to "feeder" organizations, which did not conduct any charitable activities, but rather operated commercial enterprises from which they passed income to a charitable organization. In addition, income from debt-financed real estate sale-leaseback activities was subject to UBIT. In these cases, tax-exempt organizations purchased real estate with borrowed funds, leased the property back to the owner, and used the tax-free rental income to pay off the debt.[8]

The Revenue Act of 1950, and additional changes made under the Tax Reform Act of 1969, discussed in the following section, formed the contemporary structure for the unrelated business taxation of tax-exempt organizations.

Tax Reform Act of 1969

By the 1960s, there was a growing perception among lawmakers that private foundations, with their small networks of financers and administrators, were less accountable to the public than traditional charities. These concerns were addressed with the Tax Reform Act of 1969 (TRA69), which introduced sweeping reforms to the charitable sector. TRA69 also significantly expanded the rules governing unrelated business income taxation of tax-exempt entities.

The first explicit definition of private foundations, for tax purposes, was included in TRA69. This legislation defined a foundation as a charitable orga-

[7] In 1951, Congress extended the UBIT to the unrelated business income of State and municipally owned colleges and universities, to correct for an omission from the 1950 act.

[8] Staff report of the Joint Committee on Taxation, "Historical Development and Present Law of Federal Tax Exemption for Charities and Other Tax-Exempt Organizations" (JCX-29-05) (April 19, 2005).

nization that did not engage in inherently public activities, test for public safety, receive substantial support from a wide array of public sources, or operate in support of any organization that met any of these three requirements.[9] Further, the legislation created two subclasses of private foundations—nonoperating and operating. Nonoperating foundations, which represented the majority of all private foundations, were defined as primarily grantmaking organizations. Conversely, operating foundations were those that operated charitable programs in a manner similar to that of public charities.

TRA69 established an array of more stringent requirements specific to private foundations. These "private foundation rules" outlined two annual requirements and a variety of "prohibited activities" that were considered to be contrary to the public interest. First, TRA69 established an annual excise tax on investment income. This provision was intended to compel private foundations to "share some of the burden of paying the cost of government," particularly the enforcement of regulations related to the tax-exempt sector.[10] Second, nonoperating foundations were required to distribute a minimum amount for charitable purposes each year. Further, private foundations that failed to meet the minimum charitable distribution requirement or engaged in certain prohibited activities were subject to taxes and other sanctions.

TRA69 also increased the existing charitable deduction limits for individual donors and sharpened the definitions of the organizations to which contributions were deductible. Under the Revenue Act of 1964, individuals could deduct contributions made to public charities up to 30 percent of adjusted gross income (AGI). The new regulations enacted under TRA69 increased the maximum deduction limitation for cash and ordinary income contributions to 50 percent for public charities and operating foundations. Most nonoperating private foundations remained subject to a lower 20-percent limitation.[11]

TRA69 also expanded the tax on unrelated business income, extending the tax to all tax-exempt organizations described in IRC sections 501(c) and 401(a) (except United States instrumentalities), and including churches for the first time. Additionally, TRA69 expanded the taxation of debt-financed income to include forms of income other than rents from real estate sale-leaseback arrangements.[12] Since 1969, Congress has made a number of changes to the UBIT statutes. However, the rules on unrelated business taxation of tax-exempt organizations established by the Revenue Act of 1950 and TRA69 have remained largely intact.

Other Legislation, 1970-2007

While the underlying structure of tax exemption for the charitable and voluntary sector has changed little since the passage of TRA69, subsequent legislation has introduced a number of modifications. These include adjustments to the private foundation net investment income tax rates and to the excise tax rates on charitable organizations that engage in prohibited activities. Further changes have provided new exceptions to UBIT taxation for specified activities, tightened the rules pertaining to the taxation of payments received from subsidiaries, and required unrelated business income tax returns filed by IRC section 501(c)(3) organizations to be made publicly available.

Overview of the Statistics of Income Exempt Organization Program

The Internal Revenue Service provides, by Congressional mandate, statistics and microdata derived from information and tax returns filed with IRS. To fulfill this requirement, the Statistics of Income (SOI) division has conducted annual studies of organizations exempt under IRC section 501(c)(3) for every tax year since 1985.[13] Currently, SOI collects information from stratified random samples of Forms 990, 990-PF, 990-T, and the population of Forms 4720.

[9] Organizations that conduct "inherently public activities" include churches, schools, hospitals, and Governmental units of the United States. For additional information, see Richardson, Virginia G. and John Francis Reilly, "Public Charity or Private Foundation Status Issues under 509(a)(1)-(4), 4942(j)(3), and 507, Fiscal Year 2003," Exempt Organizations Continuing Professional Education. This article is available at www.irs.gov/pub/irs-tege/eotopicb03.pdf.

[10] Staff report of the Joint Committee on Taxation, "General Explanation of the Tax Reform Act of 1969" (JCS-16-70) (December 3, 1970), p. 29.

[11] Deduction limitations for cash and ordinary income contributions to nonoperating foundations later were increased to 30 percent of AGI as part of the Deficit Reduction Act of 1984.

[12] TRA69 expanded taxable debt-financed income to include interest, dividends, other rents, royalties, and certain gains and losses from any type of property, if produced from financial vehicles acquired with borrowed funds.

[13] The first SOI exempt organization studies were based on Forms 990 filed by tax-exempt organizations for Tax Years 1943 and 1946. Data from Forms 990-PF filed by private foundations were first collected for Tax Year 1974.

Keeping Pace with Technology

Since 1918, Statistics of Income (SOI) has collected, compiled, and published information from tax returns for its statistical research studies. Over the years, SOI has made incremental improvements in data processing methods to keep pace with technological advances. The relatively small size of the statistical samples used for SOI's exempt organization (EO) research studies has made these studies ideal for piloting major innovations in return processing, which have been subsequently adopted by other SOI studies.

The first modern SOI exempt organization study was of private foundation information returns, Forms 990-PF, filed for Tax Year 1974. Abstracting and editing data from these information returns relied on a tedious process. First, IRS tax examiners recorded data items from the returns on preprinted forms, called edit sheets. Next, data from these edit sheets were transcribed, read into a mainframe computer, and subjected to data quality and consistency tests. Items that failed the tests were recorded on paper listings, called error registers, which were returned to tax examiners. Based on instructions provided by SOI analysts, tax examiners made handwritten corrections on the listings. These corrections were transcribed, and the data were subjected to further testing. The process was repeated until errors were no longer present. These procedures were quite time-consuming and costly compared to present-day processing.

The Tax Year 1982 Form 990-PF study was a pilot for developing a new online, interactive system of editing, testing, and error resolution. With the new system, tax examiners keyed return information directly into a database via computer screens that were facsimiles of the Form 990-PF. Failed quality and consistency tests were communicated to the user at the time of entry, and corrections were made and retested immediately. The online system streamlined the edit process and improved production rates, and, eventually, all SOI studies adopted similar applications.

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Tax-exempt organizations, other than private foundations, file Form 990, *Return of Organization Exempt from Income Tax*; private foundations file Form 990-PF, *Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation*. Forms 990 and 990-PF are used by these organizations to report standard financial information, as well as information regarding compliance with the regulations that govern their tax-exemption. Charitable and other types of tax-exempt organizations report any unrelated business income and taxes on Form 990-T, *Exempt Organization Business Income Tax Return*. Private foundations, public charities, and split-interest and charitable trusts use Form 4720, *Return of Certain Excise Taxes on Charities and Other Persons under Chapters 41 and 42 of the Internal Revenue Code*, to calculate and pay taxes on prohibited activities and, for private foundations, failure to meet the minimum annual distribution requirement. SOI produces a variety of statistical tables and articles annually for all of the tax-exempt organization programs. Also annually, microdata files that include all information collected from the Form 990 and Form 990-PF samples are made available to the public on the IRS Web site, www.irs.gov/taxstats. Microdata derived from Forms 4720 and the majority of Forms 990-T cannot be disclosed to the public.[14]

SOI samples approximately 10 percent of all Forms 990 and 990-PF, and about 20 percent of all Forms 990-T filed for a given tax year.[15] For any designated tax year, tax-exempt organizations have various 12-month fiscal periods that collectively span 2 calendar years. To ensure complete coverage of a

[14] Under the Pension Protection Act of 2006, IRC section 501(c)(3) public charities and private foundations reporting unrelated business income were required to make their Forms 990-T, *Exempt Organization Business Income Tax Returns*, available for public inspection. However, IRS was not authorized under the Pension Act to disclose this information to the public. The Tax Technical Corrections Act of 2007 corrected for this oversight and authorized IRS to disclose Form 990-T information reported by section 501(c)(3) organizations, retroactive to returns filed after August 17, 2006, the date of enactment of the Pension Act.

[15] For detailed information on Statistics of Income sampling methodology for producing population estimates, see the general Appendix, located near the back of this issue of the *SOI Bulletin*.

single tax year, SOI draws samples of Form 990-series returns over a 2-year timeframe. For example, the Tax Year 2004 studies include returns filed for Tax Year 2004 in Calendar Years 2005 and 2006. The SOI study of Forms 4720 includes data collected for the population of Forms 4720 filed over a calendar year, which may include various tax years.

The SOI files contain most financial items from each return, as well as a number of additional fields dedicated to information about the organizations' structures and activities. The SOI staff enter data into an online system, which identifies filer and other errors that are corrected during the data entry process. Often, supplemental information is included on schedules and other attachments. Where appropriate, information from these attachments is used to adjust or supplement data reported by the filer.

The following sections provide highlights of historical data for charitable and other tax-exempt organizations based on the information and tax returns they filed. The data represent every year for which continuous SOI data are available. This includes Tax Years 1985 through 2004 for public charities and private foundations, filing Forms 990, and 990-PF, respectively. For organizations that file the Form 990-T, data are presented for Tax Years 1990 through 2004. Data are also shown for excise taxes reported on Forms 4720 for Calendar Years 2003 through 2006.

Public Charity and Private Foundation Historical Data, 1985-2004

The charitable sector, comprising both public charities and private foundations exempt from income tax under IRC section 501(c)(3), is a substantial and growing portion of the overall economy. The aggregate book value of assets, as reported by charitable organizations that filed IRS information returns for Tax Year 2004, was $2.5 trillion, a real increase of 222 percent over the total reported for Tax Year 1985.[16] These organizations also reported 171 percent more revenue for Tax Year 2004 than for Tax Year 1985. Public charities and private foundations directed much of this additional revenue into charitable expenditures such as program service activities and grants. Total charitable expenditures reported by these organizations for Tax Year 2004 were 182 percent larger than those reported for Tax Year 1985 and experienced a real annual rate of growth of nearly 6 percent.[17] In contrast, Gross Domestic Product grew at a real annual rate of 3 percent over the period.[18] Figure B shows the cumulative growth in charitable expenditures and GDP for Tax Years 1985 through 2004.

The Seattle-based Bill and Melinda Gates Foundation, currently the largest foundation in the world, was founded in Tax Year 1999 with an initial endowment of $15.8 billion. By Tax Year 2004, the foundation's assets were valued at $28.8 billion, or nearly 6 percent of the aggregate fair market value of total assets held by all private foundations. The $1.3 billion in contributions, gifts, and grants that the foundation distributed in Tax Year 2004 represented 4 percent of the aggregate amount of contributions, gifts, and grants distributed by all private foundations for the year.

Public Charities

Public charities filed over 276,000 information returns for Tax Year 2004. These organizations held more than $2.0 trillion in assets and reported nearly $1.2 trillion in revenue, 70 percent of which came from program services. The statistics reported in this section are based on data compiled from Form 990 and Form 990-EZ, the short form version of the information return that may be completed by smaller organizations.

In order to qualify for tax-exempt status, an organization must show that its purpose serves the public good, as opposed to a private interest. The activities of public charities are limited in that they must further one or more of the purposes for which they were granted tax-exempt status. Organizations that are exempt under IRC section 501(c)(3) are those whose purposes are religious, charitable, scientific, literary, or educational. In practice, these categories cover a broad range of activities. Examples of the varied

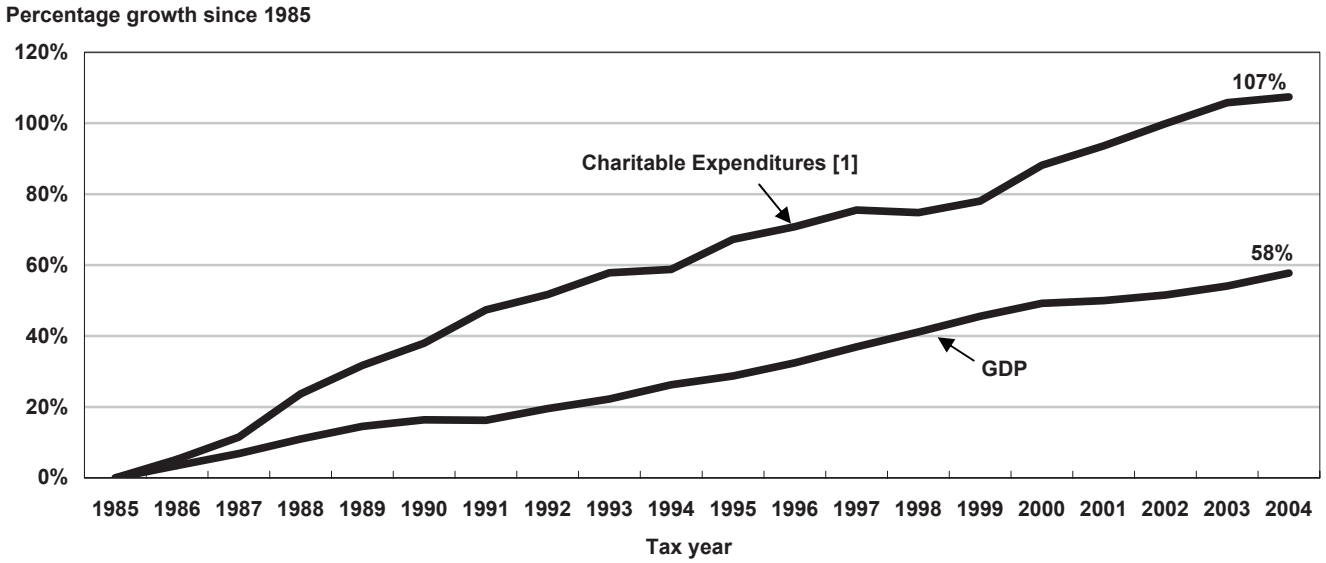
[16] Data presented in constant dollars were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis (BEA). Tax Year 2004 is used as the base year for these adjustments. The indexes are available from BEA's Web site, www.bea.gov.

[17] For purposes of analysis, "charitable expenditures" are defined as the sum of program service expenses from Form 990 and disbursements for charitable purposes from Form 990-PF.

[18] Growth rates were derived from the exponential formula for growth, $y=b*m^x$.

Figure B

Real Growth in Gross Domestic Product and Charitable Expenditures, Cumulative Percentage, Tax Years 1985-2004



[1] Charitable expenditures are defined as the sum of program service expenses from Form 990 and charitable expenses (disbursements for charitable purposes) from Form 990-PF. Public charity data exclude Form 990-EZ filers, most organizations with gross receipts less than $25,000 in current dollars, as well as most churches, and certain other religious organizations.

NOTE: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

exempt purposes of these public charities include nonprofit hospitals, educational institutions, youth organizations, community fundraising campaigns, local housing organizations, historical societies, and environmental preservation groups.

The universe of public charities has changed dramatically over the past 2 decades. Figure C shows that, in 1985, the IRS Master File listed approximately 335,000 active public charities, tax-exempt under IRC section 501(c)(3). By 2004, this number had nearly tripled to 933,000. Not all public charities are included in this figure because most churches and certain other religious organizations need not apply for recognition of tax exemption, unless they specifically request an IRS ruling.

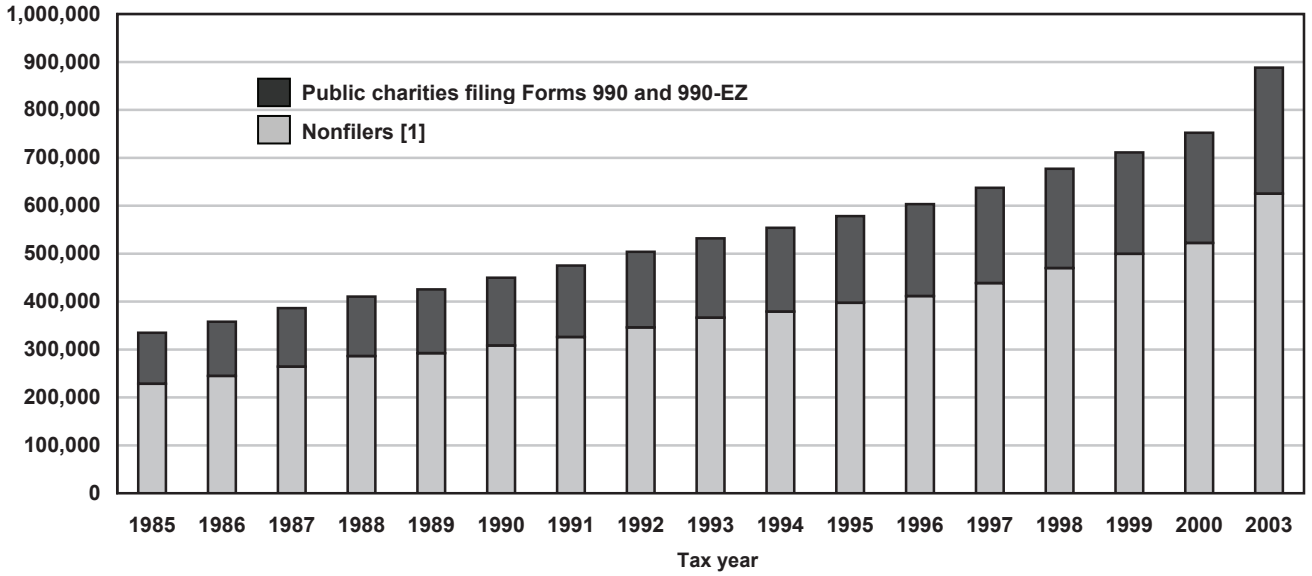
Of the public charities on the IRS Master File, only a fraction must report financial data to the IRS. In addition to churches, organizations with gross receipts less than $25,000 are not required to file annual Forms 990 or 990-EZ. Public charities filed 276,191 information returns with the IRS for Tax Year 2004, 159 percent more than for Tax Year 1985. The difference between the number of active public charities on the IRS Master File and those that filed information returns for Tax Years 1985 through 2004 is illustrated in Figure C.

Public Charity Growth

The 20-year period between Tax Years 1985 and 2004 was one of significant and steady growth for IRC section 501(c)(3) public charities. Figure D shows that, with one notable exception, all of the major financial categories on Forms 990 and 990-EZ—total assets, total liabilities, total revenue, and total expenses—increased in real terms in each of the years during this period. The lone decrease, between Tax Years 1997 and 1998, can be attributed to the absence of Teachers Insurance and Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF), two very large teachers' pension organizations that lost their tax exemption as a result of the Taxpayer Relief Act of 1997.

For the most part, components of the major financial categories featured in Figure D also showed steady increases over the 20-year period. Table 2, located at the end of this article, shows that the two major sources of revenue for public charities—program service revenue and contributions, gifts, and

Figure C

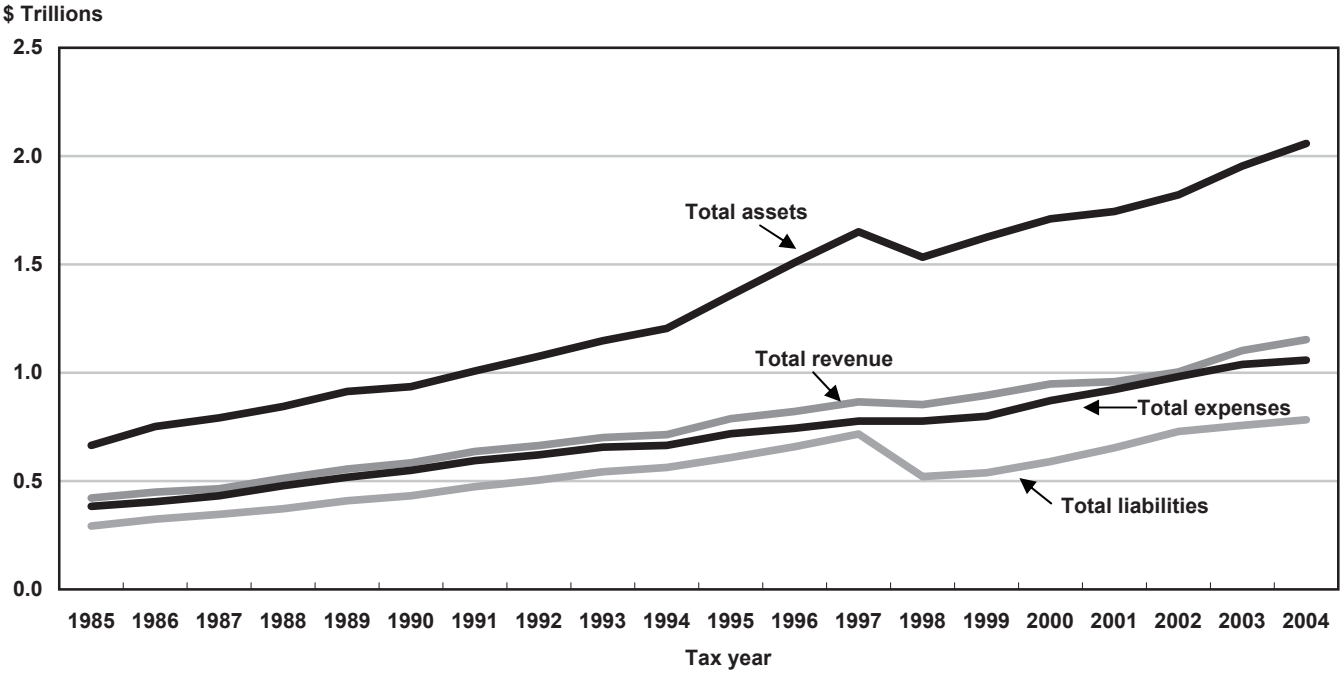


[1] Nonfilers include organizations on the IRS Master file with gross receipts below the $25,000 filing threshold, churches and certain other religious organizations which are not required to file, as well as noncompliant organizations.

NOTE: The number of organizations on the IRS Master File figure was supplied by IRS Tax Exempt Government Entities and does not include private foundations which are required to file Forms 990-PF. The number of organizations filing Forms 990 and 990-EZ are SOI estimates based on samples.

Figure D

Public Charity Growth, Selected Financial Items, in Constant Dollars, Tax Years 1985-2004



NOTES: Data are from Forms 990 (and, beginning with Tax Year 1989, Forms 990-EZ) for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations, most organizations with receipts less than $25,000 in current dollars, as well as most churches, and certain other types of religious organizations. Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

grants—increased, in real terms, between each of Tax Years 1985 through 2004. However, other components of revenue were more volatile. For example, investment income, which includes interest from short-term investments and dividends and interest from securities, showed a net increase of 27 percent over the 20-year period, despite a decline of 38 percent between Tax Years 1999 and 2002.

Even though they are considered nonprofit, public charities use net income, the difference between total revenue and total expenses, to expand future programs and increase endowments. Total revenue reported by public charities exceeded total expenses for each tax year between 1985 and 2004, resulting in annual amounts of positive net income. However, unlike other financial variables, net income did not increase steadily over this period. The highest aggregate real net income was reported for Tax Year 1999, over $96 billion. This was followed by a 3-year period in which total expenses increased at a rate faster than total revenue. The result was a 20-year low for aggregate net income: less than $22 billion for Tax Year 2002.

Table 2 at the end of this article presents selected data, in both current and constant dollars, from Forms 990 and 990-EZ filed by public charities for Tax Years 1985 and 2004. Total assets held by these public charities grew, in real terms, by 210 percent, from $665.0 billion in 1985 to $2.1 trillion in 2004. Total revenue and total expenses showed similar trends over the 20-period, with real increases of 174 percent and 176 percent, respectively

The Top Ten Public Charities

Figure E shows the top ten public charities, in terms of total assets, for Tax Years 1985 and 2004. For Tax Year 1985 the top ten organizations reported $107.7 billion in assets. This figure represented over 16 percent of the total assets reported by all IRC section 501(c)(3) public charities for that year. By a significant margin, the largest two organizations for Tax Year 1985 were TIAA and CREF, reporting $36.3 billion and $37.9 billion in assets, respectively, a combined 11 percent of total assets. The remaining organizations include nonprofit hospitals and universities, as well as Commonfund, an organization that manages nonprofit endowments. The top ten for Tax Year 2004 includes many of the same organizations on the 1985 list, with the notable exception of TIAA and CREF, which were no longer tax-exempt. These ten organizations reported $183.4 billion in assets, or 9 percent of the total of all reporting organizations for Tax Year 2004.[19]

Private Foundation Growth

Tax Years 1985 through 2004 also represented a period of significant growth for the private foundation segment of the tax-exempt sector. The wealth realized during the technological revolution of the mid-to-late 1990s was used by a number of philan-

Figure E

Top Ten Public Charities, by Size of Total Assets, in Constant Dollars, Tax Years 1985 and 2004

[All figures are shown in billions of constant 2004 dollars]

1985	
Organization	**Assets**
CREF	37.9
TIAA	36.4
Harvard University	8.4
Yale University	4.6
Stanford University	4.5
Columbia University	3.4
Princeton University	3.3
Kaiser Foundation Hospitals	3.2
Cornell University	3.1
Commonfund	3.0

2004	
Organization	**Assets**
Harvard University	55.3
Stanford University	19.0
Yale University	18.3
Howard Hughes Medical Institute	16.7
Commonfund	16.6
Princeton University	13.3
Kaiser Foundation Hospitals	13.1
Massachusetts Institute of Technology	10.9
Shriner's Hospital for Children	9.3
Columbia University	8.8

NOTES: Data are from Forms 990 for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations. Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

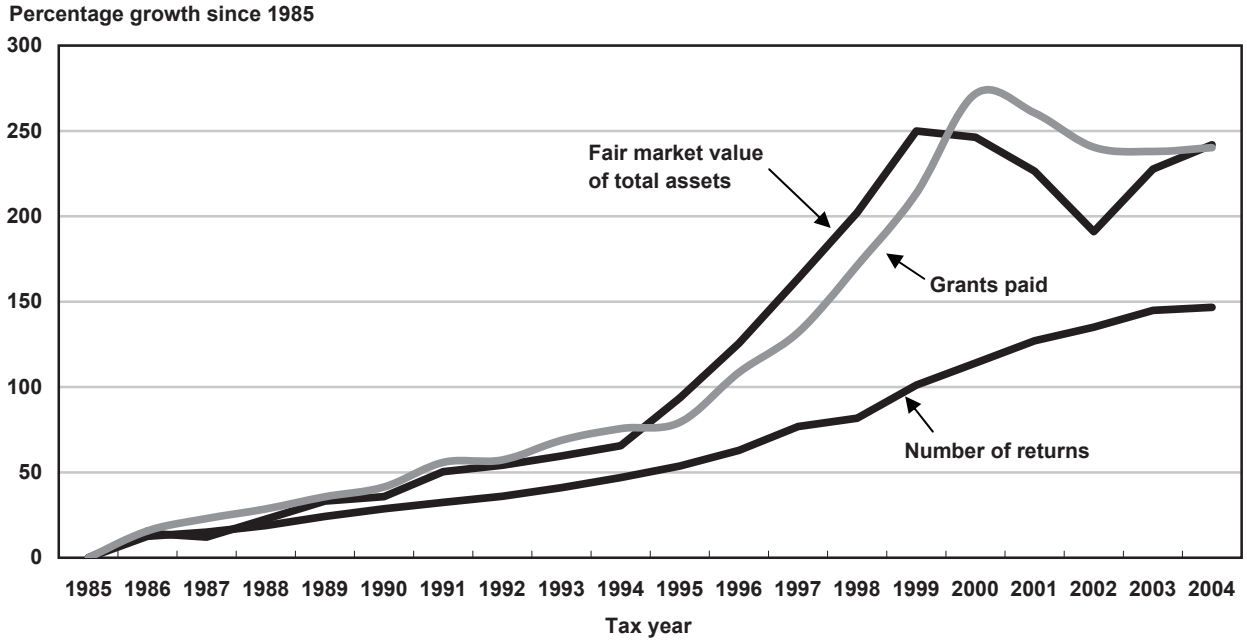
[19] When TIAA and CREF are excluded from the data for Tax Year 1985, the assets of the revised top ten, which included Emory and Vanderbilt Universities, accounted for $38.9 billion, or 7 percent of the total.

thropists to establish and fund new foundations. Additionally, flourishing investment markets benefited existing foundations, particularly those with diverse and sizeable portfolios. This prosperity led to a period of substantially increased giving levels.

Between Tax Years 1985 and 2004, real growth in foundation assets and giving outpaced the number of new foundations that entered the charitable sector. Figure F shows the percentage change in the number of returns filed, fair market value of total assets, and grants paid for each year in the period.[20] The number of private foundations increased substantially, more than doubling between 1985 and 2004. While 31,170 private foundations filed Forms 990-PF for Tax Year 1985, the number of returns filed for Tax Year 2004 was 76,897. The number of new foundations entering the sector grew at the highest rates in Tax Years 1986 and 1999. In 1986, nearly 13 percent more foundations filed Forms 990-PF than for 1985. This increase likely reflected the adoption of several provisions, enacted under the Deficit Reduction Act of 1984 (DEFRA), which allowed more favorable tax treatment for donations to private nonoperating foundations. One provision introduced in DEFRA, which permitted contributors to deduct the full fair market, rather than a reduced value, for donations of certain appreciated stock to nonoperating private foundations, expired in 1994, but was frequently extended until its permanent adoption under the Tax and Trade Relief Extension Act of 1998. Due in part to the economic growth of the mid and late-1990s and, perhaps to some extent, the adoption of the permanent provision for donations of certain appreciated stock, the largest number of new foundations was recorded for Tax Year 1999, when the number of new filers increased by 11 percent from 1998. Meanwhile, the fair market value of total assets more than tripled over the 20-year period. Asset values grew at their highest rates, 15 percent or more, annually, between Tax Years 1995 and 1999, before declining between Tax Years 2000 and 2002. Growth in foundation giving, as measured by grants paid by private foun-

Figure F

Domestic Private Foundations: Growth in Number of Returns Filed, and Real Growth in Fair Market Value of Total Assets, and Grants Paid, Cumulative Percentages, Tax Years 1985-2004



NOTE: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

[20] Data used in these analyses are for domestic private foundations and exclude Forms 990-PF filed by foundations that were organized outside of the United States.

dations for charitable purposes, nearly mirrored that of assets, also more than tripling over the 20-year period. Tax Years 1996 through 2000 represented the period of the largest growth in grants paid over the 20-year period.

Foundation Giving

Figure G shows the aggregate values of total charitable expenses and their components, in constant dollars, that private foundations reported for Tax Years 1985-2004. Total charitable expenses included grants paid, as well as operating and administrative expenses. Total charitable expenses increased from $9.7 billion, in constant dollars, to $32.1 billon over the 20-year period. Total charitable expenses experienced double-digit increases in each of Tax Years 1996-2000, growing at a real annual rate of 15 percent over the 5-year period. The real value of these expenses peaked in Tax Year 2000 before leveling off between Tax Years 2001 and 2004.

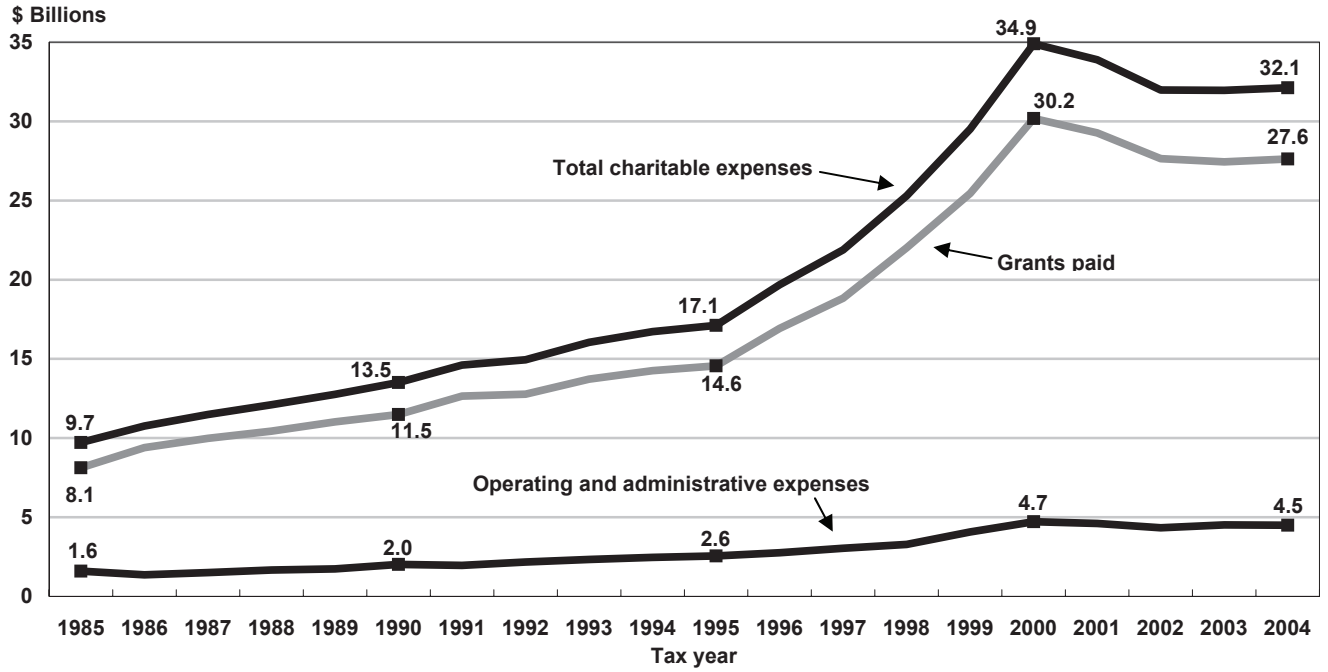
To further their charitable purposes, most private foundations pay grants to charities that operate charitable programs. Grants paid were the largest component of charitable expenditures, representing 84 percent or more of total charitable expenses for each of Tax Years 1985-2004. The aggregate amount of grants paid by private foundations was more than three times larger for Tax Year 2004 than for Tax Year 1985. Like total charitable expenses, the real value of grants paid peaked between Tax Years 1996 and 2000; the real annual growth rate for the 5-year period was 16 percent. Giving for the typical foundation, as measured by the median value of grants paid, also increased, in real terms, over the 20-year period, from $14,130 in Tax Year 1985 to $24,375 in Tax Year 2004.

Foundation Investments and Income

Foundations financed charitable giving primarily with income derived from assets, particularly investment assets, over the 20-year period. The real fair market value of foundations' total investments more than tripled between Tax Years 1985 and 2004, growing from $137.8 billion in Tax Year 1985 to $481.2 billion in Tax Year 2004 (see Figure H). Similarly, the median fair market value of investments held

Figure G

Domestic Private Foundations: Charitable Expenses and Components, in Constant Dollars, Tax Years 1985-2004



NOTE: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

Figure H

Domestic Private Foundations: Investment Assets, Revenue, Net Investment Income, and Excise Tax on Net Investment Income, in Constant Dollars, Tax Years 1985 and 2004

[Money amounts are in thousands of dollars]

Item	Tax Year 1985	Tax Year 2004	Real annual rate of growth [1]	Percentage change
	(1)	(2)	(3)	(4)
Total investment assets	137,777	481,177	6.8	249.2
Total revenue	25,423	58,668	4.5	130.8
Net investment income	15,692	34,019	4.2	116.8
Excise tax on net investment income	263	469	3.1	78.1

[1] Growth rates were derived from the exponential formula for growth $y=b*m^x$.

NOTE: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

by private foundations more than doubled over the period, growing from $159,349 in Tax Year 1985 to $333,798 in Tax Year 2004. Investment growth was most pronounced in Tax Years 1995 through 1999, when real investment values grew by more than 15 percent, annually.

Net investment income is the realized income that private foundations receive from their investments. In accordance with the regulations enacted under TRA69, private foundations pay an annual tax on this amount. For most domestic foundations, the tax equals 2 percent of net investment income.[21] Net investment income more than doubled, in real terms, between Tax Years 1985 and 2004, increasing from $15.7 billion to $34.0 billion during the period. The associated tax on net investment income also increased, but at a slower rate, growing from $263.1 million in Tax Year 1985 to $468.7 million in 2004. Net investment income and the associated tax reached their highest levels in Tax Year 1999, when they equaled $63.9 billion and $816.0 million, respectively.

Private Foundations' Excise Taxes 2003-2006

The "private foundation rules" outlined in TRA69 prohibit private foundations from engaging in "self-dealing," which is defined as conducting activities that benefit foundation managers, officers, substantial contributors, and other foundation "insiders." Foundations are also prohibited from holding excess interests in a business enterprise, investing in a manner that jeopardizes their charitable purpose, or making "taxable expenditures," which include grants to most noncharitable entities, outlays for lobbying and political activities, and other expenditures that are inconsistent with a foundation's charitable purpose. Private foundations, other charitable organizations, and individuals that engage in prohibited activities or private foundations that fail to meet the annual minimum charitable distribution requirement are required to pay a penalty excise tax on the amount of money involved using Form 4720.

Initial tax rates and tax limits for excise taxes remained constant from 2003 to 2006. Taxes on self-dealing can be imposed on both self-dealers and foundation managers. Acts of self-dealing are taxed at 5 percent of the amount involved for self-dealers, and managers pay 2.5 percent, up to a maximum of $10,000. There is a 10-percent tax imposed on private foundations that make taxable expenditures, while foundation managers pay 2.5 percent up to a maximum of $2,500. Foundations that fail to distribute a minimum amount for charitable purposes are taxed at 15 percent of the undistributed amount. Excess business holdings that are not disposed of within 90 days are taxed at a rate of 5 percent of the taxable amount of excess business holdings. For tax years beginning after August 17, 2006, the Pension Protection Act has doubled the rates and amounts of these excise taxes.

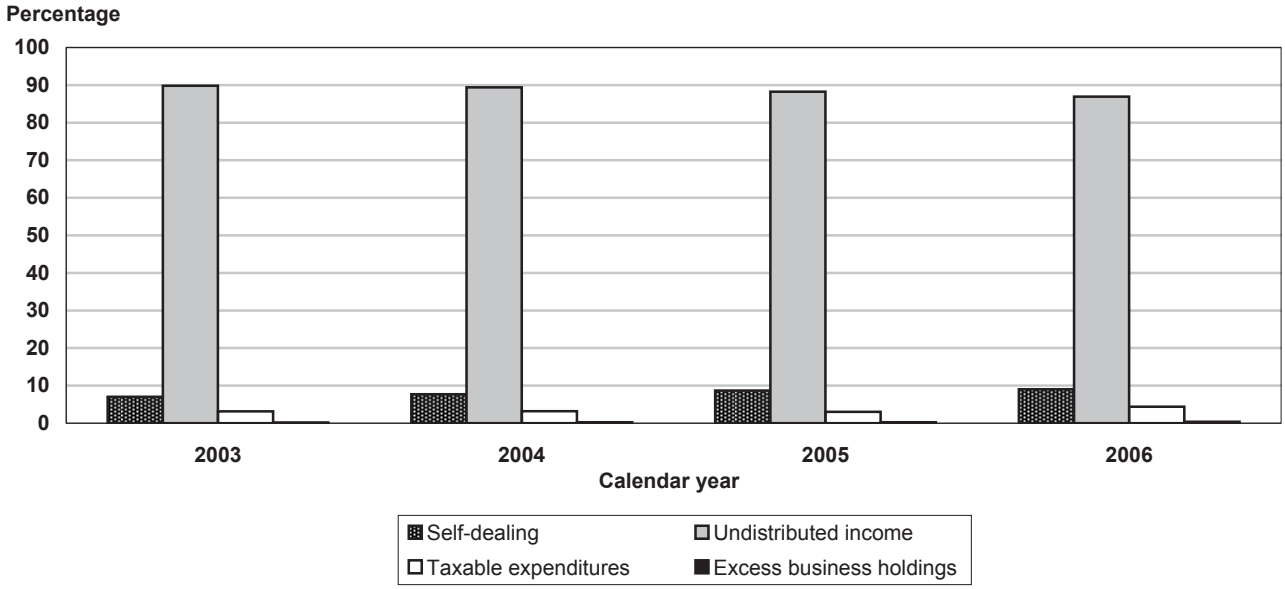
For Calendar Year 2006, private foundations reported $5.3 million in total tax liability on Form 4720, and tax on undistributed income accounted for nearly $3 million.[22] Figures I and J show that, between Calendar Years 2003 and 2006, taxes on

[21] Two reductions for the net investment income tax are available. First, foundations that demonstrate growth in their charitable giving may be eligible for a reduced 1-percent tax rate. Second, operating foundations that meet certain requirements outlined in IRC section 4940 are eligible for a total exemption from the excise tax.

[22] Data in this section represent information from Forms 4720 filed by organizations that identified themselves as Form 990-PF filers. Data for Form 990-PF filers that filed Form 4720 generally represent private foundations, but include information reported by nonexempt charitable trusts that are treated as private foundations for tax purposes.

Figure I

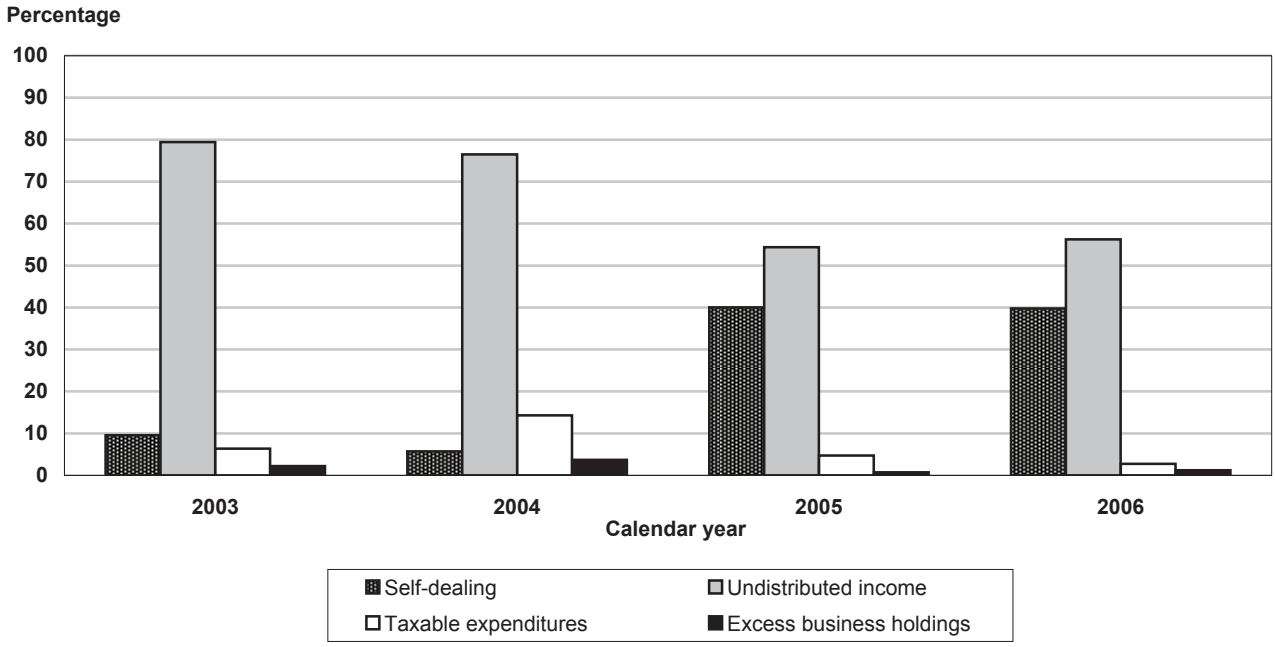
Forms 4720 Filed by Private Foundations, by Taxable Activity, Calendar Years 2003-2006



NOTE: Data represent information from Forms 4720 filed by organizations or associated individuals who identified themselves as Form 990-PF filers. These data generally represent private foundations and associated individuals, but include information reported by nonexempt charitable trusts that are treated as private foundations for tax purposes.

Figure J

Tax Reported by Private Foundations on Form 4720, by Tax Type, Calendar Years 2003-2006



NOTE: Data represent information from Forms 4720 filed by organizations or associated individuals who identified themselves as Form 990-PF filers. These data generally represent private foundations and associated individuals, but include information reported by nonexempt charitable trusts that are treated as private foundations for tax purposes.

undistributed income accounted for the majority of total taxes reported on Form 4720 and were the most frequently reported excise tax. From 2003 to 2006, undistributed income fell from $3.5 million to $3 million. The number of filers fell slightly from 1,549 in 2003 to 1,529 in 2006. In 2003, undistributed income accounted for nearly 80 percent of total excise tax reported and 90 percent of filings. By 2006, tax reported for undistributed income accounted for only 56 percent of total excise tax reported. The change in undistributed income as a percentage of total excise tax was a result of a rise in self-dealing taxes reported.

In 2003, self-dealing accounted for $400,000 of the $4.1 million total of reported excise taxes. By 2006, the amount had increased to $2.1 million of the $5.3 million total. As a percentage of total excise tax reported, self-dealing quadrupled from 10 percent to 40 percent. A small number of filers were responsible for this increase. From 2003 to 2006, the median tax on self-dealing actually fell. The number of filers increased from 119 in 2003 to 159 in 2006, although, as a percentage of total filings, self-dealing increased less than a single percentage point each year from 2003 to 2006.

Unrelated Business Income Taxation of Exempt Entities

Tax-exempt organizations may enter into a wide range of tax-free commercial activities, as long as the activities are substantially related to their tax-exempt missions; however, income from unrelated business activities is taxable. Exempt-organization business income taxation was designed to place the unrelated activities of exempt organizations on an equal footing with similar activities carried out by taxable entities. Organizations that are described in IRC sections 501(c)(2)-(27), as well as certain other types of tax-exempt organizations, must file a Form 990-T if they received $1,000 or more of gross income from business activities that were considered unrelated to the purposes for which they received tax-exempt status.[23]

Unrelated Business Income and Tax Historical Data, 1990-2004

During the 15-year period encompassing Tax Years 1990-2004, gross unrelated business income (UBI) of tax-exempt organizations increased overall, in constant dollars, but with periods of decline from 1990 to 1991 and 2000 to 2001. In real terms, the associated aggregate unrelated business income tax (UBIT) of $364.6 million reported by these organizations for 2004 was nearly three times more than the amount reported for 1990. However, between 1990 and 2004, there were periods of erratic swings in annual amounts of UBIT reported. Figures K and L present data for UBI and UBIT, grouping filers into two broad categories, tax-exempt corporations and tax-exempt trusts.[24]

Historically, exempt corporations have represented the majority of Form 990-T filers, accounting for large percentages of total gross UBI amounts reported annually. For 2004, for example, corporate entities made up 85 percent of the Form 990-T filing population and reported nearly 90 percent of total gross UBI. Exempt trusts, despite being much smaller in number and annual shares of total gross UBI reported on Form 990-T, had UBIT exceeding that of corporations for several of the years in the 1990-2004 period.

As a group, tax-exempt trust filers generally comprise pension, profit-sharing, and stock bonus plans; traditional Individual Retirement Arrangements; and voluntary employees' beneficiary associations, all of which typically report investments as their primary source of UBI. For 2004, these three types of organizations accounted for 91 percent of all tax-exempt trust Form 990-T filers. Because a high percentage of tax-exempt trust filers engage primarily in unrelated investment activities, year-to-year changes in time-series data for trust UBI and UBIT appear to closely track financial market performance, rising and falling in tandem with market fluctuations.[25] In addition, because most of

[23] See Appendix A for additional information on the types of organizations exempt under section 501(c). In addition to the organizations described under sections 501(c)(2)-(27), Archer medical savings accounts, exempt under section 220(e); qualified pension, profit-sharing, or stock bonus plans, exempt under section 401(a); traditional and Roth Individual Retirement Arrangements, exempt under sections 408(e) and 408A, respectively; State-sponsored health plans, exempt under section 529(a); and Coverdell education savings accounts, exempt under section 530(a), are also subject to unrelated business income taxation and must file Form 990-T to report gross income from business activities of $1,000 or more.

[24] "Outliers," returns which contained unique characteristics that were considered anomalous to the general population of returns filed for a given year, or returns that contained very large dollar amounts and were not filed consistently over the 15-year period, have been excluded from Figures K and L and are not taken into consideration in the historical analyses presented in this section. In all, there were nine tax-exempt entities that filed at least one return during the 1990-2004 period that was considered to be an outlier. While excluded from the gross UBI and UBIT time series shown in these figures, they are included in the data presented in Tables 6 and 7 at the end of this article.

[25] The Wilshire 5000 Total Market Index and Standard and Poor (S&P) 500 pricing information were used for analyzing possible effects of financial markets on unrelated business taxable income and tax. The Wilshire index can be accessed from www.wilshire.com/quote.html. Historical S&P 500 pricing information can be accessed from www.finance/yahoo.com.

their UBI is from investments, tax-exempt trusts were more limited than most exempt corporations in both the types and amounts of deductions they could claim to offset income, meaning that the proportion of an exempt trust's UBI that is taxable is usually higher than that for corporations. Moreover, from 1990 to 2000, trust income was subject to higher marginal tax rates than UBI earned by corporate exempt entities.[26]

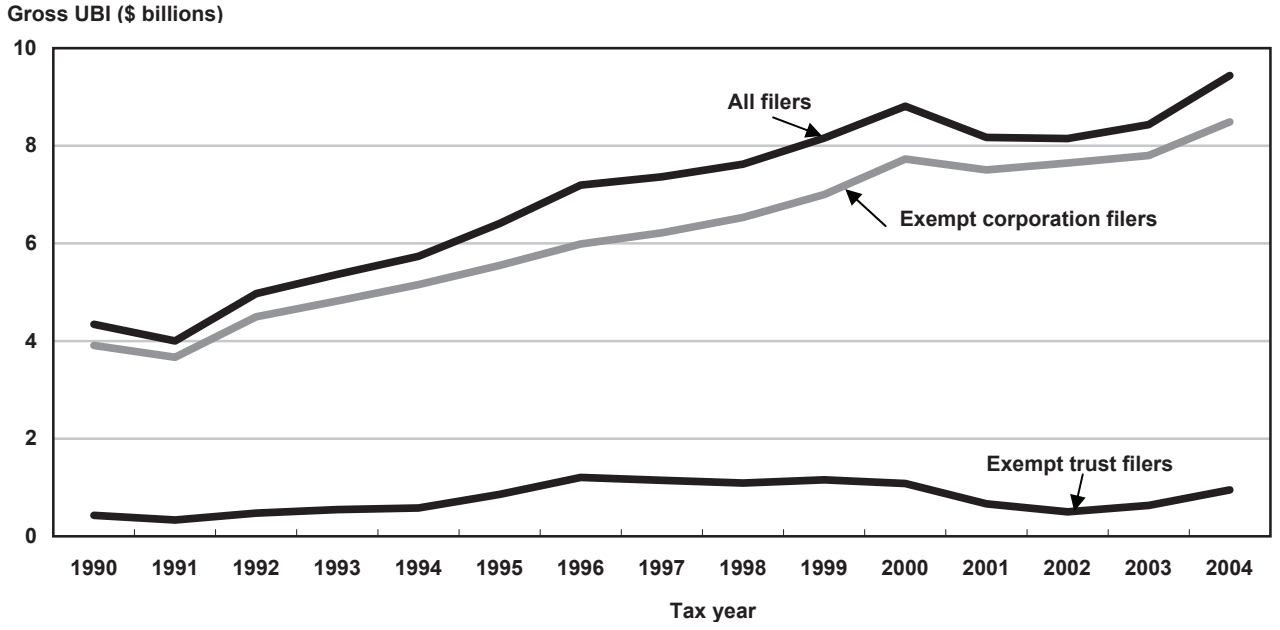
Groups of tax-exempt organizations with typically high concentrations of corporate entities include charitable organizations; civic leagues and social welfare organizations; labor, agricultural, and horticultural organizations; business leagues, chambers of commerce, and real estate boards; recreational and social clubs; and veterans' organizations. Within each of these groups, the percentage of corporate filers ranged from 97 percent for charities to 100 percent for veterans' organizations.

Figure K shows that, overall, gross UBI increased, in constant dollars, almost every year between 1990 and 2004, growing 117 percent over the 15-year period. Similarly, gross UBI reported by tax-exempt corporations, which contributed the majority of the total, experienced fairly consistent year-to-year growth, also increasing 117 percent between 1990 and 2004. In contrast, tax-exempt trusts consistently reported much smaller annual amounts of gross UBI. While the overall increase in exempt trust UBI between 1990 and 2004 was 121 percent, annual amounts were much more volatile, primarily due to fluctuations in investment markets.

Although the amount of aggregate gross UBI reported by tax-exempt organizations increased at a relatively stable rate between 1990 and 2004, the annual UBIT liability amounts shown in Figure L were much more variable.[27] While the total constant-dollar amount of UBIT reported for Tax Year 2004 was 212 percent higher than that reported for 1990, UBIT actually exceeded the 2004 amount for several of the intervening years. In addition, although exempt corporations consistently reported more gross UBI

Figure K

Gross Unrelated Business Income (UBI), in Constant 2004 Dollars, Tax Years 1990-2004



NOTE; Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

[26] The unrelated business income tax was determined based on the regular corporate or trust income tax rates in effect for an organization's tax year. Corporate and trust tax-rate schedules are provided each year in the Form 990-T return instructions.

[27] The amount of total tax liability originally reported on Forms 990-T, as stated in these statistics, may not necessarily be the amount ultimately paid to the Internal Revenue Service (IRS). Changes in tax liability assessments can be made after the original return is filed, either by the taxpayer on an amended return, by the IRS after examination, or by rulings of the U.S. tax courts after litigation.

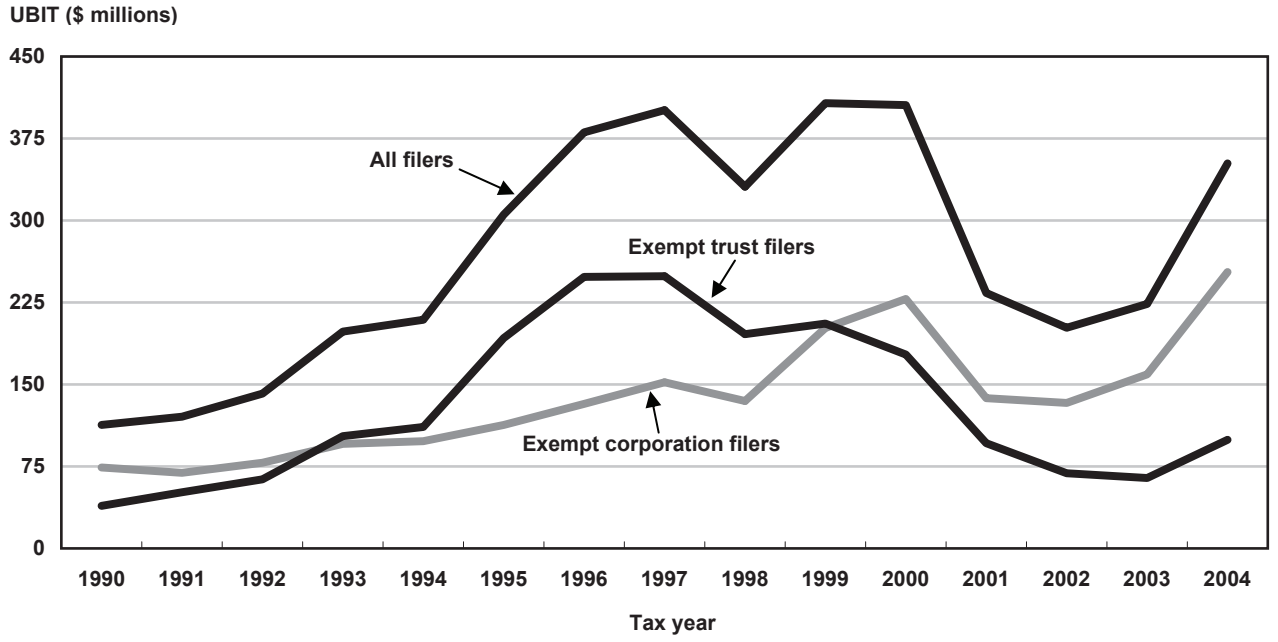
than exempt trusts, this pattern did not hold for UBIT reported by these two types of entities. Corporate UBIT exceeded trust UBIT for the years 1990-1992 and 2000-2004, but trust UBIT was greater from 1993-1999.

Sharp declines in UBIT, in real terms, occurred for Tax Years 1998 and 2001 for all types of organizations shown in Figure L, reflecting a number of factors, primarily volatility in financial markets. Between 1997 and 1998, tax-exempt corporations and trusts both reported aggregate total deductions that increased at rates higher than those at which aggregate gross UBI increased. Further, real capital gain net income (less loss) decreased during the period by 31 percent for tax-exempt corporations and 16 percent for tax-exempt trusts. This contributed to respective declines in tax-exempt corporate and trust UBIT of 11 percent and 21 percent. Due, in part, to an overall decline in gross UBI, the amount of reported UBIT dropped even more sharply between 2000 and 2001, one of only three annual periods of decline in UBI shown in Figure K. Three major slides in stock prices from late 2000 through September of 2001 may have contributed to a drop in capital gain net income (less loss) of 77 percent for exempt corporations and 52 percent for exempt trusts between Tax Years 2000 and 2001. Overall, UBI declined 3 percent for tax-exempt corporations between 2000 and 2001, while deductions increased by 1 percent; trust UBI and deductions fell by 39 percent and 26 percent, respectively. In addition, marginal tax rates applicable to the income of tax-exempt trusts were reduced for 2001, effectively lowering the UBIT of these organizations.

Between 2003 and 2004 the real value of UBIT of all types of organizations shown in Figure L rose steeply, increasing by 59 percent for tax-exempt corporations and 54 percent for tax-exempt trusts. Relatively stable growth in equity prices between 2003 and 2004 likely contributed to increases in capital gain net income (less loss) and combined income from partnerships and S corporations reported by both types of organizations between these years. For tax-exempt corporations, capital gain net income (less loss) increased 105 percent, while combined partnership and S corporation income increased 111 percent. Together, these sources of income accounted for 6 percent of corporate total

Figure L

Unrelated Business Income Tax (UBIT), in Constant Dollars, Tax Years 1990-2004



NOTE: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

UBI for 2004. For tax exempt trusts, capital gain net income (less loss) and combined partnership and S corporation income increased 123 percent and 48 percent, respectively, and together accounted for 38 percent of trust gross UBI.

Internal Revenue Code Section 501(c)(3) Charitable Organizations

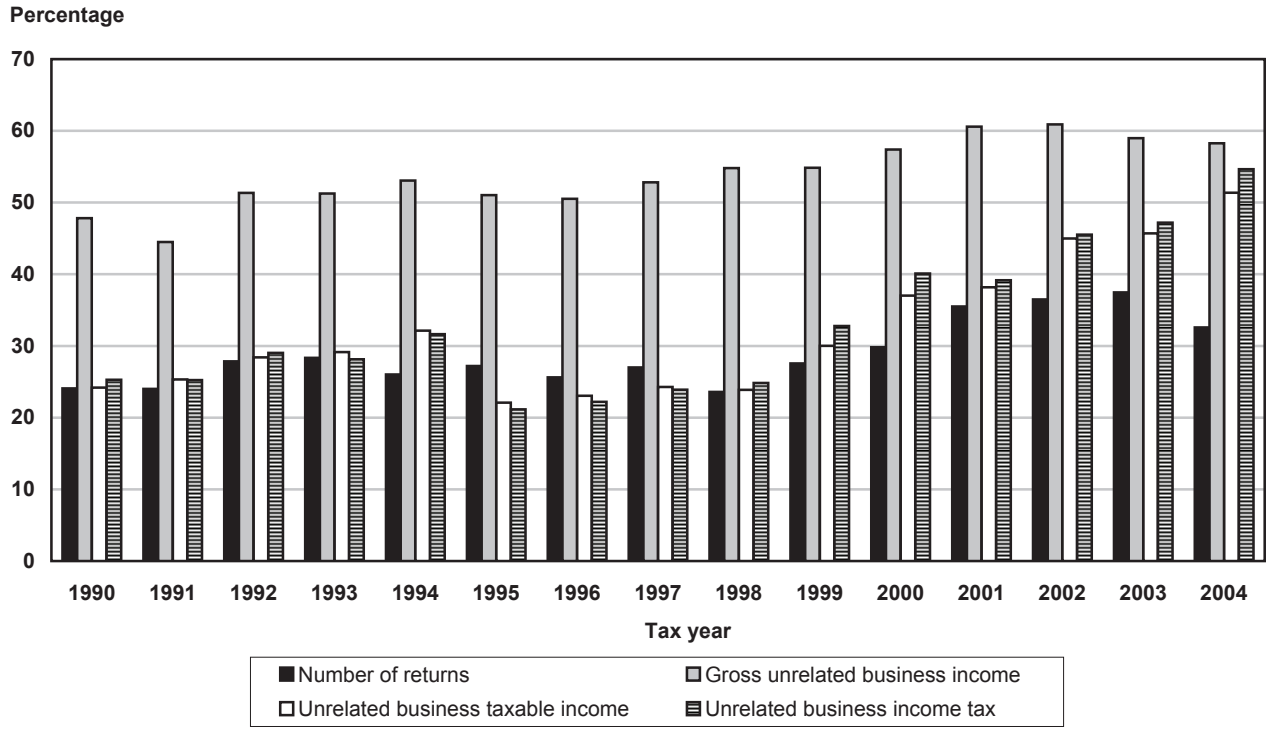
IRC section 501(c)(3) charitable organizations, including public charities and private foundations, generally command more public interest than any other type of organization granted exemption from Federal income tax by the IRS. Compared to other types of Form 990-T filers, classified by IRC section, charitable organizations were responsible for the single largest proportions of gross UBI reported each year from 1990 to 2004. As illustrated by Figure M, in which outliers have been removed, these organizations consistently made up between 25 percent and 35 percent of all 990-T filers and accounted for more than half of the reported amount of gross UBI almost every year. Throughout the 15-year period, however, these charities offset gross UBI with sizable deductions, resulting in much smaller amounts of taxable income. The share of total unrelated business income tax reported by charitable organizations increased over the period, and exceeded 45 percent of overall UBIT liability for each of Tax Years 2002-2004. For 2004, these organizations were liable for more than half of the UBIT reported by all Form 990-T filers. Of those charities that filed Form 990-T for 2004, the majority, 97 percent, were organized as corporations. These corporate charitable organizations represented 37 percent of all tax-exempt corporate entities filing Form 990-T for that year.

Conclusion

Voluntary charitable and member-serving organizations have flourished in the United States since the country's genesis. In the early 20th century, legislation that established the modern income tax system and concurrently granted tax-exempt status to certain organizations codified the relationship between

Figure M

Percentage of Selected Unrelated Business Financial Items Attributable to Internal Revenue Code Section 501(c)(3) Charitable Organizations, Tax Years 1990-2004



the tax-exempt sector and Government. Later, a variety of additional legislation placed important restrictions on tax-exempt organizations, including the taxation of unrelated business income of tax-exempt organizations and the application of more stringent tax regulations to private foundations.

Today, the legislation enacted between 1917 and 1969 remain the cornerstone of tax exemption in the United States. However, the tax-exempt sector has grown substantially over the past 2 decades, and SOI's datasets have tracked and described this growth. The activities of tax-exempt organizations have also broadened, and new types of tax-exempt organizations have emerged. Congress frequently has updated the tax code to reflect this growth and evolution, and the SOI datasets have been a vital tool for policymakers and researchers to measure growth and examine emerging trends throughout the tax-exempt sector, as well as assess the role and impact of the Nation's tax-exempt organizations.

Keeping Pace with Technology—Continued

from page 109

An online data quality review system was introduced for the Form 990 Study for Tax Year 1991. This system, which is still used today, selected an automated, random sample of a tax examiner's completed returns for input by a second tax examiner. It produced a computerized comparison of the original and second versions and a listing of any of discrepancies between the two. After review, a supervisor provided guidance to the tax examiners, and the errors were corrected.

The Tax Year 1999 Form 990-PF study was used as one of the pilots for upgrading the original online editing system to a mouse-driven, graphical user interface (GUI) for navigating through data entry screens. Prior to this upgrade, onscreen navigation was accomplished using the keyboard, with tax examiners forced to navigate through edit screens one item at a time. Because the new GUI system allowed faster navigation through edit screens, it improved user satisfaction and increased production rates of tax examiners, and other SOI projects quickly adopted the technology.

A further advancement to SOI edit systems involved the use of digital images created from paper-filed returns. This upgrade was piloted for the Tax Year 2002 Form 990-PF study. Using wide-aspect computer monitors, the data entry forms were displayed on one side of the screen, and a digital image of the return was displayed on the other. This split-screen method of return processing, which has been well-received by the tax examiners, has significantly reduced resource costs associated with the retrieving, controlling, and handling of paper returns.

The advent of electronically filed returns prompted the latest technological innovation adopted by EO edit systems. Since Tax Year 2003, IRS has allowed tax-exempt organizations to file Forms 990 electronically in Extensible Markup Language (XML). Beginning in 2005, the IRS established a mandatory schedule for electronic filing of Forms 990 and 990-PF by charities and private foundations. For tax years ending on or after December 31, 2006, all public charities with $10 million or more in assets that file at least 250 returns annually, and all private foundations and nonexempt charitable trusts, regardless of asset size, that file 250 or more returns annually are required to file electronically.[28] SOI has incorporated these returns into its data collection systems by creating digital images based on the electronic data, and integrating those images into its existing split-screen edit system. Beginning with Tax Year 2006, SOI will extract data items directly from electronically filed XML data, significantly reducing the amount of data transcription required.

[28] Excise and employment tax returns, as well as wage and income statements required for each employee, are included in the 250-return threshold.

Appendix A
Types of Organizations Exempt under Internal Revenue Code Section 501(c)

IRC section	Description of organization	General nature of activities
501(c)(1)	Corporations organized under an Act of Congress	U.S. instrumentality
501(c)(2)	Title-holding corporations for exempt organizations	Holding title to property for exempt organizations
501(c)(3)	Religious, educational, charitable, scientific, or literary organizations; organizations that test for public safety. Also, organizations that prevent cruelty to children or animals, or foster national or international amateur sports competition	Activities of a nature implied by the description of the class of organization
501(c)(4)	Civic leagues, social welfare organizations, and local associations of employees	Promotion of community welfare and activities from which net earnings are devoted to charitable, educational, or recreational purposes
501(c)(5)	Labor, agricultural, and horticultural organizations	Educational or instructive groups whose purpose is to improve conditions of work, products, and efficiency
501(c)(6)	Business leagues, chambers of commerce, real estate boards, and like organizations	Improving conditions in one or more lines of business
501(c)(7)	Social and recreational clubs	Pleasure, recreation, and social activities
501(c)(8)	Fraternal beneficiary societies and associations	Lodges providing for payment of life, health, accident, or other insurance benefits to members
501(c)(9)	Voluntary employees' beneficiary associations (including Federal employees' voluntary beneficiary associations formerly covered by section 501(c)(10))	Providing for payment of life, health, accident, or other insurance benefits to members
501(c)(10)	Domestic fraternal beneficiary societies and associations	Lodges, societies, or associations devoting their net earnings to charitable, fraternal, and other specified purposes, without life, health, or accident insurance benefits to members
501(c)(11)	Teachers' retirement fund associations	Fiduciary associations providing for payment of retirement benefits
501(c)(12)	Benevolent life insurance associations, mutual ditch or irrigation companies, mutual or cooperative telephone companies, and like organizations	Activities of a mutually beneficial nature implied by the description of the class of organization
501(c)(13)	Cemetery companies	Arranging for burials and incidental related activities
501(c)(14)	State-chartered credit unions and mutual insurance or reserve funds	Providing loans to members or providing insurance of, or reserve funds for, shares or deposits in certain banks or loan associations
501(c)(15)	Mutual insurance companies or associations other than life, if written premiums for the year do not exceed $350,000	Providing insurance to members, substantially at cost
501(c)(16)	Corporations organized to finance crop operations	Financing crop operations in conjunction with activities of a marketing or purchasing association
501(c)(17)	Supplemental unemployment benefit trusts	Fiduciary agent for payment of supplemental unemployment compensation benefits
501(c)(18)	Employee-funded pension trusts (created before June 25, 1959)	Providing for payments of benefits under a pension plan funded by employees
501(c)(19)	Posts or organizations of past or present members of the armed forces	Providing services to veterans or their dependents; advocacy of veteran's issues; and promotion of patriotism and community service programs
501(c)(21)	Black Lung Benefit Trusts	Providing funds to satisfy coal mine operators' liability for disability or death due to black lung disease
501(c)(22)	Withdrawal liability payment funds	Providing funds to meet the liability of employers withdrawing from a multiple-employer pension fund
501(c)(23)	Associations of past and present members of the armed forces founded before 1880	Providing insurance and other benefits to veterans or their dependents
501(c)(24)	Trusts described in section 4049 of the Employee Retirement Income Security Act of 1974	Providing funds for employee retirement income
501(c)(25)	Title-holding corporations or trusts with no more than 35 shareholders or beneficiaries and only one class of stock or beneficial interest	Acquiring real property and remitting all income earned from such property to one or more exempt organizations; pension, profit-sharing, or stock bonus plans; or governmental units
501(c)(26)	State-sponsored high-risk health insurance plans	Providing coverage for medical care on a not-for-profit basis to residents with pre-existing medical conditions that resulted in denied or exorbitantly priced traditional medical care coverage
501(c)(27)	State-sponsored workers' compensation reinsurance plans	Pooled employers' funds providing reimbursements to employees for losses arising under workers' compensation acts; also, State-created, -operated, and -controlled organizations providing workers' compensation insurance to employers

NOTE: Prepaid legal service funds, previously described in section 501(c)(20) of the Internal Revenue Code, were no longer tax exempt effective for tax years beginning after June 30, 1992.

Appendix B

Legislation of Note, 1894-Present

- **The Wilson-Gorman Tariff Act of 1894** established a flat, 2-percent tax on corporate income, but excluded ". . . corporations, companies, or associations organized and conducted solely for charitable, religious, or educational purposes, including fraternal beneficiary associations." The law was declared unconstitutional by the Supreme Court in 1896.

- **The Revenue Act of 1909** established an excise tax on corporate income and included tax exemption in language similar to that introduced in the 1894 act. The 1909 act included the important concept of private inurement, meaning that a charitable organization's income could not be used to benefit an individual related to the organization.

- **The Revenue Act of 1913** established the modern income tax system and included tax exemption and private inurement in language similar to that in the 1909 act.

- **The Revenue Act of 1917** included the introduction of the charitable income tax deduction for individual donors.

- **The Revenue Act of 1918** added organizations operated "for the prevention of cruelty to children or animals" to the list of tax-exempt public charities and added the estate tax charitable deduction for charitable bequests.

- **The Revenue Act of 1921** added both "literary" groups and "any community chest, fund, or foundation" to the list of tax-exempt organizations.

- **The Revenue Act of 1934** set forth limits on lobbying by charitable organizations, stating that "no substantial part" of the organizations' activities can involve "propaganda" or attempts "to influence legislation."

- **The Revenue Act of 1936** expanded the charitable income tax deduction to corporate donors.

- **The Revenue Act of 1943** required certain tax-exempt organizations to file the Form 990 information return with the IRS. A number of organizations, including religious organizations, most schools, and publicly supported charitable organizations, were exempt from this filing requirement.

- **The Revenue Act of 1950** introduced the unrelated business income taxation of tax-exempt organizations.

- **The Revenue Code of 1954** introduced a number of changes to the tax-exempt organization tax law. Most notably, the current structure of the Internal Revenue Code was developed, with section 501(c) describing tax-exempt organizations. Charitable organizations were described under section 501(c)(3) and now included organizations operated for the purpose of "testing for public safety." Following passage of the Revenue Code of 1954, charities were not allowed to "participate in, or intervene in (including the publishing or distributing of statements), a political campaign on behalf of any candidate for public office."

- **The Revenue Act of 1964** increased the charitable income tax deduction for contributions made to publicly supported organizations to 30 percent of adjusted gross income (AGI). Previously, the charitable income tax deduction had been limited to 20 percent of AGI for publicly supported organizations. Prior to the 1964 act, only specific organizations, including churches and many schools, were subject to the 30-percent limitation.

- **The Tax Reform Act of 1969** (TRA69) included significant legislation regarding charitable organizations.

  - TRA69 introduced the first definition of private foundations, for tax purposes, expanded filing requirements for these newly defined organizations, and established the "private foundation rules." Foundations were required to pay an annual excise tax equaling 4 percent of their net investment income. With certain exceptions, taxes were imposed on a nonoperating foundation that failed to distribute, for charitable purposes, the greater of its adjusted net income, excluding long-term capital gains, or its minimum investment return, defined as 6 percent of investment assets, annually. The legislation also prohibited self-dealing, defined as conducting activities that benefit foundation managers, officers, substantial contributors, and other foundation "insiders," and imposed taxes on individuals who engaged in self-dealing activities. Further, in cases of "willful repeated acts or a willful and

Appendix B

Legislation of Note, 1894-Present—Continued

flagrant act" of self-dealing, a foundation could be subject to termination. TRA69 also imposed sanctions on foundations that engaged in a variety of other activities, such as holding excess interests in a business enterprise or investments that jeopardized the foundation's charitable purpose, making taxable expenditures, or violating other requirements.

- TRA69 expanded the tax on unrelated business income, extending the tax to all tax-exempt organizations described in IRC sections 501(c) and 401(a) (except United States instrumentalities), and including churches for the first time.

- The legislation expanded the filing requirements for many tax-exempt organizations. Under the new requirements, all tax-exempt organizations were required to complete annual returns; however, TRA69 exempted certain organizations and activities from this requirement. Churches and their integrated auxiliary organizations were not subject to the new filing requirements. Organizations that normally had gross receipts of $5,000 or less and that previously were not required to file Form 990 were also exempted. Additionally, the "exclusively religious activities of any religious order" were not subject to the reporting requirements, although certain religious organizations were required to report activities that were not religious in nature. Finally, TRA69 permitted additional exclusions to the reporting requirement, to be determined at the discretion of the Treasury Department.

- TRA69 also increased the individual charitable income tax deduction limitation from 30 percent to 50 percent of AGI for contributions made to most charitable organizations. Contributions to nonoperating private foundations generally remained subject to the 20-percent limitation.

- Additionally, TRA69 introduced two important concepts regarding unrelated business taxation of tax-exempt organizations. First, a trade or business activity does not lose its identity as a trade or business merely because it was carried on within a larger aggregate of similar activities or within a larger complex of other endeavors that are related to the exempt purposes of the organization (called the "fragmentation" rule). Second, in order to be considered "related," there had to be a causal relationship between an organization's engaging in a trade or business activity and the performance of the organization's exempt functions. This relationship had to be substantial, and the activities that generated the income must have contributed importantly to the accomplishment of the organization's exempt purpose(s).

- Under TRA69, certain payments of interest, annuities, royalties, and rents from taxable subsidiaries to a tax-exempt parent were subject to UBIT. These types of payments from tax-exempt subsidiaries were taxed to the extent that the subsidiaries' payments were generated from unrelated business income.

- **The Tax Reform Act of 1976** redefined the minimum investment return calculation for private foundations to 5 percent of investment assets.

- **The Revenue Act of 1978** reduced the net investment income tax rate for private foundations to 2 percent.

- **The Economic Recovery Tax Act of 1981** changed the basis for the minimum charitable distribution required of nonoperating foundations from the greater of adjusted net income or minimum investment return to minimum investment return only.

- **The Deficit Reduction Act of 1984** (DEFRA) raised the limit on individual deductions for contributions to nonoperating private foundations from 20 percent to 30 percent of AGI; gifts of capital gain property to nonoperating private foundations remained subject to the 20-percent limitation. DEFRA included a provision to permit nonoperating foundations' donors to carry over contributions that exceeded the 20- or 30-percent limitation for up to 5 years. For a 10-year period ending December 31, 1994, contributors were permitted to deduct the full fair market, rather than a reduced value, for donations of certain appreciated stock to private nonoperating foundations. Additionally, operating foundations that met certain additional criteria were exempted from the excise tax on net investment income. To encourage foundations to make charitable distributions at levels above the minimum required amount, DEFRA included a provision that

Appendix B

Legislation of Note, 1894-Present—Continued

allowed foundations that showed improvement in the amount of charitable distributions made over a 5-year period to be eligible for a 1-percent reduction in the excise tax. Additionally, DEFRA set an upper limit on the amount of administrative expenditures incurred for grantmaking activities that private foundations could count toward the minimum charitable distribution. This limitation was effective for a 5-year period to allow the Treasury Department to study its effects on foundations' charitable distributions. Subsequent research showed that the limitation had little effect on charitable distributions, and the regulation expired at the end of Tax Year 1990.

- **The Revenue Reconciliation Act of 1993** imposed a tax on certain nondeductible lobbying and political expenditures made by membership organizations tax-exempt under IRC sections 501(c)(4), (5), and (6). These organizations were liable for the tax if they did not notify members of the shares of their dues allocated to the nondeductible lobbying expenditures or if they failed to include in the notice the entire amount of dues allocated to the expenditures.

- **The Taxpayer Bill of Rights 2, enacted for 1996**, added "intermediate sanctions" as an alternative to the revocation of an organization's tax-exempt status in instances when a person with substantial influence over the affairs of the organization was found to have engaged in an excess benefit transaction. The rules, which apply to organizations exempt under IRC sections 501(c)(3) and 501(c)(4), require reimbursement of the excess benefit to the organization and payment of excise taxes and interest penalties by disqualified persons and/or organization managers.

- **The Taxpayer Relief Act of 1997** (TRA97) terminated exceptions granted to specific organizations under a Tax Reform Act of 1986 provision that revoked the tax-exempt status of any organization if a substantial part of its activities consisted of providing commercial-type insurance. Under TRA97, tax exemption for the two largest public charities at the time was revoked: the Teachers Insurance Annuity Association and the College Retirement Equities Fund (collectively known as TIAA-CREF). Additionally, TRA97 amended UBIT rules, effective after December 31, 1997, to exempt from unrelated business taxation certain "qualified" sponsorship payments solicited or received by tax-exempt organizations, and to allow charitable organizations and pension, profit-sharing, and stock-bonus plans exempt from tax under section 501(a) to hold shares in an S corporation without the S corporation losing its status as such.

- **The Tax and Trade Relief Extension Act of 1998** made permanent the provision that permitted contributors to deduct the full fair market, rather than a reduced value, for donations of certain appreciated stock to nonoperating private foundations.

- **The Pension Protection Act of 2006** introduced a number of regulatory changes. IRC section 501(c)(3) public charities and private foundations reporting unrelated business income were required to make their Forms 990-T, *Exempt Organization Business Income Tax Returns*, available for public inspection. Organizations with gross receipts less than $25,000 (the Form 990/990-EZ filing threshold) were required to file the Form 990-N, an annual electronic notice also known as the "e-Postcard." Additional filing requirements were placed on supporting organizations, donor-advised funds, and credit counseling organizations. The legislation also doubled excise tax rates on the prohibited activities of private foundations and public charities.

- **Tax Technical Corrections Act of 2007** required the Internal Revenue Service to make available for public inspection all Forms 990-T filed by IRC section 501(c)(3) public charities and private foundations after August 17, 2006, the date the Pension Protection Act of 2006 was enacted. The Pension Act required section 501(c)(3) organizations to publicly disclose their Forms 990-T, but it failed to include language authorizing IRS to do so.

Table 1. Public Charities: Selected Financial Data, in Current Dollars, Tax Years 1985-2004

[All figures are estimates based on samples—money amounts are in millions of current dollars]

Tax year	Number of returns	Total assets	Total liabilities	Total revenue					Total expenses	Net income
				Total	Program service revenue	Contributions, gifts, and grants received	Investment income [1]	Other		
1985	106,449	423,544	186,390	268,390	167,893	55,771	13,933	30,792	244,214	24,175
1986	113,072	489,180	210,879	292,483	187,934	60,115	13,855	30,579	263,468	29,015
1987	122,018	529,514	231,765	310,766	211,904	61,686	15,194	21,982	288,681	22,085
1988	124,233	583,573	257,645	354,647	239,293	69,062	19,258	27,034	330,815	23,832
1989	133,157	655,426	293,819	398,628	272,134	76,973	21,954	27,567	371,508	27,120
1990	141,757	697,315	321,984	435,567	306,899	85,332	22,697	20,639	409,447	26,120
1991	149,544	777,471	365,706	491,106	344,446	87,462	23,404	35,794	458,739	32,367
1992	157,941	849,324	398,177	523,793	374,804	94,992	23,106	30,891	490,245	33,548
1993	165,599	926,847	438,451	566,067	402,760	103,053	23,227	37,027	530,210	35,857
1994	174,918	993,381	464,034	589,102	422,413	110,724	25,741	30,225	548,166	40,936
1995	180,931	1,143,079	512,383	663,371	443,052	127,743	31,060	61,516	604,645	58,725
1996	192,059	1,293,439	564,566	704,346	467,559	137,666	34,057	65,064	637,917	66,429
1997	198,957	1,438,977	624,978	754,616	486,407	146,171	37,040	84,998	677,143	77,473
1998	207,272	1,351,541	459,188	752,044	502,832	161,751	28,562	58,898	684,566	67,478
1999	211,615	1,453,675	481,444	800,676	518,111	174,992	30,466	77,107	714,487	86,189
2000	230,159	1,562,536	539,367	866,208	579,081	199,076	29,136	58,916	796,434	69,775
2001	240,569	1,631,719	611,390	896,974	630,817	212,427	23,678	30,052	862,721	34,253
2002	251,676	1,733,852	693,576	955,267	691,791	214,484	20,518	28,474	934,672	20,595
2003	263,353	1,899,857	735,600	1,072,171	754,585	229,987	23,594	64,005	1,009,675	62,496
2004	276,191	2,058,610	782,510	1,152,989	801,199	248,570	27,830	75,391	1,058,489	94,500

[1] Includes "interest on savings and temporary cash investments," "dividends and interest from securities," and "other investment income (loss)" from Form 990 and "investment income (loss)" from Form 990-EZ which was introduced for Tax Year 1989.

NOTES: Data are from Forms 990 (and, beginning with Tax Year 1989, Form 990-EZ) for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations, most organizations with receipts less than $25,000 in current dollars, as well as most churches, and certain other types of religious organizations. Detail may not add to totals because of rounding.

Table 2. Public Charities: Selected Financial Data, in Constant Dollars, Tax Years 1985-2004

[All figures are estimates based on samples—money amounts are in millions of constant 2004 dollars]

Tax year	Number of returns	Total assets	Total liabilities	Total revenue					Total expenses	Net income
				Total	Program service revenue	Contributions, gifts, and grants received	Investment income [1]	Other		
1985	106,449	664,965	292,632	421,372	263,592	87,560	21,875	48,344	383,416	37,956
1986	113,072	751,380	323,910	449,254	288,667	92,337	21,281	46,970	404,687	44,567
1987	122,018	791,623	346,489	464,595	316,796	92,221	22,715	32,863	431,578	33,017
1988	124,233	843,847	372,555	512,820	346,018	99,864	27,847	39,091	478,358	34,461
1989	133,157	913,008	409,290	555,289	379,083	107,223	30,582	38,401	517,511	37,778
1990	141,757	935,100	431,781	584,095	411,551	114,430	30,437	27,676	549,068	35,027
1991	149,544	1,007,602	473,955	636,473	446,402	113,351	30,331	46,389	594,526	41,948
1992	157,941	1,076,094	504,490	663,646	474,877	120,355	29,275	39,139	621,140	42,505
1993	165,599	1,147,437	542,802	700,791	498,617	127,580	28,755	45,840	656,400	44,391
1994	174,918	1,204,971	562,873	714,581	512,386	134,308	31,223	36,663	664,925	49,656
1995	180,931	1,357,977	608,711	788,084	526,346	151,758	36,899	73,081	718,319	69,765
1996	192,059	1,508,150	658,284	821,267	545,174	160,518	39,710	75,865	743,811	77,456
1997	198,957	1,650,506	716,850	865,544	557,909	167,658	42,485	97,493	776,683	88,861
1998	207,272	1,533,999	521,179	853,569	570,714	183,588	32,418	66,849	776,982	76,587
1999	211,615	1,625,209	538,254	895,155	579,248	195,641	34,061	86,205	798,796	96,359
2000	230,159	1,710,977	590,607	948,498	634,093	217,988	31,904	64,513	872,095	76,403
2001	240,569	1,744,308	653,576	958,865	674,343	227,084	25,312	32,126	922,249	36,616
2002	251,676	1,822,278	728,948	1,003,986	727,072	225,423	21,564	29,926	982,340	21,645
2003	263,353	1,954,953	756,933	1,103,264	776,468	236,656	24,278	65,861	1,038,955	64,308
2004	276,191	2,058,610	782,510	1,152,989	801,199	248,570	27,830	75,391	1,058,489	94,500

[1] Includes “interest on savings and temporary cash investments,” “dividends and interest from securities,” and “other investment income (loss)” from Form 990 and “investment income (loss)” from Form 990-EZ which was introduced for Tax Year 1989.

NOTES: Data are from Forms 990 (and, beginning with Tax Year 1989, Form 990-EZ) for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations, most organizations with receipts less than $25,000 in current dollars, as well as most churches, and certain other types of religious organizations. Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments. Detail may not add to totals because of rounding.

Table 3. Domestic Private Foundations, Selected Financial Data, in Current Dollars, Tax Years 1985-2004

[All figures are estimates based on samples—money amounts are in millions of current dollars]

Type of foundation and tax year	Number of returns	Total assets (book value)	Total assets (fair market value)			Total revenue	Net investment income	Total expenses
			Total	Investment assets	Securities			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All private foundations								
1985	31,171	71,394	94,996	87,756	73,294	16,193	9,995	7,141
1986	35,081	85,096	110,978	102,339	85,145	19,801	12,252	8,148
1987	35,847	91,411	111,837	103,492	85,355	16,834	11,234	8,928
1988	37,057	102,007	126,437	118,009	97,544	16,112	10,378	9,549
1989	38,719	112,490	142,545	133,646	112,892	19,388	12,022	10,467
1990	40,105	122,412	150,997	142,598	114,969	19,006	11,931	11,285
1991	41,276	134,718	173,121	162,737	136,222	20,194	13,209	12,676
1992	42,383	144,079	181,426	171,439	141,336	22,508	14,078	13,569
1993	43,956	155,626	192,277	180,813	147,594	24,460	15,093	14,579
1994	45,801	169,287	203,644	191,278	158,934	26,503	14,978	15,708
1995	47,917	195,570	242,917	227,077	190,739	30,814	20,355	17,189
1996	50,774	232,565	288,588	268,327	225,087	48,247	26,189	19,852
1997	55,113	280,920	342,689	323,004	272,412	55,460	34,801	22,414
1998	56,658	325,672	397,084	380,531	317,900	59,735	39,313	25,902
1999	62,694	384,565	466,863	444,151	363,442	83,286	57,142	33,876
2000	66,738	409,524	471,646	447,437	361,418	72,780	48,830	37,434
2001	70,787	413,577	455,423	416,715	329,353	45,264	25,719	36,661
2002	73,255	383,516	413,007	377,439	294,385	27,775	17,648	34,392
2003	76,348	418,510	474,952	448,773	344,314	48,391	25,193	35,099
2004	76,897	445,534	509,924	481,177	361,158	58,668	34,019	36,552
Nonoperating private foundations								
1985	28,599	62,561	84,433	80,582	67,401	14,542	9,131	6,275
1986	32,315	75,289	98,926	94,387	78,937	17,819	11,282	7,237
1987	32,688	81,841	100,792	95,963	79,779	15,301	10,443	8,132
1988	33,829	91,497	113,991	108,619	90,839	14,580	9,676	8,702
1989	35,652	101,614	129,241	123,590	105,674	17,809	11,226	9,636
1990	36,880	110,443	136,428	131,138	107,190	16,738	11,126	10,236
1991	37,801	121,277	156,808	151,046	127,354	18,323	12,278	11,548
1992	38,576	129,286	163,768	157,408	131,873	20,310	13,073	12,270
1993	40,166	139,953	173,996	166,588	138,090	22,173	14,068	13,247
1994	41,983	151,151	182,544	174,897	146,979	22,935	13,079	13,945
1995	43,966	174,866	218,343	210,407	177,615	27,543	18,862	15,358
1996	46,066	210,439	262,739	250,170	210,520	44,430	24,421	17,980
1997	50,541	256,409	314,368	300,693	256,081	51,030	32,390	19,990
1998	52,460	297,759	365,036	355,295	299,711	54,711	36,778	23,375
1999	58,840	349,131	426,316	412,420	340,942	74,327	52,367	31,029
2000	61,501	374,990	432,707	417,850	341,662	66,185	45,654	33,565
2001	63,650	379,018	416,810	392,037	311,416	41,214	24,483	32,603
2002	67,101	352,163	377,672	355,263	279,699	24,500	16,666	30,608
2003	70,004	384,941	436,296	419,322	327,980	44,285	24,023	31,929
2004	70,613	410,658	469,389	451,114	344,740	54,072	32,289	33,207
Operating private foundations								
1985	2,571	8,833	10,563	7,174	5,893	1,651	864	866
1986	2,766	9,807	12,052	7,952	6,208	1,982	971	911
1987	3,159	9,570	11,045	7,529	5,576	1,534	791	796
1988	3,227	10,510	12,447	9,390	6,706	1,532	702	847
1989	3,066	10,877	13,304	10,057	7,218	1,579	796	831
1990	3,226	11,969	14,569	11,460	7,779	2,268	805	1,049
1991	3,474	13,442	16,313	11,691	8,868	1,871	932	1,128
1992	3,807	14,793	17,658	14,031	9,463	2,198	1,006	1,299
1993	3,790	15,674	18,281	14,224	9,504	2,287	1,026	1,332
1994	3,818	18,136	21,100	16,381	11,955	3,568	1,899	1,763
1995	3,951	20,705	24,574	16,669	13,124	3,272	1,494	1,831
1996	4,708	22,126	25,849	18,157	14,566	3,817	1,768	1,872
1997	4,572	24,511	28,321	22,311	16,331	4,430	2,411	2,424
1998	4,198	27,912	32,048	25,236	18,189	5,024	2,535	2,526
1999	3,854	35,434	40,547	31,731	22,500	8,959	4,775	2,848
2000	5,238	34,534	38,939	29,587	19,756	6,595	3,177	3,868
2001	7,137	34,559	38,613	24,678	17,937	4,050	1,236	4,058
2002	6,154	31,354	35,335	22,177	14,686	3,275	982	3,785
2003	6,344	33,569	38,655	29,451	16,334	4,106	1,170	3,171
2004	6,284	34,876	40,534	30,063	16,418	4,596	1,731	3,345

Footnotes at end of table.

Table 3. Domestic Private Foundations, Selected Financial Data, in Current Dollars, Tax Years 1985-2004—Continued

[All figures are estimates based on samples—money amounts are in millions of current dollars]

Type of foundation and tax year	Excess of revenue over expenses	Charitable expenses			Net investment income excise tax	Noncharitable-use assets [1]	Qualifying distributions
		Total	Contributions, gifts, and grants paid	Operating and administrative expenses			
	(9)	(10)	(11)	(12)	(13)	(14)	(15)
All private foundations							
1985	9,053	6,188	5,171	1,017	168	80,425	6,552
1986	11,653	7,004	6,116	888	195	100,938	7,654
1987	7,906	7,685	6,676	1,009	173	108,092	8,117
1988	6,563	8,372	7,218	1,154	141	112,420	8,837
1989	8,921	9,160	7,911	1,249	165	127,695	9,676
1990	7,721	10,069	8,560	1,509	155	136,404	10,520
1991	7,518	11,272	9,762	1,511	170	152,075	11,930
1992	8,939	11,794	10,080	1,714	187	163,984	12,437
1993	9,881	12,952	11,072	1,880	203	176,123	13,705
1994	10,795	13,788	11,755	2,033	188	181,942	14,538
1995	13,626	14,412	12,256	2,156	279	210,033	15,305
1996	28,395	16,881	14,519	2,362	369	245,287	17,850
1997	33,046	19,076	16,421	2,655	502	297,356	19,985
1998	33,833	22,288	19,394	2,894	523	346,059	23,389
1999	49,410	26,402	22,763	3,639	730	407,220	27,604
2000	35,346	31,874	27,564	4,311	625	448,812	33,454
2001	8,602	31,698	27,383	4,315	305	424,028	33,067
2002	-6,618	30,423	26,303	4,120	234	388,845	31,712
2003	13,292	31,058	26,667	4,392	328	408,973	32,780
2004	22,116	32,125	27,625	4,500	469	451,199	33,486
Nonoperating private foundations							
1985	8,267	5,484	5,105	379	163	73,802	5,651
1986	10,582	6,447	6,028	419	191	93,386	6,676
1987	7,169	7,062	6,593	469	169	100,509	7,248
1988	5,878	7,683	7,132	551	137	104,548	7,935
1989	8,173	8,479	7,836	642	161	119,237	8,688
1990	6,503	9,185	8,483	703	151	127,726	9,406
1991	6,775	10,376	9,558	818	165	141,936	10,745
1992	8,040	10,764	9,870	893	182	153,196	11,146
1993	8,926	11,854	10,919	935	199	164,841	12,167
1994	8,990	12,422	11,417	1,005	183	169,190	12,712
1995	12,185	13,034	11,902	1,132	269	194,955	13,379
1996	26,450	15,456	14,183	1,273	357	229,452	15,832
1997	31,040	17,231	15,855	1,376	487	279,163	17,727
1998	31,335	20,569	18,966	1,603	501	326,067	21,189
1999	43,299	24,367	22,335	2,033	686	382,028	25,057
2000	32,619	29,056	26,552	2,505	601	421,273	29,845
2001	8,611	28,882	26,526	2,356	297	397,969	29,785
2002	-6,107	27,911	25,487	2,423	225	368,839	28,727
2003	12,356	28,826	26,116	2,710	316	386,964	29,811
2004	20,865	29,803	27,074	2,729	456	427,732	30,493
Operating private foundations							
1985	785	704	67	637	5	6,624	901
1986	1,071	557	89	469	4	7,552	979
1987	738	623	83	540	4	7,584	868
1988	686	689	86	603	3	7,873	902
1989	748	681	74	607	4	8,458	988
1990	1,219	883	77	806	4	8,679	1,114
1991	743	896	204	692	4	10,139	1,185
1992	899	1,031	210	821	5	10,788	1,291
1993	955	1,098	153	944	5	11,282	1,537
1994	1,805	1,367	339	1,028	5	12,752	1,825
1995	1,440	1,378	354	1,024	10	15,078	1,926
1996	1,945	1,426	336	1,089	12	15,835	2,018
1997	2,006	1,845	566	1,279	15	18,193	2,258
1998	2,498	1,719	428	1,290	22	19,993	2,199
1999	6,111	2,035	428	1,606	43	25,192	2,547
2000	2,727	2,818	1,012	1,806	24	27,539	3,608
2001	-8	2,815	857	1,959	8	26,059	3,282
2002	-510	2,513	816	1,697	9	20,006	2,984
2003	936	2,232	551	1,681	11	22,009	2,969
2004	1,251	2,323	551	1,771	12	23,467	2,993

[1] Noncharitable-use assets, also known as net investment assets, are calculated based on the value of assets not used for charitable purposes.
NOTE: Detail may not add to totals because of rounding.

Table 4. Domestic Private Foundations, Selected Financial Data, in Constant Dollars, Tax Years 1985-2004

[All figures are estimates based on samples—money amounts are in millions of constant 2004 dollars]

Type of foundation and tax year	Number of returns	Total assets (book value)	Total assets (fair market value)			Total revenue	Net investment income	Total expenses
			Total	Investment assets	Securities			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All private foundations								
1985	31,171	112,089	149,143	137,777	115,072	25,423	15,692	11,211
1986	35,081	130,707	170,462	157,192	130,783	30,414	18,819	12,515
1987	35,847	136,659	167,196	154,721	127,605	25,168	16,794	13,347
1988	37,057	147,503	182,828	170,641	141,049	23,298	15,007	13,807
1989	38,719	156,699	198,565	186,169	157,259	27,008	16,747	14,581
1990	40,105	164,155	202,487	191,224	154,174	25,487	16,000	15,133
1991	41,276	174,595	224,365	210,907	176,544	26,171	17,119	16,428
1992	42,383	182,548	229,866	217,213	179,072	28,517	17,837	17,192
1993	43,956	192,666	238,039	223,846	182,721	30,281	18,685	18,049
1994	45,801	205,346	247,020	232,020	192,787	32,149	18,169	19,054
1995	47,917	232,337	288,585	269,767	226,597	36,608	24,182	20,420
1996	50,774	271,171	336,494	312,870	262,451	56,256	30,536	23,147
1997	55,113	322,216	393,064	370,486	312,457	63,613	39,917	25,708
1998	56,658	369,637	450,691	431,902	360,817	67,799	44,621	29,399
1999	62,694	429,943	521,953	496,561	406,328	93,114	63,885	37,874
2000	66,738	448,429	516,452	489,944	395,752	79,694	53,469	40,990
2001	70,787	442,113	486,847	445,469	352,078	48,387	27,494	39,191
2002	73,255	403,076	434,070	396,689	309,398	29,191	18,548	36,146
2003	76,348	430,647	488,725	461,787	354,299	49,794	25,924	36,117
2004	76,897	445,534	509,924	481,177	361,158	58,668	34,019	36,552
Nonoperating private foundations								
1985	28,599	98,221	132,559	126,513	105,820	22,831	14,336	9,852
1986	32,315	115,643	151,950	144,978	121,248	27,370	17,328	11,115
1987	32,688	122,352	150,685	143,465	119,270	22,875	15,612	12,157
1988	33,829	132,305	164,830	157,063	131,353	21,082	13,991	12,583
1989	35,652	141,548	180,032	172,161	147,205	24,808	15,638	13,423
1990	36,880	148,104	182,950	175,857	143,741	22,446	14,920	13,726
1991	37,801	157,175	203,223	195,756	165,051	23,746	15,912	14,966
1992	38,576	163,806	207,494	199,436	167,083	25,733	16,563	15,546
1993	40,166	173,261	215,408	206,236	170,955	27,450	17,416	16,400
1994	41,983	183,347	221,425	212,151	178,285	27,821	15,865	16,915
1995	43,966	207,740	259,391	249,964	211,007	32,721	22,408	18,245
1996	46,066	245,372	306,353	291,698	245,467	51,806	28,475	20,965
1997	50,541	294,101	360,580	344,895	293,725	58,531	37,151	22,928
1998	52,460	337,957	414,316	403,260	340,172	62,096	41,743	26,531
1999	58,840	390,328	476,622	461,086	381,173	83,098	58,546	34,690
2000	61,501	410,614	473,814	457,546	374,120	72,472	49,991	36,754
2001	63,650	405,170	445,569	419,088	332,903	44,058	26,172	34,853
2002	67,101	370,123	396,933	373,381	293,964	25,750	17,516	32,169
2003	70,004	396,104	448,949	431,483	337,492	45,569	24,719	32,855
2004	70,613	410,658	469,389	451,114	344,740	54,072	32,289	33,207
Operating private foundations								
1985	2,571	13,868	16,584	11,264	9,252	2,592	1,356	1,359
1986	2,766	15,064	18,512	12,214	9,536	3,044	1,491	1,399
1987	3,159	14,307	16,512	11,256	8,335	2,293	1,182	1,190
1988	3,227	15,198	17,998	13,578	9,696	2,216	1,016	1,224
1989	3,066	15,151	18,532	14,009	10,054	2,199	1,109	1,157
1990	3,226	16,050	19,537	15,368	10,432	3,041	1,079	1,407
1991	3,474	17,420	21,142	15,151	11,493	2,425	1,207	1,462
1992	3,807	18,743	22,372	17,777	11,989	2,785	1,274	1,646
1993	3,790	19,404	22,632	17,610	11,766	2,831	1,270	1,649
1994	3,818	21,999	25,595	19,870	14,502	4,328	2,303	2,138
1995	3,951	24,597	29,194	19,803	15,591	3,887	1,775	2,175
1996	4,708	25,799	30,140	21,172	16,984	4,450	2,061	2,182
1997	4,572	28,114	32,484	25,591	18,732	5,081	2,766	2,780
1998	4,198	31,681	36,375	28,643	20,645	5,703	2,877	2,868
1999	3,854	39,615	45,331	35,475	25,155	10,016	5,338	3,184
2000	5,238	37,815	42,638	32,398	21,633	7,222	3,479	4,236
2001	7,137	36,944	41,278	26,381	19,175	4,329	1,322	4,338
2002	6,154	32,953	37,137	23,308	15,435	3,442	1,032	3,978
2003	6,344	34,543	39,776	30,305	16,807	4,225	1,204	3,263
2004	6,284	34,876	40,534	30,063	16,418	4,596	1,731	3,345

Footnotes at end of table.

Table 4. Domestic Private Foundations, Selected Financial Data, in Constant Dollars, Tax Years 1985-2004—Continued

[All figures are estimates based on samples—money amounts are in millions of constant 2004 dollars]

Type of foundation and tax year	Excess of revenue over expenses	Charitable expenses			Net investment income excise tax	Noncharitable-use assets [1]	Qualifying distributions
		Total	Contributions, gifts, and grants paid	Operating and administrative expenses			
	(9)	(10)	(11)	(12)	(13)	(14)	(15)
All private foundations							
1985	14,213	9,715	8,119	1,596	263	126,268	10,287
1986	17,900	10,758	9,394	1,364	299	155,040	11,757
1987	11,820	11,489	9,980	1,509	259	161,598	12,134
1988	9,491	12,106	10,438	1,668	204	162,560	12,778
1989	12,427	12,760	11,020	1,740	230	177,879	13,478
1990	10,354	13,502	11,479	2,023	208	182,918	14,107
1991	9,743	14,609	12,651	1,958	220	197,090	15,461
1992	11,326	14,943	12,772	2,172	237	207,768	15,757
1993	12,232	16,034	13,707	2,327	251	218,041	16,966
1994	13,095	16,725	14,259	2,466	228	220,696	17,634
1995	16,187	17,121	14,560	2,561	332	249,519	18,182
1996	33,109	19,683	16,929	2,754	431	286,005	20,813
1997	37,904	21,881	18,835	3,046	576	341,067	22,922
1998	38,401	25,297	22,012	3,284	594	392,777	26,546
1999	55,240	29,518	25,449	4,069	816	455,272	30,861
2000	38,704	34,902	30,182	4,720	684	491,449	36,632
2001	9,196	33,885	29,273	4,612	326	453,286	35,349
2002	-6,955	31,975	27,645	4,330	246	408,676	33,329
2003	13,677	31,959	27,440	4,519	337	420,833	33,731
2004	22,116	32,125	27,625	4,500	469	451,199	33,486
Nonoperating private foundations							
1985	12,979	8,610	8,014	595	256	115,868	8,872
1986	16,255	9,902	9,258	644	294	143,441	10,254
1987	10,717	10,558	9,856	701	253	150,261	10,836
1988	8,499	11,109	10,313	796	199	151,176	11,474
1989	11,385	11,811	10,916	895	224	166,097	12,103
1990	8,720	12,317	11,375	942	202	171,280	12,613
1991	8,780	13,447	12,387	1,061	214	183,950	13,926
1992	10,187	13,637	12,506	1,132	231	194,099	14,122
1993	11,050	14,675	13,517	1,158	246	204,073	15,063
1994	10,905	15,067	13,849	1,219	222	205,228	15,420
1995	14,476	15,484	14,140	1,344	320	231,606	15,894
1996	30,841	18,021	16,537	1,484	416	267,541	18,460
1997	35,603	19,764	18,186	1,578	559	320,200	20,333
1998	35,565	23,346	21,526	1,820	569	370,086	24,050
1999	48,408	27,243	24,970	2,273	767	427,107	28,014
2000	35,718	31,817	29,074	2,743	658	461,294	32,681
2001	9,205	30,875	28,357	2,519	318	425,428	31,840
2002	-6,419	29,334	26,787	2,547	236	387,649	30,193
2003	12,714	29,662	26,873	2,789	326	398,186	30,676
2004	20,865	29,803	27,074	2,729	456	427,732	30,493
Operating private foundations							
1985	1,233	1,105	105	1,001	7	10,400	1,415
1986	1,645	856	136	720	5	11,600	1,503
1987	1,103	931	124	807	6	11,337	1,298
1988	991	997	125	872	5	11,384	1,304
1989	1,042	949	104	845	6	11,782	1,376
1990	1,634	1,185	104	1,081	6	11,638	1,494
1991	963	1,162	265	897	5	13,140	1,536
1992	1,139	1,306	266	1,040	6	13,669	1,635
1993	1,182	1,359	190	1,169	6	13,968	1,903
1994	2,190	1,658	411	1,247	6	15,468	2,214
1995	1,711	1,637	420	1,217	12	17,912	2,288
1996	2,268	1,662	392	1,270	14	18,464	2,353
1997	2,301	2,116	649	1,467	17	20,867	2,590
1998	2,835	1,951	486	1,464	25	22,692	2,496
1999	6,832	2,275	479	1,796	49	28,164	2,847
2000	2,986	3,085	1,108	1,977	26	30,155	3,951
2001	-9	3,010	916	2,094	9	27,857	3,508
2002	-536	2,641	857	1,784	9	21,027	3,137
2003	963	2,297	567	1,730	12	22,647	3,055
2004	1,251	2,323	551	1,771	12	23,467	2,993

[1] Noncharitable-use assets, also known as net investment assets, are calculated based on the value of assets not used for charitable purposes.

NOTES: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments. Detail may not add to totals because of rounding.

Table 5. Excise Tax Data Reported by Private Foundations and Associated Individuals, Calendar Years 2003-2006, in Current Dollars

[All money amount are in current whole dollars]

Item	2003		2004		2005		2006	
	Number of returns [1]	Amount	Number of returns [1]	Amount	Number of returns [1]	Amount	Number of returns [1]	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total tax [2]	**1,681**	**4,156,692**	**1,651**	**7,246,679**	**1,658**	**7,726,515**	**1,759**	**5,316,852**
Individual tax on self-dealing	119	400,275	127	413,501	144	3,094,172	159	2,113,878
Tax on undistributed income	1,549	3,538,275	1,476	5,542,236	1,463	4,200,471	1,529	2,990,274
Tax on taxable expenditures	53	277,420	53	1,035,659	50	364,082	77	145,874
Tax on excess business holdings	4	96,081	4	269,112	4	56,948	7	65,682

[1] The total number of returns may not equal the sum of the number of returns for each tax, as an organization or individual filer may report more than one type of tax per return. Additionally, individual filers may be included on returns filed by organizations.

[2] The total amount of tax may not equal the sum of the amounts for each tax, as certain excise taxes have been excluded to prevent disclosure of individual taxpayer data.

NOTE: Data represent information from Forms 4720 filed by organizations or associated individuals who identified themselves as Form 990-PF filers. These data generally represent private foundations and associated individuals, but include information reported by nonexempt charitable trusts that are treated as private foundations for tax purposes.

Table 6. Exempt Organization Business Income Tax Returns, Selected Financial Data, in Current Dollars, Tax Years 1990-2004

[All figures are estimates based on samples—money amounts are in millions of current dollars]

All organizations

Tax year	Number of returns	Gross unrelated business income (UBI)	Total deductions	Unrelated business taxable income (less deficit)	Unrelated business taxable income (UBTI)	Deficit	Unrelated business income tax (UBIT)	Total tax [1]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1990	31,091	3,511	3,513	-2	389	391	99	99
1991	32,690	3,385	3,333	52	431	379	117	117
1992	31,122	4,069	3,960	109	486	377	132	132
1993	32,638	4,694	4,479	215	604	388	180	181
1994	35,657	5,380	5,117	263	643	380	191	195
1995	36,394	6,280	5,787	493	893	400	277	277
1996	40,621	7,295	6,619	676	1,170	494	372	373
1997	39,302	7,809	6,903	906	1,375	469	418	423
1998	46,208	7,585	6,484	1,100	1,670	569	506	464
1999	42,151	7,722	6,835	887	1,485	598	423	422
2000	38,567	8,413	7,703	710	1,427	717	406	403
2001	35,540	7,900	7,883	18	792	774	226	222
2002	35,103	7,776	7,922	-146	647	793	194	193
2003	36,064	8,436	8,413	23	780	757	220	221
2004	38,040	9,492	8,980	512	1,288	776	365	368

Public charities and private foundations

Tax year	Number of returns	Gross unrelated business income (UBI)	Total deductions	Unrelated business taxable income (less deficit)	Unrelated business taxable income (UBTI)	Deficit	Unrelated business income tax (UBIT)	Total tax [1]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1990	7,493	1,803	1,886	-83	116	199	33	33
1991	7,846	1,643	1,717	-74	141	215	40	41
1992	8,666	2,312	2,392	-80	162	242	47	47
1993	9,246	2,540	2,618	-78	187	266	55	55
1994	9,277	3,120	3,188	-68	219	287	65	65
1995	9,903	3,583	3,672	-89	202	291	61	59
1996	10,407	4,017	4,049	-32	299	331	94	94
1997	10,614	4,179	4,194	-15	337	352	105	103
1998	10,898	4,127	3,907	220	655	435	216	175
1999	11,614	4,002	4,053	-50	389	439	119	119
2000	11,497	4,780	4,829	-49	469	518	149	146
2001	12,618	4,812	5,080	-268	292	560	86	85
2002	12,803	4,721	5,006	-285	289	574	87	86
2003	13,511	4,833	5,001	-168	352	520	103	102
2004	12,395	5,501	5,388	112	636	524	192	191

[1] Total tax takes into account the unrelated business income tax, minus any tax credits, plus any other types of tax due.

NOTES: Forms 990-T with gross unrelated business income below $1,000 in current dollars, the filing threshold, are excluded from these statistics. Detail may not add to totals because of rounding.

Table 7. Exempt Organization Business Income Tax Returns: Selected Financial Data, in Constant Dollars, Tax Years 1990-2004

[All figures are estimates based on sample—money amounts are in millions of constant 2004 dollars]

All organizations

Tax year	Number of returns	Gross unrelated business income (UBI)	Total deductions	Unrelated business taxable income (less deficit)	Unrelated business taxable income (UBTI)	Deficit	Unrelated business income tax (UBIT)	Total tax [1]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1990	31,091	4,708	4,711	-3	522	524	133	133
1991	32,690	4,387	4,320	67	559	491	152	152
1992	31,122	5,155	5,017	138	616	478	167	167
1993	32,638	5,811	5,545	266	748	480	223	224
1994	35,657	6,526	6,207	319	780	461	232	237
1995	36,394	7,461	6,875	586	1,061	475	329	329
1996	40,621	8,506	7,718	788	1,364	576	434	435
1997	39,302	8,957	7,918	1,039	1,577	538	479	485
1998	46,208	8,609	7,359	1,249	1,895	646	574	527
1999	42,151	8,633	7,642	992	1,660	669	473	472
2000	38,567	9,212	8,435	777	1,563	785	445	441
2001	35,540	8,445	8,427	19	847	827	242	237
2002	35,103	8,173	8,326	-153	680	833	204	203
2003	36,064	8,681	8,657	24	803	779	226	227
2004	38,040	9,492	8,980	512	1,288	776	365	368

Public charities and private foundations

Tax year	Number of returns	Gross unrelated business income (UBI)	Total deductions	Unrelated business taxable income (less deficit)	Unrelated business taxable income (UBTI)	Deficit	Unrelated business income tax (UBIT)	Total tax [1]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1990	7,493	2,418	2,529	-111	156	267	44	44
1991	7,846	2,129	2,225	-96	183	279	52	53
1992	8,666	2,929	3,031	-101	205	307	60	60
1993	9,246	3,241	3,241	-97	232	328	68	68
1994	9,277	3,785	3,867	-82	266	348	79	79
1995	9,903	4,257	4,362	-106	240	346	72	70
1996	10,407	4,684	4,721	-37	349	386	110	110
1997	10,614	4,793	4,811	-17	387	404	120	118
1998	10,898	4,684	4,434	250	743	494	245	199
1999	11,614	4,474	4,531	-56	435	491	133	133
2000	11,497	5,234	5,288	-54	514	567	163	160
2001	12,618	5,144	5,431	-286	312	599	92	91
2002	12,803	4,962	5,261	-300	304	603	91	90
2003	13,511	4,973	5,146	-173	362	535	106	105
2004	12,395	5,501	5,388	112	636	524	192	191

[1] Total tax takes into account the unrelated business income tax, minus any tax credits, plus any other types of tax due.

NOTES: Forms 990-T with gross unrelated business income below $1,000 in current dollars, the annual filing threshold, are excluded from these statistics. Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments. Detail may not add to totals because of rounding.

Ninety Years of Individual Income and Tax Statistics, 1916-2005

by Scott Hollenbeck and Maureen Keenan Kahr

Since 1916, the Internal Revenue Service (IRS) has been publishing income and tax statistics based on information reported on Federal tax returns filed by U.S. individual taxpayers. These publicly available, annual Statistics of Income (SOI) reports were created shortly after enactment of the modern income tax in 1913. Detailed data for Tax Year (TY) 1916 were reported in the first volume of the annual SOI report, along with a few statistics for 1913-1915.

This article focuses on the regular annual SOI individual income tax return program and the data that have been published over the past 90 years. The article includes a brief history of the Statistics of Income program, as well as a summary of the major tax law changes that have affected individual taxpayers. The article also includes some analysis of the changes, over time, in individual return filings, total income, average tax rate, and the alternative minimum tax. Finally, the article presents historical tabulations, which summarize the individual income tax data that have been reported by SOI over the past 90 years.

Background and History

During the beginning years of the SOI program, the individual income tax tabulations that were included in reports were relatively uncomplicated and few in number. The data that could be presented were largely limited by data items that were reported on the simple tax forms and the lack of modern data processing equipment and technology. Until the late 1920s, the individual income statistics particularly emphasized the tax, the amount of income producing the tax, and the location in which the returns were filed. A major portion of each report was dedicated to showing the number of returns, income, and tax, classified by the size of income for each State. The number of returns filed in each county, city, and town were available for the first 21 years.

The number of users of SOI data increased as many Federal, State, and private economic research organizations were created. As the needs of these new users increased, along with those of tax administrators and the estimators of future tax revenue, many new data items were requested. As a result of meeting these requests, the number of basic tables included in the annual SOI report increased, largely with the introduction of crosstabulations. Added data included items such as detailed sources of income, tax payments, number of exemptions, and standard and itemized deductions, including types of itemized deductions. New classifiers were also added to the reports, including the size of specific income sources and net income.

As technology advanced and computer processing was introduced, more sophisticated tables could be produced. These newer, more complex tables were added to the SOI reports, in order to meet customer needs. The reports were improved to show added detail for the number of returns filed, sources of income, marital status, and for taxable and nontaxable returns. There was more information for types of dependents, types of tax computation, and for several types of tax credits. New classifiers included taxpayers age 65 and older, marginal tax rates, and alternative income concepts. More recently, new classifiers have been added to provide greater detail for taxpayers with higher incomes. In earlier reports, taxpayers with an adjusted gross income (AGI) of $1 million or more were all grouped together. The TY 2000 report was expanded by adding several income classes, up to a new top bracket of taxpayers with AGI of $10 million or more. Additionally, the reports were expanded to show data on new adjustments available to taxpayers, such as deductions for Health Savings Accounts (HSA), tuition and fees, and interest paid on student loans. Details on recent tax credits were added to the reports, including the child tax credit, adoption credit, and education credits.

In the future, the SOI reports will continue to expand to meet the needs of data users. Among the users of SOI data are the Treasury Department's Office of Tax Analysis, the Joint Committee on Taxation of the U.S. Congress, the Bureau of Economic Analysis and the Bureau of the Census (both in the Department of Commerce), private nonprofit research organizations, universities and businesses, as well as many State and local Government agencies. Many SOI statistics are available on the SOI Web site (www.irs.gov/taxstats/) in order to provide data

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on a more timely basis. Some of the material on the Web site has replaced what was previously published in paper reports.

The *Statistics of Income Bulletin* was introduced as a quarterly publication on June 26, 1981. The first report (Volume 1, Number 1) was produced in accordance with the mandate of Internal Revenue Code section 6108 that requires the preparation and publication of statistics reasonably available with respect to the operation of the internal revenue laws. The first *Bulletin* presented preliminary statistics for individual tax returns for 1979 and the first detailed statistics on both sole proprietorships and partnerships for 1978. Each of these three subjects was previously released in a separate report as statistical tables with little underlying analysis. However, the introduction of the *Bulletin* presented a unique opportunity with which timely analytical tax law statistics would be made available to Federal and State governments, academics, and private researchers. More than 25 years later, the *Bulletin* has grown in content and statue to include far-ranging subjects related to individual income tax returns. Such subjects include individual income tax rates and shares, sole proprietorship and farm proprietorship returns, high-income tax returns, individual foreign-earned income and foreign tax credit, and accumulation and distribution of individual retirement arrangements.

Changes in the Law

Since 1913, there has been a fairly steady increase in the number of returns filed, an increase in the amount and types of income reported, as well as more individual income taxes being collected by the IRS. In addition to growth in the U.S. population, real growth in the economy, and price inflation, the driving factors behind these increases have included several major changes in the tax law.

In general, the increased demands for additional revenue in order to finance World War I, World War II, and the Korean conflict resulted in rapid and numerous changes in the tax law. There were many important tax law changes shortly after the enactment of the modern income tax in 1913. Some of the notable changes were the elimination of collection of taxes at the source (1916), credit for dependents and deduction for charitable contributions (1917), and adoption of preferential tax rates on long-term capital gains and introduction of the gross income filing requirements (1921). In 1939, the Internal Revenue Code was created, and all revenue laws in effect at that time were consolidated into a single statute.

The most drastic revisions to the tax laws occurred in the early 1940s when the individual income tax was broadened to cover most of the working population. Prior to that period, exemptions were high enough that most taxpayers did not earn enough to fall into even the lowest tax bracket. Starting in the 1960s, there were several tax law changes affecting individuals that, in addition to revenue objectives, reflected a concern with social objectives. A few examples of tax law changes with social objectives are the earned income credit (EIC), education credits, and deductions for health savings accounts. A brief summary of the major tax law changes affecting individual income tax returns beginning in 1943 is provided in Figure A.

Number of Returns

The number of individual tax returns filed for 1913 through 2005 is displayed in Figure B. During the first 4 years of the modern income tax, the number of individual tax returns filed ranged from approximately 330 thousand to 440 thousand. As a result of the previously mentioned tax law changes in 1916 and 1917, the number of returns filed rose to nearly 3.5 million in 1917. Over the following 22 years, the number of returns ranged from approximately 4.1 million to 7.7 million.

The introduction of lower income filing requirements for 1940 caused the number of returns to nearly double to 14.7 million. The number of returns filed surpassed 50 million for the first time in 1946 and increased to a little more than 60 million by 1959. During the 1960s and again in the 1970s, the number increased by an average of approximately 16 million returns to reach almost 94 million in 1980. In 1985, the number of individual filers increased to more than 100 million. Since that time, the steady growth in the number of returns has mirrored the general population growth of the U.S., reaching a new high of more than 134 million returns in 2005.

Total Income

Statistics of Income reports currently present annual data based on the concept of adjusted gross income

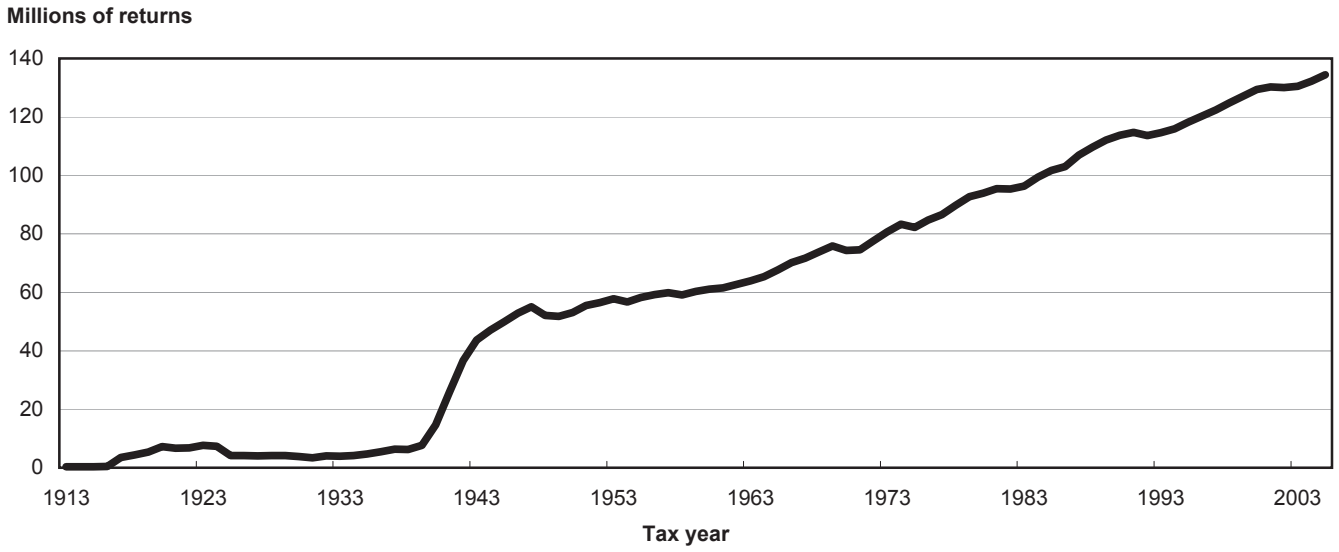
Figure A

Major Tax Law Changes Affecting Individuals, 1943-2005

1943 -	Reenactment of income tax withholding on wages and salaries (originally enacted in 1913, but repealed in 1916).
1944 -	Adoption of the standard deduction and per capita personal exemption of $600.
1948 -	Introduction of "income splitting" for married couples.
1954 -	A complete revision of the Internal Revenue Code, including changes to tax rates, institution of retirement income credit, credit for dividends, credit for partially tax-exempt interest, and major modifications to the definition of adjusted gross income and itemized deductions.
1960 -	Liberalization of allowable medical and dental expense deductions for taxpayers' parents.
1963 -	Introduction of a deduction for contributions to a self-employed retirement plan.
1964 -	Institution of statutory adjustments for employee moving expenses and employee business expenses, institution of income averaging tax computation, increase in dividend exclusion, and introduction of minimum standard deduction.
1965 -	Tax rates were reduced.
1966 -	Introduction of a system of graduated rates for taxes withheld from salaries and wages.
1967 -	Deduction of part of the premiums paid for medical care insurance, and application of the exclusion of 1 percent of adjusted gross income for drug expenses and 3 percent of adjusted gross income for all medical and dental expenses to persons age 65 or over formerly exempt from those limitations.
1968 -	Imposition of a 10-percent income tax surcharge beginning April 1, 1968, and liberalization of rules governing self-employed retirement plan deductions.
1969 -	Establishment of a new minimum tax on individuals. Extension of the 10-percent income tax surcharge to cover all of Calendar Year 1969.
1970 -	Introduction of a new minimum standard deduction or low-income allowance, increase in the deduction allowed for each exemption, liberalization of the tax return filing requirements, changes in tax withholding, introduction of a tax on specified "tax preferences," imposition of higher tax rates on capital gains, and limitations on capital loss deductions.
1971 -	Introduction of a maximum tax on earned income and an increase in the exemption amount to $675.
1972 -	Increase in the exemption amount to $750, introduction of work incentive (WIN) credit, and Presidential Campaign Fund check-box.
1974 -	Comprehensive revisions to pension and employee benefit plan rules, and a tax rebate for 1974.
1975 -	Increase in standard deduction, establishment of personal exemption credit, earned income credit, and purchase-of-residence credit. Establishment of deduction for contributions to individual retirement accounts.
1976 -	Change in standard deduction, institution of child care credit, general tax credit, credit for the elderly, and extension of earned income credit through 1977.
1977 -	Establishment of the "zero bracket amount" and new jobs credit and implementation of disability pay exclusion.
1978 -	Change in treatment of capital gains, institution of residential energy and business energy investment credits, and alteration of treatment of income earned abroad.
1979 -	Repeal of political contributions deduction, and nonbusiness State and local gasoline tax deduction. Increase in the amount of political contributions credit, personal exemption amount, and the zero-bracket amount. Widening of tax brackets and lowering of some tax rates. Introduction of a tax on certain unemployment compensation, expiration of the general tax credit, and introduction of the advance earned income credit and the alternative minimum tax.
1981 -	Reduction in marginal tax rates by 23 percent, phased in over three years. Increase in the combined (for 1981 only) interest and dividend exclusion. Introduction of an alternative tax on net capital gains. Provided new deduction for two-earner married couples.
1982 -	Scheduled increases in accelerated depreciation deductions were repealed, a 10-percent withholding on dividends and interest paid to individuals was instituted, and the floor for medical expense deductions was raised from 3 percent to 5 percent of AGI.
1983 -	Portions of social security benefits and railroad retirement benefits made taxable beginning in 1984.
1984 -	Reduced long-term capital gain holding period from 1 year to 6 months.
1986 -	Lowered top marginal tax rate to 28 percent, increase in standard deduction to $5,000 for married couples, increase of personal exemption to $2,000, and increased earned income tax credit. Repealed two-earner deduction, long-term capital gains exclusion, State and local general sales tax deduction, income averaging, and exclusion of unemployment benefits. Limited IRA eligibility, consumer interest deduction, deductibility of passive losses, medical expenses deduction, deduction for business meals and entertainment, pension contributions, and miscellaneous expense deduction.
1990 -	Increased top marginal tax rate to 31 percent and increased the AMT rate to 24 percent. Capped the capital gains rate at 28 percent. Limited the value of high-income itemized deductions. Created a temporary phase-out of personal exemptions for high-income taxpayers. Expansion of the earned income tax credit and created a low-income credit for costs of health insurance.
1993 -	Introduction of new higher tax rates of 36 percent and 39.6 percent. Increased exemption amounts and tax rates under AMT. Expanded the earned income tax credit to single workers with no children earning $9,000 or less.
1997 -	Introduction of a child credit of $500 per child per year. Introduction of the HOPE and Lifetime Learning nonrefundable education credits. Reduced capital gains tax rates to 20 percent and 10 percent. Extended AGI phase-outs for deductible IRAs, allowed tax-free withdrawals for first-time home purchases, created new Roth and Education IRAs.
2001 -	Reduction of tax rates and introduction of new 10-percent rate. Doubled the child tax credit to $1,000 per child and made a portion of it refundable. Lowered the "marriage penalties" by making the standard deduction and 15-percent tax bracket twice the size as for a single taxpayer. Phased-in both the repeal of the personal exemption phase-out (PEP) and the repeal of the Pease cutback in itemized deductions, over 5 years.
2003 -	Accelerated provisions from 2001 tax law change. Tax rate reductions scheduled for 2006, begin in 2003. Accelerated increase in standard deduction for joint filers to 2003, rather than gradually to 2009. Increased AMT exemptions. Reduction in adjusted net capital gains rates and beginning of taxation of dividends at the adjusted net capital gains rates.
2005 -	Increased exemption amounts for AMT.

Figure B

Number of Individual Income Tax Returns, 1913-2005



(AGI), positive sources of income less negative income and statutory adjustments. AGI has been used as the basis for grouping individual tax data since 1944. Prior to 1944, individual tax statistics were based on the concept of net income, positive sources of income less negative amounts and allowable deductions.[1] The differences in these two concepts make direct comparisons difficult. However, a concept of "total income," positive sources of income less negative amounts (as provided in the tax law for a particular year), can be constructed for the entire 90-plus-year period of the individual income tax.[2] Table 1 shows total income, as well as major sources of income, and tax items from 1913-2005.

Taxpayers reported $3.9 billion in total income for the first year of the income tax in 1913. In the 92 years since 1913, total income has climbed to more than $7.5 trillion for 2005, the most recent year for which SOI has statistics. For most years, total income reported in current dollars has grown. As expected, total income declined for a few years in a row, 1929-1932, due to the Great Depression that began in the United States with the stock market crash of 1929. However, in the 73-year period since 1932, total income has grown in all but 4 years, 1938, 1949, 2001, and 2002. For the 2 most recent years during which total income fell, 2001 and 2002, the decline was mainly due to large declines in net capital gain (less loss).

Table 1A presents total income, major sources of income, and tax items from 1913-2005 in constant dollars.[3] The constant-dollar total income amounts provided in Table 1A show that, in real terms, total income reported on individual income tax returns has grown throughout the majority of the last 90-plus years. Total income in real terms fell in only 19 of the last 90 years, including 4 consecutive years during the Great Depression. In Figure C, total income in current dollars is compared with total income in constant dollars from 1915 to 2005. Generally, Figure C shows that total income during that 90-year period has grown steadily in both real and current dollars. However, when looking at year-to-year changes in total income, constant-dollar total income more clearly depicts the changes in the U.S. economy. For example, the recessions of 1973-1975, 1991, and 2001 are apparent when looking at total income in real terms.[4]

[1] In general, allowable deductions included, but were not limited to, items such as interest paid, taxes paid, charitable contributions, losses from fires and storms, and bad debts. See appropriate SOI reports for those deductions allowable in a specific year.

[2] For each tax year, the total income figure was derived by adding the positive amounts of income less the net loss amounts of income for data shown in the applicable SOI report.

[3] U.S. Department of Labor, Bureau of Labor Statistics, Monthly Labor Review. The Consumer Price Index (CPI-U) for each calendar year represents an annual average of monthly indices (2005=100).

[4] Business Cycle Expansions and Contractions (see http://www.nber.org/cycles/).

Figure C

Total Income in Current and Constant Dollars, 1915-2005

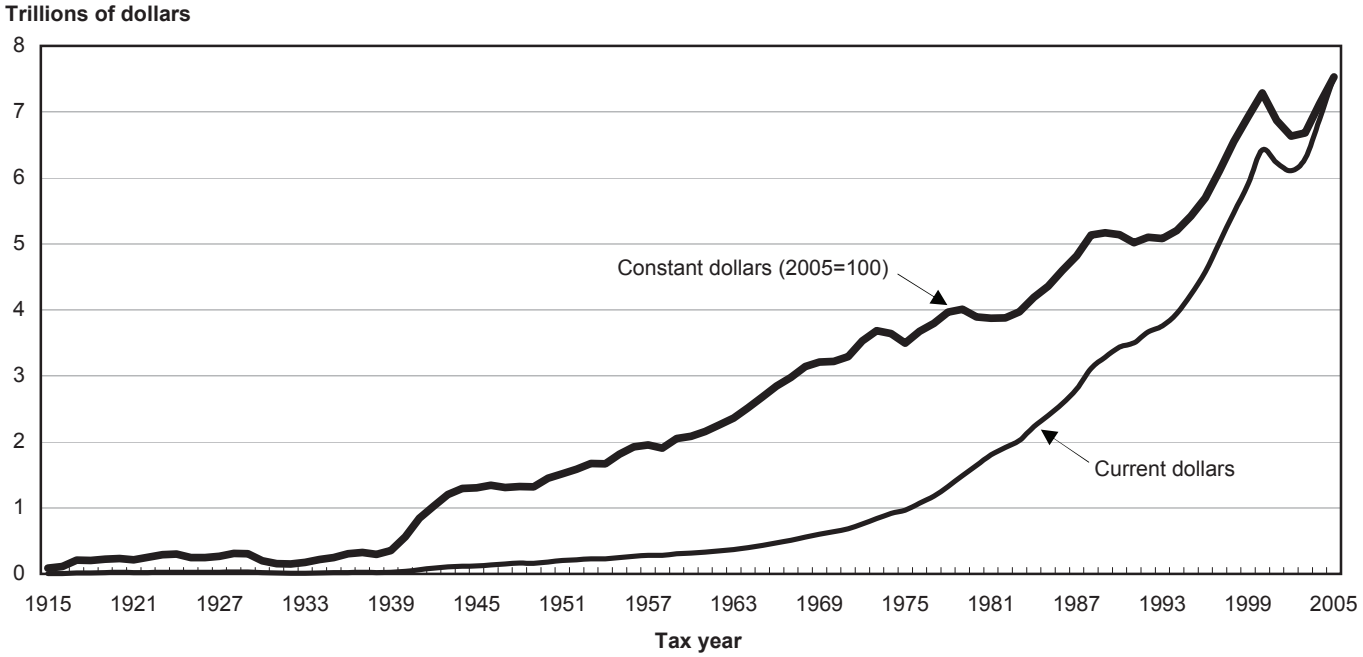
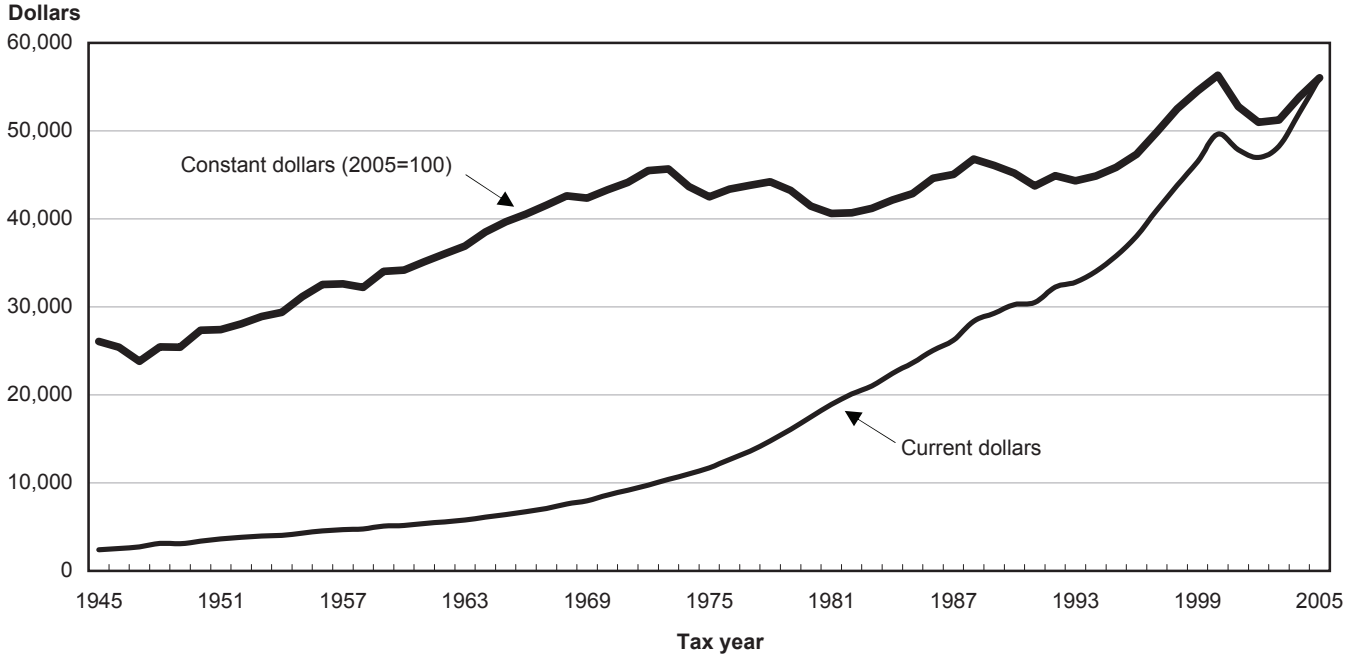


Figure D

Average Income in Current and Constant Dollars, 1945-2005



Average total income from 1945 to 2005 in current versus constant dollars is shown in Figure D. Average income for this article is calculated by dividing total income by the number of returns for a particular year. For the period 1945 to 2005, the lowest average income, in constant dollars, was $23,800 for 1947. One of the main reasons for the decline in average income before 1947 was the increase in the number of returns filed with lower income due to lower income filing requirements introduced for 1940. Prior to that period, only upper income people were taxed. The graph of constant-dollar average income shows that average income generally increased from the late 1940s through the early 1970s. Then, in the period from the mid 1970s to the early 1990s, average income stayed in the low- to mid-$40,000 range before climbing again for 7 straight years from 1994 through 2000. Average income for 2000 reached $56,315, the highest average income during the 1945 to 2005 period.

Sources of Income

The main items that make up total income have largely stayed the same throughout the years. Salaries and wages have been the largest component of total income in every year except the first year of SOI statistics, 1916. In 1916, both dividends and business income were larger than salaries and wages. Even with salaries and wages as the largest component of total income in every year since 1917, salaries and wages as a percentage of total income has varied from a low of 26.7 percent of total income in 1917 to a high of 83.2 percent in 1970. For the majority of the years in the 1950s, 1960s, 1970s, and early 1980s, salaries and wages as a percentage of total income stayed in the low 80-percent range. While salaries and wages are still by far the largest source of total income, in the last 20 years, there has been a downward trend in their percentage of total income.[5] At almost $5.2 trillion for 2005, salaries and wages made up only 68.4 percent of total income (Figure E). Along with the decline in the share of salaries and wages in total income, there has been an upward trend in the share of business income, capital gains, and other income in total income. The percentage of total income that these sources of income represent is still small in comparison to salaries and wages.

[5] Note that, prior to the Tax Reform Act of 1986, because of a 60-percent deduction, taxpayers only had to report 40 percent of their long-term capital gains in excess of short-term losses.

Figure E

Major Sources of Individual Total Income for Tax Years 1917, 1970, and 2005

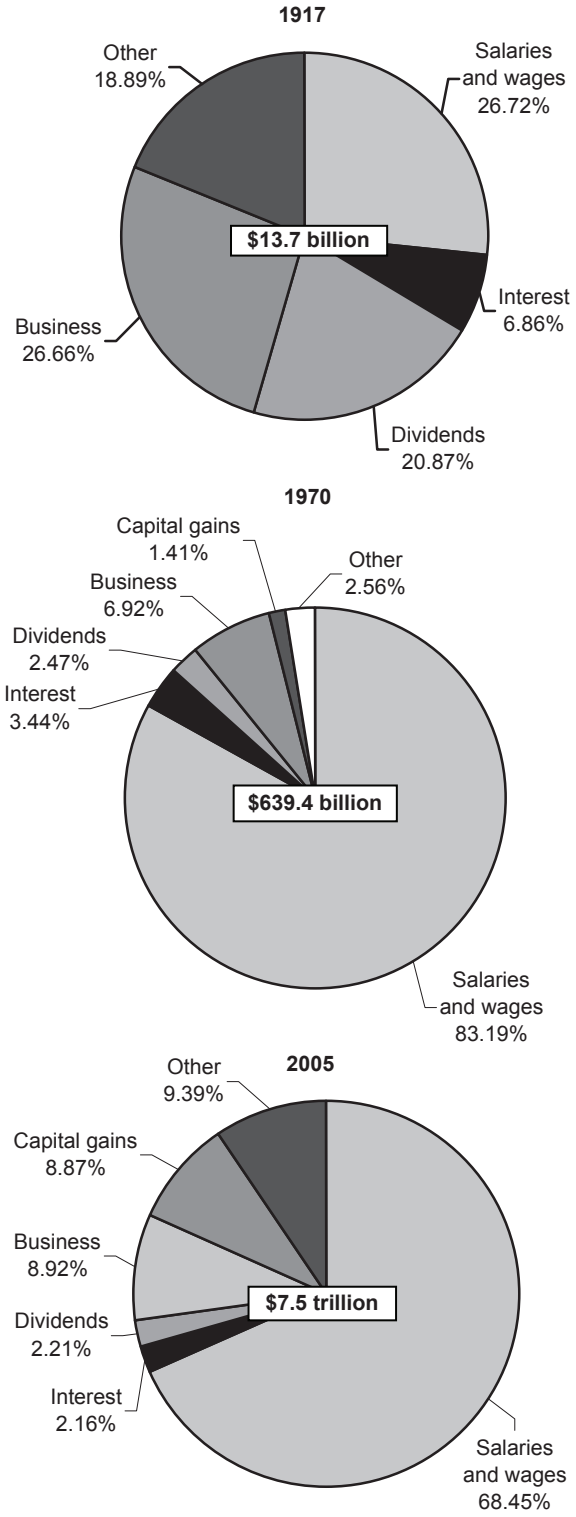
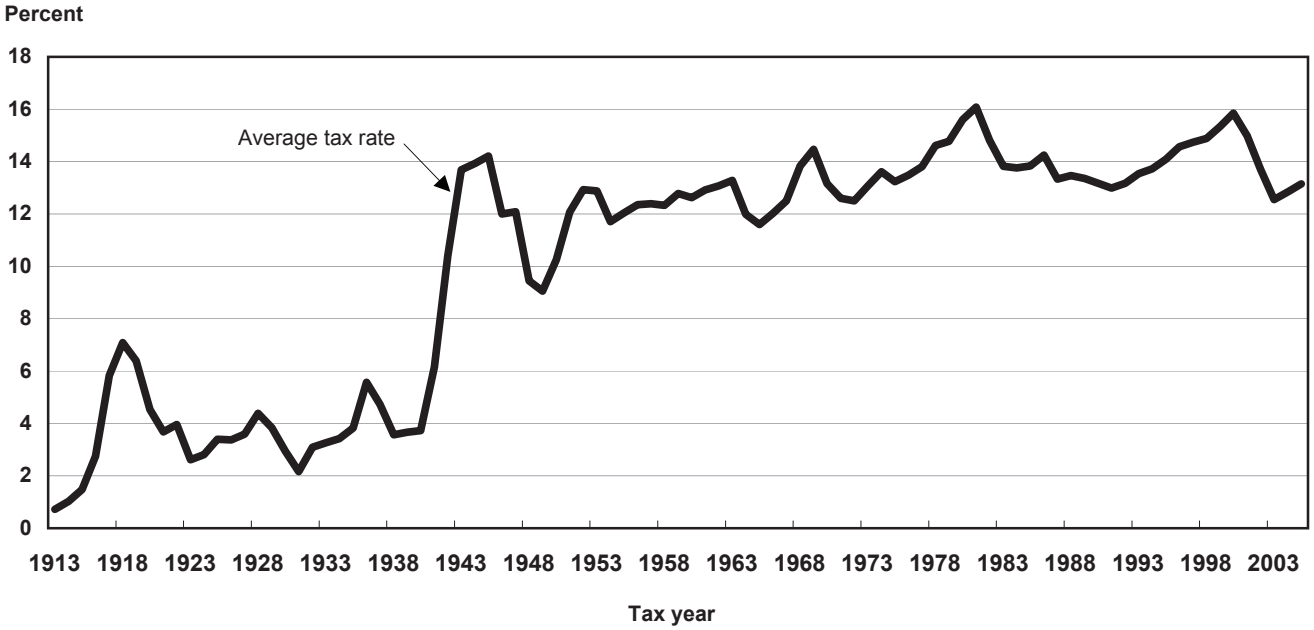


Figure F

Average Individual Income Tax Rate, 1913-2005



However, from 1995 to 2005, business income has grown from 3.2 percent of total income to 8.9 percent; capital gains has increased from 2.8 percent to 8.9 percent; and other income has increased from 3.8 percent to 9.4 percent.

Average Tax Rate

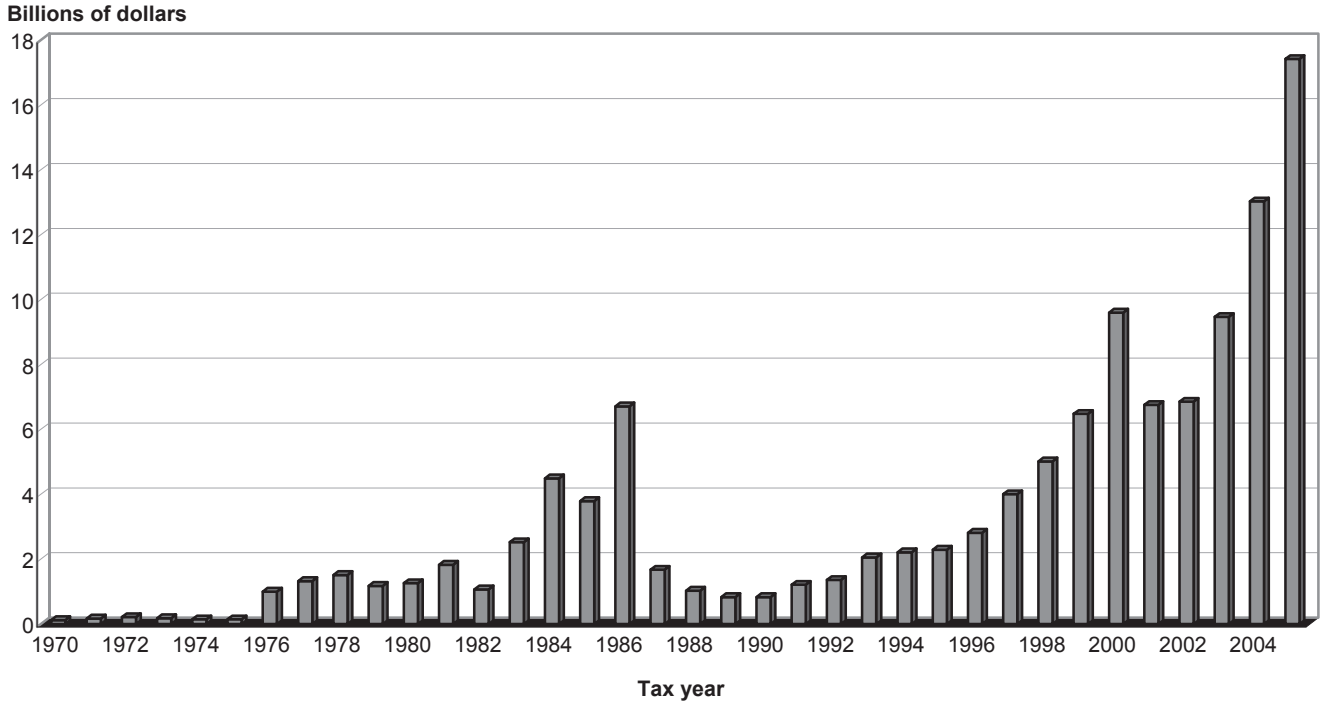
The average individual income tax rate is calculated by dividing income tax by the total income for a tax year. For this article, individual income tax before credits is used to calculate the average tax rate. Most of the fluctuations in the average tax rate during the past 90-plus years can be attributed to tax law changes affecting the definition of income reported on a tax return and to how tax before credits was calculated on that income. For nearly the first 30 years of the modern income tax system, the average tax rate fluctuated between less than 1.0 percent and 7.1 percent. During the Great Depression, the average tax rate dropped to just over 2.1 percent for 1931.

Throughout the early 1940s, several tax laws were passed to increase individual income tax rates. These changes in law resulted in average tax rates reaching double digits for the first time in 1942 and rising to more than 14.2 percent by 1945, as illustrated in Figure F. After World War II, tax rates fell to a low of 9.1 percent in 1949. Since 1955, the average tax rate has ranged between approximately 11.6 percent and 16.1 percent. During the 1950s and early 1960s, there were gradual increases in the average tax rate up to 13.3 percent in 1963. The Revenue Act of 1964, which reduced tax rates and introduced a minimum standard deduction, helped lower the average tax rate to 11.6 percent for 1965. A 10-percent income tax surcharge was created in 1968 in order to help pay for the Vietnam War, which resulted in a rise in the average tax rate to a high of almost 14.5 percent in 1969.

During the 1970s, the U.S. economy experienced a period of high inflation, resulting in higher total and average tax burdens for individuals. This increase in the average tax rate continued until reaching an all-time high of 16.1 percent in 1981. The average tax rates steadily declined after the Economic Recovery Tax Act of 1981 was passed. Then, tax rate increases created under the Omnibus Budget Reconciliation Acts of 1990 and 1993, combined with strong U.S. economic growth, resulted in steady average tax rate increases throughout the 1990s, reaching a high of 15.9 percent in 2000. The reduction of tax rates from the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the acceleration of those tax rate reductions under the Jobs and Growth Tax Relief Reconciliation Act

Figure G

Alternative Minimum Tax, 1970-2005



of 2003 (JGTRRA) is clear in Figure F, as the average rates declined to 12.6 percent for 2003. For 2004 and 2005, these increased slightly to 13.1 percent.

Alternative Minimum Tax

The alternative minimum tax (AMT), also known as the minimum tax for tax preferences in its early years, was first introduced in 1970 and was created to ensure that high-income Americans were not using combinations of tax preferences to completely eliminate their tax liability. Essentially, the alternative minimum tax is a parallel tax that computes its own income amount and is taxed at a different rate than the regular income tax. The AMT did not grow very much for the first few years, but, as shown in Figure G, increased as a result of the Tax Reform Act of 1976, which expanded the definition of tax preferences, reduced deductions from tax preferences, and raised the tax rate on the tax preferences. Over the next 10 years, the alternative minimum tax grew nearly seven-fold to reach just over $6.7 billion before falling to $1.7 billion in 1987 as a result of changes in the Tax Reform Act of 1986. More recently, there has been a general upward trend in the growth of the alternative minimum tax. However, the alternative minimum tax declined for 2001, partially as a result of an increase in the AMT exemption amount. But, since 2001, the AMT has grown from $6.7 billion to slightly more than $17.4 billion for 2005, an increase of nearly 158 percent in just 4 years.

Acknowledgments

The authors wish to express their appreciation to David Paris and Cecelia Hilgert, whose prior article, "70th Year of Individual Income and Tax Statistics, 1913-1982," *Statistics of Income Bulletin*, Winter 1983-1984, Volume 3, Number 3, provided source material and inspiration for this article.

Data Sources and Limitations

Throughout the 90-plus years that SOI has been producing individual tax return data, the data have mostly been based on stratified probability samples of unaudited individual income tax returns. A general description of sampling procedures and data limitations applicable to SOI tabulations is contained in the Appendix of this publication. In addition, see the applicable SOI report for more information on data sources and limitations for a specific year.

Table 1. All Individual Income Tax Returns: Sources of Income and Tax Items, Tax Years 1913-2005

(All figures are estimates based on samples—number of returns are in thousands, money amounts are in millions of current dollars)

Tax year	Number of returns	Total income	Major sources of income						Income tax before credits	Total tax liability	Alternative minimum tax
			Salaries and wages	Interest	Dividends	Business net income less loss [1]	Net capital gain less loss	All other income			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1913	358	3,900	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	28	28	N/A
1914	358	4,000	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	41	41	N/A
1915	337	4,600	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	68	68	N/A
1916	437	6,299	1,851	667	2,136	2,637	N/A	-992	173	173	N/A
1917	3,473	13,652	3,648	936	2,849	3,640	N/A	2,579	795	795	N/A
1918	4,425	15,925	8,267	1,403	2,469	4,339	N/A	-553	1,128	1,128	N/A
1919	5,333	19,859	10,756	1,500	2,454	5,709	N/A	-560	1,270	1,270	N/A
1920	7,260	23,736	15,323	1,709	2,736	4,922	N/A	-954	1,075	1,075	N/A
1921	6,662	19,577	13,813	1,690	2,477	3,707	462	-2,572	719	719	N/A
1922	6,787	21,761	13,694	1,738	2,664	4,267	742	-1,344	861	861	N/A
1923	7,698	25,313	14,193	2,183	3,120	6,399	866	-1,448	662	662	N/A
1924	7,370	26,189	13,618	2,281	3,251	6,565	1,124	-650	735	704	N/A
1925	4,171	22,337	9,742	1,814	3,465	5,516	940	860	759	735	N/A
1926	4,138	22,442	9,994	1,936	4,012	5,306	1,287	-93	757	732	N/A
1927	4,102	23,854	10,218	2,026	4,255	5,043	1,585	727	856	830	N/A
1928	4,144	27,338	10,945	2,143	4,440	5,223	1,708	2,879	1,199	1,164	N/A
1929	4,133	26,692	11,373	2,210	5,081	5,282	1,341	1,405	1,024	1,002	N/A
1930	3,852	17,047	10,206	1,940	4,632	3,101	676	-3,508	502	477	N/A
1931	3,411	12,221	8,631	1,337	3,600	2,016	990	-4,353	264	246	N/A
1932	4,083	10,671	8,356	1,307	2,189	1,229	325	-2,735	330	330	N/A
1933	3,892	11,473	7,565	1,106	1,711	1,746	232	-887	374	374	N/A
1934	4,198	14,957	8,681	995	2,041	2,125	18	1,097	511	511	N/A
1935	4,670	17,193	9,972	98	2,288	2,387	363	2,085	657	657	N/A
1936	5,486	21,773	11,718	955	3,228	3,210	852	1,810	1,214	1,214	N/A
1937	6,350	24,120	14,206	856	3,248	3,359	158	2,293	1,142	1,142	N/A
1938	6,251	21,436	13,307	823	2,212	3,120	-176	2,150	766	766	N/A
1939	7,652	25,363	16,491	832	2,544	3,674	321	1,501	929	929	N/A
1940	14,711	40,155	27,707	1,003	2,999	5,407	332	2,707	1,496	1,496	N/A
1941	25,870	63,433	47,140	1,029	3,299	8,455	430	3,080	3,908	3,908	N/A
1942	36,619	85,780	65,617	982	2,833	12,833	112	3,403	8,927	8,927	N/A
1943	43,722	106,555	82,755	886	2,780	15,717	595	3,822	14,590	14,590	N/A
1944	47,111	116,465	91,125	[2] n.a.	[2] 3,924	17,250	917	3,249	16,224	16,216	N/A
1945	49,932	120,009	91,700	[2] n.a.	[2] 3,925	19,003	2,114	3,267	17,061	17,050	N/A
1946	52,817	134,083	99,174	1,067	3,674	23,267	3,068	3,833	16,091	16,076	N/A
1947	55,099	149,736	114,804	1,125	4,295	23,295	2,154	4,063	18,092	18,076	N/A
1948	52,072	163,516	125,881	1,293	4,971	24,506	2,201	4,664	15,442	15,442	N/A
1949	51,814	160,574	124,883	1,528	5,246	21,705	1,604	5,608	14,538	14,538	N/A
1950	53,060	179,148	139,073	1,595	6,157	23,429	2,927	5,967	18,375	18,375	N/A
1951	55,447	202,337	160,482	1,702	6,056	24,878	2,997	6,222	24,439	24,439	N/A
1952	56,529	215,290	174,339	1,847	5,860	24,754	2,470	6,020	27,822	28,020	N/A
1953	57,838	228,708	187,734	2,043	5,828	24,951	2,075	6,077	29,450	29,657	N/A
1954	56,747	229,573	185,953	2,370	7,048	25,452	3,352	5,398	26,873	26,967	N/A
1955	58,250	248,974	200,712	2,584	7,851	27,454	4,751	5,622	29,982	30,077	N/A
1956	59,197	268,268	215,618	2,872	8,606	30,137	4,553	6,482	33,134	33,265	N/A
1957	59,825	280,895	228,077	3,319	9,124	29,698	3,485	7,192	34,816	34,975	N/A
1958	59,085	281,777	227,551	3,659	9,741	29,906	4,330	6,590	34,755	34,925	N/A
1959	60,271	305,772	247,370	4,395	9,356	30,994	6,275	7,382	39,092	39,347	N/A
1960	61,028	316,141	257,918	5,057	9,530	30,038	5,300	8,298	39,909	40,298	N/A

Footnotes at end of table.

Table 1. All Individual Income Tax Returns: Sources of Income and Tax Items, Tax Years 1913-2005—Continued

(All figures are estimates based on samples—number of returns are in thousands, money amounts are in millions of current dollars)

Tax year	Number of returns	Total income	Major sources of income						Income tax before credits	Total tax liability	Alternative minimum tax
			Salaries and wages	Interest	Dividends	Business net income less loss [1]	Net capital gain less loss	All other income			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1961	61,499	330,617	266,902	5,683	9,890	31,578	7,621	8,943	42,714	43,066	N/A
1962	62,712	349,484	283,373	7,155	10,640	33,269	5,771	9,276	45,691	45,790	N/A
1963	63,943	369,675	299,443	9,212	11,452	33,184	6,449	9,935	49,117	49,216	N/A
1964	65,376	399,539	323,266	10,125	11,917	35,358	7,939	10,934	47,896	48,185	N/A
1965	67,596	432,344	347,150	11,296	12,961	38,559	10,180	12,198	50,144	50,632	N/A
1966	70,160	472,132	381,067	13,225	13,998	40,984	9,941	12,917	56,773	51,627	N/A
1967	71,651	509,151	411,646	14,899	14,202	42,280	13,682	12,442	63,655	64,525	N/A
1968	73,729	559,760	451,505	16,782	15,222	45,503	17,990	12,758	77,440	78,419	N/A
1969	75,834	603,546	498,865	19,626	15,740	45,842	14,853	8,620	87,336	88,524	N/A
1970	74,280	639,358	531,884	22,021	15,807	44,242	9,007	16,397	84,156	85,767	122
1971	74,576	682,467	564,967	24,731	15,671	45,029	13,155	18,914	85,942	87,469	169
1972	77,573	755,540	622,599	27,400	16,794	49,616	17,076	22,055	94,442	95,949	216
1973	80,693	837,813	687,179	32,174	18,734	56,489	16,672	26,565	109,394	111,175	182
1974	83,340	918,626	758,628	39,543	20,887	55,055	13,470	31,043	125,079	127,003	143
1975	82,229	962,887	795,399	43,434	21,892	53,736	14,072	34,354	127,432	127,939	144
1976	84,670	1,070,180	880,998	48,588	24,461	59,637	18,562	37,934	144,186	145,749	1,000
1977	86,635	1,177,821	969,403	54,603	27,020	63,271	20,777	42,747	162,587	164,024	1,323
1978	89,772	1,324,811	1,090,292	61,223	30,206	75,156	23,231	44,703	193,555	193,185	1,514
1979	92,694	1,490,173	1,229,251	73,875	33,483	69,013	28,448	56,103	220,099	220,100	1,175
1980	93,902	1,642,346	1,349,843	102,009	38,761	64,558	29,660	57,515	256,294	256,251	1,263
1981	95,396	1,804,046	1,486,100	140,559	48,161	52,934	30,819	45,473	290,207	291,127	1,827
1982	95,337	1,917,023	1,564,995	157,021	54,045	48,815	34,404	57,743	283,932	284,708	1,069
1983	96,321	2,023,983	1,644,573	153,805	48,557	59,832	49,408	67,808	279,842	282,318	2,521
1984	99,439	2,229,649	1,807,138	176,369	48,641	68,498	54,519	74,484	306,686	312,534	4,490
1985	101,660	2,401,034	1,928,201	182,109	55,046	76,246	68,278	91,154	332,165	338,765	3,792
1986	103,045	2,580,689	2,031,026	167,640	61,623	84,564	132,842	102,994	367,592	381,224	6,713
1987	106,996	2,803,941	2,163,906	168,966	66,791	129,775	137,399	137,104	373,857	384,538	1,675
1988	109,708	3,111,222	2,337,984	186,982	77,330	183,403	152,841	172,682	418,889	430,733	1,028
1989	112,136	3,280,931	2,449,531	220,016	81,309	195,830	145,631	188,614	438,240	451,873	831
1990	113,717	3,439,402	2,599,401	227,084	80,169	208,452	113,159	211,137	453,128	468,631	830
1991	114,730	3,499,250	2,674,261	209,411	77,284	205,054	102,776	230,464	454,503	471,083	1,213
1992	113,605	3,664,594	2,805,703	162,343	77,926	241,654	118,230	258,738	482,631	500,020	1,357
1993	114,602	3,759,964	2,892,120	131,141	79,729	248,573	144,172	264,229	508,894	526,819	2,053
1994	115,943	3,946,621	3,026,778	126,169	82,410	280,589	142,288	288,387	541,571	561,042	2,212
1995	118,218	4,230,493	3,201,457	154,781	94,592	295,096	170,415	314,152	596,169	615,806	2,291
1996	120,351	4,578,621	3,376,872	165,673	104,255	323,684	251,817	356,320	666,724	687,332	2,813
1997	122,422	5,016,905	3,613,918	171,700	120,493	355,064	356,083	399,647	739,482	762,258	4,005
1998	124,771	5,467,504	3,879,762	178,334	118,480	389,755	446,084	455,089	813,569	821,899	5,015
1999	127,075	5,912,167	4,132,473	175,675	132,466	419,486	542,758	509,309	906,812	912,464	6,478
2000	129,374	6,423,986	4,456,167	199,322	146,988	426,779	630,542	564,188	1,018,219	1,017,471	9,601
2001	130,255	6,231,177	4,565,229	198,178	119,533	441,883	326,527	579,827	933,567	925,435	6,757
2002	130,076	6,110,747	4,559,691	149,025	103,241	458,751	238,789	601,250	836,843	834,915	6,854
2003	130,424	6,294,684	4,649,900	127,160	115,141	483,712	294,354	624,417	790,006	787,584	9,470
2004	132,226	6,886,852	4,921,806	125,474	146,839	563,210	473,662	655,861	884,343	874,010	13,029
2005	134,373	7,531,892	5,155,407	162,433	166,482	672,028	668,015	707,527	990,152	980,259	17,421

n.a.—Not available.

N/A—Not applicable.

[1] Business net income less loss is sole proprietorship (Schedule C) plus partnership and S corporation income less loss (Schedule E).

[2] For 1944 and 1945 the total amounts for interest and dividend income were combined in the SOI reports and shown as dividend income.

NOTES: Detail may not add to totals because of rounding. Data from 1913-1981 are taken directly from Paris, David and Cecelia Hilgert, "70th Year of Individual Income and Tax Statistics, 1913-1982," *Statistics of Income Bulletin,* Winter 1983-1984, Volume 3, Number 3. Data for 1982-2005 are from *Statistics of Income—Individual Income Tax Returns* (IRS Publication 1304), various years.

Table 1a. All Individual Income Tax Returns: Sources of Income and Tax Items, Tax Years 1913-2005, in 2005 Constant Dollars [1]

(All figures are estimates based on samples—number of returns are in thousands, money amounts are in millions of constant dollars)

Tax year	Number of returns	Total income	Major sources of income						Income tax before credits	Total tax liability
			Salaries and wages	Interest	Dividends	Business net income less loss [2]	Net capital gain less loss	All other income		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1913	358	76,936	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	552	552
1914	358	78,120	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	801	801
1915	337	88,949	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,315	1,315
1916	437	112,862	33,165	11,951	38,272	47,248	N/A	-17,774	3,100	3,100
1917	3,473	208,300	55,661	14,281	43,470	55,538	N/A	39,350	12,130	12,130
1918	4,425	205,970	106,924	18,146	31,933	56,120	N/A	-7,152	14,589	14,589
1919	5,333	224,189	121,425	16,934	27,703	64,449	N/A	-6,322	14,337	14,337
1920	7,260	231,782	149,629	16,688	26,717	48,063	N/A	-9,316	10,497	10,497
1921	6,662	213,597	150,708	18,439	27,026	40,446	5,041	-28,062	7,845	7,845
1922	6,787	252,972	159,193	20,204	30,969	49,604	8,626	-15,624	10,009	10,009
1923	7,698	289,101	162,099	24,932	35,634	73,083	9,891	-16,538	7,561	7,561
1924	7,370	299,106	155,532	26,051	37,130	74,979	12,837	-7,424	8,394	8,040
1925	4,171	249,281	108,721	20,244	38,669	61,559	10,490	9,598	8,470	8,203
1926	4,138	247,623	110,273	21,362	44,268	58,546	14,201	-1,026	8,353	8,077
1927	4,102	267,741	114,688	22,740	47,759	56,603	17,790	8,160	9,608	9,316
1928	4,144	312,229	125,003	24,475	50,709	59,652	19,507	32,881	13,694	13,294
1929	4,133	304,851	129,892	25,241	58,030	60,326	15,316	16,047	11,695	11,444
1930	3,852	199,358	119,355	22,688	54,169	36,265	7,906	-41,025	5,871	5,578
1931	3,411	157,024	110,897	17,179	46,255	25,903	12,720	-55,930	3,392	3,161
1932	4,083	152,120	119,119	18,632	31,205	17,520	4,633	-38,989	4,704	4,704
1933	3,892	172,360	113,650	16,616	25,704	26,230	3,485	-13,325	5,619	5,619
1934	4,198	217,993	126,522	14,502	29,747	30,971	262	15,988	7,448	7,448
1935	4,670	245,094	142,156	1,397	32,617	34,028	5,175	29,723	9,366	9,366
1936	5,486	305,918	164,642	13,418	45,355	45,102	11,971	25,431	17,057	17,057
1937	6,350	327,128	192,669	11,610	44,051	45,556	2,143	31,099	15,488	15,488
1938	6,251	296,911	184,316	11,399	30,639	43,215	-2,438	29,780	10,610	10,610
1939	7,652	356,359	231,704	11,690	35,744	51,621	4,510	21,090	13,053	13,053
1940	14,711	560,162	386,513	13,992	41,836	75,428	4,631	37,763	20,869	20,869
1941	25,870	842,753	626,289	13,671	43,830	112,331	5,713	40,920	51,921	51,921
1942	36,619	1,027,781	786,196	11,766	33,944	153,760	1,342	40,773	106,960	106,960
1943	43,722	1,202,901	934,223	10,002	31,383	177,429	6,717	43,147	164,707	164,707
1944	47,111	1,292,364	1,011,177	[3] n.a.	[3] 43,543	191,416	10,176	36,053	180,031	179,942
1945	49,932	1,302,098	994,945	[3] n.a.	[3] 42,586	206,183	22,937	35,447	185,112	184,993
1946	52,817	1,342,893	993,266	10,686	36,797	233,028	30,727	38,389	161,158	161,007
1947	55,099	1,311,365	1,005,436	9,853	37,615	204,014	18,864	35,583	158,447	158,307
1948	52,072	1,325,090	1,020,106	10,478	40,284	198,590	17,836	37,796	125,138	125,138
1949	51,814	1,317,651	1,024,775	12,539	43,048	178,109	13,162	46,019	119,297	119,297
1950	53,060	1,451,768	1,127,011	12,925	49,895	189,862	23,720	48,355	148,906	148,906
1951	55,447	1,519,862	1,205,467	12,785	45,490	186,872	22,512	46,737	183,574	183,574
1952	56,529	1,586,647	1,284,846	13,612	43,187	182,432	18,203	44,366	205,043	206,502
1953	57,838	1,672,909	1,373,200	14,944	42,630	182,507	15,178	44,451	215,415	216,929
1954	56,747	1,666,751	1,350,060	17,207	51,170	184,787	24,336	39,191	195,104	195,786
1955	58,250	1,814,352	1,462,651	18,830	57,213	200,066	34,622	40,969	218,488	219,181
1956	59,197	1,926,204	1,548,169	20,621	61,792	216,388	32,691	46,542	237,907	238,848
1957	59,825	1,952,270	1,585,176	23,068	63,413	206,406	24,221	49,986	241,977	243,082
1958	59,085	1,904,189	1,537,741	24,727	65,828	202,098	29,261	44,534	234,867	236,016
1959	60,271	2,052,140	1,660,184	29,496	62,791	208,011	42,114	49,543	262,360	264,071
1960	61,028	2,085,890	1,701,736	33,366	62,879	198,190	34,969	54,750	263,319	265,885
1961	61,499	2,159,515	1,743,343	37,120	64,599	206,260	49,779	58,414	278,998	281,297
1962	62,712	2,260,074	1,832,541	46,271	68,808	215,147	37,320	59,987	295,479	296,119
1963	63,943	2,359,396	1,911,151	58,794	73,091	211,792	41,160	63,409	313,482	314,114

Footnotes at end of table.

Table 1a. All Individual Income Tax Returns: Sources of Income and Tax Items, Tax Years 1913-2005, in 2005 Constant Dollars [1]—Continued

(All figures are estimates based on samples—number of returns are in thousands, money amounts are in millions of constant dollars)

Tax year	Number of returns	Total income	Major sources of income						Income tax before credits	Total tax liability
			Salaries and wages	Interest	Dividends	Business net income less loss [2]	Net capital gain less loss	All other income		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1964	65,376	2,517,096	2,036,576	63,788	75,077	222,755	50,016	68,884	301,745	303,566
1965	67,596	2,680,533	2,152,330	70,035	80,358	239,066	63,116	75,628	310,893	313,918
1966	70,160	2,845,907	2,296,987	79,717	84,377	247,042	59,922	77,861	342,215	311,196
1967	71,651	2,977,161	2,407,020	87,119	83,043	247,224	80,003	72,752	372,210	377,297
1968	73,729	3,141,412	2,533,877	94,182	85,427	255,366	100,961	71,599	434,599	440,093
1969	75,834	3,211,786	2,654,723	104,440	83,761	243,949	79,041	45,872	464,761	471,083
1970	74,280	3,218,212	2,677,241	110,843	79,565	222,692	45,337	82,534	423,600	431,709
1971	74,576	3,291,008	2,724,396	119,258	75,569	217,140	63,436	91,208	414,431	421,795
1972	77,573	3,530,071	2,908,937	128,020	78,466	231,818	79,783	103,046	441,257	448,298
1973	80,693	3,685,245	3,022,659	141,522	82,404	248,475	73,334	116,850	481,186	489,020
1974	83,340	3,639,101	3,005,275	156,648	82,743	218,098	53,361	122,976	495,496	503,117
1975	82,229	3,495,387	2,887,387	157,670	79,470	195,068	51,083	124,709	462,592	464,433
1976	84,670	3,673,219	3,023,882	166,770	83,958	204,694	63,711	130,202	494,895	500,260
1977	86,635	3,795,849	3,124,165	175,973	87,079	203,908	66,960	137,764	523,981	528,612
1978	89,772	3,968,337	3,265,859	183,387	90,479	225,122	69,586	133,903	579,774	578,666
1979	92,694	4,008,689	3,306,787	198,730	90,072	185,651	76,527	150,922	592,085	592,087
1980	93,902	3,892,599	3,199,324	241,776	91,869	153,012	70,299	136,319	607,454	607,352
1981	95,396	3,876,020	3,192,908	301,993	103,475	113,729	66,215	97,699	623,514	625,491
1982	95,337	3,879,737	3,167,290	317,784	109,378	98,793	69,628	116,862	574,631	576,202
1983	96,321	3,968,714	3,224,750	301,588	95,213	117,321	96,881	132,961	548,726	553,581
1984	99,439	4,191,053	3,396,863	331,519	91,430	128,755	102,479	140,007	576,475	587,468
1985	101,660	4,358,011	3,499,792	330,538	99,912	138,391	123,928	165,450	602,898	614,877
1986	103,045	4,598,618	3,619,155	298,723	109,808	150,687	236,716	183,529	655,025	679,316
1987	106,996	4,820,508	3,720,166	290,485	114,826	223,108	236,215	235,708	642,731	661,094
1988	109,708	5,136,278	3,859,749	308,686	127,663	302,778	252,323	285,079	691,539	711,092
1989	112,136	5,167,466	3,858,011	346,525	128,062	308,432	229,369	297,067	690,228	711,700
1990	113,717	5,139,367	3,884,185	339,323	119,793	311,482	169,089	315,494	677,092	700,257
1991	114,730	5,017,647	3,834,678	300,279	110,819	294,031	147,373	330,467	651,721	675,496
1992	113,605	5,101,178	3,905,587	225,984	108,474	336,387	164,578	360,168	671,831	696,036
1993	114,602	5,081,806	3,908,865	177,245	107,758	335,961	194,857	357,121	687,799	712,026
1994	115,943	5,200,911	3,988,730	166,267	108,601	369,764	187,509	380,040	713,690	739,349
1995	118,218	5,421,360	4,102,655	198,351	121,219	378,164	218,386	402,585	763,988	789,153
1996	120,351	5,699,201	4,203,334	206,220	129,771	402,903	313,447	443,526	829,899	855,551
1997	122,422	6,104,683	4,397,496	208,928	146,619	432,050	433,290	486,299	899,818	927,533
1998	124,771	6,550,942	4,648,574	213,673	141,958	466,989	534,480	545,269	974,785	984,766
1999	127,075	6,930,650	4,844,370	205,938	155,286	491,750	636,258	597,047	1,063,028	1,069,653
2000	129,374	7,285,740	5,053,946	226,060	166,706	484,030	715,127	639,872	1,154,809	1,153,961
2001	130,255	6,871,535	5,034,383	218,544	131,817	487,294	360,083	639,414	1,029,507	1,020,539
2002	130,076	6,633,846	4,950,015	161,782	112,079	498,022	259,230	652,719	908,479	906,386
2003	130,424	6,681,260	4,935,465	134,969	122,212	513,418	312,431	662,764	838,523	835,952
2004	132,226	7,120,181	5,088,559	129,725	151,814	582,292	489,710	678,082	914,305	903,622
2005	134,373	7,531,892	5,155,407	162,433	166,482	672,028	668,015	707,527	990,152	980,259

n.a.—Not available.

N/A—Not applicable.

[1] Based upon the Consumer Price Index as Published by the U.S. Department of Labor, Bureau of Labor Statistics.

[2] Business net income less loss is sole proprietorship (Schedule C) plus partnership and S corporation income less loss (Schedule E).

[3] For 1944 and 1945 the total amounts for interest and dividend income were combined in the SOI reports and shown as dividend income.

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

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1917
2007
Statistics of Income