

# Corporation Income Tax Returns: Preliminary Income and Tax Statistics, 1982

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Total corporate income remained virtually unchanged for 1982, while deductions rose by nearly 1 percent. Although these changes were themselves slight, their combined effect was a 29.3-percent decline in corporate net income. Net income (less loss) for this recession year was \$151.1 billion, a substantial drop of \$62.5 billion from 1981. All industrial divisions shared this decrease in net income (Figure A). Net income was further depressed by new legislation liberalizing depreciation deductions.

## NUMBER OF RETURNS

An estimated 2.9 million income tax returns of active corporations were filed for 1982, representing a 4.0-percent increase over 1981. Although this increase slightly exceeded the 3.8 percent growth rate for 1981, it was about 3 percentage points short of the growth rate which corporation return filings had averaged between 1976 and 1980. The relatively small increase resulted from corporate mergers and consolidations, an increased rate of business failures due to the recession, and a slowdown in forming new businesses.

Figure A.--Net Income (Less Loss)

[Millions of dollars]

Industrial division	1982 (Prelim.)	Percent change (1981 to 1982)
Total <sup>1</sup> .....	\$151,127	-29.3%
Agriculture, forestry, and fishing .....	-89	-127.1
Mining .....	605	-89.2
Construction .....	2,324	-32.7
Manufacturing .....	75,762	-35.1
Transportation and public utilities ....	18,605	-5.0
Wholesale and retail trade .....	28,589	-14.2
Finance, insurance, and real estate .....	21,801	-17.3
Services .....	7,174	-12.5

<sup>1</sup>Includes "Nature of business not allocable," which is not shown separately.

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

## INCOME STATEMENT

The 1982 decline in corporate net income continued the trend started in 1980. However, the 29.3-percent decline for 1982 greatly exceeded the rates of decline for 1980 and 1981 (16.2 percent and 12.4 percent, respectively).

The ratio of sales to total income fell below 90 percent for the second year in a row as the recession eroded demand for goods and services. At the same time, rents and net gain from noncapital assets increased significantly.

For 1982, corporations were able to fully use the Accelerated Cost Recovery System (ACRS) to recover the capital costs for most tangible new or used depreciable property. ACRS, which was introduced by the Economic Recovery Tax Act of 1981 (ERTA) to encourage spending for new plant and equipment, contributed importantly to a 14.3-percent increase in depreciation deductions and enabled corporations to increase their cash flow [1]. Although more rapid depreciation methods make corporations better off by reducing their tax liability, the most conspicuous short-run effect of switching to these methods is a reduction in before-tax net income.

With the recession, bad debt deductions increased by 19.5 percent. The average prime rate charged by banks on loans was 14.9 percent for 1982, down from 18.9 percent for 1981 [3], but despite this decline in interest rates, corporate interest payments rose 7.6 percent to \$513.1 billion. Although other deduction categories increased for 1982, there was a 5.5-percent decline in cost of sales and operations due to the economic slowdown, which reduced sales and production levels.

## BALANCE SHEET

Total corporate assets showed an increase for 1982 of 9.2 percent to an all-time high of \$9.3 trillion. This growth was slightly less than the 10.0-percent increase for 1981. Total debt grew at a rate of 9.0 percent, while stockholders' equity grew by 10.0 percent. One aspect of the recession's impact on the corporate sector can be seen by comparing current assets with current liabilities. While combined

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current assets grew by 9.2 percent for 1982, current liabilities rose by 11.9 percent. This difference reflected an erosion of corporations' ability to cover soon-to-mature debt.

Much asset growth took place in interest-earning investments and loans rather than in physical assets that increase production and employment. For instance, loans to stockholders increased by 20.2 percent and investment in government obligations by 16.7 percent. "Other" current assets and "other" investments, both of which consist mainly of interest-bearing investments, increased by 36.5 percent and 15.8 percent respectively. On the other hand, notes and accounts receivable grew by only 8.2 percent, depreciable assets increased by 9.7 percent, and depletable assets increased by 12.5 percent for 1982. Inventories were cut more than \$8 billion in response to market conditions.

#### INCOME TAX

For 1982, income tax before credits declined by 15.5 percent, from \$100.6 billion to \$85.0 billion. Total income tax after credits (see below) decreased by 19.5 percent to \$47.0 billion. This \$11.4-billion decrease in tax was approximately 2.5 times as great a decline as from 1980 to 1981. In fact, the total taxes paid by corporations dwindled to only 7.6 percent of all Federal government receipts, down from 10.5 percent for 1981 [4].

#### TAX CREDITS

The \$85.0 billion of regular and alternative tax was reduced by \$39.7 billion of credits for foreign tax, U.S. possessions tax, investment, work incentive (WIN), jobs, alcohol fuel, non-conventional source fuel, research, and employee stock ownership. (The taxes from recomputing prior-year investment credit, personal holding company tax, and the additional tax for tax preferences--"minimum tax"--could not be reduced by these credits.)

The largest two credits, the foreign tax credit and investment credit, both dropped significantly for 1982. While the foreign tax credit has declined for the past 3 years, this was the first decline since 1970 for investment credit.

#### Foreign Tax and Investment Credits

[Billions of dollars]

Year	Foreign tax credit	Investment credit
1979 .....	\$36.8	\$14.6
1980 .....	24.9	15.1
1981 .....	21.8	18.9
1982 .....	19.1	17.3

Since the 1982 Statistics of Income (SOI) corporation preliminary data also included returns with accounting periods ending January 1, 1983, to June 30, 1983, a new tax credit is shown in the data. For tax years ending after December 31, 1982, corporations could take a credit that equaled the value of employer stock (or money used to buy stock) that they contributed to an employee stock ownership plan (ESOP). This credit was based on the lesser of (1) the total value of employer securities transferred to the ESOP each year, or (2) a prescribed percentage of the annual compensation of all employees covered by the plan. For 1982, 235 corporations claimed \$13.6 million for the employee stock ownership credit.

The Economic Recovery Tax Act of 1981 terminated the separate WIN credit for wages paid in tax years beginning after December 31, 1981. Thus, the small amount shown for WIN credit was primarily from returns filed on 1982 tax forms.

Figure B.--Corporation Tax Items

[Millions of dollars]

Tax item	1981	1982 (Prelim.)
Income subject to tax, total .....	\$240,423	\$205,035
Income tax before credits <sup>1</sup> ..	100,644	85,002
Tax credits, total .....	43,813	39,660
Foreign tax credit .....	21,829	19,124
U.S. possessions tax credit .....	1,946	2,024
Investment credit .....	18,887	17,295
Work incentive (WIN) credit .....	38	29
Jobs credit .....	473	329
Alcohol fuel credit .....	( <sup>2</sup> )	1
Nonconventional source fuel credit .....	1	7
Research credit .....	639	838
Employee stock ownership credit .....	n.a.	14
Income tax after credits ...	56,831	45,342
Additional tax for tax preferences .....	525	478
Tax from recomputing prior-year investment credit ....	1,084	1,199
Personal holding company tax .....	5	7
Total income tax after credits .....	58,445	47,048

<sup>1</sup>Consists of regular and alternative tax.

<sup>2</sup>Less than \$500,000.

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

SUMMARY

As a result of the recession, total corporate income remained virtually unchanged, and large increases in depreciation deductions (in part the result of ACRS) combined with continued high interest rates to push net corporate income down 29 percent. As corporate profits dwindled, total taxes paid by corporations fell to only 7.6 percent of all Federal government receipts.

DATA SOURCES AND LIMITATIONS

The Appendix of this publication contains a description of sampling procedures and data limitations applicable to the Statistics of Income tabulations. The 1982 Income Tax Year statistics were estimated from a stratified probability sample of about 93,650 corporation income tax returns selected after revenue processing but before audit. Both 1981 and 1982 returns were generally stratified, using net income or loss, total assets, and business activity. The corporation population from which the sample was drawn contained the following types of returns: Form 1120--U.S. Corporation Income Tax Return; Form 1120L--U.S. Life Insurance Company Income Tax Return; Form 1120M--U.S. Mutual Insurance Company Income Tax Return; Form 1120S--U.S. Small Business Corporation Income Tax Return; Form 1120F--Return of a Foreign Corporation; and Form 1120-DISC--Domestic International Sales Corporation Return.

The preliminary estimates used in this article are subject to revision. Final and expanded data, including complete explanations of sampling techniques and data limitations, as well as explanations of terms used, will appear in Statistics of Income--1982, Corporation Income Tax Returns, which will be published later in 1985 [5].

Because the data presented in this article are estimates based on a sample, they are subject to sampling error. To use the data properly, the magnitude of the sampling error should be known. Coefficients of variation (CV's) are used to measure that magnitude.

The table below presents approximated CV's for frequency estimates. The CV's shown here are intended only as a general indication of the reliability of the data. For numbers of corporations other than those shown below, the corresponding CV's can be estimated by interpolation. The reliability of estimates based on samples and the use of estimates based on

samples as well as the use of CV's for evaluating the precision of sample estimates are discussed in the Appendix.

<u>Estimated Number of Returns</u>	<u>Approximated Coefficient of Variation</u>
1,000,000	.02
160,000	.05
40,000	.10
10,000	.20
4,500	.30
3,300	.35
1,600	.50

NOTES AND REFERENCES

[1] Out of total depreciation deductions of \$212.9 billion for 1982, deductions generated by the acquisition of depreciable assets covered by ACRS accounted for \$99 billion, or 46 percent. This compares with ACRS deductions of \$33 billion for 1981, only 18 percent of total depreciation deductions of \$186.2 billion. The increase in the relative importance of ACRS deductions for 1982 was largely because, for ACRS assets that had been acquired in 1981, taxpayers could, for 1982, claim deductions for a full year of depreciation. Due to the "half-year convention," most of these assets were allowed one-half year's depreciation deduction for 1981, regardless of the date placed in service.

An important impact of ACRS in its first two years was to increase the amount of depreciation deductions generated by the acquisition of depreciable assets. For 1982, each billion dollars of depreciable asset growth generated about \$139 million of new depreciation deductions, while for 1981 this figure was \$118 million. For 1980, in comparison, a billion dollar growth in depreciable assets generated only \$91 million of new depreciation deductions. Had new depreciation deductions per dollar of depreciable asset growth been the same as for 1980, depreciation deductions would have been only \$180 billion for 1981 and \$204 billion for 1982.

[2] See Johns, Max, "Accelerated Cost Recovery System, 1981: A Reading on the Initial Impact," Statistics of Income and Related Administrative Record Research: 1984, Internal Revenue Service, October 1984, pp. 71-77.

[3] Council of Economic Advisers, Economic Indicators, August 1984, p. 30.

[4] U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, July 1984, pp. 44-45.

[5] See also Hinkins, Susan M., "Matrix Sampling and the Effects of Using Hot Deck Imputation," 1984 American Statistical Association Proceedings, Section on Survey Research Methods, for a discussion of file processing.

Table 1.--Returns of Active Corporations: Selected Items by Industrial Division, 1982 Preliminary Data

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

Division	Number of returns	Total receipts	Business receipts	Net income (less loss)
	(1)	(2)	(3)	(4)
All divisions <sup>1</sup> .....	2,925,939	7,025,194,071	6,147,175,949	151,127,361
Agriculture, forestry, and fishing ...	91,294	65,335,876	60,624,855	-89,093
Mining .....	36,676	203,160,157	191,152,749	605,078
Construction .....	282,345	281,747,868	271,633,721	2,323,952
Manufacturing .....	259,128	2,489,901,657	2,359,116,362	75,761,925
Transportation and public utilities ..	115,470	632,138,677	606,335,004	18,605,115
Wholesale and retail trade .....	839,548	2,011,401,466	1,965,768,350	28,589,254
Finance, insurance, and real estate ..	461,653	956,347,241	333,910,703	18,177,068
Services .....	819,691	380,229,692	353,972,994	7,174,278

  

Division	Income subject to tax, total	Income tax before credits <sup>2</sup>	Income tax after credits	Total assets
	(5)	(6)	(7)	(8)
All divisions <sup>1</sup> .....	205,035,209	85,001,546	45,341,874	9,337,312,656
Agriculture, forestry, and fishing....	1,604,445	490,228	362,979	50,391,497
Mining .....	7,319,683	3,203,406	917,351	192,380,473
Construction .....	5,973,416	2,069,718	1,533,471	153,085,046
Manufacturing .....	102,112,768	44,982,547	20,855,535	2,063,698,684
Transportation and public utilities ..	25,936,839	11,347,311	4,642,591	919,271,880
Wholesale and retail trade .....	30,087,663	11,363,221	9,159,533	751,139,486
Finance, insurance, and real estate ..	19,941,207	7,629,174	5,321,350	4,967,145,580
Services .....	11,916,186	3,874,303	2,513,729	237,556,442

<sup>1</sup>Includes "Nature of business not allocable," which is not shown separately.

<sup>2</sup>Income tax consists of regular and alternative tax; the tax from recomputing prior-year investment credit, personal holding company tax, and additional tax for tax preferences are not included.

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

Table 2.--Returns of Active Corporations: Balance Sheet, Income Statement, Tax, and Credit Items, 1981 and 1982 (Preliminary)

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

Item	1981	1982 (Preliminary)	Percent change 1981 to 1982
	(1)	(2)	(3)
1 Number of returns .....	2,812,420	2,925,939	4.0
2 Total assets .....	8,547,161,872	9,337,312,656	9.2
3 Cash .....	533,472,168	538,255,954	0.9
4 Notes and accounts receivable .....	2,239,832,960	2,423,872,593	8.2
5 Less: Allowance for bad debts .....	44,840,794	47,413,655	5.7
6 Inventories .....	588,219,956	579,813,145	-1.4
7 Investments in Government obligations, total <sup>1</sup> .....	514,837,697	600,915,096	16.7
8 Other current assets .....	320,511,852	437,648,119	36.5
9 Loans to stockholders .....	32,042,366	38,519,553	20.2
10 Mortgage and real estate .....	933,673,294	940,794,520	0.8
11 Other investments .....	1,388,244,142	1,607,080,381	15.8
12 Depreciable assets .....	2,352,655,342	2,580,235,509	9.7
13 Less: Accumulated depreciation .....	857,772,979	942,377,355	9.9
14 Depletable assets .....	84,098,891	94,627,841	12.5
15 Less: Accumulated depletion .....	21,816,569	29,472,224	35.1
16 Land .....	101,946,016	110,327,836	8.2
17 Intangible assets (amortizable) .....	55,131,152	81,031,468	47.0
18 Less: Accumulated amortization .....	20,451,969	24,808,152	21.3
19 Other assets .....	347,378,352	348,262,030	0.3
20 Total liabilities and net worth .....	8,547,161,872	9,337,312,656	9.2
21 Accounts payable .....	619,969,292	678,030,662	9.4
22 Mortgages, notes, and bonds payable in less than one year .....	585,947,678	664,678,098	13.4
23 Other current liabilities .....	2,859,839,215	3,205,977,845	12.1
24 Loans from stockholders .....	107,229,417	117,480,560	9.6
25 Mortgages, notes, and bonds payable in one year or more .....	1,058,070,877	1,223,172,923	15.6
26 Other liabilities .....	1,072,164,634	980,029,399	-8.6
27 Capital stock .....	532,560,826	657,266,707	23.4
28 Paid-in or capital surplus .....	670,619,223	782,557,959	16.7
29 Retained earnings, appropriated .....	45,939,734	55,396,443	20.6
30 Retained earnings, unappropriated .....	1,124,012,345	1,171,420,931	4.2
31 Less: Cost of treasury stock .....	129,191,347	198,698,867	53.8
32 Total receipts .....	7,026,351,839	7,025,194,071	(2)
33 Business receipts .....	6,244,678,064	6,147,175,949	-1.6
34 Interest <sup>3</sup> .....	479,556,286	512,758,895	6.9
35 Interest on Government obligations, state and local .....	13,881,460	14,124,877	1.8
36 Rents .....	53,805,764	69,913,324	29.9
37 Royalties .....	13,716,872	13,481,455	-1.7
38 Net short-term capital gain reduced by net long-term capital loss .....	2,178,572	2,892,105	32.8
39 Net long-term capital gain reduced by net short-term capital loss .....	29,064,630	26,355,700	-9.3
40 Net gain, noncapital assets .....	16,639,271	20,946,369	25.9
41 Dividends received from domestic corporations .....	17,442,112	18,062,252	3.6
42 Dividends received from foreign corporations .....	13,790,320	13,956,381	1.2
43 Other receipts .....	141,598,493	185,526,768	31.0
44 Total deductions .....	6,813,841,356	6,873,738,982	0.9
45 Cost of sales and operations .....	4,509,198,199	4,263,002,963	-5.5
46 Compensation of officers .....	120,324,784	129,451,582	7.6
47 Repairs .....	70,289,424	72,561,186	3.2
48 Bad debts .....	22,286,815	26,621,915	19.5
49 Rent paid on business property .....	82,412,276	94,816,851	15.1

## Corporation Returns, 1982

Table 2.--Returns of Active Corporations: Balance Sheet, Income Statement, Tax, and Credit Items, 1981 and 1982 (Preliminary)--Continued

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

Item	1981	1982 (Preliminary)	Percent change 1981 to 1982
	(1)	(2)	(3)
Total deductions--Continued			
50 Taxes paid .....	170,470,926	165,794,488	-2.7
51 Interest paid .....	476,964,684	513,092,831	7.6
52 Contributions or gifts .....	2,514,425	2,909,383	15.7
53 Amortization .....	4,712,864	3,758,271	-20.3
54 Depreciation .....	186,195,048	212,857,057	14.3
55 Depletion .....	7,929,396	7,021,479	-11.5
56 Advertising .....	60,094,601	65,540,684	9.1
57 Pension, profit-sharing, stock bonus, and annuity plans .....	52,952,583	54,247,881	2.4
58 Employee benefit programs .....	45,795,892	51,854,217	13.2
59 Net loss, noncapital assets .....	7,943,607	10,327,348	30.0
60 Other deductions .....	993,755,841	1,199,880,856	20.7
61 Total receipts less total deductions .....	212,510,484	151,455,089	-28.7
62 Constructive taxable income from related foreign corporations .....	15,019,938	13,547,752	-9.8
63 Net income (less loss), total .....	213,648,962	151,127,361	-29.3
64 Net income .....	301,440,778	270,810,799	-10.2
65 Loss .....	87,791,816	119,683,438	36.3
66 Statutory special deductions, total .....	17,476,301	19,535,306	11.8
67 Net operating loss deduction .....	9,713,836	11,357,520	16.9
68 Dividends-received deduction .....	7,731,349	8,141,847	5.3
69 Public utility dividends-paid deduction .....	31,116	35,939	15.5
70 Income subject to tax, total .....	240,422,626 <sup>4</sup>	205,035,209	-14.7
71 Net long-term capital gain taxed at alternative rates .....	14,847,004	12,083,900	-18.6
72 Income tax before credits <sup>5</sup> .....	100,644,417	85,001,546	-15.5
73 Tax credits, total <sup>6</sup> .....	43,813,131	39,659,672	-9.5
74 Foreign tax credit .....	21,828,686	19,124,327	-12.4
75 U.S. possessions tax credit .....	1,945,637	2,024,172	4.0
76 Investment credit .....	18,887,286	17,294,556	-8.4
77 Work incentive credit .....	38,223	28,634	-25.1
78 Jobs credit .....	472,895	328,688	-30.5
79 Research credit .....	639,302	838,305	31.1
80 Employee stock ownership credit .....	n.a.	13,603	n.a.
81 Income tax after credits .....	56,831,286	45,341,874	-20.2
82 Tax from recomputing prior-year investment credit .....	1,083,547	1,199,165	10.7
83 Additional tax for tax preferences .....	524,851	477,704	-9.0
84 Personal holding company tax .....	5,036	7,002	39.0
85 Total income tax after credits <sup>7</sup> .....	58,444,720	47,048,072	-19.5
Distributions to stockholders:			
86 Cash and property except in own stock .....	120,295,338	133,371,188	10.9
87 Corporation's own stock .....	3,634,323	3,642,024	0.2

n.a. - Not available

<sup>1</sup>Includes all investments in Government obligations, that is, United States, state and local.<sup>2</sup>Less than .05 percent.<sup>3</sup>Includes United States and other interest, except for state and local.<sup>4</sup>Revised 1981 figure.<sup>5</sup>Consists of regular and alternative tax.<sup>6</sup>Includes \$480,000 and \$600,000 of alcohol fuel credit and \$622,000 and \$6,787,000 of nonconventional source fuel credit for 1981 and 1982, respectively.<sup>7</sup>The 1981 figure included tax from recomputing prior-year work incentive (WIN) credit while it was not included in the 1982 figure since it was no longer on the return form.

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