Statistics of Income Studies of International Income and Taxes

by Sarah E. Nutter

United States exports (goods, services, and investment income) nearly tripled from 1985 to 1996, growing from $382.7 billion to $1,055.2 billion; U.S. imports more than doubled during this period, increasing from $484.0 billion to $1,163.4 billion [1]. This surge in U.S. imports and exports has been accompanied by an increased interest in international tax information. Currently, Statistics of Income regularly conducts fifteen studies of international income and taxes [2]. The diversity of these international studies is highlighted in the overview provided in Table 1.

As noted in Table 1, the studies provide information about the international transactions of five types of legal entities: individuals, partnerships, corporations, estates, and trusts. The transactions of corporations are the primary focus of nine of the fifteen international studies. One focuses on the foreign income of individuals. Three provide information about the U.S.-source income of foreign "persons" (i.e., entities) and the U.S. tax withheld by third parties on behalf of these foreign persons. The final two provide information about nonresident alien estates and foreign trusts.

These international studies provide information about both the U.S. activity of foreign persons and the foreign activity of U.S. persons. A U.S. person is any citizen or resident of the United States, a domestic partnership or corporation, or any estate or trust that is not considered foreign [3]. A foreign person is any person not considered a U.S. person. U.S. and foreign persons may be taxed differently under U.S. tax law. In general, U.S. persons are subject to U.S. taxation on their worldwide incomes, while foreign persons are subject to U.S. taxation only on that portion of their incomes having a sufficient nexus to the United States.

The purpose of this article is to provide an overview of current SOI studies of international transactions and to describe the types of international information available. (All data presented in this article are in current dollars.) A complete bibliography of previously published international *SOI Bulletin* and *International Compendium* articles is provided in Table 2.

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International Studies of Corporations

Of the nine international corporate studies, six examine the foreign activity of U.S. persons, while three provide information about the U.S. activity of foreign persons. For each, a short description is followed by an overview of the type of information that is available for analysis.

Controlled Foreign Corporations

Direct foreign investment by U.S. persons may take several forms, including establishing foreign branches of U.S. corporations, as well as partnerships and separate corporations. For Federal income tax purposes, a foreign corporation is a "Controlled Foreign Corporation" ("CFC") if more than 50 percent of its outstanding voting stock, or more than 50 percent of the value of all its outstanding stock, is owned (directly, indirectly, or constructively) by "U.S. shareholders" on any day during the foreign corporation's tax year. A "U.S. shareholder" for these purposes is defined as a U.S. person who owns 10 percent or more of the foreign corporation's total combined voting stock [4]. A foreign corporation is "controlled," for SOI purposes, only if a single U.S. corporation satisfies either of the above 50-percent ownership requirements.

In general, the foreign-source income of a foreign corporation is not taxable to its U.S. shareholders until repatriated. Recognizing that income could be accumulated in a CFC, thus deferring U.S. tax on this income indefinitely, Congress enacted the subpart F provisions of the Internal Revenue Code in 1962. These provisions require certain items of income to be treated as deemed paid to the U.S. shareholders (as if repatriated) and, therefore, subject to U.S. taxation. Currently, a U.S. shareholder of a CFC may be required to include in gross income the shareholder's ratable share of the CFC's: (1) subpart F income, (2) increase in earnings invested in U.S. property, (3) previously excluded subpart F income withdrawn from "qualified investments" in less developed countries and in "foreign base company" shipping operations, (4) previously excluded export trade income withdrawn from investment in export trade assets, (5) increase in earnings in excess passive assets, and (6) factoring income (income derived from the acquisition of a trade or service receivable). Subpart F income includes: (1) certain insurance income, (2) "foreign base company" income, (3) international boycott participation income, (4) illegal bribes and other payments made to government officials that would be unlawful under the Foreign Corrupt Practices Act of 1977, and (5) income derived from a country not recognized by the United States, with which the United States does not conduct or has severed diplomatic relations, or which repeatedly provides support for acts of international terrorism.

Figure A shows the geographical distribution of the largest 7,500 CFC's for 1994. In that year, nearly 54 percent of these CFC's were incorporated in seven countries: the United Kingdom, Canada, Germany, France, the Netherlands, Australia, and Japan. These 4,030 CFC's accounted for more than 64 percent of the $1,346 billion in total receipts. Figure B depicts the growth in receipts and total assets of the CFC's over the period 1962 to 1994. Receipts (in current dollars) climbed from approximately $50 billion for 1962 to nearly $1,346 billion for 1994, while total assets (book value) rose from $45 billion to approximately $2,033 billion over the same period.

U.S. shareholders of foreign corporations are currently required to file Form 5471, *Information Return of U.S. Persons with Respect to Certain Foreign Corporations.* Information is collected from all Forms 5471 attached to the tax returns of U.S. parent corporations with $500 million or more in total assets. The Controlled Foreign Corporation study focuses primarily on the largest 7,500 foreign

Figure A

Distribution of the 7,500 Largest Controlled Foreign Corporations, by Selected Country of Incorporation, 1994

[Money amounts are in billions of dollars]

Country of incorporation	Number of largest Controlled Foreign Corporations	Percentage of Controlled Foreign Corporations	Total receipts	Percentage of receipts
	(1)	(2)	(3)	(4)
All countries	**7,500**	**100.0**	**1,346**	**100.0**
United Kingdom	1,158	15.4	245	18.2
Canada	704	9.4	167	12.4
Germany	571	7.6	164	12.2
France	529	7.1	94	7.0
Netherlands	459	6.1	72	5.4
Australia	313	4.2	36	2.7
Japan	296	3.9	89	6.6
Italy	293	3.9	47	3.5
Belgium	225	3.0	31	2.3
Brazil	221	2.9	59	4.4
Mexico	212	2.8	34	2.6
Spain	197	2.6	30	2.2
Bermuda	196	2.6	15	1.1
Switzerland	185	2.5	38	2.8
Hong Kong	165	2.2	26	1.9
Singapore	123	1.6	25	1.8
Ireland	97	1.3	11	0.8
Cayman Islands	96	1.3	8	0.6
Argentina	89	1.2	11	0.8
Sweden	82	1.1	9	0.7
Netherlands Antilles	69	0.9	1	0.1
Chile	66	0.9	4	0.3
Taiwan	59	0.8	11	0.8
New Zealand	58	0.8	3	0.2
South Korea	54	0.7	7	0.5
Other countries	983	13.1	110	8.2

corporations controlled by these parent corporations. Tabular information is classified by industry, as well as by country and year of incorporation. Limited statistics dating back to Tax Year 1962 on Controlled Foreign Corporations are available.

Foreign Sales Corporations

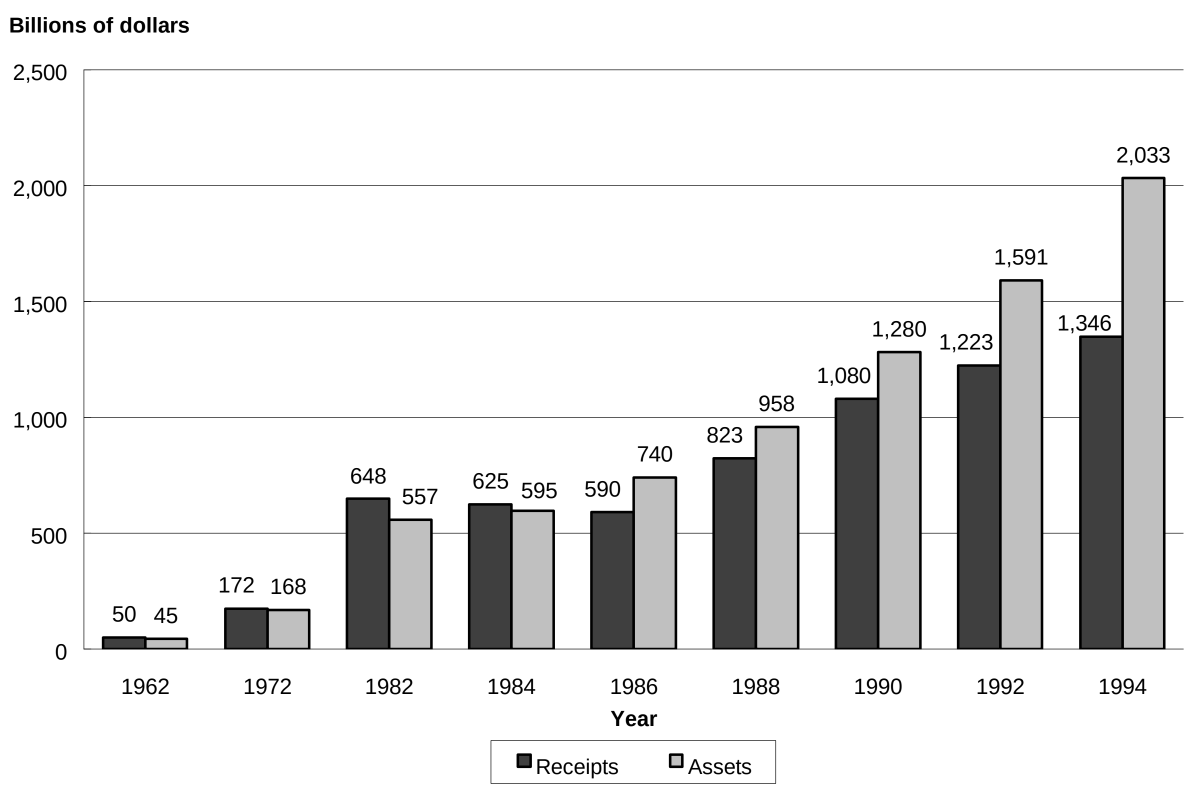
In an effort to promote U.S. exports, the Deficit Reduction Act of 1984 allowed for the creation of two new tax entities: Foreign Sales Corporations (FSC's) and Interest-Charge Domestic International Sales Corporations (IC-DISC's). These two entities were established as successors to the Domestic International Sales Corporation, which had been created by the Revenue Act of 1971 [5].

An FSC is a foreign corporation, usually controlled by a U.S. parent corporation, which has elected to be an FSC and is incorporated in a qualifying foreign country or U.S. possession (except Puerto Rico) [6]. A portion of the FSC's "foreign trade income" is treated as not "effectively connected" with the conduct of a U.S. trade or business and, thus, is exempt from U.S. income taxation [7]. "Foreign trade income" is income attributable to the sale or lease of "export property" outside the United States and the performance of various types of export services outside the United States.

Figures C and D illustrate the types of information available on FSC's. For 1992, FSC's reported gross export receipts of $152.3 billion, foreign trade

Figure B

Controlled Foreign Corporations: Receipts and Assets for Selected Years, 1962-1994 [1]



[1] Year-to-year comparability is affected by law changes, as well as changes in Statistics of Income coverage. For example, the data for 1962 are based on all active CFC's, while statistics for 1994 are based on the largest (in assets) 7,500 CFC's.

Figure C

Foreign Sales Corporations, by Selected Country of Incorporation, 1992

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Country of incorporation	Number of returns	Total assets	Gross export receipts	Total income: Foreign trade income	Total income: Non-foreign trade income	Net exempt income	Taxable income	Total U.S. income tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All countries	**3,073**	**17,999,301**	**152,252,957**	**15,154,608**	**457,089**	**4,058,187**	**2,303,968**	**781,072**
United States Virgin Islands	2,021	8,811,917	95,666,177	9,043,142	226,745	2,419,920	1,443,953	489,396
Barbados	367	2,210,844	17,840,668	2,620,437	504	577,424	312,932	105,986
Guam	224	1,534,974	21,869,899	1,737,202	228,693	615,595	321,715	109,897
Jamaica	148	400,059	3,922,307	527,315	516	133,301	71,429	24,050
Bermuda	62	4,192,304	1,419,845	338,852	356	62,966	19,439	6,624
Netherlands	35	791,697	10,327,574	762,312	203	229,965	123,979	42,225
Northern Marianas Islands	27	19,977	60,404	9,153	60	97	227	34
Other countries	189	37,529	1,146,084	116,196	10	18,920	10,295	2,861

NOTE: Detail may not add to total because of rounding.

Figure D

Foreign Sales Corporations, by Selected Major Product or Service, 1992

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Major product or service	Number of returns	Gross export receipts	Total income: Foreign trade income	Total income: Non-foreign trade income	Net exempt income	Taxable income	Total U.S. income tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
All products and services	**3,073**	**152,252,957**	**15,154,608**	**457,089**	**4,058,187**	**2,303,968**	**781,072**
Machinery, other than electrical	493	29,758,319	2,464,720	170,036	822,498	496,154	168,102
Chemicals and allied products	233	29,284,937	2,474,556	11,482	661,383	355,656	121,074
Electrical machinery, equipment and supplies	539	21,120,754	2,876,022	20,272	659,268	401,682	136,643
Transportation equipment	226	18,124,851	1,595,911	2,599	385,913	228,610	77,786
Professional, scientific, and controlling instruments	278	7,850,095	846,402	8,177	229,847	123,344	41,317
Tobacco products	12	7,424,028	885,281	202	254,269	135,649	46,263
Food and kindred products	149	5,702,020	597,262	58,001	155,908	64,055	21,190
Paper and allied products	47	5,231,904	584,542	1,045	92,120	50,160	17,314
Grains and soybeans	27	4,399,760	240,781	29	98,831	49,629	16,831
All other products and services	1,068	23,356,288	2,589,130	185,245	698,151	399,028	134,552

NOTE: Detail may not add to total because of rounding.

income of $15.2 billion, and net exempt income of $4.1 billion. Overall, the 1992 numbers reflect increased activity from 1987 levels, the last year for which data were available. For 1987, taxpayers reported gross export receipts of $84.3 billion, foreign trade income of $20.3 billion, and net exempt income of $2.1 billion. Gross export receipts are those that the FSC and its related suppliers earned from transactions with third parties. Figure C indicates that the majority (74 percent) of FSC's were incorporated in U.S. possessions, with 66 percent incorporated in the U.S. Virgin Islands. The four largest product groups, in terms of net exempt income, accounted for 62 percent of the total net exempt income, and each individually accounted for more than 9 percent of the total net exempt income reported by FSC's (Figure D). All other major product and service groups individually accounted for less than 6 percent of the total.

FSC statistics are currently produced every 4 years. The data are collected from Form 1120-FSC, *U.S. Income Tax Return of a Foreign Sales Corporation*. Tabular information, available for Tax Years 1985, 1986, 1987, and 1992, is classified by major product or service, size of total assets of the principal shareholder (usually a U.S. parent corporation), size of foreign trading gross receipts, country of incorporation, and intercompany pricing method. It should be noted that FSC returns are no longer included in the sample of returns used as a basis for statistics reported annually in *Statistics of Income—Corporation Income Tax Returns*.

Interest-Charge Domestic International Sales Corporations

The Interest-Charge Domestic International Sales Corporation (IC-DISC) provisions were enacted to provide limited incentives to small U.S. exporters [8]. IC-DISC's are domestic corporations formed to export U.S. products. As noted above, IC-DISC's were initially permitted with the passage of the Deficit Reduction Act of 1984.

To elect IC-DISC status, at least 95 percent of a domestic corporation's gross receipts must be "qualified export receipts," and at least 95 percent of its assets must be "qualified export assets." Qualified export receipts are gross receipts from the sale of qualified export assets and other types of income related to exporting. Qualified export assets represent export property and various other property related to exporting.

In general, the income of an IC-DISC is exempt from taxation. However, the shareholders of an IC-DISC, usually U.S. parent corporations, are subject to an interest charge on the tax that would have been paid on the deferred income and a tax on actual and deemed distributions from the IC-DISC. As shown in Figure E, the total amount of IC-DISC gross export receipts grew from $2.8 billion for 1985 to $3.5 billion for 1991, even though the number of filed returns fell from 1,383 to 980. IC-DISC's reported gross export receipts were approximately 2.5 percent of the gross export receipts of $152.3 billion reported by FSC's for 1991.

Figure F provides a comparison of FSC's and IC-DISC's by size of the majority corporate shareholder's total assets for 1992 and 1991, respectively. As noted above, the IC-DISC provisions were enacted to encourage smaller businesses to export U.S. products. More than three-quarters of IC-DISC's (with identified majority corporate shareholders) were controlled by U.S. corporations with less than $5 million in total assets. In contrast, 1 percent was majority-owned by corporations with $250 million or more in total assets. In comparison, FSC's tended to have larger majority corporate shareholders; approximately 63 percent of all FSC's were majority-owned by shareholders that were parent corporations with $5 million or more in total assets. Twenty percent of FSC's were owned by majority shareholders that were parent corporations with $250 million or more in total assets.

The IC-DISC statistics are generally produced every 4 years. The data are collected from Form 1120-IC-DISC, *Interest Charge Domestic International Sales—Corporation Return*. Previous tabular information is available for Tax Years 1985, 1986, 1987, and 1991. The tabular information is classified

Figure E

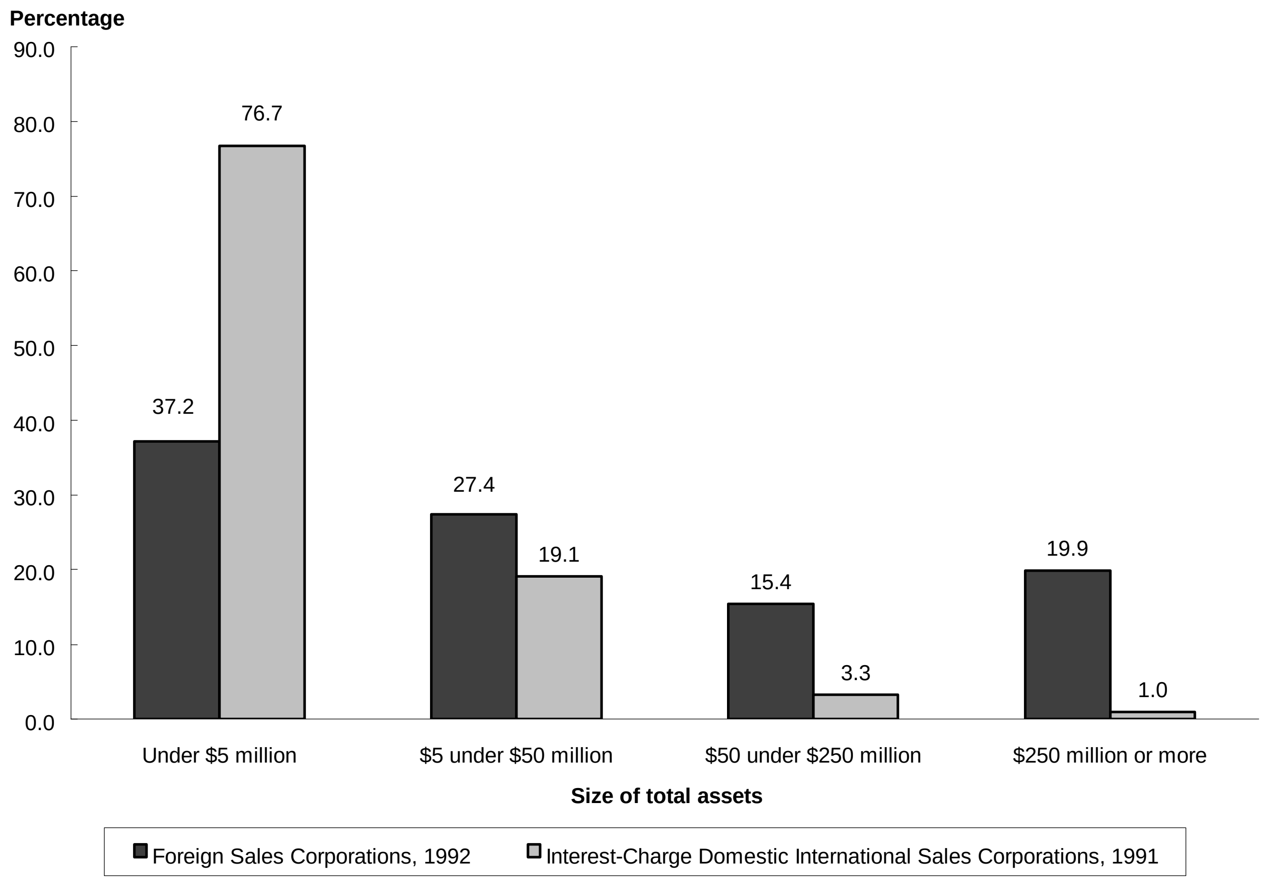
Interest-Charge Domestic International Sales Corporations for Selected Years, 1985-1991

[Money amounts are in thousands of dollars]

Year	Number of returns	Gross export receipts	Taxable income	Total amount deemed distributed	Total actual distributions
	(1)	(2)	(3)	(4)	(5)
1985	1,383	2,809,924	171,980	25,818	369,990
1986	1,443	3,323,468	219,587	38,426	99,826
1987	1,185	3,622,605	258,130	48,888	92,858
1991	980	3,493,513	222,340	54,004	143,670

Figure F

Percentage of FSC and IC-DISC Returns, by Size of Total Assets of Majority Shareholder, 1992 and 1991



by major product class or service, size of total assets of the majority corporate shareholder, size of export gross receipts, and intercompany pricing method.

U.S. Possessions Corporations

The United States allows a tax credit to U.S. corporations that locate in U.S. possessions [9]. To qualify for the credit, a corporation must derive 80 percent or more of its gross income over the eligible period from sources within the U.S. possession and 75 percent or more of its gross income from the active conduct of a trade or business in the U.S. possession during the applicable period, which is generally the shorter of 36 months or the period when the corporation actively conducted a trade or business in the U.S. possession. If these requirements are met and a qualified election is made (on Form 5712, *Election to be Treated as a Possessions Corporation Under Section 936*), a "possessions corporation" may claim a credit against its U.S. income tax for the tax otherwise payable on possessions-source income [10]. Possessions-source income consists of income from the active conduct of a trade or business in the U.S. possession and qualified possessions-source investment income. Qualified possessions-source investment income includes income attributable to the investment of funds derived from the active conduct of business in the same possession. For 1993, possessions returns were received from corporations operating in American Samoa, Guam, Puerto Rico, and the U.S. Virgin Islands. The majority of possessions corporations are located in Puerto Rico.

Figure G contains U.S. possessions corporation data for 1985, 1987, 1989, and 1993. For 1993, the total possessions tax credit of $4.6 billion represented more than 99 percent of the total U.S. income tax before credits for these corporations. Although the number of possessions corporations continued to decline during the period from 1985 to 1993, their total assets increased by 64 percent to $45.6 billion, while their total receipts more than doubled to $34.7 billion. U.S. income tax before credits and the possessions tax credit each increased by approximately 88 percent over the same period, with each totaling $4.6 billion.

Figure G

U.S. Possessions Corporations, Selected Years, 1985-1993

[Money amounts are in millions of dollars]

Item	1985	1987	1989	1993
	(1)	(2)	(3)	(4)
Number of returns	**594**	**516**	**513**	**474**
Total assets	27,735	33,184	34,677	45,588
Total receipts	16,230	20,024	23,481	34,676
Net income (less deficit)	5,359	7,068	8,406	13,214
U.S. income tax before credits	2,455	2,820	2,856	4,620
Possessions tax credit	2,429	2,785	2,820	4,588

The U.S. possessions corporation statistics are based on data collected from Form 1120, *U.S. Corporation Income Tax Return*; Form 5735, *Possessions Corporation Tax Credit Allowed Under Section 936*; Schedule P, *Allocation of Income and Expenses Under Section 936(h)(5)*; and Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*. Form 940 contains information on the total payments for employee services, a figure used to estimate employee compensation and examine the effect of the possessions tax credit on unemployment in the possessions. The study, generally conducted every 2 years, includes all U.S. possessions corporations. Tabular information for selected years dating back to Tax Year 1976 is classified by industry, size of tax benefits per employee, U.S. possession in which income was earned, and accounting period.

Corporate Foreign Tax Credit

Although the United States taxes the worldwide income of U.S. persons, foreign source income is often taxed as well by the country where the income is earned. Congress enacted the foreign tax credit provisions in 1918 to mitigate the potential impact of the double taxation of foreign-source income. Currently, U.S. persons can credit their foreign taxes paid or accrued against their U.S. tax liabilities, subject to limitations [11]. Effectively, U.S. persons pay tax at the higher of the U.S. tax rate or the overall foreign tax rate on their foreign-source incomes.

Figure H documents the growth in the corporate foreign tax credit for selected years from 1925 to 1994. During this period, the foreign tax credit grew from $20.0 million to $25.4 billion, while U.S. corporate income tax before credits for all corporations grew from $1.2 billion to $167.5 billion. The largest growth occurred in the 1970's. As illustrated in Figure I, for 1994, more than half of the $25.4 billion claimed in foreign tax credits was reported by manu-

Figure H

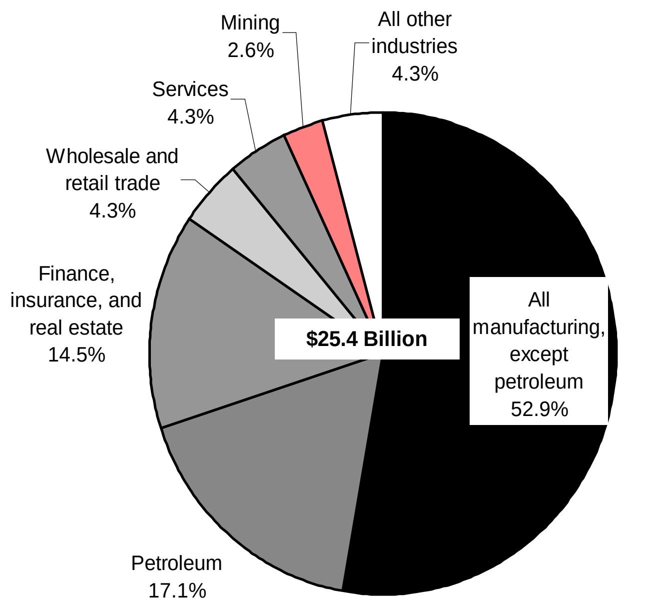
Corporate Foreign Tax Credit, Selected Years, 1925-1994

[Money amounts are in millions of dollars]

Tax year	U.S. income tax before credits	Foreign tax credit
1925	1,170	20
1930	712	29
1940	2,144	58
1950	15,789	464
1960	21,866	1,224
1970	32,949	4,549
1980	103,831	24,880
1985	109,106	24,263
1986	108,773	21,480
1987	115,074	20,813
1988	126,889	27,068
1989	123,236	23,977
1990	119,434	24,988
1991	116,275	21,097
1992	125,771	21,521
1993	149,027	22,896
1994	167,548	25,402

Figure I

Corporate Foreign Tax Credit, by Selected Industrial Group, 1994

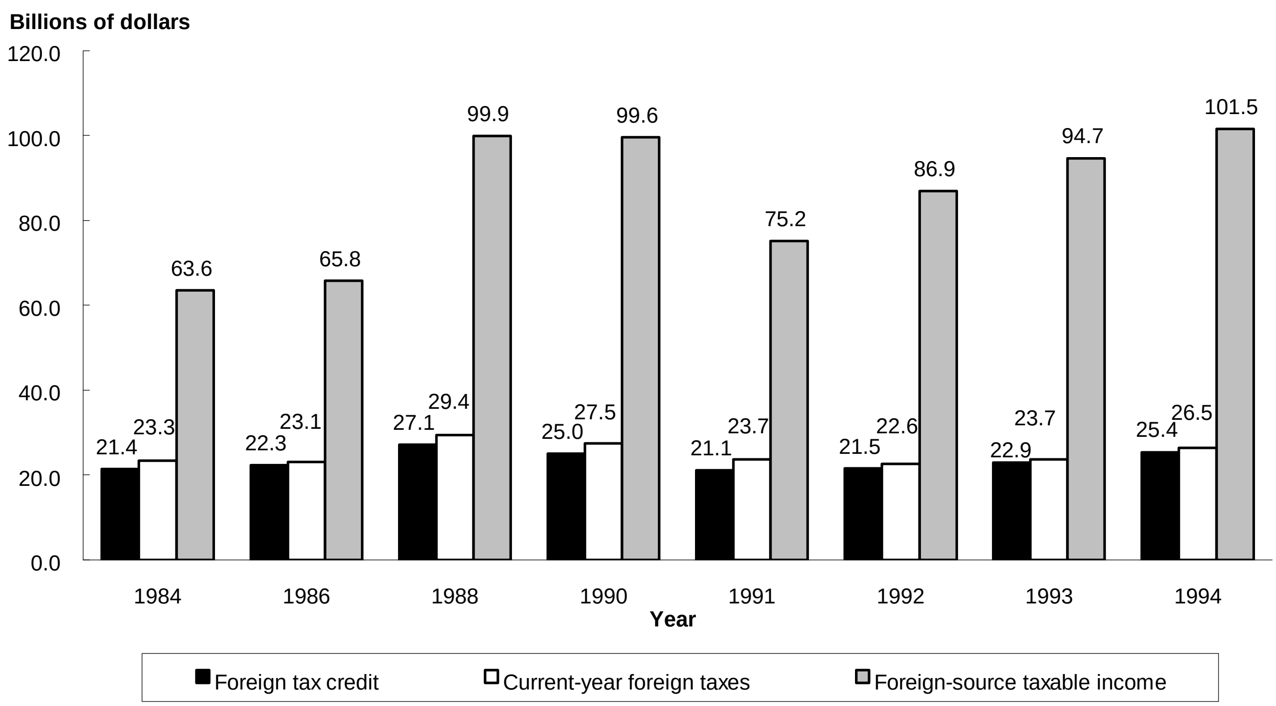


facturing companies (excluding petroleum), while 17 percent was claimed by petroleum companies (including integrated petroleum production and coal products). Foreign-source taxable income reported by companies claiming the foreign tax credit reached $101.5 billion for 1994, a 60-percent increase over 1984 (Figure J). Over the same period, the current-year foreign taxes and the foreign tax credit increased by 14 percent and 19 percent, respectively.

The corporate foreign tax credit statistics are based on data collected primarily from Form 1118, *Computation of Foreign Tax Credit-Corporations*, attached to one of the Form 1120 series of corporation income tax returns [12]. Tabular information is classified by industry, by country or geographic region to which tax was paid, and by size of total assets. The study is conducted annually with a scaled-down version containing less country detail conducted in alternate years. Geographic data from Form 1118 were first collected for Tax Year 1961 and are available for selected tax years. Statistics on the foreign tax credit, itself, are published each year,

Figure J

Corporate Returns with a Foreign Tax Credit: Foreign-Source Taxable Income, Current-Year Foreign Taxes, and Foreign Tax Credit for Selected Years, 1984-1994



by industry or size of total assets, in *Statistics of Income—Corporation Income Tax Returns* and are available for as early as the 1920's.

International Boycotts

The international boycott provisions require U.S. persons with business operations in countries known to participate in, or cooperate with, international boycotts unsanctioned by the U.S. Government to report these operations to the Internal Revenue Service [13]. Almost all of the reporting entities are corporations; 1,283 of the 1,336 reporting entities for 1995 were corporations. The purpose of the boycott provisions, enacted in the Tax Reform Act of 1976, is to discourage U.S. persons from participating in certain boycotts, such as the Arab League of Nations boycott of Israel.

All U.S. persons operating in countries that participate in, or cooperate with, unsanctioned international boycotts are subject to substantial reporting requirements. Those that participate in the boycotts are denied certain tax benefits related to the boycott income that would otherwise be available to them. The tax benefits affected include a reduction in the following: the foreign tax credit, tax-deferred earnings of Controlled Foreign Corporations (through an increase in subpart F income), tax-deferred income from an Interest-Charge Domestic International Sales Corporation (IC-DISC), and tax-exempt foreign trade income of a Foreign Sales Corporation (FSC).

Figure K presents international boycott participation data for 1990 through 1995. The number of returns showing a tax effect from boycott participation generally fell during this period. For 1990 and 1995, the number of returns for persons reporting a loss of tax benefits due to boycott participation as a percentage of the total number of boycott returns filed was 3.2 percent and 1.5 percent, respectively. Only 20 of the 1,336 persons filing boycott reports for 1995 reported lost tax benefits due to the international boycott provisions [14]. Corporations filed the majority of the returns reporting tax effects during these years.

The international boycott data are collected from Form 5713, *International Boycott Report*. The statistics are produced annually with a full-scale study conducted every fourth year. Full-scale studies include most data items from all Forms 5713, while smaller-scale studies include a limited number of items from all Forms 5713 filed and complete data for Forms 5713 indicating that the filer was requested to participate in an international boycott. Statistics were first collected for Tax Year 1976, while the last full-scale study was for Tax Year 1994. Tabular information is classified by type of boycott request, by boycotting country, and by method of computing loss of tax benefits.

Figure K

International Boycott Participation, 1990-1995

[Money amounts are in thousands of dollars]

Item	1990	1991	1992	1993	1994	1995
	(1)	(2)	(3)	(4)	(5)	(6)
Number of boycott reports:						
All persons	1,281	1,205	1,343	1,289	1,064	1,336
Corporations	1,210	1,150	1,274	1,221	1,007	1,283
Partnerships	65	50	63	62	51	50
Individuals, estates, and trusts	6	5	6	6	6	3
Number of returns showing a tax effect from boycott participation	41	26	27	21	21	20
Type of tax effect:						
Reduction of foreign tax credit	960	1,375	3,876	1,631	477	280
Increase in Subpart F income	10,664	10,577	8,572	7,455	6,414	6,131
Reduction of Foreign Sales Corporation income exemption	69	20	374	369	146	696

Figure L

Domestic Corporations Controlled by Foreign Persons, Selected Years, 1985-1995

[Money amounts are in millions of dollars]

Item	1985	1990	1994	1995
	(1)	(2)	(3)	(4)
Number of returns	**36,677**	**44,113**	**54,620**	**60,157**
Total assets	655,696	1,652,255	2,339,033	2,762,747
Total receipts	513,778	1,060,295	1,369,526	1,536,705
Net income (less deficit)	2,978	3,966	21,949	38,455
Income subject to tax	11,428	23,704	34,351	43,111
Income tax before credits	5,152	8,719	12,858	15,834
Income tax after credits	3,576	7,438	10,090	13,157

Domestic Corporations Controlled by Foreign Persons

Foreign-controlled domestic corporations (FCDC's) are companies incorporated in the United States whose voting stock is 50 percent or more owned (directly or indirectly) by foreign persons [15]. In the United States, direct foreign investment through foreign-controlled domestic corporations has grown considerably in recent years. Figure L contains selected information for the period from 1985 to 1995. Over this period, total assets (book value) of foreign-controlled domestic corporations more than quadrupled to nearly $2.8 trillion, while total receipts nearly tripled to about $1.5 trillion. Income tax (after credits), including alternative minimum tax, increased by approximately 268 percent to $13.2 billion over the same period.

For 1995, over 88 percent of the $1.5 trillion in total receipts reported by foreign-controlled domestic corporations were attributable to companies controlled by foreign persons in ten countries: Japan, the United Kingdom, the Netherlands, Germany, Canada, France, Switzerland, Sweden, South Korea, and Australia (Figure M). Japan, the United Kingdom, and the Netherlands accounted for more than half of the total receipts for both 1985 and 1995. Foreign-controlled domestic corporations whose principal business activities were in either manufacturing or wholesale trade accounted for approximately 73 percent of the 1995 total receipts [16].

Corporations indicating that they are 50 percent or more owned by foreign persons on their income tax returns are included in the statistics for U.S. corporations, which are compiled annually. The FCDC statistics are based on information collected primarily from Form 1120, *U.S. Corporation Income Tax Return*. In addition, some companies filing Form 1120L, *U.S. Life Insurance Company Income Tax Return*; Form 1120-RIC, *U.S. Income Tax Return for Regulated Investment Companies*; Form 1120-REIT, *U.S. Income Tax Return for Real Estate Investment Trusts*; and Form 1120-PC, *U.S. Property and Casualty Insurance Company Income Tax Return*, are also included. Tabular information, available for Tax Years 1983 and later, includes balance sheet, income statement, and tax items classified by industry and country of residence of the foreign owner. For 1994 and 1995, information is also available by date of incorporation and size of corporation. Limited statistics for as early as Tax Year 1971 are available in *Statistics of Income—Corporation Income Tax Returns*.

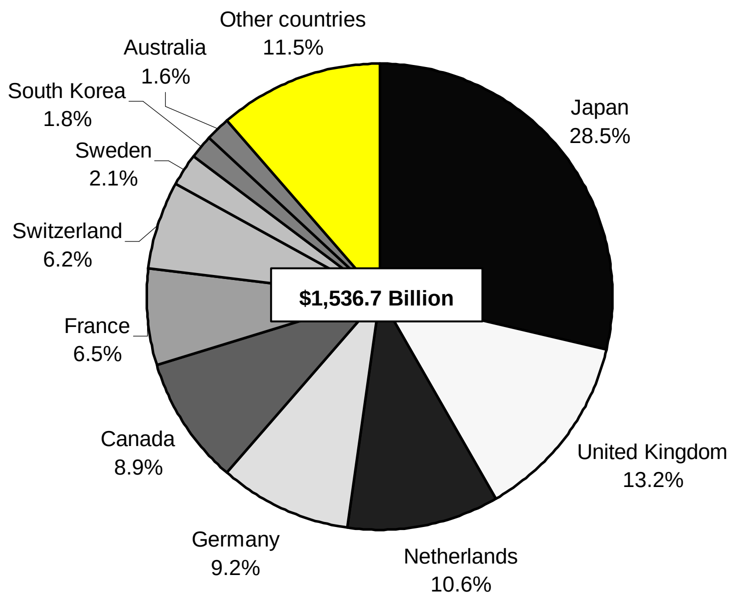
Foreign Corporations with Income Derived from U.S. Sources

Some foreign corporations (i.e., corporations incorporated abroad) engage in business activity in the United States through U.S. branches. These foreign corporations are subject to U.S. tax on income "effectively connected" with the conduct of a U.S. trade or business in a manner similar to that used to tax domestic corporations [17]. Other U.S.-source income of foreign corporations that is not effectively connected with the conduct of a U.S. trade or business may also be subject to U.S. tax. Statistics on foreign corporations with income derived from U.S. sources include only the effectively connected

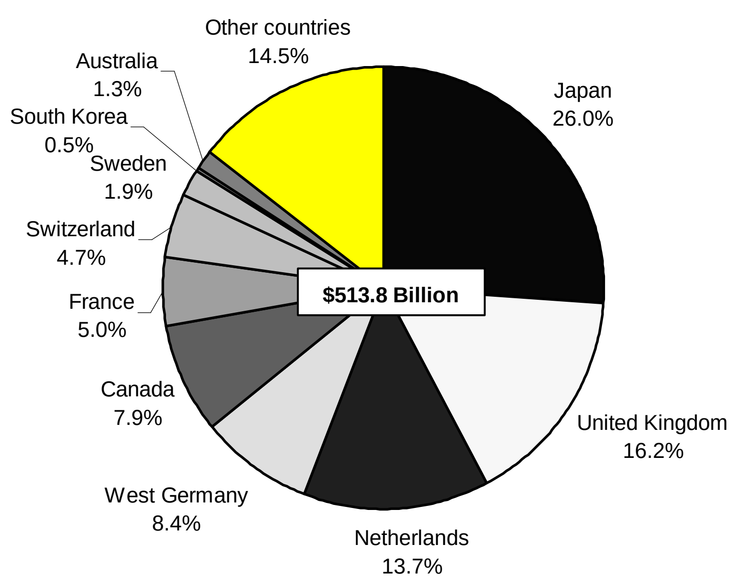
Figure M

Domestic Corporations Controlled by Foreign Persons: Total Receipts, by Selected Country of Foreign Persons, 1995 and 1985

1995



1985



NOTE: Detail may not add to 100 percent due to rounding.

incomes of the foreign corporations [18].

Figure N contains selected data for foreign corporations with effectively connected income for 1983 through 1993. During this period, total receipts from effectively connected activities peaked at $109.6 billion for 1991. For 1993, total receipts from effectively connected activities fell to $75.5 billion, a decline of 31 percent. However, "U.S. income subject to tax" (the corporate tax base) and income tax after credits both increased from 1991 to 1993 by approximately 10 percent to $2.5 billion and $0.9 billion, respectively. Figure O includes information by selected country of incorporation and industry. For 1993, about three-quarters of the total receipts reported by foreign corporations with income effectively connected with the conduct of a U.S. trade or business were from six countries: Japan, Canada, Switzerland, France, the United Kingdom, and the Netherlands. Foreign banks reported $42.9 billion, approximately 57 percent, of the total receipts.

Statistics on foreign corporations with income derived from U.S. sources are compiled annually. The study data, collected as part of the SOI study of corporation income tax returns, are primarily from Form 1120F, *U.S. Income Tax Return of a Foreign Corporation*. Foreign life insurance companies and foreign property and casualty insurance companies filing Form 1120L, *U.S. Life Insurance Company Income Tax Return*, and Form 1120-PC, *U.S. Property and Casualty Insurance Company Income Tax Return*, respectively, are also included. Tabular information, available for Tax Years 1984 and after, consists of income statement and tax items classified by industry and country. Limited statistics for as early as 1970 are available in *Statistics of Income—Corporation Income Tax Returns*.

Foreign-Owned Corporations

Under Internal Revenue Code section 6038A, foreign-controlled domestic corporations and foreign corporations engaged in a U.S. trade or business must report transactions with related foreign persons [19]. These transactions are reported on Form 5472, *Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business*.

Figure P contains selected summary data collected from Form 5472 for all qualified U.S. corporations with total receipts of $500 million or more. For 1994, the 444 corporations (with total receipts of $500 million or more and with Forms 5472 attached) received $112.3 billion (excluding loans) and paid $220.0 billion (excluding loans) in transactions with related foreign persons, an increase from 1993 of 46 percent and 19 percent, respectively. Sales and purchases of stock in trade accounted for the majority of these total receipts and payments. For both 1993 and 1994, these large foreign-owned corporations borrowed more than three times as much from related foreign persons as they loaned to them (based on end-of-year balances). For 1994, the large foreign-owned corporations reported $87.9 billion in loans from related persons and $28.4 billion in loans

Figure N

Foreign Corporations with Income Effectively Connected with a U.S. Business for Selected Years, 1983-1993

[Money amounts are in millions of dollars]

Item	1983	1985	1987	1989	1991	1993
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns	**8,001**	**11,693**	**10,478**	**9,321**	**10,135**	**10,510**
Total receipts	20,794	50,909	61,004	102,862	109,597	75,486
Total deductions	21,882	51,928	61,130	102,925	108,702	76,535
Net income (less deficit)	-1,118	-1,487	-162	-131	849	-1,093
U.S. income subject to tax	469	1,025	1,647	2,905	2,318	2,556
Income tax after credits	152	362	614	977	810	895

Figure O

Foreign Corporations with Income Effectively Connected with a U.S. Business, by Selected Country and Industry, 1993

[Money amounts are in millions of dollars]

Selected country or industry	Number of returns	Total receipts	Total deductions	Net income (less deficit)	U.S. income subject to tax	Income tax after credits
	(1)	(2)	(3)	(4)	(5)	(6)
All countries [1]	**10,510**	**75,486**	**76,535**	**-1,093**	**2,556**	**895**
Japan	1,531	16,034	17,261	-1,228	543	197
Canada	2,571	17,012	16,117	894	891	310
Switzerland	202	13,013	12,894	116	93	35
France	75	4,916	4,897	18	249	91
United Kingdom	371	4,312	4,328	-17	172	59
Netherlands	358	1,814	1,783	27	127	45
All industries	**10,510**	**75,486**	**76,535**	**-1,093**	**2,556**	**895**
Banking	282	42,884	43,648	-778	1,703	621
Real estate	6,170	1,568	2,071	-522	101	36

[1] Includes countries not shown separately.

Figure P

Foreign-Owned Corporations with Total Receipts of $500 Million or More: Transactions Between Corporations and Related Foreign Persons, 1993 and 1994

[Money amounts are in billions of dollars]

Item	1993	1994	Percentage increase
	(1)	(2)	(3)
Number of returns	**437**	**444**	**1.6**
Total assets	1,540.5	1,681.6	9.2
Total receipts	871.4	944.6	8.4
Transactions between corporations and related foreign persons			
Number of related foreign persons	**7,662**	**8,540**	**11.5**
Amounts received from related foreign persons:			
Total (excluding loan balances)	**77.1**	**112.3**	**45.7**
Sales of stock in trade	53.1	69.4	30.7
Sales of other tangible property	0.5	1.1	120.0
Consideration received for services	3.1	3.6	16.1
Interest received	1.1	1.1	--
Premiums received for insurance or reinsurance	1.4	0.7	-50.0
Amounts borrowed, ending balance	88.6	87.9	-0.8
Amounts paid to related foreign persons:			
Total (excluding loan balances)	**185.3**	**220.0**	**18.7**
Purchases of stock in trade	153.4	177.9	16.0
Purchases of other tangible property	3.9	2.7	-30.8
Consideration paid for services	2.5	3.4	36.0
Interest paid	5.7	6.2	8.8
Premiums paid for insurance or reinsurance	1.7	1.8	5.9
Amounts loaned, ending balance	24.0	28.4	18.3

to related foreign persons. Figure Q presents the total amounts received from and paid to related persons, by selected country of related person for 1994. That year, the largest amounts of payments ($96.5 billion) and receipts ($40.8 billion) were for transactions with related foreign persons in Japan.

These foreign-owned corporation statistics, produced annually starting with Tax Year 1988 and biannually after 1994, are based on data reported by corporations with total receipts of $500 million or more that were controlled by foreign persons and reported transactions with related foreign persons [20]. Tabular information is classified by industry of the reporting corporation, country of incorporation of the 50-percent-or-more foreign owner, country of ultimate indirect 25-percent-or-more foreign shareholder, and primary country under whose laws the related party files an income tax return as a resident.

International Studies of Individuals

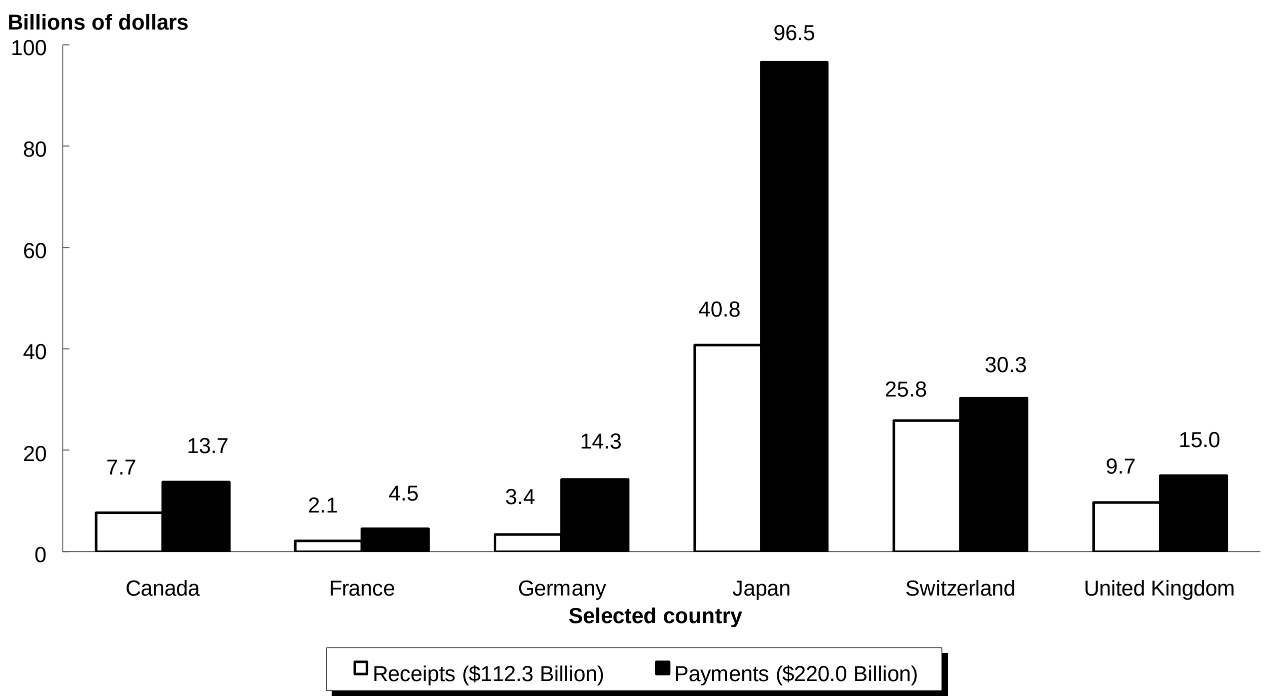
Currently, the primary international study focusing on individuals is the combined study of the foreign tax credit and foreign-earned income exclusion claimed by individuals on their Federal income tax returns.

Individual Foreign Tax Credit and Foreign Earned Income

Like corporations, individuals may claim a foreign tax credit against their U.S. income taxes for foreign taxes paid or accrued on certain foreign-source incomes [21]. In addition, certain individuals may claim an exclusion for foreign earned incomes and an exclusion or deduction for certain foreign housing expenses. In 1926, in an effort to promote U.S. exports and equate the tax burden of U.S. citizens abroad with that of their domestic counterparts, Congress enacted a foreign-earned income exclusion.

Figure Q

Total Transaction Receipts and Payments (Excluding Loans of Foreign-Owned Corporations with Total Receipts of $500 Million or More, by Selected Country of Related Person, 1994 [1]



[1] Transactions with related foreign persons.

Figure R

Individual Income Tax Returns with a Foreign Tax Credit, Selected Income and Tax Items, by Selected Country, 1983, 1987, and 1991

[Money amounts are in millions of dollars]

Country to which tax was paid	1983			1987			1991		
	Foreign-source gross income	Foreign-source taxable income	Foreign taxes paid or accrued	Foreign-source gross income	Foreign-source taxable income	Foreign taxes paid or accrued	Foreign-source gross income	Foreign-source taxable income	Foreign taxes paid or accrued
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All countries [1]	**4,368**	**3,246**	**1,090**	**7,097**	**5,535**	**1,806**	**15,039**	**11,135**	**3,314**
Canada	807	623	163	1,291	840	268	2,505	1,408	464
United Kingdom	462	330	108	860	691	299	2,590	2,012	733
Japan	178	126	56	634	547	199	1,378	1,171	336
Puerto Rico	303	234	45	454	396	80	787	624	111
Germany [2]	258	218	59	430	323	141	821	654	255
Saudi Arabia	219	124	15	210	86	4	58	31	5
South Africa	265	217	39	128	114	21	80	68	5

[1] Includes countries not shown separately.

[2] For years prior to 1990, data are for West Germany.

Currently, qualifying taxpayers with earned income (e.g., salaries and wages, commissions, and fees) for personal services performed in a foreign country may exclude up to $72,000 of such income from U.S. taxation. In addition, qualified "excess housing costs" (i.e., reasonable housing costs, such as rent, utilities, and insurance, that exceed a certain base amount) may also be excluded or deducted from income.

Individuals claiming the foreign tax credit reported foreign-source gross income of approximately $15.0 billion for 1991, up from $7.1 billion for 1987 (Figure R). The percentage of foreign-source gross income reported by individuals from Canada and the United Kingdom grew slightly, with these two countries accounting for approximately 34 percent of the total for 1991 and 30 percent of the total for 1987. Foreign-source gross income earned in Japan grew by more than 674 percent from 1983 to 1991 to nearly $1.4 billion and accounted for 9 percent of the total for 1991.

For 1987 and 1991, the six countries with the largest numbers of individuals claiming the foreign earned income exclusion were Germany (West Germany prior to 1990), the United Kingdom, Saudi Arabia, Canada, Japan, and France (Figure S). For 1991, individuals residing in these six countries filed half of all returns claiming the foreign-earned income exclusion. A foreign- earned income exclusion was reported on an estimated 220,851 returns for 1991, an increase of approximately 29 percent over 1987. The sum of the earned-income exclusion, housing exclusion, and housing deduction was $10.7 billion for 1991, up from approximately $6.5 billion for 1987. For 1991, approximately 78 percent of the reported $13.7 billion of foreign-earned income were either excluded or deducted from U.S. taxable income.

Historically, the individual foreign tax credit and foreign-earned income study was conducted every 4 years, starting with Tax Year 1972. Beginning with Tax Year 1991, the statistics will be collected every fifth year. Detailed information is collected from Form 1040, *U.S. Individual Income Tax Return*; Form 1116, *Foreign Tax Credit*; and Form 2555, *Foreign Earned Income*. Tabular information is classified by size of adjusted gross income, country or geographic region, and occupation.

International Withholding Tax Studies

Each of the three international withholding tax studies examines the U.S. activity of foreign persons. Overall, they provide information about several types of income paid to foreign recipients, such as dividends, interest, rents and royalties, compensation for personal services, retirement payments, income from the sale of real property, and partnership income.

Figure S

Individual Income Tax Returns with Foreign Earned Income, by Selected Country of Residence, 1987 and 1991

[Money amounts are in thousands of dollars]

Country of residence	1987 Number of returns	1987 Foreign earned income	1987 Earned income exclusion	1987 Housing exclusion	1987 Housing deduction	1991 Number of returns	1991 Foreign earned income	1991 Earned income exclusion	1991 Housing exclusion	1991 Housing deduction
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
All countries [1]	**171,191**	**8,147,355**	**5,982,454**	**467,896**	**16,761**	**220,851**	**13,748,634**	**9,697,339**	**1,002,847**	**43,510**
Germany [2]	18,149	625,246	487,416	10,670	265	25,389	1,006,173	768,445	30,576	1,627
United Kingdom	15,829	1,044,426	647,648	61,483	3,115	23,004	2,258,920	1,246,652	181,032	9,793
Saudi Arabia	13,407	753,323	639,198	9,848	1,440	13,143	851,121	665,435	11,874	819
Canada	12,912	521,312	425,667	3,762	55	20,517	1,189,420	884,322	17,812	1,164
Japan	10,196	680,728	388,541	126,324	2,558	20,003	1,311,152	945,725	211,001	9,923
France	5,392	282,993	214,677	16,288	547	8,784	664,392	472,916	55,649	1,766

[1] Includes countries not shown separately.

[2] For 1987, data are for West Germany.

Foreign Recipients of U.S. Income

U.S.-source income of nonresident alien individuals, nonresident alien fiduciaries, and foreign corporations not engaged in a U.S. trade or business is generally subject to a gross withholding tax fixed at a statutory rate of 30 percent, unless such income is exempt from U.S. taxation, or unless a lower rate is established by an income tax treaty. Income subject to withholding includes, but is not limited to, dividends, interest, rents and royalties, compensation for personal services, and retirement payments. The U.S. withholding agent must file Form 1042S, *Foreign Person's U.S. Source Income Subject to Withholding*, for each foreign recipient of U.S. income, even if the income is exempt from withholding. For 1994, payers of income or their tax withholding agents reported total income paid to foreign recipients of $84.2 billion and total tax withheld of $2.1 billion [22].

The percentage of total income attributable to interest, dividends, and rents and royalties for even years from 1980 to 1994 is illustrated in Figure T. During this period, dividends as a percentage of total income fell from 48 percent to 15 percent. Interest, however, rose as a percentage of total income from 40 percent to 71 percent. Rents and royalties as a percentage of total income remained at less than 8 percent across this period. Using 1984 as a base year, Figure U depicts the changing geographic distribution of the income recipients. The percentages of total income for each of the eight countries with the highest percentages of total income for 1984 are illustrated for even years from 1984-1994. Overall, reported total payments to foreign persons increased nearly fivefold, from $17.1 billion for 1984 to $84.2 billion for 1994. Payments to recipients in Japan reflect the largest percentage change in both absolute and relative percentage terms across the period. Payments to foreign recipients in Japan grew from $1.4 billion to $21.3 billion. For 1984, about 8 percent of the total income was paid to recipients in Japan. By 1994, about 25 percent of the total was paid to recipients in Japan.

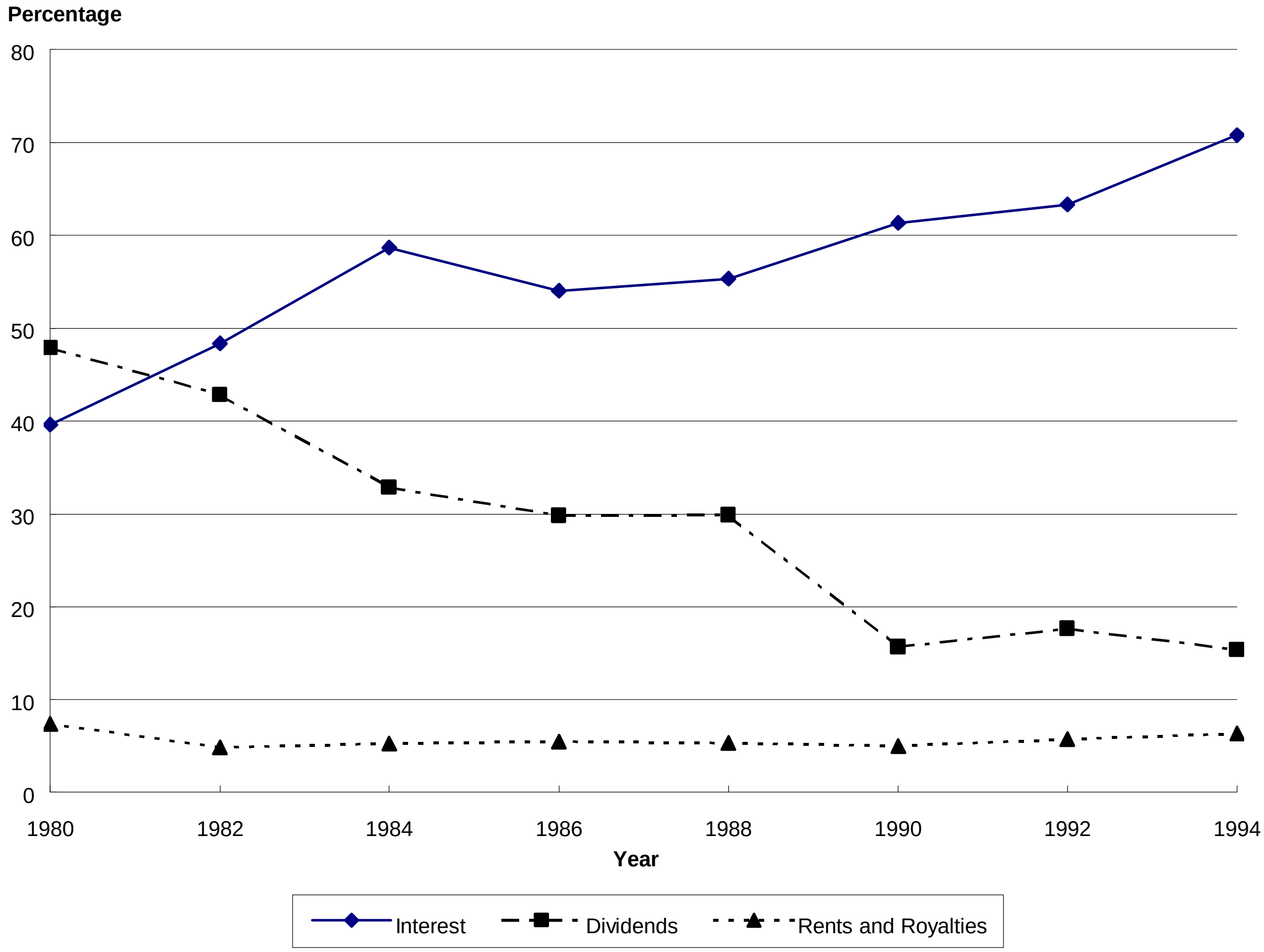
Annually, data are collected from all Forms 1042S filed with the Internal Revenue Service. Form 1042S, filed by the U.S. payer of income or withholding agent, reports the name, address, and country of residence for each foreign recipient of U.S. income, as well as the type and amount of income and the tax withheld. Tabular information is available by recipient's country of residence, type of income and recipient, and income-size classes. Information is available for most years, beginning with Tax Year 1965.

Sales of U.S. Real Property Interests by Foreign Persons

Code section 897 imposes a 10-percent withholding tax on sales of U.S. real property interests by foreign persons. The buyer or other transferee of a U.S. real

Figure T

Foreign Recipients of U.S. Income, Selected Income Types as Percentages of Total Income by Selected Income Type, Selected Years, 1980-1994



property interest purchased from a foreign person must withhold the tax from the amount paid to the foreign seller. The buyer transmits the tax withheld and files Form 8288, *U.S. Withholding Tax Return for the Dispositions by Foreign Persons of U.S. Real Property Interests*, to report the transaction. Since Tax Year 1990, data have been collected annually from Form 8288. Tabular information is available by country of seller's residence.

Summary information for 1990 through 1994 is presented in Figure V. For 1994, about $1.5 billion were reported as realized by foreigners on the sales of U.S. real property interests. Taxes of approximately $104 million were withheld for 1994, up from approximately $99 million for 1993.

U.S. Partnership Income of Foreign Partners

Legislation enacted as part of the Tax Reform Act of 1986 requires U.S. partnerships to withhold income tax on that portion of the partnership's taxable net income classified as effectively connected with the conduct of a U.S. trade or business and deemed allocable to foreign partners [23]. For 1993, the most recent year for which statistics are available, the

Figure U

Foreign Recipients of U.S. Income: Percentage of Total Income, by Selected Country of Residence, Selected Years, 1984-1994

[Money amounts are in millions of dollars]

Country of residence	Total income, 1984	Percent of total income 1984	1986	1988	1990	1992	1994	Total income, 1994	Relative percentage change, 1984-1994
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All countries [1]	**17,107**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**84,182**	**392.1**
United Kingdom	3,091	18.0	17.0	15.2	17.9	20.0	20.0	16,537	435.0
Netherlands Antilles	2,813	16.0	13.0	5.0	2.6	2.0	2.0	1,820	-35.3
Netherlands	1,919	11.0	7.0	7.5	4.7	6.0	6.0	4,995	160.3
Canada	1,815	11.0	11.0	9.9	5.5	6.0	6.0	4,859	167.7
Switzerland	1,451	8.0	7.0	6.2	4.0	4.0	4.0	3,003	107.0
Japan	1,394	8.0	13.0	26.4	19.8	29.0	25.0	21,340	1,430.8
Germany [2]	963	6.0	5.0	4.5	4.5	4.0	4.0	3,674	281.5
France	819	5.0	4.0	4.0	4.5	7.0	5.0	4,395	436.6

[1] Includes countries not shown separately.

[2] For years prior to 1990, data are for West Germany.

Figure V

Sales of U.S. Real Property Interests by Foreign Persons, 1990-1994

[Money amounts are in thousands of dollars]

Year	Number of returns	Total amount realized	Total tax withheld
	(1)	(2)	(3)
1990	10,344	1,649,585	147,054
1991	9,327	1,483,367	114,287
1992	10,097	1,477,686	120,286
1993	8,036	1,275,739	99,254
1994	8,720	1,542,406	103,940

withholding rate for foreign corporate partners and noncorporate partners was 35 and 39.6 percent, respectively.

Annually, a U.S. partnership files summary information on Form 8804, *Annual Return for Partnership Withholding Tax*, with attached Forms 8805, *Foreign Partner's Information Statement of Section 1446 Withholding Tax*, for each foreign partner. Quarterly, the partnership files Form 8813, *Partnership Withholding Tax Payment*, with the required withholding tax payments. Statistics present detailed information collected from Form 8805 and summary information collected from Form 8804. Tabular information is available by type of recipient and country of residence, starting with 1989.

As shown in Figure W, foreign partners' effectively connected taxable incomes more than doubled, from nearly $348 million for 1989 to approximately $701 million for 1993. The bulk of this increase can be attributed to foreign corporate partners, whose effectively connected taxable incomes increased nearly threefold to $373 million. From 1989 to 1993, the total U.S. tax withheld increased by 148 percent to $294 million. However, the $163 million of tax withheld for 1993 for corporate foreign partners represented an increase of 237 percent from 1989. Under Internal Revenue Code section 1445, when a U.S. partnership disposes of a U.S. real property interest, a withholding tax is imposed on that portion of the gain on the sale that is allocable to any foreign partners.

Other International Studies

Nonresident alien estates and foreign trusts are the focus of the final two international studies conducted by Statistics of Income. The nonresident alien estate statistics report on the U.S. activity of foreign persons, while the data on foreign trusts provide information on the foreign activity of U.S. persons.

Nonresident Alien Estates

The United States imposes an estate tax on the portion of a nonresident alien's estate that is located

Figure W

U.S. Partnership Income of Foreign Partners and U.S. Tax Withheld by Recipient Type, 1989-1993

[Money amounts are in thousands of dollars]

Recipient type by year	Number of Forms 8805 [1]	Taxable income	U.S. tax withheld
	(1)	(2)	(3)
1989			
Total [2]	**32,432**	**347,954**	**118,359**
Individuals	30,181	160,266	49,700
Corporations	1,852	131,255	48,232
1990			
Total [2]	**30,645**	**429,255**	**140,702**
Individuals	27,848	159,038	45,843
Corporations	2,286	217,400	76,243
1991			
Total [2]	**37,168**	**324,250**	**112,438**
Individuals	33,977	138,060	51,379
Corporations	2,538	154,571	53,282
1992			
Total [2]	**38,200**	**345,252**	**107,057**
Individuals	34,699	168,290	50,151
Corporations	2,795	130,417	44,436
1993			
Total [2]	**44,529**	**701,098**	**293,732**
Individuals	40,749	224,271	94,295
Corporations	2,913	373,047	162,767

[1] Form 8805 is entitled "Foreign Partners Information Statement of Section 1446 Withholding Tax."

[2] Includes persons other than individuals and corporations not shown separately.

within the United States [24]. The U.S. "gross estate," that portion of the estate located in the United States, reduced by allowable deductions, is the taxable U.S. estate. The allowable deductions include funeral expenses, administration expenses, claims against the estate, indebtedness on property included in the estate from casualty or theft, certain charitable contributions made by the decedent, and certain transfers to the decedent's spouse. Several credits, including the unified credit, which exempts estates of up to $60,000 from tax, the credit for State death taxes, the credit for taxes paid on certain gifts, and the credit for taxes on prior transfers, also reduce the total estate tax liability.

Selected summary data for 1995 and 1996 from nonresident alien estate returns are reported in Figure X [25]. The reported U.S. gross estate increased from $116.2 million for 1995 to $181.2 million for 1996, while the total estate tax (after credits) increased from $16.5 million to $22.6 million.

Figure X

Nonresident Alien Estate Tax Returns, 1995-1996

[Money amounts are in thousands of dollars]

Item	1995	1996
Number of returns	**373**	**495**
Worldwide gross estate	488,988	670,696
U.S. gross estate	116,157	181,169
U.S. taxable estate	74,238	112,138
Estate tax after credits	16,509	22,566

Form 706NA, *United States Estate (and Generation-Skipping Transfer) Tax Return, Estate of Nonresident not a Citizen of the United States*, must be filed by the estate within 9 months of the nonresident alien decedent's date of death. Extensive data are collected from all Form 706NA returns filed in a particular year. Before Filing Year 1995, data were collected every 4 years. Beginning with Filing Year 1995, data will be collected on an annual basis [26].

Foreign Trusts

U.S. persons who create or transfer property to a foreign trust must file Form 3520, *Creation of or Transfers to Certain Foreign Trusts*. Form 3520, an information return, includes details on the identity of the filer (i.e., whether the filer is the grantor, transferor, or fiduciary of the estate) and the features of the foreign trust, including the location, creation date, value of property transferred, and beneficiary information. As long as the trust has one U.S. beneficiary, an information return, Form 3520-A, *Annual Return of Foreign Trust with U.S. Beneficiaries*, must also be filed annually by the U.S. person. Form 3520-A provides income statement and balance sheet information for the trust.

For 1994, U.S. persons transferred nearly $614.3 million in assets to 321 foreign trusts (Figure Y). Transfers to trusts in Liechtenstein accounted for more than half of the total transfers with nearly $339.4 million of assets transferred to 36 foreign trusts in this country.

Every 4 years, comprehensive statistics on foreign trusts are compiled, based on all Forms 3520 and Forms 3520-A filed with the Internal Revenue Service for a particular tax year. The most current complete information is for 1994; historical information is available starting with Tax Year 1979. Tabular information is available by country of filer's residence, title of filer (i.e., grantor, transferor, or fiduciary), number of beneficiaries, country of beneficiary's residence, type of foreign trust (i.e., Canadian Registered Retirement Savings Plans or

Figure Y

Number of Foreign Trusts and Total and Average Transfer Values, by Selected Country Where Trust Was Created, 1994

[Money amounts are in thousands of dollars]

Country where trust was created	Number of trusts	Total transfer value	Average transfer value per trust
	(1)	(2)	(3)
All countries	**321**	**614,269**	**1,914**
Liechtenstein	36	339,387	9,427
Isle of Man	10	103,188	10,319
Cook Islands	46	42,069	915
Bahamas	59	28,335	480
Gibraltar	11	17,587	1,599
United Kingdom	36	15,848	440
Guernsey	10	9,951	995
Bermuda	25	7,608	304
Cayman Islands	6	1,828	305
Canada	14	194	14
Other countries	68	48,274	710

other), country, and year the trust was created.

SOI and Other U.S. Government Sources of International Statistics

For more information about international statistics produced by the Statistics of Income Division, contact SOI's Statistical Information Services office [27]. Various other U.S. Government departments and agencies also produce international statistics. More information about these statistics may be obtained in various ways. Many statistics are available over the Worldwide Web. For example, the U.S. Commerce Department maintains a website at: *www.fedworld.gov*. The Internal Revenue Service website is located at: *www.irs.ustreas.gov*. The Association of Public Data Users produces a telephone contacts list for Federal statistical programs [28]. In addition, such indexes as the American Statistics Index and the Index to International Statistics provide details about other sources of published U.S. Government information [29].

Notes and References

[1] Bach, Christopher J., "U.S. International Transactions, Revised Estimates for 1974-96," *Survey of Current Business*, July 1997, Volume 97, Number 7.

[2] Statistics of Income has historically been a provider of tax information. Current projects at Statistics of Income build on a long history of data collection and tabulation. The Revenue Act of 1916 included a provision requiring the annual preparation of statistics related to the operation of the tax law. In 1918, the first Statistics of Income report, based on the income tax returns filed by individuals and corporations for Calendar Year 1916, was released. Statistics of Income continues to collect tax information and produce descriptive statistics as part of the studies currently conducted. For a more detailed discussion of the history of Statistics of Income, see Jamerson, Bettye and Wilson, Robert A., "Statistics of Income: 75 Years of Service," *Statistics of Income Bulletin*, Fall 1988, Volume 8, Number 2.

[3] A U.S. citizen is a citizen of the United States regardless of where the individual resides. In addition, under Internal Revenue Code section 877, a U.S. expatriate (a nonresident alien previously a U.S. citizen) may be taxed as a U.S. citizen in certain circumstances. In general, a resident of the United States is a lawful permanent resident of the United States or has been substantially present in the United States for the past 3 years. A domestic partnership or corporation is a partnership or corporation created or organized in the United States or under the laws of the United States or any State. A foreign trust or estate is a trust or estate whose foreign-source income is not "effectively connected" with the conduct of a U.S. trade or business and is, therefore, excluded from gross income under the provisions of Subtitle A of the Internal Revenue Code. See Code section 7701 for more information regarding the definition of U.S. and foreign persons.

[4] The current definition of a Controlled Foreign Corporation is given in Internal Revenue Code section 957. Ownership attribution rules are discussed in section 958.

[5] The Domestic International Sales Corporation (DISC) provisions were in effect from January 1, 1972, until December 31, 1984. The purpose of the legislation was to stimulate U.S. exports by allowing a deferral of tax on a portion of the export income of the DISC. The DISC itself paid no tax on the income; instead, the DISC shareholders paid tax on the income when it was distributed or deemed distributed. While a portion of the export income was distributed or deemed distributed to the shareholders annually, the tax on the remainder of the income was deferred indefinitely. The DISC provisions were a point of contention between the United States and the other signatory countries of the General Agreement on Tariffs and Trade (GATT) and were replaced with the Foreign Sales Corporation and Interest-Charge Domestic International Sales Corporation provisions in the Deficit Reduction Act of 1984.

[6] For more information on the legislative history and operation of the Foreign Sales Corporations, see, for example, *The Operation and Effect of*

the Foreign Sales Corporation Legislation, January 1, 1985, to June 30, 1988, U.S. Department of Treasury, January 1993. A qualifying country had to meet the exchange of information requirements of Internal Revenue Code section 927(e)(3)(A) or (B). For Tax Year 1992, the qualifying foreign countries were: Australia, Austria, Barbados, Belgium, Bermuda, Canada, Costa Rica, Cyprus, Denmark, Dominica, Dominican Republic, Egypt, Finland, France, Germany, Grenada, Honduras, Iceland, Ireland, Jamaica, Malta, Marshall Islands, Mexico, Morocco, the Netherlands, New Zealand, Norway, Pakistan, Philippines, St. Lucia, South Korea, Sweden, and Trinidad and Tobago. The qualifying U.S. possessions were American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands.

[7] FSC's may use four different pricing methods to determine the amount of exempt foreign trade income from transactions with related parties. The four methods are: (1) 1.83 percent of gross receipts method (income of the FSC equals 1.83 percent of receipts derived from the sale); (2) 23 percent of combined taxable income method (income of the FSC equals 23 percent of the combined taxable income from the transaction by both the FSC and the related party); 3) the marginal costing method; and 4) the transfer pricing rules provided under Internal Revenue Code section 482 (income of the FSC equals the amount that the FSC can independently justify based on its sales activity).

[8] For more information on the legislative history and operation of the Interest-Charge Domestic International Sales Corporations, see, for example, *The Operation and Effect of the Foreign Sales Corporation Legislation, January 1, 1985, to June 30, 1988*, U.S. Department of Treasury, January 1993.

[9] For a more detailed discussion of the legislative history of U.S. possessions corporations, see Nutter, Sarah E., "U.S. Possessions Corporations, 1993," *Statistics of Income Bulletin*, Fall 1997, Volume 17, Number 2. The Budget Act of 1993 and the Small Business Protection Act of 1996 have significantly modified the tax treatment of U.S. possessions corporations. The 1993 Act, which becomes applicable for taxable years beginning after December 31, 1993, limits the credit under either an economic-activity limitation or a percentage limitation. The 1996 Act generally repealed the credit for taxable years beginning after December 31, 1995. However, transition rules allow an existing possessions corporation to claim credits, with certain restrictions, through taxable years beginning before January 1, 2006.

[10] Unlike the foreign tax credit, the possessions tax credit is a "tax sparing credit," which is available whether or not foreign taxes are paid to the local taxing authority.

[11] An overall limitation prevents taxpayers from using foreign taxes paid in a relatively high-tax foreign country to offset U.S. taxes on their U.S. source incomes. In addition, separate limitations must be calculated for certain categories of foreign-source income. See Code Section 904(d) for these separate limitation categories (baskets). For additional information on the history of the foreign tax credit provisions, see Robison, Robin A. and Nutter, Sarah E., "Corporate Foreign Tax Credit, 1994," *Statistics of Income Bulletin*, Fall 1998, Volume 18, Number 2.

[12] The study data are derived from returns with a foreign tax credit in the Statistics of Income corporate sample of returns and include companies filing Form 1120 *(U.S. Corporation Income Tax Return)*, Form 1120L *(U.S. Life Insurance Company Income Tax Return)*, Form 1120-PC *(U.S. Property and Casualty Insurance Company Income Tax Return)*, Form 1120-REIT *(U.S. Income Tax Return for Real Estate Investment Trusts)*, Form 1120-F *(U.S. Income Tax Return of a Foreign Corporation)*, and Form 1120-RIC *(U.S. Income Tax Return for Regulated Investment Companies)*. Corporations filing Form 1120-FSC *(U.S. Income Tax*

Return of a Foreign Sales Corporation) and Form 1120-IC-DISC *(Interest Charge Domestic International Sales—Corporation Return)* are currently not part of the Statistics of Income corporate sample of returns.

[13] The U.S. Treasury Department maintains a list of countries known to participate in an unsanctioned international boycott. The current list consists of Arab nations that are boycotting Israel. For 1995, the list included Bahrain, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, and the Republic of Yemen.

[14] For 1995, approximately 20 percent (207 persons) of the 1,336 persons filing boycott reports reported receiving requests to participate in an international boycott, and 49 persons agreed to participate in an international boycott. Twenty of the 49 persons who agreed to participate in an unsanctioned international boycott reported lost tax benefits. To lose tax benefits, the person must have positive U.S. taxable income and positive amounts of affected tax benefits, and generally must have paid taxes to the foreign country requesting compliance with an unsanctioned international boycott. For more information, see Green, Kathryn A., "International Boycott Reports, 1995," *Statistics of Income Bulletin*, Winter 1997-98, Volume 17, Number 3.

[15] A domestic corporation is majority-owned if 50 percent or more of the voting stock of the corporation is owned, directly or indirectly, by a person, using the attribution rules under Internal Revenue Code section 267(c).

[16] For further information by industry, see Hobbs, James R., "Foreign-Controlled Domestic Corporations, 1995," *Statistics of Income Bulletin*, Fall 1998, Volume 18, Number 2.

[17] Internal Revenue Code section 864(c) and the related Internal Revenue Regulations describe tests to determine if income is effectively connected with a U.S. trade or business.

[18] Although statistics on income not effectively connected, such as portfolio income, are not directly available from this study, the study of foreign recipients of U.S. income does provide this type of information.

[19] Internal Revenue Code sections 267(b), 482, and 707(b)(1) define a "related person." On Form 5472, the foreign-controlled corporation (the reporting corporation) must specify the type of relationship it has with its related foreign person, indicating whether: (1) the reporting corporation controls the related person; (2) the related person controls the reporting corporation; (3) the reporting corporation and the related person are under common control by a third party; or (4) some other relationship exists.

[20] For tax years before 1991, the basis for inclusion in the statistics was total receipts of $1 billion or more.

[21] Foreign taxes paid on income excluded under the foreign earned income and housing exclusion provisions cannot be credited.

[22] Freites, Denise, "Foreign Recipients of U.S. Income, 1994," *Statistics of Income Bulletin*, Winter 1996-97, Volume 16, Number 3. The effective withholding rate (total U.S. tax withheld divided by total income paid) is often lower than the statutory rate due to income tax treaties or exemptions.

[23] The withholding tax provisions are imposed under Internal Revenue Code section 1446. The withholding rate on the effectively connected taxable income allocable to each foreign partner is equal to the highest tax rate imposed under Internal Revenue Code section 11(b)(1) for corporate foreign partners and Internal Revenue Code section 1 for noncorporate foreign partners. The foreign partners may credit the tax withheld against their U.S. income tax liability.

[24] A nonresident alien is an individual who is not a citizen or resident of the United States.

[25] The estate tax data in Figure X do not include data extracted from Forms 706NA that were explicitly identified as "treaty returns." The

United States maintains estate and gift tax treaties with a number of countries. The purpose of these treaties is to avoid double taxation and to provide mutual administrative assistance in the United States and abroad. Countries for which estate and gift tax treaties are in effect include Australia, Austria, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Norway, Republic of South Africa, Sweden, Switzerland, and the United Kingdom.

[26] For more information, see Eller, Martha Britton, "Federal Estate Tax Returns Filed for Nonresident Aliens, 1995-1996," *Statistics of Income Bulletin*, Winter 1997-98, Volume 17, Number 3.

[27] To contact the Statistical Information Services office of the Statistics of Income Division, either phone (202) 874-0410 or write to the following address: P.O. Box 2608, Washington, D.C. 20013-2608.

[28] For further information, contact the Association of Public Data Users, 87 Prospect Avenue, Princeton, N.J. 08544. Phone: (609) 258-6025.

[29] The American Statistics Index and the Index to International Statistics are published by Congressional Information Services, Inc., 4530 East-West Highway, Bethesda, M.D. 20814. Phone: 1-800-638-8380.

SOURCE: IRS, Statistics of Income Bulletin, Publication 1136, Winter 1998-1999.

Table 1.--Summary of International Studies

Study	Primary tax forms	Study focus [1]	Filing entity [2]	Frequency and year of most recent study	Study data	Population or estimate [3]
	(1)	(2)	(3)	(4)	(5)	(6)
I. Corporate						
A. Controlled Foreign Corporations (CFC's)	1120 5471	US	C	Annual, with odd years scaled down beginning in 1992 (1994)	7,500 largest (in assets) CFC's of parents with $500 million or more in assets	1,301 parents with 46,009 Forms 5471
B. Foreign Sales Corporations	1120-FSC	US	C	Every 4 years (1992)	Sample	3,073
C. Interest-Charge Domestic International Sales Corporations	1120-IC-DISC	US	C	Every 4 years (1991)	All returns	980
D. U.S. possessions corporations	1120 5735 940	US	C	Every 2 years (1993)	All returns	474
E. Corporate foreign tax credit	1120 1118	US	C	Annual, with odd years scaled down (1994)	Sample	7,199
F. International boycotts	5713	US	I,P,***C***,E,T	Annual, large-scale every 4th year [4] (1994)	All returns	1,336
G. Domestic corporations controlled by foreign persons	1120	F	C	Annual (1994)	Sample	60,157
H. Foreign corporations with business income derived from U.S. sources	1120F 1120L 1120PC	F	C	Annual (1994)	Sample	10,150
I. Foreign-owned corporations	1120 5472	F	C	Every 2 years (1994)	U.S. corporations with $500 million or more in receipts (444 firms in 1994)	8,540 related foreign corporations
II. Individual						
A. Individual foreign tax credit and foreign earned income	1040 1116 2555	US	I	Every 5 years beginning with 1991 (1991)	Sample	Foreign tax credit - 949,234 Foreign earned income - 220,851
III. Tax Withholding						
A. Foreign recipients of U.S. income	1042S	F	I,P,***C***,E,T	Annual (1995)	All returns	1.6 million
B. Sales of U.S. real property interests by foreign persons	8288 8288A	F	I,P,C,E,T	Annual (1994)	All returns	8,720
C. U.S. partnership income of foreign partners	8804 8805	F	P	Annual (1994)	All returns	Partnerships - 5,000 Foreign partners - 32,432
IV. Estates and Trusts						
A. Nonresident alien estates	706NA	F	E	Annually beginning with 1995 (1996)	All returns	495
B. Foreign trusts	3520 3520A	US	T	Every 4 years (1994)	All returns	321

[1] Focus is on either the foreign activity of U.S. persons (US) or the U.S. activity of foreign persons (F).
[2] Tax forms may be filed by corporations (C), partnerships (P), individuals (I), estates (E), or trusts (T). Primary filing entities appear in bold italic.
[3] Based on the most recent study year.
[4] Tax year 1994 was a large-scale study year.

Table 2.--SOI Bulletin and International Compendium Articles

Study	Primary tax forms	Tax year, SOI Bulletin issue
Controlled Foreign Corporations	1120 5471	1994 - Summer 1998 (18-1), p. 109[1] 1992 - Winter 1995-96 (15-3), p. 93 1990 - Summer 1994 (14-1), p. 89 1988 - Fall 1992 (12-2), p. 60 1986 - Summer 1991 (11-1), p. 29** 1984 - Spring 1990 (9-4), p.115** 1984 - Fall 1989 (9-2), p. 31** 1982 - Winter 1986-87 (6-3), p. 49 1982 - Summer 1986 (6-1), p. 63 1980 - Fall 1984 (4-2), p. 33* 1980 - Spring 1984 (3-4), p. 37*
Foreign Sales Corporations	1120-FSC	1992 - Summer 1997 (17-1), p. 114 1987 - Spring 1992 (11-4), p. 59
Interest-Charge Domestic International Sales Corporations	1120-IC-DISC	1991 - Summer 1995 (15-1), p. 46 1987 - Spring 1992 (11-4), p. 69 1980[2] - Fall 1983 (3-2), p. 9*
U.S. Possessions Corporations	1120 5735 940	1993 - Fall 1997 (17-2), p. 144 1989 - Fall 1992 (12-2), p. 97 1987 - Summer 1991 (11-1), p. 51** 1985 - Compendium (1984-88), p. 333 1983 - Spring 1988 (7-4), p. 55 1982 - Compendium (1979-83), p. 329 1980 - Spring 1983 (2-4), p. 41*
Corporate Foreign Tax Credit	1120 1118	1994 - Fall 1998 (18-2), p. 172 1993 - Fall 1997 (17-2), p. 97 1992 - Winter 1995-96 (15-3), p. 111 1991 - Winter 1994-95 (14-3), p. 162 1990 - Winter 1994-95 (14-3), p. 9 1990 - Spring 1994 (13-4), p. 78 1988 - Summer 1992 (12-1), p. 79 1986 - Winter 1990-91 (10-3), p. 31** 1986 - Fall 1990 (10-2), p. 65** 1984 - Winter 1989-90 (9-3), p. 57** 1982 - Fall 1986 (6-2), p. 21 1982 - Spring 1986 (5-4), p. 9 1980 - Winter 1984-85 (4-3), p. 37* 1980 - Summer 1984 (4-1), p. 63* 1978 - Winter 1982-83 (2-3), p. 25*
International Boycotts	5713	1995 - Winter 1997-98 (17-3), p. 118 1990 - Fall 1992 (12-2), p. 88 1986 - Compendium (1984-88), p. 349 1976-1982 - Summer 1985 (5-1), p. 65*
Domestic Corporations Controlled by Foreign Persons[3]	1120	1995 - Fall 1998 (18-2), p. 101 1994 - Summer 1997 (17-1), p. 71 1993 - Fall 1996 (16-2), p. 127 1992 - Fall 1995 (15-2), p. 124 1991 - Winter 1994-95 (14-3), p. 62 1990 - Fall 1993 (13-2), p. 125 1989 - Winter 1992-93 (12-3), p. 7 1988 - Fall 1991 (11-2), p. 77 1987 - Summer 1990 (10-1), p. 73** 1984-85 - Spring 1989 (8-4), p. 75** 1983 - Summer 1987 (7-1), p. 53

Footnotes at end of table.

Table 2.--SOI Bulletin and International Compendium Articles--Continued

Study	Primary tax forms	Tax year, SOI Bulletin issue
Foreign Corporations with Business Income Derived from U.S. Sources[3]	1120F 1120L 1120PC	1989 - Summer 1993 (13-1), p. 81 1988 - Spring 1992 (11-4), p. 39 1987 - Winter 1990-91 (10-3), p. 7** 1984-1985 - Spring 1989 (8-4), p. 75** 1983 - Summer 1987 (7-1), p. 53
Foreign-Owned Corporations	1120 5472	1994 - Winter 1997-98 (17-3), p. 123 1993 - Fall 1997 (17-2), p. 158 1992 - Fall 1996 (16-2), p. 154 1991 - Summer 1995 (15-1), p. 88 1990 - Summer 1994 (14-1), p. 112 1989 - Spring 1993 (12-4), p. 128 1988 - Summer 1992 (12-1), p. 119
Individual Foreign Tax Credit and Foreign Earned Income	1040 1116 2555	1991 - Fall 1994 (14-2), p. 113 1987 - Winter 1992-93 (12-3), p. 85 1987 - Winter 1991-92 (11-3), p. 13 1983 - Summer 1987 (7-1), p. 69**
Excluded Income from U.S. Possessions [4]	1040 4563	1988 - Winter 1990-91 (10-3), p. 7 1983 - Compendium (1979-83), p. 351
Foreign Recipients of U.S. Income	1042S	1995 - Summer 1998 (18-1), p. 136 1994 - Winter 1996-97 (16-3), p. 111 1992 - Spring 1995 (14-4), p. 28 1991 - Summer 1994 (14-1), p. 34 1990 - Spring 1993 (12-4), p. 122 1989 - Spring 1992 (11-4), p. 25 1988 - Winter 1990-91 (10-3), p.19** 1987 - Winter 1989-90 (9-3), p. 41 1986 - Winter 1988-89 (8-3), p. 79 1985 - Fall 1987 (7-2), p. 27 1984 - Fall 1985 (5-2), p. 61 1983 - Fall 1985 (5-2), p. 39 1982 - Fall 1984 (4-2), p. 21 1981 - Summer 1983 (3-1), p. 35 1980 - Summer 1982 (2-1), p. 15 1971-79 - Spring 1982 (1-4), p. 34
Sales of U.S. Real Property Interests by Foreign Persons	8288 8288A	No published data, summary data available by country
U.S. Partnership Income of Foreign Partners	8804 8805	1990 - Fall 1992 (12-2), p. 90 1989 - Compendium (1984-88), p. 401
Nonresident Alien Estates	706NA	1990 - Summer 1993 (13-1), p. 77 1986 - Spring 1988 (7-4), p. 47** 1982 - Compendium (1979-83), p. 437**
Foreign Trusts	3520 3520A	1990 - Winter 1992-93 (12-3), p. 81 1986 - Spring 1988 (7-4), p. 47** 1979-1982 - Compendium (1979-83), p. 427

* Also in Compendium of Studies of International Income and Taxes, 1979-1983.

** Also in Compendium of Studies of International Income and Taxes, 1984-1988.

[1] Summer 1998 (18-1), p. 109 is interpreted as SOI Bulletin, Summer 1998, Volume 18, Number 1, page 109.

[2] This article reports on the DISC provisions which existed prior to the Deficit Reduction Act of 1984.

[3] Also, included in annual IRS Publication 16 (Statistics of Income--Corporation Income Tax Returns).

[4] This study is not currently conducted.