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Methodology to Identify Small Businesses

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

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Richard Prisinzano[2], Jason DeBacker[3], John Kitchen[4], Matthew Knittel[5], Susan Nelson[6] and James Pearce[7]

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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[2] Richard Prisinzano: Office of Tax Analysis, U.S. Department of the Treasury, Richard.Prisinzano@treasury.gov.
[3] Jason DeBacker: University of South Carolina, Dason.DeBacker@moore.sc.edu.
[4] John Kitchen: Office of Tax Analysis, U.S. Department of the Treasury, John.Kitchen@treasury.gov.
[5] Matthew Knittel: Independent Fiscal Office, Commonwealth of Pennsylvania, MKnittel@ifo.state.pa.us.
[6] Susan Nelson: Office of Tax Analysis, U.S. Department of the Treasury, Susan.Nelson@treasury.gov.
[7] James Pearce: Office of Tax Analysis, U.S. Department of the Treasury, James.Pearce@treasury.gov.

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. [8]

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.

[8] 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 sub-divide 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.[9] [10] It also does not compare the definitions

[9] 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.[11] 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).[12] 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.

[10] Currently, John McClelland and Richard Prisinzano are working on a paper that addresses these issues.

[11] 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..

[12] 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.[13] 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.[14]
- 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.[15] 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.

[13] 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 .

[14] Some such corporations might be subject to the personal holding company tax.

[15] 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.[16]

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:

- <u>De Minimis Activity.</u> 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.
- <u>Businesslike Activity.</u> 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,

[16] 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:

<u>De Minimis Test: Total income or total deductions exceed $10,000, or their sum exceeds $15,000.</u>

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.[17] [18] 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.

<u>Business Activity Test: Total deductions exceed $5,000.</u>

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.

[17] 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.

[18] 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.[19] [20] 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.

[19] 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).
[20] 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.[21] 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).[22] We discount those deductions by 50

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[21] 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.

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

percent because (1) they are claimed intensively by misclassified employees and independent 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.[23]

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.[24] 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.[25] We require that

[23] 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.
[24] 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.
[25] The data do not itemize property taxes separately.

owners report other types of expenses such as cleaning, advertising, maintenance or repairs that suggest active management of the properties.

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).[26] 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).

[26] 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.

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 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[27]:

- 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.[28]
- 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

[27] 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.

[28] 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.

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.[29] 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.[30]

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.

[29] 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.

[30] 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.

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 contractors that are similar to employees of the business.[31] (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.[32]

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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[31] 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)."

[32] For Schedule E filers, we do not have the information necessary to make this computation.

Table 1: Business Versus Non-Business Filers
billions of dollars, thousands of filers

	Number of Filers	Total Income Detail: Gross Receipts	Gross Rents 1/	Other Income 2/	Total Income	Avg Total Income	Net Income Detail: Pos Net Income	Neg Net Income	Net Income	Avg Net Income
Schedule C: Sole Proprietors										
2007										
All Filers	23,128	1,349	0	20	1,369	59,191	335	-55	280	12,106
Business	10,675	1,272	0	18	1,290	120,848	268	-45	223	20,891
Non-Business	12,454	77	0	2	79	6,343	67	-10	57	4,577
2010										
All Filers	23,005	1,172	0	19	1,191	51,770	323	-56	267	11,606
Business	9,858	1,076	0	17	1,093	110,871	245	-46	199	20,186
Non-Business	13,147	96	0	2	98	7,454	78	-10	68	5,172
Schedule E: Renters										
2007										
All Filers	9,636	0	253	0	253	26,256	57	-74	-17	-1,764
Business	4,593	0	212	0	212	46,162	38	-60	-22	-4,790
Non-Business	5,043	0	41	0	41	8,130	19	-14	5	991
2010										
All Filers	10,102	0	274	0	274	27,123	63	-67	-4	-396
Business	4,944	0	228	0	228	46,114	42	-53	-11	-2,225
Non-Business	5,158	0	46	0	46	8,919	21	-14	7	1,357
Schedule F: Farmers										
2007										
All Filers	2,510	107	0	26	133	52,982	14	-25	-11	-4,382
Business	1,468	106	0	25	131	89,221	13	-23	-10	-6,811
Non-Business	1,042	1	0	1	2	1,919	1	-2	-1	-960
2010										
All Filers	2,444	118	0	36	154	63,015	17	-24	-7	-2,864
Business	1,452	117	0	35	152	104,711	16	-23	-7	-4,822
Non-Business	992	1	0	1	2	2,016	1	-1	0	0

Table 1 (cont.): Business Versus Non-Business Filers

billions of dollars, thousands of filers

	Number of Filers	Total Income Detail: Gross Receipts	Gross Rents 1/	Other Income 2/	Total Income	Avg Total Income	Net Income Detail: Pos Net Income	Neg Net Income	Net Income	Avg Net Income
Form 1065: Partnerships										
2007										
All Filers	3,096	3,900	424	1,783	6,107	1,972,333	1,857	-346	1,511	487,996
Business	2,288	3,897	417	1,692	6,006	2,625,561	1,740	-315	1,425	622,948
Non-Business	809	3	7	91	101	124,873	117	-31	86	106,327
2010										
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
Form 1120S: S-Corporations										
2007										
All Filers	3,990	5,974	38	305	6,317	1,583,251	498	-86	412	103,261
Business	3,552	5,972	38	298	6,308	1,775,731	491	-84	407	114,572
Non-Business	438	2	0	7	9	20,569	7	-2	5	11,427
2010										
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
Form 1120: C-Corporations										
2007										
All Filers	1,865	18,243	102	3,744	22,089	11,842,496	1,379	-318	1,061	568,830
Business	1,633	18,243	102	3,739	22,084	13,526,501	1,374	-316	1,058	648,027
Non-Business	233	0	0	5	5	21,498	5	-2	3	12,899
2010										
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
TOTAL										
2007										
All Filers	44,226	29,573	817	5,878	36,268	820,062	4,140	-904	3,236	73,170
Business	24,208	29,490	769	5,772	36,031	1,488,397	3,924	-843	3,081	127,272
Non-Business	20,018	83	48	106	237	11,839	216	-61	155	7,743
2010										
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

Table 2: Business Versus Small Business Filers
billions of dollars, thousands of filers

	Number of Filers	Total Income Detail: Gross Receipts	Gross Rents 1/	Other Income 2/	Total Income	Avg Total Income	Net Income Detail: Pos Net Income	Neg Net Income	Net Income	Avg Net Income
Schedule C: Sole Proprietors										
2007										
Business	10,675	1,272	0	18	1,290	120,848	268	-45	223	20,891
Small Business	10,669	1,121	0	15	1,136	106,473	265	-43	222	20,807
2010										
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
Schedule E: Renters										
2007										
Business	4,593	0	212	0	212	46,162	38	-60	-22	-4,790
Small Business	4,592	0	208	0	208	45,293	38	-59	-21	-4,573
2010										
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
Schedule F: Farmers										
2007										
Business	1,468	106	0	25	131	89,221	13	-23	-10	-6,811
Small Business	1,468	101	0	25	126	85,832	13	-23	-10	-6,812
2010										
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

Table 2 (cont.): Business Versus Small Business Filers
billions of dollars, thousands of filers

	Number of Filers	Total Income Detail: Gross Receipts	Gross Rents 1/	Other Income 2/	Total Income	Avg Total Income	Net Income Detail: Pos Net Income	Neg Net Income	Net Income	Avg Net Income
Form 1065: Partnerships										
2007										
Business	2,288	3,897	417	1,692	6,006	2,625,561	1,740	-315	1,425	622,948
Small Business	2,219	702	280	193	1,175	529,490	299	-130	169	76,156
2010										
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
Form 1120S: S-Corporations										
2007										
Business	3,552	5,972	38	298	6,308	1,775,731	491	-84	407	114,572
Small Business	3,460	2,298	30	96	2,424	700,550	224	-59	165	47,686
2010										
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
Form 1120: C-Corporations										
2007										
Business	1,633	18,243	102	3,739	22,084	13,526,501	1,374	-316	1,058	648,027
Small Business	1,555	1,314	4	68	1,386	891,460	49	-54	-5	-3,216
2010										
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
TOTAL										
2007										
Business	24,208	29,490	769	5,772	36,031	1,488,397	3,924	-843	3,081	127,272
Small Business	23,964	5,536	522	397	6,455	269,366	888	-368	520	21,700
2010										
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

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

Reported Total Income		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
				Total Income Detail					Net Income Detail			
< 0		62	0%	1	0	-19	-18	-291,263	0	-25	-25	-400,852
0	25,000	8,057	34%	62	39	0	100	12,368	16	-95	-79	-9,775
25,001	50,000	4,333	18%	108	42	4	153	35,355	41	-28	12	2,869
50,001	75,000	2,161	9%	97	30	5	132	61,095	36	-17	18	8,527
75,001	100,000	1,417	6%	96	21	6	123	86,854	34	-12	22	15,195
100,001	250,000	3,526	15%	454	76	27	557	158,020	125	-40	85	24,102
250,001	500,000	1,770	7%	530	63	38	631	356,586	109	-31	77	43,603
500,001	1,000,000	1,193	5%	725	68	48	841	704,342	107	-35	72	60,287
1,000,001	5,000,000	1,258	5%	2,316	150	185	2,651	2,107,916	288	-70	217	172,802
5,000,001	10,000,000	187	1%	1,147	33	104	1,284	6,882,358	132	-13	119	637,843
TOTAL		**23,964**		**5,535**	**522**	**397**	**6,454**	**269,330**	**887**	**-368**	**519**	**21,667**

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

Reported Total Income		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
				Total Income Detail					Net Income Detail			
< 0		70	0%	0	1	-30	-29	-409,075	1	-38	-37	-526,117
0	25,000	8,211	35%	60	43	-2	101	12,281	18	-98	-80	-9,729
25,001	50,000	4,395	19%	105	48	3	155	35,298	42	-28	15	3,305
50,001	75,000	2,123	9%	95	30	5	131	61,547	36	-16	20	9,643
75,001	100,000	1,313	6%	88	22	4	114	86,771	31	-10	21	15,853
100,001	250,000	3,328	14%	417	84	27	528	158,709	116	-37	79	23,874
250,001	500,000	1,668	7%	485	70	38	594	355,942	101	-31	70	41,910
500,001	1,000,000	1,132	5%	675	72	46	793	700,605	98	-34	64	56,597
1,000,001	5,000,000	1,156	5%	2,116	160	138	2,413	2,088,057	226	-76	150	129,926
5,000,001	10,000,000	161	1%	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**

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

Reported Net Income		Number Firms	Total Income Detail: Gross Receipts	Gross Rents 1/	Other Income 2/	Total Income	Avg Total Income	Net Income Detail: Pos Net Income	Neg Net Income	All Net Income	Avg Net Income
-10,000,000	-1,000,001	43	43	12	-21	34	806,035	0	-98	-98	-2,303,895
-1,000,000	-100,001	479	366	58	-6	417	870,731	0	-122	-122	-255,321
-100,000	-50,001	586	188	25	3	215	366,761	0	-40	-40	-68,904
-50,000	-1	7,965	721	96	16	833	104,574	0	-107	-107	-13,402
0	25,000	9,366	1,144	71	34	1,249	133,308	85	0	85	9,081
25,001	50,000	2,355	632	35	19	686	291,144	83	0	83	35,406
50,001	100,000	1,573	706	46	25	778	494,241	110	0	110	70,060
100,001	250,000	1,026	814	64	45	923	899,801	158	0	158	154,091
250,001	500,000	326	437	46	44	527	1,618,647	113	0	113	346,165
500,001	1,000,000	137	277	34	45	357	2,603,333	95	0	95	695,204
1,000,001	10,000,000	108	208	36	192	436	4,038,974	242	0	242	2,241,936
TOTAL		**23,964**	**5,535**	**522**	**397**	**6,454**	**269,330**	**887**	**-368**	**519**	**21,667**

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

Reported Net Income		Number Firms	Total Income Detail: Gross Receipts	Gross Rents 1/	Other Income 2/	Total Income	Avg Total Income	Net Income Detail: Pos Net Income	Neg Net Income	All Net Income	Avg Net Income
-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	-11,505
0	25,000	9,093	1,003	81	31	1,115	481,948	84	0	84	36,278
25,001	50,000	2,313	579	37	21	636	422,073	82	0	82	54,311
50,001	100,000	1,508	639	48	28	715	752,796	105	0	105	110,864
100,001	250,000	950	722	68	43	833	2,884,826	146	0	146	504,885
250,001	500,000	289	377	44	36	458	3,656,431	99	0	99	788,956
500,001	1,000,000	125	246	34	42	322	4,091,426	87	0	87	1,099,895
1,000,001	10,000,000	79	179	35	122	336	4,260,706	167	0	167	2,126,221
TOTAL		**23,557**	**5,031**	**567**	**306**	**5,904**	**250,616**	**770**	**-382**	**388**	**16,455**

Table 5a: Small Business Detail by Industry

tax year 2007, billions of dollars, thousands of filers

	Number	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
Agriculture	1,839	189	2	43	234	127,309	28	-32	-4	-1,937
Mining-Utilities	133	54	0	9	64	481,396	15	-8	7	52,639
Construction	2,605	914	3	13	930	356,938	77	-26	50	19,301
Manufacturing	450	363	0	9	372	826,835	24	-16	9	19,675
Wholesale	537	476	0	9	485	902,504	27	-9	18	34,089
Retail	1,734	859	1	15	875	504,575	37	-21	17	9,644
Transportation	1,019	230	1	7	238	233,618	20	-7	13	12,407
Information	236	78	0	4	82	348,973	10	-10	0	571
Financial	754	183	2	113	298	394,974	121	-30	91	120,651
Real Estate and Rental	7,049	246	509	113	869	123,248	222	-136	86	12,225
Professional and Technical	2,265	617	1	20	638	281,647	132	-25	107	47,041
Admin	1,008	232	0	5	238	235,882	25	-7	18	17,942
Educational Services	177	22	0	0	23	129,131	3	-1	2	10,070
Health Care	1,250	451	1	15	467	373,615	83	-9	73	58,770
Arts	562	83	0	5	89	157,611	14	-8	6	9,985
Accommodation	627	297	1	8	306	488,352	21	-14	7	10,506
All Other Services	1,717	239	0	7	247	143,587	28	-9	20	11,384
TOTAL	**23,964**	**5,535**	**522**	**397**	**6,454**	**269,330**	**887**	**-368**	**519**	**21,667**

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 5b: Small Business Detail by Industry

tax year 2010, billions of dollars, thousands of filers

	Number	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
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
Admin	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	1,296	485	1	14	499	385,310	89	-10	79	61,267
Arts	550	84	0	4	88	159,883	13	-8	5	8,735
Accommodation	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
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 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
Schedule C: Sole Proprietors										
Employers	1,717	585	0	6	591	344,305	91	-13	78	45,441
Non-Employers	8,953	536	0	9	545	60,874	173	-30	143	15,973
							-1		-1	
Schedule E: Rent /3										
Employers	0	0	0	0	0	0	0	0	0	0
Non-Employers	4,592	0	208	0	208	45,293	38	-59	-21	-4,573
Schedule F: Farmers										
Employers	126	42	0	10	52	413,905	3	-5	-2	-15,919
Non-Employers	1,342	58	0	15	73	54,382	9	-18	-9	-6,705
		-1			-1		-1		-1	
Form 1065: Partnerships										
Employers	533	515	102	29	646	1,211,029	92	-47	45	84,360
Non-Employers	1,686	187	177	164	528	313,225	208	-83	125	74,154
			-1		-1		1		1	
Form 1120-S: S Corporations										
Employers	1,764	1,990	11	52	2,053	1,164,023	149	-41	108	61,235
Non-Employers	1,696	307	19	45	371	218,695	75	-18	57	33,600
		-1		1						
Form 1120: C Corporations										
Employers	863	1,164	3	44	1,211	1,403,342	33	-41	-8	-9,271
Non-Employers	692	149	1	24	174	251,513	16	-13	3	4,336
		-1			-1					
TOTAL										
Employers	5,002	4,296	116	141	4,553	910,197	368	-147	221	44,180
Non-Employers	18,961	1,237	405	257	1,899	100,151	519	-221	298	15,716

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
Schedule C: Sole Proprietors										
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
	0	-1			-1					
Schedule E: Rent /3										
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
Schedule F: Farmers										
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
		1			1					
Form 1065: Partnerships										
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
Form 1120-S: S Corporations										
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
							1	0	1	
Form 1120: C Corporations										
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
		1	-1							
TOTAL										
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