

Appendix: Sources and Documentation

Fact 1: Most businesses are pass-throughs.

Figure 1. Types of Businesses, 2014

Source: Prisinzano, Richard, Jason DeBacker, John Kitchen, Matthew Knittel, Susan Nelson, and James Pearce. 2016. “Methodology for Identifying Small Businesses and Their Owners.” Office of Tax Analysis, [Technical Paper 4 \(Update\)](#), U.S. Department of the Treasury.

Table 2014-2: <https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/TP4-Tables.xlsx>

Fact 2: Almost all businesses are small.

Figure 2. Size of U.S. Businesses by Type, 2014

Source: Prisinzano, Richard, Jason DeBacker, John Kitchen, Matthew Knittel, Susan Nelson, and James Pearce. 2016. “Methodology for Identifying Small Businesses and Their Owners.” Office of Tax Analysis, [Technical Paper 4 \(Update\)](#), U.S. Department of the Treasury.

Table 2014-2: <https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/TP4-Tables.xlsx>

Fact 3: Pass-throughs are not necessarily small businesses.

Figure 3. Share of Sales and Profits Accruing to Large Businesses, 2014

Source: Prisinzano, Richard, Jason DeBacker, John Kitchen, Matthew Knittel, Susan Nelson, and James Pearce. 2016. “Methodology for Identifying Small Businesses and Their Owners.” Office of Tax Analysis, [Technical Paper 4 \(Update\)](#), U.S. Department of the Treasury.

Table 2014-2: <https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/TP4-Tables.xlsx>

Fact 4: Pass through businesses now earn a majority of business income.

Figure 4. Shares of Total Business Income (less deficit), 1980-2013

Source: Nelson, Susan C. 2016. “Paying Themselves: S Corporation Owners and Trends in S Corporation Income, 1980-2013.” U.S. Department of the Treasury, Office of Tax Analysis, Working Paper 107.

<https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/WP-107.pdf>

Fact 5: Pass-through businesses pay lower tax rates than C-corporations.

Figure 5. Effective and Maximum Marginal Tax Rates by Business Type

Source: Cooper, Michael, John McClelland, James Pearce, Richard Prinsinzano, Joseph Sullivan, Danny Yagan, Owen Zidar, and Eric Zwick. 2016. "Business in the United States: Who Owns It, and How Much Tax Do They Pay?" U.S. Department of the Treasury, Office of Tax Analysis, Working Paper 104. Figure 7.

<https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/WP-104.pdf>

Figure 6. Pass-Through Income by Statutory Marginal Tax Rate

Source: Prinsinzano, Richard, Jason DeBacker, John Kitchen, Matthew Knittel, Susan Nelson, and James Pearce. 2016. "Methodology for Identifying Small Businesses and Their Owners." Office of Tax Analysis, [Technical Paper 4 \(Update\)](#), U.S. Department of the Treasury.

Table 2014-10: <https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/TP4-Tables.xlsx>

Fact 6: The multitude of business types encourages inefficient tax avoidance.

Figure 7. How Business Owners Earn their Income

Source (C-corporations):
Internal Revenue Service. 2016. "SOI Tax Stats – Table 5 – Returns of Active Corporations." Corporation Complete Report.

<https://www.irs.gov/uac/soi-tax-stats-table-5-returns-of-active-corporations>

Labor Earnings is defined as Officer Compensation. Business Profits is defined as Total Net Income less Deficit.

Source (S-corporations):
Internal Revenue Service. 2016. "SOI Tax Stats – Table 4 – Returns of Active Corporations, Form 1120S." Corporation Complete Report.

<https://www.irs.gov/uac/soi-tax-stats-table-4-returns-of-active-corporations-form-1120s>

Labor Earnings is defined as Officer Compensation. Business Profits is defined as Total Net Income less Deficit.

Source (partnerships):
DeCarlo, Ron, Lauren Lee, and Nina Shumofsky. 2013. "Partnership Returns, 2011." Statistics of Income Bulletin, Fall 2013.

<https://www.irs.gov/pub/irs-soi/13pafallbulpartret.pdf>

Werfel, Daniel I., Rosemary D. Marcuss, M Susan Boehmer, and Kenneth H. Szeftlinski. 2014. “2011 Partnership Returns Line Item Estimates.” Department of the Treasury, Internal Revenue Service, Publication 5035.

<https://www.irs.gov/pub/irs-soi/11palinecount.pdf>

Internal Revenue Service, *Statistics of Income Public Use File, 2011*.

Total net partnership income to individual taxpayers is calculated from the 2011 IRS Public Use File (PUF). Partnership SECA income comes from line count amount from Schedule K in Werfel et al. (2014). Portfolio income is defined as total partnership income distributed to individuals (from Schedule K in Werfel et al. 2014) minus net partnership business income measured in the PUF. Business Income is defined as net partnership business income (from PUF) minus SECA earnings (from Schedule K). Labor earnings is defined as partnership income subject to SECA (from Schedule K).

Fact 7: The growth of pass-through businesses has eroded corporate and payroll revenues.

Figure 8. Payroll Taxable Income as a Share of Total Pass-through Owner Income

Source (self-employment earnings, Schedule-C net income, Schedule-F net income, and net partnership income): Internal Revenue Service. 1994-2011 “Public Use Tax Files.” Microdata. *Statistics of Income Division, Internal Revenue Service*.

Pass-through income is calculated as the sum of partnership, Schedule C, and Schedule F net income. Self-employment earnings are derived from total self-employment tax paid and the portion of self-employment earnings subject to OASDI.

Source (S-corporation officer compensation and S-corporation net income): Internal Revenue Service. 2016. “SOI Tax Stats – Table 1 – Returns of Active Corporations, Form 1120S.” *Corporation Complete Report*.

<https://www.irs.gov/uac/soi-tax-stats-table-1-returns-of-active-corporations-form-1120s>

Fact 8: Pass-through income is primarily earned by high-income individuals.

Figure 9. Share of Income Type Accruing to the Top 1%

Source: Cooper, Michael, John McClelland, James Pearce, Richard Prinsziano, Joseph Sullivan, Danny Yagan, Owen Zidar, and Eric Zwick. 2016. “Business in the United States: Who Owns It, and How Much Tax Do They Pay?” U.S. Department of the Treasury, Office of Tax Analysis, Working Paper 104. Figure 7.

<https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/WP-104.pdf>

Fact 9: Pass-through businesses are responsible for a significant share of the tax gap.

Figure 10. The Individual Income Tax Gap from Underreported Income

Source: Internal Revenue Service. 2016. “Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2008-2010.” Table 6. Publication 1415 (Rev. 5-2016).
<https://www.irs.gov/pub/irs-soi/p1415.pdf>

References

- Cooper, Michael, John McClelland, James Pearce, Richard Prisinzano, Joseph Sullivan, Danny Yagan, Owen Zidar, and Eric Zwick. 2016. "Business in the United States: Who Owns It, and How Much Tax Do They Pay?" U.S. Department of the Treasury, Office of Tax Analysis, Working Paper 104.
- DeCarlo, Ron, Lauren Lee, and Nina Shumofsky. 2013. “Partnership Returns, 2011.” *Statistics of Income Bulletin*, Fall 2013.
- Internal Revenue Service. 1994-2011. “Public Use Tax Files.” Microdata. Statistics of Income Division, Internal Revenue Service.
- Internal Revenue Service. 2016a. “Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2008–2010.” Publication 1415 (Rev. 5-2016).
- Internal Revenue Service. 2016b. “SOI Tax Stats – Table 1 – Returns of Active Corporations, Form 1120S.” Corporation Complete Report.
- Internal Revenue Service. 2016c. “SOI Tax Stats – Table 4 – Returns of Active Corporations, Form 1120S.” Corporation Complete Report.

Internal Revenue Service. 2016d. “SOI Tax Stats – Table 5 – Returns of Active Corporations.”

Corporation Complete Report.

Nelson, Susan C. 2016. "Paying Themselves: S Corporation Owners and Trends in S

Corporation Income, 1980-2013." U.S. Department of the Treasury, Office of Tax

Analysis, Working Paper 107.

Prisinzano, Richard, Jason DeBacker, John Kitchen, Matthew Knittel, Susan Nelson, and James

Pearce. 2016. “Methodology for Identifying Small Businesses and Their Owners.”

Office of Tax Analysis, Technical Paper 4 (Update), U.S. Department of the Treasury.

Rosenthal, Steven M., and Lydia S. Austin. 2016. “The Dwindling Taxable Share of U.S.

Corporate Stock.” *Tax Notes*: May 16.

Treasury Office of Tax Analysis. 2016. “Gaps between the Net Investment Income Tax Base and

the Employment Tax Base.” U.S. Department of the Treasury.

Werfel, Daniel I., Rosemary D. Marcuss, M Susan Boehmer, and Kenneth H. Szefflinski. 2014.

“2011 Partnership Returns Line Item Estimates.” Department of the Treasury, Internal

Revenue Service, Publication 5035.