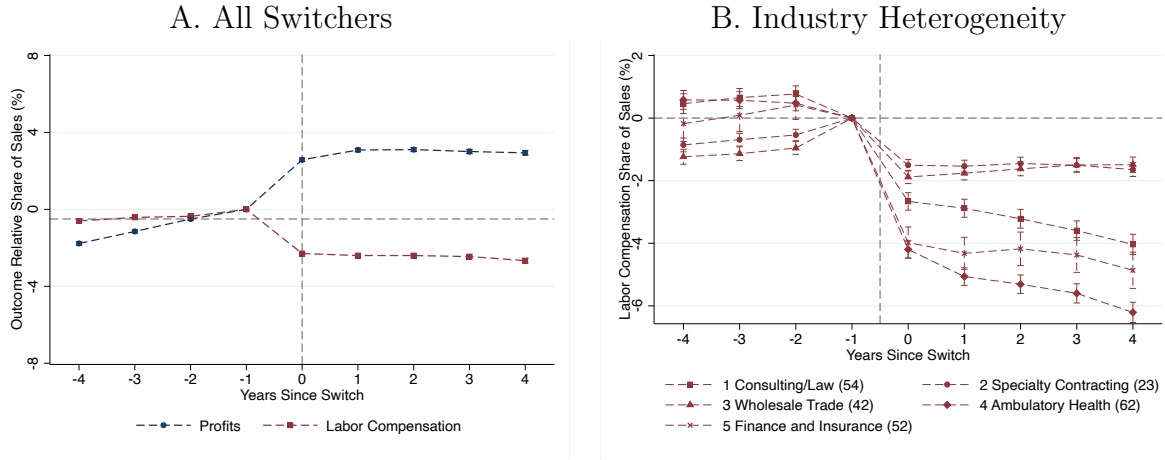
For Online Publication

Online Appendix for "The Rise of Pass-Throughs and the Decline in the Labor Share"

A Appendix Exhibits

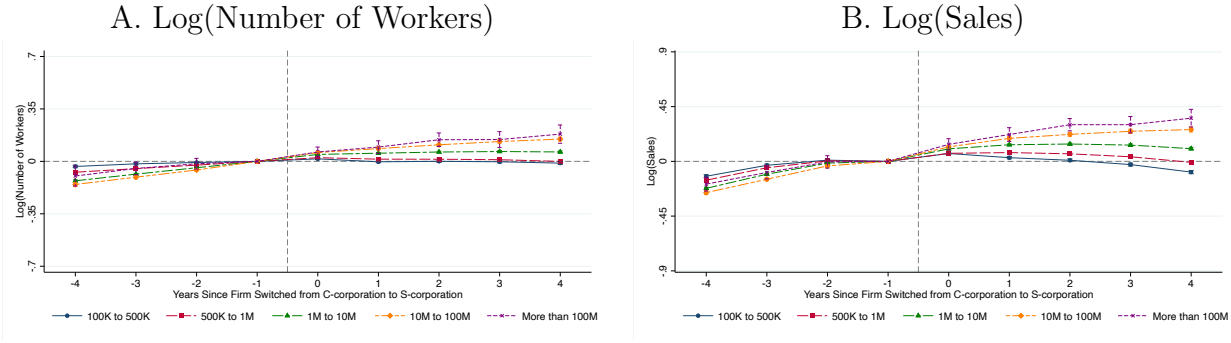
This appendix contains supplemental analysis.

Figure A.1: Organizational Form Switches Reveal Recharacterized Wages



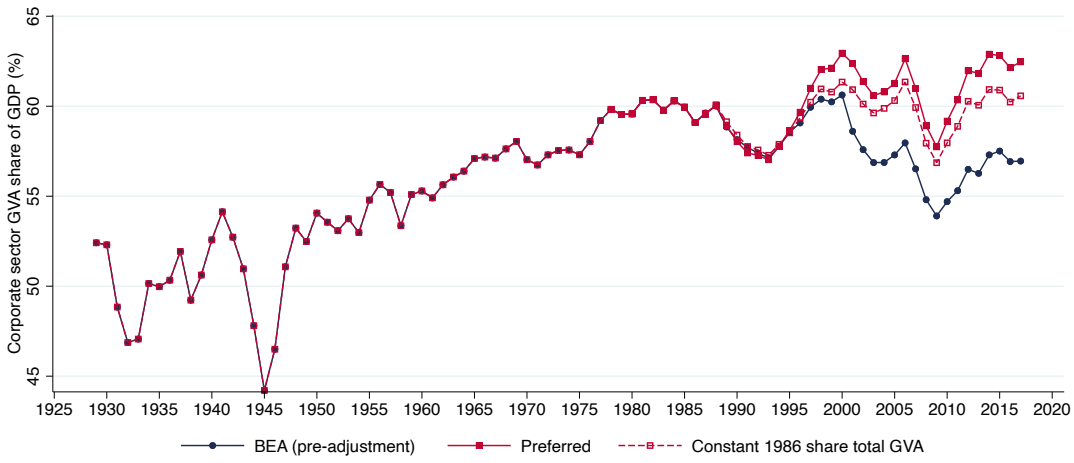
Notes: This figure presents event-study analyses examining how labor payments and profits change after a firm reorganizes from C-corporation form to S-corporation form. We run regressions as in (1) and plot the event-time coefficients, where the outcome variable is either total wage payments or profits over firm sales, and estimates include firm and calendar-year fixed effects. The sample includes switcher firms from between 2000 and 2012 with maximum sales greater than $100K in 2014 dollars, which exist for at least four years before and after the switch event. Panel A plots the coefficients for firm-level profits and labor compensation for the full analysis sample. Panel B plots separate labor compensation coefficients for firms in the five largest (two-digit NAICS) industries in terms of S-corporation profits in 2017.

Figure A.2: Switcher Characteristics During Organizational Form Switches



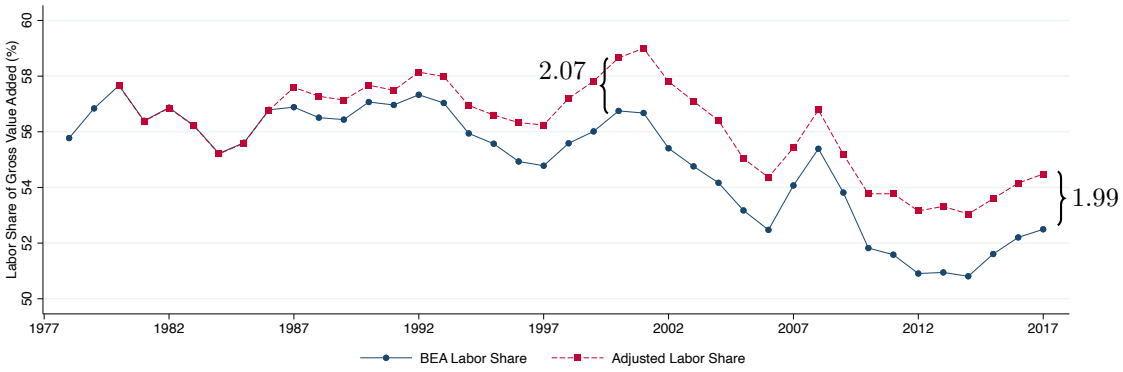
Notes: This figure plots event studies that examine other firm characteristics around switches from C-corporation to S-corporation form. Observations are trimmed at the one percent level. To ensure comparability of outcomes across time periods, we exclude firms that file partial year returns during $t = 0$ because they had to change their fiscal years following the switch. Panel A plots the natural logarithm of the number of workers, and Panel B plots the natural logarithm of sales in 2014 U.S. dollars. The y-axes are scaled to range from plus or minus 0.5 standard deviations of the respective outcome variable.

Figure A.3: Adjusted Corporate Sector Value Added



Notes: This figure plots gross value added (GVA) in the corporate sector relative to GDP. The BEA series takes total corporate sector GVA directly from line 1 of NIPA Table 1.14. The Preferred series adds gross value added from the partnership sector which, under our counterfactual adjustments shown in Figure 3, would have remained in the corporate sector. The "Constant 1986 share total GVA" series, which relates to Table 2C, shows corporate sector GVA as it would have been if it had remained the same share of corporate, sole proprietorship, and partnership GVA as in 1986.

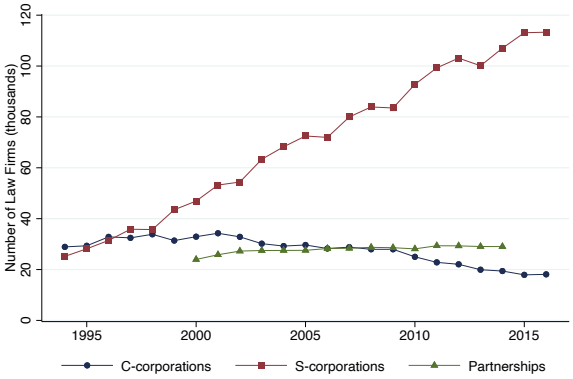
Figure A.4: Adjusted Overall Labor Shares (1978-2017)



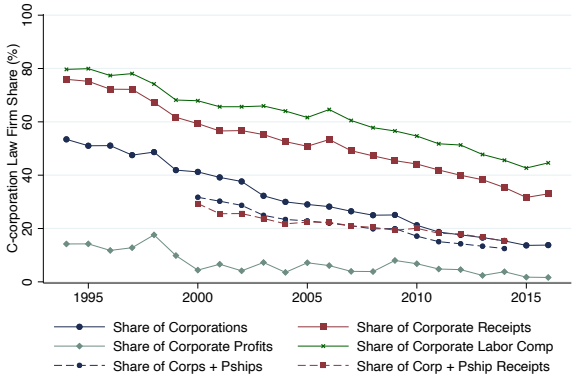
Notes: This figure plots the effect of applying our S-corporation and partnership adjustments to the overall labor share. This adjustment adds S-corporation recharacterized wages and the wage share of excess partnership profits to the numerator of the overall labor share and includes the entire noncorporate business sector in the denominator. Since both corporate and noncorporate activity are both represented in the denominator, we make no changes to the raw BEA gross value added series. Over the 1978–2017 period, our overall labor share series after both adjustments shows a decline of 1.3 percentage points, 60.8% (2.0pp) smaller than the 3.3 percentage point decline in the raw BEA data. Relative to Figure 3C, our adjustments increase the overall labor share more in earlier years because of the relationship between the unadjusted labor share and the post-adjustment partnership labor share. Specifically, partnerships in the early 2000s have a similar labor share to the corporate sector, so adding them does not move the corporate sector share. However, they have a higher labor share than the overall series due to lower labor shares in the noncorporate sector. Accordingly, adding recharacterized partnership wages increases the noncorporate labor share and thereby the overall labor share substantially.

Figure A.5: The Evolution of Organizational Form Choice for Lawyers

A. Number of Law Firms



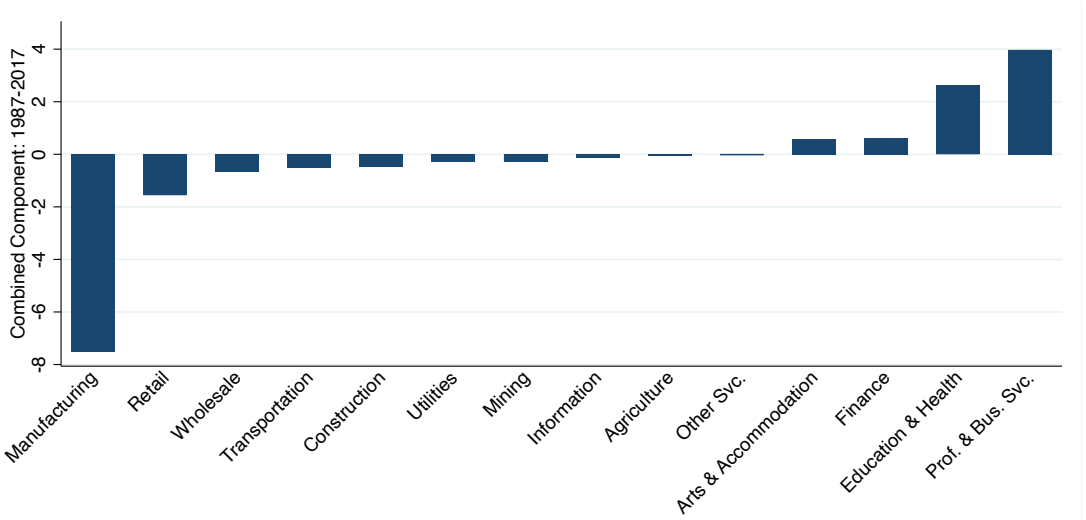
B. Share of Activity



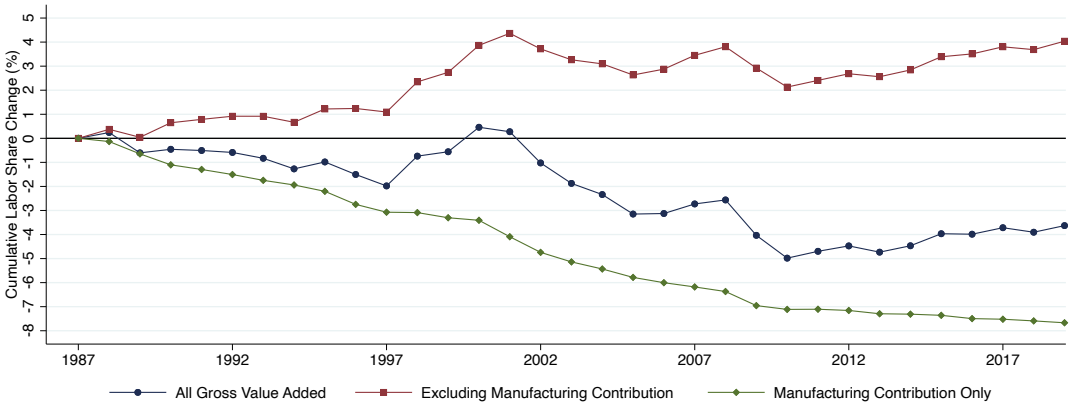
Notes: For tax years from 1998 onward, we use NAICS code 5411. For tax years prior to 1998, we use SOI Principal Business Activity code 8111.

Figure A.6: The Manufacturing Sector Drives the Labor Share Decline (1987–2017)

A. Shift-Share Decomposition

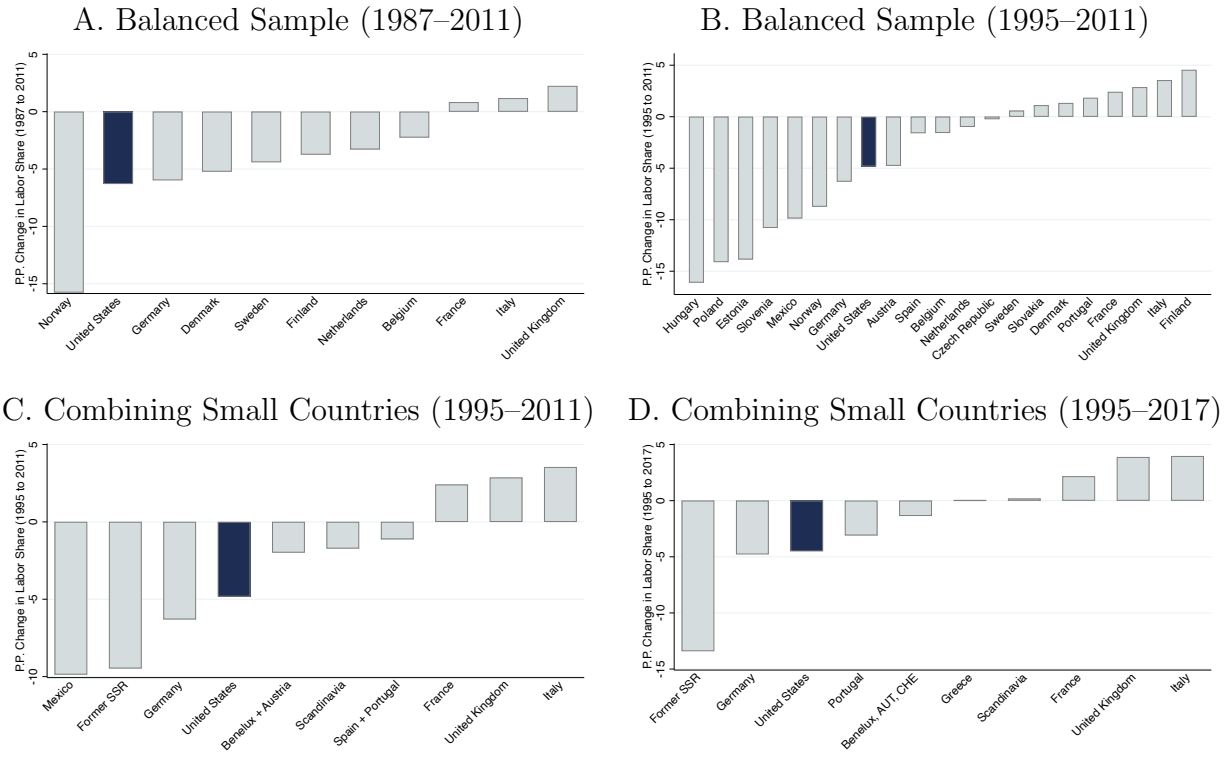


B. Cumulative Labor Share Decline with and without Manufacturing



Notes: This figure presents evidence highlighting the role of the manufacturing sector in the decline of the labor share. Data come from the BEA industry accounts, as in Elsby, Hobijn and Şahin (2013). Panel A presents the contribution of different industries to the decline in the labor share from 1987 to 2017. The bars in blue show the contributions in the raw data and the red bars show the contributions after adjusting both for the recharacterized wages of S-corporations and for businesses organized as partnerships. Panel B presents the cumulative change in the labor share from 1987 to 2017, excluding our adjustments for the pass-through sector. The blue line shows the cumulative decline in the labor share of all gross value added, the red line shows the cumulative change in the labor share after excluding any change due to the manufacturing sector, and the green line shows the cumulative contribution from the manufacturing sector.

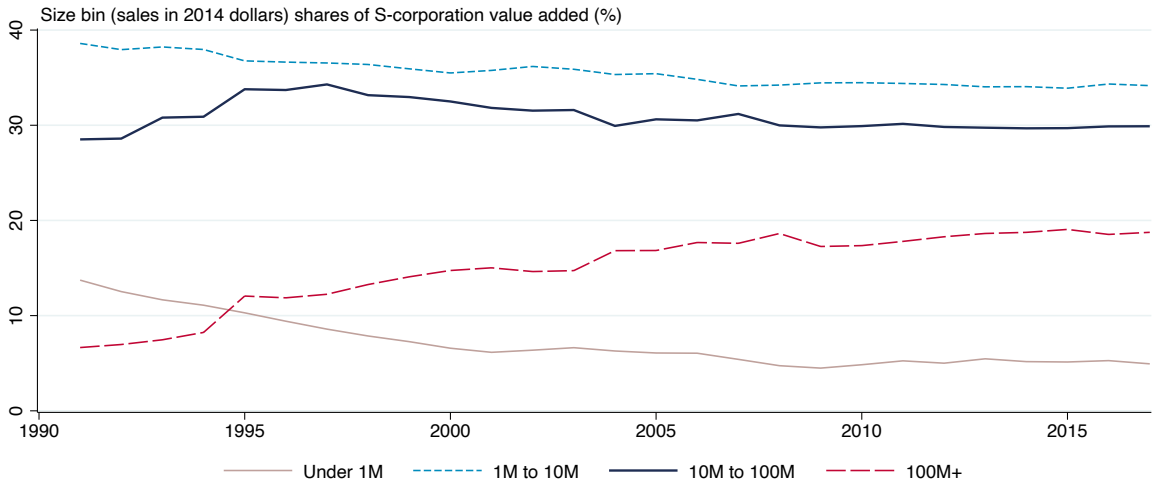
Figure A.7: Corporate-Sector Labor Share Decline in the OECD



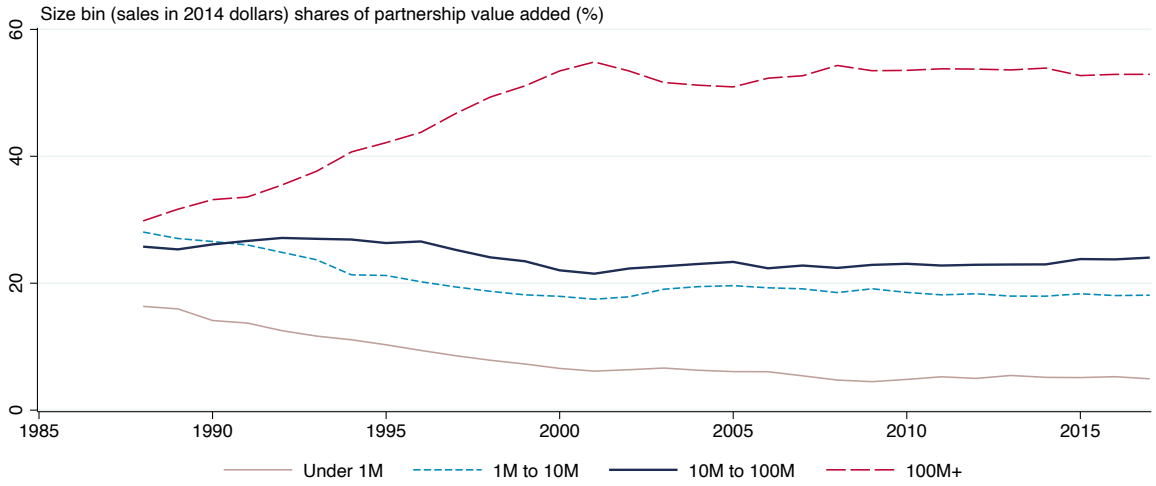
Notes: This figure shows the decline in the corporate-sector labor share in OECD countries. In panels A-C, we use the exact series from Karabarbounis and Neiman (2014), which end in 2011, to aid comparison to their results. Panel D uses data from the UN National Accounts Official Country Data database. Each graph plots the percentage point change between a beginning year and an end year. Panel A includes the OECD countries for which data are available from 1987 through 2011. Panel B plots the change from 1995 to 2011 for a broader set of OECD countries with available data. Panels C and D aggregate smaller countries by region and compute a weighted average labor share change, where the weights are corporate-sector gross value added in 2011 and 2017, respectively.

Figure A.8: Pass-through Value Added by Firm-Size Bin

A. S-corporations



B. Partnerships



Notes: This figure extends the value added series from panels B and C of Figure 2 to show shares from 1987 (partnerships) or 1991 (S-corporations) to 2017. Bottom bins are condensed into a single "under 1M" bin.

Table A.1: Industry Composition of Labor-Share Adjustments (2017, $B)

			Adjustments			2017 Baseline (BEA)	
	NAICS	**Industry Name**	**Combined**	**S-corporation**	**Partnership**	**Value added**	**Share total (%)**
1	541	Professional, Sctfc., & Technical Svc.	51.8	19.3	32.4	1456.7	8.5
2	621	Ambulatory Health Care Svc.	27.1	18.6	8.5	711.7	4.2
3	523	Securit., Cmmdty Cntrcts, & Oth. Fin.	21.1	3.2	17.9	304.3	1.8
4	238	Specialty Trade Contractors	6.6	5.1	1.5	797.8†	4.7†
5	211	Oil & Gas Extraction	6.4	0.3	6.1	174.6	1.0
6	423	Merchant Wholesalers, Durable Gds.	5.4	3.9	1.5	1163.5†	6.8†
7	561	Administrative & Support Svc.	4.7	3.5	1.2	548.2	3.2
8	531	Real Estate	4.6	3.8	0.8	2377.4	13.9
9	424	Merchant Wholesalers, Nondurable Gds.	4.4	2.6	1.8	1163.5†	6.8†
10	517	Telecommunications	3.8	0.3	3.5	1005.4†	5.9†
11	524	Insurance Carriers	3.7	2.8	1.0	560.6	3.3
12	623	Nursing & Residential Care Facilities	2.9	2.9	0.0	145.8	0.9
13	111	Crop Production	2.8	0.7	2.1	140.1	0.8
14	522	Credit Intermediation	2.8	1.5	1.2	625.9	3.7
15	236	Construction of Buildings	2.8	1.9	0.8	797.8†	4.7†
16	722	Food Svc. & Drinking Places	2.1	1.3	0.8	440.9	2.6
17	325	Chemical Mfg.	2.1	0.4	1.7	358.3	2.1
18	332	Fabricated Metal Product Mfg.	2.0	1.6	0.5	149.2	0.9
19	441	Motor Vehicle & Parts Dealers	1.9	1.0	0.9	207.3	1.2
20	711	Performing Arts, Spectator Sports, & Related Industries	1.8	1.8	0.0	129.2	0.8
		Total	**195.1**	**98.7**	**96.4**	**17094.2**	**100**

Notes: Table A.1 disaggregates the labor-share adjustments, showing the adjustments by three-digit NAICS industry for the twenty industries with the largest combined labor-share adjustment. The "Combined" column presents the total labor-share adjustment. The "S-corporation" column shows the contribution from S-corporation recharacterized wages, based on event-study estimates with sector heterogeneity (partially shown in figure A.1) and apportioned into 3-digit industries using industry value added shares from SOI corporate sample collapses. The "Partnership" column shows the contribution from reincorporating firms organized as partnerships with labor shares in excess of the corporate-sector labor share, apportioned using industry profits shares from firm-owner linked data collapses. In terms of Table 1 items, it represents the sum of "excess partnership compensation" and "recharacterized wages of partnerships" minus the labor share of total "excess gross value added." For both S-corporations and partnerships, we apportion the 2017 adjustment using 2014 value added and profits shares, respectively, as 2014 is the last year in which we have firm-owner linked partnership data. The "2017 Baseline" columns, which we show for reference but are not inputs for our adjustment, are from the BEA GDP-by-industry accounts. Gross value added in these columns encompasses both corporate and non-corporate business. Totals and shares marked with † are two-digit totals, which we show for three-digit industries not disaggregated by the BEA. Note that NAICS 531 comprises two industries with very low human capital shares—lessors of real estate (5311) and activities related to real estate, e.g., property managers (5313)—and one industry with a very high human capital share—offices of real estate agents and brokers (5312). This latter industry accounts for the bulk of our adjustment.

Table A.2: Switcher and Stayer Summary Statistics

Attribute	**Mean**	**Standard deviation**	**P5**	**P25**	**P50**	**P75**	**P95**
A. Switchers							
Labor compensation	521,071	921,182	0	39,753	187,437	564,042	2,271,228
Profits	76,388	235,859	-46,920	0	11,363	61,716	406,636
Labor Share	0.39	0.22	0.00	0.24	0.41	0.55	0.73
Sales less COGS	1,157,034	1,949,744	0	156,970	481,322	1,250,088	4,751,944
Effective Tax	0.16	0.11	0.00	0.15	0.15	0.22	0.35
B. Stayers							
Labor compensation	486,748	1,118,675	9,342	49,514	148,740	422,362	2,018,029
Profits	23,145	229,729	-127,910	-9,312	1,644	27,485	205,639
Labor Share	0.45	0.22	0.09	0.29	0.45	0.60	0.81
Sales less COGS	994,430	2,261,072	30,054	137,484	347,939	872,948	3,870,114
Effective Tax	0.09	0.11	0.00	0.00	0.00	0.15	0.34

Notes: This table shows summary statistics describing firms in our "switchers" sample of firms, drawn from the population of S- and C-corporation tax returns, as well as a "stayers" sample. Switchers are defined as firms that switch from C- to S- corporation form during our sample period. Switcher summary statistics are given for the two years preceding a switching event. Stayers are defined as firms that are C-corporations in 2006 and did not experience a C- to S-corporation switching event in our sample period. Observations for Labor Compensation, Profits, and Sales less Cost of Goods Sold (COGS) are trimmed at the one percent level. Labor Compensation, Profits, and Sales less COGS are in 2014 U.S. dollars. Labor Compensation includes wage payments and benefits. Labor Share is the ratio of Labor Compensation to Sales less COGS. Effective Tax Rate is defined as the ratio of total tax to taxable income from the firm's tax return. Number of switcher observations: 188K. Number of stayer observations: 1.03M.

Table A.3: Switchers and Stayers by Industry

Rank	Industry	Naics Code	Switcher Share	Stayer Share
1	Professional, Scientific, and Technical Services	541	12.4	12.3
2	Ambulatory Health Care Services	621	9.7	8.2
3	Specialty Trade Contractors	238	8.3	8.5
4	Real Estate	531	5.3	3.7
5	Merchant Wholesalers, Durable Goods	423	4.5	5
6	Food Services and Drinking Places	722	3.7	4.9
7	Construction of Buildings	236	3.6	3.3
8	Merchant Wholesalers, Nondurable Goods	424	3	3
9	Personal and Laundry Services	812	2.9	3.2
10	Repair and Maintenance	811	2.8	3.3
11	Administrative and Support Services	561	2.6	2.9
12	Insurance Carriers and Related Activities	524	2.4	1.8
13	Motor Vehicle and Parts Dealers	441	2.3	2.2
14	Food and Beverage Stores	445	2.1	2.4
15	Miscellaneous Store Retailers	453	1.9	2.4
16	Fabricated Metal Product Manufacturing	332	1.8	1.6
17	Unclassified Industry	999	1.5	1.4
18	Truck Transportation	484	1.4	1.9
19	Crop Production	111	1.1	1
20	Miscellaneous Manufacturing	339	1	1.1
21	Other	Residual	25.6	25.9

Notes: This table shows the composition of our sample of switchers and stayers by NAICS industry. Switchers are defined as firms that switch from C- to S- corporation form during our sample period. Stayers are defined as firms that are C-corporations in 2006 and did not experience a C- to S-corporation switching event in our sample period.

Table A.4: Event-study results across specifications

	Pooled (1)	Omit t-2 (2)	Early (3)	Late (4)	Services (5)	Growth Ctrl (6)
$t = 0$	-2.29	-1.93	-2.52	-1.97	-2.68	-2.41
	(0.04)	(0.04)	(0.05)	(0.07)	(0.32)	(0.04)
$t = 1$	-2.40	-2.04	-2.70	-2.03	-2.73	-2.61
	(0.04)	(0.05)	(0.06)	(0.09)	(0.32)	(0.04)
$t = 2$	-2.40	-2.04	-2.73	-2.07	-2.75	-2.65
	(0.05)	(0.05)	(0.07)	(0.12)	(0.33)	(0.05)
$t = 3$	-2.45	-2.09	-2.84	-2.16	-2.86	-2.74
	(0.05)	(0.06)	(0.09)	(0.14)	(0.34)	(0.06)
$t = 4$	-2.66	-2.30	-3.08	-2.44	-3.30	-2.98
	(0.06)	(0.06)	(0.10)	(0.17)	(0.35)	(0.06)
Mean impact	-2.44	-2.08	-2.78	-2.13	-2.86	-2.68
Events	183,297	183,297	111,301	71,996	60,089	183,297
Observations	2,982,439	2,982,439	1,850,256	1,132,156	2,760,333	2,892,816

	100-500K (7)	500K-1M (8)	1-10M (9)	10-100M (10)	>100M (11)
$t = 0$	-3.02	-2.50	-2.05	-1.10	-0.16
	(0.09)	(0.08)	(0.04)	(0.06)	(0.22)
$t = 1$	-3.07	-2.63	-2.19	-1.13	0.10
	(0.09)	(0.09)	(0.05)	(0.07)	(0.24)
$t = 2$	-3.12	-2.58	-2.11	-1.14	0.07
	(0.10)	(0.10)	(0.05)	(0.08)	(0.23)
$t = 3$	-3.33	-2.53	-2.12	-1.08	0.44
	(0.10)	(0.10)	(0.06)	(0.08)	(0.28)
$t = 4$	-3.68	-2.83	-2.15	-1.02	0.31
	(0.11)	(0.11)	(0.07)	(0.09)	(0.25)
Mean impact	-3.25	-2.61	-2.12	-1.09	0.15
Events	50,347	31,726	72,528	15,335	987

Notes: This table shows estimates of the change in labor compensation as a share of sales (%) within our C- to S-corporation switchers sample across different specifications. Pooled specification results are event study coefficients from figure A.1. "Omit t-2" omits event year $t = -2$ rather than event year $t = -1$ to address the concern that $t = -1$ data may reflect partial-year tax returns. Early and Late columns show results from years 2000–2006 and 2007–2012, respectively. Services shows average results across service-sector firms (2-digit NAICS industries 51, 52, 54, 56, 61, 62) from a pooled regression that interacts event-time indicators with industry indicators. Growth Ctrl shows results from a regression that includes the mean of firm-level sales growth prior to the switch interacted with event-time indicators as an additional set of controls. Columns (7)–(11) present our main event-study results (as shown in Figure 2A) across firm-size bins. Standard errors in parentheses.

Table A.5: Adjusting the Labor Share under Different Specifications: Five-Year Averages

	1978-1982 average labor share (%)	2013-2017 average labor share (%)	Decline 1978-1982 to 2013-2017 (pp)	Share decline explained by tax reporting (%)
A. Official estimate and main specification				
Official BEA	63.6	56.9	6.7	
Baseline adjustment	63.6	58.7	4.9	26.3
B. Sensitivity analysis of recharacterized wage share				
Use lower bound on switchers' confidence intervals	63.6	58.8	4.8	28.1
Use upper bound on switchers' confidence intervals	63.6	58.6	5.0	25.3
Use sales minus COGS denominator for switchers event study	63.6	58.7	4.9	27.3
Treat large partnerships like mid-sized S-corporations	63.6	59.1	4.5	33.2
C. Sensitivity analysis of GDP inflation correction				
Keep corporate share of total VA constant at 1986 levels	63.6	58.3	5.3	21.6
D. Joint sensitivity analysis with GDP inflation correction alternative				
Use confidence interval lower bounds + Keep corp. share constant	63.6	58.5	5.1	23.5
Use confidence interval upper bounds + Keep corp. share constant	63.6	58.3	5.3	20.6
Treat large Pships like mid-sized S + Keep corp. share constant	63.6	58.7	4.9	26.3

Notes: This table conducts the same robustness exercises as in Table 2 except that it compares average labor shares over 1978–1982 and 2013–2017 rather than 1978 and 2017.

B Switcher Robustness

Appendix Tables A.2 and A.3 provide sample summary statistics for the switchers analysis. We report statistics and the industry composition for both switchers and "stayers," defined as the population of C-corporations in 2016, which therefore excludes S- to C-corporation switches during our sample. Switchers are quite similar relative to stayers in terms of size and industry composition. Switchers are smaller on average though larger at the median, which reflects the fact that very large C-corporations elect to not to switch. Switchers face higher effective tax rates than stayers prior to switching, which supports our interpretation that the decision to switch reflects tax motives.

Appendix Figure A.2 plots event studies for the level of firm characteristics during switching events. The switching event appears to coincide with constant, modest growth, implying that firms that switch are likely to be firms that would benefit from lower taxes on total surplus in the future. Despite the firm growing in terms of revenues and the number of workers, switching coincides with a sharp decrease in labor payments. Tax rules appear to be the primary force that can explain the sharp and persistent decline in labor compensation and offsetting increase in tax-preferred profits. Note that identification of the effect we are studying does not rely on an assumption that switching events are randomly assigned. Instead, we assume that changes in labor compensation *relative to contemporaneous firm sales* around the switching event reflect the different tax incentives for S-corporations versus C-corporations. Appendix Table A.4 shows that including a control for pre-switch sales growth interacted with event-time indicators slightly strengthens our estimates.

C Robustness Details

Table 2 explores the robustness of our adjusted corporate labor share. Panel A reports headline numbers: the official corporate labor share declined 5.0 percentage points from 1978 to 2017, while our adjusted corporate labor share declined only 3.4 percentage points, 31.9% smaller than in the official series.

Panels B and C report results from single deviations from our baseline adjustment. First, there is statistical imprecision in the recharacterized wages estimates $\bar{\gamma}_b$ from Figure 2A that underlie our aggregate estimates. The first two rows use the 95% confidence interval lower bounds and the upper bounds on the bin-specific recharacterized wages estimates. The third row uses sales minus cost of goods sold rather than sales as the denominator in the event-study regressions and the recharacterized-wages calculation. Across these three analyses, we find that the tax-motivated growth in pass-throughs explains between 30.6% and 34.4% of

the decline in the raw BEA corporate labor share.

Our partnership adjustment assumes that 0% of large partnership proprietors' income would be recharacterized wages, despite the fact that the partners of many large consultancies, law firms, accountancies, and financial services firms clearly provide human-capital services and are compensated by law via (nonwage) proprietor's income. The last row of Panel B sets the coefficient for the largest bin $\bar{\gamma}_{100\text{M}+}$ equal to the coefficient for the second largest bin $\bar{\gamma}_{10\text{M to }100\text{M}}$ rather than equal to zero, when computing S-corporation recharacterized wages. In this case, tax-motivated growth in pass-throughs explains 40.4% of the decline in the raw series, highlighting the importance of mid-market and large firms in these adjustments.

Section B assumes that, in the absence of TRA86, all partnership activity would have grown at the same rate as GDP, so any excess partnership activity should be reallocated to C-corporations. Panel C makes a more conservative assumption: in the counterfactual, partnership activity would have grown fast enough to keep the corporate share of total value added constant at 1986 levels, rather than declining as it has in the official data. Specifically, we scale our measures of excess partnership activity such that corporate-plus-excess-partnership gross value added make up the same share of corporate-plus-noncorporate gross value added as the corporate sector did in 1986. This alternative assumption reallocates less partnership activity to the C-corporate sector, reducing the impact of the partnership adjustment. Under this assumption, tax-motivated growth in pass-throughs explains 26.8% of the decline in the corporate labor share.

Panel D conducts three double deviations from our baseline adjustment: the Panel C alternative plus one Panel B alternative. These analyses find that the tax-motivated growth in pass-throughs explains 25.5%–32.7% of the decline in the raw series.

We also conduct a perturbation analysis that illustrate the impact of the partnership owner-pay parameter on the results.[14] We incrementally increase this parameter from 41.9% to 50%, 62.%, and 75%. For each alternative value, the share of the decline explained by tax reporting is 38.4%, 48.3%, and 58.2%, respectively. The latter value is aggressive, because the recharacterized-wage share of pass-through income is likely below the human-capital share of 75% estimated in Smith et al. (2019). Thus, the implied estimate can be interpreted as

[14]An alternative approach would impute wages to partners using observationally similar workers (Fleck et al., 2014). However, there is evidence that partners earn substantially more than observationally similar workers (see, e.g., Kaplan and Rauh (2010) or Azmat and Ferrer (2017) on the pay of law firm partners). Thus, such an approach would tend to understate recharacterized wages for the partnership sector; for example, BEA data imply the wage imputed for professional service workers would be less than $50 in 2017. Ideally, one could also consider imputing partnership wages using owner pay for similar C-corporations. Unfortunately, we do not have complete data on the wage compensation of C-corporation owners, because firm-owner links are not available in the tax data for these firms.

suggesting our approach can account for at most 58.2% of the decline in the raw series.

D Data Appendix

This section describes the data sources for this paper, where we use the different data sources, and variable definitions. Section A outlines the series we use by data source. Section B reviews the data used in each exhibit, noting extrapolations.

A Data by source

- **National Income and Product Accounts (NIPA)**
  - Table 1.1.5 "Gross Domestic Product: Annual" (line 1), retrieved 2021-03-06 via FRED using series code GDPA.
  - Table 1.13: "National Income: Sole proprietors and partnerships" (line 19); "Consumption of Fixed Capital: Sole Proprietor and partnerships;" "Sole proprietors and partnerships: Compensation of employees" (line 20); and "Sole proprietors and partnerships: Proprietors' income with IVA and CCadj" (line 23). Retrieved 2021-03-06 via FRED using series codes A1641C1A027NBEA, A1615C1Q027SBEA, A1642C1A027NBEA, and A1645C1A027NBEA respectively.
  - Table 1.14: "Gross value added of corporate business" (line 1); "Compensation of employees" (line 4). Retrieved 2020-09-04 via BEA graphic user interface (GUI).
  - Table 7.14: "Posttabulation amendments and revisions" (line 3). Retrieved 2020-12-14 via BEA GUI.
- **BEA GDP-by-Industry Accounts** "Components of Value Added by Industry" table. Retrieved 2021-03-13 via BEA GUI.
- **Statistics of Income (SOI) public data**:
  - Integrated Business Data (1980-2015). Retrieved on 2020-09-04 via `https://www.irs.gov/pub/irs-soi/15otidb1.xls`.
  - Table 1 "All Partnerships: Total Assets, Trade or Business Income and Deductions, Portfolio Income, Rental Income, and Total Net Income (Loss), by Industrial Group" 1993-2018. Retrieved on 2021-03-06 via `https://www.irs.gov/statistics/soi-tax-stats-partnership-statistics-by-sector-or-industry`.

  - Table 2 "Sole-proprietorship Non-farm Income Statements" 1996-2018. Retrieved on 2021-03-06 via IRS webpage.
  - Table 2.3 "Returns of Active Corporations, Other than Forms 1120S, 1120-REIT, and 1120-RIC" 2016 and 2017. Retrieved on 2021-03-06 via `https://www.irs.gov/pub/irs-soi/16co23ccr.xlsx` and `https://www.irs.gov/pub/irs-soi/16co23ccr.xlsx`.
  - Table 6.1 "Returns of Active Corporations, Form 1120S" 2016 and 2017. Retrieved on 2021-03-06 from `https://www.irs.gov/pub/irs-soi/16co61ccr.xlsx` and `https://www.irs.gov/pub/irs-soi/17co61ccr.xlsx`.

- **United Nations System of National Accounts** Table 4.8. Retrieved on 2020-06-24 via the UN SNA GUI at `http://data.un.org/Data.aspx?d=SNA&f=group_code%3a408`.

- **Restricted-use SOI corporate and partnerships samples**, which we collapse to yield aggregates by industry (NAICS 2-, 3-, and 4-digit) and sales bin (in constant 2014 dollars).

- **Other administrative data** See subsection B for detailed descriptions
  - Population of C- and S-corporation returns, 1996-2014
  - Linked firm-owner tax returns for partnerships and S-corporations, 2001-2014, as in Smith et al. (2019), which we collapse to yield aggregates by industry and sales bin (in constant 2014 dollars).

- **Replication data** from Karabarbounis and Neiman (2014) (labor share by country) and Elsby, Hobijn and Şahin (2013) (supplement to BEA GDP-by-industry accounts).

B Data by exhibit

1. **Figure 1**
   (a) *Panel A* uses "Gross value added of corporate business" (line 1) and "Compensation of employees" (line 4) from NIPA table 1.14, retrieved via BEA GUI.
   (b) *Panel B* uses "National Income: Sole proprietorships and partnerships;" "Consumption of Fixed Capital: Sole Proprietorships and partnerships;" and GDP retrieved via FRED using series codes A1641C1A027NBEA, A1615C1Q027SBEA, and GDPA, respectively. It also uses "Gross value added of corporate business" (line 1) from NIPA table 1.14, as in panel A.

(c) *Panel C* uses Net income of S-corporations, C-corporations, and partnerships from SOI Integrated Business Data.

(d) *Panel D* uses restricted-use data from the SOI corporate and partnerships samples. We calculate value added as the sum of W-2 wages, non-wage compensation, interest paid, net depreciation, depletion, Domestic Prpoduction Activities Deduction, other deductions, and gross profits minus total deductions.

2. **Figure 2**

(a) *Panel A* uses the population of S- and C-corporation returns covering 1996-2016. For estimating event-study specifications, we narrow the sample to firms that switch from C- to S-corporation form from 2000 to 2012.

(b) *Panels B and C* use latest-year data from two sources. We take 2014 owner pay, defined as the sum of wages paid by firm and ordinary income, from our firm-owner linked sample of S-corporations and partnerships. Sales (gross receipts) and value added, both from 2017, are from the SOI corporate and partnerships samples; value added is defined as in Figure 1D.

3. **Figure 3, Table 1, and Table 2**

(a) *BEA Labor Share* (Figure 3A and Table 1A) is the ratio of "Gross value added of corporate business" and "Compensation of employees" as in Figure 1A.

(b) *S-corporation recharacterized wages* are the product of total S-corporation receipts with average bin-specific recharacterized wage shares of receipts, weighted by each size bins' share of sales.

- *Total S-corporation receipts* From 1980 to 2015, we take S-corporation receipts from Integrated Business Data as in Figure 1C. For 2016 and 2017, we supplement the IBD aggregates with receipts from SOI table 6.1 "Returns of Active Corporations, Form 1120S."
- *Size bin-specific S-corporation receipts* are from collapses of the SOI corporate sample, as in Figure 2B and 2C, covering 1992-2017.
- *Recharacterized wage shares of receipts* are shown in Figure 2A.

We extrapolate S-corporation receipts backwards as a constant share of "Gross value added of corporate business" from NIPA table 1.14. We extrapolate the aggregate series (IBD and table 6.1) backwards from 1980 and the size bin-specific series backwards from 1992.

(c) *Non-corporate employee compensation, profits, and other capital income* Compensation and profits are "National income: Sole proprietorships and partnerships: Compensation of employees" and "National Income: Sole proprietorships and partnerships: Proprietors' income with IVA and CCadj" retrieved via FRED using series codes A1642C1A027NBEA and A1645C1A027NBEA, respectively, on 2021-03-06. Other capital income is the difference between Non-corporate gross value added as in Figure 1B and the sum of non-corporate employee compensation and profits.

(d) *Partnership and sole proprietorship components of gross value added* including employee compensation; proprietors' income; and other capital income are from sole proprietorship and partnership SOI income statements. Specifically, sole proprietorships data are from (non-farm) table 2 "Income Statements" retrieved on 2021-03-06. Partnerships data are from "Table 1: All Partnerships: Total Assets, Trade or Business Income and Deductions, Portfolio Income, Rental Income, and Total Net Income (Loss), by Industrial Group" retrieved on 2021-03-06. We construct components of GVA as described in section C. SOI proprietors' income is available from 1980 to 2017, and other SOI components of gross value added are available from 1996 to 2017. For years in which data are not available, we extrapolate backwards using shares from the earliest available year.

(e) *W-2 wages paid to partners* is from the firm-owner linked sample covering 2001-2014. We extrapolate backwards from 2001 and forwards from 2014 as a constant share of SOI partnership profits.

4. **Appendix Figure A.1** uses event-study coefficients estimated within a subset of the population of C- and S-corporation tax returns as in Figure 2. It also uses restricted-use SOI corporate sampele data to rank 2-digit industries by profits.

5. **Appendix Figure A.3** plots NIPA corporate sector GVA from table 1.14; GDP retrieved via FRED (series code GDPA); and "Inorganic partnership GVA" as shown in Table 1.

6. **Appendix Figure A.5** uses linked firm-owner data from Smith et al. (2019) for partnerships and from the SOI corporate sample for C- and S-corporations.

7. **Appendix Figure A.6** uses data from the BEA GDP-by-industry accounts covering 1997-present, retrieved via the BEA GUI. We supplement these data with replication data from Elsby, Hobijn and Şahin (2013) which provides the BEA GDP-by-industry value added items from 1987-1997.

8. **Appendix Figure A.7** uses data from Karabarbounis and Neiman (2014), as well as from the UN System of National Accounts table 4.8, retrieved via the UN SNA GUI at `http://data.un.org/Data.aspx?d=SNA&f=group_code%3a408`.

9. **Appendix Figure A.8** uses the data underlying Figure 2B and 2C.

10. **Appendix Table A.1** uses BEA GDP-by-industry data as in Figure A.6; collapses of the SOI corporate sample and firm-owner linked data as in Figure A.5; adjusted underlying series from table 1; and sector-specific event-study estimates partially shown in Figure A.1.

11. **Appendix Tables A.2 and A.4** use the population of C- and S-corporate tax returns as in Figure 2A.

12. **Appendix Table A.5** uses the same data as Table 2.

C Concept definitions in SOI data

Components of gross value added

To calculate the partnership share of each component of gross value added (GVA), we construct GVA component analogs for both organizational forms in the SOI data as follows:

$$\begin{aligned}
\textbf{Profits}_{\textbf{Sole prop, SOI}} &\equiv \text{Net income} \\
\textbf{Compensation}_{\textbf{Sole prop, SOI}} &\equiv \text{Cost of labor} + \text{Contract labor} + \\
&\quad \text{Employee benefit programs} + \\
&\quad \text{Pension and profit-sharing plans} + \\
&\quad \text{Salaries and wages} \\
\textbf{Other capital income}_{\textbf{Sole prop, SOI}} &\equiv \text{Rent paid on machinery and equipment} + \\
&\quad \text{Rent paid on other business property} + \text{Taxes paid} \\
&\quad \text{Mortgage indebtedness} + \text{Depreciation} + \\
&\quad \text{Other interest paid on business indebtedness}
\end{aligned}$$

$$\textbf{Profits}_{\textbf{Pships, SOI}} \equiv \text{Net income}$$

$$\textbf{Compensation}_{\textbf{Pships, SOI}} \equiv \text{Cost of labor} + \text{Salaries and wages} +$$
$$\text{Guaranteed payments to partners} +$$
$$\text{Pension and profit-sharing plans} + \text{Employee benefit plans}$$

$$\textbf{Other capital income}_{\textbf{Pships, SOI}} \equiv \text{Rent paid} + \text{Interest paid} + \text{Depreciation} + \text{Taxes paid}$$

Partnership share of gross value added components

For each component of gross value added, we compute the partnership share of each component as one minus the sole proprietorship component. Specifically, for $c \in \{\text{Compensation}, \text{Other capital income}\}$, we take:

$$\text{Partnership share } c = 1 - \frac{c_{\text{Sole prop, SOI}}}{c_{\text{Sole prop, SOI}} + c_{\text{Pship, SOI}}}.$$

For profits, we use a slightly different formula:

$$\text{Partnership share profits} = 1 - \frac{\text{Profits}_{\text{Sole prop, SOI}}}{\text{Sole prop and pship profits}_{\text{NIPA 1.13}}}.$$

where Sole prop and pship $\text{profits}_{\text{NIPA 1.13}}$ is "National Income: Sole proprietorships and partnerships: Proprietors' income with IVA and CCadj" (retrieved via FRED using series code A1645C1A027NBEA). We choose this definition for the denominator to avoid double-counting profits accruing to partnerships holding other partnerships (see, e.g., Pearce (2015) and Cooper et al. (2016)), though our results are not sensitive to this choice.