

Corporation Income Tax Returns, 1981

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Preliminary information for 1981 shows a continuation of the economic downturn in the corporate area which was seen for 1980. Record high interest rates coupled with the effects of the national recession were major factors in the 12.4 percent decline in corporate profits for 1981. Net income (less deficit) was \$209.3 billion, a drop of \$29.7 billion from figures for 1980. Most industrial divisions showed decreases in profitability; the services division, however, recorded a 0.9 percent increase.

NUMBER OF RETURNS

An estimated 2,812,434 income tax returns of active corporations were filed for 1981. This represented a 3.8 percent increase over the number filed for 1980. This was the smallest rise in over five years. The number of returns (1,597,465) with net income remained virtually unchanged.

BALANCE SHEET

Corporate assets rose by 10.0 percent to an all-time high of \$8.4 trillion. However, when the inflation rate for 1981, as measured by the Implicit Price Deflator for Gross National Product [1], of 9.4 percent is taken into account, assets had a "real" decrease of 0.3 percent. In contrast, 1980 showed a "real" increase in corporate assets of 1.3 percent [2].

Increases were apparent in all net asset items except for cash and "other" current assets. The \$12.3 billion (about 2.3 percent) decline in cash may be attributable to the inability to sell inventories which, in turn, required corporations to reduce their cash stocks to meet payroll and other costs of business, including interest on loans. (For 1981, there was a rise of 61.0 percent in the amount of interest paid.) The corporate need for short-term cash was also funded through loans from stockholders which rose 24.9 percent and through increased borrowing--mortgages, notes and bonds payable in one year or less rose 12.2 percent to \$566.5 billion.

INCOME STATEMENT

The 12.4 percent drop in corporate profitability between 1980 and 1981, as measured in current dollars, came on the heels of a 16.2 percent decline between 1979 and 1980. When a constant-dollar valuation is applied to the change in profitability, the drop between 1980 and 1981 is even greater, about 20.7 percent.

Figure A.--Net Income (Less Deficit)
(Billions of Dollars)

Industrial Division	1980	1981 (Prelim.)
Total	\$239.0	\$209.3
Agriculture, forestry and fishing	0.7	0.3
Mining	7.8	5.7
Construction	5.3	3.5
Manufacturing	125.7	112.7
Transportation and public utilities	20.0	19.4
Wholesale and retail trade	38.3	33.7
Finance, insurance and real estate	33.1	25.7
Services	8.2	8.3
	<u>Percent Change</u>	
Industrial Division	Unad- justed	Inflation Adjusted
Total	-12.4%	-20.7%
Agriculture, forestry and fishing	-51.1	-55.7
Mining	-26.9	-33.8
Construction	-34.3	-40.5
Manufacturing	-10.3	-18.8
Transportation and public utilities	-3.1	-12.2
Wholesale and retail trade	-12.0	-20.2
Finance, insurance and real estate	-22.5	-29.8
Services	+0.9	-8.6

NOTE: The overall unadjusted 1979-80 profitability change was 16.2 percent as cited in the text; this compares to a price adjusted 1979-80 change of 23.8 percent, slightly more than for 1980-81.

Two factors contributing to the continuing decline in corporate profits were the increased cost of borrowing and the rise in expenses outpacing the general rise in receipts. Total expenses rose by 11.1 percent while total receipts increased by only 10.3 percent [3]. The interest paid deduction for 1981 rose 61.0 percent to \$554.7 billion [4]. Expenses other than interest rose by only 8.2 percent. The average "prime rate" charged by banks on loans rose to a record high of 18.9 percent. For 1979 and 1980 the prime rate was 12.7 percent and 15.3 percent, respectively [5]. Of course, only the best corporate borrowers obtained funds at these rates. Similarly, high rates also were paid on U.S. Government obligations--the interest received in 1981 by corporate holders of these securities rose 42.8 percent to approximately \$36.3 billion.

INCOME TAX

Income tax before credits declined by 5.1 percent from \$103.8 billion to \$98.6 billion. Total income tax after credits (see below) decreased by 8.2 percent to \$57.8 billion. This \$5.2 billion decrease in U.S. corporate tax liability reflected both the drop in profits and large increases in the amount of investment credit claimed. A new credit for research activities also contributed to the decline in Federal revenue. The \$5.2 billion decline was 64.8 percent larger than the \$3.1 billion drop from 1979 to 1980.

TAX CREDITS

The \$98.6 billion of regular and alternative tax was reduced by \$42.4 billion by the foreign tax, U.S. possessions tax, investment, work incentive (WIN) jobs, alcohol fuel, nonconventional source fuel and research credits. (The taxes from recomputing prior-year investment credit, personal holding company tax and the additional tax for tax preferences--"minimum tax"--could not be reduced by these credits.)

The foreign tax credit declined by 15.8 percent to \$20.9 billion. (The 1979 to 1980 decline was 32.5 percent.) The 24.6 percent decrease by the petroleum refining industry accounted for more than two-thirds of the overall reduction.

Led by a 30.7 percent rise in the manufacturing division, the amount of investment credit claimed rose to \$18.3 billion for 1981, a 21.5 percent jump. Two provisions of the law may have caused this rise. First, the Economic Recovery Tax Act of 1981 (ERTA) created a new capital cost recovery system for tax purposes called the Accelerated Cost Recovery System (ACRS), which replaced the Asset Depreciation Range (ADR) class life system. This new

system, which provides for more rapid cost recovery deductions, was designed to: (1) increase incentives to invest; (2) generate increased productivity; and (3) sustain economic growth. Two new items of eligible property were also added by the 1981 Act [6,7,8]. Second, ERTA created a "safe harbor" guaranteeing that certain transactions will be treated as a lease, with the associated investment credits and ACRS allowances permitted the lessor. Because of this, certain corporations, not in a tax position to use the additional tax benefits of ACRS, were permitted to transfer these benefits by "selling" the credits for cash payments or reduced rentals [9,10].

Figure B.--Tax Items
(Millions of Dollars)

Income subject to tax, total	\$236,817
Income tax before credits ¹	98,552
Tax credits, total	42,361
Foreign tax credit	20,932
U.S. possessions tax credit	1,940
Investment credit	18,349
Work incentive (WIN) credit	38
Jobs credit	468
Alcohol fuel credit	(²)
Nonconventional source fuel credit...	1
Research credit	634
Income tax after credits	56,190
Additional tax for tax preferences	521
Tax from recomputing prior-year investment credit	1,075
Personal holding company tax	5
Total income tax	57,791

¹Consists of regular and alternative tax.

²Less than \$500,000.

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

A new credit for research was also created by ERTA. The Congress felt that to stem the decline in research spending, a special tax credit was needed to overcome the reluctance of companies to bear the costs which must be incurred to initiate or expand research programs in trade or business [11]. For 1981, 8,590 corporations claimed \$634 million in credits for qualified research and experimental expenditures.

SUMMARY

Preliminary data for 1981 reveal a 12.4 percent decline in corporate profits and an 8.2 percent drop in total income tax liability (after credits) caused by high interest rates and an economic recession. Net income (less deficit) fell \$29.7 billion to \$209.3 billion. The modest increase in corporate assets of 10.0 percent was more than offset by inflation. Interest paid rose 61.0 percent, reflecting the average prime interest rate of 18.9 percent. Slumping sales, slow moving inventories, and production cutbacks increased unemployment.

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

DATA SOURCES AND LIMITATIONS

A general description of sampling procedures and data limitations applicable to the Statistics of Income tabulations is contained in the Appendix of this publication. The statistics for the 1981 Income Year were estimated from a stratified probability sample of about 89,000 corporation income tax returns selected after revenue processing but before audit. The returns for 1981, as well as for 1980, were generally stratified using net income or deficit, total assets, and business activity. The corporation population from which the sample was drawn contained the following types of returns: Form 1120--U.S. Corporation Income Tax Return; Form 1120L--U.S. Life Insurance Company Income Tax Return; Form 1120M--U.S. Mutual Insurance Company Income Tax Return; Form 1120S--U.S. Small Business Corporation Income Tax Return; Form 1120F--Return of a Foreign Corporation; and Form 1120-DISC--Domestic International Sales Corporation Return.

The preliminary estimates used in this article are subject to revision. Final and expanded data, including complete explanations of sampling techniques and limitations of the data, as well as explanations of terms used, will appear in Statistics of Income--1981, Corporation Income Tax Returns, which will be published later this year [12].

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

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

NOTES AND REFERENCES

- [1] U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, July 1982.
- [2] Hobbs, James R., "Corporation Income Tax Returns: 1980," Statistics of Income Bulletin, Volume 2, Number 3, page 12.
- [3] The ratio of sales (business receipts) to total receipts was 87.8 percent for 1981, a marked drop from the ratio of 90.1 percent for 1980. This is also the first time in over a decade this ratio has fallen from the 90-92 percent range.
- [4] Excluding the finance, insurance and real estate division, the interest paid deduction rose by 28.9 percent.
- [5] Economic Report of the President, U.S. Government Printing Office, 1983, page 240.
- [6] Statement of the Secretary of the Treasury, February 24, 1981, before the Committee on Ways and Means, Serial 97-10, page 15.
- [7] Joint Committee on Taxation (Staff), General Explanation of the Economic Recovery Tax Act of 1981, U.S. Government Printing Office, 1981, pp. 75-76.
- [8] See also Barker, David R., "Investment Tax Credit" in this issue of Statistics of Income Bulletin.
- [9] Joint Committee on Taxation, op cit., pp. 102-103.
- [10] See Riley, Margaret M., "Safe Harbor Leasing: 1981 and 1982," Statistics of Income Bulletin, Volume 3, Number 2.
- [11] Joint Committee on Taxation, op cit., page 120.
- [12] See Hinkins, Susan M., "Matrix Sampling and the Related Imputation of Corporate Income Tax Returns," 1983 American Statistical Association Proceedings, Section on Survey Research Methods.

Corporation Returns, 1981

Table 1.--Returns of Active Corporations: Balance Sheet, Income Statement, Tax, and Credit Items, 1980 and 1981 (Preliminary)

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

	Item	1980	1981	Percent		Item	1980	1981	Percent
		(1)	(2)	change			(1)	(2)	change
			(Preliminary)	1980 to				(Preliminary)	1980 to
				1981					1981
		(1)	(2)	(3)			(1)	(2)	(3)
1	Number of returns.....	2,710,538	2,812,434	3.8	46	Total deductions.....	6,125,365,155	6,806,741,117	11.1
2	Total assets.....	7,617,238,403	8,381,412,262	10.0	47	Cost of sales and operations.....	4,204,905,905	4,443,258,151	5.7
3	Cash.....	528,914,747	516,630,259	-2.3	48	Compensation of officers.....	108,973,751	119,878,579	10.0
4	Notes and accounts receivable.....	1,984,601,790	2,164,127,762	9.0	49	Repairs.....	42,407,967	69,290,438	63.4
5	Less: Allowance for bad debts.....	50,057,307	42,971,669	14.2	50	Bad debts.....	18,769,771	22,124,934	17.9
6	Inventories.....	534,806,547	590,950,725	10.5	51	Rent paid on business property.....	71,990,832	81,442,127	13.1
	Investments in Government obligations:				52	Taxes paid.....	163,003,622	166,121,062	1.9
7	United States.....	265,542,521	302,854,606	14.1	53	Interest paid.....	344,612,542	554,722,382	61.0
8	State and local.....	206,517,216	210,648,684	2.0	54	Contributions or gifts.....	2,358,554	2,486,360	5.4
9	Other current assets.....	310,177,160	299,090,864	-3.6	55	Amortization.....	1,374,658	4,718,316	243.2
10	Loans to stockholders.....	29,873,250	31,996,821	7.1	56	Depreciation.....	157,345,828	183,568,952	16.7
11	Mortgage and real estate.....	894,323,489	931,570,402	4.2	57	Depletion.....	8,871,993	7,762,567	-12.5
12	Other investments.....	1,213,986,210	1,362,803,689	12.3	58	Advertising.....	52,266,004	59,533,801	13.9
13	Depreciable assets.....	2,107,027,914	2,321,067,375	10.2	59	Pension, profit-sharing, stock bonus, and annuity plans.....	51,529,310	52,362,102	1.6
14	Less: Accumulated depreciation.....	767,841,763	846,910,816	10.3	60	Employee benefit programs.....	40,179,104	45,278,960	12.7
15	Depletable assets.....	71,901,490	81,712,993	13.6	61	Net loss, noncapital assets.....	5,903,104	8,238,619	39.6
16	Less: Accumulated depletion.....	19,569,556	21,274,195	8.7	62	Other deductions.....	850,872,216	985,953,773	15.9
17	Land.....	92,931,935	101,384,458	9.1	63	Total receipts less total deductions.....	235,918,858	208,295,363	-11.7
18	Intangible assets (amortizable).....	45,480,694	49,639,890	9.1	64	Constructive taxable income from related foreign corporations.....	15,708,560	14,683,875	-6.5
19	Less: Accumulated amortization.....	18,393,037	15,719,615	-14.5	65	Net income (less deficit), total.....	239,006,542	209,300,935	-12.4
20	Other assets.....	187,015,106	343,810,034	83.8	66	Net income.....	296,787,201	296,906,529	0.0
21	Total liabilities.....	7,617,238,403	8,381,412,262	10.0	67	Deficit.....	57,780,659	87,605,594	51.6
22	Accounts payable.....	542,172,368	611,972,353	12.9	68	Statutory special deductions, total.....	18,717,621	17,787,875	-5.0
23	Mortgages, notes, and bonds payable in less than one year.....	504,802,288	566,473,924	12.2	69	Net operating loss deduction.....	9,382,540	9,753,489	4.0
24	Other current liabilities.....	2,706,796,360	2,773,834,989	2.5	70	Dividends received deduction.....	9,296,730	8,006,017	-13.9
25	Loans from stockholders.....	85,718,510	107,076,690	24.9	71	Other ¹	38,351	28,369	n.a.
26	Mortgages, notes, and bonds payable in one-year-or-more.....	986,663,932	1,045,079,963	5.9	72	Income subject to tax, total.....	246,598,486	236,816,573	-4.0
27	Other liabilities.....	846,696,691	1,048,446,965	23.8	73	Net long-term capital gain taxed at alternative rates.....	13,217,222	14,518,207	9.8
28	Capital stock.....	417,153,783	526,302,868	26.2	74	Income tax before credits ²	103,831,172	98,551,874	-5.1
29	Paid-in or capital surplus.....	532,039,407	656,895,339	23.5	75	Tax credits, total ³	42,167,741	42,361,401	0.5
30	Retained earnings, appropriated.....	41,461,644	64,950,612	56.7	76	Foreign tax credit.....	24,861,315	20,931,624	-15.8
31	Retained earnings, unappropriated.....	1,027,902,049	1,108,736,365	7.9	77	U.S. possessions tax credit.....	1,565,681	1,939,547	23.9
32	Less: Cost of treasury stock.....	74,168,627	128,357,785	73.1	78	Investment credit.....	15,102,812	18,349,368	21.5
33	Total receipts.....	6,361,284,012	7,015,036,480	10.3	79	Work incentive credit.....	36,483	37,982	4.1
34	Business receipts.....	5,731,616,337	6,162,508,046	7.5	80	Jobs credit.....	601,444	467,668	-22.2
	Interest on Government obligations:				81	Research credit.....	n.a.	634,113	n.a.
35	United States.....	25,440,716	36,340,312	42.8	82	Income tax after credits.....	61,663,431	56,190,473	-8.9
36	State and local.....	12,620,876	13,678,302	8.4	83	Tax from recomputing prior-year investment credit.....	867,571	1,075,048	23.9
37	Other interest.....	328,802,958	522,823,875	59.0	84	Tax from recomputing prior-year work incentive (WIN) credit.....	4,873	n.a.	n.a.
38	Rents.....	41,371,141	54,661,687	32.1	85	Additional tax for tax preferences.....	438,820	520,509	18.6
39	Royalties.....	12,450,250	11,708,176	-6.0	86	Personal holding company tax.....	n.a.	5,045	n.a.
40	Net short-term capital gain reduced by net long-term capital loss.....	2,013,510	2,140,847	6.3	87	Total income for tax after credits.....	62,974,695	57,791,075	-8.2
41	Net long-term capital gain reduced by net short-term capital loss.....	24,910,957	28,658,467	15.0	88	Distributions to stockholders:			
42	Net gain, noncapital assets.....	20,117,615	15,321,425	-23.9	89	Cash and property except in own stock..	97,378,617	126,324,363	29.7
43	Dividends received from domestic corporations.....	18,654,800	17,340,938	-7.0		Corporation's own stock.....	3,525,549	3,607,412	2.3
44	Dividends received from foreign corporations.....	14,563,353	13,909,171	-4.5					
45	Other receipts.....	128,721,498	135,945,238	5.6					

n.a. - Not available

¹The 1980 figure included deduction for dividends paid on certain public utility stock and Western Hemisphere Trade (WHT) Corporation deduction the latter which is not included in the 1981 figure since WHT Corporations were no longer in operation.²Consists of regular and alternative tax.³Includes \$4,000 and \$480,000 of alcohol fuel credit and \$2,000 and \$619,000 of nonconventional source fuel credit for 1980 and 1981 respectively.

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

Table 2.--Returns of Active Corporations: Selected Items, by Industrial Division, 1981 Preliminary Data

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

Division	Number of returns	Total receipts	Business receipts	Net income (less deficit)
	(1)	(2)	(3)	(4)
All Divisions ¹	2,812,434	7,015,036,480	6,162,508,046	209,300,935
Agriculture, forestry and fishing.....	85,381	65,096,545	60,939,595	329,496
Mining.....	33,360	199,979,193	189,363,235	5,663,093
Construction.....	276,428	279,573,855	269,740,615	3,461,458
Manufacturing.....	251,245	2,543,953,354	2,420,552,424	112,694,909
Transportation and public utilities.....	109,027	593,196,816	570,697,554	19,434,460
Wholesale and retail trade.....	816,689	2,025,127,130	1,982,853,239	33,729,372
Finance, insurance and real estate.....	470,010	955,660,287	336,043,890	25,680,131
Services.....	752,822	347,786,278	327,844,649	8,263,617

Division	Income subject to tax, total	Income tax before credits ²	Total assets
	(5)	(6)	(7)
All Divisions ¹	236,816,573	98,551,874	8,381,412,262
Agriculture, forestry and fishing.....	1,730,170	543,848	46,106,672
Mining.....	9,465,315	4,113,453	168,494,522
Construction.....	6,615,288	2,318,260	150,799,168
Manufacturing.....	129,270,214	56,949,119	1,870,011,353
Transportation and public utilities.....	23,530,911	10,351,316	831,046,234
Wholesale and retail trade.....	32,202,369	12,246,898	703,511,233
Finance, insurance and real estate.....	21,808,476	7,930,013	4,394,608,358
Services.....	12,072,551	4,045,151	214,383,196

¹ Includes "Nature of business not allocable" which is not shown separately.² Income tax consists of regular and alternative tax; the tax from recomputing prior-year investment credit, personal holding company tax and additional tax for tax preferences are not included.

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