Statistics of Income Studies of International Income and Taxes

by Sarah E. Nutter

United States exports (goods, services and investment income) doubled from1983 to 1992, growing from $350.8 billion to $730.5 billion; U.S. imports also doubled during this period, increasing from $377.9 billion to $764.0 billion [1] . This surge in U.S. imports and exports was accompanied by an increased interest in international tax information. As interest continues to grow, Statistics of Income (SOI) continues to collect and publish data related to international transactions from Federal tax returns. Currently, Statistics of Income regularly conducts sixteen descriptive studies of international income and taxes [2] . The diversity of these international descriptive studies is highlighted in the overview provided in Table 1.

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

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

The purpose of this anniversary article, written in recognition of the 80th year of the collection of statistics on taxation, is to provide an overview of the current SOI studies of international transactions and to describe the types of international information available. A complete bibliography of previously published SOI international articles is provided in Table 2. It should be noted that while this article is one of several commemorating 80 years of Statistics of Income data, most statistics on international transactions date back only to the early 1960's.

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International Studies of Corporations

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

Controlled Foreign Corporations

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

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

January 1, 1988, the Republic of South Africa.

Figure A illustrates the geographical distribution of the largest 7,500 CFC's for 1988. For 1988, nearly 65 percent of these CFC's were incorporated in ten countries: the United Kingdom, Canada, West Germany, France, the Netherlands, Australia, Italy, Brazil, Bermuda, and Japan. Figure B depicts the growth in the business receipts and total assets of the CFC's over the period 1962 to 1988. Business receipts (in current dollars) climbed from approximately $50 billion for 1962 to $823 billion for 1988, while total assets (book value) rose from $45 billion to approximately $958 billion over the same time period.

U.S. shareholders of foreign corporations are currently required to file Form 5471, *Information Return of U.S. Persons with Respect to Certain Foreign Corporations.* Information is collected from all Forms 5471 attached to the tax returns of U.S. parent corporations with $500 million or more in total assets. The Controlled Foreign Corporation study focuses primarily on the largest 7,500 foreign corporations controlled by these parent corporations. Tabular information is classified by industry, as well as by country and year of incorporation. Statistics dating back to Tax Year 1962 on Controlled Foreign Corporations are available.

Foreign Sales Corporations

In an effort to promote U.S. exports, the Deficit Reduction Act of 1984 allowed for the creation of two new tax entities: Foreign Sales Corporations (FSC's) and Interest Charge-Domestic International Sales Corporations (IC-DISC's). These two entities were established as successors to the Domestic International Sales Corporation, which had been created by the Revenue Act of 1971 [6].

A FSC is a foreign corporation, usually controlled by a U.S. parent corporation, that has elected to be a FSC and is incorporated in a qualifying foreign country or U.S. possession (except Puerto Rico) [7]. A portion of the FSC's "foreign trade income" is treated as not "effectively connected" with the conduct of a U.S. trade or business and thus is exempt from U.S. income taxation [8]. "Foreign trade income" is income attributable to the sale or lease of "export property" outside the United States and the performance of various types of export services outside the United States.

Figures C and D illustrate the types of information available on FSC's. For 1987, FSC's reported "gross export receipts" of $84.3 billion, foreign trade income of $20.3 billion and net exempt income of $2.1 billion. Overall, the 1987 numbers reflect a slight decrease from

Figure A

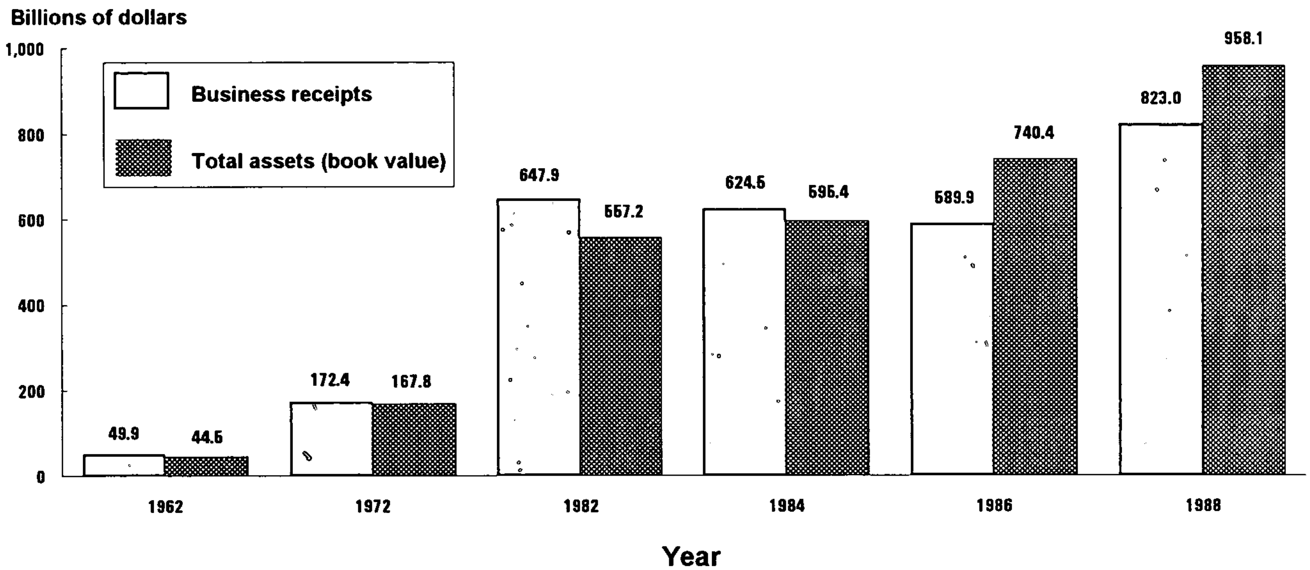
Distribution of the 7,500 Largest Controlled Foreign Corporations, by Selected Country of Incorporation, 1988

[Money amounts are in billions of dollars]

Country of incorporation	Number of largest Controlled Foreign Corporations	Percentage of Controlled Foreign Corporations	Business receipts	Percentage of business receipts
	(1)	(2)	(3)	(4)
All countries	**7,500**	**100.0**	**823**	**100.0**
United Kingdom	1,159	15.5	136	16.5
Canada	870	11.6	142	17.3
West Germany	496	6.6	92	11.2
France	439	5.9	54	6.6
Netherlands	365	4.9	36	4.4
Australia	347	4.6	25	3.0
Italy	337	4.5	35	4.3
Brazil	292	3.9	30	3.6
Bermuda	279	3.7	11	1.3
Japan	259	3.5	55	6.7
Switzerland	220	2.9	32	3.9
Belgium	210	2.8	21	2.6
Spain	210	2.8	19	2.3
Netherlands Antilles	182	2.4	3	0.4
Hong Kong	154	2.1	10	1.2
Mexico	118	1.6	9	1.1
Panama	107	1.4	8	1.0
Singapore	86	1.1	6	0.7
Cayman Islands	75	1.0	2	0.2
Ireland	74	1.0	4	0.5
Puerto Rico	69	0.9	1	0.1

Figure B

Controlled Foreign Corporation Business Receipts and Total Assets, 1962-1988 [1]



[1] Year to year comparability is affected by law changes as well as changes in Statistics of Income coverage. For example, the data for 1962 are based on all active CFC's, while statistics for 1988 are based on the largest (in assets) 7,500 CFC's.

Figure C

Foreign Sales Corporations, by Selected Country of Incorporation, 1987

[Money amounts are in thousands of dollars]

Country of incorporation	Number of returns	Gross export receipts	Total income: Foreign trade	Total income: Non-foreign trade	Net exempt income	Taxable income	Income tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
All countries and possessions	2,613	84,280,131	20,287,262	206,584	2,110,930	1,291,673	505,028
U.S. possessions, total [1]	**2,085**	**63,549,649**	**16,676,633**	**196,623**	**1,629,204**	**990,842**	**389,107**
U.S. Virgin Islands	1,688	46,879,715	6,174,349	54,052	1,156,559	716,876	280,979
Guam	380	16,553,042	10,472,328	142,455	469,898	272,385	107,639
Foreign countries, total [1]	**528**	**20,730,481**	**3,610,628**	**9,961**	**481,725**	**300,832**	**115,921**
Netherlands	51	10,260,889	2,107,043	7,493	263,668	168,028	64,245
Jamaica	204	5,383,015	578,132	1,052	96,105	52,746	21,474
Barbados	163	4,673,668	827,803	1,416	115,171	73,830	28,362
South Korea	11	40,315	40,315	--	756	1,765	508

[1] Includes foreign countries or U.S. possessions not shown separately.
NOTE: Detail may not add to totals because of rounding.

Figure D

Foreign Sales Corporations, by Selected Major Product or Service, 1987
[Money amounts are in thousands of dollars]

Selected major product or service	Number of returns	Gross export receipts	Total income: Foreign trade	Total income: Non-foreign trade	Net exempt income	Taxable income	Income tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
All products and services	**2,613**	**84,280,131**	**20,287,262**	**206,584**	**2,110,930**	**1,291,673**	**505,028**
Transportation equipment	178	23,206,536	8,112,846	648	388,310	273,635	108,809
Machinery, except electrical	356	13,356,565	2,368,996	11,177	389,553	219,568	85,305
Chemicals and allied products	173	12,209,528	3,609,331	13,571	486,454	290,436	115,524
Electrical machinery, equipment and supplies	536	9,746,845	1,380,614	19,372	225,805	162,018	62,795
Grains and soybeans	12	6,309,395	474,611	59	98,606	45,856	17,024
Tobacco manufactures	10	2,969,015	305,886	70	59,313	31,699	12,733
Food and kindred products	147	2,500,802	739,134	58,504	45,999	21,964	7,934
All other products and services	1,201	13,981,445	3,295,844	103,183	416,890	246,497	94,904

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

the 1986 levels. For 1986, taxpayers reported "gross export receipts" of $85.8 billion, foreign trade income of $21.4 billion and net exempt income of $2.0 billion. Gross export receipts are those that the FSC and its related suppliers earned from transactions with third parties. Figure C indicates that the majority (80 percent) of FSC's were incorporated in U.S. possessions, with 65 percent incorporated in the U.S. Virgin Islands. The four largest product groups, in terms of net exempt income, accounted for 71 percent of the total net exempt income and each individually accounted for more than 10 percent of the total net exempt income reported by FSC's (Figure D). All other major product and service groups individually accounted for less than 5 percent of the total.

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

Interest Charge-Domestic International Sales Corporations

The Interest Charge-Domestic International Sales Corporation (IC-DISC) provisions were enacted to provide limited incentives to small U.S. exporters [9]. IC-DISC's are domestic corporations formed to export U.S. products. As noted above, IC-DISC's were initially permitted with the passage of the Deficit Reduction Act of 1984.

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

In general, the income of an IC-DISC is exempt from taxation. However, the shareholders of an IC-DISC, usually U.S. parent corporations, are subject to an interest charge on the tax-deferred income and a tax on actual and "deemed distributions" from the IC-DISC. As shown in Figure E, the total amount of IC-DISC gross export receipts grew from $2.8 billion for 1985 to $3.6 billion for 1987, even though the number of returns filed fell from 1,383 to 1,185. IC-DISC's gross export receipts were approximately 4.3 percent of the gross export receipts of $84.3 billion reported by FSC's for 1987.

Figure F provides a comparison of FSC's and IC-DISC's by size of the majority corporate shareholder's total assets for 1987. As noted above, the IC-DISC provisions were enacted to encourage smaller businesses to export U.S. products. Sixty-two percent of IC-DISC's

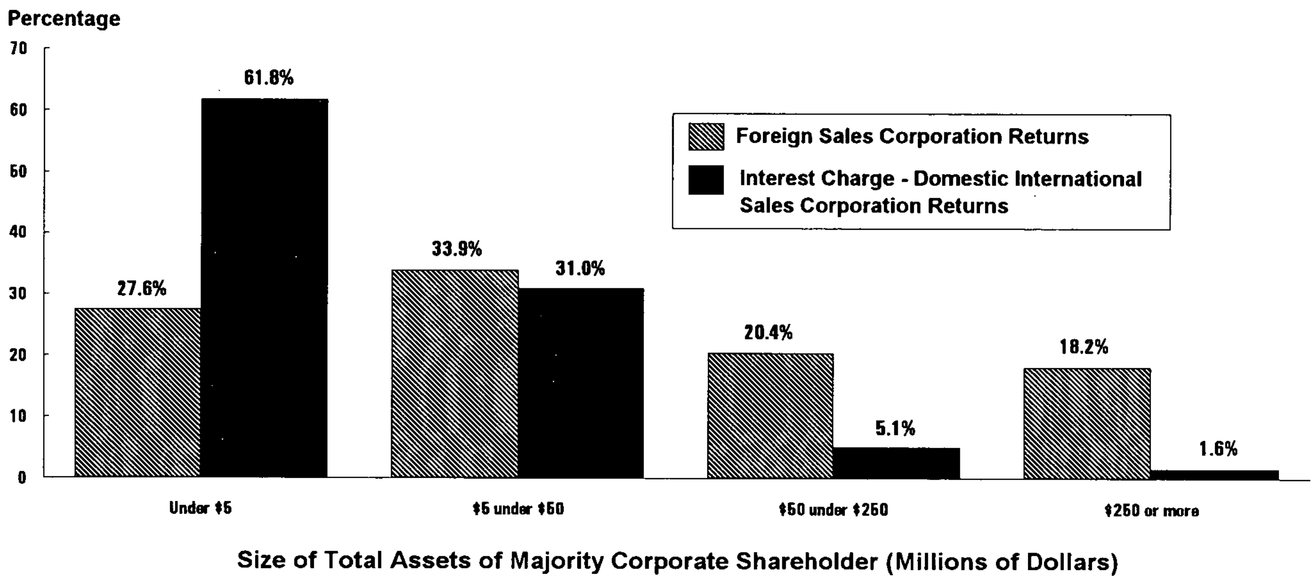
Figure E

Interest Charge-Domestic International Sales Corporations, 1985-1987
[Money amounts are in thousands of dollars]

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

Figure F

Percentage of Foreign Sales Corporation and Interest Charge-Domestic International Sales Corporation Returns, by Size of Total Assets of Majority Corporate Shareholder, 1987



(with identified majority corporate shareholders) were controlled by U.S. corporations with less than $5 million in total assets. In contrast, less than 2 percent were majority-owned by corporations with $250 million or more in total assets. In comparison, FSC's tended to have larger majority corporate shareholders; approximately 82 percent of all FSC's were majority-owned by shareholders that were parent corporations with $5 million or more in total assets. Eighteen percent of FSC's were owned by majority shareholders that were parent corporations with $250 million or more in total assets.

The IC-DISC statistics are now produced every 4 years. The data are collected from Form 1120-IC-DISC, *Interest Charge Domestic International Sales Corporation Return.* Previous tabular information is available for Tax Years 1985, 1986, and 1987. The tabular information is classified by major product class or service, size of total assets of the majority corporate shareholder, size of export gross receipts, size of adjusted income, and intercompany pricing method.

U.S. Possessions Corporations

The United States allows a possessions tax credit to U.S. corporations that locate in U.S. possessions [10]. To qualify for the credit, a corporation must derive at least 80 percent of its gross income over the eligible period from sources within the U.S. possession and at least 75 percent of its gross income from the active conduct of a trade or business in the U.S. possession. If these requirements are met and a qualified election is made (on Form 5712, *Election to be Treated as a Possessions Corporation Under Section 936)*, a "possessions corporation" may claim a credit against its U.S. income tax for the tax otherwise payable on "possessions source income." Possessions source income consists of income from the active conduct of a trade or business in the U.S. possession and "qualified possessions source investment income." Qualified possessions source investment income includes income attributable to the investment of funds derived from the active conduct of business in the same possession. For Tax Year 1989, possessions returns were received from corporations operating in the U.S. Virgin Islands, American Samoa, Guam, and Puerto Rico.

Figure G contains U.S. possessions corporation data for Tax Years 1985, 1987, and 1989. For 1989, the total possessions tax credit of approximately $2.8 billion represented nearly 99 percent of the total U.S. income tax before credits for these corporations. Although the number of possessions corporations declined during the period from 1985 to 1989, their total assets increased by 25 percent to $34.7 billion, while their total receipts increased by 45 percent to $23.5 billion. U.S. income tax before credits and the possessions tax credit each increased by approximately 16 percent over the same time

Figure G

U.S. Possessions Corporations, 1985-1989
[Money amounts are in millions of dollars]

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

period, to $2.9 billion and $2.8 billion, respectively.

The U.S. possessions corporation statistics are based on data collected from Form 1120, *U.S. Corporation Income Tax Return*; Form 5735, *Computation of Possessions Corporation Tax Credit Allowed Under Section 936;* and Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return.* Form 940 contains information on the total payments for employee services, a figure used to estimate employee compensation and examine the effect of the possessions tax credit on unemployment in the possessions. The study, conducted every 4 years, includes all U.S. possessions corporations. Tabular information, for selected years dating back to Tax Year 1976, is classified by industry, size of tax benefits per employee, U.S. possession in which income was earned, and accounting period.

Corporate Foreign Tax Credit

Although the United States taxes the worldwide income of U.S. persons, it cedes the primary right to tax the foreign source income of these U.S. persons to the foreign government. Congress enacted the foreign tax credit provisions in 1918 to mitigate the potential impact of the double taxation of foreign source income. Currently, U.S. persons can credit their foreign taxes paid or accrued against their U.S. tax liability, subject to limitations [11]. Effectively, U.S. persons pay tax at the higher of the U.S. tax rate or the overall foreign tax rate on their foreign source income.

Figure H documents the growth in the corporate foreign tax credit for selected years from 1925 to 1990. During this period, the foreign tax credit grew from $20 million to $24,990 million, while U.S. income tax before credits grew from $1,170 million to $119,434 million. The largest growth occurred in the 1970's. As illustrated in Figure I, for 1990, about 62 percent of the nearly $25 billion claimed in foreign tax credits was reported by manufacturing companies (excluding petroleum) while 22 percent were claimed by petroleum companies (including integrated petroleum production and coal products). Foreign source taxable income reported by companies claiming the foreign tax credit grew by 38 percent from 1980 to 1990, reaching a peak of $99.9 billion for 1988 and falling slightly to $99.6 billion in 1990 (Figure J).

Figure H

Corporate Foreign Tax Credit, 1925-1990
[Money amounts are in millions of dollars]

Year	U.S. income tax before credits	Foreign tax credit
1925	1,170	20
1930	712	29
1940	2,144	58
1950	15,929	464
1960	21,866	1,224
1970	32,950	4,549
1980	103,831	24,861
1981	100,644	21,829
1982	85,077	19,137
1983	90,462	19,951
1984	106,013	21,075
1985	109,106	24,263
1986	108,773	21,480
1987	115,074	20,813
1988	126,899	27,068
1989	123,236	23,977
1990	119,434	24,990

NOTE: Year-to-year comparability is affected by changes in the law.

Figure I

Corporate Foreign Tax Credit, by Selected Industrial Group, 1990

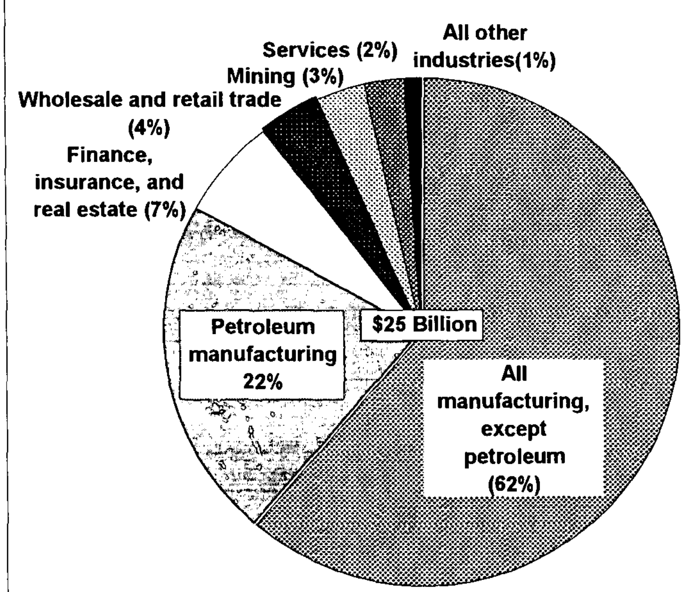
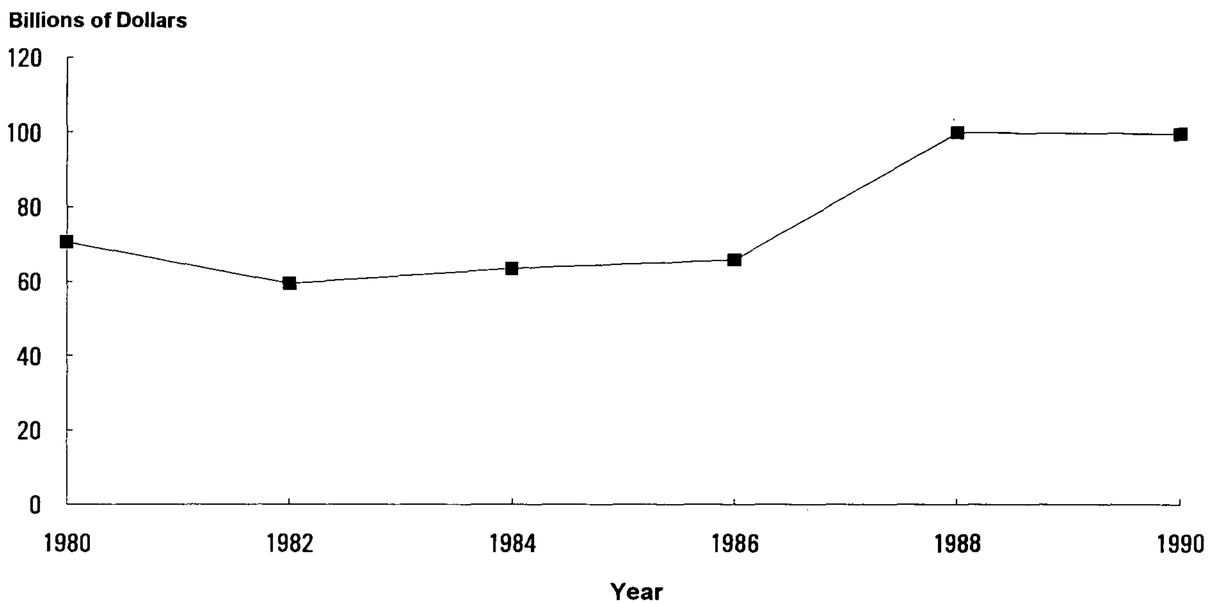


Figure J

Corporate Returns with a Foreign Tax Credit: Foreign Source Taxable Income for Selected Years, 1980-1990



The corporate foreign tax credit statistics are based on data collected primarily from Form 1118, *Computation of Foreign Tax Credit-Corporations,* attached to one of the Form 1120 series of corporation income tax returns [12]. Tabular information is classified by industry, by country or geographic region to which tax was paid, and by size of total assets. The study is conducted annually with a scaled-down version containing less country detail conducted in alternate years. Geographic data from Form 1118 were first collected for Tax Year 1961 and are available for selected tax years. Statistics on the foreign tax credit, itself, are published each year, by industry or size of total assets in *Statistics of Income—Corporation Income Tax Returns* and are available as far back as the 1920's.

International Boycotts

The international boycott provisions require U.S. "persons" with business operations in countries known to participate in, or cooperate with, international boycotts unsanctioned by the U.S. Government to report these operations to the Internal Revenue Service [13]. Almost all of the reporting "persons" are corporations; 1,210 of the 1,281 reporting "persons" for Tax Year 1990 were corporations. The purpose of the boycott provisions, enacted in the Tax Reform Act of 1976, is to discourage U.S. persons from participating in certain boycotts, such as the Arab League boycott of Israel.

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

Figure K presents international boycott participation data for 1990 and 1991. For 1990 and 1991, the number of returns for persons reporting a loss of tax benefits due to boycott participation as a percentage of the total number of boycott returns filed was 3.2 percent and 2.2 percent, respectively. Only 26 of the 1,205 persons filing boycott reports for 1991 reported lost tax benefits due to the international boycott provisions [14]. The majority of the returns reporting tax effects for 1990 and 1991 were filed by corporations.

The international boycott data are collected from Form 5713, *International Boycott Report.* The statistics are produced annually, with a full-scale study conducted every fourth year. Full-scale studies include most data items from all Forms 5713, while smaller-scale studies

Figure K

International Boycott Participation, 1990-1991
[Money amounts are in thousands of dollars]

Item	1990	1991
Number of boycott reports		
All persons, total	1,281	1,205
Corporations	1,210	1,150
Individuals	6	5
Partnerships	65	50
Number of returns showing a tax effect from boycott participation	41	26
Type of tax effect		
Reduction in foreign taxes eligible for the foreign tax credit	1,371	1,951
Reduction of foreign tax credit	960	1,375
Increase in Subpart F Income	10,664	10,577
Reduction of Foreign Sales Corporation income exemption	69	20

NOTE: No returns reported loss of benefits related to income from Interest Charge-Domestic International Sales Corporations for 1990 and 19

include a limited number of items from all Forms 5713 filed and complete data for Forms 5713, indicating that the filer was requested to participate in an international boycott. Statistics were first collected for Tax Year 1976, while the last full-scale study was for Tax Year 1990. Tabular information is classified by type of boycott request, by boycotting country, and by method of computing loss of tax benefits.

Domestic Corporations Controlled by Foreign Persons

Foreign-controlled domestic corporations (FCDC's) are companies incorporated in the United States, whose voting stock is 50 percent or more owned (directly or indirectly) by a foreign "person"[15]. In the United States, direct foreign investment through foreign-controlled domestic corporations grew considerably in recent years. Figure L contains selected information for the period from 1984 to 1990. Over this period, total assets (book value) of foreign-controlled domestic corporations grew by nearly 200 percent to nearly $1.7 trillion, while total receipts increased by 131 percent to about $1.1 trillion. Income tax (after credits), including alternative minimum tax, increased by approximately 66 percent to $7.4 billion over the same time period.

For 1990, over 83 percent of the $1,060.3 billion in total receipts reported by foreign-controlled domestic corporations was attributable to companies controlled by foreign persons in seven countries, Japan, the United Kingdom, the Netherlands, Canada, Germany, France, and Switzerland (Figure M). These seven countries plus the Netherlands Antilles accounted for over 84 percent of the $459.2 billion total receipts reported for 1984. While the total receipts reported increased for all countries, the relative percentage shares across countries did change somewhat; the percentage share for the Netherlands decreased by nearly 5 percent, while the percentage share for Canada increased by nearly 3 percent. Foreign-controlled domestic corporations whose principal business activity was in one of two industrial divisions (manufacturing and trade) accounted for approximately 81 percent of the 1990 total receipts [16].

Corporations indicating that they are 50 percent-or-more owned by a foreign person on their income tax return are included in the statistics on U.S. corporations, which are compiled annually. The statistics are based on information collected primarily from Form 1120, *U.S. Corporation Income Tax Return*. In addition, some companies filing Form 1120L, *U.S. Life Insurance Company Income Tax Return;* Form 1120-RIC, *U.S. Income Tax Return for Regulated Investment Companies;* Form 1120-REIT, *U.S. Income Tax Return for Real Estate Investment Trusts*; and Form 1120-PC, *U.S. Property and Casualty Insurance Company Income Tax Return,* are now included. Tabular information, available for Tax Years 1983 and later, includes balance sheet, income statement, and tax items, classified by industry and country of residence of the foreign owner. For 1990, limited information is available by date of incorporation. Limited statistics on FCDC's for as early as Tax Year 1971 are available in *Statistics of Income—Corporation Income Tax Returns.*

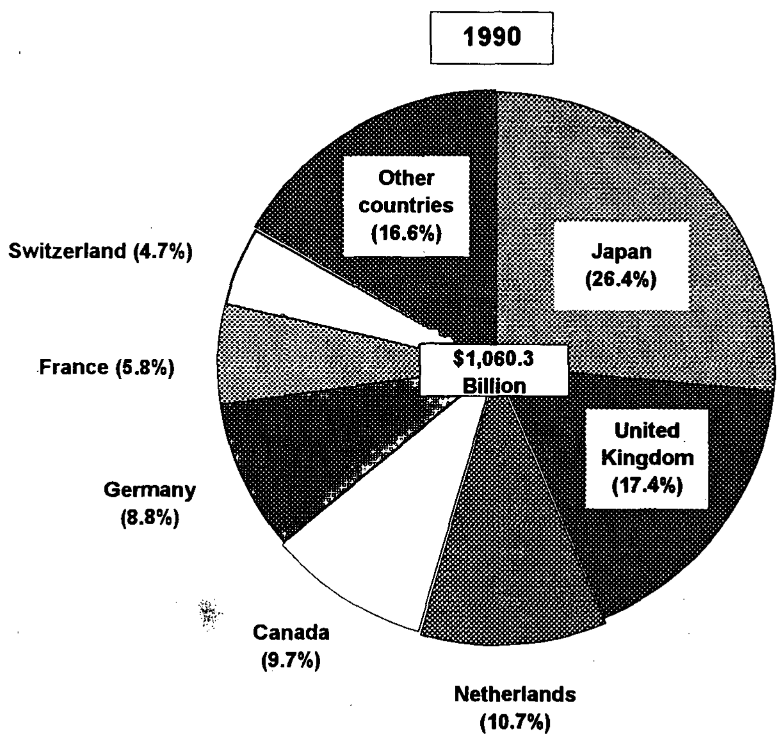
Figure L

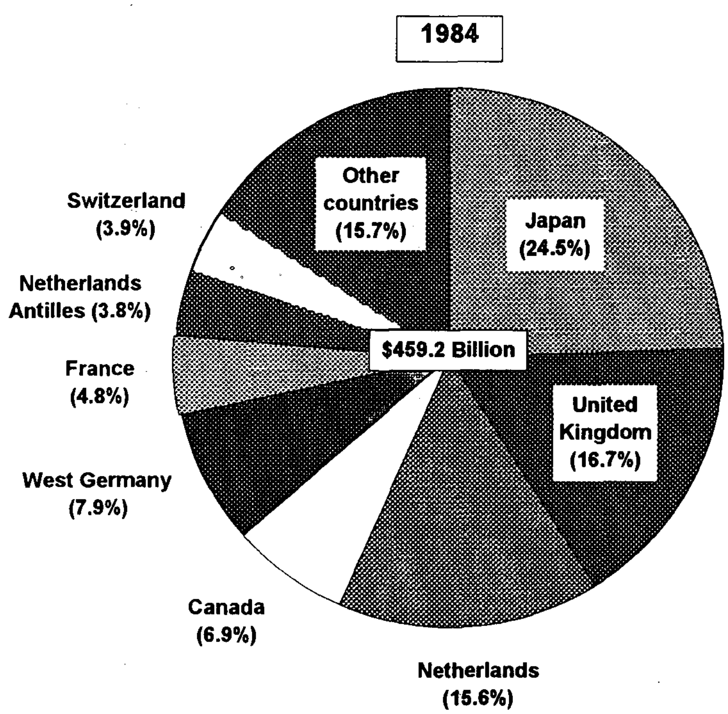
Domestic Corporations Controlled by Foreign Persons, 1984-1990
[Money amounts are in millions of dollars]

Item	1984	1986	1988	1990
	(1)	(2)	(3)	(4)
Number of returns	37,401	36,778	46,298	44,113
Total assets	552,598	840,893	1,199,346	1,652,255
Total receipts	459,162	542,695	825,557	1,060,295
Net income (less deficit)	4,528	-1,519	11,201	3,966
Income subject to tax	13,411	9,370	19,800	23,704
Income tax before credits	6,050	4,070	7,071	8,719
Income tax after credits	4,488	3,043	5,824	7,438

Figure M

Domestic Corporations Controlled by Foreign Persons: Total Receipts by Selected Country of Foreign Persons, 1990 and 1984





NOTE: Detail may not add to total due to rounding.

Foreign Corporations with Income Derived from U.S. Sources

Some foreign corporations (i.e., corporations incorporated abroad) engage in business activity in the United States through U.S. branches. These foreign corporations are subject to U.S. tax on income "effectively connected" with the conduct of a U.S. trade or business in a manner similar to that used to tax domestic corporations [17]. Other U.S. source income reported by these companies (i.e., investment income, such as interest, dividends, rents, royalties, and annuities) is also subject to U.S. tax. Statistics on foreign corporations with income derived from U.S. sources include only the effectively connected income of the foreign corporations [18].

Figure N contains selected data for foreign corporations with effectively connected income for 1983 through 1989. For 1989, total receipts from effectively connected activities were $102.9 billion, nearly a five-fold increase from 1983. In addition, "U.S. income subject to tax" (the corporate tax base) and income tax after credits both increased more than six-fold. Figure O includes information by selected country of incorporation and industry. For 1989, about 84 percent of the total receipts reported by foreign corporations with income effectively connected with a U.S. trade or business was from six countries: Japan, Canada, Switzerland, France, the United Kingdom, and the Netherlands. Foreign banks reported $75.9 billion, approximately 74 percent, of the total receipts.

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

Figure N

Foreign Corporations with Income Effectively Connected with a U.S. Business, 1983-1989
(Money amounts are in millions of dollars)

Item	1983	1985	1987	1989
	(1)	(2)	(3)	(4)
Number of returns	8,001	11,693	10,478	9,321
Total receipts	20,794	50,909	61,004	102,862
Total deductions	21,882	51,928	61,130	102,925
Net income (less deficit)	-1,118	-1,487	-162	-131
U.S. income subject to tax	469	1,025	1,647	2,905
Income tax after credits	152	362	614	977

Figure O

Foreign Corporations with Income Effectively Connected with a U.S. Business, 1989
[Money amounts are in millions of dollars]

Country or industry	Number of returns	Total receipts	Total deductions	Net income (less deficit)	U.S. income subject to tax	Income tax after credits
	(1)	(2)	(3)	(4)	(5)	(6)
Country of incorporation						
All countries [1]	**9,321**	**102,862**	**102,925**	**-131**	**2,905**	**977**
Japan	894	32,733	33,914	-1,182	318	106
Canada	1,816	27,314	25,570	1,742	2,101	712
Switzerland	239	10,895	10,929	-36	67	23
France	74	5,182	5,174	8	16	6
United Kingdom	395	5,180	5,222	-41	27	8
Netherlands	334	4,460	4,446	5	82	27
Industry						
All industries [1]	**9,321**	**102,862**	**102,925**	**-131**	**2,905**	**977**
Banking	293	75,938	75,546	383	2,387	808
Real estate	5,642	2,279	2,413	-177	246	79

[1] Includes countries and industries not shown separately.

country. Limited statistics for as early as 1970 are available in the *Statistics of Income—Corporation Income Tax Returns.*

Transactions of Foreign-Owned Corporations

Under Internal Revenue Code section 6038A, which was revised by the Tax Reform Act of 1986, foreign-controlled domestic corporations and foreign corporations with a U.S. trade or business must report transactions with related foreign persons [19]. These transactions are reported on Form 5472, *Information Return of a 25% Foreign Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business.*

Figure P contains selected summary data collected from Form 5472 for all qualified corporations with $1 billion or more in receipts. For 1989, the 165 corporations (with $1 billion or more in receipts) received $62.7 billion and paid $116.8 billion in transactions with related foreign persons, an increase from 1988 of 26 percent and 50 percent, respectively. Sales of stock in trade and amounts borrowed (ending balance) accounted for over 93 percent of the total amounts received for 1989. Purchases of stock in trade were the largest component (73 percent) of the total paid to related persons. Figure Q presents the total amounts received from and paid to related persons, by the country of related person for 1989. Overall, foreign-owned corporations reported $116.8 billion in payments to related foreign persons, almost double the amount that they reported receiving for 1989. Payments of nearly $53.4 billion to Japanese related parties were nearly four times the amount received.

Figure P

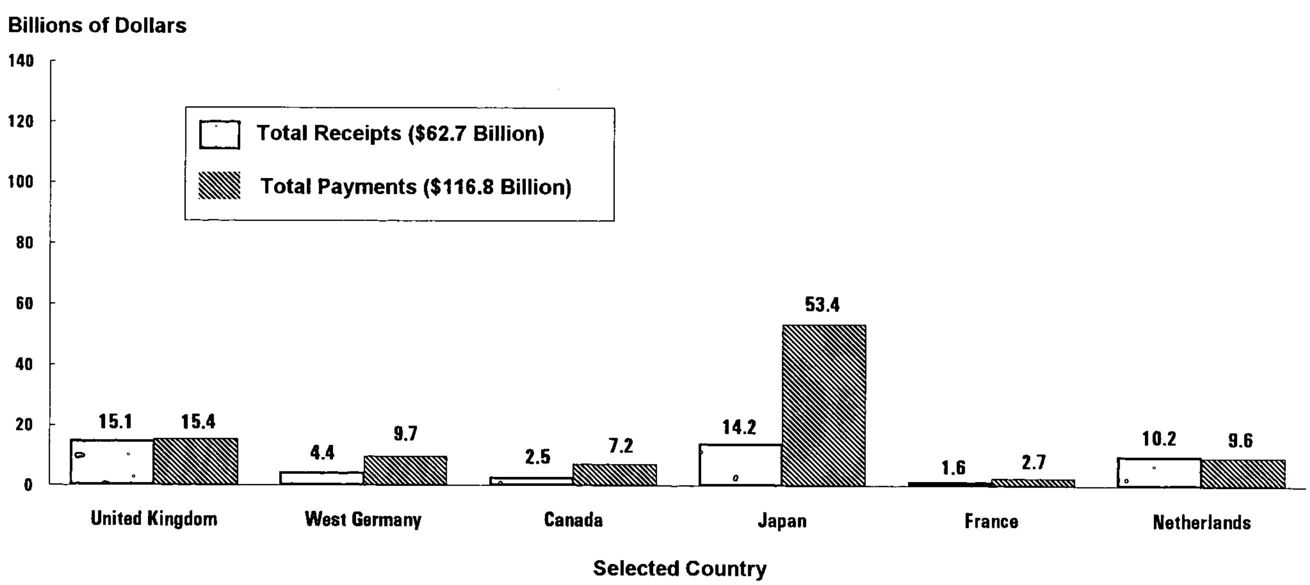
Foreign Owned Corporations with Total Receipts of $1 Billion or More: Transactions Between Corporations with Related Foreign Persons, 1988 and 1989

[Money amounts are in millions of dollars]

Item	1988	1989	Percentage increase
	(1)	(2)	(3)
Number of returns	121	165	36
Total assets	426,307	637,142	49
Total receipts	398,921	528,523	32
Transactions between corporations and related foreign persons			
Total received	49,920	62,668	26
Sales of stock in trade	18,789	22,688	21
Amounts borrowed:			
Beginning balance	26,633	32,042	20
Ending balance	29,174	36,127	24
Total paid	77,628	116,817	50
Purchases of stock in trade	61,920	84,845	37
Amounts loaned:			
Beginning balance	6,625	10,306	56
Ending balance	9,137	14,128	55

Figure Q

Total Transaction Receipts and Payments of Foreign Owned Corporations with Total Receipts of $1 Billion or More, by Selected Country of Related Person, 1989



These foreign-owned corporation statistics, produced annually starting with Tax Year 1988, are based on data reported by corporations with total receipts of $1 billion or more that were controlled by a foreign person and reported transactions with related foreign persons [20]. Tabular information is classified by industry of the reporting corporation, country of incorporation of the 50-percent-or-more foreign owner, country of ultimate indirect 25-percent-or-more foreign shareholder, and primary country under whose laws the related party files an income tax return as a resident.

International Studies of Individuals

Currently, the primary international study focusing on individuals is the combined study of the foreign tax credit and foreign earned income claimed by individuals on their Federal income tax returns. Another study focuses on the excluded income from U.S. possessions.

Individual Foreign Tax Credit and Foreign Earned Income

Like corporations, individuals may claim a foreign tax credit against their U.S. income tax for foreign taxes paid or accrued on certain income [21]. In addition, individuals may claim an exclusion for foreign earned income and an exclusion or deduction for certain foreign housing expenses. In 1926, in an effort to promote U.S. exports and equate the tax burden of U.S. citizens abroad with that of their domestic counterparts, Congress enacted a foreign earned income exclusion. Currently, qualifying taxpayers with earned income (e.g., salaries and wages, commissions, and fees) for personal services performed in a foreign country may exclude up to $70,000 of foreign earned income from U.S. taxation. In addition, qualified "excess housing costs" (i.e., reasonable housing costs, such as rent, utilities, and insurance, that exceed a certain base amount) may also be excluded or deducted from income.

Individuals claiming the foreign tax credit reported foreign-source gross income of approximately $7.1 billion for 1987, up from $4.4 billion for 1983 (Figure R). The percentage of foreign-source gross income reported by individuals from Canada and the United Kingdom remained fairly stable, with these two countries accounting for approximately 30 percent of the total for both 1983 and 1987. The foreign-source gross income reported for Japan grew by more than 250 percent from 1983 to 1987 to nearly $634 million and it accounted for nearly 9 percent of the total for 1987.

For both 1983 and 1987, the six countries with the largest number of individuals claiming the foreign earned income exclusion were West Germany, the United Kingdom, Saudi Arabia, Canada, Japan, and France (Figure S). For 1983 and 1987, individuals residing in these six countries filed 47 and 44 percent of returns claiming the foreign earned income exclusion and 47 and 49 percent, respectively, of the total income and housing exclusions and housing deductions claimed. A foreign earned income exclusion was reported on an estimated 171,191 returns for 1987, an increase of approximately 8 percent from 1983. The sum of the earned income exclusion, housing exclusion and housing deduction was almost $6.5 billion for 1987, up from approximately $6.0 billion for 1983. For 1987, approximately 79 percent of the reported $8.1 billion of foreign earned income was either excluded or deducted.

Figure R

Selected Income and Tax Items Reported on Individual Income Tax Returns with a Foreign Tax Credit, by Selected Country or U.S. Possession to which Tax was Paid, 1983 and 1987
[Money amounts are in thousands of dollars]

Country or U.S. possession to which tax was paid	1983				1987			
	Foreign-source gross income	Total deductions	Foreign-source taxable income	Foreign taxes paid or accrued	Foreign-source gross income	Total deductions	Foreign-source taxable income	Foreign taxes paid or accrued
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All countries [1]	**4,368,096**	**1,121,603**	**3,246,481**	**1,090,357**	**7,097,249**	**1,562,240**	**5,535,009**	**1,806,062**
Canada	807,485	184,597	622,890	162,878	1,290,937	450,841	840,096	267,928
United Kingdom	461,909	132,340	329,568	108,236	860,068	169,370	690,698	299,044
Japan	178,245	52,671	125,568	55,739	633,664	86,881	546,782	198,595
Puerto Rico	303,034	69,380	233,652	45,049	453,793	57,909	395,884	80,349
West Germany	257,995	40,201	217,794	58,936	429,504	106,064	323,440	141,464
Saudi Arabia	218,504	94,731	123,773	14,767	209,986	124,273	85,714	4,116
South Africa	265,212	48,051	217,156	39,060	127,726	13,278	114,447	20,552

[1] Includes countries and U.S. possessions not shown separately.

Figure S

Individual Income Tax Returns with Foreign Earned Income, by Selected Country of Residence, 1983 and 1987

[Money amounts are in thousands of dollars]

Country of residence	1983 Number of returns	1983 Foreign earned income	1983 Earned income exclusion	1983 Housing exclusion	1983 Housing deduction	1987 Number of returns	1987 Foreign earned income	1987 Earned income exclusion	1987 Housing exclusion	1987 Housing deduction
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
All countries [1]	**159,154**	**7,113,429**	**5,707,052**	**314,767**	**13,385**	**171,191**	**8,147,355**	**5,982,454**	**467,896**	**16,761**
West Germany	14,160	315,979	285,362	3,876	334	18,149	625,246	487,416	10,670	265
United Kingdom	12,927	774,330	547,099	40,041	1,229	15,829	1,044,426	647,648	61,483	3,115
Saudi Arabia	25,455	1,510,291	1,316,268	29,742	1,506	13,407	753,323	639,198	9,848	1,440
Canada	11,203	386,096	340,092	3,960	8	12,912	521,312	425,667	3,762	55
Japan	7,686	303,395	215,331	30,382	1,995	10,196	680,728	388,541	126,324	2,558
France	4,154	170,092	136,947	5,626	298	5,392	282,993	214,677	16,288	547

[1] Includes countries not shown separately.

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

Excluded Income from U.S. Possessions

Currently, under Code section 931, a U.S. citizen who is a bona fide resident of particular U.S. possessions (American Samoa, Guam, and the Northern Mariana Islands) may exclude from gross income the income that is "effectively connected" with the conduct of a trade or business within the possession. The most recent study was for Tax Year 1983. For Tax Year 1983, approximately $3.3 million was excluded from gross income by 134 U.S. citizens in four of the U.S. possessions (American Samoa, Johnston Island, Midway Islands, and Wake Island and Kingman Reef) allowed under prior law.

Implementing agreements between the Treasury Department and the possessions are required before the exclusion is made available to possessions residents. Currently, agreements have been concluded with American Samoa and Guam. Statistics will be obtained once agreements are reached with all three possessions.

International Withholding Tax Studies

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

Foreign Recipients of U.S. Income

U.S. source income of nonresident alien individuals and other foreign "persons" is generally subject to a withholding tax fixed at a statutory rate of 30 percent, unless such income is "effectively connected" with a U.S. trade or business or is exempt from U.S. taxation, or unless a lower rate is established by tax treaty. The income that is subject to the withholding tax includes, but is not limited to, dividends, interest, rents and royalties, compensation for personal services, and retirement payments. The U.S. withholding agent must file Form 1042S, *Foreign Person's U.S. Source Income Subject to Withholding*, for each foreign recipient of U.S. income, even if the income is exempt from withholding requirements. For Tax Year 1990, payers of income or their tax withholding agents reported total income paid to foreign recipients of $79.4 billion and total tax withheld of $2.2 billion [22].

The percentage of total income attributable to interest, dividends, and rents and royalties for even years from 1980 to 1990 is illustrated in Figure T. During this period, dividends as a percentage of total income fell from 48 percent to 16 percent. Interest, however, rose as a percentage of total income from 40 percent to 60 percent. Rents and royalties, as a percentage of total income, remained relatively stable at approximately 5 percent for most of this time period. Using 1980 as a base year, Figure U depicts the changing geographic distribution of the income recipients. The percentages of total income for each of the eight countries with the highest percentages of total income for 1980 are illustrated for even years from 1980-1990. Overall, reported total payments to foreign persons increased more than ten-fold, from $6.6

Figure T

Foreign Recipients of U.S. Income: Selected Income Types as Percentages of Total Income, 1980-1990

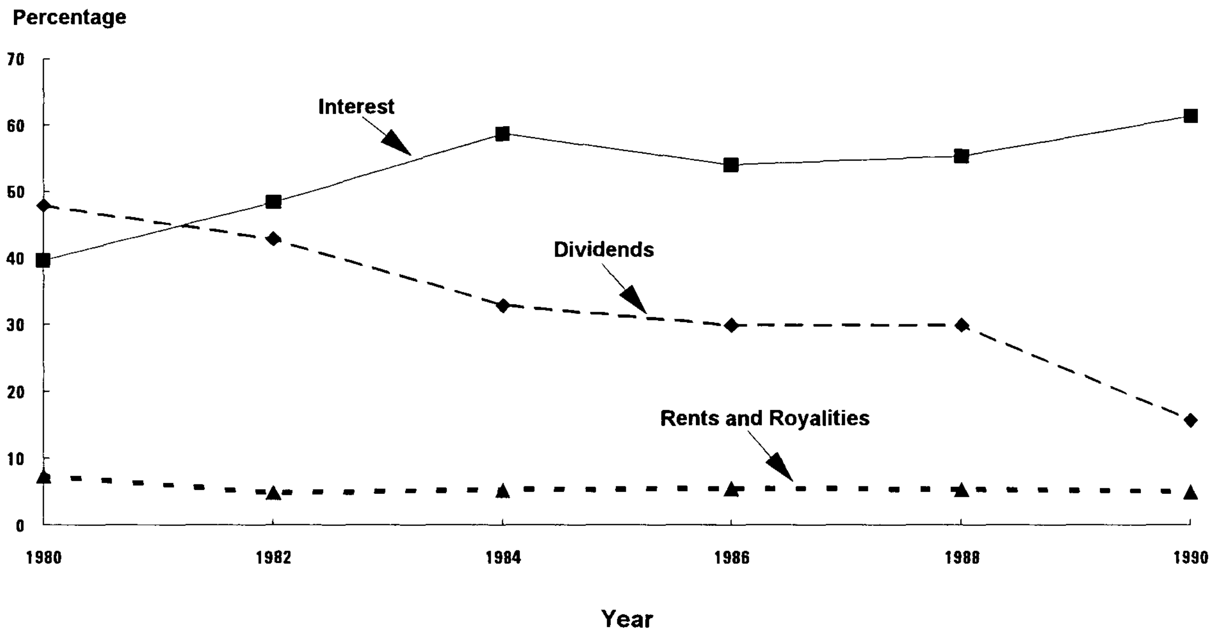


Figure U

Foreign Recipients of U.S. Income: Percentage of Total Income, by Selected Country of Residence, 1980-1990

[Money amounts in millions of dollars]

Country of residence	Total income, 1980	Percentage of total income 1980	1982	1984	1986	1988	1990	Total income, 1990	Relative percentage change, 1980 - 1990
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All countries [1]	**6,576.4**	**100**	**100**	**100**	**100**	**100**	**100**	**79,386.8**	
Switzerland	998.5	15	11	9	7	6	4	3,188.5	-73
United Kingdom	904.3	14	20	18	17	15	18	14,173.3	28
Canada	838.9	13	11	11	11	10	6	4,395.1	-57
Netherlands	700.0	11	14	11	7	8	5	3,746.3	-57
Netherland Antilles	632.2	10	15	16	13	5	3	2,080.6	-74
West Germany	619.2	9	6	6	5	5	4	3,554.0	-50
Japan	413.3	6	7	8	13	26	20	15,739.1	230
France	410.1	6	6	5	4	4	5	3,596.2	-25

[1] Includes countries not shown separately.

billion for 1980 to nearly $79.4 billion for 1990. Payments to recipients in Japan reflect the largest percentage change in both absolute and relative percentage terms across the period. Payments to foreign recipients in Japan grew from $0.4 billion to $15.7 billion. For 1980, about 6 percent of the total income was paid to recipients in Japan. By 1990, about 20 percent of the total was paid to recipients in Japan, an increase of 230 percent. With the exception of the United Kingdom, all of the other countries declined in relative percentage terms over the 1980-1990 period.

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

Sales of U.S. Real Property Interests by Foreign Persons
Code section 897 imposes a 10 percent withholding tax on sales of U.S. real property interests by foreign persons. The buyer or other transferee of a U.S. real property interest purchased from a foreign person must withhold the tax from the amount paid to the foreign seller. The buyer transmits the tax withheld and files Form 8288, *U.S. Withholding Tax Return for the Dispositions by Foreign Persons of U.S. Real Property Interests,* to report the transaction. Since Tax Year 1990, data have been collected annually from Form 8288. Tabular information is available by country of seller's residence.

Summary information for Tax Years 1990 through 1992 is presented in Figure V. For Tax Year 1992, nearly $1.5 billion was reported as realized by foreigners on the sale of U.S. real property interests. Taxes of approximately $120 million were withheld for 1992, up from approximately $114 million for 1991, but less than the $147 million for 1990.

U.S. Partnership Income of Foreign Partners
Legislation enacted as part of the Tax Reform Act of 1986 requires U.S. partnerships to withhold income tax on that portion of the partnership's taxable net income classified as "effectively connected" with a U.S. business and deemed allocable to foreign partners [23]. For Tax Year 1990, the most recent year for which statistics are available, the withholding rate for foreign corporate partners and noncorporate partners was 34 percent and 28 percent, respectively.

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

As shown in Figure W, foreign partners' "effectively connected" taxable income grew from nearly $348 million for 1989 to approximately $429 million for 1990, an increase of approximately 23 percent. The bulk of this increase can be attributed to foreign corporate partners whose effectively connected taxable income increased by nearly 66 percent, to $217 million. From 1989 to 1990, the total U.S. tax withheld increased by nearly 19 percent to about $141 million. However, the $76 million of tax withheld for 1990 for corporate foreign partners represented an increase of 58 percent from 1989. Under Internal Revenue Code section 1445, when a U.S. partnership disposes of a U.S. real property interest, a withholding tax is imposed on that portion of the gain on the sale that is allocable to any foreign partners. At the end of each year, a "section 1445 credit" for the amount of the tax withheld on the sale is allowed in computing the additional U.S. tax to be withheld from the foreign partner's allocable income. The total "section 1445 credit" for 1990 was less than half of the amount reported for 1989, declining from $8.2 million to $3.4 million. For both 1989 and 1990, foreign partners who were individuals accounted for the majority of the "section 1445 credit," even though the credit reported for these individuals declined from $7.2 million to approximately $2.0 million.

Other International Studies

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

Nonresident Alien Estates
The United States imposes an estate tax on the portion of a nonresident alien's estate that is located within the United States [24]. The U.S. "gross estate," that portion of the estate located in the United States, reduced by allowable deductions is the taxable U.S. estate. The allowable deductions include funeral expenses, administration expenses, claims against the estate, indebtedness on property included in the estate from casualty or theft,

Figure V

Sales of U.S. Real Property Interests by Foreign Persons, 1990-1992
[Money amounts are in thousands of dollars]

Year	Number of returns	Total amount realized	Total tax withheld
	(1)	(2)	(3)
1990	10,344	1,649,585	147,054
1991	9,327	1,483,367	114,287
1992	10,097	1,477,686	120,286

Figure W

U.S. Partnership Income of Foreign Partners and U.S. Tax Withheld, 1989 and 1990
[Money amounts are in thousands of dollars]

Recipient type, year	Number of Forms 8805 [2]	Taxable income	U.S. tax withheld: Total	U.S. tax withheld: Code section 1445 credit	U.S. tax withheld: Net tax withheld
	(1)	(2)	(3)	(4)	(5)
1989					
Total [1]	32,432	347,954	118,359	8,242	110,118
Individuals	30,181	160,266	49,700	7,218	42,482
Corporations	1,852	131,255	48,232	802	47,429
1990					
Total [1]	30,645	429,255	140,702	3,436	137,266
Individual	27,848	159,038	45,843	1,967	43,877
Corporations	2,286	217,400	76,243	536	75,707

[1] Includes "persons" other than individuals and corporations, not shown separately.
[2] Form 8805 is entitled "Foreign Partner's Information Statement of Section 1446 Withholding Tax.".

certain charitable contributions made by the decedent and certain transfers to the decedent's spouse. Several credits, including the unified credit which exempts estates of up to $60,000 from tax, the credit for State death taxes, the credit for taxes paid on certain gifts, and the credit for taxes on prior transfers, also reduce the total estate tax liability.

Selected summary data from nonresident alien estate returns are reported in Figure X. Even though the number of returns fell steadily from 1982 to 1990, both the size of the estates and the amount of the estate tax grew. The reported U.S. gross estate increased from $47.1 million for 1982 to $80.7 million for 1990, while the total estate tax (after credits) increased from $3.9 million to nearly $20.5 million.

Form 706NA, *United States Estate (and Generation-Skipping Transfer) Tax Return, Estate of Nonresident not a Citizen of the United States,* must be filed by the estate within 9 months of the nonresident alien decedent's date of death. Extensive data are collected from all Form 706NA returns filed in a particular year. Conducted every 4 years, the next statistics will report on returns filed for 1994.

Figure X

Nonresident Alien Estates Tax Returns, by Selected Filing Years, 1982-1990
[Money amounts are in thousands of dollars]

Item	1982	1986	1990
	(1)	(2)	(3)
Number of returns	169	161	143
Worldwide gross estate	148,013	239,611	291,789
U.S. gross estate	47,135	62,017	80,687
U.S. taxable estate	41,382	53,934	62,829
Estate tax after credits	3,850	6,520	20,496

Foreign Trusts

U.S. persons who create or transfer property to a foreign trust must file Form 3520, *Creation of or Transfers to Certain Foreign Trusts* [25]. Form 3520, an information return, includes details on the identity of the filer (i.e., whether the filer is the grantor, transferor, or the fiduciary of the estate) and the features of the foreign trust, including the location, creation date, value of property transferred, and beneficiary information. As long as the trust has one U.S. beneficiary, an information return, Form 3520-A, *Annual Return of Foreign Trust with U.S. Beneficiaries,* must also be filed annually by the U.S. person. Form 3520-A provides income statement and balance sheet information for the trust.

For 1990, U.S. persons transferred nearly $272.7 million in assets to 133 foreign trusts (Figure Y). Although the number of reported transfers decreased between 1986 and 1990, the average transfer per trust increased sharply from $66,000 for 1986 to $2,050,000 for 1990. A large part of the increase can be attributed to trusts created in Liechtenstein, where the average transfer value for these trusts increased from $56,000 for 1986 to $13,441,000 for 1990, despite the fact that the number of trusts fell from nine to seven. The total transfer value for trusts created in Liechtenstein grew from about $506,000 for 1986 to approximately $94,088,000 for 1990, expanding from 3 percent of the total value of transfers for 1986 to approximately 35 percent for 1990.

Every 4 years, comprehensive statistics on foreign trusts are compiled based on all Forms 3520 and Forms 3520-A filed with the Internal Revenue Service for a particular tax year. The most current complete information is for Tax Year 1990; historical information is available starting with Tax Year 1979. Tabular information is available by country of filer's residence, title of filer (i.e.,

Figure Y

Number of Foreign Trusts and Total and Average Transfer Values, by Selected Country Where Trust Was Created, 1986 and 1990

[Money amounts are in thousands of dollars]

Country where trust was located	1986			1990		
	Number of trusts	Total transfer value	Average transfer value per trust	Number of trusts	Total transfer value	Average transfer value per trust
	(1)	(2)	(3)	(4)	(5)	(6)
All countries [1]	**255**	**16,892**	**66**	**133**	**272,663**	**2,050**
Canada	127	1,396	11	73	44,278	607
Channel Islands	23	3,195	139	16	15,050	941
Bermuda	12	1,733	144	6	2,689	448
Liechtenstein	9	506	56	7	94,088	13,441

[1] Includes countries not shown separately.

grantor, transferor, or fiduciary), number of beneficiaries, country of beneficiary's residence, type of foreign trust (i.e., Canadian Registered Retirement Savings Plans or other), country, and year that trust was created.

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

For more information about international statistics produced by the Statistics of Income Division, please contact its Statistical Information Services office [26]. Various other U.S. Government departments and agencies also produce international statistics. More information about these statistics may be obtained in various ways. For example, the Association of Public Data Users produces a telephone contacts list for Federal statistical programs [27]. In addition, indexes, such as the American Statistics Index and the Index to International Statistics, provide details about other sources of published U.S. Government information [28].

Notes and References

[1] Bach, Christopher J., "U.S. International Transactions, Revised Estimates for 1983-92," *Survey of Current Business*, June 1993, Volume 93, Number 6, Bureau of Economic Analysis, U.S. Department of Commerce.

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

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

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

[5] Under the Omnibus Budget Reconciliation Act of 1993, a U.S. shareholder of a CFC is also subject to tax on the CFC's unrepatriated earnings to the extent those earnings are invested in an excessive amount of "passive assets"(generally more than 25 percent

of the CFC's total assets). These provisions are applicable only for earnings in taxable years beginning after September 30, 1993.

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

[7] For more information on the legislative history and operation of the Foreign Sales Corporations, see, for example, *The Operation and Effect of the Foreign Sales Corporation Legislation, January 1, 1985, to June 30, 1988,* U.S. Department of Treasury, January 1993. As of November 1992, the qualifying foreign countries were Australia, Austria, Barbados, Belgium, Bermuda, Canada, Costa Rica, Cyprus, Denmark, Dominica, Dominican Republic, Egypt, Finland, France, Germany, Grenada, Honduras, Iceland, Ireland, Jamaica, Korea, Malta, Marshall Islands, Mexico, Morocco, the Netherlands, New Zealand, Norway, Pakistan, Philippines, St. Lucia, Sweden, and Trinidad and Tobago. The qualifying U.S. possessions were Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands.

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

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

[10] For a more detailed discussion of the legislative history of U.S. possessions corporations, see Bradford, John J., "U.S. Possessions Corporation Returns, 1987," *Statistics of Income Bulletin,* Summer 1991, Volume 11, Number 1.

[11] A general limitation prevents taxpayers from using foreign taxes paid in a relatively high-tax foreign country to offset U.S. taxes on their U.S. source income. In addition, several separate limitations must be calculated for certain categories of foreign-source income. See Code Section 904(d) for these separate limitation categories "baskets."

[12] The study data are derived from returns with a foreign tax credit in the *Statistics of Income* corporate sample of returns and includes companies filing Form 1120 (*U.S. Corporation Income Tax Return),* Form 1120L (*U.S. Life Insurance Company Income Tax Return)*, Form 1120-PC (*U.S. Property and Casualty Insurance Company Income Tax Return),* Form 1120-REIT (*U.S. Income Tax Return for Real Estate Investment Trusts)*, Form 1120-F (*U.S. Income Tax Return of a Foreign Corporation*), and Form 1120-RIC (*U.S. Income Tax Return for Regulated Investment Companies).* Corporations filing Form 1120-FSC (*U.S. Income Tax Return of a Foreign Sales Corporation)* and Form 1120-IC-DISC (*U.S. Income Tax Return of a Foreign Sales Corporation*) are currently not part of the *Statistics of Income* corporate sample of returns.

[13] The U.S. Treasury Department maintains a list of countries known to participate in an unsanctioned international boycott. The current list consists of Arab nations which are boycotting Israel.

[14] For 1991, approximately 20 percent (244 persons) of the 1,205 persons filing boycott reports reported receiving requests to participate in an international boycott; and 61 persons agreed to participate in an international boycott; 26 of the 61 persons that agreed to participate in an unsanctioned international boycott reported lost tax benefits. To lose tax benefits the person must have (positive) U.S. taxable income, positive amounts of affected tax benefits, and generally must have paid taxes to the foreign country requesting compliance with an unsanctioned international boycott.

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

[16] For further information by industry, see Hobbs, James R., "Domestic Corporations Controlled by Foreign Persons, 1990," *Statistics of Income Bulletin,* Fall 1993, Volume 13, Number 2.

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

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

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

[20] For Tax Year 1991, the basis for inclusion in the statistics will be total receipts of $500 million or more.

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

[22] Miller, Randy, "Foreign Recipients of U.S. Income, 1990," *Statistics of Income Bulletin,* Spring 1993, Volume 12, Number 4. The effective withholding rate (total U.S. tax withheld divided by total income paid) is often lower than the statutory rate due to reciprocal tax treaties or exemptions.

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

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

[25] U.S. persons include U.S. citizens, residents, domestic corporations, domestic partnerships, estates, and trusts.

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

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

[28] *The American Statistics Index* and the *Index to International Statistics* are published by Congressional Information Services, Inc., 4530 East-West Highway, Bethesda, MD 20814; Phone 1-800-638-8380.

Table 1.--Summary of International Studies

Study	Primary tax forms	Study focus [1]	Filing entity [2]	Frequency and year of most recent study	Study data	Estimated population [3]
	(1)	(2)	(3)	(4)	(5)	(6)
I. Corporate						
A. Controlled Foreign Corporations (CFC's)	1120 5471	US	C	Annual, with odd-years scaled down beginning in 1992 (1988)	7,500 largest (in assets) CFC's of parents with $500 million or more in assets	1,150 parents with 39,000 Forms 5471
B. Foreign Sales Corporations	1120-FSC	US	C	Every 4 years (1991)	Sample	3,500
C. Interest Charge-Domestic International Sales Corporations	1120-IC-DISC	US	C	Every 4 years (1991)	All returns	860
D. U.S. possessions corporations	1120 5735 940	US	C	Every 2 years (1989)	All returns	516
E. Corporate foreign tax credit	1120 1118	US	C	Annual, with odd-years scaled down (1990)	Sample	4,500
F. International boycotts	5713	US	I,P,***C***,E,T	Every year; large-scale every 4th year[4] (1991)	All returns	1,200
G. Domestic corporations controlled by foreign persons	1120	F	C	Every year (1990)	Sample	45,000
H. Foreign corporations with business income derived from U.S. sources	1120F 1120L 1120PC	F	C	Every year (1990)	Sample	10,000
I. Foreign-owned corporation transactions	1120 5472	F	C	Every year (1989)	U.S. corporations with $1 billion or more in receipts (165 firms in 1989)	2,750 related foreign corporations
II. Individual						
A. Individual foreign tax credit and foreign earned income	1040 1116 2555	US	I	Every 5 years beginning with 1991 (1987)	Sample	Foreign tax credit - 561,000 Foreign earned income 171,000
B. Excluded income from U.S. possessions	1040 4563	US	I	Annually, starting year to be determined	All returns	To be determined
III. Withholding Tax						
A. Foreign recipients of U.S. income	1042S	F	I,P,***C***,E,T	Every year (1990)	All returns	1.3 million
B. Sales of U.S. real property interests by foreigners	8288 8288A	F	I,P,C,E,T	Every year (1990)	All returns	10,000
C. U.S. partnership income foreign partners	8804 8805	F	P	Every year (1990)	All returns	Partnerships -5,000 Foreign partners - 30,000
IV. Estates and Trusts						
A. Nonresident alien estates	706NA	F	E	Every 4 years (1990)	All returns	160
B. Foreign trusts	3520 3520A	US	T	Every 4 years (1990)	All returns	410

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

Table 2.--SOI Bulletin International Articles

Study	Primary tax forms	Tax year, SOI Bulletin issue
Controlled Foreign Corporations	1120 5471	1988 - Fall 1992 (12-2), p.60 1986 - Summer 1991 (11-1), p.29 [1] 1984 - Spring 1990 (9-4), p.115 [1] 1984 - Fall 1989 (9-2), p.31 [1] 1982 - Winter 1986-87 (6-3), p.49 1982 - Summer 1986 (6-1), p.63 1980 - Fall 1984 (4-2), p.33 [2] 1980 - Spring 1984 (3-4), p.37 [2]
Foreign sales corporations	1120-FSC	1987 - Spring 1992 (11-4), p.59
Interest Charge-Domestic International Sales Corporations	1120-IC- DISC	1987 - Spring 1992 (11-4), p.69 1980 - Fall 1983 (3-2), p.9 [2,3]
U.S. possessions corporations	1120 5735 940	1989 - Fall 1992 (12-2), p.97 1987 - Summer 1991 (11-1), p.51 [1] 1985 - Compendium (1984-88), p.333 1983 - Spring 1988 (7-4), p.55 1982 - Compendium (1979-83), p.329 1980 - Spring 1983 (2-4), p.41 [2]
Corporate foreign tax credit	1120 1118	1988 - Summer 1992 (12-1), p.79 1986 - Winter 1990-91 (10-3), p.31[1] 1986 - Fall 1990 (10-2), p.65 [1] 1984 - Winter 1989-90 (9-3), p.57 [1] 1982 - Fall 1986 (6-2), p.21 1982 - Spring 1986 (5-4), p.9 1980 - Winter 1984-85 (4-3), p.37 [2] 1980 - Summer 1984 (4-1), p.63 [2] 1978 - Winter 1982-83 (2-3), p.25 [2]
International boycotts	5713	1990 - Fall 1992 (12-2), p.88 1986 - Compendium (1984-88), p.349 1976-1982 - Summer 1985 (5-1), p.65 [2]
Domestic corporations controlled by foreign persons	1120	1990 - Fall 1993 (13-2), p.125 1989 - Winter 1992-93 (12-3), p.7 1988 - Fall 1991 (11-2), p.77 1987 - Summer 1990 (10-1), p.73 [1] 1984-85 - Spring 1989 (8-4), p.75 85 [1] 1983 - Summer 1987 (7-1), p.53
Foreign corporations with business income derived from U.S. sources	1120F 1120L 1120PC	1989 - Summer 1993 (13-1), p.81 1988 - Spring 1992 (11-4), p.39 1987 - Winter 1990-91 (10-3), p.7 [1] 1984-85 - Spring 1989 (8-4), p.75 [1] 1983 - Summer 1987 (7-1), p.53
Transaction of foreign-owned corporations	1120 5472	1989 - Spring 1993 (12-4), p.128 1988 - Summer 1992 (12-1), p.119

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

Study	Primary tax forms	Tax year, SOI Bulletin issue
Individual foreign tax credit and foreign earned income	1040 1116 2555	1987 - Winter 1992-93 (12-3), p.85 1987 - Winter 1991-92 (11-3), p.13 1983 - Summer 1987 (7-1), p.69 [1]
Excluded income from U.S. possessions	1040 4563	1983 - Compendium (1979-1983), p.351
Foreign recipients of U.S. income	1042S	1990 - Spring 1993 (12-4), p.122 1989 - Spring 1992 (11-4), p.25 1988 - Winter 1990-91 (10-3), p.19 [1] 1987 - Winter 1989-90 (9-3), p.41 1986 - Winter 1988-89 (8-3), p.79 1985 - Fall 1987 (7-2), p.27 1984 - Fall 1986 (6-2), p.61 1983 - Fall 1985 (5-2), p.39 1982 - Fall 1984 (4-2), p.21 1981 - Summer 1983 (3-1), p.35 1980 - Summer 1982 (2-1), p.15 1971-79 - Spring 1982 (1-4), p.34
Sales of U.S. real property interests by foreigners	8288 8288A	No published data, summary data available by country
U.S. partnership income of foreign partners	8804 8805	1990 - Fall 1992 (12-2), p.90 1989 - Compendium (1984-88), p.401
Foreign trusts	3520 3520A	1990 - Winter 1992-93 (12-3), p.81 1986 - Spring 1988 (7-4), p.47 [1] 1979-1982 - Compendium (1979-83), p.427
Nonresident alien estates	706NA	1990 - Summer 1993 (13-1), p.77 1986 - Spring 1992 (11-4), p.51 1982 - Compendium (1979-83), p.437 [1]

[1] Also in Statistics of Income - Compendium of Studies of International Income and Taxes, 1984-1988.
[2] Also in Statistics of Income - Compendium of Studies of International Income and Taxes, 1979-1983.
[3] This article reports on the DISC provisions which existed prior to the Deficit Reduction Act of 1984.