

An Analysis of Partnership Activity, 1981-83

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The extensive marketing of "tax shelter" investments has caused many taxpayers to question the fairness of the tax system [1]. Because partnerships have frequently been used to conduct tax shelter activities, there has been considerable interest in examining the statistics on partnership income and losses. However, there are a number of reasons why previous Statistics of Income (SOI) data on partnership activity [2, 3] may not have fully revealed the impact of tax shelter activity.

TAXATION OF PARTNERSHIPS AND PARTNERS

There are two types of partnerships: general and limited. Tax shelter investors are more likely to acquire interests in limited partnerships, since doing so limits their exposure to the amount invested (or pledged under a letter of credit or other guarantee). As a result, aggregating the income and deductions reported by limited and general partnerships may somewhat mask the true picture of partnership tax shelter activity. Because no distinction had been made between these two types of partnerships in previous studies [2, 3], one objective of this article is to specifically examine the different patterns of deductions claimed and other aspects of their financial behavior.

Although a partnership is a legal entity, it is not taxed on the income it earns. Instead, the individual partners are generally taxed on their share of partnership earnings, whether they receive any actual partnership distributions. The partnership files an annual information return, Form 1065, with the Internal Revenue Service (IRS) and also provides a supplemental information schedule, Schedule K-1 (Form 1065), to each partner. The Schedule K-1 indicates the partner's share of the various items of partnership income, credits, deductions and other items so that the partner has the information necessary to complete his or her income tax return. A copy of each Schedule K-1 is provided with the Form 1065 filed with the IRS. An additional information schedule, Schedule K, which summarizes the information contained on the

individual Schedules K-1, is also provided with the Form 1065. (For 1983 and later years, however, if the partnership has 10 or fewer partners, it may elect not to file a Schedule K.)

In general, only by examining the items reported on the Schedule K (or separate Schedules K-1 if a Schedule K is not filed) can the tax consequences for the individual partners be determined. The net income reported on the Form 1065 represents only one component (although frequently the major component) of the income or loss reported by the partners.

Specifically, with reference to Table 1, partnership net income, which is the "bottom line" of the Form 1065, indicates the amount of "ordinary" income (or loss) to be allocated to the individual partners in accordance with their profit (or loss) sharing ratios (capital gains or losses are excluded). However, if items of income or expense are specially allocated to individual partners or are subject to special treatment by partners (such as capital gains), or are subject to special limitations or elections applicable at the partner level (such as investment interest expense or intangible drilling costs), they are not included in the net income reported on the Form 1065. Most of these items are reported instead on Schedules K-1 and K, but some, such as oil and gas depletion, are not reported on either the Form 1065 or Schedules K-1 or K. In short, the Form 1065 partnership net income or deficit does not necessarily reflect all of the partnership's income or deductions.

Thus, a second objective of this article is to use these Schedule K items, some of which were tabulated for 1983, to determine the tax benefits or costs that flow to the partners by virtue of their ownership of a partnership interest. These Schedule K items are also shown in Table 1. Because some items may not have been reported on either the Form 1065 or Schedule K, or may not have been available because no Schedule K was filed, it is not

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possible to compute the total income or loss incurred by the individual partners without use of some estimating procedures.

For this study, the most significant items that could not be directly determined, but that could be inferred from other available information, are those related to mineral extraction. In particular, oil and gas depletion, hard-mineral exploration and development costs, and intangible drilling costs (including dry hole costs) all had to be estimated and are indicated in Table 1. Although, in principle, the reported investment interest expense for 1983 should also be adjusted for partnerships with 10 or fewer partners that were not required to file a Schedule K, it was not possible to discern a consistent method for doing so. Therefore, this adjustment was not made. (The specific methods used to impute the mineral extraction costs are described below, under Data Sources and Limitations [4].)

In addition to the need to estimate certain items that were not included in the annual SOI studies of partnerships, certain other adjustments were also necessary for Table 1 in order to obtain an amount representing the contribution to taxable income reported by the partners as a result of partnership activities. Although guaranteed payments to partners are reported as a partnership expense on the Form 1065, they also represent income that must be reported by the partner (or partners) receiving such payments, and thus should be added back to the Form 1065 partnership net income to reflect more clearly the total income required to be reported by the partners. Also, a partnership may have income or losses through its ownership of interests in other partnerships. Since inclusion of such amounts would represent double counting of aggregate partnership income, these amounts (which generally are losses) should be deducted from the Form 1065 net income. Because the activities of partnerships that are classified as holding companies would be distorted if such income were eliminated, this adjustment was not made for this one industry (although it was made for all other industries and for the aggregate amounts noted).

GROWTH IN PARTNERSHIP ACTIVITY

Table 1 also provides summary statistics for partnerships for Tax Years 1981-83. The number of partnerships and the number of partners, both in total and by type of partnership (general or limited), are shown. Total assets and the partnership net income or deficit, together with the adjustments previously mentioned that are necessary to reflect the contribution to the taxable income reported by the partners with respect to their

partnership interests, are also noted. This table shows the overall level of partnership activity and the growth of such activity in recent years.

Data in the first three rows and columns of Table 1 are consistent with those previously published on partnerships [2, 3]. However, a more detailed separation into limited and general partnerships, and the additional data on items other than the Form 1065 partnership net income (and capital gain income) are new [5]. It may be noted from this table that whereas the number of partners in general partnerships remained fairly steady, the number of partners in limited partnerships, and the number of such partnerships, increased rapidly from 1981 to 1983. Indeed, despite the fact that for 1983 there were nearly six times as many general partnerships, there were more partners in limited partnerships than in general partnerships.

The adjustments noted were made to the partnership (Form 1065) net income or deficit to obtain amounts more reflective of the total taxable income that the partners had to report as a result of their ownership of partnership interests. (As already mentioned, the first adjustment consisted of subtracting the income reported as earned from their ownership of other partnership interests and adding back the guaranteed payments to partners.) For convenience, these adjustments also involved the subtraction of the estimated dry hole costs and non-oil and gas depletion reported on the Form 1065 so that these specific costs could be included with the estimated mineral exploration costs also shown in Table 1.

From the resulting "adjusted" partnership net income or deficit several additional adjustments were made. These essentially involved inclusion of those items of income or expense reported on Schedule K rather than on Form 1065. Because foreign source income and net losses from sales of partnership assets under Code section 1231 and specially allocated losses were not compiled for 1981 and 1982, the 1983 values were assumed for those years. Investment interest expense, which is the interest incurred to acquire or carry certain passive investment property, was not compiled for 1981, and thus the 1982 value (scaled to reflect the relative change in partnership long-term debt between 1981 and 1982) was used as a surrogate for the 1981 value. Because this approximation neglects the fact that interest rates were higher in 1981 than in 1982, it may understate the 1981 value.

As a result of these adjustments, an ordinary net income or deficit was obtained. To this income, 40 percent of the net long-term capital gains and section 1231 net

gains and specially allocated income were added to represent the portion of long-term gains taxable to partners and are included in "contribution to partner's taxable income before investment credit adjustment". Unfortunately, the section 1231 gains are not available for 1981 and 1982, and thus only the partnership "ordinary" net income or loss is shown for those years. ("Contribution to taxable income after investment credit adjustment" is the total effective taxable income that would have been reported by the partners if their share of the estimated investment credit earned by the partnership were expressed as an equivalent deduction, as described under Data Sources and Limitations.)

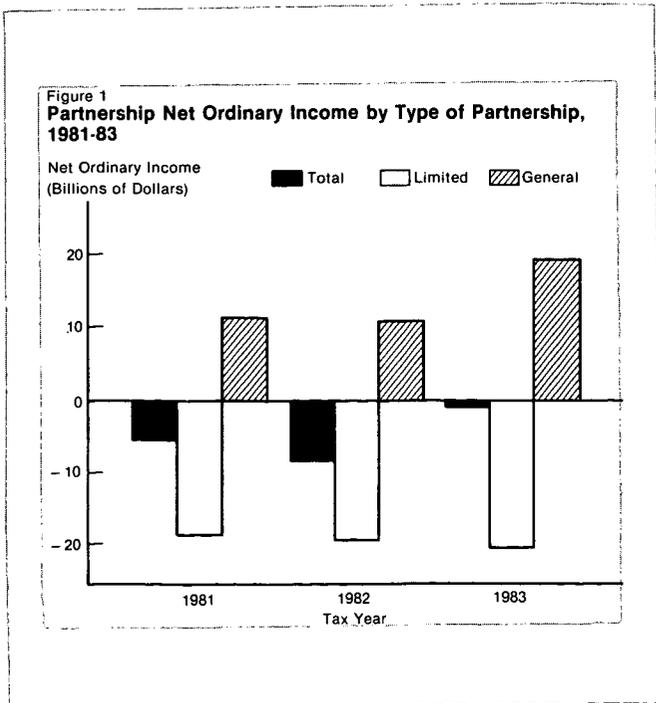
As may be noted from Table 1 and highlighted in Figure A, general partnerships in the aggregate appear to realize ordinary net income, while limited partnerships tend to incur losses. In addition though, for 1983, the net income of general partnerships clearly reflects the 1983 recovery from the 1980-82 recession [6]. In contrast, the losses of limited partnerships continued to grow, despite the 1983 upturn. It may also be noted that the estimated mineral exploration costs for both general and limited partnerships declined from 1981 through 1983. This largely reflects the cutback in oil and gas drilling activity over this period in response to the decline in oil prices [7].

The difference between the net income required to be reported by the partners and the Form 1065 partnership net income may be seen by comparing the ordinary net income or deficit with the partnership (Form 1065) net income or deficit amounts shown in Table 1. In general, the losses incurred by the partners in limited partnerships are seen to be somewhat greater than the Form 1065 net losses, while the profits incurred by the partners in general partnerships are somewhat greater than the partnership net income reported on the Form 1065 [8]. A similar correspondence between Form 1065 partnership net income and contribution to partner's taxable income after investment credit adjustment may be noted for 1983, which is the only year shown for which data on section 1231 net gains were actually available and the only year for which data were available to estimate the investment credit.

INCOME AND DEDUCTIONS BY INDUSTRY

In Table 2 the income and deductions reported by (or attributed to) partnerships for 1983 are disaggregated by the nature of the partnership activity. Summary statistics for most industrial divisions, and for each industrial group for which aggregate partnership losses exceeded \$100 million, are presented. The purpose of this table is to indicate the level of partnership activity across industries, as well as to indicate the relative magnitude of the interest, depreciation, mineral exploration costs, and all other partnership deductions, and investment credit equivalent for each industry. Thus, in addition to the estimated mineral exploration costs, ordinary net income or deficit, and investment credit adjustment noted in Table 1, more detailed information regarding the income and deductions reported by all partnerships for 1983 is provided in this table.

The ordinary gross income shown in column 1 of Table 2 represents the sum of business receipts less cost of sales and operations, gross rents, interest and dividend income, farm and royalty net income or loss, ordinary net gain from the sale of partnership assets, and other income reported on the Form 1065, plus ordinary net losses under section 1231 (which, for the most part, represent the depreciation recapture) and foreign source income reported on the Schedule K [9]. Income from "other" partnerships is excluded from the aggregate amount and from the partnership income reported for each industry (with the exception of partnerships classified as holding companies).



Interest expense, depreciation, and estimated mineral exploration costs (depletion, hard-mineral exploration and development costs, and intangible drilling costs, including dry hole costs) are presented in columns 2 through 4 of Table 2. The interest expense shown is the sum of the net interest reported on the Form 1065 (i.e., interest received minus interest deducted) and the investment interest expense reported on Schedule K, plus the separately reported rental interest expense. The depreciation expense shown is the sum of the depreciation deduction reported in the Form 1065 income statement and the additional depreciation on rental property as listed in the schedule in support of rental net income. The estimated mineral exploration costs are obtained as described under Data Sources and Limitations, below.

The deductions shown in column 5 of Table 2 include certain salaries and wages, rent, taxes, bad debts, repairs, rental expenses (other than interest and depreciation), and "other" deductions shown on the Form 1065. Cost of sales and operations, guaranteed payments to partners, interest expense, depreciation, depletion (other than oil and gas), and estimated dry hole costs are excluded. (Dry hole costs are included in mineral exploration costs.) The partnership ordinary net income or deficit is shown in column 6. As has already been noted, because some items of income and expense are not reported in the Form 1065 income statement, and because of the adjustments made for income from other partnerships and guaranteed payments to partners, the amounts shown in this column are not the same as those shown in the previously-published statistics on partnerships which present only Form 1065 income statement information [2, 3]. Nevertheless, the ordinary net income shown in this table for the industries noted does not differ appreciably from the partnership net income reported in the Bulletin article examining 1983 data [2] with one exception: oil and gas extraction for which a larger net deficit is indicated.

The total long-term capital gain shown in column 7 of Table 2 was approximated by combining the net long-term capital gains and section 1231 net gain reported on the Schedule K. By adding 40 percent of this amount to the amount shown in column 6, a rough estimate of the total contribution to the taxable income required to be reported by the partners can be made.

The estimated investment credit was derived from the cost of property eligible for the credit reported on schedules attached to Form 1065 and is shown in column 8 of Table 2. Using an effective individual tax rate of 24

percent for loss partnerships and 29 percent for net income partnerships, as obtained from an analysis of data from individual income tax returns, this estimated investment credit was converted to an equivalent deduction by dividing the amount of the credit by an average marginal tax rate. For example, a \$100 investment credit would shelter \$400 of taxable income for a taxpayer subject to a 25-percent tax rate. Subtracting this equivalent deduction (which, due to possible neglect of investment credit or net operating loss carryforwards, may be somewhat overstated) from the taxable income as obtained above, an effective total contribution to the taxable income "after credits" required to be reported by the partners is obtained, as shown in column 9 of this table. These numbers are not appreciably different from the Form 1065 net income with the exception of the oil and gas industry (for which the effective contribution to taxable income represents a greater loss than may be inferred from the Form 1065 net deficit [10]) and the real estate industry (for which the effective contribution to taxable income represents a smaller loss than the Form 1065 net deficit).

From Table 2 it may be seen that although partnerships may engage in all types of business activities, they appear to be especially active in oil and gas extraction, construction, wholesale and retail trade, land development, and services. As expected, mineral exploration costs (depletion and intangible drilling costs, including dry hole costs) are a major factor in oil and gas extraction while, among the specific deductions noted, depreciation and interest deductions play an important role in real estate operations. Depreciation is also important in oil and gas extraction and equipment leasing, while interest expense deductions are an important factor in holding and investment company activity.

PARTNERSHIP CHARACTERISTICS

Summary statistics of various partnership characteristics for 1983, including various measures of debt financing, are presented in Table 3 by industry and type of partnership. From Table 1 the income reported by limited and general partnerships was seen to differ. The purpose of Table 3 is to further explore the differences between these two kinds of partnerships. In particular, the business activity and the financing arrangements are compared. Note that the ratios shown in columns 7 and 8 in Table 3 are based on partnership debt and partners' capital account as reported for financial accounting purposes. Although partners' loss deductions are limited to their individual tax basis,

which thus cannot fall below zero, their capital accounts would fully reflect their shares of partnership losses, and could thus fall below zero. This would typically arise only in cases in which the partnership is heavily leveraged.

In some industries, such as manufacturing, construction, electric and gas services, and beef cattle (except feedlots), the fraction of partnerships operated as limited partnerships is relatively low. In contrast, in other industries, such as oil and gas extraction, real estate operators and lessors of buildings, and motion picture and video production, limited partnerships constitute a significant fraction of total partnerships.

The average number of partners in each limited partnership is much larger than the average number of partners in general partnerships in nearly all industries. Moreover, fewer limited partnerships report a "positive" net income than general partnerships. This, of course, is consistent with the fact (as noted in the discussion of Table 1) that, in the aggregate, general partnerships report profits while limited partnerships report losses.

From this table it can be seen that greater financial leverage is used in those industries in which the underlying assets may serve as security (such as real estate, motels and hotels, and equipment leasing). A greater fraction of nonrecourse debt (i.e., debt for which no partner is personally responsible) is used by limited partnerships, especially in the real estate industry. This may be explained by the fact that there are two separate limitations on a partner's ability to use the greater tax losses possible with debt financing. First, although a partner's tax basis in a general partnership (or a general partner's basis in a limited partnership) may include his or her share of partnership debt, this is not generally the case for a limited partner. A limited partner's basis may, however, include his or her share of the nonrecourse debt of the partnership. This, of course, encourages the use of nonrecourse debt by limited partnerships. Nevertheless, the benefit of such debt is greatly reduced for partners subject to the "at risk" limitation. (Individual taxpayers are generally only allowed to claim deductions related to their business or investment activities to the extent of the amount they are at risk for such activity.) Since, under current law, investment in real estate does not generally subject the partners to the "at risk" limitation, this method of financing is particularly attractive in this industry.

AGE OF PARTNERSHIPS

Table 4 shows how the various items of partnership income and expense vary by age of the partnership. The purpose of this table is to demonstrate that losses are usually incurred in the early years of the partnership, whereas profits are typically not realized until later in the partnership's life.

By examining the pattern of partnership receipts and expenses as a function of the age of the partnership, the temporal behavior of the taxable income that might be reported by the typical partnership may be inferred. The distribution of income and expense items by age of partnership is not, however, a perfect proxy for the actual temporal behavior of any individual partnership. Business cycles and secular economic growth cannot, of course, be captured. In order to adjust for the rapid growth in limited partnership activity, both the aggregate dollar amounts and the amount per partner are presented in Table 4.

From this table it may be seen that newly-formed partnerships (both limited and general) incur losses, whereas older partnerships realize positive income (or capital gains). However, the per partner losses appear to be somewhat greater for the limited partnerships than for the general partnerships. Moreover, per partner ordinary net income also appears to increase more rapidly with partnership vintage for general partnerships than for limited partnerships.

Although the single year's picture of the profits or losses reported by partnerships of varying vintage shown in Table 4 need not reflect the life cycle of the "typical" limited or general partnership, it is tempting to treat the per partner share of ordinary income and capital gains as if these amounts do in fact represent such profits or losses. If it is assumed that the pre-1973 partnerships noted in Table 4 were formed no earlier than 1969 (i.e., that partnerships have a 15-year life), then the sum of the per partner ordinary income and capital gains (without regard to the long-term capital gains exclusion) over each of the 15 years (as obtained from the per partner averages for partnerships of corresponding vintage) is found to be \$22,438 for limited partnerships and \$112,453 for general partnerships. To some extent, the greater cumulative per partner net income for general partnerships reflects the somewhat greater per partner total assets deployed (\$70,160 for limited partnerships and \$98,192 for general partnerships formed in 1983). Because taxable profits and losses need not represent economic

profits and losses (although, over the assumed 15-year "life" of the partnership, the cumulative amounts should not be too different), these results do not necessarily imply (though they strongly suggest) that investments in limited partnerships provide less economic benefits than investments in general partnerships.

DATA SOURCES AND LIMITATIONS

The data examined in this report are from three annual studies of partnership returns, for 1981 through 1983, carried out by the Statistics of Income (SOI) Division. For each year, the estimates were derived from probability samples stratified by combinations of receipts, total assets, net income (or deficit), and industry. Descriptions of the methodology used to obtain these data as well as analyses of them are available from previous issues of the SOI Bulletin [2, 3].

Some caveats must be noted with reference to the information presented in the tables. First, it has been assumed that Code section 1231 net gains reported by the partnership will ultimately be treated as long-term capital gains by the partners (and conversely that net section 1231 net losses will be treated as ordinary losses by the partners). Second, limitations imposed by the tax laws on the amount of partnership losses that may be claimed by a partner, such as that due to inadequate basis in his or her partnership interest, the limitation on losses (section 704 (d)), the "at risk" limitation (section 465), the investment interest expense limitation (section 163(d)), have all been ignored. Third, potential tax liabilities resulting from each partner's share of partnership tax preference items under the alternative minimum tax are ignored. Fourth, any gains or losses that must be reported by individual partners resulting from their receipt of partnership distributions or sale of their partnership interest are ignored. Finally, not all partners are individuals, and thus the use of a 60 percent exclusion for long-term capital gains and the use of effective individual tax rates to translate the tax benefits associated with the investment credit into a single statistic, the "contribution to partner's taxable income after investment credit adjustment", is not altogether valid.

The method of reporting certain items of partnership expense and income has varied. For a number of years oil and gas depletion has been computed at the partner level and so it has not been reported in either the Form 1065 income statement or in Schedule K. For the returns examined, a number of other items, including hard-mineral exploration and

development expenses and intangible drilling costs, were reported in Schedule K, but were not tabulated. (After 1983, intangible drilling costs are also not separately reported on either the Form 1065 or Schedule K.)

Although data on hard-mineral exploration and development costs and intangible drilling costs were not available, certain so-called tax preference items related to these costs were obtained from Schedule K. In particular, excess intangible drilling costs from oil, gas, or geothermal wells, net income from oil, gas, or geothermal wells, and "other" tax preference items were tabulated for partnerships filing a Schedule K.

To estimate intangible drilling costs attributable to successful wells, the reported excess intangible drilling costs were increased by an estimated 10 percent. This was to adjust for the fact that the reported "excess" amount under current law is net of the deduction for intangible drilling costs (that would have been claimed had these costs been capitalized and either amortized over 10 years or written off on a units-of-production basis). Although a 10-percent increase may overstate the adjustment, had 10-year amortization been used, it may understate the adjustment if a units-of-production method were used to calculate the excess intangible drilling costs.

The oil and gas depletion deduction was estimated as the lesser of 15 percent of the business receipts reported in the income statement, or 50 percent of the net income from oil, gas, and geothermal wells for those oil and gas partnerships that filed a Schedule K. This estimate is only approximate, because the net income from oil, gas, and geothermal wells does not take into account excess intangible drilling costs on productive property. It was thus implicitly assumed that such excess intangible drilling costs were incurred on nonproductive properties (and thus did not affect percentage depletion, which is computed on a property-by-property basis). It was also implicitly assumed that production from all productive properties would qualify for percentage depletion. (This would not be valid if the partnership acquired proven properties.) However, in some instances cost depletion might provide larger deductions than percentage depletion. Thus, while the estimate may overstate the actual percentage depletion claimed, the calculated deduction may provide a more accurate measure of the total depletion allowance (cost or percentage).

Since the excess intangible drilling costs may be obtained only for those oil and gas partnerships that filed a Schedule K, the

computed intangible drilling costs were "scaled up" by the ratio (1.575) of the "other" deductions for oil and gas partnerships to the "other" deductions reported in the Form 1065 income statement for those oil and gas partnerships that filed a Schedule K. Likewise, the percentage depletion for those oil and gas partnerships not filing a Schedule K was imputed by "scaling up" the computed depletion by the ratio (1.867) of the business receipts for all oil and gas partnerships to the business receipts reported by those oil and gas partnerships filing a Schedule K.

These adjustments, which were required to compensate for the fact that not all partnerships filed a Schedule K for 1983, were not necessary for 1981 and 1982. As a test of their accuracy, the relative magnitude of the 1981, 1982, and 1983 estimated intangible drilling costs were compared with the level of drilling activity in these years [7]. Despite the several assumptions, it was found that the pattern of computed intangible drilling costs matched nearly exactly the pattern of rotary rig activity and reported industry-wide drilling expenditures during those years.

In addition, dry hole costs (which should be reported in "other" deductions on the Form 1065) were taken to be three-sevenths of the intangible drilling costs incurred on successful wells. This is the 1982 industry-wide ratio of dry hole costs to the drilling costs of successful wells [11]. For convenience, these estimated dry hole costs were subtracted from "other" deductions reported on the Form 1065 and added to the estimated intangible drilling costs on successful wells. Because the ratio of dry hole costs to successful well costs is likely to be greater for partnership ventures than for the overall industry, the resulting estimated intangible drilling costs (including dry hole costs) would tend to understate the actual costs. This should offset the possible overstatement of the percentage oil and gas depletion claimed.

The hard-mineral depletion expense was obtained directly from the Form 1065. It was assumed that the hard-mineral exploration and development costs constitute the "other" tax preference reported on Schedule K by partnerships in the mining industry. These costs were found to be relatively minor in comparison with the corresponding depletion expense obtained directly from the Form 1065.

NOTES AND REFERENCES

[1] See, for example, Nelson, Susan, "Taxes Paid by High - Income Taxpayers and the

Growth of Partnerships," Statistics of Income Bulletin, Fall 1985, Vol. 5, No. 1. In this study, it was found that partnership losses are the principal means of offsetting the positive income of high-income individuals.

- [2] Piet, Patrick, "Partnership Statistics for 1981 Reflect Tax Shelter Activity," Statistics of Income Bulletin, Winter 1983-84, Vol. 3, No. 3; "Partnership Returns, 1982," Statistics of Income Bulletin, Summer 1984, Vol. 4, No. 1; and "Partnership Returns, 1983," Statistics of Income Bulletin, Summer 1985, Vol. 5, No. 1.
- [3] U.S. Department of the Treasury, Internal Revenue Service, Statistics of Income 1978-82, Partnership Returns, Internal Revenue Service, June 1985.
- [4] In previous Bulletin articles on partnership activity, it was assumed that some of these mineral extraction costs (especially intangible drilling costs) may have been included in "other" deductions on the Form 1065, notwithstanding tax form instructions to the contrary. Despite the (possible) validity of this assumption, the analysis described here expressly assumes that this is not the case.
- [5] Selected items for selected industries for limited partnerships have been previously presented in a prior Statistics of Income publication, for Tax Years 1979-1982 [3].
- [6] The temporal behavior of the net income reported by general partnerships (but not limited partnerships) matches rather closely the corresponding behavior of corporate profits.
- [7] Moore, W.D. III, "Drilling Stabilizes at Sustainable Level with Broad Improvement Due in 1985," OGJ Special Report, Oil and Gas Journal, Oct. 1, 1984, p. 104.
- [8] This is not the case for the general partnership gains for 1981. However, the assumed amounts (\$1.3 billion in foreign source income and \$0.6 billion section 1231 net gains or specially allocated items) are comparable in magnitude to the difference noted (\$0.9 billion) and may be in part responsible for the anomalous behavior observed for this year.
- [9] If the total of all section 1231 transactions leads to a net gain, the gain is treated as a long-term capital gain, while if the total represents a net loss, the loss is an ordinary loss.

[10] As already noted, it is possible that some partnerships may have reported intangible drilling costs as part of the "other" deductions shown in the Form 1065 income statement. To the extent this occurred, the losses shown for this industry may be somewhat overstated.

[11] U.S. Department of Commerce, Bureau of the Census, Current Industrial Reports, Annual Survey of Oil and Gas, 1982, March 1984.

Table 1. Growth in Partnership Activity by Type of Partnership for Selected Items, 1981-83
 [All figures are estimates based on samples -- money amounts are in billions of dollars]

Selected items	All partnerships			Limited partnerships			General partnerships		
	1981	1982	1983	1981	1982	1983	1981	1982	1983
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Number of partnerships.....	1,460,502	1,514,212	1,541,539	208,204	225,886	233,986	1,252,298	1,288,326	1,307,553
Number of partners 1/.....	9,095,165	9,764,667	10,589,338	4,176,572	4,709,723	5,434,870	4,918,593	5,054,944	5,154,468
Total partnership assets.....	715.2	845.3	887.0	282.4	331.7	381.4	432.8	513.6	505.6
Business receipts including gross rents.....	281.6	312.2	313.5	55.7	70.3	70.9	225.9	241.9	242.6
Partnership (Form 1065) net income or deficit.....	-2.7	-7.3	-2.6	-15.7	-17.5	-18.7	13.0	10.2	16.1
Plus: dry hole costs, non-oil and gas depletion, and guaranteed payments to partners.	8.9	8.6	8.3	2.7	2.4	2.3	6.2	6.3	6.0
Less: income from other partnerships.....	5.1	6.8	5.7	3.1	3.4	3.2	2.0	2.3	2.5
Adjusted partnership net income or deficit.....	11.3	8.1	11.4	-9.9	-11.7	-13.2	21.2	19.8	24.6
Other adjustments 2/:									
Plus: foreign source income....	1.4	1.4	1.4	.1	.1	.1	1.3	1.3	1.3
Less: mineral exploration costs.	-12.7	-10.3	-8.0	-5.9	-4.6	-4.1	-6.8	-5.7	-4.0
Less: investment interest expense.....	-4.9	-5.8	-5.1	-1.9	-2.2	-2.7	-3.0	-3.6	-2.4
Less: section 1231 net losses and specially allocated losses.	-.9	-.9	-.9	-.3	-.3	-.3	-.6	-.6	-.6
Total ordinary net income or deficit.....	-5.8	-7.5	-1.1	-17.9	-18.7	-20.1	12.1	11.2	19.0
Plus: net long-term capital gains.....	5.5	7.1	8.8	1.7	2.2	2.2	3.8	4.9	6.6
Plus: section 1231 net gains or specially allocated gains...	n.a.	n.a.	7.1	n.a.	n.a.	3.5	n.a.	n.a.	3.6
Contribution to partners' taxable income before investment credit adjustment 3/.....	n.a.	n.a.	5.2	n.a.	n.a.	-17.8	n.a.	n.a.	23.0
Investment credit adjustment.....	1.5	2.1	1.7	.5	.7	.8	1.0	.6	.9
Contribution to partners' taxable income after investment credit adjustment 4/.....	n.a.	n.a.	-.9	n.a.	n.a.	-20.6	n.a.	n.a.	19.6
Percent of partnerships with positive ordinary net income.....	45.1	52.6	50.9	18.9	38.1	34.6	48.6	54.7	53.8

n.a.-Not available.

1/Includes partners that are corporations and partnerships, as well as individuals.

2/Represents either items reported in "other deductions" in the partnership income statement or reported only on Schedule K or K-1, Partner's Share of Income, Credits, Deductions, etc.

3/Contribution to partners' taxable income before investment credit adjustment equals ordinary net income plus 40 percent (representing the taxable portion) of the estimated total of net long-term capital gains including section 1231 net gains.

4/Contribution to partners' taxable income after investment credit adjustment equals ordinary net income plus 40 percent (representing the taxable portion) of net long-term capital gains including section 1231 net gains, less the investment credit adjustment divided by an average marginal tax rate (for individuals).

Table 2. Summary of 1983 Partnership Income and Deductions by Selected Industry
 [All figures are estimates based on samples -- money amounts are in millions of dollars]

Selected industry	Ordinary gross income 1/	Interest deduction	Depreciation	Mineral exploration costs 2/	Other selected deductions 3/	Ordinary net income less deficit	Net long-term capital gains 4/	Investment credit adjustment 5/	Contribution to partners' taxable income 6/
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All industries 7/.....	213,517.7	48,215.4	32,285.5	8,045.5	126,102.9	-1,131.6	15,942.0	1,713.8	-947.3
Agriculture, forestry and fishing.....	3,396.8	474.1	457.8	N/A	2,216.6	248.3	746.4	105.9	157.5
Fruits and tree nut.....	-84.9	42.0	35.0	N/A	106.5	-268.4	51.4	21.2	-323.7
Beef cattle, except feedlots.....	57.7	65.5	47.8	N/A	202.0	-257.6	171.2	13.9	-237.9
Livestock breeding.....	-21.4	7.7	47.1	N/A	61.2	-137.4	18.1	7.0	-154.2
Mining.....	12,996.2	1,394.7	2,563.2	7,887.1	10,089.9	-8,938.7	274.0	163.2	-9,435.4
Metal mining.....	588.0	122.4	228.8	90.3	452.2	-335.7	20.9	9.9	-362.5
Coal mining.....	763.1	118.2	147.5	108.8	584.0	-195.4	20.8	2.5	-196.9
Oil and gas extraction.....	11,404.0	1,114.1	2,127.9	7,656.8	8,889.7	-8,384.5	227.6	141.6	-8,820.2
Construction.....	6,688.9	553.7	480.1	N/A	3,194.9	2,460.2	178.4	12.6	2,483.4
Manufacturing.....	3,332.0	403.6	727.8	N/A	2,857.6	-657.0	113.9	128.2	-1,065.4
Lumber and wood products except furniture.....	449.5	99.4	128.5	N/A	314.9	-93.3	66.0	22.4	-145.4
Chemicals and allied products.....	189.6	94.6	184.9	N/A	469.7	-559.6	6.2	19.1	-626.6
Transportation, communication, electric, gas and sanitary services.....	5,005.7	855.9	1,292.6	N/A	2,918.8	-61.6	46.0	128.2	-474.2
Water transportation.....	406.7	169.3	206.6	N/A	178.9	-148.1	.2	.9	-151.8
Communications.....	1,114.1	234.0	339.1	N/A	984.2	-443.2	.2	40.1	-600.3
Electric, gas and water services.....	346.7	161.0	237.5	N/A	456.9	-508.7	4.1	39.6	-653.8
Wholesale trade.....	3,034.8	325.2	221.2	N/A	2,019.8	468.6	54.4	6.4	465.7
Retail trade.....	13,011.7	550.2	763.4	N/A	9,937.6	1,760.5	84.2	1.9	1,655.9
Finance, insurance and real estate.....	96,918.9	38,830.0	18,910.1	83.2	50,764.5	-11,668.9	13,833.7	653.8	-8,460.0
Real estate.....	68,994.1	26,777.7	16,780.7	N/A	38,237.9	-12,802.2	6,987.7	8.9	-11,534.8
Subdividers and developers, except cemeteries.....	4,991.7	2,827.3	486.5	N/A	2,754.8	-1,076.9	409.9	44.3	-1,069.9
Holding and other investment companies 8/.....	7,081.6	3,483.0	968.6	409.9	3,179.7	-959.6	3,985.9	103.7	265.2
Services.....	68,824.9	4,814.0	6,848.4	N/A	41,983.2	15,179.3	609.9	488.0	13,631.5
Hotels.....	4,233.3	988.7	763.7	N/A	3,336.2	-855.3	108.5	67.4	-1,048.2
Motels, motor hotels and tourist courts.....	3,511.4	691.6	572.8	N/A	2,366.6	-119.6	53.8	20.8	-173.6
Equipment rental and leasing services.....	4,038.2	1,316.1	2,305.2	N/A	1,287.0	-870.1	18.8	130.9	-1,329.2
Motion pictures.....	1,113.5	70.8	396.0	N/A	852.4	-205.7	23.2	90.2	-527.2
Racing, including track operations.....	41.5	3.9	70.8	N/A	122.8	-155.2	.6	1.0	-158.4
Other amusement and recreation services.....	1,845.2	217.2	389.0	N/A	1,415.8	-176.8	21.1	27.5	-267.6

N/A-Not applicable.

1/After reduction by cost of sales and operations and net income from other partnerships.

2/Includes estimated depletion (including amounts claimed on oil and gas), hard-mineral exploration and development costs, and intangible drilling costs (including dry hole costs).

3/Excludes deduction for guaranteed payments to partners.

4/Includes net long-term capital gains plus section 1231 net gains reported on Schedule K or K-1.

5/Estimated based on cost of property eligible for credit.

6/This is the contribution to partners' taxable income after investment credit adjustment.

7/Includes "Wholesale and Retail Trade, not allocable", and "Nature of Business not allocable", not shown separately.

8/Income and expenses from other partnerships.

Table 3. Summary of 1983 Partnership Characteristics by Industry and Type of Partnership

Selected industry	Number of partnerships		Average number of partners		Percent formed in 1981-83		Ratio of debt to equity ^{1/}		Nonrecourse debt as a percent of total debt		Percent with positive ordinary net income	
	Limited	General	Limited	General	Type of partnership							
					Limited	General	Limited	General	Limited	General	Limited	General
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
All industries ^{2/}	233,986	1,307,552	23.2	3.9	44.6	37.5	9.5	3.8	33.3	15.6	34.6	53.8
Agriculture, forestry and fishing.....	9,198	127,405	13.1	2.7	39.4	23.8	2.0	5.3	15.5	1.9	25.7	55.8
Fruits and tree nut.....	2,461	9,630	13.0	2.6	62.2	10.6	5.4	3.1	28.0	7.4	23.7	53.1
Beef cattle, except feedlots.....	408	18,444	15.4	2.4	9.8	11.1	1.4	9.9	.7	11.2	53.2	32.8
Livestock breeding.....	633	1,636	20.2	2.9	76.2	88.6	2.1	1.9	-	3.7	.5	10.0
Mining.....	23,418	36,117	67.5	26.3	52.7	64.2	1.2	.6	15.5	10.3	34.3	44.3
Metal mining.....	1,509	284	31.6	80.5	32.5	17.0	.5	1.0	4.3	2.0	.7	14.3
Coal mining.....	183	369	67.2	3.3	8.9	43.7	-1.2	.4	64.5	11.3	2.8	46.0
Oil and gas extraction.....	20,913	35,259	72.2	13.5	56.6	52.2	.9	.6	7.9	10.7	36.0	44.3
Construction.....	1,592	62,000	5.3	2.3	77.4	48.5	-36.9	3.1	26.4	3.2	49.8	72.4
Manufacturing.....	786	25,665	35.5	2.4	57.8	45.6	12.7	1.8	48.3	5.6	17.8	48.1
Lumber and wood products, except furniture.....	23	4,366	58.6	2.5	25.9	6.0	5.2	1.7	61.5	25.3	65.3	69.1
Chemicals and allied products.....	172	136	44.9	2.4	94.2	39.8	1.8	1.3	14.3	-	3.6	77.1
Transportation, communication electric, gas, and sanitary services.....	2,397	17,735	22.0	2.8	74.3	49.4	4.2	1.0	28.9	14.4	18.8	48.3
Water transportation.....	291	363	16.1	4.8	16.5	64.9	15.9	-206.0	30.2	42.4	8.3	28.6
Communications.....	449	3,081	76.4	4.3	67.3	63.5	4.4	4.6	17.5	2.8	41.4	35.2
Electric, gas and water services.....	67	1,318	81.9	2.1	83.3	5.6	1.3	.3	20.6	3.1	19.8	19.4
Wholesale trade.....	1,323	22,792	10.0	2.4	10.4	49.3	4.9	2.5	19.4	1.2	15.5	67.3
Retail trade.....	6,171	161,982	6.0	2.3	31.2	44.3	1.6	1.6	6.7	3.8	60.0	50.6
Finance, insurance and real estate.....	163,384	566,683	19.5	4.8	41.6	31.3	12.8	5.5	40.2	18.2	34.7	47.7
Real estate.....	109,491	382,210	20.2	3.8	44.9	32.0	57.9	11.1	54.9	24.5	30.0	44.6
Subdividers and developers, except cemeteries.....	11,280	31,390	12.2	4.1	39.9	42.4	11.0	6.8	28.4	15.0	33.3	39.2
Holding and other investment companies.....	28,762	79,993	18.6	5.4	28.8	17.8	1.5	2.6	20.4	13.7	50.1	60.4
Services.....	25,538	280,756	15.6	3.1	57.9	45.4	103.1	4.4	33.4	12.8	33.4	63.9
Hotels.....	994	2,080	20.6	4.1	45.4	46.0	-33.9	7.9	49.3	28.3	13.1	39.2
Motels, motor hotels and tourist courts.....	1,430	5,968	25.8	3.3	48.1	23.4	-51.7	9.2	37.0	11.0	2.6	63.7
Equipment rental and leasing services.....	4,693	31,642	26.1	3.4	68.2	42.8	-49.4	-26.5	18.3	25.1	51.0	52.4
Motion pictures.....	1,793	2,589	13.0	10.6	5.8	66.2	-5.9	2.0	34.0	2.9	32.4	44.0
Racing, including track operations.....	8	3,940	11.4	3.1	74.5	50.3	1.4	.5	-	4.3	25.6	12.3
Other amusement and recreation service.....	679	6,849	21.3	3.0	28.7	62.5	247.7	5.8	1.4	4.6	20.5	24.9

^{1/}Because the partners' capital account (unlike their tax basis in their partnership interest) can be negative (which implies that partnership losses have exceeded amounts contributed), this ratio can be negative.

^{2/}Includes "Wholesale and Retail Trade not allocable" and "Nature of Business not allocable", not shown separately.

Table 4. Summary Statistics for 1983 Partnerships by Year Partnership was Formed
 (All figures are estimates based on samples)

Selected items	All partnerships					Limited partnerships					General partnerships				
	Year of Formation														
	1983	1981-82	1978-80	1973-77	Before 1973	1983	1981-82	1978-80	1973-77	Before 1973	1983	1981-82	1978-80	1973-77	Before 1983
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	
Number of partnerships.....	231,876	363,329	350,045	260,495	335,794	41,856	62,571	59,246	40,739	29,574	190,020	300,758	290,799	219,756	306,22
Number of partners.....	1,803,995	3,186,395	2,215,785	1,430,118	1,950,960	1,183,324	1,922,779	1,193,633	668,654	466,480	620,671	1,263,616	1,022,152	761,464	1,484,48
Aggregate amount (in billions of dollars):															
Ordinary gross income 1/.....	10.8	42.0	48.1	39.4	73.2	2.8	13.5	15.8	10.6	13.1	8.0	28.5	32.3	28.8	60.1
Deductions excluding depreciation, interest, and mineral exploration costs.....	12.8	27.7	25.5	20.6	39.5	5.4	10.2	8.6	5.1	6.8	7.4	17.5	16.9	15.5	32.7
Interest deduction.....	3.5	15.2	14.3	7.6	7.6	2.0	7.5	6.8	2.9	3.4	1.5	7.7	7.5	4.7	4.2
Depreciation.....	2.8	10.8	9.0	5.1	4.6	1.5	5.0	4.0	1.7	.9	1.3	5.8	5.0	3.4	3.7
Estimated mineral exploration costs.....	4.6	2.0	.8	.5	.5	2.3	1.3	.4	.2	.1	2.3	.7	.4	.3	.4
Ordinary net income (less loss).....	-12.9	-13.7	-1.5	5.6	20.9	-8.4	-10.5	-4.0	.7	2.0	-4.5	-3.2	2.5	4.9	18.9
Net long-term capital gain.....	.4	1.9	3.9	3.3	6.4	.1	.9	2.1	1.2	1.5	.3	1.0	1.8	2.1	4.9
Contribution to taxable income (after investment credit adjustment).....	-12.3	-15.3	-.7	6.5	23.0	-8.5	-11.3	-3.4	1.1	2.5	-3.8	-4.0	2.7	5.4	20.5
Average per partner (in dollars):															
Ordinary gross income 1/.....	5.98	13,181	21,708	27,550	37,520	2,366	7,021	13,237	15,853	28,083	12,889	22,554	31,600	37,822	40,486
Deductions excluding depreciation, interest, and mineral exploration costs.....	7,095	8,693	11,508	14,404	20,246	4,563	5,305	7,205	7,627	14,577	11,923	13,849	16,534	20,356	22,028
Interest deduction.....	1,940	4,770	6,454	5,314	3,896	1,690	3,901	5,697	4,337	7,289	2,417	6,094	7,337	6,172	2,829
Depreciation.....	1,552	3,389	4,042	3,566	2,358	1,268	2,600	3,351	2,542	1,929	2,095	4,590	4,892	4,465	2,492
Estimated mineral exploration costs.....	2,550	628	361	350	256	1,944	676	335	299	214	3,706	534	391	394	269
Ordinary net income (less loss).....	-7,151	-4,300	-677	3,916	10,713	-7,099	-5,461	-3,351	1,047	4,287	-7,250	-2,532	2,446	6,435	12,732
Net long-term capital gain.....	222	596	1,760	2,308	3,280	85	468	1,759	1,795	3,216	483	791	1,761	2,758	3,301
Contribution to taxable income (after investment credit adjustment).....	-6,818	-4,802	-316	4,545	11,789	-7,183	-5,877	-2,848	1,645	5,359	-6,122	-3,166	2,641	7,092	13,810
Debt to equity ratio.....	3.88	5.21	7.91	14.48	2.95	3.55	5.41	22.35	-12.12	-60.77	4.43	5.06	4.90	6.02	1.71
Nonrecourse debt to equity ratio.....	1.08	1.15	2.26	4.59	.68	1.30	1.83	8.93	-6.33	-20.78	.72	.61	.87	1.11	.27
Percent nonrecourse debt.....	27.84	22.07	28.57	31.70	23.05	36.62	33.83	39.96	52.23	34.19	16.25	12.06	17.76	18.44	15.79

1/Reduced by cost of sales and operations and net income from other partnerships.