

International Boycott Reports, 1997 and 1998

Data Release

The Arab League boycott of Israel is one of the longest lasting boycotts in modern history.

Although the Arab League boycott has been in effect since 1945, the United States did not pass anti-boycott legislation until 1976 [1]. The Ribicoff Amendment to the Tax Reform Act of 1976 (TRA76) was adopted to encourage U.S. firms to refuse to participate in foreign boycotts that the United States had not sanctioned. As of 1997 and 1998, the Arab League boycott of Israel remained the principal foreign economic boycott affecting U.S. companies and individuals.

TRA76 required that all U.S. taxpayers, and their related "persons," report operations in, with, or related to boycotting countries or their nationals and that they report requests received to participate in or cooperate with an international boycott to the Internal Revenue Service (IRS) [2]. Operations include all forms of business or commercial activities and transactions regardless of whether they generate income. Taxpayers are required to report these operations on Form 5713, *International Boycott Report*, filed each year with their Federal income tax returns. During Calendar Years 1997 and 1998, there were 1,328 and 1,273 reports filed, respectively. In both years, corporations filed 92 percent of the Forms 5713. Some 6 percent of the boycott reports were filed by partnerships. Most of the remaining returns were filed by trusts or individuals.

The Treasury Department publishes a quarterly list of "boycotting countries." The Arab nations on the boycotting list all boycotted Israel. During 1997 and 1998, the list of countries requiring cooperation with an international boycott included Bahrain, Iraq, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, and Yemen. The list remained static over the years. The last modification to the current list (for 1998) was November 6, 1995, when Jordan was removed. Although most boycott reports are filed by U.S. "persons" with operations in these countries, an international boycott report also had to be filed by any person with operations in any other country that requires participation in or coop-

eration with an international boycott as a condition of doing business within such a country. Other commonly-reported countries participating in the boycott of Israel were Bangladesh, Egypt, Iran, Jordan, and Pakistan.

Table 1 presents the number of persons receiving requests, the number of requests, and the number of agreements by type for each of the listed countries. As defined in Internal Revenue Code section 999(b)(3), the conditions used to indicate the type of cooperation or participation requested are as follows:

- (1) If the person agrees, as a condition of doing business directly or indirectly within a country or with the government, a company, or a national of the country
 - (a) to refrain from doing business with or in a country, which is the object of the boycott or with the government, companies, or nationals of that country (a type 1 request, as shown in Table 1); or
 - (b) to refrain from doing business with any U.S. person engaged in trade in a country, which is the object of the boycott or with the government, companies, or nationals of that country (a type 2 request); or
 - (c) to refrain from doing business with any company whose ownership or management is made up, all or in part, of individuals of a particular nationality, race, or religion. Additionally, the U.S. person may agree to remove or refrain from selecting corporate directors who are individuals of a particular nationality, race, or religion (a type 3 request); or
 - (d) to refrain from employing individuals of a particular nationality, race, or religion (a type 4 request); or
- (2) If the person agrees, as a condition of the sale of a product to the government, a company, or a national of a country, to refrain from shipping or insuring products on a carrier owned, leased, or operated by a person that does not participate in

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or cooperate with an international boycott (a type 5 request).

American firms are subject to both tax and civil penalties for participating in non-U.S.-sanctioned international boycotts. TRA76 does not “prohibit” conduct, but rather denies tax benefits, thereby discouraging certain types of boycott-related agreements. Participation in an international boycott could result in the loss of tax benefits, such as by reducing the foreign tax credit or reducing tax-exempt “foreign trade income” of a Foreign Sales Corporation (FSC). Denial of deferred taxation of earnings of a Controlled Foreign Corporation (CFC), or of an Interest-Charge Domestic International Sales Corporation (IC-DISC) could also result from doing business with or in a boycotting country. A single taxpayer could lose multiple tax benefits due to participation in an international boycott. Additionally, fines could be imposed by the Department of Commerce [3].

In 1997, boycott reports were filed by 1,328 persons. Of these, 193 reported receiving requests to participate in an international boycott and, of these, 39 complied with the requests to participate in the boycott. (The remainder filed simply to report that they conducted operations in boycotting countries, in keeping with the filing requirements.) Each filer may receive multiple requests to participate in a boycott and participate in multiple agreements. In 1997, a total of 6,055 requests were received by 193 filers, and 1,438 agreements were made by 39 filers.

Of the 1,273 reports filed in 1998, there were 187 that reported requests to participate in a boycott, and 58 indicated compliance with the requests. The total number of boycott requests received grew by 10 percent between 1997 and 1998. Those agreeing to the boycott requests increased by 6 percent for the same years. Although both boycott requests and agreements rose slightly between the 2 years, these data demonstrate that American firms complied with only approximately one-third of the requests they received to participate in an international boycott. This may (or may not) serve to substantiate the effectiveness of the U.S. anti-boycott provisions.

For those filing in 1997, most of the boycott requests originated from the United Arab Emirates and Saudi Arabia. These two countries accounted for 33 percent of the total number of requests. How-

ever, for those filing in 1998, requests from Kuwait and Oman increased sharply to 44 percent of the total, from 457 to 1,477 in the case of Kuwait and from 795 to 1,488 in the case of Oman. These increases were attributable to just a small number of filers. In contrast, there were few decreases in the number of boycott requests for other countries in either year.

Of the 6,055 boycott requests received during 1997, there were 1,438 that resulted in agreements by U.S. persons to participate. Most of the agreements reported in 1997, as well as in 1998, were from the United Arab Emirates. However, for both 1997 and 1998 filings, Libya and Lebanon had the highest ratios of boycott agreements to boycott participation requests. As examples, of the 289 requests in 1997 that were associated with Libya, 141 indicated agreement (48 percent). Of the 235 requests in 1998 that were associated with Lebanon, 201 resulted in a boycott agreement (85 percent). Figure A shows boycott agreements as a percentage of requests received, by country, for 1997 and 1998 filing years.

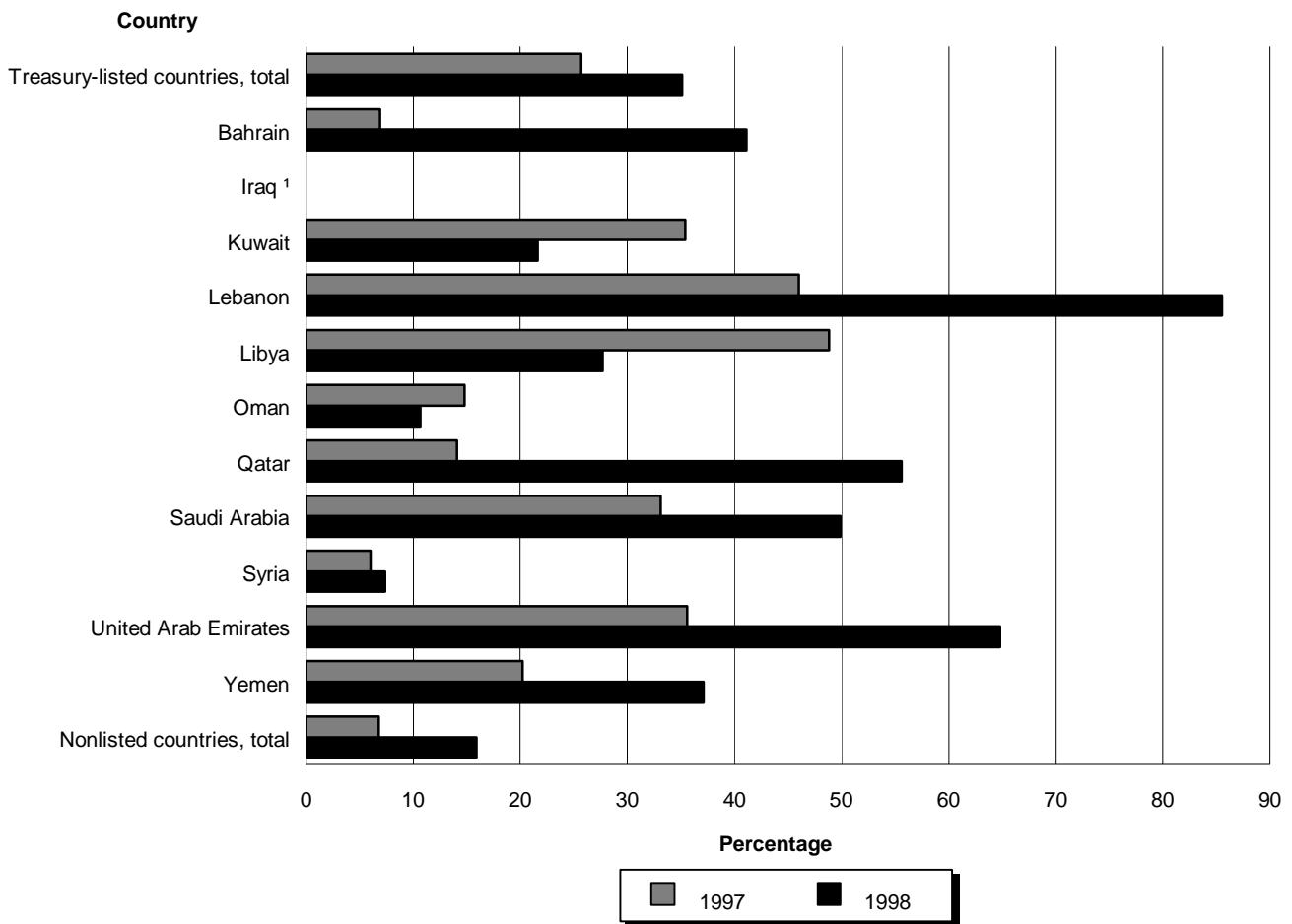
Persons agreeing to participate in an international boycott were subject to a loss of certain tax benefits. Based on filings in 1997, three corporations had to reduce their foreign tax credits, in total, by \$23,369. None lost foreign tax credit based on 1998 filings. Thirteen filers during 1997 had to increase their taxable incomes from CFC's under Subpart F by a combined \$1,712,112. In contrast, seven 1998 filers increased Subpart F income totaling \$691,839. There were no denials of IC-DISC benefits in either year, but there was a reduction in the FSC “foreign trade income” exemptions of \$293,082 according to 1997 filings and \$436,833 according to 1998 filings.

Special computations were required of the taxpayer to determine the size of each lost benefit. There were two methods available to filers: the “international boycott factor method” (Schedule A of

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Figure A

Boycott Agreements as a Percentage of Requests Received, by Country, Filing Years 1997 and 1998



¹ Iraq had no agreements.

Form 5713) and the “specifically attributable tax and income method” (Schedule B). Table 2 shows the lost tax benefits by method of computation as reported on filings in 1992 through 1998.

Under the “international boycott factor method,” the loss was computed by using a ratio of purchases, sales, and payroll in boycotting countries to total purchases, sales, and payroll in all countries (other than the United States). Six 1997 filings and five 1998 filings indicated use of this method for computing their lost benefits.

The method more commonly used, and an alternative to the boycott factor method, is the “specifi-

cally attributable tax and income method.” In order to use this method, filers had to demonstrate that the foreign taxes paid and income earned for the taxable year were attributable to specific operations in which there was participation in or cooperation with an international boycott. When these requirements were met, then the amount of the foreign tax credit disallowed, the Subpart F income added, and the amount of “deemed distribution” for the taxable year all had to be reported. Of the 12 corporations calculating loss of tax benefits by this method, 10 were parent corporations that had to increase the CFC earnings they reported in 1997 by \$1,487,582. Six corporations

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used the specifically attributable tax and income method in 1998. Of these, five parent corporations had to increase their taxable incomes from CFC's by \$707,648. U.S. tax on this income would otherwise have been deferred. Taxable income totaling \$725,472 reported on both 1997 and 1998 filings, by taxpayers using this method, would otherwise have been classified as tax-exempt "foreign trade income" of a FSC, if the U.S. taxpayer had not participated in a boycott.

Table 2 shows that there were significant reductions in lost tax benefits resulting from the drop in boycott participation over the years. For example, in 1992, nearly \$3.9 million in foreign tax credits were lost; none were lost in 1998. Subpart F income increased by more than \$8.5 million according to 1992 data, compared to \$0.7 million according to 1998 filings. Clearly, filers were demonstrating that their activities, as they related to international boycotts, were limited.

Explanation of Selected Terms

Foreign Tax Credit.—U.S. taxpayers are subject to tax on their incomes. The foreign tax credit provisions allow them to offset a portion of the U.S. tax on their worldwide incomes with a credit for taxes paid to a foreign tax authority on their foreign-source incomes. The foreign tax credit served to help reduce the impact of double taxation on the same income, first by the foreign government and, again, by the U.S. Government.

FSC-Exempt Foreign Trade Income.—A Foreign Sales Corporation (FSC) is a company incorporated abroad, created to promote U.S. exports, and usually controlled by a U.S. "person." A portion of the FSC's "foreign trade income" is exempt from U.S. taxation. This is income attributable to the sale or lease of "export property" outside the United States and to the performance of various types of export services outside the United States.

Interest-Charge Domestic International Sales Corporation.—Interest-Charge Domestic International Sales Corporations (IC-DISC's) are qualifying small domestic corporations formed to promote exports of the products and services of their U.S. owners. By design, an IC-DISC provides a type of "tax deferral" to its U.S. shareholders. Payment of income tax is "deferred," until the income is either

actually distributed or "deemed" distributed to shareholders; the IC-DISC, itself, is not taxed. However, the IC-DISC is required to: (1) calculate the tax-deferred portion of its "taxable income" each year; (2) accumulate the tax-deferred income for the current year and prior tax years in a separate account; and (3) report the total accumulated amount of tax-deferred income of its shareholders each year. Shareholders of the IC-DISC's are then required to pay the interest charges on the tax that would have been imposed on the IC-DISC's taxable income if the addition of the IC-DISC's income would have resulted in increased taxable income on the shareholder's tax return [4].

Subpart F Income.—Under the Internal Revenue Code, U.S. shareholders of foreign corporations are generally not taxed on the profits of the foreign corporation until those profits are repatriated. The major exception to this general rule is provided in the Internal Revenue Code, Subpart F—Controlled Foreign Corporations, sections 951-964. Code section 951 provides that U.S. shareholders must include in their gross incomes certain undistributed profits of foreign corporations controlled by U.S. shareholders that would otherwise have been nontaxable. Subpart F income from a Controlled Foreign Corporation includes certain insurance income, "foreign base company" income, international boycott participation income, bribes and other illegal payments to foreign government officials, and income from any country which the United States does not recognize or with which it has severed relations.

Data Sources and Limitations

Statistics of Income conducts a full-scale study of the international boycott provisions once every 4 years, with smaller studies conducted for the intervening years. Data for the full-scale studies are also used in the required report to Congress, *The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code* [5]. All data are from Forms 5713, *International Boycott Report*, attached to U.S. income tax returns. The population of Forms 5713 is used for both the full-scale and smaller-scale studies. Data for all types of filers are reported on returns filed in Calendar Years 1997 and 1998.

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Notes and References

- [1] National Bureau of Economic Research Incorporated, Digest On Line, "U.S. Anti-Boycott Legislation Works," April 1998.
- [2] See section 999 of the Internal Revenue Code.
- [3] More information on fines may be obtained by contacting either the U.S. Department of Commerce, Bureau of Export Administration, Office of Anti-Boycott Compliance, or the U.S. Department of the Treasury, Office of the General Counsel.
- [4] For more information on IC-DISC's, see Belmonte, Cynthia, "Interest-Charge Domestic International Sales Corporations, 1996," *Statistics of Income Bulletin*, Fall 2000, Volume 20, Number 2.
- [5] See, for example, U.S. Department of the Treasury, *The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code*, Seventh Report, August 1997.

SOURCE: IRS, Statistics of Income Bulletin, Winter 2000-2001, Publication 1136 (Rev. 2-2001).

International Boycott Reports, 1997 and 1998

Table 1.--International Boycott Reports Filed in 1997 and 1998: Number of Persons Receiving Requests, Number of Requests Received, and Number of Agreements, by Boycotting Country and Type of Request

Country	Type of boycott request	Number of U.S. persons receiving requests ¹		Number of boycott requests received	
		1997	1998	1997	1998
		(2)	(3)	(4)	(5)
All countries.....	Total	193	187	6,055	6,714
	Type 1	111	89	2,516	1,778
	Type 2	18	16	513	692
	Type 3	17	19	368	221
	Type 4	9	14	348	205
	Type 5	124	128	2,310	3,818
Treasury-listed countries.....	Total	180	174	5,435	6,488
	Type 1	100	83	2,184	1,681
	Type 2	18	16	491	692
	Type 3	17	19	347	220
	Type 4	9	14	328	205
	Type 5	117	119	2,085	3,690
Bahrain.....	Total	44	46	536	484
	Type 1	24	15	167	151
	Type 2	3	**	126	119
	Type 3	3	**	61	51
	Type 4	**	**	60	51
	Type 5	25	35	122	112
Iraq.....	Total	8	7	26	13
	Type 1	5	**	15	5
	Type 2	**	--	**	--
	Type 3	**	--	**	--
	Type 4	**	--	**	--
	Type 5	4	**	**	8
Kuwait.....	Total	68	72	457	1,477
	Type 1	20	19	134	179
	Type 2	3	4	**	99
	Type 3	**	3	**	6
	Type 4	**	3	**	6
	Type 5	49	56	254	1,187
Lebanon.....	Total	47	34	237	235
	Type 1	11	7	**	44
	Type 2	**	**	**	39
	Type 3	**	**	**	**
	Type 4	**	**	**	**
	Type 5	39	28	168	149
Libya.....	Total	27	21	289	101
	Type 1	16	9	64	22
	Type 2	4	**	42	8
	Type 3	5	3	42	9
	Type 4	3	**	40	8
	Type 5	19	16	101	54
Oman.....	Total	47	45	795	1,488
	Type 1	21	21	300	214
	Type 2	7	7	84	37
	Type 3	4	6	83	23
	Type 4	3	5	79	21
	Type 5	27	33	249	1,193

Footnotes at end of table.

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Table 1.--International Boycott Reports Filed in 1997 and 1998: Number of Persons Receiving Requests, Number of Requests Received, and Number of Agreements, by Boycotting Country and Type of Request--Continued

Country	Type of boycott request	Number of boycott agreements		Boycott agreements as a percentage of requests received	
		1997	1998	1997	1998
		(6)	(7)	(8)	(9)
All countries.....	Total	1,438	2,312	23.7	34.4
	Type 1	430	872	17.1	49.0
	Type 2	26	493	5.1	71.2
	Type 3	28	7	7.6	3.2
	Type 4	24	7	6.9	3.4
	Type 5	930	933	40.3	24.4
Treasury-listed countries.....	Total	1,396	2,276	25.7	35.1
	Type 1	417	869	19.1	51.7
	Type 2	26	493	5.3	71.2
	Type 3	28	7	8.1	3.2
	Type 4	24	7	7.3	3.4
	Type 5	901	900	43.2	24.4
Bahrain.....	Total	37	199	6.9	41.1
	Type 1	**	82	**	54.3
	Type 2	**	69	**	58.0
	Type 3	**	**	**	**
	Type 4	--	--	--	--
	Type 5	26	**	21.3	42.0
Iraq.....	Total	--	--	--	--
	Type 1	--	--	--	--
	Type 2	--	--	--	--
	Type 3	--	--	--	--
	Type 4	--	--	--	--
	Type 5	--	--	--	--
Kuwait.....	Total	162	319	35.4	21.6
	Type 1	**	144	26.1	80.4
	Type 2	**	93	**	93.9
	Type 3	--	--	**	**
	Type 4	--	--	**	--
	Type 5	126	82	49.6	6.9
Lebanon.....	Total	109	201	46.0	85.5
	Type 1	**	40	**	90.9
	Type 2	--	**	**	**
	Type 3	--	**	--	--
	Type 4	--	**	--	--
	Type 5	**	120	63.7	80.5
Libya.....	Total	141	28	48.8	27.7
	Type 1	24	**	37.5	**
	Type 2	22	**	52.4	**
	Type 3	24	**	57.1	**
	Type 4	22	**	55.0	**
	Type 5	49	22	48.5	40.7
Oman.....	Total	118	159	14.8	10.7
	Type 1	14	26	4.7	12.1
	Type 2	--	15	--	40.5
	Type 3	--	--	--	--
	Type 4	--	--	--	--
	Type 5	104	118	41.8	9.9

Footnotes at end of table.

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Table 1.--International Boycott Reports Filed in 1997 and 1998: Number of Persons Receiving Requests, Number of Requests Received, and Number of Agreements, by Boycotting Country and Type of Request--Continued

Country	Type of boycott request	Number of U.S. persons receiving requests ¹		Number of boycott requests received	
		1997	1998	1997	1998
		(2)	(3)	(4)	(5)
Qatar.....	Total	44	37	505	565
	Type 1	24	16	317	248
	Type 2	5	4	23	155
	Type 3	3	4	14	29
	Type 4	3	3	14	23
	Type 5	26	27	137	110
Saudi Arabia.....	Total	56	46	876	521
	Type 1	29	22	219	148
	Type 2	6	3	74	31
	Type 3	7	5	75	34
	Type 4	5	**	73	30
	Type 5	32	30	435	278
Syria.....	Total	57	48	386	379
	Type 1	35	26	137	91
	Type 2	6	4	17	20
	Type 3	6	5	19	20
	Type 4	6	5	17	28
	Type 5	36	29	196	220
United Arab Emirates.....	Total	109	112	1,145	1,136
	Type 1	58	56	654	530
	Type 2	10	13	46	178
	Type 3	10	14	43	45
	Type 4	5	10	35	36
	Type 5	67	73	367	347
Yemen.....	Total	20	20	183	89
	Type 1	10	8	111	49
	Type 2	4	3	10	**
	Type 3	3	**	7	**
	Type 4	3	**	7	**
	Type 5	12	12	48	32
Nonlisted countries.....	Total	60	62	620	226
	Type 1	34	21	332	**
	Type 2	3	--	22	--
	Type 3	3	**	21	**
	Type 4	**	--	20	--
	Type 5	35	44	225	128

Footnotes at end of table.

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Table 1.--International Boycott Reports Filed in 1997 and 1998: Number of Persons Receiving Requests, Number of Requests Received, and Number of Agreements, by Boycotting Country and Type of Request--Continued

Country	Type of boycott request	Number of boycott agreements		Boycott agreements as a percentage of requests received	
		1997	1998	1997	1998
		(6)	(7)	(8)	(9)
Qatar.....	Total	71	314	14.1	55.6
	Type 1	**	138	**	55.6
	Type 2	--	132	**	85.2
	Type 3	--	--	--	--
	Type 4	--	--	--	--
	Type 5	**	44	50.4	40.0
Saudi Arabia.....	Total	290	260	33.1	49.9
	Type 1	**	**	28.8	27.0
	Type 2	--	--	**	--
	Type 3	**	**	**	**
	Type 4	--	--	--	--
	Type 5	226	219	52.0	78.8
Syria.....	Total	23	28	6.0	7.4
	Type 1	3	3	2.2	3.3
	Type 2	**	**	**	**
	Type 3	**	**	**	**
	Type 4	**	**	**	14.3
	Type 5	14	19	7.1	8.6
United Arab Emirates.....	Total	408	736	35.6	64.8
	Type 1	263	390	40.2	73.6
	Type 2	--	**	--	78.1
	Type 3	--	**	--	**
	Type 4	--	**	--	**
	Type 5	145	204	39.5	58.8
Yemen.....	Total	37	33	20.2	37.1
	Type 1	**	4	**	8.2
	Type 2	--	4	**	66.7
	Type 3	--	--	--	--
	Type 4	--	--	--	--
	Type 5	**	25	72.9	78.1
Nonlisted countries.....	Total	42	36	6.8	15.9
	Type 1	13	3	3.9	3.1
	Type 2	--	--	--	--
	Type 3	--	--	--	--
	Type 4	--	--	--	--
	Type 5	29	33	12.9	25.8

**Data deleted to avoid disclosure of information about specific taxpayers.

¹ Data in this column may not add to the totals because persons could have received requests of more than one type and/or from more than one country.

NOTE: For an explanation of each of the five types of international boycott requests, see the text descriptions.

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Table 2.--International Boycott Reports Filed in 1992-1998: Lost Tax Benefits Due to Boycott Participation, by Type and Method of Computation

(Money amounts are in whole dollars)

Method	Filing year	Reduction of foreign tax credit	Increase of Subpart F income	Denial of Foreign Sales Corporation benefit	IC-DISC lost benefits
	(1)	(2)	(3)	(4)	(5)
All methods.....	1992	3,876,303	8,572,193	374,475	--
	1993	1,631,556	7,455,541	369,579	--
	1994	476,965	6,414,923	146,650	--
	1995	280,635	6,130,890	696,255	--
	1996	115,645	2,617,031	10,041	--
	1997	23,369	1,712,112	293,082	--
	1998	--	691,839	436,833	--
Boycott factor method.....	1992	743,625	3,654,846	--	--
	1993	766,202	4,873,847	4,833	--
	1994	19,918	80,537	4,074	--
	1995	7,202	--	3,233	--
	1996	25,640	228,894	--	--
	1997	23,253	224,530	--	--
	1998	--	-15,809	4,443	--
Specifically attributable taxes and income method.....	1992	3,132,678	4,917,347	374,475	--
	1993	865,354	2,581,694	364,746	--
	1994	457,047	6,334,386	142,576	--
	1995	273,433	6,130,890	693,022	--
	1996	90,005	2,388,137	10,041	--
	1997	116	1,487,582	293,082	--
	1998	--	707,648	432,390	--