# 90

1917
2007

# Statistics of Income

*A Collection of Historical Articles*

# Introduction

In 2007, the 90th anniversary of the Statistics of Income (SOI) function, we looked back on a long and proud history filled with dedicated staff, operational innovations, and significant accomplishments. The 16th Amendment to the Constitution, which gave Congress the power to levy taxes, became effective in 1913, and the Revenue Act of 1916 included a requirement for the “preparation and publication of statistics reasonably available with respect to the operation of the income tax law.” A year later, in 1917, the predecessor of SOI was created, and the first statistical report was published in the following year.

Despite the many changes in people, methodologies, logistics, and technologies, the mission of SOI has remained virtually the same: to collect, analyze, and disseminate information on federal taxation for the Treasury Department; Congressional Committees; the Internal Revenue Service in its administration of the tax laws; other organizations engaged in economic and financial analysis; and the general public.

As part of our anniversary celebration, beginning with the summer 2007 issue of the *SOI Bulletin* and ending with the winter 2008 issue, we published a series of articles that present historic SOI data on a variety of topics. These articles are assembled here for your enjoyment and reference. While we look back in celebration, we also look forward to a bright future for SOI – one of expanding data products and statistical services, as well as extending our customer base. I hope you will enjoy our celebratory articles, which are also available as part of the SOI paper series on the Tax Stats Web site at www.irs.gov/taxstats, click on "SOI Paper Series."

*Tom Petska, Director*

# Contents

90 1917 2007 Statistics of Income

# SOI Trailblazers

*by James Dalton*

As SOI celebrates its 90th year of doing business and meeting the needs of its many customers, it is time to look back at the exceptional trailblazers who have made SOI products and services possible.

**Dr. Edward White** was the George Washington of Statistics of Income. He arrived in 1918 at an annual salary that today is less than one biweekly paycheck for a journeyman mathematical statistician at SOI—$2,000. Naturally, as the premier head of a new organization, his resume is a list of firsts:

- first SOI report on personal and corporate income tax returns (for 1916 in 1918)
- first data on sole proprietorships (for 1917 in 1919)
- first data on estate tax returns (for 1916-1922 in 1925)
- first complete income statements for corporations (for 1922 in 1925)
- first gift tax return statistics (for 1925 in 1926)
- first *Source Book* of corporation tax data (for 1926 in 1928)
- first separate individual and corporation reports (for 1934 in 1936)
- first fiduciary income statistics (for 1937 in 1940) and
- first detailed partnership statistics (for 1939 in 1945).

Dr. White took SOI from nonelectric comptometers to punch cards and machine tabulation around 1928. Sampling of individual income tax returns was introduced under his leadership, and, later in his tenure, stratified systematic samples of individual returns were also implemented. It is safe to say that his 29-year tenure (1918-1946) will probably never be surpassed.

**James Turner**, an IRS employee, replaced Dr. White in 1946. But possibly no one could replace Dr. White, for his successor had the shortest tenure of any SOI Director to date. He served 3 years (1946-1949).

Turner's elevation to Director was perhaps IRS recognition of his greatest achievement, as he is credited with development of the standard deduction. In IRS annals, this is quite an achievement. Today, all Americans facing their tax responsibilities can say a collective "thank you, Jim Turner" for the relief offered from their burden through the deduction.

**Bryce Bratt,** another IRS employee, took charge in 1949 and extended sampling, previously limited to individual returns, to corporation returns and then to returns for other SOI programs. For the corporate study, he achieved a sampling rate of 41.5 percent, handling 285,000 returns out of a total population of 687,000. But his 4-year tenure (1949-1953) faced backlogs of statistical reporting that could not be processed, finalized, or delivered due to World War II.

The task was overwhelming. Within 5 years, he was gone. A new era was about to dawn, not only for SOI but also for the Internal Revenue Service itself.

**Ernest Enquist**, the fourth Director of SOI, arrived in 1953 and brought about the IRS computer age. In 1954, his second year as Director, he funded half of the cost of a Remington Rand UNIVAC 1 purchased with the Census Bureau, where he had been a statistician. The UNIVAC was IRS's and, of course, SOI's first computer.

To achieve his vision, Enquist doubled SOI staffing and reassigned manual statistical processing to the field. This transition allowed SOI to establish the first quality control program to maintain integrity of data and also enabled focus on specialized areas like partnership returns, taxpayer usage studies, advance tabulations of individual data, capital gains, corporate foreign tax credit, sales of capital assets, depletion, and depreciation. In 1962, Enquist saw to the implementing of Public Law 87-870, which allowed SOI to conduct special studies for reimbursement, and, thus, it can be said that his 11-year tenure (1953-1964) laid the groundwork for most of what SOI now delivers.

The fifth Director of SOI, **Vito Natrella**, was a former Securities and Exchange Commission statistician. He took charge in 1964 and used the computer to identify returns for sample selection (previously a manual process). This revitalized the individual program, among others.

Natrella also introduced integer weights, or the rounding of weights to an integer value, to SOI weighting procedures. This eased data review procedures and assured that publication totals added evenly. But it was controversial.

Natrella finalized a one-time study on depletion (for 1960 in 1966) and initiated the first SOI estimates of personal wealth based on estate tax returns (for 1962 in 1967). These estimates involved use of the estate multiplier concept. He then published the first corporation report on the foreign tax credit (for 1961 in 1967) and the first corporation supplement on controlled foreign corporations (for 1962 in 1969).

Natrella widened the focus of SOI studies to include high-income taxpayers and the incomes of U.S. citizens working abroad, as well as corporate income from U.S. possessions, international boycott participation, employee benefit plans, and private foundations. He also implemented the use of Master File data for individual income tax studies, which previously relied on data that had been processed independently. The Natrella Era (1964-1980) set the stage for the sixth Director of SOI to create the organization widely known today.

**Fritz Scheuren**, former Social Security Administration chief statistician, became Director of SOI in 1980. His passion for print led to the founding of several publications that form the cornerstone of the SOI mission "to collect, analyze, and disseminate information on Federal taxation for the Treasury Department's Office of Tax Analysis, Congressional committees, the Internal Revenue Service in its administration of the tax laws, other organizations engaged in economic and financial analysis, and for the general public." Scheuren published the first issue of the quarterly *Statistics of Income Bulletin* in 1981 and the first issue of SOI's methodological report series in 1982, when the Statistical Division became the Statistics of Income Division.

He then instituted an annual program on tax-exempt organizations and published the only SOI statistics to date on employee benefit plans (for 1977 in 1982). He published the first SOI compendiums on international income and taxes (for 1979-1983) and partnerships (for 1978-1982) in 1985. He also established the estate tax return program as an annual study in 1986.

One of the greatest innovations of his era (1980-1993) was convening the first meeting of the SOI Advisory Panel to involve academics, business representatives, and tax policymakers in SOI work processes in 1986. Throughout his tenure, he invested in human capital, seeing that economists and mathematical statisticians had the training necessary to meet the computer programming needs of the Division. Scheuren also spearheaded the TQO (Total Quality Organization) initiative at SOI.

In 1989, he established SOI's Statistical Information Services. Its mission to answer phone, walk-in, and written requests, and later e-mail requests, for SOI products and services continues to this day. Scheuren's mission to raise SOI visibility in any form possible also led to the SOI electronic bulletin board, which began disseminating data in 1992 and today, as SOI's Tax Stats Web site, contains an ever-growing wealth of material, including data tables and the latest articles and papers developed by SOI economists and mathematical statisticians, as well as other researchers.

The seventh Director of SOI, **Dan Skelly**, was a former economics instructor and pension fund manager, who combined both academic and corporate experience when he came to SOI in 1983. He had supervised the Foreign Statistics Branch, now known as the Special Studies Branch, for 10 years and left his mark on international, estate, nonprofit, and excise tax studies before taking the SOI helm in 1993. He believed in the mantra that "people are the organization" and invested in a Divisionwide recruitment effort to attract and hire the best and the brightest.

As much as a good resume impressed Skelly, he knew that team spirit moves an organization, and so he picked candidates who could work well together. He hired many of SOI's present staff members and conducted most of the interviews himself. "Top of the morning," he used to say, and top of the candidates is what he got.

Skelly also emphasized training in order to keep SOI competitive with other statistical organizations and measured success not only in the number of annual studies conducted (60) but in the number of careers developed. "The quality of statistics," he liked to say, "depends on the quality of those you hire."

Toward that end, his recruitment tours and speaking engagements at local colleges and universities were well-known events.

He finetuned a number of SOI initiatives on his watch, bolstered the estate and gift audit selection program through estate and gift studies, and facilitated a separate audit program for exempt organizations through nonprofit studies.  Perhaps for his most tangible human capital achievement, Skelly was instrumental in seeking and filling new senior technical positions throughout SOI, because he strongly believed that SOI staff perform at a high level.  Remembered for his people skills and the bright optimism he encouraged throughout the Division, as well as for leading SOI into the Internet Age and the 21st Century, the Skelly Era (1993-2001) set the stage for its present Director.

**Tom Petska**, a former BEA and SSA economist and Chief of SOI's Special Studies Branch, became Director of SOI in 2001 and used his influence from day one to increase SOI standing in the statistical community.  He led the way in maintaining high visibility as a world-class organization by encouraging staff to present papers at major conferences:  the American Accounting Association (AAA), the American Economic Association (AEA), the American Statistical Association (ASA), and the National Tax Association (NTA).  He himself presented papers on tax-exempt organizations, tax shelters, business organizational choice, individual income distributions, interagency data sharing, and the greater use of Master File data and was inducted as an American Statistical Association Fellow in 2004.

Petska does not believe that SOI should operate in a Federal statistical vacuum and has re-established the SOI Advisory Panel Meeting as a semiannual event in 2001.  Now in its 22nd year, this meeting provides Government economists and statisticians with much needed outside perspectives and views from academia, nonprofit think tanks, and accounting firms.  Under Petska's leadership, SOI not only reports on 130 projects and functions in semiannual reports to Treasury's Office of Tax Analysis (OTA) and the Congressional Joint Committee on Taxation (JCT) but has finished virtually every one on or ahead of schedule with some of the highest quality levels it has ever achieved.

Petska also advocates the effective management of "white space," those often overlooked places where areas of expertise intersect and where, as in economic terms, common ground becomes a public good.  To share best practices across branches, he has commissioned an inhouse team for Web modernization and subject-matter experts for publications improvement.  A Johnny Unitas fan, his management philosophy comes straight from the gridiron, "Find out where statistics are going, and move in those directions."

Petska, who went as a Federal consultant to the Republic of South Africa to help its government restructure their revenue agency, is now shaping SOI beyond his own tenure.  He is leading efforts to develop a strategic vision, SOI 2016, and is working with RAS Director Mark Mazur, former Treasury Deputy Assistant Secretary Bob Carroll, and OTA Director Don Kiefer to project SOI to the future.  He has spared no effort to think and act "SOI-global" in his agency's move to Graphical User Interface (GUI) systems, in its deployment of split-screen editing technologies, and its successful contributions to the Modernized e-File (MeF) initiatives.

When asked where SOI stops in building bridges to the statistical community and its many customers throughout the world, the Petska answer has always been, "Why stop?"  Petska believes that SOI's future lies in having more, not fewer, leaders and that by joining the ranks of SOI's "highest performers"—its "All-Pros"—its starting lineup will be "All Stars" in every sense of the word.  SOI's continued success is thereby assured.

# The Estate Tax: Ninety Years and Counting

*by Darien B. Jacobson, Brian G. Raub, and Barry W. Johnson*

For the past 90 years and at key points throughout American history, the Federal Government has relied on estate and inheritance taxes as sources of funding. Proponents have frequently advocated that these taxes are effective tools for preventing the concentration of wealth in the hands of a relatively few powerful families, while opponents believe that transfer taxes discourage capital accumulation, curbing national economic growth. This tension, along with fiscal and other considerations, has led to periodic revisions of Federal estate tax laws, affecting both the size of the decedent population subject to the tax and the revenue collected.

## The Statistics of Income Division's Estate Tax Studies

The Statistics of Income Division (SOI) and its predecessor organizations have compiled statistics on estates that file Federal estate tax returns since the inception of the tax in 1916. These data have been instrumental in both administering the tax and forming a better understanding of the financial arrangements employed by the nation's wealthiest individuals.

Data from estate tax returns are regularly used to estimate annual revenues and to project future receipts. These data have also been used to support the analysis and debates that occurred in crafting the tax law changes chronicled in this paper. In this context, estate tax data have frequently been used to evaluate the effects of the tax laws on the economic and social behavior of the very wealthy. For example, the effects of estate taxation on the longevity of businesses and farms, as well as the effects of the tax on a decedent's propensity to make charitable bequests, have been important considerations to policymakers when debating changes in estate tax laws.

In addition to using estate tax data directly for tax policy administration, these data have formed the foundation for periodic estimates of personal wealth held by the living population. These wealth estimates are produced from estate tax data using the estate multiplier technique and are an important tool for studying the U.S. macroeconomy, as well as a valuable supplement to information collected through surveys, which frequently underrepresent the very wealthy.[1] SOI first published estimates of personal wealth derived from estate tax data for 1962, following in the footsteps of scholars like Horst Mendershausen and Robert Lampman, who had published similar estimates for earlier decades using SOI tabulated data. SOI estate tax data have also been used to study the transmission of wealth between generations, and, combined with data from income tax returns filed by decedents prior to death, to derive measures of economic well-being.

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## Historical Overview

The term "death tax" has been used to describe a variety of different taxes related to the "power to transmit or the transmission or receipt of property by death."[2] Stamp taxes or duties, are taxes on the recordation of legal documents such as wills. Estate taxes are excise taxes on the privilege of transferring property at death and are usually graduated based on the size of the decedent's entire estate. An inheritance or legacy tax is an excise tax levied on the privilege of receiving property from the decedent. These taxes are usually graduated based on the amount of property received by each beneficiary and on each beneficiary's relationship to the decedent.[3]

Taxation of property transfers at death can be traced back to ancient Egypt as early as 700 B.C.[4] Nearly 2,000 years ago, Roman Emperor Caesar Augustus imposed the *Vicesina Hereditatium*, a tax on successions and legacies to all but close relatives.[5] Taxes imposed at the death of a family member were quite common in feudal Europe, often amounting to a family's annual property rent. By the 18th century, stamp duties and registration fees on wills, inventories, and other documents related to property transfers at death had been adopted by many nations, including that of the newly formed United States of America.

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[1] For more detail on using the estate multiplier technique to estimate wealth, see: Johnson, B. and L. Woodburn (1993), "Estate Multiplier Technique, Recent Improvements for 1989," *Compendium of Federal Estate Tax and Personal Wealth Studies*, 391-400, Statistics of Income Division.

[2] Silberstein, Debra Rahmin, (2003) "A History of the Death Tax—A Source of Revenue or Vehicle for Wealth Redistribution," *Brandeis Graduate Journal,* Vol. 1, Issue 1 www.brandeis.edu/gradjournal, p. 1.

[3] Bittker, Boris I, Elias Clark, and Grayson M.P. McCouch (2005) *Federal Estate and Gift Taxation*, 9th Ed., Thompson/ West, St. Paul, MN p. 9.

[4] Paul, Randolph E. (1954), *Taxation in the United States*, Little, Brown, and Company, Boston, MA.

[5] Smith, Adam (1913), *An Inquiry into the Nature and Causes of the Wealth of Nations*, E.P. Dutton, New York.

### The Stamp Tax of 1797

In 1797, the U.S. Congress chose a system of stamp duties as a source of revenue in order to raise funds for a Navy to defend the nation's interests in response to an undeclared war with France that had begun in 1794. Federal stamps were required on wills offered for probate, as well as on inventories and letters of administration. Stamps also were required on receipts and discharges from legacies and intestate distributions of property.[6] Taxes were levied as follows: 10 cents on the inventories of the effects of deceased persons, and 50 cents on the probate of wills and letters of administration. The tax on the receipt of legacies was levied on bequests larger than $50, from which widows (but not widowers), children, and grandchildren were exempt. Bequests between $50 and $100 were taxed 25 cents; those between $100 and $500 were taxed 50 cents; and an additional $1 was added for each subsequent $500 bequest. In 1802, the crisis ended, and the tax was repealed.[7]

### The Revenue Act of 1862

In the years immediately preceding the American Civil War, revenue from tariffs and the sale of public lands provided the bulk of the Federal budget. The advent of the Civil War again forced the Federal Government to seek additional sources of revenue, and a Federal death tax was included in the Revenue Act of 1862 (12 Stat. 432). However, the 1862 tax differed from its predecessor, the stamp tax of 1797, in that the 1862 tax package included a legacy or inheritance tax in addition to a stamp tax on the probate of wills and letters of administration. Originally, the legacy tax only applied to personal property, and tax rates were graduated based on the legatee's relationship to the decedent, not on the value of the bequest or size of the estate. Rates ranged from 0.75 percent on bequests to ancestors, lineal descendants, and siblings to 5 percent on bequests to distant relatives and those not related to the decedent. Estates of less than $1,000 were exempted, as were bequests to the surviving spouse. Bequests to charities were taxed at the 5-percent rate, despite pleas from many in Congress that the tax should be used to encourage such gifts.[8] The stamp tax was graduated and ranged from 50 cents on estates valued at less than $2,500 to $20 on estates valued from $100,000 to $150,000, with an additional $10 assessed on each $50,000 or fraction thereof over $150,000.

By 1864, the mounting cost of the Civil War led to the reenactment of the 1862 Act, with some modifications.[9] These changes included the addition of a succession tax—a tax on bequests of real estate—and an increase in legacy tax rates (Figure A). In addition, the tax was applied to any transfers of real estate made during the decedent's life for less than adequate consideration, except for wedding gifts, thus establishing the nation's first gift tax. Transfers of real estate to charities, were taxed at the highest rates. Bequests to widows, but not widowers, were exempt from the succession tax, as were bequests of less than $1,000 to minor children. The end of the Civil War, and subsequent discharge of the debts associated with the war, gradually eliminated the need for extra revenue provided by the 1864 Act. Therefore, in 1870, the legacy and succession taxes were repealed.[10] The stamp tax was repealed in 1872.[11] Between 1863 and 1871, these taxes had contributed a total of about $14.8 million to the Federal budget.

**Figure A**

**1864 Death Tax Rates**

| Relationship | Rate on property (percent) | Rate on legacies (percent) |
|---|---|---|
| Lineal descendants, ancestors | 1.0 | 1.0 |
| Siblings | 2.0 | 1.0 |
| Descendants of siblings | 2.0 | 2.0 |
| Uncle, aunt, and their descendants | 4.0 | 4.0 |
| Great uncle, aunt, and their descendants | 5.0 | 5.0 |
| Other relatives, unrelated individuals | 6.0 | 6.0 |
| Charities | 6.0 | 6.0 |

### The War Revenue Act of 1898

Throughout the last half of the 19th century, the industrial revolution brought about profound changes in the U.S. economy. Industry replaced agriculture as the primary source of wealth and political power

[6] Stamp Act of 1797, 1 Stat. 527.
[7] Zaritsky, H. and T. Ripy (1984), *Federal Estate, Gift, and Generation Skipping Taxes: A Legislative History and Description of Current Law*, Report No. 84-156A.
[8] Office of Tax Analysis (1963), *Legislative History of Death Taxes in the United States*, unpublished manuscript.
[9] Internal Revenue Law of 1864 §124-150, 13 Stat. 285.
[10] Internal Taxes, Customs Duties Act of 1870 §27, 16 Stat. 269.
[11] Internal Revenue Act of 1867, 14 Stat. 169, Customs Duties and Internal Revenue Taxes Act of 1872 §36, 17 Stat 256.

**Figure B**

**1898 Legacy Tax Rates**

| Relationship | Rates by size of estate | | | | |
|---|---|---|---|---|---|
| | $10,000 under $25,000 (percent) | $25,000 under $100,000 (percent) | $100,000 under $500,000 (percent) | $500,000 under $1 million (percent) | $1 million or more (percent) |
| | (1) | (2) | (3) | (4) | (5) |
| Lineal descendants, ancestors, siblings | 0.750 | 1.125 | 1.500 | 1.875 | 2.250 |
| Descendants of siblings | 1.500 | 2.250 | 3.000 | 3.750 | 4.500 |
| Uncle, aunt, and their descendants | 3.000 | 4.500 | 6.000 | 7.500 | 9.000 |
| Great uncle, aunt, and their descendants | 4.000 | 6.000 | 8.000 | 10.000 | 12.000 |
| All others | 5.000 | 7.500 | 10.000 | 12.500 | 15.000 |

NOTE: Estates under $10,000 were exempt from the tax.

in the United States. Tariffs and real estate taxes had traditionally been the primary sources of Federal revenue, both of which fell disproportionately on farmers, leaving the wealth of industrialists relatively untouched. Many social reformers advocated taxes on the wealthy as a way of forcing the wealthy to pay their fair share, while opponents argued that such taxes would destroy incentives to accumulate wealth and stunt the growth of capital markets.[12]

Against this backdrop, a Federal legacy tax was proposed in 1898 as a means to raise revenue for the Spanish-American War. Unlike the two previous Federal death taxes levied in times of war, the 1898 tax proposal provoked heated debate. Despite strong opposition, the legacy tax was made law.[13] Although called a legacy tax, it was a duty on the estate itself, not on its beneficiaries, and served as a precursor to the present Federal estate tax. Tax rates ranged from 0.75 percent to 15 percent, depending both on the size of the estate and on the relationship of a legatee to the decedent (Figure B). Only personal property was subject to taxation. A $10,000 exemption was provided to exclude small estates from the tax; bequests to the surviving spouse also were excluded. In 1901, certain gifts were exempted from tax, including gifts to charitable, religious, literary, and educational organizations and gifts to organizations dedicated to the encouragement of the arts and the prevention of cruelty to children.[14] The end of the Spanish-American War came in 1902, and the tax was repealed later that year.[15] Although short-lived, the tax raised about $14.1 million.

## The Modern Estate Tax

The years immediately following the repeal of the inheritance tax were witness to an unprecedented number of mergers in the manufacturing sector of the economy, fueled by the development of a new form of corporate ownership, the holding company. This resulted in the concentration of wealth in a relatively small number of powerful companies and in the hands of the businessmen who headed them. Along with such wealth came great political power, fueling fears over the rise of an American plutocracy and sparking the growth of the progressive movement. Progressives, including President Theodore Roosevelt, advocated both an inheritance tax and a graduated income tax as tools to address inequalities in wealth.[16] This thinking eventually led to the passage of the 16th Amendment to the Constitution and the enactment of the Federal income tax. It was not until the advent of another war, World War I, that Congress would enact the Federal estate tax.

The Revenue Act of 1916 (39 Stat. 756) created a tax on the transfer of wealth from an estate to its beneficiaries, and thus was levied on the estate, as opposed to an inheritance tax that is levied directly on beneficiaries. It applied to net estates, defined as the total property owned by a decedent, the gross estate, less deductions. An exemption of $50,000 was allowed for residents; however nonresidents who owned property in the United States received no exemption. Tax rates were graduated from 1 percent on the first $50,000 to 10 percent on the portion exceeding $5 million. According to the act, taxes were due

[12] Bittker, Clark and McCouch, p. 4.
[13] War Revenue Act of 1898, 30 Stat. 448, 464.
[14] War Revenue Reduction Act of 1901, 31 Stat. 956.
[15] War Revenue Repeal Act of 1902, §7, 32 Stat. 92.
[16] See, for example, Bittker, Clark, and McCouch pp. 3-9.

**Figure C**

**Significant Estate Tax Law Changes: 1916 to Present**

**1916** - Estate tax enacted

**1918** - Tax base expanded to include: spouse's dower rights, exercised general powers of appointment, and life insurance over $40,000 payable to estate; charitable deduction added

**1924** - Gift tax enacted; State death tax credit added; revocable transfers included in tax base

**1926** - Gift tax repealed

**1932** - Gift tax reintroduced

**1935** - Alternate valuation

**1942** - Tax base expanded to include: all insurance paid for by decedent; most powers of appointment, and community property (less spouse's actual contribution to cost)

**1948** - Marital deduction replaced 1942 community property rules

**1951** - Powers of appointment rule relaxed

**1954** - Life insurance rules modified to exclude insurance the decedent never owned

**1976** - Unified estate and gift taxes; added generation-skipping transfer tax (GST), orphan deduction, carryover basis rule, special valuation and payment rules for small business and farms; increased marital deduction

**1980** - Carryover basis rule repealed retractively

**1981** - Unlimited marital deduction; tax base changed; full value pension benefits, ½ joint property automatically excluded; orphan deduction repealed

**1986** - ESOP deduction added and GST modified

**1987** - Phaseout of graduated rates and unified credit for estates over $10 million introduced

**1988** - QTIP allowed for marital deduction; estate freeze and GST modified

**1989** - ESOP deduction dropped

**1990** - Estate freeze rules replaced

**1997**- Qualified Family-owned Business deduction, conservation easement introduced; 1987 phaseout of unified credit revoked.

**2001** - EGTRRA

1 year after the decedent's death, and a discount of 5 percent of the amount due was allowed for payments made within 1 year of death. A late payment penalty of 6 percent was assessed unless the delay was deemed "unavoidable."

Over the 9 decades since the inception of the Federal estate tax, the U.S. Congress has enacted important additions to, and revisions of, the estate tax structure (Figure C). There have also been occasional adjustments to the filing thresholds, tax brackets, and marginal tax rates (Figure D). The history of major changes to the estate tax structure can be divided into two main eras: 1916 through 1948 and 1976 to the present.

### Significant Tax Law Changes: 1916 through 1948

Following the enactment of the estate tax in 1916, the first major change in structure was the addition

**Figure D**

**Estate Tax Exemptions and Tax Rates**

| Year | Exemption (dollars) | Initial rate (percent) | Top rate (percent) | Top bracket (dollars) |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| 1916 | 50,000 | 1.0 | 10.0 | 5,000,000 |
| 1917 | 50,000 | 2.0 | 25.0 | 10,000,000 |
| 1918-1923 | 50,000 | 1.0 | 25.0 | 10,000,000 |
| 1924-1925 | 50,000 | 1.0 | 40.0 | 10,000,000 |
| 1926-1931 | 100,000 | 1.0 | 20.0 | 10,000,000 |
| 1932-1933 | 50,000 | 1.0 | 45.0 | 10,000,000 |
| 1934 | 50,000 | 1.0 | 60.0 | 10,000,000 |
| 1935-1939 | 40,000 | 2.0 | 70.0 | 50,000,000 |
| 1940 [1] | 40,000 | 2.0 | 70.0 | 50,000,000 |
| 1941 | 40,000 | 3.0 | 77.0 | 10,000,000 |
| 1942-1976 | 60,000 | 3.0 | 77.0 | 10,000,000 |
| 1977 [2] | 120,000 | 18.0 | 70.0 | 5,000,000 |
| 1978 | 134,000 | 18.0 | 70.0 | 5,000,000 |
| 1979 | 147,000 | 18.0 | 70.0 | 5,000,000 |
| 1980 | 161,000 | 18.0 | 70.0 | 5,000,000 |
| 1981 | 175,000 | 18.0 | 70.0 | 5,000,000 |
| 1982 | 225,000 | 18.0 | 65.0 | 4,000,000 |
| 1983 | 275,000 | 18.0 | 60.0 | 3,500,000 |
| 1984 | 325,000 | 18.0 | 55.0 | 3,000,000 |
| 1985 | 400,000 | 18.0 | 55.0 | 3,000,000 |
| 1986 | 500,000 | 18.0 | 55.0 | 3,000,000 |
| 1987-1997 [3] | 600,000 | 18.0 | 55.0 | 3,000,000 |
| 1998 | 625,000 | 18.0 | 55.0 | 3,000,000 |
| 1999 | 650,000 | 18.0 | 55.0 | 3,000,000 |
| 2000-2001 | 675,000 | 18.0 | 55.0 | 3,000,000 |
| 2002 | 1,000,000 | 18.0 | 50.0 | 3,000,000 |
| 2003 | 1,000,000 | 18.0 | 49.0 | 3,000,000 |
| 2004 | 1,500,000 | 18.0 | 48.0 | 3,000,000 |
| 2005 | 1,500,000 | 18.0 | 47.0 | 3,000,000 |
| 2006 | 2,000,000 | 18.0 | 46.0 | 3,000,000 |
| 2007 | 2,000,000 | 18.0 | 45.0 | 3,000,000 |

[1] 10-percent surtax was added.
[2] Unified credit replaces exemption.
[3] Graduated rates and unified credits phased out for estates greater than $10,000,000.

of a tax on inter vivos gifts, a gift tax, which became a permanent feature of the transfer tax system in 1932.[17] This tax was imposed because Congress realized that wealthy individuals could avoid the estate tax by transferring wealth during their lifetimes. Under the 1932 rules, a donor could transfer $50,000 free of tax during his or her lifetime with a $5,000 per donee annual exclusion from gift tax.

The Revenue Act of 1935 (49 Stat. 1014) introduced the optional valuation date election. While the value of the gross estate at the date of death determined whether an estate tax return had to be filed, the act allowed an estate to be valued, for tax purposes, 1 year after the decedent's death. With this revision, for example, if the value of a decedent's gross estate dropped significantly after the date of death—a situation faced by estates during the Great Depression of 1929—the executor could choose to value the estate at its reduced value after the date of death. The optional valuation date, today referred to as the alternate valuation date, later was changed to 6 months after the decedent's date of death.

Most outstanding among the pre-1976 changes to estate tax law was the establishment of estate and gift tax marital deductions, introduced by the Revenue Act of 1948 (62. Stat. 110). The estate tax marital deduction, as enacted by the 1948 Act, permitted a decedent's estate to deduct the value of property passing to a surviving spouse, whether passing under the will or otherwise. However, the deduction was limited to one-half of the decedent's adjusted gross estate—the gross estate less debts and administrative expenses. The act also created a similar deduction for inter vivos gifts to a spouse.

### Significant Tax Law Changes: 1976 to the Present

After 1948, the Congressional Record remained relatively free of reference to the estate tax and the entire transfer tax system until the enactment of the Tax Reform Act (TRA) of 1976 (90 Stat 1521). This act created a unified estate and gift tax framework that consisted of a "single, graduated rate of tax imposed on both lifetime gifts and testamentary dispositions."[18] Prior to the act, "it cost substantially more to leave property at death than to give it away during life," due to the lower tax rate applied to gifts.[19] The Tax Reform Act of 1976 also merged the estate tax exclusion and the lifetime gift tax exclusion into a "single, unified estate and gift tax credit, which may be used to offset gift tax liability during the donor's lifetime but which, if unused at death, is available to offset the deceased donor's estate tax liability."[20] An annual gift exclusion of $3,000 per donee was

[17] This tax was first introduced in the Revenue Act of 1924, 43 Stat. 253, then repealed by the Revenue Act of 1926, 44 Stat. 9, and then reintroduced by the Revenue Act of 1932, 47 Stat. 169.
[18] Zaritsky and Ripy, p. 18.
[19] Bittker, Boris I., and Elias Clark (1990), *Federal Estate and Gift Taxation*, Little, Brown, and Company, Boston, MA, p. 20.
[20] Zaritsky and Ripy, p. 18.

retained. In addition, the act provided for annual increases in the estate tax filing exemption beginning with an increase from $60,000 to $120,000 for 1977 decedents, resulting in a filing threshold of $175,625 for decedents dying after 1980.

The 1976 tax reform package also introduced a tax on generation-skipping transfer trusts (GSTs). Prior to passage of the act, a transferor, for example, could create a testamentary trust and direct that the income from the trust be paid to his or her children during their lives and then, upon the children's deaths, that the principal be paid to the transferor's grandchildren. The trust assets included in the transferor's estate would be taxed upon the transferor's death. Then, any trust assets included in the grandchildren's estates would be taxed at their deaths. However, the intervening beneficiaries, the transferor's children in this example, would pay no estate tax on the trust assets, even though they had enjoyed the income derived from those assets. Congress responded to the GST tax leakage by creating a series of rules that were designed to treat the termination of the intervening beneficiaries' interests as a taxable event. Under these rules, a grantor was allowed to transfer up to $1,000,000 to a GST tax-free, with amounts over that taxed at the highest marginal estate tax rate. As with the gift tax exclusion, married persons may combine their GST tax exemptions, allowing couples a $2-million exemption. Overall, the GST tax "ensures that the transmission of hereditary wealth is taxed at each generation level."[21]

The Economic Recovery Tax Act (ERTA) of 1981 (95 Stat. 172) brought several notable changes to estate tax law. Prior to 1982, the marital deduction was permitted only for transfers of property in which the decedent's surviving spouse had a terminable interest—an interest that grants the surviving spouse power to appoint beneficiaries of the property at his or her own death. Such property is, ultimately, included in the surviving spouse's estate. However, the ERTA of 1981 allowed the marital deduction for life interests that were not terminable, as long as the property was "qualified terminable interest property" (QTIP), defined as property in which the (surviving) spouse has sole right to all income during his or her life, payable at least annually, but no power to transfer the property at death. To utilize the deduction, however, the QTIP must be included in the surviving spouse's gross estate. The 1981 Act also introduced unlimited estate and gift tax marital deductions, thereby eliminating quantitative limits on the amount of estate and gift tax deductions available for spousal transfers.

The ERTA of 1981 increased the unified transfer tax credit, the credit available against both the gift and estate taxes. The increase, from $47,000 to $192,800, was to be phased in over 6 years, effectively raising the tax exemption from $175,625 to $600,000 over the same period. The ERTA of 1981 also raised the annual gift tax exclusion to $10,000 per donee; an unlimited annual exclusion from gift tax was allowed for the payment of a donee's tuition or medical expenses. Also, through ERTA, Congress enacted a reduction in the top estate, gift, and generation-skipping transfer tax rates from 70 percent to 50 percent, applicable to transfers greater than $2.5 million. The reduction was to be phased in over a 4-year period; however, subsequent legislation delayed this decrease. The issue was resolved with the passage of the Omnibus Budget Reconciliation Act of 1993 (107 Stat. 312). This act created a new marginal tax rate of 53 percent on taxable transfers between $2.5 million and $3 million and set the maximum marginal tax rate to 55 percent on taxable transfers exceeding $3 million.

In 1997, the 105th Congress passed the Taxpayer Relief Act of 1997 (111 Stat. 788). Among the most significant changes to estate and gift tax laws included in this act was the incremental increase of the unified credit to $345,800 by 2006, effectively raising the estate tax filing threshold to $1 million. There was also legislation in the 1997 Act that added a family business deduction for estates in which a business made up at least 50 percent of the total gross estate. Also significant in the 1997 Act, a number of thresholds and limits were indexed for inflation. Among these were the annual gift tax exclusion and the lifetime generation-skipping transfer tax exemption, as well as the ceiling on the reduction in value allowed under special rules for valuing real estate used by a farm or business.

The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 (115 Stat. 38) provided for sweeping changes to the transfer tax system, the most significant of which was the eventual repeal of

[21] Bittker and Clark, p. 30.

Figure E

Federal Transfer Tax Rates and Exemptions, by Year of Transfer, 2005-2011

| Year of transfer | Estate tax exemption (dollars) | Generation-skipping transfer (GST) tax exemption (dollars) | Gift tax exemption (dollars) | Maximum unified credit (dollars) | Highest estate and GST tax rate (percent) |
|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) |
| 2005 | 1,500,000 | 1,500,000 | 1,000,000 | 555,800 | 47.0 |
| 2006 | 2,000,000 | 2,000,000 | 1,000,000 | 780,800 | 46.0 |
| 2007 | 2,000,000 | 2,000,000 | 1,000,000 | 780,800 | 45.0 |
| 2008 | 2,000,000 | 2,000,000 | 1,000,000 | 780,800 | 45.0 |
| 2009 | 3,500,000 | 3,500,000 | 1,000,000 | 1,455,800 | 45.0 |
| 2010 | Unlimited | Unlimited | 1,000,000 | N/A | N/A |
| 2011 | 1,000,000 | 1,000,000 | 1,000,000 | 345,800 | 55.0 |

N/A- Not applicable

the tax. Specifically, the law provided for periodic increases in the exemption amount for decedents who die after December 31, 2001, so that the effective filing threshold will be $3.5 million by 2009. The tax is then repealed for decedents who die in 2010.[22] The act also specified changes in the tax rate schedule, replaced the credit for death taxes paid to States with a deduction, and increased the lifetime gift tax exemption. Barring further Congressional action, however, all of the provisions of EGTRRA will expire in 2011, and all affected tax laws will revert back to their 2001 status. As a result, the estate tax would be reinstated for deaths occurring in 2011 and later, with a $1 million exemption.

### Current Estate Tax Law

Under current estate tax law, a Federal estate tax return must be filed for every deceased U.S. citizen whose gross estate, valued on the date of death, combined with adjusted taxable gifts made by the decedent after December 31, 1976, and total specific exemptions allowed for gifts made after September 8, 1976, equals or exceeds the amount shown in Figure E. The estates of nonresident aliens also must file if property held in the United States exceeds $60,000. All of a decedent's assets, as well as the decedent's share of jointly owned and community property assets, are included in the gross estate for tax purposes. Also considered are most life insurance proceeds, property over which the decedent possessed a general power of appointment, and certain transfers made during life that were revocable or made for less than full consideration. An estate is allowed to value assets on a date up to 6 months after a decedent's death if the value of assets declined during that period. Special valuation rules and a tax deferment plan are available to an estate that is primarily comprised of a small business or farm.

Expenses and losses incurred in the administration of the estate, funeral costs, and the decedent's debts are allowed as deductions against the estate for the purpose of calculating the tax liability. A deduction is allowed for the full value of bequests to the surviving spouse, including bequests in which the spouse is given only a life interest, subject to certain restrictions. Likewise, bequests to charities and death taxes paid to States are fully deductible. A unified tax credit, or applicable credit amount and a credit for gift taxes the decedent may have paid during his or her lifetime are also allowed.[23] The estate tax return (Form 706) must be filed within 9 months of the decedent's death unless a 6-month extension is requested. Taxes owed for generation-skipping transfers in excess of the decedent's exemption and taxes on certain retirement fund accumulations are due concurrent with any estate tax liability. Interest accumulated on U.S. Treasury bonds redeemed to pay these taxes is exempt from taxation.

## Scope of the Transfer Tax System

The scope of the transfer tax system, as measured by the size of the population directly affected by the system, is quite narrow. The number of taxable estate tax returns filed for selected years of death between

[22] Under pre-EGTRRA law, capital gains on appreciated assets were not subject to income tax at death, and heirs who sold inherited assets paid taxes only on gains earned after the decedent's death. Under the provisions of EGTTRA, once the estate tax is repealed, this "step-up" in basis for inherited assets that have capital gains is repealed, subject to an exemption.

[23] The unified credit or applicable credit amount is equivalent to the estate tax calculated on the exemption amount applicable for a decedent's year of death. The credit can be used to offset both gift taxes incurred on lifetime transfers and estate taxes owed incurred at death.

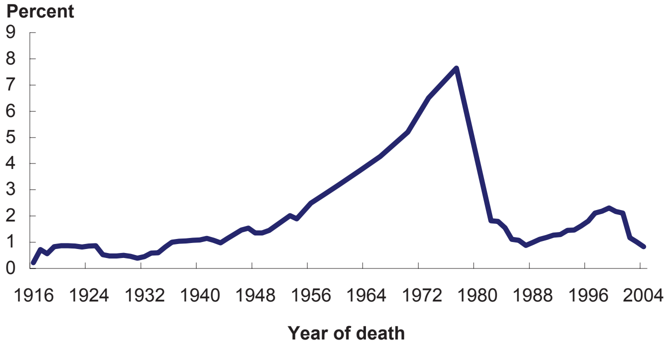
1916 and 2004 as a percentage of all adult deaths is shown in Figure F. For most years during this period, the number of taxable estate tax returns represented less than 2 percent of all adult deaths. For deaths after 1954, a growing percentage of estates were taxed, hitting a peak of nearly 8 percent in 1976, when more than 139,000 taxable returns were filed. The Tax Reform Act in 1976 doubled the effective exemption of $60,000 that had stood unchanged since 1954. Periodic increases in the estate tax filing threshold in the years that followed have kept the size of the affected decedent population relatively small.

When compared to revenue generated by taxes on individual or corporate income, the scope of the transfer tax system is also narrow (Figure G). With few exceptions, revenue from Federal estate and gift taxes has lingered between 1 percent and 2 percent of Federal budget receipts since World War II, reaching a post-war high of 2.6 percent in 1972. In recent years, Federal estate and gift taxes have made up about 1 percent of total budget receipts.

Figure H shows the total amount of gross estate and net estate tax, in constant 2004 dollars, reported on taxable returns between 1916 and 2004. Both total gross estate and net estate tax increased significantly in real terms during this time period, a product of changes in both the estate tax law and the economy. The effect of the former can be seen by comparing Figure H to Figures D and F, shown above. During the period 1917 and 1950, the total gross estate remained between $20 billion and $40 billion, in 2004 dollars. However, the total net estate tax increased considerably, from less than $1 billion in 1917 to more than $4 billion in 1950. This corresponds with the increasing tax rates during this period. After 1950, the total gross estate and total net estate tax increased rapidly, as the $60,000 exemption remained unchanged until 1977. Periodic increases in the exemption amount and reductions in the top tax rate after this date kept the total gross estate and total net estate tax below their 1976 high, in real terms, until new peaks were reached during the late 1990s. Real declines in both of these measures after 1999 correspond with exemption increases and

## Figure F

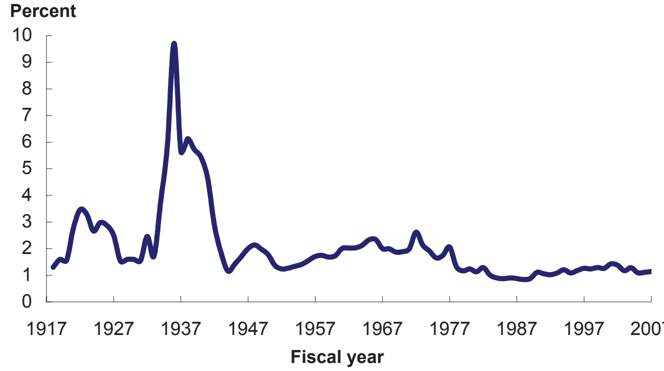
**Taxable Estate Tax Returns As a Percentage of All Adult Deaths, 1916-2004**




NOTE: Adult deaths are U.S. residents, age 20 and older.

## Figure G

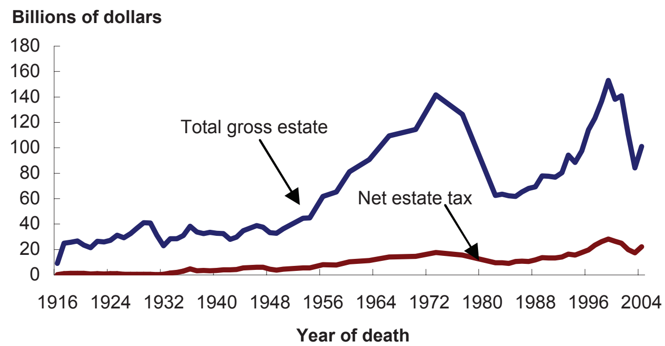
**Estate and Gift Receipts as a Percentage of Total Revenue, 1917-2007**




NOTE: Data for 2006 and 2007 are estimates.
SOURCES: Joulfaian, David (1998), *The Federal Estate and Gift Tax: Description, Profile of Taxpayers, and Economic Consequences*, OTA Paper 80; *IRS Data Book*, Fiscal Year 2007; and Midsession Review Budget of the U.S. Government.

## Figure H

**Total Gross Estate and Net Estate Tax Reported on Taxable Returns, 1916-2004, in Constant 2004 Dollars**




NOTE: Money amounts converted to constant 2004 dollars using CPI-U.

tax rate decreases resulting from the Taxpayer Relief Act of 1997 and EGTRRA in 2001.

## Charitable Giving

In addition to its direct economic and fiscal impacts, some researchers have shown that estate tax rates can influence both the incidence and level of charitable giving, due to the availability of an unlimited charitable deduction provided by estate tax law. Figure I shows the number of estates that claimed a deduction for charitable bequests as a percentage of all filers, between Filing Years 1976 and 2004, for all decedents whose gross estate was at least $1 million in constant 2004 dollars. During this period, there was a slight increase in the percentage of decedents who made charitable bequests, increasing from a little more than 20 percent of all decedents prior to 1983, to an average of nearly 24 percent in more recent years. Figure I also shows the share of gross estate that these decedents bequeathed to charity. In general, the value of property bequeathed to charities, as a percentage of total gross estate, was lower in the years immediately following the passage of ERTA in 1981 than in 1976.[24] ERTA included two provisions that may have contributed to this difference. First, the introduction of the unlimited marital deduction may have induced some decedents to shift bequests from charities to the surviving spouse, since, after ERTA, gifts to charities no longer provided a tax advantage over bequests to a spouse. In such cases, it is possible that some married couples may have simply altered the timing of their charitable gifts, either by making larger lifetime donations or by deferring charitable bequests until the death of the surviving spouse. Second, under ERTA, the top marginal estate tax rate was reduced from 77 percent to 55 percent, and, according to some research, tax rates affect the charitable giving at death in both the size of charitable bequests and the number of charitable organizations named as beneficiaries.[25]

## Asset Composition

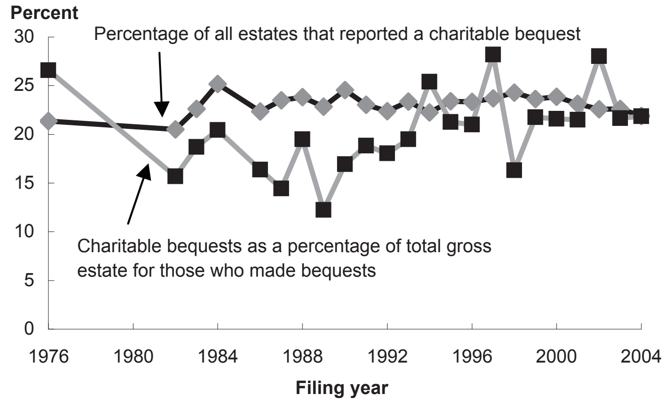
The asset composition of wealthy decedents as reported on estate tax returns is a topic of interest to many researchers because of what it may reveal about the U.S. economy and investment markets over time. Figure J shows estates' asset composition reported for decedents with gross estates of at least $1 million in constant 2004 dollars between Filing Years 1976 and 2004. Total stock, including stock held in mutual funds, made up the largest share of assets for these decedents during most of this period, comprising between 30 percent and 43 percent of gross estate. Some of the variation in this percentage can be explained by movements in the overall stock market. For instance, after 1995, the percentage of gross estate held in stock increased steadily from 30 percent to a high of 43 percent in 1999, when more than $84 billion in stock, in constant 2004 dollars, was reported. During these years, the stock market as a whole experienced very strong performance, reflected by an increase of more than 165 percent in the S&P 500 index between January 1994 and January 1999.[26] By 2004, the percentage of gross estate held in stocks declined to less than 31 percent, which is consistent with a drop of 34 percent in the S&P 500 index by January 2004 from its peak in August 2000.

Total real estate, including commercial real estate and farm land, generally made up a higher percentage of total gross estate during the period 1976 through 1990 than in the years that followed, peaking at a high of more than 32 percent in 1983. While the

**Figure I**

**Charitable Giving, 1976-2004**

**Decedents with Total Gross Estates of $1 Million or More, in Constant 2004 Dollars**




NOTES: No data are available for filing years 1977-1981. Money amounts converted to constant 2004 dollars using CPI-U.

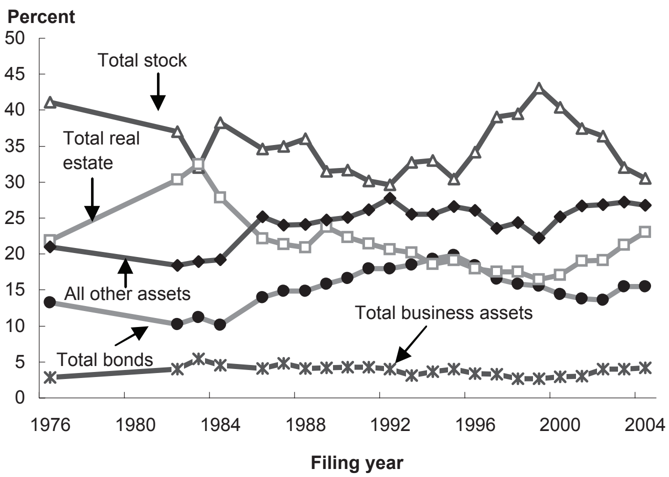
[24] SOI estate tax return data do not exist for 1977-1981.

[25] Joulfaian, D. (1991), "Charitable Bequests and Estate Taxes," *National Tax Journal*, 44(2), pp. 169-180.

[26] See http://www2.standardandpoors.com.

**Figure J**

**Asset Composition of Estates' Tax Returns, 1976-2004**
**Decedents with Total Gross Estates of $1 Million or More, in Constant 2004 Dollars**




NOTES: Money amounts converted to constant 2004 dollars calculated using CPI-U. Total stock includes publicly traded and closely held stock. Total business assets include small businesses, limited partnerships, and farms, but exclude farm real estate.

portion of total gross estate held in stock increased significantly during the late 1990s, the portion held in real estate fell to less than 17 percent in 1999. After 1999, the portion of total gross estate held in real estate increased each year, reaching 23 percent in 2004, when a record $46 billion in real estate was reported for decedents with $1 million or more in gross estate. This is consistent with both the rise in housing prices —42 percent between the first quarter of 1999 and the first quarter of 2004—and the decline in the overall stock market after 2000.[27]

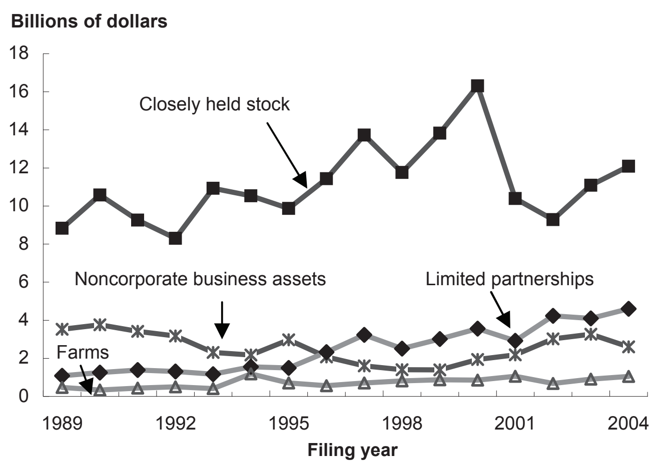
During most years between 1976 and 2004, total bonds, including those issued by corporations, Federal, State and local governments, and mutual funds invested primarily in some type of bond, comprised between 13 percent and 20 percent of gross estate for decedents with total gross estate of at least $1 million in constant 2004 dollars. All other assets, including cash and mortgages and notes, made up between 18 percent and 27 percent of gross estate during this period.

As shown in Figure J, total business assets, including small businesses, farms (but not farm land), and limited partnerships, comprised 5 percent or less of total gross estate during the period 1976-2004. Despite making up a relatively small portion of the total gross estate, these assets are of particular interest to many researchers and policymakers because of concerns about the impact of the estate tax on small farms and family businesses.

Figure K shows the real value of closely held corporations and unincorporated business assets reported on estate tax returns with total gross estates of at least $1 million, in constant 2004 dollars, between 1989 and 2004.[28] Although the values reported in each asset category show significant variance over time, several trends emerge. The value of stock in closely held corporations (included in the category "total stock" shown in Figure J) tended to be lower pre-1995 than in the years that followed. This trend may be due, in part, to changes in the top individual income tax rate during the period 1989-2004. Research has shown that tax rates can exert a significant influence on a company's choice of organizational form.[29] Income earned by firms that are organized as

**Figure K**

**Closely Held Corporations and Noncorporate Business Assets Reported on Estate Tax Returns, 1989-2004**
**Decedents with Total Gross Estates of $1 Million or More, in Constant 2004 Dollars**




NOTES: Money amounts converted constant 2004 dollars calculated using CPI-U. Noncorporate business assets include proprietorships, general partnerships, and unspecified business interests. Farms exclude farm real estate.

[27] Change in housing prices was calculated using the Office of Federal Housing Enterprise Oversight (OFHEO) House Price Index, http://www.ofheo.gov/HPI.asp.
[28] Detailed data on business asset holdings are not available for filing years prior to 1989.
[29] Caroll, R. and D. Joulfaian (1997), "Taxes and Corporate Choice of Organization Form," Office of Tax Analysis working paper, http://www.ustreas.gov/offices/tax-policy/library/ota73.pdf.

C corporations is taxed under the corporate income tax system, while income earned by businesses with other organizational forms, such as sole proprietorships, partnerships, and S corporations, is taxed under the individual income tax system. While the top corporate tax rate changed only slightly during this time period, from 34 percent for 1989-1992 to 35 percent after 1992, the top individual tax rate increased from 28 percent for 1989 and 1990 to 31 percent for 1991 and 1992 and to 39.6 percent for 1993-2000. Thus, the trends shown in Figure K may represent a shift from noncorporate to corporate organizational forms induced by the relatively higher individual income tax rates after 1993. Another possible factor contributing to this trend may have been the strong performance of the stock market during the mid- to late- 1990s, as the factors that increased the value of publicly traded corporations may have done the same for closely held corporations. The total reported value of limited partnerships increased significantly in real terms, from $1.1 billion to $4.6 billion, between 1989 and 2004. Among the factors likely contributing to this increase is the growth in venture capital funds and hedge funds during this period. Between 1995 and 2000, annual investments by venture capital funds are estimated to have increased from $8 billion to $107 billion.[30] Though the level of these investments fell sharply in 2001 and 2002, they remained well above the levels reported for the mid-1990s. Hedge funds experienced similar dramatic growth during this time period. According to one industry survey, total assets managed by hedge funds increased from $35 billion in 1992 to $592 billion in 2003.[31]

The reported value of farm assets, excluding farm real estate, experienced year-to-year fluctuations but remained relatively stable between 1989 and 2004. The lowest total was $340 million, in constant 2004 dollars, reported for 1990. The highest total was reported for 1994, $1.2 billion.

## Conclusion

Taxes on transfers of wealth and property at death have been enacted throughout U.S. history. Originally used only as a source of revenue in times of crisis, a Federal estate tax has been an enduring feature of the U.S. tax code since 1916. The current tax, while affecting a small fraction of estates, and raising a small amount of revenue compared to the individual and corporate income tax systems, has been the subject of significant interest among policy makers, researchers and the general public. Reasons for this interest range from divergent views on the fairness of the tax to interest in the effects of taxing transfers at death on the overall U.S. economy. This paper has provided a brief history of the estate tax and its impact on the U.S. budget. It has also examined the ways in which the economic behavior of the affected population has changed over time in response to market, technological, and political stimuli.

## Acknowledgments

The authors wish to express a special note of thanks to Martha Eller Gangi, whose prior paper with Barry W. Johnson, “Federal Taxation of Inheritance and Wealth Transfers,” provided source material and inspiration for this article.

## Data Sources and Limitations

The data used for this paper were collected by the Statistics of Income Division of the Internal Revenue Service (IRS), or its predecessor organizations, for statistical purposes and made available to the general public in tabulated form. Data were collected from returns received and processed by the IRS during a given calendar, the majority of which were filed for decedents’ who had died during the previous calendar year. SOI collected data from the population of returns filed annually from 1917 through 1951. Data were also collected from the population of returns filed during calendar years 1954, 1955, 1957, 1959, 1961 and 1963. For calendar years 1965, 1970, 1973, 1977 and 1982-2004, data were collected from samples of returns. The populations were stratified by size of gross estate for sampling purposes prior to the 1982 study. Beginning in 1982, the population was further stratified by age and year of death, and the samples were designed to facilitate both calendar year estimates and periodic estimates for specific decedent cohorts. Estate tax statistics were collected while returns were being processed for administrative purposes, and do not reflect any changes arising from audit examination or those reported on amended returns.

[30] See National Venture Capital Association, http://www.nvca.org/ffax.html.

[31] See Hennessey Group, LLC, http://www.hennesseegroup.com/information/index.html.

# A History of Controlled Foreign Corporations and the Foreign Tax Credit

*by Melissa Redmiles and Jason Wenrich*

As U.S. corporations have expanded their businesses overseas in the last several decades, the United States Tax Code has been modified to account for increasingly complex international corporate structures and transactions. Two important international tax concepts that have emerged over the years are the corporate foreign tax credit and controlled foreign corporations. The corporate foreign tax credit was created to alleviate the burden of double taxation. The income of controlled foreign corporations has become increasingly subject to U.S. tax after initially presenting a potential tax deferral advantage over foreign branches. A brief history of the foreign tax credit and controlled foreign corporations is presented below.[1]

## Corporate Foreign Tax Credit

The United States generally taxes U.S. companies on their worldwide incomes. Since other countries may also impose a tax on income earned within their borders, U. S. companies with foreign-source income face potential double taxation. When the income tax was first created, Congress addressed this issue by allowing taxpayers to deduct their foreign taxes when computing taxable income. In 1918, after the cost of World War I pushed up both domestic and many foreign tax rates, Congress passed the foreign tax credit provisions to provide greater relief in cases of double taxation. These provisions permit taxpayers the option of either deducting their foreign taxes when computing their taxable incomes or taking a dollar for dollar credit for them against their U.S. tax liabilities. Corporations report the foreign income and taxes related to the credit on *Form 1118, Computation of Foreign Tax Credit—Corporations*.

## Creditable Taxes

To be eligible for the credit, the tax paid had to be a foreign income tax. Although the precise definition of a foreign income tax has changed somewhat over the years, the basic idea remains today. Other taxes, such as value-added taxes, excise, property, and payroll taxes, can be deducted from foreign-source income but not credited. Income taxes paid to a local authority, such as a province, are eligible for the credit. Taxes paid for a specific right or service, like a royalty payment for the right to mine, generally cannot be credited. After the Technical Amendments Act of 1958, taxpayers could carry their unused foreign taxes forward for 5 years or back for 2. Figure A shows foreign tax credit amounts for select years between 1925 and 2004, in constant 2004 dollars.

**Figure A**

**Corporate Foreign Tax Credit, in Constant 2004 Dollars, Selected Tax Years 1925-2002 [1]**

[Money amounts are in millions of dollars]

| Tax year | U.S. income tax before credits | Foreign tax credit | Percentage |
|---|---|---|---|
| | (1) | (2) | (3) |
| 1925 | 12,629 | 216 | 1.7 |
| 1930 | 8,054 | 328 | 4.1 |
| 1940 | 28,929 | 783 | 2.7 |
| 1950 | 123,757 | 3,637 | 2.9 |
| 1960 | 139,544 | 7,811 | 5.6 |
| 1970 | 160,414 | 22,147 | 13.8 |
| 1980 | 238,030 | 57,037 | 24.0 |
| 1990 | 172,617 | 36,115 | 20.9 |
| 2000 | 292,106 | 53,210 | 18.2 |
| 2004 | 299,555 | 56,872 | 19.0 |

[1] For comparability, money amounts have been adjusted for inflation to 2004 constant dollars.

U.S. companies generally are not taxed on the earnings of their foreign subsidiaries until those earnings are distributed to the parent company, and thus cannot claim a direct credit for the foreign taxes paid by the subsidiary. The foreign tax credit provisions, however, allow taxpayers an indirect credit for the foreign "taxes deemed paid." Taxes deemed paid are computed as a share of the foreign taxes on the earnings out of which the distribution was made proportionate to the ratio of the distribution to the total earnings. To be eligible for the indirect credit, the U.S. company must own a certain percentage of the foreign subsidiary's voting stock. In 1962, the ownership percentage was lowered from the original 50 percent to 10 percent. Until 1976, taxpayers could claim the credit down to the second tier of ownership, as long as the second tier corporation was at least 50-percent owned by the first tier corporation.

*Melissa Redmiles and Jason Wenrich are economists with the Special Studies Returns Analysis Section. This article was prepared under the direction of Chris Carson, Chief.*

[1] For a more detailed description of international taxation, see Doernberg, Richard L. (1999), *International Taxation*, West Group, St. Paul, MN.

The Tax Reform Act of 1976 expanded the level of ownership to three tiers and changed the percentage requirements to 10 percent for all tiers, provided that the combined percentage ownership of all tiers is at least 5 percent. Congress gradually expanded the level of ownership down to six tiers, but the 5-percent rule remains in effect.

## Limitations and Reductions

As originally enacted, the foreign tax credit had a major drawback. Since companies could credit an unlimited amount of tax paid to countries with tax rates that exceeded the U.S. rate, they could offset some of their tax on domestic income with the credit for taxes on foreign income. To remedy this, Congress added a limitation to the foreign tax credit in the Revenue Act of 1921. The limitation essentially caps foreign taxes credited to the U.S. rate, by limiting the amount of credit to a corporation's U.S. income tax liability multiplied by the ratio of foreign-source income to worldwide income. When first enacted, taxpayers computed the limitation using total foreign-source taxable income. A limitation computed using this method later become known as an overall limitation.

One problem with the limitation was that taxpayers could still offset some domestic tax liability by combining amounts of income earned in high-tax countries with income in low-tax countries, in their computation of the credit limitation. What, if anything, should be done about this issue has been the driving force behind much subsequent foreign tax credit legislation. Beginning in 1932, Congress required taxpayers to compute the limitation on a per country basis. In addition, the sum of all allowable credits from all countries could not exceed the overall limitation. The latter requirement was removed from the Internal Revenue Code in 1954. Public Law 86-780, enacted in 1960, granted taxpayers the ability to elect either an overall limitation or a per country limitation. In 1962, Congress introduced a separate limitation for nonbusiness-related interest. This prevented taxpayers from making interest-bearing investments abroad to generate additional, low-taxed foreign income that could be combined with higher tax income.[2]

Congress placed further restrictions on the foreign tax credit in the Tax Reduction Act of 1975 and the Tax Reform Act of 1976. These laws eliminated the per country limitation option and added a new limitation category, dividends from a Domestic International Sales Corporation (DISC).[3] Income that did not fit into the interest category or DISC dividend category fell into an overall or general limitation category. This legislation also introduced a reduction in credit for taxes paid on foreign oil and gas extraction income equivalent to the amount of foreign taxes paid, accrued, or deemed paid on foreign oil and gas extraction income that exceeded a certain percentage of foreign oil and gas extraction taxable income. The percentage has changed over time and is currently set at the highest rate of corporate tax, 35 percent for Tax Year 2006. In addition, the 1976 Act included boycott legislation. Now, taxpayers who agree to participate in an unsanctioned boycott may need to reduce their foreign credits or their foreign taxes eligible for credit.

Finally, these laws added an overall foreign loss recapture. The intent of the overall loss recapture was to limit the amount of domestic tax liability that could be offset by foreign losses. Before this legislation, if a taxpayer had an overall foreign loss in one year and an overall foreign gain in a subsequent year, the taxpayer could use all of his or her foreign-source taxable income in the year with the gain in computing the foreign tax credit limit. Since 1976, in the years when taxpayers have an overall foreign gain, they must treat the smaller of all overall losses from previous years or 50 percent of their current foreign-source income as domestic source income.

In 1985, the Treasury Department recommended reinstating the per country limitation. U.S. companies with substantial foreign-source income objected, and Congress compromised by greatly expanding the categories of income requiring a separate limitation in the Tax Reform Act of 1986.[4] Beginning with Tax

[2] Andersen, Richard E. (1996), *Foreign Tax Credits*, Warren, Gorham & Lamont, Boston, MA.

[3] *Dividends from a DISC or former DISC* refer to dividends from a Domestic International Sales Corporation (DISC) that are treated as foreign-source income. A DISC is a small domestic corporations whose activities are primarily exported-related. A portion of the DISC's income was not subject to tax until it was distributed to shareholders. Tax advantages of DISCs were repealed in 1984.

[4] Gustafson, Charles H.; Robert J. Peroni; and Richard Crawford Pugh (2001), *Taxation of International Transactions, Materials, Text and Problems*, West Group, St. Paul, MN.

Year 1987, the limitation categories included: general limitation income, passive income, high withholding tax interest, financial services income, shipping income, dividends from a DISC, taxable income attributable to foreign trade income, certain distributions from a Foreign Sales Corporation (FSC) or former FSC, section 901(j) income, and dividends from each noncontrolled foreign corporation.[5]

Passive income generally includes dividends, net capital gains, interest, rents, royalties (except for rents and royalties derived in an active trade or business from an unrelated person), annuities, and certain commodities transactions. Passive income subject to an effective foreign tax rate that is greater than the highest U.S. corporate rate must be “kicked out” to the general limitation category. High withholding tax interest is interest income subject to a withholding rate of 5 percent or more. (An exception exists for interest received in the conduct of financing certain export activities.) Financial services income pertains to a company whose gross income is composed of 80 percent or more of financial services income. It includes income derived from the active conduct of banking, insurance or financing, export financing interest excluded by the exception from the high withholding interest basket, and other income related to financial services income. Shipping income is income related to that industry. Taxpayers cannot claim a credit for taxes paid or accrued by a Foreign Sales Corporation (FSC) on its taxable income attributable to foreign trade, as defined by Internal Revenue Code section 923(b), and must compute a separate limitation on such income. Distributions from a FSC include distributions from the earnings and profits of the FSC’s foreign trade income and interest and carrying charges from transactions that create foreign trade income. Section 901(j) countries are those considered hostile to the United States.[6] Taxpayers must calculate a separate limitation for each section 901(j) country and may not credit any taxes paid to them.

Dividends from a noncontrolled foreign corporation were defined as dividends from foreign subsidiaries of which the U.S. corporation owns at least 10 percent of the voting stock and the U.S. shareholders who own at least 10 percent of the voting stock together own 50 percent or more of either the voting stock or the value of the stock. A separate limitation had to be computed for each noncontrolled corporation. If the foreign corporation did not meet the definition of a 10/50 company, the dividends were placed into a limitation category based on the type of income that generated the dividends. These provisions are often referred to as the look-through rules. Congress has since phased out the separate limitation on each noncontrolled corporation basket. Now these dividends are categorized according to the look-through rules.

In 1988, a new category, income resourced by treaty, was added. It refers to income that would otherwise be considered domestic income that has been resourced to foreign source per tax treaty provision. Taxpayers must compute a separate limitation for each occurrence where income has been resourced.

## Recent Changes

The most recent major revision of the foreign tax credit provisions was the American Jobs Creation Act of 2004. The law adjusts how taxpayers calculate the foreign tax credit for the purposes of the alternative minimum tax. It also modifies the rules that govern how companies allocate their interest expenses between foreign and domestic incomes so that multinational corporations will be able to allocate less interest to their foreign-source incomes, and thus increase their foreign tax credit limitations. The new law adds an overall domestic loss recapture that complements the rules on overall foreign loss. Now, if a taxpayer is unable to take a foreign tax credit during a year with foreign gains but an overall loss, the taxpayer will be able to resource some of the domestic income to foreign income in a subsequent year, which will increase the foreign tax credit limitation. Next, the carryback period for foreign taxes in excess of the limitation has been reduced to 1 year, while the carryforward period has been increased to 10 years. Finally, the separate limitation categories will be reduced to four: passive income, general limitation income, section 901(j) income, and income resourced by treaty. These provisions will be fully implemented by Tax Year 2009.

[5] A Foreign Sales Corporations (FSC) is a company incorporated abroad, created to promote U.S. exports and usually controlled by a U.S. person. A portion of the FSC “foreign trade income” was exempt from U.S. taxation. Congress repealed the FSC provisions in 1999 and the transition rules that permitted some FSC activity to continue in 2006.

[6] Current Section 901(j) countries include Cuba, Iran, North Korea, Sudan, and Syria.

**Figure B**

**U.S. Corporations and Their Controlled Foreign Corporations, 1962-1980, Selected Years**

(Money amounts are in thousands of dollars)

| Tax year | Number of domestic corporation returns [1] | Controlled Foreign Corporations | | | |
|---|---|---|---|---|---|
| | | Number of returns [2] | Net current earnings and profits after taxes [3] | Foreign income and profits taxes | Dividends paid to domestic corporations filing Form 2952 |
| | (1) | (2) | (3) | (4) | (5) |
| 1962 | 2,642 | 12,073 | 2,558,999 | 1,622,282 | 1,133,348 |
| 1965 | 3,513 | 17,668 | 3,564,260 | 2,168,369 | 1,457,561 |
| 1966 | 3,732 | 19,617 | 4,453,291 | 2,533,206 | 1,525,137 |
| 1980 | 4,799 | 35,471 | 31,181,131 | 16,440,451 | 14,172,649 |

[1] For 1962, both active and inactive domestic corporation returns with Form 2952, *Information Return with Respect to Controlled Foreign Corporations,* are included. For 1965, 1966, and 1980, only active domestic corporation returns are included.

[2] For 1962, domestic corporations were required to report for only two tiers of foreign ownership. For 1965, 1966, and 1980, the reporting requirement was for at least three tiers of foreign ownership.

[3] For 1962, this was reported as "Net profit before taxes" on Form 2952. For 1965, 1966, and 1980, "current earnings and profits after foreign income and profits taxes" were required to be reported on Form 2952.

## Controlled Foreign Corporations

The history of controlled foreign corporations in United States tax law is characterized by reduction of the tax deferral advantages of United States corporations operating businesses overseas through foreign corporations. Four major pieces of legislation have defined and extended the concept of a controlled foreign corporation and the mechanism by which foreign corporation earnings are includable in the U.S. shareholder's taxable income.

In the aftermath of World War II, political and economic developments, such as the Marshall Plan, encouraged international expansion by U.S. businesses. Congress enacted Public Law 86-780 in 1960 in part to obtain information on the overseas activities of U.S. corporations. This law required each U.S. corporation to provide, as a part of its tax return, information on all foreign corporations directly-controlled by the U.S. corporation ("first-tier" subsidiaries) and any foreign corporations controlled by a directly-controlled foreign corporation ("second-tier" subsidiaries). A controlled foreign corporation (CFC) was defined as any foreign corporation in which more than 50 percent of the voting stock was directly owned by one or more U.S. corporations on any day of the taxable year of the foreign corporation. A controlled "second tier" subsidiary was defined as a foreign corporation in which more than 50 percent of the voting stock was owned by a directly-controlled foreign corporation. Information on first- and second-tier CFCs was reported on Form 2952, *Information Return by a Domestic Corporation with Respect to Controlled Foreign Corporations*. The penalty for failing to timely file a Form 2952 for each CFC was a 10-percent reduction of foreign tax credits attributable to all foreign corporations or their foreign subsidiaries.

Initially, foreign income earned by CFCs was not taxable to the U.S. shareholder until it was repatriated to the United States in the form of a dividend. This is in contrast to foreign operations conducted through a foreign branch whose income was taxable to the U.S. corporation when it was earned. U.S. corporations could maximize the tax deferral opportunity of foreign corporations by organizing their international structures and transactions with foreign subsidiaries in such a way as to accumulate profits in foreign corporations organized in low-tax countries and repatriate the earnings in years when the U.S. parent corporation had losses or excess foreign tax credits. Additionally, when U.S. corporations disposed of their stock in CFCs the tax-deferred accumulated earnings and profits of the foreign corporation could be repatriated to the United States at the lower capital gains tax rate.

The Revenue Act of 1962 reduced the tax deferral advantages of CFCs by refining the concept of a "controlled" foreign corporation and by adding Subpart F to the Internal Revenue Code. The 1962 Act redefined a foreign corporation as controlled if more than 50 percent of the voting stock of the foreign corporation was owned by U.S. shareholders for an uninterrupted period of 30 days or more during the foreign corporation's tax year. For purposes of determining control, the voting stock of only those U.S. shareholders owning at least 10 percent of the voting stock

**Figure C**

**U.S. Corporations with Total Assets of $250 Million or More and Their Controlled Foreign Corporations, 1976-1984, Selected Years**

(Money amounts are in thousands of dollars)

| Tax year | Number of U.S. corporation returns | Controlled Foreign Corporations | | | | |
|---|---|---|---|---|---|---|
| | | Number of returns | Current earnings and profits (less deficit) before taxes | Foreign income taxes (net) | Total distributions | Total Subpart F income |
| | (1) | (2) | (3) | (4) | (5) | (6) |
| 1976 | 757 | 21,071 | 23,478,736 | 8,814,825 | 6,569,018 | 822,674 |
| 1982 | 1,034 | 26,993 | 36,696,077 | 14,077,332 | 14,650,375 | 4,466,139 |
| 1984 | 1,103 | 27,008 | 48,591,785 | 19,663,431 | 17,429,494 | 4,420,024 |

of the foreign corporation was included. Attribution rules were introduced in the 1962 Act to account for various ownership structures that would otherwise avoid the requirements for declaring a foreign corporation a controlled foreign corporation. For example, if 6 individuals each wholly owned a separate U.S. corporation, and, in turn, the individuals and their respective corporations each owned an equal amount of voting stock of a foreign corporation, in the absence of attribution rules, the foreign corporation would not be a CFC. By attributing the voting stock of the foreign corporation owned by each U.S. corporation to its individual owner, the 10-percent voting stock ownership threshold would be met for each U.S. shareholder, and, collectively, all U.S. shareholders would own more than 50 percent of the voting stock of the foreign corporation. The foreign corporation in this example would be a “controlled” foreign corporation and would be required to file Form 2952.

The 1962 legislation also increased the Form 2952 filing requirement by extending the definition of a controlled foreign corporation to include any foreign corporation within a chain of control. A U.S. shareholder was “deemed” to control an unlimited number of lower-tier foreign corporations when it owned more than 50 percent of the voting stock of a first-tier corporation which owned more than 50 percent of the voting stock of a second-tier corporation, and so forth. Additionally, the Form 2952 filing requirement was extended to include not only U.S. corporations but U.S. citizens and residents, domestic partnerships, estates, and trusts, as well. The penalty for failing to timely file Form 2952 was amended to a reduction of the foreign tax credit in the amount of the greater of $10,000 or the income of the foreign corporation with respect to which the reporting failure occurred.

The most significant effect of the Revenue Act of 1962 for controlled foreign corporations was the introduction of Subpart F to the Internal Revenue Code. The Subpart F inclusion rules restricted U.S. shareholders’ ability to defer taxes on certain types of income by requiring the income to be included in the U.S. shareholders’ current-year taxable incomes regardless of their repatriation to the United States. The pro rata share of foreign income includable in the U.S. shareholder’s income consisted of Subpart F income, previously excluded Subpart F income withdrawn from investments in less-developed countries, increases in investment of earnings of CFCs in United States property, and previously excluded Subpart F income withdrawn from export trade corporation assets (these categories are collectively referred to as “Subpart F income”). The majority of Subpart F income is made up of “passive” income like dividends, interest, royalties, and rents and income derived from insurance of United States risks. U.S. shareholders were not required to include their pro rata shares of Subpart F incomes in their taxable income if the Subpart F income accounted for 30 percent or less of the CFCs gross income or if distributions of the CFCs income were made so that the combined payment of foreign and U.S. taxes were 90 percent or more of the U.S. rate. Since Subpart F income is generally includable in the U.S. shareholder’s taxable income when it is earned, no additional U.S. tax is imposed when it is repatriated to the United States. Finally, the 1962 Act restricted the conversion of tax-deferred earnings into capital gains for purposes of repatriating the income at the lower capital-gain tax rate.

The Tax Reduction Act of 1975 expanded what constituted Subpart F income and increased the likelihood that such income would be included in a U.S. shareholder’s taxable income. Some types of

## Figure D

**U.S. Corporations with Total Assets of $500 Million or More and Their 7,500 Largest Controlled Foreign Corporations, 1986-2002, Selected Years**

(Money amounts are in thousands of dollars)

| Tax year | Number of U.S. corporation returns | Controlled Foreign Corporations [1] | | | |
|---|---|---|---|---|---|
| | | Current earnings and profits (less deficit) before taxes | Foreign income taxes (net) | Distributions from earnings and profits | Subpart F income |
| | (1) | (2) | (3) | (4) | (5) |
| 1986 | 714 | 56,590,619 | 19,229,025 | 21,730,762 | 4,223,316 |
| 1988 | 744 | 79,811,427 | 23,929,652 | 45,524,746 | 12,101,074 |
| 1990 | 731 | 88,688,406 | 23,936,971 | 46,429,916 | 17,841,936 |
| 1992 | 749 | 69,613,140 | 18,471,643 | 42,971,551 | 13,217,040 |
| 1994 | 801 | 98,427,640 | 23,267,744 | 50,383,707 | 16,317,803 |
| 1996 | 890 | 141,010,411 | 32,394,527 | 68,813,441 | 22,943,983 |
| 1998 | 996 | 143,840,451 | 34,744,726 | 74,188,419 | 20,238,440 |
| 2000 | 1,087 | 207,576,012 | 43,143,111 | 94,882,197 | 29,372,318 |
| 2002 | 1,079 | 200,670,364 | 38,610,284 | 97,011,345 | 31,420,940 |

[1] This figure presents data for the largest 7,500 Controlled Foreign Corporations (CFCs) ranked by assets owned by U.S. corporations with $500 million or more in total assets. The largest CFCs are selected independently for each tax year study.

shipping income received by CFCs were added to the definition of Subpart F income. The 1975 Act also lowered the Subpart F percentage of a CFCs gross income necessary for Subpart F income to be taxable to the U.S. shareholder from 30 percent to 10 percent. Minor amendments to the definition of Subpart F income have occurred since 1975.

Form 2952 was replaced in 1983 by Form 5471, *Information Return with Respect to Certain Foreign Corporations*.[7] Form 5471 significantly increased the amount of information required to be reported for each controlled foreign corporation, although not all filers were required to complete all schedules. Form 5471 included an expanded income statement schedule, a cost of goods sold schedule, a foreign taxes paid schedule, a balance sheet schedule, and earnings and profit analysis schedules.

The Tax Reform Act of 1986 again refined the controlled foreign corporation concept in part to address the issue of U.S. shareholders transferring 50 percent of the voting stock of a foreign corporation to "friendly" foreign shareholders and avoiding the "controlled foreign corporation" designation while still maintaining 50-percent voting stock of the corporation and most of the value. The 1986 legislation expanded the definition of a CFC to include foreign corporations for which 50 percent or more of the voting power of all classes of stock entitled to vote or the total value of all shares of stock is owned by one or more U.S. persons (including U.S. corporations, partnerships, trusts, and estates). Only the voting stock of those U.S. persons directly, indirectly, or constructively owning at least 10 percent of either the voting stock or value of the voting stock of the foreign corporation is considered for purposes of determining if the 50-percent threshold is met.

The American Job Creation Act of 2004 is the most recent piece of legislation affecting controlled foreign corporations. This act, in an effort to encourage U.S. corporations to repatriate their accumulated foreign earnings and reinvest them in U.S. projects, allowed for a one-time 85-percent dividends received deduction for cash dividends received from controlled foreign corporations. To receive this deduction, the U.S. corporation must have had a qualified reinvestment plan and receive the cash dividends in the U.S. corporation's last tax year beginning before October 22, 2004, or the first tax year beginning in the 1-year period after that date.

Statistics of Income (SOI) has collected data on Forms 2952 and 5471 every other tax year since 1962. In Tax Year 1962, there were 12,073 Forms 2952 filed by 2,642 United States corporations.[8] In Tax Year 2002, there were 75,579 Forms 5471 filed by 2,119 U.S. parent corporations with $500 million or more in assets.[9] Figures B, C, and D include

[7] In addition to Form 2952, Form 5471 replaced Form 957, *U.S. Information Return by an Officer, Director, or U.S. Shareholder of a Foreign Personal Holding Company*, Form 958, *U.S. Annual Information Return by an Officer or Director of a Foreign Personal Holding Company*, Form 959, *Return by an Officer, Director, or Shareholder With Respect to the Organization or Reorganization of a Foreign Corporation and Acquisition of Its Stock*, and Form 3646, *Income from Controlled Foreign Corporation*.

[8] *Foreign Income and Taxes, Corporation Income Tax Returns* (Publication 479), Statistics of Income, April 1973.

[9] Based on unpublished data.

additional information from SOI studies covering this period.

## Data Sources and Limitations

Two of the largest studies of international income and taxes conducted by Statistics of Income are the Corporate Foreign Tax Credit and Controlled Foreign Corporation studies. The foreign tax credit studies are derived from returns in the corporation Statistics of Income sample. The foreign tax credit is understated to the extent that it does not include foreign taxes carried back.

The Controlled Foreign Corporation study, usually conducted every other tax year, has changed since the first study conducted for Tax Year 1962. Initially, population estimates were tabulated using data collected from all Forms 2952 filed by U.S. parent corporations in the Statistics of Income corporate sample. For Tax Years 1974, 1976, 1982, and 1984, data were collected from Forms 2952 filed by U.S. parent corporations with greater than $250 million in total assets. Population estimates were again tabulated for Tax Year 1980. For Tax Years 1986 through 2002, data were collected for all Forms 5471 filed by U.S. parent corporations with greater than $500 million in total assets. During these years, data were published for the largest 7,500 controlled foreign corporations ranked by assets.

Data for both studies do not include adjustments made during audit. Data for recent study years can be found on the Statistics of Income Web site (www.irs.gov/taxstats).

# Celebrating Ninety Years of SOI: Selected Corporate Data, 1916-2004

*by Marty Harris and Ken Szeflinski*

The Statistics of Income Division of the Internal Revenue Service has been collecting and publishing data on corporate business operations and activity since 1916. The Revenue Act of 1916 required the annual publication of "facts deemed pertinent and valuable" with respect to income tax law. The 1916 Statistics of Income report was released in the summer of 1918 and was the first to fulfill the new requirement. The SOI Division is in the midst of its 90th anniversary of tax publications with the 2005 corporate data scheduled for publication in early 2008. This article presents a brief look at the history of corporate data published in the Statistics of Income series.

## Definitions

*Returns*—The Statistics of Income series includes domestic corporations and foreign corporations subject to Federal income tax. The statistics also reflect data from small corporations, including those taxed at the shareholder level. Through 1950, information was collected from the population of returns filed. Beginning in 1951 and continuing to this day, a stratified sample has been selected. The stratification of the sample has changed over time to include industry (1951), size of business receipts (1952—1958), and size of total assets (1952 and 1959—present).

*Year*—Each annual report consists of data from corporate tax returns with accounting periods ending from July of one year through June of the following year. For example, the latest publication (for Tax Year 2004) includes corporations with accounting periods that end at any time during the period from July 2004 through June 2005.

*Industry*—Industrial classification has always been a prominent part of the corporate statistics. A single industry code is assigned to each corporate return based on the industrial activity that represents the largest percentage of the total business receipts. Although the list of industries has both increased and changed many times since 1918, the Statistics of Income reports have tried to maintain the year-to-year comparability among the data classified by industrial activity.

*Data Items*—Although the legal definitions may have changed slightly over the years, there is a core unit of corporate data that appears in every corporate report. The items included in the annual reports are Number of Returns, Gross Income, Total Deductions, Net Income/Deficit, Income Tax, and Industry. Currently, there are over one thousand data items collected, with nearly 200 items published.

## The Early Years

From 1916 through 1933, only one report was prepared annually, and it included data from both individual and corporate tax returns and, beginning in 1917, data from other types of returns. Beginning in 1934, separate reports were published due to the increased data collected and the growing number of return types being processed.

In the earliest years, the published data for corporations were very limited, consisting mainly of the industrial activity, the State where the return was filed, and a few financial entries such as gross income, deductions, net income/deficit, and tax. In the 1920s, size classifications and additional items were added.

## Major Changes to the Corporate Tables and Publications

1917 Two income items and six deduction items by industry.
1918 Six net income-size classifications.
1919 Invested capital by size of capital investment.
1920 Invested capital by industry.
1922 Distributions to stockholders by industry and by State.
1922 Income statement items classified by 20 industries.
1926 Balance sheet items classified by 20 industries.
1928 Data on consolidated corporations by 20 industries.

The 1931 publication became the standard for 28 years. The four primary tables are described below.

*Marty Harris and Ken Szeflinski are chiefs of the Corporation Returns Analysis Section and Corporation Research Section, respectively.*
*Emily Shammas provided technical assistance on tables. This article was written under the direction of Doug Shearer, Chief, Corporation Statistics Branch.*

1. Receipts (9 items) and deductions (10 items) classified by major industrial groups for all returns, returns with net income, and returns with no net income.

2. Corporations submitting balance sheets, classified by major industrial groups for returns with net income and returns with no net income: asset items (8), liability items (8), and all items from Table 1.

3. Corporations submitting balance sheets, classified by total asset-size classes for all returns, returns with net income, and returns with no net income: items were the same as in Table 2.

4. Corporations submitting balance sheets cross-classified by total asset classes and major industrial groups for returns with net income and without net income: 16 items of assets, liabilities, income, and distributions to shareholders.

Between 1932 and 1958, these four tables remained the basis for the corporate publication. In 1938, the number of major industries was increased from 20 to over 60. In 1954, the number of total asset classes was increased to 14. By 1958, the number of items published in the cross-classified Table 4 had increased to 20.

## Later Changes

In 1958, separate tables were produced for small business corporations that filed the new form 1120-S. By 1959, balance sheet items were available for all active corporations. That year also saw the introduction of size of business receipts as a new measure of corporate business activity. For a brief period, 1959-1965, financial ratios were produced and published. A few of the ratios included were net income to business receipts, business receipts to total assets, business receipts to inventory, and net worth to total assets.

By 1975, the corporate publication included tables classified by total assets, size of business receipts, income tax before credits, income tax after credits, investment credit, accounting period, and minor, major, and division industry levels. These classifications have remained fairly constant since 1975.

## Current Publications

The Corporation Statistics Branch publishes two annual reports based on corporate tax return filings. The *Corporation Source Book* is a 600-plus-page report containing data classified by 12 total asset categories and over 250 industrial activities. Separate data for S corporations are also included. The *Corporation Income Tax Returns* report is a 350-page publication with 31 tables and detailed sections on the changes in the tax law, the sample design and limitations, and an explanation of terms. The 31 tables are classified by assets, business receipts, income tax after credits, industry, and accounting period. Recent improvements have significantly reduced the time necessary to prepare the publications for printing. Within 3 months of the final file closeout and data review, printed copies of the publications will be available. Web versions of the data tables will be available even earlier.

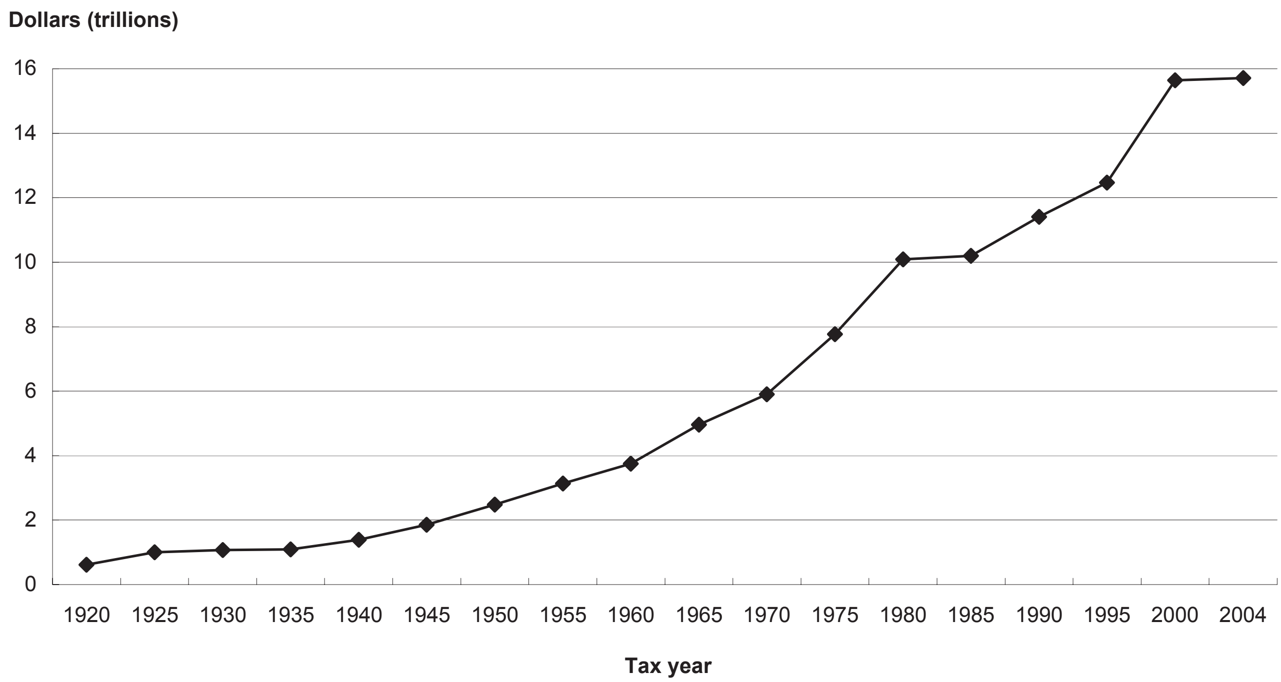
## Introduction to Historical Data

This article presents selected data for corporations included in the Statistics of Income sample for Tax Years 1916 through 2004, with years earlier than 1980 described in 5-year intervals. The descriptive analysis focuses on data prior to 1980 since the series is appended to a previously published series.[1] Some key findings are framed and summarized within an historical context and are presented in Table 1. Table 3 presents these same data in 1990 constant dollars, and they are also represented in Figures A through F for Total Receipts and Net Income (less Deficit). This article also presents the same selected data for subchapter S corporations, partnerships, and sole proprietorships for 1960, 1965, 1970, and 1975 in Table 2. As with the overall corporation data, these have been appended to the previously published series for 1980-2002 as cited above. In both cases, data for

[1] From "An Analysis of Business Organizational Structure and Activity from Tax Data" presented at the 2005 National Tax Association Conference. The paper is available at http://www.irs.gov/pub/irs-soi/05petska.pdf.

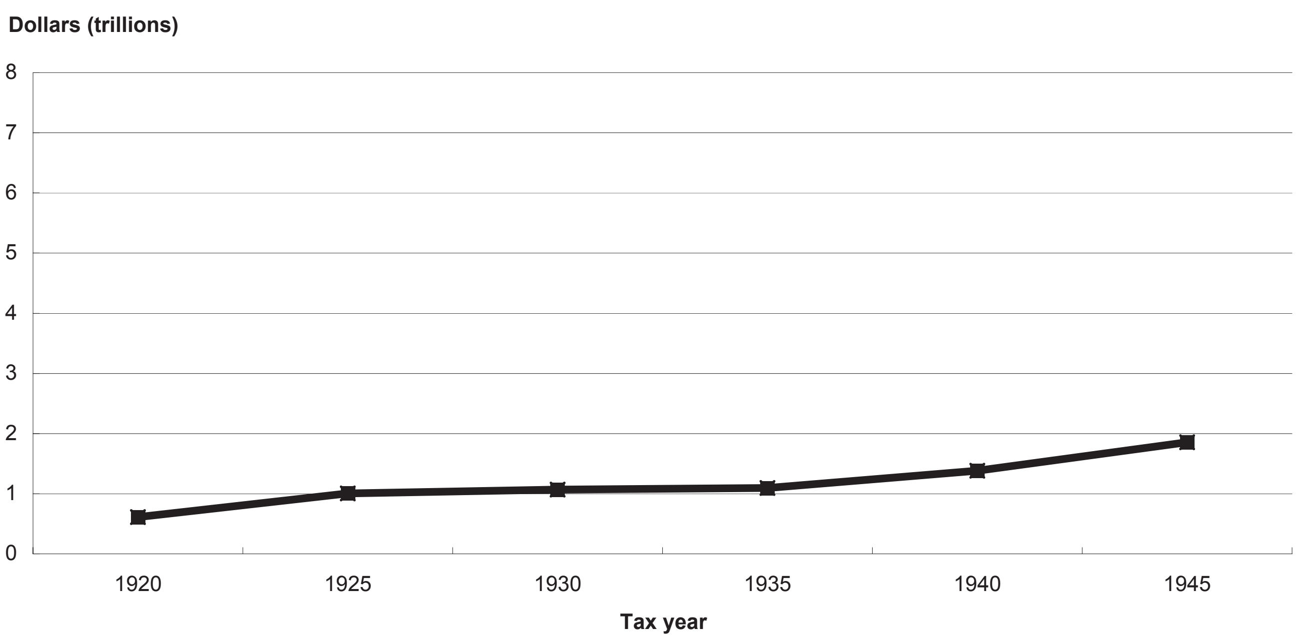
## Figure A

**Total Receipts of Corporations in 1990 Constant Dollars, Tax Years 1920-2004**



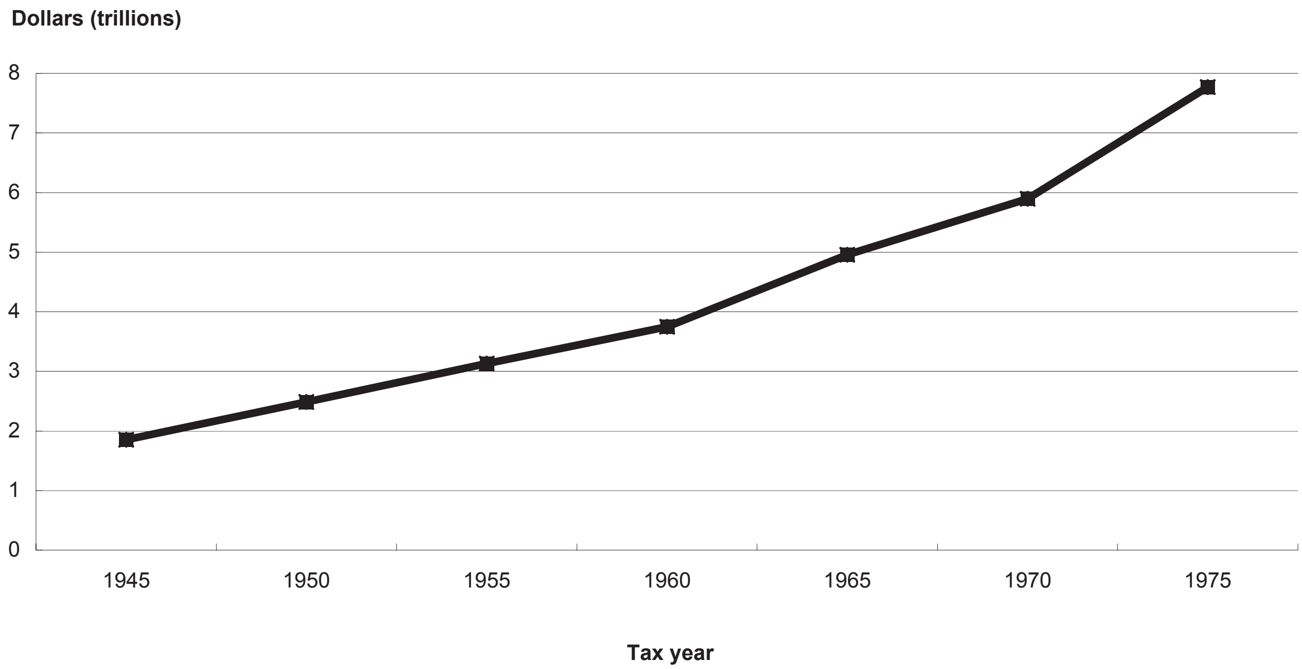

## Figure B

**Total Receipts of Corporations in 1990 Constant Dollars, Tax Years 1920-1945**



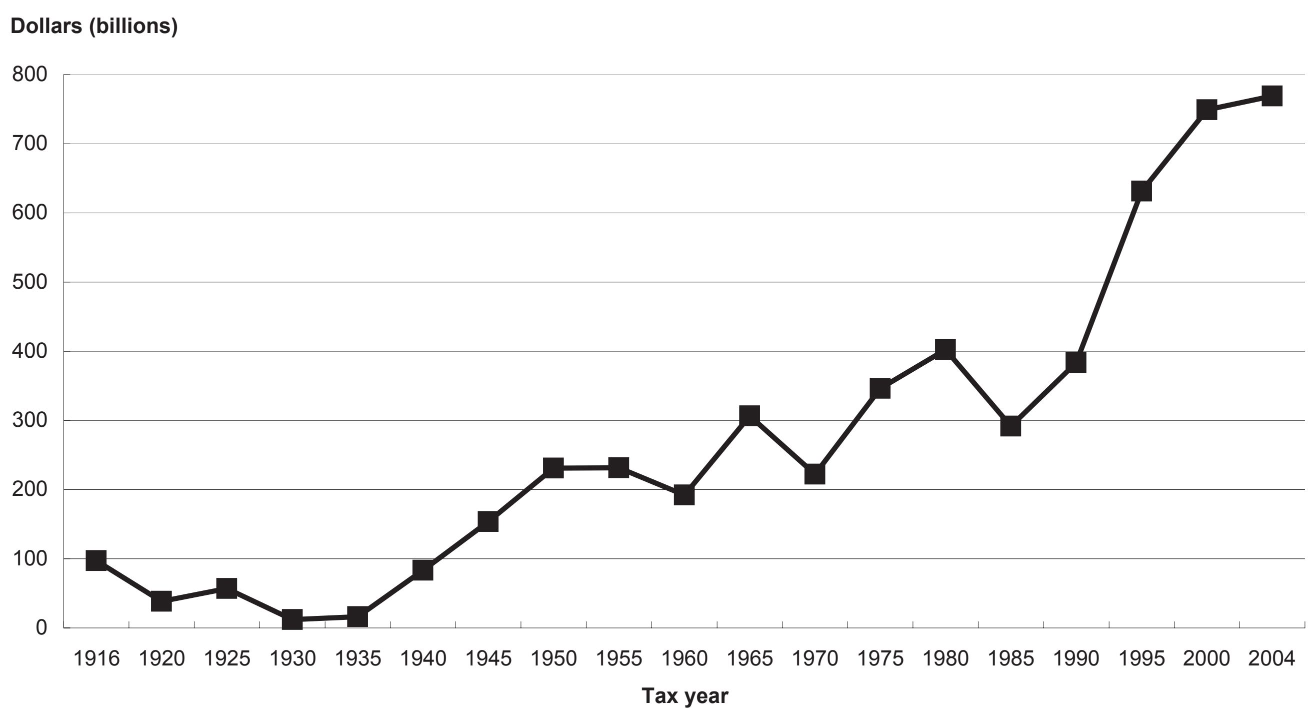
## Figure C

**Total Receipts of Corporations in 1990 Constant Dollars, Tax Years 1945-1975**



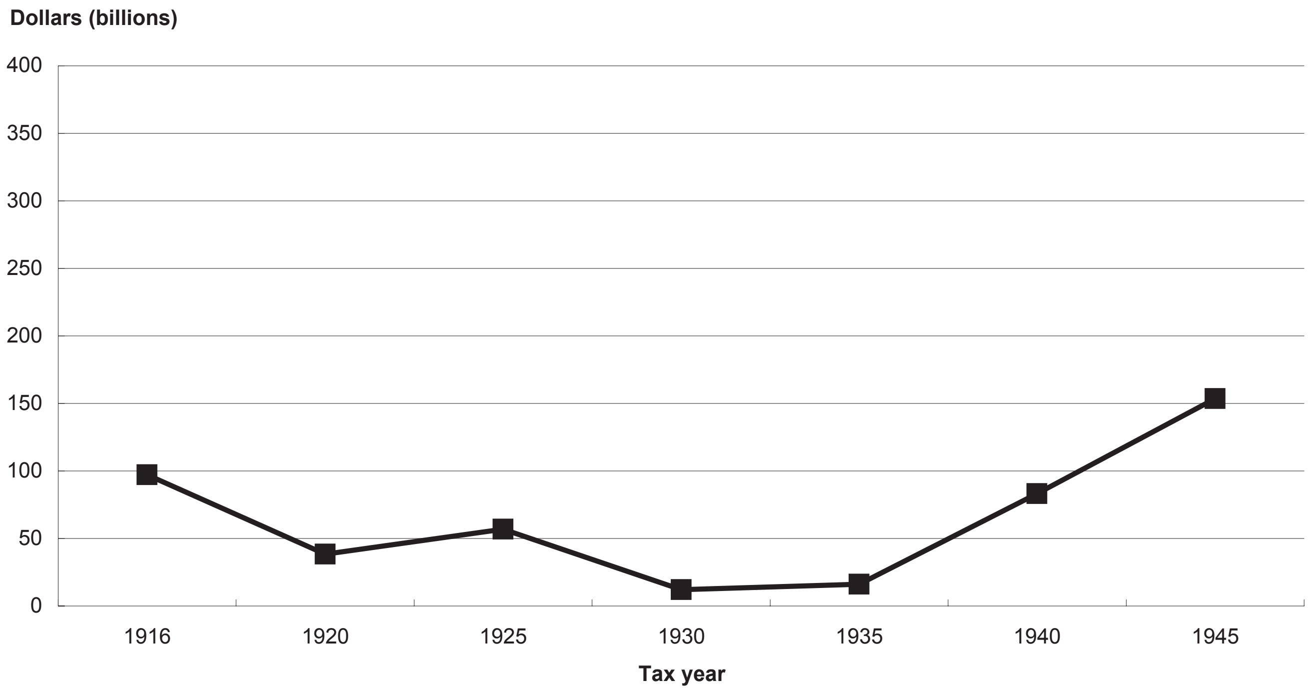

## Figure D

**Corporation Net Income (Less Deficit) in 1990 Constant Dollars, Tax Years 1916-2004**



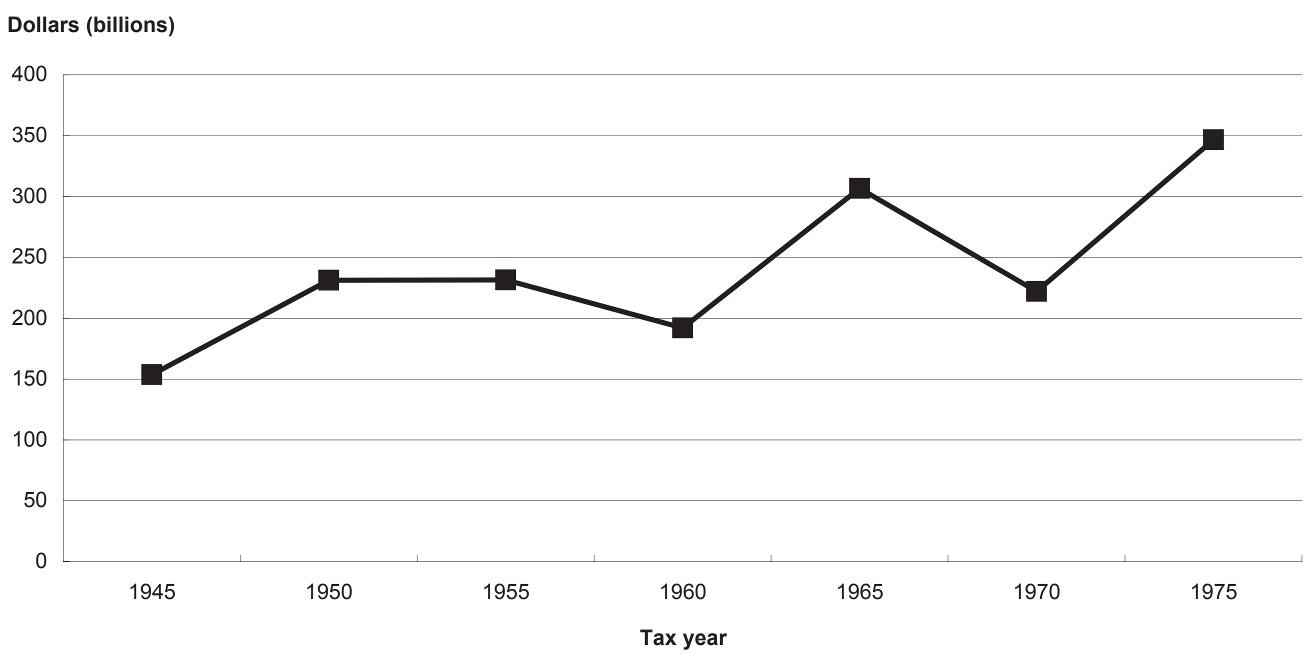
## Figure E

Corporation Net Income (Less Deficit) in 1990 Constant Dollars, Tax Years 1916-1945




## Figure F

Corporation Net Income (Less Deficit) in 1990 Constant Dollars, Tax Years 1945-1975



Tax Years 2003 and 2004 have now been included. Figure G shows the growth in the number of reporting corporations from 1916 through 2004.

## Highlights from the Early Years (1916-1945)

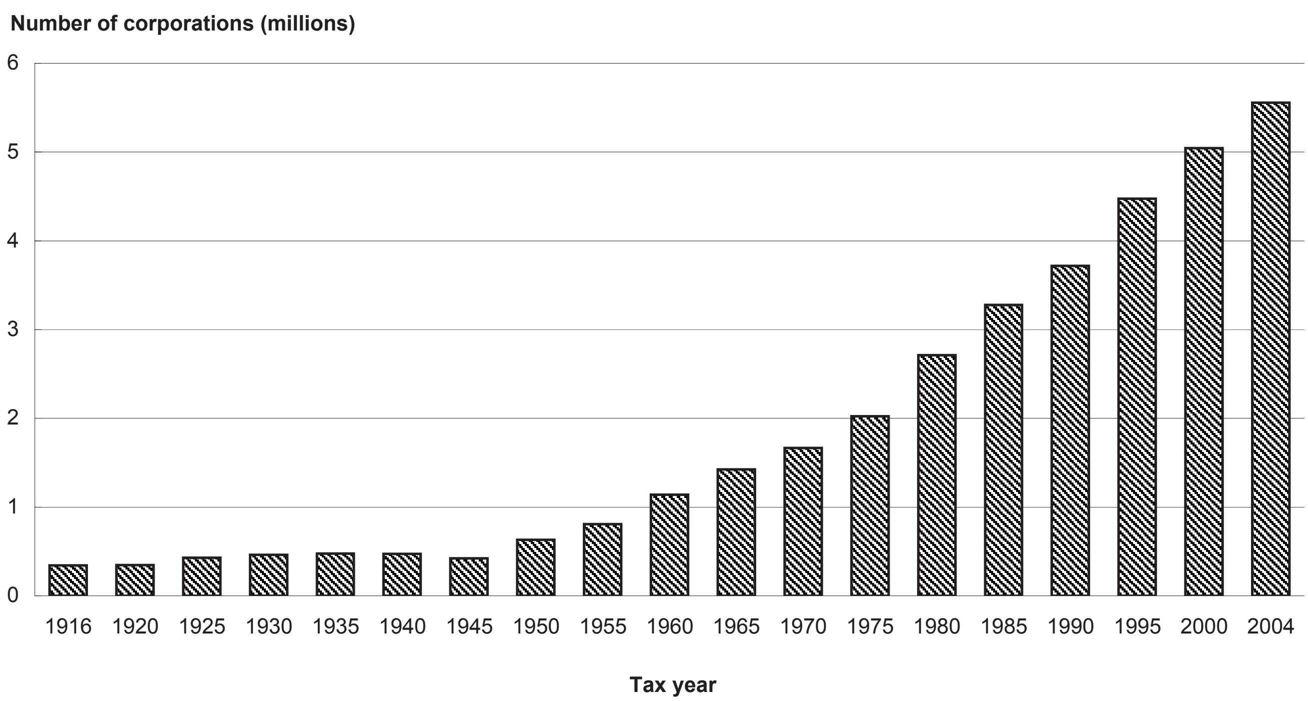
In the years characterized by industrialization and leading up to the Depression of 1929, the number of businesses classified as corporations grew from 341,253 in 1916 to 463,036 in 1930, a total increase of approximately 33 percent. For the same time period, income accruing to these business entities, as measured by Total Receipts, grew from $93.8 billion beginning in 1920 to $136.6 billion, amounting to an increase of nearly 45 percent. The measure of current-day corporate profits, Net Income (less deficit), declined at the outset, before turning up to nearly $7.6 billion in 1925. It then declined significantly to about $1.5 billion in 1930, a decrease of approximately 80 percent between 1925 and 1930. This decline may have been due to a combination of the capitalization costs associated with corporations establishing themselves in the new industrialized era along with the approaching Depression of 1929. In comparing data between 1930 and 1935, the influence of the Depression years can be seen in the decreases in both Total and Business Receipts and Net Income, though the decrease in Net Income was not as pronounced as it was between 1925 and 1930. By 1945, however, the data in Table 1 reflect a strong resurgence. Receipts, both Total and Business, for example, more than doubled (61 percent in constant terms) from 1935 levels, and Net Income (less deficit) grew from $1.6 billion in 1935 to $21.1 billion in 1945. The increase was approximately 500 percent in constant terms. Between each of the years 1935, 1940, and 1945, Net Income approximately doubled, while Net Deficit declined nearly two-thirds between 1935 and 1945. Meanwhile, the number of reporting corporations declined by approximately 12 percent, from 477,113 to 421,125 returns.

## Highlights from the Years 1945-1975

The data in Table 1 also reflect that the post-World War II years were growth periods. For example, Net

**Figure G**

**Number of Corporations, Tax Years 1916-2004**



Income (less Deficit) more than tripled from $21.1 billion to over $73.9 billion from 1945 through 1965. Total Receipts and Business Receipts grew more than four times as reflected in the change in Total Receipts from $.25 trillion to approximately $1.2 trillion between 1945 and 1965. Increases between 1945 and 1965 for total receipts, business receipts, and net income (less deficit) were approximately 100 percent in constant terms. Likewise, the number of reporting corporations more than tripled from over 421,000 in 1945 to more than 1.4 million in 1965.

Between 1970 and 1975, there was an increase of over 100 percent in Net Income (less deficit) from $65.9 billion to approximately $142.6 billion. Though the component Net Deficit increased between 1970 and 1975, the growth of Net Income was such that it helped to drive the overall rise. The growth in both Total and Business Receipts between 1970 and 1975 was approximately 83 percent (32 percent in constant terms), while the number of reporting corporations steadily grew.

## Additional Data from Other Business Entity Types

Table 2 shows the same items as Table 1 for S corporations, partnerships, and sole proprietorships for Tax Years 1960 through 2004. The year 1960 was chosen since it is the earliest year for which data for all three of these business entities are consistently available.

The number of S corporations increased the most between 1960 and 1975 compared to partnerships and sole proprietorships, increasing from 90,221 to 358,413, due to the establishment of S corporations as a new corporate entity. The number of partnerships and sole proprietorships surpasses the number of S corporations historically, except that, beginning in Tax Year 1990, the number of S corporations exceeds those of partnerships. Comparatively, the amount of Receipts (both Total and Business), Net Income (less deficit), and Net Income continued to be greatest for sole proprietorships, partnerships, and S corporations in that order throughout the years shown 1960-1975.

## Table 1. Corporations: Number of Businesses, Total Receipts, Business Receipts, Net Income (Less Deficit), Net Income, Deficit, Selected Tax Years 1916-2004

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

| Tax year | Number of businesses | Total receipts [1] | Business receipts [2] | Net income (less deficit) | Net income | Deficit |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| 1916 | 341,253 | N.A. | N.A. | 8,109,005 | 8,765,909 | 656,904 |
| 1920 | 345,595 | 93,824,000 | N.A. | 5,873,231 | 7,902,655 | 2,029,424 |
| 1925 | 430,072 | 134,779,997 | 106,832,147 | 7,621,056 | 9,583,684 | 1,962,628 |
| 1930 | 463,036 | 136,588,000 | 123,208,000 | 1,551,218 | 6,428,813 | 4,877,595 |
| 1935 | 477,113 | 114,649,717 | 105,121,226 | 1,695,949 | 5,164,723 | 3,468,774 |
| 1940 | 473,042 | 148,236,787 | 139,124,352 | 8,919,429 | 11,203,224 | 2,283,795 |
| 1945 | 421,125 | 255,447,753 | 244,030,015 | 21,138,956 | 22,165,206 | 1,026,250 |
| 1950 | 629,314 | 458,130,069 | 439,881,532 | 42,613,304 | 44,140,741 | 1,527,437 |
| 1955 | 807,000 | 642,248,036 | 612,682,730 | 47,478,271 | 52,511,158 | 5,032,887 |
| 1960 | 1,140,574 | 849,131,939 | 802,790,920 | 43,505,174 | 50,382,345 | 6,877,171 |
| 1965 | 1,423,980 | 1,194,600,662 | 1,120,381,727 | 73,889,821 | 80,796,801 | 6,906,980 |
| 1970 | 1,665,477 | 1,750,776,503 | 1,620,886,576 | 65,901,614 | 83,710,924 | 17,809,310 |
| 1975 | 2,023,647 | 3,198,627,860 | 2,961,729,640 | 142,636,826 | 169,483,336 | 26,846,510 |
| 1980 | 2,710,538 | 6,361,284,012 | 5,731,616,337 | 253,678,291 | 311,497,470 | 57,819,180 |
| 1981 | 2,547,410 | 7,026,351,839 | 6,244,678,064 | 213,648,962 | 301,440,778 | 87,791,816 |
| 1982 | 2,925,933 | 7,024,097,766 | 6,156,994,009 | 154,334,143 | 274,352,942 | 120,018,799 |
| 1983 | 2,999,071 | 7,135,494,059 | 6,334,602,711 | 188,313,928 | 296,932,146 | 108,618,218 |
| 1984 | 3,170,743 | 7,860,711,226 | 6,948,481,893 | 232,900,596 | 349,179,415 | 116,278,819 |
| 1985 | 3,277,219 | 8,398,278,426 | 7,369,538,953 | 240,119,020 | 363,867,384 | 123,748,365 |
| 1986 | 3,428,515 | 8,669,378,501 | 7,535,482,221 | 269,530,240 | 408,860,760 | 139,330,520 |
| 1987 | 3,612,133 | 9,580,720,701 | 8,414,537,647 | 334,089,233 | 468,631,779 | 134,542,546 |
| 1988 | 3,562,789 | 10,264,867,461 | 8,949,846,244 | 423,115,815 | 561,646,539 | 138,530,724 |
| 1989 | 3,627,863 | 10,934,973,405 | 9,427,277,533 | 401,320,146 | 563,402,110 | 162,081,965 |
| 1990 | 3,716,650 | 11,409,520,074 | 9,860,441,633 | 383,213,763 | N.A. | N.A. |
| 1991 | 3,802,788 | 11,436,474,767 | 9,965,628,799 | 360,529,974 | 542,341,802 | 181,811,828 |
| 1992 | 3,869,024 | 11,742,134,728 | 10,360,428,795 | 414,130,453 | 581,920,697 | 167,790,244 |
| 1993 | 3,964,629 | 12,269,721,709 | 10,865,542,520 | 510,258,780 | 670,480,179 | 160,221,400 |
| 1994 | 4,342,369 | 13,360,007,157 | 11,883,614,940 | 595,002,432 | 756,502,169 | 161,499,736 |
| 1995 | 4,474,167 | 14,539,050,115 | 12,785,797,708 | 736,423,014 | 900,524,657 | 164,101,644 |
| 1996 | 4,631,369 | 15,525,718,006 | 13,659,470,309 | 838,591,644 | 1,016,135,059 | 177,543,415 |
| 1997 | 4,710,083 | 16,609,707,302 | 14,460,928,696 | 956,736,971 | 1,155,242,666 | 198,505,695 |
| 1998 | 4,848,887 | 17,323,955,004 | 15,010,264,802 | 895,152,469 | 1,144,026,382 | 248,873,914 |
| 1999 | 4,935,904 | 18,892,385,693 | 16,313,971,384 | 985,363,334 | 1,282,481,469 | 297,118,135 |
| 2000 | 5,045,273 | 20,605,808,071 | 17,636,551,348 | 986,952,279 | 1,391,008,755 | 404,056,474 |
| 2001 | 5,135,591 | 20,272,957,625 | 17,504,288,630 | 648,758,089 | 1,155,497,718 | 506,739,630 |
| 2002 | 5,266,607 | 19,749,426,052 | 17,297,125,146 | 596,524,023 | 1,084,179,817 | 487,655,794 |
| 2003 | 5,401,237 | 20,689,574,291 | 18,264,393,898 | 779,988,635 | 1,175,608,990 | 395,620,355 |
| 2004 | 5,557,965 | 22,711,863,939 | 19,975,875,761 | 1,111,692,655 | 1,455,796,796 | 344,104,141 |

N.A.—Not available.
[1] For years prior to 1960, Total Receipts are also referred to as Total Compiled Receipts.
[2] For years in which they are separately published, receipts from gross sales and gross receipts from operations comprise Business receipts.

## Table 2. Number of Businesses, Total Receipts, Business Receipts, Net Income, and Deficit: S Corporations, Partnerships, and Sole Proprietorships, Selected Tax Years 1960-2004

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

| Form of business, item | Tax year | | | | |
|---|---|---|---|---|---|
| | 1960 | 1965 | 1970 | 1975 | 1980 |
| | (1) | (2) | (3) | (4) | (5) |
| **S Corporations** | | | | | |
| Number of businesses | 90,221 | 173,410 | 257,475 | 358,413 | 545,389 |
| Total receipts | 23,417,799 | 46,442,511 | 77,631,396 | 128,016,555 | 210,322,424 |
| Business receipts | 22,946,017 | 45,433,118 | 76,097,159 | 125,333,032 | 204,887,368 |
| Total net income (less deficit) [1] | 382,479 | 1,447,857 | 1,851,508 | 3,242,098 | 2,518,912 |
| Net income | 678,476 | 1,969,400 | 3,029,581 | 5,497,416 | 8,085,439 |
| Deficit | 295,997 | 521,543 | 1,178,073 | 2,255,318 | 5,566,527 |
| **Partnerships** | | | | | |
| Number of businesses | 940,560 | 914,215 | 936,133 | 1,073,094 | 1,379,654 |
| Total receipts [2] | 74,307,629 | 75,258,639 | 93,348,080 | 148,417,529 | 291,998,115 |
| Business receipts | 72,894,735 | 73,588,349 | 90,208,834 | 142,505,781 | 271,108,832 |
| Net income (less deficit) | 8,360,373 | 9,699,145 | 9,790,396 | 7,737,570 | 8,248,655 |
| Net income | 9,373,289 | 11,267,913 | 14,419,124 | 22,431,931 | 45,061,756 |
| Deficit | 1,012,916 | 1,568,768 | 4,628,728 | 14,694,361 | 36,813,100 |
| **Nonfarm Sole Proprietorships** | | | | | |
| Number of businesses | 9,089,985 | 9,078,466 | 5,769,741 | 7,221,346 | 8,931,712 |
| Total receipts | 171,257,205 | 199,384,594 | 198,582,172 | 273,954,741 | 411,205,713 |
| Business receipts | 171,257,205 | 199,384,594 | 198,582,172 | 273,954,741 | 411,205,713 |
| Net income (less deficit) | 21,067,090 | 27,887,417 | 30,537,426 | 39,636,453 | 54,947,219 |
| Net income | 24,269,011 | 31,637,317 | 33,735,732 | 45,624,890 | 68,010,051 |
| Deficit | 3,201,921 | 3,749,900 | 3,198,306 | 5,988,437 | 13,062,832 |

| Form of business, item | Tax year | | | | |
|---|---|---|---|---|---|
| | 1981 | 1982 | 1983 | 1984 | 1985 |
| | (6) | (7) | (8) | (9) | (10) |
| **S Corporations** | | | | | |
| Number of businesses | 541,489 | 564,219 | 648,267 | 701,339 | 724,749 |
| Total receipts | 212,514,030 | 243,056,569 | 300,248,422 | 385,026,843 | 430,641,781 |
| Business receipts | 206,357,914 | 235,010,755 | 290,764,938 | 372,732,439 | 416,041,188 |
| Total net income (less deficit) [1] | 1,870,746 | 3,047,943 | 5,075,351 | 6,906,667 | 7,602,450 |
| Net income | 8,454,022 | 10,992,022 | 14,575,149 | 18,706,344 | 21,159,865 |
| Deficit | 6,583,276 | 7,944,079 | 9,499,798 | 11,799,677 | 13,557,415 |
| **Partnerships** | | | | | |
| Number of businesses | 1,460,502 | 1,514,212 | 1,541,539 | 1,643,581 | 1,713,603 |
| Total receipts [2] | 272,129,807 | 296,690,303 | 291,318,703 | 375,192,511 | 367,117,315 |
| Business receipts | 230,027,336 | 251,608,987 | 243,248,370 | 318,342,380 | 302,733,374 |
| Net income (less deficit) | -2,734,897 | -7,314,587 | -2,610,041 | -3,500,024 | -8,883,674 |
| Net income | 50,567,190 | 53,556,856 | 60,308,114 | 69,696,922 | 77,044,693 |
| Deficit | 53,302,086 | 60,871,442 | 62,918,155 | 73,196,946 | 85,928,367 |
| **Nonfarm Sole Proprietorships** | | | | | |
| Number of businesses | 9,584,790 | 10,105,515 | 10,703,921 | 11,262,390 | 11,928,573 |
| Total receipts | 427,063,055 | 433,664,897 | 465,168,637 | 516,036,944 | 540,045,430 |
| Business receipts | 427,063,055 | 433,664,897 | 465,168,637 | 516,036,944 | 540,045,430 |
| Net income (less deficit) | 53,071,628 | 50,573,163 | 60,359,153 | 70,766,610 | 78,772,578 |
| Net income | 68,552,791 | 68,647,384 | 78,618,410 | 89,849,570 | 98,775,563 |
| Deficit | 15,481,162 | 18,074,220 | 18,259,256 | 19,082,960 | 20,002,986 |

Footnotes at end of table.

**Table 2. Number of Businesses, Total Receipts, Business Receipts, Net Income, and Deficit: S Corporations, Partnerships, and Sole Proprietorships, Selected Tax Years 1960-2004—Continued**

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

| Form of business, item | Tax year | | | | |
|---|---|---|---|---|---|
| | 1986 | 1987 | 1988 | 1989 | 1990 |
| | (11) | (12) | (13) | (14) | (15) |
| **S Corporations** | | | | | |
| Number of businesses | 826,214 | 1,127,905 | 1,257,191 | 1,422,967 | 1,575,092 |
| Total receipts | 483,986,301 | 972,246,266 | 1,263,988,377 | 1,463,966,315 | 1,620,702,664 |
| Business receipts | 466,712,837 | 951,305,832 | 1,236,906,216 | 1,434,527,066 | 1,588,070,882 |
| Total net income (less deficit) [1] | 8,293,241 | 30,017,036 | 43,536,518 | 44,779,347 | 44,831,241 |
| Net income | 23,942,506 | 48,391,165 | 63,908,830 | 70,404,449 | N.A. |
| Deficit | 15,649,265 | 18,374,129 | 20,372,312 | 25,625,102 | N.A. |
| **Partnerships** | | | | | |
| Number of businesses | 1,702,952 | 1,648,032 | 1,654,245 | 1,635,164 | 1,553,529 |
| Total receipts [2] | 397,302,544 | 442,802,234 | 498,378,098 | 505,222,543 | 518,994,886 |
| Business receipts | 327,428,647 | 411,457,126 | 463,956,020 | 464,951,817 | 483,417,504 |
| Net income (less deficit) | -17,370,860 | -5,419,105 | 14,493,114 | 14,099,275 | 16,609,540 |
| Net income | 80,214,873 | 87,654,011 | 111,384,545 | 113,885,966 | 116,317,801 |
| Deficit | 97,585,733 | 93,073,116 | 96,891,431 | 99,786,691 | 99,708,261 |
| **Nonfarm Sole Proprietorships** | | | | | |
| Number of businesses | 12,393,700 | 13,091,132 | 13,679,302 | 14,297,558 | 14,782,738 |
| Total receipts | 559,384,259 | 610,822,732 | 671,969,931 | 692,810,938 | 730,606,020 |
| Business receipts | 559,384,259 | 610,822,732 | 671,969,931 | 692,810,938 | 730,606,020 |
| Net income (less deficit) | 90,423,763 | 105,460,627 | 126,323,251 | 132,737,680 | 141,430,193 |
| Net income | 110,496,952 | 123,782,540 | 145,517,755 | 152,416,377 | 161,657,252 |
| Deficit | 20,073,189 | 18,321,913 | 19,194,505 | 19,678,697 | 20,227,059 |

| Form of business, item | Tax year | | | | |
|---|---|---|---|---|---|
| | 1991 | 1992 | 1993 | 1994 | 1995 |
| | (16) | (17) | (18) | (19) | (20) |
| **S Corporations** | | | | | |
| Number of businesses | 1,698,271 | 1,785,371 | 1,901,505 | 2,023,754 | 2,153,119 |
| Total receipts | 1,682,984,576 | 1,821,882,961 | 1,997,596,803 | 2,210,945,344 | 2,405,073,461 |
| Business receipts | 1,655,481,071 | 1,790,836,830 | 1,967,936,737 | 2,173,454,305 | 2,366,453,853 |
| Total net income (less deficit) [1] | 44,745,093 | 58,329,739 | 66,233,497 | 91,676,443 | 99,128,672 |
| Net income | 72,571,565 | 91,138,122 | 98,558,092 | 123,970,916 | 134,958,619 |
| Deficit | 27,826,472 | 32,808,383 | 32,324,595 | 32,294,473 | 35,829,947 |
| **Partnerships** | | | | | |
| Number of businesses | 1,515,345 | 1,484,752 | 1,467,567 | 1,493,963 | 1,580,900 |
| Total receipts [2] | 515,461,121 | 551,548,871 | 606,190,516 | 703,827,410 | 814,704,090 |
| Business receipts | 483,164,395 | 514,827,003 | 560,999,120 | 656,158,602 | 760,617,695 |
| Net income (less deficit) | 21,406,607 | 42,916,649 | 66,652,288 | 82,183,076 | 106,829,196 |
| Net income | 113,408,221 | 121,834,358 | 137,440,684 | 150,927,743 | 178,650,950 |
| Deficit | 92,001,615 | 78,917,710 | 70,788,396 | 68,744,668 | 71,821,755 |
| **Nonfarm Sole Proprietorships** | | | | | |
| Number of businesses | 15,180,722 | 15,495,419 | 15,848,119 | 16,153,871 | 16,423,872 |
| Total receipts | 712,567,989 | 737,082,032 | 757,215,452 | 790,630,020 | 807,363,638 |
| Business receipts | 712,567,989 | 737,082,032 | 757,215,452 | 790,630,020 | 807,363,638 |
| Net income (less deficit) | 141,515,783 | 153,960,246 | 156,458,803 | 166,798,668 | 169,262,336 |
| Net income | 162,426,709 | 173,472,549 | 179,983,281 | 187,845,139 | 191,728,953 |
| Deficit | 20,910,927 | 19,512,304 | 23,524,477 | 21,046,471 | 22,466,617 |

Footnotes at end of table.

## Table 2. Number of Businesses, Total Receipts, Business Receipts, Net Income, and Deficit: S Corporations, Partnerships, and Sole Proprietorships, Selected Tax Years 1960-2004—Continued

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

| Form of business, item | Tax year | | | | |
|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 | 2000 |
| | (21) | (22) | (23) | (24) | (25) |
| **S Corporations** | | | | | |
| Number of businesses | 2,304,416 | 2,452,254 | 2,588,088 | 2,725,775 | 2,860,478 |
| Total receipts | 2,618,094,172 | 2,895,237,519 | 3,061,133,169 | 3,300,868,762 | 3,617,477,105 |
| Business receipts | 2,571,988,996 | 2,840,623,943 | 3,004,118,934 | 3,242,797,429 | 3,557,650,166 |
| Total net income (less deficit) [1] | 125,245,496 | 153,063,011 | 181,788,303 | 193,756,411 | 198,535,888 |
| Net income | 161,896,380 | 192,122,074 | 223,972,910 | 240,561,633 | 254,216,205 |
| Deficit | 36,650,884 | 39,059,063 | 42,184,607 | 46,805,222 | 55,680,317 |
| **Partnerships** | | | | | |
| Number of businesses | 1,654,256 | 1,758,627 | 1,855,348 | 1,936,919 | 2,057,500 |
| Total receipts [2] | 1,002,579,987 | 1,249,789,312 | 1,474,879,256 | 1,754,972,413 | 2,218,639,870 |
| Business receipts | 915,844,403 | 1,141,963,405 | 1,356,655,904 | 1,615,762,245 | 2,061,764,235 |
| Net income (less deficit) | 145,218,248 | 168,240,726 | 186,704,627 | 228,438,105 | 268,990,758 |
| Net income | 228,157,635 | 262,373,206 | 297,874,299 | 348,467,958 | 409,972,787 |
| Deficit | 82,939,388 | 94,132,480 | 111,170,672 | 120,029,853 | 140,982,029 |
| **Nonfarm Sole Proprietorships** | | | | | |
| Number of businesses | 16,955,023 | 17,176,487 | 17,408,809 | 17,575,643 | 17,904,731 |
| Total receipts | 843,233,843 | 870,392,286 | 918,268,196 | 969,347,038 | 1,020,957,283 |
| Business receipts | 843,233,843 | 870,392,286 | 918,268,196 | 969,347,038 | 1,020,957,283 |
| Net income (less deficit) | 176,755,693 | 186,643,910 | 202,274,720 | 207,946,977 | 214,715,298 |
| Net income | 200,123,896 | 210,464,545 | 226,189,570 | 233,404,991 | 245,230,626 |
| Deficit | 23,368,202 | 23,820,635 | 23,914,850 | 25,458,013 | 30,515,328 |

| Form of business, item | Tax year | | | |
|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 |
| | (26) | (27) | (28) | (29) |
| **S Corporations** | | | | |
| Number of businesses | 2,986,486 | 3,154,377 | 3,341,606 | 3,518,334 |
| Total receipts | 3,761,512,350 | 3,910,926,701 | 4,232,565,964 | 4,737,162,166 |
| Business receipts | 3,691,120,151 | 3,841,281,106 | 4,152,365,102 | 4,645,693,720 |
| Total net income (less deficit) [1] | 187,686,917 | 183,478,933 | 213,681,780 | 275,398,651 |
| Net income | 248,863,846 | 246,533,627 | 276,531,538 | 339,948,836 |
| Deficit | 61,176,929 | 63,054,694 | 62,849,757 | 64,550,185 |
| **Partnerships** | | | | |
| Number of businesses | 2,132,117 | 2,242,169 | 2,375,375 | 2,546,877 |
| Total receipts [2] | 2,462,461,787 | 2,582,060,669 | 2,722,174,031 | 3,021,683,261 |
| Business receipts | 2,278,200,526 | 2,414,187,093 | 2,545,612,266 | 2,818,861,323 |
| Net income (less deficit) | 276,334,824 | 270,667,169 | 301,398,218 | 384,738,394 |
| Net income | 446,069,172 | 439,761,741 | 468,552,382 | 566,231,686 |
| Deficit | 169,734,347 | 169,094,572 | 167,154,164 | 181,493,292 |
| **Nonfarm Sole Proprietorships** | | | | |
| Number of businesses | 18,338,190 | 18,925,517 | 19,710,079 | 20,590,691 |
| Total receipts | 1,016,834,678 | 1,029,691,760 | 1,050,202,446 | 1,139,523,760 |
| Business receipts | 1,016,834,678 | 1,029,691,760 | 1,050,202,446 | 1,139,523,760 |
| Net income (less deficit) | 217,385,116 | 221,113,286 | 230,308,100 | 247,567,189 |
| Net income | 250,178,322 | 257,292,855 | 269,089,168 | 290,486,159 |
| Deficit | 32,793,206 | 36,179,568 | 38,781,068 | 42,918,970 |

N.A.—Not available.

[1] Prior to Tax Year 1987, "Total net income (less deficit)" from S Corporations only includes "Net income (less deficit)" from S Corporations and is not as comprehensive as data in future years.

[2] For consistency purposes of this article, what Statistics of Income normally publishes as Partnership "Total income" is labeled as "Total receipts."

### Table 3. Corporations: Number of Businesses, Total Receipts, Business Receipts, Net Income (Less Deficit), Net Income, Deficit, Selected Tax Years 1916-2004, in 1990 Constant Dollars [1]

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

| Tax year | Number of businesses | Total receipts [2] | Business receipts [3] | Net income (less deficit) | Net income | Deficit |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| 1916 | 341,253 | N.A. | N.A. | 97,233,665 | 105,110,487 | 7,876,821 |
| 1920 | 345,595 | 613,139,840 | N.A. | 38,381,565 | 51,643,850 | 13,262,286 |
| 1925 | 430,072 | 1,006,614,035 | 797,883,521 | 56,918,401 | 71,576,429 | 14,658,027 |
| 1930 | 463,036 | 1,068,985,126 | 964,268,599 | 797,883,521 | 50,314,123 | 38,173,752 |
| 1935 | 477,113 | 1,093,775,037 | 1,002,871,842 | 16,179,601 | 49,272,211 | 33,092,610 |
| 1940 | 473,042 | 1,383,896,290 | 1,298,825,200 | 83,269,241 | 104,590,098 | 21,320,858 |
| 1945 | 421,125 | 1,854,834,518 | 1,771,929,053 | 153,492,308 | 160,944,024 | 7,451,715 |
| 1950 | 629,314 | 2,484,547,719 | 2,385,581,586 | 231,102,026 | 239,385,678 | 8,283,652 |
| 1955 | 807,000 | 3,132,157,399 | 2,987,971,374 | 231,545,150 | 256,089,864 | 24,544,714 |
| 1960 | 1,140,574 | 3,749,376,501 | 3,544,755,853 | 192,098,860 | 222,465,287 | 30,366,427 |
| 1965 | 1,423,980 | 4,956,644,652 | 4,648,694,975 | 306,584,114 | 335,242,600 | 28,658,485 |
| 1970 | 1,665,477 | 5,897,589,921 | 5,460,048,337 | 221,993,323 | 281,984,994 | 59,991,671 |
| 1975 | 2,023,647 | 7,770,644,262 | 7,195,131,300 | 346,517,345 | 411,737,398 | 65,220,053 |
| 1980 | 2,710,538 | 10,090,046,364 | 9,091,289,505 | 402,375,639 | 494,086,400 | 91,710,762 |
| 1981 | 2,547,410 | 10,102,796,319 | 10,102,796,319 | 307,193,832 | 433,424,749 | 126,230,917 |
| 1982 | 2,925,933 | 9,513,467,130 | 8,339,058,207 | 209,030,803 | 371,584,762 | 162,553,959 |
| 1983 | 2,999,071 | 9,363,544,915 | 8,312,576,047 | 247,114,763 | 389,648,910 | 142,534,148 |
| 1984 | 3,170,743 | 9,888,305,652 | 8,740,775,586 | 292,975,052 | 439,246,868 | 146,271,816 |
| 1985 | 3,277,219 | 10,201,254,556 | 8,951,661,163 | 291,668,735 | 441,983,895 | 150,315,161 |
| 1986 | 3,428,515 | 10,338,392,063 | 8,986,200,057 | 321,419,730 | 487,573,917 | 166,154,188 |
| 1987 | 3,612,133 | 11,022,889,046 | 9,681,162,592 | 384,379,074 | 539,174,063 | 154,794,989 |
| 1988 | 3,562,789 | 11,340,812,994 | 9,887,953,543 | 467,466,078 | 620,517,351 | 153,051,273 |
| 1989 | 3,627,863 | 11,525,814,710 | 9,936,654,626 | 423,004,380 | 593,843,998 | 170,839,620 |
| 1990 | 3,716,650 | 11,409,520,074 | 9,860,441,633 | 383,213,763 | N.A. | N.A. |
| 1991 | 3,802,788 | 10,974,649,428 | 9,563,198,855 | 345,971,128 | 520,441,068 | 174,469,941 |
| 1992 | 3,869,024 | 10,938,681,461 | 9,651,518,485 | 385,793,658 | 542,102,887 | 156,309,229 |
| 1993 | 3,964,629 | 11,097,942,058 | 9,827,864,411 | 461,528,184 | 606,448,162 | 144,919,979 |
| 1994 | 4,342,369 | 11,782,408,471 | 10,480,354,067 | 524,742,361 | 667,171,616 | 142,429,254 |
| 1995 | 4,474,167 | 12,468,857,284 | 10,965,247,772 | 631,564,881 | 772,300,346 | 140,735,465 |
| 1996 | 4,631,369 | 12,933,150,691 | 11,378,539,002 | 698,559,132 | 846,455,400 | 147,896,267 |
| 1997 | 4,710,083 | 13,525,786,569 | 11,775,971,218 | 779,099,826 | 940,749,012 | 161,649,186 |
| 1998 | 4,848,887 | 13,891,048,583 | 12,035,838,096 | 717,769,495 | 917,326,676 | 199,557,181 |
| 1999 | 4,935,904 | 14,821,337,395 | 12,798,535,774 | 773,031,139 | 1,006,124,418 | 233,093,279 |
| 2000 | 5,045,273 | 15,639,832,258 | 13,386,162,957 | 749,097,926 | 1,055,777,261 | 306,679,333 |
| 2001 | 5,135,591 | 14,910,948,574 | 12,874,566,820 | 477,167,598 | 849,879,301 | 372,711,703 |
| 2002 | 5,266,607 | 14,348,248,944 | 12,566,616,212 | 433,383,490 | 787,672,607 | 354,289,118 |
| 2003 | 5,401,237 | 14,696,344,347 | 12,973,675,448 | 554,046,275 | 835,065,734 | 281,019,459 |
| 2004 | 5,557,965 | 15,714,349,480 | 13,821,317,956 | 769,180,678 | 1,007,266,497 | 238,085,819 |

N.A.—Not available.

[1] Based upon the Consumer Price Index as published by the U.S. Department of Commerce, Bureau of Economic Analysis.

[2] For years prior to 1960, Total Receipts are also referred to as Total Compiled Receipts.

# A History of the Tax-Exempt Sector: An SOI Perspective

*by Paul Arnsberger, Melissa Ludlum, Margaret Riley, and Mark Stanton*

The origins of the tax-exempt sector in the United States predate the formation of the republic. Absent an established Governmental framework, the early settlers formed charitable and other "voluntary" associations, such as hospitals, fire departments, and orphanages, to confront a wide variety of issues and ills of the era. These types of voluntary organizations have continued to thrive in the United States for centuries. In 1831, during his historic visit to the United States, Alexis de Tocqueville observed:

> "Americans of all ages, conditions, and dispositions constantly unite together. Not only do they have commercial and industrial associations to which all belong but also a thousand other kinds, religious, moral, serious, futile…Americans group together to hold fetes, found seminaries, build inns, construct churches, distribute books…They establish prisons, schools by the same method…I have frequently admired the endless skill with which the inhabitants of the United States manage to set a common aim to the efforts of a great number of men and to persuade them to pursue it voluntarily."[1]

Voluntary associations comprised two distinct types of organizations—public-serving and member-serving.[2,3] Early public-serving, or charitable, organizations included schools, churches, and other voluntary organizations designed to provide services to the public. The popularity of voluntary charitable organizations in the United States, even in the midst of strengthening State and Federal governments, suggests that perhaps these organizations, with their well-established structures and programs, were able to fill a gap in social welfare programs where the young Government's efforts proved insufficient. Another suggestion is that many early Americans embraced charitable organizations over Government programs because they feared "the rebirth of monarchy, or bureaucracy."[4]

By the end of the 19th century, private philanthropy, as typified by the modern private foundation, had joined voluntary associations as an important component of the public-serving charitable sector of the United States. The foundation originated from the charitable trust, a tool for giving that became widely used in this period.[5] In the early 20th century, a number of American industrialists, wishing to direct their newly acquired wealth toward a broad range of altruistic endeavors, created private foundations that remain prominent today. Unlike other early charitable organizations, private foundations generally were controlled and funded by a single source, such as an individual, corporation, or family. Andrew Carnegie articulated the vision of these early philanthropists in his essay, "The Gospel of Wealth," where he argued that a wealthy individual should "consider all surplus revenues which come to him simply as trust funds, which he is called upon to administer, and strictly bound as a matter of duty to administer in the manner which, in his judgment, is best calculated to produce the most beneficial results for the community…"[6]

Member-serving associations, including fraternal societies, were also popular among early Americans. The Freemasons, for example, have roots in 17th century England and count a number of this Nation's founding fathers as members. By the 19th century, mutual benefit associations, serving members in areas such as banking and insurance, began to flourish. Additionally, labor and agricultural organizations, established to promote the interests of their members, started to take root across the Nation around this time.

Voluntary associations and philanthropic vehicles continue to coexist and forge a relationship with

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[1] Tocqueville, Alexis de, *Democracy in America* (2003), Penguin Books, London, England, p. 596

[2] For the most part, public-serving organizations are those that are now described under section 501(c)(3) of the Internal Revenue Code. Member-serving organizations are those covered under other subsections of 501(c). Appendix A at the end of this article provides detailed information on organizations exempt under section 501(c).

[3] See: Salamon, Lester M. (1992), *America's Nonprofit Sector: A Primer*, The Foundation Center, New York, NY, p. 14.

[4] Ibid., p. 7.

[5] Chester, Ronald (1982), *Inheritance, Wealth, and Society*, Indiana University Press, Bloomington, Indiana, p. 95.

[6] Carnegie, Andrew (2001), "The Gospel of Wealth," *The Nature of the Nonprofit Sector*, editor J. Steven Ott. Westview Press, Boulder, CO, p. 68.

Government that remains into the 21st century. A significant component of this relationship is Government's recognition of the importance of the charitable and voluntary sector, and the support of its organizations in the form of an exemption from income and certain other taxes. This article explores the legislative history of tax exemption and presents historical data that highlight recent financial trends among tax-exempt organizations.

## Legislative History of the Tax-Exempt Sector

The structure of tax exemption granted to the charitable and voluntary sector outlined in the United States Tax Code was developed through legislation enacted between 1894 and 1969. Over that 75-year period, Congress established the basic principles and requirements of tax exemption, identified business activities of tax-exempt organizations that were subject to taxation, and defined and regulated private foundations as a subset of tax-exempt organizations. Figure A shows a timeline of major legislative actions relevant to tax-exempt organizations, while a more complete history can be found in Appendix B at the end of this article.

### Early Legislation, 1894-1936

The privileged tax treatment that the Government grants to charitable and member-serving organizations can be traced to the earliest versions of United States tax law. Early tax-exemption regulations developed around three major principles. First, organizations that operated for charitable purposes were granted exemption from the Federal income tax. Second, charitable organizations were required to be free of private inurement—that is, a charitable organization's income could not be used to benefit an individual related to the organization. Finally, an income tax deduction for contributions, designed to encourage charitable giving, was developed.

The Wilson-Gorman Tariff Act of 1894, one of the earliest statutory references to the tax-exempt status enjoyed by charitable organizations, established the requirement that tax-exempt, charitable organizations operate for charitable purposes. While establishing a flat 2-percent tax on corporate income, the act stated "nothing herein contained shall apply to… corporations, companies, or associations organized and conducted solely for charitable, religious, or

**Figure A**

**Major Exempt Organization Legislation, 1894-Present**

- **Tariff Act of 1894** - Earliest statutory reference to tax exemption for certain organizations.
- **Revenue Act of 1909** - Introduced language prohibiting private inurement.
- **Revenue Act of 1913** - Established income tax system with tax exemption for certain organizations.
- **Revenue Act of 1917** - Introduced individual income tax deduction for charitable donations.
- **Revenue Act of 1918** - Estate tax deduction for charitable bequests added.
- **Revenue Act of 1934** - Set limits on lobbying activities by charitable organizations.
- **Revenue Act of 1936** - Introduced corporate tax deduction for charitable contributions.
- **Revenue Act of 1943** - Required first Forms 990 to be filed.
- **Revenue Act of 1950** - Established unrelated business income tax.
- **Revenue Act of 1954** - Modern tax code established, including section 501(c) for exempt organizations. Also, limits on political activities established.
- **Revenue Act of 1964** - Raised the limitation on deduction for donations to public charities to 30 percent of adjusted gross income (AGI).
- **Tax Reform Act of 1969** - Established private foundation rules, including a minimum charitable payout requirement and a 4-percent excise tax on net investment income, and raised the limitation on the deduction for donations to operating private foundations and public charities to 50 percent of AGI.
- **Revenue Act of 1978** - Reduced the net investment income excise tax for private foundations to 2 percent.
- **Deficit Reduction Act of 1984** - Raised the limitation on the deduction for donations to nonoperating private foundations to 30 percent of AGI and introduced other more favorable rules for donors to these organizations. Also, exempted certain operating foundations from the net investment income tax and reduced the tax to 1 percent for foundations meeting other requirements.
- **Revenue Reconciliation Act of 1993** - Imposed a proxy tax on certain lobbying and political expenditures made by membership organizations.
- **Tax Payer Bill of Rights 2 (1996)** - Introduced intermediate sanction rules for excess benefit transactions.
- **Tax Payer Relief Act of 1997** - Revoked tax exemption of certain organizations providing commercial-type insurance.
- **Pension Protection Act of 2006** - Required section 501(c)(3) organizations to make their Forms 990-T available for public inspection.

NOTE: For more extensive information, see Appendix B.

educational purposes, including fraternal beneficiary associations." Though the law was declared unconstitutional by the Supreme Court in 1895, the exemption language contained in the act would provide the cornerstone for tax legislation involving charitable organizations for the next century.

The Revenue Act of 1909 mirrored and expanded the language from the 1894 act. Under this statute, tax exemption was granted to "any corporation or association organized and operated exclusively for religious, charitable, or educational purposes, no part of the net income of which inures to the benefit of any private stockholder or individual." This important addition set forth the idea that tax-exempt charitable organizations should be free of private inurement—in other words, nonprofit.

Ratification of the Sixteenth Amendment granted Congress the power to levy income tax. The subsequent Revenue Act of 1913 established the modern Federal income tax system. For charitable organizations, the act used identical language as that found in the Tariff Acts of 1894 and 1909 with regard to charitable purpose and private inurement.

The Revenue Act of 1917 established, for the first time, an individual income tax deduction for contributions made to tax-exempt charitable organizations. This deduction was conceived as a way to encourage charitable contributions at a time when income tax rates were rising in order to fund World War I. One year later, the Revenue Act of 1918 provided that charitable bequests were entitled to a similar deduction on estate tax returns. Finally, corporations were able to claim the charitable deduction beginning in 1936.

## The Revenue Act of 1950

Before the 1950s, tax-exempt organizations could earn tax-free income from both mission-related activities and commercial business activities that were unrelated to the purpose for which they were exempt, as long as they used the net profits for exempt purposes. However, in the 1940s, concerns grew in Congress over the perception that tax-exempt organizations were permitted an unfair competitive advantage over taxable entities. As a result, Congress established the "unrelated business income tax" (UBIT) as part of the Revenue Act of 1950. For tax years beginning after December 31, 1950, UBIT was imposed on the "unrelated business income" (UBI) of charitable organizations (except churches); labor and agricultural organizations; chambers of commerce, business leagues, and real estate boards; certain trusts; and certain title holding companies.[7]

Income was considered UBI if it was produced from an activity deemed a "trade or business" that was "regularly carried on" and was not "substantially related" to the organization's exempt purpose(s), regardless of whether or not the profits from the unrelated trade or business were used solely for exempt purposes. Passive income and certain gains and losses from the disposition of property were not subject to tax.

The Revenue Act of 1950 addressed several other issues regarding the unrelated activities of tax-exempt organizations. Tax exemption was no longer permitted to "feeder" organizations, which did not conduct any charitable activities, but rather operated commercial enterprises from which they passed income to a charitable organization. In addition, income from debt-financed real estate sale-leaseback activities was subject to UBIT. In these cases, tax-exempt organizations purchased real estate with borrowed funds, leased the property back to the owner, and used the tax-free rental income to pay off the debt.[8]

The Revenue Act of 1950, and additional changes made under the Tax Reform Act of 1969, discussed in the following section, formed the contemporary structure for the unrelated business taxation of tax-exempt organizations.

## Tax Reform Act of 1969

By the 1960s, there was a growing perception among lawmakers that private foundations, with their small networks of financers and administrators, were less accountable to the public than traditional charities. These concerns were addressed with the Tax Reform Act of 1969 (TRA69), which introduced sweeping reforms to the charitable sector. TRA69 also significantly expanded the rules governing unrelated business income taxation of tax-exempt entities.

The first explicit definition of private foundations, for tax purposes, was included in TRA69. This legislation defined a foundation as a charitable orga-

[7] In 1951, Congress extended the UBIT to the unrelated business income of State and municipally owned colleges and universities, to correct for an omission from the 1950 act.

[8] Staff report of the Joint Committee on Taxation, "Historical Development and Present Law of Federal Tax Exemption for Charities and Other Tax-Exempt Organizations" (JCX-29-05) (April 19, 2005).

nization that did not engage in inherently public activities, test for public safety, receive substantial support from a wide array of public sources, or operate in support of any organization that met any of these three requirements.[9] Further, the legislation created two subclasses of private foundations—nonoperating and operating. Nonoperating foundations, which represented the majority of all private foundations, were defined as primarily grantmaking organizations. Conversely, operating foundations were those that operated charitable programs in a manner similar to that of public charities.

TRA69 established an array of more stringent requirements specific to private foundations. These "private foundation rules" outlined two annual requirements and a variety of "prohibited activities" that were considered to be contrary to the public interest. First, TRA69 established an annual excise tax on investment income. This provision was intended to compel private foundations to "share some of the burden of paying the cost of government," particularly the enforcement of regulations related to the tax-exempt sector.[10] Second, nonoperating foundations were required to distribute a minimum amount for charitable purposes each year. Further, private foundations that failed to meet the minimum charitable distribution requirement or engaged in certain prohibited activities were subject to taxes and other sanctions.

TRA69 also increased the existing charitable deduction limits for individual donors and sharpened the definitions of the organizations to which contributions were deductible. Under the Revenue Act of 1964, individuals could deduct contributions made to public charities up to 30 percent of adjusted gross income (AGI). The new regulations enacted under TRA69 increased the maximum deduction limitation for cash and ordinary income contributions to 50 percent for public charities and operating foundations. Most nonoperating private foundations remained subject to a lower 20-percent limitation.[11]

TRA69 also expanded the tax on unrelated business income, extending the tax to all tax-exempt organizations described in IRC sections 501(c) and 401(a) (except United States instrumentalities), and including churches for the first time. Additionally, TRA69 expanded the taxation of debt-financed income to include forms of income other than rents from real estate sale-leaseback arrangements.[12] Since 1969, Congress has made a number of changes to the UBIT statutes. However, the rules on unrelated business taxation of tax-exempt organizations established by the Revenue Act of 1950 and TRA69 have remained largely intact.

### Other Legislation, 1970-2007

While the underlying structure of tax exemption for the charitable and voluntary sector has changed little since the passage of TRA69, subsequent legislation has introduced a number of modifications. These include adjustments to the private foundation net investment income tax rates and to the excise tax rates on charitable organizations that engage in prohibited activities. Further changes have provided new exceptions to UBIT taxation for specified activities, tightened the rules pertaining to the taxation of payments received from subsidiaries, and required unrelated business income tax returns filed by IRC section 501(c)(3) organizations to be made publicly available.

## Overview of the Statistics of Income Exempt Organization Program

The Internal Revenue Service provides, by Congressional mandate, statistics and microdata derived from information and tax returns filed with IRS. To fulfill this requirement, the Statistics of Income (SOI) division has conducted annual studies of organizations exempt under IRC section 501(c)(3) for every tax year since 1985.[13] Currently, SOI collects information from stratified random samples of Forms 990, 990-PF, 990-T, and the population of Forms 4720.

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[9] Organizations that conduct "inherently public activities" include churches, schools, hospitals, and Governmental units of the United States. For additional information, see Richardson, Virginia G. and John Francis Reilly, "Public Charity or Private Foundation Status Issues under 509(a)(1)-(4), 4942(j)(3), and 507, Fiscal Year 2003," Exempt Organizations Continuing Professional Education. This article is available at www.irs.gov/pub/irs-tege/eotopicb03.pdf.

[10] Staff report of the Joint Committee on Taxation, "General Explanation of the Tax Reform Act of 1969" (JCS-16-70) (December 3, 1970), p. 29.

[11] Deduction limitations for cash and ordinary income contributions to nonoperating foundations later were increased to 30 percent of AGI as part of the Deficit Reduction Act of 1984.

[12] TRA69 expanded taxable debt-financed income to include interest, dividends, other rents, royalties, and certain gains and losses from any type of property, if produced from financial vehicles acquired with borrowed funds.

[13] The first SOI exempt organization studies were based on Forms 990 filed by tax-exempt organizations for Tax Years 1943 and 1946. Data from Forms 990-PF filed by private foundations were first collected for Tax Year 1974.

## Keeping Pace with Technology

Since 1918, Statistics of Income (SOI) has collected, compiled, and published information from tax returns for its statistical research studies. Over the years, SOI has made incremental improvements in data processing methods to keep pace with technological advances. The relatively small size of the statistical samples used for SOI's exempt organization (EO) research studies has made these studies ideal for piloting major innovations in return processing, which have been subsequently adopted by other SOI studies.

The first modern SOI exempt organization study was of private foundation information returns, Forms 990-PF, filed for Tax Year 1974. Abstracting and editing data from these information returns relied on a tedious process. First, IRS tax examiners recorded data items from the returns on preprinted forms, called edit sheets. Next, data from these edit sheets were transcribed, read into a mainframe computer, and subjected to data quality and consistency tests. Items that failed the tests were recorded on paper listings, called error registers, which were returned to tax examiners. Based on instructions provided by SOI analysts, tax examiners made handwritten corrections on the listings. These corrections were transcribed, and the data were subjected to further testing. The process was repeated until errors were no longer present. These procedures were quite time-consuming and costly compared to present-day processing.

The Tax Year 1982 Form 990-PF study was a pilot for developing a new online, interactive system of editing, testing, and error resolution. With the new system, tax examiners keyed return information directly into a database via computer screens that were facsimiles of the Form 990-PF. Failed quality and consistency tests were communicated to the user at the time of entry, and corrections were made and retested immediately. The online system streamlined the edit process and improved production rates, and, eventually, all SOI studies adopted similar applications.

*continued on page 122*

Tax-exempt organizations, other than private foundations, file Form 990, *Return of Organization Exempt from Income Tax*; private foundations file Form 990-PF, *Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation*. Forms 990 and 990-PF are used by these organizations to report standard financial information, as well as information regarding compliance with the regulations that govern their tax-exemption. Charitable and other types of tax-exempt organizations report any unrelated business income and taxes on Form 990-T, *Exempt Organization Business Income Tax Return*. Private foundations, public charities, and split-interest and charitable trusts use Form 4720, *Return of Certain Excise Taxes on Charities and Other Persons under Chapters 41 and 42 of the Internal Revenue Code*, to calculate and pay taxes on prohibited activities and, for private foundations, failure to meet the minimum annual distribution requirement. SOI produces a variety of statistical tables and articles annually for all of the tax-exempt organization programs. Also annually, microdata files that include all information collected from the Form 990 and Form 990-PF samples are made available to the public on the IRS Web site, www.irs.gov/taxstats. Microdata derived from Forms 4720 and the majority of Forms 990-T cannot be disclosed to the public.[14]

SOI samples approximately 10 percent of all Forms 990 and 990-PF, and about 20 percent of all Forms 990-T filed for a given tax year.[15] For any designated tax year, tax-exempt organizations have various 12-month fiscal periods that collectively span 2 calendar years. To ensure complete coverage of a

[14] Under the Pension Protection Act of 2006, IRC section 501(c)(3) public charities and private foundations reporting unrelated business income were required to make their Forms 990-T, *Exempt Organization Business Income Tax Returns*, available for public inspection. However, IRS was not authorized under the Pension Act to disclose this information to the public. The Tax Technical Corrections Act of 2007 corrected for this oversight and authorized IRS to disclose Form 990-T information reported by section 501(c)(3) organizations, retroactive to returns filed after August 17, 2006, the date of enactment of the Pension Act.

[15] For detailed information on Statistics of Income sampling methodology for producing population estimates, see the general Appendix, located near the back of this issue of the *SOI Bulletin*.

single tax year, SOI draws samples of Form 990-series returns over a 2-year timeframe. For example, the Tax Year 2004 studies include returns filed for Tax Year 2004 in Calendar Years 2005 and 2006. The SOI study of Forms 4720 includes data collected for the population of Forms 4720 filed over a calendar year, which may include various tax years.

The SOI files contain most financial items from each return, as well as a number of additional fields dedicated to information about the organizations' structures and activities. The SOI staff enter data into an online system, which identifies filer and other errors that are corrected during the data entry process. Often, supplemental information is included on schedules and other attachments. Where appropriate, information from these attachments is used to adjust or supplement data reported by the filer.

The following sections provide highlights of historical data for charitable and other tax-exempt organizations based on the information and tax returns they filed. The data represent every year for which continuous SOI data are available. This includes Tax Years 1985 through 2004 for public charities and private foundations, filing Forms 990, and 990-PF, respectively. For organizations that file the Form 990-T, data are presented for Tax Years 1990 through 2004. Data are also shown for excise taxes reported on Forms 4720 for Calendar Years 2003 through 2006.

## Public Charity and Private Foundation Historical Data, 1985-2004

The charitable sector, comprising both public charities and private foundations exempt from income tax under IRC section 501(c)(3), is a substantial and growing portion of the overall economy. The aggregate book value of assets, as reported by charitable organizations that filed IRS information returns for Tax Year 2004, was $2.5 trillion, a real increase of 222 percent over the total reported for Tax Year 1985.[16] These organizations also reported 171 percent more revenue for Tax Year 2004 than for Tax Year 1985. Public charities and private foundations directed much of this additional revenue into charitable expenditures such as program service activities and grants. Total charitable expenditures reported by these organizations for Tax Year 2004 were 182 percent larger than those reported for Tax Year 1985 and experienced a real annual rate of growth of nearly 6 percent.[17] In contrast, Gross Domestic Product grew at a real annual rate of 3 percent over the period.[18] Figure B shows the cumulative growth in charitable expenditures and GDP for Tax Years 1985 through 2004.

The Seattle-based Bill and Melinda Gates Foundation, currently the largest foundation in the world, was founded in Tax Year 1999 with an initial endowment of $15.8 billion. By Tax Year 2004, the foundation's assets were valued at $28.8 billion, or nearly 6 percent of the aggregate fair market value of total assets held by all private foundations. The $1.3 billion in contributions, gifts, and grants that the foundation distributed in Tax Year 2004 represented 4 percent of the aggregate amount of contributions, gifts, and grants distributed by all private foundations for the year.

### Public Charities

Public charities filed over 276,000 information returns for Tax Year 2004. These organizations held more than $2.0 trillion in assets and reported nearly $1.2 trillion in revenue, 70 percent of which came from program services. The statistics reported in this section are based on data compiled from Form 990 and Form 990-EZ, the short form version of the information return that may be completed by smaller organizations.

In order to qualify for tax-exempt status, an organization must show that its purpose serves the public good, as opposed to a private interest. The activities of public charities are limited in that they must further one or more of the purposes for which they were granted tax-exempt status. Organizations that are exempt under IRC section 501(c)(3) are those whose purposes are religious, charitable, scientific, literary, or educational. In practice, these categories cover a broad range of activities. Examples of the varied

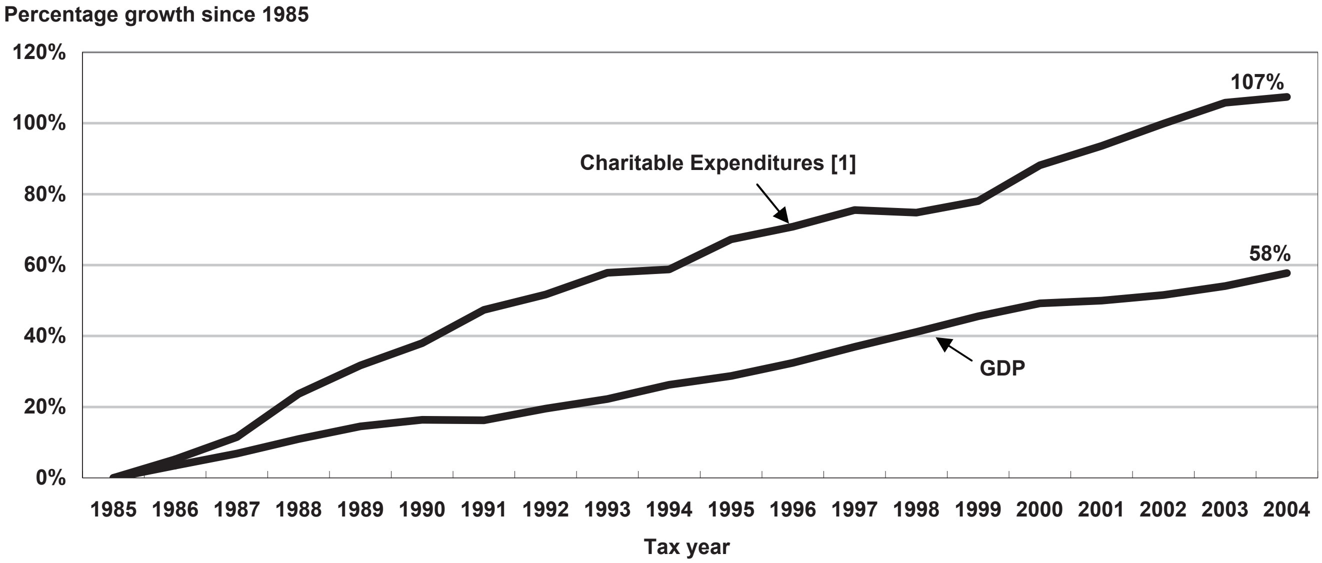
[16] Data presented in constant dollars were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis (BEA). Tax Year 2004 is used as the base year for these adjustments. The indexes are available from BEA's Web site, www.bea.gov.

[17] For purposes of analysis, "charitable expenditures" are defined as the sum of program service expenses from Form 990 and disbursements for charitable purposes from Form 990-PF.

[18] Growth rates were derived from the exponential formula for growth, $y=b*m^x$.

**Figure B**

**Real Growth in Gross Domestic Product and Charitable Expenditures, Cumulative Percentage, Tax Years 1985-2004**




[1] Charitable expenditures are defined as the sum of program service expenses from Form 990 and charitable expenses (disbursements for charitable purposes) from Form 990-PF. Public charity data exclude Form 990-EZ filers, most organizations with gross receipts less than $25,000 in current dollars, as well as most churches, and certain other religious organizations.

NOTE: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

exempt purposes of these public charities include nonprofit hospitals, educational institutions, youth organizations, community fundraising campaigns, local housing organizations, historical societies, and environmental preservation groups.

The universe of public charities has changed dramatically over the past 2 decades. Figure C shows that, in 1985, the IRS Master File listed approximately 335,000 active public charities, tax-exempt under IRC section 501(c)(3). By 2004, this number had nearly tripled to 933,000. Not all public charities are included in this figure because most churches and certain other religious organizations need not apply for recognition of tax exemption, unless they specifically request an IRS ruling.

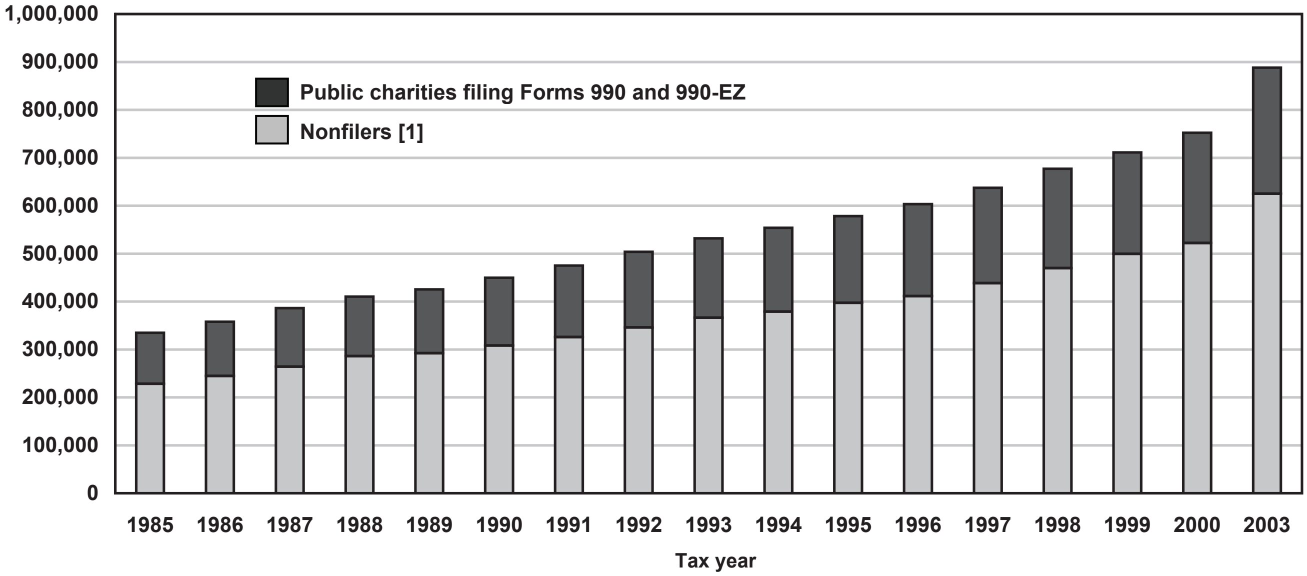
Of the public charities on the IRS Master File, only a fraction must report financial data to the IRS. In addition to churches, organizations with gross receipts less than $25,000 are not required to file annual Forms 990 or 990-EZ. Public charities filed 276,191 information returns with the IRS for Tax Year 2004, 159 percent more than for Tax Year 1985. The difference between the number of active public charities on the IRS Master File and those that filed information returns for Tax Years 1985 through 2004 is illustrated in Figure C.

## Public Charity Growth

The 20-year period between Tax Years 1985 and 2004 was one of significant and steady growth for IRC section 501(c)(3) public charities. Figure D shows that, with one notable exception, all of the major financial categories on Forms 990 and 990-EZ—total assets, total liabilities, total revenue, and total expenses—increased in real terms in each of the years during this period. The lone decrease, between Tax Years 1997 and 1998, can be attributed to the absence of Teachers Insurance and Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF), two very large teachers' pension organizations that lost their tax exemption as a result of the Taxpayer Relief Act of 1997.

For the most part, components of the major financial categories featured in Figure D also showed steady increases over the 20-year period. Table 2, located at the end of this article, shows that the two major sources of revenue for public charities—program service revenue and contributions, gifts, and

## Figure C

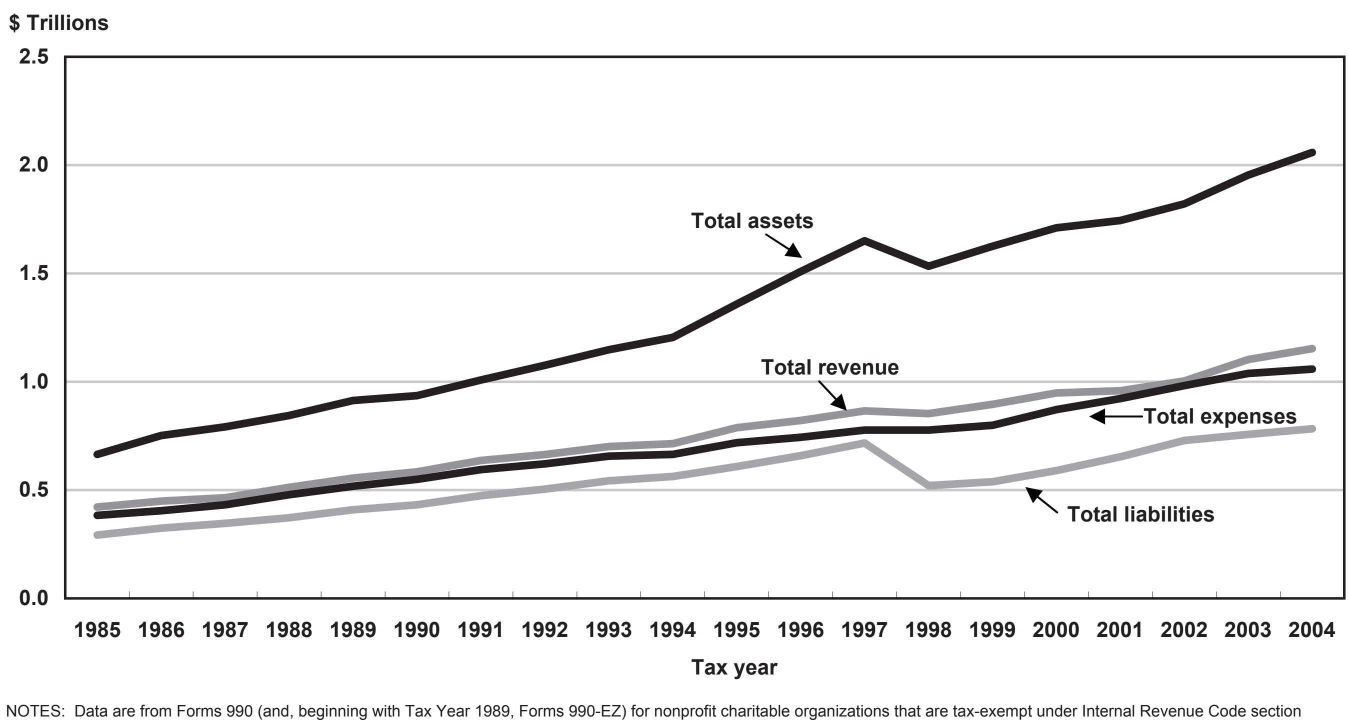



[1] Nonfilers include organizations on the IRS Master file with gross receipts below the $25,000 filing threshold, churches and certain other religious organizations which are not required to file, as well as noncompliant organizations.

NOTE: The number of organizations on the IRS Master File figure was supplied by IRS Tax Exempt Government Entities and does not include private foundations which are required to file Forms 990-PF. The number of organizations filing Forms 990 and 990-EZ are SOI estimates based on samples.

## Figure D

**Public Charity Growth, Selected Financial Items, in Constant Dollars, Tax Years 1985-2004**




NOTES: Data are from Forms 990 (and, beginning with Tax Year 1989, Forms 990-EZ) for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations, most organizations with receipts less than $25,000 in current dollars, as well as most churches, and certain other types of religious organizations. Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

grants—increased, in real terms, between each of Tax Years 1985 through 2004. However, other components of revenue were more volatile. For example, investment income, which includes interest from short-term investments and dividends and interest from securities, showed a net increase of 27 percent over the 20-year period, despite a decline of 38 percent between Tax Years 1999 and 2002.

Even though they are considered nonprofit, public charities use net income, the difference between total revenue and total expenses, to expand future programs and increase endowments. Total revenue reported by public charities exceeded total expenses for each tax year between 1985 and 2004, resulting in annual amounts of positive net income. However, unlike other financial variables, net income did not increase steadily over this period. The highest aggregate real net income was reported for Tax Year 1999, over $96 billion. This was followed by a 3-year period in which total expenses increased at a rate faster than total revenue. The result was a 20-year low for aggregate net income: less than $22 billion for Tax Year 2002.

Table 2 at the end of this article presents selected data, in both current and constant dollars, from Forms 990 and 990-EZ filed by public charities for Tax Years 1985 and 2004. Total assets held by these public charities grew, in real terms, by 210 percent, from $665.0 billion in 1985 to $2.1 trillion in 2004. Total revenue and total expenses showed similar trends over the 20-period, with real increases of 174 percent and 176 percent, respectively

## The Top Ten Public Charities

Figure E shows the top ten public charities, in terms of total assets, for Tax Years 1985 and 2004. For Tax Year 1985 the top ten organizations reported $107.7 billion in assets. This figure represented over 16 percent of the total assets reported by all IRC section 501(c)(3) public charities for that year. By a significant margin, the largest two organizations for Tax Year 1985 were TIAA and CREF, reporting $36.3 billion and $37.9 billion in assets, respectively, a combined 11 percent of total assets. The remaining organizations include nonprofit hospitals and universities, as well as Commonfund, an organization that manages nonprofit endowments. The top ten for Tax Year 2004 includes many of the same organizations on the 1985 list, with the notable exception of TIAA and CREF, which were no longer tax-exempt. These ten organizations reported $183.4 billion in assets, or 9 percent of the total of all reporting organizations for Tax Year 2004.[19]

## Private Foundation Growth

Tax Years 1985 through 2004 also represented a period of significant growth for the private foundation segment of the tax-exempt sector. The wealth realized during the technological revolution of the mid-to-late 1990s was used by a number of philan-

## Figure E

### Top Ten Public Charities, by Size of Total Assets, in Constant Dollars, Tax Years 1985 and 2004

[All figures are shown in billions of constant 2004 dollars]

| 1985 | |
|---|---|
| **Organization** | **Assets** |
| CREF | 37.9 |
| TIAA | 36.4 |
| Harvard University | 8.4 |
| Yale University | 4.6 |
| Stanford University | 4.5 |
| Columbia University | 3.4 |
| Princeton University | 3.3 |
| Kaiser Foundation Hospitals | 3.2 |
| Cornell University | 3.1 |
| Commonfund | 3.0 |

| 2004 | |
|---|---|
| **Organization** | **Assets** |
| Harvard University | 55.3 |
| Stanford University | 19.0 |
| Yale University | 18.3 |
| Howard Hughes Medical Institute | 16.7 |
| Commonfund | 16.6 |
| Princeton University | 13.3 |
| Kaiser Foundation Hospitals | 13.1 |
| Massachusetts Institute of Technology | 10.9 |
| Shriner's Hospital for Children | 9.3 |
| Columbia University | 8.8 |

NOTES: Data are from Forms 990 for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations. Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

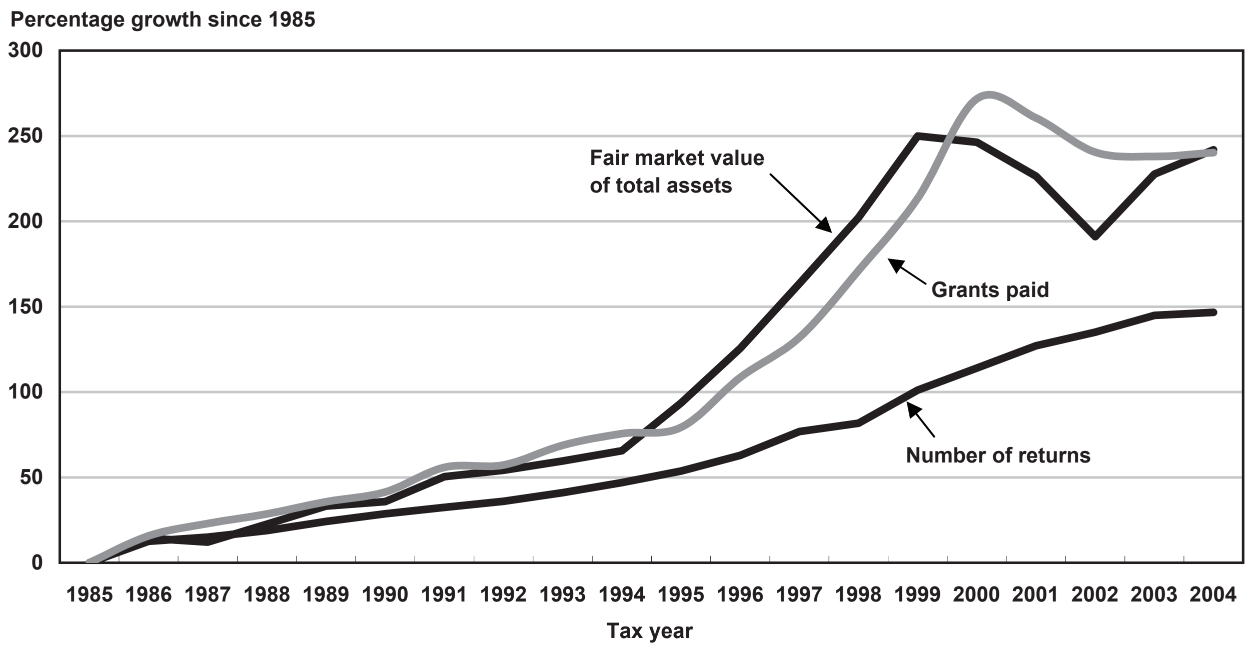
[19] When TIAA and CREF are excluded from the data for Tax Year 1985, the assets of the revised top ten, which included Emory and Vanderbilt Universities, accounted for $38.9 billion, or 7 percent of the total.

thropists to establish and fund new foundations. Additionally, flourishing investment markets benefited existing foundations, particularly those with diverse and sizeable portfolios. This prosperity led to a period of substantially increased giving levels.

Between Tax Years 1985 and 2004, real growth in foundation assets and giving outpaced the number of new foundations that entered the charitable sector. Figure F shows the percentage change in the number of returns filed, fair market value of total assets, and grants paid for each year in the period.[20] The number of private foundations increased substantially, more than doubling between 1985 and 2004. While 31,170 private foundations filed Forms 990-PF for Tax Year 1985, the number of returns filed for Tax Year 2004 was 76,897. The number of new foundations entering the sector grew at the highest rates in Tax Years 1986 and 1999. In 1986, nearly 13 percent more foundations filed Forms 990-PF than for 1985. This increase likely reflected the adoption of several provisions, enacted under the Deficit Reduction Act of 1984 (DEFRA), which allowed more favorable tax treatment for donations to private nonoperating foundations. One provision introduced in DEFRA, which permitted contributors to deduct the full fair market, rather than a reduced value, for donations of certain appreciated stock to nonoperating private foundations, expired in 1994, but was frequently extended until its permanent adoption under the Tax and Trade Relief Extension Act of 1998. Due in part to the economic growth of the mid and late-1990s and, perhaps to some extent, the adoption of the permanent provision for donations of certain appreciated stock, the largest number of new foundations was recorded for Tax Year 1999, when the number of new filers increased by 11 percent from 1998. Meanwhile, the fair market value of total assets more than tripled over the 20-year period. Asset values grew at their highest rates, 15 percent or more, annually, between Tax Years 1995 and 1999, before declining between Tax Years 2000 and 2002. Growth in foundation giving, as measured by grants paid by private foun-

**Figure F**

**Domestic Private Foundations: Growth in Number of Returns Filed, and Real Growth in Fair Market Value of Total Assets, and Grants Paid, Cumulative Percentages, Tax Years 1985-2004**




NOTE: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

[20] Data used in these analyses are for domestic private foundations and exclude Forms 990-PF filed by foundations that were organized outside of the United States.

dations for charitable purposes, nearly mirrored that of assets, also more than tripling over the 20-year period. Tax Years 1996 through 2000 represented the period of the largest growth in grants paid over the 20-year period.

### Foundation Giving

Figure G shows the aggregate values of total charitable expenses and their components, in constant dollars, that private foundations reported for Tax Years 1985-2004. Total charitable expenses included grants paid, as well as operating and administrative expenses. Total charitable expenses increased from $9.7 billion, in constant dollars, to $32.1 billon over the 20-year period. Total charitable expenses experienced double-digit increases in each of Tax Years 1996-2000, growing at a real annual rate of 15 percent over the 5-year period. The real value of these expenses peaked in Tax Year 2000 before leveling off between Tax Years 2001 and 2004.

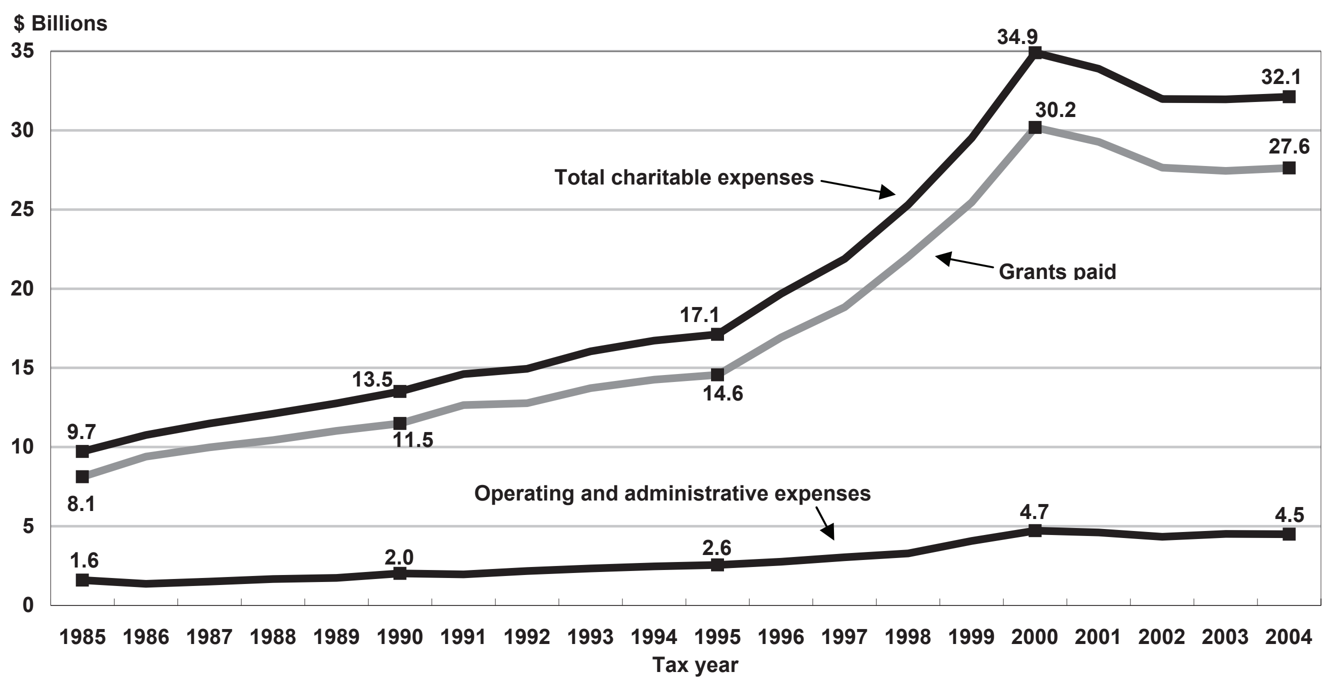
To further their charitable purposes, most private foundations pay grants to charities that operate charitable programs. Grants paid were the largest component of charitable expenditures, representing 84 percent or more of total charitable expenses for each of Tax Years 1985-2004. The aggregate amount of grants paid by private foundations was more than three times larger for Tax Year 2004 than for Tax Year 1985. Like total charitable expenses, the real value of grants paid peaked between Tax Years 1996 and 2000; the real annual growth rate for the 5-year period was 16 percent. Giving for the typical foundation, as measured by the median value of grants paid, also increased, in real terms, over the 20-year period, from $14,130 in Tax Year 1985 to $24,375 in Tax Year 2004.

### Foundation Investments and Income

Foundations financed charitable giving primarily with income derived from assets, particularly investment assets, over the 20-year period. The real fair market value of foundations' total investments more than tripled between Tax Years 1985 and 2004, growing from $137.8 billion in Tax Year 1985 to $481.2 billion in Tax Year 2004 (see Figure H). Similarly, the median fair market value of investments held

**Figure G**

**Domestic Private Foundations: Charitable Expenses and Components, in Constant Dollars, Tax Years 1985-2004**




NOTE: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

**Figure H**

**Domestic Private Foundations: Investment Assets, Revenue, Net Investment Income, and Excise Tax on Net Investment Income, in Constant Dollars, Tax Years 1985 and 2004**

[Money amounts are in thousands of dollars]

| Item | Tax Year 1985 | Tax Year 2004 | Real annual rate of growth [1] | Percentage change |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Total investment assets | 137,777 | 481,177 | 6.8 | 249.2 |
| Total revenue | 25,423 | 58,668 | 4.5 | 130.8 |
| Net investment income | 15,692 | 34,019 | 4.2 | 116.8 |
| Excise tax on net investment income | 263 | 469 | 3.1 | 78.1 |

[1] Growth rates were derived from the exponential formula for growth $y=b*m^x$.

NOTE: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

by private foundations more than doubled over the period, growing from $159,349 in Tax Year 1985 to $333,798 in Tax Year 2004. Investment growth was most pronounced in Tax Years 1995 through 1999, when real investment values grew by more than 15 percent, annually.

Net investment income is the realized income that private foundations receive from their investments. In accordance with the regulations enacted under TRA69, private foundations pay an annual tax on this amount. For most domestic foundations, the tax equals 2 percent of net investment income.[21] Net investment income more than doubled, in real terms, between Tax Years 1985 and 2004, increasing from $15.7 billion to $34.0 billion during the period. The associated tax on net investment income also increased, but at a slower rate, growing from $263.1 million in Tax Year 1985 to $468.7 million in 2004. Net investment income and the associated tax reached their highest levels in Tax Year 1999, when they equaled $63.9 billion and $816.0 million, respectively.

## Private Foundations' Excise Taxes 2003-2006

The "private foundation rules" outlined in TRA69 prohibit private foundations from engaging in "self-dealing," which is defined as conducting activities that benefit foundation managers, officers, substantial contributors, and other foundation "insiders." Foundations are also prohibited from holding excess interests in a business enterprise, investing in a manner that jeopardizes their charitable purpose, or making "taxable expenditures," which include grants to most noncharitable entities, outlays for lobbying and political activities, and other expenditures that are inconsistent with a foundation's charitable purpose. Private foundations, other charitable organizations, and individuals that engage in prohibited activities or private foundations that fail to meet the annual minimum charitable distribution requirement are required to pay a penalty excise tax on the amount of money involved using Form 4720.

Initial tax rates and tax limits for excise taxes remained constant from 2003 to 2006. Taxes on self-dealing can be imposed on both self-dealers and foundation managers. Acts of self-dealing are taxed at 5 percent of the amount involved for self-dealers, and managers pay 2.5 percent, up to a maximum of $10,000. There is a 10-percent tax imposed on private foundations that make taxable expenditures, while foundation managers pay 2.5 percent up to a maximum of $2,500. Foundations that fail to distribute a minimum amount for charitable purposes are taxed at 15 percent of the undistributed amount. Excess business holdings that are not disposed of within 90 days are taxed at a rate of 5 percent of the taxable amount of excess business holdings. For tax years beginning after August 17, 2006, the Pension Protection Act has doubled the rates and amounts of these excise taxes.

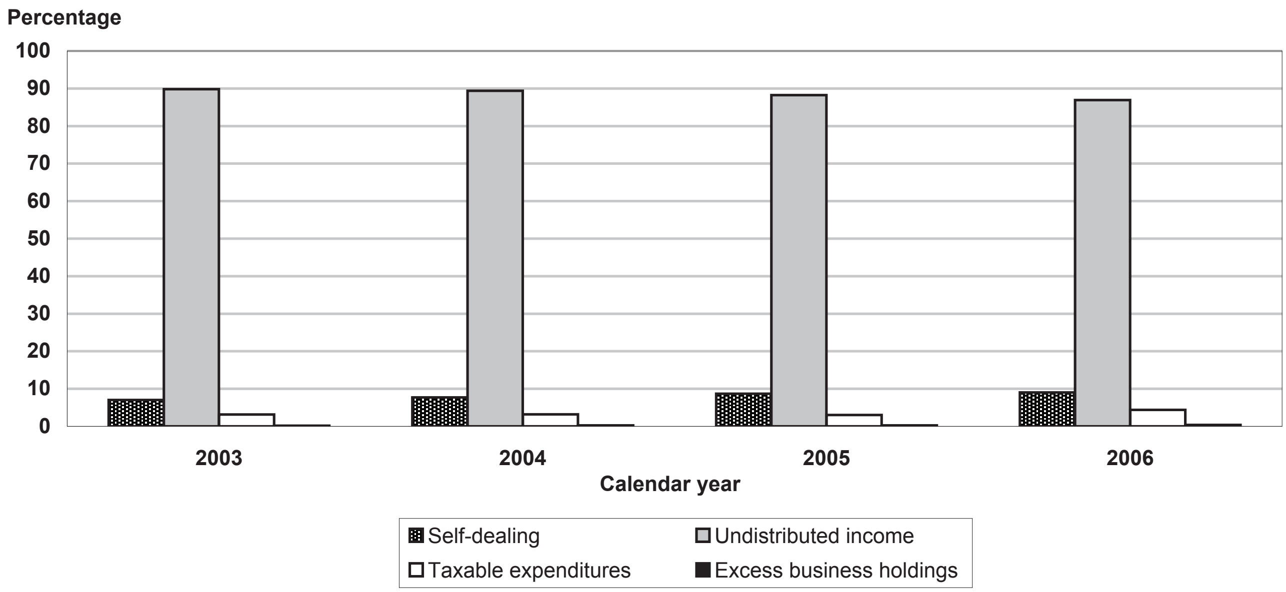
For Calendar Year 2006, private foundations reported $5.3 million in total tax liability on Form 4720, and tax on undistributed income accounted for nearly $3 million.[22] Figures I and J show that, between Calendar Years 2003 and 2006, taxes on

[21] Two reductions for the net investment income tax are available. First, foundations that demonstrate growth in their charitable giving may be eligible for a reduced 1-percent tax rate. Second, operating foundations that meet certain requirements outlined in IRC section 4940 are eligible for a total exemption from the excise tax.

[22] Data in this section represent information from Forms 4720 filed by organizations that identified themselves as Form 990-PF filers. Data for Form 990-PF filers that filed Form 4720 generally represent private foundations, but include information reported by nonexempt charitable trusts that are treated as private foundations for tax purposes.

## Figure I

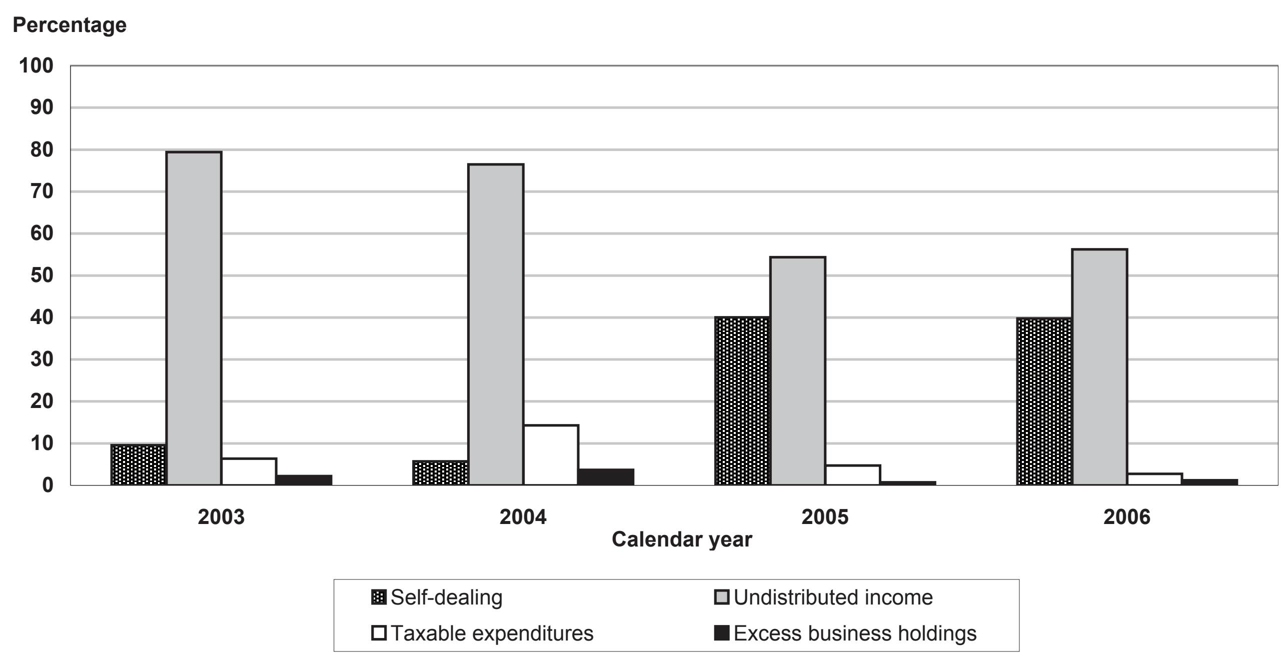
### Forms 4720 Filed by Private Foundations, by Taxable Activity, Calendar Years 2003-2006




NOTE: Data represent information from Forms 4720 filed by organizations or associated individuals who identified themselves as Form 990-PF filers. These data generally represent private foundations and associated individuals, but include information reported by nonexempt charitable trusts that are treated as private foundations for tax purposes.

## Figure J

### Tax Reported by Private Foundations on Form 4720, by Tax Type, Calendar Years 2003-2006




NOTE: Data represent information from Forms 4720 filed by organizations or associated individuals who identified themselves as Form 990-PF filers. These data generally represent private foundations and associated individuals, but include information reported by nonexempt charitable trusts that are treated as private foundations for tax purposes.

undistributed income accounted for the majority of total taxes reported on Form 4720 and were the most frequently reported excise tax. From 2003 to 2006, undistributed income fell from $3.5 million to $3 million. The number of filers fell slightly from 1,549 in 2003 to 1,529 in 2006. In 2003, undistributed income accounted for nearly 80 percent of total excise tax reported and 90 percent of filings. By 2006, tax reported for undistributed income accounted for only 56 percent of total excise tax reported. The change in undistributed income as a percentage of total excise tax was a result of a rise in self-dealing taxes reported.

In 2003, self-dealing accounted for $400,000 of the $4.1 million total of reported excise taxes. By 2006, the amount had increased to $2.1 million of the $5.3 million total. As a percentage of total excise tax reported, self-dealing quadrupled from 10 percent to 40 percent. A small number of filers were responsible for this increase. From 2003 to 2006, the median tax on self-dealing actually fell. The number of filers increased from 119 in 2003 to 159 in 2006, although, as a percentage of total filings, self-dealing increased less than a single percentage point each year from 2003 to 2006.

## Unrelated Business Income Taxation of Exempt Entities

Tax-exempt organizations may enter into a wide range of tax-free commercial activities, as long as the activities are substantially related to their tax-exempt missions; however, income from unrelated business activities is taxable. Exempt-organization business income taxation was designed to place the unrelated activities of exempt organizations on an equal footing with similar activities carried out by taxable entities. Organizations that are described in IRC sections 501(c)(2)-(27), as well as certain other types of tax-exempt organizations, must file a Form 990-T if they received $1,000 or more of gross income from business activities that were considered unrelated to the purposes for which they received tax-exempt status.[23]

### Unrelated Business Income and Tax Historical Data, 1990-2004

During the 15-year period encompassing Tax Years 1990-2004, gross unrelated business income (UBI) of tax-exempt organizations increased overall, in constant dollars, but with periods of decline from 1990 to 1991 and 2000 to 2001. In real terms, the associated aggregate unrelated business income tax (UBIT) of $364.6 million reported by these organizations for 2004 was nearly three times more than the amount reported for 1990. However, between 1990 and 2004, there were periods of erratic swings in annual amounts of UBIT reported. Figures K and L present data for UBI and UBIT, grouping filers into two broad categories, tax-exempt corporations and tax-exempt trusts.[24]

Historically, exempt corporations have represented the majority of Form 990-T filers, accounting for large percentages of total gross UBI amounts reported annually. For 2004, for example, corporate entities made up 85 percent of the Form 990-T filing population and reported nearly 90 percent of total gross UBI. Exempt trusts, despite being much smaller in number and annual shares of total gross UBI reported on Form 990-T, had UBIT exceeding that of corporations for several of the years in the 1990-2004 period.

As a group, tax-exempt trust filers generally comprise pension, profit-sharing, and stock bonus plans; traditional Individual Retirement Arrangements; and voluntary employees' beneficiary associations, all of which typically report investments as their primary source of UBI. For 2004, these three types of organizations accounted for 91 percent of all tax-exempt trust Form 990-T filers. Because a high percentage of tax-exempt trust filers engage primarily in unrelated investment activities, year-to-year changes in time-series data for trust UBI and UBIT appear to closely track financial market performance, rising and falling in tandem with market fluctuations.[25] In addition, because most of

[23] See Appendix A for additional information on the types of organizations exempt under section 501(c). In addition to the organizations described under sections 501(c)(2)-(27), Archer medical savings accounts, exempt under section 220(e); qualified pension, profit-sharing, or stock bonus plans, exempt under section 401(a); traditional and Roth Individual Retirement Arrangements, exempt under sections 408(e) and 408A, respectively; State-sponsored health plans, exempt under section 529(a); and Coverdell education savings accounts, exempt under section 530(a), are also subject to unrelated business income taxation and must file Form 990-T to report gross income from business activities of $1,000 or more.

[24] "Outliers," returns which contained unique characteristics that were considered anomalous to the general population of returns filed for a given year, or returns that contained very large dollar amounts and were not filed consistently over the 15-year period, have been excluded from Figures K and L and are not taken into consideration in the historical analyses presented in this section. In all, there were nine tax-exempt entities that filed at least one return during the 1990-2004 period that was considered to be an outlier. While excluded from the gross UBI and UBIT time series shown in these figures, they are included in the data presented in Tables 6 and 7 at the end of this article.

[25] The Wilshire 5000 Total Market Index and Standard and Poor (S&P) 500 pricing information were used for analyzing possible effects of financial markets on unrelated business taxable income and tax. The Wilshire index can be accessed from www.wilshire.com/quote.html. Historical S&P 500 pricing information can be accessed from www.finance/yahoo.com.

their UBI is from investments, tax-exempt trusts were more limited than most exempt corporations in both the types and amounts of deductions they could claim to offset income, meaning that the proportion of an exempt trust's UBI that is taxable is usually higher than that for corporations. Moreover, from 1990 to 2000, trust income was subject to higher marginal tax rates than UBI earned by corporate exempt entities.[26]

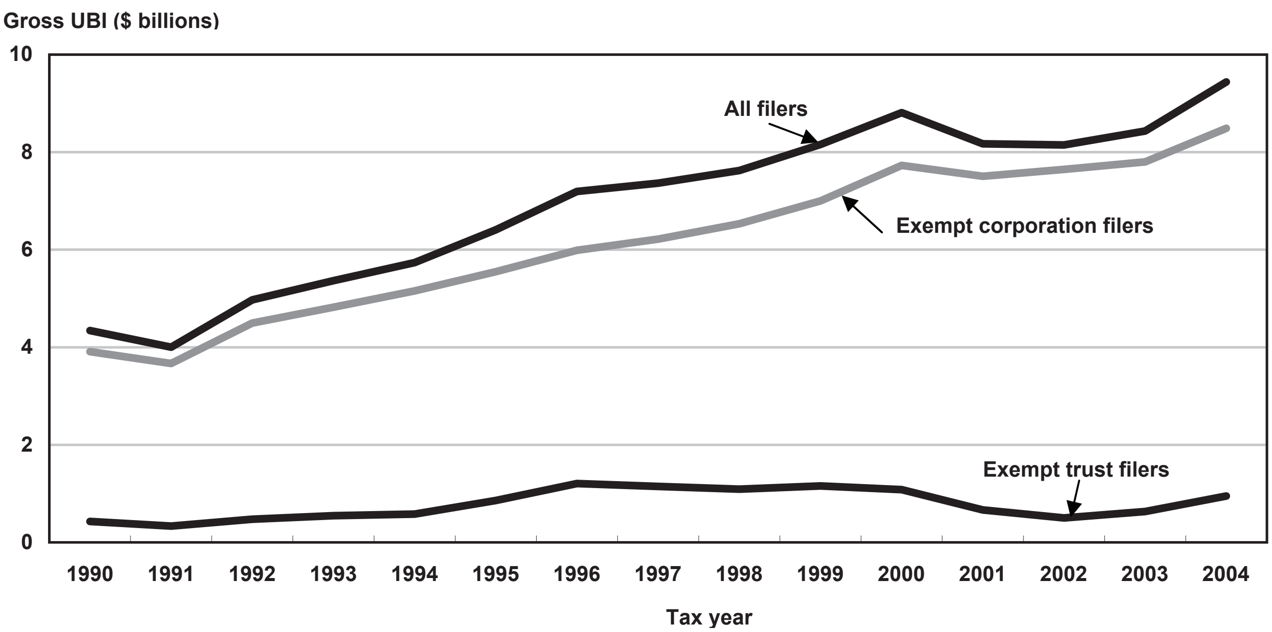
Groups of tax-exempt organizations with typically high concentrations of corporate entities include charitable organizations; civic leagues and social welfare organizations; labor, agricultural, and horticultural organizations; business leagues, chambers of commerce, and real estate boards; recreational and social clubs; and veterans' organizations. Within each of these groups, the percentage of corporate filers ranged from 97 percent for charities to 100 percent for veterans' organizations.

Figure K shows that, overall, gross UBI increased, in constant dollars, almost every year between 1990 and 2004, growing 117 percent over the 15-year period. Similarly, gross UBI reported by tax-exempt corporations, which contributed the majority of the total, experienced fairly consistent year-to-year growth, also increasing 117 percent between 1990 and 2004. In contrast, tax-exempt trusts consistently reported much smaller annual amounts of gross UBI. While the overall increase in exempt trust UBI between 1990 and 2004 was 121 percent, annual amounts were much more volatile, primarily due to fluctuations in investment markets.

Although the amount of aggregate gross UBI reported by tax-exempt organizations increased at a relatively stable rate between 1990 and 2004, the annual UBIT liability amounts shown in Figure L were much more variable.[27] While the total constant-dollar amount of UBIT reported for Tax Year 2004 was 212 percent higher than that reported for 1990, UBIT actually exceeded the 2004 amount for several of the intervening years. In addition, although exempt corporations consistently reported more gross UBI

**Figure K**

**Gross Unrelated Business Income (UBI), in Constant 2004 Dollars, Tax Years 1990-2004**




NOTE; Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

[26] The unrelated business income tax was determined based on the regular corporate or trust income tax rates in effect for an organization's tax year. Corporate and trust tax-rate schedules are provided each year in the Form 990-T return instructions.

[27] The amount of total tax liability originally reported on Forms 990-T, as stated in these statistics, may not necessarily be the amount ultimately paid to the Internal Revenue Service (IRS). Changes in tax liability assessments can be made after the original return is filed, either by the taxpayer on an amended return, by the IRS after examination, or by rulings of the U.S. tax courts after litigation.

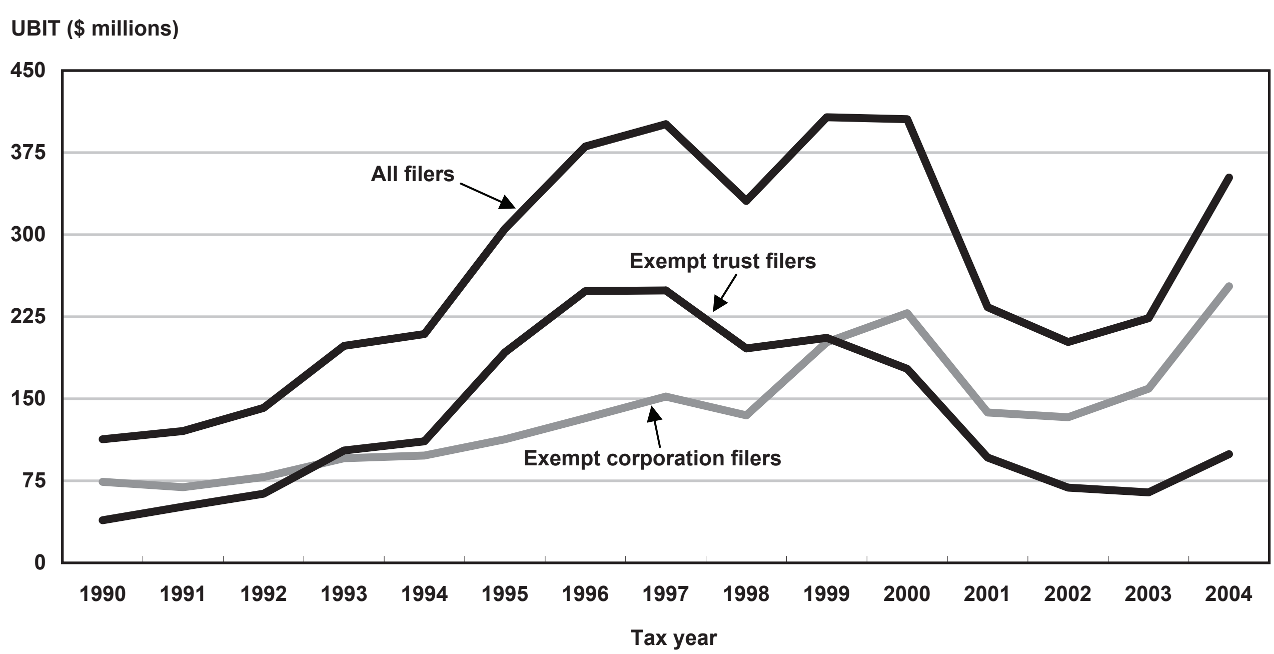
than exempt trusts, this pattern did not hold for UBIT reported by these two types of entities. Corporate UBIT exceeded trust UBIT for the years 1990-1992 and 2000-2004, but trust UBIT was greater from 1993-1999.

Sharp declines in UBIT, in real terms, occurred for Tax Years 1998 and 2001 for all types of organizations shown in Figure L, reflecting a number of factors, primarily volatility in financial markets. Between 1997 and 1998, tax-exempt corporations and trusts both reported aggregate total deductions that increased at rates higher than those at which aggregate gross UBI increased. Further, real capital gain net income (less loss) decreased during the period by 31 percent for tax-exempt corporations and 16 percent for tax-exempt trusts. This contributed to respective declines in tax-exempt corporate and trust UBIT of 11 percent and 21 percent. Due, in part, to an overall decline in gross UBI, the amount of reported UBIT dropped even more sharply between 2000 and 2001, one of only three annual periods of decline in UBI shown in Figure K. Three major slides in stock prices from late 2000 through September of 2001 may have contributed to a drop in capital gain net income (less loss) of 77 percent for exempt corporations and 52 percent for exempt trusts between Tax Years 2000 and 2001. Overall, UBI declined 3 percent for tax-exempt corporations between 2000 and 2001, while deductions increased by 1 percent; trust UBI and deductions fell by 39 percent and 26 percent, respectively. In addition, marginal tax rates applicable to the income of tax-exempt trusts were reduced for 2001, effectively lowering the UBIT of these organizations.

Between 2003 and 2004 the real value of UBIT of all types of organizations shown in Figure L rose steeply, increasing by 59 percent for tax-exempt corporations and 54 percent for tax-exempt trusts. Relatively stable growth in equity prices between 2003 and 2004 likely contributed to increases in capital gain net income (less loss) and combined income from partnerships and S corporations reported by both types of organizations between these years. For tax-exempt corporations, capital gain net income (less loss) increased 105 percent, while combined partnership and S corporation income increased 111 percent. Together, these sources of income accounted for 6 percent of corporate total

**Figure L**

**Unrelated Business Income Tax (UBIT), in Constant Dollars, Tax Years 1990-2004**




NOTE: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

UBI for 2004. For tax exempt trusts, capital gain net income (less loss) and combined partnership and S corporation income increased 123 percent and 48 percent, respectively, and together accounted for 38 percent of trust gross UBI.

### Internal Revenue Code Section 501(c)(3) Charitable Organizations

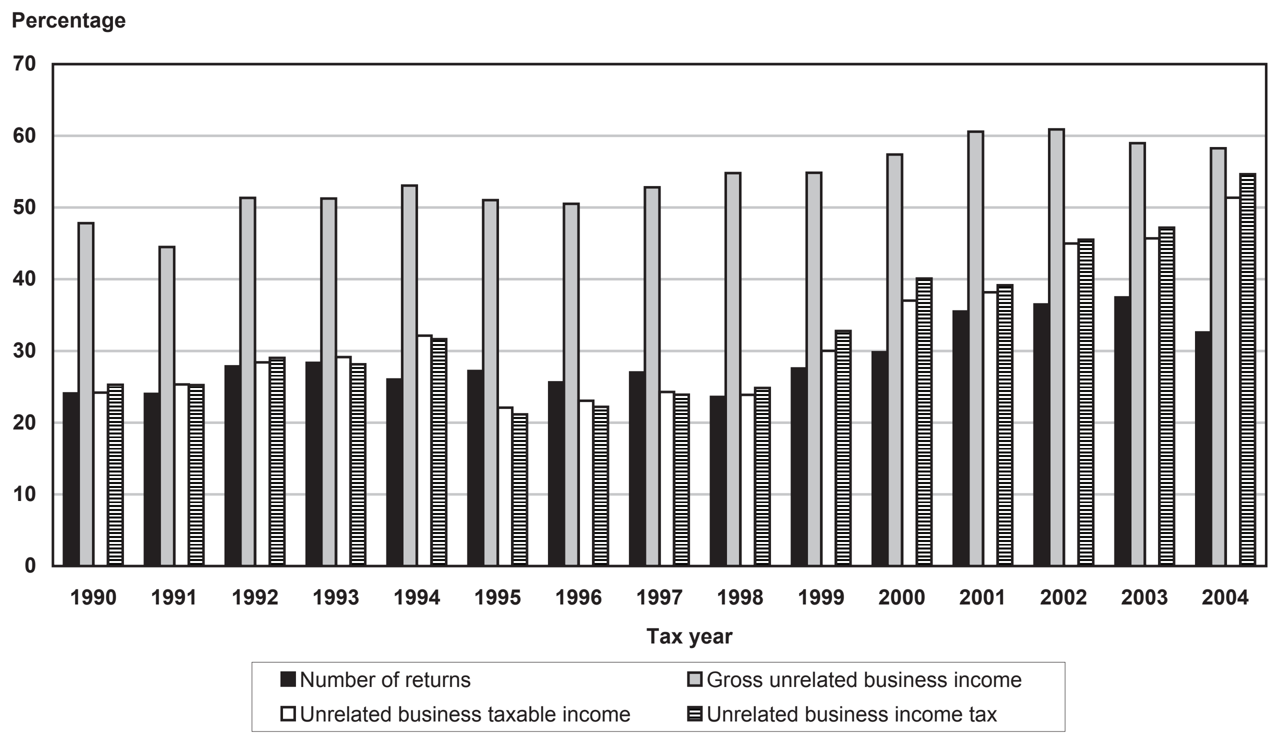
IRC section 501(c)(3) charitable organizations, including public charities and private foundations, generally command more public interest than any other type of organization granted exemption from Federal income tax by the IRS. Compared to other types of Form 990-T filers, classified by IRC section, charitable organizations were responsible for the single largest proportions of gross UBI reported each year from 1990 to 2004. As illustrated by Figure M, in which outliers have been removed, these organizations consistently made up between 25 percent and 35 percent of all 990-T filers and accounted for more than half of the reported amount of gross UBI almost every year. Throughout the 15-year period, however, these charities offset gross UBI with sizable deductions, resulting in much smaller amounts of taxable income. The share of total unrelated business income tax reported by charitable organizations increased over the period, and exceeded 45 percent of overall UBIT liability for each of Tax Years 2002-2004. For 2004, these organizations were liable for more than half of the UBIT reported by all Form 990-T filers. Of those charities that filed Form 990-T for 2004, the majority, 97 percent, were organized as corporations. These corporate charitable organizations represented 37 percent of all tax-exempt corporate entities filing Form 990-T for that year.

## Conclusion

Voluntary charitable and member-serving organizations have flourished in the United States since the country's genesis. In the early 20th century, legislation that established the modern income tax system and concurrently granted tax-exempt status to certain organizations codified the relationship between

**Figure M**

**Percentage of Selected Unrelated Business Financial Items Attributable to Internal Revenue Code Section 501(c)(3) Charitable Organizations, Tax Years 1990-2004**



the tax-exempt sector and Government. Later, a variety of additional legislation placed important restrictions on tax-exempt organizations, including the taxation of unrelated business income of tax-exempt organizations and the application of more stringent tax regulations to private foundations.

Today, the legislation enacted between 1917 and 1969 remain the cornerstone of tax exemption in the United States. However, the tax-exempt sector has grown substantially over the past 2 decades, and SOI's datasets have tracked and described this growth. The activities of tax-exempt organizations have also broadened, and new types of tax-exempt organizations have emerged. Congress frequently has updated the tax code to reflect this growth and evolution, and the SOI datasets have been a vital tool for policymakers and researchers to measure growth and examine emerging trends throughout the tax-exempt sector, as well as assess the role and impact of the Nation's tax-exempt organizations.

## Keeping Pace with Technology—Continued

*from page 109*

An online data quality review system was introduced for the Form 990 Study for Tax Year 1991. This system, which is still used today, selected an automated, random sample of a tax examiner's completed returns for input by a second tax examiner. It produced a computerized comparison of the original and second versions and a listing of any of discrepancies between the two. After review, a supervisor provided guidance to the tax examiners, and the errors were corrected.

The Tax Year 1999 Form 990-PF study was used as one of the pilots for upgrading the original online editing system to a mouse-driven, graphical user interface (GUI) for navigating through data entry screens. Prior to this upgrade, onscreen navigation was accomplished using the keyboard, with tax examiners forced to navigate through edit screens one item at a time. Because the new GUI system allowed faster navigation through edit screens, it improved user satisfaction and increased production rates of tax examiners, and other SOI projects quickly adopted the technology.

A further advancement to SOI edit systems involved the use of digital images created from paper-filed returns. This upgrade was piloted for the Tax Year 2002 Form 990-PF study. Using wide-aspect computer monitors, the data entry forms were displayed on one side of the screen, and a digital image of the return was displayed on the other. This split-screen method of return processing, which has been well-received by the tax examiners, has significantly reduced resource costs associated with the retrieving, controlling, and handling of paper returns.

The advent of electronically filed returns prompted the latest technological innovation adopted by EO edit systems. Since Tax Year 2003, IRS has allowed tax-exempt organizations to file Forms 990 electronically in Extensible Markup Language (XML). Beginning in 2005, the IRS established a mandatory schedule for electronic filing of Forms 990 and 990-PF by charities and private foundations. For tax years ending on or after December 31, 2006, all public charities with $10 million or more in assets that file at least 250 returns annually, and all private foundations and nonexempt charitable trusts, regardless of asset size, that file 250 or more returns annually are required to file electronically.[28] SOI has incorporated these returns into its data collection systems by creating digital images based on the electronic data, and integrating those images into its existing split-screen edit system. Beginning with Tax Year 2006, SOI will extract data items directly from electronically filed XML data, significantly reducing the amount of data transcription required.

[28] Excise and employment tax returns, as well as wage and income statements required for each employee, are included in the 250-return threshold.

## Appendix A
## Types of Organizations Exempt under Internal Revenue Code Section 501(c)

| IRC section | Description of organization | General nature of activities |
|---|---|---|
| 501(c)(1) | Corporations organized under an Act of Congress | U.S. instrumentality |
| 501(c)(2) | Title-holding corporations for exempt organizations | Holding title to property for exempt organizations |
| 501(c)(3) | Religious, educational, charitable, scientific, or literary organizations; organizations that test for public safety. Also, organizations that prevent cruelty to children or animals, or foster national or international amateur sports competition | Activities of a nature implied by the description of the class of organization |
| 501(c)(4) | Civic leagues, social welfare organizations, and local associations of employees | Promotion of community welfare and activities from which net earnings are devoted to charitable, educational, or recreational purposes |
| 501(c)(5) | Labor, agricultural, and horticultural organizations | Educational or instructive groups whose purpose is to improve conditions of work, products, and efficiency |
| 501(c)(6) | Business leagues, chambers of commerce, real estate boards, and like organizations | Improving conditions in one or more lines of business |
| 501(c)(7) | Social and recreational clubs | Pleasure, recreation, and social activities |
| 501(c)(8) | Fraternal beneficiary societies and associations | Lodges providing for payment of life, health, accident, or other insurance benefits to members |
| 501(c)(9) | Voluntary employees' beneficiary associations (including Federal employees' voluntary beneficiary associations formerly covered by section 501(c)(10)) | Providing for payment of life, health, accident, or other insurance benefits to members |
| 501(c)(10) | Domestic fraternal beneficiary societies and associations | Lodges, societies, or associations devoting their net earnings to charitable, fraternal, and other specified purposes, without life, health, or accident insurance benefits to members |
| 501(c)(11) | Teachers' retirement fund associations | Fiduciary associations providing for payment of retirement benefits |
| 501(c)(12) | Benevolent life insurance associations, mutual ditch or irrigation companies, mutual or cooperative telephone companies, and like organizations | Activities of a mutually beneficial nature implied by the description of the class of organization |
| 501(c)(13) | Cemetery companies | Arranging for burials and incidental related activities |
| 501(c)(14) | State-chartered credit unions and mutual insurance or reserve funds | Providing loans to members or providing insurance of, or reserve funds for, shares or deposits in certain banks or loan associations |
| 501(c)(15) | Mutual insurance companies or associations other than life, if written premiums for the year do not exceed $350,000 | Providing insurance to members, substantially at cost |
| 501(c)(16) | Corporations organized to finance crop operations | Financing crop operations in conjunction with activities of a marketing or purchasing association |
| 501(c)(17) | Supplemental unemployment benefit trusts | Fiduciary agent for payment of supplemental unemployment compensation benefits |
| 501(c)(18) | Employee-funded pension trusts (created before June 25, 1959) | Providing for payments of benefits under a pension plan funded by employees |
| 501(c)(19) | Posts or organizations of past or present members of the armed forces | Providing services to veterans or their dependents; advocacy of veteran's issues; and promotion of patriotism and community service programs |
| 501(c)(21) | Black Lung Benefit Trusts | Providing funds to satisfy coal mine operators' liability for disability or death due to black lung disease |
| 501(c)(22) | Withdrawal liability payment funds | Providing funds to meet the liability of employers withdrawing from a multiple-employer pension fund |
| 501(c)(23) | Associations of past and present members of the armed forces founded before 1880 | Providing insurance and other benefits to veterans or their dependents |
| 501(c)(24) | Trusts described in section 4049 of the Employee Retirement Income Security Act of 1974 | Providing funds for employee retirement income |
| 501(c)(25) | Title-holding corporations or trusts with no more than 35 shareholders or beneficiaries and only one class of stock or beneficial interest | Acquiring real property and remitting all income earned from such property to one or more exempt organizations; pension, profit-sharing, or stock bonus plans; or governmental units |
| 501(c)(26) | State-sponsored high-risk health insurance plans | Providing coverage for medical care on a not-for-profit basis to residents with pre-existing medical conditions that resulted in denied or exorbitantly priced traditional medical care coverage |
| 501(c)(27) | State-sponsored workers' compensation reinsurance plans | Pooled employers' funds providing reimbursements to employees for losses arising under workers' compensation acts; also, State-created, -operated, and -controlled organizations providing workers' compensation insurance to employers |

NOTE: Prepaid legal service funds, previously described in section 501(c)(20) of the Internal Revenue Code, were no longer tax exempt effective for tax years beginning after June 30, 1992.

## Appendix B

## Legislation of Note, 1894-Present

- **The Wilson-Gorman Tariff Act of 1894** established a flat, 2-percent tax on corporate income, but excluded ". . . corporations, companies, or associations organized and conducted solely for charitable, religious, or educational purposes, including fraternal beneficiary associations." The law was declared unconstitutional by the Supreme Court in 1896.

- **The Revenue Act of 1909** established an excise tax on corporate income and included tax exemption in language similar to that introduced in the 1894 act. The 1909 act included the important concept of private inurement, meaning that a charitable organization's income could not be used to benefit an individual related to the organization.

- **The Revenue Act of 1913** established the modern income tax system and included tax exemption and private inurement in language similar to that in the 1909 act.

- **The Revenue Act of 1917** included the introduction of the charitable income tax deduction for individual donors.

- **The Revenue Act of 1918** added organizations operated "for the prevention of cruelty to children or animals" to the list of tax-exempt public charities and added the estate tax charitable deduction for charitable bequests.

- **The Revenue Act of 1921** added both "literary" groups and "any community chest, fund, or foundation" to the list of tax-exempt organizations.

- **The Revenue Act of 1934** set forth limits on lobbying by charitable organizations, stating that "no substantial part" of the organizations' activities can involve "propaganda" or attempts "to influence legislation."

- **The Revenue Act of 1936** expanded the charitable income tax deduction to corporate donors.

- **The Revenue Act of 1943** required certain tax-exempt organizations to file the Form 990 information return with the IRS. A number of organizations, including religious organizations, most schools, and publicly supported charitable organizations, were exempt from this filing requirement.

- **The Revenue Act of 1950** introduced the unrelated business income taxation of tax-exempt organizations.

- **The Revenue Code of 1954** introduced a number of changes to the tax-exempt organization tax law. Most notably, the current structure of the Internal Revenue Code was developed, with section 501(c) describing tax-exempt organizations. Charitable organizations were described under section 501(c)(3) and now included organizations operated for the purpose of "testing for public safety." Following passage of the Revenue Code of 1954, charities were not allowed to "participate in, or intervene in (including the publishing or distributing of statements), a political campaign on behalf of any candidate for public office."

- **The Revenue Act of 1964** increased the charitable income tax deduction for contributions made to publicly supported organizations to 30 percent of adjusted gross income (AGI). Previously, the charitable income tax deduction had been limited to 20 percent of AGI for publicly supported organizations. Prior to the 1964 act, only specific organizations, including churches and many schools, were subject to the 30-percent limitation.

- **The Tax Reform Act of 1969** (TRA69) included significant legislation regarding charitable organizations.

  - TRA69 introduced the first definition of private foundations, for tax purposes, expanded filing requirements for these newly defined organizations, and established the "private foundation rules." Foundations were required to pay an annual excise tax equaling 4 percent of their net investment income. With certain exceptions, taxes were imposed on a nonoperating foundation that failed to distribute, for charitable purposes, the greater of its adjusted net income, excluding long-term capital gains, or its minimum investment return, defined as 6 percent of investment assets, annually. The legislation also prohibited self-dealing, defined as conducting activities that benefit foundation managers, officers, substantial contributors, and other foundation "insiders," and imposed taxes on individuals who engaged in self-dealing activities. Further, in cases of "willful repeated acts or a willful and

## Appendix B

### Legislation of Note, 1894-Present—Continued

flagrant act" of self-dealing, a foundation could be subject to termination. TRA69 also imposed sanctions on foundations that engaged in a variety of other activities, such as holding excess interests in a business enterprise or investments that jeopardized the foundation's charitable purpose, making taxable expenditures, or violating other requirements.

- TRA69 expanded the tax on unrelated business income, extending the tax to all tax-exempt organizations described in IRC sections 501(c) and 401(a) (except United States instrumentalities), and including churches for the first time.

- The legislation expanded the filing requirements for many tax-exempt organizations. Under the new requirements, all tax-exempt organizations were required to complete annual returns; however, TRA69 exempted certain organizations and activities from this requirement. Churches and their integrated auxiliary organizations were not subject to the new filing requirements. Organizations that normally had gross receipts of $5,000 or less and that previously were not required to file Form 990 were also exempted. Additionally, the "exclusively religious activities of any religious order" were not subject to the reporting requirements, although certain religious organizations were required to report activities that were not religious in nature. Finally, TRA69 permitted additional exclusions to the reporting requirement, to be determined at the discretion of the Treasury Department.

- TRA69 also increased the individual charitable income tax deduction limitation from 30 percent to 50 percent of AGI for contributions made to most charitable organizations. Contributions to nonoperating private foundations generally remained subject to the 20-percent limitation.

- Additionally, TRA69 introduced two important concepts regarding unrelated business taxation of tax-exempt organizations. First, a trade or business activity does not lose its identity as a trade or business merely because it was carried on within a larger aggregate of similar activities or within a larger complex of other endeavors that are related to the exempt purposes of the organization (called the "fragmentation" rule). Second, in order to be considered "related," there had to be a causal relationship between an organization's engaging in a trade or business activity and the performance of the organization's exempt functions. This relationship had to be substantial, and the activities that generated the income must have contributed importantly to the accomplishment of the organization's exempt purpose(s).

- Under TRA69, certain payments of interest, annuities, royalties, and rents from taxable subsidiaries to a tax-exempt parent were subject to UBIT. These types of payments from tax-exempt subsidiaries were taxed to the extent that the subsidiaries' payments were generated from unrelated business income.

■ **The Tax Reform Act of 1976** redefined the minimum investment return calculation for private foundations to 5 percent of investment assets.

■ **The Revenue Act of 1978** reduced the net investment income tax rate for private foundations to 2 percent.

■ **The Economic Recovery Tax Act of 1981** changed the basis for the minimum charitable distribution required of nonoperating foundations from the greater of adjusted net income or minimum investment return to minimum investment return only.

■ **The Deficit Reduction Act of 1984** (DEFRA) raised the limit on individual deductions for contributions to nonoperating private foundations from 20 percent to 30 percent of AGI; gifts of capital gain property to nonoperating private foundations remained subject to the 20-percent limitation. DEFRA included a provision to permit nonoperating foundations' donors to carry over contributions that exceeded the 20- or 30-percent limitation for up to 5 years. For a 10-year period ending December 31, 1994, contributors were permitted to deduct the full fair market, rather than a reduced value, for donations of certain appreciated stock to private nonoperating foundations. Additionally, operating foundations that met certain additional criteria were exempted from the excise tax on net investment income. To encourage foundations to make charitable distributions at levels above the minimum required amount, DEFRA included a provision that

**Appendix B**

**Legislation of Note, 1894-Present—Continued**

allowed foundations that showed improvement in the amount of charitable distributions made over a 5-year period to be eligible for a 1-percent reduction in the excise tax. Additionally, DEFRA set an upper limit on the amount of administrative expenditures incurred for grantmaking activities that private foundations could count toward the minimum charitable distribution. This limitation was effective for a 5-year period to allow the Treasury Department to study its effects on foundations' charitable distributions. Subsequent research showed that the limitation had little effect on charitable distributions, and the regulation expired at the end of Tax Year 1990.

- **The Revenue Reconciliation Act of 1993** imposed a tax on certain nondeductible lobbying and political expenditures made by membership organizations tax-exempt under IRC sections 501(c)(4), (5), and (6). These organizations were liable for the tax if they did not notify members of the shares of their dues allocated to the nondeductible lobbying expenditures or if they failed to include in the notice the entire amount of dues allocated to the expenditures.

- **The Taxpayer Bill of Rights 2, enacted for 1996**, added "intermediate sanctions" as an alternative to the revocation of an organization's tax-exempt status in instances when a person with substantial influence over the affairs of the organization was found to have engaged in an excess benefit transaction. The rules, which apply to organizations exempt under IRC sections 501(c)(3) and 501(c)(4), require reimbursement of the excess benefit to the organization and payment of excise taxes and interest penalties by disqualified persons and/or organization managers.

- **The Taxpayer Relief Act of 1997** (TRA97) terminated exceptions granted to specific organizations under a Tax Reform Act of 1986 provision that revoked the tax-exempt status of any organization if a substantial part of its activities consisted of providing commercial-type insurance. Under TRA97, tax exemption for the two largest public charities at the time was revoked: the Teachers Insurance Annuity Association and the College Retirement Equities Fund (collectively known as TIAA-CREF). Additionally, TRA97 amended UBIT rules, effective after December 31, 1997, to exempt from unrelated business taxation certain "qualified" sponsorship payments solicited or received by tax-exempt organizations, and to allow charitable organizations and pension, profit-sharing, and stock-bonus plans exempt from tax under section 501(a) to hold shares in an S corporation without the S corporation losing its status as such.

- **The Tax and Trade Relief Extension Act of 1998** made permanent the provision that permitted contributors to deduct the full fair market, rather than a reduced value, for donations of certain appreciated stock to nonoperating private foundations.

- **The Pension Protection Act of 2006** introduced a number of regulatory changes. IRC section 501(c)(3) public charities and private foundations reporting unrelated business income were required to make their Forms 990-T, *Exempt Organization Business Income Tax Returns*, available for public inspection. Organizations with gross receipts less than $25,000 (the Form 990/990-EZ filing threshold) were required to file the Form 990-N, an annual electronic notice also known as the "e-Postcard." Additional filing requirements were placed on supporting organizations, donor-advised funds, and credit counseling organizations. The legislation also doubled excise tax rates on the prohibited activities of private foundations and public charities.

- **Tax Technical Corrections Act of 2007** required the Internal Revenue Service to make available for public inspection all Forms 990-T filed by IRC section 501(c)(3) public charities and private foundations after August 17, 2006, the date the Pension Protection Act of 2006 was enacted. The Pension Act required section 501(c)(3) organizations to publicly disclose their Forms 990-T, but it failed to include language authorizing IRS to do so.

## Table 1. Public Charities: Selected Financial Data, in Current Dollars, Tax Years 1985-2004

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

| Tax year | Number of returns | Total assets | Total liabilities | Total revenue | | | | | Total expenses | Net income |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Total | Program service revenue | Contributions, gifts, and grants received | Investment income [1] | Other | | |
| 1985 | 106,449 | 423,544 | 186,390 | 268,390 | 167,893 | 55,771 | 13,933 | 30,792 | 244,214 | 24,175 |
| 1986 | 113,072 | 489,180 | 210,879 | 292,483 | 187,934 | 60,115 | 13,855 | 30,579 | 263,468 | 29,015 |
| 1987 | 122,018 | 529,514 | 231,765 | 310,766 | 211,904 | 61,686 | 15,194 | 21,982 | 288,681 | 22,085 |
| 1988 | 124,233 | 583,573 | 257,645 | 354,647 | 239,293 | 69,062 | 19,258 | 27,034 | 330,815 | 23,832 |
| 1989 | 133,157 | 655,426 | 293,819 | 398,628 | 272,134 | 76,973 | 21,954 | 27,567 | 371,508 | 27,120 |
| 1990 | 141,757 | 697,315 | 321,984 | 435,567 | 306,899 | 85,332 | 22,697 | 20,639 | 409,447 | 26,120 |
| 1991 | 149,544 | 777,471 | 365,706 | 491,106 | 344,446 | 87,462 | 23,404 | 35,794 | 458,739 | 32,367 |
| 1992 | 157,941 | 849,324 | 398,177 | 523,793 | 374,804 | 94,992 | 23,106 | 30,891 | 490,245 | 33,548 |
| 1993 | 165,599 | 926,847 | 438,451 | 566,067 | 402,760 | 103,053 | 23,227 | 37,027 | 530,210 | 35,857 |
| 1994 | 174,918 | 993,381 | 464,034 | 589,102 | 422,413 | 110,724 | 25,741 | 30,225 | 548,166 | 40,936 |
| 1995 | 180,931 | 1,143,079 | 512,383 | 663,371 | 443,052 | 127,743 | 31,060 | 61,516 | 604,645 | 58,725 |
| 1996 | 192,059 | 1,293,439 | 564,566 | 704,346 | 467,559 | 137,666 | 34,057 | 65,064 | 637,917 | 66,429 |
| 1997 | 198,957 | 1,438,977 | 624,978 | 754,616 | 486,407 | 146,171 | 37,040 | 84,998 | 677,143 | 77,473 |
| 1998 | 207,272 | 1,351,541 | 459,188 | 752,044 | 502,832 | 161,751 | 28,562 | 58,898 | 684,566 | 67,478 |
| 1999 | 211,615 | 1,453,675 | 481,444 | 800,676 | 518,111 | 174,992 | 30,466 | 77,107 | 714,487 | 86,189 |
| 2000 | 230,159 | 1,562,536 | 539,367 | 866,208 | 579,081 | 199,076 | 29,136 | 58,916 | 796,434 | 69,775 |
| 2001 | 240,569 | 1,631,719 | 611,390 | 896,974 | 630,817 | 212,427 | 23,678 | 30,052 | 862,721 | 34,253 |
| 2002 | 251,676 | 1,733,852 | 693,576 | 955,267 | 691,791 | 214,484 | 20,518 | 28,474 | 934,672 | 20,595 |
| 2003 | 263,353 | 1,899,857 | 735,600 | 1,072,171 | 754,585 | 229,987 | 23,594 | 64,005 | 1,009,675 | 62,496 |
| 2004 | 276,191 | 2,058,610 | 782,510 | 1,152,989 | 801,199 | 248,570 | 27,830 | 75,391 | 1,058,489 | 94,500 |

[1] Includes "interest on savings and temporary cash investments," "dividends and interest from securities," and "other investment income (loss)" from Form 990 and "investment income (loss)" from Form 990-EZ which was introduced for Tax Year 1989.

NOTES: Data are from Forms 990 (and, beginning with Tax Year 1989, Form 990-EZ) for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations, most organizations with receipts less than $25,000 in current dollars, as well as most churches, and certain other types of religious organizations. Detail may not add to totals because of rounding.

## Table 2. Public Charities: Selected Financial Data, in Constant Dollars, Tax Years 1985-2004

[All figures are estimates based on samples—money amounts are in millions of constant 2004 dollars]

| Tax year | Number of returns | Total assets | Total liabilities | Total revenue | | | | | Total expenses | Net income |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Total | Program service revenue | Contributions, gifts, and grants received | Investment income [1] | Other | | |
| 1985 | 106,449 | 664,965 | 292,632 | 421,372 | 263,592 | 87,560 | 21,875 | 48,344 | 383,416 | 37,956 |
| 1986 | 113,072 | 751,380 | 323,910 | 449,254 | 288,667 | 92,337 | 21,281 | 46,970 | 404,687 | 44,567 |
| 1987 | 122,018 | 791,623 | 346,489 | 464,595 | 316,796 | 92,221 | 22,715 | 32,863 | 431,578 | 33,017 |
| 1988 | 124,233 | 843,847 | 372,555 | 512,820 | 346,018 | 99,864 | 27,847 | 39,091 | 478,358 | 34,461 |
| 1989 | 133,157 | 913,008 | 409,290 | 555,289 | 379,083 | 107,223 | 30,582 | 38,401 | 517,511 | 37,778 |
| 1990 | 141,757 | 935,100 | 431,781 | 584,095 | 411,551 | 114,430 | 30,437 | 27,676 | 549,068 | 35,027 |
| 1991 | 149,544 | 1,007,602 | 473,955 | 636,473 | 446,402 | 113,351 | 30,331 | 46,389 | 594,526 | 41,948 |
| 1992 | 157,941 | 1,076,094 | 504,490 | 663,646 | 474,877 | 120,355 | 29,275 | 39,139 | 621,140 | 42,505 |
| 1993 | 165,599 | 1,147,437 | 542,802 | 700,791 | 498,617 | 127,580 | 28,755 | 45,840 | 656,400 | 44,391 |
| 1994 | 174,918 | 1,204,971 | 562,873 | 714,581 | 512,386 | 134,308 | 31,223 | 36,663 | 664,925 | 49,656 |
| 1995 | 180,931 | 1,357,977 | 608,711 | 788,084 | 526,346 | 151,758 | 36,899 | 73,081 | 718,319 | 69,765 |
| 1996 | 192,059 | 1,508,150 | 658,284 | 821,267 | 545,174 | 160,518 | 39,710 | 75,865 | 743,811 | 77,456 |
| 1997 | 198,957 | 1,650,506 | 716,850 | 865,544 | 557,909 | 167,658 | 42,485 | 97,493 | 776,683 | 88,861 |
| 1998 | 207,272 | 1,533,999 | 521,179 | 853,569 | 570,714 | 183,588 | 32,418 | 66,849 | 776,982 | 76,587 |
| 1999 | 211,615 | 1,625,209 | 538,254 | 895,155 | 579,248 | 195,641 | 34,061 | 86,205 | 798,796 | 96,359 |
| 2000 | 230,159 | 1,710,977 | 590,607 | 948,498 | 634,093 | 217,988 | 31,904 | 64,513 | 872,095 | 76,403 |
| 2001 | 240,569 | 1,744,308 | 653,576 | 958,865 | 674,343 | 227,084 | 25,312 | 32,126 | 922,249 | 36,616 |
| 2002 | 251,676 | 1,822,278 | 728,948 | 1,003,986 | 727,072 | 225,423 | 21,564 | 29,926 | 982,340 | 21,645 |
| 2003 | 263,353 | 1,954,953 | 756,933 | 1,103,264 | 776,468 | 236,656 | 24,278 | 65,861 | 1,038,955 | 64,308 |
| 2004 | 276,191 | 2,058,610 | 782,510 | 1,152,989 | 801,199 | 248,570 | 27,830 | 75,391 | 1,058,489 | 94,500 |

[1] Includes “interest on savings and temporary cash investments,” “dividends and interest from securities,” and “other investment income (loss)” from Form 990 and “investment income (loss)” from Form 990-EZ which was introduced for Tax Year 1989.

NOTES: Data are from Forms 990 (and, beginning with Tax Year 1989, Form 990-EZ) for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations, most organizations with receipts less than $25,000 in current dollars, as well as most churches, and certain other types of religious organizations. Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments. Detail may not add to totals because of rounding.

## Table 3. Domestic Private Foundations, Selected Financial Data, in Current Dollars, Tax Years 1985-2004

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

| Type of foundation and tax year | Number of returns | Total assets (book value) | Total assets (fair market value) | | | Total revenue | Net investment income | Total expenses |
|---|---|---|---|---|---|---|---|---|
| | | | Total | Investment assets | Securities | | | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| **All private foundations** | | | | | | | | |
| 1985 | 31,171 | 71,394 | 94,996 | 87,756 | 73,294 | 16,193 | 9,995 | 7,141 |
| 1986 | 35,081 | 85,096 | 110,978 | 102,339 | 85,145 | 19,801 | 12,252 | 8,148 |
| 1987 | 35,847 | 91,411 | 111,837 | 103,492 | 85,355 | 16,834 | 11,234 | 8,928 |
| 1988 | 37,057 | 102,007 | 126,437 | 118,009 | 97,544 | 16,112 | 10,378 | 9,549 |
| 1989 | 38,719 | 112,490 | 142,545 | 133,646 | 112,892 | 19,388 | 12,022 | 10,467 |
| 1990 | 40,105 | 122,412 | 150,997 | 142,598 | 114,969 | 19,006 | 11,931 | 11,285 |
| 1991 | 41,276 | 134,718 | 173,121 | 162,737 | 136,222 | 20,194 | 13,209 | 12,676 |
| 1992 | 42,383 | 144,079 | 181,426 | 171,439 | 141,336 | 22,508 | 14,078 | 13,569 |
| 1993 | 43,956 | 155,626 | 192,277 | 180,813 | 147,594 | 24,460 | 15,093 | 14,579 |
| 1994 | 45,801 | 169,287 | 203,644 | 191,278 | 158,934 | 26,503 | 14,978 | 15,708 |
| 1995 | 47,917 | 195,570 | 242,917 | 227,077 | 190,739 | 30,814 | 20,355 | 17,189 |
| 1996 | 50,774 | 232,565 | 288,588 | 268,327 | 225,087 | 48,247 | 26,189 | 19,852 |
| 1997 | 55,113 | 280,920 | 342,689 | 323,004 | 272,412 | 55,460 | 34,801 | 22,414 |
| 1998 | 56,658 | 325,672 | 397,084 | 380,531 | 317,900 | 59,735 | 39,313 | 25,902 |
| 1999 | 62,694 | 384,565 | 466,863 | 444,151 | 363,442 | 83,286 | 57,142 | 33,876 |
| 2000 | 66,738 | 409,524 | 471,646 | 447,437 | 361,418 | 72,780 | 48,830 | 37,434 |
| 2001 | 70,787 | 413,577 | 455,423 | 416,715 | 329,353 | 45,264 | 25,719 | 36,661 |
| 2002 | 73,255 | 383,516 | 413,007 | 377,439 | 294,385 | 27,775 | 17,648 | 34,392 |
| 2003 | 76,348 | 418,510 | 474,952 | 448,773 | 344,314 | 48,391 | 25,193 | 35,099 |
| 2004 | 76,897 | 445,534 | 509,924 | 481,177 | 361,158 | 58,668 | 34,019 | 36,552 |
| **Nonoperating private foundations** | | | | | | | | |
| 1985 | 28,599 | 62,561 | 84,433 | 80,582 | 67,401 | 14,542 | 9,131 | 6,275 |
| 1986 | 32,315 | 75,289 | 98,926 | 94,387 | 78,937 | 17,819 | 11,282 | 7,237 |
| 1987 | 32,688 | 81,841 | 100,792 | 95,963 | 79,779 | 15,301 | 10,443 | 8,132 |
| 1988 | 33,829 | 91,497 | 113,991 | 108,619 | 90,839 | 14,580 | 9,676 | 8,702 |
| 1989 | 35,652 | 101,614 | 129,241 | 123,590 | 105,674 | 17,809 | 11,226 | 9,636 |
| 1990 | 36,880 | 110,443 | 136,428 | 131,138 | 107,190 | 16,738 | 11,126 | 10,236 |
| 1991 | 37,801 | 121,277 | 156,808 | 151,046 | 127,354 | 18,323 | 12,278 | 11,548 |
| 1992 | 38,576 | 129,286 | 163,768 | 157,408 | 131,873 | 20,310 | 13,073 | 12,270 |
| 1993 | 40,166 | 139,953 | 173,996 | 166,588 | 138,090 | 22,173 | 14,068 | 13,247 |
| 1994 | 41,983 | 151,151 | 182,544 | 174,897 | 146,979 | 22,935 | 13,079 | 13,945 |
| 1995 | 43,966 | 174,866 | 218,343 | 210,407 | 177,615 | 27,543 | 18,862 | 15,358 |
| 1996 | 46,066 | 210,439 | 262,739 | 250,170 | 210,520 | 44,430 | 24,421 | 17,980 |
| 1997 | 50,541 | 256,409 | 314,368 | 300,693 | 256,081 | 51,030 | 32,390 | 19,990 |
| 1998 | 52,460 | 297,759 | 365,036 | 355,295 | 299,711 | 54,711 | 36,778 | 23,375 |
| 1999 | 58,840 | 349,131 | 426,316 | 412,420 | 340,942 | 74,327 | 52,367 | 31,029 |
| 2000 | 61,501 | 374,990 | 432,707 | 417,850 | 341,662 | 66,185 | 45,654 | 33,565 |
| 2001 | 63,650 | 379,018 | 416,810 | 392,037 | 311,416 | 41,214 | 24,483 | 32,603 |
| 2002 | 67,101 | 352,163 | 377,672 | 355,263 | 279,699 | 24,500 | 16,666 | 30,608 |
| 2003 | 70,004 | 384,941 | 436,296 | 419,322 | 327,980 | 44,285 | 24,023 | 31,929 |
| 2004 | 70,613 | 410,658 | 469,389 | 451,114 | 344,740 | 54,072 | 32,289 | 33,207 |
| **Operating private foundations** | | | | | | | | |
| 1985 | 2,571 | 8,833 | 10,563 | 7,174 | 5,893 | 1,651 | 864 | 866 |
| 1986 | 2,766 | 9,807 | 12,052 | 7,952 | 6,208 | 1,982 | 971 | 911 |
| 1987 | 3,159 | 9,570 | 11,045 | 7,529 | 5,576 | 1,534 | 791 | 796 |
| 1988 | 3,227 | 10,510 | 12,447 | 9,390 | 6,706 | 1,532 | 702 | 847 |
| 1989 | 3,066 | 10,877 | 13,304 | 10,057 | 7,218 | 1,579 | 796 | 831 |
| 1990 | 3,226 | 11,969 | 14,569 | 11,460 | 7,779 | 2,268 | 805 | 1,049 |
| 1991 | 3,474 | 13,442 | 16,313 | 11,691 | 8,868 | 1,871 | 932 | 1,128 |
| 1992 | 3,807 | 14,793 | 17,658 | 14,031 | 9,463 | 2,198 | 1,006 | 1,299 |
| 1993 | 3,790 | 15,674 | 18,281 | 14,224 | 9,504 | 2,287 | 1,026 | 1,332 |
| 1994 | 3,818 | 18,136 | 21,100 | 16,381 | 11,955 | 3,568 | 1,899 | 1,763 |
| 1995 | 3,951 | 20,705 | 24,574 | 16,669 | 13,124 | 3,272 | 1,494 | 1,831 |
| 1996 | 4,708 | 22,126 | 25,849 | 18,157 | 14,566 | 3,817 | 1,768 | 1,872 |
| 1997 | 4,572 | 24,511 | 28,321 | 22,311 | 16,331 | 4,430 | 2,411 | 2,424 |
| 1998 | 4,198 | 27,912 | 32,048 | 25,236 | 18,189 | 5,024 | 2,535 | 2,526 |
| 1999 | 3,854 | 35,434 | 40,547 | 31,731 | 22,500 | 8,959 | 4,775 | 2,848 |
| 2000 | 5,238 | 34,534 | 38,939 | 29,587 | 19,756 | 6,595 | 3,177 | 3,868 |
| 2001 | 7,137 | 34,559 | 38,613 | 24,678 | 17,937 | 4,050 | 1,236 | 4,058 |
| 2002 | 6,154 | 31,354 | 35,335 | 22,177 | 14,686 | 3,275 | 982 | 3,785 |
| 2003 | 6,344 | 33,569 | 38,655 | 29,451 | 16,334 | 4,106 | 1,170 | 3,171 |
| 2004 | 6,284 | 34,876 | 40,534 | 30,063 | 16,418 | 4,596 | 1,731 | 3,345 |

Footnotes at end of table.

## Table 3. Domestic Private Foundations, Selected Financial Data, in Current Dollars, Tax Years 1985-2004—Continued

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

| Type of foundation and tax year | Excess of revenue over expenses | Charitable expenses | | | Net investment income excise tax | Noncharitable-use assets [1] | Qualifying distributions |
|---|---|---|---|---|---|---|---|
| | | Total | Contributions, gifts, and grants paid | Operating and administrative expenses | | | |
| | (9) | (10) | (11) | (12) | (13) | (14) | (15) |
| **All private foundations** | | | | | | | |
| 1985 | 9,053 | 6,188 | 5,171 | 1,017 | 168 | 80,425 | 6,552 |
| 1986 | 11,653 | 7,004 | 6,116 | 888 | 195 | 100,938 | 7,654 |
| 1987 | 7,906 | 7,685 | 6,676 | 1,009 | 173 | 108,092 | 8,117 |
| 1988 | 6,563 | 8,372 | 7,218 | 1,154 | 141 | 112,420 | 8,837 |
| 1989 | 8,921 | 9,160 | 7,911 | 1,249 | 165 | 127,695 | 9,676 |
| 1990 | 7,721 | 10,069 | 8,560 | 1,509 | 155 | 136,404 | 10,520 |
| 1991 | 7,518 | 11,272 | 9,762 | 1,511 | 170 | 152,075 | 11,930 |
| 1992 | 8,939 | 11,794 | 10,080 | 1,714 | 187 | 163,984 | 12,437 |
| 1993 | 9,881 | 12,952 | 11,072 | 1,880 | 203 | 176,123 | 13,705 |
| 1994 | 10,795 | 13,788 | 11,755 | 2,033 | 188 | 181,942 | 14,538 |
| 1995 | 13,626 | 14,412 | 12,256 | 2,156 | 279 | 210,033 | 15,305 |
| 1996 | 28,395 | 16,881 | 14,519 | 2,362 | 369 | 245,287 | 17,850 |
| 1997 | 33,046 | 19,076 | 16,421 | 2,655 | 502 | 297,356 | 19,985 |
| 1998 | 33,833 | 22,288 | 19,394 | 2,894 | 523 | 346,059 | 23,389 |
| 1999 | 49,410 | 26,402 | 22,763 | 3,639 | 730 | 407,220 | 27,604 |
| 2000 | 35,346 | 31,874 | 27,564 | 4,311 | 625 | 448,812 | 33,454 |
| 2001 | 8,602 | 31,698 | 27,383 | 4,315 | 305 | 424,028 | 33,067 |
| 2002 | -6,618 | 30,423 | 26,303 | 4,120 | 234 | 388,845 | 31,712 |
| 2003 | 13,292 | 31,058 | 26,667 | 4,392 | 328 | 408,973 | 32,780 |
| 2004 | 22,116 | 32,125 | 27,625 | 4,500 | 469 | 451,199 | 33,486 |
| **Nonoperating private foundations** | | | | | | | |
| 1985 | 8,267 | 5,484 | 5,105 | 379 | 163 | 73,802 | 5,651 |
| 1986 | 10,582 | 6,447 | 6,028 | 419 | 191 | 93,386 | 6,676 |
| 1987 | 7,169 | 7,062 | 6,593 | 469 | 169 | 100,509 | 7,248 |
| 1988 | 5,878 | 7,683 | 7,132 | 551 | 137 | 104,548 | 7,935 |
| 1989 | 8,173 | 8,479 | 7,836 | 642 | 161 | 119,237 | 8,688 |
| 1990 | 6,503 | 9,185 | 8,483 | 703 | 151 | 127,726 | 9,406 |
| 1991 | 6,775 | 10,376 | 9,558 | 818 | 165 | 141,936 | 10,745 |
| 1992 | 8,040 | 10,764 | 9,870 | 893 | 182 | 153,196 | 11,146 |
| 1993 | 8,926 | 11,854 | 10,919 | 935 | 199 | 164,841 | 12,167 |
| 1994 | 8,990 | 12,422 | 11,417 | 1,005 | 183 | 169,190 | 12,712 |
| 1995 | 12,185 | 13,034 | 11,902 | 1,132 | 269 | 194,955 | 13,379 |
| 1996 | 26,450 | 15,456 | 14,183 | 1,273 | 357 | 229,452 | 15,832 |
| 1997 | 31,040 | 17,231 | 15,855 | 1,376 | 487 | 279,163 | 17,727 |
| 1998 | 31,335 | 20,569 | 18,966 | 1,603 | 501 | 326,067 | 21,189 |
| 1999 | 43,299 | 24,367 | 22,335 | 2,033 | 686 | 382,028 | 25,057 |
| 2000 | 32,619 | 29,056 | 26,552 | 2,505 | 601 | 421,273 | 29,845 |
| 2001 | 8,611 | 28,882 | 26,526 | 2,356 | 297 | 397,969 | 29,785 |
| 2002 | -6,107 | 27,911 | 25,487 | 2,423 | 225 | 368,839 | 28,727 |
| 2003 | 12,356 | 28,826 | 26,116 | 2,710 | 316 | 386,964 | 29,811 |
| 2004 | 20,865 | 29,803 | 27,074 | 2,729 | 456 | 427,732 | 30,493 |
| **Operating private foundations** | | | | | | | |
| 1985 | 785 | 704 | 67 | 637 | 5 | 6,624 | 901 |
| 1986 | 1,071 | 557 | 89 | 469 | 4 | 7,552 | 979 |
| 1987 | 738 | 623 | 83 | 540 | 4 | 7,584 | 868 |
| 1988 | 686 | 689 | 86 | 603 | 3 | 7,873 | 902 |
| 1989 | 748 | 681 | 74 | 607 | 4 | 8,458 | 988 |
| 1990 | 1,219 | 883 | 77 | 806 | 4 | 8,679 | 1,114 |
| 1991 | 743 | 896 | 204 | 692 | 4 | 10,139 | 1,185 |
| 1992 | 899 | 1,031 | 210 | 821 | 5 | 10,788 | 1,291 |
| 1993 | 955 | 1,098 | 153 | 944 | 5 | 11,282 | 1,537 |
| 1994 | 1,805 | 1,367 | 339 | 1,028 | 5 | 12,752 | 1,825 |
| 1995 | 1,440 | 1,378 | 354 | 1,024 | 10 | 15,078 | 1,926 |
| 1996 | 1,945 | 1,426 | 336 | 1,089 | 12 | 15,835 | 2,018 |
| 1997 | 2,006 | 1,845 | 566 | 1,279 | 15 | 18,193 | 2,258 |
| 1998 | 2,498 | 1,719 | 428 | 1,290 | 22 | 19,993 | 2,199 |
| 1999 | 6,111 | 2,035 | 428 | 1,606 | 43 | 25,192 | 2,547 |
| 2000 | 2,727 | 2,818 | 1,012 | 1,806 | 24 | 27,539 | 3,608 |
| 2001 | -8 | 2,815 | 857 | 1,959 | 8 | 26,059 | 3,282 |
| 2002 | -510 | 2,513 | 816 | 1,697 | 9 | 20,006 | 2,984 |
| 2003 | 936 | 2,232 | 551 | 1,681 | 11 | 22,009 | 2,969 |
| 2004 | 1,251 | 2,323 | 551 | 1,771 | 12 | 23,467 | 2,993 |

[1] Noncharitable-use assets, also known as net investment assets, are calculated based on the value of assets not used for charitable purposes.

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

## Table 4. Domestic Private Foundations, Selected Financial Data, in Constant Dollars, Tax Years 1985-2004

[All figures are estimates based on samples—money amounts are in millions of constant 2004 dollars]

| Type of foundation and tax year | Number of returns | Total assets (book value) | Total assets (fair market value) | | | Total revenue | Net investment income | Total expenses |
|---|---|---|---|---|---|---|---|---|
| | | | Total | Investment assets | Securities | | | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| **All private foundations** | | | | | | | | |
| 1985 | 31,171 | 112,089 | 149,143 | 137,777 | 115,072 | 25,423 | 15,692 | 11,211 |
| 1986 | 35,081 | 130,707 | 170,462 | 157,192 | 130,783 | 30,414 | 18,819 | 12,515 |
| 1987 | 35,847 | 136,659 | 167,196 | 154,721 | 127,605 | 25,168 | 16,794 | 13,347 |
| 1988 | 37,057 | 147,503 | 182,828 | 170,641 | 141,049 | 23,298 | 15,007 | 13,807 |
| 1989 | 38,719 | 156,699 | 198,565 | 186,169 | 157,259 | 27,008 | 16,747 | 14,581 |
| 1990 | 40,105 | 164,155 | 202,487 | 191,224 | 154,174 | 25,487 | 16,000 | 15,133 |
| 1991 | 41,276 | 174,595 | 224,365 | 210,907 | 176,544 | 26,171 | 17,119 | 16,428 |
| 1992 | 42,383 | 182,548 | 229,866 | 217,213 | 179,072 | 28,517 | 17,837 | 17,192 |
| 1993 | 43,956 | 192,666 | 238,039 | 223,846 | 182,721 | 30,281 | 18,685 | 18,049 |
| 1994 | 45,801 | 205,346 | 247,020 | 232,020 | 192,787 | 32,149 | 18,169 | 19,054 |
| 1995 | 47,917 | 232,337 | 288,585 | 269,767 | 226,597 | 36,608 | 24,182 | 20,420 |
| 1996 | 50,774 | 271,171 | 336,494 | 312,870 | 262,451 | 56,256 | 30,536 | 23,147 |
| 1997 | 55,113 | 322,216 | 393,064 | 370,486 | 312,457 | 63,613 | 39,917 | 25,708 |
| 1998 | 56,658 | 369,637 | 450,691 | 431,902 | 360,817 | 67,799 | 44,621 | 29,399 |
| 1999 | 62,694 | 429,943 | 521,953 | 496,561 | 406,328 | 93,114 | 63,885 | 37,874 |
| 2000 | 66,738 | 448,429 | 516,452 | 489,944 | 395,752 | 79,694 | 53,469 | 40,990 |
| 2001 | 70,787 | 442,113 | 486,847 | 445,469 | 352,078 | 48,387 | 27,494 | 39,191 |
| 2002 | 73,255 | 403,076 | 434,070 | 396,689 | 309,398 | 29,191 | 18,548 | 36,146 |
| 2003 | 76,348 | 430,647 | 488,725 | 461,787 | 354,299 | 49,794 | 25,924 | 36,117 |
| 2004 | 76,897 | 445,534 | 509,924 | 481,177 | 361,158 | 58,668 | 34,019 | 36,552 |
| **Nonoperating private foundations** | | | | | | | | |
| 1985 | 28,599 | 98,221 | 132,559 | 126,513 | 105,820 | 22,831 | 14,336 | 9,852 |
| 1986 | 32,315 | 115,643 | 151,950 | 144,978 | 121,248 | 27,370 | 17,328 | 11,115 |
| 1987 | 32,688 | 122,352 | 150,685 | 143,465 | 119,270 | 22,875 | 15,612 | 12,157 |
| 1988 | 33,829 | 132,305 | 164,830 | 157,063 | 131,353 | 21,082 | 13,991 | 12,583 |
| 1989 | 35,652 | 141,548 | 180,032 | 172,161 | 147,205 | 24,808 | 15,638 | 13,423 |
| 1990 | 36,880 | 148,104 | 182,950 | 175,857 | 143,741 | 22,446 | 14,920 | 13,726 |
| 1991 | 37,801 | 157,175 | 203,223 | 195,756 | 165,051 | 23,746 | 15,912 | 14,966 |
| 1992 | 38,576 | 163,806 | 207,494 | 199,436 | 167,083 | 25,733 | 16,563 | 15,546 |
| 1993 | 40,166 | 173,261 | 215,408 | 206,236 | 170,955 | 27,450 | 17,416 | 16,400 |
| 1994 | 41,983 | 183,347 | 221,425 | 212,151 | 178,285 | 27,821 | 15,865 | 16,915 |
| 1995 | 43,966 | 207,740 | 259,391 | 249,964 | 211,007 | 32,721 | 22,408 | 18,245 |
| 1996 | 46,066 | 245,372 | 306,353 | 291,698 | 245,467 | 51,806 | 28,475 | 20,965 |
| 1997 | 50,541 | 294,101 | 360,580 | 344,895 | 293,725 | 58,531 | 37,151 | 22,928 |
| 1998 | 52,460 | 337,957 | 414,316 | 403,260 | 340,172 | 62,096 | 41,743 | 26,531 |
| 1999 | 58,840 | 390,328 | 476,622 | 461,086 | 381,173 | 83,098 | 58,546 | 34,690 |
| 2000 | 61,501 | 410,614 | 473,814 | 457,546 | 374,120 | 72,472 | 49,991 | 36,754 |
| 2001 | 63,650 | 405,170 | 445,569 | 419,088 | 332,903 | 44,058 | 26,172 | 34,853 |
| 2002 | 67,101 | 370,123 | 396,933 | 373,381 | 293,964 | 25,750 | 17,516 | 32,169 |
| 2003 | 70,004 | 396,104 | 448,949 | 431,483 | 337,492 | 45,569 | 24,719 | 32,855 |
| 2004 | 70,613 | 410,658 | 469,389 | 451,114 | 344,740 | 54,072 | 32,289 | 33,207 |
| **Operating private foundations** | | | | | | | | |
| 1985 | 2,571 | 13,868 | 16,584 | 11,264 | 9,252 | 2,592 | 1,356 | 1,359 |
| 1986 | 2,766 | 15,064 | 18,512 | 12,214 | 9,536 | 3,044 | 1,491 | 1,399 |
| 1987 | 3,159 | 14,307 | 16,512 | 11,256 | 8,335 | 2,293 | 1,182 | 1,190 |
| 1988 | 3,227 | 15,198 | 17,998 | 13,578 | 9,696 | 2,216 | 1,016 | 1,224 |
| 1989 | 3,066 | 15,151 | 18,532 | 14,009 | 10,054 | 2,199 | 1,109 | 1,157 |
| 1990 | 3,226 | 16,050 | 19,537 | 15,368 | 10,432 | 3,041 | 1,079 | 1,407 |
| 1991 | 3,474 | 17,420 | 21,142 | 15,151 | 11,493 | 2,425 | 1,207 | 1,462 |
| 1992 | 3,807 | 18,743 | 22,372 | 17,777 | 11,989 | 2,785 | 1,274 | 1,646 |
| 1993 | 3,790 | 19,404 | 22,632 | 17,610 | 11,766 | 2,831 | 1,270 | 1,649 |
| 1994 | 3,818 | 21,999 | 25,595 | 19,870 | 14,502 | 4,328 | 2,303 | 2,138 |
| 1995 | 3,951 | 24,597 | 29,194 | 19,803 | 15,591 | 3,887 | 1,775 | 2,175 |
| 1996 | 4,708 | 25,799 | 30,140 | 21,172 | 16,984 | 4,450 | 2,061 | 2,182 |
| 1997 | 4,572 | 28,114 | 32,484 | 25,591 | 18,732 | 5,081 | 2,766 | 2,780 |
| 1998 | 4,198 | 31,681 | 36,375 | 28,643 | 20,645 | 5,703 | 2,877 | 2,868 |
| 1999 | 3,854 | 39,615 | 45,331 | 35,475 | 25,155 | 10,016 | 5,338 | 3,184 |
| 2000 | 5,238 | 37,815 | 42,638 | 32,398 | 21,633 | 7,222 | 3,479 | 4,236 |
| 2001 | 7,137 | 36,944 | 41,278 | 26,381 | 19,175 | 4,329 | 1,322 | 4,338 |
| 2002 | 6,154 | 32,953 | 37,137 | 23,308 | 15,435 | 3,442 | 1,032 | 3,978 |
| 2003 | 6,344 | 34,543 | 39,776 | 30,305 | 16,807 | 4,225 | 1,204 | 3,263 |
| 2004 | 6,284 | 34,876 | 40,534 | 30,063 | 16,418 | 4,596 | 1,731 | 3,345 |

Footnotes at end of table.

## Table 4. Domestic Private Foundations, Selected Financial Data, in Constant Dollars, Tax Years 1985-2004—Continued

[All figures are estimates based on samples—money amounts are in millions of constant 2004 dollars]

| Type of foundation and tax year | Excess of revenue over expenses | Charitable expenses | | | Net investment income excise tax | Noncharitable-use assets [1] | Qualifying distributions |
|---|---|---|---|---|---|---|---|
| | | Total | Contributions, gifts, and grants paid | Operating and administrative expenses | | | |
| | (9) | (10) | (11) | (12) | (13) | (14) | (15) |
| **All private foundations** | | | | | | | |
| 1985 | 14,213 | 9,715 | 8,119 | 1,596 | 263 | 126,268 | 10,287 |
| 1986 | 17,900 | 10,758 | 9,394 | 1,364 | 299 | 155,040 | 11,757 |
| 1987 | 11,820 | 11,489 | 9,980 | 1,509 | 259 | 161,598 | 12,134 |
| 1988 | 9,491 | 12,106 | 10,438 | 1,668 | 204 | 162,560 | 12,778 |
| 1989 | 12,427 | 12,760 | 11,020 | 1,740 | 230 | 177,879 | 13,478 |
| 1990 | 10,354 | 13,502 | 11,479 | 2,023 | 208 | 182,918 | 14,107 |
| 1991 | 9,743 | 14,609 | 12,651 | 1,958 | 220 | 197,090 | 15,461 |
| 1992 | 11,326 | 14,943 | 12,772 | 2,172 | 237 | 207,768 | 15,757 |
| 1993 | 12,232 | 16,034 | 13,707 | 2,327 | 251 | 218,041 | 16,966 |
| 1994 | 13,095 | 16,725 | 14,259 | 2,466 | 228 | 220,696 | 17,634 |
| 1995 | 16,187 | 17,121 | 14,560 | 2,561 | 332 | 249,519 | 18,182 |
| 1996 | 33,109 | 19,683 | 16,929 | 2,754 | 431 | 286,005 | 20,813 |
| 1997 | 37,904 | 21,881 | 18,835 | 3,046 | 576 | 341,067 | 22,922 |
| 1998 | 38,401 | 25,297 | 22,012 | 3,284 | 594 | 392,777 | 26,546 |
| 1999 | 55,240 | 29,518 | 25,449 | 4,069 | 816 | 455,272 | 30,861 |
| 2000 | 38,704 | 34,902 | 30,182 | 4,720 | 684 | 491,449 | 36,632 |
| 2001 | 9,196 | 33,885 | 29,273 | 4,612 | 326 | 453,286 | 35,349 |
| 2002 | -6,955 | 31,975 | 27,645 | 4,330 | 246 | 408,676 | 33,329 |
| 2003 | 13,677 | 31,959 | 27,440 | 4,519 | 337 | 420,833 | 33,731 |
| 2004 | 22,116 | 32,125 | 27,625 | 4,500 | 469 | 451,199 | 33,486 |
| **Nonoperating private foundations** | | | | | | | |
| 1985 | 12,979 | 8,610 | 8,014 | 595 | 256 | 115,868 | 8,872 |
| 1986 | 16,255 | 9,902 | 9,258 | 644 | 294 | 143,441 | 10,254 |
| 1987 | 10,717 | 10,558 | 9,856 | 701 | 253 | 150,261 | 10,836 |
| 1988 | 8,499 | 11,109 | 10,313 | 796 | 199 | 151,176 | 11,474 |
| 1989 | 11,385 | 11,811 | 10,916 | 895 | 224 | 166,097 | 12,103 |
| 1990 | 8,720 | 12,317 | 11,375 | 942 | 202 | 171,280 | 12,613 |
| 1991 | 8,780 | 13,447 | 12,387 | 1,061 | 214 | 183,950 | 13,926 |
| 1992 | 10,187 | 13,637 | 12,506 | 1,132 | 231 | 194,099 | 14,122 |
| 1993 | 11,050 | 14,675 | 13,517 | 1,158 | 246 | 204,073 | 15,063 |
| 1994 | 10,905 | 15,067 | 13,849 | 1,219 | 222 | 205,228 | 15,420 |
| 1995 | 14,476 | 15,484 | 14,140 | 1,344 | 320 | 231,606 | 15,894 |
| 1996 | 30,841 | 18,021 | 16,537 | 1,484 | 416 | 267,541 | 18,460 |
| 1997 | 35,603 | 19,764 | 18,186 | 1,578 | 559 | 320,200 | 20,333 |
| 1998 | 35,565 | 23,346 | 21,526 | 1,820 | 569 | 370,086 | 24,050 |
| 1999 | 48,408 | 27,243 | 24,970 | 2,273 | 767 | 427,107 | 28,014 |
| 2000 | 35,718 | 31,817 | 29,074 | 2,743 | 658 | 461,294 | 32,681 |
| 2001 | 9,205 | 30,875 | 28,357 | 2,519 | 318 | 425,428 | 31,840 |
| 2002 | -6,419 | 29,334 | 26,787 | 2,547 | 236 | 387,649 | 30,193 |
| 2003 | 12,714 | 29,662 | 26,873 | 2,789 | 326 | 398,186 | 30,676 |
| 2004 | 20,865 | 29,803 | 27,074 | 2,729 | 456 | 427,732 | 30,493 |
| **Operating private foundations** | | | | | | | |
| 1985 | 1,233 | 1,105 | 105 | 1,001 | 7 | 10,400 | 1,415 |
| 1986 | 1,645 | 856 | 136 | 720 | 5 | 11,600 | 1,503 |
| 1987 | 1,103 | 931 | 124 | 807 | 6 | 11,337 | 1,298 |
| 1988 | 991 | 997 | 125 | 872 | 5 | 11,384 | 1,304 |
| 1989 | 1,042 | 949 | 104 | 845 | 6 | 11,782 | 1,376 |
| 1990 | 1,634 | 1,185 | 104 | 1,081 | 6 | 11,638 | 1,494 |
| 1991 | 963 | 1,162 | 265 | 897 | 5 | 13,140 | 1,536 |
| 1992 | 1,139 | 1,306 | 266 | 1,040 | 6 | 13,669 | 1,635 |
| 1993 | 1,182 | 1,359 | 190 | 1,169 | 6 | 13,968 | 1,903 |
| 1994 | 2,190 | 1,658 | 411 | 1,247 | 6 | 15,468 | 2,214 |
| 1995 | 1,711 | 1,637 | 420 | 1,217 | 12 | 17,912 | 2,288 |
| 1996 | 2,268 | 1,662 | 392 | 1,270 | 14 | 18,464 | 2,353 |
| 1997 | 2,301 | 2,116 | 649 | 1,467 | 17 | 20,867 | 2,590 |
| 1998 | 2,835 | 1,951 | 486 | 1,464 | 25 | 22,692 | 2,496 |
| 1999 | 6,832 | 2,275 | 479 | 1,796 | 49 | 28,164 | 2,847 |
| 2000 | 2,986 | 3,085 | 1,108 | 1,977 | 26 | 30,155 | 3,951 |
| 2001 | -9 | 3,010 | 916 | 2,094 | 9 | 27,857 | 3,508 |
| 2002 | -536 | 2,641 | 857 | 1,784 | 9 | 21,027 | 3,137 |
| 2003 | 963 | 2,297 | 567 | 1,730 | 12 | 22,647 | 3,055 |
| 2004 | 1,251 | 2,323 | 551 | 1,771 | 12 | 23,467 | 2,993 |

[1] Noncharitable-use assets, also known as net investment assets, are calculated based on the value of assets not used for charitable purposes.

NOTES: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis.

Tax Year 2004 is used as the base year for these adjustments. Detail may not add to totals because of rounding.

## Table 5. Excise Tax Data Reported by Private Foundations and Associated Individuals, Calendar Years 2003-2006, in Current Dollars

[All money amount are in current whole dollars]

| Item | 2003 | | 2004 | | 2005 | | 2006 | |
|---|---|---|---|---|---|---|---|---|
| | Number of returns [1] | Amount | Number of returns [1] | Amount | Number of returns [1] | Amount | Number of returns [1] | Amount |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| **Total tax [2]** | **1,681** | **4,156,692** | **1,651** | **7,246,679** | **1,658** | **7,726,515** | **1,759** | **5,316,852** |
| Individual tax on self-dealing | 119 | 400,275 | 127 | 413,501 | 144 | 3,094,172 | 159 | 2,113,878 |
| Tax on undistributed income | 1,549 | 3,538,275 | 1,476 | 5,542,236 | 1,463 | 4,200,471 | 1,529 | 2,990,274 |
| Tax on taxable expenditures | 53 | 277,420 | 53 | 1,035,659 | 50 | 364,082 | 77 | 145,874 |
| Tax on excess business holdings | 4 | 96,081 | 4 | 269,112 | 4 | 56,948 | 7 | 65,682 |

[1] The total number of returns may not equal the sum of the number of returns for each tax, as an organization or individual filer may report more than one type of tax per return. Additionally, individual filers may be included on returns filed by organizations.

[2] The total amount of tax may not equal the sum of the amounts for each tax, as certain excise taxes have been excluded to prevent disclosure of individual taxpayer data.

NOTE: Data represent information from Forms 4720 filed by organizations or associated individuals who identified themselves as Form 990-PF filers. These data generally represent private foundations and associated individuals, but include information reported by nonexempt charitable trusts that are treated as private foundations for tax purposes.

**Table 6. Exempt Organization Business Income Tax Returns, Selected Financial Data, in Current Dollars, Tax Years 1990-2004**

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

| Tax year | Number of returns | Gross unrelated business income (UBI) | Total deductions | Unrelated business taxable income (less deficit) | Unrelated business taxable income (UBTI) | Deficit | Unrelated business income tax (UBIT) | Total tax [1] |
|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| **All organizations** | | | | | | | | |
| 1990 | 31,091 | 3,511 | 3,513 | -2 | 389 | 391 | 99 | 99 |
| 1991 | 32,690 | 3,385 | 3,333 | 52 | 431 | 379 | 117 | 117 |
| 1992 | 31,122 | 4,069 | 3,960 | 109 | 486 | 377 | 132 | 132 |
| 1993 | 32,638 | 4,694 | 4,479 | 215 | 604 | 388 | 180 | 181 |
| 1994 | 35,657 | 5,380 | 5,117 | 263 | 643 | 380 | 191 | 195 |
| 1995 | 36,394 | 6,280 | 5,787 | 493 | 893 | 400 | 277 | 277 |
| 1996 | 40,621 | 7,295 | 6,619 | 676 | 1,170 | 494 | 372 | 373 |
| 1997 | 39,302 | 7,809 | 6,903 | 906 | 1,375 | 469 | 418 | 423 |
| 1998 | 46,208 | 7,585 | 6,484 | 1,100 | 1,670 | 569 | 506 | 464 |
| 1999 | 42,151 | 7,722 | 6,835 | 887 | 1,485 | 598 | 423 | 422 |
| 2000 | 38,567 | 8,413 | 7,703 | 710 | 1,427 | 717 | 406 | 403 |
| 2001 | 35,540 | 7,900 | 7,883 | 18 | 792 | 774 | 226 | 222 |
| 2002 | 35,103 | 7,776 | 7,922 | -146 | 647 | 793 | 194 | 193 |
| 2003 | 36,064 | 8,436 | 8,413 | 23 | 780 | 757 | 220 | 221 |
| 2004 | 38,040 | 9,492 | 8,980 | 512 | 1,288 | 776 | 365 | 368 |
| **Public charities and private foundations** | | | | | | | | |
| 1990 | 7,493 | 1,803 | 1,886 | -83 | 116 | 199 | 33 | 33 |
| 1991 | 7,846 | 1,643 | 1,717 | -74 | 141 | 215 | 40 | 41 |
| 1992 | 8,666 | 2,312 | 2,392 | -80 | 162 | 242 | 47 | 47 |
| 1993 | 9,246 | 2,540 | 2,618 | -78 | 187 | 266 | 55 | 55 |
| 1994 | 9,277 | 3,120 | 3,188 | -68 | 219 | 287 | 65 | 65 |
| 1995 | 9,903 | 3,583 | 3,672 | -89 | 202 | 291 | 61 | 59 |
| 1996 | 10,407 | 4,017 | 4,049 | -32 | 299 | 331 | 94 | 94 |
| 1997 | 10,614 | 4,179 | 4,194 | -15 | 337 | 352 | 105 | 103 |
| 1998 | 10,898 | 4,127 | 3,907 | 220 | 655 | 435 | 216 | 175 |
| 1999 | 11,614 | 4,002 | 4,053 | -50 | 389 | 439 | 119 | 119 |
| 2000 | 11,497 | 4,780 | 4,829 | -49 | 469 | 518 | 149 | 146 |
| 2001 | 12,618 | 4,812 | 5,080 | -268 | 292 | 560 | 86 | 85 |
| 2002 | 12,803 | 4,721 | 5,006 | -285 | 289 | 574 | 87 | 86 |
| 2003 | 13,511 | 4,833 | 5,001 | -168 | 352 | 520 | 103 | 102 |
| 2004 | 12,395 | 5,501 | 5,388 | 112 | 636 | 524 | 192 | 191 |

[1] Total tax takes into account the unrelated business income tax, minus any tax credits, plus any other types of tax due.

NOTES: Forms 990-T with gross unrelated business income below $1,000 in current dollars, the filing threshold, are excluded from these statistics. Detail may not add to totals because of rounding.

## Table 7. Exempt Organization Business Income Tax Returns: Selected Financial Data, in Constant Dollars, Tax Years 1990-2004

[All figures are estimates based on sample—money amounts are in millions of constant 2004 dollars]

| Tax year | Number of returns | Gross unrelated business income (UBI) | Total deductions | Unrelated business taxable income (less deficit) | Unrelated business taxable income (UBTI) | Deficit | Unrelated business income tax (UBIT) | Total tax [1] |
|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| All organizations | | | | | | | | |
| 1990 | 31,091 | 4,708 | 4,711 | -3 | 522 | 524 | 133 | 133 |
| 1991 | 32,690 | 4,387 | 4,320 | 67 | 559 | 491 | 152 | 152 |
| 1992 | 31,122 | 5,155 | 5,017 | 138 | 616 | 478 | 167 | 167 |
| 1993 | 32,638 | 5,811 | 5,545 | 266 | 748 | 480 | 223 | 224 |
| 1994 | 35,657 | 6,526 | 6,207 | 319 | 780 | 461 | 232 | 237 |
| 1995 | 36,394 | 7,461 | 6,875 | 586 | 1,061 | 475 | 329 | 329 |
| 1996 | 40,621 | 8,506 | 7,718 | 788 | 1,364 | 576 | 434 | 435 |
| 1997 | 39,302 | 8,957 | 7,918 | 1,039 | 1,577 | 538 | 479 | 485 |
| 1998 | 46,208 | 8,609 | 7,359 | 1,249 | 1,895 | 646 | 574 | 527 |
| 1999 | 42,151 | 8,633 | 7,642 | 992 | 1,660 | 669 | 473 | 472 |
| 2000 | 38,567 | 9,212 | 8,435 | 777 | 1,563 | 785 | 445 | 441 |
| 2001 | 35,540 | 8,445 | 8,427 | 19 | 847 | 827 | 242 | 237 |
| 2002 | 35,103 | 8,173 | 8,326 | -153 | 680 | 833 | 204 | 203 |
| 2003 | 36,064 | 8,681 | 8,657 | 24 | 803 | 779 | 226 | 227 |
| 2004 | 38,040 | 9,492 | 8,980 | 512 | 1,288 | 776 | 365 | 368 |
| Public charities and private foundations | | | | | | | | |
| 1990 | 7,493 | 2,418 | 2,529 | -111 | 156 | 267 | 44 | 44 |
| 1991 | 7,846 | 2,129 | 2,225 | -96 | 183 | 279 | 52 | 53 |
| 1992 | 8,666 | 2,929 | 3,031 | -101 | 205 | 307 | 60 | 60 |
| 1993 | 9,246 | 3,241 | 3,241 | -97 | 232 | 328 | 68 | 68 |
| 1994 | 9,277 | 3,785 | 3,867 | -82 | 266 | 348 | 79 | 79 |
| 1995 | 9,903 | 4,257 | 4,362 | -106 | 240 | 346 | 72 | 70 |
| 1996 | 10,407 | 4,684 | 4,721 | -37 | 349 | 386 | 110 | 110 |
| 1997 | 10,614 | 4,793 | 4,811 | -17 | 387 | 404 | 120 | 118 |
| 1998 | 10,898 | 4,684 | 4,434 | 250 | 743 | 494 | 245 | 199 |
| 1999 | 11,614 | 4,474 | 4,531 | -56 | 435 | 491 | 133 | 133 |
| 2000 | 11,497 | 5,234 | 5,288 | -54 | 514 | 567 | 163 | 160 |
| 2001 | 12,618 | 5,144 | 5,431 | -286 | 312 | 599 | 92 | 91 |
| 2002 | 12,803 | 4,962 | 5,261 | -300 | 304 | 603 | 91 | 90 |
| 2003 | 13,511 | 4,973 | 5,146 | -173 | 362 | 535 | 106 | 105 |
| 2004 | 12,395 | 5,501 | 5,388 | 112 | 636 | 524 | 192 | 191 |

[1] Total tax takes into account the unrelated business income tax, minus any tax credits, plus any other types of tax due.

NOTES: Forms 990-T with gross unrelated business income below $1,000 in current dollars, the annual filing threshold, are excluded from these statistics. Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments. Detail may not add to totals because of rounding.

# Ninety Years of Individual Income and Tax Statistics, 1916-2005

*by Scott Hollenbeck and Maureen Keenan Kahr*

Since 1916, the Internal Revenue Service (IRS) has been publishing income and tax statistics based on information reported on Federal tax returns filed by U.S. individual taxpayers. These publicly available, annual Statistics of Income (SOI) reports were created shortly after enactment of the modern income tax in 1913. Detailed data for Tax Year (TY) 1916 were reported in the first volume of the annual SOI report, along with a few statistics for 1913-1915.

This article focuses on the regular annual SOI individual income tax return program and the data that have been published over the past 90 years. The article includes a brief history of the Statistics of Income program, as well as a summary of the major tax law changes that have affected individual taxpayers. The article also includes some analysis of the changes, over time, in individual return filings, total income, average tax rate, and the alternative minimum tax. Finally, the article presents historical tabulations, which summarize the individual income tax data that have been reported by SOI over the past 90 years.

## Background and History

During the beginning years of the SOI program, the individual income tax tabulations that were included in reports were relatively uncomplicated and few in number. The data that could be presented were largely limited by data items that were reported on the simple tax forms and the lack of modern data processing equipment and technology. Until the late 1920s, the individual income statistics particularly emphasized the tax, the amount of income producing the tax, and the location in which the returns were filed. A major portion of each report was dedicated to showing the number of returns, income, and tax, classified by the size of income for each State. The number of returns filed in each county, city, and town were available for the first 21 years.

The number of users of SOI data increased as many Federal, State, and private economic research organizations were created. As the needs of these new users increased, along with those of tax administrators and the estimators of future tax revenue, many new data items were requested. As a result of meeting these requests, the number of basic tables included in the annual SOI report increased, largely with the introduction of crosstabulations. Added data included items such as detailed sources of income, tax payments, number of exemptions, and standard and itemized deductions, including types of itemized deductions. New classifiers were also added to the reports, including the size of specific income sources and net income.

As technology advanced and computer processing was introduced, more sophisticated tables could be produced. These newer, more complex tables were added to the SOI reports, in order to meet customer needs. The reports were improved to show added detail for the number of returns filed, sources of income, marital status, and for taxable and nontaxable returns. There was more information for types of dependents, types of tax computation, and for several types of tax credits. New classifiers included taxpayers age 65 and older, marginal tax rates, and alternative income concepts. More recently, new classifiers have been added to provide greater detail for taxpayers with higher incomes. In earlier reports, taxpayers with an adjusted gross income (AGI) of $1 million or more were all grouped together. The TY 2000 report was expanded by adding several income classes, up to a new top bracket of taxpayers with AGI of $10 million or more. Additionally, the reports were expanded to show data on new adjustments available to taxpayers, such as deductions for Health Savings Accounts (HSA), tuition and fees, and interest paid on student loans. Details on recent tax credits were added to the reports, including the child tax credit, adoption credit, and education credits.

In the future, the SOI reports will continue to expand to meet the needs of data users. Among the users of SOI data are the Treasury Department's Office of Tax Analysis, the Joint Committee on Taxation of the U.S. Congress, the Bureau of Economic Analysis and the Bureau of the Census (both in the Department of Commerce), private nonprofit research organizations, universities and businesses, as well as many State and local Government agencies. Many SOI statistics are available on the SOI Web site (www.irs.gov/taxstats/) in order to provide data

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on a more timely basis. Some of the material on the Web site has replaced what was previously published in paper reports.

The *Statistics of Income Bulletin* was introduced as a quarterly publication on June 26, 1981. The first report (Volume 1, Number 1) was produced in accordance with the mandate of Internal Revenue Code section 6108 that requires the preparation and publication of statistics reasonably available with respect to the operation of the internal revenue laws. The first *Bulletin* presented preliminary statistics for individual tax returns for 1979 and the first detailed statistics on both sole proprietorships and partnerships for 1978. Each of these three subjects was previously released in a separate report as statistical tables with little underlying analysis. However, the introduction of the *Bulletin* presented a unique opportunity with which timely analytical tax law statistics would be made available to Federal and State governments, academics, and private researchers. More than 25 years later, the *Bulletin* has grown in content and statue to include far-ranging subjects related to individual income tax returns. Such subjects include individual income tax rates and shares, sole proprietorship and farm proprietorship returns, high-income tax returns, individual foreign-earned income and foreign tax credit, and accumulation and distribution of individual retirement arrangements.

## Changes in the Law

Since 1913, there has been a fairly steady increase in the number of returns filed, an increase in the amount and types of income reported, as well as more individual income taxes being collected by the IRS. In addition to growth in the U.S. population, real growth in the economy, and price inflation, the driving factors behind these increases have included several major changes in the tax law.

In general, the increased demands for additional revenue in order to finance World War I, World War II, and the Korean conflict resulted in rapid and numerous changes in the tax law. There were many important tax law changes shortly after the enactment of the modern income tax in 1913. Some of the notable changes were the elimination of collection of taxes at the source (1916), credit for dependents and deduction for charitable contributions (1917), and adoption of preferential tax rates on long-term capital gains and introduction of the gross income filing requirements (1921). In 1939, the Internal Revenue Code was created, and all revenue laws in effect at that time were consolidated into a single statute.

The most drastic revisions to the tax laws occurred in the early 1940s when the individual income tax was broadened to cover most of the working population. Prior to that period, exemptions were high enough that most taxpayers did not earn enough to fall into even the lowest tax bracket. Starting in the 1960s, there were several tax law changes affecting individuals that, in addition to revenue objectives, reflected a concern with social objectives. A few examples of tax law changes with social objectives are the earned income credit (EIC), education credits, and deductions for health savings accounts. A brief summary of the major tax law changes affecting individual income tax returns beginning in 1943 is provided in Figure A.

## Number of Returns

The number of individual tax returns filed for 1913 through 2005 is displayed in Figure B. During the first 4 years of the modern income tax, the number of individual tax returns filed ranged from approximately 330 thousand to 440 thousand. As a result of the previously mentioned tax law changes in 1916 and 1917, the number of returns filed rose to nearly 3.5 million in 1917. Over the following 22 years, the number of returns ranged from approximately 4.1 million to 7.7 million.

The introduction of lower income filing requirements for 1940 caused the number of returns to nearly double to 14.7 million. The number of returns filed surpassed 50 million for the first time in 1946 and increased to a little more than 60 million by 1959. During the 1960s and again in the 1970s, the number increased by an average of approximately 16 million returns to reach almost 94 million in 1980. In 1985, the number of individual filers increased to more than 100 million. Since that time, the steady growth in the number of returns has mirrored the general population growth of the U.S., reaching a new high of more than 134 million returns in 2005.

## Total Income

Statistics of Income reports currently present annual data based on the concept of adjusted gross income

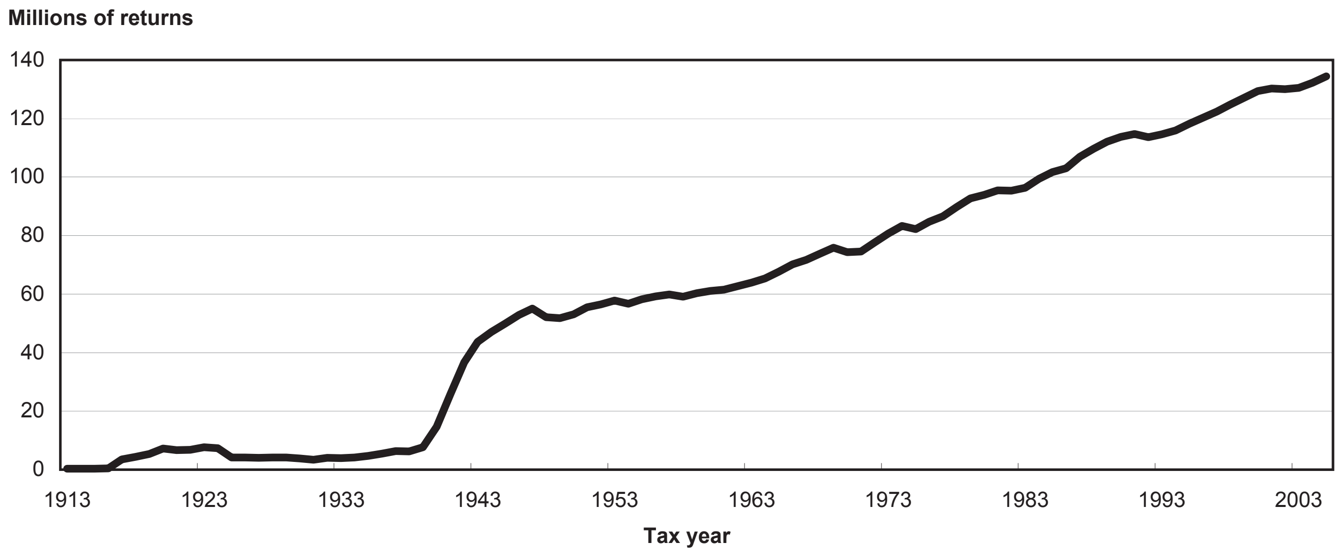
## Figure A

### Major Tax Law Changes Affecting Individuals, 1943-2005

| | |
|---|---|
| **1943** - | Reenactment of income tax withholding on wages and salaries (originally enacted in 1913, but repealed in 1916). |
| **1944** - | Adoption of the standard deduction and per capita personal exemption of $600. |
| **1948** - | Introduction of "income splitting" for married couples. |
| **1954** - | A complete revision of the Internal Revenue Code, including changes to tax rates, institution of retirement income credit, credit for dividends, credit for partially tax-exempt interest, and major modifications to the definition of adjusted gross income and itemized deductions. |
| **1960** - | Liberalization of allowable medical and dental expense deductions for taxpayers' parents. |
| **1963** - | Introduction of a deduction for contributions to a self-employed retirement plan. |
| **1964** - | Institution of statutory adjustments for employee moving expenses and employee business expenses, institution of income averaging tax computation, increase in dividend exclusion, and introduction of minimum standard deduction. |
| **1965** - | Tax rates were reduced. |
| **1966** - | Introduction of a system of graduated rates for taxes withheld from salaries and wages. |
| **1967** - | Deduction of part of the premiums paid for medical care insurance, and application of the exclusion of 1 percent of adjusted gross income for drug expenses and 3 percent of adjusted gross income for all medical and dental expenses to persons age 65 or over formerly exempt from those limitations. |
| **1968** - | Imposition of a 10-percent income tax surcharge beginning April 1, 1968, and liberalization of rules governing self-employed retirement plan deductions. |
| **1969** - | Establishment of a new minimum tax on individuals. Extension of the 10-percent income tax surcharge to cover all of Calendar Year 1969. |
| **1970** - | Introduction of a new minimum standard deduction or low-income allowance, increase in the deduction allowed for each exemption, liberalization of the tax return filing requirements, changes in tax withholding, introduction of a tax on specified "tax preferences," imposition of higher tax rates on capital gains, and limitations on capital loss deductions. |
| **1971** - | Introduction of a maximum tax on earned income and an increase in the exemption amount to $675. |
| **1972** - | Increase in the exemption amount to $750, introduction of work incentive (WIN) credit, and Presidential Campaign Fund check-box. |
| **1974** - | Comprehensive revisions to pension and employee benefit plan rules, and a tax rebate for 1974. |
| **1975** - | Increase in standard deduction, establishment of personal exemption credit, earned income credit, and purchase-of-residence credit. Establishment of deduction for contributions to individual retirement accounts. |
| **1976** - | Change in standard deduction, institution of child care credit, general tax credit, credit for the elderly, and extension of earned income credit through 1977. |
| **1977** - | Establishment of the "zero bracket amount" and new jobs credit and implementation of disability pay exclusion. |
| **1978** - | Change in treatment of capital gains, institution of residential energy and business energy investment credits, and alteration of treatment of income earned abroad. |
| **1979** - | Repeal of political contributions deduction, and nonbusiness State and local gasoline tax deduction. Increase in the amount of political contributions credit, personal exemption amount, and the zero-bracket amount. Widening of tax brackets and lowering of some tax rates. Introduction of a tax on certain unemployment compensation, expiration of the general tax credit, and introduction of the advance earned income credit and the alternative minimum tax. |
| **1981** - | Reduction in marginal tax rates by 23 percent, phased in over three years. Increase in the combined (for 1981 only) interest and dividend exclusion. Introduction of an alternative tax on net capital gains. Provided new deduction for two-earner married couples. |
| **1982 -** | Scheduled increases in accelerated depreciation deductions were repealed, a 10-percent withholding on dividends and interest paid to individuals was instituted, and the floor for medical expense deductions was raised from 3 percent to 5 percent of AGI. |
| **1983 -** | Portions of social security benefits and railroad retirement benefits made taxable beginning in 1984. |
| **1984 -** | Reduced long-term capital gain holding period from 1 year to 6 months. |
| **1986** - | Lowered top marginal tax rate to 28 percent, increase in standard deduction to $5,000 for married couples, increase of personal exemption to $2,000, and increased earned income tax credit. Repealed two-earner deduction, long-term capital gains exclusion, State and local general sales tax deduction, income averaging, and exclusion of unemployment benefits. Limited IRA eligibility, consumer interest deduction, deductibility of passive losses, medical expenses deduction, deduction for business meals and entertainment, pension contributions, and miscellaneous expense deduction. |
| **1990** - | Increased top marginal tax rate to 31 percent and increased the AMT rate to 24 percent. Capped the capital gains rate at 28 percent. Limited the value of high-income itemized deductions. Created a temporary phase-out of personal exemptions for high-income taxpayers. Expansion of the earned income tax credit and created a low-income credit for costs of health insurance. |
| **1993** - | Introduction of new higher tax rates of 36 percent and 39.6 percent. Increased exemption amounts and tax rates under AMT. Expanded the earned income tax credit to single workers with no children earning $9,000 or less. |
| **1997** - | Introduction of a child credit of $500 per child per year. Introduction of the HOPE and Lifetime Learning nonrefundable education credits. Reduced capital gains tax rates to 20 percent and 10 percent. Extended AGI phase-outs for deductible IRAs, allowed tax-free withdrawals for first-time home purchases, created new Roth and Education IRAs. |
| **2001** - | Reduction of tax rates and introduction of new 10-percent rate. Doubled the child tax credit to $1,000 per child and made a portion of it refundable. Lowered the "marriage penalties" by making the standard deduction and 15-percent tax bracket twice the size as for a single taxpayer. Phased-in both the repeal of the personal exemption phase-out (PEP) and the repeal of the Pease cutback in itemized deductions, over 5 years. |
| **2003** - | Accelerated provisions from 2001 tax law change. Tax rate reductions scheduled for 2006, begin in 2003. Accelerated increase in standard deduction for joint filers to 2003, rather than gradually to 2009. Increased AMT exemptions. Reduction in adjusted net capital gains rates and beginning of taxation of dividends at the adjusted net capital gains rates. |
| **2005** - | Increased exemption amounts for AMT. |

**Figure B**

**Number of Individual Income Tax Returns, 1913-2005**




(AGI), positive sources of income less negative income and statutory adjustments. AGI has been used as the basis for grouping individual tax data since 1944. Prior to 1944, individual tax statistics were based on the concept of net income, positive sources of income less negative amounts and allowable deductions.[1] The differences in these two concepts make direct comparisons difficult. However, a concept of "total income," positive sources of income less negative amounts (as provided in the tax law for a particular year), can be constructed for the entire 90-plus-year period of the individual income tax.[2] Table 1 shows total income, as well as major sources of income, and tax items from 1913-2005.

Taxpayers reported $3.9 billion in total income for the first year of the income tax in 1913. In the 92 years since 1913, total income has climbed to more than $7.5 trillion for 2005, the most recent year for which SOI has statistics. For most years, total income reported in current dollars has grown. As expected, total income declined for a few years in a row, 1929-1932, due to the Great Depression that began in the United States with the stock market crash of 1929. However, in the 73-year period since 1932, total income has grown in all but 4 years, 1938, 1949, 2001, and 2002. For the 2 most recent years during which total income fell, 2001 and 2002, the decline was mainly due to large declines in net capital gain (less loss).

Table 1A presents total income, major sources of income, and tax items from 1913-2005 in constant dollars.[3] The constant-dollar total income amounts provided in Table 1A show that, in real terms, total income reported on individual income tax returns has grown throughout the majority of the last 90-plus years. Total income in real terms fell in only 19 of the last 90 years, including 4 consecutive years during the Great Depression. In Figure C, total income in current dollars is compared with total income in constant dollars from 1915 to 2005. Generally, Figure C shows that total income during that 90-year period has grown steadily in both real and current dollars. However, when looking at year-to-year changes in total income, constant-dollar total income more clearly depicts the changes in the U.S. economy. For example, the recessions of 1973-1975, 1991, and 2001 are apparent when looking at total income in real terms.[4]

[1] In general, allowable deductions included, but were not limited to, items such as interest paid, taxes paid, charitable contributions, losses from fires and storms, and bad debts. See appropriate SOI reports for those deductions allowable in a specific year.

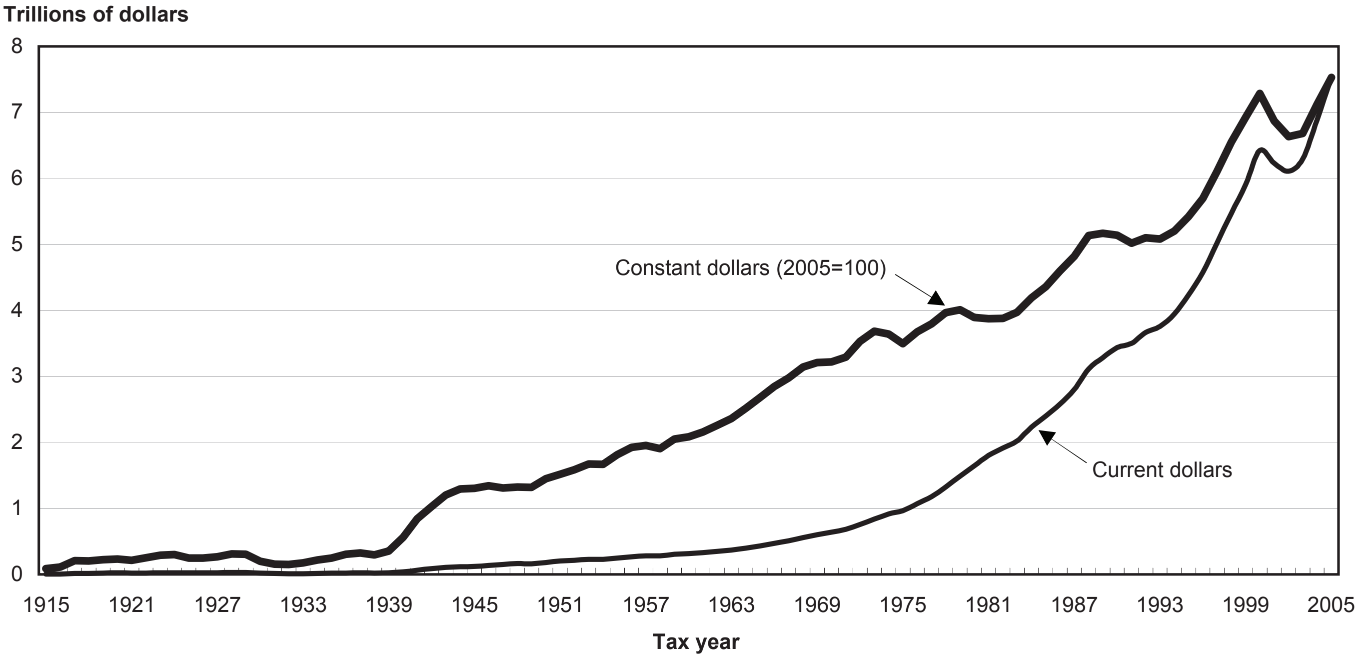
[2] For each tax year, the total income figure was derived by adding the positive amounts of income less the net loss amounts of income for data shown in the applicable SOI report.

[3] U.S. Department of Labor, Bureau of Labor Statistics, Monthly Labor Review. The Consumer Price Index (CPI-U) for each calendar year represents an annual average of monthly indices (2005=100).

[4] Business Cycle Expansions and Contractions (see http://www.nber.org/cycles/).

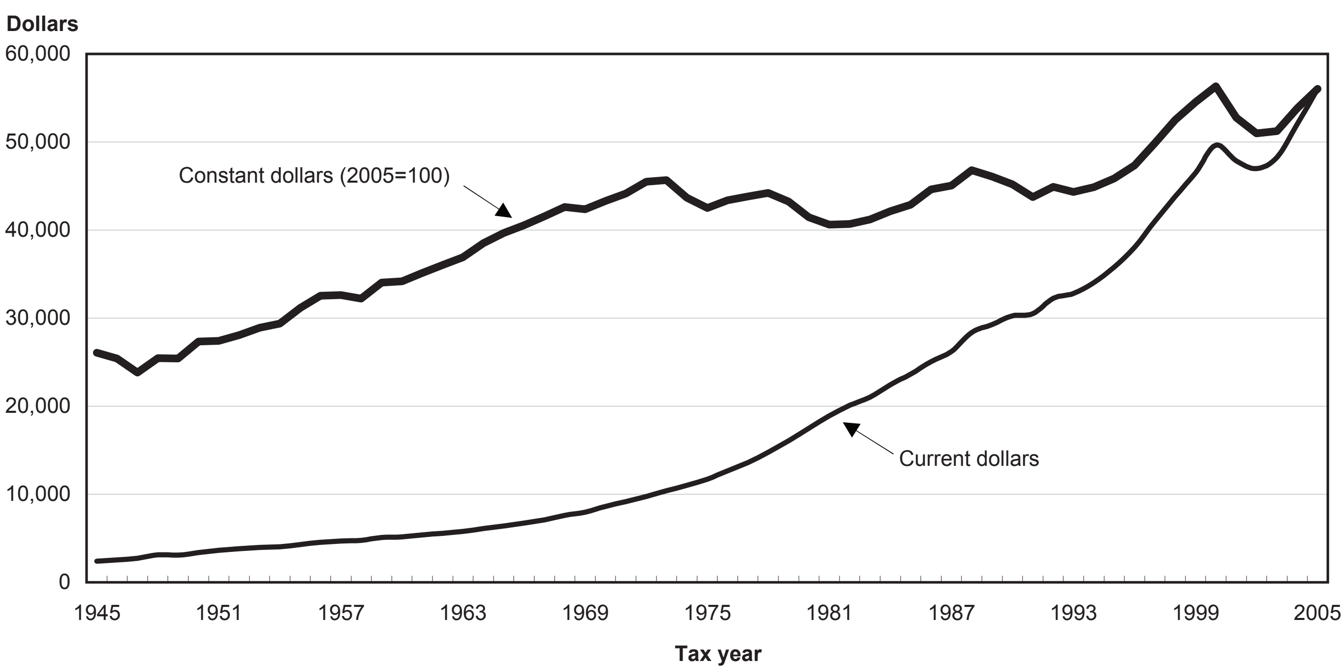
## Figure C

**Total Income in Current and Constant Dollars, 1915-2005**




## Figure D

**Average Income in Current and Constant Dollars, 1945-2005**



Average total income from 1945 to 2005 in current versus constant dollars is shown in Figure D. Average income for this article is calculated by dividing total income by the number of returns for a particular year. For the period 1945 to 2005, the lowest average income, in constant dollars, was $23,800 for 1947. One of the main reasons for the decline in average income before 1947 was the increase in the number of returns filed with lower income due to lower income filing requirements introduced for 1940. Prior to that period, only upper income people were taxed. The graph of constant-dollar average income shows that average income generally increased from the late 1940s through the early 1970s. Then, in the period from the mid 1970s to the early 1990s, average income stayed in the low- to mid-$40,000 range before climbing again for 7 straight years from 1994 through 2000. Average income for 2000 reached $56,315, the highest average income during the 1945 to 2005 period.

## Sources of Income

The main items that make up total income have largely stayed the same throughout the years. Salaries and wages have been the largest component of total income in every year except the first year of SOI statistics, 1916. In 1916, both dividends and business income were larger than salaries and wages. Even with salaries and wages as the largest component of total income in every year since 1917, salaries and wages as a percentage of total income has varied from a low of 26.7 percent of total income in 1917 to a high of 83.2 percent in 1970. For the majority of the years in the 1950s, 1960s, 1970s, and early 1980s, salaries and wages as a percentage of total income stayed in the low 80-percent range. While salaries and wages are still by far the largest source of total income, in the last 20 years, there has been a downward trend in their percentage of total income.[5] At almost $5.2 trillion for 2005, salaries and wages made up only 68.4 percent of total income (Figure E). Along with the decline in the share of salaries and wages in total income, there has been an upward trend in the share of business income, capital gains, and other income in total income. The percentage of total income that these sources of income represent is still small in comparison to salaries and wages.

[5] Note that, prior to the Tax Reform Act of 1986, because of a 60-percent deduction, taxpayers only had to report 40 percent of their long-term capital gains in excess of short-term losses.

**Figure E**

**Major Sources of Individual Total Income for Tax Years 1917, 1970, and 2005**

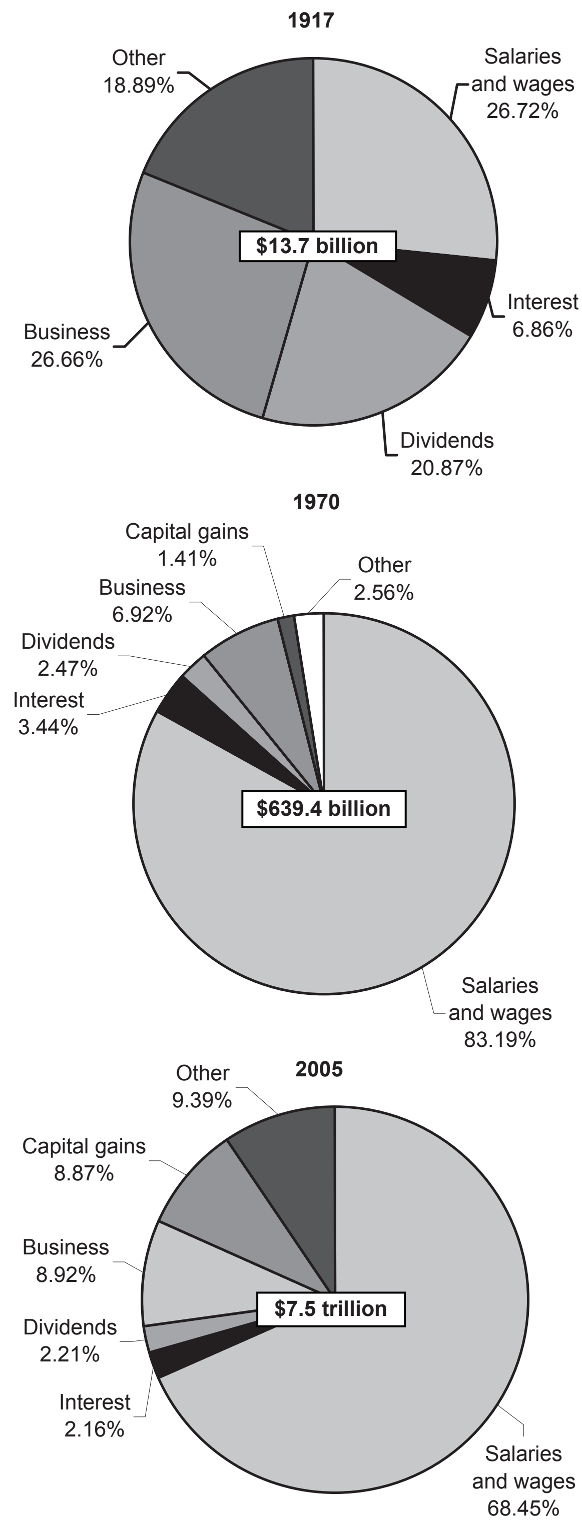
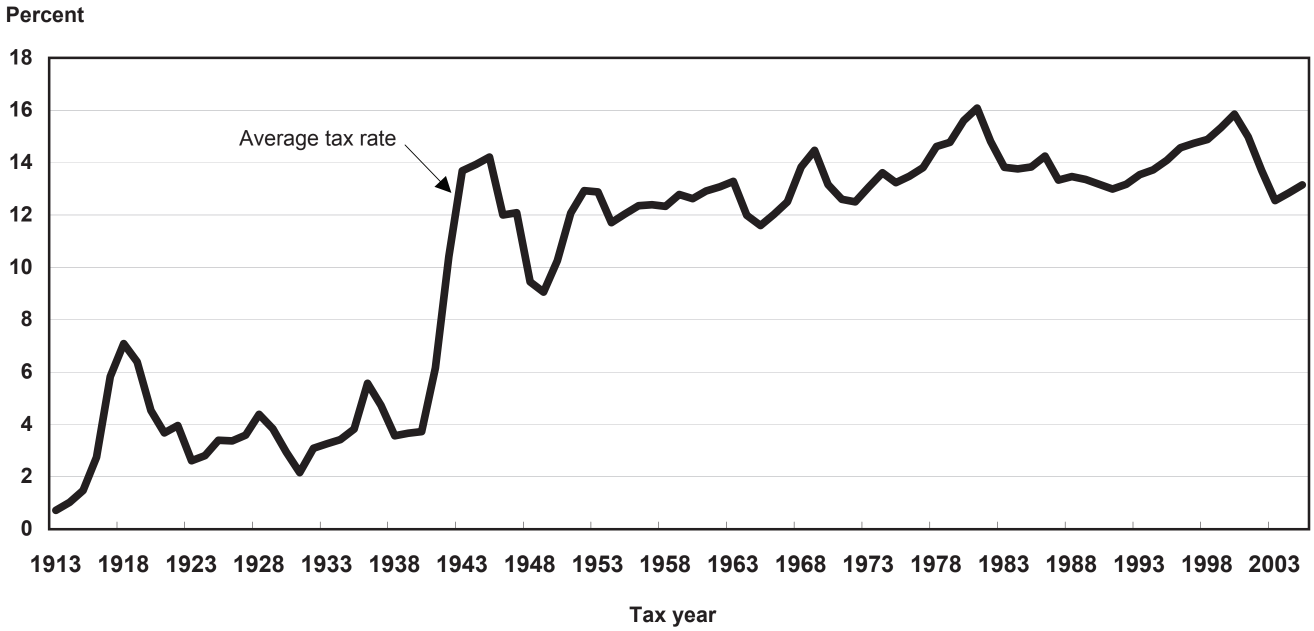


**Figure F**

**Average Individual Income Tax Rate, 1913-2005**




However, from 1995 to 2005, business income has grown from 3.2 percent of total income to 8.9 percent; capital gains has increased from 2.8 percent to 8.9 percent; and other income has increased from 3.8 percent to 9.4 percent.

## Average Tax Rate

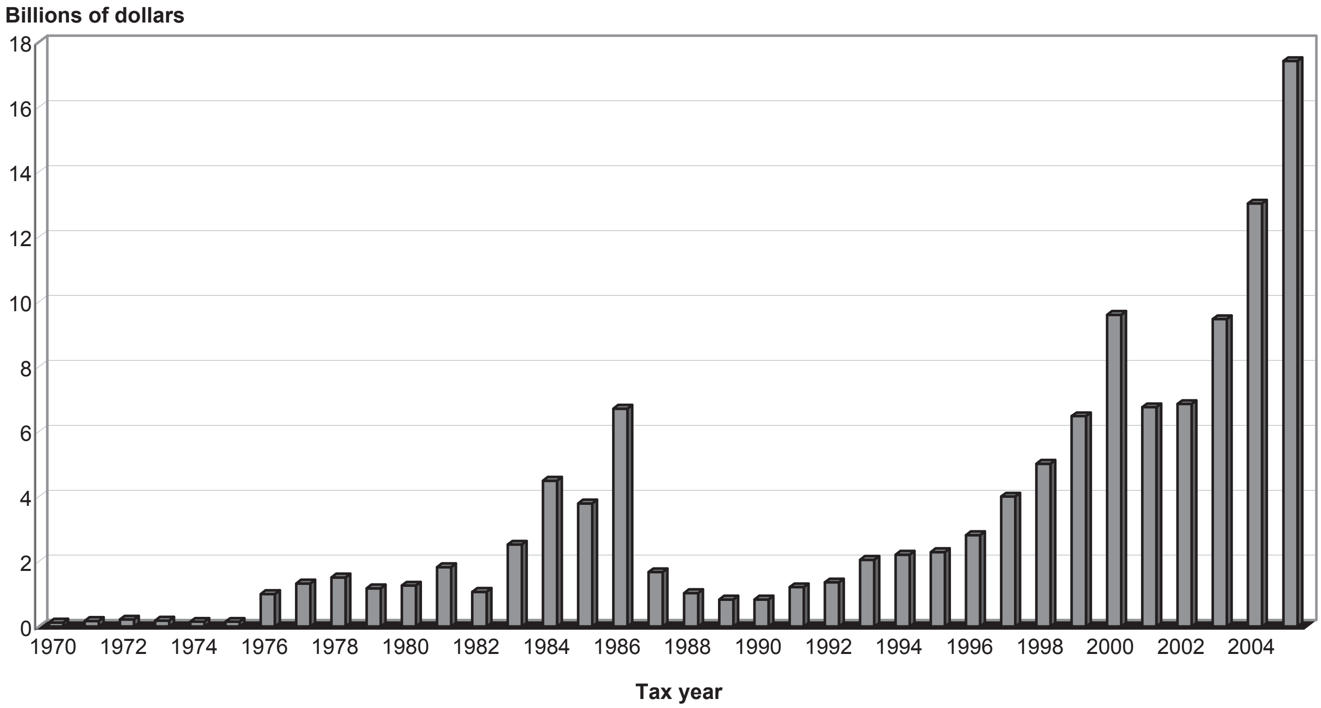
The average individual income tax rate is calculated by dividing income tax by the total income for a tax year. For this article, individual income tax before credits is used to calculate the average tax rate. Most of the fluctuations in the average tax rate during the past 90-plus years can be attributed to tax law changes affecting the definition of income reported on a tax return and to how tax before credits was calculated on that income. For nearly the first 30 years of the modern income tax system, the average tax rate fluctuated between less than 1.0 percent and 7.1 percent. During the Great Depression, the average tax rate dropped to just over 2.1 percent for 1931.

Throughout the early 1940s, several tax laws were passed to increase individual income tax rates. These changes in law resulted in average tax rates reaching double digits for the first time in 1942 and rising to more than 14.2 percent by 1945, as illustrated in Figure F. After World War II, tax rates fell to a low of 9.1 percent in 1949. Since 1955, the average tax rate has ranged between approximately 11.6 percent and 16.1 percent. During the 1950s and early 1960s, there were gradual increases in the average tax rate up to 13.3 percent in 1963. The Revenue Act of 1964, which reduced tax rates and introduced a minimum standard deduction, helped lower the average tax rate to 11.6 percent for 1965. A 10-percent income tax surcharge was created in 1968 in order to help pay for the Vietnam War, which resulted in a rise in the average tax rate to a high of almost 14.5 percent in 1969.

During the 1970s, the U.S. economy experienced a period of high inflation, resulting in higher total and average tax burdens for individuals. This increase in the average tax rate continued until reaching an all-time high of 16.1 percent in 1981. The average tax rates steadily declined after the Economic Recovery Tax Act of 1981 was passed. Then, tax rate increases created under the Omnibus Budget Reconciliation Acts of 1990 and 1993, combined with strong U.S. economic growth, resulted in steady average tax rate increases throughout the 1990s, reaching a high of 15.9 percent in 2000. The reduction of tax rates from the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the acceleration of those tax rate reductions under the Jobs and Growth Tax Relief Reconciliation Act

**Figure G**

**Alternative Minimum Tax, 1970-2005**




of 2003 (JGTRRA) is clear in Figure F, as the average rates declined to 12.6 percent for 2003. For 2004 and 2005, these increased slightly to 13.1 percent.

## Alternative Minimum Tax

The alternative minimum tax (AMT), also known as the minimum tax for tax preferences in its early years, was first introduced in 1970 and was created to ensure that high-income Americans were not using combinations of tax preferences to completely eliminate their tax liability. Essentially, the alternative minimum tax is a parallel tax that computes its own income amount and is taxed at a different rate than the regular income tax. The AMT did not grow very much for the first few years, but, as shown in Figure G, increased as a result of the Tax Reform Act of 1976, which expanded the definition of tax preferences, reduced deductions from tax preferences, and raised the tax rate on the tax preferences. Over the next 10 years, the alternative minimum tax grew nearly seven-fold to reach just over $6.7 billion before falling to $1.7 billion in 1987 as a result of changes in the Tax Reform Act of 1986. More recently, there has been a general upward trend in the growth of the alternative minimum tax. However, the alternative minimum tax declined for 2001, partially as a result of an increase in the AMT exemption amount. But, since 2001, the AMT has grown from $6.7 billion to slightly more than $17.4 billion for 2005, an increase of nearly 158 percent in just 4 years.

## Acknowledgments

The authors wish to express their appreciation to David Paris and Cecelia Hilgert, whose prior article, "70th Year of Individual Income and Tax Statistics, 1913-1982," *Statistics of Income Bulletin*, Winter 1983-1984, Volume 3, Number 3, provided source material and inspiration for this article.

## Data Sources and Limitations

Throughout the 90-plus years that SOI has been producing individual tax return data, the data have mostly been based on stratified probability samples of unaudited individual income tax returns. A general description of sampling procedures and data limitations applicable to SOI tabulations is contained in the Appendix of this publication. In addition, see the applicable SOI report for more information on data sources and limitations for a specific year.

## Table 1. All Individual Income Tax Returns: Sources of Income and Tax Items, Tax Years 1913-2005

(All figures are estimates based on samples—number of returns are in thousands, money amounts are in millions of current dollars)

| Tax year | Number of returns | Total income | Major sources of income | | | | | | Income tax before credits | Total tax liability | Alternative minimum tax |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Salaries and wages | Interest | Dividends | Business net income less loss [1] | Net capital gain less loss | All other income | | | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) |
| 1913 | 358 | 3,900 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 28 | 28 | N/A |
| 1914 | 358 | 4,000 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 41 | 41 | N/A |
| 1915 | 337 | 4,600 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 68 | 68 | N/A |
| 1916 | 437 | 6,299 | 1,851 | 667 | 2,136 | 2,637 | N/A | -992 | 173 | 173 | N/A |
| 1917 | 3,473 | 13,652 | 3,648 | 936 | 2,849 | 3,640 | N/A | 2,579 | 795 | 795 | N/A |
| 1918 | 4,425 | 15,925 | 8,267 | 1,403 | 2,469 | 4,339 | N/A | -553 | 1,128 | 1,128 | N/A |
| 1919 | 5,333 | 19,859 | 10,756 | 1,500 | 2,454 | 5,709 | N/A | -560 | 1,270 | 1,270 | N/A |
| 1920 | 7,260 | 23,736 | 15,323 | 1,709 | 2,736 | 4,922 | N/A | -954 | 1,075 | 1,075 | N/A |
| 1921 | 6,662 | 19,577 | 13,813 | 1,690 | 2,477 | 3,707 | 462 | -2,572 | 719 | 719 | N/A |
| 1922 | 6,787 | 21,761 | 13,694 | 1,738 | 2,664 | 4,267 | 742 | -1,344 | 861 | 861 | N/A |
| 1923 | 7,698 | 25,313 | 14,193 | 2,183 | 3,120 | 6,399 | 866 | -1,448 | 662 | 662 | N/A |
| 1924 | 7,370 | 26,189 | 13,618 | 2,281 | 3,251 | 6,565 | 1,124 | -650 | 735 | 704 | N/A |
| 1925 | 4,171 | 22,337 | 9,742 | 1,814 | 3,465 | 5,516 | 940 | 860 | 759 | 735 | N/A |
| 1926 | 4,138 | 22,442 | 9,994 | 1,936 | 4,012 | 5,306 | 1,287 | -93 | 757 | 732 | N/A |
| 1927 | 4,102 | 23,854 | 10,218 | 2,026 | 4,255 | 5,043 | 1,585 | 727 | 856 | 830 | N/A |
| 1928 | 4,144 | 27,338 | 10,945 | 2,143 | 4,440 | 5,223 | 1,708 | 2,879 | 1,199 | 1,164 | N/A |
| 1929 | 4,133 | 26,692 | 11,373 | 2,210 | 5,081 | 5,282 | 1,341 | 1,405 | 1,024 | 1,002 | N/A |
| 1930 | 3,852 | 17,047 | 10,206 | 1,940 | 4,632 | 3,101 | 676 | -3,508 | 502 | 477 | N/A |
| 1931 | 3,411 | 12,221 | 8,631 | 1,337 | 3,600 | 2,016 | 990 | -4,353 | 264 | 246 | N/A |
| 1932 | 4,083 | 10,671 | 8,356 | 1,307 | 2,189 | 1,229 | 325 | -2,735 | 330 | 330 | N/A |
| 1933 | 3,892 | 11,473 | 7,565 | 1,106 | 1,711 | 1,746 | 232 | -887 | 374 | 374 | N/A |
| 1934 | 4,198 | 14,957 | 8,681 | 995 | 2,041 | 2,125 | 18 | 1,097 | 511 | 511 | N/A |
| 1935 | 4,670 | 17,193 | 9,972 | 98 | 2,288 | 2,387 | 363 | 2,085 | 657 | 657 | N/A |
| 1936 | 5,486 | 21,773 | 11,718 | 955 | 3,228 | 3,210 | 852 | 1,810 | 1,214 | 1,214 | N/A |
| 1937 | 6,350 | 24,120 | 14,206 | 856 | 3,248 | 3,359 | 158 | 2,293 | 1,142 | 1,142 | N/A |
| 1938 | 6,251 | 21,436 | 13,307 | 823 | 2,212 | 3,120 | -176 | 2,150 | 766 | 766 | N/A |
| 1939 | 7,652 | 25,363 | 16,491 | 832 | 2,544 | 3,674 | 321 | 1,501 | 929 | 929 | N/A |
| 1940 | 14,711 | 40,155 | 27,707 | 1,003 | 2,999 | 5,407 | 332 | 2,707 | 1,496 | 1,496 | N/A |
| 1941 | 25,870 | 63,433 | 47,140 | 1,029 | 3,299 | 8,455 | 430 | 3,080 | 3,908 | 3,908 | N/A |
| 1942 | 36,619 | 85,780 | 65,617 | 982 | 2,833 | 12,833 | 112 | 3,403 | 8,927 | 8,927 | N/A |
| 1943 | 43,722 | 106,555 | 82,755 | 886 | 2,780 | 15,717 | 595 | 3,822 | 14,590 | 14,590 | N/A |
| 1944 | 47,111 | 116,465 | 91,125 | [2] n.a. | [2] 3,924 | 17,250 | 917 | 3,249 | 16,224 | 16,216 | N/A |
| 1945 | 49,932 | 120,009 | 91,700 | [2] n.a. | [2] 3,925 | 19,003 | 2,114 | 3,267 | 17,061 | 17,050 | N/A |
| 1946 | 52,817 | 134,083 | 99,174 | 1,067 | 3,674 | 23,267 | 3,068 | 3,833 | 16,091 | 16,076 | N/A |
| 1947 | 55,099 | 149,736 | 114,804 | 1,125 | 4,295 | 23,295 | 2,154 | 4,063 | 18,092 | 18,076 | N/A |
| 1948 | 52,072 | 163,516 | 125,881 | 1,293 | 4,971 | 24,506 | 2,201 | 4,664 | 15,442 | 15,442 | N/A |
| 1949 | 51,814 | 160,574 | 124,883 | 1,528 | 5,246 | 21,705 | 1,604 | 5,608 | 14,538 | 14,538 | N/A |
| 1950 | 53,060 | 179,148 | 139,073 | 1,595 | 6,157 | 23,429 | 2,927 | 5,967 | 18,375 | 18,375 | N/A |
| 1951 | 55,447 | 202,337 | 160,482 | 1,702 | 6,056 | 24,878 | 2,997 | 6,222 | 24,439 | 24,439 | N/A |
| 1952 | 56,529 | 215,290 | 174,339 | 1,847 | 5,860 | 24,754 | 2,470 | 6,020 | 27,822 | 28,020 | N/A |
| 1953 | 57,838 | 228,708 | 187,734 | 2,043 | 5,828 | 24,951 | 2,075 | 6,077 | 29,450 | 29,657 | N/A |
| 1954 | 56,747 | 229,573 | 185,953 | 2,370 | 7,048 | 25,452 | 3,352 | 5,398 | 26,873 | 26,967 | N/A |
| 1955 | 58,250 | 248,974 | 200,712 | 2,584 | 7,851 | 27,454 | 4,751 | 5,622 | 29,982 | 30,077 | N/A |
| 1956 | 59,197 | 268,268 | 215,618 | 2,872 | 8,606 | 30,137 | 4,553 | 6,482 | 33,134 | 33,265 | N/A |
| 1957 | 59,825 | 280,895 | 228,077 | 3,319 | 9,124 | 29,698 | 3,485 | 7,192 | 34,816 | 34,975 | N/A |
| 1958 | 59,085 | 281,777 | 227,551 | 3,659 | 9,741 | 29,906 | 4,330 | 6,590 | 34,755 | 34,925 | N/A |
| 1959 | 60,271 | 305,772 | 247,370 | 4,395 | 9,356 | 30,994 | 6,275 | 7,382 | 39,092 | 39,347 | N/A |
| 1960 | 61,028 | 316,141 | 257,918 | 5,057 | 9,530 | 30,038 | 5,300 | 8,298 | 39,909 | 40,298 | N/A |

Footnotes at end of table.

## Table 1. All Individual Income Tax Returns: Sources of Income and Tax Items, Tax Years 1913-2005—Continued

(All figures are estimates based on samples—number of returns are in thousands, money amounts are in millions of current dollars)

| Tax year | Number of returns | Total income | Major sources of income | | | | | | Income tax before credits | Total tax liability | Alternative minimum tax |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Salaries and wages | Interest | Dividends | Business net income less loss [1] | Net capital gain less loss | All other income | | | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) |
| 1961 | 61,499 | 330,617 | 266,902 | 5,683 | 9,890 | 31,578 | 7,621 | 8,943 | 42,714 | 43,066 | N/A |
| 1962 | 62,712 | 349,484 | 283,373 | 7,155 | 10,640 | 33,269 | 5,771 | 9,276 | 45,691 | 45,790 | N/A |
| 1963 | 63,943 | 369,675 | 299,443 | 9,212 | 11,452 | 33,184 | 6,449 | 9,935 | 49,117 | 49,216 | N/A |
| 1964 | 65,376 | 399,539 | 323,266 | 10,125 | 11,917 | 35,358 | 7,939 | 10,934 | 47,896 | 48,185 | N/A |
| 1965 | 67,596 | 432,344 | 347,150 | 11,296 | 12,961 | 38,559 | 10,180 | 12,198 | 50,144 | 50,632 | N/A |
| 1966 | 70,160 | 472,132 | 381,067 | 13,225 | 13,998 | 40,984 | 9,941 | 12,917 | 56,773 | 51,627 | N/A |
| 1967 | 71,651 | 509,151 | 411,646 | 14,899 | 14,202 | 42,280 | 13,682 | 12,442 | 63,655 | 64,525 | N/A |
| 1968 | 73,729 | 559,760 | 451,505 | 16,782 | 15,222 | 45,503 | 17,990 | 12,758 | 77,440 | 78,419 | N/A |
| 1969 | 75,834 | 603,546 | 498,865 | 19,626 | 15,740 | 45,842 | 14,853 | 8,620 | 87,336 | 88,524 | N/A |
| 1970 | 74,280 | 639,358 | 531,884 | 22,021 | 15,807 | 44,242 | 9,007 | 16,397 | 84,156 | 85,767 | 122 |
| 1971 | 74,576 | 682,467 | 564,967 | 24,731 | 15,671 | 45,029 | 13,155 | 18,914 | 85,942 | 87,469 | 169 |
| 1972 | 77,573 | 755,540 | 622,599 | 27,400 | 16,794 | 49,616 | 17,076 | 22,055 | 94,442 | 95,949 | 216 |
| 1973 | 80,693 | 837,813 | 687,179 | 32,174 | 18,734 | 56,489 | 16,672 | 26,565 | 109,394 | 111,175 | 182 |
| 1974 | 83,340 | 918,626 | 758,628 | 39,543 | 20,887 | 55,055 | 13,470 | 31,043 | 125,079 | 127,003 | 143 |
| 1975 | 82,229 | 962,887 | 795,399 | 43,434 | 21,892 | 53,736 | 14,072 | 34,354 | 127,432 | 127,939 | 144 |
| 1976 | 84,670 | 1,070,180 | 880,998 | 48,588 | 24,461 | 59,637 | 18,562 | 37,934 | 144,186 | 145,749 | 1,000 |
| 1977 | 86,635 | 1,177,821 | 969,403 | 54,603 | 27,020 | 63,271 | 20,777 | 42,747 | 162,587 | 164,024 | 1,323 |
| 1978 | 89,772 | 1,324,811 | 1,090,292 | 61,223 | 30,206 | 75,156 | 23,231 | 44,703 | 193,555 | 193,185 | 1,514 |
| 1979 | 92,694 | 1,490,173 | 1,229,251 | 73,875 | 33,483 | 69,013 | 28,448 | 56,103 | 220,099 | 220,100 | 1,175 |
| 1980 | 93,902 | 1,642,346 | 1,349,843 | 102,009 | 38,761 | 64,558 | 29,660 | 57,515 | 256,294 | 256,251 | 1,263 |
| 1981 | 95,396 | 1,804,046 | 1,486,100 | 140,559 | 48,161 | 52,934 | 30,819 | 45,473 | 290,207 | 291,127 | 1,827 |
| 1982 | 95,337 | 1,917,023 | 1,564,995 | 157,021 | 54,045 | 48,815 | 34,404 | 57,743 | 283,932 | 284,708 | 1,069 |
| 1983 | 96,321 | 2,023,983 | 1,644,573 | 153,805 | 48,557 | 59,832 | 49,408 | 67,808 | 279,842 | 282,318 | 2,521 |
| 1984 | 99,439 | 2,229,649 | 1,807,138 | 176,369 | 48,641 | 68,498 | 54,519 | 74,484 | 306,686 | 312,534 | 4,490 |
| 1985 | 101,660 | 2,401,034 | 1,928,201 | 182,109 | 55,046 | 76,246 | 68,278 | 91,154 | 332,165 | 338,765 | 3,792 |
| 1986 | 103,045 | 2,580,689 | 2,031,026 | 167,640 | 61,623 | 84,564 | 132,842 | 102,994 | 367,592 | 381,224 | 6,713 |
| 1987 | 106,996 | 2,803,941 | 2,163,906 | 168,966 | 66,791 | 129,775 | 137,399 | 137,104 | 373,857 | 384,538 | 1,675 |
| 1988 | 109,708 | 3,111,222 | 2,337,984 | 186,982 | 77,330 | 183,403 | 152,841 | 172,682 | 418,889 | 430,733 | 1,028 |
| 1989 | 112,136 | 3,280,931 | 2,449,531 | 220,016 | 81,309 | 195,830 | 145,631 | 188,614 | 438,240 | 451,873 | 831 |
| 1990 | 113,717 | 3,439,402 | 2,599,401 | 227,084 | 80,169 | 208,452 | 113,159 | 211,137 | 453,128 | 468,631 | 830 |
| 1991 | 114,730 | 3,499,250 | 2,674,261 | 209,411 | 77,284 | 205,054 | 102,776 | 230,464 | 454,503 | 471,083 | 1,213 |
| 1992 | 113,605 | 3,664,594 | 2,805,703 | 162,343 | 77,926 | 241,654 | 118,230 | 258,738 | 482,631 | 500,020 | 1,357 |
| 1993 | 114,602 | 3,759,964 | 2,892,120 | 131,141 | 79,729 | 248,573 | 144,172 | 264,229 | 508,894 | 526,819 | 2,053 |
| 1994 | 115,943 | 3,946,621 | 3,026,778 | 126,169 | 82,410 | 280,589 | 142,288 | 288,387 | 541,571 | 561,042 | 2,212 |
| 1995 | 118,218 | 4,230,493 | 3,201,457 | 154,781 | 94,592 | 295,096 | 170,415 | 314,152 | 596,169 | 615,806 | 2,291 |
| 1996 | 120,351 | 4,578,621 | 3,376,872 | 165,673 | 104,255 | 323,684 | 251,817 | 356,320 | 666,724 | 687,332 | 2,813 |
| 1997 | 122,422 | 5,016,905 | 3,613,918 | 171,700 | 120,493 | 355,064 | 356,083 | 399,647 | 739,482 | 762,258 | 4,005 |
| 1998 | 124,771 | 5,467,504 | 3,879,762 | 178,334 | 118,480 | 389,755 | 446,084 | 455,089 | 813,569 | 821,899 | 5,015 |
| 1999 | 127,075 | 5,912,167 | 4,132,473 | 175,675 | 132,466 | 419,486 | 542,758 | 509,309 | 906,812 | 912,464 | 6,478 |
| 2000 | 129,374 | 6,423,986 | 4,456,167 | 199,322 | 146,988 | 426,779 | 630,542 | 564,188 | 1,018,219 | 1,017,471 | 9,601 |
| 2001 | 130,255 | 6,231,177 | 4,565,229 | 198,178 | 119,533 | 441,883 | 326,527 | 579,827 | 933,567 | 925,435 | 6,757 |
| 2002 | 130,076 | 6,110,747 | 4,559,691 | 149,025 | 103,241 | 458,751 | 238,789 | 601,250 | 836,843 | 834,915 | 6,854 |
| 2003 | 130,424 | 6,294,684 | 4,649,900 | 127,160 | 115,141 | 483,712 | 294,354 | 624,417 | 790,006 | 787,584 | 9,470 |
| 2004 | 132,226 | 6,886,852 | 4,921,806 | 125,474 | 146,839 | 563,210 | 473,662 | 655,861 | 884,343 | 874,010 | 13,029 |
| 2005 | 134,373 | 7,531,892 | 5,155,407 | 162,433 | 166,482 | 672,028 | 668,015 | 707,527 | 990,152 | 980,259 | 17,421 |

n.a.—Not available.

N/A—Not applicable.

[1] Business net income less loss is sole proprietorship (Schedule C) plus partnership and S corporation income less loss (Schedule E).

[2] For 1944 and 1945 the total amounts for interest and dividend income were combined in the SOI reports and shown as dividend income.

NOTES: Detail may not add to totals because of rounding. Data from 1913-1981 are taken directly from Paris, David and Cecelia Hilgert, "70th Year of Individual Income and Tax Statistics, 1913-1982," *Statistics of Income Bulletin,* Winter 1983-1984, Volume 3, Number 3. Data for 1982-2005 are from *Statistics of Income—Individual Income Tax Returns* (IRS Publication 1304), various years.

## Table 1a. All Individual Income Tax Returns: Sources of Income and Tax Items, Tax Years 1913-2005, in 2005 Constant Dollars [1]

(All figures are estimates based on samples—number of returns are in thousands, money amounts are in millions of constant dollars)

| Tax year | Number of returns | Total income | Major sources of income: Salaries and wages | Interest | Dividends | Business net income less loss [2] | Net capital gain less loss | All other income | Income tax before credits | Total tax liability |
|---|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| 1913 | 358 | 76,936 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 552 | 552 |
| 1914 | 358 | 78,120 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 801 | 801 |
| 1915 | 337 | 88,949 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 1,315 | 1,315 |
| 1916 | 437 | 112,862 | 33,165 | 11,951 | 38,272 | 47,248 | N/A | -17,774 | 3,100 | 3,100 |
| 1917 | 3,473 | 208,300 | 55,661 | 14,281 | 43,470 | 55,538 | N/A | 39,350 | 12,130 | 12,130 |
| 1918 | 4,425 | 205,970 | 106,924 | 18,146 | 31,933 | 56,120 | N/A | -7,152 | 14,589 | 14,589 |
| 1919 | 5,333 | 224,189 | 121,425 | 16,934 | 27,703 | 64,449 | N/A | -6,322 | 14,337 | 14,337 |
| 1920 | 7,260 | 231,782 | 149,629 | 16,688 | 26,717 | 48,063 | N/A | -9,316 | 10,497 | 10,497 |
| 1921 | 6,662 | 213,597 | 150,708 | 18,439 | 27,026 | 40,446 | 5,041 | -28,062 | 7,845 | 7,845 |
| 1922 | 6,787 | 252,972 | 159,193 | 20,204 | 30,969 | 49,604 | 8,626 | -15,624 | 10,009 | 10,009 |
| 1923 | 7,698 | 289,101 | 162,099 | 24,932 | 35,634 | 73,083 | 9,891 | -16,538 | 7,561 | 7,561 |
| 1924 | 7,370 | 299,106 | 155,532 | 26,051 | 37,130 | 74,979 | 12,837 | -7,424 | 8,394 | 8,040 |
| 1925 | 4,171 | 249,281 | 108,721 | 20,244 | 38,669 | 61,559 | 10,490 | 9,598 | 8,470 | 8,203 |
| 1926 | 4,138 | 247,623 | 110,273 | 21,362 | 44,268 | 58,546 | 14,201 | -1,026 | 8,353 | 8,077 |
| 1927 | 4,102 | 267,741 | 114,688 | 22,740 | 47,759 | 56,603 | 17,790 | 8,160 | 9,608 | 9,316 |
| 1928 | 4,144 | 312,229 | 125,003 | 24,475 | 50,709 | 59,652 | 19,507 | 32,881 | 13,694 | 13,294 |
| 1929 | 4,133 | 304,851 | 129,892 | 25,241 | 58,030 | 60,326 | 15,316 | 16,047 | 11,695 | 11,444 |
| 1930 | 3,852 | 199,358 | 119,355 | 22,688 | 54,169 | 36,265 | 7,906 | -41,025 | 5,871 | 5,578 |
| 1931 | 3,411 | 157,024 | 110,897 | 17,179 | 46,255 | 25,903 | 12,720 | -55,930 | 3,392 | 3,161 |
| 1932 | 4,083 | 152,120 | 119,119 | 18,632 | 31,205 | 17,520 | 4,633 | -38,989 | 4,704 | 4,704 |
| 1933 | 3,892 | 172,360 | 113,650 | 16,616 | 25,704 | 26,230 | 3,485 | -13,325 | 5,619 | 5,619 |
| 1934 | 4,198 | 217,993 | 126,522 | 14,502 | 29,747 | 30,971 | 262 | 15,988 | 7,448 | 7,448 |
| 1935 | 4,670 | 245,094 | 142,156 | 1,397 | 32,617 | 34,028 | 5,175 | 29,723 | 9,366 | 9,366 |
| 1936 | 5,486 | 305,918 | 164,642 | 13,418 | 45,355 | 45,102 | 11,971 | 25,431 | 17,057 | 17,057 |
| 1937 | 6,350 | 327,128 | 192,669 | 11,610 | 44,051 | 45,556 | 2,143 | 31,099 | 15,488 | 15,488 |
| 1938 | 6,251 | 296,911 | 184,316 | 11,399 | 30,639 | 43,215 | -2,438 | 29,780 | 10,610 | 10,610 |
| 1939 | 7,652 | 356,359 | 231,704 | 11,690 | 35,744 | 51,621 | 4,510 | 21,090 | 13,053 | 13,053 |
| 1940 | 14,711 | 560,162 | 386,513 | 13,992 | 41,836 | 75,428 | 4,631 | 37,763 | 20,869 | 20,869 |
| 1941 | 25,870 | 842,753 | 626,289 | 13,671 | 43,830 | 112,331 | 5,713 | 40,920 | 51,921 | 51,921 |
| 1942 | 36,619 | 1,027,781 | 786,196 | 11,766 | 33,944 | 153,760 | 1,342 | 40,773 | 106,960 | 106,960 |
| 1943 | 43,722 | 1,202,901 | 934,223 | 10,002 | 31,383 | 177,429 | 6,717 | 43,147 | 164,707 | 164,707 |
| 1944 | 47,111 | 1,292,364 | 1,011,177 | [3] n.a. | [3] 43,543 | 191,416 | 10,176 | 36,053 | 180,031 | 179,942 |
| 1945 | 49,932 | 1,302,098 | 994,945 | [3] n.a. | [3] 42,586 | 206,183 | 22,937 | 35,447 | 185,112 | 184,993 |
| 1946 | 52,817 | 1,342,893 | 993,266 | 10,686 | 36,797 | 233,028 | 30,727 | 38,389 | 161,158 | 161,007 |
| 1947 | 55,099 | 1,311,365 | 1,005,436 | 9,853 | 37,615 | 204,014 | 18,864 | 35,583 | 158,447 | 158,307 |
| 1948 | 52,072 | 1,325,090 | 1,020,106 | 10,478 | 40,284 | 198,590 | 17,836 | 37,796 | 125,138 | 125,138 |
| 1949 | 51,814 | 1,317,651 | 1,024,775 | 12,539 | 43,048 | 178,109 | 13,162 | 46,019 | 119,297 | 119,297 |
| 1950 | 53,060 | 1,451,768 | 1,127,011 | 12,925 | 49,895 | 189,862 | 23,720 | 48,355 | 148,906 | 148,906 |
| 1951 | 55,447 | 1,519,862 | 1,205,467 | 12,785 | 45,490 | 186,872 | 22,512 | 46,737 | 183,574 | 183,574 |
| 1952 | 56,529 | 1,586,647 | 1,284,846 | 13,612 | 43,187 | 182,432 | 18,203 | 44,366 | 205,043 | 206,502 |
| 1953 | 57,838 | 1,672,909 | 1,373,200 | 14,944 | 42,630 | 182,507 | 15,178 | 44,451 | 215,415 | 216,929 |
| 1954 | 56,747 | 1,666,751 | 1,350,060 | 17,207 | 51,170 | 184,787 | 24,336 | 39,191 | 195,104 | 195,786 |
| 1955 | 58,250 | 1,814,352 | 1,462,651 | 18,830 | 57,213 | 200,066 | 34,622 | 40,969 | 218,488 | 219,181 |
| 1956 | 59,197 | 1,926,204 | 1,548,169 | 20,621 | 61,792 | 216,388 | 32,691 | 46,542 | 237,907 | 238,848 |
| 1957 | 59,825 | 1,952,270 | 1,585,176 | 23,068 | 63,413 | 206,406 | 24,221 | 49,986 | 241,977 | 243,082 |
| 1958 | 59,085 | 1,904,189 | 1,537,741 | 24,727 | 65,828 | 202,098 | 29,261 | 44,534 | 234,867 | 236,016 |
| 1959 | 60,271 | 2,052,140 | 1,660,184 | 29,496 | 62,791 | 208,011 | 42,114 | 49,543 | 262,360 | 264,071 |
| 1960 | 61,028 | 2,085,890 | 1,701,736 | 33,366 | 62,879 | 198,190 | 34,969 | 54,750 | 263,319 | 265,885 |
| 1961 | 61,499 | 2,159,515 | 1,743,343 | 37,120 | 64,599 | 206,260 | 49,779 | 58,414 | 278,998 | 281,297 |
| 1962 | 62,712 | 2,260,074 | 1,832,541 | 46,271 | 68,808 | 215,147 | 37,320 | 59,987 | 295,479 | 296,119 |
| 1963 | 63,943 | 2,359,396 | 1,911,151 | 58,794 | 73,091 | 211,792 | 41,160 | 63,409 | 313,482 | 314,114 |

Footnotes at end of table.

## Table 1a. All Individual Income Tax Returns: Sources of Income and Tax Items, Tax Years 1913-2005, in 2005 Constant Dollars [1]—Continued

(All figures are estimates based on samples—number of returns are in thousands, money amounts are in millions of constant dollars)

| Tax year | Number of returns | Total income | Major sources of income | | | | | | Income tax before credits | Total tax liability |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Salaries and wages | Interest | Dividends | Business net income less loss [2] | Net capital gain less loss | All other income | | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| 1964 | 65,376 | 2,517,096 | 2,036,576 | 63,788 | 75,077 | 222,755 | 50,016 | 68,884 | 301,745 | 303,566 |
| 1965 | 67,596 | 2,680,533 | 2,152,330 | 70,035 | 80,358 | 239,066 | 63,116 | 75,628 | 310,893 | 313,918 |
| 1966 | 70,160 | 2,845,907 | 2,296,987 | 79,717 | 84,377 | 247,042 | 59,922 | 77,861 | 342,215 | 311,196 |
| 1967 | 71,651 | 2,977,161 | 2,407,020 | 87,119 | 83,043 | 247,224 | 80,003 | 72,752 | 372,210 | 377,297 |
| 1968 | 73,729 | 3,141,412 | 2,533,877 | 94,182 | 85,427 | 255,366 | 100,961 | 71,599 | 434,599 | 440,093 |
| 1969 | 75,834 | 3,211,786 | 2,654,723 | 104,440 | 83,761 | 243,949 | 79,041 | 45,872 | 464,761 | 471,083 |
| 1970 | 74,280 | 3,218,212 | 2,677,241 | 110,843 | 79,565 | 222,692 | 45,337 | 82,534 | 423,600 | 431,709 |
| 1971 | 74,576 | 3,291,008 | 2,724,396 | 119,258 | 75,569 | 217,140 | 63,436 | 91,208 | 414,431 | 421,795 |
| 1972 | 77,573 | 3,530,071 | 2,908,937 | 128,020 | 78,466 | 231,818 | 79,783 | 103,046 | 441,257 | 448,298 |
| 1973 | 80,693 | 3,685,245 | 3,022,659 | 141,522 | 82,404 | 248,475 | 73,334 | 116,850 | 481,186 | 489,020 |
| 1974 | 83,340 | 3,639,101 | 3,005,275 | 156,648 | 82,743 | 218,098 | 53,361 | 122,976 | 495,496 | 503,117 |
| 1975 | 82,229 | 3,495,387 | 2,887,387 | 157,670 | 79,470 | 195,068 | 51,083 | 124,709 | 462,592 | 464,433 |
| 1976 | 84,670 | 3,673,219 | 3,023,882 | 166,770 | 83,958 | 204,694 | 63,711 | 130,202 | 494,895 | 500,260 |
| 1977 | 86,635 | 3,795,849 | 3,124,165 | 175,973 | 87,079 | 203,908 | 66,960 | 137,764 | 523,981 | 528,612 |
| 1978 | 89,772 | 3,968,337 | 3,265,859 | 183,387 | 90,479 | 225,122 | 69,586 | 133,903 | 579,774 | 578,666 |
| 1979 | 92,694 | 4,008,689 | 3,306,787 | 198,730 | 90,072 | 185,651 | 76,527 | 150,922 | 592,085 | 592,087 |
| 1980 | 93,902 | 3,892,599 | 3,199,324 | 241,776 | 91,869 | 153,012 | 70,299 | 136,319 | 607,454 | 607,352 |
| 1981 | 95,396 | 3,876,020 | 3,192,908 | 301,993 | 103,475 | 113,729 | 66,215 | 97,699 | 623,514 | 625,491 |
| 1982 | 95,337 | 3,879,737 | 3,167,290 | 317,784 | 109,378 | 98,793 | 69,628 | 116,862 | 574,631 | 576,202 |
| 1983 | 96,321 | 3,968,714 | 3,224,750 | 301,588 | 95,213 | 117,321 | 96,881 | 132,961 | 548,726 | 553,581 |
| 1984 | 99,439 | 4,191,053 | 3,396,863 | 331,519 | 91,430 | 128,755 | 102,479 | 140,007 | 576,475 | 587,468 |
| 1985 | 101,660 | 4,358,011 | 3,499,792 | 330,538 | 99,912 | 138,391 | 123,928 | 165,450 | 602,898 | 614,877 |
| 1986 | 103,045 | 4,598,618 | 3,619,155 | 298,723 | 109,808 | 150,687 | 236,716 | 183,529 | 655,025 | 679,316 |
| 1987 | 106,996 | 4,820,508 | 3,720,166 | 290,485 | 114,826 | 223,108 | 236,215 | 235,708 | 642,731 | 661,094 |
| 1988 | 109,708 | 5,136,278 | 3,859,749 | 308,686 | 127,663 | 302,778 | 252,323 | 285,079 | 691,539 | 711,092 |
| 1989 | 112,136 | 5,167,466 | 3,858,011 | 346,525 | 128,062 | 308,432 | 229,369 | 297,067 | 690,228 | 711,700 |
| 1990 | 113,717 | 5,139,367 | 3,884,185 | 339,323 | 119,793 | 311,482 | 169,089 | 315,494 | 677,092 | 700,257 |
| 1991 | 114,730 | 5,017,647 | 3,834,678 | 300,279 | 110,819 | 294,031 | 147,373 | 330,467 | 651,721 | 675,496 |
| 1992 | 113,605 | 5,101,178 | 3,905,587 | 225,984 | 108,474 | 336,387 | 164,578 | 360,168 | 671,831 | 696,036 |
| 1993 | 114,602 | 5,081,806 | 3,908,865 | 177,245 | 107,758 | 335,961 | 194,857 | 357,121 | 687,799 | 712,026 |
| 1994 | 115,943 | 5,200,911 | 3,988,730 | 166,267 | 108,601 | 369,764 | 187,509 | 380,040 | 713,690 | 739,349 |
| 1995 | 118,218 | 5,421,360 | 4,102,655 | 198,351 | 121,219 | 378,164 | 218,386 | 402,585 | 763,988 | 789,153 |
| 1996 | 120,351 | 5,699,201 | 4,203,334 | 206,220 | 129,771 | 402,903 | 313,447 | 443,526 | 829,899 | 855,551 |
| 1997 | 122,422 | 6,104,683 | 4,397,496 | 208,928 | 146,619 | 432,050 | 433,290 | 486,299 | 899,818 | 927,533 |
| 1998 | 124,771 | 6,550,942 | 4,648,574 | 213,673 | 141,958 | 466,989 | 534,480 | 545,269 | 974,785 | 984,766 |
| 1999 | 127,075 | 6,930,650 | 4,844,370 | 205,938 | 155,286 | 491,750 | 636,258 | 597,047 | 1,063,028 | 1,069,653 |
| 2000 | 129,374 | 7,285,740 | 5,053,946 | 226,060 | 166,706 | 484,030 | 715,127 | 639,872 | 1,154,809 | 1,153,961 |
| 2001 | 130,255 | 6,871,535 | 5,034,383 | 218,544 | 131,817 | 487,294 | 360,083 | 639,414 | 1,029,507 | 1,020,539 |
| 2002 | 130,076 | 6,633,846 | 4,950,015 | 161,782 | 112,079 | 498,022 | 259,230 | 652,719 | 908,479 | 906,386 |
| 2003 | 130,424 | 6,681,260 | 4,935,465 | 134,969 | 122,212 | 513,418 | 312,431 | 662,764 | 838,523 | 835,952 |
| 2004 | 132,226 | 7,120,181 | 5,088,559 | 129,725 | 151,814 | 582,292 | 489,710 | 678,082 | 914,305 | 903,622 |
| 2005 | 134,373 | 7,531,892 | 5,155,407 | 162,433 | 166,482 | 672,028 | 668,015 | 707,527 | 990,152 | 980,259 |

n.a.—Not available.

N/A—Not applicable.

[1] Based upon the Consumer Price Index as Published by the U.S. Department of Labor, Bureau of Labor Statistics.

[2] Business net income less loss is sole proprietorship (Schedule C) plus partnership and S corporation income less loss (Schedule E).

[3] For 1944 and 1945 the total amounts for interest and dividend income were combined in the SOI reports and shown as dividend income.

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

90

1917

2007

Statistics of Income