

U.S. Possessions Corporation Returns, 1987

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U.S. corporations are allowed a credit for the full amount of U.S. tax liability on certain income derived from sources in the U.S. possessions. For 1987, approximately \$2.8 billion was claimed as possessions tax credit on U.S. corporate income tax returns. This amount was more than 14 percent greater than the 1985 amount. There were 516 active possessions corporations for 1987, representing a decrease of 13 percent from 1985, the most recent prior year for which statistics were compiled.

The vast majority of possessions corporations conducted business in Puerto Rico. For 1987, nearly 97 percent of all U.S. possessions corporations operated in Puerto Rico and virtually all of the total possessions tax credit was claimed by these companies. Figure A shows the number of corporations reporting business activity in each possession [1].

Figure A
Possessions Corporations Filing a Form 5735 in Support of Possessions Tax Credit Claimed, 1987

[Money amounts are in thousands of dollars]

U.S. possession	Number of corporations	Possessions tax credit
Total	442	\$2,775,463
Puerto Rico	428	2,754,054
U.S. Virgin Islands	3	2,885
Guam	8	5,705
Other	3	12,820

As in past years, manufacturing companies claimed the bulk of the credit. These corporations represented 419 of the 516 possessions corporations. For 1987, almost 97 percent of the total possessions tax credit was claimed by manufacturers. Corporations in the chemicals and allied

products industry claimed the largest share, almost 57 percent, though they represented only 18 percent of all possessions corporations.

BACKGROUND

The main elements of the possessions corporation system of taxation were adopted with the Revenue Act of 1921. These provisions were enacted primarily to help U.S. corporations compete with foreign firms in the Philippines, which was a U.S. possession until 1946. An exemption from taxation on all income derived from sources outside the United States was granted to those corporations which met two gross income tests. First, the corporation had to derive at least 80 percent of its gross income from U.S. possessions. Second, 50 percent or more of the corporation's gross income had to come from the active conduct of trade or business in these possessions. For a corporation to qualify for this exemption, these conditions had to be met on an aggregate basis for the year of the exemption and the previous 2 years.

The Tax Reform Act of 1976 created a new section 936 of the Internal Revenue Code for the possessions corporation system of taxation. The new section significantly modified the previous provisions. Before the changes, a possessions corporation was allowed an exemption from U.S. taxation on *all* income derived from sources outside the United States. The 1976 Act granted a tax credit only on (1) income from the active conduct of trade or business in a possession and (2) "qualified possessions source investment income (see "Explanations of Selected Terms")." This new statute was enacted entirely for the benefit of Puerto Rico [2].

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) significantly altered the manner of determining

*Foreign Returns Analysis Section. Prepared under the direction of Chris Carson, Chief.

the taxable income of a possessions corporation by adding a new subsection (h) to section 936. This subsection provided that, in general, income of the possessions corporation from "intangibles," such as patents and copyrights, would be taxable to the U.S. shareholders. The purpose was to "lessen the abuse caused by taxpayers claiming tax-free income generated by intangibles developed outside of Puerto Rico [3]." However, the section also allowed for an election out of the general rule if the corporation demonstrated that it had a significant business presence in a possession with respect to a specific product or type of service. To demonstrate a significant business presence, a corporation had to satisfy either a value-added test or a direct labor test [4]. Eligible corporations could choose to allocate income between the possessions corporation and the U.S. parent through either the cost sharing or profit-split method [5].

With the Tax Reform Act of 1986, several modifications were made to the possessions provisions. One of the most important changes increased to 75 percent the required percentage of the corporation's income which had to come from the *active* conduct of trade or business in the particular possession. Also, the U.S. Virgin Islands was added to the list of eligible U.S. possessions. Congress retained the possessions tax credit provisions despite recommendations from both the Treasury Department and the President that it be replaced with a wage credit. The wage credit would have operated by granting a tax credit for a fixed dollar amount per hour worked by each employee.

Since 1948, Puerto Rico has provided its own tax incentives to companies involved in manufacturing and other business activities. The Government of the Commonwealth grants partial exemptions from income tax and other taxes for specified periods of time. However, in addition to its income tax, Puerto Rico imposes a "tollgate tax" on dividends paid out of Puerto Rican source earnings and profits to a U.S. or foreign parent corporation. Most countries impose similar taxes. This withholding rate ranges from a high of 25 percent to a low of 5 percent [6].

A corporation can elect the status of a possessions corporation by filing a Form 5712, Election to be Treated as a Possessions Corporation under Section 936. The election is valid for 10 years and cannot be revoked. For each year that the election is valid, the corporation must file a Form 5735, Computation of Possessions Corporation Tax Credit Allowed Under Section 936, even if no

possessions credit is claimed. In general, the term "possessions corporations" refers to all corporations which made the election and filed a Form 1120.

DATA HIGHLIGHTS

For 1987, there were 516 active possessions corporations, a decrease from the 594 corporations for 1985. The reduction in the number of possessions corporations may be a reflection of the uncertainty of the fate of the possessions provisions during the negotiations of the Tax Reform Act of 1986. In addition, mergers and acquisitions may have accounted for some of the difference.

The estimated reduction in U.S. tax liability as a result of the possessions tax credit for 1987 was approximately \$2.4 billion. This amount was less than the total possessions tax credit claimed because possessions corporations could not claim certain other tax benefits which would have otherwise been available to them [7]. As a result of the possessions credit, total U.S. income tax liability of possessions corporations amounted to only \$30.2 million, although these companies generated net income of almost \$7.1 billion. Most of these taxes were attributed to income derived from sources outside of the possessions.

Of the 516 possessions corporations which filed Forms 1120 for 1987, 452 claimed the possessions credit. As for the 64 corporations which claimed no possessions credit for 1987, the bulk of these, 55, had no taxable income. Forty of those corporations reported losses and, therefore, claimed no credit. Although the number of corporations which have claimed the possessions credit has declined over the years, the amount of the credit has increased steadily (Figure B).

Figure B
Corporations Claiming the Possessions Tax Credit, 1983-1987

[Money amounts are in billions of dollars]

Year	Number of corporations	Possessions tax credit
1983	553	\$2.0
1985	510	2.4
1987	452	2.8

Table 1 includes balance sheet and income statement data for all active possessions corporations. For 1987, 419 of the 516 possessions corporations reported a

manufacturing business activity. The predominance of manufacturing firms in Puerto Rico reflects the incentives which the Commonwealth has enacted to attract manufacturers. Under Puerto Rico's Industrial Incentive Act, most U.S. corporations which have established manufacturing subsidiaries on the island have been granted exemptions, up to 100 percent, from Puerto Rican taxes. For 1987, all Puerto Rican corporations paid an average of 3.7 percent of their earnings in taxes to the Commonwealth [8].

The industrial classification with the largest number of possessions corporations was chemicals and allied products, with 93 companies or approximately 18 percent of the total. These companies, which are predominantly drug manufacturers, also reported 56 percent of the income subject to tax and claimed 57 percent of the tax benefits claimed by all possessions corporations. This is a reflection of the rapid growth of the chemical industry in Puerto Rico during the 1970's [9]. For 1985, there were 109 possessions corporations in the chemicals and allied products industry and these companies claimed 48 percent of the tax benefits.

For 1987, the second largest industrial classification was electrical and electronic equipment. These 74 companies claimed approximately 16 percent of the total possessions tax credit. Figure C shows the percentages of corporations and possessions tax credit by industry for 1987.

For possessions corporations as a whole, average net income (less deficit) increased more than 51 percent from 1985 to 1987, to almost \$13.7 million. Similarly, average asset size grew almost 38 percent to \$64 million. These increases are reflections of the economic recovery of the mid-1980's which had spread to U.S. possessions. Earlier in the decade, the economic recession had been particularly hard on Puerto Rico. However, from 1985 to 1987, the Gross National Product (GNP) of Puerto Rico grew by more than 14 percent [10]. This compares favorably to the 12.7 percent GNP growth rate for the United States [11].

The largest corporations (as classified by size of assets) claimed the bulk of the possessions tax credit. The largest 20 corporations (less than 4 percent of all possessions corporations) claimed 48 percent of the total credit amount. Furthermore, the largest 50 corporations (ap-

proximately 10 percent of the total) claimed 66 percent of the credit.

EMPLOYMENT DATA

The stated objective of the possessions tax credit provisions was to provide jobs to the U.S. possessions by attracting employment-producing investment from U.S. firms. Unemployment has been a chronic problem in Puerto Rico, where the unemployment rate has not fallen below 10 percent since 1950 and has averaged more than twice the rate of the United States [12].

An examination of Federal unemployment insurance tax returns (Forms 940) for possessions corporations involved in manufacturing industries provides an indication of how the provisions have aided the Puerto Rican economy [13]. A total of 100,916 workers were employed by manufacturing possessions corporations for 1987, compared to 122,471 employed by all manufacturing firms in Puerto Rico. The average annual wages for employees of manufacturing possessions corporations amounted to \$17,818. This compares to an average annual wage of \$11,173 for all production workers in the Commonwealth [14].

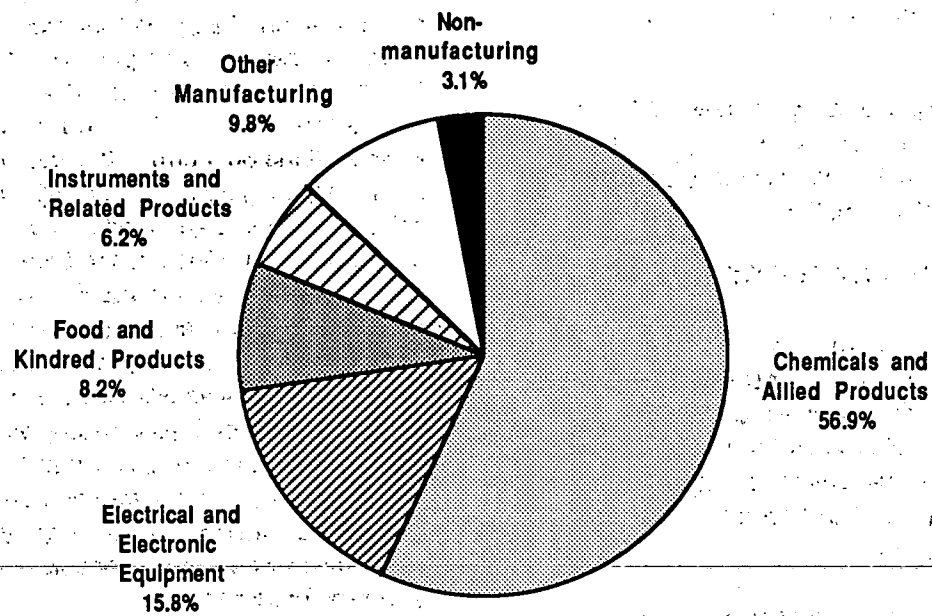
Table 2 presents tax benefit, employment, and compensation information classified by industry for Puerto Rican manufacturing corporations for which Federal unemployment data were available. Chemical companies, particularly drug manufacturers, claimed the highest amount of tax benefits per worker employed. Drug companies received nearly \$71,000 in tax benefits per worker and all chemical companies averaged more than \$65,000. For all possessions corporations, the average tax benefit per employee was \$16,835, about \$1,000 less than the average wage (\$17,818).

SUMMARY

Though the number of corporations claiming the possessions tax credit continued to decline for 1987, the amount of the credit continued to increase. For 1987, U.S. corporations claimed approximately \$2.8 billion as possessions tax credit, resulting in a net reduction of U.S. tax liability of more than \$2.4 billion.

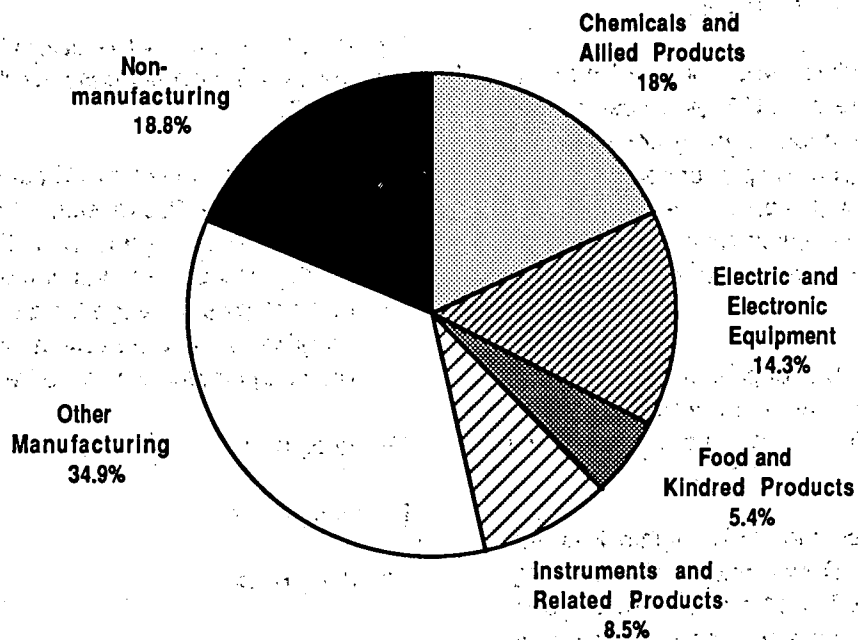
Puerto Rico remained the most common business location for possessions corporations to conduct business, with 97 percent of the total. Nearly 100 percent of the tax credit was claimed by these corporations.

Figure C
Percentage of Possessions Tax Credit by Industry, 1987



Total Credit \$2.8 Billion

Percentage of Possessions Corporations by Industry, 1987



516 Total Possessions Corporations

As in past years, manufacturing companies claimed the bulk of the credit. These corporations represented 419 of the 516 possessions corporations. For 1987, almost 97 percent of the total possessions tax credit was claimed by manufacturers. Corporations in the chemicals and allied products industry claimed the largest share, almost 57 percent, though they represented only 18 percent of possessions corporations.

Possessions corporations employed over 100,000 people for 1987, a 3 percent increase from 1985. The average tax benefit per worker for manufacturing possessions companies amounted to \$16,835.

EXPLANATION OF SELECTED TERMS

Qualified Gross Income in Current Year -- The sum of gross income (gross receipts minus cost of sales and operations) from the active conduct of a trade or business in the possessions, the net gain (or loss) from the sale or exchange of assets used by a possessions corporation in the active conduct of business, and "qualified possessions source investment income."

Qualified Possessions Source Investment Income -- Non-business income derived from the possession in which the possession had its trade or business and which was attributable to the investment of funds derived from such trade or business.

DATA SOURCES AND LIMITATIONS

The statistics in this article were compiled from all returns filed through June 1989 by U.S. possessions corporations with accounting periods ending between July 1987 and June 1988. Because 100 percent of the returns filed were prescribed for inclusion in the sample, the statistics are not subject to sampling error. General information regarding nonsampling error may be found in the Appendix to this report.

Information from Forms 1120 for possessions corporations was transferred from the annual Corporation Statistics of Income study. Additional data items from Forms 5712, 5735, and 940 were later obtained.

The statistics in this article may differ slightly from the data presented in the U.S. Department of the Treasury report, *The Operation and Effect of the Possessions Corporation System of Taxation* for 1987. These differences are due to minor revisions made to the underlying data by

the Office of Tax Analysis for estimates made in its report to Congress.

NOTES AND REFERENCES

- [1] The estimated reduction in U.S. tax liability was calculated by obtaining the "qualified taxable income" of each possessions corporation. This amount was found on Line 10 of the Form 5735. If the corporation did not file a Form 5735, then the sum of "taxable income" (Line 30, Form 1120) was used as a proxy. From these figures, an approximation of the accelerated depreciation deduction was calculated and subtracted. Once this reduced taxable income was obtained, it was multiplied by the appropriate tax rate. For 1987, an additional consideration had to be made for the change in the corporate tax structure which was effective July 1, 1987. Credits for taxes paid to possessions Governments (such as Puerto Rican income taxes and the "tollgate" tax) were estimated and subtracted from the tax liability since, in the absence of the possessions tax credit, these taxes would be creditable under the foreign tax credit provisions.
- [2] For the purposes of the possessions tax credit provisions, the eligible U.S. possessions include Puerto Rico, the U.S. Virgin Islands, American Samoa, Guam, the Northern Marianas, and other smaller U.S. territories.
- [3] Davidson, Ann, "A Credit for All Reasons," *University of Miami Inter-American Law Review*. Fall, 1987, pp. 97-136.
- [4] U.S. Department of the Treasury, *The Operation and Effect of the Possessions Corporation System of Taxation*, Sixth Report, p. 9. Prior to the revisions in 1982, U.S. corporations could develop certain technologies, arrange for a transfer of such an "intangible" to a possessions corporation, and the resulting income would be free from U.S. taxation.
- [5] *Ibid.*, p. 9.
- [6] *Ibid.*, p. 10.
- [7] *Ibid.*, p. 12.
- [8] This figure was supplied by the U.S. Department of the Treasury, Office of Tax Analysis.

- [9] Davidson, p. 120.
- [10] *Economic Report to the Governor*; Puerto Rico Planning Board, 1990. The statistics in this source were based on calendar year 1987 while the Statistics of Income figures were based on corporations with accounting periods ending between July, 1987 and June, 1988.
- [11] U.S. Bureau of Economic Analysis, *Survey of Current Business*, July, 1988.
- [12] Tax Analysts, *Tax Notes*, Volume 36, number 10, September 7, 1987, p. 945.
- [13] Possessions corporations outside of the manufacturing sector were not included in this analysis because they were presumed to pay income taxes to Puerto Rico at a rate at least equal to the effective U. S. corporate rate. In the absence of the possessions provisions, these non-manufacturing companies would be eligible for a foreign tax credit for the amount of these taxes. Therefore, U.S. tax liability would be effectively nullified for these corporations in the absence of the possessions provisions.
- [14] U.S. Department of Commerce, Bureau of the Census, *1987 Economic Censuses of Outlying Areas: Puerto Rico*. July, 1990.
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Table 1.—All Returns of Active U.S. Possessions Corporations: Balance Sheets, Income Statements, Tax, and Distributions to Stockholders, by Selected Industry

[Money amounts are in thousands of dollars]

Item	All industries	Agriculture, forestry, and fishing	Manufacturing						
			Total	Food and kindred products	Textile mill products	Apparel and other textile products	Paper and allied products	Printing and publishing	Chemicals and allied products
									Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
Number of returns	516	4	419	28	5	57	7	5	93
Total assets	33,183,925	41,337	24,375,852	2,792,280	13,414	570,028	19,301	56,187	11,725,444
Cash.....	5,819,543	182	5,277,238	1,420,954	2,010	29,401	496	2,364	1,863,705
Notes and accounts receivable.....	6,721,648	13,804	4,859,762	360,208	8,828	340,333	7,887	7,707	2,287,069
Less: allowance for bad debts.....	35,912	—	17,565	6,133	83	333	121	61	4,886
Ending inventories.....	1,953,225	12,992	1,811,620	236,561	2,338	86,989	3,038	1,404	568,878
Investment in government obligations.....	1,031,552	—	645,884	291	—	2,558	2,365	—	452,532
Other current assets.....	1,546,763	1,616	1,026,261	72,890	101	19,887	95	35,058	447,766
Loans to stockholders.....	195,596	—	187,982	4,656	—	3,702	—	—	42,319
Mortgage and real estate loans.....	2,912,182	—	135,064	—	—	—	—	—	1,200
Other investments.....	7,702,153	4,997	6,708,361	105,357	—	27,821	—	325	4,421,708
Depreciable assets.....	6,161,297	11,758	4,315,518	432,556	891	84,729	8,335	7,737	2,064,073
Less: accumulated depreciation.....	2,326,662	4,033	1,690,853	153,687	786	43,266	3,517	4,380	729,642
Depletable assets.....	3,700	—	3,154	911	—	—	—	—	—
Less: accumulated depletion.....	1,606	—	1,464	668	—	—	—	—	—
Land.....	131,900	—	87,274	12,450	—	692	471	9	44,809
Intangible assets (amortizable).....	295,835	32	238,349	31,025	2	1,532	21	5,919	103,511
Less: accumulated amortization.....	120,053	10	118,155	6,221	2	123	4	—	72,812
Other assets.....	1,192,762	—	907,420	281,130	114	16,107	234	106	235,212
Total liabilities and stockholders equity	33,183,925	41,337	24,375,852	2,792,280	13,414	570,028	19,301	56,187	11,725,444
Accounts payable.....	2,382,749	5,116	1,640,383	265,533	266	150,690	980	3,230	750,593
Mortgages, notes and bonds payable in less than 1 year.....	1,799,454	14,340	624,260	95,610	11	24,489	—	—	223,275
Other current liabilities.....	4,980,770	1,546	631,672	71,551	18	17,880	1,242	17,688	159,247
Loans from stockholders.....	75,261	—	51,589	—	224	1,128	171	—	21,407
Mortgages, notes and bonds pay in 1 year or more.....	432,658	2,643	175,730	43,490	—	6,912	—	194	95,921
Other liabilities.....	917,307	—	299,462	87,623	—	3,914	199	277	132,260
Capital stock.....	433,495	13,051	334,044	21,575	96	13,567	472	691	186,870
Paid-in or capital surplus.....	2,521,808	149	1,356,449	135,094	—	24,127	1,596	1,048	347,349
Retained earnings, appropriated.....	1,334	—	1,126	—	—	122	1	—	—
Retained earnings, unappropriated.....	19,677,072	4,492	19,286,785	2,072,618	12,798	334,354	14,931	33,654	9,808,534
Less: cost of treasury stock.....	37,983	—	25,649	814	—	7,156	290	594	13
Total receipts	20,024,446	81,152	17,393,500	2,112,331	11,005	666,127	25,000	35,937	6,611,605
Business receipts.....	16,499,405	80,632	14,540,816	1,864,732	10,880	658,840	24,327	29,878	4,684,305
Interest, except state and local government obligations.....	1,194,280	234	689,974	93,358	—	2,609	101	1,955	351,724
Interest on state and local government obligations.....	41,286	—	39,019	6,432	96	271	185	—	15,424
Rents.....	21,437	—	4,753	867	—	2	—	—	214
Royalties.....	7,075	—	6,777	—	—	—	—	—	6,777
Net short-term capital gain.....	1,545	—	1,544	—	—	32	10	—	1,420
Net long-term capital gain.....	16,451	—	16,110	18	—	182	66	85	13,419
Net gain, noncapital assets.....	16,772	—	2,901	14	(²)	94	—	—	924
Dividends other than constructive distributions.....	18,049	—	12,679	31	—	63	—	—	8,585
Other receipts.....	2,208,146	286	2,078,927	146,879	29	4,035	311	4,020	1,528,813
Total deductions	12,915,562	76,486	10,530,939	1,525,687	9,823	568,731	20,129	22,797	2,618,199
Cost of sales and operations.....	8,978,529	63,887	7,869,864	1,255,928	8,657	519,457	18,081	12,616	1,466,423
Compensation of officers.....	30,071	—	10,279	2,767	—	497	30	191	2,171
Salaries and wages.....	430,259	2,079	230,390	40,260	275	10,334	474	2,399	49,998
Repairs.....	168,125	997	46,813	9,193	15	499	18	160	15,549
Bad debts.....	29,705	—	4,014	1,212	43	34	11	66	439
Rents paid.....	53,760	123	27,711	2,928	25	1,492	157	312	3,766
Taxes paid.....	158,068	2,914	109,693	12,495	340	13,576	487	684	19,457
Interest paid.....	306,609	1,102	29,174	8,978	1	2,617	8	110	5,483
Contributions.....	4,902	(²)	4,732	473	1	32	1	19	1,823
Amortization.....	14,964	3	9,586	29	—	15	—	594	1,535
Depreciation.....	362,585	1,301	209,951	25,263	62	4,206	346	538	86,312
Depletion.....	1,294	—	1,294	664	—	45	—	251	42
Advertising.....	71,564	6	43,983	28,117	(²)	80	1	361	5,924
Pension, profit-share, stock bonus and annuity plans.....	20,106	—	12,955	2,567	—	296	4	126	3,887
Employee benefit programs.....	74,084	138	55,298	10,117	31	2,077	49	135	15,035
Net loss, noncapital assets.....	4,357	—	4,305	925	—	11	—	—	1,748
Other deductions.....	2,206,635	3,935	1,860,952	123,772	374	13,461	462	4,235	938,607
Total receipts less total deductions	7,108,884	4,666	6,862,561	586,644	1,182	97,396	4,872	13,141	3,993,406
Net income (less deficit).....	7,067,612	4,666	6,823,557	580,212	1,086	97,140	4,687	13,141	3,977,982
Net income.....	7,112,940	5,181	6,841,675	581,034	1,086	103,059	4,689	13,141	3,978,391
Deficit.....	45,328	515	18,118	822	—	5,919	2	—	409
Net income (less deficit) per books.....	6,795,062	3,090	6,553,259	602,643	1,120	93,502	4,351	11,078	3,761,181
Income subject to tax	7,075,466	5,181	6,824,276	581,009	1,086	102,128	4,689	13,141	3,970,481
Regular and alternative tax.....	2,817,059	1,917	2,717,322	228,382	403	39,499	1,844	5,218	1,599,841
U.S. possessions tax credit.....	2,784,931	1,858	2,697,350	227,530	403	39,467	1,844	5,218	1,583,862
Foreign tax credit.....	4,774	—	525	11	—	—	—	—	226
General business credit.....	155	35	91	—	—	—	—	—	25
Total U.S. income tax after credits.....	30,212	24	22,314	1,568	—	32	—	5	15,436
Reduction in U.S. tax liability.....	2,410,248	1,647	2,328,214	188,966	384	35,099	1,697	3,994	1,376,902
Distributions to stockholders	2,938,289	—	2,788,608	398,374	—	14,546	412	18,535	1,418,123

Footnotes at end of table.

U.S. Possessions Corporation Returns, 1987

Table 1.—All Returns of Active U.S. Possessions Corporations: Balance Sheets, Income Statements, Tax, and Distributions to Stockholders, by Selected Industry—Continued

(Money amounts are in thousands of dollars)

Item	Manufacturing								
	Chemicals and allied products	Petroleum (including integrated) and coal products	Rubber and miscellaneous plastics products	Leather and leather products	Fabricated metal products	Machinery, except electrical	Electrical and electronic equipment	Transportation equipment	Instruments and related products
	Drugs								
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Number of returns.....	62	5	15	15	31	6	74	6	44
Total assets.....	11,048,803	883,304	260,198	230,281	340,649	804,601	4,239,403	78,651	1,800,079
Cash.....	1,789,666	308,181	27,161	26,263	15,314	577,841	674,598	860	272,539
Notes and accounts receivable.....	2,105,112	74,113	87,960	47,377	61,345	31,308	1,038,292	22,207	355,943
Less: allowance for bad debts.....	3,977	18	94	56	1,172	3	3,145	16	463
Ending inventories.....	502,869	102,235	20,754	36,670	69,404	99,667	375,947	9,187	113,889
Investment in government obligations.....	442,365	15,000	1,141	49,727	—	775	68,978	—	39,346
Other current assets.....	386,069	37,055	605	643	43,664	2,553	240,861	149	88,053
Loans to stockholders.....	42,264	11,230	—	3,161	—	—	22,840	1,250	95,949
Mortgage and real estate loans.....	1,200	—	—	—	—	—	133,861	—	—
Other investments.....	4,236,848	166,288	42,338	57,122	46,486	1,691	1,259,531	38,698	444,248
Depreciable assets.....	1,921,951	391,817	108,268	13,947	155,132	121,581	491,732	8,694	312,033
Less: accumulated depreciation.....	675,943	225,870	35,491	5,271	59,690	65,709	239,535	2,514	77,286
Depletable assets.....	—	—	664	—	—	—	1,579	—	—
Less: accumulated depletion.....	—	—	—	—	—	—	796	—	—
Land.....	41,500	288	4,137	95	4,167	1,506	9,943	36	6,352
Intangible assets (amortizable).....	103,425	24,687	6	3	2,420	—	49,735	—	19,439
Less: accumulated amortization.....	72,770	21,729	1	3	141	—	1,031	—	16,087
Other assets.....	228,223	29	2,749	603	3,719	33,391	116,014	101	146,124
Total liabilities and stockholders equity..	11,048,803	883,304	260,198	230,281	340,649	804,601	4,239,403	78,651	1,800,079
Accounts payable.....	710,653	25,397	11,193	21,619	45,739	8,893	242,058	1,314	85,015
Mortgages, notes and bonds payable in less than 1 year.....	219,073	2,744	9,258	119	2,615	—	91,805	—	136,706
Other current liabilities.....	145,772	3,708	6,340	3,848	21,223	64,540	120,840	3,445	124,798
Loans from stockholders.....	21,096	11,250	230	—	644	—	15,627	—	908
Mortgages, notes and bonds payable in 1 year or more.....	95,520	—	1,120	52	517	—	15,496	—	10,046
Other liabilities.....	131,687	5	426	798	348	85	21,381	142	37,689
Capital stock.....	162,929	35,156	2,558	13,652	1,113	734	11,502	62	43,574
Paid-in or capital surplus.....	345,056	406,887	24,369	1,248	60,501	3,585	248,642	761	42,470
Retained earnings, appropriated.....	—	—	—	—	—	—	241	—	—
Retained earnings, unappropriated.....	9,217,017	398,126	208,431	199,942	207,969	726,765	3,471,861	72,928	1,320,862
Less: cost of treasury stock.....	—	—	3,726	10,996	21	—	51	—	1,988
Total receipts.....	6,160,313	1,300,106	203,953	227,117	443,988	734,418	3,291,570	63,573	1,135,103
Business receipts ¹	4,330,767	1,280,006	188,326	218,144	434,243	667,528	3,002,882	63,147	908,671
Interest, except state and local government obligations ¹	333,679	16,717	4,640	1,861	4,643	36,598	124,790	91	37,966
Interest on state and local government obligations ¹	15,396	2,373	—	3,339	—	538	2,604	—	6,820
Rents ¹	141	—	3,150	—	182	—	53	—	282
Royalties ¹	6,769	—	—	—	—	—	—	—	—
Net short-term capital gain ¹	1,420	—	—	—	—	—	81	—	1
Net long-term capital gain ¹	9,936	—	770	1,379	—	—	143	—	5
Net gain, noncapital assets ¹	883	14	(²)	22	17	655	873	39	12
Dividends other than constructive distributions ¹	8,585	—	—	—	—	—	1,877	—	2,106
Other receipts ¹	1,452,736	996	7,066	2,371	4,904	29,100	158,267	296	179,241
Total deductions.....	2,383,879	1,220,225	127,925	186,326	380,779	583,818	2,163,597	45,066	703,302
Cost of sales and operations.....	1,313,463	1,141,336	100,094	171,499	337,592	402,865	1,668,894	39,929	409,445
Compensation of officers.....	1,746	274	139	128	222	45	2,236	57	1,174
Salaries and wages.....	41,139	12,074	5,038	1,974	8,791	17,148	53,331	774	17,269
Repairs.....	14,821	6,294	402	315	2,433	3,942	5,120	269	1,607
Bad debts.....	70	6	225	—	127	—	1,534	17	129
Rents paid.....	2,440	7,740	173	536	729	1,440	5,115	184	1,961
Taxes paid.....	17,275	7,393	3,494	2,083	4,930	6,120	23,780	840	5,750
Interest paid.....	4,607	787	804	326	548	180	2,890	5	4,137
Contributions.....	1,809	4	1,339	29	176	481	144	14	100
Amortization.....	1,495	1,217	1	18	6	—	1,655	—	4,364
Depreciation.....	81,507	17,094	2,860	902	11,268	11,870	30,953	615	10,265
Depletion.....	—	—	—	—	5	—	—	16	—
Advertising.....	215	105	1,433	76	41	685	417	2	334
Pension, profit-share, stock bonus and annuity plans.....	3,772	—	36	3	229	2,039	2,036	145	1,323
Employee benefit programs.....	14,377	3,191	1,242	2,517	1,730	331	10,514	867	3,140
Net loss, noncapital assets.....	1,738	20	17	8	359	9	747	—	359
Other deductions.....	883,207	22,689	10,627	5,912	11,594	116,663	354,285	1,330	241,944
Total receipts less total deductions.....	3,776,434	79,881	76,028	40,791	63,209	170,602	1,127,973	18,507	431,801
Net income (less deficit).....	3,761,238	77,508	76,028	37,451	63,209	170,062	1,125,369	18,507	424,981
Net income.....	3,761,621	81,170	76,028	37,451	63,296	170,062	1,132,446	18,507	425,121
Deficit.....	383	3,662	—	—	87	—	7,077	—	140
Net income (less deficit) per book.....	3,557,597	87,358	75,312	38,473	52,005	139,547	1,108,535	18,122	408,536
Income subject to tax.....	3,753,780	81,170	76,028	37,451	61,219	170,062	1,130,244	18,507	423,465
U.S. income tax before credits: total.....	1,514,115	33,090	29,884	14,313	25,568	58,722	440,836	7,667	173,381
Regular and alternative tax.....	1,513,489	32,428	29,884	14,313	25,568	58,722	440,743	7,667	172,876
U.S. possessions tax credit.....	1,498,596	32,279	29,855	13,506	25,519	58,722	440,109	7,631	172,175
Foreign tax credit.....	195	—	—	—	—	—	267	—	21
General business credit.....	25	—	—	—	—	—	—	—	67
Total U.S. income tax after credits.....	15,367	813	45	807	52	157	481	35	1,122
Reduction in U.S. tax liability.....	1,302,121	26,615	24,735	12,170	21,310	48,190	381,313	6,687	151,142
Distributions to stockholders.....	1,362,599	60,302	44,135	9,104	42,320	100,018	406,872	6,500	131,906

Footnotes at end of table.

Table 1.—All Returns of Active U.S. Possessions Corporations: Balance Sheets, Income Statements, Tax, and Distributions to Stockholders, by Selected Industry—Continued

[Money amounts are in thousands of dollars]

Item	Wholesale trade	Retail trade	Finance, insurance, and real estate	Services
	(19)	(20)	(21)	(22)
Number of returns	21	4	27	32
Total assets	278,644	195,960	6,819,273	200,971
Cash.....	40,930	16,728	441,093	18,174
Notes and accounts receivable.....	84,064	3,773	1,618,708	45,906
Less: allowance for bad debts.....	2,247	—	7,645	3,355
Ending inventories.....	51,279	33,692	1,742	5,026
Investment in government obligations.....	342	—	385,326	—
Other current assets.....	2,171	40,449	461,881	10,027
Loans to stockholders.....	44	—	—	7,556
Mortgage and real estate loans.....	41	—	2,777,076	—
Other investments.....	772	6	969,441	18,539
Depreciable assets.....	89,928	126,958	30,333	81,526
Less: accumulated depreciation.....	6,621	49,180	3,875	24,006
Depletable assets.....	—	—	233	2
Less: accumulated depletion.....	—	—	142	(¹)
Land.....	823	7,131	8,253	16,654
Intangible assets (amortizable).....	4	—	35,495	21,956
Less: accumulated amortization.....	—	—	—	1,888
Other assets.....	17,115	16,405	101,353	4,854
Total liabilities and stockholders equity	278,644	195,960	6,819,273	200,971
Accounts payable.....	56,352	42,687	570,103	16,465
Mortgages, notes and bonds payable in less than 1 year.....	67,879	9,790	1,061,936	13,938
Other current liabilities.....	66,598	20,608	4,174,120	15,916
Loans from stockholders.....	235	—	20,449	2,092
Mortgages, notes and bonds pay in 1 year or more.....	4,122	58,113	4,338	22,343
Other liabilities.....	256	1,262	615,323	850
Capital stock.....	14,775	4,915	66,064	381
Paid-in or capital surplus.....	13,682	10,643	94,402	66,067
Retained earnings, appropriated.....	—	—	208	—
Retained earnings, unappropriated.....	54,879	55,605	216,029	63,759
Less: cost of treasury stock.....	134	7,661	3,700	839
Total receipts	586,581	593,105	617,324	182,164
Business receipts ¹	573,881	587,462	55,100	112,715
Interest, except state and local government obligations ¹	2,259	1,075	494,809	3,426
Interest on state and local government obligations ¹	—	—	2,267	—
Rents ¹	1,857	3,252	350	11,224
Royalties ¹	—	—	298	—
Net short-term capital gain ¹	—	—	—	(¹)
Net long-term capital gain ¹	237	—	101	3
Net gain, noncapital assets ¹	—	1	13,870	1
Dividends other than constructive distributions ¹	—	741	4,629	—
Other receipts ¹	8,347	575	45,899	54,796
Total deductions	576,367	578,336	551,118	153,181
Cost of sales and operations.....	473,631	462,778	7,289	67,425
Compensation of officers.....	552	1,678	16,529	849
Salaries and wages.....	24,545	50,203	24,859	16,249
Repairs.....	1,376	2,454	2,786	1,086
Bad debts.....	499	1,100	12,918	2,728
Rents paid.....	2,085	9,914	3,996	6,055
Taxes paid.....	6,888	11,642	7,203	3,601
Interest paid.....	3,283	4,712	248,678	4,127
Contributions.....	110	9	33	18
Amortization.....	(¹)	—	55	241
Depreciation.....	6,155	6,730	6,437	5,608
Depletion.....	—	—	—	—
Advertising.....	9,447	4,396	8,518	2,746
Pension, profit-share, stock bonus and annuity plans.....	195	904	1,855	159
Employee benefit programs.....	994	66	1,490	724
Net loss, noncapital assets.....	—	51	—	(¹)
Other deductions.....	46,608	21,700	208,471	41,563
Total receipts less total deductions	10,213	14,770	66,207	28,983
Net income (less deficit).....	10,213	14,770	63,939	28,983
Net income.....	12,469	14,804	66,454	30,714
Deficit.....	-2,256	-35	-2,514	-1,731
Net income (less deficit) per books.....	9,730	6,278	64,753	27,141
Income subject to tax	12,279	14,212	51,931	28,545
U.S. income tax before credits: total	4,728	5,529	20,691	11,130
Regular and alternative tax.....	4,728	5,529	20,684	11,128
U.S. possessions tax credit.....	4,701	4,903	9,642	10,726
Foreign tax credit.....	(¹)	—	4,234	15
General business credit.....	—	—	—	29
Total U.S. income tax after credits.....	27	640	6,847	360
Reduction in U.S. tax liability.....	4,170	4,312	19,802	9,756
Distributions to stockholders	7,082	905	3,449	5,317

¹ These amounts were not required to be shown separately for 89 possessions corporations electing the profit-split method to allocate intangible property income. For these corporations, the individual line items were included in the "Other receipts" category.

² Money amount less than \$500.

Table 2.—Returns of Active Manufacturing U.S. Possessions Corporations: Tax Benefits, Employment, and Compensation of Employees, by Selected Industry¹

[Money amounts are in thousands of dollars, except as noted]

Selected Industries	Actual data			Weighted data					
	Number of returns	Reported number of workers	Reported compensation	Number of returns	Gross number of workers	Gross compensation ²	Compensation per worker (whole dollars)	Tax benefits per worker (whole dollars) ³	Tax benefits per worker over compensation per worker
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All manufacturing industries	299	76,253	1,394,188	397	100,916	1,798,127	17,818	16,835	94.5
Food and kindred products.....	17	8,731	147,981	25	10,364	174,072	16,795	17,338	103.2
Textile mill products.....	3	233	4,185	4	255	4,581	17,964	1,215	6.8
Apparel and other textile products.....	42	13,455	146,751	53	17,363	187,131	10,778	2,022	18.8
Men's and boys' clothing.....	8	4,076	47,272	12	4,546	52,727	11,597	2,585	22.3
Women's and children's clothing.....	20	6,383	67,177	24	7,004	73,711	10,524	2,164	20.6
Hats, caps, and other accessories.....	7	1,009	10,353	10	3,825	38,743	10,128	1,465	14.5
All other textile products.....	7	1,987	21,949	7	1,987	21,949	11,048	1,302	11.8
Paper and allied products.....	3	119	2,125	6	135	2,452	18,098	12,522	69.2
Printing and publishing.....	4	235	3,750	4	235	3,750	15,976	11,594	72.6
Chemicals and allied products.....	62	13,351	352,184	89	21,116	546,680	25,890	65,173	251.7
Industrial chemicals, plastics materials, and synthetics.....	6	549	15,556	11	1,012	27,694	27,362	45,476	166.2
Drugs.....	42	11,751	316,298	60	18,384	486,654	26,471	70,788	267.4
Soap, cleaners, and toilet goods.....	9	738	14,376	9	738	14,376	19,493	19,481	99.9
All other chemical and allied products.....	5	314	5,954	9	982	17,957	18,291	14,655	80.1
Petroleum (including integrated) and coal products.....	3	665	25,634	5	716	27,602	38,549	37,170	96.4
Rubber and miscellaneous plastics products.....	9	1,839	29,573	15	2,449	39,119	15,972	10,099	63.2
Leather and leather products.....	12	3,037	32,735	15	4,036	43,600	10,802	3,015	27.9
Footwear, except rubber.....	8	2,754	29,418	11	3,753	40,283	10,734	2,791	26.0
All other leather products.....	4	283	3,317	4	283	3,317	11,714	5,982	51.1
Fabricated metal products.....	22	2,689	44,063	29	3,189	52,130	16,348	5,793	35.4
Metal cans and containers.....	4	1,292	21,577	6	1,559	25,997	16,670	3,463	20.8
Cutlery, hand tools, screws, and bolts.....	4	335	4,094	5	384	4,628	12,048	2,723	22.6
All other fabricated metal products.....	14	1,063	18,391	18	1,245	21,505	17,270	9,658	55.9
Machinery, except electrical.....	5	2,794	69,440	6	2,799	69,582	24,858	17,216	69.3
Electrical and electronic equipment.....	60	19,770	333,493	73	23,180	390,793	16,859	16,450	97.6
Radio, television, and communication equipment.....	11	2,684	41,265	16	3,803	58,696	15,433	17,945	116.3
Electronic components.....	26	5,281	93,325	31	7,181	126,643	17,635	14,733	83.5
All other electrical and electronic equipment.....	23	11,805	198,903	26	12,195	205,453	16,847	16,995	100.9
Transportation equipment.....	4	838	12,390	5	858	12,689	14,795	7,731	52.3
Instruments and related products.....	32	6,473	130,854	43	7,071	143,685	20,319	21,374	105.2
Scientific instruments.....	5	774	19,207	9	1,040	25,728	24,750	50,405	203.7
All other instruments and related products.....	27	5,699	111,647	34	6,032	117,957	19,556	16,370	83.7
Miscellaneous manufacturing and manufacturing not allocable.....	17	2,912	44,005	19	3,115	47,333	15,193	8,125	53.5

¹ The data contained in this table represent those U.S. possessions corporations for which Federal unemployment tax return data were available for statistical processing for 1987.
² Gross compensation of employees is computed by multiplying total wages by 1.235. The additional 23.5 percent reflects employer paid non-payroll costs (such as social security payments) and is supplied by the Office of Tax Analysis.
³ To calculate the tax benefit, the qualified possessions source income of each corporation was multiplied by the appropriate corporate tax rate. Credits for taxes paid to possessions governments (such as Puerto Rican income taxes and the "tollgate" tax on dividends) were estimated and subtracted from this amount. The resulting figure was the estimated reduction in U.S. tax liability.