

SOI BULLETIN



Volume 8, Number 3

Winter 1988-89

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SOI BULLETIN

Department of the Treasury
Internal Revenue Service

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Michael J. Murphy
Acting Commissioner

Charles H. Brennan
Deputy Commissioner
(Operations)

Dominic E. Pecorella
Assistant Commissioner
(Taxpayer Service and Returns Processing)

Fritz Scheuren
Director, Statistics of Income Division

The SOI Bulletin provides the earliest published annual financial statistics from various types of tax and information returns filed with the Internal Revenue Service. It also includes information from periodic or special analytical studies of particular interest to tax administrators. In addition, historical data are provided for selected types of taxpayers, as well as the gross internal revenue collections and other tax related items.

Information on the availability of additional unpublished data concerning the topics in this issue may be obtained by writing to the Statistics of Income Division, TR:S Internal Revenue Service, Washington, DC 20224.

In addition, special Statistics of Income tabulations based on income tax returns can be produced upon request on a reimbursable basis. Requests for this service should be addressed to the Director, Statistics of Income Division, at the address shown above.

Overall policy review of the SOI Bulletin is conducted by the Office of Tax Analysis, under the direction of Thomas Neubig. For this issue, those assisting in the review were B.K. Atrostic, Mordecai S. Feinberg, and James R. Nunns. Robert A. Wilson and Bettye Jamerson of the Statistics of Income Division were the technical editors and were assisted by Wendy Alvey and Beth Kilss, editors of the SOI Bulletin Board, and Clementine D. Brittain who provided editorial assistance and prepared the copy.

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SOI STATISTICAL SERVICES

(Available from Statistics of Income Division)

As part of the Statistics of Income program a series of special services is now being offered to data users (see below). Detailed information on these statistical services can be obtained by writing to Director, Statistics of Income Division (TR:S), Internal Revenue Service, 1111 Constitution Avenue, N.W.; Washington, DC 20224. Purchase is by check made payable to the IRS Accounting Section.

Studies of International Income and Taxes, Publication 1267 — Price \$45.00

Purchase price includes a 516-page document for 1979-83 that presents information from 13 Statistics of Income studies in the international area, including:

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- Activity of foreign corporations in the U.S.
- Foreign interests in U.S. corporations
- Statistics related to individuals, trusts, and estates
- Data presented by— geographical area or industrial activity, as well as other classifiers

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Individual Income Tax Returns, Publication 1304 — Price \$32.00

Purchase price includes a 196-page document for 1985 presenting Statistics of Income data and tables on:

- Sources of income
- Exemptions
- Itemized deductions
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- Capital gains
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Other Services — Price dependent on the request

- Unpublished tabulations from SOI program are available. Includes detailed tables underlying those published in SOI Bulletin.
- Special tabulations produced to user specifications.
- Public use tape files, including the Individual Tax Model (1978-1985), among others. (Earlier files are available from the Machine Readable Branch (NNSR) of the National Archives, Washington, DC 20408.

BUSINESS SOURCE BOOKS

(Available from Statistics of Income Division)

In addition to the Corporation Source Book, two others are now being offered by the Statistics of Income Division (see below). Information can be obtained by writing to Director, Statistics of Income Division (TR:S) at the address above. Purchase of Source Books is by check made payable to the IRS Accounting Section.

Corporation Source Book, 1985, Publication 1053 — Price \$175.00

This is a 480-page document that presents detailed income statement, balance sheet, tax and investment credit items by major and minor industries and size of total assets. This report is part of an annual series and can be purchased for \$175 (issues prior to 1982 are for sale at \$150). A magnetic tape containing the tabular statistics for 1985 can be purchased for \$1,500.

Partnership Source Book, Publication 1289 — Price \$30.00

This is a 291-page document showing key partnership data for 1957 through 1983, at the minor, major and division industry level. Includes a historical definition of terms section and a summary of legislative changes affecting partnerships during that period. Tables feature:

- Number of partnerships
- Number of partners
- Business receipts
- Depreciation
- Taxes paid deduction
- Interest paid
- Payroll
- Payments to partners
- Net income

Purchasers of this service also will be advised of the release of subsequent years' data. A magnetic tape containing the tabular statistics can be purchased for an additional \$200.

Sole Proprietorship Source Book, Publication 1323 — Price \$95.00

This Source Book is a companion to that for partnerships, shown above. It is a 244-page document showing key proprietorship data for 1957 through 1984. Each page contains statistics for a particular industry. Included will be data on:

- Number of business
- Business receipts
- Interest paid
- Depreciation
- Taxes paid deduction
- Payroll
- Net income

As with Partnerships, a magnetic tape containing the tabular statistics can be purchased for \$245.

OTHER PUBLICATIONS

(Available from Superintendent of Documents GPO, Washington, D.C. 20402)

The Statistics of Income (SOI) Bulletin (Quarterly) — Publication No. 1136

Subscription price \$16.00; Single copy price \$6.00

The SOI Bulletin provides the earliest published financial statistics from the various types of tax and information returns filed with the Internal Revenue Service. The Bulletin also includes information from periodic or special analytical studies of particular interest to tax administrators and economists.

Statistics of Income—1985, Corporation Income Tax Returns, Publication No. 16

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- Receipts
- Deductions
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- Taxable income
- Income tax
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- industry
- accounting period
- size of total assets
- size of business receipts

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Statistics of Income and Related Administrative Record Research: 1986-1987.—Selected papers given at the 1986 and 1987 Annual Meetings of the American Statistical Association in Chicago and San Francisco, respectively. Papers focus on on-going wealth estimation research and U.S. and Canadian efforts regarding methodological enhancements to corporate and individual tax data and recent refinements to disclosure avoidance techniques.

Record Linkage Techniques—1985.—The Proceedings of the Workshop on Exact Matching Methodologies held in Arlington, Virginia, May 9-10, 1985. Includes landmark background papers on record linkage use and papers describing methodological enhancements, applications and technological developments, as well as extensive bibliographic material on exact matching.

Statistical Uses of Administrative Records: Recent Research and Present Prospects.—A two-volume reference handbook on research results involving the use of administrative records for statistical purposes from 1979 through 1982.

- Volume I (March 1984) focuses on general considerations in administrative record research, applications of income tax data, uses based on data from other major administrative record systems, and enhancements to statistical systems using administrative data.
- Volume II (July 1984) focuses on comparability and quality issues, access to administrative records for statistical purposes, selected examples of end uses of linked administrative statistical systems, and a status report which sets goals for the future.

Statistics of Income and Related Administrative Record Research: 1984.—Selected papers given at the 1984 Annual Meeting of the American Statistical Association in Philadelphia. Papers focus on future policy issues, applications, exact matching techniques, quality control, missing data and sample design issues.

Statistics of Income and Related Administrative Record Research: 1983*.—Selected papers given at the 1983 Annual Meeting of the American Statistical Association in Toronto. Papers focus on use of administrative records in censuses and surveys, applications for epidemiologic research and other statistical purposes, and statistical techniques involving imputation and disclosure and confidentiality.

Statistics of Income and Related Administrative Record Research: 1982.—Selected papers given at the 1982 Annual Meeting of the American Statistical Association in Cincinnati. Papers focus on statistical uses of administrative records, resulting methodologic advances, and estimates and projections for intercensal updates.

Statistics of Income and Related Administrative Record Research.—Selected papers given at the 1981 Annual Meeting of the American Statistical Association in Detroit. Papers focus on applications and methodologies with an emphasis on IRS' Statistics of Income Program, and Small Business Data Base, nonprofit and pension data, and on Canada's Generalized Iterative Record Linkage System.

Economic and Demographic Statistics*.—Selected papers given at the 1980 Annual Meeting of the American Statistical Association in Houston. Papers focus on evaluation of the 1977 Economic Census, CPS hot deck techniques, and efforts to upgrade Social Security's Continuous Work History Sample.

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By Fritz Scheuren and Janet McCubbin	
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Projections of Tax Return Filings, 1990–1997	95
By Marian Mak	
For Fiscal Year 1989, 202.3 million returns and supplemental documents are projected to be filed, a 2.3 percent net increase over estimated 1988 filings. Individual income tax return filings in 1988 increased by 3.7 percent over 1987, caused primarily by two major occurrences. Provisions in the Tax Reform Act of 1986 led to an increase in the number of taxpayer dependents who had to file their own returns as well as a decline in the number of individuals required to file because of the increase in the standard deduction and personal exemption amounts. Also, the illegal alien amnesty program is expected to slightly increase the number of persons filing for the first time.	
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SOI Bulletin Board

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SOME OBSERVATIONS AND INSIGHTS

The Statistics of Income (SOI) Division has been heavily involved in quality since before the time that it became the "in" thing to do. In the mid-1960's processing of tax returns for the Statistics of Income programs was decentralized; work which had historically been done in-house was moved to the IRS service centers, where the tax returns were being received and processed for tax administration purposes. As part of that move, what are now thought of as "quality improvement initiatives" were instituted, to ensure that the data being extracted from the tax returns for statistical use were complete and accurate.

More recently our focus has been on supporting Servicewide quality initiatives, based on the concepts of Dr. Joseph Juran of the Juran Institute—one of the foremost leaders of modern quality techniques in the world.

In the last year we became directly involved in an IRS initiative to measure the accuracy of telephone responses to taxpayer requests for assistance. This joint effort between IRS and the General Accounting Office gained added importance because of all the tax law changes introduced by the Tax Reform Act of 1986, the effects of which were most apparent during the last filing season.

Closer to home, the SOI Division has been busy developing its own quality initiatives, which include "quality planning," "quality control" and "quality improvement"—also known as the Juran Trilogy:

- In the planning area we have recently completed the Service's first quality planning team project to redesign the SOI program's sample file of individual income tax returns.

Other planning activities have focused on the IRS service centers. The primary goal of those efforts has been to involve the "suppliers" (i.e., those who sample, edit, and key-enter data from tax returns) and "customers" (who are the data publishers and users, ourselves and you, the public) in the planning process. Obviously, we are still in the beginning stages here, and we need your ideas.

- In the area of quality control, we have established higher quality standards for such service center operations as key entry, error resolution, and location of missing returns. These expectations are being carried a step further this year by asking the service centers to develop new measures of the current quality of each operation and to commit themselves to more closely monitoring execution.
- Quality improvement initiatives have been undertaken on a national level, with the formation of a quality improvement team to develop a better system for locating returns needed for the SOI sample. (For a variety of reasons some of the returns are not readily available when needed for statistical processing.) This team has been very successful in improving the tracking of tax returns, benefiting not only the SOI program but also other parts of IRS, where the actual returns are needed for tax administration purposes. Still other SOI quality improvement initiatives are being undertaken on a local level, both in the service centers and here in the Statistics of Income Division.

With the establishment of the Division's own "quality council," quality activities have become a top priority, as the council assesses Division needs for new quality initia-

tives. This is costly in the beginning; however, we expect the long-term payback to be substantial. Your feedback on how to achieve these objectives is invited, as always.

Fritz Scheuren
Director
Statistics of Income Division

THIS ISSUE AT A GLANCE

The Winter 1988-1989 issue of the *Bulletin* focuses on the income of certain classes of tax filers and provides projections of tax returns filings through 1996. A brief abstract of each article is provided below:

Projections of Returns to be Filed in Fiscal Years 1989-1996.—Presents projections of the major types of returns to be filed for fiscal years 1989-1996. These Fiscal Year projections include the effects of the Tax Reform Act of 1986. The projections also take into account the effects of other recent legislative as well as regulatory and administrative changes affecting the filings of the various tax returns.

Reconciliation of Personal Income and AGI.—Presents data on the reconciliation of the Bureau of Economic Analysis measure of personal income with the Internal Revenue Service measure of adjusted gross income, by type of income for 1984-1986.

Foreign Recipients of U.S. Income, and Tax Withheld, 1986.—Presents data on the amount of income paid to foreign persons (including individuals, corporations and other organizations), and the U.S. tax that was withheld, based on all Forms 1042S filed with the IRS in 1986.

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Individual Income and Tax Shares, 1916-1950.—Presents an analysis of selected percentile shares of the income and tax over time, based on income tax returns of persons whose income was \$25,000 or more in 1986 dollars. A similar analysis for 1951-1986 is now in preparation.

BEHIND THE SCENES

Even before our current commitment to modern quality management techniques, one of our past employees who did much to help maintain high standards in SOI programs was LILLIE DORSEY.

A 27-year veteran of the SOI Division, immediately prior to her retirement Lil was acting as Assistant Director of the Division. She began her career at IRS as a programmer, then, as a systems analyst, as the Division went through the transition from centralized to decentralized computer processing. Over the years Lil distinguished herself within the SOI Division, where she held many increasingly responsible positions—including chief of nearly every Branch in the Division. Her contributions were also recognized by the IRS, when she was nominated as an "Outstanding Woman in Government."

Some current Division employees who are following in the "quality tradition" exemplified by Lil have participated in two meetings of the American Statistical Association (ASA) during the past six months. CHARLES DAY, SUSAN HINKINS, HOMER JONES, JANET McCUBBIN, and MIKE WEBER attended ASA's Annual Meeting in New Orleans, where they discussed the progress they've made on ongoing work in their areas of expertise:

- Charles spoke about an effort underway to develop previously unavailable employment and payroll data (i.e., wages paid

and number of employees) for persons who filed income tax returns for sole proprietorship businesses;

- Susan and Homer described recent developments in their work to redesign the SOI sample of corporation income tax returns;
- Janet worked with me and H. LOCK OH to analyze the statistics on income and tax distributions based on individual tax returns filed since the inception of the income tax in 1913; and
- Mike's presentation on early results from a study of the individual income tax returns filed in the first four months of 1988 is included in this issue of the Bulletin.

More recently, MARY BATCHER and JERI MULROW attended ASA's winter meetings in San Diego, where they, too, spoke on current work in which they are involved:

- Mary described the statistical concepts employed to improve the 1987 Integrated Test Call Survey System—IRS' method for assessing the quality of their toll-free assistance operation; and
- Jeri's presentation documented procedures developed to correct for nonsampling errors in the Corporation SOI sample.

Look for these papers to appear in this and other SOI publications over the next year.

YOUR CALL

As you may know, publication of the *SOI Bulletin* has not been as timely as we'd like it to be. Since the focus of this feature is "quality," you may be thinking that quality—like charity—"should begin at home."

Not surprisingly, the focus of one of our quality improvement projects is to re-examine all aspects of the *Bulletin* publication process.

As part of that project, the editorial staff has already begun to try to streamline the printing effort for the *Bulletin*. In particular, we are exploring several in-house desk-top publishing options and other technological enhancements which could improve our schedule. Furthermore, we have been in touch with our "customers"—you, the data users—to see how to better serve you, both in the interim and over the long run.

These discussions are partially responsible for our decision to make selected historical tables available on diskette, as we did in the spring of 1987; to publish special 75th anniversary releases, which highlight the historical development of the Statistics of Income programs (as we did in our last issue and will be continuing later in 1989); and to introduce the "SOI Bulletin Board" in the Winter 1987-1988 issue of the *Bulletin*.

UPCOMING FEATURES

The following are a few of the articles to look for in upcoming issues of the *SOI Bulletin*:

- Individual Income Tax Returns, Preliminary Data, 1987;
- Foreign Corporate Investment and Activity in the U.S., 1984-1985;
- Private Foundations, 1985;
- Individual Income and Tax Shares, 1951-1987;
- Individual Income Tax Rates, 1986;
- Environmental Taxes, 1987.

Individual Income Tax Shares and Average Tax Rates, Tax Years 1916–1950

By Fritz Scheuren and Janet McCubbin*

The annual Statistics of Income (SOI) publications are an invaluable source of information on the U.S. economy. The first SOI report (released in 1918) focused on returns filed for 1916, and it also contained aggregate information (but not data distributed by income size class) for 1913 through 1915 [1]. Thus, the data published in SOI cover the entire 75-year period of the modern income tax [2]. In view of this long history, it seemed worthwhile to try to analyze the published SOI volumes as if they constituted a time-series data base. To this end, a series of articles is planned for the *SOI Bulletin*. The series will include:

- An initial re-examination of the 1916 to 1950 period, presented in this article;
- A brief look at the 1951 to 1986 period, to be presented in the upcoming Spring *SOI Bulletin*;
- An overall look at the entire 1916 to 1987 period, to appear in the Fall 1989 or Winter 1989–1990 *SOI Bulletin*.

Subsequent articles may also be produced, as appropriate.

The principal focus of the first two articles will be on two important and closely related measures of the taxation of different income groups:

- *Average Income Tax Rates*—the Federal income tax liability for a group as a percentage of the reported income of *that* group; and
- *Income Tax Shares*—the Federal income tax liability for a group as a percentage of total Federal income tax liability for *all* groups.

(See the Data Limitations and Definitions Section for explanations of other terminology.) To derive these two measures, the original Statistics of Income publications for 1916 through 1986 were “dusted off” and information for each year on the number of returns, income and tax by income size class was entered onto a computer file [3]. A principal goal of this historical treatment is to provide previously published data that would otherwise be difficult to find or

inconvenient to use. There are plans, for example, to make all of the data produced available on tapes or on floppy disks.

The information presented here does suffer from a number of limitations. Some of these limitations have been mitigated, as noted in the Data Preparation section and some are still being addressed; other issues may best be left to scholars outside the Internal Revenue Service. Reports on the progress of their work will appear in subsequent issues of the *Bulletin* [4].

It must be remembered that the SOI data used for this study were prepared over a more than 70-year period by many different people, almost none of whom envisioned the demands that a time-series analysis would place on their work. Under these circumstances, the results expected from this effort are modest; nonetheless, the data set could ultimately be very valuable to many researchers and policy analysts.

This article is organized into five sections. Perhaps the most important of these is the extensive set of basic tables that have been prepared. To guide the reader in their use, a synopsis of the individual income tax law changes over the 1916 to 1950 period (Exhibit A) is provided. Introducing these major pieces of the article are an overview of the preparation of the data, a brief review of a portion of the results obtained and a short discussion of data limitations and definitions of terms.

OVERVIEW OF DATA PREPARATION

Historically, SOI data have been tabulated for use in SOI publications and, except for a few (mainly recent) experiments, these data have not been retained in an electronic medium [5]. The first step to take, therefore, was to go back to the original published SOI volumes, retrieve the information needed (including corrections entered by hand on the file copies) and computerize it. The data were then subjected to a number of adjustments designed to overcome some of the problems inherent in using annual cross-sections in a time-series context. These adjustments included transforming the data from current to constant dollars, standardizing the coverage of each year and standardizing the income size classes.

Constant Dollars

To eliminate the influence of the inflation (and deflation) in prices over the period, all money amounts in this study

*Dr. Fritz Scheuren is Director, Statistics of Income Division. Janet McCubbin is an economist, Special Projects Section, Foreign Statistics Branch.

Individual Income Tax Shares and Average Tax Rates, Tax Years 1916-1950

are presented in 1986 dollars, unless otherwise noted. The Consumer Price Index (CPI) was employed to convert the data to 1986 dollars [6] (see Figure A).

Figure A.—Consumer Price Index, 1986 = 100

Year	Index	Year	Index
1916	10.0	1934	12.2
1917	11.7	1935	12.5
1918	13.7	1936	12.6
1919	15.8	1937	13.1
1920	18.3	1938	12.8
1921	16.3	1939	12.7
1922	15.3	1940	12.8
1923	15.6	1941	13.4
1924	15.6	1942	14.9
1925	16.0	1943	15.8
1926	16.1	1944	16.0
1927	15.8	1945	16.4
1928	15.6	1946	17.8
1929	15.6	1947	20.4
1930	15.2	1948	22.0
1931	13.9	1949	21.7
1932	12.5	1950	22.0
1933	11.8		

Source: Bureau of Labor Statistics, as cited in U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States*. The index for 1967 = 100 was converted so that 1986 = 100.

The CPI was chosen over other price indices, in part, because it appeared to be the only readily available series covering the years prior to 1929 [7]. The CPI was selected for other reasons as well. It is probably the most widely

used source of information on changes in the prices of consumer goods and services. Also, the change in the CPI over time is a more appropriate measure of inflation (or deflation) from year to year than the year-to-year change in the Personal Consumption Expenditure Deflator, another well-known index [8]. While the focus of the current research is on a CPI-based analysis, an analysis of the sensitivity of these estimates to the use of alternative price indices will be included in the third paper in this series [9].

Filing Requirements

The comparability of tax return data over time is eroded by numerous legal and economic developments occurring between 1916 and 1950. Perhaps the most apparent of these is the fluctuation of the income tax filing requirement (see Figure B).

At the beginning of the period, returns were required if net incomes were above a certain value. For married couples filing joint returns, this level was set at \$3,000 in current dollars (\$30,000 in 1986 dollars). At the onset of World War I in 1917, the net income filing requirement for joint returns was dropped to \$2,000 in current dollars (\$17,094 in 1986 dollars), where it remained through 1923.

Figure B.—Income Tax Return Filing Requirements in 1986 Dollars, Tax Years 1916-1950

Year	Married Filing Jointly		Single	
	Net Income	Gross Income ¹	Net Income	Gross Income
	(1)	(2)	(3)	(4)
1916	\$30,000	N/A	\$30,000	N/A
1917	17,094	N/A	8,547	N/A
1918	14,599	N/A	7,299	N/A
1919	12,658	N/A	6,329	N/A
1920	10,929	N/A	5,464	N/A
1921	12,270	\$30,675	6,135	\$30,675
1922	13,072	32,680	6,536	32,680
1923	12,821	32,051	6,410	32,051
1924	16,026	32,051	6,410	32,051
1925	21,875	31,250	9,375	31,250
1926	21,739	31,056	9,317	31,056
1927	22,152	31,646	9,494	31,646
1928	22,436	32,051	9,615	32,051
1929	22,436	32,051	9,615	32,051
1930	23,026	32,895	9,868	32,895
1931	25,180	35,971	10,791	35,971
1932	20,000	40,000	8,000	40,000
1933	21,186	42,373	8,475	42,373
1934	20,492	40,984	8,197	40,984
1935	20,000	40,000	8,000	40,000
1936	19,841	39,683	7,937	39,683
1937	19,084	38,168	7,634	38,168
1938	19,531	39,063	7,813	39,063
1939	19,685	39,370	7,874	39,370
1940	N/A	15,625	N/A	6,250
1941	N/A	11,194	N/A	5,597
1942	N/A	8,054	N/A	3,356
1943	N/A	7,595 ²	N/A	3,165
1944	N/A	3,125	N/A	3,125
1945	N/A	3,049	N/A	3,049
1946	N/A	2,809	N/A	2,809
1947	N/A	2,451	N/A	2,451
1948	N/A	2,727	N/A	2,727
1949	N/A	2,765	N/A	2,765
1950	N/A	2,727	N/A	2,727

¹ For 1944 and after, this filing criterion applies to income earned by either spouse; prior to 1944, the net income and gross income filing thresholds were applied to the combined income of the couple.

² Or \$3,949 earned by one spouse only, for purpose of the victory tax.

N/A—not applicable.

NOTE: For corresponding current dollar thresholds, see the Synopsis of Law Section (Exhibit A).

In 1921, however, a filing requirement based on gross income was also imposed. This additional criterion was set much higher than the net income requirement (at \$5,000 in current dollars from 1921 through 1939, which averaged \$35,475 in 1986 dollars). Net income filing levels varied prior to World War II, partly in response to the relative prosperity of the 1920's (when they were raised) and to the Great Depression (when they were lowered).

In 1940, steps were taken to begin expanding the coverage of the income tax and to simplify the filing requirements. For example, the net income requirement was eliminated altogether and the gross income level for joint returns was lowered to \$2,000 in current dollars (\$15,625 in 1986 dollars). This trend of lowering the gross income filing limit continued through 1944, when it stood at \$500 in current dollars (\$3,125 in 1986 dollars), regardless of marital status. For 1948 this level was raised to \$600 in current dollars (\$2,727 in 1986 dollars), where it was to stay until 1970 [10].

Constant Coverage

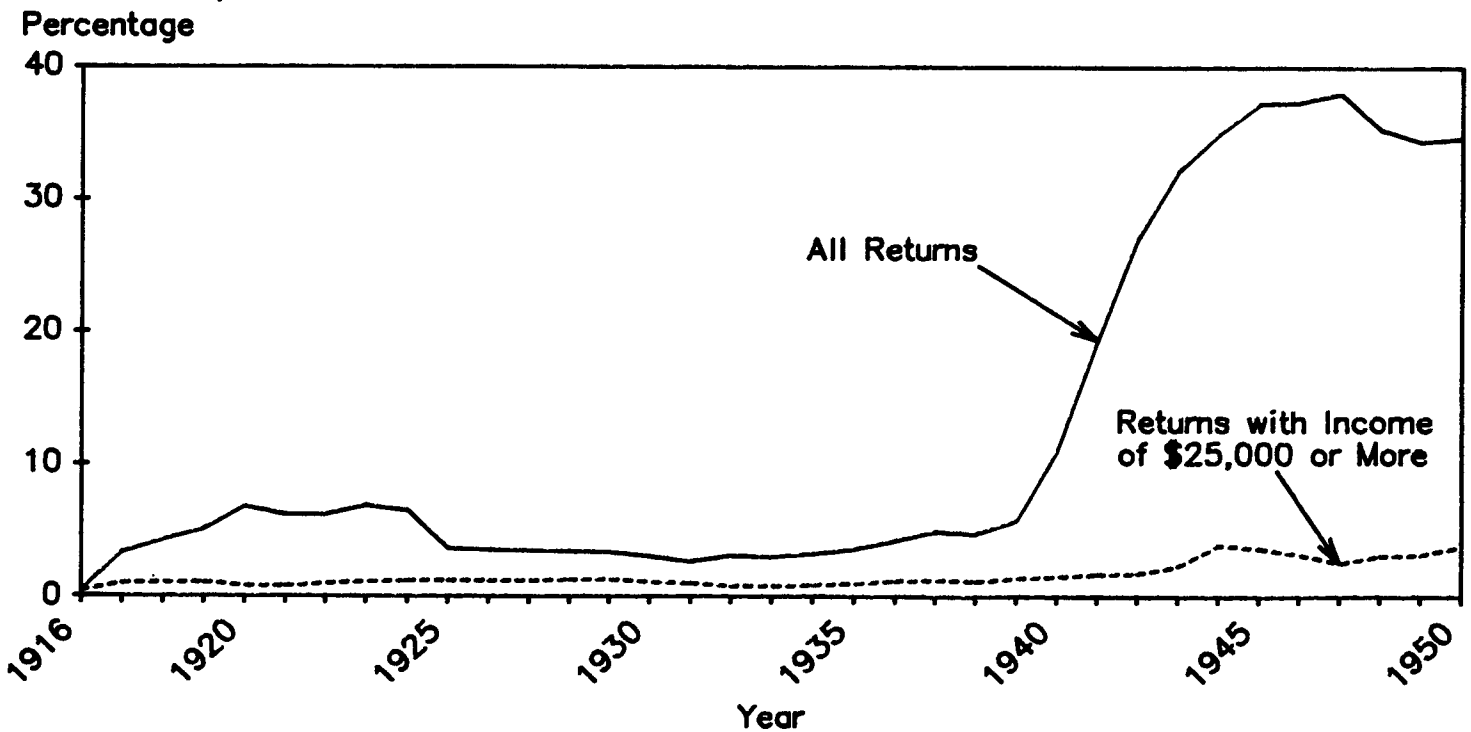
From this discussion of filing requirements, it is evident that during the early years of the Federal income tax, only fairly affluent individuals filed returns. Indeed, it really was

not until World War II that the income tax became a "mass" tax (see Figure C). The number of returns filed, expressed as a percentage of the U.S. population, fluctuated between 0.42 percent and 6.88 percent in the first 20 years of the period. In 1939, the ratio of returns to population stood at 5.8 percent [11]. During World War II, though, it rose dramatically and, after the War, it continued to climb, reaching a high of over 38 percent for 1947 [12]. Data for the period prior to 1940, therefore, are really not comparable to information for 1940 and thereafter.

As a first step in adjusting for the effects of the variation in the filing threshold, attention is confined to returns with income of \$25,000 or more in 1986 dollars [13]. This relatively high level is a compromise of sorts. For two of the years (1916 and 1931), the net income threshold for joint returns is actually above \$25,000, slightly in 1931 and significantly in 1916 [14].

The introduction of a common artificial filing threshold indexed to inflation has definite benefits in increasing year-to-year comparability. It also has the additional feature of straightening out the trend line, as shown in Figure C, and defining a more constant percentage of the U.S. population to study (especially in the pre-1940 period). There are some disadvantages to this approach too. The

Figure C
All Returns and Returns with Income of \$25,000 or More as Percentages
of U.S. Population, 1916 – 1950



primary one is that, even with this change, it is not possible to look at exactly the same part of the income distribution in every year.

Limiting the analysis just to returns with \$25,000 or more in constant 1986 dollars is not entirely satisfactory since there are changes in real income over the period. A better basis for study would be returns that represent a constant portion (i.e., the top 1 percent) of the income distribution for each year. Pechman [15], for example, in his analysis of the post World War II period, examined constant percentiles of the U.S. population by relating data on the number of returns filed and the number of exemptions claimed (an indication of the number of individuals represented by the returns) to the U.S. Census Bureau information on families and unrelated individuals [16]. Pechman and others have also related income data from tax returns to aggregate personal income data produced by the Bureau of Economic Analysis [17].

The largest problem in extending Pechman's approach to the data presented here is that the Census Bureau and Bureau of Economic Analysis series do not begin until after World War II; hence, these series will have to be estimated for earlier years before they can be applied to the older income tax data. Current SOI efforts to do this will be discussed in the third article of this series.

Baseline Comparisons

Confining analysis just to returns with income of \$25,000 or more in 1986 dollars does result in a loss of data. For an initial look at the 1916 to 1950 period, this is not a serious omission, especially prior to 1940. For example, the aggregate income reported by this group tracks other economic time series very closely, notably the Gross National Product (GNP) series shown in Figure D [18]. (Incidentally, notice that two different scales are used in the graph. The scale on the left axis, which ranges from 0 to \$300 billion dollars, is for income from the returns and the scale on the right axis, which ranges from 0 to \$1,500 billion, is for GNP.) For most of the pre-1940 period, returns with income of \$25,000 and above in 1986 dollars accounted for 90 percent or more of the Federal individual income tax liability reported (see Figures E and F). During the World War II years, however, a sharp drop occurred in the percentage of total tax liability accounted for by this group. Even so, it still stood at roughly 60 percent in the late 1940's. Except for 1916, though, the \$25,000 plus group at no time constituted a majority of returns filed and, after 1939, was never again to constitute more than half of the income reported. (1916 is not shown in Figure E; all returns filed for 1916 have income of over \$25,000 in 1986 dollars.)

Tax rates are shown in two different ways in Figures G and H. Figure G compares average tax rates for all returns with

average tax rates for returns having income of \$25,000 or more. The graph shows that the overall patterns are quite similar; however, there are greater rises in average tax rates for the \$25,000 group during periods of tax rate increases and steeper drops in periods of tax rate decreases. The difference in rates varies from 0.70 percent to 5.72 percent in the 1917 to 1940 period. In the later period, the difference in the average tax rates for the two groups is much greater, ranging from 7.81 percent in 1949 to 14.96 percent in 1943.

Figure H, which shows how tax rates changed at the margin, largely explains why the average tax rates behave as they do. The marginal normal tax and surtax rates are low and relatively flat from 1916 to 1940. Both rates were raised during World War II; however, the increase in marginal surtax rates, which were applied to higher incomes, was much greater. Figures G and H show that in general, average rates declined after 1943, although marginal surtax rates did not. This is due in part to the change in the income concept which occurred in 1944. AGI, applicable in 1944 and thereafter, is a broader concept than net income, which is applicable to data for 1916 through 1943. The average tax rate data in Figure G also reflect statutory reductions in combined normal tax and surtax or limitations on the combined taxes in effect for 1923, 1940 and 1944 through 1950; the marginal rates shown in Figure H do not reflect these reductions and limitations and so are slightly overstated for those years. This is particularly significant in explaining the drop in average tax rates occurring between 1947 and 1948 [19].

Constant Size Classes

The current dollar income size classes used in the SOI publications over the years varied considerably, as the distribution of income changed and the coverage of the U.S. population grew. To treat the entire collection of information in a uniform way, a method had to be used to bring the different size classes into alignment. A relatively sophisticated technique was developed especially for adjusting the published size classes and corresponding aggregates to new common constant and current dollar size classes or to classes defined by fixed percentiles. While it is beyond the scope of the current discussion to explain the interpolation technique in detail, at least two observations should be made:

- The procedure uses all of the existing published information (before returns with income of less than \$25,000 in 1986 dollars are dropped) and perfectly fits a smooth curve to it so that new statistical data can be obtained at any point, regardless of where the original size classes were placed.
- Recent SOI research and prior results with the interpolation method being used provide evidence on the

Figure D
 Aggregate Income of Returns with Income of \$25,000 or More Compared to Gross National Product (GNP), in Billions of 1986 Dollars, 1916 - 1950

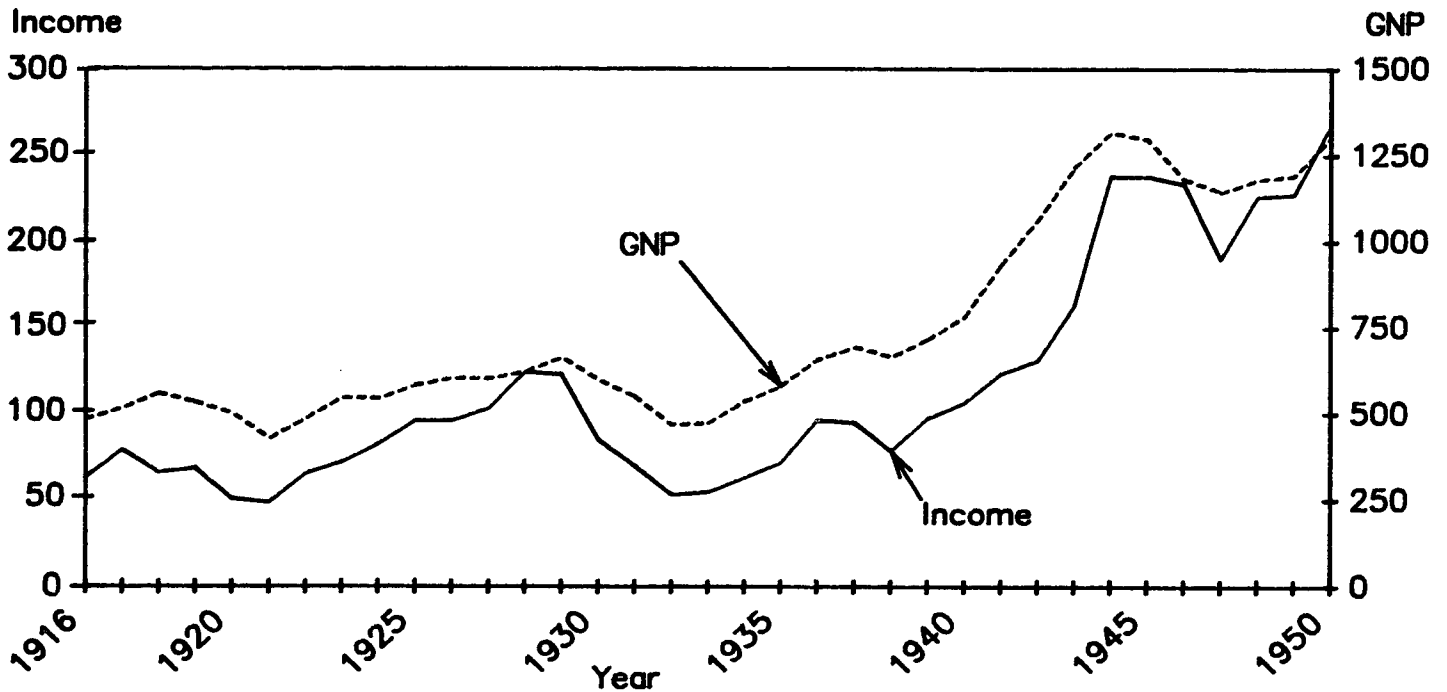
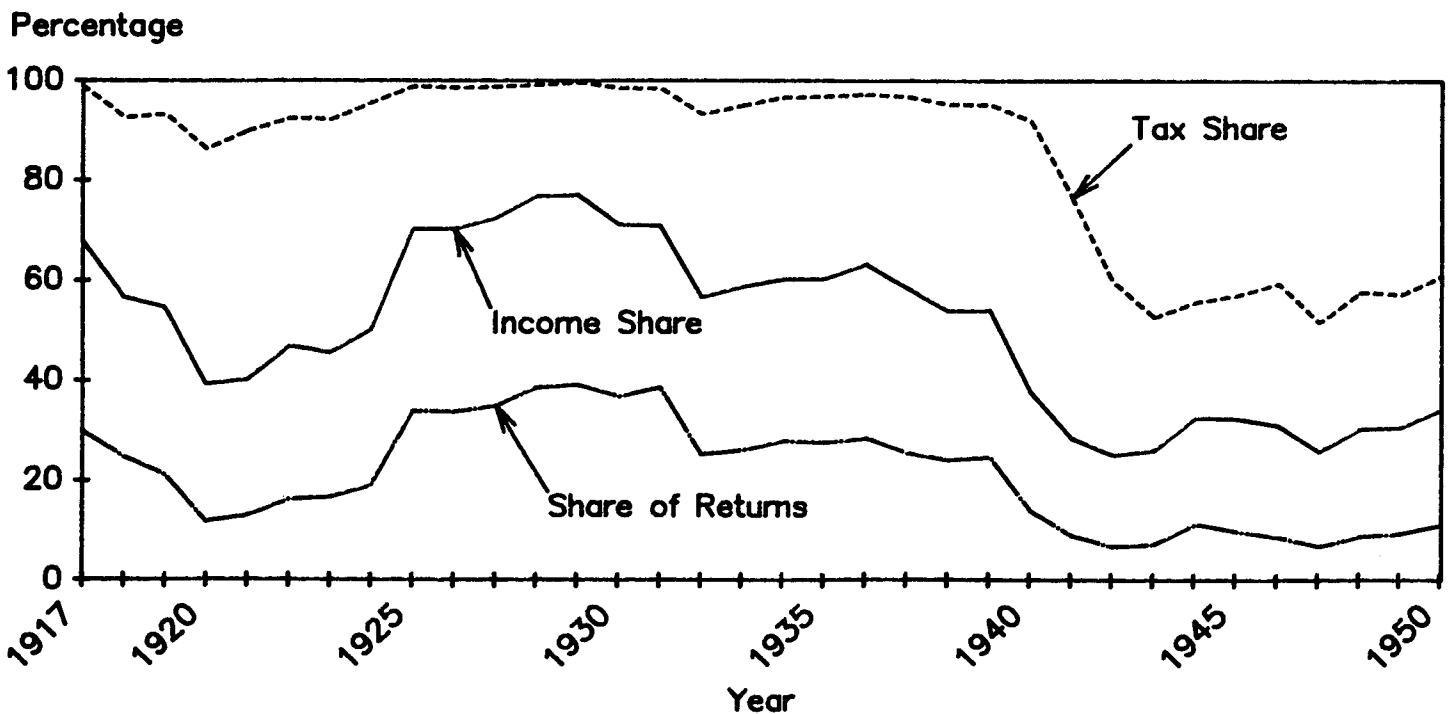


Figure E
 Returns with Income of \$25,000 or More as a Percentage of Total Returns: Number, Income and Federal Income Tax, 1917 - 1950



Individual Income Tax Shares and Average Tax Rates, Tax Years 1916-1950

Figure F.—Number of Returns, Income and Federal Income Tax for All Returns and for Returns with Income of \$25,000 or More, Tax Years 1916-1950

[Money amounts are in thousands of 1986 dollars]

Tax year	All returns			Returns with income of \$25,000 or more		
	Number	Income	Federal income tax	Number	Income	Federal income tax
1916	429,401	63,285,233	1,742,110	429,401	63,285,233	1,742,110
1917	3,472,890	116,687,034	5,771,359	1,039,939	79,262,611	5,707,313
1918	4,425,114	116,238,241	8,231,547	1,088,142	65,729,460	7,611,418
1919	5,332,760	125,692,981	8,035,633	1,126,152	68,412,748	7,487,529
1920	7,259,944	129,702,891	5,874,612	845,294	50,604,900	5,064,399
1921	6,662,176	120,105,601	4,413,417	858,958	48,190,115	3,969,455
1922	6,787,481	139,452,373	5,627,824	1,096,551	65,389,500	5,198,177
1923	7,698,321	158,829,910	4,241,449	1,277,331	72,131,039	3,906,361
1924	7,369,788	164,462,519	4,514,519	1,401,885	82,526,321	4,314,416
1925	4,171,051	136,841,100	4,590,969	1,412,304	96,107,503	4,535,197
1926	4,138,092	136,388,236	4,549,509	1,389,218	95,754,882	4,482,275
1927	4,101,547	142,690,449	5,257,209	1,430,996	103,239,147	5,191,472
1928	4,070,851	161,707,224	7,463,167	1,567,243	124,197,168	7,396,152
1929	4,044,327	158,979,077	6,422,679	1,583,251	122,390,023	6,396,740
1930	3,707,509	119,201,546	3,136,283	1,359,949	84,679,225	3,086,864
1931	3,225,924	97,877,669	1,770,698	1,246,059	69,322,835	1,741,877
1932	3,877,430	93,247,272	2,639,696	971,415	52,728,840	2,459,475
1933	3,723,558	93,293,542	3,170,508	967,763	54,719,540	3,010,542
1934	4,094,420	104,891,820	4,191,803	1,142,863	63,171,129	4,051,364
1935	4,575,012	119,278,496	5,259,512	1,258,262	71,880,465	5,089,615
1936	5,413,499	152,699,286	9,635,056	1,536,232	96,512,174	9,364,099
1937	6,350,148	162,126,519	8,714,267	1,610,856	94,581,167	8,427,961
1938	6,150,776	145,788,508	5,672,813	1,475,320	78,265,050	5,398,252
1939	7,570,320	180,621,402	7,015,228	1,871,434	97,542,665	6,670,341
1940	14,598,074	283,669,680	11,257,555	2,011,064	106,603,665	10,331,317
1941	25,770,089	436,770,276	28,473,246	2,275,629	123,489,979	21,790,549
1942	36,456,110	527,447,846	59,215,040	2,413,908	131,136,060	35,376,630
1943	43,506,553	627,910,519	91,452,158	3,152,991	163,075,671	48,133,168
1944	46,919,590	729,467,100	101,352,506	5,238,391	237,897,231	56,448,045
1945	49,750,991	733,543,482	103,965,720	4,843,415	237,257,604	59,211,657
1946	52,600,470	754,662,955	90,314,118	4,478,549	233,097,131	53,640,771
1947	54,799,936	736,741,544	88,609,221	3,638,193	189,670,375	45,665,188
1948	51,745,697	746,244,823	70,188,768	4,555,689	226,287,703	40,441,135
1949	51,301,910	743,655,323	66,996,041	4,764,434	227,475,295	38,255,082
1950	52,655,564	817,611,264	83,522,373	5,786,493	279,879,931	50,865,192

basic soundness of the approach, in part because the use of a strong global distributional assumption is not necessary [20].

(For the mathematically minded, it might be noted in passing that the basic approach taken was to employ "spline fitting" procedures to the tabulated income data. For a recent review of this area of statistical application, see [21].)

Six basic tables were produced using the interpolation approach devised. Of these, Table 1 is the most straightforward. It simply summarizes *in current dollars* the number of returns, income and tax for each year, for all returns, without regard to the \$25,000 threshold. This table is what the published Statistics of Income data would have looked like for the 1916 through 1950 period if they had always been tabulated with the *same* current dollar size classes. This table is not particularly useful because of the varying filing requirements over the years. However, it provides an interesting overview of the period and is included for the sake of completeness.

The remaining tables all start out by using the interpolation procedure to separate out what was, for most years, the

bulk of the usable portion of the tax return income distribution: returns with income of \$25,000 or more in 1986 dollars. This means that for any percentages shown (the top 1 percent of returns, for example), the base is returns with income of \$25,000 or more in 1986 dollars. In addition, all money amounts on Tables 2 through 6 are expressed in 1986 dollars. The tables are briefly described below:

- Table 2 shows selected statistics for groups of returns with *constant tax shares* (5 to 50 percent in increments of 5) for each year. These statistics include the number of returns in the group, the percentage of returns (with \$25,000 or more) accounted for by the group, income, Federal income tax, mean income before and after tax, the average income tax, the minimum income required for a return to be included in the group, the income share of the group before and after tax, the number of returns per 100,000 of U.S. population, the average income tax rate and the income tax share of the group. All groups are cumulated from the top.
- Table 3 shows the same statistics for groups of returns with *constant income shares* (5 to 50 percent in increments of 5) for each year.

Figure G
Average Tax Rates for All Returns and for All Returns with
Income of \$25,000 or More, 1916 - 1950

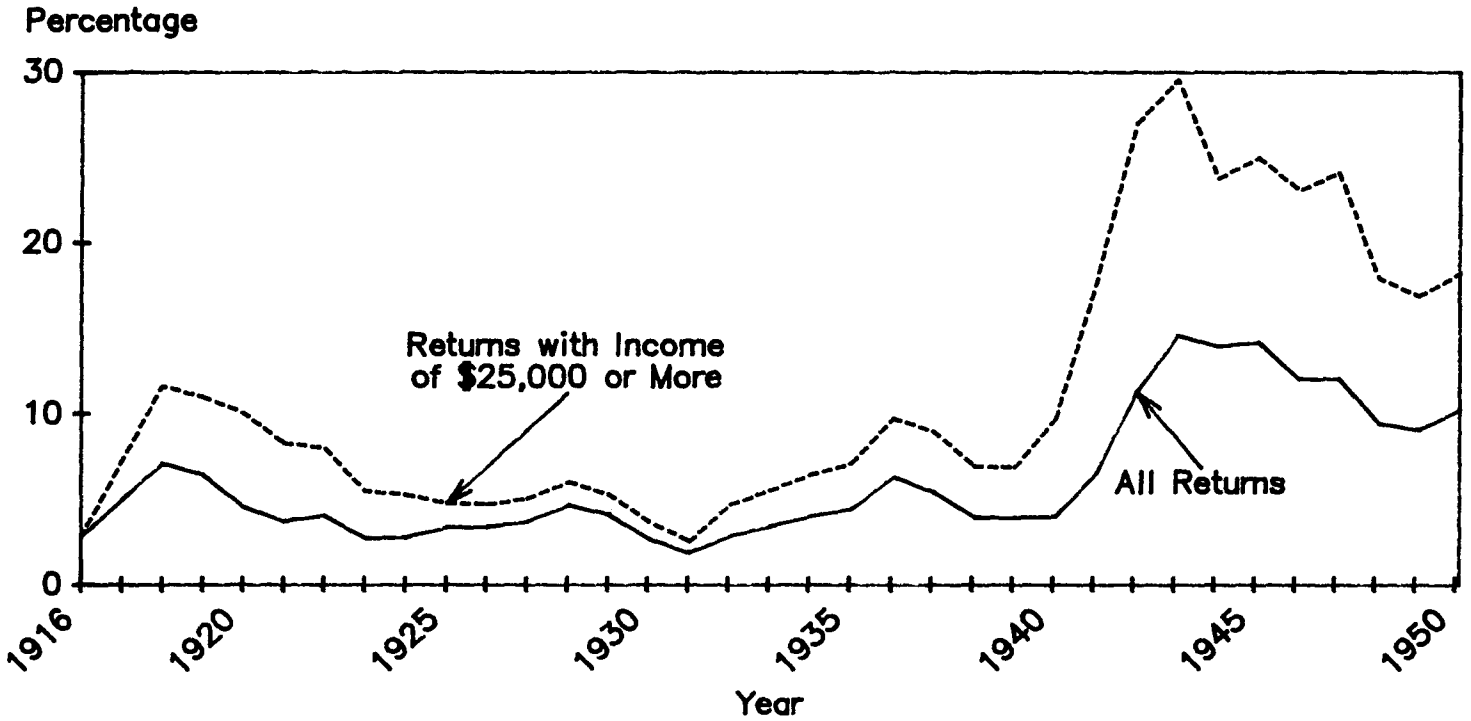
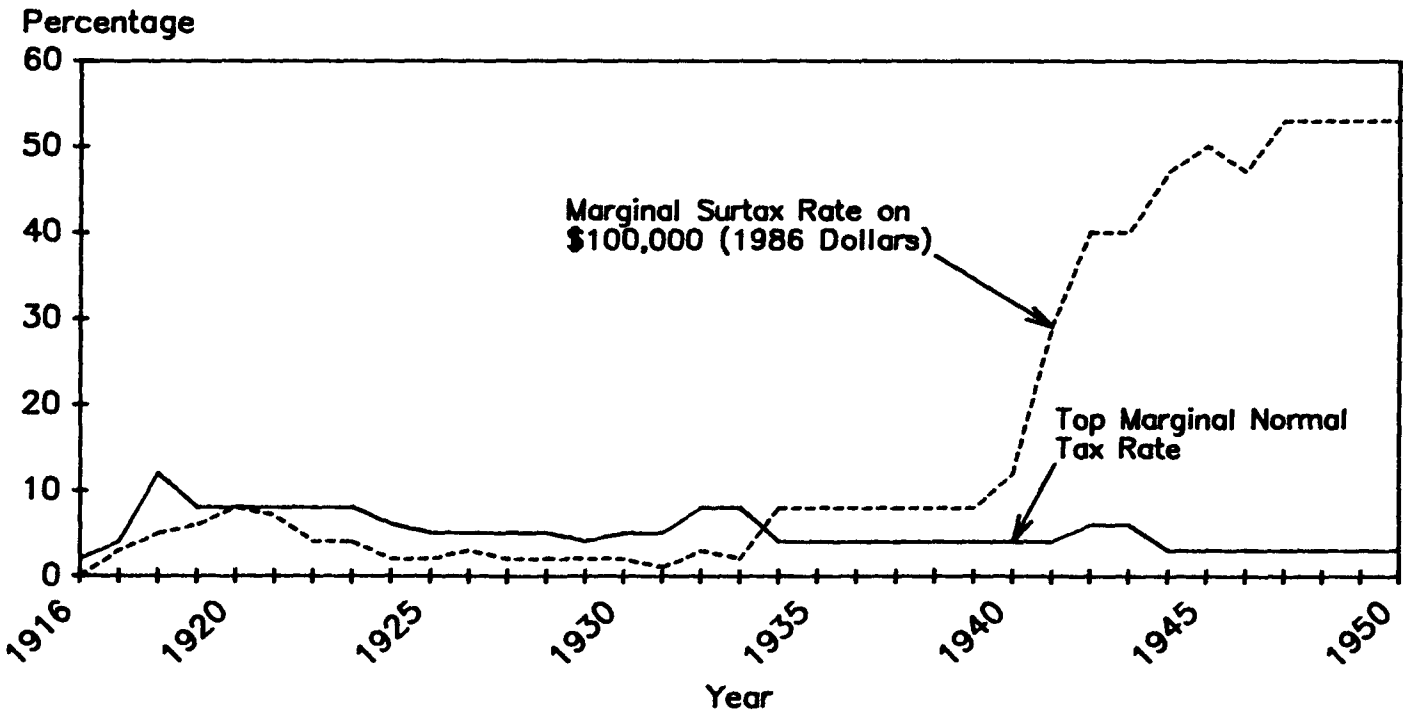


Figure H
Marginal Normal Tax Rate for the Top Normal Tax Bracket
and Marginal Surtax Rate on \$100,000, 1916 - 1950



Individual Income Tax Shares and Average Tax Rates, Tax Years 1916-1950

- Table 4 shows the same statistics again, this time for *constant percentiles* of returns (1 percent and then 5 to 50 percent in increments of 5) for each year.
- Table 5 consists of the same data tabulated by selected *constant dollar* (\$25,000 to \$1,000,000) *income size classes*. Part VII of this table may be of particular interest as it shows the statistics for the entire group of returns under consideration: returns with income of \$25,000 or more (summarized in Figures E and F above.)
- Table 6 looks at the income and tax data tabulated by selected *constant numbers* (10 to 200) of returns for each 100,000 of U.S. population. That is, it shows the statistics for groups of returns representing selected constant percentages (0.01 to 0.2 percent) of the U.S. population.

These six tables represent the beginning of a thorough re-analysis of the early days of the income tax. The limitations of the data stemming from the use of only returns with \$25,000 or more in income have been noted earlier in this section. Other issues are reviewed in the Data Limitations and Definitions Section.

TAX RATES AND TAX SHARES

The basic tables provided in this article contain a gold mine of information. Just one small vein of the research that these data permit is opened up in this section. The main objective here is to guide the reader through one of the basic tables and perhaps provide some interesting observations along the way. This might facilitate analyses of the other tables, which are not permitted in the space available here.

The last panel of Table 6, repeated here as Figure 1, is discussed. This panel shows the statistics on the top 200 returns per 100,000 U.S. population. (Again, that the number of returns in the top 200 per 100,000 population group is equal to 0.2 percent of the U.S. population.)

Before going into the details of Figure 1, three general points might be made:

- Confining attention to returns constituting a fixed percentage of the total U.S. population may be the best device used in the basic tables to increase year-to-year comparability; even so, difficulties remain. For example, the number of exemptions generally claimed on returns (an indicator of the number of individuals

Figure 1.—Top 200 Returns Per 100,000 U.S. Population (Table 6, Part VI)

[All figures are estimates—money amounts are in 1986 constant dollars]

Tax year	Returns		Net income (thousand dollars)	Federal income tax (thousand dollars)	Mean income		Average income tax (dollars)	Minimum income cutoff (dollars)	Income share		Returns per 100,000 population	Average income tax rate (percent)	Income tax share (percent)
	Number	Percent of total			Before tax (dollars)	After tax (dollars)			Before tax (percent)	After tax (percent)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Part VI — Top 200 returns per 100,000 population													
1916	203,922	47.49	53,131,179	1,716,682	260,547	252,128	8,418	64,416	83.96	83.54	200.00	3.23	98.54
1917	206,536	19.86	47,812,162	5,281,043	231,496	205,926	25,570	71,478	60.32	57.82	200.00	11.05	92.53
1918	206,416	18.97	35,039,775	6,670,140	169,753	137,439	32,314	61,327	53.31	48.81	200.00	19.04	87.63
1919	209,028	18.56	35,861,246	6,621,807	171,562	139,883	31,679	65,426	52.42	47.99	200.00	18.47	88.44
1920	212,922	25.19	28,789,379	4,405,814	135,211	114,519	20,692	57,043	56.89	53.54	200.00	15.30	87.00
1921	217,076	25.27	26,940,224	3,522,335	124,105	107,879	16,226	52,838	55.90	52.96	200.00	13.07	88.74
1922	220,098	20.07	34,873,824	4,589,340	158,447	137,595	20,851	61,984	53.33	50.31	200.00	13.16	88.29
1923	223,894	17.53	36,065,097	3,379,599	161,081	145,986	15,095	64,853	50.00	47.91	200.00	9.37	86.52
1924	228,218	16.28	41,256,382	3,996,430	180,776	163,265	17,511	70,395	49.99	47.64	200.00	9.69	92.63
1925	231,658	16.40	51,494,093	4,307,657	222,285	203,690	18,595	80,562	53.58	51.53	200.00	8.37	94.98
1926	234,794	16.90	51,251,270	4,255,537	218,282	200,157	18,125	79,104	53.52	51.49	200.00	8.30	94.94
1927	238,070	16.64	56,482,276	4,954,518	237,251	216,440	20,811	82,205	54.71	52.55	200.00	8.77	95.44
1928	241,018	15.38	70,530,870	7,091,588	292,637	263,214	29,423	90,074	56.79	54.31	200.00	10.05	95.88
1929	243,534	15.38	68,568,430	6,259,323	281,556	255,854	25,702	86,558	56.02	53.72	200.00	9.13	97.85
1930	246,154	18.10	43,769,692	2,944,851	177,814	165,851	11,963	67,931	51.69	50.04	200.00	6.73	95.40
1931	248,080	19.91	34,656,155	1,661,799	139,697	132,999	6,699	58,815	49.99	48.82	200.00	4.80	95.40
1932	249,680	25.70	29,357,463	2,228,461	117,580	108,655	8,925	48,604	55.68	53.97	200.00	7.59	90.61
1933	251,158	25.95	31,421,374	2,796,751	125,106	113,971	11,135	49,435	57.42	55.36	200.00	8.90	92.90
1934	252,748	22.12	32,956,309	3,774,298	130,392	115,459	14,933	55,168	52.17	49.36	200.00	11.45	93.16
1935	254,500	20.23	36,930,083	4,732,646	145,108	126,513	18,596	59,667	51.38	48.21	200.00	12.82	92.99
1936	256,106	16.67	48,370,271	8,565,601	188,868	155,423	33,446	74,870	50.12	45.67	200.00	17.71	91.47
1937	257,650	15.99	44,882,480	7,603,304	174,199	144,689	29,510	71,647	47.45	43.27	200.00	16.94	90.22
1938	259,650	17.60	36,047,702	4,837,611	138,832	120,201	18,631	61,159	46.06	42.83	200.00	13.42	89.61
1939	261,760	13.99	40,425,953	5,851,106	154,439	132,086	22,353	67,924	41.44	38.05	200.00	14.47	87.72
1940	264,914	13.17	43,905,438	9,007,524	165,735	131,733	34,002	72,798	41.19	36.25	200.00	20.52	87.19
1941	267,338	11.75	49,609,474	16,242,864	185,568	124,811	60,758	81,169	40.17	32.81	200.00	32.74	74.54
1942	269,234	11.15	51,867,400	22,957,578	192,648	107,378	85,270	85,236	39.55	30.19	200.00	44.26	64.89
1943	270,214	8.57	55,841,995	27,474,831	206,658	104,980	101,678	95,369	34.24	24.68	200.00	49.20	57.08
1944	267,830	5.11	59,254,525	26,678,757	221,239	121,629	99,611	106,613	24.91	17.95	200.00	45.02	47.26
1945	266,868	5.51	62,541,510	28,130,542	234,354	128,944	105,410	116,214	26.36	19.33	200.00	44.98	47.51
1946	281,372	6.28	64,532,574	26,767,937	229,350	134,216	95,134	115,348	27.68	21.04	200.00	41.48	49.90
1947	288,166	7.92	57,069,054	23,490,480	198,042	116,525	81,517	99,925	30.09	23.32	200.00	41.16	51.44
1948	293,460	6.44	62,649,175	20,498,312	213,485	143,634	69,850	104,854	27.69	22.68	200.00	32.72	50.69
1949	298,608	6.27	60,089,354	18,663,273	201,232	138,731	62,501	99,977	26.42	21.89	200.00	31.06	48.79
1950	303,736	5.25	71,455,191	24,835,203	235,254	153,489	81,766	113,749	25.53	20.36	200.00	34.76	48.83

represented by the returns) may have been changing; this has not been studied as yet.

- Comparisons in the table are all relative to the base of returns with incomes of \$25,000 or more. For some statistics like tax shares, this is an extremely important consideration. For others like tax rates, it does not matter at all.
- Finally, the top 200 returns per 100,000 U.S. population constitute a very small fraction of the income distribution and movements in this upper tail may be different from movements elsewhere; hence, any conclusions about this select group may not apply to the population as a whole.

The following is a column-by-column review of Figure I, with comments about some trends and other features of the data.

Number of Returns (Columns 1 and 2).—Over the 1916 to 1950 period, the number of returns in the top 0.2 percent of the U.S. population group grew from about 200,000 for 1916 to just over 300,000 for 1950; that is, by almost exactly 50 percent. While the number of returns in this group (column 1) grew as indicated, the percentage of returns represented (column 2) fell over the period. The biggest drop in the percentage of returns occurred as the United States entered World War I; between 1916 and 1917, tax return filings for this group fell from 47 percent of total returns to about 20 percent of total returns. During most of the period leading up to World War II, the percentage fluctuated between about 15 and 25 percent. In the 1940's, however, this group fell steadily in importance. By 1950, the percentage had dropped to just over 5 percent of all returns with \$25,000 or more.

Net Income (Column 3).—This column shows the aggregate income reported for the top 0.2 percent of the U.S. population [22]. A cyclic pattern, similar to that in Figure E, exists in the aggregates; this pattern is tied in part to the rise and fall of GNP over the period.

Federal Income Tax (Column 4).—Unlike income, Federal taxes assessed followed a different pattern, less reflective of general economic circumstances and more indicative of the Federal Government's revenue needs. Several major jumps in Federal income tax are noticeable throughout the period, including from 1916 to 1917, 1927–1928, 1935–1936, 1940–1941, and 1941–1942, with a definite trend towards greater taxation after 1939.

Mean Income (Columns 5 and 6).—This portion of the table shows that mean income before taxes fluctuated quite a bit over the pre-World War II period, but otherwise fell in bad times and rose in good. After factoring in the effects of

taxation, however, the data show that mean income for these top 200 returns per 100,000 population look somewhat different. Even though before-tax income was rising, the after-tax income of this group actually fell between 1940 and 1943, because taxes increased (see Figure J). Changes in the progressive tax rate are no doubt responsible for this trend. The trends for incomes before and after tax are very similar until about 1940; then, there is a divergence, which reflects the much steeper tax rates that were introduced during World War II.

Average Income Tax (Column 7).—Like the aggregate Federal income tax presented in column 4, the average income tax of this group varied greatly. The data show that average taxes were very high in the 1917 to 1919 period and rose again steeply just before and during World War II, to a high of \$105,000 in 1945. In the intervening years, they were much less; in fact, taxes actually were quite low in some years (averaging \$6,699 in 1931). After World War II, however, average taxes fell only slightly, remaining at relatively high levels compared to earlier periods.

Minimum Income Cutoff (Column 8).—Column 8 of Figure I shows the smallest amount of income reported on a return in this group. The minimum income cutoff has some interest in its own right, but its primary value in this table is to relate what is shown here to trends in other tables which focus on the distributions by constant dollar cutoffs (notably Table 5).

Income Shares (Columns 9 and 10).—These columns are not the major focus of Figure I, but rather are included to make it possible to go readily from Table 6 to Table 3, the table that shows data corresponding to a series of income shares held constant over the 1916 to 1950 period.

Returns per 100,000 Population (Column 11).—Column 11 is the item held constant in each part of Table 6. It is included here simply for the sake of completeness.

Average Income Tax Rate (Column 12) and Income Tax Share (Column 13).—The last two columns of this panel are, in many ways, the most important feature of the article (both here and elsewhere in the basic tables). In this particular table, when tax rates and tax shares are seen together, a very strong pattern is apparent (see Figure K). In the early period of the income tax, returns in this group were subjected to very low tax rates; on the other hand, their share of the total tax liability was extremely high. The most extreme case is 1916, when the average tax rate was only 3 percent for the group, even though these returns accounted for 98.5 percent of all the Federal income taxes assessed on returns with income of \$25,000 or more in that year. During the World War I years, the tax rates went up to the high teens and the tax shares fell into the high 80's. After the War, tax rates fell and tax shares grew again into

Figure J
Returns Accounting for the Top 0.2 Percent of U.S. Population:
Mean Income in 1986 Dollars, 1916 - 1950

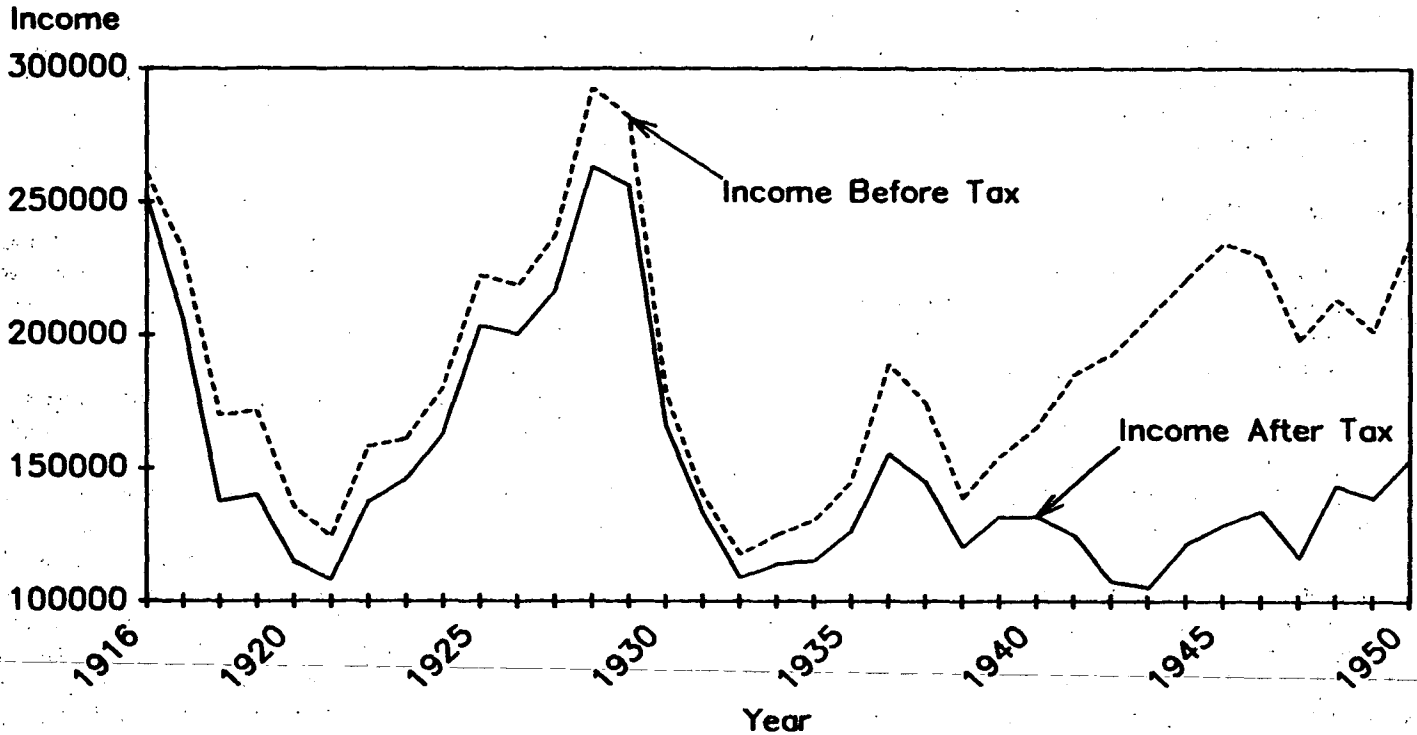
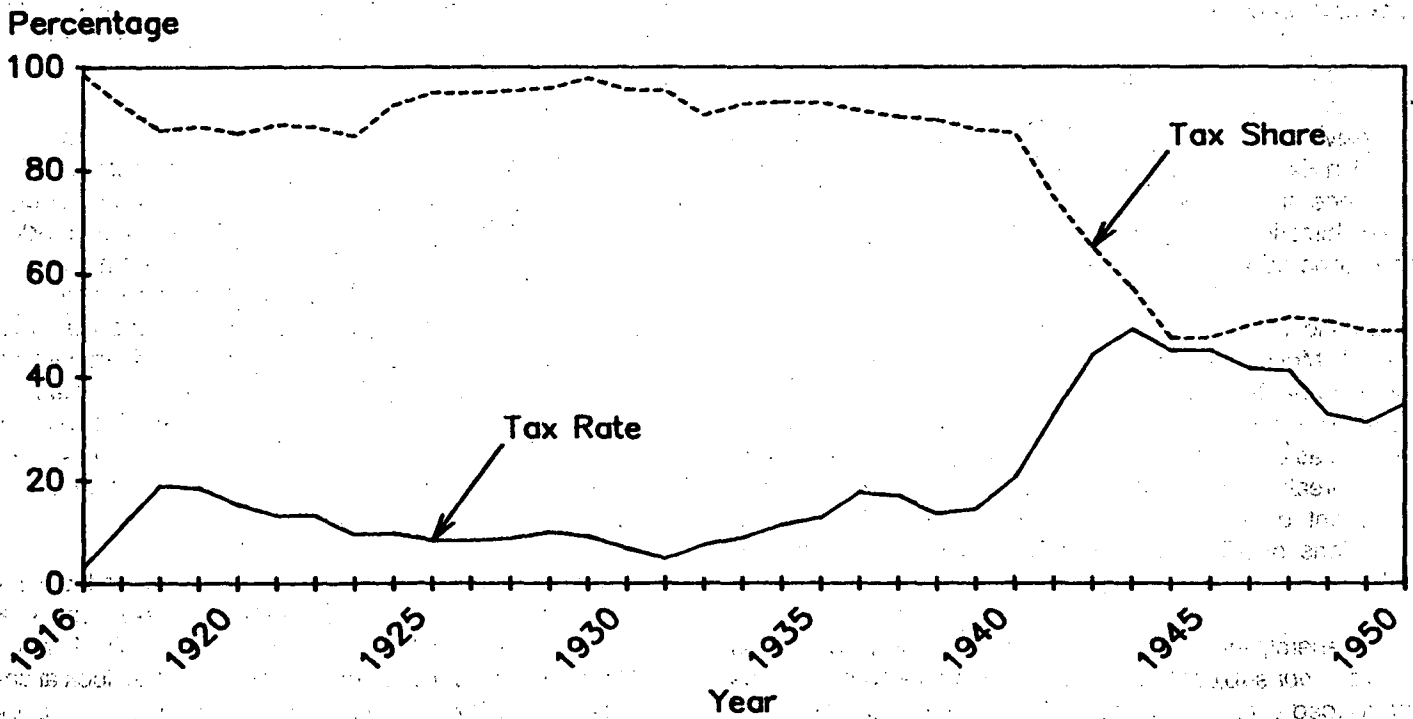


Figure K
Returns Accounting for the Top 0.2 Percent of U.S. Population:
Federal Income Tax Share and Average Income Tax Rate, 1916 - 1950



the 90's. This rough pattern of low rates and high shares continued until just before World War II. During the 1941–1942 period, there were sharp rises in the tax rates accompanied by sharp declines in the tax shares. In the last few years of the 1916 to 1950 period, however, the tax share of this group remained roughly constant (at around 50 percent), while average tax rates fell from around 40 percent in 1943 to 35 percent in 1950.

DATA LIMITATIONS AND DEFINITIONS

Throughout this article, the terminology generally employed is that found in the original *Statistics of Income* publications (from which the results were derived). While this seems appropriate, it can be a source of confusion; for example:

- There have been numerous tax law changes, many of which altered the definitions of apparently identical items from year to year.
- Although generally quite stable, statistical conventions have differed somewhat over time and these differences should be factored into any analyses done.
- Sampling and nonsampling error properties of the data vary over the period, and this requires some consideration as well.

Some of the limitations on the analyses, imposed by the data and statistical methods used, are discussed below. Following that, definitions of terms are provided.

Limitations of Data

Without a doubt, changes in tax laws are the most important factor to consider. It is for this reason that an extensive, but still incomplete, synopsis of the law is provided in Exhibit A. The definitions given below provide only the general framework within which a concept has been used historically. For year-to-year variations, Exhibit A should be consulted.

Statistical conventions were altered over the 1916 to 1950 period. Most of these changes are believed to have only minor impacts. The one exception is the introduction in 1944 of Adjusted Gross Income (AGI) in place of Net Income as a classifier. This was a major change and makes for a break in the series at that point. Footnotes on the treatment of various items in the SOI publications and definitions of AGI and Net Income are also provided in Exhibit A.

In general, the bulk of the statistical information in this article is *not* subject to sampling error. While sampling was introduced very early in the *Statistics of Income* program, it

was confined largely to returns with net incomes under \$5,000 in current dollars until World War II. Yet by 1950, the last year for which data are included here, sampling was taking place for returns with adjusted gross incomes under \$50,000 in current dollars. Even so, the samples were of truly enormous size (about half a million returns in 1950 and even larger in earlier years); thus, this source of error is not likely to be a major factor.

Little is known about the nonsampling errors in the 1916 to 1950 tax data, since almost nothing specific is said about them in the SOI volumes. There are, however, only two major ways in which nonsampling errors can arise: taxpayer mistakes and processing mistakes.

Since the beginning of the Statistics of Income program, the tax returns used have been unaudited. Obvious mathematical errors made by taxpayers have always been corrected, but the results of IRS examinations are not included [23]. Changes in the compliance behavior of taxpayers occur, but (if recent experiences are a guide) in the absence of tax law changes, these tend to be fairly slow movements [24]. On the other hand, when a major tax law change occurs, misreporting by taxpayers can increase for a time until the altered requirements become familiar. The 1940's, like the 1980's, would seem to be such a period, especially since so many people began to file for the first time. The growing complexity of the tax law is still another factor to consider.

As regards processing mistakes, while they undoubtedly arose, most were almost certainly detected and their impact on the data should be limited [25]. Great care has always been taken in SOI statistical processing; indeed, many practices from the 1916 to 1950 era are followed today (albeit in an updated context [26]).

A few additional points should be made before proceeding to the definition of terms. In the reprocessing of the historical SOI data, new errors may have been introduced. For example, it is possible that mistakes were made in transferring the basic printed information to computer tape. This is highly unlikely given the steps taken, but it cannot be ruled out altogether. Secondly, as noted in the Data Preparation section, the use of the CPI to convert from current to constant dollars has arbitrary elements and at least one alternative approach is planned [27]. Finally, the interpolation procedures used to adjust the data are known to be extremely good, but like all such methods may well be improved upon.

Other limitations exist in these data. Since the focus here is on examining tax rates and tax shares, these weaknesses have been touched on only briefly, if at all. A natural extension of the current work, for example, is to look at shifts in the before-tax and after-tax income distributions over

time. Changes in the income concept during the 1916 to 1950 period, however, make the data in this article hard to use for that purpose. An attempt at such an analysis will be carried out after adjustments are made to standardize the income concepts applicable in various years [28].

Definition of Terms

Three basic items were obtained from the old SOI volumes: number of returns, income and tax liability, all distributed by size of income. These are defined below.

Returns.—Joint returns for married persons have been allowed since the inception of the income tax. Returns for single persons and married persons filing separately were also provided for. Head of Household returns were not introduced until 1952, however, and returns for surviving spouses were not introduced until 1954 [29]. Filing jointly was not more economical for taxpayers than filing separately, until "income-splitting" was introduced in 1948. As Exhibit A shows, there were many changes in the filing requirements over the 1916 to 1950 period. In addition, as discussed in the Data Preparation Section, the gross income requirement in operation since 1921 makes it hard to use the entire tax return net income (or adjusted gross income) distribution for that period. This is the principal reason that an artificial, indexed filing threshold was introduced and attention confined to returns with \$25,000 or more in 1986 dollars [30].

Fiduciary income, accrued to personal trusts and estates, was reported on individual income tax returns from 1916 to 1936. (For 1937, a separate form was introduced for fiduciaries and, beginning with 1938, these returns were tabulated separately from individual returns.) The effect of this convention is to inflate the overall number of "individual" returns by a very small amount. For example, for 1938, the first year for which fiduciary returns are shown separately, there were 200,826 filed, compared to 6,251,009 individual returns. Furthermore, in 1938 at least, there were only 15,956 fiduciary returns above the net income filing requirement in effect for married couples in that year, versus 2,689,311 individual returns.

Prior to 1928, returns filed with deficits in income were not tabulated. To bring the entire time series into better alignment, such returns are omitted from the data provided for all years, although they have been shown in the SOI publications since 1928. To provide an idea of the significance of such returns, they are shown in Figure L as a percentage of total filings.

Income.—The income concept in use over the 1916 to 1950 period changed fairly frequently as the synopsis of law (Exhibit A) illustrates. The treatment of capital gains and losses was altered the most often, although other items of

Figure L.—Returns with Negative Net or Adjusted Gross Income as a Percentage of All Returns Filed, Tax Years 1928-1950

Year	Percent	Year	Percent	Year	Percent
1928	1.8	1936	1.3	1944	0.2
1929	2.2	1937	1.3	1945	0.4
1930	3.8	1938	1.6	1946	0.4
1931	5.4	1939	1.1	1947	0.5
1932	5.1	1940	0.8	1948	0.4
1933	4.3	1941	0.4	1949	1.0
1934	2.5	1942	0.4	1950	0.8
1935	2.0	1943	0.5		

income were included or exempted from time to time as well. Examples of types of income exempted in some years include proceeds of life insurance policies, compensation for injuries or illness, earned income from sources outside the United States, and a variety of payments to military personnel and compensation to State employees. SOI data suggest that the definitional changes that occurred in the gross income concept did not greatly affect the distribution of returns with income in 1986 dollars of \$25,000 or more. On the other hand, the tabular convention change that occurred in 1944 had major significance. Prior to 1944, as has already been noted, net income was the classifier employed. For 1944 and later years, adjusted gross income has been used.

Generally speaking, net income equals adjusted gross income less allowable itemized personal deductions. Both concepts include gross income less such items as (1) allowable trade and business deductions; (2) travel, lodging and other reimbursed expenses connected with employment; (3) deductions attributable to rents and royalties; (4) deductions for depreciation and depletion allowable to beneficiaries of property held in trust; and (5) allowable losses from sales of property.

Adjusted gross income is defined at this point. Net income is more refined. Deductions taken in the computation of net income generally include allowable charitable deductions; interest on personal indebtedness; some State and local taxes paid; losses from fire, storm, other casualty or theft; bad debts; gambling losses and alimony paid.

As noted in Exhibit A, beginning with 1941, individuals with income under \$3,000 (in current dollars), derived only from salaries, wages, other compensation for services, dividends, interest, annuities, rents and royalties, could use a standard deduction in lieu of itemized deductions; thus, while AGI less the standard deduction might approximate the net income of these individuals, their precise net income was not calculated. (Individuals with income from rents and royalties could not use the standard deduction in 1942 and 1943.) The returns of these individuals were classified by size of gross income on SOI tables and the gross income reported on these returns was tabulated; however, this inconsistency does not affect the data empha-

sized in this article as all individuals using the standard deduction during 1941 through 1943 had income under \$25,000 in 1986 dollars.

In 1944, the availability of the standard deduction was extended to all individuals regardless of the size or source of income and its use became so common that the data tabulated in SOI publications since then have been classified by AGI rather than by net income. By 1950, the standard deduction was used on over 80 percent of all returns filed and on at least 50 percent of returns with AGI of \$25,000 or more in 1986 dollars.

In later articles, an attempt to synthetically construct a uniform income classifier for the whole period will be discussed and new data will be presented. For the present, an unavoidable break exists in the series.

Income Tax.—The calculation of Federal income taxes changed repeatedly over the 1916 to 1950 period. Special taxes (the war excess profits tax, the defense tax and the victory tax) were imposed during World Wars I and II. Tax rates and tax brackets were also changed regularly. An alternative tax was introduced to afford a special treatment of capital gain income. Tax credits also began to appear as adjustments to liability. In 1948, “income-splitting” was introduced for married couples filing jointly. Under this provision, couples pay twice the tax computed on one-half of their combined income. Thus, couples who file jointly are generally subjected to lower tax rates than married couples who file separately. For the years 1916 through 1942, tax liability in SOI publications is generally defined as *before* credits. (Credits for capital losses, however, were subtracted from the total tax figures in all applicable years.) For the later years, tax liability is net tax payable *after* tax credits. This difference probably has only a minor impact as there were only a few credits in effect during these years (see Exhibit A, Tax Credits).

In 1943, a new system of current tax payments through withholding from wages and estimated tax payments was implemented. To provide relief to taxpayers who otherwise would have been liable during 1943 for taxes due for both 1942 and 1943, taxpayers could write off all or part of the smaller of the two taxes due. About half of the tax due for 1942 and about 7 percent of the tax due for 1943 was forgiven. These adjustments are not reflected in any of the data presented in this article but will be incorporated into the data to be presented in the third article of this series. See Exhibit A for details on how this forgiveness of tax was accomplished.

NOTES AND REFERENCES

[1] The information for 1913 through 1915 was obtained from: U.S. Department of Treasury, Bureau of Internal

Revenue, *Annual Reports of the Commissioner of Internal Revenue, Fiscal Years 1914–1916*. For the most recent report in the series, see U.S. Department of Treasury, Internal Revenue Service, *The Commissioner's and Chief's Counsel's Annual Report*, (Publication 55), 1987.

- [2] The Nation's first income tax law was enacted in 1862 (during the Civil War) and was repealed in 1872. The 1894 revival of the income tax was declared unconstitutional in 1895 by the Supreme Court. An excise tax on the income of corporations was in effect from 1909 until 1913. The Sixteenth Amendment, providing for the Federal taxation of individual incomes, was ratified in 1913. The Revenue Act of 1916 included a provision requiring the annual preparation of statistics relevant to the operation of the tax laws.
- [3] “Income” is net income for 1916 through 1943 and adjusted gross income (AGI) thereafter. For a discussion of these terms see the Data Limitations and Definitions Section in this article.
- [4] Reports on progress by researchers outside of IRS will appear as published results in *Statistics of Income Bulletin* articles or as references to their work in the SOI “Bulletin Board.”
- [5] An example of such an experiment can be found in the Spring 1987 issue of the *Statistics of Income Bulletin*, where the basic tables are provided on floppy disks. Other important examples include the *Source Book* tabulations of partnerships, sole proprietorships and corporations, described earlier in this issue of the *Bulletin*. Microdata files have been preserved on computer tape for some time (about 30 years). For a description of these files see, for example, Strudler, Michael; Oh, H. Lock and Scheuren, Fritz, “Protection of Taxpayer Confidentiality with Respect to the Tax Model,” *American Statistical Association 1986 Proceedings, Section on Survey Research Methods*.
- [6] The Consumer Price Index, produced monthly by the Bureau of Labor Statistics, is a Laspeyres index; that is, it is a ratio of incomes needed in different years to purchase the base year's representative group of goods. For a recently published series, see U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States: 1988*.
- [7] Just as this article was nearing completion, our colleague, Tom Petska, called our attention to a Bureau of Economic Analysis price deflator dating back to 1909. The use of this index will be explored in later work.

- [8] For discussions of various price indices, see Triplett, Jack E., "Reconciling the CPI and the PCE Deflator," *Monthly Labor Review*, U.S. Department of Labor, Bureau of Labor Statistics, September 1981, pp. 12–15; and "Price Index Research and Its Influence on Data: A Historical Review," Berndt, Ernest R., Diewert, W. Erwin and Triplett, Jack E., editors, *National Bureau of Economic Research Studies in Income and Wealth: 50th Anniversary Conference*, University of Chicago Press (in preparation).
- [9] For an example of an analysis of the sensitivity of income distribution estimates to the use of various price indices, see: Horrigan, Michael W. and Haugen, Steven E., "The Declining Middle-Class Thesis: A Sensitivity Analysis," *Monthly Labor Review*, U.S. Department of Labor, Bureau of Labor Statistics, May 1988.
- [10] Prior to 1944, however, the filing requirement was applicable to the combined net or gross income of a couple filing jointly. For 1944 through 1969, the filing criterion is applied to each spouse's gross income separately; thus a couple could have a combined income greater than the filing threshold but still not be required to file. The result is that each spouse is treated essentially as a single individual in determining whether or not a return must be filed and the effect of the much lower filing requirement (which was \$1,200 in 1943 or \$7,595 in 1986 dollars) is mitigated. In addition, higher filing requirements were introduced for aged individuals in 1954 and for widowed individuals in 1975. A lower filing requirement applicable to self-employed individuals was introduced in 1951, to facilitate the collection of social security taxes.
- [11] That is not to say that in 1939, only 6 percent of Americans were covered by the income tax. A tax return usually represents a household of several individuals, rather than one person. It was estimated that in 1940 about a third of the U.S. population was represented on individual tax returns either as taxpayers, spouses or dependents. By 1946, over 87 percent of Americans were represented on individual tax returns. See Blacksin, Jack and Plowden, Ray, "Statistics of Income for Individuals: A Historical Perspective," *Statistics of Income and Related Administrative Record Research: 1981*, U.S. Department of Treasury, Internal Revenue Service. For U.S. resident population see U.S. Department of Commerce, Bureau of the Census, *Current Population Reports*, series P-25, as cited in U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States, 1988*, December 1987.
- [12] Actually, that figure of 38 percent for 1947 is a high only for the 1916 to 1950 period; the percentage of returns to population continued to increase after 1949. It stood at a high of 42 percent in 1986.
- [13] The amount \$25,000 was chosen because it is roughly the lowest level that can serve as an artificial filing requirement common to all the years from 1916 through 1986. There is some difficulty in any use of data below the net income filing requirements established for joint returns (which are greater than or equal to those for other returns), since the distributions will be incomplete. Similarly, because gross income is always greater than or equal to net income, the introduction of a (relatively high) gross income filing requirement in 1921 resulted in the filing of a number of returns with net income below the net income threshold. In other words, there are data available from returns covering the entire net income distribution. However, the percentage of aggregate net income captured from below that income filing requirement is unknown. Because the distributions of net income below the gross income filing requirements (or net income filing requirements if also applicable) are incomplete, they would be difficult to use for this study. It does seem possible with a modest amount of extrapolation, though, to lower the artificial filing threshold to \$20,000. To go much beyond that, prior to 1940, would, however, require strong distributional assumptions—a point that will be addressed again in later articles in this series.
- [14] The data for 1916 and 1931 shown in this article have not been adjusted for this problem but will be adjusted in later articles in this series.
- [15] Pechman, Joseph A., *Federal Tax Policy* (5th edition), The Brookings Institution, 1987. See also, Pechman, Joseph A., *Who Paid the Taxes, 1966–85?*, The Brookings Institution, 1985.
- [16] U.S. Department of Commerce, Bureau of the Census, *Money, Income and Poverty in the United States*, Series P-60.
- [17] See U.S. Department of Commerce, Bureau of Economic Analysis, "Relationship Between Personal Income and Adjusted Gross Income: Revised Estimates, 1947–83," *Survey of Current Business*, May 1986 and U.S. Department of Commerce, Bureau of Economic Analysis, "Relationship Between Personal Income and Adjusted Gross Income, 1983–85," *Survey of Current Business*, May 1987. For a more recent article on the reconciliation of the Bureau of Economic Analysis measure of personal income with AGI by source of

income, see Park, Thae S. and Reeb, Jane S., "Personal Income and Adjusted Gross Income, 1984–1986," *Statistics of Income Bulletin*, Winter 1988–89, Vol. 8, No. 3.

- [18] The aggregate of the income reported on the returns generally increased over the period, as did real GNP. There were, of course, several recessionary periods, the most dramatic of which was the Great Depression. The ratio of mean income from those returns to per capita GNP ranged from about 11:1 to about 15:1 until 1933, when it began to decline. By 1944, the ratio of mean income from this group of returns to per capita GNP was 4.6:1. For GNP estimates, see U.S. Department of Commerce, Bureau of the Census, *Historical Statistics of the U.S., Colonial Times to 1970*, September 1975; U.S. Department of Commerce, Bureau of Economic Analysis, *The National Income and Product Accounts of the United States, 1929–76*, September 1981 and U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States, 1988*, December 1987. These current dollar GNP figures were converted to 1986 dollars using the same CPI-based price index shown in Figure A. This treatment is somewhat unconventional (GNP figures are usually adjusted with an implicit price deflator) and as noted in the Data Preparation Section of this article, the use of alternative price indices will be explored in the third part of this series.
- [19] Net income subject to normal tax is net income less exemptions such as applicable personal exemptions for taxpayers and their dependents, dividends on stock in domestic corporations (through 1935), interest on some U.S. obligations and the earned income "credit" (for 1934 through 1943), as described in Exhibit A. Net income subject to surtax is all net income through 1933 and net income less the personal exemptions for taxpayers and their dependents thereafter. Capital gains could be exempted from both normal tax and surtax and taxed at an alternative rate of 12.5 percent for 1922 through 1933. Net long-term capital gains could be exempted from normal tax and surtax and taxed at alternative rates for 1938 through 1950. This alternative tax is not shown on Figure H, but it is reflected in Figure G and in all other tax data presented. Likewise, the following reductions in tax or limitations on total tax paid are not reflected in the marginal rates presented in Figure H, but are incorporated in all other tax data presented. A war excess profits tax of 8 percent of salaries over \$6,000, 8 percent of net income from businesses having no invested capital, and 20 to 60 percent of net income from businesses having invested capital was imposed for 1917. The total tax for 1923 was reduced by a 25 percent credit or refund. The defense tax (essentially 10 percent of the total tax otherwise calculated) was added to the total tax for 1940. For 1943, a victory tax of 5 percent of net income (excluding capital gains or losses and interest on certain U.S. Government obligations but less business-related expenses, the prior-year business loss deduction, alimony paid and a \$624 exemption per taxpayer), less certain credits, was imposed. (The forgiveness of some tax in 1942 and 1943, discussed in the Data Limitations and Definitions Section of this article and in Exhibit A, is not reflected in any of the data.) For 1944 and 1945, the combined normal tax and surtax before the subtraction of tax credits was limited to 90 percent of net income. For 1946 and 1947, the normal tax and surtax were computed using the rates shown on Figure H and described in Exhibit A, and then the resulting combined tax was reduced by 5 percent. The combined tax (after the 5 percent reduction but before tax credits) was limited to 85.5 percent of net income. For 1948 and 1949, the normal tax and surtax were computed using the same rates as for 1946 and 1947, but then the first \$400 (in current dollars) of the resulting combined normal tax and surtax was reduced by 17 percent; the next \$99,600 of tax was reduced by 12 percent and the tax over \$100,000 was reduced by 9.75 percent. The total normal tax and surtax (after the reduction but before credits) was limited to 77 percent of net income. For 1950, the normal tax and surtax were again computed using the same marginal tax rates, but then the first \$400 of the resulting combined normal tax and surtax was reduced by 13 percent; the next \$99,600 of tax was reduced by 9 percent and the tax over \$100,000 was reduced by 7.3 percent. The combined normal tax and surtax (after the reduction but before credits) was limited to 80 percent of net income. (For individuals who use the standard deduction, the limitations on the tax described above apply to AGI less the standard deduction.)
- [20] Scheuren, Fritz and McCubbin, Janet, "Piecing Together Personal Wealth Distributions," *Statistics of Income and Related Administrative Record Research: 1986–1987*, U.S. Department of the Treasury, Internal Revenue Service, 1987. For earlier results, see Oh, H. Lock and Scheuren, Fritz, "Osculatory Interpolation Revisited," *Statistics of Income and Related Administrative Record Research: 1986–1987*, U.S. Department of the Treasury, Internal Revenue Service, 1987, and Oh, H. Lock, "Osculatory Interpolation with a Monotonicity Constraint," *1977 American Statistical Association Proceedings, Section on Statistical Computing*, 1977.
- [21] Ramsay, J. O., "Monotone Regression Splines in Action," *Statistical Science*, Vol. 3, No. 4, 1988.

- [22] As noted earlier, income for years prior to 1944 is net income and income for 1944 to 1950 is adjusted gross income.
- [23] For information on the additional amount of assessments obtained through auditing, see U.S. Department of Treasury, Internal Revenue Service, *The Commissioner's and Chief Counsel's Annual Report, Fiscal Year 1987*. (This report is available for all earlier years as well.)
- [24] For a look at trends of income tax compliance in the United States for selected years 1965-1987, see the following reports: U.S. Department of the Treasury, Internal Revenue Service, *Estimates of Income Unreported on Individual Income Tax Returns, 1979*; U.S. Department of the Treasury, Internal Revenue Service, *Income Tax Compliance Research, Estimates for 1973-1981, 1983* and U.S. Department of the Treasury, Internal Revenue Service, *Income Tax Compliance Research, Gross Tax Gap Estimates and Projections for 1973-1992, 1988*.
- [25] White, Edward, "Descriptive Synopsis of Economic Data Compiled from Federal Income Tax Returns of Individuals and Corporations and Federal Estate Tax Returns and of the History, Scope and Functions of the Statistical Section," reprinted from the original 1933 version in the *Statistics of Income Bulletin*, Fall 1988, Vol. 8, No. 2.
- [26] Duncan, Joseph W. and Shelton, William C., *Revolution in United States Government Statistics: 1926-1976*, U.S. Department of Commerce, 1978; Deming, W. Edwards, *Review of the Sampling Procedures Used by the Internal Revenue Service to Produce Statistics of Income from Individual Tax Returns, with Special Emphasis on Achievement of Quality*, prepared for the Internal Revenue Service, U.S. Treasury Department, 1963 (unpublished) and Rosander, A.C., *Applications of Quality Control in the Service Industries*, Marcel Dekker, Inc. and ASQC Quality Press, 1985. For information on more current quality initiatives, see Scheuren, Fritz; Schwartz, Otto and Kilss, Beth, "Statistics from Individual Income Tax Returns: Quality Issues and Budget Cut Impact," *Review of Public Data Use*, Elsevier Science Publishing Co., Inc., December 1984.
- [27] For an example of such an alternative approach, see the paper cited in note [9].
- [28] As stated elsewhere, this analysis will be presented in a later article in this series, perhaps as early as the Fall 1989 issue of the *Statistics of Income Bulletin*.
- [29] Head of Household returns were allowed for tax years beginning after October 31, 1951. Under this new filing classification, heads of households received approximately half of the income-splitting benefits accorded to a married couple. The 1954 Internal Revenue Code extended the full benefits of income splitting to widowed individuals, for two years following the death of a spouse, provided that the surviving spouse had not remarried and had a dependent child or stepchild.
- [30] See discussion in note [13].

**EXHIBIT A: Highlights of Major Changes in the Individual Income Tax
Affecting Statistics of Income Data, by Tax Year, 1916-1950**

1916	1917
<p>Income</p> <p>Salaries, wages, and commissions, except compensation of State and local Government employees; profit or loss from sole proprietorships and partnerships; taxable interest; dividends, including stock dividends; income or loss from rents and royalties; income from estates and trusts; taxable pension and annuity income; net gain (in excess of loss) from incidental sales of real estate, stocks, bonds, and certain other property, etc.</p>	<p>Income</p> <p>Same</p>
<p>Less: Deductions</p> <p>Interest paid; personal and nonbusiness property taxes paid; personal bad debts; employee business expense; uninsured personal casualty and theft loss; etc.</p> <p>—</p>	<p>Less: Deductions</p> <p>Same, except taxes paid excluded prior year's Federal income tax.</p> <p>Charitable contributions (limited to 15 percent of net income before contributions deduction).</p>
<p>Equals: NET INCOME</p> <p>Net income exempt from normal tax</p> <p>Personal exemption—</p> <p>\$4,000 for married couples or heads of families; \$3,000 for all other taxpayers.</p> <p>—</p> <p>Other exemptions—</p> <p>Dividends from domestic corporations.</p> <p>—</p> <p>—</p>	<p>Equals: NET INCOME ^{1,2}</p> <p>Net income exempt from normal tax</p> <p>Personal exemption—</p> <p>\$2,000 for married couples living together, or heads of families; \$1,000 for all other taxpayers. \$200 per dependent.</p> <p>Other exemptions—</p> <p>Same</p> <p>"War excess profits tax" paid (see below).</p> <p>Interest on certain U.S. Government obligations.</p>
<p>INCOME TAX ³</p> <p>Normal tax 2 percent of net income (less exemptions). Surtax on net income over \$20,000 ranged from 1 percent of income \$40,000 or less to 13 percent of income over \$2,000,000.</p> <p>—</p>	<p>INCOME TAX ^{1,2,3}</p> <p>Normal tax 2 percent of first \$2,000 of net income (less exemptions) and 4 percent of the income over \$2,000. Surtax on net income over \$5,000 ranged from 1 percent of income \$7,500 or less to 63 percent of income over \$2,000,000. Prior years' surtax rates could apply to dividend income depending on year(s) out of whose corporate profits dividends were paid.</p> <p>"War excess profits tax" 8 percent of salaries over \$6,000 and of income over \$6,000 from businesses having no invested capital; tax on net income from businesses with invested capital ranged from 20 to 60 percent, depending on size of net income and invested capital.</p>

EXHIBIT A. (Continued)

1916 (cont'd)	1917 (cont'd)
Less: Tax credits	Less: Tax credits
Credit for tax withheld by payers of tax-free covenant bond interest.	Same
Equals: Income tax after credits ³	Equals: Income tax after credits ^{1,2,3}
Filing requirement ⁴	Filing requirement ⁴
Net income \$3,000 or more, regardless of marital status. Joint returns for married couples permitted. Income reported on joint returns or on return of either spouse included income of dependent minors, unless dependents met income requirement to file separately.	Net income \$2,000 or more for married couples living together; \$1,000 for all others. Joint returns for married couples permitted unless either spouse subject to surtax on separate income. Income reporting requirement and conditions for separate reporting by dependent minors meeting net income filing thresholds, same.

See footnotes at end of Exhibit.

EXHIBIT A. (Continued)

1918	1919
Income	Income
Same as 1916, except also included net loss (in excess of gain) from incidental sales of real estate, stocks, bonds, and certain other property; wages excluded compensation for sickness and injury and up to \$3,500 in compensation of World War I military personnel.	Same
Less: Deductions	Less: Deductions
Interest paid; personal bad debts; employee business expense; casualty and theft loss, same as 1917. Taxes paid same as 1917, except excluded foreign income taxes if claimed as a tax credit (see below).	Same
Charitable contributions, same as 1917.	Same
Equals: NET INCOME ^{1,5}	Equals: NET INCOME ¹
Net income exempt from normal tax	Net income exempt from normal tax
Personal exemption—	Personal exemption—
Taxpayer exemptions, same as 1917.	Same
Dependent credit, same as 1917.	Same
Other exemptions—	Other exemptions—
Dividends from domestic corporations, same as 1917.	Same
Interest on certain U.S. Government obligations, same as 1917.	Same
INCOME TAX ^{1,3,5}	INCOME TAX ^{1,3}
Normal tax 6 percent of first \$4,000 of net income (less exemptions); 12 percent of income over \$4,000. Surtax on net income over \$5,000 ranged from 1 percent of income \$6,000 or less to 65 percent of income over \$1,000,000. Maximum surtax on profit from sales of mineral mines and oil and gas wells, 20 percent of sales price. Prior years' surtax rates applicable to dividend income, same. Surtax rates for 1917 applicable to portion of income from partnerships, estates, trusts, and Personal Service Corporations that filed returns for noncalendar years beginning in 1917. (No "war excess profits tax.")	Normal tax 4 percent of first \$4,000 of net income (less exemptions) and 8 percent of income over \$4,000. Surtax same, including maximum surtax on sales of mineral mines and oil and gas wells. Prior years' surtax rates applicable to certain stock dividends only, but surtax rates for 1918 applicable to portion of income from partnerships, estates, trusts, and Personal Service Corporations that filed returns for noncalendar years beginning in 1918.
Less: Tax credits ³	Less: Tax credits ³
Foreign tax credit (for income tax paid to foreign countries or U.S. possessions).	Same
Credit for tax withheld by payers of tax-free covenant bond interest, same as 1916.	Same
Equals: Income tax after credits ^{1,3,5}	Equals: Income tax after credits ^{1,3}
Filing requirement ⁴	Filing requirement ⁴
Same as 1917, except joint returns for married couples permitted (without limitation).	Same

EXHIBIT A. (Continued)

1920	1921
Income	Income
Same as 1918, except excluded stock dividends.	Same, except excluded pensions and similar compensation from World War I military service.
Less: Deductions	Less: Deductions
Interest and taxes paid; personal bad debts; employee business expense; casualty and theft loss; etc., same as 1918.	Same, except taxes paid included foreign taxes in excess of foreign tax credit (see below).
Charitable contributions, same as 1917.	Same
Prior year business net loss carryover.	—
Equals: NET INCOME ¹	Equals: NET INCOME ¹
Net income exempt from normal tax	Net income exempt from normal tax
Personal exemption—	Personal exemption—
Taxpayer exemptions, same as 1917.	\$2,500 for married couples living together or heads of families; however, if combined net income exceeded \$5,000, exemption limited to \$2,000 provided tax did not exceed that computed with an exemption of \$2,500 by more than amount of net income over \$5,000. \$1,000 for all other taxpayers.
Dependent credit, same as 1917.	\$400 per dependent.
Other exemptions—	Other exemptions—
Dividends from domestic corporations, same as 1917.	Same
Interest on certain U.S. Government obligations, same as 1917.	Same
INCOME TAX ^{1,3}	INCOME TAX ^{1,3}
Normal tax and surtax, including maximum surtax on sales of mineral mines and oil and gas wells and use of prior year surtax rates for income from partnerships, estates, trusts, or Personal Service Corporations attributed to prior year, same as 1919.	Same
Less: Tax credits ³	Less: Tax credits ³
Foreign tax credit, same as 1918.	Same, except foreign tax credit limited based on ratio of foreign net income to total net income.
Credit for tax withheld by payers of tax-free covenant bond interest, same as 1916.	Same
Equals: Income tax after credits ^{1,3}	Equals: Income tax after credits ^{1,3}
Filing requirement ⁴	Filing requirement ⁴
Same as 1918.	Net income \$2,000 or more or gross income \$5,000 or more, regardless of net income, for married couples living together and heads of families; net income \$1,000 or more or gross income \$5,000 or more, regardless of net income, for all others. Joint returns for married couples permitted. Income reporting requirement and conditions for separate reporting by dependent minors meeting income filing threshold, same principle as 1916.

EXHIBIT A. (Continued)

1922	1923
Income	Income
Same as 1921, except excluded up to \$300 of interest from building and loan associations. Net gain (less loss) from sales of "capital assets" accorded special tax treatment (see below). (Gain from property not considered a "capital asset" taxable as "ordinary" income.) Net capital loss treated as "ordinary" loss deductible from "ordinary" income, but "ordinary" loss not deductible from net capital gain. ("Capital assets" comprised property held over 2 years, for profit or investment, including trade or business assets, except stock in trade or inventory held primarily for sale to customers; excluded property held for personal/family use or consumption.)	Same
Less: Deductions	Less: Deductions
Interest and taxes paid; personal bad debts; employee business expense; casualty and theft loss; etc.; same as 1921.	Same
Charitable contributions, same as 1917.	Same
Prior year business net loss carryover. ⁶	Same ⁶
Equals: NET INCOME ^{1,6}	Equals: NET INCOME ^{1,6}
Net income exempt from normal tax and/or surtax	Net income exempt from normal tax and/or surtax
Personal exemptions (for normal tax)—	Personal exemptions (for normal tax)—
Taxpayer exemptions, same as 1921.	Same
Dependent credit, same as 1921.	Same
Other exemptions (for normal tax)—	Other exemptions (for normal tax)—
Dividends from domestic corporations, same as 1917.	Same
Interest on certain U.S. Government obligations, same as 1917.	Same
Other exemption (for normal tax and surtax)—	Other exemption (for normal tax and surtax)—
Net capital gain taxable at capital gains rate (see below).	Same
INCOME TAX ^{1,3}	INCOME TAX ^{1,3}
Normal tax on net income (less exemptions), same as 1921. Surtax on net income (less exemption) over \$6,000 ranged from 1 percent of income \$10,000 or less to 50 percent of income over \$200,000. Net capital gain taxed separately at 12.5 percent, if taxpayer so elected, provided combined normal tax, surtax, and capital gains tax on net income was not less than 12.5 percent of total net income. Maximum surtax on sales of mineral mines and oil and gas wells, 16 percent of sales price. Prior year surtax rates applicable to income from partnerships, estates, or trusts attributed to prior year, same as 1919.	Normal tax and surtax, same as 1922, but total tax then reduced by 25 percent.

EXHIBIT A. (Continued)

1922 (cont'd)	1923 (cont'd)
Less: Tax credits ³	Less: Tax credits ³
Foreign tax credit, same as 1921.	Same
Credit for tax withheld by payers of tax-free covenant bond interest, same as 1916.	
Equals: Income tax after credits ^{1,3}	Equals: Income tax after credits ^{1,3}
Filing requirement ⁴	Filing requirement ⁴
Same as 1921.	Same

See footnotes at end of Exhibit.

EXHIBIT A. (Continued)

1924	1925-27
Income	Income
Same as 1922, except "capital assets" redefined to include assets held for personal/family use or consumption. Included net capital loss only if limitation based on 12.5 percent loss credit did not apply (see below). ⁷	Same, except excluded "earned" income from foreign sources by citizens residing abroad more than 6 months.
Less: Deductions	Less: Deductions
Interest and taxes paid; personal bad debts; employee business expense; casualty and theft loss; same as 1921.	Same
Charitable contributions, same as 1917.	Same
Prior year business net loss carryover, same as 1922 ⁶	Same ⁶
Equals: NET INCOME ^{1,6}	Equals: NET INCOME ^{1,6}
Net income exempt from normal tax and/or surtax	Net income exempt from normal tax and/or surtax
Personal exemptions (for normal tax)—	Personal exemptions (for normal tax)—
\$2,500 for married couples living together or heads of families; \$1,000 for all other taxpayers.	\$3,500 for married couples living together or heads of families; \$1,500 for all other taxpayers.
Dependent credit, same as 1921.	Same
Other exemptions (for normal tax)—	Other exemptions (for normal tax)—
Dividends from domestic corporations, same as 1917.	Same
Interest on certain U.S. Government obligations, same as 1917.	Same
Other exemption (for normal tax and surtax)—	Other exemption (for normal tax and surtax)—
Net capital gain taxable at capital gains rate, same as 1923.	Same
INCOME TAX ^{1,3,7}	INCOME TAX ^{1,3,7}
Normal tax 2 percent of first \$4,000 of net income (less exemptions); 4 percent of income over \$4,000 to \$8,000; \$8,000; 6 percent of income over \$8,000. Surtax on net income (less exemption) over \$10,000 ranged from 1 percent of income \$14,000 or less to 40 percent of income over \$500,000. Net capital gain separately taxed at 12.5 percent, if taxpayer so elected. Capital gains tax applicable if resulting total tax less than combined normal tax and surtax on net income including net capital gain; otherwise gain taxable as part of net income subject to normal tax and surtax. For net capital loss, 12.5 percent of the loss was credited against combined normal tax and surtax on net income computed without net capital loss, if tax thus produced was <i>not less</i> than tax on net income including net capital loss. Maximum surtax on sales of mineral mines and oil and gas wells, same as 1922; prior year surtax rates applied to income from partnerships, estates, or trusts attributed to prior year, same as 1919.	Normal tax 1.5 percent of first \$4,000 of net income (less exemptions); 3 percent of income over \$4,000 to \$8,000; 5 percent of income over \$8,000. Surtax on net income (less exemption) over \$10,000 ranged from 1 percent of income \$14,000 or less to 20 percent of income over \$100,000. Capital gains tax and capital loss credit, maximum surtax on profit from sales of mineral mines and oil and gas wells, same. After 1925, income from partnerships, estates, or trusts with non-calendar year accounting periods was entirely attributed to current year and taxed at current-year tax rates.

EXHIBIT A. (Continued)

1924 (cont'd)	1925-27 (cont'd)
Less: Tax credits ³	Less: Tax credits ³
Foreign tax credit, same as 1921.	Same
Credit for tax withheld by payers of tax-free covenant bond interest, same as 1916.	Same
Earned income credit equal to 25 percent of normal tax on all net income of up to \$5,000 and 25 percent of normal tax on "earned" income up to \$10,000; limited to 25 percent of normal tax on total net income.	Earned income credit applied against normal tax on all net income of up to \$5,000, and against total tax on "earned" income of up to \$20,000; limited to the sum of 25 percent of normal tax on all net income and 25 percent of surtax on "earned" net income.
Equals: INCOME TAX after credits ^{1,3,7}	Equals: INCOME TAX after credits ^{1,3,7}
Filing requirement ⁴	Filing requirement ⁴
Net income \$2,500 or more or gross income \$5,000 or more, regardless of net income, for married couples living together and heads of families; for all others, same as 1922. Joint returns for married couples permitted. Income reporting requirement and conditions for separate reporting by dependent minors meeting income filing threshold, same principle as 1916.	Net income \$3,500 or more or gross income \$5,000 or more, regardless of net income, for married couples living together and heads of families; net income \$1,500 or more or gross income \$5,000 or more, regardless of net income, for all others. Joint returns for married couples permitted. Income reporting requirement and conditions for separate reporting by dependent minors meeting income filing threshold, same principle as 1916.

See footnotes at end of Exhibit.

EXHIBIT A. (Continued)

1928	1929
Income	Income
Same as 1925.	Same
Less: Deductions	Less: Deductions
Interest and taxes paid; personal bad debts; employee business expenses; casualty and theft loss; etc., same as 1921.	Same
Charitable contributions, etc., same as 1917.	Same
Prior year business net loss carryover, same as 1922. ⁶	Same ⁶
Equals: NET INCOME⁶	Equals: NET INCOME⁶
Net income exempt from normal tax and/or surtax	Net income exempt from normal tax and/or surtax
Personal exemptions (for normal tax)—	Personal exemptions (for normal tax)—
Taxpayer exemptions, same as 1927.	Same
Dependent credit, same as 1921.	Same
Other exemptions (for normal tax)—	Other exemptions (for normal tax)—
Dividends from domestic corporations, same as 1917.	Same
Interest on certain U.S. Government obligations, same as 1917.	Same
Other exemption (for normal tax and surtax)—	Other exemption (for normal tax and surtax)—
Net capital gain taxed at capital gains rate, same as 1922.	Same
INCOME TAX^{3,7}	INCOME TAX^{3,7}
Same as 1927.	Normal tax 0.5 percent of first \$4,000 of net income (less exemptions); 2 percent of income over \$4,000 to \$8,000; 4 percent of income over \$8,000. Surtax and capital gains tax and capital loss credit, same as 1924; maximum surtax on sales of mineral mines and oil and gas wells, same as 1922.
Less: Tax credits³	Less: Tax credits^{3,4}
Foreign tax credit, same as 1921.	Same
Credit for tax withheld by payers of tax-free covenant bond interest, same as 1916.	Same
Earned income credit same as 1927, except applied against tax on all net income of up to \$5,000 and against tax on "earned" net income of up to \$30,000; credit limitations, same as 1927.	Same
Equals: INCOME TAX after credits^{3,7}	Equals: INCOME TAX after credits^{3,7}
Filing requirement	Filing requirement
Same as 1925.	Same

See footnotes at end of Exhibit.

EXHIBIT A. (Continued)

1930-31	1932-33
Income	Income
Same as 1925.	Same, except excluded net loss (in excess of gain) from sales of stocks and bonds that were not considered "capital assets." Also, included <i>all</i> interest from building and loan associations (see 1922).
Less: Deductions	Less: Deductions
Interest and taxes paid; personal bad debts; employee business expense; casualty and theft loss; etc., same as 1921.	Same, except foreign taxes in excess of foreign tax credit not deductible (full amount deductible if credit not claimed).
Charitable contributions, same as 1917.	Same
Prior year business net loss carryover, same as 1922. ⁶	—
Equals: NET INCOME⁶	Equals: NET INCOME
Net income exempt from normal tax and/or surtax	Net income exempt from normal tax and/or surtax
Personal exemptions (for normal tax)—	Personal exemptions (for normal tax)—
Taxpayer exemptions, same as 1925.	\$2,500 for married couples living together or heads of families; \$1,000 for all other taxpayers.
Dependent credit, same as 1921.	Same
Other exemptions (for normal tax)—	Other exemptions (for normal tax)—
Dividends from domestic corporations, same as 1917.	Same
Interest on certain U.S. Government obligations, same as 1917.	Same
Other exemption (for normal tax and surtax)—	Other exemption (for normal tax and surtax)—
Net capital gain taxed at capital gains rate, same as 1922.	Same
INCOME TAX^{3,7}	INCOME TAX^{3,7}
Normal tax 1.5 percent of first \$4,000 of net income (less exemptions); 3 percent of income over \$4,000 to \$8,000; 5 percent of income over \$8,000. Surtax, capital gains tax and capital loss credit, same as 1924; maximum surtax on sales of mineral mines and oil and gas wells, same as 1922.	Normal tax 4 percent of first \$4,000 of net income (less exemptions); 8 percent of income over \$4,000. Surtax on net income (less exemption) over \$6,000 ranged from 1 percent of income \$10,000 or less to 55 percent of income over \$1,000,000. Capital gains tax and capital loss credit, and maximum surtax on sales of mineral mines and oil wells, same.
Less: Tax credits³	Less: Tax credits³
Foreign tax credit, same as 1921.	Same, except maximum credit limited to the lesser of that computed on an "overall" basis and that computed on a "per country" basis.
Credit for tax withheld by payers of tax-free covenant bond interest, same as 1916.	Same
Earned income credit, same as 1928.	—

EXHIBIT A. (Continued)

1930-31 (cont'd)	1932-33 (cont'd)
Equals: INCOME TAX after credits ^{3,7}	Equals: Income Tax after credits ^{3,7}
Filing requirement	Filing requirement
Same as 1925.	Net income \$2,500 or more or gross income \$5,000 or more, regardless of net income, for married couples living together and heads of families; net income \$1,000 or more or gross income \$5,000 or more, regardless of net income, for all others. Joint returns for married couples permitted. Income reporting requirement and conditions for separate reporting by dependent minors meeting income filing threshold, same principle as 1916.

See footnotes at end of Exhibit.

EXHIBIT A. (Continued)

1934-35	1936-37
Income ⁸	Income
Same as 1932, except "capital assets" redefined to include all property (excluding stock in trade or inventory held primarily for sale to customers), regardless of length of time held. However, gain or loss from sales of assets included in income depended on length of time asset held before sale based on sliding scale, ranging from 30 percent for assets held over 10 years to 100 percent for assets held 1 year or less. (Gain or loss from property not considered a capital asset taxable as "ordinary" income or loss.) Net capital gain was excess of gains plus smaller of net income or \$1,000, over capital loss. Net capital loss (in excess of gain) limited to \$2,000 (\$4,000 on joint returns), deductible from "ordinary" income. ⁸	Same
Less: Deductions	Less: Deductions
Interest paid; personal bad debts; employee business expense; casualty and theft loss; etc., same as 1932; taxes paid same, except excluded Federal estate and gift taxes.	Same
Charitable contributions, same as 1917.	Same
Equals: NET INCOME	Equals: NET INCOME
Net income exempt from normal tax and/or surtax	Net income exempt from normal tax and/or surtax
Personal exemptions (for normal tax and surtax)—	Personal exemptions (for normal tax and surtax)—
Taxpayer exemptions, same as 1932.	Same
Dependent credit, same as 1921.	Same
Other exemptions or credits (for normal tax)—	Other exemptions or credits (for normal tax)—
Dividends from domestic corporations, same as 1917.	—
Interest on certain U.S. Government obligations, same as 1917.	Same
Earned income credit equal to 10 percent of all net income up to \$3,000, and of earned income up to \$14,000, limited to 10 percent of earned net income, but not in excess of 10 percent of all income.	Same
INCOME TAX ³	INCOME TAX ³
Normal tax 4 percent of all net income (less exemptions). Surtax on net income (less exemptions) over \$4,000 ranged from 4 percent of income \$6,000 or less to 59 percent of income over \$1,000,000. Net capital gains (in excess of losses) taxed at regular normal tax and surtax rates (see above). For 1934, maximum surtax on sales of mineral mines and oil and gas wells, same as 1922.	Normal tax, same. Surtax on net income (less exemptions) over \$4,000 ranged from 4 percent of income \$6,000 or less to 74 percent of income over 2,000,000. Net capital gains taxed at revised normal tax and surtax rates. Maximum surtax on profit from sales of oil and gas property, 30 percent of sales price.

EXHIBIT A. (Continued)

1934-35 (cont'd)	1936-37 (cont'd)
Less: Tax credits ³	Less: Tax credits ³
Foreign tax credit, same as 1932.	Same
Credit for tax withheld by payers of tax-free covenant bond interest, same as 1916.	Same
Equals: Income tax after credits ³	Equals: Income tax after credits ³
Filing requirement	Filing requirement
Same as 1932.	Same

See footnotes at end of Exhibit.

EXHIBIT A. (Continued)

1938	1939
Income	Income
Same as 1934, except "capital assets" redefined to exclude depreciable trade or business assets. (Gain or loss on sales of latter assets fully includable as "ordinary" income or loss). Amount of gain or loss from sales of capital assets taken into account depended on length of time asset held before sale: 100 percent if assets held 18 months or less ("short-term"); or 66.7 percent if assets held over 18 to 24 months, and 50 percent if assets held over 24 months (both defined as "long-term"). Except for real property, net long-term capital loss either deducted, or not deducted and tax reduced by 30 percent of net long-term loss; see below. Net loss from sales of real property limited to \$2,000. Net short-term capital loss not deductible currently; amount not in excess of net income carried over and applied against short-term gain of the immediately following year.	Same, except wages included compensation of State and local Government employees. Net short-term capital gain included prior-year net short-term capital loss carried over.
Less: Deductions	Less: Deductions
Interest and taxes paid; personal bad debts; employee business expense; casualty and theft loss; etc., same as 1934.	Same, except taxes paid excluded social security and employment taxes.
Charitable contributions, same as 1917.	Same
Equals: NET INCOME	Equals: NET INCOME
Net income exempt from normal tax and/or surtax	Net income exempt from normal tax and/or surtax
Personal exemptions (for normal tax and surtax)—	Personal exemptions (for normal tax and surtax)—
Taxpayer exemptions, same as 1932.	Same
Dependent credits, same as 1921.	Same
Other exemptions or credits (for normal tax)—	Other exemptions or credits (for normal tax)—
Interest on certain U.S. Government obligations, same as 1917	Same
Earned income credit, same as 1934.	Same
Other exemption (for normal tax and surtax)—	Other exemption (for normal tax and surtax)—
Net long-term capital gain subject to alternative tax (see below).	Same

EXHIBIT A. (Continued)

1938 (cont'd)	1939 (cont'd)
INCOME TAX ^{3,7,9}	INCOME TAX ^{3,7,9}
Same as 1936, except short-term capital gain (see below) fully taxable at normal tax and surtax rates. Maximum surtax on sales of oil and gas property, same as 1936. For net long-term capital gain, tax was the <i>lesser</i> of normal tax and surtax on total net income including net long-term capital gain, or normal tax and surtax on net income excluding long-term capital gain, plus 30 percent of net long-term capital gain ("alternative tax"). Conversely, for net long-term capital loss, tax was the <i>greater</i> of normal tax and surtax on total net income after subtracting net long-term capital loss, or normal tax and surtax on net income before subtracting net long-term capital loss, minus 30 percent of net long-term capital loss ("alternative tax").	Same
Less: Tax credits ³	Less: Tax credits ³
Foreign tax credit, same as 1932.	Same
Credit for tax withheld by payers of tax-free covenant bond interest, same as 1916.	Same
Equals: Income tax after credits ^{3,7,9}	Equals: Income tax after credits ^{3,7,9}
Filing requirement	Filing requirement
Same as 1932.	Same

See footnotes at end of Exhibit.

EXHIBIT A. (Continued)

1940	1941
Income	Income ¹⁰
Same as 1939.	Same, except "capital assets" redefined to exclude certain U.S. and State obligations. (Retroactive exclusion from wages of compensation of military enlisted personnel made applicable to 1941; see 1942 and 1943.) ¹⁰
Less: Deductions	Less: Deductions ¹¹
Interest and taxes paid; personal bad debts; employee business expense; casualty and theft loss; etc., same as 1939.	Same
Charitable contributions, same as 1917.	Same
Prior-year business net loss carryover ¹²	Same
Equals: NET INCOME ¹²	Equals: NET INCOME ^{11,12}
Net income exempt from normal tax and/or surtax	Net income exempt from normal tax and/or surtax
Personal exemptions (for normal tax and surtax)—	Personal exemptions (for normal tax and surtax)—
\$2,000 for married couples living together or heads of families; \$800 for all other taxpayers.	\$1,500 for married couples living together or heads of families; \$800 for all other taxpayers.
Dependent credits, same as 1921.	Dependent credits same, except credit for one dependent disallowed for certain heads of families.
Other exemptions or credits (for normal tax)—	Other exemptions or credits (for normal tax)—
Interest on certain U.S. Government obligations, same as 1917.	Same
Earned income credit, same as 1934.	Same
Certain interest ("dividends") from Federal savings and loan associations.	Same
Other exemption (for normal tax and surtax)—	Other exemption (for normal tax and surtax)—
Net long-term capital gain subject to alternative tax, same as 1938 (see below).	Same
INCOME TAX ^{3,7,9,12}	INCOME TAX ^{3,7,9,10,11,12}
Normal tax, same as 1936. Intermediate surtax rates on income (less exemptions) over \$4,000 increased for income between \$6,000 and \$100,000; highest and lowest rates, same as 1936. "Alternative tax," same as 1938; maximum surtax on sales of oil and gas property, same as 1936.	Normal tax, same. Surtax on <i>all</i> net income (less exemptions) ranged from 6 percent of income under \$2,000 to 76 percent of income over \$2,000,000. Maximum tax on sales of oil and gas property, same. "Alternative tax," same. (No "defense tax.") Elective short-form, 1040A, included "optional tax" look-up tables based on normal tax and surtax rates, marital status, and number of personal exemptions claimed; tax was applied to gross income adjusted for deductions and earned income credit (not reported on Form 1040A). Short-form usable, if gross income (in general, from <i>other than</i> capital or noncapital gain on property sales and from <i>other than</i> profit from unincorporated businesses or income from estates or trusts) was \$3,000 or less.

EXHIBIT A. (Continued)

1940 (cont'd)	1941 (cont'd)
<p>Combined normal tax and surtax (or alternative tax) increased by "defense tax" equal to 10 percent of the combined tax. If combined tax exceeded 50 percent of net income, defense tax limited to 10 percent of amount by which net income exceeded the combined tax.</p>	—
<p>Less: Tax credits ³</p> <p>Foreign tax credit, same as 1932.</p> <p>Credit for tax withheld by payers of tax-free covenant bond interest, same as 1916.</p>	<p>Less: Tax credits ³</p> <p>Same</p> <p>Same</p>
<p>Equals: Income tax after credits ^{3,7,9,12}</p>	<p>Equals: Income tax after credits ^{3,7,9,10,11,12}</p>
<p>Filing requirement</p> <p>Gross income \$2,000 or more, regardless of net income, for married couples living together and heads of families; gross income \$800 or more for single persons. Joint returns for married couples permitted. Income reporting requirement and conditions for separate reporting by dependent minors meeting gross income filing threshold, same principle as 1916.</p>	<p>Filing requirement</p> <p>Gross income \$1,500 or more, regardless of net income, for married couples living together and filing joint returns; gross income \$750 or more for all others. Joint returns for married couples permitted. Income reporting requirement and conditions for separate reporting by dependent minors meeting gross income filing threshold, same principle as 1916.</p>

See footnotes at end of Exhibit.

EXHIBIT A. (Continued)

1942	1943
<p>Income¹⁰</p> <p>Same as 1941, except included alimony received; military disability pay excluded, also compensation of military enlisted personnel, up to \$250 if single, \$300 if married or head of family (1942 and 1943 limitations later rescinded retroactively; exclusion also made applicable to 1941).¹⁰ "Earned" income from foreign sources excluded only for citizens residing abroad over 1 year (see 1926). Treatment of gains and losses from sales of "capital assets" revised: 50 percent of net gain (in excess of net loss) included in income if assets sold held over 6 months (net "long-term" gain), or 100 percent if assets held 6 months or less (net "short-term" gain); portion of combination of net long- and short-term capital loss deducted from "ordinary" income limited to lesser of net income (excluding capital gain or loss) or \$1,000. (Net loss in excess of limitation carried over to 5 succeeding years, as necessary; treated as short-term capital loss.) Lump-sum distribution from "qualified" retirement plan taxable as long-term capital gain. "Capital assets" redefined to exclude business real property, but combined gain (less loss) from sales of real and depreciable business property (including standing timber) held over 6 months, plus "involuntary conversions" (by condemnation, fire, theft, etc.) of such property and of capital assets held over 6 months, treated as net long-term capital gain; combined net loss was not treated as net capital loss, was deducted from "ordinary" income and not subject to loss limitation, above. Gains and losses from all other property types or transactions fully included as "ordinary" income or loss.</p> <p>Less: Deductions</p> <p>Interest and taxes paid; personal bad debts; employee business expense; casualty and theft loss; etc., same as 1939.</p> <p>Charitable contributions, (limited to 15 percent of net income before contributions and medical deductions).</p> <p>Prior-year business net loss carryover.¹²</p> <p>Uninsured medical expenses (in excess of 5 percent of net income before medical deduction, limited to \$2,500 for married couples filing jointly and \$1,250 for all other taxpayers).</p>	<p>Income¹⁰</p> <p>Same, except short-term capital loss included prior year excess net capital loss carryover; wages excluded military compensation up to \$1,500 (1942 and 1943 limitations later rescinded retroactively; exclusion made applicable to 1941).¹⁰ Personal debt treated as capital loss.</p> <p>Less: Deductions</p> <p>Same, except taxes paid excluded Federal excise taxes; no personal bad debt deduction (debt treated as capital loss, see above); gambling losses (not in excess of gains) deductible.</p> <p>Charitable contributions, same.</p> <p>Same¹²</p> <p>Same</p>

EXHIBIT A. (Continued)

1942 (cont'd)	1943 (cont'd)
Equals: NET INCOME ^{10,11,12}	Equals: NET INCOME ^{10,11,12}
Net income exempt from normal tax and/or surtax	Net income exempt from normal tax and/or surtax
Personal exemptions (for normal tax and surtax)—	Personal exemptions (for normal tax and surtax)—
\$1,200 for married couples living together or heads of families; \$500 for all others.	Same
\$350 per dependent (\$385 on short-form 1040A).	Same
Other exemptions or credits (for normal tax)—	Other exemptions or credits (for normal tax)—
Interest on certain U.S. Government obligations, same as 1917.	Same
Earned income credit, same as 1934.	Same
Certain interest ("dividends") from Federal savings and loan associations, same as 1940.	Same
Other exemption (for normal tax and surtax)—	Other exemption (for normal tax and surtax)—
Net long-term capital gain (reduced by net short-term capital loss) subject to alternative tax (see below).	Same
INCOME TAX ^{3,9,10,11,12,13}	Income Tax ^{9,10,11,12,13}
Normal tax 6 percent of net income (less exemptions). Surtax on all net income (less exemptions) ranged from 13 percent of income under \$2,000 to 82 percent of income over \$200,000. Maximum tax on sales of oil and gas property, same as 1936. Net short-term capital gain (in excess of net long-term capital loss) taxed at normal tax and surtax rates. Under revised "alternative tax," maximum surtax on taxable half of net long-term capital gain (in excess of net short-term capital loss), see above, was 50 percent. "Optional tax" (see 1941) not applicable if gross income included rents or royalties.	Normal tax, surtax, "alternative tax," "optional tax," same as 1942; maximum surtax on oil and gas property, same as 1936.
—	"Victory tax" 5 percent of "victory tax net income" (gross income, in general, excluding capital gains and losses and certain interest on U.S. Government obligations, minus business and certain business-related expenses, prior-years business loss deduction, and alimony paid); minus \$624 exemption, per taxpayer (\$1,248 for married couples filing jointly, unless net income of one spouse was less than \$624, then exemption was \$624 plus the net income of such spouse); a credit of 40 percent of tax if married and 25 percent if single (limited to \$1,000, if married filing jointly, and \$500, if single); and a credit of 2 percent of tax (limited to \$100), per dependent. Total victory tax limited to excess of 90 percent of total net income over normal tax and surtax, or "alternative tax," before foreign tax credit and credit for tax withheld on tax-free covenant bond interest.

EXHIBIT A. (Continued)

1942 (cont'd)	1943 (cont'd)
See 1943 for effect on 1942 tax resulting from introduction of new system of current tax payments (during 1943).	New system of current tax payments through tax withholding on wages (and through "estimated tax" payments) implemented during the same time period that tax for 1942 was due. For relief to those otherwise liable during 1943 for taxes due for both 1942 and 1943, tax liabilities for the 2 years were systematically merged. If taxpayer was liable for tax for both years, larger of the two taxes was payable. The smaller of the two could be written off wholly or partly: if smaller tax \$50 or less, 100 percent written off; if over \$50 to about \$67, over 75 but less than 100 percent written off; if over \$67, 75 percent written off. For military personnel with 1942 or 1943 service whose 1942 tax was larger, write-off increased by recomputing 1942 tax to eliminate the excess over 1943 that was due to tax on "earned" net income.
Less: Tax credits ³	Less: Tax credits
Foreign tax credit, same as 1932, except credit also allowed for certain income-related foreign taxes.	Same
Credit for tax withheld by payers of tax-free covenant bond interest, same as 1916.	Same
Equals: Income tax after credits ^{3,9,10,11,12,13}	Equals: INCOME TAX AFTER CREDITS ^{9,10,11,12,13}
Filing requirement ^{13,14}	Filing requirement ^{13,14}
Gross income \$1,200 or more, regardless of net income, for married couples living together and filing joint returns; gross income \$500 or more for all others. Income reporting requirement and conditions for separate reporting by dependent minors meeting gross income filing threshold, same principle as 1916.	Same, except that filing requirement also applicable to married couples filing joint returns if combined gross income was less than \$1,200, but one spouse had gross income over \$624 (because of "victory tax" provisions). Gross income \$500 or more for all others. Income reporting requirement and conditions for separate reporting by dependent minors meeting gross income filing threshold, same principle as 1916. Also, filing requirement extended to all with 1942 tax, regardless of 1943 gross income; and to others with refundable tax (due to tax overwithholding on wages or "estimated tax" over payments).

See footnotes at end of Exhibit.

EXHIBIT A. (Continued)

1944-45	1946-47
Income ^{10,12}	Income ¹²
Same as 1943, except that short-term capital loss included prior years' excess net capital loss carryover; business profit reduced by prior-year business net loss carryover; compensation of military personnel and mustering out payments for military service excluded. ^{10,12} Also, cutting of timber for sale or other business use could, at taxpayer's option, be treated as sale of capital assets, if timber was previously owned over 6 months; such "sale" included in net gain or loss, real and depreciable business property (see 1942).	Same
Less: Statutory exclusions	Less: Statutory exclusions
Employee business expense, etc.	Same
Equals: ADJUSTED GROSS INCOME (AGI) ¹²	Equals: ADJUSTED GROSS INCOME (AGI) ¹²
Less: Itemized deductions	Less: Itemized deductions
Interest and taxes paid; casualty and theft loss; etc., same as 1943; employee business expense excluded directly from salary (see above).	Same
Charitable contributions (limited to 15 percent of AGI).	Same
Uninsured medical expenses (in excess of 5 percent of AGI limited to \$2,500 for married couples filing jointly and \$1,250 for all other taxpayers).	Same
\$500 blindness deduction.	Same
—OR—	—OR—
Less: Optional standard deduction ^{11,14}	Less: Optional standard deduction ^{11,14}
About 10 percent of AGI (if AGI under \$5,000, allowed through use of "optional tax" look-up table, described below); \$500 if AGI \$5,000 or more ("optional tax" table not applicable).	Same
Equals: NET INCOME ^{10,11,12}	Equals: NET INCOME ^{11,12}
Net income exempt from normal tax and/or surtax	Net income exempt from normal tax and/or surtax
Personal exemptions	Personal exemptions
Exemption (for normal tax)—	Exemption (for normal tax)—
\$1,000 for married couples filing joint returns if both spouses had AGI \$500 or more; if not, exemption was \$500, plus lesser of the two AGI's.	—
\$500 for all other taxpayers.	—
Exemption (for surtax)—	Exemption (for surtax)—
\$500 per taxpayer (and spouse).	—
\$500 per dependent.	—

EXHIBIT A. (Continued)

1944-45 (cont'd)	1946-47 (cont'd)
Exemption (for normal tax and surtax)—	Exemption (for normal tax and surtax)—
—	\$1,000 for married couples filing joint returns; \$500 for all other taxpayers.
—	\$500 per dependent
Other exemption (for normal tax)	Other exemption (for normal tax)
Interest on certain U.S. Government obligations (if deductions itemized).	Same
Other exemption (for normal tax and surtax)	Other exemption (for normal tax and surtax)
Net long-term capital gain (reduced by net short-term capital loss) subject to alternative tax, same as 1942.	Same
Income tax ^{9,10,11,12,14}	Income tax ^{11,12,14}
Normal tax 3 percent of net income (less exemptions). Surtax on net income (less exemptions) ranged from 20 percent of income under \$2,000 to 91 percent of income over \$200,000. Maximum surtax on sales of oil and gas property, same as 1936. Combined tax before credits limited to 90 percent of net income. "Alternative tax," (on net long-term capital gain), same as 1942. (Form W-2, receipt for tax withheld on wages, replaced optional short-form 1040A; W-2 and short-form 1040 included "optional tax" look-up tables that made allowance for 10 percent standard deduction, in addition to marital status, number of exemptions, and normal tax and surtax rates. "Optional tax" usable if AGI under \$5,000 consisted of wages subject to tax withholding and up to \$100 from interest, dividends, and wages <i>not</i> subject to tax withholding.)	Normal tax (after 5 percent statutory reduction) 2.85 percent of net income (less exemptions). Surtax (after 5 percent reduction) on net income (less exemptions) ranged from 16.15 percent of income under \$2,000 to 83.6 percent of income over \$200,000. Maximum surtax on sales of oil and gas property, same as 1936. Combined tax before credits limited to 85.5 percent of net income. "Alternative tax," same; "optional tax" reflected revised normal tax and surtax rates.
Less: Tax credits	Less: Tax credits
Foreign tax credit (if deductions itemized).	Same
Credit for tax withheld by payers of tax-free covenant bond interest (if deductions itemized).	Same
Equals: INCOME TAX AFTER CREDITS ^{9,10,11,12,14}	Equals: INCOME TAX AFTER CREDITS ^{11,12,14}
Filing requirement	Filing requirement
Gross income \$500 or more, regardless of net income and marital status, even if joint return filed (so that filing requirement applied to income of each spouse, separately). Taxpayers with refundable tax (due to tax over-withholding on wages or "estimated tax" overpayments), same as 1943. Income reported on joint returns or on return of either spouse excluded income from services of dependent minors not meeting gross income filing threshold.	Same

EXHIBIT A. (Continued)

1948–49	1950
Income ¹²	Income ¹²
Income components about the same as 1947.	Same, except excluded Korean War military compensation (limited to \$200 per month for officers).
Less: Statutory exclusions	Less: Statutory exclusions
Employee business expense, etc., same as 1944.	Same
Equals: ADJUSTED GROSS INCOME (AGI) ¹²	Equals: ADJUSTED GROSS INCOME (AGI) ¹²
Less: Itemized deductions	Less: Itemized deductions ¹⁴
Interest and taxes paid; casualty and theft loss; etc., same as 1944.	Same
Charitable contributions, same as 1944.	Same
Uninsured medical expenses (in excess of 5 percent of AGI limited to \$1,250 multiplied by personal exemptions, except for age and blindness (see below), or \$5,000 for married couples filing jointly, and \$2,500 for all other taxpayers).	Same
—OR—	—OR—
Less: Optional standard deduction ^{11,14}	Less: Optional standard deduction ^{11,14}
About 10 percent of AGI if AGI under \$5,000 allowed through use of tax look-up tables (see 1944); otherwise, lesser of 10 percent of AGI or \$1,000, if AGI \$5,000 or more; or \$500 per spouse for married couples filing separately.	Same
Equals: NET INCOME ^{11,12}	Equals: NET INCOME ^{11,12}
Net income exempt from normal tax and/or surtax	Net income exempt from normal tax and/or surtax
Personal exemptions (for normal tax and surtax)—	Personal exemptions (for normal tax and surtax)—
\$1,200 for married couples filing joint returns; \$600 for all other taxpayers.	Same
\$600 per dependent.	Same
\$600 per taxpayer if age 65 or over (\$600 per spouse on joint returns if both age 65 or over).	Same
\$600 per taxpayer if blind (\$600 per spouse on joint return if both blind).	Same
Other exemption (for normal tax)	Other exemption (for normal tax)
Interest on certain U.S. Government obligations (if deductions itemized), same as 1944.	Same
Other exemption (for normal tax and surtax)	Other exemption (for normal tax and surtax)
Net long-term capital gain (reduced by net short-term capital loss) subject to alternative tax, same as 1942.	Same

EXHIBIT A. (Continued)

1948-49 (cont'd)	1950 (cont'd)
<p>Income Tax ^{11,12,14}</p> <p>Normal tax 3 percent of net income (minus exemptions). Surtax on net income (minus exemptions) ranged from 17 percent of income under \$2,000 to 88 percent of income over \$200,000. Maximum surtax on sales of oil and gas property, same as 1936. Combined tax then reduced by 17 percent of first \$400 of tax, plus 12 percent of next \$99,600 of tax and 9.75 percent of tax over \$100,000; combined tax before credits limited to 77 percent of net income. "Alternative tax" (on net long-term capital gain), same as 1942.</p> <p>"Income splitting" introduced for married couples filing joint returns so that combined normal tax and surtax was reduced to equal twice the tax on 50 percent of combined net income (less exemptions). "Optional tax" reported on short-form 1040 and on Form 1040A (which replaced W-2 tax return) reflected revised normal tax and surtax rates, "income splitting," and revised personal exemptions, and standard deduction.</p>	<p>Income Tax ^{11,12,14}</p> <p>Normal tax and surtax, same; maximum surtax on sales of oil and gas property, same. Combined tax effectively reduced by 13 percent of first \$400 of tax, 9 percent of next \$99,600 of tax, and 7.3 percent of tax over \$100,000; combined tax limited to 80 percent of net income. "Alternative tax," (on net long-term capital gain), same. "Income splitting," same. "Optional tax" on short-form 1040 and on Form 1040A reflected normal tax and surtax rate reductions.</p>
<p>Less: Tax credits</p> <p>Foreign tax credit, (if deductions itemized), same as 1944.</p> <p>Credit for tax withheld by payers of tax-free covenant bond interest (if deductions itemized), same as 1944.</p>	<p>Less: Tax credits</p> <p>Same</p> <p>Same</p>
<p>Equals: INCOME TAX AFTER CREDITS ^{11,12,14}</p>	<p>Equals: INCOME TAX AFTER CREDITS ^{11,12,14}</p>
<p>Filing requirement</p> <p>Gross income \$600 or more, regardless of net income and marital status, even if joint returns filed (so that filing requirement applied to income of each spouse, separately). Taxpayers with refundable tax (due to tax over-withholding on wages or "estimated tax" overpayments), same. Income reported on joint returns or on return of either spouse excluded income from services of dependent minors not meeting gross income filing threshold, same principle as 1944.</p>	<p>Filing requirement</p> <p>Same</p>

See footnotes on next page.

EXHIBIT A. (Continued)

NOTES AND FOOTNOTES

The purpose of Exhibit A is not to provide an exhaustive review of the tax code as it applied to 1916 through 1950, but to briefly define net income, adjusted gross income, tax and the filing requirements, and to call to the reader's attention changes in the tax law which could affect the statistics presented in this article. The scope of Exhibit A is further described below. Specifically, the Exhibit excludes provisions unique to nonresident aliens and to individuals reporting for a noncalendar year accounting period. It also excludes law changes affecting items underlying certain computations, such as those affecting the amortization and depletion deductions used in computing the unincorporated business profits that were, in turn, reflected in "net income" or "adjusted gross income."

The years for which provisions of law are shown in Exhibit A are directly related to the years for which statistics based on them are presented. If a provision is not reflected in the statistics it is generally not shown. For example, while the law permitted deductions for some years for unincorporated business losses that were "carried back" from a loss year, the deductions based on loss carrybacks are not shown in the Exhibit for the carryback years. This is because Statistics of Income does not include data on carrybacks, the need for which occurs *after* the tax returns used for the statistics have been filed (see also footnotes 3 and 14, below).

In the Exhibit, some liberties have been taken in the terminology used in order to facilitate year-to-year comparisons. However, in equating various tax law provisions from one year to the next, it should be noted that the similarities are only in terms of the law as it is stated in the Exhibit. It was not possible to research all the details of a particular provision in order to determine whether it was completely identical from year to year. To have done so would have also complicated the Exhibit and defeated the purpose for which it was intended, i.e., to provide summarized highlights of the law to assist in interpreting the statistics for each year.

An example of the resulting limitations of the Exhibit is the credit for tax withheld on tax-free covenant bond interest. For most *but not all* years, the credit was based on a 2 percent withholding rate; yet, in the Exhibit, the credit is shown as being the same over time. As another example, for the earlier years and then for the more recent ones, allowable amounts for personal exemptions were based, not only on the dollars amounts stated in Exhibit A, but on the taxpayer's marital status *at year end* (with some variations for the later years). For the intervening years, the allowable exemption amount for years in which a taxpayer changed marital status was determined through a proration

based on the number of months in the year under each marital status category. Exhibit A does not recognize differences such as these.

Another limitation is the source of the information. Nearly all of Exhibit A is based on material found in *Statistics of Income* reports for various years, or on the tax return forms or accompanying instructions. A more complete analysis would have required more extensive use of other source materials as well, including the statutes themselves and supporting interpretative reports. Time constraints precluded this and, in addition, it was probably unnecessary given the purpose of the Exhibit.

- [1] Statistics for net income (and the resultant tax) for 1917–1925 may exclude dividend and other income attributable to prior years reported on the tax returns for the current years. *Statistics of Income* reports for 1917–1925 do not specifically indicate whether this income and tax are reflected in the data.
- [2] Net income statistics for 1917 are before the contributions deduction and are therefore somewhat overstated for this reason. In addition, for 1917 the income tax statistics exclude the tax reported on returns with net income under \$2,000. This does not affect the data emphasized in this article, since \$2,000 in current dollars (\$17,094 in 1986 dollars) falls below the \$25,000 cutoff imposed.
- [3] Income tax statistics for 1916–1942 are *before* reduction by foreign tax credit and credit for tax withheld at source by payers of tax-free covenant bond interest. For 1924–1931, however, the tax statistics are *after* reduction by the "earned income credit."
- [4] Statistics for 1921–1927 exclude returns with gross income \$5,000 or more, but with no net income. (The filing requirement should automatically have excluded returns with no net income for tax years before 1921.) As noted in the text, returns with negative net income or negative adjusted gross income are excluded from the statistics presented in this article (see Figure L).
- [5] Net income statistics for 1918 exclude the deduction for business net losses "carried back" from 1919. The statistics for the deduction of amounts carried over to 1920 (from 1919) represent the amount remaining after losses were first carried back and deducted on amended returns (which are not used for the statistics). As a result, the 1918 statistics for net income (and tax) are somewhat overstated.
- [6] Net income statistics for 1922–1931 indicated are before the deduction for the business net losses

EXHIBIT A. (Continued)

"carried over" from a prior-year. For 1922 through 1930, the deduction represented amounts carried over either 1 or 2 years; for 1931, only 1 year. Loss amounts remaining after the carryover period could not be deducted. Net income is, therefore, overstated for these years. (Totals for this deduction are nevertheless published in *Statistics of Income*.)

- [7] To facilitate comparisons with later years, Exhibit A includes the "tax credits" for capital losses for 1924-1933 and 1938-1941 as an adjustment *within* the basic income tax computation (summarized under the heading, "Income tax"), rather than as an adjustment to the income tax liability, in the sense that the foreign tax credit was and continues to be. The tax return forms seemed to recognize this ambivalence by also including the capital loss "tax credit" in the tax computation. In any event, the statistics for income tax for the years involved, are after reduction by this "credit."

Changing usage of the term "credit" affects other items as well. In present day terms, the credit for tax withheld by payers of tax-free covenant bond interest is more in the nature of an income tax *payment* reduction than an income tax *liability* reduction. However, it is included as a tax credit in Exhibit A because the tax laws for the years concerned did not distinguish between the two types of "tax credits." (As a general observation, the term "credits" seems to have been more broadly used in the early years than it is today. Besides the several types of "credits" against tax, including those for capital losses, there were also "credits" against income, which under more current laws would more aptly be described as "deductions," "adjustments," or simply as unlabelled offsets or subtractions within a computation. As examples, dependent exemptions were often described as "credits" against net income; and the "earned income credit" for some years was a "credit" against tax, while for others it was a "credit" against net income.

The capital loss "credit," at least on the tax forms, was typically treated simply as an unlabelled subtraction in the computation of tax. Each of these items appears under its proper classification in Exhibit A, regardless of what it is called. In general, the same convention was observed in *Statistics of Income*.)

- [8] This increased limitation on net capital loss reported on joint returns was rescinded by 1940 court decree. Because *Statistics of Income* reports are based returns as originally filed, statistics for net income and tax for the years affected are somewhat understated for this reason.

- [9] Income tax could be reported on returns with no net income for certain years; these amounts are not reflected in the income tax statistics used for this article. For 1938-1941, it was possible for returns with a net capital loss and no net income, to have "income" subject to the "alternative tax" and, therefore, an income tax. (Such amounts could also be reported for 1942, on the few returns for noncalendar years that began in 1941.) For 1943-1944, it was possible for returns with no net income to show a "victory tax", which was computed on an income base that was somewhat different from that used for the regular income tax. (Such amounts could also be reported for 1944, on the few returns for noncalendar years that began in 1943.) For all of these years, the amounts of tax involved were negligible so that their exclusion from the tables is not a significant limitation of the data.

- [10] Because salaries and wages shown in *Statistics of Income* reports for 1941-1944 include compensation of enlisted military personnel that was later excluded, retroactively, statistics for net income and tax for these years, which are based on the tax returns as originally filed, are somewhat overstated.

- [11] Starting with 1941, when "optional tax" was used on short forms 1040A (for 1941-1943 and 1948-1950) and 1040 (1944-1950), or on Form W-2 (1944-1947) the tax assumed a "standard deduction" which was built into the tax look-up tables.

Net income statistics for 1941-1943 based on Forms 1040A actually represent gross income (the amount for net income was also reflected in the tax tables). The net income statistics for these 3 years are therefore overstated. This does not, however, affect the data emphasized in this article since no Form 1040A filers had income of \$25,000 or more in 1986 dollars. In general, after 1943, net income was computed only for returns with itemized deductions. Also, after 1943, *Statistics of Income* data are tabulated by size of net income. This change does affect all of the data.

- [12] "Net operating loss deduction." *Statistics of Income* is based on returns as originally filed and so, for 1941 and thereafter, excludes the carryback effect of "unused" business net losses for subsequent years. So-called "net operating losses" of businesses incurred from 1939 on could be "carried back" and deducted from income for the 2 preceding years (but not to years before 1941). If not fully offset against the income of these years, they would be "carried over" and deducted from the income of the 2 succeeding years. Losses remaining after carryback and carryover could not be deducted. Therefore, the statistics for the

EXHIBIT A. (Continued)

deduction represent only amounts carried over, after losses were first carried back and deducted on amended returns. Statistics for net income and adjusted gross income (and for tax) for these years are overstated for this reason.

[13] Notwithstanding the law as outlined in Exhibit A, the income tax data in *Statistics of Income* for 1942 and 1943 that were used for this article represent only the amounts computed on the income for these years. Therefore, they do not take into account the merging

of taxes for the 2 years and resultant tax write-downs designed to provide relief from concurrent implementation of tax withholding on wages earned in 1943 (and "estimated tax" payments, also during 1943) and payment in 1943 of tax due for 1942.

[14] For 1942–1943, if one spouse filed a separate return on a short form 1040A, the other spouse was also required to do so. For 1944–1950, if one spouse used the "optional tax" and "standard deduction," the other was also required to do so.

Individual Income Tax Shares, 1916-1950

Table 1.—Returns with Income: Number of Returns, Income, and Federal Income Tax, By Size of Income, Tax Years 1916-1950 — Continued

[All figures are estimates—money amounts are in current dollars]

Tax year	Total	Size of income										
		Under \$10,000	\$10,000 under \$15,000	\$15,000 under \$25,000	\$25,000 under \$50,000	\$50,000 under \$75,000	\$75,000 under \$100,000	\$100,000 under \$250,000	\$250,000 under \$500,000	\$500,000 under \$750,000	\$750,000 under \$1,000,000	\$1,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Part III — Federal income tax (in thousand dollars)												
1916	173,387	7,077	4,829	6,808	11,603	8,693	7,606	29,960	24,422	12,681	8,221	51,487
1917	675,249	71,447	32,680	48,015	76,593	49,978	35,049	123,034	69,678	36,854	22,495	109,425
1918	1,127,722	237,884	59,956	82,493	130,241	83,440	63,989	198,594	112,407	47,388	22,446	88,885
1919	1,269,630	220,407	67,264	97,568	154,946	107,681	78,676	248,432	119,399	44,748	31,480	99,027
1920	1,075,054	263,750	71,050	101,209	154,265	96,478	67,240	157,028	69,207	32,765	12,876	49,185
1921	719,387	161,662	51,807	75,080	112,910	69,037	46,674	102,754	42,932	16,316	8,796	31,420
1922	861,057	165,979	49,147	74,428	125,697	85,802	58,291	149,936	63,700	26,939	11,621	49,518
1923	661,666	135,298	41,200	61,910	103,601	64,495	44,383	104,223	45,269	16,083	9,416	35,788
1924	704,265	76,479	26,343	51,726	109,360	77,750	58,886	150,759	63,170	30,765	11,821	47,207
1925	734,555	33,057	22,419	51,753	120,689	85,379	62,464	158,929	79,323	34,313	19,361	66,868
1926	732,471	33,551	22,756	49,709	112,797	81,725	59,222	158,082	79,070	32,966	20,700	81,893
1927	830,639	32,417	23,123	51,103	119,475	89,453	67,222	181,957	102,967	38,596	25,669	98,657
1928	1,164,254	36,297	25,635	57,123	136,568	109,999	84,448	256,369	156,250	72,365	44,059	185,140
1929	1,001,938	13,938	15,918	43,975	113,904	90,846	69,968	218,727	137,389	66,898	39,321	191,054
1930	476,715	27,416	16,276	33,285	72,708	51,290	36,089	96,031	48,233	22,597	11,692	61,098
1931	246,127	19,672	10,845	21,052	40,096	26,249	18,531	45,231	22,108	9,783	5,674	26,886
1932	329,962	78,689	22,789	27,361	43,546	27,639	19,511	49,912	25,024	11,867	7,149	16,476
1933	374,120	71,626	23,885	31,091	52,355	33,831	23,660	62,406	26,285	13,294	7,927	27,759
1934	511,400	77,771	33,424	50,536	84,906	50,723	34,068	81,318	35,697	17,430	13,315	32,211
1935	657,439	88,961	41,394	62,360	106,671	67,484	45,332	111,430	53,985	25,017	13,306	41,500
1936	1,214,017	139,929	67,754	107,858	191,339	126,323	89,722	233,535	101,472	47,987	30,958	77,138
1937	1,141,569	155,733	69,287	106,422	179,395	115,222	79,285	203,280	97,331	41,095	33,061	61,458
1938	726,120	131,942	53,999	76,437	115,916	66,372	45,333	106,714	48,326	23,309	14,343	43,428
1939	890,934	170,437	63,007	90,520	141,565	85,748	54,757	132,506	60,165	27,518	13,425	51,286
1940	1,440,967	303,233	92,912	153,925	262,234	149,625	92,441	195,470	84,184	28,556	17,582	60,806
1941	3,815,415	1,581,041	270,831	398,230	557,671	283,967	164,408	319,712	114,299	38,720	27,000	59,535
1942	8,823,041	5,115,947	513,512	698,904	930,345	460,042	268,036	501,917	174,239	64,075	34,718	61,303
1943	14,449,441	9,357,230	752,994	1,006,474	1,321,679	635,860	349,759	648,206	199,188	75,656	36,579	65,816
1944	16,216,401	10,762,902	866,922	1,152,992	1,412,266	665,744	356,254	632,454	187,006	66,467	37,336	76,057
1945	17,050,378	10,752,517	1,025,393	1,394,997	1,669,629	749,549	406,749	669,968	191,714	72,902	37,060	79,900
1946	16,075,913	9,301,928	1,105,837	1,476,547	1,800,013	798,875	424,440	717,267	213,215	82,785	44,886	110,117
1947	18,076,281	11,213,748	1,172,385	1,507,099	1,788,766	774,767	411,683	730,606	223,216	77,700	45,049	131,263
1948	15,441,529	8,917,565	1,002,044	1,210,716	1,555,194	788,984	458,176	906,202	295,076	103,851	52,015	151,715
1949	14,538,141	8,717,678	951,897	1,116,874	1,401,017	673,453	388,912	754,181	239,209	96,429	52,036	146,459
1950	18,374,922	10,394,117	1,157,379	1,373,377	1,887,944	949,587	567,419	1,151,498	393,170	152,615	87,266	260,550

See notes at end of tables.

Table 2.—Returns with Income \$25,000 or more in 1986 Dollars: Number of Returns, Income, and Federal Income Tax, Cumulated by Federal Income Tax Share Groups, Tax Years 1916-1950 — Continued

[All figures are estimates—money amounts are in 1986 dollars]

Table with 13 columns: Tax year, Returns (Number, Percent of total), Net income, Federal income tax, Mean income (Before tax, After tax), Average income tax, Minimum income cutoff, Income share (Before tax, After tax), Returns per 100,000 population, Average income tax rate, and Income tax share. The table is divided into two sections: Part V - Returns accounting for top 25 percent of Federal income tax and Part VI - Returns accounting for top 30 percent of Federal income tax.

See notes at end of tables.

Individual Income Tax Shares, 1916-1950

Table 3.—Returns with Income \$25,000 or more in 1986 Dollars: Number of Returns, Income, and Federal Income Tax, Cumulated by Income Share Groups, Tax Years 1916-1950 — Continued

[All figures are estimates—money amounts are in 1986 constant dollars]

Table with 13 columns: Tax year, Returns (Number, Percent of total), Net income (thousand dollars), Federal income tax (thousand dollars), Mean income (Before tax, After tax), Average income tax (dollars), Minimum income cutoff (dollars), Income share (Before tax, After tax), Returns per 100,000 population, Average income tax rate (percent), Income tax share (percent). The table is divided into two sections: Part V - Returns accounting for top 25 percent of income and Part VI - Returns accounting for top 30 percent of income.

See notes at end of tables.

Individual Income Tax Shares, 1916-1950

Table 4.—Returns with Income \$25,000 or more in 1986 Dollars: Number of Returns, Income, and Federal Income Tax, Cumulated by Return Percentile Groups, Tax Years 1916-1950 — Continued

[All figures are estimates—money amounts are in 1986 dollars]

Tax year	Returns		Net income (thousand dollars)	Federal income tax (thousand dollars)	Mean income		Average income tax (dollars)	Minimum income cutoff (dollars)	Income share		Returns per 100,000 population	Average income tax rate (percent)	Income tax share (percent)
	Number	Percent of total			Before tax (dollars)	After tax (dollars)			Before tax (percent)	After tax (percent)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Part XI — Top 50 percent of returns													
1916	214,700	50.00	53,810,268	1,720,399	250,629	242,616	8,013	61,625	85.03	84.64	210.57	3.20	98.75
1917	519,969	50.00	63,509,525	5,582,223	122,141	111,405	10,736	38,238	80.13	78.75	503.51	8.79	97.81
1918	544,071	50.00	49,842,184	7,220,317	91,610	78,339	13,271	34,582	75.83	73.34	527.16	14.49	94.86
1919	563,076	50.00	52,072,729	7,163,559	92,479	79,757	12,722	34,996	76.12	73.71	538.76	13.76	95.67
1920	422,647	50.00	38,188,889	4,775,527	90,356	79,057	11,299	36,554	75.46	73.37	397.00	12.51	94.30
1921	429,479	50.00	35,846,671	3,776,296	83,466	74,673	8,793	34,575	74.39	72.52	395.69	10.53	95.13
1922	548,276	50.00	49,520,718	4,980,879	90,321	81,236	9,085	34,369	75.73	74.00	498.21	10.06	95.82
1923	638,665	50.00	54,071,991	3,740,390	84,664	78,807	5,857	31,793	74.96	73.77	570.51	6.92	95.75
1924	700,943	50.00	62,695,174	4,214,180	89,444	83,432	6,012	32,031	75.97	74.77	614.27	6.72	97.68
1925	706,152	50.00	75,748,796	4,491,794	107,270	100,909	6,361	35,504	78.82	77.82	609.65	5.93	99.04
1926	694,609	50.00	75,190,109	4,434,297	108,248	101,864	6,384	37,229	78.52	77.52	591.68	5.90	98.93
1927	715,498	50.00	81,977,265	5,147,814	114,574	107,379	7,195	37,750	79.41	78.36	601.08	6.28	99.16
1928	783,621	50.00	100,652,702	7,343,438	128,446	119,074	9,371	38,290	81.04	79.89	650.26	7.30	99.29
1929	791,626	50.00	98,521,057	6,378,394	124,454	116,397	8,057	38,385	80.50	79.44	650.12	6.47	99.71
1930	679,974	50.00	64,616,534	3,053,310	95,028	90,538	4,490	36,440	76.31	75.45	552.48	4.73	98.91
1931	623,029	50.00	51,158,009	1,723,055	82,112	79,346	2,766	35,001	73.80	73.15	502.28	3.37	98.92
1932	485,708	50.00	38,820,291	2,361,025	79,925	75,064	4,861	34,103	73.62	72.53	389.06	6.08	96.00
1933	483,881	50.00	40,851,434	2,929,755	84,424	78,370	6,055	34,253	74.66	73.34	385.32	7.17	97.32
1934	571,431	50.00	46,579,301	3,963,509	81,513	74,577	6,936	35,041	73.74	72.08	452.17	8.51	97.83
1935	629,131	50.00	53,568,016	4,985,616	85,146	77,221	7,925	35,296	74.52	72.74	494.41	9.31	97.96
1936	768,116	50.00	73,865,581	9,179,094	96,165	84,214	11,950	36,576	76.53	74.23	599.84	12.43	98.02
1937	805,428	50.00	71,041,906	8,221,080	88,204	77,997	10,207	35,612	75.11	72.92	625.21	11.57	97.55
1938	737,660	50.00	57,104,622	5,241,579	77,413	70,308	7,106	34,400	72.96	71.18	568.20	9.18	97.10
1939	935,717	50.00	70,747,582	6,459,469	75,608	68,705	6,903	34,236	72.53	70.75	714.94	9.13	96.84
1940	1,005,532	50.00	78,095,736	9,973,844	77,666	67,747	9,919	33,624	73.26	70.76	759.14	12.77	96.54
1941	1,137,815	50.00	91,314,219	20,098,832	80,254	62,590	17,664	33,525	73.94	70.03	851.22	22.01	92.24
1942	1,206,954	50.00	97,105,218	31,162,911	80,455	54,635	25,819	33,054	74.05	68.86	896.58	32.09	88.09
1943	1,576,496	50.00	119,318,864	41,510,624	75,686	49,355	26,331	31,940	73.17	67.69	1,166.85	34.79	86.24
1944	2,619,195	50.00	166,212,144	47,114,169	63,459	45,471	17,988	30,609	69.87	65.64	1,955.86	28.35	83.46
1945	2,421,707	50.00	170,306,420	50,282,649	70,325	49,562	20,763	31,492	71.78	67.41	1,814.91	29.52	84.92
1946	2,239,274	50.00	169,705,613	46,338,122	75,786	55,093	20,693	33,599	72.80	68.75	1,591.68	27.31	86.39
1947	1,819,096	50.00	137,490,256	39,051,618	75,582	54,114	21,468	34,349	72.49	68.36	1,262.53	28.40	85.52
1948	2,277,844	50.00	162,272,441	34,315,837	71,239	56,174	15,065	32,646	71.71	68.85	1,552.41	21.15	84.85
1949	2,382,217	50.00	160,669,599	31,961,645	67,445	54,029	13,417	32,373	70.63	68.02	1,595.55	19.89	83.55
1950	2,893,246	50.00	199,106,743	42,929,425	68,818	53,980	14,838	32,101	71.14	68.20	1,905.11	21.56	84.40

See notes at end of tables.

NOTES TO TABLES

General notations

N/A - Not available

Detail may not add to totals due to rounding. Column numbers in the notes below generally refer to Tables 2 through 6.

Number of returns.—Table 1 includes all returns with positive net income (or positive adjusted gross income for 1944 and thereafter). Tables 2 through 6 include only returns with income of \$25,000 or more in 1986 dollars. The number of returns for 1916 through 1937 includes both individual and fiduciary income tax returns; after 1937, only individual income tax returns are included. For 1916, 7,635 returns for married women filing separately were excluded from the number of returns distributed by size of net income in the Statistics of Income publication. The income from those returns was combined with that of the husbands' returns and the combination was counted as one return in the proper size class.

Percent of total (returns).—The number of returns in the group (column 1) divided by the number of returns with income of \$25,000 or more in 1986 dollars, multiplied by 100.

Income.—Prior to 1944, data are classified by size of net income, which is generally the sum of all positive amounts of income less deductions, before the subtraction of exemptions and credits. For 1944 and thereafter, "income" refers to adjusted gross income (AGI), which is gross income less only certain deductions. Deductions allowed in the computation of AGI generally include expenses related to employment. (See Exhibit A for additional information on the computation of net or adjusted gross income for each year.)

Federal income tax.—The sum of the normal tax, surtax, and alternative tax (or the optional tax paid in lieu of normal tax and surtax) plus the war excess profits tax, the defense tax and the victory tax. For most years, the Federal tax shown is before the subtraction of tax credits. (See Exhibit A for information on the numerous changes in the tax credits allowed and in the treatment of various credits in

Statistics of Income tabulations.) Table 1, Part III, for 1917 does not include the tax reported on returns with net income under \$2,000.

1986 dollars.—All amounts on Tables 2 through 6 are expressed in 1986 dollars. The conversion factors used were derived from the Consumer Price Index with 1967 weights, which was developed by the U.S. Department of Labor, Bureau of Labor Statistics.

Mean income (before or after tax).—The aggregate income (before or after Federal income tax) of the group divided by the number of returns in the group.

Average income tax.—The aggregate Federal income tax of the group divided by the number of returns in the group.

Minimum income cutoff.—The minimum amount of income (in 1986 dollars) required for a return to be included in the group (as defined at the top of each table). All groups are cumulated from the top.

Income share (before or after tax).—The aggregate income (before or after Federal income tax) of the group divided by the aggregate income (before or after Federal income tax) of all returns with income of \$25,000 or more, in 1986 dollars.

Returns per 100,000 population.—The number of returns in the group (column 1) divided by the U.S. resident population, multiplied by 100,000. This number divided by 1,000 equals the number of returns in the group as a percentage of the U.S. resident population. For example, "200 returns per 100,000 population," as shown on Table 6, Part VI, refers to the number of returns equal to .2 percent of the population. For population figures see U.S. Bureau of the Census, *Current Population Reports*, series P²⁵.

Average income tax rate.—The aggregate Federal income tax of the group divided by the aggregate income of the group.

Income tax share.—The aggregate Federal income tax of the group divided by the aggregate Federal income tax of all returns with income of \$25,000 or more, in 1986 dollars.

Personal Income and Adjusted Gross Income, 1984–1986

By Thae S. Park and Jane S. Reeb*

This article presents a reconciliation of the Bureau of Economic Analysis (BEA) measure of "personal income" with the Internal Revenue Service (IRS) measure of "adjusted gross income" (AGI) by type of income for 1984–86 [1]. The reconciliation incorporates personal income estimates for 1985–86 published in the July 1988 revision of the National Income and Product Accounts (NIPA) and in the final IRS estimates of AGI for 1984–86 [2].

The reconciliation items (lines 3–9 and 11–15) in Tables 1–3 allow the construction from personal income (line 1) of a BEA-derived estimate of AGI (line 22) that conforms to the IRS definition of AGI (line 23) (see the description of the income series and the reconciliation items, below.) The reallocations of personal income and of the IRS measure of AGI necessary to show the reconciliation by type of income are shown in lines 17–21 and lines 25–27 of Tables 1–3, and are also explained below. The difference between the BEA-derived estimate of AGI and the IRS measure of AGI, called the AGI gap, is shown in line 29. The percentage distribution of the AGI gap by type of income and the AGI gap as a percentage of the BEA-derived AGI are shown in lines 30 and 31, respectively.

The AGI gap can be viewed as evidence of noncompliance with the tax code because BEA-derived AGI is based on estimates of personal income that are adjusted to include income unreported on individual income tax returns, while the IRS measure of AGI is based entirely on unaudited tax return data [3,4]. The noncompliance reflected in the gap is limited to that associated with types of income included in personal income; the gap does not reflect noncompliance associated with other types of income, such as unreported capital gains and unreported illegal income [5]. In addition to reflecting noncompliance, however, the AGI gap also includes income earned by low-income individuals who are not required to file income tax returns, gross errors and omissions in the estimates of reconciliation items, and the net effect of errors in personal income and in the IRS data for AGI.

The AGI gap as a percentage of the BEA-derived AGI—a rough indicator of the rate of noncompliance—increased to 12 percent for 1986 after having remained at about 11 percent since 1977 primarily due to an increase in the wages and salaries gap (Table 4). The latter increase may reflect the inclusion in BEA wages and salaries of an unknown amount of employee contributions to deferred

compensation arrangements, such as the savings allowed under Internal Revenue Code section 401(k), which are excluded from AGI. BEA wages and salaries are based on tabulations of wages and salaries of employees covered by State unemployment insurance and have included contributions by employees in 32 States since 1985. The gaps by type of income, however, have varied widely since 1977. For rental income of persons, the gap increased steadily; for taxable unemployment compensation, the gap declined steadily. For farm and nonfarm proprietors' income and for personal dividend income, the gaps increased steadily until 1984 and then declined, but remained above the pre-1977 levels. For personal interest income, the gap declined steadily until 1985.

DESCRIPTION OF THE INCOME SERIES AND RECONCILIATION ITEMS

Personal Income

Personal Income estimated by BEA is the income received by persons from all sources, i.e., from participation in production, from both Government and business transfer payments, and from Government interest, which is treated like a transfer payment. "Persons" consist of individuals, nonprofit institutions serving individuals, private noninsured welfare funds, and private trust funds. Proprietors' income is treated in its entirety as received by individuals. Life insurance carriers and private noninsured pension funds are not counted as persons, but their saving is credited to persons. Personal income is the sum of wage and salary disbursements, other labor income, proprietors' income with inventory valuation and capital consumption adjustment, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and transfer payments, less personal contributions for social insurance.

Adjusted Gross Income

Adjusted gross income estimated by IRS is the total income from all sources that is subject to the individual income tax, less certain deductions. The total income subject to tax includes wages and salaries; a portion of dividends, interest, and pension income; net business and farm income; net capital gains income; and other miscellaneous items. Deductions allowed in the calculation of AGI include various expenses considered necessary in earning income, certain allowances for capital gains and losses, and statutory adjustments [6].

*Bureau of Economic Analysis, Department of Commerce.

Personal Income Not Included in AGI

Personal income and AGI each include items that the other omits by definition. Line 2 of Tables 1-3 is the sum of seven groups of items (lines 3-9) that are included in personal income but not in AGI because they are not taxable under the individual income tax. The largest (line 3) consists of all Government and business transfer payments except taxable retirement benefits paid to former Government employees. The second largest (line 4) consists of other labor income except fees; the major components of other labor income are pension and profit sharing, group insurance, workers' compensation, and supplemental unemployment benefits [7].

Imputed income included in personal income is shown in line 5. No deduction is made for an unknown amount of imputed income, believed to be small, that is actually included in AGI [8]. Additional major categories are investment income retained by life insurance carriers and noninsured pension funds (line 6) and investment income received by nonprofit institutions or retained by fiduciaries (line 7).

Differences in accounting procedures introduce a difference between personal income and AGI that is shown on a net basis in line 8. The differences in accounting procedures result largely from the introduction in NIPA of procedures designed to value capital consumption and inventory change of all firms at current prices, and to apply accounting conventions that are uniform for all firms and at all time periods. Figure A shows the net differences in accounting procedures between NIPA and the tax regulations for 1986 (line 8, Table 3).

Figure A—Net Differences in Accounting Procedures Between the National Income and Product Accounts (NIPA) and Federal Tax Regulations, 1986

[All figures are estimates—money amounts are in millions of dollars.]

Total	\$104,113
Capital consumption adjustment	20,324
Excess of tax depreciation over the NIPA measure of depreciation for farm proprietors' income and for rental income of persons	27,732
Inventory valuation adjustment for nonfarm proprietors' income	-140
Change in farm inventories	-1,919
Gains arising from sales of livestock, timber, and certain real estate	4,866
Excess of the interest accrued over the interest paid on bonds	9,390
Depletion and depreciation expenditures claimed by nonfarm proprietors; bad debt adjustments, and income of tax-exempt cooperatives	11,934
Earnings by Individual Retirement Arrangements (IRA's) and self-employed retirement (Keogh) plans	20,252
Other nonfarm proprietors' income adjustments	11,674

The capital consumption adjustment subtracted in BEA-derived AGI is the sum of the capital consumption adjustment for farm and nonfarm proprietors' income and for rental income of persons, excluding the amount for owner-occupied dwellings [9]. In the National Accounts, capital consumption allowances are based on consistent accounting valued in current prices, while the IRS depreciation is

based on varying service lives and depreciation formulas, and is valued in historical costs. Tax return data are not the starting point for the NIPA measure of depreciation associated with farm proprietors' income and rental income of persons, and the published capital consumption adjustment relates only to the adjustment for current replacement cost. Therefore, for these types of income the adjustment for consistent accounting at historical costs is the excess of tax depreciation over the NIPA depreciation.

The inventory valuation adjustment for nonfarm proprietors' income is the difference between book value and current-price value of inventories used up in production. Personal income excludes this difference but AGI includes it.

The difference in the estimates of change in farm inventories in the National Accounts and AGI is also subtracted from personal income. Change in farm inventories in the accounts is based on the U.S. Department of Agriculture estimates of change in the physical quantities of inventories of harvested crops and of livestock owned by farmers valued at market price. Change in farm inventories in AGI is based on the amount of inventory reported in the cost of goods sold in Schedule C, Profit (or Loss) From Business or Profession, of the Form 1040 individual income tax return. Farmers are required to use inventories in computing gross income from their businesses only if they elect to use the accrual method of accounting for their profit or loss from the sale of farm products. Gains arising from sales of livestock, timber, and certain real estate have been accorded a tax treatment similar to a long-term capital asset in AGI, but for the years shown they are treated as ordinary income in the National Accounts. All capital gains are excluded from personal income, but are included in AGI. Thus, capital gains are added to personal income (line 12) in the reconciliation. But the IRS figures for realized capital gains (net gain less loss) included gains arising from sales of livestock, timber, and certain real estate. Consequently, the latter is subtracted from personal income to prevent double counting. Interest on savings bonds is recorded on an accrual basis in personal income, but is mostly reported on a cash basis in AGI. Thus, the excess of interest accrued over interest paid is subtracted from personal income. Other accounting differences are in the treatment earnings by individual retirement arrangements (IRA's) and certain income and expenditures of nonfarm proprietors.

Line 9 shows the sum of other types of income exempt or excluded from AGI, such as interest on State and local Government bonds, tax-exempt military pay and allowances, and statutory adjustments.

Adjusted Gross Income Not Included in Personal Income

Line 10 of Tables 1-3 is the sum of five groups of items (lines 11 through 15) that are included in AGI but not in

personal income. The largest, personal contributions for social insurance (line 11), consists of payments by employees, the self-employed, and other individuals who participate in Government social insurance programs [10]. Net gain from sales of assets (line 12) consists of gains derived from sales of investment property, such as stocks, bonds, and real estate, and from the sale of property other than capital assets. Payments of taxable private pensions (line 13) are not included in personal income. Other types of income in AGI but not in personal income are net income of qualified S Corporations (that choose to be taxed through shareholders) (line 14) and a number of small items grouped in line 15. The latter includes noncorporate special assessments, alimony received, and such miscellaneous items as noncash awards and net gambling receipts. Prior to 1960 it also included income of residents of Alaska and Hawaii.

REALLOCATIONS OF CERTAIN PERSONAL INCOME AND ADJUSTED GROSS INCOME COMPONENTS

The derivation of the AGI gap by type of income requires reallocations of certain IRS and NIPA income components in order to make the two income classifications comparable. Lines 17 through 21 in Tables 1–3 show the reallocations affecting the components of BEA-derived AGI, and lines 25 through 27 show the reallocations affecting the components of AGI of IRS. Reasons for these reallocation items are explained in the discussion that follows.

Reallocation Affecting Components of BEA-Derived Adjusted Gross Income

The fees component of other labor income—directors' fees, judicial fees to witnesses and jurors, compensation of prisoners, and fees to justices of the peace—are reallocated from other labor income to wages and salaries (line 17). Such fees are taxable income and are probably reported as wages and salaries on tax returns.

Partnership income retained by fiduciaries is reallocated to farm and nonfarm sources (line 18). Interest received by nonfinancial proprietors and partnerships, but not related to business operations, is reallocated from personal interest income to nonfarm proprietors' income (line 19). Such interest is tabulated by IRS as part of income of proprietors and partnerships, but is treated in the National Accounts as personal interest income.

The interest distributions (excluding the tax-exempt amount) from regulated investment companies, such as from mutual funds, are reallocated from personal interest income to personal dividend income (line 20). These distributions are reallocated because IRS instructions call for them to be reported as dividends, whereas in the accounts they are treated as personal interest income.

Disability income payments are reallocated from taxable pensions to wages and salaries (line 21) because some disability income payments are reported as wages on tax returns, but are included as pensions in personal income. The Tax Reform Act of 1976 provided a disability income exclusion, under which a taxpayer who retired before age 65 on disability was entitled to exclude from gross income limited amounts of disability payments received if such payments were reported as wages. (A disabled person was not permitted the exclusion for the tax year in which he or she attained age 65 or any subsequent years, and had to report the payments as pensions.)

Reallocations Affecting Income Components of Adjusted Gross Income as Reported in Statistics of Income.

The IRS estate or trust income is allocated to farm proprietors' income, nonfarm proprietors' income, rental income of persons, and personal interest income (line 25) to be consistent with the treatment of estate and trust income in the Accounts. The IRS partnership income is allocated between farm and nonfarm sources (line 26), because IRS does not provide tabulations of this detail for partnership income as reported on the individual income tax return.

Line 27 includes several reallocations not separately shown. Prior to 1963, the IRS net profit from business or profession is allocated between farm and nonfarm sources because for those years the IRS did not tabulate farm proprietors' income separately. For 1958–65, the dividends paid by S Corporations were reallocated from partnership income to dividends. For these years, dividends received from S Corporations were tabulated by IRS as partnership income on the ground that the two types of business organizations were treated similarly under the tax law. For 1957–65, wages not subject to tax withholding reported on the Form 1040A individual income tax return were tabulated by IRS as part of "other" income. These wages are reallocated from "other" income to wages. For 1964 and 1965, estate or trust income was tabulated as part of "other" income. This amount is reallocated to its respective components in the same way as in other years. For 1961, wage earners who had \$200 or less of dividends and interest could report the combined amount of such incomes as a single figure. This combined amount, which was tabulated as a separate income type by IRS, is reallocated to interest and dividends.

NOTES AND REFERENCES

- [1] Estimates for earlier years can be found in "Relationship Between Personal Income and Adjusted Gross Income: Revised Estimates, 1947–83," *Survey of Current Business*, May 1986, Bureau of Economic Analysis, U.S. Department of Commerce, and in "Re-

lationship Between Personal Income and Adjusted Gross Income, 1983-85," *Survey*, May 1987, op. cit. In the National Income and Product Account tables, the reconciliation appears in Table 8.14. The reconciliation of personal income and adjusted gross income for selected earlier years is reproduced in the Selected Historical Data section of the current issue of the *Statistics of Income Bulletin*.

- [2] See *Statistics of Income—Individual Income Tax Returns*, Internal Revenue Service, U.S. Department of the Treasury, for these years. These reports also contain a detailed explanation of adjusted gross income.
- [3] See Parker, Robert P., "Improved Adjustments for Misreporting of Tax Return Information Used to Estimate the National Income and Product Accounts, 1977," *Survey*, June 1984, op.cit.
- [4] See also Kenadjian, Berdj, "Gross Tax Gap Trends According to new IRS Estimates, Income Years

1973-1992," *Statistics of Income Bulletin*, Summer 1988, Volume 8, Number 1.

- [5] For a discussion of why the AGI gap is not a measure of the size of the underground economy, see Carson, Carol S., "The Underground Economy: An Introduction," *Survey*, July 1984, op. cit.
- [6] See footnote 2.
- [7] See Table 6.12, *Survey*, July 1988, op. cit.
- [8] See Table 8.9, *ibid.*, for additional components of imputed income.
- [9] In the National Accounts, capital consumption allowances consist of depreciation and accidental damage to fixed capital.
- [10] See Table 3.6, *Survey*, July 1988, op. cit.

Table 1.—Reconciliation of Personal Income Used in the National Income and Product Accounts (NIPA) and Adjusted Gross Income, by Type of Income, Income Year 1984

[All figures are estimates—money amounts are in billions of dollars]

Line	Item	Personal income	Wages and salaries	Proprietors' income ¹		Personal dividend income	Rental income of persons ²	Personal interest income	Taxable pensions and annuities	Taxable unemployment compensation	Taxable social security benefits ³	Other personal income	Income not included in personal income
				Farm	Nonfarm								
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	Personal income	3,108.7	1,838.6	30.5	204.0	75.5	8.5	444.7	47.0⁴	7.4	10.5	422.0⁵	—
2	Less: Portion of personal income not included in adjusted gross income	954.1	16.4	13.9	43.3	18.6	-10.2	209.7	—	—	—	572.7	89.7⁶
3	Transfer payments except taxable military retirement and taxable Government pensions.....	391.8	—	—	—	—	—	—	—	—	—	391.8	—
4	Other labor income except fees.....	180.0	—	—	—	—	—	—	—	—	—	180.0	—
5	Imputed income in personal income.....	49.4	8.5	5.6	2.3	—	-18.5	51.5	—	—	—	—	—
6	Investment income retained by life insurance carriers and private noninsured pensions funds.....	98.4	—	—	—	—	—	98.4	—	—	—	—	—
7	Investment income received by nonprofit institutions or retained by fiduciaries.....	31.6	—	—	.2	7.0	1.5	22.2	—	—	—	.8 ⁷	—
8	Differences in accounting treatment between NIPA and tax regulations, net.....	79.8	—	8.4	40.8	3.5	6.8	20.3	—	—	—	—	—
9	Other personal income exempt or excluded from adjusted gross income.....	123.0	7.9	—	—	8.0	—	17.3	—	—	—	—	89.7
10	Plus: Portion of adjusted gross income not included in personal income	252.7	4.1	—	.9	—	1.8	—	58.4	—	—	132.7	54.8
11	Personal contributions for social insurance.....	132.7	—	—	—	—	—	—	—	—	—	132.7	—
12	Net gain from sale of assets.....	56.2	—	—	—	—	—	—	—	—	—	—	56.2
13	Taxable private pensions ⁸	58.4	—	—	—	—	—	—	58.4	—	—	—	—
14	S Corporation income.....	6.2	—	—	—	—	—	—	—	—	—	—	6.2
15	Other types of income.....	-8	4.1	—	.9	—	1.8	—	—	—	—	-7.6	—
16	Plus: Intercomponent reallocation	—	2.9	-.1	12.7	16.8	—	-30.2	—	—	—	-2.1	—
17	Fees in other labor income.....	—	2.9	—	—	—	—	—	—	—	—	-2.9	—
18	Fiduciaries' share of partnership income.....	—	—	-.1	-.7	—	—	—	—	—	—	.8	—
19	Interest received by nonfarm proprietors.....	—	—	—	13.4	—	—	-13.4	—	—	—	—	—
20	Interest distributed by regulated investment companies.....	—	—	—	—	16.8	—	-16.8	—	—	—	—	—
21	Disability income payments.....	—	—	—	—	—	—	0	—	—	—	—	—
22	Equals: BEA-derived adjusted gross income	2,407.3	1,829.2	16.4	174.4	73.8	20.5	204.8	105.4	7.4	10.5	—	-35.0
23	Adjusted gross income of IRS (as reported)	2,139.9	1,807.1	-13.1	70.8	48.6	-8.0	176.4	80.4	6.1	7.9	-1.3	-35.0
24	Plus: Intercomponent reallocation	—	—	-1.4	-6.4	—	.7	5.8	—	—	—	1.3⁹	—
25	Estate or trust income.....	—	—	.1	.6	—	.7	5.8	—	—	—	-7.1	—
26	Partnership income.....	—	—	-1.5	-7.0	—	—	—	—	—	—	8.4	—
27	Other reallocations.....	—	—	—	—	—	—	—	—	—	—	—	—
28	Adjusted gross income of IRS (reallocated)	2,139.9	1,807.1	-14.5	64.3	48.6	-7.3	182.2	80.4	6.1	7.9	—	-35.0
29	Adjusted gross income (AGI) gap	267.4	22.1	30.8	110.0	25.1	27.9	22.7	24.9	1.3	2.6	—	—
30	Percentage of AGI gap.....	100.0	8.3	11.5	41.1	9.4	10.4	8.5	9.3	.5	1.0	—	—
31	AGI gap as a percentage of BEA-derived AGI.....	11.1	1.2	188.3	63.1	34.1	135.7	11.1	23.4	17.7	24.7	—	—
32	AGI of IRS as a percentage of BEA-derived AGI.....	88.9	98.8	(¹⁰)	36.9	65.9	(¹⁰)	88.9	76.4	82.3	75.3	—	—

See footnotes at the end of table 4.

Table 2.—Reconciliation of Personal Income Used in the National Income and Product Accounts (NIPA) and Adjusted Gross Income, by Type of Income, Income Year 1985

[All figures are estimates—money amounts are in billions of dollars]

Line	Item	Personal income	Wages and salaries	Proprietors' income ¹		Personal dividend income	Rental income of persons ²	Personal interest income	Taxable pensions and annuities	Taxable unemployment compensation	Taxable social security benefits ³	Other personal income	Income not included in personal income
				Farm	Nonfarm								
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	Personal income	3,325.3	1,975.4	30.2	225.6	78.7	9.2	478.0	52.6⁴	7.7	12.8	455.0⁵	—
2	Less: Portion of personal income not included in adjusted gross income	1,021.4	17.5	3.5	54.8	20.4	-11.1	239.1	—	—	—	602.1	95.1⁶
3	Transfer payments except taxable military retirement and taxable Government pensions	416.6	—	—	—	—	—	—	—	—	—	416.8	—
4	Other labor income except fees	184.3	—	—	—	—	—	—	—	—	—	184.3	—
5	Imputed income in personal income	55.3	8.9	4.7	2.4	—	-20.9	60.2	—	—	—	—	—
6	Investment income retained by life insurance carriers and private noninsured pensions funds	112.8	—	—	—	—	—	112.8	—	—	—	—	—
7	Investment income received by nonprofit institutions or retained by fiduciaries	34.8	—	—	.2	7.1	1.6	24.8	—	—	—	1.17	—
8	Differences in accounting treatment between NIPA and tax regulations, net	87.3	—	-1.2	52.3	5.2	8.2	22.9	—	—	—	—	—
9	Other personal income exempt or excluded from adjusted gross income	130.2	8.6	—	—	8.2	—	18.4	—	—	—	—	95.1
10	Plus: Portion of adjusted gross income not included in personal income	299.4	6.2	—	1.3	—	1.9	—	72.9	—	—	149.3	67.8
11	Personal contributions for social insurance	149.3	—	—	—	—	—	—	—	—	—	149.3	—
12	Net gain from sale of assets	69.8	—	—	—	—	—	—	—	—	—	—	-69.8
13	Taxable private pensions ⁸	72.9	—	—	—	—	—	—	72.9	—	—	—	—
14	S corporation income	6.2	—	—	—	—	—	—	—	—	—	—	6.2
15	Other types of income	1.2	6.2	—	1.3	—	1.9	—	—	—	—	—	-8.2
16	Plus: Intercomponent reallocation	—	3.3	-1	16.3	16.8	—	-34.1	—	—	—	12.2	—
17	Fees in other labor income	—	3.3	—	—	—	—	—	—	—	—	-3.3	—
18	Fiduciaries' share of partnership income	—	—	-1	-1.0	—	—	—	—	—	—	1.1	—
19	Interest received by nonfarm proprietors	—	—	—	17.3	—	—	-17.3	—	—	—	—	—
20	Interest distributed by regulated investment companies	—	—	—	—	16.8	—	-16.8	—	—	—	—	—
21	Disability income payments	—	—	—	—	—	—	—	—	—	—	—	—
22	Equals: BEA-derived adjusted gross income	2,603.4	1,967.4	26.6	188.4	75.1	22.2	204.8	125.5	7.7	12.8	—	-27.2
23	Adjusted gross income of IRS (as reported)	2,306.0	1,928.2	-12.0	78.8	55.0	-10.9	182.1	95.1	6.4	9.6	1.0	-27.2
24	Plus: Intercomponent reallocation	—	—	.9	-6.9	—	1.2	7.5	—	—	—	-1.0⁹	-1.0
25	Estate or trust income	—	—	.1	.9	—	1.2	7.5	—	—	—	—	-9.7
26	Partnership income	—	—	-1.0	-7.7	—	—	—	—	—	—	—	8.8
27	Other reallocations	—	—	—	—	—	—	—	—	—	—	—	—
28	Adjusted gross income of IRS (reallocated)	2,306.0	1,928.2	-12.9	71.9	55.0	-9.7	189.6	95.1	6.4	9.6	—	-27.2
29	Adjusted gross income (AGI) gap	297.4	39.2	39.6	116.5	20.1	32.0	15.2	30.4	1.3	3.2	—	—
30	Percentage of AGI gap	100.0	13.2	13.3	39.2	6.8	10.7	5.1	10.2	.5	1.1	—	—
31	AGI gap as a percentage of BEA-derived AGI	11.1	2.0	148.6	61.8	26.7	143.7	7.4	24.2	17.5	25.2	—	—
32	AGI of IRS as a percentage of BEA-derived AGI	88.6	98.0	-48.6	38.2	73.3	-43.7	92.6	75.8	82.5	74.8	—	—

See footnotes at the end of table 4.

Table 3.—Reconciliation of Personal Income Used in The National Income and Product Accounts (NIPA) and Adjusted Gross Income, by Type of Income, Income Year 1986

[All figures are estimates—money amounts are in billions of dollars]

Line	Item	Personal income	Wages and salaries	Proprietors' income ¹		Personal dividend income	Rental income of persons ²	Personal interest income	Taxable pensions and annuities	Taxable unemployment compensation	Taxable social security benefits ³	Other personal income	Income not included in personal income
				Farm	Nonfarm								
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	Personal income	3,531.1	2,094.0	36.4	250.3	82.8	12.4	499.1	61.9⁴	8.3	13.5	472.5⁵	—
2	Less: Portion of personal income not included in adjusted gross income	1,098.5	18.7	4.5	66.7	23.0	- 4.0	259.8	—	—	—	630.9	99.0⁶
3	Transfer payments except taxable military retirement and taxable Government pensions.....	437.6	—	—	—	—	—	—	—	—	—	437.6	—
4	Other labor income except fees	192.5	—	—	—	—	—	—	—	—	—	192.5	—
5	Imputed income in personal income	70.0	9.4	4.1	3.0	—	-16.0	69.5	—	—	—	—	—
6	Investment income retained by life insurance carriers and private noninsured pensions funds	121.3	—	—	—	—	—	121.3	—	—	—	—	—
7	Investment income received by nonprofit institutions or retained by fiduciaries.....	33.1	—	—	.2	7.4	1.5	23.2	—	—	—	.8 ⁷	—
8	Differences in accounting treatment between NIPA and tax regulations, net	104.0	—	.5	63.5	6.2	10.5	23.5	—	—	—	—	—
9	Other personal income exempt or excluded from adjusted gross income.....	140.1	9.3	—	—	9.5	—	22.3	—	—	—	—	99.0
10	Plus: Portion of adjusted gross income not included in personal income	390.7	6.8	—	1.4	—	2.0	—	87.8	—	—	161.1	131.6
11	Personal contributions for social insurance	161.1	—	—	—	—	—	—	—	—	—	161.1	—
12	Net gain from sale of assets	133.6	—	—	—	—	—	—	—	—	—	—	133.6
13	Taxable private pensions ⁸	87.8	—	—	—	—	—	87.8	—	—	—	—	—
14	S Corporation income.....	7.5	—	—	—	—	—	—	—	—	—	—	7.5
15	Other types of income.....	.6	6.8	—	1.4	—	2.0	—	—	—	—	—	-9.5
16	Plus: Intercomponent reallocation	—	3.6	- .1	16.1	21.1	—	-37.9	—	—	—	-2.8	—
17	Fees in other labor income.....	—	3.6	—	—	—	—	—	—	—	—	-3.6	—
18	Fiduciaries' share of partnership income.....	—	—	-.1	-.7	—	—	—	—	—	—	.8	—
19	Interest received by nonfarm proprietors	—	—	—	16.9	—	—	-16.9	—	—	—	—	—
20	Interest distributed by regulated investment companies	—	—	—	—	21.1	—	-21.1	—	—	—	—	—
21	Disability income payments	—	—	—	—	—	—	—	—	—	—	—	—
22	Equals: BEA-derived adjusted gross income	2,823.3	2,085.7	31.8	201.2	80.9	18.3	201.4	147.7	8.3	13.5	—	32.6
23	Adjusted gross income of IRS (as reported)	2,481.7	2,031.0	-7.3	90.4	61.6	-13.4	167.6	107.1	7.0	10.6	-6.3	32.6
24	Plus: Intercomponent reallocation	—	—	-1.5	-11.2	—	.9	5.5	—	—	—	6.3⁹	—
25	Estate or trust income.....	—	—	.1	.5	—	.9	5.5	—	—	—	-7.0	—
26	Partnership income.....	—	—	-1.6	-11.7	—	—	—	—	—	—	13.4	—
27	Other reallocations.....	—	—	—	—	—	—	—	—	—	—	—	—
28	Adjusted gross income of IRS (reallocated)	2,481.7	2,031.0	-8.8	79.2	61.6	-12.4	173.1	107.7	7.0	10.6	—	32.6
29	Adjusted gross income (AGI) gap	341.6	54.7	40.6	122.0	19.3	30.8	28.2	42.0	1.3	2.9	—	—
30	Percentage of AGI gap.....	100.0	16.0	11.9	35.7	5.6	9.0	8.3	12.3	.4	.8	—	—
31	AGI gap as a percentage of BEA-derived AGI	12.1	2.6	127.7	60.7	23.8	167.8	14.0	28.1	15.5	21.3	—	—
32	AGI of IRS as a percentage of BEA-derived AGI	87.9	97.4	(10)	39.3	76.2	(10)	86.0	71.9	84.5	78.7	—	—

See footnotes at the end of table 4.

Table 4.—Adjusted Gross Income (AGI) Gap as a Percentage of BEA-derived AGI, in Total and by Type of Income, Income Years 1947-86

[All figures are estimates]

Income year	Total	Wages and salaries	Proprietors income ¹		Personal dividend income	Rental income of persons ²	Personal interest income	Taxable pensions and annuities	Taxable unemployment compensation	Taxable social security benefits
			Farm	Nonfarm						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(Percent)										
1947	12.2	3.5	73.9	6.5	8.1	55.8	44.5	40.9	—	—
1948	11.4	4.2	70.1	6.6	3.4	52.4	43.4	35.5	—	—
1949	11.6	4.9	69.4	11.4	3.7	44.9	41.5	20.5	—	—
1950	11.1	3.9	64.4	17.3	8.9	46.5	44.0	32.6	—	—
1951	11.6	4.1	67.1	19.4	9.1	48.3	46.4	35.0	—	—
1952	11.0	3.5	65.3	21.6	12.7	48.6	46.6	36.5	—	—
1953	11.0	3.4	63.0	25.2	15.3	47.8	50.0	39.5	—	—
1954	10.6	3.6	59.7	23.9	- .8	51.5	60.0	36.7	—	—
1955	10.3	3.4	53.5	24.1	1.5	54.7	62.5	42.2	—	—
1956	10.1	4.0	51.9	20.1	-1.0	53.6	62.5	47.0	—	—
1957	9.8	3.2	47.3	24.3	-3.2	56.6	62.6	43.7	—	—
1958	11.0	3.9	51.5	27.6	.6	50.7	62.9	43.1	—	—
1959	9.9	3.1	55.5	25.8	1.4	51.2	60.3	46.7	—	—
1960	10.5	3.4	60.4	27.8	4.3	49.6	58.3	47.7	—	—
1961	9.8	2.8	53.1	29.8	3.2	46.5	52.8	47.5	—	—
1962	10.1	3.2	55.2	29.2	3.6	44.5	51.5	42.7	—	—
1963	9.8	2.7	61.9	30.3	3.6	47.7	45.3	40.6	—	—
1964	10.2	3.1	57.9	31.3	7.6	52.6	46.9	41.5	—	—
1965	10.5	3.3	55.5	30.4	8.4	55.9	47.7	41.8	—	—
1966	9.9	3.4	51.5	30.3	-2.0	50.6	44.5	38.4	—	—
1967	9.1	2.6	50.3	30.0	1.6	55.6	42.4	39.2	—	—
1968	9.1	2.9	55.0	29.2	4.1	49.5	41.5	36.5	—	—
1969	9.0	2.4	58.3	31.6	2.7	54.6	39.5	37.2	—	—
1970	9.5	2.4	65.2	34.1	5.0	57.5	40.3	38.7	—	—
1971	9.7	2.3	69.9	36.9	7.8	56.7	37.7	38.6	—	—
1972	9.5	1.8	63.4	40.2	10.0	52.6	35.5	37.9	—	—
1973	10.7	2.4	62.9	41.5	12.9	47.0	35.3	34.8	—	—
1974	9.8	1.2	71.1	45.0	8.8	41.4	32.7	31.3	—	—
1975	9.6	1.7	68.1	47.9	3.7	41.3	28.2	28.6	—	—
1976	9.7	1.6	68.5	50.0	11.4	34.8	26.5	25.7	—	—
1977	10.7	2.1	90.0	50.2	15.5	45.8	31.4	23.9	—	—
1978	11.2	2.3	70.5	52.3	18.5	45.5	32.3	25.3	—	—
1979	11.0	1.5	82.2	55.0	21.6	53.1	32.9	25.5	28.9	—
1980	10.7	1.4	108.2	57.1	24.8	67.3	24.8	25.8	25.6	—
1981	10.9	1.3	150.2	61.3	32.9	82.8	18.9	25.7	25.9	—
1982	10.1	1.0	157.7	61.4	23.7	96.5	13.8	25.4	21.5	—
1983	11.7	1.5	174.9	60.7	30.7	112.0	14.4	24.7	24.8	—
1984	11.1	1.2	188.3	63.1	34.1	135.7	11.1	23.6	17.7	24.7
1985	11.4	2.0	148.6	61.8	26.7	143.7	7.4	24.2	17.5	25.2
1986	12.1	2.6	127.7	60.7	23.8	167.8	14.0	28.1	15.5	21.3

¹ With inventory valuation and capital consumption adjustments.² With capital consumption adjustment.³ Taxable social security benefits also include a small amount of taxable railroad retirement benefits.⁴ Consists of taxable portion of Government transfer payments to persons included in personal income—non-disability military retirement pay and Federal civilian and State and local Government employee retirement benefits in excess of employee contributions.⁵ Consists of other labor income, nontaxable portion of Government transfer payments to persons, business transfer payments, less personal contributions for social insurance.⁶ Statutory adjustments.⁷ Consists of partnership income retained by fiduciaries.⁸ Taxable private pensions represent the portion of non-Government pensions benefits received by individuals from annuity and pension plans in excess of the "investment in contract."⁹ Consists of partnership and estate or trust net incomes.¹⁰ Not computed.

Foreign Recipients of U.S. Income, and Tax Withheld, 1986

By Margaret P. Lewis*

Total U.S. source income paid to foreign persons (including individuals, corporations and other organizations) approached \$22 billion in 1986, a 25 percent increase over the amount for 1985 [1]. Tax withheld on this income rose by almost 23 percent, to more than \$1 billion.

The United Kingdom regained its position as recipient of the most U.S. source income, receiving \$3.7 billion in 1986, a 31-percent increase over the previous year. Japan showed the greatest increase, 56 percent, for a total of \$2.9 billion in U.S. source income in 1986. Income paid to the former leader, the Netherlands Antilles, dropped slightly to about \$2.9 billion, probably as a result of the Deficit Reduction Act of 1984.

BACKGROUND

A U.S. individual or organization paying income to a foreign individual (who, for tax purposes, was not a resident or citizen of the United States) or to a corporation or other organization that was not incorporated or organized in the United States reported this income and the U.S. tax withheld on Form 1042S, Foreign Persons' U.S. Source Income Subject to Withholding. Although the basic tax rate was 30 percent, certain types of income were taxed under the statute at lower rates [2]. Income paid to residents of countries that entered into tax-treaty agreements with the United States also was usually taxed at lower rates.

In most instances the tax withheld represented the total payment of the actual tax liability; the foreign recipients thus did not have to file a U.S. income tax return, because their tax liability had been satisfied at its source. The responsibility for withholding this tax belonged to the payer or a representative of the payer (usually a financial institution).

Income "effectively connected" with a foreign recipient's U.S. trade or business was exempt from withholding tax. The United States taxed the recipient on this income separately, as though it were received by a U.S. citizen or corporation. In this case, the foreign recipient was required to file an income tax return. Such income is generally not included in the statistics for U.S. source income presented here. See the "Explanation of Selected Terms" section of this article.

U.S. source income was taxed at a flat rate (generally 30 percent) rather than being subject to graduated tax rates as was the income of U.S. individuals and organizations (and "effectively connected" income of foreign persons). Most foreign persons receiving income from U.S. sources were not required to file U.S. income tax returns (which would require that they consolidate all of their U.S. income), because it is difficult for the United States to tax a foreign person on a net basis on income that is not effectively connected to a U.S. trade or business. Since it is difficult, if not impossible, for the Internal Revenue Service to verify expenses of a foreign person, the Internal Revenue Service taxes the foreign person's gross income. Also, the tax is not based on the foreign person's worldwide income so graduated rates may not be appropriate. Therefore, the flat rate provided for equitable taxation in situations involving foreign individuals or organizations who received income from more than one U.S. source.

RECENT LEGISLATION AND ITS IMPACT

The Deficit Reduction Act of 1984 removed the withholding tax on most interest payments made to foreigners. This exemption was effective for all qualified debt issues made after July 18, 1984. The Act was intended to reduce U.S. borrowing through tax-haven countries (discussed later in this article) and to encourage U.S. corporations to borrow foreign funds through direct Eurobond placements [3]. The interest paid on these new issues was exempted from withholding tax regardless of the recipient's country. The amounts, however, are still reported on Form 1042S and are included in these statistics.

The Social Security Amendments of 1983 required U.S. tax withholding on certain benefits paid to foreign persons beginning in 1984. At the same time, the Railroad Retirement Act of 1937 was also revised to require withholding on certain payments to foreigners. As a result, almost \$71 million in additional taxes was withheld in 1986 on \$769 million of social security and railroad retirement benefit payments.

DATA HIGHLIGHTS AND TRENDS

The \$4.3 billion, or 25 percent, increase in U.S. source income paid to foreign persons in 1986 over the amount paid in 1985 was primarily a result of increases in interest and dividend payments. The amount of interest paid to foreign persons increased almost \$2 billion, and dividend payments rose \$1.5 billion.

* Foreign Returns Analysis Section. Prepared under the direction of James Hobbs, Chief.

Foreign Recipients of U.S. Income, and Tax Withheld, 1986

The average payment rose slightly from 1985 levels, to just over \$20,000, but the average tax withheld remained virtually unchanged at \$1,000. These small changes are accounted for by steady increases in the number of forms filed, along with increases in the amount of income paid and tax withheld. The average effective tax rate (tax withheld as a percentage of total income) for all countries fell almost imperceptibly for 1986 to 5.3 percent, a decrease of only 0.1 percent. This low average effective tax rate on income paid to foreign persons shows the continued dominance of income exempt from withholding or subject to reduced withholding rates.

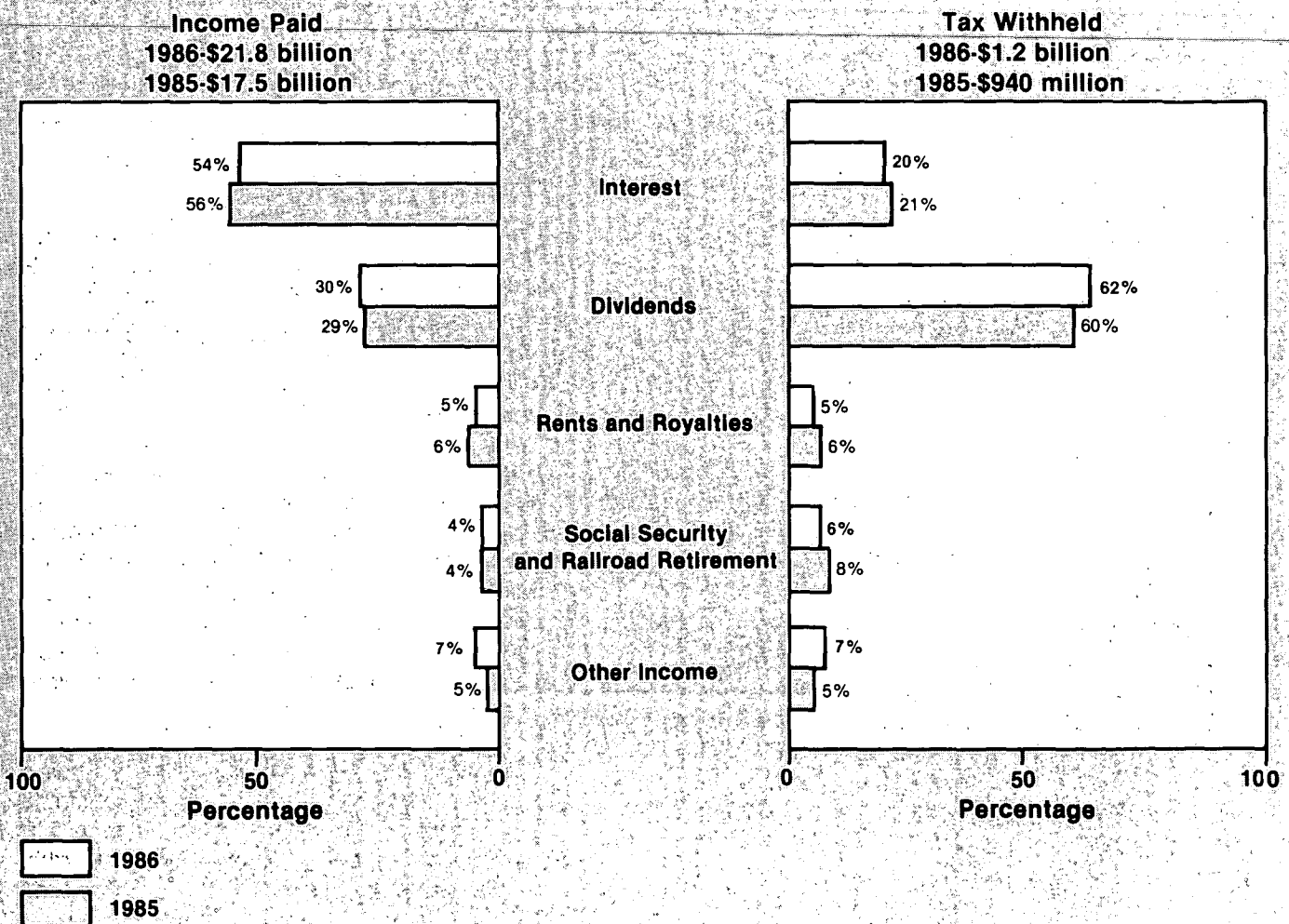
TYPES OF INCOME

As Figure A shows, interest remained the dominant form

of income paid in 1986, accounting for 54 percent of all income paid, a decrease of two percentage points from 1985. This decrease was partially caused by a rise in dividend payments and a rise in such other types of income payments as compensation for personal services. Dividends paid, as a percentage of all income paid in 1986, rose by one percentage point to 30 percent. In contrast, tax withheld on dividends accounted for 62 percent of the total tax withheld. This discrepancy stems from the fact that dividends are rarely exempt from withholding. Although interest made up more than half of all income paid, tax withheld on interest accounted for only 20 percent of all tax withheld, because most types of interest were exempt from withholding tax due to the 1984 Act and to treaty exemptions or reductions for other than portfolio interest.

Figure A

Percentage of Total Income Paid and Total Tax Withheld, by Income Type, 1985 and 1986



Statistics on social security and railroad retirement benefit payments are available for only the second year in 1986. While these payments accounted for only 4 percent of total income paid in 1986, they made up over one-quarter of the total number of payments made. In 1986, social security and railroad retirement benefit payments accounted for \$769 million of U.S. source income. (See Figure B.) Tax withheld on these payments totaled \$71 million. As in 1985, the most likely recipients of this income were individuals in Canada and Mexico who together received more than 40 percent of all social security and railroad retirement benefit payments in 1986. Because these countries border the United States many of their residents are likely to have worked in the United States at one time or another.

Figure B
Percentage and Amount of Social Security and Railroad Retirement Payments to Recipients in Selected Countries, 1986

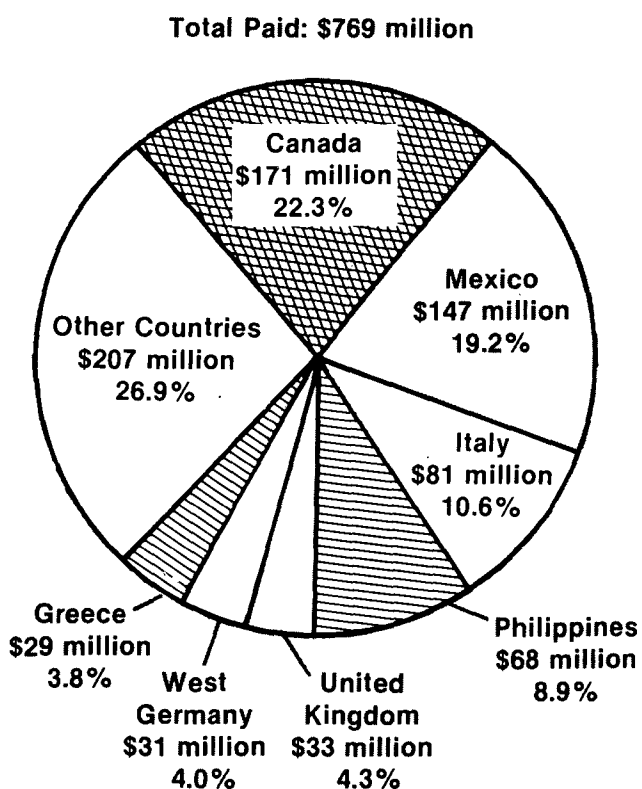


Figure C shows the percentage of interest, dividends, and rents and royalties received by individuals, corporations, and all recipients in the nine countries that received the largest amounts of income in 1986. Although interest made up more than half of all income received, only six of these nine countries received more interest than other types of income. The United Kingdom, Switzerland, and France received more dividends than interest.

Whereas corporations received mostly interest, individuals were more likely to receive dividends than other types of income. Only in the Netherlands Antilles and West Germany did individuals receive more interest than dividends. Rents and royalties continued to make up a small portion of income paid to most countries. Only France and Japan received as much as 10 percent of their income in the form of rents and royalties. As in the past, France collected three times the average percentage in rents and royalties. Industrial royalties made up 86 percent of all royalties paid to France. These include royalties for the use of, or the privilege of using, trademarks, patents, secret processes and formulas, goodwill, franchises, and similar rights.

The data on Belgium may be somewhat misleading since Belgian nominees once again received large interest payments (over \$1 billion). Therefore, the final recipients of these payments may not have been Belgian residents.

COUNTRY OF RECIPIENT

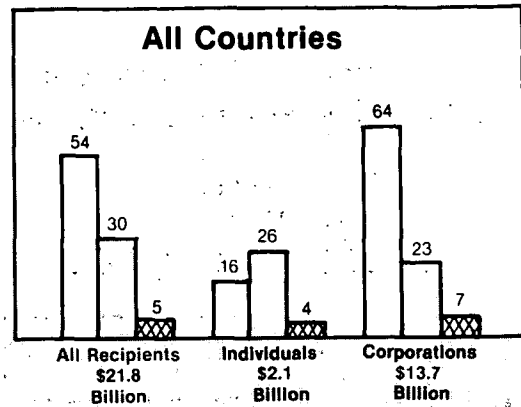
Payments to residents of the United Kingdom accounted for 17 percent of all U.S. source income paid in 1986, as Figure D shows. Although the nine countries shown in this figure accounted for more than 80 percent of all U.S. source income paid in 1986, their share of the total has fallen over the years, which is indicative of the growing dispersion of U.S. payments.

Figure E shows the amounts of income paid in 1986 and the percentage change from 1985 to 1986 for the nine largest recipients of U.S. source income. Income paid to residents of Japan rose from \$1.8 billion in 1985 to almost \$2.9 billion in 1986, an increase of 56 percent. This increase follows a 32 percent increase in income paid to residents of Japan from 1984 to 1985. These changes reflect the continued heavy investment in the United States by Japanese residents.

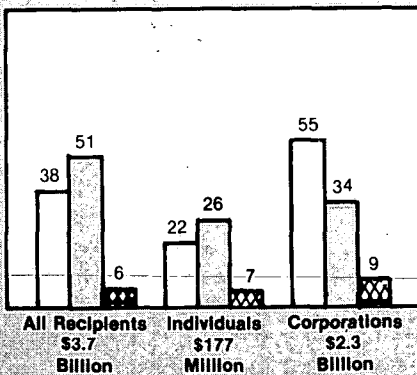
Of the top nine countries, only the Netherlands Antilles showed a decrease in U.S. source income from 1985 to 1986. This decrease may stem from a number of causes, the most noteworthy being the removal of the withholding tax on most types of interest for issues made after July 1984. As previously mentioned, the intent of this change was partly to decrease interest paid to the Netherlands

Figure C
Percentage of Income Paid by Selected Income Type, Selected Recipient Type, and Selected Country of Recipient, 1986

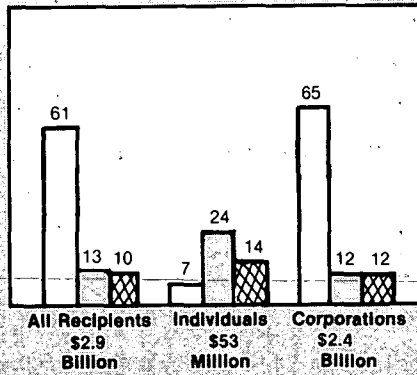
Interest
 Dividends
 Rents and Royalties



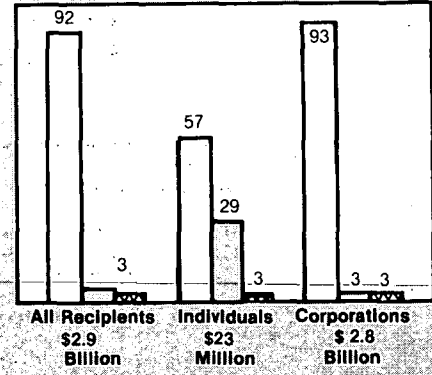
United Kingdom



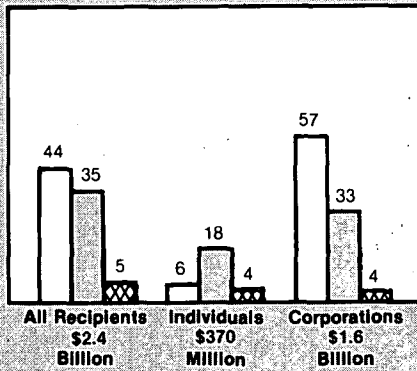
Japan



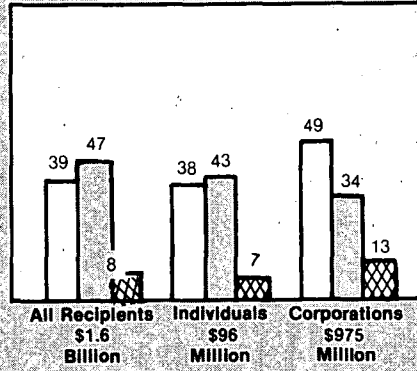
Netherlands Antilles



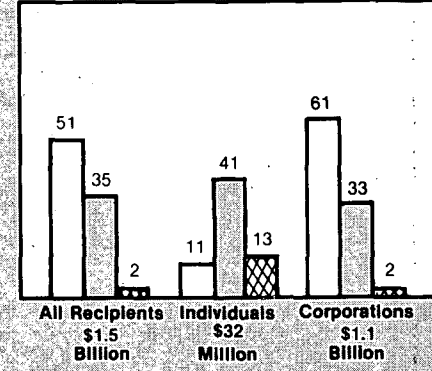
Canada



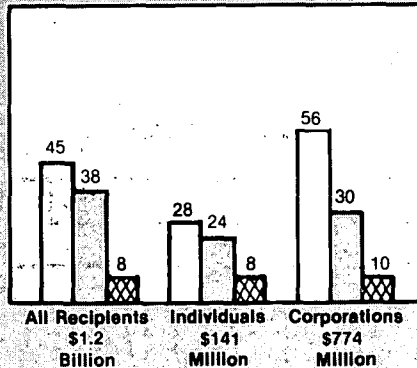
Switzerland



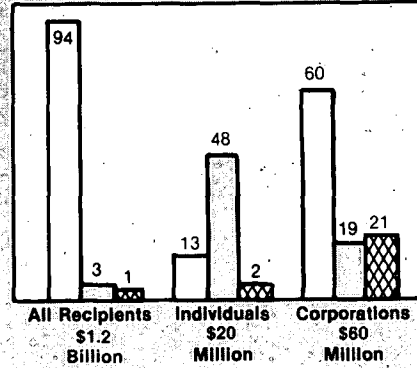
Netherlands



West Germany



Belgium



France

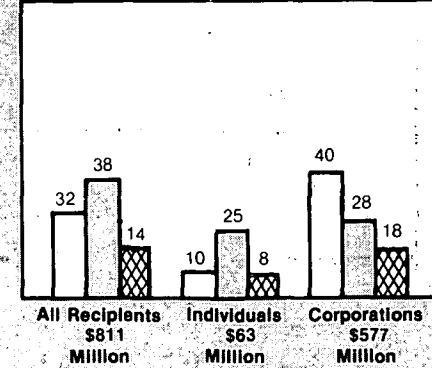
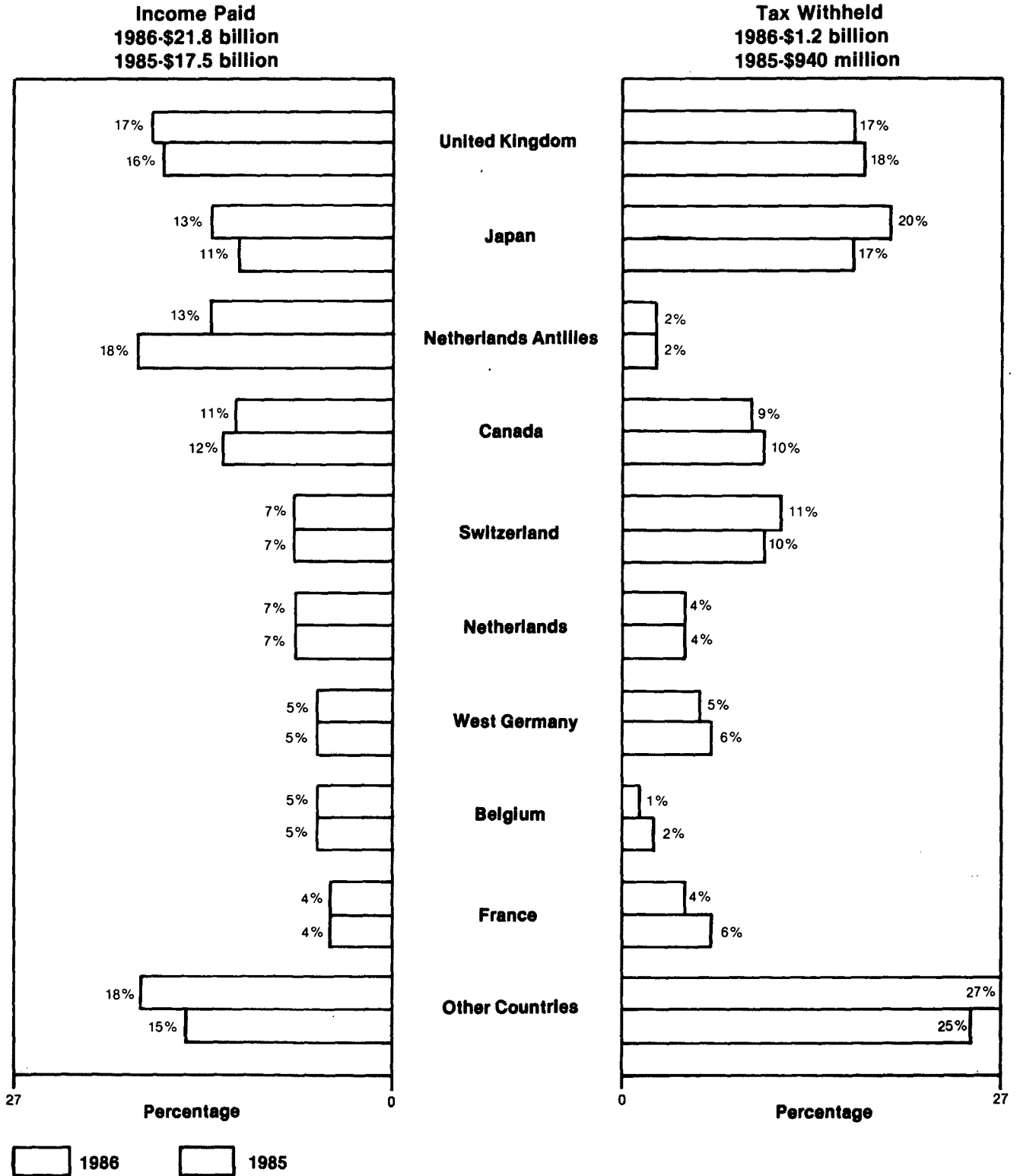


Figure D

Percentage of Total Income Paid and Total Tax Withheld, by Country of Recipient, 1985 and 1986



Foreign Recipients of U.S. Income, and Tax Withheld, 1986

Figure E.—Total Income Paid in 1986 and Percentage Change in Income Paid to Selected Countries, 1985 to 1986

[Money amounts in thousands of dollars]

Selected country	Income paid in 1986	Percentage increase, 1985 to 1986
All countries.....	\$21,814,442	25%
Japan.....	2,868,405	56
Belgium.....	1,161,303	32
United Kingdom.....	3,716,554	31
Netherlands.....	1,476,412	27
West Germany.....	1,192,063	27
Switzerland.....	1,587,487	25
Canada.....	2,436,500	20
France.....	810,560	15
Netherlands Antilles.....	2,866,169	-9
Other countries.....	3,698,989	37

Antilles by facilitating borrowing directly from persons in other countries that are not considered tax havens (see the "Tax Haven Countries" section of this article).

Another possible cause of the drop in U.S. source income paid to the Netherlands Antilles is the recent uncertainty of the United States-Netherlands Antilles tax treaty. The treaty had been under negotiation for some time while the United States attempted to introduce rules to prevent the use of the United States-Netherlands Antilles treaty by residents of a third country for channelling third-country investment into the United States. In June 1987, the U.S. Treasury Department unconditionally canceled the United States-Netherlands Antilles treaty but later reinstated the exemption from tax of interest paid to Netherlands Antilles residents [4].

TAX WITHHELD AND EFFECTIVE TAX RATES BY COUNTRY

The overall effective tax rate fell off slightly once again in 1986 to 5.3 percent (from 5.4 percent in 1985). The overall effective tax rate was much lower than the basic U.S. withholding rate of 30 percent for a number of reasons:

- Tax treaties allow for lower tax rates on certain types of payments made to residents of certain countries.
- U.S. income paid to foreign government organizations is generally not taxed.
- Most U.S. income paid to foreign private foundations is taxed at only a 4 percent rate.
- The statutory rate for social security and railroad retirement benefit payments is 15 percent.
- The Tax Reform Act of 1984 removed the withholding tax on most types of interest.

These factors result in considerable variation among countries (as well as among types of recipients and income

paid) in the effective U.S. withholding-tax rate (tax withheld as a percentage of total income paid).

Figure F ranks the 15 countries with the lowest effective U.S. withholding-tax rates for 1986. Tax withheld by foreign governments and foreign withholding agents is not included in this figure (except for Canada), because such tax cannot be properly attributed to income for a particular year (as is discussed in the "Data Sources and Limitations" section). This tax is, however, shown in Table 1 at the end of this article. Only countries receiving at least 500 payments and \$1 million or more of U.S. source income were considered for this ranking.

Figure F.—Ranking of 15 Countries With Lowest Effective U.S. Tax Rates, 1986

[Money amounts in thousands of dollars]

Country	Total income	Tax withheld	Effective U.S. tax rate ¹
	(1)	(2)	(3)
All countries ¹	\$21,814,442	\$1,152,917	5.29%
United Arab Emirates.....	355,653	409	0.11
New Zealand.....	173,269	482	0.28
Netherlands Antilles.....	2,866,169	20,536	0.72
Singapore.....	137,687	1,258	0.91
Belgium.....	1,161,303	12,012	1.03
Saudi Arabia.....	184,212	2,073	1.13
Malta.....	1,552	37	2.39
Cayman Islands.....	126,513	4,183	3.31
Netherlands.....	1,476,412	51,094	3.46
Finland.....	21,831	775	3.55
Puerto Rico.....	13,559	560	4.13
Canada.....	2,436,500	107,746	4.42
Italy.....	190,414	8,519	4.47
Bahrain.....	19,543	910	4.65
Taiwan.....	25,277	1,245	4.93
Other countries ¹	12,624,548	941,078	7.45

¹ Includes all other countries not listed, regardless of number of payments or amount of income paid.

The countries with the lowest effective tax rates remained almost the same in 1986 as in 1985. As in previous years, the United Arab Emirates had the lowest effective tax rate, 0.11 percent, compared with the average for all countries of 5.29 percent. Although the United Arab Emirates is not a treaty country, most U.S. source income paid to the United Arab Emirates was paid to government organizations, which are generally exempt from withholding tax. Trinidad and Tobago and Egypt are no longer included because their effective tax rates rose above the average. For 1986, there were 15 countries with effective tax rates lower than 5 percent. The four newcomers to this list were Finland, Italy, Bahrain, and Taiwan. Finland and Italy, like six of the other countries on the list, are treaty countries and receive the benefit of reduced withholding-tax rates (see the "Tax-Treaty Countries" section which follows). Bahrain and Taiwan are not treaty countries, but more than 85 percent of the income paid to recipients in these countries was in the form of interest, which was generally exempt from withholding tax.

Not included in Figure F are some of the largest recipients of U.S. source income, including the United Kingdom

and Japan, which had effective tax rates of 5.4 percent and 7.9 percent, respectively. Residents of these countries, while benefiting from treaties with the United States, nevertheless pay more taxes than residents of the countries listed in Figure F, because taxable income accounted for a greater percentage of the income paid to residents of these countries than it did to the residents of the listed countries. For example, the United Kingdom and Japan received large amounts of U.S. dividends, which are rarely exempt from the withholding tax under tax treaties.

TAX-TREATY COUNTRIES

To avoid double taxation of income earned in one country by residents of another, the United States has negotiated tax treaties with many countries that reduce the withholding rates in both countries [5]. Presumably any losses in withholding-tax revenue resulting from tax treaties may be offset at least in part by a reduction in the foreign tax credits against U.S. income tax claimed by U.S. individuals and corporations. In other words, reciprocal tax treaties generally provide for a reduced withholding rate for U.S. recipients of foreign income and for foreign recipients of U.S. income. Because U.S. individuals and corporations consequently may have less foreign tax withheld, their foreign tax credits may be reduced or their U.S. tax liability may be raised.

Figure G compares the effective tax rates on payments to recipients in treaty countries (4.9 percent) with those in nontreaty countries (8.3 percent). There is little difference between the average effective tax rate for all countries and that for treaty countries, because nearly 90 percent of all U.S. source income was paid to residents of treaty countries such as the United Kingdom, Japan, the Netherlands Antilles, and Canada. Also, the exemption of interest from the withholding tax helped to lower the overall effective tax rate. (For a list of many of the tax-treaty and nontreaty countries and comparative data on income paid and tax withheld, see Table 1.)

Figure G.—Total Income, Tax Withheld and Effective U.S. Tax Rates for Treaty and Nontreaty Countries, 1986

[Money amounts in thousands of dollars]

Treaty status	Total income	Tax withheld	Effective U.S. tax rate
	(1)	(2)	(3)
All countries.....	\$21,814,442	\$1,152,917	5.3%
Treaty countries.....	19,210,626	937,006	4.9
Nontreaty countries.....	2,603,816	215,911	8.3

Residents in tax-treaty countries typically enjoyed lower U.S. withholding-tax rates than did recipients in other countries. When U.S. source income was paid to a foreign nominee or fiduciary in a treaty country on behalf of a person in a country not entitled to the treaty benefit the full 30 percent U.S. tax should have been imposed. In some

cases U.S. treaty partners collected the additional amounts on behalf of the United States (as shown in Table 1, column 7). These amounts are not included in the tax withheld data cited in Figure G and elsewhere in this article (for reasons explained in the "Data Sources and Limitations" section). In other cases, however, the U.S. treaty partners did not collect the tax.

Although tax treaties between the United States and various foreign countries are intended to benefit only U.S. residents and residents of the treaty country, others could indirectly benefit by investing through a treaty country. Some tax-treaty countries were also considered tax havens because of their favorable tax and secrecy laws (discussed in the section on tax havens below). The most notable of these tax-treaty/tax-haven countries is the Netherlands Antilles, a U.S. treaty partner for the past 30 years.

For a number of years, the Netherlands Antilles has served as the major conduit for placements of Eurobond issues and for other foreign borrowing by U.S. corporations. U.S. companies set up financial affiliates in the Antilles to borrow large amounts of foreign monies which they relend to the U.S. parent or other affiliates. The interest payments from the parent company to the Netherlands Antilles affiliate are exempt from U.S. tax withholding under the remaining portion of the United States-Netherlands Antilles treaty. The financial affiliates receive the interest as income but have little net income for Netherlands Antilles tax purposes because the interest payments to the third-country lenders are deductible for Netherlands Antilles tax purposes. There is no withholding tax imposed by the Government of the Netherlands Antilles on these interest payments.

Although the Deficit Reduction Act of 1984 attempted to reduce such borrowing through tax haven countries by exempting most interest payments from the withholding tax, as of July 1987 there remained more than \$30 billion worth of outstanding Eurobond issues made through the Netherlands Antilles before July 18, 1984, the effective date of this portion of the Act [6]. The interest paid on this debt is still subject to reporting on Forms 1042S and therefore should be included in these statistics.

TAX HAVEN COUNTRIES

Tax havens are generally considered to be countries having tax and secrecy laws favorable to foreign individuals and organizations. They attempt to attract foreign investors by offering taxation lower than that imposed by the investor's own country or by other foreign countries. The tax-haven country typically benefits by collecting certain fees or by imposing taxes at a low rate. Tax-haven countries tend to have the following characteristics:

- Low or zero withholding tax on most payments from the tax-haven country to foreign individuals and organizations;
- Low or zero effective income tax rates for foreign individuals and organizations operating within the tax-haven country; and
- Secrecy laws to prevent foreign governments from obtaining financial information about their own citizens and organizations.

Low or zero withholding tax rates are designed primarily to attract foreign individuals and corporations to invest through the tax haven, rather than to provide a tax benefit to the residents of the country, although a number of tax-haven countries have low tax rates in an effort to attract capital investment into the country, as well as financial investment.

In addition to tax-haven countries, almost any treaty country can be an attractive conduit for third-country residents to invest in the United States with little or no withholding tax. All treaties may be subject to abuse by these third-country parties, and so new treaties with all countries now generally deny treaty benefits to residents of the treaty partner if those benefits flow through to third-country residents. There is generally an exception to this rule, in different forms, depending on the treaty, if the resident of the treaty partner is engaged in an active business in the treaty country and is not established or maintained merely to take advantage of the treaty. This is to prevent persons not entitled to treaty benefits from funneling U.S. source income through the treaty countries in order to minimize tax liability.

Almost three-fourths of the \$7.1 billion of U.S. source income paid to tax-haven countries was paid to corporate recipients [7]. For non-tax-haven countries, corporations received 57 percent of U.S. source income. In addition, tax-haven countries received a disproportionately large amount of interest; two-thirds of the income paid to residents of tax-haven countries was in the form of interest. By comparison, non-tax-haven countries received 48 percent of their total U.S. source income in the form of interest.

TYPE OF RECIPIENT

Corporations received 63 percent of all U.S. source income paid to foreign persons in 1986, but the percentage of tax withheld on this income was only 55 percent of all tax withheld. One reason for this difference was that direct investment dividends (dividends paid on the investment of a parent company in a subsidiary or other affiliate) were subject to a lower tax rate under some tax treaties than were portfolio dividends.

The next two largest classes of income recipients were individuals and nominees and fiduciaries, accounting for 19 and 13 percent, respectively, of the total tax withheld on U.S. source income paid to foreign persons. This was a disproportionately large part of the total for all recipients relative to the percentage of income individuals and nominees and fiduciaries received (10 percent each). Figure H shows the distribution of income received and tax withheld by various types of income for the various categories of foreign recipients.

The discrepancy in the total percentages of income paid and percentage of tax withheld is reflected in the 4.3 percent effective U.S. withholding-tax rate for corporations, compared with the effective tax rate of 9.7 percent for noncorporate recipients. The effective tax rate for corporations has shown a gradual decline since 1979 (when the rate was 9.2 percent) as a result of a steady increase in interest payments (caused by high U.S. interest rates in the late 1970's and early 1980's) to foreign corporations, which were generally subject to low or zero withholding-tax rates.

Government, international, and foreign tax-exempt organizations received 1.6 percent of total U.S. source income paid to foreign persons, yet accounted for only 0.3 percent of the total tax withheld in 1986. This was because more than 89 percent of U.S. source income paid to these organizations was exempt from the U.S. withholding tax [8].

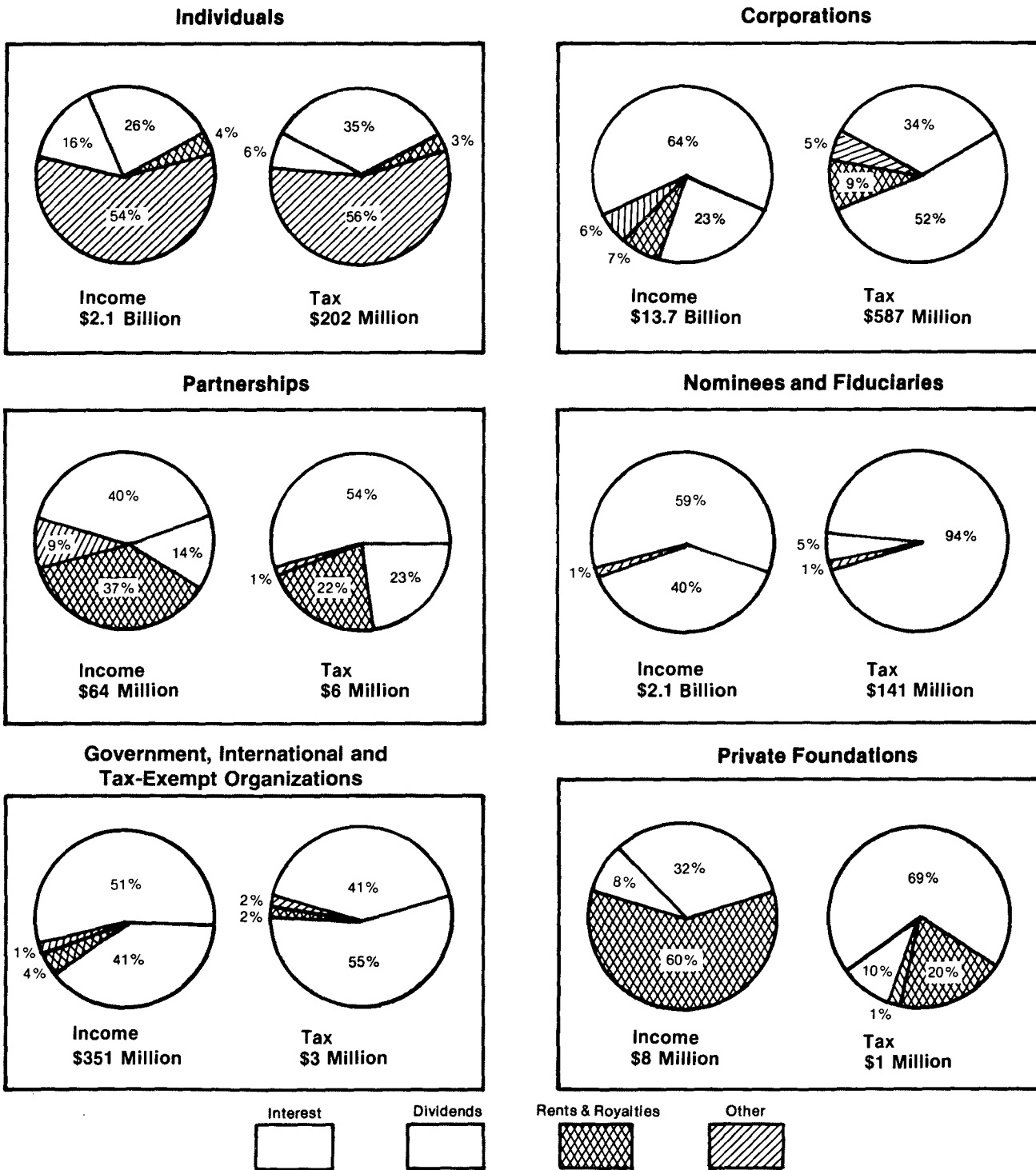
Foreign governments received the largest average payment of U.S. source income (\$391,425), reflecting large interest and dividend payments from their investment in the United States. The average payment to corporations was \$165,380. Individuals received by far the smallest average payment, \$2,569.

All recipients except individuals and private foundations received more interest than any other type of income in 1986. Private foundations received more rents and royalties; individuals received primarily "other" types of income, including 100 percent of all social security and railroad retirement benefit income and more than 80 percent of all compensation for personal services [9]. For every type of recipient except individuals and partnerships, tax withheld on dividends far exceeded tax withheld on any other income type.

SUMMARY

U.S. source income paid to foreign persons rose 25 percent in 1986 to \$21.8 billion. The largest recipient of this income was the United Kingdom with \$3.7 billion. However, Japan became the second largest recipient of U.S. source income, up from \$1.8 billion in 1985. Total U.S. source income paid to Japanese recipients rose by 56 percent in 1986, to \$2.9 billion. The removal of withholding tax on

Figure H
Percentage of Income Paid and Tax Withheld, by Income and Recipient Types, 1986



interest due to the Deficit Reduction Act of 1984 continued to impact on the amount of U.S. source income paid to foreign persons in 1986. Interest remained the most common type of income, accounting for 54 percent of the total paid in 1986.

Corporations, which accounted for 63 percent of the total income paid, remained the largest class of recipients of U.S. source income while foreign governments received the largest average payment (\$391,425).

Tax withheld on income paid to foreign persons rose 23 percent, to exceed \$1 billion for the first time. Tax withheld on dividends made up the major portion of all tax withheld (62 percent).

DATA SOURCES AND LIMITATIONS

Payers of most U.S. source income to foreign persons must withhold tax in accordance with the Internal Revenue Code. Form 1042S, Foreign Persons' U.S. Source Income Subject to Withholding, is filed by the payer to report this income and the U.S. tax withheld. Often a financial institution acts as the payer's withholding agent.

The statistics in this article were tabulated by calendar year, based on all Forms 1042S filed with the IRS in 1986. The amounts shown represent the income that was paid and the U.S. tax that was withheld in 1986, except for U.S. tax withheld by foreign governments and withholding agents (which reflects the amount of tax remitted to the United States under treaty agreements during 1986). This additional tax, therefore, cannot be properly attributed to specific income types and years. For this reason, tax withheld amounts and percentages shown in Table 2 and Figures A, D, and F through H do not include tax withheld by foreign governments and foreign withholding agents (except for Canada, which remits its tax payments during the same calendar year in which the U.S. income is paid).

Income that is "effectively connected" with a foreign person's U.S. trade or business is not subject to withholding tax, and is therefore generally not included in these statistics [10]. This category of income was subject to the same graduated tax rates and methods of payment as the income of U.S. individuals and corporations.

Because all Forms 1042S are included in the statistics, the data are not subject to sampling error. However, the data are subject to nonsampling error, such as computer data entry errors and minor taxpayer reporting errors. A limited computerized program was used to test the data for certain basic numerical relationships, including the calculation of the correct tax withheld. In addition, Forms 1042S with income greater than \$1 million were manually verified.

EXPLANATION OF SELECTED TERMS

Foreign Person.—For purposes of this article, foreign persons include (a) individuals whose residence (for tax purposes) is not within the United States and who are not U.S. citizens; and (b) corporations and other organizations, including partnerships, private foundations, estates, trusts, and charitable organizations, created or organized outside the United States. Persons residing in Puerto Rico and other U.S. possessions also are considered foreign persons for purposes of the income and withholding tax discussed in this article.

Income Effectively Connected With a U.S. Trade or Business.—Income that is "effectively connected" with the conduct of a trade or business in the United States is exempt from withholding tax. This income is subject to substantially the same tax rates that apply to U.S. citizens, residents, and corporations. When a foreign corporation, for instance, has a business operation in the United States, it has to file a U.S. income tax return on Form 1120F and pay appropriate taxes on the income of this operation. When this income is then remitted by this U.S. branch of a foreign corporation to the foreign parent corporation, it is generally not subject to further U.S. taxation [11]. In all but rare (and indeterminable) circumstances, these amounts are not included in these statistics.

Nominee and Fiduciary.—An entity chosen or appointed to accept income for, or act on behalf of, the eventual recipient of the income. Typically, a financial institution acts as a nominee or fiduciary.

Resident (of a jurisdiction other than the United States).—A resident is a foreign "person" as described above.

Withholding Agent.—Any person (individual, corporation, partnership, estate, or trust) required to withhold tax. Usually the withholding agent is the payer of the income or a "person" (usually a financial institution) acting on behalf of the payer. A foreign nominee or fiduciary required to withhold additional tax under a tax treaty is also a withholding agent. Foreign governments may also act as withholding agents by withholding additional taxes on persons who are not entitled to the treaty rates.

NOTES AND REFERENCES

- [1] U.S. source income includes, but is not limited to, interest, dividends, rents, royalties, capital gains, and compensation for personal services paid to foreign persons from sources within the United States. These types of income are subject to a withholding tax at the source. The U.S. source income discussed in this article excludes bank deposit interest and income "effectively connected" with a U.S. trade or business.

- (See the "Explanation of Selected Terms" section of this article.) For a further discussion of U.S. source income, see U.S. Department of the Treasury, Internal Revenue Service, *Withholding of Tax on Nonresident Aliens and Foreign Corporations*, Publication 515, November 1986.
- [2] For an explanation of the varying withholding rates, see IRS Publication 515.
- [3] Eurobond placements are U.S. corporate bonds placed in foreign markets that are denominated and sold in dollars and that also yield dollar interest.
- [4] For a further discussion of the repeal and reinstatement of the United States-Netherlands Antilles treaty, see Margaret P. Lewis, "Foreign Recipients of U.S. Income, and Tax Withheld, 1985," *Statistics of Income Bulletin*, Fall 1986, Volume 7, Number 2.
- [5] For a list of specific tax treaty countries and their appropriate withholding rates, see IRS Publication 515.
- [6] Figures compiled by Salomon Brothers, Inc., and reported in the *Wall Street Journal*, June 30, 1987.
- [7] For a complete list of tax-haven countries used in this figure, see Senate Report 99-130, *Crime and Secrecy: The Use of Offshore Banks and Companies*, Report by the Permanent Subcommittee on Investigations of the Committee on Governmental Affairs, U.S. Senate, August 28, 1985.
- [8] Foreign tax-exempt organizations are those corporations that would be tax-exempt under U.S. law despite the fact that they are incorporated in a foreign country. The tax exemption applies only to income "effectively connected" to the organization's tax-exempt purpose or function, however, tax-exempt organizations may be taxed on "unrelated business income." See IRS Publication 515.
- [9] Compensation for business services are generally not included in these data because such compensation is assumed to be "effectively connected" with a U.S. trade or business and therefore not subject to the withholding tax. See also "Data Sources and Limitations" and "Explanation of Selected Terms" for additional information.
- [10] Statistics on foreign corporations with "effectively connected" income derived from U.S. sources are presented, for 1983, in the *Statistics of Income Bulletin*, Summer 1987, Volume 7, Number 1, and for 1979-1982 in *Statistics of Income—1979-1983, Compendium of Studies of International Income and Taxes*.
- [11] For further information on foreign corporations with effectively connected income, see James R. Hobbs, "Foreign Investment and Activity in the United States by Corporations, 1983," *Statistics of Income Bulletin*, Summer 1987, Volume 7, Number 1.

Foreign Recipients of U.S. Income, and Tax Withheld, 1986

Table 1.—Forms 1042S: Number of Returns, Total Income Paid, Tax Withheld, by Selected Treaty and Nontreaty Countries

(Money amounts are in thousands of dollars)

Country or geographic area	Number of Forms 1042S	Income paid			Tax withheld		
		Total	Exempt from withholding	Subject to withholding	Total	By domestic withholding agents	By foreign government and withholding agents
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Total	1,076,088	21,814,442	12,580,633	9,233,809	1,223,741	1,152,917	70,824
Treaty countries, total	798,743	19,210,626	10,933,874	8,276,752	1,007,830	937,006	70,824
Australia.....	17,130	167,901	90,007	77,894	11,652	11,652	—
Austria.....	4,570	37,773	20,741	17,033	2,681	2,681	—
Belgium.....	12,227	1,161,303	1,082,650	78,653	13,630	12,012	1,618
Canada.....	349,378	2,436,500	1,686,281	750,219	107,746	107,746	—
Denmark.....	3,298	53,499	22,132	31,367	2,866	2,861	5
Egypt.....	712	1,932	960	972	173	173	—
Finland.....	1,199	21,830	13,897	7,933	775	775	—
France.....	22,365	810,842	344,890	465,952	48,515	48,050	465
Greece.....	15,645	41,483	7,160	34,323	5,766	5,766	—
Ireland.....	8,415	34,200	11,633	22,567	3,474	3,307	167
Italy.....	33,776	190,414	73,075	117,339	8,519	8,519	—
Jamaica.....	2,094	6,438	1,129	5,309	774	774	—
Japan.....	14,144	2,868,405	711,593	2,156,812	227,095	227,095	—
Luxembourg.....	4,100	120,111	64,746	55,365	14,603	13,376	1,227
Netherlands.....	11,059	1,476,412	930,329	546,083	51,699	51,094	605
Netherlands Antilles.....	4,039	2,866,169	2,686,922	179,247	20,638	20,638	—
New Zealand.....	2,480	173,269	6,872	166,397	482	482	—
Norway.....	6,561	31,337	16,146	15,191	2,340	2,340	—
Philippines.....	29,981	79,435	4,649	74,786	11,393	11,393	—
Poland.....	2,817	12,629	2,460	10,169	1,500	1,500	—
South Africa.....	2,564	5,215	932	4,283	1,167	1,167	—
Sweden.....	8,244	87,385	21,449	65,936	8,693	8,693	—
Switzerland.....	37,292	1,587,487	465,475	1,122,012	196,759	131,519	65,240
Trinidad and Tobago.....	1,023	5,025	2,710	2,315	361	361	—
United Kingdom.....	131,838	3,716,554	1,855,792	1,860,762	200,990	199,493	1,497
West Germany.....	67,018	1,192,063	796,251	395,812	61,074	61,074	—
Other treaty countries.....	4,774	25,015	12,993	12,022	2,465	2,465	—
Nontreaty countries, total	277,345	2,603,816	1,646,759	957,057	215,911	215,911	—
Argentina.....	8,228	19,882	7,711	12,171	2,876	2,876	—
Bahamas.....	3,297	95,593	50,312	45,281	12,625	12,625	—
Barbados.....	686	6,696	3,243	3,453	651	651	—
Bermuda.....	2,058	177,685	107,327	70,358	20,542	20,542	—
Brazil.....	4,918	15,185	5,954	9,231	2,233	2,233	—
British Virgin Islands.....	781	31,012	15,693	15,319	4,531	4,531	—
Cayman Islands.....	1,637	126,513	112,239	14,274	4,183	4,183	—
Hong Kong.....	14,761	123,874	63,426	60,448	16,977	16,977	—
Israel.....	6,166	17,142	5,374	11,768	2,635	2,635	—
Jersey.....	670	17,896	6,988	10,908	3,224	3,224	—
Kuwait.....	1,616	53,749	43,821	9,928	2,911	2,911	—
Liberia.....	660	35,126	16,994	18,132	5,418	5,418	—
Liechtenstein.....	1,776	34,899	15,226	19,673	5,829	5,829	—
Mexico.....	84,261	247,956	60,331	187,625	32,992	32,992	—
Panama.....	7,896	181,314	110,787	70,527	19,543	19,543	—
Portugal.....	7,007	21,087	1,932	19,155	3,000	3,000	—
Puerto Rico.....	5,461	13,559	11,242	2,317	560	560	—
Saudi Arabia.....	4,363	184,212	177,101	7,111	2,073	2,073	—
Singapore.....	5,437	137,687	133,388	4,299	1,258	1,258	—
Spain.....	9,593	40,251	14,126	26,125	5,976	5,976	—
Taiwan.....	2,252	25,277	20,257	5,020	1,245	1,245	—
United Arab Emirates.....	876	355,653	354,253	1,400	409	409	—
Venezuela.....	7,796	25,232	14,403	10,829	2,973	2,973	—
Other nontreaty countries.....	95,149	616,336	294,631	321,705	61,247	61,247	—

Foreign Recipients of U.S. Income, and Tax Withheld, 1986

Table 2.—Forms 1042S: Number of Returns, Tax Withheld, and Total Income Paid by Income Type, by Selected Recipient Type and Country of Recipient

[Money amounts are in thousands of dollars]

Country or geographic area and recipient type	Number of Forms 1042S	Tax withheld	Income paid					Social security and railroad retirement	Personal service
			Total	Interest	Dividends	Rents and royalties	Dividends		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
All countries, total	1,076,088	1,152,917	21,814,442	11,780,561	6,506,986	1,191,662	768,668	513,452	
Individuals	814,418	202,493	2,092,217	326,884	553,345	89,906	768,668	163,594	
Corporations	82,982	586,958	13,723,544	8,769,519	3,180,687	1,012,784	—	285,257	
Argentina	8,228	2,876	19,882	7,801	4,517	220	3,200	2,673	
Individuals	6,788	2,278	14,506	4,130	3,345	55	3,200	2,609	
Corporations	355	336	1,935	1,307	346	70	—	(1)	
Australia	17,130	11,652	167,901	70,308	46,461	13,403	3,566	27,310	
Individuals	13,595	2,982	18,143	1,187	4,622	1,071	3,566	4,577	
Corporations	1,156	3,598	98,972	63,850	11,842	7,713	—	12,261	
Austria	4,570	2,681	37,773	17,702	11,311	529	3,004	1,256	
Individuals	3,072	1,212	9,543	615	2,456	102	3,004	1,198	
Corporations	355	1,067	22,438	14,635	6,396	307	—	25	
Bahamas	3,297	12,625	95,593	48,530	39,742	3,088	676	245	
Individuals	1,270	861	6,496	1,395	2,928	963	676	183	
Corporations	1,085	5,133	32,797	16,426	14,081	2,114	—	48	
Bahrain	583	910	19,543	16,944	2,378	175	—	15	
Individuals	492	211	8,085	7,386	542	143	—	12	
Corporations	48	381	5,424	4,153	1,211	32	—	(1)	
Barbados	686	651	6,696	3,178	2,401	4	1,008	4	
Individuals	537	246	2,231	629	484	4	1,008	4	
Corporations	55	238	1,852	492	1,360	—	—	(1)	
Belgium	12,227	12,012	1,161,303	1,097,235	40,359	12,823	1,764	2,936	
Individuals	8,397	2,440	20,319	2,567	9,750	412	1,764	2,734	
Corporations	1,190	5,718	59,722	35,647	11,415	12,344	—	126	
Bermuda	2,058	20,542	177,685	77,333	47,457	21,810	477	5,998	
Individuals	1,021	2,188	10,221	1,298	7,256	2	477	893	
Corporations	439	12,121	114,746	43,459	25,953	17,703	—	5,105	
Bolivia	647	181	2,103	1,384	534	17	149	3	
Individuals	454	145	939	335	445	(1)	149	2	
Corporations	21	9	665	628	12	16	—	—	
Brazil	4,918	2,233	15,185	5,968	3,245	583	2,820	1,683	
Individuals	3,897	1,640	11,262	3,529	2,207	403	2,820	1,472	
Corporations	229	335	1,909	1,389	396	107	—	1	
British Virgin Islands	781	4,531	31,012	15,583	4,779	10,605	21	2	
Individuals	292	114	979	662	266	29	21	—	
Corporations	258	4,045	27,031	13,318	3,134	10,575	—	2	
Canada	349,378	107,746	2,436,500	1,074,545	863,670	115,076	171,351	50,680	
Individuals	280,599	25,531	370,313	23,718	66,837	15,931	171,351	25,437	
Corporations	20,986	59,354	1,643,796	929,542	546,871	70,599	—	11,857	
Cayman Islands	1,637	4,183	126,513	103,442	11,239	314	409	10,989	
Individuals	413	1,200	8,635	6,365	1,793	54	409	—	
Corporations	865	1,985	55,655	38,203	6,148	260	—	10,976	
Chile	2,679	1,028	7,154	3,119	1,908	191	1,064	338	
Individuals	2,114	809	4,551	1,236	1,362	126	1,064	308	
Corporations	121	106	839	504	199	64	—	(1)	
China	1,573	942	5,659	980	1,776	107	52	836	
Individuals	1,200	407	3,355	195	423	4	52	821	
Corporations	41	53	399	277	8	103	—	3	
Colombia	5,903	1,442	13,297	7,063	3,036	254	2,445	87	
Individuals	4,542	1,049	8,558	3,712	1,870	107	2,445	71	
Corporations	265	173	1,875	1,300	479	79	—	10	
Costa Rica	2,152	854	6,796	2,291	1,539	65	2,533	191	
Individuals	1,805	753	4,766	770	1,056	59	2,533	180	
Corporations	91	32	318	218	80	6	—	11	
Czechoslovakia	1,163	962	5,361	330	57	276	3,701	982	
Individuals	1,121	866	4,966	301	52	11	3,701	883	
Corporations	14	16	57	29	3	25	—	—	
Denmark	3,298	2,861	53,499	17,059	26,579	4,472	3,426	1,092	
Individuals	2,836	879	6,649	450	806	349	3,426	789	
Corporations	155	1,213	30,374	5,636	20,500	4,026	—	183	
Dominican Republic	3,070	1,135	9,154	1,624	642	47	6,506	205	
Individuals	2,884	1,093	8,927	1,540	566	38	6,506	149	
Corporations	20	5	53	38	15	—	—	—	
Ecuador	2,134	735	6,465	1,811	769	672	2,916	147	
Individuals	1,808	644	4,835	1,020	521	117	2,916	139	
Corporations	30	22	449	31	44	374	—	—	
Egypt	712	173	1,932	684	514	15	26	454	
Individuals	546	155	1,776	643	433	15	26	423	
Corporations	53	7	72	18	29	—	—	24	
El Salvador	867	575	3,088	1,581	461	50	892	14	
Individuals	766	248	1,923	522	376	48	892	6	
Corporations	13	310	1,034	1,000	34	—	—	—	
Finland	1,199	775	21,830	10,641	5,224	121	2,018	1,699	
Individuals	1,039	408	3,660	222	150	21	2,018	703	
Corporations	45	251	6,337	972	4,611	71	—	648	
France	22,222	48,006	810,560	262,999	308,038	111,334	9,430	62,279	
Individuals	14,891	6,497	63,259	6,401	15,707	4,826	9,430	18,104	
Corporations	2,195	22,232	576,675	233,003	159,312	101,415	—	43,498	
Greece	15,645	5,766	41,483	3,227	4,310	138	29,403	964	
Individuals	14,776	5,214	37,736	1,454	2,510	125	29,403	953	
Corporations	196	220	2,417	1,608	673	10	—	(1)	

Footnote at end of table.

Foreign Recipients of U.S. Income, and Tax Withheld, 1986

Table 2.—Forms 1042S: Number of Returns, Tax Withheld, and Total Income Paid by Income Type, by Selected Recipient Type and Country of Recipient—Continued

[Money amounts are in thousands of dollars]

Country or geographic area and recipient type	Number of Forms 1042S	Tax withheld	Income paid					
			Total	Interest	Dividends	Rents and royalties	Social security and railroad retirement	Personal service
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Guatemala	1,850	511	3,971	1,431	1,020	173	922	275
Individuals	1,529	454	3,334	1,075	863	173	922	266
Corporations	64	25	245	198	47	—	—	(1)
Guernsey	167	2,290	10,112	2,727	7,291	61	—	—
Individuals	35	156	589	339	248	(1)	—	—
Corporations	73	827	5,082	2,230	2,792	60	—	—
Honduras	963	418	2,306	199	819	24	983	238
Individuals	866	334	1,797	156	373	12	983	233
Corporations	16	55	197	11	184	—	—	2
Hong Kong	14,761	16,977	123,874	62,230	47,311	1,715	4,957	1,715
Individuals	10,913	7,798	37,957	10,558	20,362	484	4,957	792
Corporations	1,208	6,978	55,465	29,988	20,252	1,229	—	463
India	2,121	938	9,519	2,305	1,388	39	562	1,001
Individuals	1,640	790	7,062	1,445	822	31	562	265
Corporations	91	54	700	273	127	3	—	20
Indonesia	952	735	7,230	5,928	775	35	25	159
Individuals	658	199	866	86	487	35	25	152
Corporations	116	482	5,808	5,709	82	—	—	—
Iran	1,020	316	1,786	736	916	19	6	32
Individuals	836	277	1,562	649	788	19	6	32
Corporations	11	(1)	1	—	1	—	—	—
Ireland	8,415	3,307	34,200	8,374	13,683	1,212	7,955	1,751
Individuals	7,745	1,631	14,169	708	1,797	1,018	7,955	1,582
Corporations	160	999	15,197	7,579	7,394	37	—	152
Israel	6,166	2,635	17,142	5,559	3,354	655	3,550	1,465
Individuals	4,894	2,013	12,120	2,483	1,903	353	3,550	1,418
Corporations	251	142	2,461	1,976	217	263	—	2
Italy	33,776	8,519	190,414	58,886	22,404	12,602	81,168	7,469
Individuals	31,798	5,831	109,827	3,183	6,872	7,357	81,168	5,277
Corporations	398	671	63,827	53,668	4,200	5,047	—	468
Jamaica	2,094	774	6,438	654	715	68	4,414	164
Individuals	1,943	698	5,401	167	241	58	4,414	115
Corporations	34	60	649	244	396	9	—	—
Japan	14,144	227,095	2,868,405	1,742,048	380,256	292,749	10,111	119,713
Individuals	9,670	3,096	53,451	3,985	12,643	7,563	10,111	8,183
Corporations	2,509	204,810	2,382,247	1,554,446	279,134	275,225	—	106,054
Jersey	670	3,224	17,896	7,681	10,118	65	—	1
Individuals	95	138	654	231	386	8	—	—
Corporations	145	1,282	7,772	4,114	3,601	57	—	1
Kuwait	1,616	2,911	53,749	45,175	8,259	63	5	109
Individuals	1,248	642	2,372	506	1,608	63	5	82
Corporations	123	895	9,530	6,756	2,735	—	—	27
Lebanon	2,022	1,307	8,175	4,371	2,882	72	387	91
Individuals	1,712	1,169	7,626	4,342	2,432	71	387	91
Corporations	52	95	325	14	311	—	—	—
Liberia	660	5,418	35,126	18,390	16,171	92	49	(1)
Individuals	173	400	4,035	2,723	1,263	—	49	—
Corporations	343	1,068	16,481	14,632	1,758	92	—	—
Liechtenstein	1,776	5,829	34,899	15,663	17,644	386	10	1,092
Individuals	285	781	4,729	1,892	2,778	47	10	—
Corporations	1,062	2,927	14,776	5,360	8,078	233	—	1,092
Luxembourg	4,100	13,376	120,111	60,041	56,327	39	167	526
Individuals	525	299	5,151	3,635	1,237	(1)	167	41
Corporations	1,549	4,612	55,661	27,797	24,492	37	—	485
Malaysia	1,640	409	7,320	6,249	609	43	22	149
Individuals	1,479	220	914	47	446	43	22	137
Corporations	38	62	955	868	86	(1)	—	—
Mexico	84,261	32,992	247,956	55,774	19,106	4,741	147,331	6,792
Individuals	77,658	27,633	192,170	19,739	11,922	4,116	147,331	2,790
Corporations	1,211	3,403	18,451	8,467	2,737	491	—	1,140
Monaco	712	1,837	22,660	16,655	4,729	60	104	849
Individuals	506	1,191	4,528	773	2,593	48	104	796
Corporations	100	194	16,368	15,729	620	6	—	13
Netherlands	11,059	51,094	1,476,412	755,951	520,901	29,566	4,903	4,574
Individuals	7,596	3,483	31,805	3,440	13,147	4,227	4,903	3,674
Corporations	1,250	26,700	1,080,977	658,671	362,012	23,140	—	763
Netherlands Antilles	4,017	20,536	2,866,169	2,628,041	123,462	71,990	357	9,230
Individuals	1,105	1,047	22,745	12,951	6,639	735	357	1,852
Corporations	1,911	15,541	2,762,061	2,563,915	87,639	70,822	—	7,230
New Zealand	2,480	485	173,269	3,526	164,647	428	299	3,648
Individuals	1,868	343	165,729	301	163,938	168	299	303
Corporations	76	80	1,201	572	324	254	—	50
Norway	6,561	2,340	31,337	5,339	4,148	2,434	10,631	852
Individuals	5,865	1,915	16,010	347	1,267	1,267	10,631	658
Corporations	216	253	6,717	4,501	1,732	214	—	96
Panama	7,896	19,543	181,314	111,098	57,105	5,531	960	553
Individuals	2,200	1,599	14,296	6,813	3,934	279	960	420
Corporations	3,992	13,725	124,865	79,662	36,117	5,245	—	59
Peru	2,227	451	4,258	1,742	890	273	719	148
Individuals	1,714	371	3,306	1,196	658	249	719	122
Corporations	63	12	107	48	41	—	—	(1)

Footnote at end of table.

Foreign Recipients of U.S. Income, and Tax Withheld, 1986

Table 2.—Forms 1042S: Number of Returns, Tax Withheld, and Total Income Paid by Income Type, by Selected Recipient Type and Country of Recipient—Continued

[Money amounts are in thousands of dollars]

Country or geographic area and recipient type	Number of Forms 1042S	Tax withheld	Income paid					
			Total	Interest	Dividends	Rents and royalties	Social security and railroad retirement	Personal service
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Philippines.....	29,981	11,393	79,435	2,013	2,221	58	68,423	1,941
Individuals.....	28,803	11,223	76,348	1,166	1,694	51	68,423	311
Corporations.....	264	78	380	167	161	7	—	9
Portugal.....	7,007	3,000	21,087	1,499	823	95	17,900	241
Individuals.....	6,750	2,904	19,269	78	617	67	17,900	95
Corporations.....	83	16	1,350	1,320	27	3	—	—
Puerto Rico.....	5,461	560	13,559	5,289	990	146	785	6,192
Individuals.....	4,815	397	2,126	340	808	15	785	99
Corporations.....	265	120	9,869	3,764	96	124	—	5,884
Saudi Arabia.....	4,363	2,073	184,212	153,227	25,515	100	18	3,549
Individuals.....	3,395	1,327	7,906	2,398	2,976	80	18	819
Corporations.....	106	289	56,803	36,873	19,886	17	—	26
Singapore.....	5,437	1,258	137,687	77,398	54,838	101	145	282
Individuals.....	4,698	625	3,067	701	1,801	86	145	144
Corporations.....	211	408	10,533	4,621	1,179	15	—	1
South Africa.....	2,564	1,167	5,215	1,047	1,531	376	488	1,288
Individuals.....	2,189	739	3,601	317	1,061	95	488	1,233
Corporations.....	69	139	524	288	114	119	—	—
South Korea.....	856	543	7,333	2,266	2,241	5	80	2,076
Individuals.....	701	238	3,438	143	733	5	80	1,908
Corporations.....	58	228	2,543	1,170	1,320	(1)	—	33
Spain.....	9,593	5,976	40,251	13,882	9,259	1,924	11,612	1,827
Individuals.....	8,354	3,985	22,674	2,520	4,893	652	11,612	1,462
Corporations.....	266	1,485	10,101	6,007	3,123	855	—	112
Sweden.....	8,244	8,693	87,385	20,835	40,824	4,445	11,144	9,511
Individuals.....	7,529	4,198	25,456	869	1,540	895	11,144	9,320
Corporations.....	220	3,967	46,823	8,796	35,858	2,135	—	30
Switzerland.....	37,292	131,519	1,587,487	622,738	749,460	134,358	3,785	19,445
Individuals.....	11,692	8,341	96,123	36,184	41,444	6,767	3,785	2,694
Corporations.....	15,527	63,956	975,261	480,908	349,661	124,684	—	16,013
Taiwan.....	2,252	1,245	25,277	21,391	2,743	12	152	415
Individuals.....	1,722	736	4,001	1,140	1,855	12	152	286
Corporations.....	54	365	6,902	6,244	580	—	—	77
Thailand.....	849	273	2,295	935	423	70	620	65
Individuals.....	742	223	1,277	60	332	68	620	14
Corporations.....	17	26	185	172	11	2	—	1
Trinidad and Tobago.....	1,023	361	5,025	2,622	249	179	1,760	106
Individuals.....	908	339	2,493	173	169	179	1,760	106
Corporations.....	24	9	151	116	34	—	—	(1)
United Arab Emirates.....	876	409	355,653	208,520	147,093	20	5	(1)
Individuals.....	755	322	1,293	582	670	20	5	—
Corporations.....	22	53	752	690	62	—	—	(1)
United Kingdom.....	131,838	199,493	3,716,554	1,426,364	1,891,077	221,692	33,367	67,204
Individuals.....	85,195	13,848	177,357	39,032	46,111	13,124	33,367	30,136
Corporations.....	11,885	69,783	2,252,754	1,242,615	755,351	193,895	—	32,558
Uruguay.....	1,518	876	7,022	3,716	2,813	208	78	20
Individuals.....	895	321	1,861	584	903	191	78	17
Corporations.....	158	212	3,070	2,306	722	16	—	—
Venezuela.....	7,796	2,973	25,232	10,331	8,424	3,222	918	543
Individuals.....	5,772	1,738	12,286	4,453	4,882	328	918	497
Corporations.....	399	465	6,300	2,398	1,006	2,855	—	—
West Germany.....	67,018	61,074	1,192,063	542,232	450,554	97,713	30,866	36,397
Individuals.....	45,470	13,466	141,385	39,363	33,436	10,952	30,866	14,717
Corporations.....	2,219	20,447	774,352	433,925	235,235	75,484	—	15,824
Yugoslavia.....	3,877	2,048	13,110	295	339	51	11,797	146
Individuals.....	3,734	1,980	12,800	208	167	41	11,797	108
Corporations.....	33	11	37	(1)	35	2	—	—
Other Countries.....	61,360	43,639	468,545	183,826	195,693	5,363	41,271	26,526
Individuals.....	42,588	10,965	116,618	40,521	16,843	1,946	41,271	7,697
Corporations.....	3,759	19,989	228,887	82,028	113,965	2,094	—	11,974

¹ Less than \$500

Projections of Returns to be Filed in Fiscal Years 1989–1996

By Marion W. Mak*

Fiscal year projections of the major types of returns are prepared to provide a foundation for Internal Revenue Service (IRS) workload estimates, resource requirements, and budget submissions for the Treasury, Office of Management and Budget, and Congress. The most recent IRS projections indicate that a total of 202.3 million returns will be filed in Fiscal Year (FY) 1989, an increase of 2.3 percent over the number of returns filed in FY 1988 [1]. Although projected year-to-year increases through FY 1996 will range between 4 and 6 million, the yearly rates of growth in total filings are expected to decline from 2.6 percent in 1988 to 2.3 percent in 1996. Much of the year-to-year growth in total returns reflects the growth in individual income tax returns, which make up more than half of the total returns.

Projections of returns are developed by: (1) using econometric models that relate the number of returns filed to selected independent economic and demographic variables and (2) extrapolating observed time trends into the projection period. The forecasting models are initially formulated on a calendar year basis. Fiscal year projections are derived from calendar year statistics by various methods including seasonal adjustment [2].

These fiscal year projections, shown in detail in Table 1, include the effects of the Tax Reform Act of 1986. The major effects of the 1986 Act are summarized by tax year in Table 2 [3]. The projections also take into account the effects of other recent legislative as well as regulatory and administrative changes on the filings of the various tax returns. They generally do not anticipate legislative or administrative changes which are under consideration.

TOTAL PROJECTED RETURNS AND DOCUMENTS

The total number of projected returns in Table 1 is comprised of primary returns and supplemental returns. With few exceptions, items in both of these categories are a part of the IRS Master File system. Primary returns are those that account for the majority of total filings and historically have generated the majority of the IRS document processing workload. These returns are expected to continue to account for the bulk of total filings throughout the forecast period.

Of the 192.8 million tax forms filed in 1987, 182.6 million were designated as primary returns. Major returns in the primary returns category include: U.S. Individual Income

Tax Return; Individual Declaration of Estimated Tax; U.S. Corporation Income Tax Return; and, Employer's Quarterly Federal Tax Return.

So-called information returns processed by the Service, such as interest and dividend statements and Forms W-2, Wage and Tax Statement, are not included in the returns counted or projected in this article because they are mostly filed on magnetic tape [4]. These returns are large in number so that, if included, they would increase the total number of returns substantially. In 1987, about 872.9 million information returns were processed by the Service, and 905.3 million are expected in 1988.

Figure A presents the average annual percentage changes for the major return types during the 1989–1996 projection period. Total returns increased by an average of 2.4 percent per year during this time frame. Projections for 1989 and the associated rates of change from 1988 to 1989 are presented in Figure B.

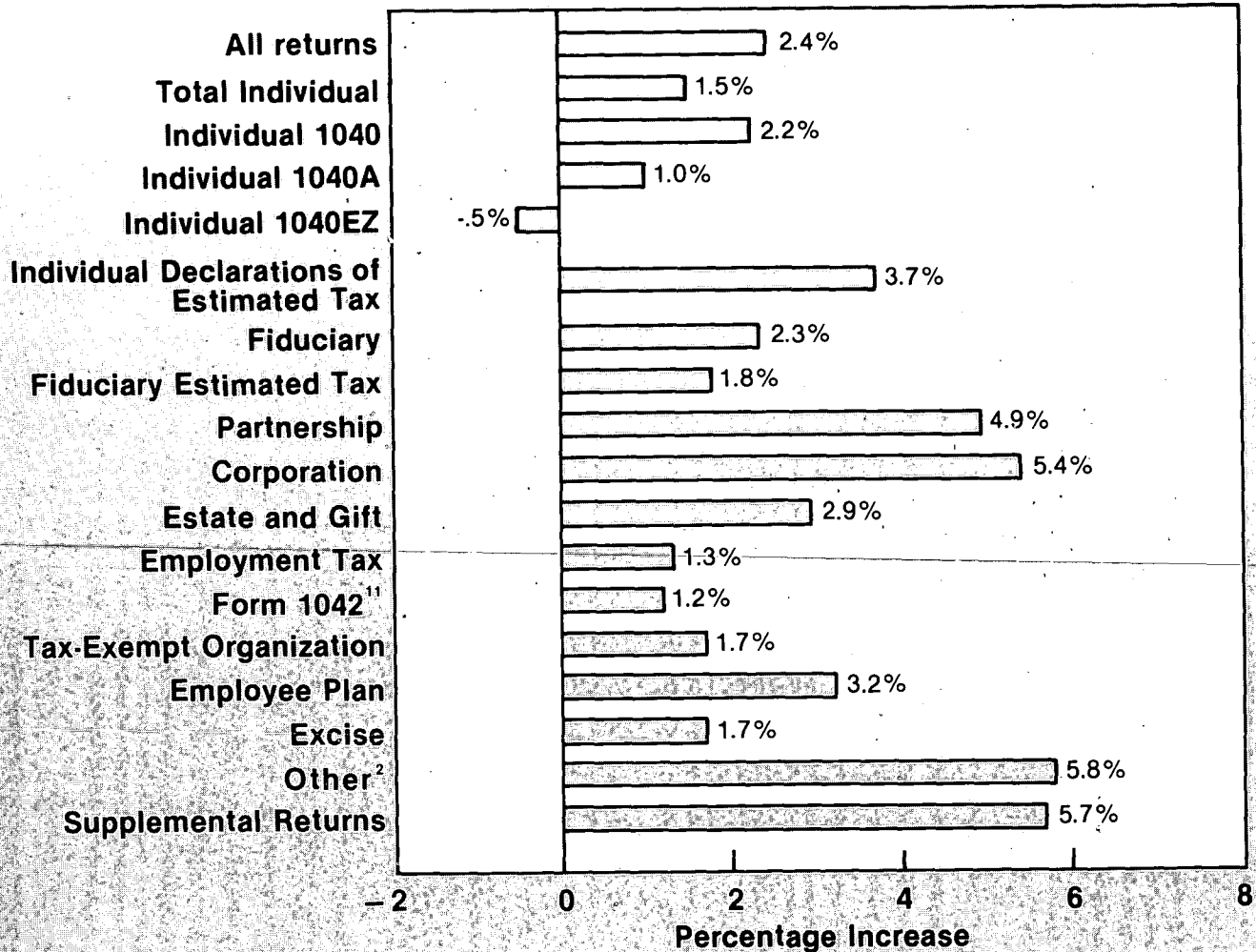
Individual Income Tax Returns

The large increase (3.7 percent) in individual income tax returns between 1987 and 1988 reflects two major occurrences. First, provisions in the Tax Reform Act of 1986 repealed the personal exemption for taxpayers who are dependents, while also increasing the standard deduction and personal exemption amounts. The repeal of the personal exemption for dependents significantly increased the number of dependents required to file for the first time. Conversely, the increase in the standard deduction and personal exemption amounts will ultimately remove a large number of lower income taxpayers from the filing rolls. The net effect will be an increase in the number of individual returns filed. Secondly, the illegal alien amnesty program is also expected to slightly increase the number of persons filing for the first time.

The Tax Reform Act will also enable a significant number of taxpayers to switch to simpler forms because of the restrictions placed on itemized deductions (e.g., taxpayers who previously had to itemize their deductions and therefore filed a Form 1040 can now file a Form 1040A or a Form 1040EZ). This shift is reflected in the projected 1989 filings of these two forms. Forms 1040A and 1040EZ are estimated to increase by 4.9 and 6.1 percent, respectively, in 1989, while Form 1040 is estimated to increase by only 0.4 percent.

*Statistician, Projections and Forecasting Group, Research Division.

Figure A
**Projected Average Annual Percentage Change
 in the Number of Returns Processed
 Fiscal Years 1989-1996**



¹ Withholding tax return for U.S. source income of foreign "persons."

² See Table 1, footnote 11.

Growth in individual returns is dependent, in large part, on the growth of total employment. Current forecasts show the rate of employment growth will decline throughout the 1988 to 1995 forecast period [5]. Total employment is projected to reach 117.1 million in 1988, a 2.2 percent increase over actual employment of 114.6 million in 1987. The rate of growth will gradually taper down to 1.1 percent by the year 1995. This slowdown in the rate of employment growth is expected to be mirrored in individual income tax return filings, so that a decline in the rate of growth of these filings is anticipated.

Figure C compares the number of Forms 1040, 1040A,

1040EZ, and the total number of individual returns expected to be filed in 1989 and 1996, respectively.

Individual Declarations of Estimated Tax

Projections of Individual Declarations of Estimated Tax (Form 1040ES "vouchers"—up to four per year can be filed) are developed from a regression of vouchers on the number of their taxpayer counterparts. Progressively higher taxpayer projections and the same "voucher-to-taxpayer" ratio forecasts result in increasingly higher estimates of the number of Forms 1040ES. Current forecasts are calling for increases in growth ranging from 3.0 percent in 1989 to 4.3 percent in 1996.

Figure B.—Projections for Fiscal Year 1989

Type of return	1989 Projection (thousands)	Percentage increase from 1988
Total returns	202,257	2.3%
Primary returns, total	190,367	2.0
Individual income tax.....	109,566	2.1
Individual declaration of estimated tax.....	38,399	3.0
Fiduciary income tax.....	2,478	-1.8
Fiduciary estimated tax.....	1,317	-9.2
Partnership.....	1,906	3.8
Corporation income tax.....	4,122	3.9
Estate and gift tax.....	165	3.1
Employment tax.....	28,911	1.5
Form 1042 ¹	18	2.7
Tax-exempt organization.....	537	2.2
Employee plan.....	2,110	2.7
Excise tax.....	837	-26.7
Other.....	2	3.9
Supplemental returns	11,890	7.5

¹ Withholding tax return for U.S. source income of foreign "person."

Fiduciary Income Tax Returns

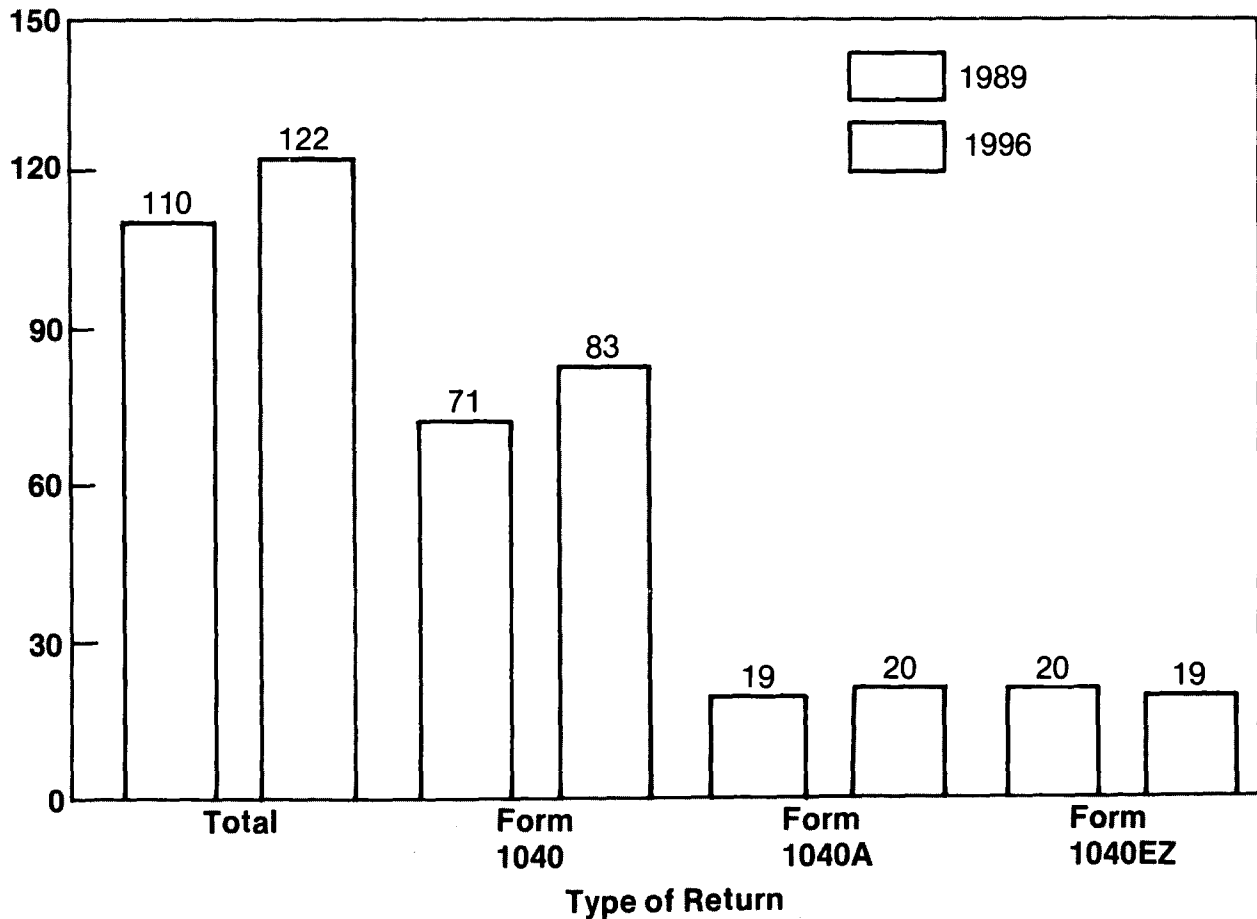
A provision in the Tax Reform Act of 1986 mandated that fiduciary filers of income tax returns for taxable trusts (Forms 1041), who previously could have filed on a non-calendar year basis, had to begin filing their returns on a calendar year basis. This is reflected in the substantial increase (8 percent) in fiduciary filings between 1987 and 1988, which saw noncalendar year filers adjust their accounting periods to coincide with the calendar year by filing additional returns to cover transitional part-year accounting periods. After 1988, growth is expected to range from 1.9 percent in 1990 to 2.1 in 1996.

Fiduciary Estimated Tax Returns

The 1986 Act required that both new and existing estates

Figure C.
**Individual Income Tax Returns by Type,
Fiscal Years 1989 and 1996**

Millions of Returns



and trusts make estimated tax payments for the first time for calendar years beginning after 1986. Form 1041ES, Estimated Income Tax for Fiduciaries, was developed for taxpayers with a tax liability of \$500 or more to compute and pay estimated taxes. Effective with the quarterly estimated tax payments due September 18, 1988, the Service will require financial institutions servicing 200 or more taxable trusts to remit payments through the Federal Tax Deposit (FTD) System by magnetic tape. Financial institutions servicing at least 50 taxable trusts can elect to file under the FTD Magnetic Tape Program. As a result of this procedure, the number of Forms 1041ES is expected to decrease 9.2 percent in 1989. In later years, the number will increase by 2.4 percent in 1991 and 2.2 percent in 1996.

Partnership Tax Returns

The Tax Reform Act also required most noncalendar year filers of partnership returns (Forms 1065) to file on a calendar year basis. However, the Revenue Act of 1987 subsequently revised this provision to allow partnerships to maintain their fiscal year accounting period if they elect to do so. The one-time increase previously expected for 1988 (resulting from the need to file extra returns to accommodate the change in accounting periods) is, therefore, not expected to materialize.

Another provision of the Tax Reform Act required that "passive losses" can only be offset by "passive gains" [6]. Current estimates anticipate that this law change will make net loss limited partnerships less attractive, thereby resulting in fewer persons investing in these ventures. Furthermore, this provision is also expected to result in the merger of many net loss partnerships with net profit partnerships. As a result, there was a small decline in partnership returns in 1988. In later years, growth is projected to increase, as investors adjust their investment strategies to coincide with tax reform. Year-to-year increases from 1989 to 1996 range from 3.8 percent to 5.5 percent.

Corporation Tax Returns

As with the partnership filers, the impact of the 1986 Tax Reform Act requiring most noncalendar year filers of "personal service" and S Corporation returns to file on a calendar year basis was mitigated by the Revenue Act of 1987. Beginning in 1988, the corporation total included the following new forms mandated by the 1986 Tax Reform Act: U.S. Income Tax Return for Designated Settlement Funds (Form 1120DF), U.S. Income Tax Return for Regulated Investment Company (Form 1120RIC), U.S. Income Tax Return for Real Estate Investment Trust (Form 1120REIT), and Property and Casualty Insurance Company Income Tax Return (Form 1120PC). In addition, it will also include Foreign Sales Corporation (Form 1120FSC) returns which were previously included in the "Other" category (see

Figure B) which consists of returns not included in the IRS Master File. The collective group of corporation returns, including U.S. Corporation Income Tax Return (Form 1120), and U.S. Income Tax Return for an S Corporation (Form 1120S) is expected to post a 3.9 percent increase in 1989 and a 6.1 percent increase in 1996.

Estate and Gift Tax Returns

The Tax Reform Act of 1976 and the Economic Recovery Tax Act of 1981 both stipulated that the filing threshold for the U.S. Estate Tax Return (Form 706) be gradually increased on an annual basis, from \$60,000 in 1976 to \$600,000 in 1987 and beyond. Current projections reflect this rising threshold, and call for a decline of 9.6 percent in 1988 filings. Filings are then expected to gradually increase throughout the remainder of the forecast interval, with annual increases ranging from 0.1 percent in 1989 to 6.6 percent in 1996. U.S. Gift Tax Returns (Forms 709) are expected to show a 1.0 percentage increase in 1988, and a 1.7 percentage increase in 1996.

Employment Tax Returns

Employment tax returns consist of Employer's Annual Federal Unemployment Tax Return, Employer's Annual/Quarterly Federal Tax Return, and Employer's Annual Railroad Retirement Tax Return. Projections for the forecast period 1989-1996 reflect year-to-year increases that average 1.3 percent per year.

Forms 1042

Because of their increasing number, Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, which was previously included in the supplemental returns category, is now included under primary returns. The projections of Form 1042 returns are expected to increase by an average of 1.2 percent between 1989 and 1996.

Tax-Exempt Organization Returns

A host of tax-exempt entities, including those for public charities, farmers' cooperative associations, private foundations, and other exempt organizations, embody the exempt organization category of returns. The magnitude of this return category is dictated by changes in Form 990, Return of Organization Exempt From Income Tax (filed by the "other" organizations that also include most public charities), which accounts for 78 percent of exempt organization filings. Current estimates of the year-to-year increase in tax-exempt organizations are expected to range from 2.2 percent in 1989 to 1.5 percent in 1996.

Employee Plan Returns

The total for employee plans consists of the following forms: Form 5500, Annual Return/Report of Employee Benefit Plan, Form 5500C (same as the Form 5500 except that it is filed by plans with fewer than 100 participants), Form 5500R, Registration Statement of Employee Benefit Plan (filed for plans with fewer than 100 participants), and the new Form 5500EZ, Annual Return of One-Participant (Owners and Their Spouses) Benefit Plan. The total is not affected by inclusion of the new form since Form 5500EZ filers previously used a Form 5500C. The projections are expected to show an average year-to-year growth of 3.2 percent from 1989 through 1996.

Alcohol and Tobacco Returns

Forms 11 and 5000.24 comprise the alcohol and tobacco returns filed with the Bureau of Alcohol, Tobacco, and Firearms. As of July 1987, these forms were no longer processed by the Internal Revenue Service. Therefore, the counts included for 1987 are estimates through July 1987 and not for the entire fiscal year. No projections of alcohol and tobacco returns were made by the Service for years beyond 1987.

Excise Tax Returns

Total excise returns are the sum of the following four categories of returns: (1) Form 11C (Special Tax Return and Application for Registry-Wagering); (2) Form 720 (Quarterly Federal Excise Tax Return); (3) Form 730 (Tax on Wagering); and (4) Form 2290 (Heavy Vehicle Use Tax Return). Two provisions of the Tax Reform Act of 1986 were expected to reduce the number of Form 720 returns filed to pay the excise taxes on gasoline and diesel fuel. One of these provisions allowed diesel fuel retailers to *elect* to have wholesalers collect and pay the tax for the Highway Trust Fund. This provision has already been superseded by a provision in the Revenue Act of 1987 which *requires* the diesel wholesalers to pay the tax. Since there are far fewer wholesalers than retailers, the 1987 law change will accelerate the decline originally expected as a result of the 1986 Act in the number of Forms 720 filed to pay the diesel fuel excise tax.

A second provision in the 1986 Act discontinues payment of gasoline excise taxes by gasoline wholesalers. As of January 1988, the refiner (or first importer) of gasoline was required to pay the tax, instead. Thus, the excise taxes on gasoline, as well as those on diesel fuel, will be collected and paid at an earlier stage in the marketing chain as a combined effect of these 1986 and 1987 law changes and fewer Forms 720 will be filed as a result.

On the other hand, implementation of another provision of the Revenue Act of 1987 will temporarily offset part of these declines in the number of Forms 720 filed. The regulations covering this provision specify that all partnerships and S Corporations electing to maintain a noncalendar year reporting period must file Form 720 in order to make certain required payments [7]. However, these payments will be reported on Form 720 only temporarily, since another form is being developed for this purpose. The net impact of all these law changes on Form 720 filings will result in a 26.7 percent drop in returns in 1989 and a lesser drop of 6.3 percent in 1990. The balance of the forecast interval is expected to show a positive growth of 3.4 percent in 1991 and 3.2 percent in 1996.

Supplemental Returns

Supplemental returns are mainly composed of amended returns and requests for filing extensions from both individuals and corporations. (Forms 1120ND, U.S. Income Tax Return for Nuclear Decommissioning Trust Funds and Certain Related Persons, are not projected because of the small number involved.) Current forecasts of supplemental returns call for increases ranging from 7.5 percent in 1989 to 4.8 percent in 1996.

DATA SOURCES AND LIMITATIONS

The number of returns filed (as used in this article) represents returns processed at IRS service centers during a fiscal year [8]. For individual income and estate and gift tax returns, the 1988 data include actual returns processed through June 1988, with the remainder of the year estimated, in general, on the basis of 1987 filing patterns. The 1988 data for the rest of the forms are based on projections.

To illustrate the general forecasting process, projections for the combined total of Forms 1040, 1040A, and 1040EZ returns were developed based on a multiple regression relating total 1040 returns to total employment; an interaction variable involving both total employment and employed married women with husbands present (used as a proxy for potential joint filers); pension beneficiaries and annuitants; and a qualitative "dummy" variable which accounts for the effects of law changes in the Tax Reduction and Simplification Act of 1977 [9]. The historical base period for this regression was 1949-1988, with 1988 estimated on the basis of returns filed through June 1988.

Return projections were primarily formulated on a calendar year basis and subsequently converted to fiscal year projections by the Census Bureau's X11-Q Seasonal Adjustment Program by applying resultant seasonal factors to calendar year projections [10].

NOTES AND REFERENCES

- [1] All statistics are for the years in which the tax returns were processed by the Internal Revenue Service, stated on a fiscal year (i.e., October through September) basis, unless otherwise noted. Actual counts for all of Fiscal Year 1988 were incomplete at the time this article was written (see the Data Sources and Limitations section). For complete counts, see U.S. Department of the Treasury, Internal Revenue Service, *1988 Annual Report, Commissioner and Chief Counsel*, Internal Revenue Service (in preparation).
- [2] For details of these methods, see U.S. Department of the Treasury, Internal Revenue Service, "Number of Returns to be Filed," *Fiscal Year Projections*, Document 6292 (Rev. 8-88).
- [3] As indicated in the footnotes to Table 2, the impact of the Revenue Act of 1987 is also reflected in the data.
- [4] Certain types income tax returns are also either now being filed or will begin to be filed on magnetic tape during the projection period. However, it is expected that in most cases these returns will comprise a small proportion of the totals shown.
- [5] The largest component of total employment is represented by civilian employment, which was obtained from Data Resources, Inc. (DRI), in June 1988. DRI believes that employment growth will decline due to a general slowdown in economic activity through the mid-1990's.
- [6] Passive gains or losses resulted from trade or business activities in which the partners did not materially participate in the business on a regular, continuous, or substantial basis (i.e., they were "limited" partners). In general, as a result of the Tax Reform Act of 1986, such passive losses could not be deducted from other types of income.
- [7] In general, S Corporations are companies with no more than 35 shareholders, electing to be taxed at the shareholder level.
- [8] U.S. Department of the Treasury, Internal Revenue Service, *1987 Annual Report*, op cit.
- [9] Projections of total employment, employed married women with husbands present, and pension beneficiaries and annuitants were made by the Projections and Forecasting Group, Research Division, Internal Revenue Service.
- [10] U.S. Department of Commerce, Bureau of the Census, "The X11-Q Variant of the Census Method II Seasonal Adjustment Program," *Technical Paper No. 15* (1967 revision).

Projections of Returns to be Filed in Fiscal Years 1989-1996

Table 1.—Projection of the Number of Returns to be Filed with the Internal Revenue Service, Fiscal Years 1988-1996

[Unless otherwise indicated, number of returns are in thousands]

Type of return	Actual 1987 ¹	Projected								
		1988	1989	1990	1991	1992	1993	1994	1995	1996
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Total returns	192,844	197,786	202,257	208,332	213,631	218,381	223,079	227,701	232,663	237,963
Primary returns, total	182,560	186,726	190,367	195,631	200,098	204,052	207,963	211,812	215,988	220,488
Individual income tax returns, total.....	103,460	107,270 ²	109,566	112,777	115,071	116,703	118,126	119,296	120,522	121,834
Form 1040	68,551	70,806 ²	71,101	74,026	76,622	78,291	79,753	80,678	81,653	82,711
Form 1040A.....	17,870	17,674 ²	18,541	18,732	18,792	18,883	18,972	19,265	19,559	19,855
Form 1040EZ.....	16,825	18,574 ²	19,701	19,789	19,420	19,285	19,147	19,091	19,039	18,990
Other ³	214	216 ²	224	230	237	245	253	262	270	279
Individual declarations of estimated tax.....	38,804	37,294	38,399	39,712	40,990	42,406	43,945	45,614	47,473	49,497
Fiduciary income tax ⁴	2,336	2,523	2,478	2,525	2,595	2,658	2,721	2,783	2,843	2,902
Fiduciary estimated tax	N/A	1,450	1,317	1,297	1,328	1,364	1,397	1,429	1,461	1,494
Partnership.....	1,836	1,835	1,906	1,996	2,080	2,179	2,286	2,400	2,529	2,669
Corporation income tax ⁵	3,873	3,968	4,122	4,316	4,546	4,775	5,028	5,308	5,617	5,962
Estate tax.....	61	55 ²	55	56	57	59	60	62	65	70
Gift tax.....	105	105 ²	110	114	117	120	123	125	127	130
Employment tax ⁶	28,217	28,485	28,911	29,317	29,688	30,063	30,448	30,853	31,288	31,736
Form 1042 ⁷	15	18	18	18	19	19	19	19	19	20
Tax-exempt organizations ⁸	523	525	537	547	558	567	577	587	596	604
Employee plans ⁹	2,114	2,055	2,110	2,170	2,236	2,303	2,372	2,449	2,534	2,628
Excise tax ¹⁰	1,011	1,141	837	785	811	836	859	884	912	940
Other ¹¹	4	2	2	2	2	2	2	2	2	2
Supplemental returns, total	10,284	11,060	11,890	12,700	13,534	14,329	15,117	15,889	16,674	17,476
Form 1040X.....	1,963	2,163	2,290	2,383	2,477	2,571	2,665	2,759	2,853	2,946
Form 4868.....	5,145	5,657	6,160	6,684	7,232	7,754	8,276	8,788	9,315	9,859
Form 2688.....	1,450	1,443	1,535	1,620	1,702	1,772	1,835	1,891	1,945	1,998
Form 1120X.....	30	33	32	29	26	24	22	20	18	16
Form 7004.....	1,671	1,738	1,848	1,958	2,069	2,180	2,291	2,403	2,514	2,626
Form 1041A.....	25	25	26	26	27	28	28	29	30	30

¹ Included in the total for 1987 are 202,000 alcohol and tobacco returns, Forms 11 and 5000.24. Since July 1987, these returns are filed with the Bureau of Alcohol, Tobacco and Firearms, U.S. Department of the Treasury. As a result, they are excluded from the projections of returns filed with the Internal Revenue Service.

² For individual, estate and gift tax returns, projections are based on counts of returns processed as of June 1988.

³ Includes Forms 1040NR, 1040PR, 1040SS, and 1040C; Form 1040X is included under Supplemental returns, below.

⁴ Includes Forms 1041 and 1041S; Form 1041A is included under Supplemental returns, below.

⁵ Actual count for FY 1987, includes Forms 1120, 1120A, 1120F, 1120M, 1120L, 1120POL, and 1120S. Projections for FY 1988-1996 also include Forms 1120DF, 1120FSC, 1120PC, 1120REIT and 1120RIC.

⁶ Includes Forms 940, 940PR, 941 941E, 941PR, 941SS, 942, 942PR, 943, 943PR and CT-1.

⁷ Withholding tax return for U.S. source income of foreign "person".

⁸ Includes Forms 990, 990PF, 990C, 990T, 4720 and 5227.

⁹ Includes Forms 5500, 5500EZ, 5500C and 5500R.

¹⁰ Includes Forms 11C, 720, 730 and 2290.

¹¹ Actual count for FY 1987 includes Forms CT-2, 941M, 990BL, 1120IC-DISC and 1120FSC, none of which are included in the IRS Master File. Because Form 1120FSC returns are included in the Master File starting with FY 1988, they are no longer projected as part of the "other" (non-Master File) category.

N/A—not applicable.

Note: Detail may not add to totals due to rounding.

Projections of Returns to be Filed in Fiscal Years 1989-1996

Table 2.—Projected Impact of Selected Provisions of the Tax Reform Act of 1986 and Revenue Act of 1987 on the Number of Returns Filed, Tax Years 1987-1995

[All figures are estimates—number of returns are in thousands]

Provision of Act, type of return affected	Additional returns to be filed by tax year—								
	1987	1988	1989	1990	1991	1992	1993	1994	1995
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Individual income tax returns:									
1040 series, total.....	885	941	1,889	1,846	1,812	1,780	1,776	1,774	1,774
Form 1040.....	-1,221	-3,341	-3,272	-3,339	-3,388	-3,430	-3,459	-3,492	-3,525
Form 1040A.....	-21	843	1,068	1,088	1,098	1,107	1,116	1,128	1,140
Form 1040EZ.....	2,126	3,439	4,093	4,093	4,102	4,104	4,119	4,137	4,159
a. Increase in the personal exemption and standard deduction amounts; changes relating to itemized deductions; repeal of the deduction for married couples; elimination of income averaging; new limitations on contributions to Individual Retirement Arrangements (IRAs); expansion of the earned income credit; full taxation of unemployment compensation; and other provisions.									
1040 series, total.....	-1,634	-2,838	-2,897	-2,958	-3,001	-3,039	-3,069	-3,101	-3,135
Form 1040.....	-1,554	-3,840	-3,904	-3,973	-4,023	-4,066	-4,099	-4,135	-4,173
Form 1040A.....	-537	68	87	103	111	119	123	129	134
Form 1040EZ.....	456	934	920	912	911	909	907	905	904
b. Repeal of the personal exemption amount on the return of an individual eligible to be claimed as a dependent on another taxpayer's return.									
1040 series, total.....	2,519	3,779	4,786	4,804	4,813	4,819	4,845	4,875	4,909
Form 1040.....	333	499	632	634	635	636	640	643	648
Form 1040A.....	516	775	981	985	987	988	993	999	1,006
Form 1040EZ.....	1,670	2,505	3,173	3,185	3,191	3,195	3,212	3,232	3,255
2. Excise tax returns:									
Requirement that wholesalers, rather than retailers, of diesel fuel pay the diesel excise tax; repeal of the provision allowing the refiners/importers of gasoline to defer payment of the gasoline excise tax until the last sale before retail; and requirement that partnerships and S Corporations electing to maintain a noncalendar year reporting period make certain required payments.									
Form 720.....	183	-248	-248	-248	-248	-248	-248	-248	-248
3. Partnership returns:									
Limitations on the use of losses and credits from passive activities.									
Form 1065.....	57	59	62	65	68	71	75	79	83
4. Fiduciary income tax returns:									
Requirement that certain trusts filing on a noncalendar year basis convert to a calendar year basis.									
Form 1041/1041S.....	150	—	—	—	—	—	—	—	—
5. Fiduciary estimated tax:									
Requirement for quarterly estimated tax payments on taxable trusts and taxable estates.									
Form 1041-ES.....	1,536	1,283	1,299	1,332	1,369	1,402	1,433	1,465	1,498

Notes: Detail may not add to totals due to rounding. A negative number of returns indicates a decline. Data reflect the impact of tax law changes by the tax year covered by the return. Returns by tax year are generally filed in the following calendar year, with the exception of Forms 720 and 1041-ES. The diesel fuel excise tax provision and the noncalendar year election provision described on line 2 are based on the Revenue Act of 1987, and supersede related provisions of the Tax Reform Act of 1986. The projections of Form 1041-ES on line 5 reflect the Revenue Act of 1987.

Selected Historical Data

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NOTICE

The data on the following pages are the latest and most accurate available at time of publication. However, they are subject to continuous revision as more information becomes available. Data labeled as preliminary should be used with caution.

Selected Historical Data

Table 1.—Individual Income Tax Returns: Selected Income and Tax Items for Selected Tax Years, 1970–1987

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

Item	1970	1975	1980	1985	1986	p1987
	(1)	(2)	(3)	(4)	(5)	(6)
All returns	74,279,831	82,229,332	93,902,469	101,660,287	103,045,170	107,070,087
Form 1040 returns	74,279,831	54,527,726	57,122,592	67,006,425	68,909,828	70,753,160
Form 1040A returns	N/A	27,701,606	36,779,877	18,124,702	17,584,689	17,652,990
Form 1040EZ returns	N/A	N/A	N/A	16,529,160	16,550,653	18,663,937
Adjusted gross income (AGI)	631,692,540	947,784,873	1,613,731,497	2,305,951,483	2,481,681,046	2,788,010,987
Salaries and wages:						
Number of returns	66,965,659	73,520,046	83,802,109	87,198,001	88,217,638	91,166,342
Amount	531,883,892	795,399,462	1,349,842,802	1,928,200,978	2,031,025,984	2,169,144,134
Taxable interest received:						
Number of returns	32,630,355	40,378,240	49,019,575	64,526,434	65,236,518	68,010,179
Amount	22,021,267	43,433,554	102,009,444	182,109,194	167,640,438	163,981,254
Dividends in AGI:						
Number of returns	7,729,939	8,853,491	10,738,982	15,527,579	16,753,537	22,264,019
Amount	15,806,924	21,892,126	38,761,253	55,046,351	61,623,348	66,441,562
Business or profession net income less loss:						
Number of returns	6,159,985	7,242,542	8,881,119	11,900,341	12,360,345	12,937,456
Amount	30,554,201	39,421,478	55,129,154	78,772,577	90,423,763	103,929,657
Net capital gain less loss in AGI: ¹						
Number of returns	7,962,663	7,574,823	9,970,921	11,125,595	15,560,453	15,257,762
Amount	9,006,683	14,071,893	30,029,074	67,694,001	131,584,629	133,482,635
Pensions and annuities in AGI:						
Number of returns	3,249,558	5,088,937	7,373,704	13,133,295	14,771,235	16,565,268
Amount	7,878,808	20,886,871	43,339,736	95,096,003	107,696,794	125,352,013
Unemployment compensation in AGI:						
Number of returns	N/A	N/A	1,798,210	4,771,546	5,106,015	7,422,952
Amount	N/A	N/A	2,028,456	6,355,539	6,975,196	12,324,306
Social security benefits in AGI:						
Number of returns	N/A	N/A	N/A	2,956,073	3,174,904	3,661,680
Amount	N/A	N/A	N/A	9,594,182	10,648,112	12,641,286
Rents and royalties net income less loss:						
Number of returns	6,557,498	7,143,812	8,208,132	9,970,604	9,394,506	9,308,739
Amount	3,232,817	5,202,078	4,105,381	-12,963,727	-15,292,084	-7,143,931
Partnership and S Corporation net income less loss:						
Number of returns	n.a.	n.a.	n.a.	5,487,671	5,817,455	5,270,769
Amount	12,637,912	12,811,091	10,099,346	-2,526,591	-5,859,500	32,074,878
Farm net income less loss:						
Number of returns	3,026,530	2,755,041	2,608,430	2,620,861	2,254,331	2,425,970
Amount	2,788,713	3,563,325	-1,792,466	-12,005,483	-7,284,231	-769,887
Total statutory adjustments:						
Number of returns	6,370,552	9,024,255	13,148,919	37,763,418	38,034,061	11,559,265
Amount	7,665,251	15,101,999	28,614,061	95,082,299	99,008,229	29,565,013
Individual Retirement Arrangements:						
Number of returns	N/A	1,211,794	2,564,421	16,205,846	15,535,531	7,351,364
Amount	N/A	1,436,443	3,430,894	38,211,574	37,758,393	14,146,118
Self-employed retirement (Keogh):						
Number of returns	591,655	595,892	568,936	675,822	773,296	745,675
Amount	847,692	1,603,788	2,007,666	5,181,993	6,194,617	5,920,984
Married couple who both work:						
Number of returns	N/A	N/A	N/A	24,835,278	25,647,221	N/A
Amount	N/A	N/A	N/A	24,614,983	26,672,241	N/A
Exemptions:						
Number of exemptions	204,126,402	212,202,596	227,925,098	244,180,202	245,752,978	217,529,986
Number, age 65 or over	8,904,331	9,937,208	11,847,168	16,748,810	17,395,776	N/A
Total deductions:						
Number of returns	73,862,448	81,585,541	88,491,251	96,848,626	98,180,981	160,043,660
Amount	120,549,755	233,181,778	346,000,155	554,733,523 ²	611,293,162 ²	600,010,206
Itemized deductions:						
Number of returns	35,430,047	26,074,061	28,950,282	39,848,184	40,667,008	35,512,119
Total amount ³	88,178,487	122,260,601	218,028,139	405,023,525	447,057,972	383,917,222
Medical and dental expense	10,585,749	11,422,312	14,972,082	22,926,214	25,112,007	16,974,201
Taxes paid	32,014,673	44,141,289	69,404,275	128,084,618	143,446,005	118,151,666
Interest paid	23,929,477	38,885,282	91,187,006	180,094,578	196,566,331	174,356,122
Contributions	12,892,732	15,393,331	25,809,608	47,962,848	53,815,979	49,260,909
Taxable income:						
Number of returns	59,593,598	65,852,602	88,104,696	96,124,046	97,358,296	90,077,175
Amount	401,154,285	595,492,866	1,279,985,360	1,820,740,833	1,947,024,584	1,858,714,325
Income tax before credits:						
Number of returns	59,596,755	65,854,734	76,135,819	85,994,216	86,600,724	89,752,616
Amount	84,156,695 ⁴	132,452,044	256,294,315	332,165,333	367,591,995	376,131,913
Total tax credits⁵:	369,610	8,069,846	7,215,839	10,248,044	7,020,731	6,107,503
Child care credit	N/A	N/A	956,439	3,127,702	3,397,090	3,448,756
Credit for the elderly and disabled	167,656	128,968	134,993	108,642	85,764	66,170
Residential energy credit	N/A	N/A	562,141	811,675	N/A	N/A
Foreign tax credit	169,623	381,985	1,341,675	782,561	773,939	961,944
Investment credit	30,554	1,593,150	3,288,415	(⁶)	(⁶)	(⁶)
General business credit	N/A	N/A	N/A	4,791,132 ⁶	1,115,836 ⁶	922,481 ⁶
Income tax after credits	83,787,323	124,382,197	249,078,475	321,917,289	360,571,264	370,024,410
Total income tax:⁷						
Number of returns	59,317,371	61,490,737	73,906,244	82,846,420	83,967,413	86,750,436
Amount	83,909,311	124,526,297	250,341,440	325,710,254	367,287,213	371,258,415

See notes following Table 20.

Selected Historical Data

Table 2.—Individual Income and Tax by State, 1987

[Money amounts are in thousands of dollars, except where indicated]

State	Number of returns	Number of exemptions ¹	Adjusted gross income (AGI)	Salaries and wages		Dividends	
				Number of returns	Amount	Number of returns	Amount
				(4)	(5)	(6)	(7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
United States, total²	107,402,061	244,662,456	2,772,619,841	90,613,164	2,154,846,456	22,404,700	66,545,417
Alabama	1,583,884	3,809,129	35,491,432	1,381,989	28,700,539	230,948	568,006
Alaska	333,527	625,967	6,926,876	203,509	5,646,138	71,241	99,730
Arizona	1,465,753	3,477,019	36,151,357	1,215,946	27,500,754	307,138	1,003,815
Arkansas	908,300	2,224,952	18,302,823	755,593	14,154,175	128,597	309,201
California	12,448,529	28,696,978	355,446,757	10,508,253	273,920,966	2,410,045	8,059,556
Colorado	1,465,631	3,285,151	36,992,444	1,240,434	29,460,262	337,847	830,943
Connecticut	1,651,493	3,468,627	55,089,657	1,407,345	42,352,557	467,325	1,610,669
Delaware	305,617	671,265	8,240,864	263,011	6,429,741	83,059	287,514
District of Columbia	324,812	610,266	9,058,484	278,420	6,581,380	55,318	306,110
Florida	5,532,536	12,473,327	140,278,994	4,395,426	95,059,647	1,264,074	6,221,502
Georgia	2,661,216	6,035,071	66,241,101	2,371,142	54,591,414	423,527	1,092,511
Hawaii	506,302	1,112,189	12,670,065	432,930	9,624,144	107,219	264,787
Idaho	377,978	983,951	7,810,313	310,455	6,069,106	70,436	167,665
Illinois	5,078,296	11,594,154	139,481,851	4,274,352	107,447,312	1,204,258	3,508,406
Indiana	2,385,246	5,588,247	56,972,232	2,023,506	45,628,262	456,287	999,917
Iowa	1,199,831	2,878,951	26,435,242	945,566	19,277,649	271,531	558,577
Kansas	1,063,352	2,538,297	25,880,407	871,206	19,642,150	229,084	572,140
Kentucky	1,428,007	3,385,845	31,244,592	1,203,300	24,538,533	220,801	614,778
Louisiana	1,605,420	3,977,748	34,439,198	1,365,046	27,587,511	240,875	608,327
Maine	541,373	1,213,480	12,362,604	463,288	9,210,493	102,952	320,698
Maryland	2,220,814	4,774,347	65,237,577	1,932,042	51,686,586	477,146	1,352,497
Massachusetts	2,902,142	6,010,353	85,613,540	2,493,297	65,796,268	679,766	2,069,571
Michigan	3,992,334	9,016,565	106,118,816	3,391,165	85,594,999	1,025,989	2,293,474
Minnesota	1,949,801	4,376,218	49,166,071	1,642,838	38,605,042	461,010	1,050,299
Mississippi	942,307	2,350,924	18,120,118	824,969	14,642,955	114,649	253,739
Missouri	2,189,414	5,067,042	52,928,425	1,829,329	41,018,915	470,820	1,344,274
Montana	336,096	809,849	6,429,208	262,001	4,737,860	76,900	177,849
Nebraska	694,262	1,654,206	15,195,086	560,856	11,297,103	146,452	330,479
Nevada	502,353	1,084,532	13,020,220	434,267	9,857,596	82,329	286,051
New Hampshire	533,686	1,158,128	15,125,319	465,315	11,658,649	118,378	362,681
New Jersey	3,948,154	8,604,042	122,658,740	3,388,003	96,123,831	1,035,878	3,043,029
New Mexico	607,396	1,481,292	12,699,844	513,555	10,015,718	105,497	275,611
New York	7,914,981	17,240,878	235,394,545	6,668,788	177,302,435	1,903,963	6,790,516
North Carolina	2,839,506	6,328,165	65,454,953	2,512,895	51,983,669	489,499	1,311,756
North Dakota	280,232	680,640	5,613,528	217,680	4,024,805	51,507	90,179
Ohio	4,786,125	10,764,877	117,266,957	4,054,886	92,750,076	1,085,955	2,718,397
Oklahoma	1,242,275	3,025,197	27,519,432	1,015,542	21,483,432	202,260	492,474
Oregon	1,198,779	2,779,160	27,523,256	979,412	20,680,114	243,293	635,062
Pennsylvania	5,310,917	11,855,065	131,421,755	4,393,649	100,661,126	1,242,683	3,678,379
Rhode Island	462,777	981,068	11,856,788	399,017	9,011,614	103,010	280,375
South Carolina	1,411,244	3,234,999	31,120,046	1,259,930	25,097,342	212,231	555,829
South Dakota	294,131	717,164	5,536,434	229,583	3,925,121	56,115	117,689
Tennessee	2,046,978	4,691,470	46,293,009	1,782,235	37,522,294	295,970	733,276
Texas	6,772,813	16,412,759	164,815,221	5,797,575	132,952,793	1,088,303	3,044,004
Utah	619,398	1,691,626	14,379,025	530,532	11,636,368	106,730	257,056
Vermont	252,758	557,691	5,916,723	214,986	4,438,563	58,829	198,936
Virginia	2,709,670	5,949,939	74,654,147	2,374,318	59,309,635	585,172	1,550,076
Washington	2,051,168	4,662,277	52,165,381	1,712,267	40,240,262	434,758	1,162,212
West Virginia	671,358	1,627,616	14,483,000	557,248	11,352,901	119,406	289,495
Wisconsin	2,120,739	4,852,496	50,642,199	1,794,701	39,935,631	487,345	1,184,392
Wyoming	196,475	482,709	4,509,276	164,899	3,550,563	40,675	120,877
Other areas ³	533,875	1,088,548	8,223,909	304,667	12,529,458	119,620	490,029

Selected Historical Data

Table 2. (Continued)—Individual Income and Tax by State, 1987

(Money amounts are in thousands of dollars, except where indicated)

State	Interest		Unemployment compensation in AGI		Itemized deductions		
	Number of returns	Amount	Number of returns	Amount	Number of returns	Total Deductions	Average amount (whole dollars)
	(8)	(9)	(10)	(11)	(12)	(13)	(14)
United States, total ²	67,754,641	167,478,801	7,308,358	12,228,525	36,976,374	404,019,811	10,926
Alabama.....	806,370	1,642,035	146,995	153,609	496,152	4,292,455	8,651
Alaska.....	169,934	252,110	35,457	82,760	84,496	978,652	11,582
Arizona.....	889,331	2,765,677	77,828	113,465	578,764	6,535,021	11,291
Arkansas.....	472,910	1,211,094	81,828	117,495	239,674	2,129,279	8,884
California.....	7,710,496	22,253,436	905,713	1,485,930	4,852,036	69,267,097	14,276
Colorado.....	981,431	2,234,855	93,045	176,172	612,745	6,861,712	11,198
Connecticut.....	1,237,452	3,002,819	85,948	128,887	573,075	7,292,581	12,725
Delaware.....	192,153	388,530	14,817	20,734	113,660	1,157,724	10,186
District of Columbia.....	165,675	461,445	11,346	26,001	113,979	1,511,949	13,265
Florida.....	3,294,153	12,629,542	166,473	267,112	1,661,888	17,860,274	10,747
Georgia.....	1,343,427	2,948,729	164,416	185,370	908,481	9,826,566	10,816
Hawaii.....	373,796	695,344	23,826	39,199	175,582	2,049,374	11,672
Idaho.....	235,355	559,997	43,864	71,068	135,496	1,325,508	9,783
Illinois.....	3,440,865	8,690,849	316,642	663,578	1,660,057	16,893,990	10,177
Indiana.....	1,500,612	3,127,463	151,529	174,891	720,103	6,094,294	8,463
Iowa.....	879,867	2,224,754	74,349	119,958	401,407	3,360,352	8,371
Kansas.....	710,828	1,890,283	68,624	123,009	381,216	3,505,374	9,195
Kentucky.....	781,799	1,737,236	124,612	151,260	441,403	3,749,994	8,496
Louisiana.....	849,949	2,039,543	171,979	332,397	429,722	4,066,856	9,464
Maine.....	358,126	680,117	38,548	50,440	158,350	1,515,092	9,568
Maryland.....	1,460,139	3,096,303	96,529	165,492	951,693	11,415,475	11,995
Massachusetts.....	2,163,886	4,703,360	165,495	333,391	1,043,160	12,126,648	11,625
Michigan.....	2,689,336	5,286,316	422,401	810,038	1,584,777	14,650,529	9,245
Minnesota.....	1,410,664	3,001,305	130,848	276,858	842,942	8,582,372	10,181
Mississippi.....	411,221	942,453	82,902	98,741	234,823	2,079,166	8,854
Missouri.....	1,380,530	3,504,831	166,845	223,979	677,851	6,011,633	8,869
Montana.....	229,260	580,664	28,635	44,811	116,991	946,284	8,089
Nebraska.....	484,498	1,183,118	36,947	45,366	208,368	1,911,001	9,171
Nevada.....	271,265	852,972	36,204	57,942	160,612	1,756,325	10,935
New Hampshire.....	383,894	790,316	19,828	23,726	177,605	1,936,713	10,905
New Jersey.....	2,745,125	6,469,449	220,925	444,334	1,440,551	17,653,364	12,255
New Mexico.....	334,405	802,968	40,304	67,634	179,114	1,674,406	9,348
New York.....	5,539,864	15,009,241	469,310	861,980	3,223,852	41,574,221	12,896
North Carolina.....	1,528,355	2,910,733	180,273	177,228	960,791	9,110,282	9,482
North Dakota.....	200,054	485,589	20,206	36,660	72,577	624,403	8,603
Ohio.....	3,095,393	6,239,989	333,314	597,153	1,557,372	14,237,232	9,142
Oklahoma.....	708,777	1,899,639	80,664	131,486	424,385	3,999,248	9,424
Oregon.....	782,619	1,873,079	114,301	194,203	476,404	4,821,905	10,121
Pennsylvania.....	3,670,097	7,474,324	466,444	868,234	1,626,298	14,898,308	9,161
Rhode Island.....	315,388	674,992	40,311	60,637	148,185	1,524,278	10,286
South Carolina.....	704,868	1,335,360	80,088	80,681	477,540	4,411,663	9,238
South Dakota.....	196,993	495,243	12,233	14,752	63,175	489,933	7,755
Tennessee.....	1,069,121	2,334,225	157,775	168,281	496,836	4,468,912	8,995
Texas.....	3,619,964	11,205,228	441,467	888,968	1,901,260	20,877,852	10,981
Utah.....	403,894	703,711	43,223	82,248	276,441	2,842,650	10,283
Vermont.....	172,426	335,283	15,841	21,563	79,914	750,091	9,386
Virginia.....	1,639,056	3,510,911	123,708	130,606	1,018,812	11,560,064	11,347
Washington.....	1,371,010	3,322,650	180,279	332,075	684,997	6,652,293	9,711
West Virginia.....	403,921	788,994	70,171	132,858	149,330	1,244,340	8,333
Wisconsin.....	1,578,185	3,004,061	206,973	318,547	784,824	7,165,344	9,130
Wyoming.....	130,058	310,437	19,130	38,746	61,055	511,104	8,371
Other areas ³	265,846	915,199	6,945	15,970	135,553	1,237,629	9,130

Selected Historical Data

Table 2. (Continued) —Individual Income and tax by State, 1987

[Money amounts are in thousands of dollars, except where indicated]

State	Tax liability				
	Total tax		Average tax (whole dollars)	Number of returns	Earned income credit
	Number of returns	Amount			
	(15)	(16)	(17)	(18)	(19)
United States, total ²	91,119,609	386,357,209	4,240	8,789,469	3,932,549
Alabama.....	1,281,165	4,426,484	3,455	229,278	109,238
Alaska.....	305,104	1,043,533	3,420	12,355	4,675
Arizona.....	1,222,666	4,615,277	3,775	134,021	59,376
Arkansas.....	726,249	2,185,528	3,009	129,919	59,953
California.....	10,512,603	50,216,312	4,777	1,047,495	477,197
Colorado.....	1,259,984	4,885,027	3,877	102,664	44,657
Connecticut.....	1,495,588	9,183,726	6,141	54,082	22,231
Delaware.....	266,355	1,124,878	4,223	21,798	9,683
District of Columbia.....	276,709	1,381,825	4,994	32,180	14,057
Florida.....	4,633,080	20,736,508	4,476	495,345	227,071
Georgia.....	2,229,724	8,759,810	3,929	306,941	141,351
Hawaii.....	439,394	1,640,755	3,734	29,665	11,876
Idaho.....	313,332	904,315	2,886	39,054	16,939
Illinois.....	4,355,429	20,912,962	4,802	349,982	153,256
Indiana.....	2,004,654	7,532,781	3,758	182,086	80,745
Iowa.....	1,021,053	3,359,015	3,290	74,834	31,756
Kansas.....	908,592	3,535,965	3,892	72,647	30,934
Kentucky.....	1,168,913	3,924,439	3,357	162,902	74,566
Louisiana.....	1,259,820	4,456,136	3,537	259,750	122,072
Maine.....	466,153	1,555,973	3,338	39,682	16,876
Maryland.....	1,960,048	9,070,694	4,628	137,383	59,534
Massachusetts.....	2,617,242	12,911,003	4,933	107,189	44,639
Michigan.....	3,421,729	14,632,718	4,276	222,843	95,840
Minnesota.....	1,718,690	6,368,518	3,705	95,772	40,024
Mississippi.....	712,645	2,094,264	2,939	197,072	96,353
Missouri.....	1,856,091	7,217,637	3,889	184,733	81,845
Montana.....	270,459	778,279	2,878	33,061	14,495
Nebraska.....	591,741	1,955,460	3,305	49,590	21,263
Nevada.....	430,511	1,908,668	4,433	36,578	15,606
New Hampshire.....	478,414	2,211,103	4,622	22,463	9,344
New Jersey.....	3,528,569	18,919,420	5,362	212,216	89,144
New Mexico.....	477,467	1,523,963	3,192	84,795	37,922
New York.....	6,908,152	34,943,260	5,058	556,373	246,399
North Carolina.....	2,374,741	8,182,060	3,445	307,190	139,237
North Dakota.....	237,805	706,667	2,972	22,087	9,242
Ohio.....	4,091,529	15,568,112	3,805	311,329	135,671
Oklahoma.....	1,016,186	3,515,864	3,460	138,088	62,755
Oregon.....	1,002,296	3,369,459	3,362	91,307	40,015
Pennsylvania.....	4,547,167	18,199,689	4,002	330,058	142,489
Rhode Island.....	407,961	1,624,975	3,983	24,436	10,451
South Carolina.....	1,157,729	3,677,911	3,177	176,074	81,784
South Dakota.....	242,398	709,049	2,925	27,469	11,771
Tennessee.....	1,684,986	6,202,822	3,681	242,203	111,225
Texas.....	5,516,129	23,936,483	4,339	818,317	373,886
Utah.....	517,880	1,583,725	3,058	48,707	20,753
Vermont.....	220,774	762,160	3,452	15,925	6,637
Virginia.....	2,363,623	10,170,891	4,303	188,517	83,382
Washington.....	1,765,588	7,214,494	4,086	126,579	54,063
West Virginia.....	549,736	1,746,777	3,177	72,723	32,137
Wisconsin.....	1,829,563	6,362,271	3,477	114,195	48,549
Wyoming.....	164,777	605,029	3,672	15,897	6,894
Other areas ³	310,416	1,302,535	4,196	1,620	694

See notes following Tables 20.

Selected Historical Data

Table 3.—Number of Individual Returns, Income, Tax, and Average Tax; By Size of Income, Tax Years 1984–1987

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

Size of adjusted gross income	Number of returns for—		Adjusted gross income (AGI) ¹		Taxable income	
	1984	1985	1984	1985	1984	1985
	(1)	(2)	(3)	(4)	(5)	(6)
Total	99,438,708	101,660,287	2,139,904,356	2,305,951,483	1,701,365,731	1,820,740,833
Less than \$1,000 ^{1,2}	3,329,148	3,292,007	-31,984,443	-36,740,956	63,799	6,856
\$1,000 under \$3,000.....	6,883,760	6,771,487	13,732,880	13,581,245	6,504,129	5,947,953
\$3,000 under \$5,000.....	7,030,537	6,685,481	28,151,199	26,769,868	17,251,761	16,049,013
\$5,000 under \$7,000.....	6,584,434	6,570,968	39,617,706	39,356,896	26,095,663	25,680,025
\$7,000 under \$9,000.....	6,792,931	6,664,279	54,388,545	53,477,888	38,888,493	37,544,431
\$9,000 under \$11,000.....	6,051,873	6,235,044	60,390,249	62,125,340	45,303,739	46,036,142
\$11,000 under \$13,000.....	5,877,979	5,582,921	70,439,379	66,863,381	54,708,664	51,016,092
\$13,000 under \$15,000.....	5,202,547	5,386,772	72,660,372	75,352,290	57,397,788	58,884,575
\$15,000 under \$17,000.....	4,893,833	4,895,393	78,195,614	78,225,269	62,489,602	61,708,177
\$17,000 under \$19,000.....	4,561,541	4,542,598	82,012,673	81,675,266	66,307,248	65,462,334
\$19,000 under \$22,000.....	5,645,759	6,089,064	115,466,828	124,506,145	93,889,175	100,462,536
\$22,000 under \$25,000.....	5,198,716	5,051,210	122,123,861	118,539,622	93,375,159	95,256,056
\$25,000 under \$30,000.....	7,635,404	7,457,947	209,274,643	204,399,150	168,006,165	164,077,078
\$30,000 under \$35,000.....	6,020,636	6,451,040	195,263,778	209,135,063	155,819,230	162,091,716
\$35,000 under \$40,000.....	5,054,470	5,184,620	188,944,011	193,807,899	149,423,027	152,091,716
\$40,000 under \$50,000.....	5,963,041	6,701,544	264,922,227	297,914,321	210,324,094	233,646,097
\$50,000 under \$75,000.....	4,657,702	5,628,639	375,046,849	333,710,362	214,921,141	259,467,072
\$75,000 under \$100,000.....	1,049,444	1,263,409	89,289,787	107,424,625	69,194,901	82,293,087
\$100,000 under \$150,000.....	581,498	706,248	69,273,546	84,315,947	53,604,014	60,834,865
\$150,000 under \$200,000.....	179,695	203,109	30,767,972	34,884,492	23,865,523	26,919,889
\$200,000 under \$300,000.....	132,306	152,523	31,729,787	36,457,244	24,405,339	27,919,889
\$300,000 under \$500,000.....	67,405	85,565	25,780,158	32,529,032	19,789,383	21,269,595
\$500,000 under \$1,000,000.....	29,215	41,107	19,729,296	27,541,427	15,798,723	17,919,889
\$1,000,000 or more.....	14,834	17,312	34,687,437	40,099,667	27,938,970	32,087,247

Size of adjusted gross income	Total income tax ³		Percentage of returns showing no total income tax		Returns showing total income tax			
	1984	1985	1984	1985	Average tax (whole dollars)		Tax as percentage of AGI	
	(7)	(8)	(9)	(10)	1984	1985	1984	1985
Total	301,923,057	325,710,254	17.9	18.5	3,698	3,931	14.4	14.4
Less than \$1,000 ^{1,2}	419,790	185,922	99.2	99.7	16,783 ³	16,964 ³	—	—
\$1,000 under \$3,000.....	44,652	41,698	93.8	94.4	104	111	5.4	5.4
\$3,000 under \$5,000.....	430,167	347,878	40.8	48.2	103	100	2.5	2.4
\$5,000 under \$7,000.....	1,233,034	1,193,043	33.7	33.9	282	275	4.7	4.6
\$7,000 under \$9,000.....	2,483,282	2,259,763	21.3	26.3	465	460	5.8	5.7
\$9,000 under \$11,000.....	3,617,920	3,480,779	8.2	11.8	651	633	6.5	6.3
\$11,000 under \$13,000.....	5,013,506	4,548,843	5.2	5.9	899	865	7.5	7.2
\$13,000 under \$15,000.....	5,831,903	5,789,495	3.6	3.9	1,163	1,119	8.3	8.0
\$15,000 under \$17,000.....	6,785,324	6,543,361	2.0	2.9	1,415	1,375	8.9	8.6
\$17,000 under \$19,000.....	7,775,189	7,482,062	1.8	2.3	1,736	1,686	9.7	9.4
\$19,000 under \$22,000.....	11,677,768	12,203,165	1.5	2.0	2,100	2,044	10.3	10.0
\$22,000 under \$25,000.....	13,237,769	12,275,305	1.0	1.6	2,573	2,469	11.0	10.5
\$25,000 under \$30,000.....	23,793,004	22,916,849	1.2	1.0	3,152	3,103	11.5	11.3
\$30,000 under \$35,000.....	23,926,881	25,080,332	.7	.8	4,004	3,919	12.3	12.1
\$35,000 under \$40,000.....	24,678,348	24,713,424	.5	.8	4,907	4,803	13.1	12.8
\$40,000 under \$50,000.....	38,675,241	41,501,665	.3	.4	6,504	6,215	14.6	14.0
\$50,000 under \$75,000.....	47,355,174	56,064,781	.4	.2	10,211	9,984	17.3	16.8
\$75,000 under \$100,000.....	18,759,377	21,794,656	.4	.3	17,944	17,297	21.1	20.3
\$100,000 under \$150,000.....	17,117,874	19,895,978	.2	.4	29,502	28,296	24.8	23.7
\$150,000 under \$200,000.....	8,644,645	9,760,959	.2	.1	48,205	48,128	28.2	28.0
\$200,000 under \$300,000.....	10,013,524	11,362,146	.2	.2	75,844	74,658	31.6	31.2
\$300,000 under \$500,000.....	8,761,557	10,670,832	.2	.2	130,272	124,947	34.1	32.2
\$500,000 under \$1,000,000.....	7,526,585	9,878,188	.2	.2	258,255	240,714	38.2	35.9
\$1,000,000 or more.....	14,120,545	15,728,128	.2	.3	954,091	910,931	40.8	39.3

See notes following Table 20.

Table 3. (Continued)—Number of Individual Returns, Income, Tax, and Average Tax, By Size of Income, Tax Years 1984–1987
 [All figures are estimates based on samples—money amounts are in thousands of dollars, except as indicated]

Size of adjusted gross income	Number of returns for—		Adjusted gross income (AGI) ¹		Taxable income	
	1986	p1987	1986	p1987	1986	p1987
	(1)	(2)	(3)	(4)	(5)	(6)
Total	103,045,170	107,070,087	2,481,681,046	2,788,010,987	1,947,024,584	1,858,714,325
Less than \$1,000 ^{1,2}	3,082,866	3,724,061	- 41,192,239	- 27,103,786	2,988	148,982
\$1,000 under \$3,000.....	6,943,446	7,423,290	14,071,650	14,861,384	6,091,094	1,298,693
\$3,000 under \$5,000.....	6,918,848	6,678,315	27,868,449	26,669,777	16,360,716	3,699,221
\$5,000 under \$7,000.....	6,476,499	6,412,876	38,957,006	38,359,820	24,601,096	8,144,517
\$7,000 under \$9,000.....	6,193,124	6,309,454	49,544,545	50,434,855	33,689,430	15,115,304
\$9,000 under \$11,000.....	6,143,571	5,956,535	61,191,194	59,470,730	43,902,314	21,830,452
\$11,000 under \$13,000.....	5,555,106	5,587,567	66,594,415	67,031,219	49,577,787	29,939,400
\$13,000 under \$15,000.....	5,248,065	5,302,949	73,308,776	74,132,434	56,529,121	36,889,755
\$15,000 under \$17,000.....	4,744,416	4,788,540	75,841,890	76,475,822	59,389,086	41,807,488
\$17,000 under \$19,000.....	4,478,236	4,487,465	80,591,475	80,695,773	64,065,790	46,164,802
\$19,000 under \$22,000.....	6,070,710	5,875,787	124,453,078	120,118,583	98,830,208	72,292,081
\$22,000 under \$25,000.....	5,218,320	5,305,636	122,393,950	124,462,677	98,488,143	78,285,038
\$25,000 under \$30,000.....	7,559,001	7,494,234	207,876,371	205,545,680	165,356,830	133,956,936
\$30,000 under \$35,000.....	11,489,629	11,605,168	398,161,168	402,546,332	313,916,975	271,232,572
\$35,000 under \$40,000.....	7,458,776	7,865,984	332,210,863	350,515,258	259,365,436	243,010,676
\$40,000 under \$50,000.....	6,427,825	8,144,059	381,831,768	485,721,579	295,296,881	349,700,309
\$50,000 under \$75,000.....	1,546,776	2,043,299	131,926,730	173,763,280	100,211,601	129,094,333
\$75,000 under \$100,000.....	1,115,593	1,519,691	146,973,805	201,210,047	112,757,958	154,796,091
\$100,000 under \$150,000.....	290,946	413,787	82,840,607	123,964,730	64,277,685	101,521,303
\$150,000 under \$200,000.....	51,558	77,091	33,670,463	51,938,773	27,327,574	44,266,142
\$200,000 under \$300,000.....	31,859	36,299	72,565,082	87,196,022	56,985,871	75,520,229
\$300,000 under \$500,000.....						
\$500,000 under \$1,000,000.....						
\$1,000,000 or more.....						

Size of adjusted gross income	Total income tax ³		Percentage of returns showing no total income tax		Returns showing total income tax			
	1986	p1987	1986	p1987	Average tax (whole dollars)		Tax as percentage of AGI	
	(7)	(8)	(9)	(10)	1986	p1987	1986	p1987
Total	367,287,213	371,258,415	18.5	19.0	4,374	4,280	15.1	13.7
Less than \$1,000 ^{1,2}	315,949	95,531	99.5	80.4	19,520	131	—	—
\$1,000 under \$3,000.....	58,848	179,375	94.1	70.1	143	81	7.1	3.9
\$3,000 under \$5,000.....	331,163	429,476	51.8	55.6	99	145	2.3	3.5
\$5,000 under \$7,000.....	1,047,045	994,265	35.1	36.4	249	244	4.1	4.1
\$7,000 under \$9,000.....	1,953,699	1,788,036	29.1	34.4	445	432	5.5	5.4
\$9,000 under \$11,000.....	3,203,202	2,584,647	13.3	29.2	601	613	6.0	6.1
\$11,000 under \$13,000.....	4,326,834	3,653,485	6.2	18.8	831	805	6.9	6.7
\$13,000 under \$15,000.....	5,409,582	4,699,120	3.9	9.0	1,073	973	7.7	7.0
\$15,000 under \$17,000.....	6,304,604	5,665,145	2.4	3.5	1,361	1,225	8.5	7.7
\$17,000 under \$19,000.....	7,243,966	6,283,069	1.6	2.9	1,644	1,442	9.1	8.0
\$19,000 under \$22,000.....	11,947,487	10,025,769	1.3	1.9	1,995	1,739	9.7	8.5
\$22,000 under \$25,000.....	12,727,389	11,376,877	0.8	1.6	2,459	2,180	10.5	9.3
\$25,000 under \$30,000.....	22,850,961	20,392,906	0.8	0.6	3,047	2,739	11.1	10.0
\$30,000 under \$35,000.....	48,628,502	42,832,193	0.5	0.5	4,253	3,709	12.3	10.7
\$35,000 under \$40,000.....	45,744,224	41,379,577	0.2	0.3	6,143	5,276	13.8	11.8
\$40,000 under \$50,000.....	62,459,834	70,134,331	0.2	0.1	9,737	8,624	16.4	14.5
\$50,000 under \$75,000.....	26,280,965	31,157,983	0.2	0.1	17,027	15,268	20.0	18.0
\$75,000 under \$100,000.....	37,289,197	43,632,237	0.2	0.2	33,498	28,781	25.4	21.7
\$100,000 under \$150,000.....	27,066,736	33,202,657	0.2	0.2	93,196	77,012	32.7	26.8
\$150,000 under \$200,000.....	12,928,118	15,261,222	0.2	0.1	251,192	198,231	38.5	29.4
\$200,000 under \$300,000.....	29,168,908	25,490,513	0.2	0.1	917,031	703,284	40.3	29.3

See notes following Table 20.

Selected Historical Data

Table 4.—Reconciliation of Adjusted Gross Income (AGI) and Personal Income Used in the National Income and Product Accounts (NIPA), Selected Years, 1970–1986

[All figures are estimates—money amounts are in billions of dollars]

Income and adjustment items	1970	1975	1980	1984	1985	1986 ²
	(1)	(2)	(3)	(4)	(5)	(6)
1. Personal income (per NIPA)	831.8	1,313.4	2,258.5	3,108.7	r3,325.3	3,531.1
2. Portion of personal income not included in AGI	181.2	350.5	608.5	r954.1	r1,021.4	1,103.2
Transfer payments (except taxable military pay and taxable Government pensions).....	79.3	176.9	290.3	r391.8	r416.8	437.5
Other labor income (except fees).....	31.9	65.0	136.5	180.0	189.1	192.5
Imputed income.....	25.5	33.4	45.1	49.4	59.1	70.0
Investment income received by nonprofit institutions or retained by fiduciaries.....	7.7	11.2	21.7	31.6	35.9	121.3
Investment income retained by life insurance carriers and noninsured pension funds ¹	12.5	23.5	59.9	98.4	106.3	33.1
Differences in accounting treatment (NIPA vs. IRS).....	8.5	16.0	14.1	79.8	89.0	105.2
Other excluded or exempt income.....	15.8	24.4	41.0	123.0	135.7	143.6
3. Portion of AGI not included in personal income	47.7	85.1	157.8	r252.7	r299.4	403.0
Personal contributions for social insurance.....	27.9	50.4	88.6	132.7	r149.3	161.1
Net capital gain from sales of property.....	8.9	14.2	29.7	56.2	r69.8	137.4
Taxable private pensions.....	6.3	13.1	28.3	58.4	72.9	87.8
S Corporation income (taxed through shareholders).....	1.7	2.1	.7	6.2	r6.2	10.9
Other taxable income.....	2.9	5.4	10.5	-.8	r1.2	5.8
4. Total net adjustment for conceptual differences (line 2 minus line 3)	133.5	265.4	450.7	r701.4	r722.0	700.2
5. Estimated total AGI (per NIPA) (line 1 minus line 4)	698.3	1,048.0	1,807.9	r2,407.3	r2,603.3	2,830.9
6. Adjusted gross income (AGI) (SOI)	631.7	947.8	1,613.7	2,139.9	r2,306.0	2,522.5
7. Estimated difference in AGI (NIPA vs. SOI) (line 5 minus line 6)³	66.6	100.2	194.1	r267.4	r297.3	308.4

See notes following Table 20.

Table 5.—Personal Income and Total Adjusted Gross Income Based on Individual Income Tax Returns per National Income and Product Accounts (NIPA), Tax Years 1947–1987

[All figures are estimates—money amounts are in billions of dollars]

Tax year	Personal income (per NIPA) ¹	Total adjusted gross income (AGI) (per NIPA)	Difference	
			Amount	Percentage of personal income
	(1)	(2)	(3)	(4)
1947.....	190.2	170.6	19.6	10.3
1948.....	209.2	184.6	24.6	11.8
1949.....	206.4	181.7	24.7	12.0
1950.....	228.1	201.4	26.7	11.7
1951.....	256.5	228.8	27.7	10.8
1952.....	273.8	241.8	32.0	11.7
1953.....	290.5	257.1	33.4	11.5
1954.....	293.0	256.4	36.6	12.5
1955.....	314.2	277.1	37.1	11.8
1956.....	337.2	297.9	39.3	11.7
1957.....	356.3	310.7	45.6	12.8
1958.....	367.1	316.0	51.1	13.9
1959.....	390.7	338.7	52.0	13.3
1960.....	409.4	352.5	56.9	13.9
1961.....	426.0	365.8	60.2	14.1
1962.....	453.2	387.8	65.4	14.4
1963.....	476.3	408.7	67.6	14.2
1964.....	510.2	442.0	68.2	13.4
1965.....	552.0	479.4	72.6	13.2
1966.....	600.8	520.0	80.8	13.4
1967.....	644.5	555.4	89.1	13.8
1968.....	707.2	610.0	97.2	13.7
1969.....	772.9	663.4	109.5	14.2
1970.....	831.8	698.3	133.5	16.0
1971.....	894.0	745.6	148.4	16.6
1972.....	981.6	824.7	156.9	16.0
1973.....	1,101.7	926.0	175.7	15.9
1974.....	1,210.1	1,004.0	206.1	17.0
1975.....	1,313.4	1,048.0	265.4	20.2
1976.....	1,451.4	1,166.7	284.7	19.6
1977.....	1,607.5	1,297.0	310.5	19.3
1978.....	1,812.4	1,466.9	345.5	19.1
1979.....	2,034.0	1,647.3	386.7	19.0
1980.....	2,258.5	1,807.9	450.6	20.0
1981.....	2,520.9	1,990.0	530.9	21.1
1982.....	2,670.8	2,059.4	611.4	22.9
1983.....	2,838.6	2,176.3	662.3	23.3
1984.....	3,108.7	2,407.3	r701.4	r22.6
1985.....	r3,325.3	r2,603.4	r713.7	r21.5
1986.....	r3,531.1	2,830.8	700.3	19.8
p1987.....	3,780.0	n.a.	n.a.	n.a.

See notes following Table 20.

Selected Historical Data

Table 6.—Total Adjusted Gross Income Estimated from National Income and Product Accounts (NIPA) and Adjusted Gross Income Reported on Individual Income Tax Returns per SOI, Tax Years 1947–1987

[All figures are estimates—money amounts are in billions of dollars]

Tax year	Adjusted gross income (AGI)		Difference	
	Total (per NIPA) ¹	Reported on tax returns (per SOI)	Amount	Percentage of total
	(1)	(2)	(3)	(4)
1947.....	170.6	149.7	20.9	12.3
1948.....	184.6	163.6	21.0	11.4
1949.....	181.7	160.6	21.1	11.6
1950.....	201.4	179.1	22.3	11.1
1951.....	228.8	202.4	26.4	11.5
1952.....	241.8	215.3	26.5	11.0
1953.....	257.1	228.7	28.4	11.0
1954.....	256.4	229.2	27.2	10.6
1955.....	277.1	248.5	28.6	10.3
1956.....	279.9	267.8	30.1	10.1
1957.....	310.7	280.4	30.3	9.8
1958.....	316.0	281.2	34.8	11.0
1959.....	338.7	305.1	33.6	9.9
1960.....	352.5	315.5	37.0	10.5
1961.....	365.8	329.9	35.9	9.8
1962.....	387.8	348.7	39.1	10.1
1963.....	408.7	368.8	39.9	9.8
1964.....	442.0	396.7	45.3	10.2
1965.....	479.4	429.2	50.2	10.5
1966.....	520.0	468.5	51.5	9.9
1967.....	555.4	504.8	50.6	9.1
1968.....	610.0	554.4	55.6	9.1
1969.....	663.4	603.5	59.9	9.0
1970.....	698.3	631.7	66.6	9.5
1971.....	745.6	673.6	72.0	9.7
1972.....	824.7	746.0	78.7	9.5
1973.....	926.0	827.1	98.9	10.7
1974.....	1,004.0	905.5	98.5	9.8
1975.....	1,048.0	947.8	100.2	9.6
1976.....	1,166.7	1,053.9	112.8	9.7
1977.....	1,297.0	1,158.5	138.5	10.7
1978.....	1,466.9	1,302.4	164.5	11.2
1979.....	1,647.3	1,465.4	181.9	11.0
1980.....	1,807.9	1,613.7	194.2	10.7
1981.....	1,990.0	1,772.6	217.4	10.9
1982.....	2,059.4	1,852.1	207.3	10.1
1983.....	2,176.3	1,942.6	233.7	10.7
1984.....	r2,407.3	2,139.9	r267.4	r11.1
1985.....	r2,609.9	2,306.0	303.9	11.6
1986.....	2,803.9	2,481.7	349.2	12.3
p1987.....	n.a.	2,788.0	n.a.	n.a.

See notes following Table 20.

Selected Historical Data

Table 7.—Standard, Itemized, and Total Deductions Reported on Individual Income Tax Returns, Tax Years 1944–1987

[All figures are estimates based on samples—number of returns are in millions; money amounts are in billions of dollars]

Tax year	Total number of returns	Standard deduction ¹		Itemized deductions		Total deductions	
		Number of returns ²	Amount	Number of returns ²	Amount ³	Amount	Percentage of adjusted gross income (AGI)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1944	47.1	38.7	8.0	8.4	4.8	12.8	11.0
1945	49.9	41.5	8.1	8.5	5.5	13.6	11.3
1946	52.8	44.1	8.9	8.8	6.3	15.2	11.3
1947	55.1	44.7	9.8	10.4	7.8	17.6	11.8
1948	52.1	43.2	11.5	8.8	7.9	19.4	11.9
1949	51.8	42.1	11.1	9.7	8.8	19.9	12.4
1950	53.1	42.7	12.0	10.3	9.9	21.9	12.2
1951	55.4	43.9	13.3	11.6	11.9	25.2	12.5
1952	56.5	43.7	13.7	12.8	13.6	27.3	12.7
1953	57.8	43.4	14.2	14.4	15.6	29.8	13.0
1954	56.7	41.0	13.3	15.7	17.4	30.7	13.4
1955	58.3	41.4	13.6	16.9	20.0	33.6	13.5
1956	59.2	40.7	13.8	18.5	22.6	36.4	13.6
1957	59.8	39.7	13.8	20.2	25.7	39.5	14.1
1958	59.1	38.3	13.2	20.8	27.5	40.7	14.5
1959	60.3	37.8	13.4	22.5	32.0	45.4	14.9
1960	61.0	36.9	13.1	24.1	35.3	48.4	15.3
1961	61.5	36.2	12.9	25.3	38.4	51.3	15.6
1962	62.7	36.3	13.1	26.5	41.7	54.8	15.7
1963	63.9	35.8	13.1	28.2	46.1	59.2	16.1
1964	65.4	38.5	20.2	26.9	46.8	67.0	16.9
1965	67.6	39.7	20.6	27.9	50.7	71.4	16.6
1966	70.2	41.6	21.8	28.6	54.6	76.4	16.3
1967	71.7	41.9	22.1	29.8	59.6	81.7	16.2
1968	73.7	41.7	22.1	32.0	69.2	91.3	16.4
1969	75.8	40.9	21.6	34.9	80.2	101.8	16.8
1970	74.3	38.8	32.4	35.4	88.2	120.5	19.0
1971	74.6	43.9	48.1	30.7	91.9	139.9	20.7
1972	77.6	50.6	69.8	27.0	96.7	166.4	22.2
1973	80.7	52.6	73.6	28.0	107.0	180.6	21.8
1974	83.3	53.8	76.1	29.6	119.4	195.5	21.6
1975	82.2	56.1	100.9	26.1	122.3	233.2	23.5
1976	84.7	58.7	113.8	26.0	133.9	247.6	23.5
1977	86.6	63.7	137.7	22.9	138.5	276.2	23.8
1978	89.8	64.0	139.8	25.8	164.4	304.3	23.4
1979	92.7	66.2	148.8	26.5	184.2	333.0	22.7
1980	93.9	65.0	146.0	29.0	218.0	346.0	22.6
1981	95.4	63.8	144.7	31.6	256.4	401.2	22.6
1982	95.3	61.9	140.2	33.4	284.5	425.2 ⁴	22.9
1983	96.3	61.1	138.5	35.2	309.6	448.7 ⁴	23.1
1984	99.4	61.2	139.5	38.2	358.9	499.6 ⁴	23.3
1985	101.7	61.8	145.0	39.8	405.0	554.7 ⁴	23.9
1986	103.0	62.4	151.0	40.7	447.1	611.3 ⁴	24.6
p1987	107.1	71.6	216.1	35.5	383.9	600.0	21.5

See notes following Table 20.

Table 8.—Personal Income Per National Income and Product Accounts (NIPA) and Taxable Income, and Individual Income Tax Per SOI, Tax Years 1947–1987

[All figures are estimates—money amounts are in billions of dollars]

Tax year	Personal income (per NIPA) ¹	Taxable income (per SOI) ²		Total income tax (per SOI) ³		
		Amount	As a percentage of personal income	Total	As a percentage of—	
					Personal income	Taxable income
	(1)	(2)	(3)	(4)	(5)	(6)
1947.....	190.2	75.4	39.6	18.1	9.5	24.0
1948.....	209.2	74.8	35.8	15.4	7.4	20.6
1949.....	206.4	71.7	34.7	14.5	7.0	20.2
1950.....	228.1	84.3	37.0	18.4	8.1	21.8
1951.....	256.5	99.2	38.7	24.2	9.4	25.9
1952.....	273.8	107.2	39.2	27.8	10.2	25.9
1953.....	290.5	114.3	39.3	29.4	10.1	25.7
1954.....	293.0	115.3	39.4	26.7	9.1	23.2
1955.....	314.2	128.0	40.7	29.6	9.4	23.1
1956.....	337.2	141.5	42.0	32.7	9.7	23.1
1957.....	356.3	149.4	41.9	34.4	9.7	23.0
1958.....	367.1	149.3	40.7	34.3	9.3	23.0
1959.....	390.7	166.5	42.6	38.6	9.9	23.2
1960.....	409.4	171.6	41.9	39.5	9.6	23.0
1961.....	426.0	181.8	42.7	42.2	9.9	23.2
1962.....	453.2	195.3	43.1	44.9	9.9	23.0
1963.....	476.3	209.1	43.9	48.2	10.1	23.1
1964.....	510.2	229.9	45.1	47.2	9.3	20.5
1965.....	552.0	255.1	46.2	49.6	9.0	19.4
1966.....	600.8	286.3	47.7	56.1	9.3	19.6
1967.....	644.5	315.1	48.9	63.0	9.8	20.0
1968.....	707.2	352.8	49.9	76.7	10.8	21.7
1969.....	772.9	388.8	50.3	86.6	11.2	22.3
1970.....	831.8	401.2	48.2	83.9	10.1	20.9
1971.....	894.0	414.0	46.3	85.4	9.6	20.6
1972.....	981.6	447.6	45.6	93.6	9.5	20.9
1973.....	1,101.7	511.9	46.5	108.1	9.8	21.1
1974.....	1,210.1	573.6	47.4	123.6	10.2	21.5
1975.....	1,313.4	595.5	45.3	124.5	9.5	20.9
1976.....	1,451.4	674.9	46.5	141.8	9.8	21.0
1977.....	1,607.5	733.8	45.6	159.8	9.9	21.8
1978.....	1,812.4	846.4	46.7	188.2	10.4	22.2
1979.....	2,034.0	926.6	45.6	214.5	10.5	23.2
1980.....	2,258.5	1,045.2	46.3	250.3	11.1	24.0
1981.....	2,520.9	1,170.1	46.4	284.1	11.3	24.3
1982.....	2,670.8	1,231.9	46.1	277.6	10.4	22.6
1983.....	2,838.6	1,300.2	45.8	274.2	9.7	21.1
1984.....	3,108.7	1,447.0	46.5	301.9	9.7	20.9
1985.....	3,325.3	1,550.5	46.6	325.7	9.8	21.0
1986.....	3,531.1	1,665.6	47.2	367.3	(*)	22.1
1987.....	3,780.0	1,858.7	(*)	371.3	(*)	20.0

See notes following Table 20.

Selected Historical Data

Table 9.—Number of Individual Income Tax Returns, by Type of Tax Settlement, Tax Years 1944–1987

[All figures are estimates based on samples—number of returns are in millions]

Tax year	Total number of returns	Returns with—		
		Tax due at time of filing ¹	Overpayments ¹	No overpayments or tax due at time of filing
	(1)	(2)	(3)	(4)
1944	47.1	22.6	22.9	1.6
1945	49.9	14.5	33.5	1.9
1946	52.8	13.6	34.4	4.8
1947	55.1	15.3	33.0	6.7
1948	52.1	8.1	38.4	5.6
1949	51.8	13.8	30.2	7.9
1950	53.1	14.3	32.0	6.8
1951	55.4	18.6	31.0	5.8
1952	56.5	19.3	32.1	5.1
1953	57.8	19.0	32.7	6.2
1954	56.7	16.6	35.2	5.0
1955	58.3	18.7	35.4	4.2
1956	59.2	19.4	36.1	3.7
1957	59.8	18.6	37.6	3.6
1958	59.1	18.1	37.4	3.6
1959	60.3	19.1	38.4	2.8
1960	61.0	18.1	39.4	3.5
1961	61.5	18.6	40.0	2.9
1962	62.7	18.7	40.9	3.1
1963	63.9	19.3	41.4	3.3
1964	65.4	22.5	39.3	3.5
1965	67.6	20.0	44.3	3.2
1966	70.2	17.8	49.4	3.0
1967	71.7	17.5	51.2	3.0
1968	73.7	20.3	50.6	2.8
1969	75.8	17.9	54.9	3.0
1970	74.3	16.5	55.3	2.5
1971	74.6	17.0	55.3	2.4
1972	77.6	11.9	63.3	2.3
1973	80.7	14.2	64.2	2.2
1974	83.3	15.4	65.8	2.1
1975	82.2	15.8	63.8	2.6
1976	84.7	16.9	65.0	2.8
1977	86.6	17.8	66.0	2.8
1978	89.8	21.6	65.5	2.7
1979	92.7	18.8	71.4	2.4
1980	93.9	21.8	69.9	2.3
1981	95.4	23.0	70.0	2.4
1982	95.3	20.3	72.4	2.6
1983	96.3	18.5	75.0	2.9
1984	99.4	21.2	75.6	2.7
1985	101.7	21.2	77.4	3.0
1986	103.0	21.5	78.1	3.5
p1987	107.1	23.5	80.1	3.5

See notes following Table 20.

Selected Historical Data

Table 10.—Nonfarm Sole Proprietorship Returns: Selected Income and Deduction Items for Selected Income Years, 1970–1986

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

Item	1970	1975	1980	1984	1985	1986
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns, total	5,769,741	7,221,346	8,931,712	11,262,390	11,928,573	12,393,700
Number with net income.....	n.a.	n.a.	n.a.	8,002,865	8,640,701	9,247,806
Inventory, end of year	11,060,775	15,578,040	21,996,236	23,232,929	24,969,895	24,476,892
Business receipts, total	198,582,172	273,954,741	411,205,713	516,036,944	540,045,430	559,384,259
Income from sales and operations.....	n.a.	272,342,560	407,169,299	507,234,292	528,675,271	r548,293,173
Total deductions	168,044,746	234,318,288	356,258,495	445,270,334	461,272,852	468,960,496
Cost of sales and operations.....	109,148,811	146,261,435	209,889,809	229,905,960	232,294,132	232,134,760
Purchases.....	88,585,913	117,722,352	168,301,517	n.a.	n.a.	n.a.
Cost of labor.....	7,704,285	8,791,083	10,922,221	13,008,803	14,504,201	17,317,871
Materials and supplies.....	6,216,057	9,090,638	12,909,222	n.a.	n.a.	n.a.
Commissions.....	1,274,016	2,225,830	3,333,345	n.a.	n.a.	5,461,118
Net salaries and wages.....	15,107,047	20,227,859	26,560,821	34,686,204	38,265,691	38,691,599
Car and truck expenses.....	n.a.	n.a.	13,378,289	17,523,807	17,044,421	16,380,826
Rent paid.....	4,636,528	6,676,314	9,636,290	14,278,260	15,258,690	15,653,599
Repairs.....	2,444,607	3,044,175	5,031,573	n.a.	n.a.	n.a.
Taxes paid.....	3,775,502	5,423,961	7,672,459	n.a.	n.a.	n.a.
Utilities.....	n.a.	n.a.	4,790,337	n.a.	n.a.	12,644,624
Insurance.....	2,309,608	3,503,812	6,003,126	n.a.	n.a.	10,783,481
Interest paid.....	1,784,276	3,390,845	7,190,257	11,025,276	11,913,982	11,504,437
Depreciation.....	5,451,525	7,958,143	13,952,703	23,900,034	26,291,389	26,418,043
Pension and profit sharing plans.....	72,741	125,296	141,463	258,070	311,323	638,262
Net income (less deficit)	30,537,426	r39,636,453	54,947,219	70,766,610	78,772,578	90,423,763
Net income.....	33,735,732	45,624,890	68,010,051	89,849,570	98,775,563	110,496,952
Deficit.....	3,198,306	5,988,437	13,062,832	19,082,960	20,002,986	20,073,189

See notes following Table 20.

Table 11.—Partnership Returns: Balance Sheet Items and Selected Income Statement for Selected Income Years, 1970–1986

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

Item	1970	1975	1980	1984	1985	1986
	(1)	(2)	(3)	(4)	(5)	(6)
Total number of active partnerships	936,133	1,073,094	1,379,654	1,643,581	1,713,603	1,702,952
Number with net income.....	639,795	661,134	774,173	844,738	875,846	850,884
Number with balance sheets.....	555,741	783,271	1,194,236	1,201,320	1,227,498	1,202,737
Number of partners	3,697,818	4,950,634	8,419,899	12,426,721	13,244,824	15,301,345
Total assets ¹	116,752,751	235,468,301	597,503,923	1,030,848,519	1,269,434,302	1,403,750,213
Depreciable assets (net).....	n.a.	113,124,969	239,139,823	581,643,219	695,878,822	779,936,070
Inventories, end of year.....	n.a.	11,985,431	33,218,272	39,446,014	27,279,234	27,463,816
Land.....	n.a.	36,731,958	70,241,248	122,036,819	152,179,314	179,141,689
Total liabilities ¹	n.a.	193,875,629	488,734,023	1,030,848,464	1,269,434,367	1,403,750,220
Accounts payable.....	n.a.	12,302,055	33,899,048	32,780,197	40,871,755	43,621,862
Short-term debt ²	n.a.	22,709,476	48,001,839	68,625,844	102,760,363	92,456,724
Long-term debt ³	n.a.	136,296,764	178,044,406	322,327,016	93,319,855	429,195,599
Nonrecourse loans.....	n.a.	n.a.	118,910,380	260,167,109	327,558,208	365,044,180
Partners' capital accounts	n.a.	41,592,672	108,769,900	1,754,754,922	200,212,653	228,022,656
Total receipts ⁴	93,348,080	148,417,529	291,998,115	375,192,511	367,117,316	397,302,544
Business receipts.....	90,208,834	142,505,781	271,108,832	318,342,380	302,733,374	327,428,647
Interest received.....	942,304	2,477,173	10,869,323	16,651,205 ⁴	20,558,966 ⁴	21,715,994 ⁴
Total deductions ⁴	83,557,684	140,679,959	283,749,460	378,692,535	376,000,991	r414,673,405
Cost of sales and operations.....	46,040,874	64,672,843	113,885,668	180,857,822	146,315,315	164,167,707
Purchases.....	31,820,581	42,608,734	70,439,607	100,358,781	91,925,923	100,010,383
Cost of labor.....	4,146,927	4,585,836	7,015,547	7,826,231	8,845,106	9,789,253
Salaries and wages.....	8,129,233	12,489,039	22,336,337	28,522,626	33,884,204	36,304,654
Taxes paid.....	3,159,258	5,770,918	9,553,145	6,673,186	7,745,756	7,866,233
Interest paid.....	4,470,206	12,097,100	28,362,385	25,437,588	28,674,933	29,452,297
Depreciation ⁵	4,578,820	10,108,834	21,576,189	46,939,395	53,650,790	r59,847,381
Net income (less deficit)	9,790,396	7,737,570	8,248,655	- 3,500,024	- 8,883,674	- 17,370,860
Net income.....	14,419,124	22,431,931	45,061,756	69,696,922	77,044,693	80,214,873
Deficit.....	4,628,728	14,694,361	36,813,100	73,196,946	85,928,367	97,585,733

See notes following Table 20.

Selected Historical Data

Table 12.—Number of Business Income Tax Returns, by Size of Business, for Selected Years 1970–1986

[All figures are estimates based on samples—number of businesses are in thousands]

Size of business	Number of businesses for—					
	1970	1975	1980	1984	1985	1986
	(1)	(2)	(3)	(4)	(5)	(6)
CORPORATIONS						
Receipt size ¹						
Under \$25,000 ²	451.9	468.9	557.0	686.1	710.8	n.a.
\$25,000 under \$50,000	170.7	186.4	207.7	212.5	236.6	n.a.
\$50,000 under \$100,000	219.8	260.7	322.7	338.7	330.2	n.a.
\$100,000 under \$250,000	516.9	673.9	558.4	615.2	620.5	n.a.
\$250,000 under \$500,000			367.3	468.4	489.2	n.a.
\$500,000 under \$1,000,000			141.1	184.2	279.8	344.8
\$1,000,000 or more	165.0	249.5	417.7	505.0	537.6	n.a.
Asset size						
Under \$100,000 ³	961.0	1,177.7	1,514.6	1,773.7	1,833.5	n.a.
\$100,000 under \$1 million	599.1	704.6	968.9	1,119.8	1,152.5	n.a.
\$1 million under \$25 million	87.0	116.4	191.8	232.9	254.4	n.a.
\$25 million under \$50 million	9.8	12.2	16.6	20.8	20.9	n.a.
\$50 million under \$100 million	3.9	5.6	7.8	10.1	10.4	n.a.
\$100 million under \$250 million	2.1	3.1	4.8	6.0	6.2	n.a.
\$250 million and over	1.4	2.1	3.2	3.8	4.4	n.a.
	1.2	1.9	2.9	3.7	4.1	n.a.
PARTNERSHIPS						
Receipt size ¹						
Under \$25,000 ²	501.7	549.7	638.0	820.4 ⁴	840.1 ⁴	836.6 ⁴
\$25,000 under \$50,000	125.2	141.0	181.8	197.3	195.5	182.9
\$50,000 under \$100,000	119.6	133.7	183.6	200.5	199.5	204.5
\$100,000 under \$200,000	97.2	114.0	155.2	162.8	190.1	184.0
\$200,000 under \$500,000	65.2	90.6	135.6	149.9	165.5	165.1
\$500,000 under \$1,000,000	17.0	25.5	48.1	60.6	66.9	69.1
\$1,000,000 or more	10.3	18.6	37.4	52.1	56.0	60.7
Asset size ⁵						
Under \$25,000 ³	635.7	611.0	541.9	773.8	794.1	774.9
\$25,000 under \$50,000	80.8	105.9	156.3	118.6	132.7	142.4
\$50,000 under \$100,000	73.5	106.8	180.2	170.5	165.8	140.4
\$100,000 under \$200,000	74.7	116.0	219.1	208.5	210.9	214.4
\$200,000 - \$500,000	33.8	56.9	117.9	129.0	142.8	147.4
\$500,000 - \$1,000,000	19.3	35.3	72.1	93.8	100.0	99.8
\$1,000,000 or more	18.3	41.2	92.2	149.4	167.2	183.3
NONFARM SOLE PROPRIETORSHIPS						
Receipt size						
Under \$2,500 ²	1,894.3	2,299.9	2,783.1	2,988.9	3,067.5	3,178.4
\$2,500 under \$5,000	815.1	959.4	1,158.6	1,324.4	1,444.6	1,495.1
\$5,000 under \$10,000	891.5	1,041.7	1,262.9	1,482.4	1,633.6	1,666.0
\$10,000 under \$25,000	1,137.4	1,325.7	1,711.8	2,036.4	2,104.6	2,175.3
\$25,000 under \$50,000	746.4	849.5	1,079.1	1,261.3	1,393.9	1,466.6
\$50,000 under \$100,000	562.0	644.5	835.6	1,061.3	1,094.1	1,138.3
\$100,000 under \$200,000	297.4	380.9	795.8	984.4	1,060.2	1,140.9
\$200,000 under \$500,000	122.3	209.2				
\$500,000 under \$1,000,000	20.8	35.3	73.9	86.4	89.3	95.4
\$1,000,000 or more	6.6	13.5	29.2	36.8	40.7	37.7

See notes following Table 20.

Selected Historical Data

Table 13.—Corporation Income Tax Returns: Balance Sheet, Income Statement, and Tax Items for Selected Years, 1970–1985

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

Items	1970	1975	1980	1983	1984	1985
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns, total	1,665,477	2,023,647	2,710,538	2,999,071	3,170,743	3,277,219
Number with net income	1,008,337	1,226,208	1,596,632	1,676,288	1,777,770	1,820,120
Consolidated returns ^{1,2}	19,871	38,307	57,890	73,645	80,256	79,598
S Corporation returns ^{2,3}	257,475	358,413	545,389	648,267	701,339	724,749
DISC returns ^{2,4}	N/A	6,431	8,665	9,898	12,480	1,383
FSC returns ^{2,5}	N/A	N/A	N/A	N/A	N/A	2,341
Total assets	2,634,706,564	4,286,556,273	7,617,238,403	10,201,084,144	11,106,701,948	12,773,093,888
Cash	176,924,573	290,426,439	528,914,747	590,386,817	595,773,262	683,204,264
Notes and accounts receivable	614,667,367	1,051,542,806	1,984,601,790	2,677,367,962	2,896,980,896	3,317,635,191
Less: Allowance for bad debts	20,030,327	31,032,998	50,057,307	51,162,613	54,341,671	61,580,335
Inventories	190,401,642	317,718,545	534,806,547	599,445,162	664,243,060	714,722,928
Investments in Government obligations	196,625,390	316,131,699	472,059,737	685,146,228	725,695,801	916,550,098
Other current assets	73,058,482	145,101,716	310,177,160	433,594,597	513,743,712	629,136,396
Loans to stockholders	4,774,082	9,355,636	29,873,250	47,836,294	58,430,009	56,761,232
Mortgage and real estate loans	327,593,354	548,054,483	894,323,489	982,415,018	1,126,962,114	1,258,672,577
Other investments	401,389,022	626,266,074	1,213,986,210	1,798,295,351	1,972,830,815	2,413,551,474
Depreciable assets	868,908,018	1,276,564,500	2,107,027,914	2,730,371,698	2,913,301,626	3,174,193,649
Less: Accumulated depreciation	334,646,086	483,798,526	767,841,763	1,024,756,282	1,116,171,771	1,232,072,530
Depletable assets	18,517,264	38,511,396	71,901,490	107,958,232	114,808,431	112,339,389
Less: Accumulated depletion	6,774,796	14,501,561	19,569,556	32,682,172	36,340,299	37,203,920
Land	46,626,157	66,819,206	92,931,935	119,350,378	128,269,064	141,448,357
Intangible assets (amortizable)	12,818,168	12,823,183	45,480,694	87,852,590	117,467,829	145,290,625
Less: Accumulated amortization	5,984,184	4,491,990	18,393,037	25,062,592	36,190,604	42,505,240
Other assets	69,838,438	121,065,665	187,015,106	474,727,482	521,126,077	582,949,738
Total liabilities	2,634,706,564	4,286,556,273	7,617,238,403	10,201,084,144	11,106,701,948	12,773,093,888
Accounts payable	148,812,597	263,417,584	542,172,368	671,495,438	741,372,874	891,571,443
Mortgages, notes, and bonds payable						
in less than 1 year	170,884,261	272,123,551	504,802,288	759,536,076	866,546,604	1,001,337,795
Other current liabilities	892,218,397	1,577,425,991	2,706,796,360	3,513,512,199	3,760,174,725	4,234,983,432
Loans from stockholders	24,573,814	38,143,936	85,718,510	131,025,956	145,250,514	174,317,253
Mortgages, notes, and bonds payable						
in 1 year or more	362,700,303	586,703,526	986,663,932	1,323,209,421	1,494,350,573	1,699,272,481
Other liabilities	283,106,029	451,676,880	846,696,691	1,156,873,507	1,214,879,371	1,467,912,913
Capital stock	201,213,719	251,715,862	417,153,783	787,278,549	839,344,197	920,182,882
Paid-in or capital surplus	196,642,421	298,534,854	532,039,407	873,620,667	1,066,288,359	1,420,996,805
Retained earnings, appropriated	16,657,051	29,955,676	41,461,644	52,538,370	51,100,507	54,074,364
Retained earnings, unappropriated	349,225,750	537,631,026	1,027,902,049	1,221,793,087	1,256,771,201	1,311,512,589
Less: Cost of treasury stock	11,327,778	20,772,613	74,168,627	289,799,122	329,376,924	403,068,064
Total receipts	1,750,776,503	3,198,627,860	6,361,284,012	7,135,494,059	7,860,711,226⁶	8,398,278,426⁶
Business receipts	1,620,886,576	2,961,729,640	5,731,616,337	6,334,602,711	6,948,481,893	7,369,538,953
Interest on State and local						
Government obligations	3,775,917	6,711,606	12,620,876	16,667,263	16,613,501	20,164,514
Other interest	67,794,508	136,587,304	354,243,674	496,648,009 ⁷	566,537,974 ⁷	617,622,425 ⁷
Dividends received from domestic						
corporations	5,238,421	8,818,282	18,654,800	19,696,776	21,185,391	16,967,379
Dividends received from foreign						
corporations	3,466,515	5,467,726	14,563,353	13,892,070	15,373,474	20,770,361
Rents	13,938,502	21,765,130	41,371,141	69,580,411	75,834,113	89,700,937
Royalties	2,586,387	5,167,141	12,450,250	13,876,095	14,535,929	15,237,421
Net short-term capital gain reduced						
by net long-term capital loss	190,439	301,601	2,013,510	5,048,854	3,233,999 ⁶	7,032,062 ⁶
Net long-term capital gain reduced						
by net short-term capital loss	5,481,580	8,364,523	24,910,957	33,924,549	38,518,792	53,771,685
Net gain, noncapital assets	5,315,562	7,757,287	20,117,615	26,134,711	26,506,096	33,537,842
Other receipts	22,102,096	35,957,620	128,721,498	105,422,613	133,948,728	153,934,848

Selected Historical Data

Table 13. (Continued)—Corporation Income Tax Returns: Balance Sheet, Income Statement, and Tax Items for Selected Years, 1970–1985

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

Items	1970	1975	1980	1983	1984	1985
	(1)	(2)	(3)	(4)	(5)	(6)
Total deductions	1,682,778,847	3,052,674,597	6,125,365,155	6,945,457,358	7,628,772,066	8,158,144,126
Cost of sales and operations.....	1,146,263,273	2,129,928,467	4,204,905,905	4,308,238,989	4,692,505,746	4,894,254,081
Compensation of officers.....	32,846,381	57,832,552	108,973,751	141,193,212	157,028,565	170,737,540
Repairs.....	13,986,819	23,422,171	42,407,967	74,652,495	76,367,591	81,495,784
Bad debts.....	6,479,814	13,781,147	18,769,771	30,543,184	33,803,267	43,333,588
Rent paid on business property.....	23,842,355	40,769,829	71,990,832	104,717,965	119,476,469	134,661,335
Taxes paid.....	49,523,243	81,530,302	163,003,622	173,420,116	191,748,629	200,977,161
Interest paid.....	62,055,010	129,307,921	344,612,542	475,060,444	535,814,101	568,645,475
Contributions or gifts.....	797,029	1,202,130	2,358,554	3,626,605	4,057,112	4,471,736
Amortization.....	745,005	717,398	1,374,658	4,309,952	5,170,089	6,133,737
Depreciation.....	52,941,266	86,295,664	157,345,828	241,491,819	264,882,261	304,380,703
Depletion.....	5,623,339	5,341,489	8,871,993	7,574,216	8,051,260	7,779,731
Advertising.....	18,089,097	26,605,786	52,266,004	72,393,870	82,023,440	91,922,667
Pension, profit-sharing, stock bonus, and annuity plans.....	12,225,912	26,526,129	51,529,310	54,355,062	52,555,188	49,588,712
Employee benefit programs.....	7,398,283	15,690,563	40,179,104	59,115,141	64,547,638	71,601,577
Net loss, noncapital assets.....	1,289,305	1,804,079	5,903,104	7,615,697	9,647,008	7,893,175
Other deductions.....	248,672,716	411,918,970	850,872,216	1,187,148,601	1,331,088,812	1,520,267,133
Total receipts less total deductions	67,997,656	145,953,263	235,918,858	190,036,702	231,939,061	240,134,300
Constructive taxable income from related foreign corporations.....	1,679,875	3,395,169	15,708,560	14,944,490	17,575,037	20,299,335
Net income (less deficit)	65,901,614	142,636,826	239,006,542	188,313,928	232,900,596⁶	240,119,020⁶
Net income.....	83,710,924	169,483,336	296,787,201	296,932,146	349,179,415 ⁶	363,867,384 ⁶
Deficit.....	17,809,310	26,846,510	57,780,659	108,618,218	116,278,819 ⁶	123,748,365 ⁶
Income subject to tax ⁸	72,374,437	146,589,287	246,598,486	218,686,396	257,054,060	266,060,609
Income tax, total	33,293,018⁹	66,144,308	105,142,436	92,218,567	107,968,407	111,340,839
Regular and alternative tax.....	32,949,937	65,769,822	103,831,172	90,461,858	106,013,271	109,106,358
Tax from recomputing prior-year investment credit.....	77,832	217,138	867,571	1,175,071	1,382,945	1,497,597
Tax from recomputing prior-year work incentive (WIN) credit.....	N/A	608	4,873	N/A	N/A	N/A
Additional tax for tax preferences.....	265,249	156,740	438,820	561,505	544,863	725,878
Foreign tax credit.....	4,548,986	19,987,724	24,879,737	19,951,165 ⁵	21,075,296	24,263,487
U.S.-possessions tax credit.....	N/A	N/A	1,572,734	1,966,168	1,978,578	2,450,583 ⁽¹⁰⁾
Investment credit.....	865,954	6,459,746	15,102,812	16,145,173	(10)	(10)
Work incentive (WIN) credit.....	N/A	5,321	36,483	N/A	N/A	N/A
Jobs credit.....	N/A	N/A	601,444	449,224	(10)	(10)
Nonconventional source fuel credit.....	N/A	N/A	2	33,012	69,695	43,267
Alcohol fuel credit.....	N/A	N/A	4	7,178	(10)	(10)
Research activities credit.....	N/A	N/A	N/A	1,277,474	1,589,048	1,627,997
Employees stock ownership credit.....	N/A	N/A	N/A	909,880	(10)	(10)
Orphan drug credit.....	N/A	N/A	N/A	*236	*105	*204
General business credit.....	N/A	N/A	N/A	N/A	19,265,475 ¹⁰	19,607,097 ¹⁰
Distributions to stockholders:						
Cash and property except in own stock.....	32,012,677	45,224,392	97,378,617	128,298,545	144,871,643	n.a.
Corporation's own stock.....	1,922,810	2,066,559	3,525,549	4,810,283	5,889,191	n.a.

See notes following Table 20.

Selected Historical Data

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Table 14.—Corporation Income Tax Returns: Selected Balance Sheet, Income Statement, and Tax Items by Industrial Division, for Selected Income Years, 1970–1985

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

Industrial division and items	1970	1975	1980	1983	1984	1985
	(1)	(2)	(3)	(4)	(5)	(6)
AGRICULTURE, FORESTRY AND FISHING						
Number of returns, total	37,283	56,280	80,883	92,125	98,361	103,156
Number with net income	19,843	33,328	43,827	47,636	r50,037	52,776
Total assets	11,909,403	21,177,941	40,738,977	50,292,891	50,699,926	52,651,197
Net worth	4,012,068	6,844,949	11,460,935	13,559,332	14,310,555	15,406,221
Total receipts	14,277,707	28,118,514	52,089,915	59,208,642	66,645,119	70,491,486
Business receipts	13,591,763	26,624,149	48,850,056	55,114,507	62,093,338	65,419,402
Interest received	69,742	171,732	476,654	r677,378 ¹	723,118 ¹	775,383 ¹
Total deductions	14,209,713	27,369,286	51,418,280	59,386,796	66,436,289	70,559,478
Cost of sales and operations	10,555,539	19,738,447	35,798,332	38,308,491	42,991,472	45,085,526
Interest paid	356,225	797,420	2,184,441	2,866,689	2,952,198	2,758,952
Net income (less deficit)	65,295	746,908	673,158	-196,528	202,522	-74,270
Net income	493,400	1,493,168	2,464,381	2,499,829	2,874,899	2,930,905
Deficit	428,105	746,260	1,791,222	2,696,357	2,672,377	3,005,175
Income tax before credits	113,115 ²	351,059	533,768	430,119	509,081	540,671
Total income tax after credits ³	107,023 ²	294,584	422,356	313,537	373,115	344,626
Distributions to stockholders except in own stock	65,824	244,524	304,733	172,301	417,177	n.a.
MINING						
Number of returns, total	14,465	14,242	25,576	37,066	40,564	41,426
Number with net income	7,303	8,297	12,698	15,526	18,177	18,031
Total assets	23,972,812	64,505,341	126,947,880	194,417,434	209,036,474	240,815,996
Net worth	13,381,821	32,765,690	54,068,148	85,602,456	94,335,000	104,772,797
Total receipts	17,747,750	65,909,994	176,672,390	132,419,750	123,496,633	142,038,595
Business receipts	16,699,586	63,670,496	167,397,918	122,510,903	111,030,063	126,710,610
Interest received	176,728	522,757	1,301,266	r2,529,873 ¹	3,089,562 ¹	3,584,890 ¹
Total deductions	15,927,348	42,348,765	169,051,624	134,305,739	124,627,966	145,389,514
Cost of sales and operations	9,955,600	30,171,612	116,989,880	85,540,564	74,213,000	87,972,035
Interest paid	388,032	1,166,182	3,440,080	6,763,864	7,077,300	7,789,995
Net income (less deficit)	1,834,315	23,574,833	7,750,561	-1,586,098	-353,185	-2,543,487
Net income	2,399,507	24,347,893	10,133,685	5,929,343	6,991,815	6,166,623
Deficit	565,192	773,060	2,383,124	7,515,441	7,344,999	8,710,110
Income tax before credits	1,031,550 ²	11,361,037	3,947,569	3,203,406	2,381,154	1,810,559
Total income tax after credits ³	342,928 ²	1,051,138	1,674,566	1,282,044	1,014,361	557,519
Distributions to stockholders except in own stock	1,177,550	1,015,895	4,757,780	2,710,318	3,057,411	n.a.
CONSTRUCTION						
Number of returns, total	138,905	191,219	272,432	283,519	306,906	318,276
Number with net income	82,078	108,852	150,368	150,138	173,351	185,613
Total assets	42,719,792	76,691,947	132,939,026	161,365,795	195,272,738	215,297,771
Net worth	11,819,604	19,029,077	32,826,174	41,540,682	50,338,974	54,687,270
Total receipts	90,610,644	146,955,117	267,205,356	290,798,843	338,575,635	387,232,953
Business receipts	88,945,385	143,412,715	260,387,692	280,896,210	326,752,784	374,590,273
Interest received	219,698	614,583	2,073,650	r2,622,556 ¹	3,540,430 ¹	3,851,628 ¹
Total deductions	89,070,022	144,717,309	262,116,275	288,574,577	335,696,154	382,823,113
Cost of sales and operations	73,434,969	116,845,554	208,064,925	221,189,268	257,057,538	295,803,244
Interest paid	711,496	1,973,244	4,278,502	4,861,075	5,990,178	6,407,652
Net income (less deficit)	1,538,418	2,236,262	5,271,209	2,265,564	2,906,704	4,370,924
Net income	2,548,013	4,514,864	8,911,143	7,990,419	9,147,150	11,053,145
Deficit	1,009,595	2,278,602	3,639,934	5,724,855	6,240,445	6,682,220
Income tax before credits	776,979 ²	1,320,196	2,521,507	1,859,927	1,767,756	2,312,846
Total income tax after credits ³	756,637 ²	1,131,960	1,973,659	1,393,074	1,296,301	1,662,563
Distributions to stockholders except in own stock	299,204	464,553	793,764	846,579	738,873	n.a.
MANUFACTURING						
Number of returns, total	197,807	217,354	242,550	261,927	272,050	276,545
Number with net income	120,814	136,839	153,640	152,304	162,584	159,778
Total assets	612,912,516	944,581,970	1,709,471,700	2,232,987,922	2,417,631,605	2,644,393,424
Net worth	308,923,293	442,587,674	749,186,774	953,108,742	1,025,028,491	1,099,645,876
Total receipts	722,952,890	1,296,359,650	2,404,323,844	2,552,830,718	2,768,247,655	2,831,062,496
Business receipts	700,090,661	1,258,338,650	2,301,056,550	2,418,344,305	2,608,971,901	2,656,345,750
Interest received	4,748,499	8,691,092	28,315,784	37,958,034 ¹	42,749,996 ¹	47,753,626 ¹
Total deductions	692,455,462	1,230,689,496	2,290,593,808	2,469,257,725	2,661,153,853	2,733,105,346
Cost of sales and operations	495,879,549	925,111,030	1,707,143,900	1,678,378,729	1,796,313,155	1,797,852,805
Interest paid	12,570,242	22,055,903	54,177,356	73,973,082	85,039,616	90,452,072
Net income (less deficit)	31,846,078	68,406,627	125,667,815	95,330,965	121,215,254	113,758,645
Net income	37,925,489	74,466,554	141,547,510	124,417,490	147,852,003	142,541,119
Deficit	6,079,411	6,059,927	15,879,695	29,086,525	26,636,749	28,782,474
Income tax before credits	16,744,905 ²	32,306,739	59,577,413	50,950,876	58,542,710	56,687,476
Total income tax after credits ³	13,242,226 ²	21,024,964	32,726,986	24,527,921	30,429,379	25,382,459
Distributions to stockholders except in own stock	14,616,282	19,973,061	37,306,509	43,295,901	45,630,537	n.a.

Selected Historical Data

Table 14. (Continued)—Corporation Income Tax Returns: Selected Balance Sheet, Income Statement, and Tax Items by Industrial Division, for Selected Income Years, 1970–1985

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

Industrial division and items	1970	1975	1980	1983	1984	1985
	(1)	(2)	(3)	(4)	(5)	(6)
TRANSPORTATION AND PUBLIC UTILITIES						
Number of returns, total	67,398	80,701	111,324	122,567	128,184	138,337
Number with net income	38,204	45,360	62,232	61,588	65,405	69,938
Total assets	287,740,207	443,236,797	758,364,400	998,870,785	1,084,873,718	1,246,426,899
Net worth	121,205,022	176,444,407	290,655,693	394,284,132	423,937,357	490,481,127
Total receipts	135,495,271	243,480,637	523,807,396	657,421,487	725,631,232	772,358,188
Business receipts	131,463,171	234,689,427	507,372,820	627,836,585	693,105,168	733,943,970
Interest received	930,266	1,520,913	5,760,072	9,491,678 ¹	11,250,353 ¹	12,310,594 ¹
Total deductions	127,931,131	233,409,166	503,954,285	638,194,372	697,240,089	747,836,158
Cost of sales and operations	77,743,359	143,932,463	336,868,172	339,191,696	373,236,459	381,028,354
Interest paid	7,364,200	13,761,062	27,638,591	36,787,550	40,178,514	44,880,858
Net income (less deficit)	7,543,718	10,099,571	20,046,155	19,492,314	28,851,644	25,087,629
Net income	9,471,595	12,088,189	24,917,293	28,040,349	37,897,899	37,880,144
Deficit	1,927,877	1,988,618	4,871,138	8,548,036	9,041,255	12,792,516
Income tax before credits	4,342,334 ²	5,107,158	10,532,722	11,621,625	15,579,597	15,214,129
Total income tax after credits ³	4,036,650 ²	2,836,470	5,322,655	5,430,069	8,532,848	8,432,924
Distributions to stockholders except in own stock	5,837,565	8,900,353	17,329,807	24,540,824	27,505,378	n.a.
WHOLESALE AND RETAIL TRADE						
Number of returns, total	518,062	614,632	799,628	851,785	896,524	917,301
Number with net income	339,987	399,668	487,300	492,057	516,750	510,825
Total assets	192,181,800	323,496,726	646,901,005	804,242,963	899,032,645	1,009,965,739
Net worth	77,002,132	122,649,734	222,289,687	265,222,391	289,338,722	286,260,274
Total receipts	522,547,923	969,938,872	1,955,523,778	2,119,444,862	2,307,612,139	2,473,865,453
Business receipts	511,316,883	951,463,550	1,919,347,689	2,071,264,407	2,250,774,641	2,408,174,933
Interest received	1,291,906	3,857,318	10,503,989	15,049,512 ¹	18,406,331 ¹	21,633,480 ¹
Total deductions	512,910,193	947,511,780	1,919,454,218	2,084,482,953	2,265,843,128	2,440,403,373
Cost of sales and operations	392,391,856	745,299,204	1,538,128,634	1,626,952,423	1,759,718,001	1,869,766,621
Interest paid	4,309,663	8,587,173	25,645,855	27,598,584	33,204,502	38,217,998
Net income (less deficit)	9,671,044	22,489,430	38,309,671	35,292,870	42,010,706	33,126,702
Net income	12,395,411	27,681,721	49,426,500	50,844,081	58,584,558	51,434,500
Deficit	2,724,367	5,192,291	11,116,829	15,551,210	16,573,852	18,307,798
Income tax before credits	4,476,047 ²	8,103,316	13,515,653	12,910,870	15,082,817	16,392,896
Total income tax after credits ³	4,237,181 ²	7,348,619	10,564,358	10,698,145	12,414,978	13,396,555
Distributions to stockholders except in own stock	2,068,501	5,029,897	10,343,087	12,722,120	13,057,047	n.a.
FINANCE, INSURANCE, AND REAL ESTATE						
Number of returns, total	406,235	411,846	493,426	479,656	497,366	518,432
Number with net income	248,586	243,409	273,853	269,267	274,171	285,273
Total assets	1,401,153,520	2,321,965,956	4,022,206,073	5,487,225,439	5,938,984,929	7,029,452,681
Net worth	196,480,448	269,770,527	530,541,317	816,806,465	901,658,317	1,161,968,009
Total receipts	177,321,173	315,795,981	697,460,846	902,822,472	1,033,146,416	1,182,034,309
Business receipts	92,091,887	157,126,715	256,892,475	362,627,365	431,157,290	501,993,840
Interest received	63,694,046	127,040,303	315,146,115	439,937,980 ¹	497,044,327 ¹	541,268,193 ¹
Total deductions	161,630,060	297,963,817	652,637,787	856,678,689	985,687,308	1,104,572,202
Cost of sales and operations	48,434,362	84,614,209	129,644,330	172,818,057	213,655,427	237,577,803
Interest paid	34,548,509	77,677,659	219,167,684	310,356,963	347,164,947	363,009,417
Net income (less deficit)	12,214,079	11,663,330	33,122,792	31,714,771	32,677,046	60,670,526
Net income	15,081,939	18,825,003	46,040,390	60,113,503	66,225,666	90,546,934
Deficit	2,867,860	7,161,673	12,917,599	28,398,732	33,548,620	29,876,408
Income tax before credits	4,404,449 ²	5,558,647	9,680,755	8,540,701	9,619,055	13,598,201
Total income tax after credits ³	4,150,009 ²	4,673,705	7,699,628	5,697,444	6,730,460	10,193,877
Distributions to stockholders except in own stock	7,387,211	8,729,977	24,692,146	41,592,101	51,315,346	n.a.
SERVICES						
Number of returns, total	281,218	435,672	671,338	848,394	899,370	939,390
Number with net income	150,525	249,641	408,716	481,888	508,336	529,337
Total assets	61,875,140	90,534,067	178,163,737	269,797,251	307,895,160	330,982,941
Net worth	19,529,062	26,855,374	52,865,513	74,710,659	84,773,772	89,852,365
Total receipts	69,572,626	131,377,364	279,883,187	416,462,427	490,332,811	534,587,609
Business receipts	66,459,515	125,747,462	266,088,619	392,064,594	458,038,533	497,990,990
Interest received	435,070	875,506	3,269,412	4,880,958 ¹	6,277,591 ¹	6,561,301 ¹
Total deductions	68,384,452	127,996,443	271,792,974	410,486,562	484,990,160	528,685,613
Cost of sales and operations	37,733,747	63,724,869	129,352,692	143,277,759	170,889,613	176,070,808
Interest paid	1,802,802	3,279,438	8,033,612	11,798,141	14,068,343	15,027,259
Net income (less deficit)	1,198,703	3,396,744	8,193,903	6,002,928	5,464,130	5,883,782
Net income	3,384,869	6,025,592	13,246,601	16,959,225	19,373,912	21,124,460
Deficit	2,186,166	2,628,848	5,052,698	10,956,298	13,909,782	15,240,678
Income tax before credits	1,058,264 ²	1,625,093	3,497,265	3,779,735	4,458,267	4,742,347
Total income tax after credits ³	1,003,130 ²	1,323,637	2,603,370	2,680,663	3,175,178	3,343,830
Distributions to stockholders except in own stock	558,452	855,402	1,841,945	2,407,362	3,126,700	n.a.

See notes following Table 20.

Table 15.—Corporation Profits Before Taxes Per National Income and Product Accounts (NIPA) and Per SOI, and Income Subject to Tax per SOI, Income Years, 1960–1987

[All figures are estimates—money amounts are in billion of dollars]

Income year	Profits before taxes (per NIPA) ¹	Net income (less deficit) (per SOI)	Income subject to tax (per SOI)
	(1)	(2)	(3)
1960	49.9	43.5	47.2
1961	49.8	45.9	47.9
1962	55.1	49.6	51.7
1963	59.8	54.3	54.3
1964	66.7	61.6	60.4
1965	77.4	73.9	70.8
1966	83.3	80.5	77.1
1967	80.1	78.2	74.8
1968	89.1	86.0	81.4
1969	87.2	80.2	81.2
1970	76.0	65.9	72.4
1971	87.3	79.7	83.2
1972	101.5	96.8	95.1
1973	122.2	120.4	115.5
1974	138.9	148.2	144.0
1975	134.8	142.6	146.6
1976	170.3	185.4	183.5
1977	200.4	219.2	212.5
1978	233.5	246.9	239.6
1979	257.2	284.6	279.4
1980	237.1	239.0	246.6
1981	226.5	213.6	241.5
1982	169.6	154.3	205.2
1983	207.6	188.3	218.7
1984	240.0	232.9	257.1
1985	224.3	240.1	266.1
p1986	236.4	n.a.	n.a.
p1987	276.7	n.a.	n.a.

See notes following Table 20.

Selected Historical Data

Table 16.—Gross Internal Revenue Collections: Amount Collected by Quarter and Fiscal Year, 1984–1988

[Money amounts are in millions of dollars]

Quarter and fiscal year	Amount collected by type of return					
	Total	Individual income taxes ¹	Corporation income taxes ²	Excise taxes ³	Employment taxes ⁴	Estate and gift taxes
	(1)	(2)	(3)	(4)	(5)	(6)
FISCAL YEAR 1984, TOTAL	680,475	362,892	74,179	38,017	199,210	6,177
October 1983–December 1983	141,849	73,379	16,208	9,654	41,132	1,476
January 1984–March 1984	164,681	89,316	14,337	8,862	50,545	1,622
April 1984–June 1984	208,814	114,525	25,990	9,680	57,061	1,558
July 1984–September 1984	165,131	85,672	17,644	9,822	50,472	1,521
FISCAL YEAR 1985, TOTAL	742,871	396,659	77,413	37,005	225,214	6,580
October 1984–December 1984	155,919	79,775	17,546	9,732	47,286	1,580
January 1985–March 1985	176,324	89,325	17,350	8,650	59,352	1,647
April 1985–June 1985	233,946	136,141	24,843	9,013	62,313	1,636
July 1985–September 1985	176,682	91,418	17,674	9,610	56,263	1,717
FISCAL YEAR 1986, TOTAL	782,252	416,965	80,442	33,672	243,978	7,195
October 1985–December 1985	167,836	86,608	18,854	9,321	51,354	1,699
January 1986–March 1986	186,178	97,804	16,243	8,175	62,309	1,647
April 1986–June 1986	240,680	134,129	25,703	8,191	70,687	1,970
July 1986–September 1986	187,558	98,424	19,642	7,985	59,628	1,879
FISCAL YEAR 1987, TOTAL	886,290	465,452	102,859	33,311	277,000	7,668
October 1986–December 1986	180,580	92,346	22,466	8,281	55,615	1,872
January 1987–March 1987	209,032	105,483	22,649	7,925	71,156	1,819
April 1987–June 1987	285,477	164,008	29,748	8,493	81,139	2,089
July 1987–September 1987	211,201	103,615	27,996	8,612	69,090	1,888
FISCAL YEAR 1988						
October 1987–December 1987	197,095	97,479	24,828	6,475	66,500	1,813
January 1988–March 1988	220,447	111,215	22,006	5,304	80,161	1,761
April 1988–June 1988	296,175	160,018	35,991	6,550	91,426	2,190

See notes following Table 20.

Table 17.—Internal Revenue Refunds: Amount Refunded by Quarter and Fiscal Year, 1984–1988

[Money amounts are in millions of dollars]

Quarter and fiscal year	Amount refunded by type of return					
	Total	Individual income taxes ¹	Corporation income taxes ²	Excise taxes ³	Employment taxes ⁴	Estate and gift taxes
	(1)	(2)	(3)	(4)	(5)	(6)
FISCAL YEAR 1984, TOTAL	85,872	64,629	17,889	657	2,486	211
October 1983–December 1983	7,201	2,064	4,548	195	325	69
January 1984–March 1984	25,285	19,613	4,850	129	646	47
April 1984–June 1984	44,859	38,161	5,452	230	968	47
July 1984–September 1984	8,527	4,790	3,039	103	547	48
FISCAL YEAR 1985, TOTAL	86,322	66,908	16,725	892	1,606	191
October 1984–December 1984	6,729	2,246	4,177	122	138	46
January 1985–March 1985	17,664	12,808	4,286	91	439	40
April 1985–June 1985	52,376	46,370	4,701	556	702	47
July 1985–September 1985	9,551	5,484	3,561	123	326	57
FISCAL YEAR 1986, TOTAL	94,424	73,078	18,297	962	1,800	287
October 1985–December 1985	7,948	3,003	4,268	128	488	61
January 1986–March 1986	25,895	19,950	4,997	320	577	51
April 1986–June 1986	50,200	44,375	5,058	232	435	100
July 1986–September 1986	10,381	5,750	3,974	282	300	75
FISCAL YEAR 1987, TOTAL	96,969	73,583	19,891	1,381	1,900	214
October 1986–December 1986	8,668	3,406	4,789	111	312	50
January 1987–March 1987	28,422	22,198	5,296	479	393	156
April 1987–June 1987	50,063	42,858	5,948	332	869	57
July 1987–September 1987	9,816	5,121	3,858	459	326	52
FISCAL YEAR 1988						
October 1987–December 1987	7,701	3,437	3,727	207	275	55
January 1988–March 1988	127,798	21,744	5,248	198	553	55
April 1988–June 1988	49,202	43,769	3,848	421	1,114	50

See notes following Table 20.

Table 18.—Classes of Excise Taxes by Selected Fiscal Years, 1970–1988

[Money amounts are in thousands of dollars]

Selected class of tax	Taxes collected by fiscal year					
	1970	1975	1980	1985	1986	1987
	(1)	(2)	(3)	(4)	(5)	(6)
ALCOHOL AND TOBACCO TAXES, TOTAL	6,840,594	7,665,948	8,151,184	9,881,293	10,233,303	11,097,677
Distilled spirits.....	3,501,538	3,865,162	3,945,377	3,520,697	3,731,368	n.a.
Wine.....	163,337	177,113	211,538	305,966	415,196	n.a.
Beer.....	1,081,507	1,308,583	1,547,853	1,571,436	1,500,921	n.a.
Cigarettes.....	2,036,101	2,261,116	2,402,857	4,448,916	4,566,338	n.a.
Cigars.....	56,834	51,226	39,500	24,294	30,418	n.a.
MANUFACTURERS EXCISE TAXES, TOTAL	6,683,061	5,516,611	6,487,421	10,020,574	9,927,742	10,221,574
Gasoline and lubricating oil.....	3,517,586	4,071,465	4,326,549	9,062,630	8,857,380	9,163,790
Tires, tubes and tread rubber ¹	614,795	697,660	682,624	242,923	285,728	296,408
Motor vehicles, bodies, parts ²	1,753,327	662,556	1,088,696	N/A	N/A	N/A
Recreational products.....	53,427	84,946	136,521	166,666	174,898	186,608
Black Lung taxes.....	N/A	N/A	251,288	548,356	561,158	574,769
SPECIAL FUELS, AND RETAILERS TAXES, TOTAL ³	257,820	404,187	560,144	3,802,608	3,783,295	3,762,284
Diesel and special motor fuels.....	257,712	370,489	512,718	2,430,165	2,613,980	2,659,404
Trucks and buses.....	N/A	N/A	N/A	1,289,750	1,091,356	1,020,553
MISCELLANEOUS EXCISE TAXES, TOTAL	2,084,730	3,306,077	6,359,198	11,044,833	15,131,146	7,255,282
Telephone and teletype ⁴	1,469,562	2,023,744	1,117,834	2,307,607	2,339,153	2,522,062
Air transportation.....	250,802	850,567	1,748,837	2,589,818	2,707,534	2,913,249
Highway use tax.....	135,086	207,663	263,272	456,143	566,675	556,006
Foreign insurance.....	8,614	19,458	74,630	73,494	139,720	115,133
Exempt organization net investment income.....	N/A	63,828	65,280	136,153	217,191	218,102
Crude oil windfall profit.....	N/A	N/A	3,051,719	5,073,159	8,866,967	14,910
Environmental taxes (Superfund) ⁵	N/A	N/A	N/A	272,957	68,538	407,167

Selected class of tax	Fiscal year quarter ending					
	Mar. 1987	June 1987	Sept. 1987	Dec. 1987	March 1988	June 1988
	(7)	(8)	(9)	(10)	(11)	(12)
ALCOHOL AND TOBACCO TAXES, TOTAL	1,615,688	1,446,495	3,191,354	2,937,754	2,274,408	2,690,321
Distilled spirits.....	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Wine.....	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Beer.....	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cigarettes.....	1,170,327	1,186,882	n.a.	n.a.	n.a.	n.a.
Cigars.....	7,268	13,102	n.a.	n.a.	n.a.	n.a.
MANUFACTURERS EXCISE TAXES, TOTAL	2,531,445	2,480,742	2,602,589	2,695,686	2,602,434	2,635,847
Gasoline and lubricating oil.....	2,270,070	2,222,664	2,329,196	2,415,076	2,317,004	2,322,096
Tires, tubes and tread rubber ¹	77,586	66,151	75,723	80,819	83,000	76,461
Recreational products.....	40,224	53,374	49,992	47,944	45,957	50,634
Black Lung taxes.....	143,564	138,552	147,679	151,849	156,473	146,735
SPECIAL FUELS AND RETAILERS TAXES, TOTAL ³	937,409	882,798	1,026,600	981,117	1,021,290	963,679
Diesel and special motor fuels.....	646,030	637,857	703,399	682,194	703,431	661,684
Trucks and buses, chassis, bodies, etc.....	271,891	224,059	302,148	277,933	297,710	281,747
MISCELLANEOUS EXCISE TAXES, TOTAL	1,367,972	2,077,536	1,971,226	1,789,207	2,094,963	2,051,243
Telephone and teletype ⁴	583,799	679,331	579,782	741,777	379,100	740,637
Air transportation.....	747,811	636,949	757,560	783,855	719,181	830,224
Highway use tax.....	126,163	91,726	278,159	47,251	126,368	96,212
Foreign insurance.....	34,321	31,321	23,968	25,233	26,802	23,383
Exempt organization net investment income.....	43,256	121,962	30,567	19,385	32,558	19,011
Crude oil windfall profit.....	-230,799	250,915	-228,840	-122,710	501,123	17,108

See notes following Table 20.

Selected Historical Data

Table 19.—Selected Returns and Forms Filed or to be Filed During Selected Calendar Years, 1970–1988

Type of return or form	Number Filed in Calendar Year—						
	1970	1975	1980	1985	1986	1987	1988 (Projected)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Individual income	77,281,384	84,026,785	93,196,076	99,704,246	101,925,850	103,462,011	107,333,700
Form 1040	77,143,251	61,450,279	55,360,030	64,010,068	66,359,095	68,545,023	70,852,000
Nonbusiness	68,129,351	51,377,153	43,957,141	49,873,300	51,733,688	53,736,837	55,153,500
Business	9,013,900	10,073,126	11,402,889	14,136,768	14,625,407	14,808,186	15,698,500
Schedule C	6,351,304	7,438,968	8,944,298	11,767,348	12,329,218	12,633,261	13,547,800
Schedule F	2,662,596	2,634,158	2,458,591	2,369,420	2,296,189	2,174,925	2,150,700
Form 1040A	N/A	22,462,776	37,692,282	18,779,084	18,408,426	17,870,312	17,688,000
Form 1040EZ	N/A	N/A	N/A	16,739,767	16,983,394	16,835,390	18,576,200
Other ¹	138,133	113,730	143,764	175,327	201,935	211,286	217,500
Corporation income	1,758,600	2,132,758	2,675,704	3,437,249	3,700,851	3,828,613	3,993,500
Forms 1120, L, and M	1,487,244	1,762,920	2,115,542	2,432,265	2,523,240	2,550,692	2,488,800
Form 1120A	N/A	N/A	N/A	199,665	285,134	300,760	293,500
Form 1120S	248,936	367,219	528,070	736,945	811,987	892,376	1,115,800
Other ²	1,414	2,619	32,092	68,374	80,490	84,785	95,400
Partnership, Form 1065	991,904	1,132,839	1,401,567	1,755,339	1,831,600	1,824,166	1,836,200
Fiduciary, Forms 1041 and 1041S	1,149,445 ³	1,558,570	1,876,392	2,124,969	2,276,245	2,335,805	2,551,900
Estate Tax, Forms 706 and 706NA	141,156	225,827	147,303	80,768	67,591	57,165	54,100
Gift Tax, Form 709	146,338	273,184	214,789	97,720	101,322	104,095	105,300
Exempt Organization	387,469	403,809	442,607	454,097	488,046	514,947	527,800
Form 990	377,030 ⁴	346,627	362,632	365,506	375,834	400,332	409,700
Form 990-PF	N/A	29,637	33,137	32,005	40,931	42,227	42,900
Form 990-T	5,046	19,683	23,455	26,181	32,731	33,156	34,900
Forms 990C, 4720, and 5227	5,393	7,862	23,383	30,405	r38,550	39,232	40,300

See notes on following Table 20.

Table 20.—Taxpayers Receiving Assistance, Paid and Unpaid, by Tax Year of Return, 1984–1987

(Some estimates based on samples—all amounts are in thousands)

Type of assistance	Tax Year			
	1984	1985	1986	1987
	(1)	(2)	(3)	(4)
Returns with paid preparer signature: ¹				
All returns	45,220	46,685	48,049	r50,695
1040EZ	728	740	655	r842
1040A	4,470	4,399	4,135	r3,947
1040, total	40,022	41,556	43,259	r45,906
1040 Business, total	10,081	10,658	11,087	r11,321
Nonfarm	8,288	8,924	9,385	r9,747
Farm	1,793	1,734	1,702	r1,574
1040 Nonbusiness, total	29,941	30,898	32,172	r34,585
With itemized deductions	17,866	18,996	18,732	r16,842
Without itemized deductions	12,075	11,902	12,627	r17,743
Assistance provided by IRS: ²				
Telephone inquiries	41,904	37,863	34,655	r38,526
Recorded telephone information	8,307	7,850	10,892	13,405
Office walk-ins, information	8,144	8,114	7,090	7,408
Written inquiries	160	241	r169	166
Special programs:				
Community classes and seminars (taxpayers assisted)	400	374	903	r1,103
Volunteer Income Tax Assistance (VITA) (returns prepared)	295	302	337	385
Tax Counseling for the Elderly (returns prepared)	199	333	331	375

See notes on following page.

General notations

N/A - Not applicable

n.a. - Not available

p - Preliminary

r - Revised

* - See Appendix, General Description of Statistics of Income Sample Procedures and Data Limitations.

Table 1

- [1] Excludes certain capital gain distributions from investment companies.
- [2] Includes total itemized deductions before subtraction of zero bracket amount, and charitable contributions, and zero bracket amount on non-itemized deduction returns.
- [3] Includes deductions not shown separately below.
- [4] Includes surcharge of \$2,018,078,000.
- [5] Includes credits not shown separately below.
- [6] Investment credit (generally not applicable after 1985) was included in the more-inclusive general business tax credit beginning with 1984.
- [7] Includes income tax after credits and the additional tax for tax preferences, i.e., "minimum tax" (applicable for 1970-1982) and "alternative minimum tax" (applicable after 1979).

SOURCE: *Statistics of Income—Individual Income Tax Returns*, appropriate years. Data are subject to sampling error. Tax law and tax form changes affect the year-to-year comparability of the data. See the specific Statistics of Income reports for a description of sampling error and of the changes mentioned above.

Table 2

- [1] Includes exemptions for age and blindness.
- [2] Totals in Table 2 do not agree with Tables 1 and 3 because they were obtained from a different source. For purposes of Table 2:
 - a. Number of returns by State include, in addition to Forms 1040, 1040A and 1040EZ filed by U.S. citizens and residents, Forms 1040NR filed by non-resident aliens, as well as self-employment tax re-

turns used in Puerto Rico and certain U.S. territories and possessions.

- b. "Total tax" liability includes total income tax plus tax from recomputing prior-year investment credit, tax applicable to Individual Retirement Arrangements (IRA's), self-employment tax, social security tax on tip income, and certain other income-related taxes. Total tax is before reduction by earned income credit (see also footnote (c), below).
- c. Earned income credit, available to certain low-income workers, could result in a refund (1) if there was no "total tax" (as defined in footnote 2(b), above), in which case the full amount was refundable, or (2) if the credit exceeded "total tax," in which case the excess was refundable. The difference between columns 19 and 21 is the refundable portion.

Total tax (column 16) minus earned income credit (column 19) is the amount most comparable to total tax in Tables 1 and 3. The total tax which results from this subtraction differs from Tables 1 and 3 because it includes additional taxes (see footnote 2(b), above) and because earned income credit used to offset tax also includes both the refundable portion (see footnote 2(b)) as well as amounts offset against these additional taxes.

- [3] Includes, for example, returns filed from Army Post Office and Fleet Post Office addresses by service men and women stationed overseas; returns filed by other U.S. citizens abroad; and returns filed by residents of Puerto Rico with income from sources outside Puerto Rico or with income earned as U.S. Government employees.

NOTE: This table presents aggregates of all returns filed and processed through the Individual Master File (IMF) system during Calendar Year 1988. Data have not been edited for Statistics of Income purposes.

SOURCE: Internal Revenue Service, Tax Processing Systems Division, IMF Returns Systems Branch.

Table 3

- [1] Includes returns with adjusted gross deficit.
- [2] In addition to low income taxpayers, size class (and others) includes taxpayers with "tax preferences," not reflected in AGI or taxable income, which are subject to the "alternative minimum tax" (included in "total income tax").

- [3] Includes income tax after credits and the additional tax for tax preferences, i.e., the "alternative minimum tax" (see footnote 2).

SOURCE: *Statistics of Income—Individual Income Tax Returns*, appropriate years. Data are subject to sampling error. Tax law and tax form changes affect the year-to-year comparability of the data. See the specific Statistics of Income reports for a description of sampling error and of the changes mentioned above.

Table 4

- [1] Imputed interest received by persons from life insurance carriers and private non-insured pension plans.
- [2] Reconciliation is based on preliminary SOI data for AGI. For the revised AGI for 1986, see Table 1.
- [3] Represents income of low-income individuals not required to file individual income tax returns, unreported income, and statistical errors or omissions.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, *The National Income and Product Accounts of the United States, 1929–82: Statistical Tables, 1986*; for years after 1982, *Survey of Current Business*, various issues. Statistics of Income data are subject to sampling error; tax law and tax form changes affect the year-to-year comparability of the data. See the specific Statistics of Income reports for a description of sampling error and of the changes mentioned above.

Table 5

- [1] See Table 4 for the differences between personal income and AGI.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, *The National Income and Product Accounts of the United States, 1929–82: Statistical Tables, 1986*; for years after 1982, *Survey of Current Business*, various issues. Statistics of Income data are subject to sampling error; tax law and tax form changes affect the year-to-year comparability of the data. See the specific Statistics of Income reports for a description of sampling error and of the changes mentioned above.

Table 6

- [1] See Table 4 for the differences between personal income and AGI.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, *The National Income and Product Accounts of the United States, 1929–82: Statistical Tables,*

1986; for years after 1982, *Survey of Current Business*, various issues; and *Statistics of Income—Individual Income Tax Returns*, appropriate years. Statistics of Income data are subject to sampling error; tax law and tax form changes affect the year-to-year comparability of the data. See the specific Statistics of Income reports for a description of sampling error and of the changes mentioned above.

Table 7

- [1] Amount of standard deduction for 1944–1957 estimated by Joseph A. Pechman, The Brookings Institution, on the basis of the distribution of the number of tax returns by income classes and marital status in *Statistics of Income—Individual Income Tax Returns*, and for 1958–1987 obtained directly from *Statistics of Income* tabulations for these years. Represents zero bracket amount for 1977–1986.
- [2] Returns with standard deduction, 1955–1987; includes a small number with no adjusted gross income and no deductions. For 1944–1954, returns with no adjusted gross income are included in the number of returns with itemized deductions.
- [3] For 1977–1986, itemized deductions are before subtraction of "zero bracket amount."
- [4] Sum of standard and itemized deductions, plus charitable deduction reported on standard deduction returns for Tax Years 1982–1986.

SOURCE: Except as indicated in footnote 1, *Statistics of Income—Individual Income Tax Returns*, and unpublished tables, appropriate years. Data are subject to sampling error. Tax law and form changes affect the year-to-year comparability of the data. See the specific Statistics of Income reports for a description of sampling error and of changes mentioned above.

Table 8

- [1] See Table 4 for the differences between personal income and AGI.
- [2] Taxable income excludes "zero bracket amount" for 1977–1986.
- [3] For the definition of total income tax, see footnote 6, Table 1.
- [4] Percentage not computed because preliminary SOI data for taxable income and tax may not be altogether comparable with Department of Commerce estimate for personal income.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, *The National Income and Product Accounts of the United States, 1929-82: Statistical Tables, 1986*; for years after 1982, *Survey of Current Business*, various issues; and *Statistics of Income—Individual Income Tax Returns*, appropriate years. Statistics of Income data are subject to sampling errors; tax law and tax form changes affect the year-to-year comparability of the data. See the specific Statistics of Income reports for a description of sampling error and of the changes mentioned above.

Table 9

- [1] Excludes returns with refundable crude oil windfall profit tax overpayment only, starting with 1980.

SOURCE: *Statistics of Income—Individual Income Tax Returns*, and unpublished tables, appropriate years. Data are subject to sampling error. Tax law and tax form changes affect the year-to-year comparability of the data. See the specific Statistics of Income reports for a description of sampling error and of the changes mentioned above.

Table 10

SOURCE: *Statistics of Income—Sole Proprietorship Returns*, appropriate years, and *SOI Bulletin*, Summer issues. Data are subject to sampling error. Tax law and tax form changes affect the year-to-year comparability of the data. See the specific Statistics of Income reports for a description of sampling error and of the changes mentioned above.

Table 11

- [1] Total assets, total liabilities, and partners' capital account are somewhat understated because not all partnership returns included a complete balance sheet.
- [2] Short-term debt is the abbreviated title given to mortgages, notes, and bonds payable in less than 1 year.
- [3] Long-term debt is the abbreviated title given to mortgages, notes, and bonds payable in 1 year or more. In addition, for Tax Year 1975, long-term debt included nonrecourse loans.
- [4] See footnote 4, Table 12, for changes in the comparability of the statistics for receipts and deductions after 1980. Also, statistics for interest received are combined with dividends beginning with 1982.
- [5] After 1980, represents the more all-inclusive amounts reported in depreciation computation schedules rather

than the amounts reported as the depreciation deduction (plus depreciation identified in cost of sales and operations schedules).

SOURCE: *Statistics of Income—Partnership Returns*, appropriate years, and *SOI Bulletin*, Summer issues. Data are subject to sampling error. Tax law and tax form changes affect the year-to-year comparability of the data. See the specific Statistics of Income reports for a description of sampling error and of the changes mentioned above.

Table 12

- [1] Size classes are based on business receipts, i.e., gross amounts from sales and operations, for industries except those in finance, insurance and real estate. For the latter industries, total receipts, which is the sum of business receipts and investment income, was used. For partnerships, see also footnote 4, below.
- [2] Includes returns with no receipts as defined in footnote 1.
- [3] Includes corporations with zero assets and liabilities. In addition, for partnerships, includes partnerships without balance sheet information (see also footnote 5, below).
- [4] After 1980, "total receipts" in Table 11 includes, in part, only the net income or loss from farming and rentals. Previously, "total receipts" included the gross receipts from farming and rentals and, if rental receipts were the principal source of total receipts, they were treated as "business receipts" for the statistics. To help minimize the break in comparability caused by this change in statistical treatment of farm and rental income, an effort was made starting with 1981 to include rental (though not farm) gross receipts in the receipts used for the size distribution in Table 12. In Table 11, since only the net income or loss from farming and rentals was included starting with 1981, the deductions reported in computing these net incomes are excluded from the deduction statistics. For previous years, these deductions are reflected in the deduction statistics.
- [5] Prior to 1979, partnerships that had liquidated were assumed to have zero assets and liabilities, even if their balance sheets showed otherwise, and were included in the "under \$25,000" asset size class. Beginning with 1980, balance sheet data reported for liquidated partnerships were tabulated as reported and were included in the appropriate asset size classes.

SOURCE: *Statistics of Income—Corporation Income Tax Returns*, appropriate years, *Statistics of Income—Partnership Returns*, appropriate years, *Statistics of Income—Sole Proprietorship Returns*, appropriate years,

Notes to Selected Statistical Series Tables

and *SOI Bulletin*, Summer issues. Tax law and tax form changes affect the year-to-year comparability of the data. See the appropriate Statistics of Income reports for a description of sampling error and of the changes mentioned above.

Table 13

- [*] Estimate should be used with caution because of the small number of sample returns on which it is based.
- [1] Consolidated returns were filed on an elective basis for affiliated groups of corporations (with exceptions), in general, if 80 percent or more of the stock of the affiliates was owned within the group and a common parent corporation owned at least 80 percent of the stock of at least one of the affiliates.
- [2] Included in "Number of returns, total" and "Number with net income."
- [3] Generally, small corporations with no more than 35 shareholders (10 prior to 1983), most of them individuals, electing to be taxed at the shareholder level.
- [4] Domestic International Sales Corporations (DISC's) were designed to promote U.S. exports. They were taxed through parent corporations, but only when profits were distributed or deemed distributed to them. This system of tax deferral was generally replaced after 1984 with a new system of Foreign Sales Corporations (FSC's); see footnote 5. Tax benefits of DISC's remaining after 1984 were limited and an interest charge for tax deferred amounts imposed on the parent corporations.
- [5] Foreign Sales Corporations (FSC's) generally replaced DISC's as a means of promoting U.S. exports (see footnote 4). Under the FSC provisions, a portion of these subsidiaries' "foreign trade income" was exempt from U.S. income tax.
- [6] For 1984, net long-term for capital gain reduced by net short-term capital loss from Forms 1120S, are not included in computed total receipts nor net income. Therefore, the components of total receipts do not equal the computed total receipts for that year.
- [7] Includes dividends reported in combination with interest on Form 1120-S by S Corporations, i.e., certain corporations that elect to be taxed through shareholders (see footnote 3). Based on prior years, when Form 1120-S required each to be reported separately, nearly all of the combined amount represents interest.
- [8] For most years, "income subject to tax" (the corporate tax base) exceeds "net income less deficit" chiefly

because of the deficits reported on returns without net income. Moreover, it is the sum of the several tax bases applicable over time to different classes of corporations, not all of which were directly related to net income. Income subject to tax thus includes the "taxable income" base used by most companies (and defined as net income minus certain statutory special deductions); a variation of this base in combination with net long-term capital gains in certain situations when the lower capital gains tax applied; the special tax bases applicable to S Corporations and insurance businesses; and the amounts taxable to certain investment companies. Profits of Domestic International Sales Corporations were tax-deferred; most of those of qualifying Foreign Sales Corporations were tax-exempt and those of S Corporations were taxed (with few exceptions) through their individual shareholders, so that the net income of these corporations is excluded from income subject to tax.

- [9] Includes surcharge of \$784,437,000.
- [10] General business credit includes alcohol fuel, investment, jobs, and employee stock ownership plan (ESOP) credits which were shown separately for previous years.

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

SOURCE: *Statistics of Income—Corporation Income Tax Returns*, appropriate years. Data are subject to sampling error. Tax law and tax form changes affect the year-to-year comparability of the data. See the appropriate Statistics of Income reports for a description of sampling error and of the changes mentioned above.

Table 14

- [1] See footnote 7, Table 13.
- [2] See footnote 9, Table 13.
- [3] Also includes additional tax for tax preferences ("minimum tax"), tax from recomputing prior-year investment credit, and Personal Holding Company tax.

SOURCE: *Statistics of Income—Corporation Income Tax Returns*, appropriate years. Data are subject to sampling error. Tax law and tax form changes affect the year-to-year comparability of the data. See the appropriate Statistics of Income reports for a description of sampling error and of the changes mentioned above.

Table 15

- [1] Profits shown are without inventory valuation and capital-consumption adjustment.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, *The National Income and Product Accounts of the United States, 1929-82: Statistical Tables*, 1986; for years after 1982, *Survey of Current Business*, various issues; and *Statistics of Income—Corporation Income Tax Returns*, appropriate years. Statistics of Income data are subject to sampling error; tax law and tax form changes affect the year-to-year comparability of the data. See the specific Statistics of Income reports for a description of sampling error and of the changes mentioned above.

Tables 16 and 17

- [1] Individual income tax collected includes that portion which was designated for the presidential election campaign fund by taxpayers on their returns. Also included is the fiduciary income tax collected (from estates and trusts). Fiduciary income tax collected was \$8.4 billion in 1987, \$4.5 billion in 1986, \$4.1 billion in 1985, and \$2.9 billion in 1984. Presidential election campaign designations amounted to \$33.2 million in 1987, \$35.9 million in 1986, and \$34.8 million in 1985 and 1984.
- [2] Corporation income tax collected includes various taxes applicable to tax-exempt organizations, including the tax on "unrelated business income." Total taxes collected from tax-exempt organizations were \$119.9 billion (1987), \$30.2 million (1986), \$54.9 million (1985), and \$50.0 million (1984).
- [3] Excise taxes are imposed on selected products, services, and activities, such as on sales of alcohol and tobacco products and the manufacture of gasoline.
- [4] Employment taxes include payroll taxes levied on salaries and wages, such as social security, railroad retirement, and unemployment taxes; plus the self-employment tax imposed on "self-employment income."

NOTES: Collections (or refunds) are those made during the time periods indicated, regardless of the year or other period during which the tax liability was incurred (or to which the refund applied).

Collections represent the gross amounts before refunds and include amounts paid with the return; prior to filing the return (as applicable, income tax withheld by employers and estimated tax payments); and subsequent to filing the return (chiefly the result of initial return processing or of audit examination and enforcement activities). Collections also include interest and penalties.

Refunds result chiefly from tax overpayments determined at time of filing a return. Included are amounts subsequently

determined as due the taxpayer as a result of an amended return or a claim for refund (including those produced by "net operating loss" and other carryback adjustments from future taxable years); or as a result of initial return processing or of examination and other activities. Individual income tax refunds are net of offsets under laws which require IRS to act as collection agent for delinquent payments owed various U.S. agencies under specific programs. All refund data include interest paid by IRS.

Detail may not add to totals because of rounding.

SOURCE: Internal Revenue Service, Returns Processing and Accounting Division, Accounting Branch.

Table 18

- [1] Effective January 1, 1984, taxes on tubes and tread rubber were repealed, and dealers holding taxable tires were assessed a one-time floor stock tax.
- [2] Effective January 7, 1983, the excise taxes on parts and accessories for trucks and buses, which are included in this classification, were repealed. Beginning with the quarter ending December 1983, motor vehicles are excluded.
- [3] Special fuels, total, includes diesel and special motor fuels which were classified as miscellaneous excise taxes in 1970. Beginning with the quarter ending December 1983, motor vehicles are included.
- [4] Effective January 1, 1983, the excise tax increased from 1 percent to 3 percent.
- [5] Expired September 30, 1985 (P.L. 96-510); reimposed in January 1987 (P.L. 99-499).

NOTES: For 1970 and 1975, the fiscal year was defined as July of the previous calendar year through June of the year noted. For 1980-1986, the fiscal year was defined as October of the previous calendar year through September of the year noted.

Additional detail is published in the *Annual Report of the Commissioner and Chief Counsel, Internal Revenue Service*.

SOURCE: U.S. Department of the Treasury, Internal Revenue Service, Returns Processing and Accounting Division, Revenue and Accounting Branch; and Financial Management Service.

Table 19

- [1] Includes Forms 1040C, 1040NR, 1040PR, and 1040SS; excludes amended returns (Form 1040X).

Notes to Selected Statistical Series Tables

[2] Includes Forms 1120F, 1120 POL, and 1120H; excludes Forms 1120-DISC/FSC and amended returns (Form 1120X).

[3] Includes Form 1041A.

[4] Includes Form 990A.

SOURCE: Internal Revenue Service, Research Division, Projections and Forecasting Group.

Table 20

[1] Estimates of returns with paid assistance for 1985 and earlier years are based on the full-year sample of returns used for *Statistics of Income—Individual Income Tax Returns*. Data for 1987 are based on the sample used to produce preliminary Statistics of Income (SOI) and are therefore subject to revision. Since data on paid preparers are not available from the 1986 SOI file, estimates were obtained by converting the 1986 Taxpayer Usage Study (TPUS) sample to the equivalent of the SOI sample. This was done because the TPUS sample represents returns filed through April, while the SOI sample represents all individual income tax returns

filed in a calendar year. For additional information about the TPUS sample, see the Summer 1988 issue of the *SOI Bulletin*.

[2] Data on IRS Taxpayer Service Programs are collected on a fiscal-year basis. In general, assistance rendered in a given fiscal year may be related to returns due on April 15th during that fiscal year and are for the tax year ending with the previous December. Therefore, data in Table 20, which are presented on a tax year basis, are actually for a fiscal year, e.g., data shown as for Tax Year 1987 are actually for Fiscal Year 1988. However, data shown as for Tax Year 1986 in previous issues of the *SOI Bulletin* were actually for the first 7 months of Fiscal Year 1987; the revised data represent the entire Fiscal Year 1987.

NOTE: Data on IRS assistance represent taxpayer contacts. Some taxpayers make more than one contact. The number of taxpayers assisted (in contrast to the number of contacts made) is not known.

SOURCE: Data on paid preparers were obtained from Statistics of Income and Taxpayer Usage Study samples. Data on IRS assistance were compiled by the Taxpayer Service Division.

Appendix*

General Description of Statistics of Income Sample Procedures and Data Limitations

This appendix discusses typical sampling procedures used in most Statistics of Income (SOI) programs. Aspects covered briefly include sampling criteria, selection techniques, methods of estimation, and sampling variability. Some of the nonsampling error limitations of the data are also described, as well as the tabular conventions employed.

Additional information on sample design and data limitations for specific SOI studies can be found in the separate SOI reports (see the References at the end of this Appendix). More technical information is available, upon request, by writing to the Director, Statistics of Income Division, Internal Revenue Service, Washington, DC 20224.

SAMPLE CRITERIA AND SELECTION OF RETURNS

Statistics compiled for the SOI studies are generally based on stratified probability samples of income tax returns or other forms filed with the Internal Revenue Service (IRS). The statistics do not reflect any changes made by the taxpayer through an amended return or by the IRS as a result of an audit. As returns are filed and processed for tax purposes, they are assigned to sampling classes (strata) based on criteria such as: industry, presence or absence of a tax form or schedule, accounting period, State from which filed, and various income factors or other measures of economic size (total assets, for example, is used for the corporation and partnership statistics). The samples are selected from each stratum over the appropriate filing periods. Thus, sample selection can continue for a given study for several calendar years, 3 for corporations because of the prevalence of fiscal (non-calendar) year reporting. Because sampling must take place before the population size is known precisely, the rates of sample selection within each stratum are fixed. This means in practice, that both the population and the sample size can differ from that planned. However, these factors do not compromise the validity of the estimates.

The probability of a return being designated depends on its sample class or stratum and may range from a fraction of 1 percent to 100 percent. Considerations in determining the selection probability for each stratum include the number of returns in the stratum, the diversity of returns in the stratum, and interest in the stratum as a separate subject of study. All

*Compiled by Bettye Jamerson, Coordination and Publications Staff, under the direction of Robert Wilson, Chief, Publications Team. Major contributions were made by Paul McMahon, Mathematical Statistical Team.

this is subject to constraints based on the estimated cost or the target size of the total sample for the program.

For most SOI studies, returns are designated by computer from the IRS Master File based on the taxpayer identification number (TIN) which is either the social security number (SSN) or the employer identification number (EIN). A fixed and essentially random number is associated with each possible TIN. If that random number falls into a range of numbers specified for a return's sample stratum, then it is selected and processed for the study. Otherwise it is counted (for estimation purposes) but not selected. In some cases, the TIN is used directly by matching specified digits of it against a predetermined list for the sample stratum. A match is required for designation.

Under either method of selection, the TIN's designed from one year's sample are for the most part selected for the next year's, so that a very high proportion of the returns selected in the current sample are from taxpayers whose previous years' returns were included in earlier samples. This longitudinal character of the sample design improves the estimates of change from 1 year to the next.

METHOD OF ESTIMATION

As noted above, the probability with which a return is selected for inclusion in a sample depends on the sampling rate prescribed for the stratum in which it is classified. Weights are, in general, computed by dividing the count of returns filed for a given stratum by the count of sample returns for that same stratum. "Weights" are used to adjust for the various sampling rates used—the lower the rate, the larger the weight. For some studies, it is possible to improve the estimates by subdividing the original sampling classes into "post-strata," based on additional criteria or refinements of those used in the original stratification. Weights were then computed for these post-strata using additional population counts. The data on each return in a stratum are multiplied by that weight. To produce the tabulated estimates, these weighted data are summed to produce the published statistical totals.

SAMPLING VARIABILITY

The particular sample used in a study is only one of a large number of possible random samples that could have been selected using the same sample design. Estimates derived from the different samples usually vary. The standard error of the estimate is a measure of the variation

among the estimates from all possible samples and is used to measure the precision with which an estimate from a particular sample approximates the average result of the possible samples. The sample estimate and an estimate of its standard error permit the construction of interval estimates with prescribed confidence that this interval includes the actual population value.

In SOI reports the standard error is not directly presented. Instead, the ratio of the standard error to the estimate itself is presented in decimal form. This ratio is called the coefficient of variation (CV). The user of SOI data may multiply an estimate by its coefficient of variation to recreate the standard error and to construct confidence intervals.

For example, if a sample estimate of 150,000 returns is known to have a coefficient of variation of 0.02, then the following arithmetic procedure would be followed to construct a 68 percent confidence interval estimate:

150,000	(sample estimate)
× 0.02	(coefficient of variation)
= 3,000	(standard error of estimate)
<hr/>	
150,000	(sample estimate)
+ or - 3,000	(standard error)
= 147,000-153,000	(68 percent confidence interval)

Based on these data, the interval estimate is from 147 to 153 thousand returns. A conclusion that the average estimate of the number of returns lies within an interval computed in this way would be correct for approximately two-thirds of all possible similarly selected samples. To obtain this interval estimate with 95 percent confidence, the standard error should be multiplied by 2 before adding to and subtracting from the sample estimate. (In this particular case, the resulting interval would be from 144 to 156 thousand returns.)

Generally in the *SOI Bulletin* only conservative upper limit CV's are provided for frequency estimates. These do, however, provide a rough guide to the order of magnitude of the sampling error.

Further details concerning confidence intervals, including the approximation of CV's for combined sample estimates, may be obtained on request by writing the Director, Statistics of Income Division.

NONSAMPLING ERROR CONTROLS AND LIMITATIONS

Although the previous discussion focuses on sampling methods and the limitations of the data caused by sampling error, there are other sources of error that may be significant

in evaluating the usefulness of SOI data. These include taxpayer reporting errors, processing errors, and effects of an early cut-off of sampling. More extensive information on nonsampling error is presented in SOI reports, when appropriate.

In transcribing and tabulating the information from the returns or forms selected for the sample, checks are imposed to improve the quality of the resultant estimates. Tax return data may be disaggregated or recombined during statistical "editing" in order both to improve data consistency from return to return and to achieve definitions of the data items that are more in keeping with the needs of major users. In some cases not all of the data are available from the tax return as originally filed. Sometimes the missing data can be obtained through field followup. More often though, they are obtained through imputation methods. As examples, other information in the return or in accompanying schedules may be sufficient to enable an estimate to be made; prior-year data for the same taxpayer may be used for the same purpose; or data from another return for the same year that has similar characteristics may be substituted. Research to improve methods of imputing data that are missing from returns continues to be an ongoing process [1].

Quality of the basic data abstracted from the returns is subjected to a number of quality control steps including 100-percent key verification. The data are then subjected to many tests based on the structure of the tax law and the improbability of various data combinations. Records failing these tests are then subjected to further review and any necessary corrections are made. In addition, the Statistics of Income Division in the National Office conducts an independent reprocessing of a small subsample of statistically-processed returns as a further check [2].

Finally, before publication, all statistics are reviewed for accuracy and reasonableness in light of provisions of the tax laws, taxpayer reporting variations and limitations, economic conditions, comparability with other statistical series, and statistical techniques used in data processing and estimating.

TABULAR CONVENTIONS

Estimates of frequencies and money amounts that are considered unreliable due to the small sample size on which they are based are noted in SOI tables by an asterisk (*) to the left of the data item(s). The presence of an asterisk indicates that the sample rate is less than 100 percent of the population and that there are fewer than 10 sample observations available for estimation purposes.

A dash in place of a frequency or amount indicates that no sample return had that characteristic. In addition, a dash

in place of a coefficient of variation for which there is an estimate indicates that all returns contributing to the estimate were selected at the 100-percent rate.

Whenever a weighted frequency in a data cell is less than 3, the estimate is either combined with other cells or deleted in order to avoid disclosure of information about individual taxpayers or businesses [3]. These combinations and deletions are indicated by a double asterisk (**).

NOTES

- [1] See, for example, Hinkins, Susan M., "Matrix Sampling and the Effects of Using Hot Deck Imputation," in *1984 Proceedings: American Statistical Association, Section on Survey Research Methods*. Other research efforts are included in *Statistical Uses of Administrative Records: Recent Research and Present Prospects*, Volume 1, Internal Revenue Service, March 1984.
- [2] Quality control activities for all SOI studies will be published in a series of forthcoming reports. These reports will provide detailed information relating to quality in all phases of SOI processing.

- [3] For geographic statistics, these same steps are taken when a weighted frequency is less than 10.

REFERENCES

For information about the samples used for specific SOI programs see:

Statistics of Income—1985, Individual Income Tax Returns, 1984, (see especially pages 4-7).

Statistics of Income—1985, Corporation Income Tax Returns (see especially pages 9-15).

Statistics of Income—1978-82, Partnership Returns (see especially pages 237-244).

Statistics of Income—1979-83, Compendium of Studies of International Income and Taxes, Foreign Income and Taxes Reported on U.S. Tax Returns (see information about the samples used at the end of each chapter).

SOI Bulletin (see each issue).

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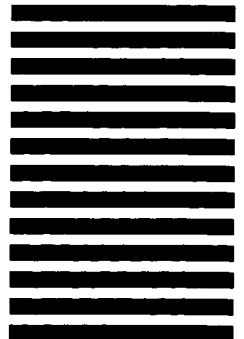


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