Section 5 Explanation of Terms

The following explanations include definitions and limitations of terms used, and adjustments made in preparing the statistics. These explanations are designed to aid the user in interpreting the statistical content of this report and should not be construed as interpretations of the Internal Revenue Code or policies. Code sections cited were those in effect for the Income Years of the report. Whenever a year is cited, it refers to the calendar year, unless otherwise stated. The line references noted under each term correspond to the Form 1120, unless indicated otherwise.

Accounting Periods

Among the several classifications used in this report, tax return data are classified according to the accounting periods used by corporations. For a detailed discussion of this classification, see Time Period Employed in Section 1, Introduction.

Accounts and Notes Payable

This item consisted of accounts payable and mortgages, notes, and bonds payable in less than one year. Each is described separately under its own heading below. Accounts and notes payable were presented in the statistics for Tables 4 and 5.

Accounts Payable

[Page 4, Schedule L, Line 16(d)]

Relatively short-term liabilities arising from the conduct of trade or business which were not secured by promissory notes were generally included under this heading.

Additional Inventory Costs (Section 263A)

[Page 2, Schedule A, Line 4]

See “Cost of Goods Sold”

Advertising

[Page 1, Line 23]

Advertising expenses were allowed as a deduction, under Code section 263(b), if they were ordinary and necessary and bore a reasonable relationship to the trade or business of the corporation. The amount shown in the statistics included advertising identified as part of the cost of goods sold, or capitalized under section 263A, as well as advertising reported separately as a business deduction. The statistics included combined amounts reported as advertising and promotion and advertising and publicity.

For corporations whose principal business activity was: the printing and publishing of newspapers and periodicals; radio and television broadcasting; telephone, telegraph, or other communication services, the statistics did not include advertising expenses incurred in the preparation of customers' publicity. If identifiable on the tax return, these amounts were treated as part of the cost of goods sold.

For all corporations which filed the short form income tax return, Form 1120-A, advertising identified in other deductions or attached schedules was included in the statistics for advertising.

Alcohol Fuel Credit

An income tax credit was available for alcohol (other than alcohol produced from petroleum, natural gas, or coal) used as a fuel (whether partially or completely comprised of alcohol) in internal combustion engines. In general, the alcohol fuel credit was the sum of the alcohol mixture credit, the alcohol credit, and the small ethanol producer credit. The amount of the alcohol mixture credit and the alcohol credit was 60 cents per gallon for alcohol of at least 190 proof and 45 cents per gallon for alcohol between 150 and 190 proof. No credit was available for alcohol of less than 150 proof. The alcohol mixture credit was for alcohol used in the production of a qualified mixture fuel used by the producer or sold in a trade or business. The small ethanol producer credit was allowable for an ethanol producer in the amount of 10 cents per gallon for up to 15 million gallons per year.

The credit was claimed as one of the components of the general business credit. For a discussion of the income tax limitations and carryback and carryforward provisions of the credit, see General Business Credit, in this section. The alcohol fuel credit was included (as a component) in the general business credit shown in the tables. The components of the general business credit were shown separately in Table 21.

Allowance for Bad Debts

[Page 4, Schedule L, Line 2b(c)]

Most corporations identified on their balance sheet the allowance or reserve set aside to cover uncollectible or doubtful notes, accounts, and loans as an adjustment to notes and accounts receivable. A few corporations, however, reported only net receivables, and thus did not show their allowance for bad debts. The statistics for both the allowance and the gross amount of notes and accounts receivable were understated by these unidentified amounts.

Since corporation tax return balance sheets did not provide for the separate reporting of reserves for uncollectible mortgage and real estate loans, many banks and savings and loan associations may have included such reserves in the allowance for bad debts.

If, on the other hand, these reserves were reported in supporting schedules, they were later added to the allowance for bad debts during statistical processing. However, in some cases, the supporting schedules were not attached to the return and the amount may be understated.

Alternative Minimum Tax

[Form 4626, Line 15]

The alternative minimum tax was designed to ensure that no taxpayer with substantial economic income could avoid significant tax liability through a legitimate use of exclusions, deductions, and credits. The computation of the alternative minimum tax addressed both these concerns through the treatment of adjustment items, tax preference items, and adjusted current earnings.

To compute the alternative minimum tax (AMT), adjustments were made to the income subject to tax (before the net operating loss deduction). Adjustment items could either increase or decrease the income subject to tax. The adjustments reflected the difference in treatment of certain items under the income tax system versus the treatment under the AMT system. The accelerated aspect of specific income tax items under the regular system was adjusted and the same items were adjusted to satisfy the intent of the AMT system. The AMT adjustment was the difference between the two systems for each item. The adjustment items included:

(1) Depreciation of tangible property placed in service after 1986;
(2) Amortization of certified pollution control facilities placed in service after 1986;
(3) Amortization of mining exploration and development costs paid or incurred after 1986;
(4) Amortization of circulation expenses of personal holding companies only;
(5) Basis adjustment in determining gain or loss from sale or exchange of property;
(6) Long term contracts entered into after February 28, 1986;
(7) Installment sales of certain property;
(8) Merchant marine capital construction funds;
(9) IRC section 833(b) deduction;
(10) Tax shelter farm activities of personal service corporations only;
(11) Passive activities;
(12) Certain loss limitations; and
(13) Other adjustments.

Tax preference items were then added to the income base of the alternative minimum tax. These tax items typically express more permanent differences between the income tax system and the AMT system. Tax preference items added to the income base of the alternative minimum tax included:

(1) Depletion;
(2) Tax-exempt interest from private activity bonds issued after August 7, 1986;
(3) Charitable contributions;
(4) Intangible drilling costs;
(5) Reserves for losses on bad debts of financial institutions;
(6) Accelerated depreciation of real property placed in service before 1987; and
(7) Accelerated depreciation of leased personal property placed in service before 1987 (personal holding companies only).

Finally, the “adjusted current earnings (ACE) adjustment after excess” was added to the income base. The “excess” (if any) is the corporation’s total increase in alternative minimum taxable income (AMTI) from the prior year ACE adjustment over its total reductions in AMTI from prior ACE adjustments. This “ACE adjustment after excess” was designed to recapture overall tax savings enjoyed by corporations with considerable earnings but relatively little taxes. Thus, the income subject to tax before NOLD reconciled by the adjustment items, tax preference items, and the ACE adjustment became the alternative minimum taxable income, or AMTI. AMTI could then be reduced by the alternative tax NOLD, but not by more than 90 percent. The AMTI could be further reduced by an adjustment based on energy preferences and an exemption amount; the maximum exemption was $40,000. No exemption applied when the alternative minimum taxable income exceeded $310,000.

The tentative minimum tax was determined by applying a 20 percent rate of tax to the alternative minimum taxable income after the reduction for the alternative tax NOLD, the energy preferences adjustment and the income exemption. The tentative minimum tax could be reduced by an AMT foreign tax credit and carryover of unused investment credits. The foreign tax credit was computed under the AMT system and could not become part of that credit allowed against the income tax system. Up to 25 percent of the tentative minimum tax remaining after the AMT foreign tax credit could be reduced by the carryover of investment tax credits.

The amount by which the remaining tentative minimum tax exceeded the income tax after reduction by the foreign tax credit and the possessions tax credit was the alternative minimum tax.

Amortization

Amortization was a deduction for the recovery of certain expenditures over a certain period of time in a manner similar to straight-line depreciation. Typically, the period of time over which the expenditure was written off was much shorter than if depreciation had been used; depending on the specific provision of the law, the period of time often was only 5 years, except for certain Section 197 computer software costs which were amortized over 15 years. The following types of amortization, applicable to the statistics in this report, were specifically mentioned in the Code as allowable deductions:

(1) bond premiums (Code section 171)
(2) certain business startup expenditures (Code section 195)
(3) certain computer software costs (Code section 197 intangibles acquired after August 10, 1993)
(4) the cost of acquiring a lease (Code section 178)
(5) expenditures to remove architectural and transportation barriers to the handicapped and elderly (Code section 190)
(6) organizational expenditures of corporations (Code section 248)
(7) optional write-off of certain tax preferences over a specified period (Code section 59(e))
(8) pollution control facilities (Code section 169 limited by Code section 291)
(9) qualified forestation and reforestation expenditures (Code section 194)
(10) research and experimental expenditures (Code section 174).

The amounts shown in the statistics included any identifiable amortization (as described above) reported as part of the cost of goods sold or in the schedule in support of depreciation as described below. Amortization was reported separately on Form 4562, Depreciation and Amortization, and not on a separate line of the income statement of the tax return. Corporations were required to report amortization on Form 4562, Depreciation and Amortization if there was property placed into service during the current year. The amount of amortization was also reported in other deductions. However, when amortization was shown separately for the statistics, the amount was excluded from other deductions. Because some corporations may not have identified amortization separately in the supporting schedules for other deductions, the statistics for amortization may be understated and other deductions may be overstated by the same amounts.

All deduction amounts identified as amortization by the taxpayer were included in amortization with the following exceptions: (1) when the property appeared to actually be depreciable rather than amortizable property, and (2) when the amortization was for intangible drilling costs, which were included in other deductions in the statistics. See also “Alternative Minimum Tax.”

Bad Debts

[Page 1, Line 15]

Bad debts occurring during the year, or a reasonable addition to an allowance or reserve for bad debts, were allowable as a deduction under Code sections 166 and 585, respectively. Included in the statistics were amounts such as bad check losses, bad debt reserves, non-sufficient/insufficient fund checks, overdraft losses, worthless government securities or corporate bonds, notes for commercial and mutual banks and for bank holding companies, write-offs, net loss from agents or premiums from other insurance companies, and uncollectible railway revenue. Commercial banks, mutual savings banks, savings and loan associations, small business investment companies and other financial institutions were historically permitted to take a deduction for a reasonable addition to their bad debt balance which was far greater than that allowed other businesses. Unlike other businesses, which could deduct additions to their reserves only to the extent justified by their actual loss experience, these financial institutions were able to increase their reserves based on percentages of outstanding loans. However, certain restrictions to bring these institutions in line with other businesses were introduced in 1969.

Finally, the reserve method of computing the deduction for bad debts was repealed for large banks and for small business investment companies by the Tax Reform Act of 1986. Thereafter, the deduction was to be based on actual losses for the current and 5 preceding years, using the specific charge-off method, the same as for other businesses.

Branch Tax of Foreign Corporations

[Form 1120-F, Page 1, Line 3]

The U.S. earnings and profits of a foreign corporation became subject to a branch profits tax without consideration for the ratio of U.S. income to the total income of the foreign corporation, for tax years beginning after December 31, 1986. A 30 percent rate of tax was imposed on the earnings and profits as well as the interest paid by or to a foreign corporation from its trade or business activities conducted in the United States, that were not reinvested in a U.S. trade or business by the close of the tax year or were divested in a later tax year. The provisions under Code section 884 were introduced to lessen the disparity of U.S. taxation between U.S. corporations owned by foreign persons and foreign corporations doing business through their own unincorporated branches in the United States.

This provision of U.S. tax law also required coordination with income tax treaties between the United States and foreign countries. Under tax treaties the tax rates could be lower than the 30 percent tax rate imposed by U.S. tax laws. The rate of tax varied based on the treaty conditions with the country in which the foreign corporation was a resident.

The branch profits tax was imposed on the dividend equivalent amount or the earnings and profits of a U.S. branch of a foreign corporation that was attributable to its income effectively connected (or treated as effectively connected under Code section 897) with a U.S. trade or business. The effectively connected earnings and profits were adjusted to identify changes in a branch's U.S. net equity under two circumstances: (1) to reflect any reinvestment of the branch's earnings in assets in the U.S. trade or business (or reduce liabilities in the U.S. trade or business); and (2) to reflect any prior reinvested earnings that were considered remitted to the home office of the foreign corporation.

Certain earnings and profits attributable to income effectively connected with a U.S. trade or business were exempt from the branch profits tax. The tax exempt earnings included: (1) certain earnings of a foreign sales corporation as described in Code sections 921(d) and 926(b); (2) earnings of foreign transportation carriers (such as ships and aircraft) that were exempt from U.S. tax by reciprocal exemption; (3) earnings derived from the sale of any interest in U.S. real property holding corporations; (4) interest income derived by a possession bank from U.S. obligations as described in Code section 882(e); (5) earnings derived by certain insurance companies which elected to have income treated as effectively connected income; and (6) income of foreign governments and international organizations exempt under Code section 892.

The branch tax was the sum of the tax imposed on the earnings and profits and interest payments of the foreign corporation. The branch tax was reported on the Form 1120-F U.S. Income Tax Return of a Foreign Corporation. The tax was included in Total Income Tax Before Credits in the statistics. It was also shown separately in the statistics for foreign corporations with U.S. business operations in Tables 10 and 11.

Business Receipts

[Page 1, Line 1(c)]

Business receipts were, in general, the gross operating receipts of the corporation reduced by the cost of returned goods and allowances. Some corporations treated sales taxes and excise and related taxes, which were included in the sales price of their products, as part of their gross receipts from sales; others reported their receipts after adjustment for these taxes. In any case, the statistics reflected receipts, as reported by the taxpayers.

Business receipts included rents reported as a principal business income by real estate operators as well as by certain types of manufacturing, public utility, wholesale trade, retail trade and service corporations. The latter corporations included manufacturers that frequently rented rather than sold products, such as automatic data processing equipment; lessors of public utility facilities, such as docks, warehouses, and pipelines; and companies engaged in rental services, such as providing lodging places and the rental of automobiles or clothing. In the finance, insurance, and real estate industries, business receipts included such banking items as fees, commissions, trust department earnings, exchange collections, discounts, credit card and bank card income, traveler's and cashier's checks, money orders, and service charges. Some companies reported these items on attached schedules as other income, not as business receipts. For such companies, the items were included in the statistics for business receipts, not for other receipts. Condominium management fees, maintenance income and membership assessments reported by condominium management and cooperative housing associations were also included in business receipts.

Since interest was the principal operating income of banking and savings institutions, interest was included in the statistics for Interest and excluded from business receipts. Interest could be included in the statistics for business receipts within the finance industries, but only if it was not separately identified on the tax returns. Some banking institutions reported business receipts from the sale of Federal funds and included the purchase price of those funds as part of cost of goods sold. For those companies, business receipts were reduced by the purchase price of those funds and the purchase price was excluded from cost of goods sold.

Regulated investment companies and real estate investment trusts (REIT's) do not report business receipts. Also in the finance, insurance, and real estate industries, premium income of most insurance companies was included in business receipts. However, certain nonlife insurance companies could elect to be taxed on their investment income only, if their net written premiums or direct written premiums (whichever was greater) exceeded $350,000 but were not over $1,200,000. Under this election the premium income was not reported. Consequently, total business receipts for insurance carriers could be slightly understated.

In addition to the income types described above which were uniquely treated by law, by the tax return, or for the statistics, there were certain other kinds of income from sales and operations that were not reflected in business receipts. In general, this income was included as part of the much broader category, sales of property used in trade or business. For additional information about this income see also “Net Gain (or Loss), Noncapital Assets” and “Net Capital Gains.”

Calendar Year Returns

Calendar year returns were those filed for the 12-month period beginning in January and ending in December. Most of the larger corporations filed returns for a calendar year period. Figure B in Section 1 shows the percentage of returns filed for each of the accounting periods covered in this report.

Capital Stock

[Page 4, Schedule L, Line 22(d)]

This end-of-year balance sheet equity item included amounts shown for outstanding shares of both common and preferred stock.

Cash

[Page 4, Schedule L, Line 1(d)]

This balance sheet asset item included the amount of actual money or instruments and claims which were usable and acceptable as money on hand at the end of the taxable year.

Cash, U.S. Government Obligations, Tax-Exempt Securities, and Other Current Assets

These items are shown in Tables 4 and 5 and consist of cash, U.S. Government obligations, tax-exempt securities, and other current assets. Each is described separately under its own heading in this section.

Compensation of Officers

[Page 1, Line 12]

Salaries, wages, stock bonuses, bonds, and other forms of compensation were included in this deduction item if they were identified as having been paid to officers for personal services rendered. Contributions to a 401(k) plan or a salary reduction (SEP) agreement were included in the statistics for pension, profit-sharing (etc.) plans. Understatement was possible to the extent compensation was reported as part of another deduction item (such as an overall employee compensation figure) and, if not clearly identified, was included in the statistics for cost of goods sold or other deductions. Directors fees reported elsewhere by corporations were not included in these statistics but were included in the statistics for salaries and wages.

Consolidated Returns

Consolidated returns were income tax returns which contained the combined financial data of two or more corporations meeting the following requirements: (1) a common parent corporation owned at least 80 percent of the voting power of all classes of stock and at least 80 percent of each class of nonvoting stock (except stock which was limited and preferred as to dividends) of at least one member of the group; and (2) these same proportions of stock of each other member of the group were owned within the group.

Corporations electing to file consolidated returns in one year had to file consolidated returns in subsequent years, with certain exceptions. The consolidated filing privilege could be granted to all affiliated domestic corporations connected through stock ownership with a common parent corporation except: (1) regulated investment companies; (2) real estate investment trusts (REITs) who did not consolidate with qualified REIT subsidiaries; (3) corporations for which an election to be treated as a possessions corporation under Code section 936(e) was in effect; and (4) corporations designated tax-exempt under Code section 501.

Under Code section 1504(c) corporations could elect to include their domestic insurance companies in consolidated tax returns. There could be three separate components of this type of consolidated return:

(1) noninsurance companies;
(2) life insurance companies; and
(3) property and casualty insurance companies.

A consolidated return, filed by the common parent company, was treated as a unit, each statistical classification being determined on the basis of the combined data of the affiliated group. Therefore, filing changes to or from a consolidated return basis affect year-to-year comparability of certain statistics (such as data classified by industry and size of total assets). Data on consolidated returns were shown in Table 19.

Constructive Taxable Income from Related Foreign Corporations

This item represented the sum of (1) includable income from Controlled Foreign Corporations and (2) foreign dividend gross-up. Includable income represents the income of foreign corporations that is taxable to the U.S. parent corporation, regardless of whether or not it is actually received. Foreign dividend gross-up is an amount of income, taxable to the U.S. parent, that equals the foreign tax deemed paid based upon both foreign dividends received and includable income from foreign corporations. For most purposes, a foreign corporation was considered controlled if more than 50 percent of its voting stock was controlled by U.S. persons, including domestic corporations, each of whom owned at least 10 percent of its voting stock.

Includable Income

[Page 2, Schedule C, Line 14(a)]

The earnings and profits of a Controlled Foreign Corporation (CFC) became subject to U.S. taxation, prior to the Subpart F provisions, only when the income was actually distributed to the U.S. shareholders or repatriated to the United States. In many cases, those earnings and profits were not distributed to the shareholders, unlike the earnings and profits of domestic corporations. Because the earnings were held undistributed outside the United States, the income from CFC's was not subject to U.S. tax.

The Subpart F provisions, instituted under Code section 952, drew certain earnings and profits of CFC's under the umbrella of U.S. taxation. The provisions required that the worldwide gross income of U.S. corporations include a portion of the undistributed earnings and profits from their CFC's. Thus, the income of CFC's became subject to U.S. tax through deemed distributions to the U.S. shareholders.

The deemed distributions represented foreign income, that while not actually received by U.S. shareholders, was to be included in income subject to U.S. tax (i.e. includable income from Controlled Foreign Corporations). The includable income consisted of:

(1) Subpart F income, defined below;
(2) any previously excluded Subpart F income which had been invested in qualified assets in less developed countries, and which was either withdrawn from those countries or repatriated to

the U.S. shareholders and therefore became taxable;

(3) any previously excluded Subpart F income which had been withdrawn from foreign base company shipping operations;

(4) any increase in Controlled Foreign Corporation earnings due to investment in U.S. property; and

(5) factoring income, or income that arose from the sale or transfer of a receivable.

Subpart F income, defined in Code section 952, included:

(1) income from premiums for insurance issued by foreign companies which were Controlled Foreign Corporations when the insurance was issued outside the country of incorporation of the CFC (as determined under Code section 953);

(2) foreign base company income, which included:

  (a) "foreign personal holding company income"--income derived from portfolio investments or from passive investments;

  (b) "foreign base company sales income"--generally, sales income from personal property which was purchased or sold in a transaction involving a related corporation and:
    1. produced outside the country of incorporation of the CFC, and
    2. used outside the country of incorporation of the CFC;

  (c) "foreign base company services income"--in general, income from services performed or furnished for a related person, which included corporations, outside the country of incorporation of the Controlled Foreign Corporation, but with certain exceptions;

  (d) "foreign base company shipping income"--in general, income derived from the use of aircraft or vessels in foreign commerce or income from the performance of services directly related to the use or sale of any such aircraft or vessels; and

  (e) "foreign base company oil-related income"--in general, this was income from the non-extraction business activities, related to foreign oil or gas, which were conducted outside the foreign country where the oil or gas was extracted. The non-extraction business activities of the foreign corporation included processing, transporting, distributing, and selling oil or gas and derived products for use or consumption outside the foreign country in which the oil or gas was extracted. Also, income from the sale of assets used in the non-extraction business activities was included in the oil-related income.

(3) income from participation in international boycotts not sanctioned by the United States;

(4) illegal bribes, kickbacks, or other payments to a government official; and

(5) income derived from any foreign country during any period for which a foreign tax credit would be denied for taxes paid to those countries, as described in Code section 901(j), (i.e. a government which was not recognized by the United States, with which the United States severed or did not conduct diplomatic relations or which provided support for international terrorism).

Foreign Dividend Gross-Up
[Page 2, Schedule C, Line 15(a)]

Foreign dividend gross-up was constructive taxable income to corporations which claimed a foreign tax credit. A U.S. corporation could claim a foreign tax credit for a share of the foreign taxes actually paid by its related foreign corporations, including its Controlled Foreign Corporations. The U.S. corporation's share of the total foreign taxes was proportionate to the ratio of the dividend received (actual or constructive) to the total earnings and profits of the related foreign corporation. The foreign taxes were treated as deemed paid by the U.S. corporation. In order to receive credit against U.S. tax, the foreign taxes deemed paid needed to be included in the corporation's worldwide income as well. They were included in income as an increase to foreign dividends; a dividend gross-up. The dividend gross-up was the equivalent amount of the foreign taxes deemed paid by the U.S. corporation.

Constructive Taxable Income

Foreign dividend gross-up, resulting from foreign taxes deemed paid, and includable income from Controlled Foreign Corporations were combined and presented in the statistics as Constructive Taxable Income from Related Foreign Corporations. The components were presented separately in Table 20. Neither includable income from Controlled Foreign Corporations nor foreign dividend gross-up was included in the statistics for Total Receipts.

The statistics for Constructive Taxable Income from Related Foreign Corporations reflected variations in taxpayer reporting in certain cases. Some corporations reported foreign dividends received as includable income from Controlled Foreign Corporations, while others reported includable income from Controlled Foreign Corporations as foreign dividends received. Also, some corporations reported dividend gross-up for foreign taxes deemed paid as foreign dividends received, while others reported foreign dividends received as dividend gross-up. Still others incorrectly reported dividend gross-up for foreign taxes paid directly by the U.S. corporation. All foreign dividends were reported on the dividends received schedule of the U.S. income tax return, including actual and constructive receipts.

The statistics could have reflected these variations in taxpayer reporting, to the extent that the specific nature of the dividend was not identified on supporting schedules of the U.S. income tax return. However, when specifically identified elsewhere on the return, the amounts were included in the statistics for the type of foreign dividend, as specifically identified, rather than for the items as reported on the dividends received schedule.

Contributions or Gifts

[Page 1, Line 19]

Contributions or gifts to charitable, religious, educational, and similar organizations were deductible under Code sections 170(c). In general, the deduction was limited to 10 percent of taxable income computed without regard to:

(1) the deduction for contributions;
(2) special deductions for dividends received and for dividends paid on certain preferred stock of public utilities;
(3) any net operating loss carryback under Code section 172; and
(4) any capital loss carryback to the tax year under Code section 1212(a)(1).

Also, certain additional adjustments were required in the case of life insurance companies. A corporation, except a Personal Holding Company or a service organization, could receive a larger deduction for contributing scientific property used for research to an institution of higher education under Code section 170(e).

Charitable contributions over the 10 percent limitation could be carried forward to the next 5 tax years; however, the carryover was not allowed if it increased a net operating loss carryover.

The amount shown in the statistics included contributions identified as part of cost of goods sold or capitalized under section 263A, as well as contributions reported as a business deduction.

Charitable contributions paid by S corporations were passed through to the shareholders directly, rather than indirectly as a business deduction. S corporations, regulated investment companies and real estate investment trusts do not report contributions.

Cost of Goods Sold

[Page 2, Schedule A, Line 8]

Cost of Goods Sold (formerly referred to as Cost of Sales and Operations) generally consisted of the direct costs incurred by the corporation in producing goods or providing services. Included were costs of materials used in manufacturing; costs of goods purchased for resale; direct labor; and certain overhead expenses, such as rent, utilities, supplies, maintenance, and repairs. Individual components included in cost of goods sold are shown separately in tables 2 and 3, except death benefits from Form 1120-L and loss incurred, from Form 1120-PC.

The valuation methods the corporation used to value its inventories consisted of:

(1) cost;
(2) cost or market value (whichever was lower); or
(3) any other method that was approved by the Commissioner of Internal Revenue.

Many items that were allowable deductions prior to the 1986 tax reforms were required to be capitalized or included in inventory under the I.R. Code. Uniform capitalization rules of Code section 263A resulted from the 1986 tax reforms and were generally effective for taxable years beginning after December 31, 1986. With respect to inventory, some of the indirect costs which were required to be capitalized included such items as: administration expenses; taxes; depreciation; insurance costs, compensation paid to officers attributable to services; rework labor; and contributions to pension, stock bonus, and certain profit sharing, annuity, or deferred compensation plans. Corporations which were subject to the rules were required to capitalize direct costs and an allocable portion of most indirect costs that related to the assets produced or acquired for resale. Special rules were provided for the capitalization of interest expense paid or incurred in the course of production. The uniform capitalization rules also applied to the production of property constructed or improved for use in a trade or business or in an activity engaged in for profit. Corporations were required to revalue their beginning inventory to reflect the costs under Code section 263A, which were not previously included in inventory.

The rules did not apply to personal property acquired for resale for corporations with annual average gross receipts of $10,000,000 or less; to timber; or to property produced under a long-term contract. Special rules were provided for farmers.

Sales taxes and excise and related taxes may have been reported in cost of goods sold schedules when corporations treated these taxes as part of the sales price of products. When taxes were identified in cost of goods sold schedules, they were added to the statistics for the separate deduction for taxes paid. Similarly, expenses for advertising, amortization, bad debts, compensation of officers, contributions to charitable organizations, contributions to employee benefit programs, contributions to pension plans, depletion, depreciation, intangible drilling costs, interest, and rent of buildings or real estate, were transferred to their respective deduction categories when identified on attachments for cost of goods sold.

For companies engaged in manufacturing or trade activities, if gross receipts were reported a cost of goods sold was imputed if not reported. The cost was imputed using attachments for "Other Deductions". For other nonfinance industries, a cost was imputed only for companies which reported gross receipts and included inventories on the balance sheet. Prior to 1992 a cost was imputed for all nonfinance companies which reported gross receipts but no cost of goods sold. See also “Business Receipts.”

Cost of Labor

[Page 2, Schedule A, Line 3]

See “Cost of Goods Sold”

Cost of Treasury Stock

[Page 4, Schedule L, Line 26(d)]

This item was the total value of issued common or preferred stock which had been reacquired and was held at the end of the accounting year by issuing corporations. The stock, which was available again for resale or cancellation, may have been purchased by the corporation or acquired through donation or as settlement of a debt. Treasury stock was not a part of capital stock outstanding and did not include unissued capital stock.

The amounts shown may be somewhat understated. Treasury stock intended for resale may have been reported as an asset on some tax returns and, if not clearly identified as for resale, would have been included in the statistics for other investments. When identified, though, such stock was included in the statistics for cost of treasury stock.

Credit by Reciprocal

[Form 1120-PC, Page 1, Line 14h]

This credit is allowed to reciprocal underwriters for any tax paid by an attorney-in-fact that is related to the income received by that attorney from the reciprocal in the tax year. This item is shown in Table 20. See also "Reciprocal Tax" in this section.

Credit for Contributions to Selected Community Development Corporations

A tax credit is available for qualified contributions made to selected community development corporations (CDCs). In order to be qualified, a CDC contribution must be a transfer of cash that is:

(1) Made to a selected CDC during the five-year period beginning on the date that the CDC was selected by the Secretary for Housing and Urban Development (HUD)
(2) Available to the CDC for at least ten years.
(3) To be used by the CDC for qualified low-income assistance within its operational area. Qualified low-income assistance is assistance designed to provide employment of, and business opportunities for, low-income individuals who reside in the operational area of the CDC. Low income assistance must be approved by the Secretary of HUD.
(4) Designated by the CDC as a qualified contribution for purposes of the credit. Each CDC may designate up to $2 million as qualified CDC contributions.

A qualified CDC contribution does not need to be a charitable contribution or gift. It may be made in the form of a 10-year loan (or other long term investment), the principal of which is to be returned to the investor after the 10-year period. The Secretary of HUD announced on June 30, 1994, the approval of twelve selected urban CDCs and eight selected rural CDCs. The components of the general business credit were shown separately in Table 21.

Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips

If an employer had employees who received tips from customers for providing food or beverages for consumption on the premises of an establishment where tipping is customary and if the employer paid or incurred employer social security and Medicare taxes on those tips, then the employer can, generally, take a credit for the amount of social security or Medicare taxes paid or incurred. After 1996, the food or beverages were no longer required to be provided for consumption on the premises. However, the employer social security and Medicare taxes on tips that are used to meet the Federal minimum wage rate applicable to the employee under the Fair Labor Standards Act were not used in the credit computation. The components of the general business credit were shown separately in Table 21.

Credit for Federal Tax on Fuels

[Page 1, Line 32g]

Code section 34 allowed a credit in full or in stated amounts for excise taxes on:

(1) gasoline used on farms for farming purposes (Code section 6420);
(2) gasoline used for nonhighway purposes or by local transit systems (Code section 6421); and
(3) fuel not used for taxable purposes (Code section 6427); such as, on the sale of fuel when tax was imposed under section 4041(a) or (e) and the purchaser used such fuel other than for the use for which sold, or resold such fuel.

This credit was also used to claim the credit for purchase of qualified diesel-powered highway vehicles.

These taxes could be applied as a credit against income tax liability or could have been, under certain conditions, refunded directly.

Credit from Regulated Investment Companies

[Page 1, Line 32f]

For tax years beginning on or after January 1, 1993, the tax rate for undistributed capital gains designated under section 852(b)(3)(D) increased from 34 percent to 35 percent. Regulated investment companies were required to pay tax on amounts of undistributed net long-term capital gain less net short-term capital loss. Stockholder corporations, for their part, were required to include in the computation of their long-term capital gains any such gains designated by the parent as undistributed dividends. The stockholder corporations were then deemed to have paid the tax on the undistributed long-term capital gain dividends and were allowed a credit (or a refund) for the tax they were deemed to have paid. It was this credit which comprised this item.

Credit to 1996 Estimated Tax

[Page 1, Line 32a]

This item was the amount of the taxpayer's 1995 overpayment applied to the estimated tax for the 1996 tax year. See also "Overpayments less Refund."

Credit to 1997 Estimated Tax

[Page 1, Line 36a]

This item was the amount of the taxpayer’s overpayment applied to the estimated tax for the 1997 Tax Year. See also "Overpayments of Tax."

Deficit

See “Net Income (or Deficit)" and “Returns Without Net Income."

Depletable Assets

[Page 4, Schedule L, Line 11a(c)]

Depletable assets represented, in general, the gross end-of-year value of mineral property, oil and gas wells, other natural deposits, standing timber, intangible development and drilling costs capitalized, and leases and leaseholds, each subject to depletion. Accumulated depletion represented the cumulative adjustment to these assets shown on the corporation's books of account. In some instances, depletable assets may have been included with depreciable assets, or may have been reported as land or as other investments by the taxpayer, and could not be identified for this report.

The value of depletable assets and accumulated depletion may not be closely related to the current year depletion deduction. The depletable assets and accumulated depletion balance sheet accounts reflected book values; the depletion reflected the amount claimed for tax purposes.

For all Form 1120-A corporations, this amount is included in depreciable assets.

Depletion

[Page 1, Line 22]

This deduction was allowed for the exhaustion of mines, oil and gas wells, other natural deposits and timber. For standing timber, depletion was computed on the basis of cost. In the case of natural deposits, the depletion was computed either on the basis of cost or upon a fixed percentage of the gross income, less rents and royalties, from the depletable property.

Generally, for gas and oil wells the gross income was the actual sales price, or representative market or field price if the gas or oil were later converted or manufactured prior to sale. For other natural deposits, gross income was defined to include income from mining or extraction and certain treatment processes as well. Additionally, exploration expenditures, previously deducted, were required under provisions of Code section 617 to be recaptured or included in income when the mine reached the production stage. Under elective provisions of the Code, exploration and development expenditures connected with certain domestic natural deposits (except gas and oil) could be deducted currently, treated as deferred expenses, or capitalized. The write-offs of deferred amounts were not included in the statistics as part of depletion. Excluded from the statistics were amounts of depletion shown by the corporation as a deduction in computing net gain or loss from sale of depletion assets, except timber, under Code section 631(a).

Percentage depletion, though based on percentages of gross income from depletable property, was limited. Generally, it could not exceed 50 percent of the taxable income from the property computed without the depletion deduction. Percentage rates of gross income for each type of natural deposit were listed in Code section 613 and ranged from 5 to 25 percent. Percentage depletion could not generally be used for oil and gas wells, except for certain small producers as defined under Code section 613A. As explained under net capital gains, the cutting of timber was eligible for net long-term capital gain treatment under Code section 1231. If timber depletion was used in the computation of gain (or loss), it could not be identified for the statistics. Because of taxpayer reporting variations involving the computation of gain or loss, or of gross receipts from sales (and the cost of goods sold or depletion deduction), the depletion statistics may be incomplete for industries in which sales of cut timber or of lumber or wood products are a major source of income. The amounts shown in the statistics included any identifiable depletion reported as part of the cost of goods sold or capitalized under section 263A. Amortization of intangible drilling costs is not included in the statistics, but is part of other deductions. For 1120-A corporations, depletion reported in Other Deductions or an attached schedule is included in these statistics.

Regulated investment companies and real estate investment trusts do not report depletion. See also “Alternative Minimum Tax.”

Depreciable Assets

[Page 4, Schedule L, Line 10a(c)]

Depreciable assets, reported on the corporation's end-of-year balance sheet, consisted of tangible property (such as buildings and equipment) which was used in the trade or business or held for the production of income and which had a useful life of one year or more. The statistics for this item could include fully depreciated assets still in use and partially completed assets for which no deduction was allowed, when the corporation reported them as depreciable on its balance sheet. The statistics for depreciable assets exclude those intangible assets which were depreciable or amortizable only for tax purposes. Such assets, patents and copyrights for example, were includable in intangible assets. An exception was corporations filing the short-form tax return, Form 1120-A. For these returns, the amount reported for depreciable assets also included depletable and intangible assets. Similarly, the accumulated depreciation amount for the 1120-A returns represented the total of accumulated depreciation, accumulated depletion and accumulated amortization. See individual listings for more information on any of these amounts.

The amounts shown as accumulated depreciation represent the portion of the assets that were written off in the current year, as well as in prior years. In general, depreciable assets were the gross amounts before adjustments for depreciation or amortization charged in current and prior years. Some corporations, however, reported only the net amount of depreciable assets after adjusting for these depreciation or amortization charges. Certain insurance companies were included among the corporations which reported only a net amount of depreciable assets. Life insurance companies and some property and casualty insurance companies reported their balance sheet information in the format required by State insurance regulations. This format usually provided for the reporting of only net depreciable assets and only the home and branch office buildings and equipment were included. Other real estate holdings of these corporations were reported as other investments.

Generally, the value of depreciable assets and accumulated depreciation were not closely related to the current-year depreciation deduction. The depreciable assets and accumulated depreciation balance sheet accounts reflected book values; the depreciation deduction reflected the amount claimed in the current year for tax purposes.

Depreciation

[Page 1, Line 21b]

Depreciation included in this publication is net of depreciation claimed on Schedule A, cost of goods sold and elsewhere on the return. The Modified Accelerated Cost Recovery System (MACRS) was used to depreciate any tangible property placed into service after 1986. It consisted of property utilizing the General Depreciation System (GDS) and the Alternative Depreciation System (ADS), as well as expensed property. Section 179 property was property that met certain conditions and therefore was expensed in the year the property was first utilized, instead of depreciated over several years. The maximum amount of allowable section 179 expense was $17,500. A larger section 179 expense deduction could be claimed by enterprise zone businesses, placing qualified property into service after 1993. In addition, only 50 percent of the cost of section 179 property, that was also qualified zone property, was used when figuring the reduction in the maximum section 179 expense deduction for an enterprise zone business. If total cost for section 179 property was more than $200,000, then the total expense deduction was to be reduced by the amount by which the cost exceeded $200,000.

There were nine classes of recovery property under MACRS using the General Depreciation System (GDS) or the Alternative Depreciation System (ADS) and reported on Form 4562, Depreciation & Amortization. They included: 3-, 5-, 7-, 10-, 15-, 20-, 25-year property, residential rental property, and nonresidential real property. Generally, the first seven classifications were for depreciable property, other than buildings while the last two were real property, or buildings. Water utility property, which is integral part of gathering, treatment, or commercial distribution of water, and municipal sewers are 25-year property. This class of property is new for 1996. In addition, there was a margin entry for 50-year property which included railroad gradings and tunnel bores. The 3-year class included tangible depreciable property with a class life of 4 years or less, 5-year property included property with a class life of more than 4 years, but less than 10 years. For example, computers or peripheral equipment would be classified as 5-year property under GDS. The 7-year property had a class life of 10 years or more, but less than 16 years; this class also included any property which did not have a class life and which had not been designated by law as being in any other class. Office furniture, for example, would be classified as 7-year property under GDS. The property in the 10-year class included property with a class life of 16 years or more, but less than 20 years. The 15-year property had class lives of 20 years or more, but less than 25 years; and the 20-year property included class lives of 25 years or more.

The prescribed method for General Depreciation System (GDS) property in the 3-, 5-, 7-, or 10- year classes was a method called 200 percent declining balance over 3, 5, 7, or 10 years, switching to the straight-line method for the first taxable year in which that method resulted in a higher deduction. For property in the 15- or 20- year class, the 150 percent declining balance method over 15 or 20 years was prescribed. In both cases, a half-year convention (half-year's depreciation for the first year in service, no matter when in the tax year the property was acquired) had to be used.

If more than 40 percent of the total cost or other basis of all property placed in service during the tax year was placed in service during the last 3 months of that year, then the mid-quarter convention must be used for all property placed in service during the year. This rule did not apply to nonresidential real property or residential rental property. For residential rental property the prescribed method was straight-line over 27.5 years; and for non-residential real property the prescribed method was straight-line over 31.5 years for property placed into service before May 13, 1993 and 39 years for property placed into service after May 12, 1993. The applicable convention was the mid-month convention which treated all property placed in service during any month as placed in service on the mid-point of such month.

Instead of using the prescribed method, the Alternate Depreciation System (ADS), primarily requiring the straight-line method, could be elected. The recovery period for computing ADS was based on the class life: 12 years for personal property with no class life, 40 years for nonresidential real property or residential rental, and the class life for all other property. The election to use the straight-line method for a class of property applied to all property in that class that was placed in service during the tax year of the election. Certain computer software which was acquired after August 10, 1993 and was not amortized over 15 years was allowed to be depreciated using the straight-line method over a 36-month period. Also, the straight-line method over 108 months was allowed for mortgage servicing rights acquired after August 10, 1993. This method could be elected for software and mortgage servicing rights acquired after July 25, 1991.

The taxpayer could also make an irrevocable election to use the 150 percent declining balance method for one or more classes of property (except for residential rental, nonresidential real property or any tree or vine-bearing fruit or nuts). If this election were made, then the recovery periods would follow the ADS system.

There were five types of property that had to be depreciated under ADS using the straight-line method: (1) property used mainly outside the U.S., (2) tax-exempt use property, (3) property financed by tax-exempt obligations, (4) certain imported property, and (5) any property used primarily in a farming business and placed in service when a section 263A(d)(3) election was made.

For all classes and methods, salvage value was treated as zero.

Taxpayers who used the MACRS depreciation rules also had to recompute their depreciation for purposes of figuring their alternative minimum tax.

Disabled Access Credit

The credit was allowed to small businesses that incurred expenses to make their business accessible to disabled individuals. An eligible small business was one with either gross receipts of less than $1 million for the preceding tax year or not more than 30 full-time employees in the preceding tax year.

An eligible expenditure was one paid or incurred by an eligible small business in order to comply with the requirements of the Americans with Disabilities Act of 1990. Expenditures included: (1) removing architectural, communication, physical, or transportation barriers; (2) providing qualified interpreters or other methods of delivering materials to individuals with hearing impairments; (3) providing qualified readers, taped texts, or other methods of delivering materials to individuals with visual impairments; (4) acquiring or modifying equipment or devices for individuals with disabilities; or (5) providing other similar services, modifications, materials or equipment. The amount of the credit was 50 percent of the amount of the eligible expenditures for a year that exceeded $250 but did not exceed $10,000.

The disabled access credit was claimed as one of the components of the general business credit. For a discussion of the income tax limitations and carryback and carryforward provisions of the credit, see General Business Credit, in this section. The components of the general business credit were shown separately in Table 21.

Dividends Received from Domestic Corporations

Dividends received from domestic corporations represented most distributions from current as well as accumulated earnings and profits of companies incorporated in the United States. (For a discussion of other distributions of domestic corporations, see “Other Receipts” in this section.) For the most part, dividends received from domestic corporations represented those recognized in computing the special deduction from net income for domestic intercorporate dividends received. See also “Statutory Special Deductions.”

Dividends from Interest Charge Domestic International Sales Corporations (IC-DISC's) and from former Domestic International Sales Corporations (DISC's) that were deductible were included as domestic dividends received. Certain other dividends, not deductible, were treated for the statistics as other receipts.

For most of the domestic dividends received, the deductible portion was equal to either (1) 70 percent if the dividends were from less than 20 percent owned domestic corporations, or (2) 80 percent if the dividends were from 20 percent or more owned domestic corporations (ownership is determined by the voting power and value of the stock of the issuing corporation). However, the deduction was equivalent to about 50 percent of the dividends received on certain preferred stock of public utilities. A 100-percent deduction was allowed for dividends received by members of a controlled group from other members of the same controlled group when a consolidated return was not used to report for the group as a whole. This deduction was allowed when the group did not elect to file a consolidated return and agreed instead to apportion a single tax bracket exemption amount among the group members in computing income tax.

Dividend distributions among member corporations electing to file a consolidated return were eliminated from the statistics as part of the consolidated reporting of tax accounts. For tax purposes, dividends reported on these returns represented amounts received from corporations that were outside the tax-defined affiliated group.

For dividends received on debt-financed portfolio stock, the deduction was only available with respect to dividends attributable to that portion of the stock which was not debt financed. Generally, this was accomplished by determining the percentage of the cost of an investment in stock which was debt financed and by reducing the otherwise allowable dividends received deduction, with respect to any dividends received on that stock, by that percentage. The reduction in the amount allowable as a dividends received deduction could not exceed the amount of interest deduction allocable to the dividend. This amount was reported as part of domestic dividends even though it also represented debt-financed stock of foreign corporations.

Dividends Received from Foreign Corporations

These dividends were paid from current as well as accumulated earnings and profits of companies incorporated in foreign countries.

Dividends received from foreign corporations consisted of:

(1) dividends, subject to (1) the 70 percent deduction when received from less than 20 percent owned foreign corporations and certain Foreign Sales Corporations (FSC's), or (2) the 80 percent deduction when received from 20 percent or more owned foreign corporations and certain FSC's;

(2) dividends, subject to the 100-percent deduction, received by U.S. corporations from wholly-owned foreign subsidiaries all of whose gross income was effectively connected with the conduct of a U.S. trade or business, or received from a FSC when the dividends were from earnings and profits attributable to foreign trade income; and

(3) any other foreign dividends, not subject to a deduction, which included dividends out of foreign earnings and profits and certain gains from the sale, exchange, or redemption of Controlled Foreign Corporation stock.

Because foreign dividend gross-up and includable income from Controlled Foreign Corporations were not actual receipts, for statistical purposes, they were excluded from dividends received. Both were combined and presented in the statistics as Constructive Taxable Income from Related Foreign Corporations.

The statistics for foreign dividends received reflected variations in taxpayer reporting in certain cases. Some corporations reported foreign dividends received as includable income from Controlled Foreign Corporations, while others reported includable income from Controlled Foreign Corporations as foreign dividends received. Also, some corporations reported dividend gross-up for taxes deemed paid as foreign dividends received, while others reported foreign dividends received as dividend gross-up. All foreign dividends, actual and constructive, were reported on the dividends received schedule of the U.S. income tax return.

These variations in taxpayer reporting could have been reflected in the statistics, to the extent that the specific nature of the dividend was not identified on supporting attachments to the tax return. However, when specifically identified elsewhere on the return, the amounts were included in the statistics for the type of foreign dividend, as specifically identified, rather than for the items as reported on the dividend received schedule.

Employee Benefit Programs

[Page 1, Line 25]

Contributions made by employees to such plans as death benefit plans, insurance plans, health plans, accident and sickness plans, and other welfare plans were deductible under Code sections 419 and 419A. Generally, such programs were not an incidental part of a pension, profit sharing plan or other funded deferred compensation plan. Deductions for a welfare benefit fund were limited to the qualified cost of the fund for the taxable year, as described under Code section 419. Direct payments for employees' welfare were not included as employee benefits; only payments into a fund for employee benefits were included.

Included in the statistics for this item were amounts identified as part of the cost of goods sold, or capitalized under section 263A. Regulated investment companies and real estate investment trusts do not report employee benefits. Some mining companies could have reported an amount for a combination of welfare/retirement plans. When identified, the combined amount was included in the statistics for contributions to employee benefit plans.

For all 1120-A corporations, employee benefit programs identified in other deductions or attached schedules were included in the statistics for employee benefit programs.

Empowerment Zone Employment Credit

[Form 8844, line 22]

The Revenue Reconciliation Act of 1993 allowed an income tax credit for qualified empowerment zone employment (EZE) wages and certain training expenses of qualified zone employees. Although the EZE credit was a component of the general business credit, a special tax liability limit applied to this credit. Therefore the credit is computed separately and is not carried forward to the general business credit computation form, the Form 3800. A qualified zone employee was any employee who performed substantially all of the services for an employer within an empowerment zone in the employer's trade or business and had his or her principal residence within that empowerment zone while performing those services. Both full- and part-time employees may be qualified zone employees. Qualified zone wages were any wages paid or incurred by an employer for services performed by a qualified zone employee. Although a qualified zone employee may earn any amount of wages, only the first $15,000 of qualified zone wages paid or incurred was taken into account for the credit. The $15,000 limit was reduced by the amount of wages paid or incurred during the year that was used in figuring the work opportunity credit for that employee. With certain exceptions amounts paid or incurred by an employer for the education or training of the employee were treated as wages paid to an employee. In general, any individual employed for less than 90 days was not a qualified zone employee. However, there were exceptions to this for an employee who was terminated because of misconduct, who became disabled, or who was acquired by another empowerment zone corporation and who continued to be employed by that corporation.

Enhanced Oil Recovery Credit

This credit was allowed to taxpayers who incurred qualified enhanced oil recovery costs and did not elect to decline the credit. An enhanced oil recovery project was any project that was contingent on all the following conditions:

(1) involved one or more tertiary recovery methods: these methods could reasonably be expected to result in a significant increase in the amount of crude oil which would ultimately be recovered;
(2) was located in the United States;
(3) began the injection of liquids, gases, or other matter after December 31, 1990; and
(4) was certified by a petroleum engineer for credit eligibility.

Enhanced oil recovery costs were costs integral to the project with respect to depreciation and amortization, any intangible drilling costs which were paid or incurred in connection with the qualified project with respect to any election made under section 263(c), or any qualified tertiary injectant expenses which were paid or incurred in connection with the qualified project. The amount of the credit was an amount equal to 15 percent of the taxpayer's qualified enhanced oil recovery costs for the taxable year. The credit would be phased out as the crude oil prices increased.

The enhanced oil recovery credit was claimed as one of the components of the general business credit. For a discussion of the income tax limitations and carryback and carryforward provisions of the credit, see General Business Credit, in this section. The enhanced oil recovery credit was included (as a component) in the general business credit shown in the tables. The components of the general business credit were shown separately in Table 21.

Environmental Tax

Corporations were required to pay the environmental tax as a result of the Superfund Revenue Act of 1986. The requirements for this tax were provided under Code section 59A. The tax was based on a modified alternative minimum taxable income of the corporation in excess of $2,000,000. (Members of a controlled group of corporations were entitled to one $2,000,000 exemption.) The amount of the excess income was subject to a 0.12 percent rate of tax. The modified alternative minimum taxable income was alternative minimum taxable income without consideration for the alternative tax net operating loss deduction and the allowable deduction from income for the environmental tax. For an explanation of alternative minimum taxable income, "Alternative Minimum Tax." For purposes of determining the income tax , the amount of the current year environmental tax was allowed as a deduction under Code section 164(a). The environmental tax expired for tax years beginning after 1995

Estimated Tax Payments

[Page 1, Line 32b]

Corporations not exempt from taxation were required to make quarterly tax payments if the estimated tax for the taxable year was expected to be $500 or more. The tax was estimated by applying the regular graduated corporate tax rates to the expected taxable income for the taxable year (personal service corporations estimated their tax using a flat 35 percent tax rate), then the excess of the estimated income tax over the amount the corporation estimated as the sum of credits against income tax (including credits for foreign taxes, possessions tax, production or sale of nonconventional source fuels, qualified electric vehicle, general business incentives, and prior year minimum tax) plus any recapture tax of investment credit or low-income housing credit, alternative minimum tax, environmental tax minus credit for Federal tax on fuels.

The Revenue Reconciliation Act of 1993 required a corporation to base its estimated tax payments on 100% of the tax shown on its return for the current year. The "safe harbor" rule allowed a corporation to avoid the penalty by paying 100% of its prior year tax.

While not shown separately, estimated tax was a component of overpayments less refund shown in Tables 18 and 20. The amount shown may be somewhat less than the legal maximum percentages of tax due because, under the provisions of Code section 6655, certain tolerances were allowed in the relationship of the installment payments to the tax. For example, a corporation was not required to pay an estimated tax greater than the amount of tax liability for the previous year provided that the corporation had a tax liability for the previous year. Besides the limitations based on law, payments shown in the statistics may be slightly understated because of taxpayer reporting variations and the inability to identify all of the amounts from the tax returns. See also "Overpayments less Refund".

Excess Net Passive Income Tax

[Form 1120S, Page 1, Line 22a]

The Subchapter S Revision Act of 1982 imposed a limitation on passive income for S corporations which had accumulated earnings or profits from prior subchapter C status. A tax was imposed on the net passive income in excess of 25 percent of gross receipts. The income was taxed at the regular corporate tax rate. The Revenue Reconciliation Act of 1993 increased the tax rate on excess net passive income from 34 percent to 35 percent. Passive investment income, in general, was gross receipts derived from rents, royalties, dividends, interest, annuities, or the sales or exchange of stock or securities.

Foreign Tax Credit

[Page 3, Schedule J, Line 4a]

Code section 901 allowed a credit against the U.S. income tax for income, war profits and excess profits taxes paid or accrued to foreign countries or U.S. possessions including Puerto Rico. When determining the foreign tax credit, the following were included in the computation of worldwide income: income, deductions pertaining to foreign branches, and section 863(b) activities. These had been excluded in previous years.

The credit could be claimed by domestic corporations, by foreign sales corporations (FSC's) for taxes paid on the foreign trade income, and also by foreign corporations engaged in trade or business in the United States for taxes paid on income effectively connected with the U.S. business. Additionally, stockholders of Interest Charged Domestic International Sales Corporations (IC-DISC's) and former Domestic International Sales Corporations (former DISC's) could claim a credit for foreign taxes paid by a DISC. However, all FSC's, IC-DISC's and former DISC's are excluded from the corporate sample.

The credit was not allowed for S Corporations because their income was primarily taxed through their shareholders. These corporations also had to exclude any foreign taxes paid or accrued from the deduction for taxes paid in computing their net income from trade or business activities. Instead, the foreign taxes were passed through to the shareholders for their use as a foreign tax credit (or a deduction).

The credit was also not allowed for regulated investment companies which elected under Code section 853 to allow their stockholders to claim the credit for the foreign taxes paid. (Under this election, these companies also excluded foreign taxes paid or accrued from the deduction for taxes to compute net income.) However, if the election was not made, the regulated investment company could claim the foreign tax credit.

A corporation that claimed the foreign tax credit could not also claim a business deduction for the same foreign taxes paid. The credit could be reduced for taxes paid on foreign income from operations involving participation or cooperation with an international boycott. The U.S. income tax which could be reduced by the credit excluded the recapture taxes for investment credit and low income housing credit, the alternative minimum tax, the personal holding company tax and the environmental tax.

The foreign tax credit was computed separately for foreign taxes paid or accrued with respect to nine categories of income. These were: (1) passive income; (2) high withholding tax interest; (3) financial services income; (4) shipping income; (5) dividends from each noncontrolled section 902 corporation; (6) dividends from a DISC or former DISC; (7) foreign trade income of a FSC; (8) distributions of a FSC or former FSC; and (9) all other income from sources outside the United States. For each category, the credit was computed subject to a limitation which prevented the corporations from using foreign tax credits to reduce U.S. tax liability on U.S. sourced income. This limitation was determined using the overall method.

Using the overall method the credit was limited to that percentage of the total U.S. income tax against which the credit was allowed as represented by the ratio of taxable income from foreign sources to worldwide taxable income. The taxpayer totaled the taxes paid to all foreign countries and possessions which were then subjected to a limitation computed by multiplying the U.S. tax liability by a fraction where the numerator consisted of taxable income from foreign sources (after relevant deductions) and the denominator was worldwide taxable income. The limitation fraction is not permitted to exceed 1.00 for any separate limitation and was applied separately for each income category.

Foreign taxes in excess of the limitation for any one year could be carried back, chronologically, to the 2 preceding years and then carried forward to the 5 succeeding years to reduce income tax, subject to the foreign tax credit limitation of the years to which they were carried under section 904(c).

The foreign tax credit was not allowed for taxes paid to certain foreign countries whose government was not recognized by the United States, with which the United States severed or did not conduct diplomatic relations, or which provided support for international terrorism. Foreign tax credit figured and reported for alternative minimum tax purposes was not included in these statistics.

General Business Credit

[Form 3800, Line 17]

The general business credit consisted of a combination of thirteen individual credits: investment credit (Form 3468), work opportunity credit (Form 5884), alcohol fuels credit (Form 6478), research activities credit (Form 6765), low-income housing credit (Form 8586), disabled access credit (Form 8826), enhanced oil recovery credit (Form 8830), renewable electricity production credit (Form 8835), Indian employment credit (Form 8845), credit for employer social security and Medicare taxes paid on certain employee tips (Form 8846), orphan drug credit (Form 8820), credit for contributions to certain community development corporations (Form 8847) and the trans-Alaska pipeline liability fund credit (there is no form for this credit. If a corporation claimed more than one of these credits, reported a carryforward, or had credits from a passive activity, Form 3800 was to be filed with the income tax return.). The empowerment zone employment credit (Form 8844) was a component of the general business credit but because a special tax liability limit applied to that credit it was computed separately and was not listed on the Form 3800

The purpose of the general business credit was to provide a uniform limitation on the amount that could be used to reduce tax liability and to establish uniform rules for carrybacks and carryforwards. Each of the credits was computed separately. The total of the credits became the general business credit for the purpose of applying the maximum tax liability rules and the carryback and carryforward rules.

Generally, S corporations computed these credits at the corporate level; the credits were then passed through to the shareholders. The regular investment credit and energy investment credit were exceptions. The S corporation reported the basis in the qualifying property to each shareholder. The shareholders themselves computed the regular investment and energy investment credits. However, S corporations that were previously C corporations could use business credit carryforwards to reduce tax on their net recognized built-in gains.

According to Code section 38(c), the general business credit reduced the tax liability to the extent of 100 percent of the first $25,000 of net tax liability and 75 percent of the net tax liability over $25,000. An additional limitation was also imposed on the general business credit as a result of the alternative minimum tax.

When the credit exceeded the "$25,000-plus-75 percent" limitation in any year, or the excess of income tax liability over tentative minimum tax, the excess became an unused business credit. Under Code section 39(a), an unused business credit could be carried back to the three years preceding the unused credit year and forward to the 15 years following that year. An amount of carryforward of the general business credit was shown separately in Table 21, as a component of the general business credit. Use of carryback provisions would require that a prior year return be amended. Amended returns were not included in the corporate sample. Therefore, any changes in tax liability due to carryback of unused business credits were not reflected in the statistics.

Income Subject to Tax

[Page 1, Line 30]

Because of the different types of corporations, U.S. tax was imposed on a variety of corporate tax bases. These were the taxable income bases defined by Code section 63, used by the majority of corporations to which the tax rates applied: the tax base of S corporations electing to be taxed through their shareholders; the tax bases applicable to life and nonlife insurance companies; and the amounts taxable to regulated investment companies and real estate investment trusts. Most of these tax bases were represented in the statistics for income subject to tax.

For most corporations, income subject to tax consisted of net income minus certain statutory special deductions (described in this report under a separate heading). However, there were certain exceptions. In some cases, the statutory special deductions for dividends received and for dividends paid on certain preferred stock of public utilities exceeded net income. For those returns, income subject to tax was reduced to zero and the excess of the two special deductions became the statutory loss for the year. This current year statutory loss became available for a net operating loss deduction over the prescribed carryback and carryover periods.

Also, the tax bases of life insurance companies, regulated investment companies, and real estate investment trusts were not defined as net income less statutory special deductions. For S corporations with a limited tax liability on capital gains, the statistics for income subject to tax represented the ordinary income from the normal business activities of the corporation. No special deductions were allowed to reduce this income.

For the life insurance companies, net income was derived from gain or loss from operations to which statutory special deductions were added back; income subject to tax was gain from operations (which included statutory special deductions) less (if applicable) the small life insurance company deduction. To this amount were added: (1) amounts resulting from the limitation of noninsurance losses, and (2) amounts subtracted from the policyholders' surplus account (which contained income nontaxable in the year earned, but taxable in a later year when withdrawn from this reserve account).

In addition, the life insurance company provisions applied to life insurance departments of certain banking institutions, where the departments were separately taxed from the remainder of the banks. However, data for the banking and life insurance departments were combined in the statistics.

Provisions under Code section 1504(c) allowed corporations to elect to include their domestic insurance companies in a consolidated tax return. There could be three separate components of this type of consolidated return:

(a) noninsurance companies;
(b) life insurance companies; and
(c) property and casualty insurance companies.

For companies which elected to file a consolidated return under Code section 1504(c), the income tax was based on the consolidated amount of income subject to tax. Net income in the statistics represented the aggregate for the separate components of the consolidation. However, specific limitations were imposed on the use of nonlife business activity losses as an offset to life insurance gains for the purpose of computing income subject to tax and income tax. As a result, a consolidated return under Code section 1504(c) with a net deficit could report income subject to tax.

For regulated investment companies, any undistributed income, other than undistributed long-term capital gains, was included in the statistics for income subject to tax. This portion of the undistributed income was taxed at the normal graduated corporate tax rates. Any net long-term capital gain (reduced by net short-term capital loss) which was not distributed to stockholders was taxed at a flat 34 percent rate before January 1, 1993 and 35 percent afterwards. The undistributed portion of the long-term capital gains was excluded from the statistics for income subject to tax. See also “Income Tax.”

Income Tax

[Page 3, Schedule J, Line 3]

Income tax was the amount of tax before reduction by tax credits for: foreign taxes, possessions tax, the production or sale of fuels from nonconventional sources, qualified electric vehicle, general business incentives, and the prior year minimum tax.

Corporations, other than members of a controlled group and qualified personal services corporations used the following tax rate schedule to compute their income tax. If taxable income is:

Over:	*But not over:*	*Tax is:*	*Of the amount over:*
$0	$50,000	15%	$0
50,000	75,000	7,500 + 25%	50,000
75,000	100,000	13,750 + 34%	75,000
100,000	335,000	22,250 + 39%	100,000
335,000	10,000,000	113,900 + 34%	335,000
10,000,000	15,000,000	3,400,000 + 35%	10,000,000
15,000,000	18,333,333	5,150,000 + 38%	15,000,000
18,333,333	------------	35%	0

Qualified personal service corporations were taxed at a flat 35 percent rate.

For corporations which elected to be treated as S corporations, an income tax was imposed on certain long-term capital gains, as well as recognized built-in gains and excess net passive income of companies which were formerly C corporations. The tax liability was not passed through to the shareholders of the corporation. The taxes paid on capital gains or recognized built-in gains by S corporations were included in the corporate statistics as income tax. The taxes paid on excess net passive income were included in total income tax in Tables 14 and 15, but were excluded from income tax.

A small number of corporations without net income had an income tax liability. The tax from those returns was included in the statistics as income tax. The tax resulted from:

(1) special statutory provisions applicable to life insurance businesses;
(2) the provisions under Code section 594 allowing certain banking institutions with life insurance departments to compute tax separately from the banking activity; and
(3) the provisions under Code section 1504(c) allowing corporations to elect to include their domestic insurance companies in consolidated tax returns with the following components:

(a) noninsurance companies;
(b) life insurance companies; and
(c) property and casualty insurance companies.

For companies which elected to file a consolidated return under Code section 1504(c), net income in the statistics represented the aggregate for the separate components of the consolidation. The income tax was based on the consolidated taxable income. Specific limitations were imposed on the use of nonlife business activity losses as an offset to life insurance gains for the purpose of computing income subject to tax and income tax. As a result, a consolidated return under Code section 1504(c) with a net deficit could report income subject to tax and income tax.

Some adjustments were made to income tax returns after they were filed by the taxpayer. Such adjustments were due to the election of bank holding companies to pay in installments the tax attributable to the sale of certain assets whose divestiture is certified by the Board of Governors of the Federal Reserve System; interest on tax attributable to payments received on installment sales of certain timeshares and residential lots; interest on tax deferred under the installment method for certain non-dealer installment obligations; and deferred tax amount for shareholders in a passive foreign investment company that received an excess distribution or disposed of its investment during the year.

Adjustments made to income tax returns after they were filed could affect the final tax liability and the tax due. Such adjustments were not reflected in the statistics. Generally, adjustments could result from tax examination, or the use of carryback provisions for:

(1) net operating losses and certain net capital losses, which generated adjustments to taxable income and consequently created adjustments to the tax liability; and
(2) unused foreign taxes and unused general business credits which would cause adjustments to income tax through recomputed credits.

The use of these carryback provisions would require that a corporation file an amended income tax return. Such returns were excluded from the corporate sample.

Because adjustments to income tax are excluded, the statistics in this publication differ somewhat from the actual income tax collections and the final income tax liability of corporations for the Tax Year. Publication 55B, Internal Revenue Service Data Book, contains income tax collection data on a fiscal year basis (October - September) as opposed to the income year basis (July - June) used in this publication. Publication 55 is available from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC, 20402.

See also “Total Income Tax Before Credits” and “Total Income Tax After Credits.”

Indian Employment Credit

A credit is allowed to employers of American Indians who are qualified employees. In most cases this credit was 20 percent of the excess of an employee's current year qualified wages and qualified employee health insurance costs over the sum of the corresponding amounts paid or incurred during calendar year 1993 by the employer (or predecessor). For purposes of the credit, the total amount of qualified wages may not exceed $20,000 for each employee. To be a qualified employee, the employee must:

(1) Be an enrolled member of an Indian tribe, or the spouse of an enrolled member of an Indian tribe.
(2) Perform substantially all of the services during the period within an Indian reservation.
(3) Have his or her principal residence while performing such services on or near the reservation where the services are performed.

However, the employee shall be treated as a qualified employee for any tax year only if more than 50 percent of the wages paid or incurred to the employee during the year or for services performed in the employer's trade or business.

Qualified wages are wages paid or incurred by an employer for services performed by an employee while such employee is a qualified employee. However, if any wages attributable to services rendered during the 1-year period beginning with the day the employee starts work for the employer is used in figuring the work opportunity credit, those wages are not qualified wages.

Qualified health insurance costs means any amount paid or incurred by an employer for health insurance to the extent such amount is attributable to coverage provided to any employee while that employee is a qualified employee.

The Indian employment credit was claimed as one of the components of the general business credit. For a discussion of the income tax limitations and the carryback and carryforward provisions of the credit, see "General Business Credit," in this section. The components of the general business credit were shown separately in Table 21.

Intangible Assets

[Page 4, Schedule L, Line 13a(c)]

Intangible assets represented the total gross value of goodwill, contracts, formulas, licenses, patents, registered trademarks, franchises, covenants not to compete, and similar assets that were amortizable for tax purposes. Thus, specific intangible asset items were included in this category only if amortization (or depreciation) actually had been taken against them.

The amounts shown as accumulated amortization represent the portion of these intangible assets that were written off in the current year as well as in prior years. In general, intangible assets were the gross amounts before adjustments for amounts of accumulated amortization. Some corporations, however, reported only the net amount of intangible assets after adjusting for amortization charges.

Generally, intangible assets (including goodwill acquired after August 10, 1993 or after July 25, 1991 if elected) were amortizable by the purchaser over a 15-year period. Under prior law, the acquisition cost of a business attributable to goodwill was not amortizable.

For all Form 1120-A corporations, this amount is included in depreciable assets.

Interest

[Page 1, Line 5]

Taxable interest, a component of total receipts, was received from obligations issued by the United States, its agencies, or its instrumentalities. Interest received on loans, notes, mortgages, arbitrage bonds, nonexempt private activity bonds, corporate bonds, bank deposits, and tax refunds was included in this item. The statistics also included dividends from savings and loans and mutual savings banks, federal funds sold, finance charges and sinking funds. The interest received was reduced by the amortizable bond premium, as defined under Code section 171. For installment sales, interest received included amounts stated in the contract and certain unstated amounts of interest, as defined under Code section 483.

Interest received from tax-exempt state or municipal bonds and ESOP loans was not included in this item. 1120S interest received is not included in this item but is reported separately on the Schedule K (Shareholders' Share of Income, Credits, Deductions, etc.). Corporations were not allowed to offset any interest expense against interest income. However, if the corporation reported only a net amount, this figure was used in the statistics. See also "Interest Paid."

Interest on Government Obligations: State and Local

[Page 4, Schedule M-1, Line 7a]

The interest received from certain government obligations was not subject to U.S. income tax. These tax-exempt obligations included those issued by states, municipalities and other local governments, the District of Columbia, and U.S. possessions, including Puerto Rico.

For statistical presentation, this interest was included in total receipts. However, it was not included in net income (less deficit) or income subject to tax.

Most corporations reported this tax-exempt interest in the Reconciliation of Income per Books with Income per Return (see Schedule M-1 on the Form 1120 in section 6 of this report). Because of variations in taxpayer reporting, this item may not have always been identified. Therefore, the statistics could be understated for interest received from state and local government obligations.

Interest Paid

[Page 1, Line 18]

These amounts consisted of interest paid by corporations on business indebtedness, including amounts paid on installment purchases if they were stated in the contract, as well as certain unstated amounts defined under Code section 483. For banking and savings institutions, the statistics also included interest paid on deposits and withdrawable shares. For mutual savings banks, building and loan associations and cooperative banks, interest paid included amounts paid or credited to the accounts of depositors as dividends, interest or earnings under Code section 591. Interest identified as part of the cost of goods sold, or capitalized under section 263A, was excluded from cost of goods sold and included in the statistics as interest paid. Tax-exempt interest is not included in these statistics. See also "Total Receipts" for further information.

Inventories

[Page 4, Schedule L, Line 3(d)]

Based on amounts reported on the balance sheet, inventories included such items as finished goods, partially finished goods (work in progress), new materials and supplies acquired for sale, merchandise on hand or in transit, and growing crops reported as assets by agricultural concerns. Inventories were generally valued at cost or at the lower of cost or market price. When valued at cost, inventories were generally identified by first-in, first-out (FIFO) or last-in, first-out (LIFO) methods.

When inventories were reported by companies within certain financial industries, the amounts were included in the statistics for other investments and excluded from inventories. For security brokers and dealers, commodity brokers and dealers, and holding and other investment companies (except bank holding companies), inventories were included in other investments for companies which were nonconsolidated or consolidated, but comprised entirely of financial subsidiaries.

Inventories were included in the statistics for other current assets and excluded from inventories when reported by other nonconsolidated corporations within the Finance, Insurance, and Real Estate industrial division. However, inventories were included in other current assets if reported by bank holding companies, whether "pure" consolidated or nonconsolidated. If bank holding companies were consolidated with nonfinancial subsidiaries, inventories were included in the statistics to the extent they were attributable to the nonfinance subsidiaries.

Generally, inventories included in the statistics for the Finance, Insurance, and Real Estate industrial division were those reported by consolidated financial companies with diversified nonfinancial subsidiaries. See also "Cost of Goods Sold."

Inventory, Beginning of Year

[Page 2, Schedule A, Line 1]

See "Cost of Goods Sold"

Inventory, End of Year

[Page 2, Schedule A, Line 7]

See "Cost of Goods Sold"

Investment Credit

The Tax Reform Act of 1986 repealed the regular portion of the investment credit for most taxpayers. For property placed in service after December 31, 1985, no regular investment credit could be claimed unless the property was:

(1) Transition property; for example, construction in progress on December 31, 1985;
(2) Qualified progress expenditure property; or
(3) Qualified timber property treated as section 38 property under Code section 48(a)(1)(F).

No regular investment credit could be claimed for property such as automobiles, delivery trucks, office equipment, and farm equipment unless it was transition property as of December 31, 1985, or it fell into one of the other categories listed above.

The 1986 Tax Reform Act extended for three years the business energy portion of the investment credit for solar, geothermal, and ocean thermal property and for two years for biomass property. The rehabilitation portion of the investment credit was also modified. The allowable credit for rehabilitation property was reduced; for older nonresidential buildings from 15 or 20 percent of the qualified investment to 10 percent. For certified historic structures the allowable credit was reduced from 25 percent to 20 percent.

For qualified progress expenditure property, a corporation could elect to claim an investment credit for taxable years before the qualified property was placed in service. For periods after 1985, the depreciable basis of the property was to be reduced by the full amount of the credit. Prior to the 1986 Tax Act, a corporation could elect to reduce the available credit rather than the basis of the property.

The investment credit (before limitations) for qualified timber property was 10 percent of the qualified investment. The credit for transition property and qualified progress expenditure property was also 10 percent of the qualified investment. After June 30, 1987, a 35 percent reduction applied to the regular 10 percent investment credit for those properties except for qualified timber property. The amount of the reduction could not be carried to any other tax year.

Generally, investment credit property included the following:

(1) tangible personal property defined in Code section 48(a)(1). Tangible personal property comprised all property contained in or attached to a building, such as machinery or equipment. Certain types of property, even though physically located outside a building or accessory to a building, were also considered tangible personal property;
(2) elevators and escalators;
(3) other tangible property, including certain real property, used as an integral part of manufacturing, production, or extraction, or used as a research facility or bulk storage facility;
(4) livestock other than horses as long as not sold and replaced by substantially identical animals during a relatively short period of time;
(5) certain single-purpose agricultural or horticultural structures defined in Code section 48(p);
(6) rehabilitation expenditures for qualified 30-year buildings, 40-year buildings, and certified historic structures;
(7) forestation and reforestation expenditures that are amortizable under Code section 194; and
(8) petroleum storage facilities. A corporation could also claim an investment credit for certain vessels under special provisions of Code sections 46(g)(1) through (6) for certain maritime property.

Certain limitations on the credit were applicable to special classes or kinds of corporations. Code section 46(e) limited the applicability of the credit for mutual savings banks, regulated investment companies, and real estate investment trusts. Limitations on investment credits for movie and television films or tapes were defined under Code section 48(k).

The investment credit could not reduce the recapture taxes for the investment credit or low-income housing credit; the alternative minimum tax; the environmental tax; the personal holding company tax; or the tax liability of S corporations for capital gains or excess net passive investment income. Shareholders of S corporations computed the regular investment credit; it was not computed at the corporate level by the S corporation. The S corporation reported the basis in the qualifying property to each shareholder for this purpose.

The investment credit was claimed as one of the components of the general business credit. For a discussion of the income tax limitations and carryback and carryforward provisions of the credit, see “General Business Credit,” in this section.

The investment credit was included (as a component) in the general business credit shown in the tables. The components of the general business credit were shown separately in Table 21; the tentative business energy credit was not included in the regular investment credit. See also “Recapture of Investment Credit.”

Investments in Government Obligations

[Page 4, Schedule L, Line 4(d)]

This balance sheet asset item comprised U.S. obligations, including those of instrumentalities of the Federal Government. State and local government obligations, the interest on which was excluded from gross income under section 103(a), were included in tax-exempt securities.

Some mutual property and casualty insurance companies included investments in government obligations within other investments on the income tax return, Form 1120-PC. When identified, the amounts were included in the statistics for investments in government obligations and excluded from other investments.

Jobs Credit

See "Work Opportunity Credit."

Land

[Page 4, Schedule L, Line 12(d)]

Land, which was reported as a separate capital asset on the balance sheet, may be understated in this report because it could not always be identified. Some corporations may have included land as part of depreciable or depletable assets or included it in other investments. Whenever corporations included and identified land as part of depreciable assets, the amount was reclassified as land, but land improvements remained as depreciable assets.

Loans from Stockholders

[Page 4, Schedule L, Line 19(d)]

This balance sheet liability item was regarded as long-term in duration and included loans to the company from holders of the company's stock.

Loans to Stockholders

[Page 4, Schedule L, Line 7(d)]

This balance sheet asset item was regarded as long-term in duration and included loans to persons who held stock in the corporation.

Low-Income Housing Credit

The low-income housing credit allowed a credit of 70 percent of the qualified basis of each new low-income residential building placed in service after 1986 (30 percent in the case of certain federally subsidized new buildings or certain existing buildings purchased and placed in service). This credit could be taken over a 10-year period so that the present value of the 10 annual credit amounts as of the last day of the first year of the credit period equaled 70 percent (or 30 percent) of the qualified basis.

The maximum annual credit percentage for new buildings placed in service during 1987 was 9 percent for each of the 10 years in the credit period (4 percent for federally subsidized new buildings, and existing buildings). For buildings placed in service after 1987 the appropriate percentage was based on the month in which the building was placed in service.

The low-income housing credit could only be claimed for residential rental projects that met the requirements of one of the following tests:

(1) Twenty percent or more of the residential units in the project must have been both rent restricted and occupied by individuals whose income was 50 percent or less of the area median gross income, or

(2) Forty percent or more of the residential units in the project must have been both rent restricted and occupied by individuals whose income was 60 percent or less of the area median gross income.

A unit was rent restricted if the gross rent did not exceed 30 percent of the income limitation in (1) or (2) above for individuals occupying the unit. A corporation could elect to classify a project under either one of the above criteria. Once made, the election was irrevocable.

The low-income housing credit was claimed as one of the components of the general business credit. For a discussion of the income tax limitations and carryback and carryforward provisions of the credit, see also "General Business Credit."

The low-income housing credit was included (as a component) in the general business credit shown in the tables. The components of the general business credit were shown separately in Table 21.

Mortgage and Real Estate Loans

[Page 4, Schedule L, Line 8(d)]

In general, mortgage and real estate loans were the total amount a corporation loaned on a long-term basis, accepting mortgages, deeds of trust, land contracts, or other liens on real estate as security.

Because the return form did not provide a separate place for reporting any reserve for uncollectible mortgage and real estate loan accounts, such reserves may have been included in the allowance for bad debts, shown in this report as an adjustment to notes and accounts receivable. If a corporation reported an uncollectible mortgage and real estate loan reserve on a separate schedule, that amount was moved, in this report, to allowance for bad debts.

Mortgages, Notes, and Bonds Payable

[Page 4, Schedule L, Lines 17(d) and 20(d)]

Mortgages, notes, and bonds payable were separated on the balance sheet according to the length of time to maturity of the obligations. The length of time to maturity was based on the date of the balance sheet rather than on the date of issue of the obligations. Accordingly, long-term obligations maturing within the coming year were reportable with short-term obligations as having a maturity of less than one year. Deposits and withdrawable shares may have been reported in mortgages, notes, and bonds payable by banks and savings institutions. When identified, such amounts were transferred to "other current liabilities."

Net Capital Gains

[Schedule D, Line 13]

Net capital gains represented the excess of gains over losses from the sales or exchanges of capital assets subject to the limitations described below. The long-term capital gain holding period was more than 6 months for assets acquired after June 22, 1984, and before January 1, 1988. For assets purchased on or after January 1, 1988, any recognized capital gain or loss was qualified for long-term treatment if the assets were held for more than one year. If the assets were held for one year or less, the gain or loss was treated as short-term. This was the same holding period that had applied to assets acquired before June 23, 1984.

Net short-term gains (reduced by net long-term losses) and net long-term gains (reduced by net short-term losses) were generally taxed as ordinary income after July 1987. Certain capital gains for some corporations, however, were subject to a flat 34 percent tax rate before January 1, 1993, and to a 35 percent tax rate afterwards.

A corporation could use capital losses for a tax year only to offset capital gains in that year. There was no offset for ordinary income for a corporation. Excess net losses could be carried back as short-term losses to be applied against the net capital gains of the 3 preceding years; any losses remaining after carryback were carried over the 5 succeeding years. Use of the carryback for excess net losses was limited; it was not allowed to increase or cause a deductible net operating loss for prior years and was not allowed for foreign expropriation capital losses (although a special carryover period of 10 years for such losses was allowed instead) or for capital losses of S corporations.

A net capital loss for a regulated investment company could be carried forward 8 years instead of 5 years. If the unused capital loss carryover was not eliminated within the prescribed span of years, it could not be taken. Regardless of origin, all carrybacks and carryovers were treated as short-term capital losses for carryback and carryover purposes.

In general, capital assets for tax purposes meant property regarded or treated as an investment, such as stocks and bonds. Code section 1221 defined the capital assets (or transactions) to which special treatment applied as all property held by the corporation except:

(1) an inventorial asset;
(2) property held for sale to customers in the ordinary course of business;
(3) notes and accounts receivable acquired in the ordinary course of business;
(4) certain publications of the United States Government;
(5) depreciable property used in the trade or business; real property used in the trade or business; and
(6) certain copyrights, literary, musical, or artistic compositions or similar properties.

Net gains from dispositions of some of the property types excluded from the definition of capital assets under Code section 1221 could receive capital gain treatment under special conditions set forth in other sections, while net gains from some of the property types included under the definition could be denied capital gain treatment under still other sections. For the latter, see also "Net Gain (or Loss), Noncapital Assets."

Net Gain (or Loss), Noncapital Assets

[Page 1, Line 9]

In general, noncapital assets related to property of a business nature. Special rules governing the computation of a net gain or loss from noncapital assets were provided under Code section 1231. Transactions treated under these special provisions included:

(1) the sale or exchange of real or depreciable property used in a trade business;
(2) the cutting or disposal of timber treated as a sale or exchange under Code section 631(a) and (b);
(3) the disposal of coal or iron ore treated as a sale under Code section 631(c);
(4) the sale or exchange of livestock (excluding poultry) used in a trade or business for draft, breeding, dairy, or sporting purposes, if held for at least 12 months (24 months for horses and cattle);
(5) the sale or exchange of unharvested crops; and
(6) the involuntary conversion of property or capital assets due to partial or total destruction, theft, seizure, requisition, or condemnation.

Under section 1231, capital gains provisions could have applied to a net gain from dispositions of or certain transactions involving specified types of business assets that were otherwise considered noncapital assets, based on Code section 1221. Gains and losses from the dispositions or transactions first had to be aggregated. If the overall result was a net gain, it was included in the computation of net long-term capital gain, but if the overall result was a net loss, it was included in the computation of ordinary income as a net loss from noncapital assets.

For a long-term capital gain or loss, the required holding period of the asset was more than one year for assets acquired before June 23, 1984 and after December 31, 1987. The long-term holding period was more than six months for assets acquired after June 22, 1984, and before January 1, 1988.

Gains and losses resulting from involuntary conversions, due mostly to casualty and theft, received special treatment. Such losses were to be included in the computation of net gain or loss, noncapital assets. However, some corporations reported them in other deductions, in which case, the losses were included in the statistics for other deductions. No attempt was made to recompute the net gain or loss from noncapital assets for such returns.

The amount of gains (but not losses) on dispositions of property includable in the computation of net gain or loss under Code section 1231, was limited as a result of sections 1245, 1250, 1252, 1254 (described below), and 617. To the extent the amount eligible for capital gains treatment was thereby reduced, the amount included in the statistics for net gain or loss, noncapital assets, was increased.

Code sections 1245 and 1250 applied to certain depreciable property. Section 1252 prescribed additional rules for much of this same property if it was used in the business of farming, as well as for certain other types of property used in farming and covered under section 1231. Section 617 applied to certain depletable property.

Code sections 1245 and 1250:

The depreciable or amortizable property to which Code section 1245 applied was: (1) personal property other than livestock, whether tangible (such as machinery and equipment) or intangible (such as patents and copyrights); and (2) other tangible property including certain realty other than buildings and their structural components, if it was an integral part of specified business activities, or which constituted research or storage facilities used in connection with such activities. The business activities qualifying were manufacturing, production, extraction, or the providing of transportation, communications, electrical energy, gas, water, or sewage disposal services.

The depreciable property to which Code section 1250 applied was depreciable real property not subject to recapture rules under section 1245. In general, this property consisted of buildings and their structural components, in the case of tangible property; or leaseholds of land, in the case of intangible property. Section 1250 generally applied when depreciation was computed using an accelerated method of computation.

The amount of gain on dispositions of depreciable property under Code sections 1245 and 1250, treated as ordinary income and included in the statistics for net gain or loss, noncapital assets, generally depended upon the amount of depreciation, or amortization for certain property, claimed on the asset after a certain date prior to its disposition.

Code section 1252:

Under Code section 1252, net gain or loss from noncapital assets included ordinary gains from the sale or other disposition of certain types of farm lands which would otherwise have been eligible for long-term capital gain treatment under section 1231. Dispositions already regarded as ordinary gain or loss using section 1250 rules were excluded.

This recapture was based on a declining annual percentage of total deductions for expenditures. The percentage was reduced to zero when land was held for 10 years or more, at which time the additional recapture did not apply.

Code section 1254:

Code section 1254 required that a gain from the disposition of oil, gas, or geothermal property placed in service before January 1, 1987 be treated as ordinary income. When the disposition of such property resulted in a gain, the intangible drilling costs, depletion, mine exploration and development costs were to be recaptured under Code sections 263, 616, and 617.

Net Income (or Deficit)

[Page 1, Line 28]

This was the difference between gross receipts and the ordinary and necessary business deductions allowed by the Code, and included not only actual receipts but constructive receipts as well (i.e., certain income from Controlled Foreign Corporations and foreign dividend gross-up). Interest from state and local government obligations was excluded from this item.

Net income was generally larger than the amounts shown in the statistics for income subject to tax. Certain statutory special deductions, including the net operating loss deduction, were allowed to most corporations for computing their taxable income. Income subject to tax generally represented net income reduced by the statutory special deductions. These statutory special deductions, however, were not allowed to reduce certain taxable income of S corporations, life insurance companies, regulated investment companies, and real estate investment trusts.

Also, included in the net income was ordinary income from the normal trade or business activities of S corporations. Although the income was taxable to the shareholders, it was used for the statistics as a measure of corporate business activity for these companies. For tax purposes, net income for S corporations excluded passive income such as rents and other portfolio investments. (This income was also taxable to the shareholders.) Certain long-term capital gains, however, were taxable to S corporations before the gains were passed through to the shareholders. These gains were excluded from net income.

The statistics for net income (or deficit) also included the "effectively connected income" of foreign corporations operating in the United States. Generally, income was considered effectively connected if the foreign corporation conducted a trade or business in the United States and the income was attributable to that business.

For non-life insurance companies subject to tax under Code section 831, the net income (or deficit) in this report was the sum of investment income, the statutory underwriting income, and certain other statutory receipts unique to these companies reduced by the ordinary business deductions and certain other statutory deductions.

Some small non-life insurance companies could elect to compute income tax on their taxable investment income only. Under the election, they were not required to report underwriting income. To make the election the company's net or direct written premiums were required to be over $350,000 but not over $1,200,000. Therefore, the statistics for net income included only net investment income for those companies.

In the statistics, the net income (or deficit) for life insurance companies, consisted of the gain or loss from operations adjusted by adding back the special deductions for dividends received and for operating losses incurred. Gain or loss from operations included both underwriting and investment income, reduced by ordinary business deductions, additions to required reserves, certain other statutory deductions unique to these companies, and deductions for dividends received and operating losses incurred.

Provisions under Code section 1504(c) allowed corporations to elect to include their domestic insurance companies in a consolidated tax return. There could be three separate components of this type of consolidated return: (a) non-insurance companies; (b) life insurance companies; and (c) non-life insurance companies.

For companies which elected to file a consolidated return under Code section 1504(c), net income in the statistics represented the aggregate for the separate components of the consolidation. However, specific limitations were imposed on the use of non-life business activity losses as an offset to life insurance gains for the purpose of computing income subject to tax and income tax. The income tax was based on the consolidated amount of income subject to tax. As a result, a consolidated return under Code section 1504(c) with a net deficit could report income subject to tax.

Net Long-Term Capital Gain Reduced by Net Short-Term Capital Loss

See “Net Capital Gains.”

Net Operating Loss Deduction

See “Statutory Special Deductions.”

Net Short-Term Capital Gain Reduced by Net Long-Term Capital Loss

See “Net Capital Gains.”

Net Worth

Net worth represented the stockholders' equity in the corporation (total assets minus the claims of creditors). In the statistics, net worth comprised the net sum of the following items:

(1) capital stock;
(2) paid-in or capital surplus;
(3) retained earnings, appropriated;
(4) retained earnings, unappropriated;
(5) less the cost of treasury stock.

Noncalendar Year Returns

Returns filed for a 12-month accounting period ending in other than December were included in this classification. Figure B in section 1 shows the number of returns filed for each of the accounting periods covered in this report.

Nonconventional Source Fuel Credit

This credit was allowed for the sale of qualified fuels produced from a nonconventional source. Prior to 1980, no income tax credit was available for the production and sale of fuel derived from energy sources other than oil and conventional sources of natural gas. Congress encouraged the use of fuels derived from other energy sources by providing a tax incentive for their production and sale. Since these alternative fuels frequently competed with oil and gas, production incentives were linked to the uncontrolled price of domestic oil. The incentives were to be phased out when efficiently produced alternative fuels could compete effectively with oil.

In general, the amount of credit was equal to $3 for each quantity of fuel that would yield energy equal to that of a barrel of oil, the so-called barrel-of-oil equivalent which was approximately 5.8 million British Thermal Units (BTU's). The Crude Oil Windfall Profit Tax Act of 1980 provided a tax credit for the domestic production and sale of qualified fuels to unrelated persons. Such fuels generally had to be produced and sold after December 31, 1979, and before January 1, 2003, from facilities placed in service after December 31, 1979, and before January 1, 1997, or from wells drilled after December 31, 1979, and before January 1, 1993, on properties which began production after December 31, 1979. Only production within the U.S. or a U.S. possession was taken into account.

The credit was available for production and sale of the following:

(1) fuel produced from shale and tar sands;
(2) gas produced from geopressured brine, Devonian shale, coal seams, or a tight formation;
(3) gas produced from biomass;
(4) liquid, gaseous, or solid synthetic fuel (including alcohol) produced from coal (including lignite), including such fuels when used as feedstocks;
(5) qualifying processed wood fuels; and
(6) steam from solid agricultural byproducts (not including timber byproducts).

The tax credit was to be phased out proportionately as the annual average wellhead price for a barrel of uncontrolled domestic oil (the reference price) rose, adjusted for inflation. The reference price was estimated by the Secretary of the Treasury and published, together with the inflation adjustment factor, by April of the year following that for which the credit was to be computed. The inflation adjustment factor was the gross national product (GNP) implicit price deflator for the calendar year expressed as a percent of the GNP implicit price deflator for 1979.

Notes and Accounts Receivable

[Page 4, Schedule L, Line 2a(c)]

In general, notes and accounts receivable were the gross amounts arising from business sales or services to customers on credit during the ordinary course of trade or business. These current assets would normally be converted to cash within 1 year. This category included commercial paper, charge accounts, current intercompany receivables, property improvement loans, and trade acceptances. Current nontrade receivables were generally included in other current assets.

Certain savings and loan associations reported loans and mortgages as notes and accounts receivable. When identified, such mortgage loans were included in the statistics for mortgage and real estate loans, rather than notes and accounts receivable.

The gross amount of the receivables and the corresponding adjustment account, allowance for bad debts, were reported on the balance sheets of most corporation income tax forms. For an explanation of the adjustment account, see “Allowance for Bad Debts.” Some corporations, however, reported only the net amount of the accounts receivable.

Notes and Accounts Receivable, Net

“Notes and accounts receivable, net” were presented in the statistics for Tables 4 and 5. The amount shown was notes and accounts receivable after the reduction for the allowance for bad debts. Each of these terms is described separately under its own heading in this section.

Number of Returns

Returns of inactive corporations were excluded from the statistics. (See “Returns of Inactive Corporations".) For most tables, the total number of returns represented all active corporations which filed the various types of Form 1120 tax returns sampled for the corporate program. For some tables, the number of returns was limited to corporations which filed specific types of Form 1120. Those included Form 1120-A, Form 1120S, and Form 1120-F. The number of returns was limited for other tables by excluding specific types of Form 1120. Those tables were limited to Forms 1120, other than Forms 1120S, 1120-REIT, and 1120-RIC. One table was limited to the number of consolidated returns of active corporations. The number of returns with net income was also provided in some tables, while other tables were limited to returns with net income. The number of returns with total income tax after credits was provided in one table. See also “Consolidated Returns” and “Returns of Active Corporations.”

Orphan Drug Credit

A credit is allowed for 50 percent of the qualified clinical testing expenses paid or incurred during the year for a drug to be used to treat a rare disease or condition. A rare disease or condition is one that afflicts 200,000 or fewer persons in the United States. If a disease or condition afflicts more than 200,000 persons in the United States, it is still considered rare if there is no reasonable hope of recovering the cost of developing and making available a drug in the United States for the disease from sales of the drug in the United States. To qualify for the credit, the clinical testing must be carried on within the United States, unless there is an insufficient testing population within the United States. If the testing is carried out outside the United States, it must carried out by a U.S. person or by another person not related to the taxpayer. The components of the general business credit were shown separately in Table 21.

Other Assets

[Page 4, Schedule L, Line 14(d)]

In general, other assets comprised noncurrent assets which were not allocable to a specific account on the balance sheet, and certain assets not identified as current or noncurrent. Both tangible and intangible assets were included in this category. Also included were assets such as: deposits on contracts, interest discounts, and guaranty deposits, when reported as noncurrent assets. Other assets of life insurance companies included the market value of real estate and that portion of stock and bond holdings in excess of book value. For statistical purposes, negative balance sheet asset accounts have been moved to, and included in, the computation of other assets. This procedure was adopted to address the increased usage of negative items being reported on corporate balance sheets. This process may cause other assets to become negative in certain situations.

When identified on the tax return, assets held for investment were not included in other assets.

Other Capital Assets Less Reserves

This item, shown in Tables 4 and 5, consisted of depletable assets less accumulated depletion, land and intangible assets less accumulated amortization. Each was described separately under its own heading in this section.

Other Costs

[Page 2, Schedule A, Line 5]

See “Cost of Goods Sold”

Other Current Assets

[Page 4, Schedule L, Line 6(d)]

Other current assets included assets not allocable to a specific current account listed on the balance sheet of the tax form and assets reported as short-term, but without identification of a specific current account.

Marketable securities, prepaid expenses (unless reported as long-term), nontrade receivables, coupons and dividends receivable, and similar items were included in this asset account. Also included were amounts in excess of billings for contract work in progress reported as current by construction corporations.

When reported by certain nonconsolidated financial companies, inventories were included in the statistics for other current assets, rather than for inventories. Those nonconsolidated financial companies included banks, credit agencies, insurance companies, insurance agents, brokers, real estate operators, lessors, and condominium management and cooperative housing associations. Inventories were included in other current assets if reported by bank holding companies, whether a "pure" consolidated or nonconsolidated. However, if consolidated with nonfinancial subsidiaries, then inventories were not moved to other current assets to the extent they were attributable to the nonfinance subsidiaries.

Some property and casualty insurance companies included investments in government obligations and tax-exempt securities with other current assets on the income tax return, Form 1120-PC. When identified, the amounts were included in the statistics for investments in government obligations and tax-exempt securities, and excluded for other current assets.

Other Current Liabilities

[Page 4, Schedule L, Line 18(d)]

Other current liabilities included certain amounts due and payable within the coming year. The account was comprised of accrued expenses, as well as current payables not arising from the purchase of goods and services. Examples of other current liabilities were taxes accrued or payable, accrued employee accounts such as for payrolls and contributions to benefit plans, dividends payable, overdrafts, accrued interest or rent, and deposits and withdrawable shares of banking and savings institutions, if not reported as long-term by the corporation. For construction corporations, amounts for uncompleted contracts or jobs in progress were included in this item, if reported as current.

Other Deductions

[Page 1, line 26]

Other deductions comprised: (1) business expenses which were not allocable to a specific deduction item on the tax return, or which were not included elsewhere on the tax return, and (2) certain amounts which were given special treatment in the course of statistical processing.

The first category included such items as administrative, general, and selling expenses; bonuses and commissions (unless reported as cost of goods or salaries and wages); delivery, freight, and shipping expenses; sales discounts; travel and entertainment expenses; utility expenses not reported as part of the cost of goods sold; and similar items. Certain dividends may have been deducted from an employee stock ownership plan under section 404(k). For meal and entertainment only 80 percent was deductible, with a few exceptions.

The second category included intangible drilling costs, unrealized profit on current-year installment sales, direct pensions (paid by a company to an individual but not to pension plans), employee welfare (but not payments to welfare or benefit plans), moving expenses (for employees), partnership net losses, and patronage dividends paid. Also included were itemized business deductions and other deductions unique to life and property and casualty insurance companies.

Corporations filing the Form 1120-A, were required to report amounts for advertising, depletion, and deductions for pension, profit-sharing and employee benefit plans on an attached schedule. When these were identified on such a schedule, they were moved to the appropriate item.

Losses from involuntary conversions which were reported as ordinary losses on Form 4797, Supplemental Schedule of Gains and Losses, were included in the statistics for Net Gain (or Loss), Noncapital Assets. See also the discussion under “Net Capital Gains.”

Also included were any adjustment items reported by corporations and listed in other deductions. The statistics for other deductions excluded amounts for amortization reported on the Form 4562, Depreciation and Amortization, and included net foreign currency loss for regulated investment companies.

Other Investments

[Page 4, Schedule L, Line 9(d)]

This category generally included long-term non-government investments and certain investments for which no distinction could be made as to their current or long-term nature. Non-government investments were generally not held for conversion to another form of investment within the current year. Examples of non-government investments included stocks, bonds, loans to subsidiaries, treasury stocks reported as assets, and other types of financial securities.

Real estate not reported as a fixed asset could also be included. In certain instances, land and buildings owned by real estate operators (except lessors of real property other than buildings) were reported as other investments. Certain insurance carriers also included their real holdings (other than their home and branch office buildings and equipment) in this asset category.

When inventories were reported by companies within certain financial industries, the amounts were included in the statistics for other investments and excluded from inventories. For security brokers and dealers, commodity brokers, dealers, and exchanges and holding and other investment companies (except bank holding companies), inventories were included in other investments for companies which were nonconsolidated or consolidated but comprised entirely of financial subsidiaries. However, if consolidated with nonfinancial subsidiaries, then inventories attributable to the nonfinance subsidiaries were not moved to other investments.

The statistics may be somewhat overstated by amounts reported for treasury stock. When treasury stock held for resale or for future distribution was reported as an asset, rather than a liability, the treasury stock was included in the statistics for other investments.

Some property and casualty insurance companies included investments in government obligations and tax-exempt securities within other investments on the income tax return, Form 1120-PC. When identified, the amounts were included in the statistics for investments in government obligations and tax-exempt securities, and excluded from other investments.

Other Investments and Loans

This item, shown in Tables 4 and 5, was the sum of loans to stockholders, mortgage and real estate loans, and other investments. Each is described separately under its own heading in this section.

Other Liabilities

[Page 4, Schedule L, Line 21(d)]

Other liabilities were obligations which were not allocable to a specific account on the balance sheet and which were either noncurrent accounts, in general not due within 1 year, or accounts which could not be identified as either current or long-term. The excess of reserves for amortization, depreciation, and depletion over the respective asset accounts was included in this balance sheet account.

Examples of other liabilities were deferred or unearned income not reported as part of a current account, provisions for future or deferred taxes based on the effects of either accelerated depreciation or possible income tax adjustments, and principal amounts of employee and similar funds. Accounts and notes payable, borrowed securities, commissions, intercompany accounts, loans, overdrafts, and unearned income were also included. For statistical purposes, negative balance sheet liability accounts have been moved to, and included in, the computation of other liabilities. This procedure was adopted to address the increased usage of negative items being reported on corporate balance sheets. This process may cause other liabilities to become negative in certain situations.

Other Receipts

Other receipts included amounts not elsewhere reported on the return form, such as: profits from sales of commodities other than the principal commodity in which the corporation dealt; income from minor operations; cash discounts; income from claims, license rights, judgments, and joint ventures; net amount earned under operating agreements; profit from commissaries; profit on prior-years' collections (installment basis); profit on the purchase of a corporation's own bonds; recoveries of losses and bad debts previously claimed for tax purposes; refunds for the cancellation of contracts; and income from sales of scrap, salvage, or waste.

Also regarded as other receipts were unidentified and certain dividends received, such as from Federal Reserve and Federal Home Loan Banks, and from the following special classes of corporations: corporations deriving a large percent of their gross income from sources within a U.S. possession, when they did not provide detailed attachments; and tax-exempt charitable, educational, religious, scientific and literary organizations, and mutual and cooperative societies including farmers' cooperatives. Also included were any adjustment items reported by corporations and listed in other income. Payments with respect to security loans and net foreign currency gains for regulated investment companies were also included. See also “Business Receipts.

Overpayment of Tax

[Page 1, Line 35]

Overpayment of tax was the excess amount of payments and credits, for taxes previously paid, over total income tax after credits liability at the time the return was filed. For a corporation to have an income tax liability, the income tax less certain credits plus other taxes was not reduced to zero. The income tax could be reduced to zero by credits for: foreign taxes, possessions tax, the production or sale of fuels from nonconventional sources, qualified electric vehicle, general business incentives, and prior year minimum tax.

Other taxes consisted of: tax on the undistributed income of personal holding companies; recapture taxes of investment credit, low-income housing credit, Indian employment credit and qualified electric vehicle credit; environmental tax; tax on excess net passive income, certain net long-term capital gains, and net recognized built-in gains of S corporations; tax on the undistributed net capital gain of regulated investment companies; tax on the net income of foreclosure property, failure to meet income requirements, and prohibited transactions of real estate investment trusts; and the branch tax of foreign corporations.

Based on this total income tax after credits, the overpayment of tax was the amount by which certain payments and credits exceeded the tax liability plus any penalty for underpayment of estimated tax. The payments and credits represented the sum of:

(1) credit for taxes deemed paid by regulated investment companies on undistributed capital gain dividends;
(2) payments with applications for extension of time in which to file;
(3) estimated tax payments less refunds;
(4) credit for Federal tax on special fuels;
(5) prior year overpayment of tax applied to current year;
(6) credit by reciprocal for tax paid under Code section 835(d);
(7) prior year(s) special estimated tax payments applied to current year from life insurance and property and casualty insurance companies; and
(8) special estimated tax payments from life insurance and from property and casualty insurance companies.

The overpayment could have been credited toward the following year's estimated tax, refunded, or partially refunded and partially credited.

Some adjustments were made to income tax returns by the taxpayer and included in overpayment. Adjustments made to income tax returns after they were filed could have affected the final tax liability and the overpayment of tax. Such adjustments were not reflected in the statistics. Adjustments could have resulted from tax examination, amended returns, or the use of carryback provisions for: net operating losses; certain capital losses; unused foreign taxes paid or accrued; and unused general business credits. See also "Income Tax, "Tax Due at Time of Filing."

Overpayments less Refund

[Page 1, Line 32d]

This includes 1995 overpayments credited to 1996 plus 1996 estimated tax payments less 1996 refund applied for on Form 4466. This item was shown in Tables 18 and 20. See also "Credit to 1996 Estimated Tax," "Estimated Tax Payments," and "Refund of Estimated Tax Payments."

Paid-In or Capital Surplus

[Page 4, Schedule L, Line 23(d)]

This balance sheet item comprised additions to the corporation's capital from sources other than earnings. These sources included appreciation of assets, receipts from the sale of capital stock in excess of stated value, stock redemptions or conversions, and similar transactions. The amounts shown were after deducting any negative amounts.

Part-Year Returns

Part-year returns were those filed for accounting periods of less than 12 months. Such returns were filed as a result of business liquidations, reorganizations, mergers, and changes to new accounting periods. Data from part-year returns were included in the statistics. (See Figure B in section 1 for the number of returns filed for each of the accounting periods covered in this report.)

Passive Activity Credit

Personal service corporations and closely held corporations could claim a passive activity credit for the year if their credits from passive activities (including prior year unallowed credits) exceeded the sum of tax attributable to net passive income and the tax attributable to net active income. A personal services corporation was one whose principal activity was the performance of personal services that were substantially performed by employee-owners who owned more than 10% of the fair market value of the corporation's stock. A closely held corporation was a corporation that at any time during the last half of the tax year had 50% or more of the value of its outstanding stock owned directly or indirectly by not more than five individuals and was not an S corporation or a personal service corporation. Passive activities generally included trade or business activities in which the corporation did not materially participate for the tax year and, with exceptions, rental activities regardless of the corporation's participation.

Penalty for Underpayment of Estimated Tax

[Page 1, Line 33]

A corporation that did not make estimated tax payments when due may have been subject to an underpayment penalty for the period of the underpayment. Generally the corporation was subject to the penalty if its tax liability was $500 or more and it did not make timely payments of the smaller of (a) 100 percent of its tax liability for the year, or (b) 100 percent of its prior year tax

Pension, Profit-Sharing, Stock Bonus, and Annuity Plans

[Page 1, Line 24]

Employers who maintained a pension, profit-sharing or other funded deferred compensation plan were required to file a Form 5500, 5500-C, 5500-R, or 5500-EZ depending on the number of participants. Contributions made by employers to these plans were deductible under Code section 404. Excess contributions could have been carried over to succeeding years.

Amounts labeled "pension" in the other deductions schedule were included in the statistics for contributions to pension and profit-sharing plans. The statistics also included amounts identified as part of cost of goods sold and other deductions such as annuity plans, 401(k) plans, pension and profit-sharing plans, retirement annuity plans and stock bonus or option plans. Any amounts identified as part of cost of goods sold or capitalized under section 263A were excluded from cost of goods sold and included in these statistics. The combined amount for companies other than mining companies that reported an amount for a combination of welfare/retirement plans was included in the statistics for contributions to pension and profit-sharing plans.

Amounts found in other deductions on an 1120-A return and identified as pension and profit-sharing, stock bonus, and annuity plans were included in these statistics.

This item was not reported for regulated investment companies and real estate investment trusts.

Personal Holding Company Tax

[Page 3, Schedule J, Line 7]

In addition to the income tax and the alternative minimum tax, corporations classified as personal holding companies could have been liable for a tax. The Revenue Reconciliation Act of 1993 increased the personal holding company tax rate to 39.6 percent, effective for tax years beginning after December 31, 1992.

A corporation was treated as a personal holding company under section 542 if at least 60 percent of its adjusted ordinary gross income for the tax year was personal holding company income and, at any time during the last half of the tax year, more than 50 percent of the value of its outstanding stock was owned directly or indirectly by not more than five individuals.

The tax was imposed on the personal holding company's undistributed income after certain adjustments less the dividends paid deduction. Since most personal holding companies distributed all of their personal holding company income, only a small number were actually liable for the tax.

The tax was included in the statistics for industries other than holding and other investment companies, because a personal holding company could have been a subsidiary included in a consolidated return classified in another industry. The following corporations were exempt from personal holding company tax: corporations exempt from income tax, banks, domestic building and loan associations, life insurance and security companies, certain lending and finance companies, foreign personal holding companies, and certain small business investment companies.

The statistics could be slightly understated because the personal holding company tax was not always reported separately from the income tax.

Prior Year Minimum Tax Credit

[Form 8827, Line 8]

Beginning in 1988, corporations could reduce their income tax liability with the prior year minimum tax credit, if an alternative minimum tax had been paid for any year after 1986. The credit was designed to prevent double taxation of the same income. The dual tax could have resulted from the imposition of tax on the same income under the alternative and income tax systems. Under the alternative tax system, a corporation could have been required to pay a portion of tax that would otherwise be deferred under the regular system. The minimum tax credit could act as a mechanism to coordinate the two tax systems.

The credit was allowed for a portion of the alternative minimum tax from a prior year. The prior year alternative minimum tax was recomputed to disregard three tax preference items: percentage depletion, charitable contributions of appreciated property, and tax-exempt interest on bonds. The credit was limited to the excess of total income tax after credits over the current year tentative minimum tax. Any unused portion of the prior year minimum tax credit could be carried forward indefinitely to reduce the income tax. The credit was not designed to reduce any minimum tax liability. There were no carryback provisions for this tax credit. See also "Alternative Minimum Tax".

Purchases

[Page 2, Schedule A, line 2]

See “Cost of goods sold”.

Qualified Electric Vehicle Credit

A qualified electric vehicle was a motor vehicle that was manufactured primarily for use on public streets, roads, and highways, and has at least four wheels; powered primarily by an electric motor drawing current from rechargeable batteries, fuel cells, or other portable sources of electrical current; originally used by the taxpayer; and acquired for the taxpayer’s own use and not for resale. Qualified Electric Vehicles placed in service after June 30, 1993, were eligible for a credit that was equal to the lesser of 10% of the cost of the qualified electric vehicle after the reduction by any section 179 expense deduction claimed for the vehicle in Part I of Form 4562 or $4,000. The basis of any vehicle for which the credit was allowed was reduced by the amount of the credit. Vehicles that qualified for this credit were not eligible for the deduction for clean-fuel vehicles under section 179A. The Qualified Electric Vehicle credit is shown in Table 20.

Real Estate Investment Trust

Certain corporations, trusts, or associations elected to be taxed as a real estate investment trust (REIT). To qualify as a real estate investment trust, the trust had to meet certain ownership, purpose, income and diversification requirements. A beneficial ownership of the trust had to be established through transferable shares or transferable certificates of beneficial interest. Although the beneficial ownership had to be held by 100 or more persons, this rule did not apply for the first tax year of the trust. The trust could not be closely held; i.e., five or fewer persons could not hold ownership of more than 50 percent of the trust. This rule did not apply for the first tax year of the trust.

To qualify as a real estate investment trust for any tax year, the trust also had to satisfy certain gross income and diversification of investment requirements. These requirements were established through limitations on income. The limitations were imposed on the components of income and percentages of total gross income from certain components. For the purpose of computing the limitations, certain prohibited income was excluded from the total gross income. There were three income tests that a trust or association had to meet to qualify as a REIT:

(1) At least 95 percent of the total gross income of a real estate investment trust was required to be from: (a) dividends, (b) interest, (c) rents from real property, (d) gain from the sale of stock, securities, and real property, (e) abatements and refunds of taxes on real property, (f) income and gain from foreclosure property, (g) gain from the sale of a real estate asset which was not a prohibited asset, and (h) amounts received or accrued as consideration for entering into agreements:

(a) to make loans secured by mortgages (on real property or on interest in real property); or
(b) to purchase or lease real property (including interest in real property and interest in mortgages on real property).

(2) At least 75 percent of the total gross income of a real estate investment trust had to be derived from (a) rents from real property, (b) interest on obligations secured by mortgages on real property (or on interests in real property), (c) gain from the sale of real property (included interests in real property and interest in mortgages on real property) which was not prohibited property or property held primarily for sale to customers in the ordinary course of business, (d) dividends and gain from the sale of transferable shares (or transferable certificates of beneficial interest) in other qualified real estate investment trusts (e) abatements and refunds of taxes on real property, (f) income and gain from foreclosure property, (g) gain from the sale of a real estate asset which was not a prohibited sale, and (h) amounts received or accrued as consideration for entering into agreements concerning real property.

(3) Less than 30 percent of the total gross income of a real estate investment trust could be derived from the sale or other disposition of: (a) stock or securities held for less than one year, (b) property in a transaction which was a prohibited transaction, and (c) real property (including interests in real property and interests in mortgages on real property) held for less than four years other than:

(a) property converted involuntarily or in compliance with tax laws, and
(b) property which was foreclosure property.

At the close of each quarter of a taxable year, a real estate investment trust also had to satisfy certain asset requirements. At least 75 percent of its total assets were to consist of real estate assets, cash and cash items (including receivables), and Government securities. No more than 25 percent of its total assets could consist of securities other than Government securities. Limitations were further imposed on the amount of securities that could be issued to the trust by any one issuer. For a single issuer, the value of securities was limited to 5 percent of the total assets of the trust and to 10 percent of the outstanding voting securities of the issuer.

Financial institutions, such as mutual savings banks, cooperative banks, domestic building and loan associations, savings and loans associations and insurance companies to which subchapter L of the Code applies could not make this election. Foreign corporations were also excluded from this provision of U.S. tax law.

Recapture Taxes

[Page 3, Schedule J, Line 8]

The recapture of prior year investment credit, low income housing credit, Qualified Electric Vehicle (QEV) Credit, or Indian Employment Credit (IEC) was required when the conditions under which the credit was originally claimed no longer applied.

Recapture of Investment Credit

The recapture tax was required when depreciable (or amortizable) property, used in computing the investment credit of a prior year, was either disposed of or ceased to be qualifying property before the end of its useful life assumed at the time the credit was originally computed.

The tax was payable for the year in which the property was disposed of or became disqualified. It amounted to the difference between the credit originally claimed, based on the intended life in the year of acquisition, and the credit that would have been allowed, based on the actual life in the year of disposition or disqualification.

For investment credit property placed in service after 1980, a 2 percent recapture rule applied. The regular credit was computed upon early disposition by allowing a 2 percent credit for each year the property was held. Therefore, no recapture was required for eligible 5-year, 10-year, or 15-year recovery property held for at least 5 years or for eligible 3-year property held for at least 3 years. If certain listed property such as transportation, entertainment, recreation or amusement property placed in service after June 18, 1984, ceased to be used predominantly for business, corporations would have to recapture the investment credit claimed for the property. Unless otherwise indicated, the recapture tax of investment credit was included in the statistics for income tax in this report. See also “Investment Credit”.

Recapture of Low-Income Housing Credit

The Tax Reform Act of 1986 introduced the low-income housing credit. The 1986 Tax Act made the credit available for owners of qualified residential rental property which provided low-income housing. A 15-year compliance period for maintaining certain requirements was imposed on the residential rental building. Since the low-income housing credit was first claimed for Tax Year 1987, the recapture became applicable for 1988.

A part of the low-income housing credit, claimed in a previous year, had to be recaptured in a current tax year throughout the compliance period when:

(1) an owner's qualified basis in the building decreased from the previous tax year, or
(2) the building or an interest in the building was disposed of after the credit was taken in previous years, or
(3) a building failed to meet the percentage requirements for the number of low-income units ("set aside" requirements).

The decrease in basis had to exceed any additions to the qualified basis in the property after the property was placed in service. The recapture rule was not required for disposition of a building, if the owner had posted a satisfactory bond.

The amount of the recapture was based on the accelerated portion of the low-income housing credit claimed in previous years. This amount was generally equivalent to one-third of the previously claimed credit. The decrease in qualified basis, expressed as a percent of the total qualified basis in the rental property, was applied to the accelerated portion of the credit. For cases involving the disposition of the building or failure to meet the percentage requirements for low-income units, the full amount of the accelerated portion of the previously claimed credit was to be recaptured.

Interest was added to the recaptured accelerated portion of the credit to determine the final amount of the credit recapture. The interest was charged at the federally prescribed overpayment rate and determined quarterly. The interest could not be used as a business deduction against income.

The recapture tax of low-income housing credit was included in the statistics for total income tax before credits in this report. No income tax credits could reduce the amount of the credit recapture. Any amount of unused low income housing credit, carryforwards and carrybacks, were also to be decreased by the amount of the recapture.

Recapture of Qualified Electric Vehicle Credit

The qualified electric vehicle credit was subject to recapture if within 3 years after the date the vehicle was placed in service it ceased to qualify for the credit. The vehicle ceased to qualify if it was:

(1) Modified so that it was no longer primarily powered by an electric motor drawing current from rechargeable batteries, etc.,
(2) Used predominantly outside the United States,
(3) Used predominantly to furnish lodging or in connection with the furnishing of lodging,
(4) Used by certain tax exempt organizations, or
(5) Used by governmental units or foreign persons or entities.

The recapture amount was figured by multiplying the credit claimed by the recapture percentage. The percentages were: 100 percent if the vehicle ceased to qualify within the first full year, sixty six and two-thirds percent if the vehicle ceased to qualify in the second full year and thirty three and one-third percent if the vehicle ceased to qualify within the third full year after the date it was placed in service. There was no recapture if the vehicle continued to qualify for the credit through the first 3 years of service.

Recapture of Indian Employment Credit

Generally, if the employer terminated a qualified employee less than 1 year after the date of employment any credits allowed in prior years for reasons of wages paid or incurred by the employer to that employee must be recaptured. The recapture provisions do not apply if the employee voluntarily quit, was terminated because of misconduct, or if the employee became disabled. However, if the disability ended before the end of the first year of employment, the employer was required to offer to reemploy the former employee.

Reciprocal Tax

[Form 1120-PC, line 5]

Reciprocals are organizations composed of a group of persons, firms, or corporations who exchange contracts of insurance through the medium of an attorney-in-fact. A mutual insurance company which is an interinsurer or a reciprocal underwriter and whose taxable income is less than $100,000 may elect to limit the deduction for amounts paid or incurred to a qualifying attorney-in-fact to the amount of the deductions of the attorney-in-fact allocable to the income received by that attorney from the reciprocal. If such an election is made, any increase in taxable income of the reciprocal is taxed at the 35 percent rate.

Refund of Estimated Tax Payments

[Page 1, Line 32c]

A corporation which determined that it had overpaid its estimated tax could file for a quick refund or adjustment of the overpayment even before it filed its return. The estimated tax overpayment had to be at least $500 and at least 10 percent of the expected final income tax liability reported on the tax return. The application for refund had to be made within 2-1/2 months after the close of the taxable year and before the corporation had filed its income tax return.

While not shown separately, Refund of Estimated Tax Payments is a component of Overpayments less refund. See also "Overpayments less Refund" shown in tables 18 and 20.

Regulated Investment Company

A regulated investment company had to be a domestic corporation registered with the Securities and Exchange Commission. The company was registered as a management company, business development company, or a unit investment trust (defined under the Investment Act of 1940) or a common trust fund or similar fund (excluded from the definition of investment company under the 1940 Act) which was not exempt from taxation as a corporation under section 584 of the Code.

A regulated investment company was required to derive at least 90 percent of its gross income from dividends, interest, payments related to securities loans, and gains from the sale of stock or securities, foreign currencies, or other income related to its business of investing in such stock, securities or currencies. Less than 30 percent of the total gross income could be derived from the sale or other disposition of any of the following held for less than three months: stock or securities, options, futures, forward contracts, or foreign currencies not directly related to a company's principal business.

Certain restrictions also applied to the deduction for dividends paid (excluding capital gain dividends) of a regulated investment company. This deduction had to equal or exceed the sum of 90 percent of the company's taxable income (without regard to the dividend deduction) and 90 percent of its net income from tax exempt obligations.

Certain rules limiting diversified investments were also imposed on a regulated investment company. The company was required to meet those rules at the close of each quarter of its taxable year. At least 50 percent of its total assets had to be cash and cash items (including receivables), Government securities, securities of other regulated investment companies and other securities.

Limitations were further imposed on the amount of securities that could be issued to a regulated investment company by any one issuer. For a single issuer, the value of securities was limited to 5 percent of the total assets of the regulated investment company and to 10 percent of the outstanding voting securities of the issuer. Not more than 25 percent of the total assets of the regulated investment company could be invested in securities of any one issuer, or of two or more issuers (if controlled by the regulated investment company) engaged in the same or similar trades or businesses.

If a regulated investment company had more than one fund, each fund was treated as a separate corporation for income tax purposes.

Renewable Electricity Production Credit

This nonrefundable credit was available for the domestic production of electricity from qualified energy resources. It applied to closed-loop biomass facilities placed in service after 1992 and before July 1, 1999 or wind energy facilities placed in service after 1993 and before July 1, 1999. The credit was 1.5 cents per kilowatt- hour of electricity from one of the above sources sold to an unrelated person.

The renewable electricity production credit was included (as a component) in the general business credit shown in the tables. The components of the general business credit were shown separately in Table 21.

Rent Paid on Business Property

[Page 1, Line 16]

This deduction consisted of rents paid for the use of land, buildings or structures, and rents paid for leased roads, rolling stock, and work equipment for railroad companies. Also included in rents paid was the leasing of vehicles. Some corporations reported taxes paid and other specific expenses with rents paid. When identified, those items were included in the statistics for the respective deductions and excluded from rents paid.

Rent identified as part of the cost of goods sold, or capitalized under section 263A, was excluded from cost of goods sold and included in the statistics as rent paid on business property.

Rents

[Page 1, Line 6]

These were the gross amounts received for the use or occupancy of property. Expenses related to rental property, such as depreciation, repairs, interest paid, and taxes paid, were not deducted directly from the rental income, but were reported as business deductions from total receipts. Corporations engaged in manufacturing, public utilities, wholesale and retail trade, and services frequently leased rather than sold their products. Those rental incomes were included in the statistics for business receipts, rather than in rents. For real estate operators and condominium management and cooperative housing associations, rental income was included in business receipts rather than in rents, if the expense schedule indicated that the owner operated the building rather than leased it. Rent received by hotels, motels and other lodging places was also included in business receipts. No rent was reported for regulated investment companies or S corporations.

Repairs

[Page 1, Line 14]

Repairs reported as an ordinary and necessary business expense were the costs of maintenance and incidental repairs and could include the cost of labor, supplies and other items which did not add to the value or appreciably prolong the life of the property. Expenditures for permanent improvements which increased the cost or basis of the property were treated as capital expenditures and were generally depreciable. Regulated investment companies did not report repairs.

Research Activities Credit

The Small Business Job Protection Act of 1996 reinstated this credit, in general, for qualified research expenditures incurred after June 30, 1996 and before June 1, 1997. Instead of the regular credit, corporations may claim an incremental credit for costs paid or incurred during the taxpayer's first eleven months of the corporation's first tax year beginning after June 30, 1996.

Qualified research means research undertaken for discovering information that is technological in nature, and its application must be intended for use in developing a new or improved business component of the corporation. In addition, substantially all of the activities of the research must be elements of a process of experimentation relating to a new or improved function, performance, reliability, or quality. Excluded from qualified research, in general, are activities conducted to improve an existing product, or to adapt an existing process to a particular customer's needs. Also excluded is research that duplicates an existing product or process, relating to internal-use computer software, research conducted outside the United States, research funded by another person, or government entity, and research in social sciences, arts, or humanities.

The regular research credit is 20 percent (13 percent for corporations electing a reduced credit) of the amount by which current year expenditures exceed a computed base period amount, or 50 percent of current year expenditures, whichever is less, plus the difference between basic research payments paid to qualified organizations and qualified organization base periods amount. Current year expenses include wages for qualified services, cost of supplies, rental and lease costs of computer and 65 percent of research performed on the corporation's behalf. For tax years beginning after June 30, 1996, the amount is raised to 75 percent for payments made to a consortium which is a tax-exempt organization. The wages cannot include any wages used in computing the work opportunity credit. The base amount for an existing company is computed by multiplying the average annual gross receipts for the four years preceding the tax year for which the credit is being claimed by a fixed-base percentage (which cannot exceed 16 percent) computed by dividing the aggregate qualified gross receipts for tax years beginning after 1983 and before 1989 by the aggregate gross receipts for those years. The fixed-base percentage for a start-up company is 3 percent. This amount is then adjusted to account for the number of days in the corporation's tax year after June 30, 1996 and before June 1, 1997.

For tax years that began after June 30, 1996, corporations can elect the alternative incremental credit in place of the regular credit. Under this alternative incremental credit, corporations are assigned a smaller three-tiered fixed-base percentage and a reduced three-tiered credit rate. Once made such an election applies to the current tax year and to all subsequent tax years unless consent is received from the IRS to revoke the election.

The research activities credit was claimed as one of the components of the general business credit. For a discussion of the income tax limitations and carryback and carryforward provisions of the credit, see also “General Business Credit.”

The research activities credit was included (as a component) in the general business credit shown in the tables. The components of the general business credit were shown separately in Table 21.

Retained Earnings, Appropriated

[Page 4, Schedule L, Line 24(d)]

Earnings set aside for specific purposes and not available for distribution to stockholders were included under this heading. Included were guaranty funds (for certain finance companies), reserves for plant expansion, bond retirements, contingencies for extraordinary losses and general loss reserves. Also included were the total amount of all the companies' reserves not defined as valuation reserves or reserves included in other liabilities. Specifically excluded were the reserves for bad debts, depreciation, depletion, and amortization, which were shown separately in this report. Unrealized appreciation was included in retained earnings unappropriated. Unrealized profits were included in other liabilities. Unearned income, if not current, was also included in other liabilities. Any amount of retained earnings not identified as appropriated or unappropriated was considered unappropriated for purposes of these statistics.

Retained Earnings, Unappropriated

[Page 4, Schedule L, Line 25(d)]

Retained earnings, unappropriated, consisted of the retained earnings and profits of the corporation less any reserves (these reserves were shown in the statistics as Retained Earnings, Appropriated). Dividends and distributions to stockholders were paid from this account. These accumulated earnings included income from normal and discontinued operations, extraordinary gains or losses, and prior period adjustments. Also included were undistributed or undivided earnings (income or profits), and earned surplus. For railroads, these earnings included additions to property and funded debt retired through income and surplus. The statistics presented net amounts after reduction for negative amounts reported.

Returns of Active Corporations

These returns were the basis for all financial statistics presented in the report. They comprised the vast majority of the returns filed, and were defined for the statistics as returns of corporations reporting any income or deduction items, including tax-exempt interest.

Returns of Inactive Corporations

Corporations in existence during any portion of the taxable year were required to file a return even though they may have been inactive (Code section 6012(a)(2)). Inactive corporations were defined for this report as returns showing no item of income or deduction. Financial data from these returns were excluded from the statistics.

Returns With Net Income

Returns with net income were those showing gross taxable receipts exceeding the ordinary and necessary business deductions allowed by the Code. See also "Net Income (or Deficit)."

Returns Without Net Income

Returns without net income were those for which ordinary and necessary business deductions allowed by the Code exceeded gross taxable receipts. In addition to deficit returns, this classification also included returns whose gross taxable receipts and business deductions were equal. See also "Net Income (or Deficit)."

Royalties

[Page 1, Line 7]

Royalties were gross payments received, generally on an agreed percentage basis, for the use of property rights before taking deductions for depletion, taxes, etc. Included were amounts received from such properties as copyrights, patents, and trademarks; and from natural resources such as timber, mineral mines, and oil wells. Expenses relating to royalties, depletion or taxes, were not deducted directly from this income, but were reported among the various business deductions from total gross income. No royalties were included in the statistics for regulated investment companies, real estate investment trusts and S corporations.

Excluded from the statistics were certain royalties received under a lease agreement on timber, coal deposits, and domestic iron ore deposits, which were allowed special tax treatment. Under elective provisions of Code section 631, the net gain or loss on such royalties was included in the computation of net gain or loss on sales or exchanges of certain business property under section 1231. If the overall result of this computation was a net gain, it was treated as a long-term capital gain. If the overall result was a net loss, it was fully deductible in the current year as an ordinary noncapital loss. See also the discussions of "Net Capital Gains" and "Net Gain (or Loss), Noncapital Assets."

Salaries and Wages

[Page 1, Line 13]

Salaries and wages included the amount of salaries and wages paid by the corporation for the tax year, less the amount of any work opportunity credit, empowerment zone credit or Indian employment credit. Expenses such as bonuses, directors' fees, wages, payroll and salaries listed in the other deductions schedule were included with the statistics for salaries and wages. Salaries and wages did not include items deductible elsewhere on the return, such as contributions to a 401(k) plan, amounts contributed under a salary reduction SEP agreement or amounts included in cost of goods sold. The cost of goods sold schedule only included those salaries and wages paid or incurred that had a direct bearing on the price either of the product mined or manufactured, or of the service rendered. In addition, compensation of officers was not included with salaries and wages since it was listed as a separate deduction item on the return. Salaries and wages were shown separately in all tables and were no longer included in the statistics for other deductions.

S Corporation Returns

Form 1120S, U.S. Income Tax Return for an S corporation, was filed by corporations electing to be taxed through their shareholders under Code section 1362.

Certain closely-held taxable corporations were first given special treatment in 1958. Subchapter S of the Internal Revenue Code--from which these corporations take their name--provided a set of restrictive criteria which a company must meet in order to qualify. S corporations file Form 1120S, U.S. Tax Return for an S Corporation. Although some of the details have changed over the years, S corporations had to meet the following criteria for tax years beginning before 1997:

(1) no more than 35 shareholders;
(2) only individuals as shareholders (with an exception for estates and trusts);
(3) no nonresident alien shareholders; and
(4) only one class of stock.

Corporations that were ineligible to be treated as S corporations were:

(1) a member of an affiliated group eligible for inclusion in a consolidated return;
(2) a financial institution (mostly banks) to which Internal Revenue Code section 585, concerning deductions for additions to reserves for losses of bad debts, applied;
(3) an insurance company subject to tax under Subchapter L of the Internal Revenue Code;
(4) a corporation which elected to take advantage of the U.S. possessions tax credit; or

(5) an Interest-Charge Domestic International Sales Corporation (IC-DISC), or a former DISC.

An S corporation election terminated if any of the Code's eligibility rules were violated. An election was also terminated if a corporation's passive investment income exceeded specified limits.

An S corporation was mostly an income-reporting, not a taxpaying, entity. There was, in general, no corporate-level tax; instead, income was taxed to the shareholders immediately, whether or not actually distributed. The corporation reported gross income and allowable deductions from its ordinary trade or business activities. In contrast, income from passive activities as well as income from portfolio investments could not be reduced by related expenses before being passed through to the shareholders. Generally, each shareholder's share of the income and expenses and the net income from the trade or business of the corporation was passed through pro-rata on a per-share, daily basis.

The income and expenses related to passive activities and portfolio investments and the net income (or loss) from the business operations were reported on Schedule K of the Form 1120S.

The Tax Reform Act of 1986 required that all S corporations use a permitted tax year, regardless of when they became S corporations. A permitted tax year was a tax year ending December 31 (a calendar tax year) or any other ending accounting period, if the S corporation established a business purpose for the accounting period to the satisfaction of the Internal Revenue Service. The permitted tax year was effective for tax years which began after December 31, 1986. Subsequent changes to this provision allowed S corporations an election to have an accounting period other than the permitted tax year. Certain restrictions were imposed on the election.

Also added by the 1986 Tax Act, Code section 469 generally limited shareholders from offsetting any income that was not from passive activities with losses from passive activities. The shareholders also could only offset taxes on income from passive activities with credits from those passive activities. These limitations required that S corporations report income or loss separately on Schedule K for each of the following types of passive activities: (1) rental real estate activity, (2) rental activity other than real estate rental, and (3) portfolio income and related expenses not derived in the ordinary course of a trade or business, such as interest, dividends and royalties, for example. Other items that were separately stated on Schedule K included: section 1231 net gain or loss; charitable contributions; section 179 expense deduction; low-income housing credit, qualified rehabilitation expenses, and other credits; investment interest expense; and tax preference and adjustment items for shareholders to compute their alternative minimum tax.

An S corporation converting from a C corporation after 1986 generally incurred a corporate-level tax on any "built-in gains", which occurred when the S corporation disposed of an asset in a taxable disposition within 10 years after the date on which the S corporation election took place. Gain was "built-in" to the extent that the net appreciation of the assets sold occurred prior to the corporation's election to be taxed as an S corporation. The highest corporate tax rate (applicable to that type of income) was applied to the lesser of (1) the recognized built-in gain that was not taxed for that year or (2) the amount that would be the taxable income of the corporation if it were not an S corporation.

Certain tax credit carry forwards from C corporation years were used to offset the built-in gains tax. Total income tax before credits in the statistics also included taxes paid by S corporations for the recapture of LIFO inventory, capital gains tax, and for recomputing a prior year investment credit. Also, see “Excess Net Passive Income Tax” for a description of that tax as provided under Subchapter S of the Code.

Size of Business Receipts

Returns for nonfinance industries were classified by size of gross receipts from sales and operations. Returns of industries within the finance, insurance, and real estate industrial division were classified by size of total receipts (the sum of business receipts and investment income). See also “Business Receipts” and “Total Receipts.”

Size of Total Assets

Size of total assets was based on the amount reported on the end-of-year balance sheet. Also see "Zero Assets."

Size of Total Income Tax After Credits

This classification was based on the amount of total income tax before credits less the sum of credits for: foreign taxes; U.S. possessions tax; the production or sale of fuels from nonconventional sources; qualified electric vehicle; general business incentives; and prior year minimum tax. Total income tax before credits included: income tax; personal holding company tax; recapture taxes for investment credit, low-income housing credit, Indian employment credit and qualified electric vehicle credit; alternative minimum tax; environmental tax; branch tax (Form 1120-F), taxes paid by real estate investment trusts on certain income from: foreclosure property, failure to meet source of income requirements, and prohibited transactions (Tax from Part II, Part III, and Part IV, Form 1120-REIT, respectively); tax on undistributed net capital gain of regulated investment companies (Tax from Part II, line 4, Form 1120-RIC); taxes paid by S corporations on excess net passive income, certain capital gains, and net recognized built-in gains; and adjustments to income tax. For S corporations, only tax on some net recognized built-in gains was reduced by a carryover of general business credits from years as a C corporation.

Statutory Special Deductions

[Page 1, line 29c]

Statutory special deductions represented the sum of the deductions for: (1) net operating losses of prior years, (2) total special deductions as defined by the Code, i.e., the sum of deductions for dividends received and for dividends paid on certain preferred stock of public utilities, (3) deduction for dividends paid for regulated investment companies and real estate investment trusts, (4) section 857(b)(2)(E) deduction reported by real estate investment trusts and (5) small life insurance deduction for life insurance returns. Since these deductions were allowed by law, in addition to ordinary and necessary business deductions, they were shown in the statistics as deductions from net income. In general, net income less statutory special deductions equaled income subject to tax. However, the dividend deduction was not restricted to returns with net income, nor, in general, to the amount of net income, and thus became part of the statutory net operating loss for some corporations. Special deductions for dividends were not allowed to S corporations which elected to be taxed through shareholders. However, S corporations, which were C corporations prior to the S election, could reduce their net recognized built-in gains by the net operating loss carried forward from those years as a C corporation.

For companies which elected to file a consolidated return under Code section 1504(c), net income in the statistics represented the aggregate for the separate components of the consolidation. As a result, a consolidated return under Code section 1504(c) with a net deficit could report a net operating loss deduction.

The statutory special deductions contained in the statistics were defined as follows:

(1) Net operating loss deduction (NOLD)--The total net operating loss deduction was based on statutory net operating losses of prior or subsequent years which could be used to reduce taxable income for a specified number of years. The amount shown in this report, however, consisted only of losses from prior years actually used to reduce taxable income for the current year. Losses incurred after the current year and carried back to that year at a later date would be reported on the Corporation Application for Tentative Refund (Form 1139) or on amended income tax returns, (Form 1120X). Neither was used for this report. In general, losses were carried back over a 3-year period, chronologically, and any amount not offset against income during that time could then be carried forward against income for a period not exceeding 15 years. A corporation, however, could carry back, for 10 years, the part of a net operating loss attributable to a product liability loss.

Real estate investment trusts (REIT's) could not carry back any net operating loss (NOL) but could carry over the NOL for fifteen years. Regulated investment companies (RIC's) were not allowed a NOLD. S corporations which were formerly C corporations were allowed to use any carryover of net operating losses from previous years as a C corporation. However, this carryover could reduce only the net recognized built-in gains of the S corporation. The former provisions for a ten-year carryback and five-year carryover period for banks was repealed for taxable years that began after 1986. Thereafter, banks were generally allowed a carryback period of 3 years and a carryover period for 15 years. However, a special 10-year carryback provision was allowed to certain commercial banks which used the specific charge-off method for computing bad debts.

Net operating losses on which the current year deduction was based included: (a) the excess of ordinary and necessary business expenses over income in the previous loss years, and (b) statutory special deductions claimed in the loss year for dividends received and for dividends paid on certain preferred stock of public utilities (or any excess of such deductions over net income).

The net operating loss deducted for the current year was the excess of allowable deductions over gross income with certain adjustments: no NOLD was allowed and capital losses were only deductible to the extent of capital gains. A deduction for dividends received was allowed without regard to limitations.

(2) Total special deductions--For stock acquired after March 1, 1986, no deduction was allowable if the corporation held the stock for 45 days or less, or 90 days or less if it was cumulative preferred stock. The total special deductions were the sum of the following deductions:

(a) Dividends received deduction--The intercorporate dividends received deduction, under Code sections 243 - 246, was the sum of the following components:

1. Deductions equal to 70 percent of dividends received from less than 20 percent owned domestic corporations, and 80 percent of dividends received from 20 percent or more owned domestic corporations--These particular

deductions accounted for the major portion of the dividends received deduction. A small business investment company, operating under the Small Business Investment Act of 1958 could deduct 100 percent of dividends received from domestic corporations subject to income tax.

2. A deduction reduced from the 80 percent/70 percent dividends received from debt-financed portfolio stock--The 80 percent/70 percent deduction was reduced by a percentage that was related to the amount of debt incurred to acquire the stock. This reduction was calculated by multiplying the difference between 100 percent and the average portfolio indebtedness by 80 percent or 70 percent, depending on the percentage of ownership.

3. A deduction equal to 70 percent of certain dividends received from less than 20 percent owned foreign corporations and 80 percent of certain dividends received from 20 percent or more owned foreign corporations--

   a which had been engaged in a trade or business within the United States for at least 3 years and

   b which also had at least 50 percent of their gross income effectively connected with the U.S. trade or business. To qualify for the deduction the corporation must have owned at least 10 percent of the stock of the foreign corporation by vote and value.

4. A deduction equal to 100 percent of certain qualifying dividends received by members of an affiliated group not electing to file consolidated returns, but sharing instead, one set of graduated income tax brackets under section 1651.

5. A deduction equal to 100 percent of dividends received from wholly-owned foreign subsidiaries whose entire gross income was effectively connected with the conduct of a trade or business within the United States;

6. Deductions equal to about 42 percent of dividends received on certain preferred stock of less than 20 percent owned public utilities and 48 percent of dividends received on certain preferred stock of 20 percent or more owned public utilities for which a dividends paid deduction, described below, was also allowed the distributing corporation;

7. In the case of life insurance companies, the above percentage deductions were further reduced by the ratio of investment yield less total exclusions (operations) to investment yield.

(b) Limitation on the dividends received deduction --The aggregate amount of dividends received deductions that a corporation could take was limited to 70 percent (80 percent for 20 percent owned corporations) of its taxable income. For limitation purposes taxable income was generally computed without regard to any net operating loss deduction, dividends received or paid deduction or capital loss carryback. The limitation did not apply for the year if the full dividends received deduction resulted in a net operating loss. Small business investment companies were also excluded from this limitation.

(c) Deduction for dividends paid on certain preferred stock of public utilities--For public utility companies, as defined by law, a special deduction was allowable under Code section 247 for dividends if paid on certain preferred cumulative stock deemed issued prior to October 1, 1942. This deduction, based on the income tax rate, amounted to 40 percent of the dividends paid on such stock. If the dividends paid were greater than net income reduced (in general) by all other statutory special deductions for the year, the deduction could not exceed the above described percentage of net income after this adjustment.

(3) Deduction for dividends paid for Regulated Investment Companies and Real Estate Investment Trusts--The deduction for dividends paid as reported by regulated investment companies and real estate investment trusts was generally the sum of (1) dividends paid during the taxable year, (2) the consent dividends for the taxable year, and (3) for personal holding companies, the dividend carryover as described in Code section 564.

For regulated investment companies, the deduction must have equaled or exceeded the sum of 90 percent of its taxable income (excluding the dividend deduction) and 90 percent of its net income from tax-exempt obligations.

For real estate investment companies, the deduction must have equaled or exceeded the sum of: 95 percent of its real estate investment trust taxable income (excluding the dividend deduction and any net capital gain) and 95 percent of the excess of its net income from foreclosure property over the tax imposed on such income by Code section 857(b)(4)(A), minus any excess noncash income as determined under Code section 857(e).

(4) Section 857(b)(2)(E) deduction reported by Real Estate Investment Trusts--This deduction was equivalent to the tax imposed on real estate investment trusts (REITs) that failed to meet the income requirements. Generally, a 100 percent tax was imposed on the net income attributable to the greater of the amounts by which the trust failed to meet the 75 or 95 percent income test as outlined in the definition for REITs.

(5) Section 806(a) Small Life Insurance Company Deduction--a 60 percent deduction of the tentative LICTI (life insurance company taxable income) not exceeding $3,000,000 was allowed for any small life insurance company with assets less than $500,000,000.

Taxable Income

See "Income Subject to Tax."

Tax Deposited with Form 7004

[Page 1, Line 32e]

These statistics were derived from the income tax returns, rather than from Form 7004, Application for Automatic Extension of Time to File Corporation Income Tax Return. The automatic extension of time to file a corporate tax return was 6 months. A request for an extension of time to file the return did not postpone the payment of tax. When an extension was filed on Form 7004, the full amount of tax liability was due.

The statistics may be slightly understated because of taxpayer reporting variations and because of the inability to identify the total amount of payments from tax returns.

Tax Due at Time of Filing

[Page 1, Line 34]

Tax due was the amount by which the income tax liability at the time the return was filed exceeded payments and credits for certain taxes previously paid. For a corporation to have an income tax liability, the income tax less certain credits plus other taxes were not reduced to zero. The income tax could be reduced to zero by credits for: foreign taxes, possessions tax, the production or sale of fuels from nonconventional sources, qualified electric vehicle, general business incentives, and prior year minimum tax. Other taxes consisted of: tax on the undistributed income of personal holding companies; recapture taxes of investment credit, low-income housing credit, Indian employment credit and qualified electric vehicle credit; environmental tax; tax on excess net passive income, certain net long-term capital gains, and net recognized built-in gains of S corporations; tax on the undistributed net capital gain of regulated investment companies; tax on the net income of foreclosure property, failure to meet income requirements, and prohibited transactions of real estate investment trusts; and the branch tax of foreign corporations.

Based on this, the tax due at time of filing was the amount of the remaining liability for total income tax after credits plus any penalty for underpayment of estimated tax after taking into account: (a) credit for taxes deemed paid by regulated investment companies on undistributed capital gain dividends; (b) payments with applications for extension of time in which to file; (c) estimated tax payments less refunds; (d) credit for federal taxes on fuels; (e) prior year overpayment of tax applied to current year; (f) credit by reciprocal for tax paid under Code section 835(d); (g) prior year(s) special estimated tax payments applied to current year from life insurance and property and casualty insurance companies; and (h) special estimated tax payments from life insurance and property and casualty insurance companies. The entire tax due could be paid with the return at the time of filing, or the corporation could elect to pay the tax due in two equal installments. One installment had to be paid at the prescribed time of filing and the balance was due not later than 3 months after that date.

Some adjustments were made to tax returns by the taxpayer and included in the tax due. Adjustments made to income tax returns after they were filed could affect the final tax liability and the tax due. Such adjustments were not reflected in the statistics. Adjustments could result from tax examination, amended returns, or the use of carryback provisions for: net operating losses; certain capital losses; unused foreign taxes paid or accrued; and unused general business credits. See also "Income Tax."

Taxes Paid

[Page 1, Line 17]

Taxes paid included the amounts reported as an ordinary and necessary business deduction as well as identifiable amounts reported in the cost of goods sold schedules or capitalized under section 263A. Included among the deductible taxes were ordinary state and local taxes paid or accrued during the year; social security and payroll taxes; unemployment insurance taxes; excise taxes, import and tariff duties; business, license and privilege taxes; and the environmental tax. Income and profit taxes paid to foreign countries or

U.S. possessions were also deductible unless claimed as a credit against income tax. However, S corporations (primarily taxed through their shareholders) had to exclude any foreign taxes paid or accrued from the deduction for taxes paid in computing their net income from trade or business activities. Instead, the foreign taxes were passed through to the shareholders for their use as a foreign tax credit (or a deduction). Regulated investment companies also had to exclude those foreign taxes from the deduction for taxes when they elected under Code section 853 to allow their stockholders to claim a foreign tax credit (or a deduction) for the foreign taxes paid. However, if the election was not made, a regulated investment company could include foreign taxes paid in the deduction for taxes or claim a foreign tax credit. See also “Foreign Tax Credit.”

Taxes not deductible generally included Federal income and excess profits taxes (the environmental tax was an exception), gift taxes, taxes assessed against local benefits, and certain other taxes, including state or local taxes that were paid or incurred in connection with an acquisition or disposition of property. Taxes related to the acquisition of property were to be treated as part of the cost of the property, while taxes related to the disposition of property were to be treated as a reduction in the amount realized from the disposition.

Some corporations included sales taxes and excise and related taxes, which were part of the sales price of their products, as receipts. When this occurred, an equal and offsetting amount was usually included in the cost of goods sold or as part of the separate deduction for taxes paid. When included in the cost of goods sold, these taxes may not have been identified and therefore, would not have been included in the statistics for taxes paid.

Tax-Exempt Securities

[Page 4, Schedule L, Line 5(d)]

This balance sheet asset item comprised (1) state and local government obligations, the interest on which was excludable from gross income under section 103(a), and (2) stock in a mutual fund or other regulated investment company that distributed exempt-interest dividends during the tax year of the corporation. Examples included bond anticipation notes, project notes, Public Housing Authority bonds, and state and local revenue bonds.

Tax from Section I

[Form 1120-F, Page 1, Line 1]

This tax was reported by foreign corporations on Form 1120-F. The tax was imposed on U.S. source income not directly related to a business activity conducted in the United States, (i.e., not effectively connected income). The income was generally taxed at a flat 30 percent rate or at tax treaty rates if lower. The tax treaty rates resulted from negotiated treaties between the United States and the country in which the foreign company was incorporated. Fifty percent of the income received by foreign companies from transportation activities that began and ended in the United States was treated as U.S. source income. The U.S. source transportation income was taxed at a 4 percent rate. U.S. source income that was not effectively connected income of foreign corporations was subject to withholding provisions for U.S. income tax.

U.S. tax reported on Section I of Form 1120-F was included in the statistics only for those resident foreign companies which also had income that was effectively connected with the conduct of a trade or business in the United States. Foreign corporations which did not conduct business activities in the United States but had U.S. source income were also required to report the income and U.S. tax on Section I of the Form 1120-F. The U.S. tax for these companies was excluded from the statistics.

Tax from Section I was not included in the statistics for Income Tax, because the Section I tax was generally withheld from income at the source while income tax was generally a computed tax liability based on taxable income. Section I tax was not included in the statistics for Tax Due or Overpayment of Tax. This tax was presented separately in Tables 10 and 11.

Tax From Section II

[Form 1120-F, Page 1, Line 2]

U.S. tax was imposed on income from the trade or business activities conducted in the United States by resident foreign corporations. Income from those trade or business activities was reported on Section II of the Form 1120-F as effectively connected income and was subject to the regular U.S. corporate tax rates. Foreign corporations which did not conduct business activities in the United States could elect to treat income from U.S. real property as effectively connected income and were allowed regular business deductions against that income. Foreign companies organized in U.S. possessions to conduct banking business were generally required to report interest received on U.S. obligations as effectively connected income. Any gain or loss from the disposition of U.S. real property by foreign corporations was also treated as effectively connected income for U.S. tax purposes. This portion of U.S. source income of resident foreign corporations was included in the statistics for income subject to tax.

Section II tax was the U.S. tax on the effectively connected income of resident foreign corporations. This tax was income tax reduced by credits for: foreign taxes (for foreign corporations this was actually taxes paid to the United States on the effectively connected income), the production and sale of fuels from nonconventional sources, qualified electric vehicle, general business incentives, and prior year minimum tax. The recapture taxes of investment credit, low-income housing credit, Indian employment credit and qualified electric vehicle credit were added to the balance of total income tax after credits. Section II tax was presented separately in Tables 10 and 11. Any alternative minimum tax and environmental tax reported by foreign corporations were added to this tax and included in the statistics for total income tax before credits.

Tax Preference Items

See "Alternative Minimum Tax."

Tax Refund

[Page 1, Line 36]

This was the amount of the taxpayer's overpayment designated to be returned to the taxpayer. See "Overpayment of Tax".

Total Assets and Total Liabilities

[Page 4, Schedule L, Lines 15(d) and 27(d)]

Total assets and total liabilities were those reported in the end-of-year balance sheet in the corporations' books of account. Total assets were net amounts after reduction by accumulated depreciation, accumulated amortization, accumulated depletion, and the reserve for bad debts. When reserves for bad debts were reported as liabilities, they were treated as reductions from the asset accounts to which they related and total assets and liabilities were adjusted accordingly. When used in this report, the term total liabilities included both the claims of creditors and stockholders' equity (see also "Net Worth"). In addition, total liabilities were net amounts after reduction by the cost of treasury stock.

Asset and liability estimates for returns of corporations that failed to provide complete balance sheet information were imputed from data in other schedules on the tax return or by using either reference books or relationships between income statement and balance sheet items on similar returns in the same major industrial group.

Total Deductions

As presented in this publication, total deductions comprised (1) the cost of goods sold, (2) the ordinary and necessary business deductions from gross income, and (3) net loss from sales of noncapital assets. Components of total deductions were shown in the income statement segment of various tables throughout this report.

For certain small non-life insurance companies, with net or written premiums (whichever was greater) over $350,000 but not over $1,200,000, total deductions represented only investment expenses; underwriting business expenses were excluded by law. See also "Total Receipts."

Total Income Tax (S corporations)

For S corporations only total income tax in the data includes; income tax, excess net passive income tax, recapture taxes, adjustments to income tax and adjustments to total tax. Total income tax is included in tables 14 and 15.

Total Income Tax After Credits

[Page 3, Schedule J, Line 10]

Income tax after credits in the statistics represents total income tax before credits less the sum of credits for: foreign tax; U.S. possessions tax; the production or sale of fuels from nonconventional sources; qualified electric vehicle; general business incentives; and prior year minimum tax. See also "Income Tax" and "Total Income Tax Before Credits."

Total Income Tax Before Credits

The statistics for total income tax before credits included:

(1) income tax before reduction by any tax credits, which included tax on certain net long-term capital gains, and net recognized built-in gains of S corporations (see "Income Tax," in this section);
(2) personal holding company tax (under separate heading);
(3) recapture of investment credit (under separate heading);
(4) recapture of low-income housing credit (under separate heading);
(5) recapture of qualified electric vehicle credit (under separate heading),
(6) recapture of Indian employment credit (under separate heading)
(7) alternative minimum tax;
(8) environmental tax;
(9) tax on excess net passive income of S corporations (under separate heading);
(10) tax on undistributed net capital gain as provided under Code section 852(b)(3) for regulated investment companies ("Tax from Part II, line 4 1120-RIC," in the statistics);
(11) tax from certain income of REITs:
   (a) net income on foreclosure property ("Tax from Part II, 1120-REIT," in the statistics);
   (b) section 857(b)(5) income from failure to meet source of income requirements ("Tax from Part III, 1120-REIT," in the statistics); and
   (c) net income from prohibited transactions ("Tax from Part IV, 1120-REIT," in the statistics);
(12) the branch tax computed by foreign corporations on the earnings and profits and interest income of their U.S. branches (Form 1120-F); and
(13) any adjustments to income tax and total income tax before credits.

Some taxes included in total income tax before credits were not imposed directly on a corporation's income subject to tax, such as the recapture taxes described above. A small number of corporations without net income and income tax reported such taxes on their income tax returns. These taxes were included in the statistics for total income tax before credits. See also "Income Tax" for a description of: (1) returns without net income having income tax and (2) taxes not included in the statistics for returns with adjustments to tax from tax examination or use of carryback provisions of tax credits and net operating loss deductions.

Total Receipts

The components of total receipts were shown in the income statement segment of various tables throughout this report. This amount was derived as follows:

Included items:
(1) gross taxable receipts before deduction of cost of goods sold, ordinary and necessary business expenses, and
(2) tax-exempt interest received from state and local government obligations.

Excluded items:
(1) other nontaxable income recognized by the corporation, and
(2) certain taxable income from related foreign corporations only constructively received.

Long-term capital gains were excluded for regulated investment companies and S Corporations. Short-term capital gains were also excluded for S corporations.

For certain small non-life insurance companies, with net or direct written premiums (whichever was greater) over $350,000 but not over $1,200,000, the gross taxable receipts included in the statistics represented only the receipts from investments; underwriting income was excluded by law. See also "Total Deductions".

Total Receipts Less Total Deductions

This item differed from net income (less deficit) for tax purposes in that it included nontaxable interest on state and local government obligations and excluded constructive taxable income from related foreign corporations. As such, it included all of the income actually (as opposed to constructively) received by the corporation and reported on the income tax return.

Total Special Deductions

[Page 1, line 29b]

See “Statutory Special Deductions.”

Trans-Alaska Pipeline Liability Fund Credit

In general, a current year credit is allowed for amounts paid into the Trans-Alaska Pipeline Liability Fund for amounts which were actually transferred to the Oil-Spill Liability Fund on January 1, 1990. The amount of the credit shall not exceed the amount actually transferred and the interest accrued on any amount over the amount actually paid. The components of the general business credit were shown separately in Table 21.

U.S. Possessions Tax Credit

[Page 3, Schedule J, Line 4b]

In order to provide a tax incentive for domestic corporations to invest in Puerto Rico and U.S. possessions (including American Samoa, Guam, Johnston Island, Midway Islands, and Wake Island), the Tax Reform Act of 1976 added a tax credit--the U.S. possessions tax credit in lieu of the ordinary foreign tax credit. Under Code section 936, the U.S. possessions tax credit was equal to the U.S. tax on a corporation's income from the active conduct of a trade or business within a possession, the sale or exchange of all of the assets used in the trade or business, as well as certain qualified possession source investment income. To claim the credit, corporations had to make an election to be treated as a U.S. Possessions Corporation. The election was generally effective for ten years and could not be revoked except by IRS consent. After the tenth year, the corporation could revoke the election without consent. For each year in which the credit was claimed, the corporation had to satisfy the requirements of two income tests under Code section 936. For the applicable period, a domestic corporation had to receive: (1) at least 80 percent of its gross income from sources within a U.S. possession, and (2) at least 75 percent of its gross income from the active conduct of a trade or business within a U.S. possession. The applicable period was the lesser of 3 years immediately preceding the close of the current taxable year or the period during which the corporation was engaged in the active conduct of a trade or business within a U.S. possession. A possessions corporation could not claim a foreign tax credit for the same taxes claimed as a possessions tax credit. In addition, during the period of an effective election, a possessions corporation was prohibited from joining a consolidated income tax return.

U.S. Tax Paid or Withheld at the Source on Effectively Connected Income

[Form 1120-F, Page 1, Line 6h]

These were U.S. taxes reported by foreign corporations on Form 1120-F. This item included taxes paid or withheld on income related to a U.S. business activity (i.e., effectively connected income). U.S. income tax paid or withheld at the source was shown separately for effectively and non-effectively connected income in Tables 10, 11, and 20. Resident foreign corporations which did conduct a trade or business in the U.S. reported taxes paid or withheld:

(1) from the gains from any disposition of U.S. real property (as reported on Form 8288-A); and
(2) on effectively connected income allocable to foreign partners (as reported on Form 8805).

U.S. Tax Paid or Withheld at the Source on Non-Effectively Connected Income

[Form 1120-F, Page 1, Line 6h]

These were U.S. taxes paid or withheld by resident foreign corporations on income not directly related to a U.S. trade or business. Although these corporations were required to report taxes paid on income not effectively connected to a U.S. trade or business, these taxes were not included in the statistics for “Total Income Tax Before Credits”, “Tax Due”, or “Overpayment of Tax”. U.S. income tax paid or withheld at the source on non-effectively connected income are reported separately in Tables 10 and 11.

Work Opportunity Credit

An employer can take a credit for 35 percent of the qualified wages paid to members of targeted groups qualifying for the credit. This credit, formerly called the jobs credit, was available individuals who started work after September 30, 1996 and before October 1, 1997. The wages on which the credit can be claimed were limited to $6,000 for qualified employees and $3,000 for qualified summer youth employees. Qualified summer youth employee were limited to those paid or incurred for ant ninety-day period between May 1 and September 15. An employee is a member of a targeted group, if he or she is a:

(1) Qualified recipient of aid to families with dependent children (AFDC) or successor program.
(2) Qualified veteran.
(3) Qualified ex-felon.
(4) High-risk youth.
(5) Vocational rehabilitation referral.
(6) Qualified summer youth employee
(7) Qualified food stamp recipient.

In order for the employer to claim the credit on the employee's wages:

(1) More than half the wages paid must be for working in the employer's trade or business.
(2) The wages must not be repaid by a federally funded on-the-job training program for which the employer received work supplementation payments under the Social Security Act.
(3) The employee cannot be a relative or dependent of the employer.
(4) The employee cannot be a rehired employee if he or she was not a targeted group member when employed earlier.
(5) The employee must have been employed for at least 180 days or completed 400 hours of service (20 days or 120 hours for qualified summer youth employees).
(6) The wages cannot be for the services of replacement workers during a strike or lockout.

The components of the general business credit were shown separately in Table 21.

Zero Assets

Returns in this size class of total assets were:

(1) final returns of liquidating or dissolving corporations which had disposed of all assets;
(2) final returns of merging corporations whose assets and liabilities were reported in the returns of the acquiring corporations;
(3) part-year returns of corporations (except initial returns of newly incorporated businesses); and
(4) returns of foreign corporations with income effectively connected with the conduct of a trade or business in the United States. However, balance sheet data for foreign insurance companies filing on Form 1120-L or Form 1120-PC were included in the statistics, so such foreign corporations were classified by the size of the reported total assets. Balance sheet data for most foreign insurance corporations filing on Form 1120-L or Form 1120-PC were included in the statistics, so such foreign corporations were classified by the size of reported total assets. Balance sheet data for most foreign insurance companies filing Form 1120-F were included in the statistics as well. Also see “Size of total assets.”

SOURCE: IRS, Statistics of Income 1996 Corporation Income Tax Returns, Publication 16 (Rev. 10-99)