

# Sole Proprietorship Returns, 1986

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For Tax Year 1986 and for the fourth consecutive year, nonfarm sole proprietors reported a record high level of profits. As can be seen in Figure A, this continued the upward trend in profits that began with 1983 [1,2].

**Figure A.—Nonfarm Sole Proprietorship Profits, Tax Years 1980-1985**

| Tax Year   | Net income (less deficit) (billions) |
|------------|--------------------------------------|
| 1980 ..... | \$54.9                               |
| 1981 ..... | 53.1                                 |
| 1982 ..... | 50.6                                 |
| 1983 ..... | 60.4                                 |
| 1984 ..... | 70.8                                 |
| 1985 ..... | 78.8                                 |
| 1986 ..... | 90.4                                 |

The increase in profits reported for 1986 was shared by proprietorships in all industrial divisions except mining [3]. Several divisions realized increases in profits of 10 percent or more over those of the previous year, as shown in Figure B [4].

**Figure B.—Profits by Industrial Division, Tax Years 1985 and 1986<sup>1</sup>**

| Industrial Division                       | Net income (less deficit) (billions) |         |
|-------------------------------------------|--------------------------------------|---------|
|                                           | 1985                                 | 1986    |
| Mining .....                              | \$ 0.5                               | \$ -0.7 |
| Construction .....                        | 11.1                                 | 12.8    |
| Manufacturing .....                       | 1.3                                  | 1.5     |
| Transportation and public utilities ..... | 2.4                                  | 3.4     |
| Wholesale and retail trade .....          | 8.3                                  | 10.0    |
| Finance, insurance, and real estate ..... | 9.8                                  | 11.6    |
| Services .....                            | 43.1                                 | 48.8    |

<sup>1</sup> Excludes certain proprietorships included in Figure A, the nature of whose business was not allocable by industry.

Almost half of the increase in profits reported for all sole proprietorships was reported by industries in services, the division in which the sole proprietorship is the predominant form of business. All industry groups within services, except hotels, motion pictures, offices of dentists and chiropractors, and educational services, reported increases in profits of more than 10 percent.

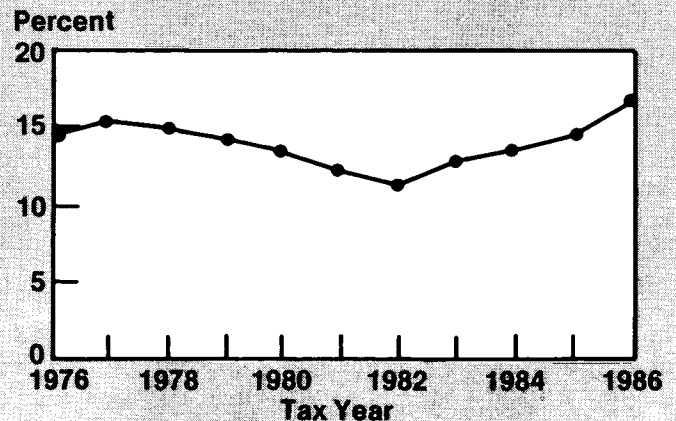
The large decrease in profits for the mining division (over 200-percent) resulted from the large declines in profits reported for metal mining and oil and gas extraction industries. For 1985, metal mining industries reported losses of \$12 million and oil and gas extraction industries reported profits of \$521 million. For 1986, both reported losses, \$50 million and \$640 million, respectively. Both of

the other industry groups in the division—coal and nonmetallic mineral mining—reported declines in profits compared with 1985.

The number of individual income tax returns reporting nonfarm sole proprietorship activity increased by 3.9 percent, from 11.9 million for 1985 to 12.4 million for 1986. The number of proprietorships increased in all but two industrial divisions—mining, down 9 percent, and trade, down 1 percent. The greatest increases in number of returns filed were in the construction division; finance, insurance, and real estate division; and the services division. The increases for the construction and services divisions represent a continuation of an upward trend in the number of proprietorships engaged in these activities.

Not only were profits up, but also the total reported receipts on which they were based were up for Tax Year 1985. Reported receipts increased 3.6 percent, from \$540 billion for 1985 to \$559 billion for 1986. This increase represented a gain in real (1982) dollar sales of \$4 billion [5]. The percentage ratio of profits to receipts also continued to rise, as Figure C shows. Contributing to this widening of the difference between receipts and profits were the small increases in the amounts deducted for cost of sales

**Figure C  
Percentage Ratio of Profits to Receipts, Tax Years 1976-1986**



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and operations (0.1 percent) and in the following other major expense items compared with the amounts deducted for 1985: depreciation (0.5 percent), rent paid (2.6 percent), and salaries paid (1.1 percent). Also, the amount deducted for another major expense item—interest paid on other than mortgage loans—declined over 14 percent, compared with 1985. Other detailed industry statistics and income statement items on nonfarm sole proprietorships are presented in Tables 1 and 2.

## SUMMARY

In summary, the continuing positive economic climate in 1986 produced good results for the majority of nonfarm sole proprietors. Overall, compared with 1985, a larger number of proprietorships reported larger receipts and profits. The increasing profitability of sole proprietors in service industries and the falling prices of oil and oil products during 1986 are evident in the statistics. Mining, the industrial division that includes oil and gas extraction industries, was the only division that reported overall net losses for 1986.

## DATA SOURCES AND LIMITATIONS

A general description of sampling procedures and data limitations applicable to the Statistics of Income (SOI) tabulations is contained in the Appendix to this issue. Specific information applicable to sole proprietorship data for 1986 is presented below.

### Sample Selection Criteria

The 1986 sole proprietorship estimates are based on data from a sample of individual income tax returns, Forms 1040, processed by the Internal Revenue Service (IRS) during 1986. The sample was stratified based on presence or absence of Schedule C, Profit or (Loss) from Business or Profession; Schedule F, Farm Income and Expenses; the larger of total income or total loss; and size of business plus farm receipts. The returns were selected at rates that ranged from 0.03 percent to 100 percent. For 1986, 31,628 nonfarm sole proprietorship returns were included in the sample; these were drawn from a population of 12,721,266 returns. For 1985, 38,154 out of 12,268,399 returns were selected.

### Limitations

Because the data presented in this article are estimates based on a sample of returns, they are subject to sampling as well as nonsampling error. To use properly the statistical data provided, it is important to know the magnitude of the potential sampling error.

Approximate coefficients of variation (CV's) for frequency estimates are presented in Figure D. These CV's can be used to obtain measures of the potential sampling error. They are shown here only as a general indication of data reliability. For numbers other than those shown, the corresponding CV's can be estimated by interpolation. The reliability of estimates based on samples and the use of CV's for evaluating the precision of sample estimates are discussed in the Appendix.

**Figure D.—Coefficients of Variation for Frequency Estimates, Tax Year 1986**

| Estimated number of returns | Approximate Coefficient of Variation |
|-----------------------------|--------------------------------------|
| 11,540,700                  | .016                                 |
| 7,386,100                   | .020                                 |
| 1,181,800                   | .050                                 |
| 295,400                     | .100                                 |
| 73,900                      | .200                                 |
| 32,800                      | .300                                 |
| 24,100                      | .350                                 |
| 11,800                      | .500                                 |

## NOTES AND REFERENCES

- [1] Unless otherwise noted, all money amounts in this article are as reported and are not adjusted for inflation.
- [2] Profits are represented by net income less deficit, before Federal income tax; they were calculated as the sum of net income (for businesses reporting a profit) offset by the net deficit (for businesses reporting a deficit) for all businesses within a particular industrial classification. Net income or net deficit for each business was calculated as business receipts minus cost of sales and operations and business deductions.

Changes in the tax laws and in the procedures for processing sole proprietorship returns affect the comparability of data for different tax years. The Tax Reform Act of 1986 made numerous changes to the tax law affecting sole proprietors. Although most of these changes became effective for 1987, some became effective for 1986. Most notably, a new depreciation system, the Modified Accelerated Cost Recovery System (MACRS), was developed for some property placed in service after July 1986.

Tax law changes for other recent years and changes in processing the returns that have affected the year-to-year comparability of data are described in detail in Wilson, Robert A., "Unincorporated Business Activity for 1981," *Statistics of Income Bulletin*, Spring 1983; in Wolfe, Raymond M., "Sole Proprietorship Returns, 1982," *Statistics of Income Bulletin*, Summer 1983; and in the annual editions of the *Statistics of Income—Sole Proprietorship Returns* (for years prior to 1982)

and the *Statistics of Income—Individual Income Tax Returns* series of annual statistical reports.

For a further discussion of unincorporated business activity, see "Partnership Returns, 1986," in this issue.

[3] For purposes of this article, the terms "sole proprietor" and "sole proprietorship" are used interchangeably. In fact, there are always more sole proprietorships than sole proprietors because some individuals own more than one business. Over the past two decades, the ratio of proprietorships to proprietors has remained constant at approximately 1.1 to 1. For a fuller explanation of the relationship between proprietors and proprietorships, see *Statistics of Income—1981, Sole Proprietorship Returns*.

[4] Data for proprietorships providing agricultural services

(including forestry and fishing) shown in Tables 1 and 2 are omitted from Figure B because of their close relationship to farming industry data, which are not tabulated annually. For Tax Year 1982 (the latest year for which detailed farm industry data are available), the number of farm returns was 2,691,722, and the number of returns reporting agricultural service businesses was 211,282. Reported receipts were \$99.3 billion and \$7.3 billion, respectively.

[5] Constant dollars were based on the Gross National Product (GNP) implicit price deflator (1982 = 100; 1985 = 112; 1986 = 115) calculated by the U.S. Department of Commerce, Bureau of Economic Analysis. For a discussion of this deflator, see U.S. Department of Commerce, *Survey of Current Business*, U.S. Government Printing Office, April 1988, Volume 67, Number 4.









**Table 1.—Nonfarm Sole Proprietorship Businesses: Business Receipts, Selected Deductions, Payroll, and Net Income, by Industry, 1986—Continued**

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

| Industry                                             | Businesses with and without net income—continued |                   |              |                     |                           |           |                         | Businesses with net income—continued |                   |              |                     |                           |           |            |
|------------------------------------------------------|--------------------------------------------------|-------------------|--------------|---------------------|---------------------------|-----------|-------------------------|--------------------------------------|-------------------|--------------|---------------------|---------------------------|-----------|------------|
|                                                      | Number of returns                                | Business receipts | Depreciation | Rent paid deduction | Interest paid deduction 1 | Payroll 2 | Net income less deficit | Number of returns                    | Business receipts | Depreciation | Rent paid deduction | Interest paid deduction 1 | Payroll 2 | Net income |
|                                                      | (1)                                              | (2)               | (3)          | (4)                 | (5)                       | (6)       | (7)                     | (8)                                  | (9)               | (10)         | (11)                | (12)                      | (13)      | (14)       |
| <b>Services—Continued</b>                            |                                                  |                   |              |                     |                           |           |                         |                                      |                   |              |                     |                           |           |            |
| Medical and health services                          | 557,428                                          | 38,458,197        | 1,504,232    | 1,695,653           | 676,251                   | 5,122,665 | 16,318,745              | 476,656                              | 36,334,367        | 1,335,968    | 1,557,445           | 557,891                   | 4,554,035 | 16,853,272 |
| Offices of physicians                                | 194,673                                          | 18,508,857        | 558,319      | 724,531             | 194,477                   | 1,744,781 | 9,711,094               | 168,178                              | 17,948,303        | 514,566      | 710,365             | 158,827                   | 1,654,880 | 9,893,929  |
| Offices of dentists                                  | 79,904                                           | 9,158,916         | 473,065      | 391,220             | 250,168                   | 1,752,623 | 3,120,285               | 74,087                               | 9,047,118         | 446,328      | 377,656             | 235,241                   | 1,733,841 | 3,226,907  |
| Offices of osteopathic physicians                    | 2,841                                            | 319,962           | 10,802       | 10,086              | 3,450                     | 43,242    | 183,460                 | 2,840                                | 319,961           | 10,797       | 10,086              | 3,450                     | 43,242    | 183,764    |
| Offices of chiropractors                             | 12,550                                           | 1,881,349         | 93,514       | 80,384              | 54,702                    | 285,722   | 707,833                 | 12,549                               | 1,880,128         | 93,474       | 80,221              | 54,702                    | 285,423   | 708,147    |
| Offices of optometrists                              | 15,083                                           | 1,659,989         | 75,991       | 115,964             | 51,234                    | 223,747   | 154,465                 | 7,723                                | 1,314,633         | 42,434       | 75,260              | 44,062                    | 182,072   | 226,489    |
| Registered and practical nurses                      | 73,777                                           | 724,959           | 11,123       | *3,158              | *2,476                    | *437      | 509,914                 | 65,028                               | 716,191           | *9,616       | *3,158              | *2,049                    | *437      | 530,843    |
| Nursing and personal care facilities                 | 41,480                                           | 2,006,659         | 79,749       | 86,768              | 73,102                    | 641,397   | 168,971                 | 35,373                               | 1,055,604         | 42,769       | 43,581              | 17,701                    | 239,898   | 211,028    |
| Hospitals                                            | **                                               | **                | **           | **                  | **                        | **        | **                      | **                                   | **                | **           | **                  | **                        | **        | **         |
| Medical laboratories                                 | 3,107                                            | 114,367           | 1,171        | *308                | *592                      | *703      | 50,966                  | *3,033                               | *112,465          | *646         | *167                | *544                      | *700      | *51,587    |
| Dental laboratories                                  | 25,513                                           | 1,087,890         | 38,619       | *59,491             | *15,729                   | 170,982   | 385,905                 | 21,873                               | 1,077,194         | *37,805      | *59,491             | *15,396                   | 170,982   | 387,044    |
| Other medical and health services                    | **                                               | **                | **           | **                  | **                        | **        | **                      | **                                   | **                | **           | **                  | **                        | **        | **         |
| Legal services                                       | 228,399                                          | 13,934,038        | 481,364      | 703,994             | 166,146                   | 1,416,884 | 6,417,305               | 194,538                              | 13,733,666        | 441,776      | 673,307             | 152,347                   | 1,374,858 | 6,593,762  |
| Educational services                                 | 181,254                                          | 1,112,315         | 75,678       | 64,752              | 20,302                    | 81,729    | 295,384                 | 125,513                              | 907,852           | 26,660       | 35,673              | 3,522                     | 35,745    | 413,333    |
| Engineering and architectural services               | 150,823                                          | 4,408,736         | 266,136      | 106,025             | 51,054                    | 387,899   | 1,974,442               | 125,826                              | 4,300,234         | 180,893      | 94,511              | 46,359                    | 372,036   | 2,140,236  |
| Accounting, auditing, and bookkeeping services       | 251,945                                          | 5,231,128         | 318,321      | 225,112             | 99,014                    | 916,915   | 2,092,564               | 227,153                              | 5,189,829         | 296,826      | 215,648             | 97,477                    | 906,130   | 2,170,027  |
| Certified public accountants                         | 31,719                                           | 1,252,629         | 84,982       | 63,228              | 18,290                    | 174,866   | 509,401                 | 28,674                               | 1,248,759         | 84,492       | 63,221              | 18,277                    | 174,858   | 519,357    |
| Other accounting, auditing, and bookkeeping services | 220,226                                          | 3,978,499         | 233,339      | 161,884             | 80,724                    | 742,049   | 1,583,164               | 198,479                              | 3,941,070         | 212,334      | 152,427             | 79,200                    | 731,272   | 1,650,670  |
| Other services                                       | 299,226                                          | 5,082,430         | 281,180      | 118,405             | 100,923                   | 410,202   | 1,560,007               | 229,850                              | 4,250,230         | 154,027      | 80,786              | 37,572                    | 262,555   | 1,846,415  |
| Nature of business not allocable                     | 272,001                                          | 8,285,646         | 351,436      | 204,007             | 191,319                   | 484,590   | 1,785,629               | 199,473                              | 7,510,768         | 268,174      | 166,805             | 120,278                   | 447,673   | 2,150,350  |

(1) Interest paid is the sum of mortgage interest and other interest. These items are shown separately in Table 2.

(2) Payroll is the sum of net wages paid plus cost of labor. These items are shown separately in Table 2.

(3) Less than \$500.

\* This estimate should be used with caution because of the small number of sample returns on which it was based.

\*\* The estimate for this cell is not shown to avoid disclosure of information for specific taxpayers. However, the data are included in the appropriate totals.

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









Table 2.—Nonfarm Sole Proprietorship Businesses: Income Statement for Selected Industries, 1986—Continued

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

Table with 15 columns: Item, (44), (45), (46), (47), (48), (49), (50), (51), (52), (53), (54), (55), (56), (57). Rows include Business receipts, Business deductions, and Net income for various retail categories like Food stores, Automotive dealers, and Apparel.

Footnotes at end of table.

Sole Proprietorship Returns/1986







Table 2.—Nonfarm Sole Proprietorship Businesses: Income Statement for Selected Industries, 1986—Continued

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

Table with columns: Item, Amusement and recreation services, Medical and health services, Legal services, Educational services, Engineering and architectural services, Accounting, auditing, and bookkeeping services, and Nature of business not allocable. Rows include Business receipts, Business deductions, and Net income for various industries.

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\* This estimate should be used with caution because of the small number of sample returns on which it was based. (†) Less than \$500. NOTE: Detail may not add to total because of rounding.