

Highlights of [GAO-04-994](#), a report to congressional requesters

Why GAO Did This Study

The International Telecommunications Satellite Organization (INTELSAT)—an intergovernmental organization launched in 1964 to design, develop, and operate a commercial telecommunications satellite system—enjoyed certain privileges that domestic companies do not, including some related to taxation. Each member nation designated a Signatory to participate as an investor. The U.S. Signatory was COMSAT, a private corporation. Intelsat privatized in 2001, and its tax situation changed. In response to congressional requests for information on whether Intelsat could continue to enjoy any preferential tax treatment as a foreign corporation, GAO did this study to describe how INTELSAT and COMSAT were treated for U.S. tax purposes prior to INTELSAT's privatization and to describe how current U.S. tax treatment for a domestically incorporated satellite company in the United States compares to current U.S. tax treatment for a foreign corporation with operations, services, and revenue in the United States.

www.gao.gov/cgi-bin/getrpt?GAO-04-994.

To view the full product, including the scope and methodology, click on the link above. For more information, contact James R. White at (202) 512-9110 or whitej@gao.gov.

TAX POLICY

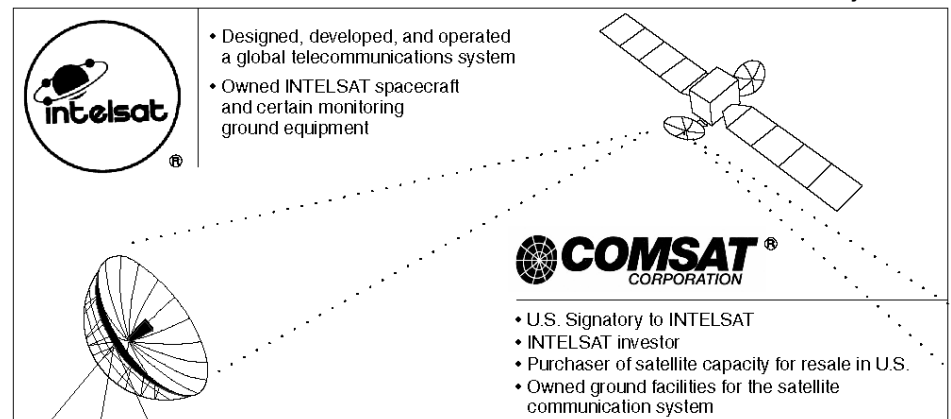
Historical Tax Treatment of INTELSAT and Current Tax Rules for Satellite Corporations

What GAO Found

As an international organization, INTELSAT was exempt from all U.S. federal income taxes, communications taxes with respect to activities under INTELSAT agreements, and customs duties on imports of communications satellite equipment. INTELSAT and its property, income, operations, and other transactions were also exempt from all taxes in the District of Columbia, except for those not used for, or related to, the purposes of INTELSAT. In contrast, COMSAT was subject to all applicable U.S. taxes.

Currently, U.S. income tax treatment of satellite corporations, like other corporations, depends, in part, on whether the corporation is incorporated domestically or is a foreign corporation. The United States taxes the worldwide income of U.S. domestic corporations, regardless of where the income is earned. However, when the tax is due depends on several factors, including whether the income is from a U.S. or foreign source and, if it is from a foreign source, whether it is earned through direct operations or through a subsidiary. Tax on income from a subsidiary may be deferred. The United States generally taxes foreign corporations on any U.S.-source income they earn, but taxes them only on certain types of foreign-source income (and generally only if the latter income is attributable to an office or fixed place of business in the United States). In order to avoid double taxation of income earned in a foreign country, the United States allows corporations to claim a credit for foreign taxes they paid on foreign-source income. Specific income-sourcing rules exist for determining the U.S. taxation of income that domestic and foreign corporations earn from space, ocean, or international communications activities. The rules differ depending on the type of activity and whether the corporation is domestic or foreign.

Roles of INTELSAT and COMSAT in the Worldwide Telecommunications Satellite System



Source: Intelsat Global Service Corporation; COMSAT Corporation, used with permission; GAO.