

S Corporation Returns, 2006

by Heather Duffy Parisi

In Tax Year 2006, S corporations accounted for 3.9 million, or 66.3 percent, of the 5.8 million corporate returns filed, continuing to be the most popular type of corporate entity. Despite representing nearly two-thirds of all corporations, S corporations accounted for only 21.2 percent of the \$27.4 trillion of total receipts and 4.2 percent of the \$73.1 trillion of total assets reported on corporate returns. S corporations reported \$5.8 trillion of total receipts and \$3.0 trillion of total assets, increases of 10.7 percent and 11.4 percent, respectively, from 2005. Total net income (less deficit) reported by S corporations increased \$25.2 billion, or 7.0 percent, from \$361.0 billion for 2005 to \$386.2 billion for 2006 (Figure A). The majority of this increase came from net income (less deficit) from trade or business, which grew \$13.0 billion to \$295.9 billion.

The total number of returns filed by S corporations for Tax Year 2006 increased 5.1 percent to 3.9 million, from 3.7 million reported in 2005. Filings of S corporation returns have increased at an average annual rate of 8.2 percent since the enactment of the Tax Reform Act of 1986 (Figure B). During the same time period, taxable corporations have experi-

enced an average annual decline of 1.3 percent. The term “taxable corporations” refers to corporations other than S corporations.¹

For Tax Year 2006, 349.7 thousand corporations elected subchapter S status for the first time. Of these, 264.0 thousand were newly incorporated businesses. The remaining 85.7 thousand elected to make the conversion from a taxable corporation to an S corporation. Although the number of business electing S corporation status decreased 1.8 percent in 2006, the number of shareholders grew by 5.1 percent, and total assets increased by 11.4 percent (Figure C).

Income Statement Highlights

Total net income (less deficit) increased for Tax Year 2006. Net income (less deficit) from a trade or business is the largest component of total net income (less deficit), accounting for 76.6 percent of the total. Net income (less deficit) from a trade or business increased by \$13.0 billion, from \$282.9 billion in 2005 to \$295.9 billion in 2006.²

Portfolio income (less deficit) distributed to shareholders increased 17.9 percent to \$82.0 bil-

Figure A

S Corporation Total Net Income (Less Deficit), Tax Years 2005-2006

[Money amounts are in thousands of dollars]

Item	2005	2006	Change	
			Amount	Percentage
	(1)	(2)	(3)	(4)
Total net income (less deficit)	361,042,566	386,202,310	25,159,744	7.0
Net income (less deficit) from trade or business	282,903,509	295,929,473	13,025,964	4.6
Portfolio dividend income	4,892,559	6,471,731	1,579,172	32.3
Portfolio interest income	12,860,347	18,483,014	5,622,667	43.7
Portfolio royalty income	1,085,352	1,360,338	274,986	25.3
Portfolio net short-term capital gain (less loss)	2,064,545	1,508,376	-556,169	-26.9
Portfolio net long-term capital gain (less loss)	48,653,357	54,205,761	5,552,404	11.4
Real estate rental net income (less deficit)	7,299,983	6,832,640	-467,343	-6.4
Net income (less deficit) from other rental activity	1,282,914	1,410,976	128,062	10.0

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

Heather Duffy Parisi is an economist with the Corporation Research Section. This article was prepared under the direction of Ken Szefflinski, Chief.

¹ For the purpose of this article, taxable corporations are corporations that file the following types of returns: Form 1120, Form 1120-A, Form 1120F, Form 1120L, and Form 1120-PC. Form 1120-REIT and Form 1120-RIC, while not filed by taxable corporations, are included in the statistics.

² Data for 2005 used in this article are from *Statistics of Income—2005, Corporation Income Tax Returns*. Data for 2006 are from *Statistics of Income—2006, Corporation Income Tax Returns*.

Figure B

Number of Form 1120 Series Returns, by Type of Corporation, Tax Years 1986-2006



lion, an increase of \$12.5 billion. Portfolio income (less deficit) consists of interest, dividends, annuities, royalties, and gain or loss from the disposition of income-producing or investment property that is not derived in the ordinary course of business. The two major categories of portfolio income that contributed to this increase were interest income, which increased by \$5.6 billion, and higher net long-term capital gains, which accounted for another \$5.6 billion of the increase.

Real estate rental net income (less deficit) decreased by 6.4 percent to \$6.8 billion, and net income (less deficit) from other rental activities increased by 10.0 percent to \$1.4 billion.

The majority of total net income (less deficit) was concentrated in four industrial sectors, representing \$230.2 billion, or 59.6 percent of the total.

The wholesale and retail trade sector represented 19.2 percent of total net income (less deficit), or \$74.2 billion. Manufacturing and construction represented 15.0 percent and 14.3 percent, respectively. Professional, scientific, and technical services accounted for 11.1 percent (Figure D).

Total receipts for S corporations increased \$562.9 billion to \$5.8 trillion, an increase of 10.7 percent from 2005.³ The largest component of total receipts was business receipts, which increased \$552.8 million to \$5.7 trillion for Tax Year 2006. Total deductions increased \$549.7 billion to \$5.5 trillion, an increase of 11.1 percent. The largest component of total deductions, cost of goods sold, accounted for \$3.6 trillion, or 64.8 percent, of total deductions, an increase of \$352.5 billion over the previous year. The next largest component of total

³ See Table 1, *Statistics of Income—2006, Corporation Income Tax Returns*, p. 203.

S Corporation Returns, 2006

Statistics of Income Bulletin | Summer 2009

Figure C

S Corporation Annual Percentage Increase or Decrease for Tax Years 1995-2006

Tax year	Number of S corporations	Number of newly elected S corporations ¹	Number of new S corporations ²	Number of shareholders	Total assets	Total receipts	Total net income (less deficit)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Percentages						
1995	6.4	9.2	8.3	4.3	7.8	8.8	8.1
1996	7.0	-0.4	0.9	5.0	8.1	8.9	26.3
1997	6.4	19.5	18.3	4.9	18.8	10.6	22.2
1998	5.5	-3.3	2.8	3.9	11.3	5.7	18.8
1999	5.3	-2.7	-8.9	4.9	11.9	7.8	6.6
2000	4.9	-3.0	-0.7	2.6	9.9	9.6	2.5
2001	4.4	2.2	-2.6	3.1	5.2	4.0	-5.5
2002	5.6	11.0	18.0	5.8	7.1	4.0	-2.2
2003	5.9	3.7	4.1	2.9	8.4	8.2	16.5
2004	5.3	0.4	4.2	4.1	11.5	11.9	28.9
2005	4.7	3.5	-0.1	4.0	12.3	10.9	31.1
2006	5.1	-1.8	0.3	5.1	11.4	10.7	7.0

[1] Newly elected S corporations included startup businesses and corporations electing to convert to an S corporation.

[2] New S corporations only include corporations that started business within the reported tax year.

deductions, salaries and wages, increased \$50.0 billion to \$588.9 billion, from \$538.9 billion in 2005.

The four industrial sectors that accounted for the majority of net income likewise represented the largest portion of total receipts for all S corporations (Figure E). Wholesale and retail trade represented 40.3 percent of total receipts, or \$2.3 trillion. Construction, with \$941.4 billion in total receipts, represented 16.2 percent of the total, while manufacturing and professional, scientific, and technical services accounted for \$709.0 billion and \$372.0 billion, respectively.

Nearly two-thirds, 65.1 percent, of all S corporations reported positive net income.⁴ These 2.5 million S corporations reported \$457.0 billion in positive total net income, an increase of \$35.7 billion over the \$421.3 billion reported in 2005. Total net income from a trade or business increased \$23.5 billion for companies reporting positive net income. Total receipts increased \$389.0 billion, and total deductions increased \$365.2 billion for all S corporations with positive net income.

Balance Sheet Highlights

Total assets for S corporations increased \$311.8 billion, or 11.4 percent, from the previous year.⁵ The largest component of total assets for Tax Year 2006 was net notes and accounts receivable, which accounted for \$709.1 billion, or 23.3 percent of total assets.⁶ Net notes and accounts receivable also displayed the largest increase from the previous year, growing \$78.9 billion, or 12.5 percent.

Four industrial sectors combined to account for \$1.8 trillion, or 59.0 percent, of S corporation total assets: wholesale and retail trade; construction; management of companies (holding companies); and manufacturing (Figure F). Wholesale and retail trade held the largest portion of total assets for S corporations, representing \$650.2 billion, or 21.3 percent of total assets for S corporations. S corporations in construction reported \$425.8 billion, or 14.0 percent of total assets. Assets in management of companies totaled \$379.9 billion, or 12.5 percent. Manufacturing held \$342.4 billion of assets, or 11.2 percent.

⁴ See Table 2, *Statistics of Income—2006, Corporation Income Tax Returns*, p. 211.

⁵ Ibid.

⁶ See Table 7, *Statistics of Income—2006, Corporation Income Tax Returns*, p. 242.

S Corporation Returns, 2006

Statistics of Income Bulletin | Summer 2009

Figure D

S Corporation Total Assets, Total Receipts, and Total Net Income (Less Deficit), by Industrial Sector, Tax Year 2006

[Money amounts are in thousands of dollars]

Item	All industries [1]	Agriculture, forestry, fishing, and hunting	Mining	Utilities	Construction	Manufacturing
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns	3,872,766	81,635	22,874	d	555,606	155,771
Total assets	3,048,770,219	59,119,290	51,525,479	d	425,758,506	342,375,747
Total receipts	5,815,389,092	71,596,996	49,301,864	d	941,403,131	708,952,026
Total net income (less deficit)	386,202,310	2,675,677	13,750,761	d	55,158,287	58,015,232
Net income (less deficit) from a trade or business	295,929,473	986,317	11,135,283	d	49,996,092	45,200,576
Portfolio income (less deficit) distributed to shareholders, total	82,029,220	1,417,419	2,513,509	d	4,858,573	12,516,245
Dividend income	6,471,731	77,429	212,417	d	231,795	986,383
Interest income	18,483,014	461,910	491,560	d	2,267,891	1,751,103
Royalty income	1,360,338	120,148	386,611	d	10,407	233,425
Net short-term capital gain (less loss)	1,508,376	7,768	24,722	d	109,436	17,920
Net long-term capital gain (less loss)	54,205,761	750,164	1,398,198	d	2,239,044	9,527,414
Real estate rental net income (less deficit)	6,832,640	194,281	41,614	d	142,297	160,582
Net income (less deficit) from other rental activity	1,410,976	77,660	60,356	d	161,325	137,829

Item	Wholesale and retail trade	Wholesale trade	Retail trade	Wholesale and retail trade not allocable	Transportation and warehousing	Information
	(7)	(8)	(9)	(10)	(11)	(12)
Number of returns	624,082	220,166	402,267	*1649	124,096	77,671
Total assets	650,243,950	306,133,344	343,817,959	*292,647	74,689,625	62,101,950
Total receipts	2,342,855,340	1,085,996,929	1,256,389,253	*469,158	180,059,093	69,472,637
Total net income (less deficit)	74,190,630	45,112,273	29,086,275	*-7,917	8,032,587	6,752,740
Net income (less deficit) from a trade or business	59,517,746	36,746,176	22,779,528	*-7,958	6,765,978	3,193,458
Portfolio income (less deficit) distributed to shareholders, total	13,773,967	7,897,003	5,876,923	*41	989,608	3,509,237
Dividend income	1,547,295	649,293	898,003	0	66,463	331,176
Interest income	2,890,128	1,276,992	1,613,136	0	393,364	800,168
Royalty income	152,854	140,025	12,829	0	2,421	20,305
Net short-term capital gain (less loss)	46,848	33,846	13,003	0	1,196	41,256
Net long-term capital gain (less loss)	9,136,842	5,796,848	3,339,953	*41	526,164	2,316,333
Real estate rental net income (less deficit)	491,551	198,547	293,004	0	92,750	50,822
Net income (less deficit) from other rental activity	407,366	270,546	136,820	0	184,251	-777

Footnotes at end of table.

S Corporation Returns, 2006

Statistics of Income Bulletin | Summer 2009

Figure D—Continued

S Corporation Total Assets, Total Receipts, and Total Net Income (Less Deficit), by Industrial Sector, Tax Year 2006—Continued

[Money amounts are in thousands of dollars]

Item	Finance and insurance	Real estate and rental and leasing	Professional, scientific, and technical services	Management of companies (holding companies)	Administrative and support and waste management and remediation services
	(13)	(14)	(15)	(16)	(17)
Number of returns	154,850	450,852	585,940	24,601	189,231
Total assets	287,866,628	325,262,297	109,562,597	379,906,613	51,410,922
Total receipts	133,305,193	130,104,289	371,982,165	29,111,848	205,470,157
Total net income (less deficit)	27,040,557	26,155,047	42,846,803	14,591,663	12,749,269
Net income (less deficit) from a trade or business shareholders, total	16,530,945	9,309,316	36,560,921	8,023,866	11,098,140
Dividend income	10,575,568	11,416,864	6,023,332	6,646,113	1,563,206
Interest income	1,259,153	591,674	223,081	665,615	100,942
Royalty income	2,068,575	2,641,312	1,214,821	1,382,736	541,281
Net short-term capital gain (less loss)	42,859	66,987	13,055	75,551	15,648
Net long-term capital gain (less loss)	805,684	167,040	123,597	138,229	-6,902
Real estate rental net income (less deficit)	6,399,297	7,949,851	4,448,778	4,383,982	912,237
Net income (less deficit) from other rental activity	-36,478	5,171,723	200,469	-86,560	57,206
	-29,477	257,143	62,082	8,245	30,718

Item	Educational services	Health care and social assistance	Arts, entertainment, and recreation	Accommodation and food services	Other services
	(18)	(19)	(20)	(21)	(22)
Number of returns	31,611	264,636	84,206	207,761	233,674
Total assets	6,220,602	51,091,353	32,210,054	92,096,715	41,258,098
Total receipts	14,219,237	213,777,696	43,308,592	181,791,483	118,684,938
Total net income (less deficit)	1,984,455	23,183,112	4,316,358	7,884,353	6,015,757
Net income (less deficit) from a trade or business shareholders, total	1,307,469	21,577,828	3,029,872	6,337,862	4,811,361
Dividend income	672,272	1,496,797	1,198,892	1,395,846	1,154,864
Interest income	2,546	36,427	33,028	69,316	35,736
Royalty income	38,484	350,056	296,680	591,972	208,512
Net short-term capital gain (less loss)	6,523	1,401	161,898	46,869	3,217
Net long-term capital gain (less loss)	6,259	17,165	13,685	3,372	-8,823
Real estate rental net income (less deficit)	618,461	1,091,749	693,601	684,316	916,222
Net income (less deficit) from other rental activity	3,733	104,581	95,164	107,809	39,552
	982	3,905	-7,570	42,835	9,981

* Estimate should be used with caution because of the small number of returns on which it is based.

d—Not shown to avoid disclosure of information about specific taxpayers. However, the data are included in the appropriate totals.

[1] Includes returns not allocable by industrial sector, which are not shown separately.

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

Figure E

S Corporation Total Receipts, by Industrial Sector, Tax Year 2006

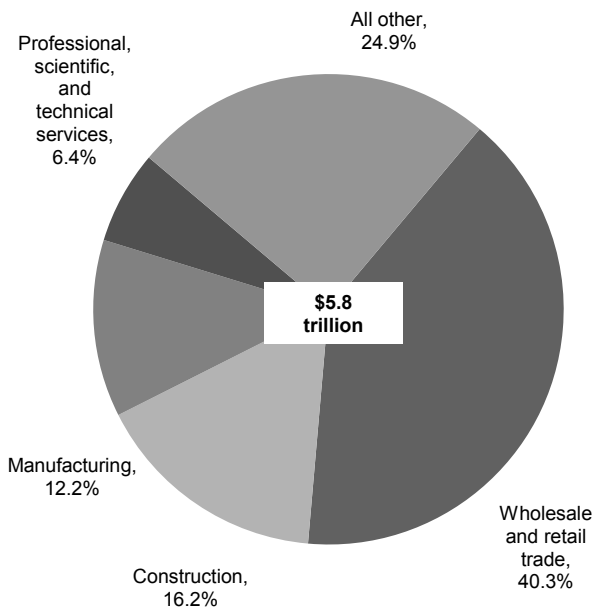
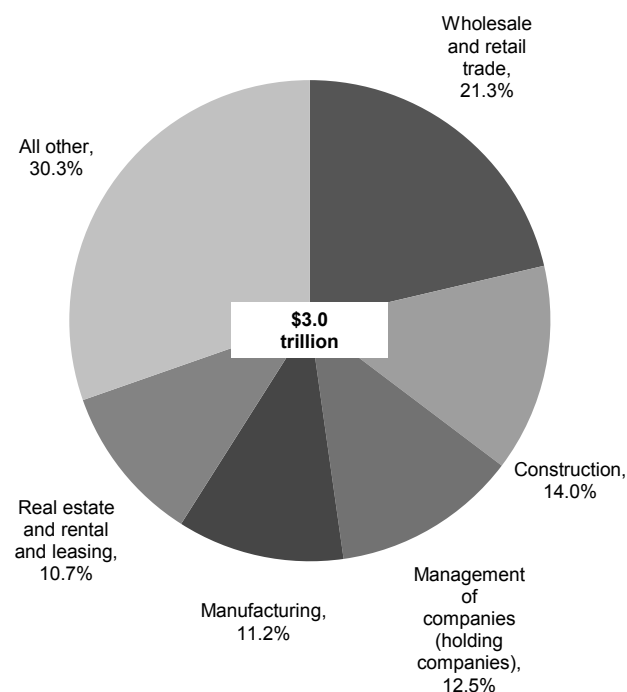


Figure F

S Corporation Total Assets, by Industrial Sector, Tax Year 2006



The two largest components of total liabilities and equity for Tax Year 2006 were total net worth and mortgages, notes, and bonds payable in 1 year or more. Total net worth accounted for \$863.0 billion of total liabilities, or 28.3 percent. Total net worth represents the shareholders' equity in the corporation and is comprised of capital stock, paid-in capital surplus, retained earnings unappropriated, and adjustment to shareholders' equity, reduced by cost of treasury stock. Retained earnings unappropriated (including adjustments to shareholders' equity) accounted for \$549.3 billion, or 63.7 percent, of total net worth. Mortgages, notes, and bonds payable in 1 year or more accounted for \$599.7 billion of total liabilities, or 19.7 percent.

Size of Business Receipts ⁷

In Tax Year 2006, over half of all S corporations (2.2 million) reported business receipts of less than \$250 thousand. ⁸ Even though the majority of S corporations fall into the smaller business receipt classes, there were 14,312 companies with business receipts of \$50 million or greater, and they accounted for \$2.0 trillion, which is over one-third of all business receipts.

The wholesale and retail trade sector accounted for \$2.3 trillion of the \$5.7 trillion in total business receipts reported, or 40.6 percent. Over half of all S corporations with business receipts of \$50 million or more fall into the wholesale and retail trade sector. These companies with business receipts of \$50 million or more accounted for \$1.1 trillion of this sector's business receipts, or 47.1 percent.

Income from Rental Real Estate

The number of S corporations reporting rental real estate income on Form 8825, *Rental Real Estate Income and Expenses of a Partnership or an S Corporation*, decreased slightly in Tax Year 2006, down 2.2 percent from Tax Year 2005 to 259.3 thousand. ⁹ Rental real estate expenses increased \$2.6 billion, or 9.7 percent. Of the rental real estate expenses, interest expense increased most, \$938.1 million to \$7.6 billion for Tax Year 2006. Real estate rental net income (less deficit) decreased by 6.4 percent

⁷ Returns for nonfinance industries were classified by size of gross receipts from sales and operations. Returns of industries within the finance and insurance and management holding companies sectors were classified by size of total receipts (the sum of business receipts and investment income).

⁸ See Table 4, *Statistics of Income—2006, Corporation Income Tax Returns*, p. 219.

⁹ See Table 5, *Statistics of Income—2006, Corporation Income Tax Returns*, p. 239.

S Corporation Returns, 2006

Statistics of Income Bulletin | Summer 2009

Figure G

S Corporations Number of Returns, by Number of Shareholders and Industrial Sector, Tax Year 2006

Industrial sector	Total [1]	Number of shareholders						
		1	2	3	4-10	11-20	21-30	31 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All industries [2]	3,872,766	2,323,413	1,135,372	199,694	191,717	14,478	4,408	3,684
Agriculture, forestry, fishing, and hunting	81,635	34,138	28,716	6,601	11,315	524	316	25
Mining	22,874	10,489	7,128	1,277	3,000	542	6	433
Utilities	d	1,501	*193	*10	*338	d	d	0
Construction	555,606	328,317	182,930	25,529	18,237	382	125	86
Manufacturing	155,771	74,456	51,595	12,796	15,189	1,124	469	143
Wholesale trade and retail trade [3]	624,082	341,669	212,381	34,898	32,327	2,200	149	458
Transportation and warehousing	124,096	79,518	37,104	4,556	2,783	111	*17	8
Information	77,671	48,429	19,526	5,827	3,525	186	*156	22
Finance and insurance	154,850	105,170	35,299	5,870	6,944	744	548	274
Real estate and rental and leasing	450,852	243,126	128,897	34,854	39,316	3,762	751	147
Professional, scientific, and technical services	585,940	409,756	138,993	21,498	13,739	957	867	131
Management of companies	24,601	10,321	6,111	2,098	4,048	976	176	872
Administrative and support and waste management and remediation services	189,231	114,700	60,453	8,824	4,992	96	*109	*57
Educational services	31,611	22,713	8,063	*762	65	d	0	d
Health care and social assistance	264,636	213,006	37,362	6,426	6,177	1,006	508	151
Arts, entertainment, and recreation	84,206	58,690	16,589	3,394	5,226	273	*22	*12
Accommodation and food services	207,761	96,632	78,539	14,064	16,531	1,089	83	824
Other services	233,674	129,992	85,098	10,409	7,966	*60	d	d

* Data should be used with caution because of the small number of sample returns on which they are based.

d—Not shown to avoid disclosure of information about specific taxpayers. However, the data are included in the appropriate totals.

[1] Total includes S corporations for which neither a number of shareholders was reported nor a Schedule K-1, *Shareholder's Share of Income, Credits, Deductions, etc.*, was filed.

[2] Includes returns not allocable by industrial sector, which are not shown separately.

[3] This industrial sector includes "Wholesale and Retail Trade Not Allocable," which is not shown separately.

NOTE: Detail may not add to total due to rounding.

to \$6.8 billion for 2006. The real estate and rental and leasing sector accounted for the majority of real estate rental net income (less deficit), reporting \$5.2 billion of the \$6.8 billion reported for all industries. More than two-thirds (69.6 percent) of S corporations reporting income on Form 8825 were classified in this sector.

Shareholder Data

S corporation shareholders are limited to a few types of entities, including individuals, estates, certain trusts, individuals in bankruptcy, and charitable organizations. The number of S corporation shareholders increased 5.1 percent to 6.7 million for Tax Year 2006.¹⁰ The total number of returns with only one shareholder increased 5.7 percent, from 2.2 million in 2005 to 2.3 million for 2006, representing 60.0 percent of S corporation returns, and 34.9 percent of the total number of shareholders for all S corporations. The professional, scientific, and tech-

nical services sector represented the largest number of returns with one shareholder (Figure G). The number of returns with four or more shareholders increased 3.6 percent from 2005, and the number of shareholders on those returns increased 5.7 percent. S corporations with 10 or fewer shareholders represented 99.4 percent of all S corporations for Tax Year 2006. The wholesale and retail trade sector had the largest number of returns with 10 or fewer shareholders. During the same period, S corporations with more than 30 shareholders increased 11.5 percent to 3,684.

The American Jobs Creation Act of 2004 increased the allowable number of shareholders from 75 to 100 for tax years beginning after 2004. Also, family members (i.e., common ancestor, lineal descendants of the common ancestor, and the spouses, or former spouses, of the lineal descendants or the common ancestor) may elect to be treated as only one shareholder for purposes of meeting the 100

shareholder limit. S corporation returns with more than 75 shareholders increased 133.3 percent, from the 81 reported for Tax Year 2005 to 189 for Tax Year 2006.

S Corporation Taxation

S corporations generally do not pay income tax, due to their treatment as passthrough entities. However, they may be subject to some types of Federal income taxes, including the built-in gains tax, the excess net passive income tax, the investment credit recapture tax, and the LIFO recapture tax (included in “Adjustments to tax” in Figure H). The built-in gains tax is the most common of the four. The built-in gains tax represented \$583.7 million, or 91.3 percent, of all Federal income tax reported by S corporations for 2006. S corporations that were previously C corporations and made a valid S election after 1986 must pay tax on any realized gain from the sale of certain assets. These assets must be held at the time of election, and the sale must be made within 10 years from the first day of the S corporation’s election for the built-in gains tax to apply. The built-in gains tax is limited to net appreciation occurring prior to a C corporation’s election as an S corporation. An S corporation that never operated as a C corporation is not subject to the built-in gains tax.¹¹

The excess net passive income tax, the investment credit recapture tax, and the LIFO recapture tax also apply to corporations that operated as taxable corporations before making their S elections. The excess net passive income tax applies only to S corporations with net passive investment income accounting for more than 25 percent of gross receipts and with subchapter C earnings. S corporations are required to pay the investment credit recapture tax on the recapture amount attributable to credits allowed on the corporation in years prior to the S election. The last-in, first-out (LIFO) recapture tax does not apply to a corporation that made an S election prior to December 18, 1987, and uses the LIFO method to value inventory. A LIFO recapture amount, which is the amount of inventory valued under the first-in, first-out (FIFO) method that exceeds the inventory valued under LIFO, is included in gross income after a corporation converts to an

S corporation. Inventory that is transferred to an S corporation during a tax-free reorganization of a C corporation is also subject to the LIFO recapture tax.

S corporations reported total net income of \$386.2 billion and total tax liability of \$639.4 million during Tax Year 2006. The total tax reported for all S corporations increased 4.6 percent from 2005 to 2006 (Figure H). The excess net passive income tax increased 108.2 percent to \$45.6 million for Tax Year 2006. Of the 3.9 million S corporations that filed in 2006, only 7,074, or 0.2 percent, reported tax liability.

Summary

The number of S corporations increased 5.1 percent to 3.9 million for Tax Year 2006, representing nearly two-thirds of all corporations. The number of shareholders also increased by 5.1 percent, to 6.7 million. Total net income (less deficit) increased 7.0 percent to \$386.2 billion. The largest component of total net income (less deficit), net income (less deficit) from a trade or business, increased \$13.0 billion to \$295.9 billion, representing 76.6 percent of total net income (less deficit). Nearly two-thirds of all S corporations reported positive net income, accounting for \$457.0 billion of positive total net income. S corporation total assets increased 11.4 percent from the previous year to \$3.0 trillion. Slightly fewer S corporations reported rental real estate income for Tax Year 2006, down 2.2 percent to 259.3 thousand. These companies reported \$6.8 billion of real estate rental net income (less deficit).

Figure H

S Corporation Taxes, Tax Years 2005 and 2006

[Money amounts are in thousands of dollars]

Items	2005	2006	Percentage change
	(1)	(2)	(3)
Total tax	611,451	639,428	4.6
Built-in gains tax	554,722	583,670	5.2
Excess net passive income tax	21,908	45,607	108.2
Adjustments to tax	33,370	9,283	-72.2
Investment credit recapture tax	1,006	768	-23.7
Income tax adjustment	445	101	-77.3

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

¹¹ For further detail, see Internal Revenue Service, Internal Revenue Code, Subchapter S, Section 1374. Also see Gill, Amy, S Corporation Returns, 1992, *Statistics of Income Bulletin*, Spring 1995, Volume 14, Number 4.

S Corporation Returns, 2006

Statistics of Income Bulletin | Summer 2009

Data Sources and Limitations

The statistics for Tax Year 2006 are based on a sample of S corporation income tax returns with accounting periods ending July 2006 through June 2007 that posted to the Internal Revenue Service Business Master File from July 2006 through the end of June 2008.

A stratified probability sample was used to produce the statistics. A sample of 33,016 S corporation tax returns was drawn from a population of 4,164,612. The stratification was based on combinations of total assets and ordinary income. Sample rates ranged from 0.25 percent to 100 percent. The sample was selected after administrative processing,

but before audit examination. Based on the 32,458 returns of active S corporations in the sample, the population estimate of S corporation returns was 3,872,766.

Because the estimates are based on a sample, they are subject to sampling error. Coefficients of variation (CVs) are used to measure the magnitude of this sampling error. The CV is defined in the section on sampling variability in the SOI Sampling Methodology and Data Limitations later in this publication. Figure I presents the coefficients of variation for S corporations for selected variables, by industrial division. The smaller the coefficient of variation, the more reliable the estimate.

Figure I

Coefficients of Variation for Number of Returns, Number of Shareholders, Total Receipts, Dividends, and Interest Income, by Industrial Sector, Tax Year 2006

NAICS Sector	Number of returns	Number of shareholders	Total receipts	Dividend income	Interest income
	(1)	(2)	(3)	(4)	(5)
All Industries [1]	0.26	0.85	0.77	3.98	1.34
Agriculture, forestry, fishing, and hunting	4.61	5.90	5.61	14.79	10.86
Mining	10.18	25.20	6.15	4.29	3.66
Utilities	36.53	59.12	10.63	46.58	27.58
Construction	1.19	1.66	1.59	6.32	2.56
Manufacturing	3.63	4.03	1.50	3.99	2.81
Wholesale and retail trade	1.44	2.17	1.33	13.90	2.21
Transportation and warehousing	3.66	4.26	4.84	19.19	7.68
Information	6.07	6.83	6.82	2.64	5.27
Finance and insurance	3.14	5.20	4.89	3.52	3.63
Real estate and rental and leasing	1.46	2.77	5.15	10.15	4.17
Professional, scientific, and technical services	1.44	2.60	4.56	12.88	8.54
Management of companies (holding companies)	10.07	16.30	1.26	15.53	3.04
Administrative and support and waste management and remediation services	3.43	4.04	8.11	34.99	16.36
Educational services	9.61	10.50	12.09	34.08	21.88
Health care and social assistance	1.81	4.67	5.41	16.24	20.05
Arts, entertainment, and recreation	4.84	6.54	6.94	18.66	15.39
Accommodation and food services	2.01	4.60	3.18	3.15	8.26
Other services	2.71	3.36	6.45	16.75	17.78

[1] Includes returns not allocable by NAICS sector, which are not shown separately.