Who Earns Pass-Through Business Income? An Analysis of Individual Tax Return Data

Mark P. Keightley
Analyst in Public Finance

February 16, 2012

Congressional Research Service
7-5700
www.crs.gov
R42359

CRS Report for Congress
Prepared for Members and Committees of Congress

Summary

Pass-through businesses—sole proprietorships, partnerships, and S corporations—generate more than half of all business income in the United States. Pass-through income is, in general, taxed only once at the individual income tax rates when it is distributed to its owners. In contrast, the income of C corporations is taxed twice; once at the corporate level according to corporate tax rates, and then a second time at the individual tax rates when shareholders receive dividend payments or realize capital gains. This leads to the so-called "double taxation" of corporate profits.

This report analyzes individual tax return data to determine who earns pass-through business income and bears the burden of taxes on that income. The analysis finds that over 82% of net pass-through income is earned by taxpayers with an adjusted gross income (AGI) over $100,000, although these taxpayers account for just 23% of returns filed. A significant fraction of pass-through income is concentrated among upper-income earners. Taxpayers with AGI over $250,000, for example, receive 62% of pass-through income, but account for just over 6% of returns with pass-through income. A closer look at S corporations and partnerships shows passive income accounts for 10% and 25%, respectively, of their total income. This analysis, when combined with research on the corporate tax burden, suggests that higher-income taxpayers will generally bear most of the burden from increased pass-through taxes.

A number of proposed and scheduled tax changes would result in pass-throughs paying higher taxes. Several lawmakers and the Obama Administration, for example, have expressed interest in taxing large pass-throughs as corporations, which would subject some pass-throughs to an additional layer of taxation. Pass-through taxation could also increase if a tax reform that includes lower corporate tax rates that are paid for by the elimination or reduction of certain business tax benefits is enacted. Additionally, the scheduled expiration of the 2001/2003 tax cuts at the end of this year could increase taxes on pass-throughs by increasing individual tax rates. Lastly, a new 3.8% tax on passive income that was enacted as part of the Health Care and Education Reconciliation Act of 2010 (HCERA, P.L. 111-152) is set to take effect in 2013. The tax may apply to some pass-throughs.

While the analysis of these proposed and scheduled changes suggests that higher-income taxpayers will generally bear most of the burden from increased pass-through taxes, there are circumstances that could raise congressional concern. For example, an across-the-board expiration of the 2001/2003 individual tax rates will increase taxes for all pass-through owners. One option for preventing the tax burden from increasing for lower and middle class business owners is to allow the reduced rates to expire only for higher-income earners.

Concern has also risen over the new 3.8% tax on passive income and its effect on pass-throughs. The distributional analysis in this report shows, however, most S corporation and partnership income is the active type, and active business income is exempt from the 3.8% tax. The share of income that is passive, and potentially subject to the new tax, overwhelmingly accrues to higher-income taxpayers—77% of passive partnership income and 93% of passive S corporation income went to taxpayers with AGI over $250,000. Sole proprietors could generally be expected to be exempt from the tax since most of their income is likely active.

Contents

Figures

Tables

Appendixes

Contacts

More than half of business income is generated by sole proprietorships, partnerships, and S corporations.[1] This fact is important because the income of these businesses is, in general, taxed only once at the individual income tax rates when it is distributed to its owners. This has led sole proprietorships, partnerships, and S corporations to be referred to as "pass-throughs" since their income "passes through" the business to its owners.[2] In contrast, the income of C corporations is taxed twice; once at the corporate level according to corporate tax rates, and then a second time at the individual tax rates when shareholders receive dividend payments or realize capital gains. This leads to the so-called "double taxation" of corporate profits.[3]

A number of proposed and scheduled tax changes could result in pass-throughs paying higher taxes. Several lawmakers and the Obama Administration, for example, have expressed interest in taxing large pass-throughs as corporations, which would subject some of these entities to an additional layer of taxation. Pass-through taxation could also increase if one of the proposed tax reform plans that call for lower corporate tax rates paid for by the elimination or reduction of certain business tax benefits is enacted. Additionally, the scheduled expiration of the 2001/2003 tax cuts at the end of this year could increase taxes on pass-throughs. Lastly, a new 3.8% "unearned income Medicare contribution" tax that is set to take effect in 2013 may apply to some pass-throughs.

This report uses a nationally representative sample of tax returns to analyze who earns pass-through income.[4] The analysis finds that upper-income earners account for the majority of pass-through income earned, although lower- and middle-income taxpayers account for the majority of pass-through returns filed. The analysis then determines who would bear the burden of increased taxes on pass-throughs. Theoretically, it is possible that higher-income pass-through owners could shift the burden of increased taxes to lower- and middle-income employees by reducing wages or employment. The analysis on who earns pass-through income, when combined with research on the corporate tax burden, however, suggests that most of the tax burden would fall on higher-income taxpayers. A more detailed discussion of the proposed and scheduled tax changes is presented before moving on to the analysis.

[1] This figure includes sole proprietorships, partnerships, limited liability companies (LLCs), and S corporations. The exact percentage has fluctuated over time and is sensitive to swings in the business cycle, but between 1998 (the first year pass-through income accounted for more than 50% of business income) and 2008 (the latest data year), the average fraction of income accruing to pass-throughs has been 59%. CRS calculations from Internal Revenue Service's Integrated Business Data, Table 1, http://www.irs.gov/pub/irs-soi/80ot1all.xls. Net income is measured as net income less deficit. Regulated investment companies (RICs) and real estate investment trust (REIT) were excluded. Including RICs and REITs lowers the percentage of income accruing to pass-through over the same time period to 50%.

[2] For more information on the taxation of various business forms, see CRS Report R40748, *Business Organizational Choices: Taxation and Responses to Legislative Changes*, by Mark P. Keightley.

[3] For information on the role of the corporate tax and a discussion of integrating the individual and corporate tax systems, see CRS Report RL34229, *Corporate Tax Reform: Issues for Congress*, by Jane G. Gravelle and Thomas L. Hungerford.

[4] The data used for the analysis comes from the Internal Revenue Service's (IRS) 2006 Public Use Tax File. This nationally representative sample of tax returns contains detailed information on individual taxpayers. There is a significant lag in the release of the Tax Files, which explains the use of data from the 2006 tax year.

Proposed and Scheduled Tax Changes

A number of recent proposals could increase taxes for pass-throughs. In early 2011, Senate Finance Committee Chairman Max Baucus suggested, for example, that pass-throughs earning above a certain income might have to be taxed as corporations.[5] That same year, while testifying before the Senate Finance Committee, Treasury Secretary Tim Geithner said "Congress has to revisit this basic question about whether it makes sense for us as a country to allow certain businesses to choose whether they're treated as corporations for tax purposes or not."[6] The Treasury Secretary's comments seemed to indicate his concern about large pass-throughs that were paying lower taxes by intentionally choosing not to be taxed as a corporation. The Secretary's comments also appear to resonate with reports that the Administration is developing a proposal to tax large pass-throughs as corporations, as well as consistent with a broad proposal made by the President's Economic Recovery Advisory Board to tax pass-throughs with corporate characteristics as corporations.[7]

Recent proposals by lawmakers and the Administration to reform the corporate tax code have called for lower corporate tax rates paid for by the elimination or reduction of certain corporate tax benefits, which could affect pass-throughs.[8] Pass-throughs would generally not benefit from a reduction in corporate tax rates, since their income is not subject to the corporate tax. Additionally, depending on how corporate tax benefits are scaled back to offset a rate reduction, pass-throughs could see their tax burden increase. The reason is that not all "corporate" tax benefits are exclusively available to corporations. Often they are available to business more generally.[9]

Scheduled tax changes that could potentially affect pass-throughs include the expiration of the 2001/2003 tax cuts, later extended in 2010, that is set to occur at the end of 2012. Specifically, barring congressional action, the current individual tax rate structure of 10%, 15% 25%, 28%, 33%, and 35% will revert to 15%, 28%, 31%, 36%, and 39.6%. Since ordinary pass-through income is taxed according to individual rates, some owners of pass-through businesses would likely experience an increase in taxes owed.[10] A number of pass-through business owners who

[5] Nicola M. White and Drew Pierson, "Baucus Says Congress Should Look at Taxing Passthroughs as Corporations," Tax Notes Today, May 5, 2011.

[6] See Senate hearing testimony by Treasury Secretary Timothy Geithner. U.S. Congress, Senate Committee on Finance, The President's Budget for Fiscal Year 2012, 112th Cong., February 16, 2011.

[7] Martin Sullivan, "Why Not Tax Large Passthroughs as Corporations?" *Tax Notes*, June 6, 2011, pp. 1015-1018, and President's Economic Recovery Advisory Board, *The Report on Tax Reform Options: Simplification, Compliance, and Corporate Taxation*, Washington, DC, August 2010, pp. 74-77, http://www.treasury.gov/resource-center/tax-policy/Documents/PERAB-Tax-Reform-Report-8-2010.pdf.

[8] In the 112th Congress, Senators Wyden and Coats have introduced S. 727, which would lower corporate rate to 25% and eliminate a number of corporate tax expenditures. Ways and Means Committee Chairman Dave Camp, in a draft proposal, has pushed to lower the corporate tax rate to 25% and broaden the corporate tax base (see, http://waysandmeans.house.gov/taxreform/). The President's National Commission on Fiscal Responsibility and Reform proposed reducing the corporate rate to between 23% and 29% and eliminating all business tax expenditures (see, http://www.fiscalcommission.gov/).

[9] For analysis on other aspects of corporate tax reform, see CRS Report RL34229, *Corporate Tax Reform: Issues for Congress*, by Jane G. Gravelle and Thomas L. Hungerford.

[10] For more information on the 2001/2003 tax cuts, see CRS Report R42020, *The 2001 and 2003 Bush Tax Cuts and Deficit Reduction*, by Thomas L. Hungerford, and CRS Report R41393, *The Bush Tax Cuts and the Economy*, by Thomas L. Hungerford.

realize capital gains, including hedge fund managers who realize carried interest income, could also see taxes increase if the reduced rates for long-term capital gains are also allowed to expire.[11]

The other scheduled tax change that may affect pass-throughs is a new 3.8% "unearned income Medicare contribution" tax set to take effect in 2013.[12] Specifically, the Health Care and Education Reconciliation Act of 2010 (HCERA, P.L. 111-152) included a 3.8% tax on the passive income of those with incomes over $250,000 (couples) and $200,000 (singles). The tax is limited to the excess of income over these amounts or total passive income, whichever is smaller. Active business income is excluded from the tax. There is concern in the business community that this tax may negatively affect pass-through business owners who earn passive business income.[13]

Who Earns Pass-Through Business Income?

Approximately 27 million (or one in five) taxpayers reported pass-through business income (or loss) totaling more than $704 billion in 2006. Among those earning pass-through income, the average amount reported was $26,011. These figures exclude capital gains income from pass-throughs and farming income. This section analyzes the distribution of pass-through income by a measure of taxpayer income that is used for tax purposes—adjusted gross income (AGI). When useful and possible, the analysis also distinguishes between sole proprietorship, partnership, and S corporation income, as well as active and passive income.

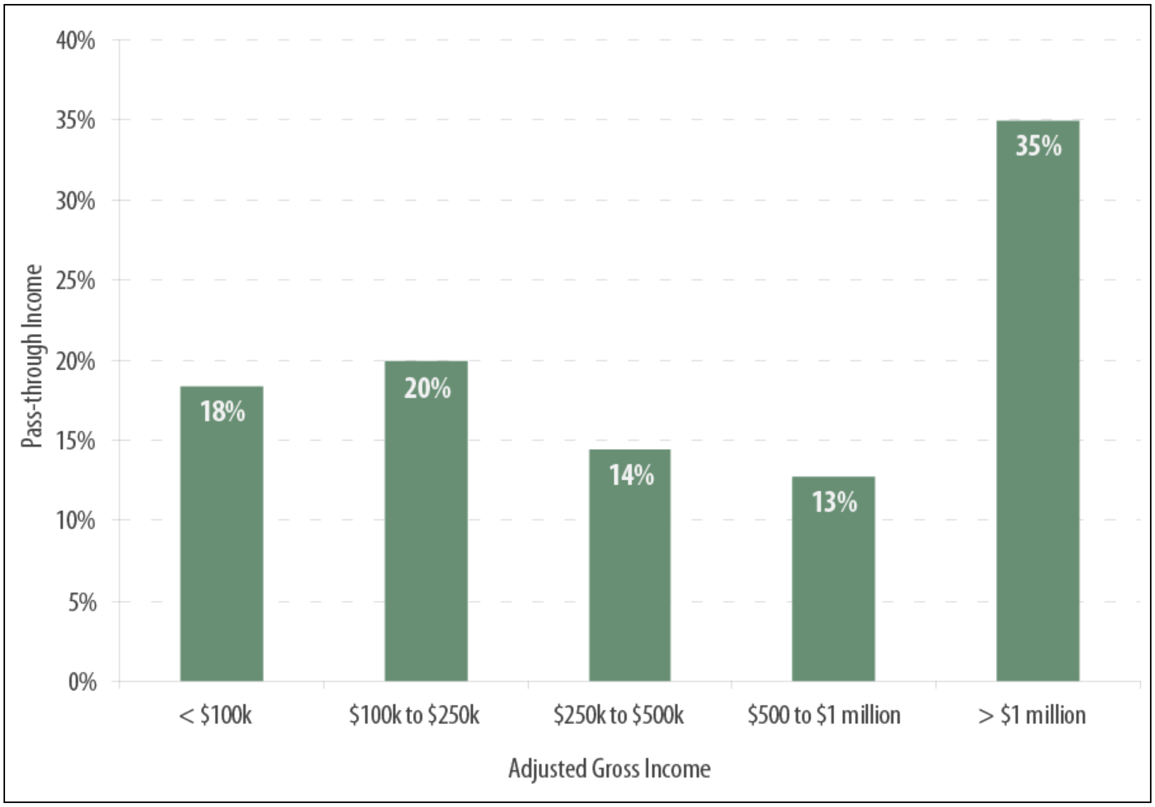
Figure 1 shows the distribution of pass-through income by AGI class. A more detailed distribution, along with the distribution of tax returns reporting pass-through income, may be found in **Table A-1** of the **Appendix**. Taxpayers with income of $100,000 or greater earned 82% of pass-through income, while accounting for roughly 23% of returns reporting pass-through income. Conversely, taxpayers with AGI less than $100,000 earned about 18% of pass-through income, but accounted for 77% of returns with pass-through income. A significant proportion of pass-through income was concentrated among upper-income earners. Taxpayers with AGI over $250,000, for example, received 62% of pass-through income, but accounted for just over 6% of returns reporting such income. Millionaires earned about 35% of pass-through income, while filing roughly 1% of all returns with pass-through income.

[11] For more information on carried interest, see CRS Report RS22717, *Taxation of Private Equity and Hedge Fund Partnerships: Characterization of Carried Interest*, by Donald J. Marples.

[12] For more information, see CRS Report R41413, *The 3.8% Medicare Contribution Tax on Unearned Income, Including Real Estate Transactions*, by Mark P. Keightley.

[13] See, for example, Letter from Susan Eckerly, Senior Vice President, Public Policy, National Federation of Independent Business, to Senator John Cornyn, October 19, 2011, http://www.nfib.com/issues-elections/issues-elections-item?cmsid=58534.

Figure 1. Distribution of Net Pass-Through Income by AGI, 2006



Source: CRS analysis of 2006 IRS Statistics of Income Public Use Files.

Table 1 displays the distribution of pass-through income by business type. The distribution shows that sole proprietorship income was more evenly distributed across income groups than partnership and S corporation income. Partnership net income was more concentrated among upper income individuals with nearly all of it accruing to taxpayers with AGI in excess of $100,000, including nearly 44% accruing to those with AGI over $1 million. S corporation income was also concentrated at the upper-end of the distribution, although more so than partnership income. For example, while nearly all of S corporation income accrued to taxpayers with income over $100,000, a greater share went to those with AGI over $1 million than with partnership income—about 58%.

Table 1 also shows a concentration of net losses for partnerships and S corporations at the lower end of the income distribution. Pass-through income and losses are one component of AGI. Thus, if a taxpayer relies primarily on a partnership or S corporation for income, and the business realizes losses, the taxpayer's AGI will likely be negative. There are several scenarios which could explain the losses. A portion of these losses may be due to start-up business that are experiencing losses. It is also possible that a portion of these losses are due to failing businesses, both new and old. Lastly, some of the losses may be attributable to temporary business disruptions experienced at particular firms. Without more detailed data on the businesses associated with these losses, however, its difficult to know for certain. The individual data do show that for most taxpayers at this end of the distribution, partnership and S corporation losses were larger than non pass-through income, indicating that these taxpayers were relying primarily on pass-through income.

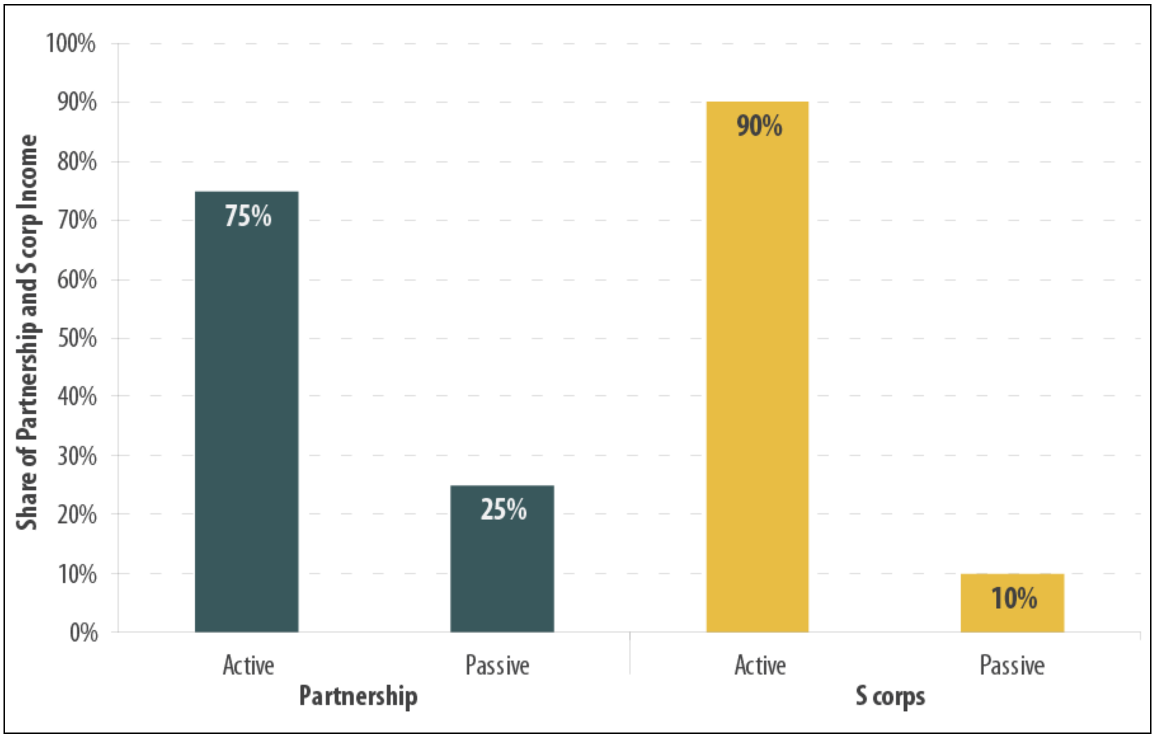
Table 1. Distribution of Net Pass-Through Income by Business Type and AGI, 2006

Adjusted Gross Income	Sole Proprietorships	Partnerships	S Corporations
< $10k	2.12%	-11.30%	-5.84%
$10k to $20k	8.88%	0.19%	-0.08%
$20k to $30k	6.72%	0.54%	0.07%
$30k to $40k	4.84%	1.14%	0.33%
$40k to $50k	4.98%	0.74%	0.45%
$50k to $75k	10.62%	2.31%	1.94%
$75 to $100k	9.27%	2.76%	2.72%
$100k to $250k	26.65%	15.62%	13.95%
$250k to $500k	11.74%	20.45%	13.83%
$500k to $1 million	5.57%	23.72%	14.25%
> $1 million	8.60%	43.84%	58.37%
Total	**100%**	**100%**	**100%**
Highest Earners			
$1 million - $2 million	2.70%	16.40%	14.77%
$2 million - $5 million	4.53%	14.24%	15.95%
$5 million - $10 million	0.52%	5.64%	8.86%
> $10 million	0.86%	7.56%	18.79%
Total	**8.62%**	**43.84%**	**58.37%**

Source: CRS analysis of 2006 IRS Statistics of Income Public Use Files.

Partnership and S corporation income can be separated into active and passive income. The distinction between the two can be important because passive activity losses rules generally prevent passive losses from offsetting active income. Active income is income resulting from active participation in a business, whereas passive income is income from a business that the taxpayer did not materially participate in. A business partner involved in the day to day management and operations of the business, for example, would earn active income, while a silent partner who has no involvement in the business outside of possibly financial commitments would earn passive income. Sole proprietorship income is not distinguished in the data used in this analysis. Most sole proprietors, however, will be actively involved in their business (since they are sole owner) suggesting that the overwhelming majority of sole proprietor income is active.

Figure 2. Distribution of Active and Passive Income by Business Type, 2006



Source: CRS analysis of 2006 IRS Statistics of Income Public Use Files.

Note: The passive income measure used here does not include capital gains. The data do not allow for corporate and non corporate capital gains to be separated. Aggregate data show that capital gains are a significant income source for pass-through owners, which indicates the distributions presented could change non trivially if they could be included.

Figure 2 displays the distribution of active and passive income for partnerships and S corporations. As **Figure 2** shows, passive income accounts for 10% of total S corporation income, and 25% of partnership income. Conversely, 90% of S corporation income and 75% of partnership income is active. A significant share of passive income from either business type is concentrated among higher income individuals (see **Table A-2** in the **Appendix**).

Who Would Bear the Tax Burden?

The analysis above found that the majority of pass-through income accrues to higher income earners. The income these individuals receive is the result of an ownership stake in either a sole proprietorship, partnership, or S corporation. But there are other taxpayers, namely the employees at these firms, who receive income from pass-throughs as well. If taxes are increased on pass-throughs, it is possible that pass-through owners could lower wages, scale back benefits, or reduce employment in an effort to reduce the burden of the tax increase on themselves. Thus, although the majority of pass-through income is concentrated at the upper-end of the income distribution, the tax burden could be shared with lower- and middle-income taxpayers who work at these businesses.

Research on who bears the corporate tax burden can be utilized to understand who would bear the burden of increased pass-through taxation generally—owners (capital), or workers (labor).[14] The traditional analysis of the corporate tax indicates that it is capital that bears the burden. In contrast, a number of more recent theoretical studies find labor bearing the majority of the corporate tax burden. These results, however, appear to rely critically on particular assumptions (e.g., an open economy with highly mobile capital) which drive the results. When these assumptions are relaxed the burden of the corporate tax is found to fall mostly on capital, in line with the traditional analysis.[15]

There has also been a resurgent empirical interest in determining the incidence of the corporate tax. A number of recent empirical studies have found that majority of the corporate tax burden falls on labor. These studies are reviewed and critiqued in CRS Report RL34229, *Corporate Tax Reform: Issues for Congress*, by Jane G. Gravelle and Thomas L. Hungerford, who find the research is seriously flawed, produces unreasonable estimates, is not robust (sensitive to specification changes), or is inconsistent with theory. Given the unreliability of recent empirical research, and the consistency of traditional theoretical models, Gravelle and Hungerford conclude that it "appears that most of the burden of the corporate tax falls on capital." [16] Thus, combining the corporate tax burden research with the analysis of who earns pass-through income, it seems likely that an increased pass-through tax burden would fall mostly on higher-income taxpayers.

Policy Concerns and Options

There are several potential concerns that Congress may want to consider regarding increased taxes on pass-throughs. In some cases there may be options for alleviating these concerns. In other cases it appears that the concerns may not be validated by the data. The following discusses several circumstances that commonly elicit policy concerns.

While it appears as a general rule of thumb that higher-income business owners would bear most of the burden from increased pass-through taxation, there still may be concern about lower- and middle-income pass-through owners. For example, an across-the-board expiration of the 2001/2003 individual tax rates will increase taxes for all pass-through owners. One option for preventing the tax burden from increasing for lower and middle class business owners is to allow the reduced rates to expire only for higher-income earners. Estimates suggest a small share (3% or so) of businesses would be affected if the top individual rates were to expire.[17]

[14] See CRS Report RL34229, *Corporate Tax Reform: Issues for Congress*, by Jane G. Gravelle and Thomas L. Hungerford for a review and critique of recent empirical results regarding the burden of the corporate tax.

[15] The traditional view on the incidence of the corporate tax originated with the development of the "Harberger model" in 1962 and subsequent refinements. See Arnold Harberger, "The Incidence of the Corporate Tax," *The Journal of Political Economy*, vol. 70 (June 1962), pp. 215-240. A review and critique of recent theoretical research, as well as a discussion of the extensions of the Harberger model can be found in Jennifer C. Gravelle, "Corporate Tax Incidence: Review of General Equilibrium Estimates and Analysis" Congressional Budget Office*, Working Paper 2010-03*, May 2010.

[16] Both the U.S. Department of Treasury and the Congressional Budget Office assume that the burden of the corporate tax generally falls on capital. See ''Treasury's Panel Model for Tax Analysis,'' Office of Tax Analysis Technical Working Paper 3, July 2008, table 3, footnote 2, and Congressional Budget Office, *Historical Effective Tax Rates: 1976 to 2006*, April 2009, p. 2, http://www.cbo.gov/publications/collections/tax/2009/summary_table_2006.pdf.

[17] See CRS Report R41392, *Small Business and the Expiration of the 2001 Tax Rate Reductions: Economic Issues*, by Jane G. Gravelle.

Similarly, there could be concern over the effect on lower and middle income pass-through owners from tax reform plans that call for lower corporate tax rates to be paid for by the elimination or reduction of certain "corporate" tax benefits. Scaling back corporate tax benefits, however, could raise taxes for pass-throughs since a number of corporate tax benefits are actually available to businesses more generally. An option for preventing the reduction of business tax benefits from impacting these businesses is to allow them to continue to claim the benefits. Additionally, a number of the benefits that have been considered as offsets could be reduced or eliminated without affecting smaller pass-throughs since they generally benefit corporations—including provisions related to overseas operations and fossil fuels.[18]

Lastly, there is concern that the new 3.8% unearned income Medicare contribution tax may negatively affect many small businesses.[19] As the distributional analysis showed, however, most S corporation and partnership income is the active type, and active business income is exempt from the 3.8% tax. The share of income that is passive, and potentially subject to the new tax, overwhelmingly accrues to higher income taxpayers—77% of passive partnership income and 93% of passive S corporation income accrued to taxpayers with AGI over $250,000. Passive income earned by those with AGI of less than $200,000 (single) or $250,000 (married) would not be taxed since these taxpayers' income is not high enough to trigger the tax. Sole proprietors could generally be expected to be exempt from the tax since most of their income is likely active.

It should be noted that there is one particular limitation of the data when it comes to analyzing the 3.8% tax on unearned income. The data do not allow for pass-through capital gains to be distinguished from corporate capital gains. Capital gains are considered passive income for purposes of the 3.8% tax and could be a significant income source for some pass-through owners, particularly for hedge fund managers who receive carried interest. Thus, although most ordinary pass-through income is active, pass-through owners do receive other income which is passive. Still, it is likely that if capital gains could be isolated, the distribution of capital gains would be even more concentrated among higher-income taxpayers since investment income is generally concentrated among this group. In this case, the burden of the 3.8% tax would, like pass-through taxes more generally, fall on higher-income taxpayers.

Conclusion

This report analyzed individual tax return data to determine who earns pass-through business income. It determined that most pass-through income is earned by higher-income individuals, although most returns reporting pass-through income are filed by lower- and middle-income individuals. The report then analyzed who would bear the burden from increased taxes on pass-through income as a result of several proposed and scheduled tax changes. Given the distribution of pass-through income, and applying research about the incidence of the corporate tax, it seems likely that in general an increase in pass-through taxes would fall mostly on higher-income taxpayers. In circumstances where there is concern that this may not be true, the report identifies options to prevent lower and middle class pass-through owners from experiencing an increase in taxes.

[18] See CRS Report R41743, *International Corporate Tax Rate Comparisons and Policy Implications*, by Jane G. Gravelle.

[19] http://www.nfib.com/issues-elections/issues-elections-item?cmsid=58534.

Appendix. Detailed Distributions

Table A-1. Distribution of Tax Returns and Pass-Through Income by Adjusted Gross Income, 2006

Adjusted Gross Income	Returns Reporting Pass-Through Income	% of Returns Reporting Pass-Through Income	Total Pass-Through Income	% of Total Pass-Through Income	Average Pass-Through Income
< $10k	4,478,554	16.53%	$ -26.6	-3.78%	-$5,945
$10k to $20k	3,583,598	13.23%	$ 25.6	3.63%	$7,142
$20k - $30k	2,396,688	8.85%	$ 20.3	2.89%	$8,482
$30k - $40k	2,004,143	7.40%	$ 16.5	2.34%	$8,255
$40k - $50k	1,891,013	6.98%	$ 16.6	2.36%	$8,786
$50k - $75k	3,951,384	14.59%	$ 39.2	5.57%	$9,909
$75 - $100k	2,684,429	9.91%	$ 38.0	5.39%	$14,170
$100k - $250k	4,370,055	16.13%	$137.2	19.45%	$31,398
$250k - $500k	1,026,149	3.79%	$101.5	14.48%	$98,968
$500k - $1 million	416,344	1.54%	$ 89.8	12.75%	$215,922
> $1 million	288,175	1.06%	$246.4	34.92%	$854,943
Total	**27,090,675**	**100.0%**	**$704.4**	**100.0%**	**$26,011**
Highest Earners					
$1 million - $2 million	167,754	0.62%	$72.1	10.22%	$429,367
$2 million - $5 million	83,776	0.31%	$76.9	10.93%	$918,840
$5 million - $10 million	22,068	0.08%	$33.6	4.77%	$1,524,106
> $10 million	14,577	0.05%	$63.8	9.06%	$4,373,348
Total	**288,175**	**1.06%**	**$246.4**	**34.92%**	**$855,064**

Source: CRS analysis of 2006 IRS Statistics of Income Public Use Files.

Note: Averages are conditional on having pass-through income.

Table A-2. Distribution of Active and Passive Partnership and S Corporation Income by Adjusted Gross Income, 2006

Adjusted Gross Income	Partnership				S Corporation			
	Active		Passive		Active		Passive	
	% of Total	Average	% of Total	Average	% of Total	Average	% of Total	Average
< $10k	-14.46%	-$68,945	-1.93%	-$4,805	-6.45%	-$51,126	-0.19%	-$910
$10k to $20k	-0.02%	-$226	0.82%	$3,404	-0.09%	-$1,122	0.02%	$144
$20k to $30k	0.53%	$4,581	0.57%	$2,409	0.00%	$33	0.69%	$4,568
$30k to $40k	1.18%	$8,609	1.00%	$3,164	0.33%	$4,079	0.24%	$1,064
$40k to $50k	0.56%	$4,714	1.29%	$4,463	0.57%	$5,492	-0.53%	-$1,982
$50k to $75k	2.31%	$8,419	2.33%	$3,044	2.22%	$10,525	-0.49%	-$623
$75 to $100k	2.54%	$11,244	3.43%	$4,811	3.10%	$16,152	-0.63%	-$831
$100k to $250k	15.80%	$25,962	15.07%	$7,834	14.61%	$34,343	7.85%	$3,629
$250k to $500k	22.27%	$85,702	15.10%	$16,855	14.31%	$92,903	9.44%	$10,046
$500k to $1 million	25.33%	$164,196	18.82%	$35,986	14.26%	$203,285	13.82%	$28,982
> $1 million	44.00%	$317,292	43.51%	$99,332	57.17%	$989,678	69.75%	$177,389
Total	**100.00%**	**$42,856**	**100.00%**	**$14,833**	**100.00%**	**$63,198**	**100.00%**	**$15,344**
Highest Earners								
$1 million - $2 million	17.10%	$234,605	14.39%	$60,024	14.57%	$438,348	16.81%	$73,375
$2 million - $5 million	14.43%	$335,592	13.72%	$104,740	15.53%	$939,846	19.67%	$176,540
$5 million - $10 million	5.34%	$403,422	6.54%	$168,679	8.73%	$1,844,000	10.34%	$335,604

Adjusted Gross Income	Partnership				S Corporation			
	Active		Passive		Active		Passive	
	% of Total	Average	% of Total	Average	% of Total	Average	% of Total	Average
> $10 million	7.13%	$747,393	8.86%	$310,522	18.33%	$5,628,000	22.95%	$1,041,000
Total	**44.00%**	**$317,292**	**43.51%**	**$99,332**	**57.17%**	**$989,678**	**69.75%**	**$177,389**

Source: CRS analysis of 2006 IRS Statistics of Income Public Use Files.

Note: Averages are conditional on having active or passive income from the respective business type.

Author Contact Information

Mark P. Keightley
Analyst in Public Finance
mkeightley@crs.loc.gov, 7-1049