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## Methodology to Identify Small Businesses

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# METHODOLOGY TO IDENTIFY SMALL BUSINESSES<sup>1</sup>

November 2016

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Due to data constraints and the lack of clear definitions, prior analyses of the tax code's impact on small business owners were flawed. In this paper, we develop a methodology to define and identify small businesses. We apply this to entities in tax year 2007 and 2010.

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## EXECUTIVE SUMMARY

Although “small business owners” are often the subject of tax policy debate, a consensus does not exist regarding the specific attributes that distinguish small businesses from other firms. Previously, the Office of Tax Analysis had counted a small business owner as any individual who receives flow-through income from a sole proprietorship, partnership, S corporation, farming operation or miscellaneous rental activity. This overly broad definition was used because, for the majority of flow-through business income (partnerships and S corporations), it was not possible to trace income from the business entity to the respective owner(s). Due to newly accessible tax data, this technical constraint has been overcome. In this paper, we present a methodology that utilizes these new tax data, thereby allowing a more nuanced definition of small business owner.

Our revised methodology begins with the characteristics that define a “business.” We look at the six tax forms and schedules filed by individuals or firms that could potentially represent business activity: Form 1040 Schedules C, E and F, Forms 1065, 1120 and 1120S. We develop two tests based on income and deductions reported on those forms and schedules to separate filers into business and non-business groups. We then further sub-divide our business group into small and other businesses. Drawing from various tax code provisions that provide preferential treatment to certain filers, we set the small business threshold at \$10 million of income or deductions. Using these criteria, we find that 53 percent of taxpayers who file one of the six forms or schedules we consider qualify as both a business and a small business for tax year 2010. Those small businesses reported approximately 18 percent of total and 16 percent of net business income. We also find that 20 percent of small businesses conform to our definition of an employer.<sup>8</sup>

We note that our revised methodology is but one reasonable approach that could be used to identify small businesses and their owners. However, we believe it represents a significant improvement over previous methodologies that were constrained by data limitations.

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<sup>8</sup> For 2007, we found 55%, 19% and 16%, respectively.





## I. Introduction

Policymakers often inquire about the tax code’s impact on “small business” and “small business owners.” Although many factors motivate their concerns, two factors seem especially relevant. First, it is widely believed that many small businesses operate at a competitive disadvantage relative to their larger counterparts. For example, small firms might have greater difficulty raising the capital necessary for investment and expansion. They might also realize thinner profit margins if their sales volume is insufficient to exploit economies of scale. Second, despite any inherent disadvantages, small businesses are perceived to generate a disproportionate share of overall economic and employment growth. For these reasons, policymakers are concerned that the tax code not excessively burden small businesses or their owners.

Currently, a consensus does not exist regarding the specific attributes that distinguish small businesses from other firms. Previous analyses by the Office of Tax Analysis (OTA) and others (e.g., Joint Committee on Taxation, Tax Policy Center) counted a small business owner as any individual who reports flow-through income from a sole proprietorship, partnership, S corporation, farming operation or miscellaneous rental activities. Although this approach is easily implemented and understood, it is at once too broad and too narrow. The approach is too broad because it includes owners of large firms as well as individuals whose business income is negligible or who might not be engaged in canonical business activities. The approach is too narrow because it excludes owners of small C corporations. Due to these shortcomings, previous analyses of how tax law changes impact “small businesses” or “small business owners” have not been as informative as they might have been – the analysis might not address the true underlying concerns of policymakers. For example, should we count all misclassified employees and independent contractors who file a Schedule C (sole proprietorship) as small business owners? Should we count partners of large hedge funds as small business owners? Although issues such as these have been noted in the past, to date there has been no effort to address them in a satisfactory manner.

In our previous technical paper, we described a methodology to define a business, a small business, and a small business owner using tax return data. The methodology begins with the six tax forms and schedules filed by individuals or firms that could potentially represent business activity. We separate those returns into business and non-business groups, and then further subdivide the business group into small and other businesses. The final part of our methodology uses newly accessible tax data to link income reported by small businesses to the individual income tax return of their respective owners. In this manner, we identify relevant characteristics of small business owners such as adjusted gross income (AGI) and marginal tax rates.

Up to this point our work has had a narrow focus. It does not discuss the myriad tax-related issues that affect small businesses and their owners.<sup>9 10</sup> It also does not compare the definitions

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<sup>9</sup> For a discussion of these issues, see, for example, Gary Guenther, CRS Report, February 26, 2010, “Distribution of Small Business Ownership and Income by Individual Rates and Selected Policy Issues”; Jane Gravelle, CRS Report, September 3, 2010, “Small Business and the Expiration of the 2001 Tax Rate Reductions: Economic Issues”; Alan Viard & Kevin Hassett, “The Small Business Tax Hike and the 97% Fallacy,” Wall Street Journal,





used in this paper to those used by other governmental agencies, such as the Small Business Administration (SBA). In general, the small business definition used by Treasury and the SBA will differ because they are based on different data sources and concepts and are used for different purposes. The definitions used by SBA to identify firms that are eligible to receive certain government grants and assistance and is generally considered to be a relatively broad measure.<sup>11</sup> By contrast, the small business definition we employ draws on tax code provisions that provide favorable treatment to firms that fall under various size thresholds.

While in our work we identify certain taxpayers as small business owners, we do not assert that those individuals are necessarily engaged in entrepreneurial activity. The Meriam-Webster dictionary defines an entrepreneur as a person who organizes, manages and assumes the risk of a business or enterprise. The individuals we identify as small business owners may or may not actively participate in an enterprise, and may incur little or no risk. We also note that our methodology likely excludes some individuals who might be viewed as entrepreneurs because their business tax return does not conform to our definition of a small business.

Finally, we note that our methodology is but one approach that could be used to identify small businesses and their owners. Although many different approaches could be used for this purpose, the issues we discuss would remain pertinent and must be addressed (either implicitly or explicitly) regardless of the methodology employed. Hence, our work serves a dual purpose: (1) to correct known shortcomings of previous methodologies and (2) to discuss issues that policymakers should clarify to ensure that analysts use appropriate data to evaluate current and proposed tax policy.

This technical paper is an update of our previous work. It uses 2010 tax data rather 2007. It proceeds as follows. Section II discusses the criteria we use to distinguish business from non-business entities. In Section III, we further sub-divide businesses into small and other entities and provide tabulations for small businesses based on total income, net income, industry, and employer status. Section IV concludes our analysis with a review and summary of our findings.

## **II. Business versus Non-Business Filers**

Our analysis begins with all entities that file one or more of the following business tax returns: Form 1040 Schedules C, E-Part I, and F (sole proprietor, miscellaneous rental real estate income, and farmers), Form 1065 (partnership), Form 1120 (C corporation), and Form 1120S (S corporation).<sup>12</sup> Although we refer to these forms and schedules as “business” returns, closer

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September 3, 2010; Haltwinger, Jarmin & Miranda, “Who Creates Jobs? Small vs. Large vs. Young,” NBER Working Paper No. 16300, August 2010.

<sup>10</sup> Currently, John McClelland and Richard Prisinzano are working on a paper that addresses these issues.

<sup>11</sup> To identify small firms eligible for its programs, the SBA uses industry-specific size standards that are based on sales or number of employees. If based on sales, the threshold ranges from just under \$1 million to \$35.5 million, but most industries employ the \$7 million benchmark level. If based on number of employees (capital intensive industries), employment levels range from 50 to 1,500 employees, but most industries employ the 500 employee benchmark level. For research purposes, the SBA generally uses firms with fewer than 500 employees. See <http://www.sba.gov/advo/research..>

<sup>12</sup> If an individual reports income that is attributable to multiple types of business entities, then we do not combine the activity to form a single business entity. For example, it is not uncommon for taxpayers to report income from





inspection reveals that many filers are not engaged in business activity as it is traditionally understood. Some examples of non-business activity include the following:

- Many Schedule C filers work for one or more firms and receive 1099-MISC forms that report their “non-employee compensation” instead of W-2s that report wages. These individuals report this compensation as gross receipts (per the instructions) and often report no deductions, or very minimal deductions that reflect elements of personal and business use, such as transportation, travel or meal expenses. Some of these filers are technically misclassified employees; others are correctly treated as independent contractors.<sup>13</sup> In many instances, these individuals are not substantially different than employees of the firm to whom they provide labor services.
- Individuals or entities might form partnerships to re-distribute earnings that are passed through from other partnerships. These entities are conduits that merely redistribute funds. Other partnerships might solely hold financial assets and receive interest, dividends or capital gains but conduct no business activity. These partnerships could be considered “passive investment vehicles.”
- Certain C corporations could also be viewed as investment vehicles if they merely hold investments and conduct little or no business activity. Individuals could benefit from the graduated corporate rate structure (such as 15 or 25 percent) and minimize tax liability by remitting tax at the lower corporate rate and then retaining earnings in the corporation.<sup>14</sup>
- Certain individuals who file Form 1040 Schedule E, Part 1 might report minimal income due to the incidental rental of a vacation home.
- Individuals might attempt to claim a tax loss for activity that is properly characterized as a hobby, not a business.

The first step in our methodology is the development of criteria to separate business from non-business entities. To do this, we look to the tax code. Despite the stylized examples above, the distinction between business and non-business activity is not always clear, and the Internal Revenue Code (IRC) fails to provide explicit guidance because it does not define the term “trade or business.” In general, the IRC characterizes most activities carried on for a livelihood or for profit as a trade or business. If a taxpayer is engaged in a trade or business, then the taxpayer may deduct from gross income all “ordinary and necessary” expenses of carrying on the trade or business that are paid or incurred during the tax year.<sup>15</sup> If there is uncertainty about whether an activity qualifies as a trade or business, then tax authorities will apply certain tests and consider

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an S corporation and a sole proprietorship. However, we do combine multiple filings of Schedule C or Schedule F by an individual to form a single entity of each type. In general, the combination of activity reported on multiple Schedule C filings increases the likelihood that an individual will be classified as a small business owner.

<sup>13</sup> For discussion of legal distinctions between misclassified employees and independent contractors, see, for example, the Administration’s FY12 Budget proposal, “Increase Certainty with Respect to Worker Classification.” “Worker classification generally is based on a common-law test for determining whether an employment relationship exists. The main determinant is whether the service recipient (employer) has the right to control not only the result of the worker’s services but also the means by which the worker accomplishes that result.” Department of the Treasury, February 2011, “General Explanations of the Administration’s Fiscal Year 2012 Revenue Proposals,” p. 107. See <http://www.treasury.gov/resource-center/tax-policy/Documents/Final%20Greenbook%20Feb%202012.pdf>.

<sup>14</sup> Some such corporations might be subject to the personal holding company tax.

<sup>15</sup> An expense is “necessary” if it is appropriate and helpful to the taxpayer’s business. An expense is “ordinary” if it is one that is common and accepted in the particular business activity.





the relevant facts and circumstances of individual taxpayers. This approach is referred to as the “hobby loss rules.” If an activity is deemed a hobby, and not a trade or business, then expense deductions are limited to the income produced by the activity so that hobby losses cannot offset other income. By contrast, there are no restrictions on active trade or business losses; they may be used to offset all other types of income, regardless of its source.<sup>16</sup>

In order to distinguish hobby from business (i.e., for-profit) activities, tax authorities rely first on the historical profits test from IRC Section 183(d). This test states that, in general, an activity is presumed to be engaged in for profit if gross income from the activity exceeds the deductions attributable to such activity in any three of five consecutive tax years, including the current tax year. If an activity fails the historical profits test or the test is not applicable, then Section 1.183-2 of the Income Tax Regulations lists nine specific factors that may be used to distinguish business from hobby activity. They are as follows:

- The manner in which the taxpayer carries on the activity.
  - Was it a businesslike manner? Did the taxpayer keep accurate books and records?
- The expertise of the taxpayer.
  - Did the taxpayer prepare for the activity through the study of accepted business, economic, and scientific practices? Did the taxpayer consult with experts?
- The time and effort expended by the taxpayer in carrying on the activity. Was it “substantial”?
- An expectation that assets used in the activity may appreciate in value.
- The success of the taxpayer in carrying on other similar or dissimilar activities.
- The taxpayer’s history of income or losses with respect to the activity.
- The amount of occasional profits, if any, which are earned.
  - The amount of profits in relation to the amount of losses incurred, and in relation to the amount of the taxpayer’s investment and the value of the assets used in the activity, may provide useful criteria in determining the taxpayer’s intent.
- The financial status of the taxpayer. Does the taxpayer have other sources of income?
- Elements of personal pleasure or recreation.

We condense these nine factors into two general principles that we use to determine whether activity reported on business tax returns reflects “substantial” operations that are carried out in a “businesslike” manner. They are as follows:

- De Minimis Activity. Does the activity generate, or have the potential to generate, income that is non-negligible to the business owner(s)? Under this principle, very small entities would not qualify as a business, even though they may report income and deductions on the business return. For example, an individual who reports small amounts of rental income and expense on Schedule E from a two-month rental of a vacation home might not qualify as a business.
- Businesslike Activity. If the income is non-negligible, do the owners undertake actions that demonstrate “businesslike” activity? If they do, then they should report expenses related to employees, inventories, investment, office supplies, utilities,

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<sup>16</sup> Because of the passive activity loss rules, some taxpayers may not be able to deduct certain losses from trade or business activities in which they do not “materially participate.”





insurance or rent. Under this principle, Form 1040 Schedule C filers who report only their own labor compensation as gross receipts (e.g., certain service providers), but little or no expenses, would not qualify as business entities because most of those filers are not substantially different than employees of the firm who earn and report wage income. Entities that merely redistribute income or function as investment vehicles would also not qualify as business entities.

We convert these principles into two tests that we apply to all potential business returns. If an entity passes both tests, then we deem the entity a business. The two tests are as follows:

De Minimis Test: Total income or total deductions exceed \$10,000, or their sum exceeds \$15,000.

Receiving income and incurring expenses can signal business activity. We apply our first test to income and deductions (or their sum) reported on the tax return to allow symmetric treatment of business activity. We eliminate entities that fail this test because the reported activity, regardless of its form or nature, does not generate substantial income to the owner(s) and it is unlikely that the activity required significant time and effort on the part of the owner(s). This test also eliminates many filers who are likely engaged in hobby activities.

We define total income as the sum of all income reported on the business return including gross receipts, rents, dividends, capital gains, royalties, and interest.<sup>17 18</sup> We use the absolute value in cases where an income source can be negative (e.g., a loss from the sale of business assets). We use the absolute value so that negative income does not offset other types of income and because negative amounts also represent business activity. The definition of total deductions is discussed below.

Business Activity Test: Total deductions exceed \$5,000.

Our second test eliminates entities that only report income, with minimal or no deductions, such as pure labor providers or investment vehicles. The deduction floor we impose ensures that entities deemed a business operate in a "businesslike" manner through minimal outlays for investment (depreciation expenses), the carrying of inventories (cost of goods sold), employment of individuals, rents for buildings or equipment, or payments to other firms for goods or services. More broadly, the deduction floor generally requires that business income reflect more than a pure return to labor services provided by the owner(s). This requirement seems to reflect the intention of policymakers. When tax code provisions provide preferential treatment to small businesses, the provisions usually target expenses such as equipment investment (e.g., Section 179 expensing), cost of goods sold (e.g., exceptions to inventory accounting), and start-up costs.

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<sup>17</sup> For partnerships and S corporations, we include any gross rents reported on Form 8825, which partnerships and S corporations engaged primarily in rental real estate activity must file. Firms report gross rents plus any associated deductions on that form. Any net income is then carried over to the Schedule K submitted with Form 1065 (partnership) or 1120S (S corporation). We also include all other income and deduction items reported by those entities on Schedule K.

<sup>18</sup> For the income test, we exclude any miscellaneous "other income" reported on the front page of business returns because that field may include amounts that are not properly viewed as income, such as refunds of federal and state fuel taxes (farmers and sole proprietors) or income passed through from partnerships that we already count (corporations).





Preferential treatment is not targeted towards individuals who provide only labor services and as such, these individuals generally do not benefit from targeted “small business” provisions.

For the purposes of our tests, we define total deductions as the sum of wages-salaries, interest paid, payments for goods and services purchased from other firms, rents, repairs, taxes, advertising, bad debts, depletion, depreciation, and other miscellaneous deductions reported by the entity. For corporations, we do not include payments for “compensation of officers” (line 12, Form 1120 or 1120S) because it is likely that those deductions represent the “reasonable compensation” that owners are required to pay themselves for labor services provided to the firm.<sup>19</sup> <sup>20</sup> By excluding these deductions, we place corporations on equal footing with partnerships and sole proprietors. (General partners and sole proprietors do not report payments to themselves for services provided to the firm as a wage expense. All returns to labor and capital are included in residual profits and are subject to self-employment taxes.) For an entity to be considered a business, we must observe deductions other than wage payments to corporate owners.

We make one further adjustment to this test in cases where the sum of gross receipts and rents comprise less than ten percent of total income. In these cases, the entity essentially reports investment income only. To ensure these entities are not merely passive investment vehicles, we exclude interest expense from total deductions. Our tests deem an entity that reports \$50,000 of interest income and \$20,000 of interest expense as a “non-business.” For entities that primarily report investment income, we must observe other deductions besides interest expense to deem the entity a business.

#### Note on Self-Employed Individuals

Due to the thresholds we apply for our business tests, we include some and exclude other self-employed individuals from our business group. While it seems clear that individuals who report only income and no deductions might not be engaged in business activity as typically conceived (e.g., misclassified employees, certain independent contractors), it is less clear at what point those same individuals engage in sufficient “businesslike” activity as evidenced by deductions and become business entities. For the purposes of this work, we have set that threshold at \$5,000.

We apply the same business tests to self-employed individuals as applied to other businesses that employ individuals and have a separate business identity. Under our tests, an individual who earns a livelihood as a painter and reports \$40,000 of income and \$6,000 of supplies would qualify as a business entity and small business owner. An individual who sub-contracts as a consultant and reports \$80,000 of income and \$9,000 of related expenses would also qualify as a business entity. However, in either case, if reported deductions fell below \$5,000, then our tests would not deem the self-employed individual a business entity.

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<sup>19</sup> If a corporation reports only payments for compensation of officers and no wages paid to employees, then we also disregard any deductions for employee benefit plans (generally health) and pension-profit sharing plans since those benefits likely accrue to the owner(s).

<sup>20</sup> For partnerships, we exclude guaranteed payments to partners (line 10, Form 1065) for similar reasons.





## Results: Business vs. Non-Business Entities by Return Type

The data used for this analysis are from the IRS Statistics of Income (SOI) individual and business tax files for tax year 2010. All tax files are stratified random samples weighted to represent national totals. For Schedules C, E, and F, the file contains roughly 309,000 individual income tax returns. Data for partnerships are from a sample of roughly 44,000 tax returns, while the S corporation sample includes 33,000 returns and the C corporation sample includes 58,000 returns.<sup>21</sup> Table 1 presents data for all filers across the six business returns we examine, and results from the application of our two business tests. Results are as follows:

### *Form 1040, Schedule C: Sole Proprietors*

Individuals who file Schedule C may be engaged in a wide range of activities. While some filers operate businesses that provide their sole means of support, other filers report incidental activity in which they are engaged on a part-time or seasonal basis. Many filers do not operate a business, but rather supply labor or services to a firm in exchange for remuneration on an hourly or per-job basis. For this final group, the deductions they report may not represent outlays that need to be recouped via future sales of goods and services, but rather are expenses that will be quickly reimbursed by the firm that employs the individual. For example, a firm might pay a service provider a higher hourly wage than a comparable employee as reimbursement for travel expenses. Alternatively, a firm might directly reimburse a service provider if an itemized bill is presented for the same expenses. Regardless of the reimbursement method, the individual would report all remuneration as gross receipts on Schedule C, as well as any deductions associated with the provision of labor services. Common deductions for these filers are transportation and travel-meal expenses.

In the situation just described, the individual may not be substantially different than an employee of the firm from which he or she receives compensation. Yet, at some point, these same individuals could also be considered a small business entity to the extent they do more than merely supply labor services. For example, the individual might also incur expenses related to inventories, advertising, office supplies, and the payment of utilities or rent. Those types of deductions provide a strong signal that the individual engages in businesslike activities such as itemizing and tracking expenses, the development of a business plan or the maintenance of a separate business address.

Because many Schedule C filers could be viewed as quasi-employees of the firms to whom they provide labor or services, we discount, but do not disregard, certain deductions that are claimed intensively by those individuals: car-truck expenses (line 9, includes the standard mileage deduction) and travel, meals and entertainment (line 24).<sup>22</sup> We discount those deductions by 50 percent because (1) they are claimed intensively by misclassified employees and independent

<sup>21</sup> For detailed discussion of the data and sample characteristics for individual tax returns, see *Statistics of Income: Individual Income Tax Returns 2007*, Publication 1304 (Rev. 07-2009), Internal Revenue Service, Department of the Treasury. Because of the sample construction, varying degrees of representation and potential error (relative to the population) are present across sample strata. For example, for Schedule C filers the sample fully represents the population for the highest income strata (for “\$5 million under \$10 million” and “\$10 million or more”); at the lower income levels of under \$30,000, a sample of 12,426 represents nearly 10 million returns of the population.

<sup>22</sup> For detailed instructions regarding the amounts that filers may claim for these expenses, see IRS Publication 463: Travel, Entertainment, Gift and Car Expenses.





contractors, (2) they are potentially a weaker signal of business activity and (3) it is likely that many of those deductions contain both personal and business elements. Therefore, if a Schedule C filer reports \$3,000 of advertising expenses and \$8,000 of car-truck expenses, then we set total deductions equal to \$7,000.<sup>23</sup>

For tax year 2007, 23.2 million individuals filed a Schedule C, and 10.7 million (46 percent of total) qualify as a business based on our tests (see Table 1). Although we deem less than one-half of filers a business, those entities reported the vast majority of total income (94 percent, average income of \$120,848) and net income (80 percent, average profit of \$20,891). The proportion of filers that were profitable in our business group (77 percent) is roughly the same as proportion that is profitable for all Schedule C filers (75 percent).

For tax year 2010, 23.0 million individuals filed a Schedule C, and 9.9 million (43 percent of total) qualify as a business based on our tests (see Table 1). As in 2007, we deem less than one-half of filers a business but those entities reported the vast majority of total income (92 percent, average income of \$110,871) and net income (75 percent, average profit of \$20,186). The proportion of business filers that were profitable is the same proportion for all Schedule C filers (76 percent).

*Form 1040, Schedule E: Supplemental Income and Loss (Part 1), Rental Income*

Taxpayers report rental real estate activity on Part 1 of Form 1040, Schedule E.<sup>24</sup> Unless the owner provides “substantial” services to the tenants or qualifies as a real estate professional, the IRS generally considers activity reported in Part 1 of Schedule E as a passive activity for the purposes of the passive activity loss rules. Therefore, taxpayers might face limitations on their use of losses attributable to such activity. Despite this treatment, we deem rental activity a business if it passes our tests because, much like a traditional business, the owners provide services (housing) to consumers (tenants). In that capacity, owners incur and report various business expenses, such as advertising, insurance, interest, repairs, and cleaning and maintenance.

However, in many cases, rental activity may not denote the conduct of an active trade or business. The rental activity may be incidental to personal use, or may not differ substantially from an investment in a financial asset, such as when an owner reports no expenses besides those associated with holding title to the property (i.e., mortgage interest, property taxes, and depreciation). Similar to our treatment of partnerships and corporations that invest in financial assets, we require that Schedule E rental filers evidence at least minimal active management of the property beyond deductions for mortgage interest, property taxes and depreciation. To ensure that individuals reporting rental income engage in minimal businesslike activity, we exclude depreciation and mortgage interest expenses from computed deductions.<sup>25</sup> We require that owners report other types of expenses such as cleaning, advertising, maintenance or repairs that suggest active management of the properties.

<sup>23</sup> This additional restriction eliminates approximately 700,000 Schedule C filers from our business group. Those filers reported average Schedule C total income of \$15,800 and average net income of \$7,900.

<sup>24</sup> Royalty payments are also reported on Schedule E, Part 1. We do not include royalty income in our analysis because the income could represent compensation attributable to activity many years removed.

<sup>25</sup> The data do not itemize property taxes separately.





For tax year 2007, 9.6 million individuals reported rental income on Part 1 of Schedule E, and reported total income of \$253 billion (average income of \$26,256) and net income of -\$17 billion (average loss of -\$1,764). The 4.6 million (48 percent of total) filers we deem a business reported total income of \$212 billion (average income of \$46,162) and net income of -\$22 billion (average loss of -\$4,790). The proportion of business filers that were profitable is slightly lower (35 percent) than the equivalent proportion all filers (43 percent).

For tax year 2010, 10.1 million individuals reported rental income on Part 1 of Schedule E, and reported total income of \$274 billion (average income of \$27,123) and net income of -\$4 billion (average loss of -\$396). The 4.9 million (49 percent of total) filers we deem a business reported total income of \$228 billion (average income of \$46,114) and net income of -\$11 billion (average loss of -\$2,225). The proportion of business filers that were profitable is slightly lower (37 percent) than the equivalent proportion of all filers (43 percent).

#### *Form 1040, Schedule F: Profit or Loss from Farming*

When applying our business tests to farm income, we include income and expenses reported on Form 1040, Schedule F and Form 4835, Farm Rental Income and Expenses. Individuals use Form 4835 to report farm rental income based on crops or livestock produced by a tenant if they were the landowner (or sub-lessor) and did not materially participate in the operation or management of the farm. For the purpose of our business tests, we include any income from cooperative distributions, commodity credit corporation loans, and crop insurance proceeds in our definition of total income.

For tax year 2007, 2.5 million individuals filed a Schedule F, a Form 4835, or both. Those filers reported total income of \$133 billion (average income of \$52,982, predominately sales of livestock or agricultural products) and -\$11 billion of net income (average loss of -\$4,382). The 1.5 million filers (58 percent of total) we deem a business reported total income of \$131 billion (average income of \$89,221) and net income of -\$10 billion (average loss of -\$6,811). The proportion of business filers that were profitable is slightly lower (37 percent) than the equivalent proportion all filers (39 percent).

For tax year 2010, 2.4 million individuals filed a Schedule F, a Form 4835, or both. Those filers reported total income of \$154 billion (average income of \$63,015, predominately sales of livestock or agricultural products) and -\$7 billion of net income (average loss of -\$2,684). The 1.4 million filers (59 percent of total) we deem a business reported total income of \$152 billion (average income of \$104,711) and net income of -\$7 billion (average loss of -\$4,822). The proportion of business filers that were profitable is slightly lower (40 percent) than the equivalent proportion all filers (42 percent).

#### *Form 1065: Partnerships*

For partnerships, we make two modifications to our business tests. We exclude any ordinary income received from another partnership, estate or trust (line 4, Form 1065) to eliminate double counting of income. As noted in the previous section, we also exclude any guaranteed payments to partners from our analysis. Both the deductions (line 10) and income amounts (Schedule K,





line 4) reflect a return to partners for services provided and so are similar to distributions that partners receive.

For partnership and S corporation tests and tabulations, we include all investment income and deductions reported separately on the Schedule K (except for guaranteed payments to partners).<sup>26</sup> We also include gross rents and any deductions reported on Form 8825 (Rental Real Estate Income and Expenses of a Partnership or S Corporation). Partnerships and S corporations report rental income and associated deductions on Form 8825. The resultant net income is then transferred to Schedule K.

For tax year 2007, 3.1 million partnerships filed Form 1065. Those partnerships reported gross receipts of \$3.9 trillion, gross rents of \$424 billion (Form 8825), investment income of \$1.8 trillion (Schedule K), and net income of \$1.5 trillion (includes ordinary and investment income, average profit of \$487,996). The 2.3 million partnerships (74 percent of total) we deem a business reported gross receipts of \$3.9 trillion, gross rents of \$417 billion, investment income of \$1.7 trillion and net income of \$1.4 trillion (average profit of \$622,948). The proportion of business filers that were profitable is slightly higher (61 percent) than the equivalent proportion all filers (57 percent).

For tax year 2010, 3.2 million partnerships filed Form 1065. Those partnerships reported gross receipts of \$4.0 trillion, gross rents of \$470 billion (Form 8825), investment income of \$1.2 trillion (Schedule K), and net income of \$.98 trillion (includes ordinary and investment income, average profit of \$300,448). The 2.5 million partnerships (76 percent of total) we deem a business reported gross receipts of \$4.0 trillion, gross rents of \$463 billion, investment income of \$1.1 trillion and net income of \$.93 trillion (average profit of \$377,211). The proportion of business filers that were profitable is slightly higher (56 percent) than the equivalent proportion all filers (52 percent).

#### *Form 1120S: S Corporations*

For tax year 2007, 4.0 million S corporations filed Form 1120S. Those corporations reported gross receipts of \$6.0 trillion, gross rents of \$38 billion (Form 8825), investment income of \$305 billion (Schedule K), and net income of \$412 billion (includes ordinary and investment income, average profit of \$103,261). The 3.6 million corporations (89 percent of total) we deem a business reported gross receipts of \$6.0 trillion, gross rents of \$38 billion, investment income of \$298 billion and net income of \$407 billion (average profit of \$114,572). The proportion of business filers that were profitable is slightly higher (67 percent) than the equivalent proportion all filers (64 percent).

For tax year 2010, 4.0 million S corporations filed Form 1120S. Those corporations reported gross receipts of \$5.6 trillion, gross rents of \$40 billion (Form 8825), investment income of \$237

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<sup>26</sup> Partnerships and S corporations report investment (i.e., capital gains, dividends, and interest), royalty and rental income on Schedule K and not on the front page of the main form (Form 1065 or Form 1120S). Those amounts are reported separately because the apportionment rules for the owners may differ compared to the apportionment of ordinary business income. Income reported on the Schedule K retains its character when passed through to the partner or shareholder, and so might face different tax rates or limitations than distributions of ordinary business income. Deductions reported on the Schedule K include investment interest expense, the Section 179 expensing deduction and miscellaneous “other” deductions.





billion (Schedule K), and net income of \$322 billion (includes ordinary and investment income, average profit of \$78,012). The 3.6 million corporations (88 percent of total) we deem a business reported gross receipts of \$5.6 trillion, gross rents of \$39 billion, investment income of \$230 billion and net income of \$320 billion (average profit of \$88,526). The proportion of business filers that were profitable is slightly higher (66 percent) than the equivalent proportion all filers (63 percent).

#### *Form 1120: C Corporations*

For tax year 2007, 1.9 million C corporations filed Form 1120. Those corporations reported gross receipts of \$18.2 trillion, gross rents of \$102 billion, investment income of \$3.7 trillion (mostly interest) and net income of \$1.1 trillion (average profit of \$568,830). The 1.6 million corporations (88 percent of total) we deem a business reported gross receipts of \$18.2 trillion, gross rents of \$102 billion, investment income of \$3.7 trillion and net income of \$1.1 trillion (average profit of \$648,027). The proportion of business filers that were profitable is slightly higher (58 percent) than the equivalent proportion all filers (55 percent).

For tax year 2010, 1.7 million C corporations filed Form 1120. Those corporations reported gross receipts of \$17.5 trillion, gross rents of \$83 billion, investment income of \$2.7 trillion (mostly interest) and net income of \$.8 trillion (average profit of \$479,311). The 1.4 million corporations (86 percent of total) we deem a business reported gross receipts of \$17.5 trillion, gross rents of \$83 billion, investment income of \$2.7 trillion and net income of \$.8 trillion (average profit of \$552,490). The proportion of business filers that were profitable is slightly higher (55 percent) than the equivalent proportion all filers (52 percent).

At the bottom of Table 1, we show totals for all filers that qualify as a business based on the two tests we apply. We retain more than one half in both 2007 and 2010 (55 and 53 percent, respectively) of all entities that file a business return. Those entities reported nearly all total income and net income of the full population of filers in both 2007 and 2010. On average, the entities we exclude reported total income of \$11,839 in 2007 and \$10,328 in 2010 while reporting net income of \$7,743 in 2007 and \$6,005 in 2010.

### **III. Identification of Small Businesses**

In the previous section, we applied two tests to separate filers into business and non-business groups. Those tests represent one possible method to distinguish businesses from other taxpayers, and we recognize that any such attempt must rely on subjective criteria. Similarly, there is no single definition or unique set of characteristics that should always be used to distinguish small businesses from their larger counterparts; an appropriate definition in one context might be inappropriate for other purposes. The tax code reflects this ambiguity because it contains no explicit definition of small business. Rather, various code sections grant favorable tax treatment to certain filers based on their level of investment, taxable income, or gross receipts. Some examples are as follows<sup>27</sup>:

<sup>27</sup> For descriptions of these and other tax code provisions that provide favorable tax treatment to businesses based on size, see Gary Guenther, "Small Business Tax Benefits: Overview of Current Law and Economic Justification," CRS Report, April 19, 2010.





- Expensing of Investment. Under IRC Section 179, for qualified investment placed in service during tax year 2007 (the year from which our data are drawn), eligible firms could expense up to \$125,000 of qualified investment (generally machinery, equipment and software); if firms had qualifying investment that exceeded \$500,000, then the expensing deduction was phased-out dollar-for-dollar for investment above that limit. For 2008 and 2009, the limits were raised to \$250,000 (expensing) and \$800,000 (beginning of phase out); for 2010 and 2011, the limits were raised to \$500,000 and \$2 million, respectively. For 2012, the expensing limits decline to \$125,000 and \$500,000 (indexed for inflation from 2006). For 2013, the limits revert to \$25,000 and \$200,000.<sup>28</sup>
- Graduated Corporate Rates. C corporations face a graduated rate schedule based on their reported taxable income: 15 percent (taxable income less than \$50,000), 25 percent (\$50,000 to \$75,000), 34 percent (\$75,000 to \$18.3 million, but certain income faces surcharges within that range to eliminate the benefit of lower rates) and 35 percent (greater than \$18.3 million).
- Business Start-Up Costs. Under IRC Section 195, a business can elect to deduct up to \$5,000 (\$10,000 for 2010) of start-up expenditures in the taxable year in which the active trade or business begins. The \$5,000/\$10,000 amount is reduced dollar-for-dollar by the amount that cumulative start-up expenditures exceed \$50,000 (\$60,000 for 2010). Start-up expenditures that are not deductible in the year the active trade or business begins are, at the taxpayer's election, amortized over a 15-year period. Otherwise, taxpayers must capitalize those expenses.
- Cash Method Accounting. Under IRC Section 446, firms must use the same method of accounting for financial and tax purposes. In general, firms that maintain inventories must use the accrual method to compute taxable income. Section 448 prohibits corporations and partnerships with corporate partners from using cash method accounting. However, an exception is made if average annual gross receipts from the prior three years is less than \$5 million. IRS Revenue Procedure 2002-28 extends cash method accounting to firms in “non-inventory intensive” industries if they have average annual gross receipts that are less than \$10 million.
- Simplified Dollar-Value LIFO. Businesses that maintain inventories generally use “first-in-first-out” (FIFO) or “last-in-first-out” (LIFO) inventory valuation methods. Under IRC Section 474, firms with average annual gross receipts of \$5 million or less in the previous three years may use a simplified version dollar-value LIFO.

Because many tax code provisions use gross receipts to identify firms eligible for preferential treatment and because filers do not report the number of employees on their tax returns, we use a total income threshold to separate small businesses from their larger counterparts. We define total income as the sum of gross receipts, rents and any portfolio income reported by the firm.<sup>29</sup>

<sup>28</sup> These limits reflect changes enacted by various acts, including The Small Business and Work Opportunity Tax Act of 2007, The Economic Stimulus Act of 2008, The American Recovery and Reinvestment Act of 2009, The Small Business Jobs Act of 2010, and The Tax Relief and Unemployment Insurance Reauthorization and Job Creation Act of 2010.

<sup>29</sup> For these purposes, we include “other income” reported by the firm on the front page of the tax form or schedule. We continue to use absolute values for income fields that can be negative, such as sales of business assets.





We set the small business threshold at \$10 million of total income. Because deductions can reflect the scale of operations, we also require that total deductions not exceed \$10 million.<sup>30</sup>

Table 2 presents results from the application of the \$10 million total income and deduction threshold to all entities deemed a business in Table 1. In both 2007 and 2010, the vast majority of entities deemed a business also qualify as a small business. Small businesses reported roughly the same of proportion of all business income sources in 2010 as in 2007: less than 20 percent of gross receipts, approximately 70 percent of gross rental income, 8 percent of gross investment income and 17 percent of net income. Furthermore, small businesses in 2007 and 2010 had a larger share of all business losses (43 and 38 percent, respectively) than all business profits (23 and 24 percent).

Tables 3 through 6 present small business tabulations based on total income, net income, industry, and employer/non-employer status. As shown by Table 3, just over one-half (52 percent) of small businesses reported total income of less than \$50,000 in 2007. In 2010, this percentage increased to 54 percent. Of these firms, 40 percent reported a loss for the tax year in 2007. In 2010, 41 percent of these firms reported a loss for the tax year. By comparison, 35 percent of entities reporting total income in excess of \$50,000 reported a tax loss 2007 and 37 percent in 2010. The smallest groups likely include many start-up firms that will either fail or grow and transition to profit after several years.

Table 4 presents small business tabulations based on net income. In 2007, 38 percent of entities reported a tax loss and 87 percent reported a profit less than \$50,000. For those groups, gross receipts comprised the majority (90 percent) of their reported income. By comparison, only 0.5 percent of small businesses reported a profit in excess of \$1 million. For those filers, 52 percent of their reported income was attributable to investment or rental income. In 2010, 39 percent of entities reported a tax loss and 88 percent reported a profit less than \$50,000. For those groups, gross receipts comprised the majority (90 percent) of their reported income. By comparison, only 0.3 percent of small businesses reported a profit in excess of \$1 million. For those filers, 47 percent of their reported income was attributable to investment or rental income.

Table 5 presents small business tabulations based on industry. In 2007, 50 percent of small businesses reside in the construction, real estate or professional-scientific sectors. Entities in those sectors reported 38 percent of total income and 47 percent of net income. Due to Form 1040 Schedule F filers, only the agriculture sector reported an overall tax loss. In 2010, 49 percent of small businesses reside in the construction, real estate or professional-scientific sectors. Entities in those sectors reported 35 percent of total income and 40 percent of net income. In 2010, no sector reported an overall tax loss.

Table 6 separates small businesses into employers and non-employers. We classify an entity as an “employer” if direct labor deductions (wage-salary expenses) exceed \$5,000, as per our first business test. For corporations, we continue to exclude payments to officers from direct labor expenses. However, for sole proprietors, we include expenses for “contract labor” (line 11, Schedule C) because much of those expenses relate to the employment of independent

<sup>30</sup> If we double the small business threshold from \$10 to \$20 million, then we add approximately 110,000 entities that report average total income of \$13.2 million and average net income of \$1.1 million.





contractors that are similar to employees of the business.<sup>31</sup> (Other business filers do not separately itemize expenses for contract labor.) To the extent that payments to contract labor are also reported on a business tax return by the recipients and included in our small business group, the number of employers will be overstated. Finally, we count all Schedule E Rental Real Estate Income filers as non-employers, although it is likely that a small proportion have labor expenses.<sup>32</sup>

Based on these criteria, we find that 21 percent of small businesses qualify as an employer in 2007. Employers were considerably larger than non-employers and reported 71 percent of total small business income and 43 percent of total net income. In 2010, 20 percent of small businesses qualify as an employer. Employers were considerably larger than non-employers and reported 71 percent of total small business income and 47 percent of total net income.

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<sup>31</sup> Per the Schedule C instructions: “Contract labor includes payments to persons you do not treat as employees (for example, independent contractors) for services performed for your trade or business. Do not include contract labor deducted elsewhere on your return, such as contract labor that is includible on line 17 (legal and professional services), 21 (repairs and maintenance), 26 (wages) or 37 (cost of labor, Schedule A).”

<sup>32</sup> For Schedule E filers, we do not have the information necessary to make this computation.





**Table 1a: Business Versus Non-Business Filers**  
tax year 2007, billions of dollars, thousands of filers

		Total Income Detail					Net Income Detail			
	Number of Filers	Gross Receipts	Gross Rents 1/	Other Income 2/	Total Income	Avg Total Income	Pos Net Income	Neg Net Income	Net Income	Avg Net Income
<u>Schedule C: Sole Proprietors</u>										
All Filers	23,175	1,351	na	20	1,371	59,177	335	-55	280	12,069
Business	10,684	1,266	na	18	1,284	120,209	268	-45	223	20,854
Non-Business	12,491	85	na	2	87	6,974	66	-10	57	4,555
<u>Schedule E: Rent</u>										
All Filers	9,636	na	255	na	255	26,456	57	-74	-18	-1,825
Business	4,593	na	212	na	212	46,238	38	-60	-22	-4,755
Non-Business	5,043	na	43	na	43	8,442	18	-14	4	844
<u>Schedule F: Farmers</u>										
All Filers	2,511	107	na	26	134	53,254	14	-27	-13	-5,295
Business	1,415	106	na	25	130	92,194	12	-25	-13	-9,208
Non-Business	1,095	2	na	1	3	2,940	2	-2	0	-239
<u>Form 1065: Partnerships</u>										
All Filers	3,096	3,900	424	1,848	6,172	1,993,325	1,857	-345	1,512	488,319
Business	2,300	3,888	417	1,743	6,048	2,629,841	1,732	-317	1,415	615,282
Non-Business	797	12	7	105	124	155,666	125	-28	97	121,771
<u>Form 1120-S: S Corporations</u>										
All Filers	3,990	5,974	39	290	6,302	1,579,574	509	-84	424	106,369
Business	3,554	5,973	38	284	6,295	1,770,991	501	-82	419	117,914
Non-Business	436	2	0	6	8	17,745	8	-2	5	12,167
<u>Form 1120: C Corporations</u>										
All Filers	1,865	18,243	102	3,666	22,011	11,800,554	1,308	-247	1,061	568,723
Business	1,638	18,242	102	3,661	22,005	13,433,466	1,305	-247	1,058	646,119
Non-Business	227	1	0	4	6	24,478	3	-1	2	10,566
<u>TOTAL</u>										
All Filers	44,273	29,576	819	5,850	36,245	818,663	4,079	-833	3,246	73,315
Business	24,184	29,474	769	5,731	35,974	1,487,498	3,856	-776	3,080	127,374
Non-Business	20,089	102	50	119	271	13,466	221	-57	165	8,235

1/ For partnerships and S corporations, includes any gross rents reported on Form 8825.

2/ For partnerships and S corporations, includes all income reported on Schedule K, except net rental real estate income.

For partnerships and all corporations, includes net capital gains, dividends, royalties, interest and miscellaneous other income.





**Table 1b: Business Versus Non-Business Filers**  
tax year 2010, billions of dollars, thousands of filers

		Total Income Detail					Net Income Detail			
	Number of Filers	Gross Receipts	Gross Rents 1/	Other Income 2/	Total Income	Avg Total Income	Pos Net Income	Neg Net Income	Net Income	Avg Net Income
<u>Schedule C: Sole Proprietors</u>										
All Filers	23,005	1,172	na	19	1,191	51,770	323	-56	267	11,606
Business	9,858	1,076	na	17	1,093	110,871	245	-46	199	20,186
Non-Business	13,147	96	na	2	98	7,454	78	-10	68	5,172
<u>Schedule E: Rent</u>										
All Filers	10,102	na	274	na	274	27,123	63	-67	-4	-396
Business	4,944	na	228	na	228	46,114	42	-53	-11	-2,225
Non-Business	5,158	na	46	na	46	8,919	21	-14	7	1,357
<u>Schedule F: Farmers</u>										
All Filers	2,444	118	na	36	154	63,015	17	-24	-7	-2,864
Business	1,452	117	na	35	152	104,711	16	-23	-7	-4,822
Non-Business	992	1	na	1	2	2,016	1	-1	0	0
<u>Form 1065: Partnerships</u>										
All Filers	3,248	4,010	470	1,166	5,646	1,738,043	1,421	-445	976	300,448
Business	2,468	4,007	463	1,120	5,590	2,264,886	1,336	-405	931	377,211
Non-Business	780	3	7	46	56	71,761	85	-40	45	57,665
<u>Form 1120-S: S Corporations</u>										
All Filers	4,128	5,567	40	237	5,844	1,415,851	411	-89	322	78,012
Business	3,615	5,566	39	230	5,835	1,614,219	406	-86	320	88,526
Non-Business	513	1	1	7	9	17,551	5	-3	2	3,900
<u>Form 1120: C Corporations</u>										
All Filers	1,671	17,491	83	2,654	20,228	12,104,244	1,180	-379	801	479,311
Business	1,444	17,491	83	2,650	20,224	14,001,961	1,176	-378	798	552,490
Non-Business	227	0	0	4	4	17,638	4	-1	3	13,229
<u>TOTAL</u>										
All Filers	44,599	28,358	867	4,112	33,337	747,491	3,415	-1,060	2,355	52,804
Business	23,781	28,257	813	4,052	33,122	1,392,766	3,221	-991	2,230	93,771
Non-Business	20,817	101	54	60	215	10,328	194	-69	125	6,005

1/ For partnerships and S corporations, includes any gross rents reported on Form 8825.

2/ For partnerships and S corporations, includes all income reported on Schedule K, except net rental real estate income.

For partnerships and all corporations, includes net capital gains, dividends, royalties, interest and miscellaneous other income.





**Table 2a: Business Versus Small Business Filers**  
tax year 2007, billions of dollars, thousands of filers

		Total Income Detail					Net Income Detail			
	Number of Filers	Gross Receipts	Gross Rents 1/	Other Income 2/	Total Income	Avg Total Income	Pos Net Income	Neg Net Income	All Net Income	Avg Net Income
<u>Schedule C: Sole Proprietors</u>										
Business	10,684	1,266	na	18	1,284	120,209	268	-45	223	20,854
Small Business	10,679	1,121	na	15	1,136	106,409	265	-43	222	20,742
<u>Schedule E: Rent</u>										
Business	4,593	na	212	na	212	46,238	38	-60	-22	-4,755
Small Business	4,592	na	208	na	208	45,316	38	-59	-21	-4,628
<u>Schedule F: Farmers</u>										
Business	1,415	106	0	25	130	92,194	12	-25	-13	-9,208
Small Business	1,415	100	0	24	125	88,090	12	-25	-13	-9,049
<u>Form 1065: Partnerships</u>										
Business	2,300	3,888	417	1,743	6,048	2,629,841	1,732	-317	1,415	615,282
Small Business	2,232	702	279	182	1,163	521,163	300	-133	167	74,836
<u>Form 1120-S: S Corporations</u>										
Business	3,554	5,973	38	284	6,295	1,770,991	501	-82	419	117,914
Small Business	3,462	2,297	30	90	2,418	698,345	228	-59	169	48,671
<u>Form 1120: C Corporations</u>										
Business	1,638	18,242	102	3,661	22,005	13,433,466	1,305	-247	1,058	646,119
Small Business	1,563	1,336	4	65	1,405	899,097	49	-55	-6	-3,679
<b><u>TOTALS</u></b>										
Business	24,184	29,474	769	5,731	35,975	1,487,559	3,857	-776	3,080	127,375
Small Business	23,942	5,557	521	377	6,455	269,601	891	-374	517	21,601

1/ For partnerships and S corporations, includes any gross rents reported on Form 8825.

2/ For partnerships and S corporations, includes all income reported on Schedule K, except net rental real estate income.

For partnerships and all corporations, includes net capital gains, dividends, royalties, interest and miscellaneous other income.





**Table 2b: Business Versus Small Business Filers**  
tax year 2010, billions of dollars, thousands of filers

		Total Income Detail					Net Income Detail			
	Number of Filers	Gross Receipts	Gross Rents 1/	Other Income 2/	Total Income	Avg Total Income	Pos Net Income	Neg Net Income	All Net Income	Avg Net Income
<u>Schedule C: Sole Proprietors</u>										
Business	9,858	1,076	0	17	1,093	110,871	245	-46	199	20,186
Small Business	9,855	985	0	14	999	101,368	241	-42	199	20,192
<u>Schedule E: Rent</u>										
Business	4,944	0	228	0	228	46,114	42	-53	-11	-2,225
Small Business	4,944	0	223	0	223	45,105	41	-52	-11	-2,225
<u>Schedule F: Farmers</u>										
Business	1,452	117	0	35	152	104,711	16	-23	-7	-4,822
Small Business	1,451	110	0	34	144	99,219	16	-22	-6	-4,134
<u>Form 1065: Partnerships</u>										
Business	2,468	4,007	463	1,120	5,590	2,264,886	1,336	-405	931	377,211
Small Business	2,398	686	309	123	1,118	466,211	242	-150	92	38,364
<u>Form 1120-S: S Corporations</u>										
Business	3,615	5,566	39	230	5,835	1,614,219	406	-86	320	88,526
Small Business	3,531	2,179	31	77	2,287	647,648	192	-61	131	37,097
<u>Form 1120: C Corporations</u>										
Business	1,444	17,491	83	2,650	20,224	14,001,961	1,176	-378	798	552,490
Small Business	1,377	1,071	4	58	1,133	822,943	37	-55	-18	-13,074
<b><u>TOTALS</u></b>										
Business	23,781	28,257	813	4,052	33,122	1,392,766	3,221	-991	2,230	93,771
Small Business	23,557	5,031	567	306	5,904	250,630	769	-382	387	16,428

1/ For partnerships and S corporations, includes any gross rents reported on Form 8825.

2/ For partnerships and S corporations, includes all income reported on Schedule K, except net rental real estate income.

For partnerships and all corporations, includes net capital gains, dividends, royalties, interest and miscellaneous other income.





**Table 3a: Small Business Detail by Total Income**  
tax year 2007, billions of dollars, thousands of filers

		Total Income Detail						Net Income Detail			
		Number	Gross	Gross	Other	Total	Avg Total	Pos Net	Neg Net	All Net	Avg Net
<u>Reported Total Income</u>		<u>Firms</u>	<u>Receipts</u>	<u>Rents 1/</u>	<u>Income 2/</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>
< 0		132	1	0	-19	-18	-138,765	0	-31	-30	-230,692
0	25,000	8,178	68	38	5	111	13,591	17	-99	-82	-9,985
25,001	50,000	4,220	107	41	5	153	36,204	41	-27	13	3,144
50,001	75,000	2,134	97	31	5	133	62,199	36	-17	18	8,571
75,001	100,000	1,519	113	21	10	144	94,539	36	-14	23	14,858
100,001	250,000	3,432	455	76	27	557	162,353	125	-38	86	25,201
250,001	500,000	1,722	526	64	31	620	360,134	108	-31	77	44,865
500,001	1,000,000	1,173	724	68	43	835	711,842	107	-35	73	61,982
1,000,001	5,000,000	1,244	2,301	150	173	2,623	2,108,715	288	-69	219	175,747
5,000,001	10,000,000	188	1,164	33	99	1,297	6,890,590	133	-13	120	637,992
TOTAL		23,942	5,556	521	377	6,455	269,590	891	-373	517	21,601

1/ For partnerships and S corporations, includes any gross rents reported on Form 8825.

2/ For partnerships and S corporations, includes all income reported on Schedule K, except net rental real estate income.

For partnerships and all corporations, includes net capital gains, dividends, royalties, interest and miscellaneous other income.





**Table 3b: Small Business Detail by Total Income**  
tax year 2010, billions of dollars, thousands of filers

			Total Income Detail					Net Income Detail				
			Number	Gross	Gross	Other	Total	Avg Total	Pos Net	Neg Net	All Net	Avg Net
<u>Reported Total Income</u>			<u>Firms</u>	<u>Receipts</u>	<u>Rents 1/</u>	<u>Income 2/</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>
< 0			70	0	1	-30	-29	-409,075	1	-38	-37	-526,117
0	25,000	8,211	60	43	-2	101	12,281	18	-98	-80	-9,729	
25,001	50,000	4,395	105	48	3	155	35,298	42	-28	15	3,305	
50,001	75,000	2,123	95	30	5	131	61,547	36	-16	20	9,643	
75,001	100,000	1,313	88	22	4	114	86,771	31	-10	21	15,853	
100,001	250,000	3,328	417	84	27	528	158,709	116	-37	79	23,874	
250,001	500,000	1,668	485	70	38	594	355,942	101	-31	70	41,910	
500,001	1,000,000	1,132	675	72	46	793	700,605	98	-34	64	56,597	
1,000,001	5,000,000	1,156	2,116	160	138	2,413	2,088,057	226	-76	150	129,926	
5,000,001	10,000,000	161	988	37	78	1,103	6,854,896	100	-15	85	528,268	
TOTAL			23,557	5,031	567	306	5,904	250,616	770	-382	388	16,455

1/ For partnerships and S corporations, includes any gross rents reported on Form 8825.

2/ For partnerships and S corporations, includes all income reported on Schedule K, except net rental real estate income.

For partnerships and all corporations, includes net capital gains, dividends, royalties, interest and miscellaneous other income.





**Table 4a: Small Business Detail by Reported Net Income**  
tax year 2007, billions of dollars, thousands of filers

		Number Firms	Total Income Detail					Net Income Detail			
			Gross Receipts	Gross Rents 1/	Other Income 2/	Total Income	Avg Total Income	Pos Net Income	Neg Net Income	All Net Income	Avg Net Income
<b>Reported Net Income</b>											
-10,000,000	-1,000,001	44	44	12	-6	50	1,129,172	0	-102	-102	-2,300,062
-1,000,000	-100,001	484	368	58	12	437	904,098	0	-124	-124	-256,042
-100,000	-50,001	589	187	25	5	216	367,586	0	-41	-41	-68,874
-50,000	-1	7,982	705	97	19	822	102,933	0	-107	-107	-13,383
0	25,000	9,315	1,156	70	31	1,258	135,073	85	0	85	9,092
25,001	50,000	2,347	628	35	16	678	288,996	83	0	83	35,437
50,001	100,000	1,578	715	46	19	779	493,652	111	0	111	70,191
100,001	250,000	1,029	818	64	33	914	888,971	159	0	159	154,159
250,001	500,000	327	442	46	34	522	1,596,634	113	0	113	346,191
500,001	1,000,000	139	281	34	35	351	2,530,207	96	0	96	694,560
1,000,001	10,000,000	109	212	35	179	427	3,919,741	244	0	244	2,240,228
<b>TOTAL</b>		<b>23,942</b>	<b>5,556</b>	<b>521</b>	<b>377</b>	<b>6,455</b>	<b>269,606</b>	<b>891</b>	<b>-373</b>	<b>517</b>	<b>21,607</b>

1/ For partnerships and S corporations, includes any gross rents reported on Form 8825.

2/ For partnerships and S corporations, includes all income reported on Schedule K, except net rental real estate income.

For partnerships and all corporations, includes net capital gains, dividends, royalties, interest and miscellaneous other income.





**Table 4b: Small Business Detail by Reported Net Income**  
tax year 2010, billions of dollars, thousands of filers

		Number Firms	Total Income Detail					Net Income Detail			
			Gross Receipts	Gross Rents 1/	Other Income 2/	Total Income	Avg Total Income	Pos Net Income	Neg Net Income	All Net Income	Avg Net Income
<b>Reported Net Income</b>											
-10,000,000	-1,000,001	49	46	17	-29	34	698,446	0	-117	-117	-2,414,998
-1,000,000	-100,001	459	360	69	-6	422	918,658	0	-122	-122	-266,218
-100,000	-50,001	547	172	24	2	199	364,036	0	-38	-38	-69,272
-50,000	-1	8,146	708	110	16	834	91,720	0	-105	-105	-12,843
0	25,000	9,093	1,003	81	31	1,115	481,948	84	0	84	9,228
25,001	50,000	2,313	579	37	21	636	422,073	82	0	82	35,408
50,001	100,000	1,508	639	48	28	715	752,796	105	0	105	69,827
100,001	250,000	950	722	68	43	833	2,884,826	146	0	146	153,434
250,001	500,000	289	377	44	36	458	3,656,431	99	0	99	342,356
500,001	1,000,000	125	246	34	42	322	4,091,426	87	0	87	691,715
1,000,001	10,000,000	79	179	35	122	336	4,260,706	167	0	167	2,126,221
<b>TOTAL</b>		<b>23,557</b>	<b>5,031</b>	<b>567</b>	<b>306</b>	<b>5,904</b>	<b>250,616</b>	<b>770</b>	<b>-382</b>	<b>388</b>	<b>16,455</b>

1/ For partnerships and S corporations, includes any gross rents reported on Form 8825.

2/ For partnerships and S corporations, includes all income reported on Schedule K, except net rental real estate income.

For partnerships and all corporations, includes net capital gains, dividends, royalties, interest and miscellaneous other income.





**Table 5a: Small Business Detail by Industry**  
tax year 2007, billions of dollars, thousands of filers

	Number Firms	Total Income Detail					Net Income Detail			
		Gross	Gross	Other	Total	Avg Total	Pos Net	Neg Net	All Net	Avg Net
		Receipts	Rents 1/	Income 2/	Income	Income	Income	Income	Income	Income
Agriculture	1,786	189	2	42	233	130,448	27	-33	-6	-3,487
Mining-Utilities	133	55	0	9	64	483,952	16	-8	8	59,740
Construction	2,609	923	3	13	939	359,866	77	-26	51	19,504
Manufacturing	451	366	0	8	375	831,351	25	-16	9	19,785
Wholesale	538	476	0	9	485	902,227	27	-9	19	34,386
Retail	1,738	859	1	14	874	502,699	38	-20	17	9,835
Transportation	1,019	230	1	7	238	233,676	20	-7	13	12,490
Information	237	79	0	4	83	350,856	10	-10	0	715
Financial	755	184	2	113	299	395,952	121	-31	90	119,527
Real Estate and Rental	7,067	246	509	99	855	120,979	223	-139	84	11,880
Professional and Technical	2,266	619	1	20	639	282,229	133	-25	107	47,287
Administrative and Support	1,010	234	0	5	239	236,764	25	-7	18	18,039
Educational Services	177	22	0	0	23	128,972	3	-1	2	10,108
Health Care and Social Service	1,250	452	1	15	468	374,209	83	-9	74	59,096
Arts and Entertainment	562	83	0	5	88	156,740	14	-8	6	9,950
Accommodation and Food	627	297	1	7	306	487,774	21	-14	7	10,685
All Other Services	1,718	239	0	7	247	143,529	28	-8	20	11,436
TOTAL	23,942	5,556	522	377	6,455	269,602	891	-373	517	21,600

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2/ For partnerships and S corporations, includes all income reported on Schedule K, except net rental real estate income.

For partnerships and all corporations, includes net capital gains, dividends, royalties, interest and miscellaneous other income.





**Table 5b: Small Business Detail by Industry**  
tax year 2010, billions of dollars, thousands of filers

	Number Firms	Total Income Detail					Net Income Detail			
		Gross Receipts	Gross Rents 1/	Other Income 2/	Total Income	Avg Total Income	Pos Income	Net Income	Net Income	Avg Net Income
Agriculture	1,791	195	2	57	255	142,359	30	-30	0	-116
Mining-Utilities	129	49	1	10	60	466,227	14	-11	3	23,171
Construction	2,192	641	3	10	654	298,294	51	-26	25	11,433
Manufacturing	396	307	0	6	313	791,545	21	-15	6	15,200
Wholesale	542	460	0	7	467	862,161	25	-11	14	26,116
Retail	1,622	790	1	13	804	495,579	34	-18	16	9,847
Transportation	942	210	0	4	214	227,620	18	-8	10	10,460
Information	254	72	0	3	76	297,590	10	-9	1	2,327
Financial	677	152	2	87	242	356,736	95	-40	56	82,261
Real Estate and Rental	7,325	190	554	55	799	109,128	168	-141	27	3,750
Professional and Technical	2,317	614	1	18	633	273,076	128	-25	103	44,508
Administrative and Support	999	212	0	4	216	216,525	25	-6	19	18,717
Educational Services	212	27	0	0	27	128,674	4	-1	2	11,368
Health Care and Social Service	1,296	485	1	14	499	385,310	89	-10	79	61,267
Arts and Entertainment	550	84	0	4	88	159,883	13	-8	5	8,735
Accommodation and Food	634	314	1	6	321	507,029	17	-15	3	4,263
All Other Services	1,679	228	0	7	235	139,726	27	-8	19	11,242
<b>TOTAL</b>	<b>23,557</b>	<b>5,031</b>	<b>567</b>	<b>306</b>	<b>5,904</b>	<b>250,616</b>	<b>770</b>	<b>-382</b>	<b>388</b>	<b>16,455</b>

1/ For partnerships and S corporations, includes any gross rents reported on Form 8825.

2/ For partnerships and S corporations, includes all income reported on Schedule K, except net rental real estate income.

For partnerships and all corporations, includes net capital gains, dividends, royalties, interest and miscellaneous other income.





**Table 6a: Small Business Employers**  
tax year 2007, billions of dollars, thousands of filers

		Total Income Detail					Net Income Detail			
	Number Firms	Gross Receipts	Gross Rents 1/	Other Income 2/	Total Income	Avg Total Income	Pos Net Income	Neg Net Income	All Net Income	Avg Net Income
<u>Schedule C: Sole Proprietors</u>										
Employers	1,659	572	0	6	579	348,739	91	-12	79	47,838
Non-Employers	9,020	549	0	9	558	61,833	174	-32	142	15,760
<u>Schedule E: Rent /3</u>										
Employers	0	0	0	0	0	0	0	0	0	0
Non-Employers	4,592	0	208	0	208	45,316	38	-59	-21	-4,628
<u>Schedule F: Farmers</u>										
Employers	126	42	0	10	52	413,932	3	-6	-3	-20,734
Non-Employers	1,289	58	0	15	73	56,342	8	-19	-10	-7,911
<u>Form 1065: Partnerships</u>										
Employers	533	514	102	32	648	1,215,281	92	-47	45	84,395
Non-Employers	1,698	188	177	150	515	303,265	208	-86	122	71,834
<u>Form 1120-S: S Corporations</u>										
Employers	1,760	1,988	11	48	2,047	1,163,103	151	-41	110	62,672
Non-Employers	1,702	309	19	43	371	217,803	77	-18	58	34,178
<u>Form 1120: C Corporations</u>										
Employers	864	1,186	3	42	1,232	1,424,937	33	-41	-8	-9,604
Non-Employers	699	150	1	23	174	248,571	16	-13	3	3,636
<b><u>TOTAL</u></b>										
Employers	4,942	4,303	116	138	4,557	922,108	370	-146	224	45,276
Non-Employers	19,000	1,253	406	239	1,898	99,887	520	-227	293	15,442

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2/ For partnerships and S corporations, includes all income reported on Schedule K, except net rental real estate income.

For partnerships and all corporations, includes net capital gains, dividends, royalties, interest and miscellaneous other income.

3/ Schedule E Rental Income filers do not itemize expenses related to the employment of individuals. For the purposes of this table, we count all Schedule E filers as non-employers.





**Table 6b: Small Business Employers**  
tax year 2010, billions of dollars, thousands of filers

		Total Income Detail					Net Income Detail			
	Number Firms	Gross Receipts	Gross Rents 1/	Other Income 2/	Total Income	Avg Total Income	Pos Net Income	Neg Net Income	All Net Income	Avg Net Income
<u>Schedule C: Sole Proprietors</u>										
Employers	1,510	516	0	6	522	345,656	82	-13	69	45,690
Non-Employers	8,345	468	0	8	476	57,040	159	-29	130	15,578
<u>Schedule E: Rent /3</u>										
Employers	0	0	0	0	0	0	0	0	0	0
Non-Employers	4,944	0	223	0	223	45,105	41	-52	-11	-2,225
<u>Schedule F: Farmers</u>										
Employers	131	46	0	13	59	451,850	4	-5	-1	-7,658
Non-Employers	1,321	65	0	21	86	65,114	12	-17	-5	-3,786
<u>Form 1065: Partnerships</u>										
Employers	552	522	112	20	654	1,184,637	83	-48	35	63,398
Non-Employers	1,846	164	197	103	464	251,356	159	-102	57	30,878
<u>Form 1120-S: S Corporations</u>										
Employers	1,769	1,899	11	44	1,954	1,104,555	132	-39	93	52,571
Non-Employers	1,762	280	20	33	333	188,968	61	-22	39	22,131
<u>Form 1120: C Corporations</u>										
Employers	744	945	2	38	985	1,323,681	25	-39	-14	-18,814
Non-Employers	633	127	1	20	148	233,944	12	-16	-4	-6,323
<b><u>TOTAL</u></b>										
Employers	4,706	3,928	125	121	4,174	886,955	326	-144	182	38,674
Non-Employers	18,851	1,104	441	185	1,730	91,774	444	-238	206	10,928

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3/ Schedule E Rental Income filers do not itemize expenses related to the employment of individuals. For the purposes of this table, we count all

Schedule E filers as non-employers.

