

Wholesale and Retail Trade Division Dominates S Corporations Since 1959

By Kelly L. Luttrell

Since the first S corporation elections were permitted in 1958, the wholesale and retail trade division has dominated key financial measurements under both the Standard Industrial Classification (SIC) system and the North American Industry Classification System (NAICS). The wholesale and retail trade division represented 44.4 percent of all S corporations filed in 1959, or nearly 32 thousand out of the 71 thousand returns filed. Since 1959, S corporations have spread into more diverse industries, but, at the same time, the wholesale and retail trade division continues to be the largest, representing 17.0 percent of all S corporation returns filed in 2004.

1998 was the first tax year that NAICS data were made available, and the wholesale and retail trade division has financially dominated all S corporations and continued to be one of the big four industrial sectors for number of filers. While construction, manufacturing, and professional, scientific, and technical services round out the big four industrial sectors for number of filers, these sectors do not display the same dominance for total receipts, total deductions, portfolio income, and total assets as the wholesale and retail trade division.

Income Statement

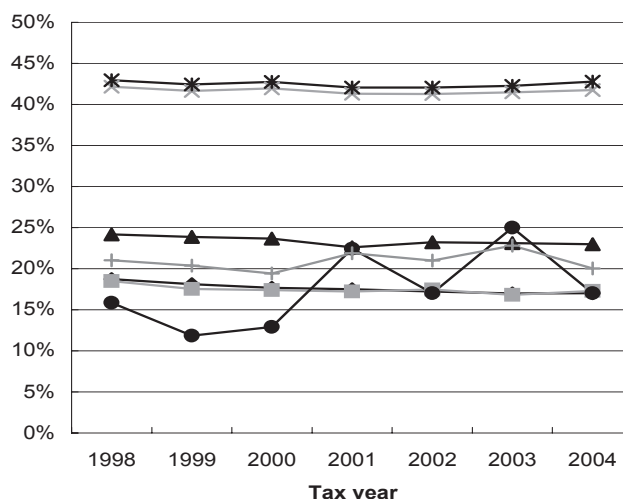
During the past 7 years, since NAICS has been utilized, total receipts for all S corporations has increased 54.8 percent, and the wholesale and retail trade division represented 41.0 percent of the growth. The largest industrial division for total receipts in 2004 was the wholesale and retail trade division, which represented 41.8 percent of all receipts (Figure A). Cost of goods sold within the wholesale and retail trade division increased 54.5 percent from 1998 to 2004. Cost of goods accounted for 53.5 percent of total cost of goods sold by all S corporations. Salaries and wages, the second largest type of deduction reported by the wholesale and retail trade division, increased 45.7 percent from 1998 and accounted for 25.8 percent of the total salaries and wages paid by all S corporations. Total net income (less deficit) for the wholesale and retail trade grew

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Figure A

Wholesale and Retail Trade as a Percentage of All S Corporations, Tax Years 1998-2004

Percentage of all S corporations



44.5 percent since 1998 and totaled \$275.4 billion for 2004.

The wholesale and retail trade division can be broken down into three sectors, wholesale trade, retail trade, and wholesale and retail trade not allocable. Of the three sectors within the wholesale and retail trade division, the wholesale trade sector displayed the largest amount of portfolio income, \$5.4 billion, and net income less (deficit), \$32.2 billion (Figure B). Meanwhile, the retail trade sector represented the largest amount of total receipts, \$1,114.1 billion, and total deductions, nearly \$1,094.6 billion for 2004.

Balance Sheet

The assets of all S corporations increased 67.5 percent between 1998 and 2004 to \$2.4 trillion. Over the same time period, total assets for the wholesale and retail trade division grew 59.2 percent and represented 21.2 percent of the growth for all S corporations. In general, total assets for the wholesale and retail trade division made up 23.0 percent of all S corporation total assets reported, or \$559.9

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Figure B

S Corporation Returns, Wholesale and Retail Trade Division, Key Financial Measurements, 2004

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

Item	Total	Wholesale and retail trade	Wholesale trade	Retail trade	Wholesale and retail trade not allocable
	(1)	(2)	(3)	(4)	(5)
Number of returns.....	3,518,334	599,410	203,059	393,446	2,905
Number of shareholders.....	6,087,286	1,053,392	382,006	668,437	2,949
Total receipts.....	4,737,162,166	1,978,293,116	863,268,071	1,114,105,986	919,059
Total deductions.....	4,518,457,226	1,932,251,719	836,707,066	1,094,608,926	935,726
Cost of goods sold.....	2,916,564,226	1,559,991,556	684,227,475	874,994,721	* 769,360
Salaries and wages.....	490,131,058	126,327,720	52,200,018	74,113,556	* 14,146
Portfolio income.....	51,030,268	8,693,051	5,486,359	3,206,667	25
Total net income (less deficit).....	6,609,302	55,187,797	32,201,112	23,003,328	-16,642

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

billion of the \$2,437.7 billion reported. Inventories, the largest component of total assets for wholesale and retail trade, increased 57.8 percent since 1998, more than the 53.2-percent increase reported by all S corporations. Total net worth, the largest component of total liabilities for the wholesale and retail trade, increased 60.5 percent since 1998 and represents 24.5 percent of all total net worth reported by S corporations in 2004. The second largest component of total liabilities, mortgages, notes, and bonds payable in less than 1 year, increased \$45.3 billion in the past 7 years. The wholesale and retail trade division accounted for 41.8 percent of the growth for all S corporations that reported mortgages, notes, and bonds payable.

Within the wholesale and retail trade, the wholesale trade sector displayed the largest portion of total net worth, 52.8 percent of the \$166.2 billion reported. Retained earnings unappropriated, a component of net worth, represented 85.3 percent of total net worth and 29.6 percent of total liabilities for the wholesale trade sector, with \$74.9 billion reported. The retail trade sector represented the largest amount of total assets, 54.7 percent of the \$559.9 billion

reported. Inventories, the largest component of total assets, represented 44.8 percent of total assets in the retail trade sector and 24.6 percent of total assets in the wholesale and retail trade division, with \$137.5 billion reported.

Summary

The wholesale and retail trade division has dominated S corporations as long as subchapter S elections have been allowed. S corporations in the wholesale and retail trade division also displayed the majority of total receipts and total net income reported by all companies in 1959, representing 58.1 percent and 39.1 percent, respectively (Figure C). Forty-five years after the creation of S corporations the wholesale and retail trade division continues to display a financial dominance in total receipts and total net income (less deficit), which appears unlikely to change in the near future.

This finding is drawn from ...

Data extracted from S corporation returns (Form 1120S) for 1998-2004. For more detailed tables and information, see www.irs.gov/taxstats.

Figure C

S Corporation Returns, Wholesale and Retail Trade Division, as a Percentage of All Returns, 1959 and 2004

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

Items	All Returns 1959	Wholesale and Retail Trade 1959	Percent of Total	All Returns 2004	Wholesale and Retail Trade 2004	Percent of Total
Number of returns.....	71,140	31,616	44.4	3,518,334	599,410	17.0
Total receipts.....	19,199,731	11,156,330	58.1	4,737,162,166	1,978,293,116	41.8
Total net income (less deficit).....	395,299	154,724	39.1	275,398,651	55,187,797	20.0