Domestic Corporations Controlled by Foreign Persons, 1987

By James R. Hobbs*

For 1987, the 45,000 domestic corporations each "controlled" by a foreign "person" generated $687 billion of worldwide receipts and reported total assets amounting to $959 billion [1]. These corporations, 1 percent of the U.S. total, accounted for over 7 and 6 percent of the receipts and assets, respectively, reported on U.S. corporation income tax returns. Figure A shows that foreign-controlled domestic corporations accounted for an increasingly higher percentage of the receipts and assets of all corporations during the 1984-1987 period.

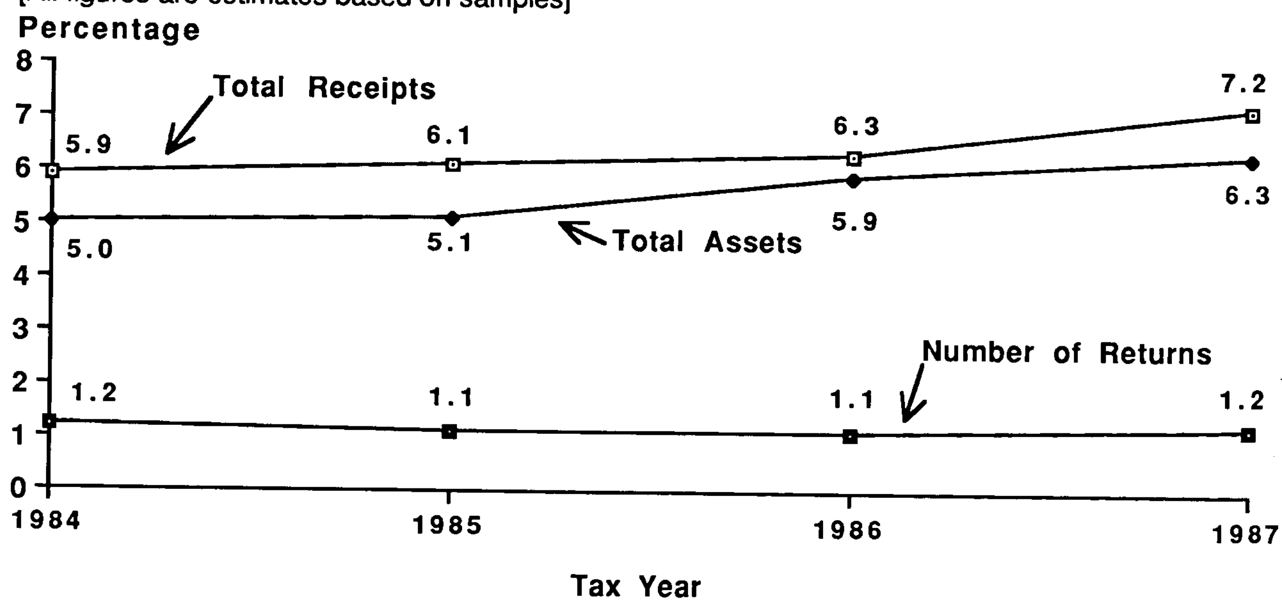
The net income (less deficit) for foreign-controlled domestic corporations was $5.6 billion for 1987, the highest amount reported for recent years and in sharp contrast to the net negative amount of $1.5 billion reported for 1986, which was the lowest amount reported for the same years. Most of this increased profit occurred in the manufacturing sector.

Domestic corporations controlled by persons from Japan had total receipts of $185 billion for 1987,

Figure A

Domestic Corporations Controlled by a Foreign Person as a Percentage of All Corporations, 1984-1987

[All figures are estimates based on samples]



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a 33 percent increase over the 1986 amount. The amount for Japan was far larger than the receipts representing any other country. The receipts for U.S. companies controlled by persons in the United Kingdom remained in second place with $103 billion, followed by the Netherlands ($77 billion), West Germany ($63 billion), and Canada ($52 billion).

DIRECT FOREIGN INVESTMENT IN THE UNITED STATES

Direct foreign investment in the United States can take several forms, including corporations, partnerships, and joint ventures. Under these forms of direct investment, the foreign investor has sufficient equity in the enterprise so as to control and participate in managing its operations [2].

A foreign direct investor can either gain control of an existing U.S. corporation, or create a new company incorporated in the United States. Another method of operating in the United States is through a branch of a foreign corporation. This article focuses on domestic corporations (i.e., companies incorporated in the United States) that are controlled (i.e., majority owned) by a foreign person [3]. (See the "Explanation of Selected Terms" section of this article for a description of foreign persons.) A separate article will be published in a future issue of the *Statistics of Income Bulletin* covering branch operations of foreign corporations with income "effectively connected" with a U.S. trade or business.

There are several factors involved in the decision of a foreign investor to operate in the United States through either a "domestic" or "foreign" corporation [4]. The U.S. tax structure is one of these factors and it is discussed next in this article for foreign-controlled domestic corporations.

U.S. TAXATION

Domestic corporations controlled by a foreign person are taxed by the United States in a manner similar to that of other domestic corporations. Control is defined for this purpose as 50 percent or more direct or indirect ownership of a corporation's voting stock by a foreign entity, such as a foreign corporation.

For 1987, only 8 percent (3,388 returns) of the 44,862 returns of foreign-controlled domestic corporations indicated an exact 50-percent foreign ownership level. The great majority (84 percent, or 37,519 returns) indicated that the level of ownership was over 50 percent. Another 3,955 returns (9 percent) indicated only that foreign ownership was 50 percent or more, but failed to provide the exact percentage of ownership [5]. All of these companies are included in the statistics.

Most domestic corporations are taxed on their worldwide income [6]. This includes corporations that are controlled by foreign persons. In general, the taxable income of a corporation is its gross receipts less ordinary and necessary business deductions and certain statutory special deductions. This income is shown in the statistical tables of this article under the heading "U.S. Income Subject to Tax." Taxable income includes both actual receipts and "constructive" receipts (i.e., certain income from Controlled Foreign Corporations and foreign dividend income resulting from foreign taxes deemed paid). However, it excludes interest from State and local Government obligations [7].

Unfortunately, the tax return form which is the source of the statistics in this article does not separate U.S.-source taxable income from foreign-source taxable income, although foreign-source income had to be reported by corporations which claimed a foreign tax credit (see the section entitled "Data Sources and Limitations"). The foreign tax credit is a credit allowed against U.S. income tax for income, war profits and excess profits taxes paid or accrued to foreign countries or U.S possessions. To claim a foreign tax credit, a corporation had to have generated foreign-source taxable income, paid or accrued foreign income tax on the income, and had a U.S. income tax liability.

Foreign-controlled domestic corporations claimed $660 million of foreign tax credits for 1987. This amount reduced their total U.S. income tax before credits ($5.7 billion) by 12 percent. In contrast, the approximately 3.6 million U.S. corporation income tax returns showed a total of $20.8 billion of foreign tax credits for 1987. This amount reduced their total U.S. income tax before credits ($118.5 billion) by almost 18 percent [8].

The Tax Reform Act of 1986 changed the regular corporate tax rates, effective on July 1, 1987 [9]. The revised rates were used for tax years beginning on or after this date. For tax years that included July 1, 1987, both the old and new tax rates were applied to taxable income, and the tax was the result of prorating the two figures based on where July 1 fell within the accounting period. Because the statistics used for 1987 represent corporate returns with accounting periods that ended between July 1987 and June 1988 (and, thus, began as early as August 1986 for a 12-month period), the income tax amounts were calculated based on a mix of both the old and revised tax rates.

For the period occurring before July 1, 1987, the regular corporate tax rates were as follows:

Taxable Income	Tax rate
$25,000 or less	15%
$25,001 to $50,000	18%
$50,001 to $75,000	30%
$75,001 to $100,000	40%
Over $100,000	46%

If a corporation's taxable income exceeded $1 million, then the corporation was liable for an additional tax equal to the lesser of (a) 5 percent of the taxable income over $1 million, or (b) $20,250.

For the period occurring on July 1, 1987, and thereafter, the corporate tax rates were changed to:

Taxable Income	Tax rate
$50,000 or less	15%
$50,001 to $75,000	25%
Over $75,000	34%

If a corporation's taxable income exceeded $100,000, then the corporation was liable for an additional tax equal to the lesser of (a) 5 percent of the taxable income over $100,000, or (b) $11,750.

For corporations with tax years that began before July 1, 1987, and had net long-term capital gains, an alternative method of tax computation could be used if it produced a lower amount of tax than under the regular method. Under the alternative method, net long-term capital gains were taxed separately at a rate of 28 percent (34 percent for the period January 1, 1987, to July 1, 1987). The remainder of taxable income was then taxed at the regular rates. Under the Tax Reform Act of 1986, for tax years beginning on or after July 1, 1987, the alternative tax computation did not apply; corporate long-term capital gains were taxed as ordinary income.

The 1986 Act created an alternative minimum tax (AMT). Capital gains of corporations were included in the base of this tax (i.e., alternative minimum taxable income). The AMT became effective for tax years beginning after December 31, 1986.

Credits could be used to reduce the tax calculated under either the regular or alternative methods. For Tax Year 1987, the two largest credits used by foreign-controlled domestic corporations were the foreign tax credit (previously described) and the general business credit. The latter credit ($381 million claimed for 1987) is a combination of several individual credits -- investment credit, jobs credit, alcohol fuel credit, research credit, and low-income housing credit. The Tax Reform Act of 1986 made changes to several of these credits. Other credits claimed by taxpayers for 1987 were the U.S. possessions tax, orphan drug, and nonconventional source fuel credits. In addition to the regular or alternative tax after credits, a corporation's tax liability could include a tax from recomputing prior-year investment credits, an alternative minimum tax, and an environmental tax. The environmental tax ($17 million for Tax Year 1987 for foreign-controlled domestic corporations) was authorized by the Superfund Amendments and Reauthorization Act of 1986.

Dividends paid by domestic corporations to the foreign persons that controlled them were generally subject to a withholding tax of 30 percent. However, this tax rate was often lower than 30 percent, for recipients of dividends who resided in a foreign country which had a tax treaty with the United States. The tax withheld represented final payment of the actual tax liability on dividend payments in most instances [10].

Dividends paid by foreign-controlled domestic corporations to U.S. persons were not subject to the withholding tax applicable to foreign recipients. However, these dividend payments did have to be reported to the Internal Revenue Service (IRS) by the corporations. In turn, these dividends were reported as income, and taxed accordingly, on the recipient's U.S. income tax return.

REVENUE RECONCILIATION ACT OF 1989

The Revenue Reconciliation Act of 1989 amended Internal Revenue Code section 6038A to strengthen the recordkeeping and information reporting requirements, and compliance provisions, applicable to foreign-owned corporations. The group of corporations subject to Code section 6038A was expanded by the Act to include domestic or foreign corporations engaged in a U.S. trade or business with at least 25 percent foreign ownership. Previously, the threshold for application of Code section 6038A was 50 percent ownership by a single foreign person.

The provisions of the 1989 Act apply to tax years beginning after July 10, 1989. These provisions do not affect the data for 1987 shown in this article. In addition, it should be noted that the information reported in this article is derived from original returns filed with IRS. It does not include changes made by IRS resulting from audit examinations, or made by taxpayers through amended returns.

RAPID GROWTH

Foreign direct investment in the United States through foreign-controlled domestic corporations grew substantially during the 1984-1987 period (see Figure A).

Worldwide receipts of domestic corporations controlled by foreign persons increased from $459 billion for 1984 to $687 billion for 1987, a 50 percent increase using current dollars. (Adjusting for inflation through the use of the Gross National Product Implicit Price Deflator, these receipts increased by 36 percent [11].) In comparison, worldwide receipts reported on all U.S. corporation income tax returns grew from $7.9 trillion for 1984 to $9.6 trillion for 1987, a 22 percent increase (in current dollars) over the same time period. As a result of the rapid growth rate of foreign-controlled domestic corporations, their share of the receipts reported on all corporate returns increased from 5.9 percent for 1984 to 7.2 percent for 1987.

The growth of foreign-controlled domestic corporations can also be measured from the early 1970's. For 1971, these companies had $39 billion of worldwide receipts, just 2.1 percent of the $1.9 trillion reported for all corporations. For 1987, this percentage had grown to 7.2 percent.

Total assets of domestic corporations controlled by a foreign person grew at an even faster rate than that for receipts. Between 1984 and 1987, their assets increased from $553 billion to $959 billion, a 74 percent increase. During this period, their share of the assets reported on all U.S. corporation income tax returns grew from 5.0 percent to 6.3 percent. For 1971, these companies had reported $37 billion of assets, just 1.3 percent of the total.

Figure B also shows the more rapid growth of foreign-controlled domestic corporations as compared to U.S.-controlled domestic companies. During the period 1979 to 1987, the assets and receipts of the foreign-controlled companies grew more than three times faster than those of other domestic corporations.

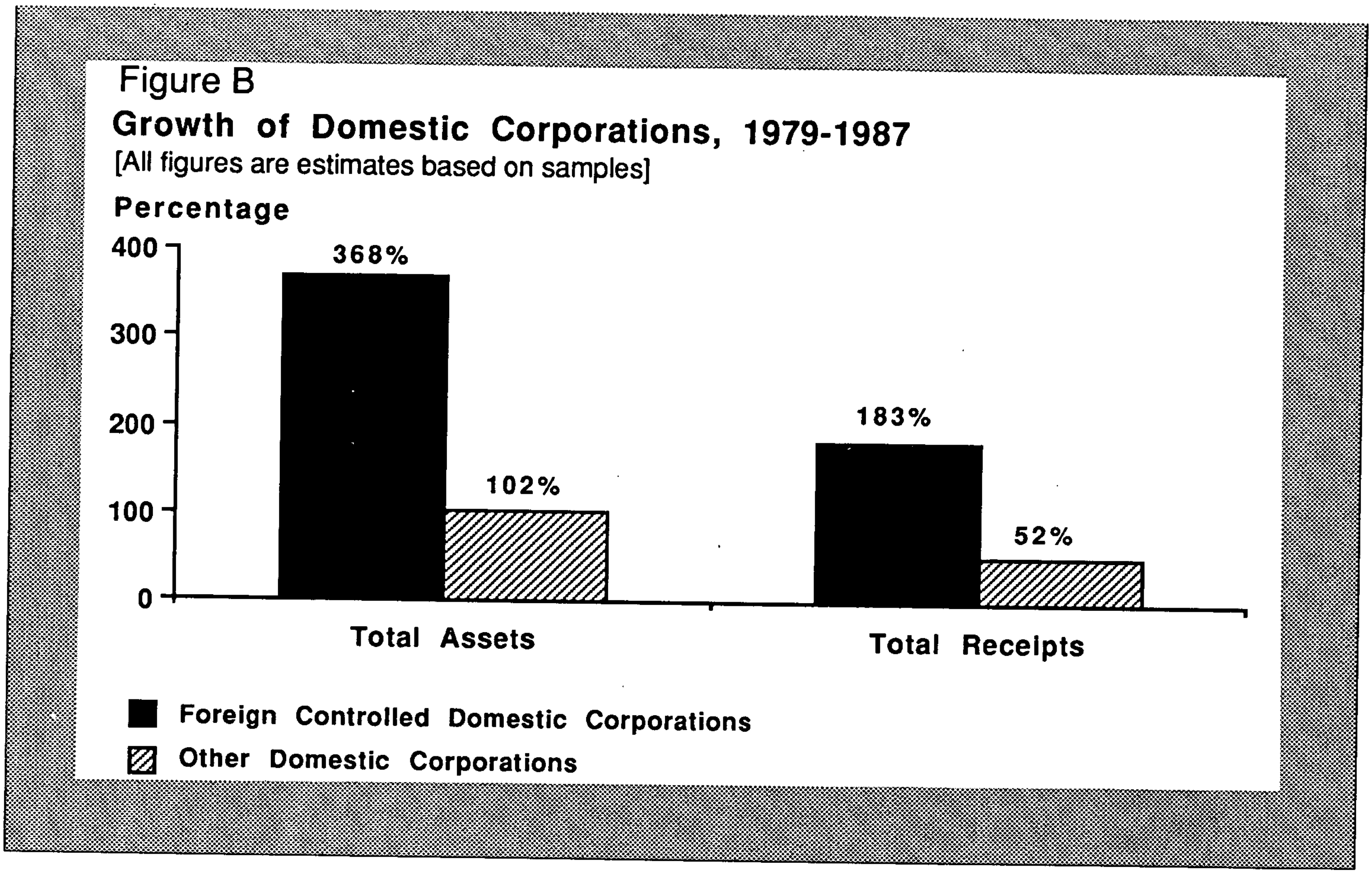
The number of returns of foreign-controlled domestic corporations jumped to nearly 45,000 for 1987, after remaining relatively constant at roughly 37,000 for the 3 previous years [12]. However, despite the 1987 increase, returns of these companies comprised a constant percentage of all U.S. corporation income tax returns, about 1.2 percent for the 1984-1987 period.

It should be noted that foreign-controlled domestic corporations are considerably larger, on average, than other companies. Using 1987 data, while these companies accounted for only 1.2 percent of the total returns filed by corporations, they comprised 7.2 and 6.3 percent of the total receipts and assets, respectively. Percentages for these three items had similar magnitudes for 1984 through 1986, as well as back to 1971 (0.3, 2.1, and 1.3 percent for number of returns, total receipts, and total assets, respectively).

INDUSTRY CHARACTERISTICS

Foreign-controlled domestic corporations were involved in every type of industrial activity, but were concentrated mainly in two industrial divisions: manufacturing and wholesale and retail trade (see Table 1) [13]. For 1987, these two divisions accounted for over 83 percent of the total receipts reported by all domestic corporations owned by a foreign person. By comparison, this percentage was higher than that for all companies which filed U.S. corporation income tax returns. For these returns for 1987, the manufacturing and wholesale and retail trade industrial divisions accounted for 62 percent of the total receipts.

Domestic corporations controlled by a foreign person were involved in the manufacture of many different products. Table 1A shows selected data for those manufacturing industries which had $10 billion



or more of total receipts for 1987. Chemical manufacturers had receipts totalling $55 billion for 1987. This amount was a 36 percent increase over that for 1986, and accounted for 21 percent of all receipts for manufacturing industries. Companies manufacturing petroleum and coal products (including integrated operations) had another $54 billion of total receipts. In terms of total receipts, other significant manufacturing activities were electrical and electronic equipment ($28 billion), food and kindred products ($25 billion), nonelectrical machinery ($12 billion), primary metals ($12 billion), and fabricated metal products ($11 billion).

The manufacturing industrial division showed a large increase in profits for 1987, with the combined net income (less deficit) increasing from a net deficit of $600 million for 1986 to a net income of $5.9 billion for 1987. Chemical and petroleum manufacturers were primarily responsible for these increased profits, as shown in Table 1A. Manufacturers of food and kindred products, fabricated metal products, and nonelectrical machinery also showed substantially increased profits for 1987.

The wholesale and retail trade industrial division had a 34 percent increase in total receipts for 1987, amounting to $305 billion. Of this total, $218 billion came from companies classified in the miscellaneous wholesale trade industry, which includes the distribution of the following products:

Alocoholic beverages
Apparel, piece goods, and notions
Chemicals and allied products
Drugs, drug proprietaries, and druggists' sundries
Electrical goods
Farm-product raw materials
Furniture and home furnishings
Hardware, plumbing, and heating equipment and supplies
Lumber and construction materials
Metals and minerals, except petroleum and scrap
Motor vehicles and automotive equipment
Paper and paper products
Petroleum and petroleum products
Sporting, recreational, photographic, and

hobby goods, toys, and supplies
Other nondurable goods, except groceries and related products
Other durable goods, except machinery, equipment, and supplies

Many of these companies were U.S. distributors of products made in foreign countries by their parent corporations.

The comparative levels of assets and receipts of foreign-owned companies primarily engaged in wholesale and retail trade and those engaged in finance, insurance and real estate differed significantly. Trade companies produced large amounts of receipts ($305 billion for 1987) with relatively small amounts of assets ($131 billion). Stated another way, this amounted to $2.34 of receipts for each dollar of assets. On the other hand, companies involved in finance, insurance and real estate had large amounts of assets ($371 billion for 1987), but only $61 billion of receipts. These companies produced less than $0.17 of receipts for each dollar of assets.

Foreign-controlled domestic corporations accounted for 7.2 percent of the $9.6 trillion of worldwide receipts reported by all companies filing U.S. income tax returns for 1987. These companies played important roles in certain industries, as shown in Figure C. In particular, foreign-controlled domestic corporations in the mining, wholesale and retail trade, and manufacturing industrial divisions accounted for 12.3, 11.0, and 8.5 percent, respectively, of the receipts of all companies classified in their divisions.

Figure C.—Domestic Corporations Controlled by a Foreign Person as a Percentage of All Corporations, Total Receipts, by Selected Major Industry, 1984–1987

[All figures are estimates based on samples—money amounts are in millions of dollars]

Selected major industry	1987 total receipts: All U.S. corporation income tax returns	1987 total receipts: Returns of domestic corporations controlled by a foreign person	1987 total receipts: Percentage of all returns	Total receipts as a percentage of all returns for—1986	1985	1984
	(1)	(2)	(3)	(4)	(5)	(6)
All industries [1]	**$9,580,721**	**$686,786**	**7.2%**	**6.3%**	**6.1%**	**5.8%**
Agriculture, forestry and fishing	77,057	1,190	1.5	0.9	1.3	1.1
Mining, total	96,806	11,935	12.3	12.4	9.5	9.3
Metal mining	9,287	592	6.4	9.6	11.6	10.0
Coal mining	18,539	2,636	14.2	16.1	19.0	10.2
Oil and gas extraction	56,893	7,215	12.7	11.8	7.5	9.2
Nonmetallic minerals, except fuels	12,087	1,492	12.3	10.8	9.3	7.3
Construction	454,831	6,211	1.4	1.5	1.4	1.5
Manufacturing, total	3,141,406	265,644	8.5	7.6	7.2	6.4
Food and kindred products	343,867	25,070	7.3	5.7	6.0	4.3
Tobacco manufactures	54,404	9,593	17.6	18.4	22.8	23.1
Textile mill products	52,875	2,151	4.1	2.9	3.2	3.4
Apparel and other textile products	64,493	1,471	2.3	1.6	1.6	1.4
Lumber and wood products	85,684	4,987	5.8	2.9	2.0	0.8
Furniture and fixtures	36,500	690	1.9	1.8	2.0	1.3
Paper and allied products	100,149	3,949	3.9	3.4	4.4	4.8
Printing and publishing	139,364	9,747	7.0	5.6	5.7	4.9
Chemicals and allied products	306,409	55,100	18.0	14.0	11.6	11.4
Petroleum (including integrated) and coal products	396,218	53,520	13.5	11.4	11.0	10.8
Rubber and miscellaneous plastics products	67,640	5,801	8.6	7.7	6.6	5.2
Leather and leather products	14,912	3,268	21.9	21.8	11.1	2.0
Stone, clay, and glass products	63,136	7,899	12.5	13.4	13.4	14.3
Primary metal industries	117,290	12,208	10.4	8.8	10.6	5.7
Fabricated metal products	169,954	11,466	6.7	6.8	6.7	7.3
Machinery, except electrical	241,396	12,329	5.1	4.1	4.5	4.4
Electrical and electronic equipment	260,694	28,195	10.8	9.8	6.1	5.8
Motor vehicles and equipment	360,339	6,325	1.8	3.0	2.9	0.4
Transportation equipment, except motor vehicles	137,055	1,057	0.8	0.6	0.6	0.6
Instruments and related products	67,808	6,514	9.6	8.9	6.5	6.5
Miscellaneous manufacturing and manufacturing not allocable	61,218	4,303	7.0	8.7	7.5	6.1
Transportation and public utilities	786,179	15,120	1.9	1.6	1.3	1.3
Wholesale and retail trade, total	2,766,717	305,211	11.0	9.0	9.2	8.8
Wholesale trade, total	1,337,359	252,222	18.9	15.9	16.2	15.7
Groceries and related products	191,934	10,779	5.6	5.8	5.3	6.8
Machinery, equipment, and supplies	132,496	23,294	17.6	15.7	14.5	13.5
Miscellaneous wholesale trade	1,012,929	218,149	21.5	17.9	18.5	17.6
Retail trade	1,422,714	52,075	3.7	2.8	2.4	1.8
Wholesale and retail trade not allocable	6,644	914	13.8	1.2	6.6	1.1
Finance, insurance, and real estate	1,589,218	61,307	3.9	4.2	3.5	3.9
Services	663,133	19,841	3.0	2.1	2.4	2.4

[1] Includes "Nature of business not allocable," which is not shown separately.
NOTE: This figure includes all major industries of those industrial divisions in which foreign-controlled domestic corporations accounted for 5 percent or more of the corporate totals. Only the totals for the other industrial divisions are shown.

There were two major industries (leather manufacturing and miscellaneous wholesale trade) in which foreign-controlled domestic corporations produced over 20 percent of the receipts for their industries. The percentage in the leather manufacturing industry jumped from only 2 percent for 1984 to nearly 22 percent for 1987. By comparison, the percentage for the miscellaneous wholesale trade industry was substantial during the entire 1984-1987 period.

Domestic companies owned by a foreign person comprised significant portions of several other industries for 1987. These included chemical manufacturers (18 percent of total receipts), tobacco manufacturers (17.6 percent), and wholesalers of machinery, equipment, and supplies (17.6 percent).

As Figure D shows, different industries can have very different levels of profitability, as percentages of their total receipts. For the 1983-1987 period, foreign-controlled domestic manufacturing companies had profits that were 1.7 percent of their total receipts, while the percentages for trade companies and finance and insurance corporations were 0.7 and -0.3 percent, respectively. For each of the three industry groups, other corporations had substantially higher profit percentages than the foreign-controlled companies.

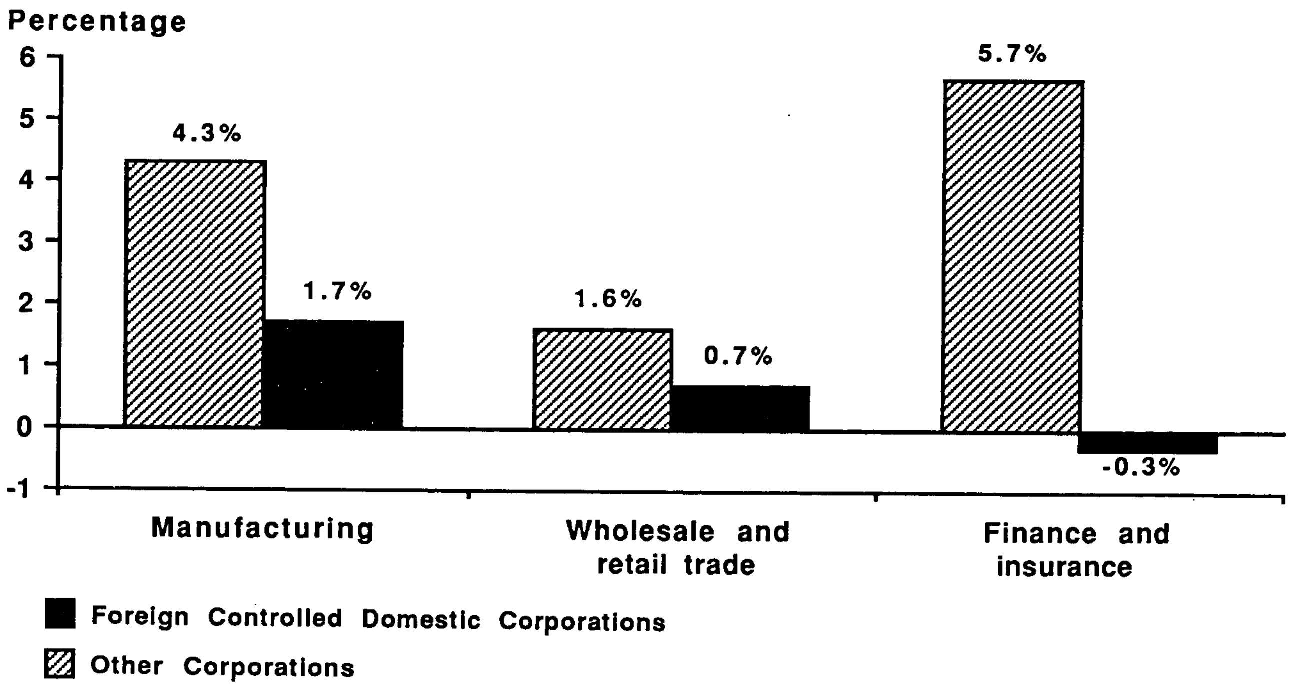
COUNTRY CHARACTERISTICS

Domestic corporations are owned by persons throughout the world. However, for 1987, owners from the seven countries shown in Table 2 controlled 53 percent of the 44,862 domestic corporations controlled by a foreign person. (The countries represent the geographic location of the direct foreign owner's country of residence, incorporation, organization, creation, or administration. Because holding companies located in other countries may directly own the stock of U.S. affiliates, the country reported on

Figure D

Net Income (Less Deficit) as a Percentage of Total Receipts, 1983-1987

[All figures are estimates based on samples]



the tax return may not necessarily reflect the country of the ultimate parent.) The 23,759 corporations owned by persons from these seven countries accounted for 78 and 75 percent of the total receipts and assets, respectively, of all foreign-controlled domestic corporations.

Domestic corporations controlled by persons from Japan had worldwide receipts of $185 billion for 1987, an amount far larger than the receipts representing any other country. Japan also had the largest amount of receipts for the 1983-1986 period. Domestic corporations controlled by persons from the United Kingdom had the second largest amount of receipts during the 1983-1987 period.

The worldwide receipts of domestic corporations controlled by a foreign person increased by 27 percent between 1986 and 1987. For corporations with owners from the seven countries shown in Table 2, the growth rates varied widely. Corporations owned by persons from the Netherlands Antilles showed increases in total receipts of 61 percent. Percentage increases for France (36 percent), Japan (33 percent), Canada (28 percent), the United Kingdom (23 percent), and West Germany (18 percent) were close to the 27-percent average for all countries. Corporations owned by persons from the Netherlands (8 percent) had smaller-than-average increases in receipts for 1987.

The percentage increases for countries over a 1-year period can be very different from those for a longer period of time, such as from 1984 to 1987. Figure E illustrates the differences for the seven countries previously discussed. For instance, while the Netherlands Antilles had the largest 1-year percentage increase, three other countries had larger increases over the 1984-1987 period. One of these countries, West Germany, had the largest percentage increase over the 3-year period, although its 18 percent increase between 1986 and 1987 was less than the average for all countries.

Figure E.—Percentage Increases of Total Receipts of Domestic Corporations Controlled by a Foreign Person, by Selected Countries, 1984–1987

[All figures are estimates based on samples]

Selected country	Percentage increase of total receipts between—	
	1986 and 1987	1984 and 1987
All countries	**27%**	**50%**
Netherlands Antilles	61	54
France	36	34
Japan	33	64
Canada	28	63
United Kingdom	23	34
West Germany	18	72
Netherlands	8	8

INDUSTRY AND COUNTRY COMBINATIONS

Figure F shows selected data items for the predominant industry-country combinations for domestic corporations controlled by a foreign person. This figure shows only those combinations in which companies comprised $5 billion or more of total receipts for 1987, in order of decreasing size of receipts.

The 23 combinations shown in Figure F accounted for nearly 50 percent of the $687 billion of receipts generated by foreign-controlled domestic corporations for 1987. One industry-country combination, namely miscellaneous wholesalers owned by Japanese persons, produced almost 20 percent of the total receipts. This was far larger than any other combination, with petroleum manufacturers owned by persons from the Netherlands being the second largest combination with 4 percent of the total. Japanese miscellaneous wholesalers increased their total receipts from $100 billion for 1986 to $136 billion for 1987, a 36 percent increase.

The 44,862 foreign-controlled domestic corporations had a total U.S. income tax liability after credits of $4.6 billion on their $687 billion of worldwide receipts, a 0.7 percentage. This percentage varied among the 23 predominant industry-country combinations, ranging from a low of 0.03 percent for electrical and electronic equipment manufacturers owned by persons from the Netherlands, to a high of 2.3 percent for tobacco manufacturers owned by persons from the United Kingdom.

The 0.7 (or more specifically, 0.664) percentage for foreign-controlled domestic corporations is somewhat less than the average for other companies. By comparison, for 1987, other domestic corporations filing U.S. income tax returns reported a total U.S. income tax liability of $80 billion after credits on $7.7 trillion of worldwide receipts, a 1.041 percentage.

INCOME STATEMENT AND TAX ITEMS

Over 92 percent of the $687 billion in total receipts reported by domestic corporations controlled by a foreign person consisted of "business receipts" (i.e., receipts from sales and operations). Interest income

Figure F.—Domestic Corporations Controlled by a Foreign Person: Selected Items, by Selected Industry and Country Combinations Ranked by Total Receipts, 1987

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

Industry and country		Number of returns	Total receipts	Total U.S. income tax after credits	Percentage (Col. 3 / Col. 2)
		(1)	(2)	(3)	(4)
All industries	**All countries**	**44,862**	**$686,785,812**	**$4,561,221**	**0.7%**
Miscellaneous wholesale trade	Japan	1,520	136,245,091	618,638	0.5
Manufacturing: petroleum (including integrated) and coal products	Netherlands	([1])	28,791,615	16,781	0.1
Manufacturing: petroleum (including integrated) and coal products	United Kingdom	7	16,334,666	306,921	1.9
Wholesale trade: machinery, equipment, and supplies	Japan	246	12,573,999	43,859	0.3
Miscellaneous wholesale trade	West Germany	728	12,548,706	16,685	0.1
Manufacturing: chemicals and allied products	West Germany	52	10,718,195	126,876	1.2
Manufacturing: chemicals and allied products	Netherlands	16	9,492,342	82,252	0.9
Manufacturing: tobacco	United Kingdom	([1])	9,456,987	213,356	2.3
Manufacturing: chemicals and allied products	United Kingdom	12	9,190,659	143,831	1.6
Miscellaneous wholesale trade	United Kingdom	368	8,741,907	122,250	1.4
Holding and other investment companies, except bank holding companies	United Kingdom	251	8,590,954	96,605	1.1
Miscellaneous wholesale trade	France	587	7,256,676	23,867	0.3
Manufacturing: electrical and electronic equipment	Japan	53	7,252,965	60,963	0.8
Manufacturing: electrical and electronic equipment	Netherlands	10	6,756,307	1,905	([2])
Manufacturing: food and kindred products	United Kingdom	11	6,725,692	28,585	0.4
Retail trade: food stores	West Germany	([1])	6,577,557	15,464	0.2
Manufacturing: petroleum (including integrated) and coal products	Netherlands Antilles	*43	*6,320,775	*4,933	*0.1
Manufacturing: chemicals and allied products	Switzerland	44	6,094,542	48,514	0.8
Miscellaneous wholesale trade	Canada	272	6,019,823	23,231	0.4
Miscellaneous wholesale trade	South Korea	47	5,991,627	27,121	0.5
Miscellaneous wholesale trade	Netherlands Antilles	*134	*5,314,526	*2,542	*([2])
Manufacturing: chemicals and allied products	Netherlands Antilles	3	5,099,528	19,144	0.4
Miscellaneous wholesale trade	Switzerland	222	5,009,528	42,475	0.8

[1] Estimate is not shown to avoid disclosure of information.
[2] Percentage is less than 0.05 but greater than zero.
*Estimate should be used with caution because of the small number of sample returns on which it is based.
Note: This figure includes only those industry-country combinations which had $5 billion or more of total receipts for 1987.

of $28.2 billion accounted for an additional 4 percent of the total, with banks producing the largest part ($11.9 billion). (Briefly, banking items such as fees, commissions, trust department earnings, exchange collections, discounts, and service charges were included in business receipts. Interest, the principal operating income of banks, is excluded from business receipts.)

These same domestic companies claimed $681 billion in deductions for 1987. Cost of sales and operations was $482 billion, or 71 percent of the total [14]. Interest paid ($36 billion, including $8 billion paid mostly to depositors by banks) and depreciation ($20 billion) accounted for 5 and 3 percent, respectively, of the total deductions. The percentages for interest paid and depreciation are very similar to those for all corporations which filed U.S. income tax returns (6 and 3 percent, respectively).

For 1987, the percentage of cost of sales and operations to total receipts was considerably higher for foreign-controlled domestic corporations whose principal business activity was trade than it was for other trade companies (see Figure G). For manufacturers, the percentage for foreign-controlled domestic corporations and other companies was very close.

Figure G.—Cost of Sales and Operations as a Percentage of Total Receipts, 1987

[All figures are estimates based on samples—money amounts are in millions of dollars]

Foreign-controlled domestic corporations:	
Manufacturing:	
Total receipts	$265,644
Cost of sales and operations	172,370
Percentage	64.89%
Wholesale and retail trade:	
Total receipts	$305,211
Cost of sales and operations	256,099
Percentage	83.91%
Other corporations:	
Manufacturing:	
Total receipts	$2,875,763
Cost of sales and operations	1,862,449
Percentage	64.76%
Wholesale and retail trade:	
Total receipts	$2,461,506
Cost of sales and operations	1,820,387
Percentage	73.95%

The net income (less deficit) for foreign-controlled domestic corporations was $5.6 billion for 1987, the highest amount reported for recent years and considerably different from the net negative amount of $1.5 billion reported for 1986, which was the lowest amount reported for recent years [15]. Most of this increased profit occurred in manufacturing. In particular, integrated petroleum manufacturers, as well as manufacturers of chemicals, food, non-electrical machinery, primary metals, and fabricated metal products showed higher profits (as computed under the Internal Revenue Code) for 1987.

The $5.6 billion of net income (less deficit) was the result of 18,466 corporations reporting $19.8 billion of profits and 26,396 companies reporting $14.2 billion of deficits [16]. Thus, only 41 percent of the domestic corporations with foreign owners reported a profit for 1987. By comparison, 55 percent of all corporations filing U.S. income tax returns for 1987 reported profits which totalled $465 billion. The deficits for all corporations were $137 billion, resulting in a net income (less deficit) amount of $328 billion. The percentages of corporations reporting a profit for 1987 were similar to those for the 1984-1986 period (see Figure H).

It is instructive to compare amounts of net income (less deficit) and total income tax after credits to total assets and receipts, for both foreign-controlled domestic corporations and other domestic corporations. The four ratios shown in Figure I are all lower for foreign-controlled domestic corporations than the comparable ratios for other domestic companies. Using total income tax after credits as the numerator, as opposed to net income (less deficit), produces a smaller difference between the ratios for the two groups of companies. This reflects the fact that while only 41 percent of foreign-controlled domestic corporations reported net income, these companies had significant amounts of profits, which resulted in considerable amounts of tax after credits. On the other hand, 59 percent of these companies reported significant amounts of deficits, which could be carried back or forward, under prescribed rules, to reduce taxable income for other years.

The percentage of before-tax net income (less deficit) compared to total assets is commonly referred to as the rate of return on assets. For 1987, foreign-controlled domestic corporations had a 0.58 percent rate of return as compared to a 1.86 percent rate for other domestic companies. Figure J shows that a similar difference occurred for every year since 1981. The rates may reflect certain transfer pricing practices of foreign-controlled domestic corporations that buy goods and services from related persons outside the United States. These practices help determine the amounts of their expenses and, as a result, their income [17].

For 1987, profitable foreign-controlled domestic corporations had $14.5 billion of "U.S. income subject to tax" (the base on which tax was computed), resulting in tax before credits of $5.7 billion [18]. The

Figure H

Percentage of Corporation Returns Reporting Net Income, 1984-1987

[All figures are estimates based on samples]

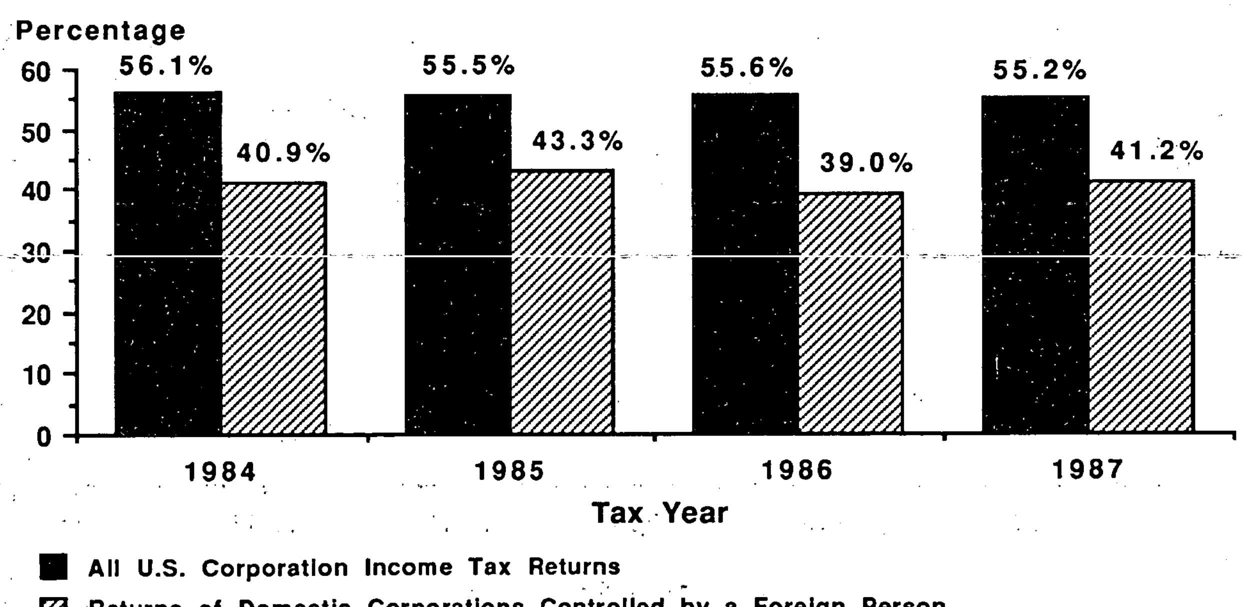


Figure I.—Comparative Rates of Net Income (Less Deficit) and Taxes to Total Assets and Receipts, for Foreign-Controlled and Other Domestic Corporations, 1987

[All figures are estimates based on samples—money amounts are in billions of dollars]

Item	Domestic corporations controlled by a foreign person	Other domestic corporations
Number of returns	**44,862**	**2,419,978**
Total assets	$959.4	$12,834.8
Total receipts	686.8	7,673.0
Net income (less deficit)	5.6	239.0
Net income	19.8	337.3
Deficit	14.2	98.3
Total income tax after credits	4.6	79.9
Net income (less deficit) to total receipts	0.82%	3.11%
Net income (less deficit) to total assets	0.58	1.86
Total income tax after credits to total receipts	0.67	1.04
Total income tax after credits to total assets	0.48	0.62

difference between the $19.8 billion of profit (or net income) and $14.5 billion of income subject to tax was the result of statutory special deductions. These deductions were allowed most corporations in computing their taxable income and were for "net operating losses" from other years and deductions for both intercorporate dividends received and for dividends on certain preferred stock of public utilities. See the "Explanation of Selected Terms" section of this article for a discussion of net operating losses.

Tax credits totalling $1.1 billion reduced the U.S. tax liability of foreign-owned domestic corporations to $4.6 billion for 1987. The largest credits claimed were $660 million of foreign tax credits and $381 million of general business credits. The other credits were the U.S. possessions tax credit ($73 million), and small amounts of orphan drug and nonconventional source fuel credits. The $4.6 billion of total U.S income tax after credits represents the tax liability as reported by taxpayers. However, it does not include any changes made by taxpayers through amended returns or by the IRS as a result of audit examination.

SUMMARY

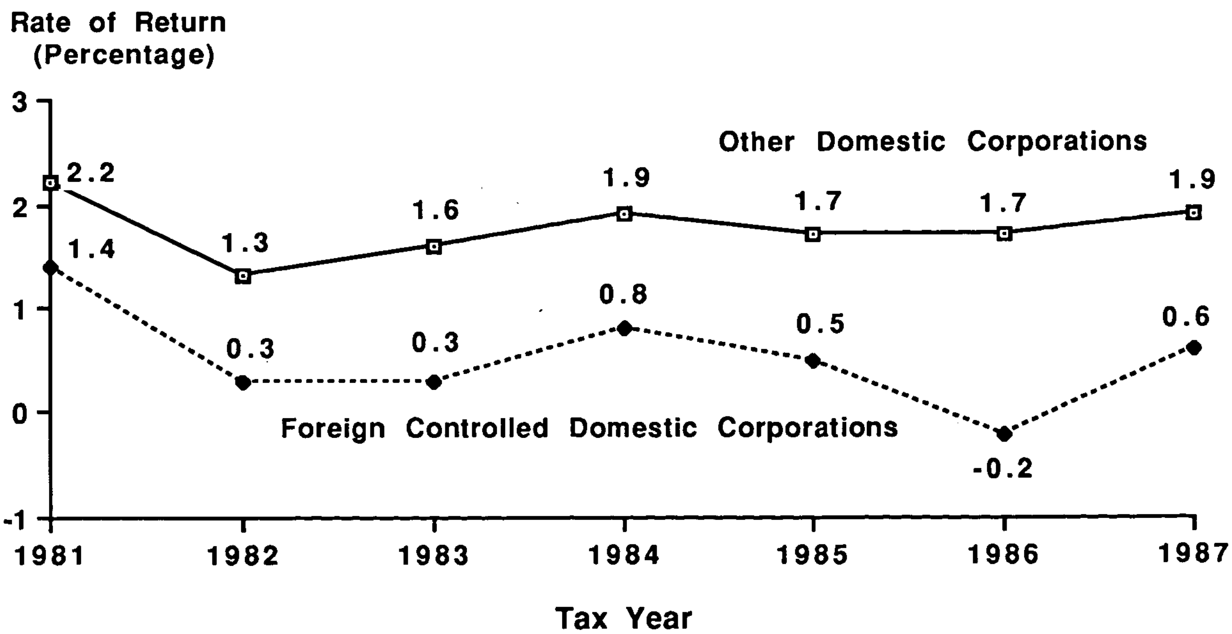
Direct foreign investment in the United States through corporations continued to grow at a relatively fast rate for 1987. While worldwide receipts reported on all U.S. corporation income tax returns increased by 10.5 percent (using current dollars) for 1987, receipts of domestic corporations controlled by foreign persons increased by 26.6 percent.

Foreign-controlled domestic corporations generated approximately 83 percent of their total

Figure J

Rate of Return on Assets, 1981-1987

[All figures are estimates based on samples]



receipts from two industrial divisions: manufacturing and trade. From a country perspective, domestic corporations controlled by persons from Japan had worldwide receipts of $185 billion, 27 percent of the total. More specifically, miscellaneous wholesalers with Japanese owners had receipts of $136 billion for 1987, which accounted for nearly 20 percent of the total.

The profitability of foreign-controlled domestic corporations increased significantly for Tax Year 1987. The net income (less deficit) amount for these companies was $5.6 billion for that year, the highest amount reported for recent years, as compared to a net negative amount of $1.5 billion reported for 1986, which was the lowest amount of recent years. Manufacturing companies accounted for most of the increased profits.

EXPLANATION OF SELECTED TERMS

Attribution rules.--In regard to domestic corporations that are 50 percent or more owned by a foreign "person," these rules provide that an individual shall be considered as owning the stock of a corporation that is owned, directly or indirectly, by or for his or her family. The family of an individual includes his or her spouse, brothers and sisters, ancestors, and lineal descendants. For more information on these rules, see section 267(c) of the Internal Revenue Code. However, if a corporation is owned by two or more unrelated persons, neither of whom owned 50 percent or more of the corporation, then that corporation was excluded from the statistics even though, together, the persons may have met the 50 percent ownership criterion.

Foreign person.--A foreign person (or entity) is defined as a person other than a U.S. person. A U.S. person includes: (1) a citizen or resident of the United States, (2) a domestic partnership, (3) a domestic corporation, and (4) any estate or trust (other than a foreign estate or trust). Section 7701 of the Internal Revenue Code further defines the term U.S. person.

Net income (or deficit).--This is the difference between gross receipts and the ordinary and necessary business deductions allowed by the Internal Revenue Code. It reflects not only actual receipts but "constructive" receipts as well. Interest from State and local Government obligations is excluded from this item. Because certain statutory special deductions, including the net operating loss deduction, were allowed most corporations in computing their income subject to tax, the statistics for net income are generally larger than the amounts shown for "U.S. income subject to tax," i.e., the base on which tax was computed. See also the discussion of the "Net Operating Loss Deduction" in this section of the article.

Net operating loss deduction.--A statutory net operating loss (NOL) for a given tax year can be carried back over a 3-year period to reduce the taxable income of those years, and any amount of the NOL not offset against income during that time could be carried forward against income for a period not exceeding 15 years. The amount of NOLD included in this study, however, consists only of losses from prior years actually used to reduce taxable income for the current (1987) tax year. Losses incurred after the 1987 Tax Year and carried back to that year at a later date could not be reported on the tax returns used for this article. Net operating losses on which the 1987 deduction was based include: (1) the excess of ordinary and necessary business expenses over income in previous loss years, and (2) statutory special deductions claimed in a loss year for dividends received and for dividends paid on certain preferred stock of public utilities (or any excess of such deductions over net income).

Other domestic corporations.--Data shown in this article for these companies come from Forms 1120, 1120A, 1120L, and 1120PC (stock companies). The following forms were excluded: 1120S, 1120F, 1120-IC-DISC, 1120-FSC, 1120-RIC, 1120-REIT, and 1120PC (mutual companies).

Rate of return on assets.--For domestic corporations, this is the amount of before-tax net income (less deficit) calculated for U.S. tax purposes expressed as a percentage of total assets.

DATA SOURCES AND LIMITATIONS

Sample

The statistics for domestic corporations controlled by a foreign person shown in this article are based primarily on samples of Forms 1120 (U.S. Corporation Income Tax Return). In addition to this form, the 1987 statistics include data from Forms 1120L (U.S. Life Insurance Company Income Tax Return), as well as from small numbers of Forms 1120-IC-DISC (Interest Charge Domestic International Sales Corporation Return), Forms 1120-RIC (U.S. Income Tax Return for Regulated Investment Companies), and Forms 1120-REIT (U.S. Income Tax Return for Real Estate Investment Trusts).

Form 1120 samples were stratified based on the size of total assets and net income (or deficit) and the business activity. For 1987, the Form 1120 achieved sampling rates ranged from 0.0035 percent to 100 percent.

Because the data presented in this article are estimates based on samples, they are subject to sampling error. To properly use these data, the magnitude of the sampling error should be known. Coefficients of variation (CV's) are used to measure that magnitude. For a general discussion of CV's, see the Appendix to this publication. For a more detailed discussion of CV's for 1987, see *Statistics of Income--Corporation Income Tax Returns* for 1987.

NONSAMPLING LIMITATIONS

Most of the data in this article relate to Tax Year 1987. However, the estimates cover returns with accounting periods that ended in a 12 month span beginning in July and ending in June. Thus, for Tax Year 1987, the span was between July 1987 and June 1988. As a result of the 12 month span for ending accounting periods, the statistics for each year shown in this article include income received or expenses incurred during a 23 month span. For Tax Year 1987, that span was from August 1986 through June 1988.

Each return used for the studies described in this article had an industry code reported or assigned during statistical processing. This code was used as a classifier of the returns, as shown in Tables 1 and 1A of this article. The industry code represented the principal business activity (i.e., the activity which accounted for the largest portion of total receipts) of the corporation filing the return. However, a given return may have been for a company engaged in several business activities or may have been a consolidated return filed for an affiliated group of corporations which conducted different business activities. To the extent that some consolidated (and nonconsolidated) corporations were engaged in many types of business activities, the data in this article are not entirely related to the industrial activity under which they are shown.

Each return used for the statistics described in this article also had a foreign country code assigned during statistical processing, which identified the owner's country. For individuals, it was the owner's country of residence. For all others, it was the country where the foreign entity was incorporated, organized, created, or administered. The code was used as a classifier of the returns shown in Table 2. To the extent that a holding company or other affiliated entity was part of a chain between a U.S. subsidiary company and the ultimate parent, the data are not entirely related to the foreign country under which they are shown.

Returns were selected for this study based on taxpayers' responses to a question on the Form 1120 which asks whether "a person other than a U.S. person" owned, directly or indirectly, 50 percent or more of the filing corporation's voting stock. Certain taxpayers incorrectly answered this question "yes" when a U.S. person other than an individual (such as a U.S. corporation) was the owner. (See the definition of a foreign person in the "Explanation of Selected Terms" section of this article.) These reporting errors were primarily made by corporations with small amounts of assets and income. As a result of these errors, it is estimated that the number of returns may be overstated by 5 to 10 percent, however, money amounts for balance sheet, income statement and tax items are only minimally overstated. Additional research on the frequency of these incorrect responses will be done for the 1988 study. In addition, the question on Form 1120 will be changed to ask if any "foreign person" owned, directly or indirectly, 50 percent or more of the filing corporation's voting stock.

FOOTNOTES

[1] For purposes of this article, "control" is defined as ownership by any foreign person (i.e., an individual, partnership, corporation, estate or trust), directly or indirectly, of 50 percent or more of a U.S. corporation's voting stock at the end of the tax year. For rules of attribution, see the "Explanation of Selected Terms" section of this article and section 267(c) of the Internal Revenue Code.

[2] Portfolio investment is different from direct investment in that there is no control of the management of the enterprise, except to the extent, for example, of rights to vote peri-

odically in stockholder meetings of corporations. The portfolio investor has a minimal interest in a company, and is primarily seeking dividend payments or an increase in the value of the shares of stock.

[3] The Bureau of Economic Analysis of the U.S. Department of Commerce publishes data on foreign direct investment in the United States in the *Survey of Current Business.* See Herr, Ellen M., "U.S. Business Enterprises Acquired or Established by Foreign Direct Investors in 1987," Volume 68, Number 5, May 1988; Howenstine, Ned G., "U.S. Affiliates of Foreign Companies: 1987 Benchmark Survey Results," Volume 69, Number 7, July 1989; and "Foreign Direct Investment in the United States: Detail for Position and Balance of Payment Flows, 1987," Volume 68, Number 8, August 1988.

[4] Sections 7701(a)(4) and (5) of the Internal Revenue Code defined a domestic corporation as one created or organized in the United States or under the laws of the United States or any State. A foreign corporation was one which was not domestic.

[5] Information on ownership levels was asked by questions on the corporation income tax return which requested the owner's name, country and percentage of voting stock owned when any foreign individual, partnership, corporation, estate or trust owned, directly or indirectly, 50 percent or more of the corporation's voting stock at the end of the tax year.

[6] Interest Charge Domestic International Sales Corporations (beginning in 1985) were not subject to U.S. taxation. Instead, the stockholders of these companies were subject to taxation when profits from these companies were distributed or deemed to be distributed to them. In addition, "S" Corporations were generally not taxed on their income, but rather passed the income on to their stockholders for taxation purposes. Finally, regulated investment companies and real estate investment trusts were only taxed on income that was not distributed to their shareholders.

[7] For a more complete discussion of taxable income, see *Statistics of Income--1987, Corporation Income Tax Returns.*

[8] Foreign tax credits are claimed by only a small percentage of corporations. For 1987, 1.1 percent of foreign-controlled domestic corporations claimed this credit. The most recent detailed information on corporate foreign tax credits will be discussed in an article to appear in the Fall 1990 issue of the *Statistics of Income Bulletin.*

[9] For a more detailed discussion of the Tax Reform Act of 1986, see *Statistics of Income -- Corporation Income Tax Returns* for 1986 and 1987.

[10] For detailed information on U.S.-source dividends (and certain other types of income) paid to foreign persons, see Flaherty, Marilyn J., "Foreign Recipients of U.S. Income, and Tax Withheld, 1987," *Statistics of Income Bulletin,* Winter 1989-90, Volume 9, Number 3.

[11] The source of the GNP Implicit Price Deflator is the *Survey of Current Business,* Bureau of Economic Analysis, U.S. Department of Commerce.

[12] The increase in the number of returns for 1987 may be a reflection of additional incentives for foreigners to purchase U.S. companies, provided by the Tax Reform Act of 1986. See Scholes, Myron and Wolfson, Mark, "The Effects of Changes in Tax Laws on Corporate Reorganization Activity," *NBER Working Paper No. 3095,* National Bureau of Economic Research.

[13] See the "Data Sources and Limitations" section of this article for a discussion of how returns are industry coded during statistical processing.

[14] The Tax Reform Act of 1986 enacted Internal Revenue Code section 1059A, which limits the cost of property imported (directly or indirectly) into the United States by a U.S. taxpayer from a related person to the cost used for customs valuation purposes. Section 1059A became effective for transactions entered into after March 18, 1986.

[15] For statistical purposes, net income (less deficit) is the difference between "modified" total receipts and total deductions. The $687 billion of total receipts for 1987 is modified as follows: (1) tax-exempt interest from State and local Government obligations is subtracted and (2) "constructive" receipts are added. Constructive receipts are the sum of the following types of taxable income from related foreign corporations: (1) includable income from Controlled Foreign Corporations, and (2) foreign dividend income resulting from foreign taxes deemed paid. Net income (less deficit) should also be distinguished from taxable income (i.e., "U.S. income subject to tax"). Because certain statutory special deductions, including the net operating loss deduction, were allowed most companies in computing their taxable income, the statistics for net income are generally larger than the amounts shown for taxable income.

[16] The 26,396 companies reporting a deficit include a small number of "breakeven" companies, i.e., those whose receipts and deductions were equal.

[17] See Dworin, Lowell, "Transfer Pricing Issues," to be published in the National Tax Journal.

[18] The $5.7 billion of total income tax before credits includes an alternative minimum tax ($143 million), a tax from recomputing prior-year investment credits ($37 million), and an environmental tax ($17 million).

Table 1.—Selected Items, by Industrial Division, 1984–1987

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

Industrial division and item	1984 (1)	1985 (2)	1986 (3)	1987 (4)
ALL INDUSTRIES[1]				
Number of returns, total	37,401	36,677	36,778	44,862
With net income	15,306	15,882	14,348	18,466
Total receipts	459,161,616	513,777,962	542,694,669	686,785,812
Net income (less deficit)	4,528,142	2,978,286	−1,519,339	5,608,265
Net income	15,355,593	14,500,125	12,745,420	19,764,758
U.S. income subject to tax	13,410,975	11,428,043	9,369,719	14,477,187
Total U.S. income tax—				
Before credits	6,049,943	5,152,493	4,069,605	5,675,568
After credits	4,487,752	3,576,147	3,042,942	4,561,221
AGRICULTURE, FORESTRY AND FISHING				
Number of returns, total	1,135	964	1,170	1,103
With net income	360	378	589	592
Total receipts	726,634	914,939	722,243	1,190,344
Net income (less deficit)	−100,816	−76,329	−56,596	−45,116
Net income	39,582	49,981	58,105	80,528
U.S. income subject to tax	*5,358	*24,791	*39,875	55,321
Total U.S. income tax—				
Before credits	*2,276	*10,210	*17,249	19,275
After credits	*2,191	*2,607	*13,990	16,272
MINING				
Number of returns, total	1,248	1,015	1,065	1,657
With net income	222	136	358	127
Total receipts	11,426,911	13,442,356	12,230,149	11,935,427
Net income (less deficit)	−1,186,103	−1,283,326	−1,336,984	−551,906
Net income	564,615	398,769	606,930	813,196
U.S. income subject to tax	481,545	234,693	466,171	514,672
Total U.S. income tax—				
Before credits	225,385	114,946	222,333	219,443
After credits	65,999	59,452	65,401	150,664
CONSTRUCTION				
Number of returns, total	860	1,060	536	1,013
With net income	654	729	322	345
Total receipts	5,204,036	5,236,279	6,077,854	6,210,638
Net income (less deficit)	−17,357	−21,509	−55,139	−62,391
Net income	96,377	169,069	145,495	160,302
U.S. income subject to tax	66,240	78,979	48,911	44,938
Total U.S. income tax—				
Before credits	24,655	30,758	18,930	18,194
After credits	22,466	16,055	18,033	16,984
MANUFACTURING				
Number of returns, total	3,392	4,011	3,969	4,155
With net income	1,941	1,971	1,374	2,068
Total receipts	178,076,536	202,466,147	213,172,653	265,643,887
Net income (less deficit)	5,296,604	2,931,428	−615,581	5,929,872
Net income	8,185,582	6,633,137	4,931,562	10,094,366
U.S. income subject to tax	7,542,966	5,401,714	3,345,716	7,502,478
Total U.S. income tax—				
Before credits	3,431,363	2,466,796	1,506,219	2,906,764
After credits	2,363,459	1,353,846	1,017,840	2,120,865
TRANSPORTATION AND PUBLIC UTILITIES				
Number of returns, total	569	464	548	1,117
With net income	323	254	202	244
Total receipts	9,115,440	10,310,044	12,095,234	15,119,699
Net income (less deficit)	95,175	101,973	111,081	470,196
Net income	311,784	421,207	466,531	741,986
U.S. income subject to tax	299,989	391,333	414,708	474,732
Total U.S. income tax—				
Before credits	134,440	178,452	186,824	193,899
After credits	74,404	142,958	95,750	121,262
WHOLESALE AND RETAIL TRADE				
Number of returns, total	14,190	13,580	13,341	16,464
With net income	5,874	6,146	5,994	7,456
Total receipts	201,958,318	227,402,547	228,032,646	305,211,015
Net income (less deficit)	2,431,063	2,393,885	1,287,084	937,953
Net income	4,531,475	4,499,963	3,839,541	4,456,676
U.S. income subject to tax	4,073,274	3,964,105	3,305,805	3,592,382
Total U.S. income tax—				
Before credits	1,845,723	1,785,942	1,423,347	1,424,985
After credits	1,682,061	1,604,608	1,282,004	1,374,217
FINANCE, INSURANCE AND REAL ESTATE				
Number of returns, total	9,556	11,149	9,735	12,399
With net income	3,201	3,846	2,814	4,181
Total receipts	40,544,227	41,304,815	57,910,717	61,307,219
Net income (less deficit)	−1,675,421	−790,997	−434,494	−351,038
Net income	1,270,412	1,911,907	2,184,037	2,781,670
U.S. income subject to tax	719,814	1,037,017	1,369,032	1,816,856
Total U.S. income tax—				
Before credits	301,660	442,409	539,231	711,405
After credits	204,481	304,032	419,416	617,376
SERVICES				
Number of returns, total	6,038	4,066	6,218	6,832
With net income	2,720	2,420	2,559	3,447
Total receipts	11,968,534	12,686,424	12,413,562	19,840,547
Net income (less deficit)	−314,729	−317,418	−200,915	−692,485
Net income	355,763	416,092	507,059	635,909
U.S. income subject to tax	221,791	295,412	373,342	475,683
Total U.S. income tax—				
Before credits	84,440	122,981	154,466	181,579
After credits	72,689	92,587	129,503	143,556

[1] Includes "Nature of business not allocable," which is not shown separately.

*Estimate should be used with caution because of the small number of sample returns on which it is based.

Note: Net income (or deficit) is the difference between gross receipts and the ordinary and necessary business deductions allowed by the Internal Revenue Code. It reflects actual and "constructive" receipts, but excludes interest from State and local Government obligations. Because certain statutory special deductions, including the net operating loss deduction, were allowed most corporations in computing their taxable income (i.e., the base on which tax was computed), the statistics for net income are generally larger than the amounts for "U.S. income subject to tax."

Table 1A.—Manufacturing: Selected Items, 1984-1987

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

Industry and item	1984 (1)	1985 (2)	1986 (3)	1987 (4)
TOTAL MANUFACTURING				
Number of returns, total	3,392	4,011	3,969	4,155
With net income	1,941	1,971	1,374	2,068
Total receipts	178,076,536	202,466,147	213,172,653	265,643,887
Net income (less deficit)	5,296,604	2,931,428	-615,581	5,929,872
Net income	8,185,582	6,633,137	4,931,562	10,094,366
U.S. income subject to tax	7,542,966	5,401,714	3,345,716	7,502,478
Total U.S. income tax—				
Before credits	3,431,363	2,466,796	1,506,219	2,906,764
After credits	2,363,459	1,353,846	1,017,840	2,120,865
PETROLEUM (INCLUDING INTEGRATED) AND COAL PRODUCTS				
Number of returns, total	106	225	366	95
With net income	41	*9	*18	*25
Total receipts	53,270,641	51,628,741	40,808,819	53,520,029
Net income (less deficit)	4,197,257	2,395,790	-2,170,269	202,087
Net income	4,319,499	*2,447,683	*4,043	*1,047,231
U.S. income subject to tax	4,268,831	2,272,567	*1,295	*1,016,407
Total U.S. income tax—				
Before credits	1,939,501	1,050,362	*19,126	*383,204
After credits	1,264,753	369,789	*18,825	*328,722
CHEMICALS AND ALLIED PRODUCTS				
Number of returns, total	205	169	207	274
With net income	119	97	68	98
Total receipts	27,821,870	30,958,899	40,577,794	55,099,632
Net income (less deficit)	584,180	455,169	632,612	2,756,279
Net income	1,050,753	1,093,596	1,336,848	3,159,547
U.S. income subject to tax	931,197	915,918	969,334	2,444,878
Total U.S. income tax—				
Before credits	424,751	420,727	440,610	947,314
After credits	263,426	263,478	250,286	545,663
ELECTRICAL AND ELECTRONIC EQUIPMENT				
Number of returns, total	693	787	971	356
With net income	322	383	133	132
Total receipts	14,096,743	15,207,914	24,409,838	28,195,192
Net income (less deficit)	276,753	36,373	155,294	108,466
Net income	517,127	449,329	684,542	723,795
U.S. income subject to tax	404,426	302,762	493,195	609,924
Total U.S. income tax—				
Before credits	182,575	134,329	211,869	239,368
After credits	153,145	124,177	116,727	173,855
FOOD AND KINDRED PRODUCTS				
Number of returns, total	167	135	205	349
With net income	104	68	128	92
Total receipts	13,720,196	19,296,441	17,558,217	25,069,807
Net income (less deficit)	31,970	158,655	346,477	1,002,573
Net income	317,327	329,465	532,482	1,242,443
U.S. income subject to tax	297,515	145,928	340,221	1,003,068
Total U.S. income tax—				
Before credits	134,621	63,340	137,707	352,140
After credits	111,953	44,471	75,869	213,586
MACHINERY, EXCEPT ELECTRICAL				
Number of returns, total	697	505	190	435
With net income	266	158	91	275
Total receipts	8,803,863	9,582,504	8,685,413	12,328,798
Net income (less deficit)	-123,232	-341,149	-405,778	13,668
Net income	202,119	160,448	169,238	278,370
U.S. income subject to tax	122,831	104,418	78,030	137,462
Total U.S. income tax—				
Before credits	55,310	47,426	35,235	55,634
After credits	48,560	35,651	27,561	42,880
PRIMARY METAL INDUSTRIES				
Number of returns, total	64	60	64	69
With net income	41	31	32	40
Total receipts	8,832,820	12,388,236	10,220,237	12,208,218
Net income (less deficit)	-123,714	-366,453	11,199	172,934
Net income	113,871	137,394	182,984	302,504
U.S. income subject to tax	75,637	118,157	110,417	131,392
Total U.S. income tax—				
Before credits	34,981	54,609	47,105	56,701
After credits	27,756	42,874	39,959	53,084
FABRICATED METAL PRODUCTS				
Number of returns, total	282	619	386	297
With net income	204	207	110	110
Total receipts	10,365,005	10,100,154	10,349,866	11,466,240
Net income (less deficit)	-354,528	-273,958	-126,877	405,892
Net income	151,537	125,834	128,090	710,549
U.S. income subject to tax	133,424	87,406	80,923	112,988
Total U.S. income tax—				
Before credits	60,997	37,792	35,890	71,922
After credits	50,694	27,500	26,596	65,717

*Estimate should be used with caution because of the small number of sample returns on which it is based.

Notes: This table includes only those manufacturing industries which had $10 billion or more of total receipts for 1987.

Net income (or deficit) is the difference between gross receipts and the ordinary and necessary business deductions allowed by the Internal Revenue Code. It reflects actual and "constructive" receipts, but excludes interest from State and local Government obligations. Because certain statutory special deductions, including the net operating loss deduction, were allowed most corporations in computing their taxable income (i.e., the base on which tax was computed), the statistics for net income are generally larger than the amounts for "U.S. income subject to tax."

Table 2.—Selected Items, by Selected Countries, 1984–1987

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

Country and item	1984 (1)	1985 (2)	1986 (3)	1987 (4)
ALL COUNTRIES				
Number of returns, total	37,401	36,677	36,778	44,862
With net income	15,306	15,882	14,348	18,466
Total receipts	459,161,616	513,777,962	542,694,669	686,785,812
Net income (less deficit)	4,528,142	2,978,286	-1,519,339	5,608,265
Net income	15,355,593	14,500,125	12,745,420	19,764,758
U.S. income subject to tax	13,410,975	11,428,043	9,369,719	14,477,187
Total U.S. income tax—				
Before credits	6,049,943	5,152,493	4,069,605	5,675,568
After credits	4,487,752	3,576,147	3,042,942	4,561,221
JAPAN				
Number of returns, total	2,399	2,560	*2,689	3,708
With net income	1,543	1,259	*887	1,593
Total receipts	112,607,206	133,489,744	*139,352,209	184,861,431
Net income (less deficit)	1,815,477	1,327,992	*638,173	219,190
Net income	2,920,631	2,759,120	*2,483,684	2,978,723
U.S. income subject to tax	2,681,977	2,636,389	2,251,142	2,466,468
Total U.S. income tax—				
Before credits	1,224,963	1,198,936	1,011,878	979,174
After credits	1,143,570	1,117,328	947,426	950,979
UNITED KINGDOM				
Number of returns, total	2,680	2,841	2,588	3,801
With net income	1,111	1,308	1,491	2,011
Total receipts	76,884,056	83,340,020	83,822,976	102,992,989
Net income (less deficit)	1,953,078	1,817,698	-667,324	3,356,418
Net income	3,350,336	3,387,943	2,290,519	4,997,255
U.S. income subject to tax	3,161,220	2,712,172	1,638,026	4,056,219
Total U.S. income tax—				
Before credits	1,442,102	1,231,060	735,503	1,569,525
After credits	1,147,539	904,405	587,662	1,412,086
NETHERLANDS				
Number of returns, total	1,501	1,747	1,887	1,940
With net income	346	427	620	1,062
Total receipts	71,623,945	70,471,893	71,654,985	77,164,592
Net income (less deficit)	796,123	138,331	-812,379	453,554
Net income	2,224,894	1,573,586	1,344,007	2,325,465
U.S. income subject to tax	2,026,190	973,518	840,154	1,598,746
Total U.S. income tax—				
Before credits	912,880	440,248	347,136	581,224
After credits	753,038	205,353	244,765	433,520
WEST GERMANY				
Number of returns, total	1,842	2,214	2,662	2,390
With net income	794	1,115	891	1,124
Total receipts	36,442,085	42,945,267	53,361,755	62,779,037
Net income (less deficit)	748,219	536,697	-62,164	141,931
Net income	1,431,746	1,424,595	905,106	1,499,008
U.S. income subject to tax	1,179,722	1,260,191	772,042	1,071,819
Total U.S. income tax—				
Before credits	537,089	567,737	312,972	433,720
After credits	423,054	449,478	200,290	351,323
CANADA				
Number of returns, total	6,389	6,151	6,708	8,264
With net income	2,827	2,387	2,704	3,190
Total receipts	31,633,581	40,458,451	40,354,176	51,548,756
Net income (less deficit)	-701,931	-197,296	-66,314	475,688
Net income	915,513	1,271,083	1,391,782	1,848,257
U.S. income subject to tax	606,425	634,263	841,219	1,152,658
Total U.S. income tax—				
Before credits	258,199	281,377	362,749	457,555
After credits	209,181	200,553	251,738	346,767
FRANCE				
Number of returns, total	2,094	1,683	1,469	1,899
With net income	632	640	675	373
Total receipts	22,250,703	25,673,312	21,942,578	29,794,083
Net income (less deficit)	-10,464	-126,433	-66,588	114,188
Net income	484,536	505,017	548,933	800,838
U.S. income subject to tax	419,413	384,654	441,294	633,265
Total U.S. income tax—				
Before credits	189,098	172,145	194,758	253,688
After credits	164,529	132,700	147,778	210,995
NETHERLANDS ANTILLES				
Number of returns, total	1,300	733	767	1,757
With net income	252	181	120	223
Total receipts	17,646,710	20,767,891	16,891,714	27,255,423
Net income (less deficit)	-384,690	-535,965	-364,901	-376,392
Net income	300,569	411,261	551,431	581,405
U.S. income subject to tax	230,102	262,524	358,074	212,640
Total U.S. income tax—				
Before credits	104,975	124,887	161,875	100,326
After credits	29,441	52,841	97,232	61,624

* Revised.

Notes: This table includes only those foreign countries which had $25 billion or more of total receipts for 1987. The foreign country data are based on the location of the corporate owner's place of residence, incorporation, organization, creation, or administration.

Net income (or deficit) is the difference between gross receipts and the ordinary and necessary business deductions allowed by the Internal Revenue Code. It reflects actual and "constructive" receipts, but excludes interest from State and local Government obligations. Because certain statutory special deductions, including the net operating loss deduction, were allowed most corporations in computing their taxable income (i.e., the base on which tax was computed), the statistics for net income are generally larger than the amounts for "U.S. income subject to tax."