

This report presents statistical estimates based on a stratified sample of approximately 104,000 unaudited returns selected from the nearly 5.8 million active corporate returns filed for Tax Year 2006 (defined to include accounting periods ending July 2006 through June 2007).

The report is divided into 6 sections. Section 1 provides statistics summarizing overall corporate activity for Tax Year 2006. Section 2 discusses changes in laws and regulations between this report and that for Tax Year 2005. Section 3 describes in detail the sample of income tax returns upon which the statistics are based, as well as the method of estimation used, the sampling variability of the data, and other limitations. Section 4 presents tables containing detailed statistics on assets, liabilities, receipts, deductions, net income, income tax liability, tax credits, and other financial data for 2006. This section also includes data on Form 1120S returns, unless specifically excluded by table. Form 1120S data are also shown separately toward the end of the section. These statistics are presented by industry, asset size, business receipts size, tax form type, accounting period ended, and other selected classifiers. Section 5 contains detailed explanations of the terms used in this report. In most instances, the explanations include definitions of terms used, as well as adjustments made in preparing the statistics and any limitations inherent in the data. Section 6 consists of the key corporation tax return forms.

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

The statistics in this publication present data primarily by major industries, sectors, return types, and specific categories. The statistics in the *2006 Corporation Source Book of Statistics of Income* differ from this report by providing data by minor industry and size of total assets for balance sheet, income statement, tax, and selected other items.

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Overall Corporate Summary

Figure A presents corporation summary statistics for Tax Years 2005 and 2006 for number of returns, total assets, total receipts, net income (less deficit), income subject to tax, total income tax before credits, and total income tax after credits.

The number of active corporate tax returns filed for Tax Year 2006 increased by approximately 3.0 percent over the previous tax year. In Tax Year 2004, approximately 211,000 corporations filed their taxes electronically. This figure increased to 550,000 for Tax Year 2005 and has reached an all-time high of 875,000 for Tax Year 2006. This is an increase of 59 percent from 2005 and an increase of 315 percent in the last two years.

The **total assets** reported for active corporations increased approximately 10.0 percent from Tax Year 2005 to \$73.1 trillion. The largest net increase was in the Finance and Insurance sector, which increased from \$30.4 trillion to \$34.7 trillion, or 14.34 percent. The largest percent change gain of 18.84 percent was in the Educational Services sector, which also recorded the smallest increase in total assets of \$4.9 billion.

The **total receipts** from operations and investments increased from \$25.5 trillion to \$27.4 trillion, an increase of 7.4 percent. This increase was primarily reflected in business receipts which increased by 6.9 percent from \$21.8 trillion to \$23.3 trillion. Finance and Insurance, and Wholesale Trade accounted for 39.94 percent of the increase in total receipts and approximately 39.3 percent of the increase in business receipts. The Finance and Insurance sector experienced an increase of 13.5 percent in total receipts, from \$3.3 trillion to \$3.7 trillion; while business receipts increased from \$1.8 to \$1.9 trillion, an increase of approximately 5.3 percent.

Overall **total deductions** rose from \$23.6 trillion to \$25.5 trillion, an increase of 8.0 percent. Since 2004, the total amount of total deductions reported on active corporate returns has increased 17.87 percent. Cost of goods sold, a component of total deductions, grew from \$13.8 trillion to \$14.8 trillion in 2006, an increase of 7.1 percent.

Corporate **pre-tax profits**, also known as net income (less deficit), declined for the aggregate by -0.8 percent, from \$1.95 trillion to \$1.93 trillion (Figure B). When excluding pass-through entities from the total, pre-tax profits decreased from \$1.38 trillion to \$1.25 trillion or -9.6 percent.

2006 Corporation Returns- Introduction

Income subject to tax (the tax base), grew from \$1.20 trillion in 2005 to \$1.29 trillion in 2006, an increase of 7.5 percent. Total income tax before credits increased from \$419.2 billion to \$453.1 billion, an increase of 8.1 percent. Income tax increased 8.1 percent from Tax Year 2005 to 2006, an increase from \$416.3 billion to \$450.2 billion. Total income tax after credits, the amount paid to the U.S. Government, increased by \$41.0 billion from \$312.1 billion to \$353.1 billion.

From the 5.8 million active corporations for Tax Year 2006, approximately 3.9 million were pass-through entities. These pass-through entities include: regulated investment companies (RIC's), real estate investment trust (REIT's) and S corporations [1]. These entities pay little or no Federal income tax at the corporate level. Instead, they are required by law to pass any profits or losses to their shareholders, where they are taxed at the individual rate. Pretax profits of pass-through entities, mirrored the increase seen by all corporations with certain inclusions, rising 20.6 percent or \$117.0 billion during 2006 (Figure C).

Figure A. --Returns of Active Corporations: Number of Returns, Total Assets, Total Receipts, Net Income (Less Deficit), Income Subject to Tax, Total Income Tax Before Credits, Total Income Tax After Credits, by Size of Total Assets, Tax Years 2005 and 2006

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

| Year and size of total assets | Number of returns | Total assets | Total receipts | Net income (less deficit) [1] | Income subject to tax [2] | Total income tax before credits [3] | Total income tax after credits [4] |
|--|-------------------|-----------------------|-----------------------|-------------------------------|---------------------------|-------------------------------------|------------------------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 2005 | | | | | | | |
| Total..... | 5,671,257 | 66,445,429,787 | 25,504,789,203 | 1,948,655,133 | 1,201,325,339 | 419,209,279 | 312,086,477 |
| Zero assets..... | 774,622 | - | 445,036,031 | 33,390,285 | 19,086,398 | 5,779,882 | 5,094,162 |
| \$1 under \$500,000..... | 3,962,278 | 388,401,406 | 1,850,210,074 | 82,595,074 | 9,223,476 | 1,766,772 | 1,698,911 |
| \$500,000 under \$1,000,000..... | 370,562 | 260,923,167 | 642,832,416 | 22,774,074 | 4,473,747 | 1,077,862 | 1,043,493 |
| \$1,000,000 under \$5,000,000..... | 406,543 | 858,170,772 | 1,792,529,109 | 52,164,359 | 14,935,227 | 4,567,870 | 4,372,716 |
| \$5,000,000 under \$10,000,000..... | 66,278 | 463,000,889 | 971,980,526 | 25,702,212 | 9,367,290 | 3,164,228 | 3,060,316 |
| \$10,000,000 under \$25,000,000..... | 42,736 | 654,348,093 | 1,223,997,461 | 32,680,034 | 13,506,966 | 4,646,895 | 4,456,998 |
| \$25,000,000 under \$50,000,000..... | 15,808 | 555,194,699 | 812,566,876 | 24,835,726 | 13,459,430 | 4,678,404 | 4,366,840 |
| \$50,000,000 under \$100,000,000..... | 9,887 | 699,918,213 | 693,615,075 | 24,174,538 | 14,239,710 | 4,973,109 | 4,624,285 |
| \$100,000,000 under \$250,000,000..... | 9,316 | 1,490,548,405 | 1,012,405,328 | 48,660,813 | 31,250,096 | 10,983,815 | 9,935,667 |
| \$250,000,000 under \$500,000,000..... | 4,809 | 1,741,949,089 | 817,354,678 | 49,740,866 | 32,014,740 | 11,273,507 | 10,150,832 |
| \$500,000,000 under \$2,500,000,000..... | 6,012 | 7,372,297,893 | 3,063,700,726 | 279,799,010 | 171,339,765 | 60,459,095 | 50,364,959 |
| \$2,500,000,000 or more..... | 2,405 | 51,960,677,162 | 12,178,560,901 | 1,272,138,140 | 868,428,494 | 305,837,840 | 212,917,298 |
| 2006 | | | | | | | |
| Total..... | 5,840,799 | 73,080,647,385 | 27,401,873,714 | 1,933,374,450 | 1,291,430,767 | 453,082,065 | 353,083,862 |
| Zero assets..... | 979,169 | - | 535,489,918 | 28,763,225 | 17,500,365 | 5,653,680 | 5,399,348 |
| \$1 under \$500,000..... | 3,889,550 | 394,394,777 | 1,924,824,782 | 83,341,177 | 9,519,195 | 1,822,271 | 1,787,021 |
| \$500,000 under \$1,000,000..... | 383,908 | 269,742,294 | 685,039,197 | 20,869,790 | 4,659,036 | 1,141,582 | 1,122,588 |
| \$1,000,000 under \$5,000,000..... | 421,002 | 889,243,952 | 1,856,589,822 | 55,268,328 | 16,790,075 | 5,074,998 | 4,933,142 |
| \$5,000,000 under \$10,000,000..... | 71,407 | 501,204,266 | 1,042,833,967 | 30,774,319 | 10,019,374 | 3,395,659 | 3,285,438 |
| \$10,000,000 under \$25,000,000..... | 44,975 | 692,291,681 | 1,288,058,632 | 36,828,749 | 16,070,288 | 5,526,867 | 5,320,929 |
| \$25,000,000 under \$50,000,000..... | 16,765 | 585,293,602 | 873,746,730 | 24,390,040 | 14,181,105 | 4,894,547 | 4,661,237 |
| \$50,000,000 under \$100,000,000..... | 10,570 | 748,960,076 | 757,043,839 | 26,450,980 | 16,625,496 | 5,785,394 | 5,456,937 |
| \$100,000,000 under \$250,000,000..... | 9,543 | 1,531,023,998 | 1,052,705,705 | 51,043,598 | 32,622,746 | 11,422,225 | 10,431,308 |
| \$250,000,000 under \$500,000,000..... | 4,991 | 1,818,034,435 | 920,029,324 | 57,962,504 | 36,395,441 | 12,813,235 | 11,530,954 |
| \$500,000,000 under \$2,500,000,000..... | 6,351 | 7,449,429,552 | 3,312,672,451 | 260,417,155 | 181,766,728 | 63,814,598 | 54,366,849 |
| \$2,500,000,000 or more..... | 2,568 | 58,201,028,754 | 13,152,839,346 | 1,257,264,586 | 935,280,917 | 331,737,009 | 244,788,112 |

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

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

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

⁴ Credits include foreign tax, U.S. possessions tax, telephone excise tax, credit for tax paid on unrealized capital gains, qualified electric vehicle, general business, prior-year minimum tax, qualified zone academy bond, clean renewable energy bond, and gulf bond credit.

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

2006 Corporation Returns- Introduction

**Figure B.-- Corporate Pretax Profits by North American Industry Classification System (NAICS) Sector,
Tax Years 2005 and 2006**

[Money amounts are in thousands of dollars]

| Industrial sector | Pre-tax Profits [1],[2] | | | |
|---|-------------------------|----------------------|--------------------|----------------------|
| | 2005 | 2006 | Difference | Percentage Change |
| | (1) | (2) | (3) | (4) |
| All industries..... | 1,948,655,132 | 1,933,374,450 | -15,280,682 | -0.78% |
| Agriculture, forestry, fishing, and hunting..... | 4,723,729 | 2,927,432 | -1,796,297 | -38.03% |
| Mining..... | 46,784,960 | 58,844,799 | 12,059,839 | 25.78% |
| Utilities..... | 20,830,603 | 36,586,953 | 15,756,350 | 75.64% |
| Construction..... | 74,356,808 | 73,894,825 | -461,983 | -0.62% |
| Manufacturing..... | 680,058,202 | 481,099,337 | -198,958,865 | -29.26% |
| Wholesale and retail trade..... | 214,851,252 | 227,775,140 | 12,923,888 | 6.02% |
| Wholesale trade..... | 106,255,014 | 115,342,552 | 9,087,538 | 8.55% |
| Retail trade..... | 108,612,236 | 112,444,753 | 3,832,517 | 3.53% |
| Wholesale and retail trade not allocable..... | -15,998 | -12,165 | 3,833 | 23.96% |
| Transportation and warehousing..... | 18,910,404 | 26,335,387 | 7,424,983 | 39.26% |
| Information..... | 75,408,348 | 101,098,860 | 25,690,512 | 34.07% |
| Finance and insurance..... | 500,563,173 | 631,745,689 | 131,182,516 | 26.21% |
| Real estate and rental and leasing..... | 29,777,730 | 23,631,173 | -6,146,557 | -20.64% |
| Professional, scientific, and technical services..... | 30,931,686 | 35,921,904 | 4,990,218 | 16.13% |
| Management of companies (holding companies)..... | 161,499,246 | 157,479,205 | -4,020,041 | -2.49% |
| Administrative and support, and waste management and remediation services..... | 22,980,942 | 13,751,601 | -9,229,341 | -40.16% |
| Educational services..... | 2,659,365 | 2,400,974 | -258,391 | -9.72% |
| Health care and social assistance..... | 26,796,387 | 28,318,468 | 1,522,081 | 5.68% |
| Arts, entertainment, and recreation..... | 4,117,704 | 4,538,143 | 420,439 | 10.21% |
| Accommodation and food services..... | 27,759,730 | 20,536,940 | -7,222,790 | -26.02% |
| Other services..... | 5,660,308 | 6,520,052 | 859,744 | 15.19% |
| Not allocable..... | -15,443 | -32,432 | -16,989 | -110.01% |

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

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

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

The remaining 2.0 million corporate returns reported total receipts of \$21.0 trillion, an increase of 6.1 percent from 2005 to 2006. Income subject to tax increased from \$1.20 trillion to \$1.29 trillion, a 7.5 percent increase; while total income tax after credits increased 13.2 percent from \$311.4 billion to \$352.3 billion. Excluding the pass-through entities [2], approximately 1.0 million corporations reported net income for Tax Year 2006.

The number of returns with total assets of \$2.5 billion or more represented only 0.04 percent of the total number of returns, but 79.6 percent of total assets. These 2,568 returns for 2006 accounted for 48.0 percent of the total receipts; 65.0 percent of net income (less deficit); 72.4 percent of income subject to tax; 73.2 percent of total income tax before credits; and 69.3 percent of total income tax after credits.

2006 Corporation Returns- Introduction

Activities Covered

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

Section 6012 of the Internal Revenue Code requires that all corporations in existence at any time during the tax year file returns, regardless of whether they had income or not. This applied to active and inactive domestic corporations, unless they were expressly exempt from filing, as well as to active foreign corporations with insufficient taxes withheld at the source to satisfy their U.S. tax liability on income earned in the United States. However, inactive corporations have been excluded from these statistics. See Section 3 for more information on the sample.

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

Time Period Employed

The estimates in this report are based on data from returns with accounting periods that coincided with the calendar year and returns with accounting periods that were for noncalendar years ending during the span of months July 2006 through June 2007. This span, in effect, defines the tax year in such a way that the noncalendar year accounting periods are centered at the calendar year ended in December.

There are 12 accounting periods covered in this report. Code section 441 specified that, in general, a taxpayer's accounting period ends on the last day of the month. There is a span of 23 months between the first-included accounting period, which began on August 1, 2005, and closed on July 31, 2006, and the end of the last-included accounting period, which began on July 1, 2006, and closed on June 30, 2007.

This report, therefore, shows income received or expenses incurred during any or all of the months in the 23-month span. For balance sheet items, the report shows a corporation's position only at the end of its accounting period. Corporations were required by Code section 441 to file returns for the accounting period customarily used in keeping their books.

Figure C. -- Pretax profits and Pretax profits with certain inclusions for All Corporations, Regulated Investment Companies, and S Corporations, Tax Years 2005 and 2006

[Money amounts are in thousands of dollars]

| Item | Tax Year | All Corporations | Regulated Investment Companies | S Corporations |
|---|----------|------------------|--------------------------------|----------------|
| Pretax profits [1]..... | 2006 | 1,933,374,450 | 301,828,701 | 295,929,473 |
| | 2005 | 1,948,655,132 | 214,965,672 | 282,903,509 |
| Pretax profits with certain inclusions [2]..... | 2006 | 2,319,547,408 | 597,728,823 | 386,202,310 |
| | 2005 | 2,210,067,320 | 398,238,803 | 361,042,566 |

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

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

2006 Corporation Returns- Introduction

Figure D shows that calendar year returns made up 87.4 percent of the number of returns and 71.0 percent of net income (less deficit) for 2006. In addition, these returns accounted for 75.2 percent of the total assets, 75.3 percent of the total receipts, 74.5 percent of the income subject to tax, 76.2 percent of the total income tax before credits, and 75.9 percent of total income tax after credits. Corporations were usually required to file within two-and-one-half months after the close of the corporate accounting period. However, in accordance with

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

Figure D. --Returns of Active Corporations: Number of Returns, Total Assets, Total Receipts, Net Income (Less Deficit), Income Subject to Tax, Total Income Tax Before Credits, and Total Income Tax After Credits, by Ending Accounting Period for Tax Year 2006

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

| Ending Accounting Period [1] | Number of returns | Total assets | Total receipts | Net income (less deficit) [2] | Income subject to tax [3] | Total income tax before credits [4] | Total income tax after credit [5] |
|------------------------------------|-------------------|-----------------------|-----------------------|-------------------------------|---------------------------|-------------------------------------|-----------------------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| Total..... | 5,840,799 | 73,080,647,385 | 27,401,873,714 | 1,933,374,450 | 1,291,430,767 | 453,082,065 | 353,083,862 |
| December 2006..... | 5,103,874 | 54,963,481,823 | 20,636,857,015 | 1,373,207,212 | 979,622,842 | 345,130,686 | 263,184,719 |
| Noncalendar Year Total..... | 736,925 | 18,117,165,563 | 6,765,016,699 | 560,167,238 | 311,807,925 | 107,951,379 | 89,899,143 |
| July 2006..... | 43,932 | 1,290,085,926 | 271,189,890 | 33,714,782 | 13,935,451 | 4,814,962 | 4,196,797 |
| August 2006..... | 47,458 | 1,356,065,564 | 349,684,228 | 47,933,916 | 16,210,157 | 5,640,624 | 4,449,455 |
| September 2006..... | 149,116 | 2,005,672,956 | 1,177,237,479 | 77,006,890 | 43,084,493 | 14,914,262 | 12,205,654 |
| October 2006..... | 64,818 | 2,479,032,253 | 512,782,379 | 66,602,808 | 17,658,745 | 6,120,576 | 4,647,313 |
| November 2006..... | 39,292 | 4,050,505,716 | 358,545,999 | 46,092,363 | 28,773,958 | 10,037,024 | 7,116,566 |
| January 2007..... | 41,142 | 991,214,534 | 1,122,180,766 | 71,396,450 | 61,172,320 | 21,360,719 | 19,913,826 |
| February 2007..... | 31,028 | 824,674,362 | 288,989,079 | 27,730,602 | 7,552,919 | 2,576,770 | 2,389,008 |
| March 2007..... | 96,085 | 2,501,169,531 | 1,103,001,462 | 67,739,057 | 41,061,973 | 13,798,735 | 12,663,694 |
| April 2007..... | 39,894 | 549,021,229 | 254,416,389 | 27,238,093 | 8,713,278 | 2,980,355 | 2,426,649 |
| May 2007..... | 42,948 | 709,137,332 | 367,773,238 | 30,256,066 | 19,375,195 | 6,346,433 | 5,139,068 |
| June 2007..... | 141,213 | 1,360,586,160 | 959,215,791 | 64,456,211 | 54,269,436 | 19,360,920 | 14,751,112 |

[1] Includes full and part-year returns.

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

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

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

[5] Credits include foreign tax, U.S. possessions tax, telephone excise tax, credit for tax paid on unrealized capital gains, qualified electric vehicle, general business, prior-year minimum tax, qualified zone academy bond, clean renewable energy bond and gulf bond credit.

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

Notes and References

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

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

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