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TAX ADMINISTRATION

Comparison of the Reported Tax Liabilities of Foreign- and U.S.-Controlled Corporations, 1998-2005

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Highlights

Highlights of GAO-08-957, a report to congressional requesters

Why GAO Did This Study

Concerns about transfer pricing abuse have led researchers to compare the tax liabilities of foreign- and U.S.-controlled corporations. (Transfer prices are the prices related companies charge on intercompany transactions.) However, such comparisons are complicated because other factors may explain the differences in reported tax liabilities. In three prior reports, GAO found differences in the percentages of foreign-controlled and U.S.-controlled corporations reporting no tax liability.

GAO was asked to update the previous reports by comparing: (1) the tax liabilities of foreign-controlled domestic corporations (FCDC) and U.S.-controlled corporations (USCC)–including those reporting zero tax liabilities for 1998 through 2005 (the latest available data) and (2) characteristics of FCDCs and USCCs such as age, size, and industry. GAO analyzed data from the Internal Revenue Service's Statistics of Income samples of corporate tax returns.

GAO does not make any recommendations in this report. In commenting on a draft of this report, IRS provided comments on technical issues, which we incorporated into this report where appropriate.

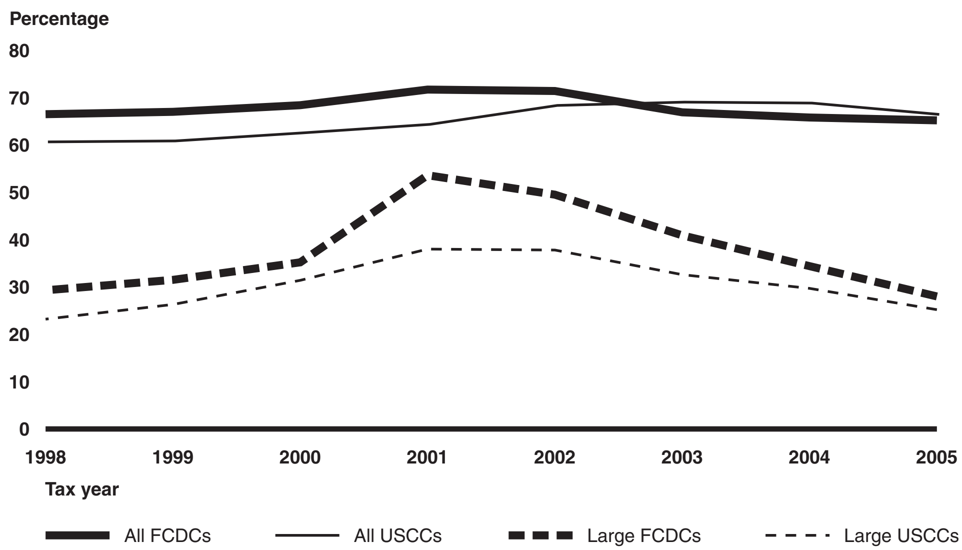
To view the full product, including the scope and methodology, click on GAO-08-957. For more information, contact Jim White at (202) 512-9110 or whitej@gao.gov.

What GAO Found

FCDCs reported lower tax liabilities than USCCs by most measures shown in this report. A greater percentage of large FCDCs reported no tax liability in a given year from 1998 through 2005. For all corporations, a higher percentage of FCDCs reported no tax liabilities than USCCs through 2001 but differences after 2001 were not statistically significant. Most large FCDCs and USCCs that reported no tax liability in 2005 also reported that they had no current-year income. A smaller proportion of these corporations had losses from prior years and tax credits that eliminated any tax liability. By another measure, large FCDCs were more likely to report no tax liability over multiple years than large USCCs. In 2005, comparisons of FCDCs and USCCs based on ratios of reported tax liabilities to gross receipts or total assets showed that FCDCs reported less tax than USCCs.

FCDCs and USCCs differed in age, size, and industry. FCDCs were younger than USCCs in that a greater percentage had been incorporated for 3 years or less from 1998 through 2005. In 2005, FCDCs were larger on average than USCCs in that they reported higher average gross receipts and assets than USCCs. A comparison by industry in 2005 showed that large FCDCs were relatively more concentrated in manufacturing and wholesale trade, while large USCCs were more evenly distributed across industries. GAO did not attempt to determine the extent to which these factors and others, such as transfer pricing abuse, explain differences in tax liabilities.

Percentages of FCDCs and USCCs That Reported No Tax Liability, Tax Years 1998 through 2005



Source: GAO analysis of IRS data.

Notes: "Large" FCDCs or USCCs are those with assets of at least $250 million dollars or gross receipts of at least $50 million dollars. Differences between all FCDCs and all USCCs were not statistically significant in 2002, 2003, 2004, and 2005.