

Report on International Boycotts, 1976-82: A Focus on the Middle East

By Vergie Mose*

U.S. corporations that conduct business in certain foreign countries can be penalized, under certain conditions, through losses in U.S. tax benefits. These penalties result from agreements by these U.S. taxpayers to specific foreign-imposed business conditions relating to international boycotts. A number of U.S. corporations that agreed to certain of these foreign-imposed conditions forfeited over \$84 million in U.S. tax benefits between 1976-82.

U.S. TAX LAW ADDRESSING INTERNATIONAL BOYCOTTS

The U.S. Congress sought to deter participation by U.S. "persons" in international boycotts which were not sanctioned by the United States, partly in response to the ongoing Arab boycott of Israel. The Congressional Joint Committee on Taxation noted in its report [1] on the Tax Reform Act of 1976 that--

"Congress is concerned that U.S. businesses have been prevented from freely operating in international markets by the threat of economic sanctions by certain foreign countries or their nationals or companies. Unless the U.S. businesses agree to participate in, or cooperate with, certain foreign countries in an international boycott, they are denied the opportunity to conduct business with the country. Congress believes that it is particularly unfair to those taxpayers who refuse to participate in the boycott, when the taxpayer who does participate in the boycott is a recipient of tax benefits by reason of the participation. Congress believes that many taxpayers would not participate in an international boycott if the taxpayer and the foreign countries were made aware that tax benefits were not available to a taxpayer who participates in a boycott."

The 1976 Act contained international boycott provisions (discussed below) which were generally effective for operations conducted after November 3, 1976 [2]. Under the Act, the

Department of Treasury is required to report to Congress on the operation and effect of the boycott provisions of the Internal Revenue Code. The series of Treasury reports [3] draw on data provided by the Internal Revenue Service (IRS). This article presents data filed with the IRS for the years 1976 through 1982. (See the "Data Sources and Limitations" section.) The source of the statistics is the Form 5713, International Boycott Report [4].

Background

The policies of foreign countries can have a significant impact on the business behavior of U.S. "persons" (defined below). A specific example of this impact is found in the policies of members of the League of Arab States. Original members of this league included Iraq, Lebanon, and Saudi Arabia. One purpose of the organization was to coordinate the policies and activities of its members [5].

As part of the economic policies of the Arab League, many countries imposed economic sanctions against Israel. These sanctions can be summarized into three basic types. The first type (a "primary boycott") applies to the refusal of Arab countries to export their goods to, or import goods from, Israel. In a "secondary boycott," foreign companies are requested not to maintain business relationships with Israel or its companies and citizens. The third type, termed a "tertiary boycott," occurs when foreign companies are requested to refrain from conducting business with other companies that trade with Israel or with companies whose owners or employees are members of particular religious or fraternal organizations [6].

These economic policies were imposed on all persons, including individuals as well as corporations and partnerships, that had business activities with these Arab countries or their nationals. Prior to 1976, there were no U.S. regulations specifically imposing penalties on U.S. persons that supported foreign boycotts through their business activities.

*Foreign Returns Analysis Section. Prepared under the direction of James R. Hobbs, Chief.

Development of U.S. Laws Imposing Penalties for Participation in International Boycotts

U.S. legislative proposals specifically addressing issues of international boycott activities of U.S. persons were first considered in the years after the 1973-74 Arab oil embargo. At that time, U.S. businesses anticipated capturing a share of the development projects of, and increased trade expected with, members of the Organization of Petroleum Exporting Countries (OPEC), some of which were also members of the League of Arab States [7]. This interest in greater trade with Arab states conflicted with the anti-boycott sentiments of certain citizen groups. During this same period, representatives of both citizen and business groups were instrumental in the drafting of U.S. international boycott laws [6]. These initial drafts were later developed into two laws.

The Tax Reform Act of 1976 and the Export Administration Act of 1979 contained provisions specifically authorizing penalties for unsanctioned international boycott activities of U.S. persons. Under these laws, it became mandatory for all U.S. persons to report formally with the Internal Revenue Service (Department of Treasury) and the Office of Antiboycott Compliance (Department of Commerce) [8] all boycott-related requests and agreements. The Department of Treasury additionally required that U.S. persons report all operations in boycotting countries. Congress initially required annual reports from both departments on the findings from the administration of these laws [9].

Provisions of the 1976 Act

The provisions of the 1976 Act are primarily included in section 999 of the Internal Revenue Code. In compliance with the Act, a U.S. person must report to the Internal Revenue Service each of its operations (direct or indirect) [10], that are conducted with a government, a company or a national of a country, that requires participation in, or cooperation with, a boycott (not sanctioned by the United States). The term "operations" encompasses all forms of business and commercial transactions.

Under the Act, a person participates in, or cooperates with, an international boycott if the person agrees as a condition of doing business, directly or indirectly, with a government, a company, or a national of a country to any of the five types of requests listed below:

Type 1 - to refrain from doing business with or in a country that was the object of the boycott or with the government, companies, or nationals of that country.

Type 2 - to refrain from doing business with any U.S. person engaged in trade within a country which was the object of the boycott or with the government, companies, or nationals of that country.

Type 3 - to refrain from doing business with any company whose ownership or management included individuals of a particular nationality, race, or religion, or to remove or refrain from selecting corporate directors who were individuals of a particular nationality, race, or religion.

Type 4 - to refrain from employing individuals of a particular nationality, race, or religion.

Type 5 - as a condition of the sale of a product to a government, company, or a national of a country, to refrain from shipping or insuring products on a carrier owned, leased, or operated by a person that did not participate in, or cooperate with, an international boycott.

A presumption of participation in, or cooperation with, a boycott was also provided for in the 1976 Act. If a person controls a corporation and the corporation participates in, or cooperates with, a boycott, the controlling person is presumed to have participated in, or cooperated with, the boycott. Conversely, if a person controls a corporation and participates in, or cooperates with, a boycott, the corporation is presumed to have participated in, or cooperated with, the boycott. Thus, when one member of a controlled group of corporations agrees to one or more types of boycott requests, each member of the controlled group is also associated with the agreement [11]. U.S. shareholders of foreign corporations are also associated with boycott agreements of their foreign corporations [12].

OPERATIONS IN BOYCOTTING COUNTRIES

Boycott operations include those operations with a government, a company, or a national of a country that is on the list of countries which the Secretary of the Treasury has determined requires participation in, or cooperation with, a boycott. The original list published in 1976 contained the following 14 countries:

Bahrain	Oman
Egypt	Qatar
Iraq	Saudi Arabia
Jordan	Syria
Kuwait	United Arab Emirates (U.A.E.)
Lebanon	Yemen (Aden)
Libya	Yemen (Sanaa)

Egypt was dropped from the list effective April 1, 1980 [13].

Operations in a country not on this list are also boycott operations, if a person knows or has reason to know that participation in, or cooperation with, an (unsanctioned) international boycott is required as a condition of doing business with the government, a company, or a national of the country.

For 1982, 2,822 U.S. persons filed Forms 5713 indicating that they conducted operations, directly or indirectly, in one or more boycotting countries. Of this number, 92 percent (2,583) were corporations. The remainder were individuals, partnerships, estates and trusts. These corporations represented less than 1 percent of all U.S. corporations, but their \$2.7 trillion in total assets was nearly 30 percent of the total assets reported on all U.S. corporation income tax returns.

BOYCOTT REQUESTS AND AGREEMENTS

Of the 2,822 U.S. persons that filed Forms 5713 for 1982, 537 received nearly 17,000 requests to participate in, or cooperate with, international boycotts. Of these requests, 35 percent (5,800) were agreed to by 212 persons. Corporations accounted for nearly 90 percent of all requests and agreements (see "Number of Corporations" in the Explanation of Selected Terms section). Table 3 presents the number of requests and agreements from 1976-80 and 1982 for each type of boycott request [14].

Request and agreement data related to U.S. corporations for the 13 countries presently on the Treasury's list are summarized in Figure A. The data for 1977-80 and 1982 are ranked by country based on the number of requests received by corporations.

The largest number of boycott requests were received from Saudi Arabia, Kuwait, Iraq, and the United Arab Emirates. Based on the 1977-80 and 1982 data, of the 44,627 total requests received from these countries, 18,918, or 42 percent, were agreed to by U.S. corporations. (For a percentage distribution by country of the number of requests and agreements for 1982, see Figure B.) Using number of agreements as a percentage of total requests, the rate of "effectiveness" on the part of boycotting countries in obtaining cooperation from U.S. corporations can be estimated. Of the requests made during the 5-year period, 47 percent cooperation was obtained by Kuwait, 44 percent by the United Arab Emirates, 40 percent by Saudi Arabia, and 39 percent by Iraq.

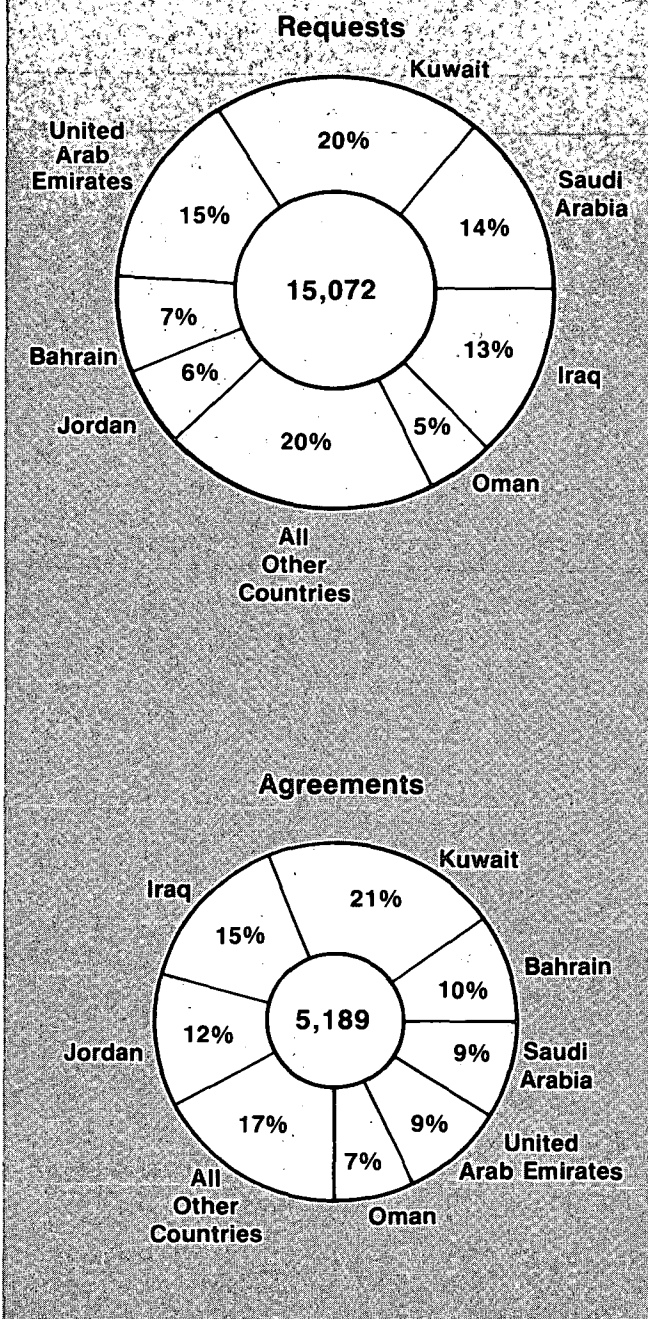
The highest level of effectiveness did not occur with the above four countries, but rather with Oman, Jordan, and Bahrain. U.S. corporations agreed to 61 percent of all requests received from Oman, 59 percent from Jordan, and 57 percent from Bahrain. Data on boycott requests received and the related agreements of U.S. corporations reported for 1977-80 and 1982 for these three countries are

Figure A.--Corporations: Requests, Agreements, and Agreements as a Percent of Requests, by Selected Boycotting Countries, 1977-1980 and 1982

Country	Requests		Agreements		Agreements as a percent of requests	
	Number	Rank	Number	Rank	Percent	Rank
	(1)	(2)	(3)	(4)	(5)	(6)
All boycotting countries ¹	70,344	-	31,072	-	44%	-
Saudi Arabia	13,461	1	5,421	2	40	10
Kuwait	12,775	2	5,942	1	47	4/5
Iraq	9,968	3	3,886	3	39	11
United Arab Emirates	8,423	4	3,669	4	44	8/9
Libya	3,839	5	1,724	8	45	7
Jordan	3,758	6	2,212	5	59	2
Bahrain	3,740	7	2,117	6	57	3
Oman	3,125	8	1,891	7	61	1
Syria	2,292	9	621	11	27	13
Lebanon	2,056	10	958	9	47	4/5
Qatar	1,628	11	754	10	46	6
Yemen (Sanaa)	450	12	199	12	44	8/9
Yemen (Aden)	192	13	53	13	28	12

¹Includes 4,637 requests and 1,625 agreements related to boycotting countries not shown separately.

Figure B
Corporations: Percent Distribution of Requests and Agreements To Participate In or Cooperate With International Boycotts, 1982



shown in Figure C. The highest level of effectiveness in any year for any country occurred in 1980, when 76 percent of all requests received from Oman were followed by agreements.

For 1982, the highest rate of effectiveness (63 percent) was obtained by Jordan. The 608

agreements to requests received from that country accounted for 12 percent of the total agreements (shown in Figure B). In contrast, the 961 requests received from Jordan accounted for only 6 percent of the total requests.

The relationship between the number of corporations that entered into agreements and those which received the requests is also integral to a measure of effectiveness of the boycott policies. Data classified by country for the number of corporations that agreed to requests expressed as a percentage of the number of corporations receiving requests are shown in Table 1 for 1977-80 and 1982. A decrease in this ratio occurred for every country for 1979, when compared to 1978. The 496 corporations that received requests from all boycotting countries for 1979 represented a decline from the 521 corporations for 1978. The decline in the number of corporations that received requests continued after 1979. However, while the 172 corporations that agreed to requests for 1979 represented a decline from 1978, this decline did not continue thereafter.

Not all U.S. corporations with direct or indirect operations in boycotting countries received boycott requests. Most of those U.S. corporations receiving boycott requests received multiple requests. Less than half of them, in any year, agreed to at least one business restriction as requested by a boycotting country. Corporations that agreed to at least one request most often did not agree to every request received from a specific country. This information (the differences between the number of corporations reporting requests and agreements and the number of requests and agreements reported) suggests that U.S. taxpayers often attempted negotiations with the boycotting countries in order both to conduct business within their boundaries and to comply with U.S. laws as well [15].

The extent of cooperation by U.S. corporations with boycotting efforts and the level of U.S. export and import trade activities with boycotting countries are related [16]. Trade data between the United States and these countries for 1977-80 and 1982 are presented in Figure D.

The lowest degree of U.S. cooperation with boycott requests tended to occur among those boycotting countries in which the largest number of U.S. corporations reported direct or indirect operations. The largest number of U.S. corporations reported operations in Saudi Arabia, Kuwait, and the United Arab Emirates (see Table 1). For 1982, of the total 1,916 corporations reporting operations in boycotting countries, 83 percent reported operations in Saudi Arabia, 57 percent in Kuwait and 53 percent in the United Arab Emirates. (Corporations frequently had operations in more

Figure C.--Selected Items Reported by Corporations with Operations In or Related to Boycotting Countries, by Selected Countries, 1977-1980 and 1982

Item and country	1977	1978	1979	1980	1982
	(1)	(2)	(3)	(4)	(5)
Number of corporations ¹ with operations in or related to:					
All boycotting countries ²	1,627	1,645	1,971	2,014	1,916
Oman	527	540	576	617	616
Jordan	615	623	771	777	767
Bahrain	651	626	763	765	751
Number of corporations ¹ receiving requests from:					
All boycotting countries ²	510	521	496	494	431
Oman	64	79	61	143	101
Jordan	90	91	131	158	101
Bahrain	104	95	133	90	121
Number of corporations ¹ agreeing to requests from:					
All boycotting countries ²	191	217	172	229	178
Oman	33	31	19	98	46
Jordan	42	35	38	30	47
Bahrain	41	42	36	34	49
Number of requests from:					
All boycotting countries ²	9,711	17,170	14,079	14,312	15,072
Oman	348	754	491	799	733
Jordan	245	421	1,142	989	961
Bahrain	622	590	577	946	1,005
Number of agreements to requests from:					
All boycotting countries ²	4,066	7,770	6,615	7,432	5,189
Oman	184	444	294	605	364
Jordan	101	213	666	624	608
Bahrain	429	317	220	634	517
Agreements as a percent of requests:					
All boycotting countries ²	42	45	47	52	34
Oman	53	59	60	76	50
Jordan	41	51	58	63	63
Bahrain	69	54	38	67	51

¹Corporations which were members of a controlled group were combined and counted as one corporation. Corporations often reported operations in more than one country.

²Boycotting countries were all countries reported on Form 5713 known to require participation in, or cooperation with, an international boycott. This included, but was not limited to, the 13 countries presently on the list of boycotting countries maintained by the Secretary of the Treasury.

than one country.) Over 200 corporations received 7,410 boycott requests from these three countries. Slightly more than one third of those corporations agreed to participate in, or cooperate with, the boycott as requested. On the other hand, a smaller number of U.S. corporations reported operations in Jordan and

Oman. As this number decreased, the degree of cooperation with the efforts of the boycotting countries increased. For example, over 100 corporations received requests from Jordan and Oman for 1982, and 46 percent of them agreed to the requests. Finally, of the 267 corporations which reported operations in Yemen (Sanaa), 12

Figure D.--U.S. Exports and General Imports¹ with Selected Boycotting Countries, 1977-1980 and 1982

[Money amounts are in millions of dollars]

Country	1977	1978	1979	1980	1982
	(1)	(2)	(3)	(4)	(5)
All countries, total					
Exports from U.S.	\$121,293	\$143,766	\$182,025	\$220,786	\$212,275
Imports to U.S.	150,390	174,757	209,458	244,871	243,952
Balance	-29,097	-30,991	-27,433	-24,085	-31,677
Boycotting countries, total²					
Exports from U.S.	6,173	7,226	8,621	10,340	13,859
Imports to U.S.	14,411	12,621	18,054	25,860	10,575
Balance	-8,238	-5,395	-9,433	-15,520	3,284
Bahrain					
Exports from U.S.	203	157	160	197	220
Imports to U.S.	75	29	11	16	31
Balance	128	128	149	181	189
Iraq					
Exports from U.S.	211	317	442	724	846
Imports to U.S.	425	249	665	460	39
Balance	-214	68	-223	264	807
Jordan					
Exports from U.S.	302	235	334	407	620
Imports to U.S.	3	1	4	3	7
Balance	299	234	330	404	613
Kuwait					
Exports from U.S.	548	745	765	886	941
Imports to U.S.	214	50	194	494	40
Balance	334	695	571	392	901
Lebanon					
Exports from U.S.	124	142	227	303	294
Imports to U.S.	42	15	15	33	19
Balance	82	127	212	270	275
Libya					
Exports from U.S.	314	425	468	509	301
Imports to U.S.	4,222	4,125	6,014	8,595	512
Balance	-3,908	-3,700	-5,546	-8,086	-211
Oman					
Exports from U.S.	57	65	88	95	173
Imports to U.S.	436	354	317	344	334
Balance	-379	-289	-229	-249	-161
Qatar					
Exports from U.S.	113	77	138	129	153
Imports to U.S.	450	337	279	237	106
Balance	-337	-260	-141	-108	47
Saudia Arabia					
Exports from U.S.	3,575	4,370	4,875	5,769	9,026
Imports to U.S.	6,448	5,310	8,067	12,648	7,443
Balance	-2,873	-940	-3,192	-6,879	1,583

Figure D.--U.S. Exports and General Imports¹ with Selected Boycotting Countries, 1977-1980 and 1982
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[Money amounts are in millions of dollars]

Country	1977	1978	1979	1980	1982
	(1)	(2)	(3)	(4)	(5)
Syria					
Exports from U.S.	134	143	229	239	138
Imports to U.S.	16	37	165	26	10
Balance	118	106	64	213	128
United Arab Emirates					
Exports from U.S.	515	493	667	998	1,101
Imports to U.S.	2,076	2,109	2,317	2,985	2,032
Balance	-1,561	-1,616	1,650	-1,987	-931
Yemen (Aden)					
Exports from U.S.	31	26	14	7	8
Imports to U.S.	3	5	4	18	1
Balance	28	21	10	-11	7
Yemen (Sanaa)					
Exports from U.S.	46	31	214	77	38
Imports to U.S.	1	(³)	2	1	1
Balance	45	31	212	76	37

¹Exports include domestic and foreign merchandise. General imports include entries for consumption, entries into custom's bonded warehouses and entries into U.S. Foreign Trade Zones.

²Represents data for the 13 countries presently on the list of boycotting countries maintained by the Secretary of the Treasury.

³Amount less than \$500,000.

Source: For 1977-1980, data are from Overseas Business Reports, United States Foreign Trade Annual, 1975-1981, U.S. Department of Commerce, International Trade Administration, OBR83-07, July 1983. For 1982, data are from Highlights of U.S. Export and Import Trade, U.S. Department of Commerce, Bureau of the Census, FT 990, December 1983.

received boycott requests. Of these 12 corporations, 67 percent agreed to the requested conditions.

Of related interest is the growth and levelling off in the number of U.S. corporations reporting operations in boycotting countries (shown in Table 1). For 1982, the number of corporations with operations in the 13 boycotting countries increased over the number reported for 1977, with two exceptions, Iraq and Libya, for which there were small decreases. Between 1980 and 1982 the number of corporations reporting operations remained relatively stable compared to the peak of growth in this number that occurred from 1978 to 1979.

LOSS OF TAX BENEFITS

Under the U.S. tax law, taxpayers agreeing to participate in, or cooperate with, unsanctioned international boycotts may be penalized by the loss of certain tax benefits. These lost benefits involve the U.S. tax treatment of the

income or taxes associated with U.S. operations (direct or indirect) in all boycotting countries. The tax benefits would otherwise be available to the taxpayers were it not for agreements to boycott requests. The tax benefits that can be lost are the foreign tax credit [17], and the deferral of taxation on the earnings of Controlled Foreign Corporations (CFC's) [18] and on the earnings of Domestic International Sales Corporations (DISC's) [19] owned by U.S. persons.

Basically, a U.S. taxpayer is allowed a foreign tax credit to reduce its U.S. income tax (based on worldwide taxable income) for taxes paid to foreign countries [20]. However, boycott-related taxes cannot be included in the foreign tax credit. Boycott-related taxes are taxes that resulted from foreign operations through which the U.S. taxpayer was associated with agreements to unsanctioned boycott requests.

A U.S. taxpayer that owned a Controlled Foreign Corporation was generally required to

treat certain portions of the current-year earnings and profits of the CFC as "Subpart F" income. This income was deemed to have been distributed by the CFC to the controlling U.S. shareholder and was included in the current-year taxable income of the shareholder. That portion of the current-year earnings and profits not considered Subpart F income was not included in the shareholder's U.S. taxable income until the year in which a distribution was subsequently made to that shareholder. The tax on these earnings and profits was thus deferred. A U.S. shareholder, associated with agreements to boycott requests through one or more operations of a CFC, was required to increase the Subpart F income. This increase was based on the current-year earnings and profits of those operations. Tax deferral was thus lost on this income.

Generally, the taxable income from a DISC was treated similarly to the current-year earnings and profits of a CFC. A portion of the income from a DISC could not be excluded from the shareholders' current-year U.S. taxable income. The remaining portion of the income from a DISC could be excluded from the shareholders' current-year U.S. taxable income (thus deferring U.S. tax). U.S. shareholders, associated with agreements to boycott requests through one or more operations of the DISC, were required to increase the DISC income included in their current-year U.S. taxable income. This increase was based on the DISC income from those operations.

Methods of Computing Loss of Tax Benefits

The loss of tax benefits was computed by electing to use either the "specifically attributable income and taxes" method or the "international boycott factor" method. The election was an annual one made by the U.S. taxpayer. Taxpayers that could separately identify the earnings and profits from each of their specific business operations could elect the specifically attributable method. When the earnings and profits of each separate operation could not be identified, the taxpayers elected the international boycott factor method.

Persons that chose the specifically attributable income and taxes method reported their share of the foreign taxes paid and Subpart F and DISC income, based on the earnings and profits of each separately identified boycott operation. A foreign tax credit was denied for the foreign taxes reported. The Subpart F income reported was the amount of the tax benefit lost to shareholders of CFC's. The DISC income reported was the amount of the tax benefit lost to shareholders of DISC's.

Taxpayers using the international boycott factor method computed the loss of tax benefits as follows:

$$\frac{\text{Boycott "income" [21]}}{\text{Total "income" from outside the United States [22]}} \times \text{Tax benefit}$$

The result of this computation for each type of tax benefit was the amount of the loss.

The computation of the loss of a foreign tax credit was determined by the taxpayer's choice of the two methods described above. Under the specifically attributable income and taxes method, the benefits of the foreign tax credit were denied by excluding the boycott-related taxes from the foreign taxes eligible for the credit. On the other hand, under the international boycott factor method, the boycott-related taxes were included in the foreign taxes eligible for the credit. The total foreign tax credit was then reduced by the amount of the computed loss of benefit (defined above).

The losses of U.S. tax deferral on income associated with the earnings and profits of a CFC and the income of a DISC were determined under both methods, by computing amounts to be treated as "deemed distributions" of income in the current taxable year. Thus, the U.S. taxable income of the U.S. shareholder was increased. Under the specifically attributable method, these amounts were computed from the earnings and profits of each separate operation. Under the international boycott factor method, these amounts were based on percentages of the total benefits that otherwise would have been allowed.

Effects of Boycott-Related Tax Penalties

For the 1980-82 period, fewer than 100 U.S. corporations per year reported losses of tax benefits due to agreements to participate in, or cooperate with, international boycotts. As shown in Figure E, there was a decline in the number of U.S. corporations reporting losses of benefits since 1978, when the largest number of U.S. corporations (146) reported losses of tax benefits. (Corporations are the only U.S. persons that have had tax benefits denied as the result of agreements to boycott requests.) In comparing the number of corporations that filed boycott reports with the much smaller number reporting denial of tax benefits, it should be noted that not all corporations filing boycott reports received requests. Of those that received requests, not all agreed to comply. Further, of the corporations that agreed to boycott requests, not all owned a Domestic International Sales Corporation or a Controlled

Foreign Corporation, or had a U.S. income tax against which to apply a foreign tax credit. No other loss of benefits were prescribed under the tax law.

Figure E.--Number and Percent of Corporations Denied U.S. Tax Benefits, 1976-1982

Year	Number of corporations for year--		Percent
	That filed boycott reports	Denied tax benefits	
	(1)	(2)	(3)
1976 ...	1,356	35	2.6%
1977 ...	2,521	100	4.0
1978 ...	2,536	146	5.8
1979 ...	2,892	101	3.5
1980 ...	3,090	88	2.8
1981 ...	n.a.	84	-
1982 ...	2,583	87	3.4

n.a. - Not available.

As previously stated, there are three types of tax benefits which may be lost by corporations agreeing to participate in, or cooperate with, international boycotts. These U.S. corporations frequently lose more than one benefit in any given year, as a result of such agreements. U.S. corporations with international sources of income are likely to be large corporations that use taxes paid to foreign governments as a foreign tax credit to reduce their U.S. tax liability. A large number of these same corporations are also owners of CFC's and DISC's. As an example, of the 84 corporations in 1981 which lost tax benefits, 29 were required both to reduce their foreign tax credit and also to decrease the amount of income deferred from U.S. tax based on the earnings and profits of the CFC's or income from the DISC's.

U.S. corporations forfeited a total of \$84 million in tax benefits, due to agreements to boycott requests, since 1976, the first year for which the penalties were imposed. Of this amount, \$33 million was associated with losses in foreign tax credits; \$7 million reduced the allowable foreign tax credits (under the boycott factor method), while \$26 million of taxes paid to boycotting countries was disallowed for credit (under the specifically attributable method). Of the three tax benefits at risk from agreements to participate in, or cooperate with, international boycotts, the loss of U.S. tax deferral on the \$43 million of income from the earnings and profits of CFC's represented the largest loss in tax benefits incurred by U.S. corporations from 1976 through 1982. Additionally, shareholders of DISC's incurred a loss of U.S. tax deferral on \$8 million of DISC income that resulted from agreements to boycott requests.

SUMMARY

Beginning in 1976, the United States instituted tax provisions to levy penalties, in the form of lost tax benefits, against U.S. persons that agreed to participate in, or cooperate with, international boycotts not sanctioned by the United States. From 1976 through 1982, the largest percent of boycott requests, 93 percent, was made by countries which were members of the League of Arab States. All the requests attempted, in some fashion, to achieve cooperation from U.S. persons with a boycott through restrictive business conditions. During the period 1976-82 (excluding 1981 for which detailed data are not available), there were 79,900 requests made of U.S. persons to participate in, or cooperate with, international boycotts. Of those requests, 42 percent, or 33,800, were followed by agreements. Most of the requests and agreements, 96 and 97 percent, respectively, involved U.S. corporations, as opposed to other types of U.S. persons. As a result of agreements to boycott requests, a small number of U.S. corporations lost U.S. tax benefits totaling \$84 million from 1976-82.

DATA SOURCES AND LIMITATIONS

These statistics were based on all International Boycott Reports, Forms 5713, filed with the Internal Revenue Service. As such, the data were not subject to sampling error. (See the Appendix for a general description of the nonsampling error controls and limitations typical of most Statistics of Income (SOI) programs.) Any results of audit examination of the income tax returns related to these reports are not reflected in the statistics. Data for 1976-80 and 1982 include all International Boycott Reports filed by persons with accounting periods ending in those calendar years. Data for 1981 were limited to Forms 5713 with a computation of loss of tax benefits on Schedule C attached to this form. (The data for 1981 are included in Figure E and Table 4, and in the data analysis included under the effects of boycott-related tax penalties.)

Data for 1976 include only persons with accounting periods ending in November and December. (The effective date of the boycott provisions was November 4, 1976.) The data analysis contained in this report on the operations in boycotting countries and requests and agreements were limited to the data reported in full calendar years, 1977-80 and 1982.

Generally, boycott reports included for a particular year were those which had accounting periods ending during that year. However, for the 1977-80 studies, prior-year boycott reports were also included in the statistics. These reports were received by the Internal Revenue

Service during the same period as the current-year reports and were processed if they were not previously included in the prior-year statistics. A complete historical boycott file was not available for 1982. (Only Forms 5713 with attached Schedule C were included for 1981.) As a result, prior-year returns were processed for 1982 only when the current-year reports for the same U.S. persons were not available.

Data from Forms 5713 filed by Domestic International Sales Corporations were included in the corporation data in this report. Additionally, the data for the number of corporations which reported operations and the number of requests and agreements reported were accumulated from the Forms 5713 of the common parents of "controlled groups" of corporations. Over counting of these items would otherwise have resulted because each member of the group was required to report the operations, requests and agreements of the entire group. This reporting was usually accomplished through information provided by the common parent to each of its members. With respect to corporations which were members of controlled groups, if tax returns were filed separately for each member of a controlled group, then Form 5713 had to be attached to each separate return. (Waivers to this requirement were allowed under specific conditions.) However, if a consolidated return were filed for all the members of a controlled group, then a Form 5713 could be filed on behalf of all the members.

EXPLANATION OF SELECTED TERMS

Members of Controlled Groups of Corporations.--Under the boycott provisions, members of controlled groups were those corporations related to one another generally through 50 percent or more common stock ownership and which could file separate income tax returns. The controlled group provisions of the Internal Revenue Code applied when (1) a common parent corporation had 50 percent or more control of one or more chains of subsidiaries (parent-subsidiary group), or (2) five or fewer persons (individuals, estates, or trusts), individually or in combination, had 50 percent or more control of each of two or more corporations, but where the sum of each person's "identical" ownership in the group totaled more than 50 percent (brother-sister group). "Identical" ownership was considered to be the lowest common percent of ownership of an individual owner in each of the corporations comprising the group. Thus, if a company had ownership in each corporation in a given group and the smallest percent ownership was, for example, 5 percent of corporation A, that company's identical ownership in the entire group was considered to be 5 percent. Combination groups were possible when a person

or persons controlled two or more corporations, one of which was the parent of one or more subsidiary corporations.

National of a Country.--A person which owes allegiance to, or is under the protection of, a nation without regard to the more formal status of citizenship.

Number of Corporations.--The number of corporations that filed a Form 5713 and the number that were denied tax benefits includes each corporation whether a member of a controlled group of corporations or not. Members of a controlled group of corporations were combined and counted as one corporation for the number of corporations reporting operations in boycotting countries and for the numbers of corporations that received and agreed to boycott requests.

Person Agreeing to Participate in, or Cooperate with, an International Boycott.--A person was considered to have participated in, or cooperated with, an international boycott if the person agreed as a condition of doing business, directly or indirectly, with a government, a company, or a national of a country to any of the five types of requests described in the text of this article.

However, a person could agree to meet requirements imposed by a foreign country with respect to an international boycott, when a U.S. law, executive order or regulation sanctioned that participation or cooperation. In such a case, the U.S. person would not have reported the requirement as a boycott request. A U.S. person could agree (without risk of losing U.S. tax benefits) to a country's prohibitions on importing goods produced in whole or in part in any boycotted country or on exporting goods obtained in that country to any boycotted country. However, if a U.S. person agreed to any importing or exporting restrictions on products which were (or which contained components which were) made by a company labelled as an "uncooperative" by any boycotting country, then the U.S. person could be subject to losses of U.S. tax benefits.

NOTES AND REFERENCES

- [1] Staff of the Joint Committee on Taxation, General Explanation of the Tax Reform Act of 1976, p. 282.
- [2] Operations carried out in accordance with the terms of a binding contract entered into before September 2, 1976, did not constitute participation in, or cooperation with, an international boycott until after December 31, 1977.
- [3] The most recent report is entitled The Operation and Effect of the International

- Boycott Provisions of the Internal Revenue Code, Fourth Annual Report, 1985. Detailed information on corporations (excluding Domestic International Sales Corporations) by industry is available in this report. Future reports will be issued on a four-year cycle.
- [4] Form 5713 is attached to, and made part of, a person's U.S. income tax return. Taxpayers are also required to file a duplicate copy of this form with the Philadelphia Service Center of the Internal Revenue Service. These duplicate copies were the basis of the data contained in this article.
- [5] The Middle East and North Africa, 1983-1984, 30th ed., Europa Publications Limited, pp. 171-175.
- [6] "Foreign Policy/ National Security," Congressional Quarterly Almanac, 95th Congress, 1st Session, 1977, Congressional Quarterly Inc., p. 352.
- [7] The Organization of Petroleum Exporting Countries (OPEC) included among its members Iraq, Kuwait, Libya, Qatar, Saudi Arabia, and the United Arab Emirates, which were also members of the League of Arab States.
- [8] Specific guidelines were issued governing violation of U.S. laws. See Restrictive Trade Practices or Boycotts Including Enforcement and Administrative Proceedings, U.S. Department of Commerce, International Trade Administration, Office of Antiboycott Compliance, May 1983.
- [9] For a report from the Office of Antiboycott Compliance, Department of Commerce, see "Antiboycott Program," Export Administration Annual Report, FY 1983, pp. 71-104. See footnote 3 for a reference to the Department of Treasury report.
- [10] Each member of a controlled group of corporations reported the operations of the entire group. U.S. shareholders of foreign corporations reported the operations of the foreign corporations. U.S. partners in foreign partnerships reported the operations of the foreign partnerships.
- [11] However, the related members can establish that separate and identifiable operations are conducted by each member in the particular country. When a related member clearly establishes that it is not connected with the operations involving boycott agreements, the related member is not associated with the agreements. There is no presumption of participation or cooperation.
- [12] However, the U.S. shareholders can also establish that their identifiable operations are separate from the boycott operations of the foreign corporations, and thus there is no presumption of participation or cooperation.
- [13] The boycott list is maintained and published in the Federal Register at least quarterly by the Secretary of the Treasury.
- [14] Request and agreement data are not available for 1981. Data for 1981 were limited to Forms 5713 with a computation of loss of tax benefits reported on attached Schedule C.
- [15] Often this was accomplished by changing the wording of certain statements in the original requests. An example was stamping merchandise with "Made of U.S. materials," rather than with a negative statement, "Not made by 'blacklisted' companies."
- [16] For more specific factors of influence in Arab-U.S. business relations, various publications highlighting economic and business trends of specific countries are available through the Department of Commerce. See, for example, Foreign Economic Trends and Their Implications for the United States, United Arab Emirates, February 1984, and Country Market Survey, Industrial Process Controls, Saudi Arabia, April 1981, included in the International Marketing Information Series, U.S. Department of Commerce, International Trade Administration.
- [17] For additional information on the corporate foreign tax credit, see States, William, "Corporate Foreign Tax Credit, 1980: An Industry Focus," and "Corporate Foreign Tax Credit, 1980: A Geographic Focus," Statistics of Income Bulletin, Summer 1984, pp. 63-84, and Winter 1984-85, pp. 37-63, respectively.
- [18] For additional information on Controlled Foreign Corporations, see Ganelos, Arthur, and Sutton, William, "Controlled Foreign Corporations, 1980," and Sutton, William, and Hobbs, James, "Controlled Foreign Corporations, 1980: A Geographic Perspective," Statistics of Income Bulletin, Spring 1984, pp. 37-57, and Fall 1984, pp. 33-57, respectively.
- [19] For additional information on Domestic International Sales Corporations (DISC's),

see Statistics of Income--1982, Corporation Income Tax Returns. Effective for tax years beginning after December 1984, most DISC's will be replaced by Foreign Sales Corporations (FSC's). A FSC will not be able to include income from operations associated with boycott agreements in the portion of "foreign trade income" that can be exempt from U.S. tax.

[20] Taxes paid to foreign countries include taxes paid, accrued or deemed to have been paid, by the U.S. taxpayer.

[21] Boycott income in the computation includes purchases, sales and payroll attributable to operations involving agreements to boycott requests. If the U.S. taxpayer (corporation) could clearly demonstrate no

involvement in a particular operation, the corporation could be treated as not agreeing to a related boycott request. Therefore, the income items from such operations were not included in the numerator of the boycott factor computation. Otherwise, the boycott income was from all countries and all operations to which agreements were made to boycott requests.

[22] Total income from outside the United States in the computation includes total purchases from countries other than the United States, total sales to or from countries other than the United States and total payroll (paid or accrued) for services performed in countries other than the United States.

Table 1.--Number of Corporations¹, by Selected Boycotting Country, 1977-1980 and 1982

Country and number of corporations	1977	1978	1979	1980	1982
	(1)	(2)	(3)	(4)	(5)
All boycotting countries ²					
Number of corporations:					
With operations.....	1,627	1,645	1,971	2,014	1,916
Receiving requests.....	510	521	496	494	431
Agreeing with requests.....	191	217	172	229	178
Number agreeing with requests as a percent of number receiving requests.....	37	42	35	46	41
Bahrain					
Number of corporations:					
With operations.....	651	626	763	765	751
Receiving requests.....	104	95	133	90	121
Agreeing with requests.....	41	42	36	34	49
Number agreeing with requests as a percent of number receiving requests.....	39	44	27	38	40
Iraq					
Number of corporations:					
With operations.....	691	668	724	791	680
Receiving requests.....	238	230	238	196	186
Agreeing with requests.....	85	90	62	62	60
Number agreeing with requests as a percent of number receiving requests.....	36	39	26	32	32
Jordan					
Number of corporations:					
With operations.....	615	623	771	777	767
Receiving requests.....	90	91	131	158	101
Agreeing with requests.....	42	35	38	30	47
Number agreeing with requests as a percent of number receiving requests.....	47	38	29	19	47
Kuwait					
Number of corporations:					
With operations.....	936	904	1,100	1,109	1,095
Receiving requests.....	209	239	233	251	221
Agreeing with requests.....	79	91	71	144	79
Number agreeing with requests as a percent of number receiving requests.....	38	38	30	57	36
Lebanon					
Number of corporations:					
With operations.....	641	672	834	857	794
Receiving requests.....	74	89	91	73	69
Agreeing with requests.....	39	39	37	31	40
Number agreeing with requests as a percent of number receiving requests.....	53	44	41	42	58
Libya					
Number of corporations:					
With operations.....	631	624	741	730	607
Receiving requests.....	157	162	121	121	104
Agreeing with requests.....	60	62	45	41	45
Number agreeing with requests as a percent of number receiving requests.....	38	38	37	34	43
Oman					
Number of corporations:					
With operations.....	527	540	576	617	616
Receiving requests.....	64	79	61	143	101
Agreeing with requests.....	33	31	19	98	46
Number agreeing with requests as a percent of number receiving requests.....	52	39	31	69	46

Table 1.--Number of Corporations¹, by Selected Boycotting Country, 1977-1980 and 1982--Continued

Country and number of corporations	1977	1978	1979	1980	1982
	(1)	(2)	(3)	(4)	(5)
Qatar					
Number of corporations:					
With operations.....	522	532	609	611	652
Receiving requests.....	64	70	59	78	103
Agreeing with requests.....	26	31	21	26	39
Number agreeing with requests as a percent of number receiving requests.....	41	44	36	33	38
Saudi Arabia					
Number of corporations:					
With operations.....	1,225	1,287	1,543	1,607	1,596
Receiving requests.....	302	292	239	199	231
Agreeing with requests.....	124	111	77	74	85
Number agreeing with requests as a percent of number receiving requests.....	41	38	32	37	37
Syria					
Number of corporations:					
With operations.....	540	525	633	675	560
Receiving requests.....	104	114	96	107	102
Agreeing with requests.....	35	39	27	30	27
Number agreeing with requests as a percent of number receiving requests.....	34	34	28	28	26
United Arab Emirates					
Number of corporations:					
With operations.....	818	803	918	954	1,015
Receiving requests.....	172	182	192	243	193
Agreeing with requests.....	58	65	55	56	67
Number agreeing with requests as a percent of number receiving requests.....	34	36	29	23	35
Yemen (Aden)					
Number of corporations:					
With operations.....	202	201	234	235	255
Receiving requests.....	12	20	17	17	16
Agreeing with requests.....	6	8	3	5	7
Number agreeing with requests as a percent of number receiving requests.....	50	40	18	29	44
Yemen (Sanaa)					
Number of corporations:					
With operations.....	221	244	248	243	267
Receiving requests.....	19	24	15	16	12
Agreeing with requests.....	12	12	6	4	8
Number agreeing with requests as a percent of number receiving requests.....	63	50	40	25	67

¹Corporations which were members of a controlled group were combined and counted as one corporation. Many corporations had operations in more than one country, and as a result, the data are not additive.

²Boycotting countries were all countries reported on Form 5713 known to require participation in, or cooperation with, an international boycott. This included, but was not limited to, the 13 countries presently on the list of boycotting countries maintained by the Secretary of the Treasury.

Table 2.--Income, Assets, and Foreign Characteristics of Persons Filing Boycott Reports, 1976-1980 and 1982
 [Money amounts are in millions of dollars]

Item	1976	1977	1978	1979	1980	1982
	(1)	(2)	(3)	(4)	(5)	(6)
All persons						
Total number of persons.....	1,462	2,864	2,859	3,197	3,413	2,822
Number of persons claiming a foreign tax credit.....	664	1,084	817	834	847	627
Foreign tax credit before boycott reduction.....	n.a.	n.a.	24,288	34,462	19,445	15,837
Number of persons that were shareholders of Controlled Foreign Corporations....	476	729	432	456	471	426
Earnings and profits of Controlled Foreign Corporations before boycott reduction.....	n.a.	n.a.	15,892	43,640	20,830	16,180
Number of persons that were shareholders of DISC's.....	533	915	735	700	777	675
DISC income before boycott reduction....	n.a.	n.a.	1,312	2,007	2,044	2,793
Number of operations in countries boycotting--						
Israel.....	14,233	16,230	22,836	28,433	n.a.	n.a.
Other countries.....	865	1,401	1,405	1,189	n.a.	n.a.
Corporations						
Total number of corporations.....	1,356	2,521	2,536	2,892	3,090	2,583
Specified income (less deficit) ¹	105,405	132,607	122,843	158,265	127,406	83,017
Total assets.....	1,581,814	2,038,467	2,141,100	2,169,179	2,401,545	2,698,759
Number of corporations claiming a foreign tax credit.....	645	955	808	827	843	**
Foreign tax credit before boycott reduction.....	n.a.	n.a.	24,287	34,461	19,444	15,837
Number of corporations that were shareholders of Controlled Foreign Corporations.....	444	650	427	**	471	426
Earnings and profits of Controlled Foreign Corporations before boycott reduction.....	n.a.	n.a.	15,891	43,639	20,830	16,180
Number of corporations that were shareholders of DISC's.....	521	879	732	700	777	**
DISC income before boycott reduction....	n.a.	n.a.	1,311	2,007	2,044	2,793
Number of operations in countries boycotting--						
Israel.....	13,834	14,373	21,131	26,863	n.a.	n.a.
Other countries.....	863	933	1,367	1,187	n.a.	n.a.
All other persons						
Total number of persons.....	106	343	323	305	323	239
Specified income (less deficit) ²	141	816	677	690	803	1,261
Total assets.....	1,347	3,324	8,520	16,720	16,927	4,891
Number of persons claiming a foreign tax credit.....	19	129	9	7	4	**
Foreign tax credit before boycott reduction.....	n.a.	n.a.	1	1	677	(⁴)
Number of persons that were shareholders of Controlled Foreign Corporations....	32	79	5	**	-	-
Earnings and profits of Controlled Foreign Corporations before boycott reduction.....	n.a.	n.a.	1	(⁴)	-	-
Number of persons that were shareholders of DISC's.....	12	36	3	-	-	**
DISC income before boycott reduction....	n.a.	n.a.	1	-	-	(⁴)
Number of operations in countries boycotting--						
Israel.....	399	1,857	1,705	1,570	n.a.	n.a.
Other countries.....	2	468	38	2	n.a.	n.a.

n.a. - Not available.

**Data deleted to avoid disclosure of information for specific taxpayers. Data included in appropriate totals.

¹Taxable income before net operating loss and special deductions.

²Adjusted gross income for individuals, ordinary income for partnerships, and total income for estates and trusts.

³Total assets for partnerships. Not applicable for individuals, estates, and trusts.

⁴Amount less than \$500,000.

NOTE: DISC's are Domestic International Sales Corporations. Data for 1976 are for accounting periods ending in November and December.

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Table 3.--Requests and Agreements to Participate in a Boycott, by Type of Person Filing Boycott Reports, 1976-1980 and 1982

Item	1976	1977	1978	1979	1980	1982
	(1)	(2)	(3)	(4)	(5)	(6)
All persons						
Number of persons receiving requests.....	271	561	592	610	602	537
Number of requests, total.....	6,335	9,808	17,439	14,620	14,879	16,824
Type 1 requests.....	1,196	2,877	4,098	4,170	4,489	5,007
Type 2 requests.....	662	958	4,649	2,692	3,544	3,221
Type 3 requests.....	493	128	1,694	414	522	1,120
Type 4 requests.....	5	36	180	259	348	558
Type 5 requests.....	3,979	5,809	6,818	7,085	5,976	6,918
Number of persons agreeing to requests.....	128	256	273	179	234	212
Number of agreements, total.....	1,837	4,134	7,944	6,639	7,445	5,809
Type 1 agreements.....	370	1,084	1,334	1,410	1,675	1,297
Type 2 agreements.....	79	245	2,876	1,628	2,734	1,875
Type 3 agreements.....	**23	17	441	55	50	475
Type 4 agreements.....	**	10	53	23	23	169
Type 5 agreements.....	1,365	2,778	3,240	3,523	2,963	1,993
Corporations						
Number of corporations receiving requests.....	240	510	521	496	494	431
Number of requests, total.....	6,081	9,711	17,170	14,079	14,312	15,072
Type 1 requests.....	**1,836	2,827	3,952	4,059	4,340	4,586
Type 2 requests.....	**	**1,113	4,616	2,591	3,442	2,884
Type 3 requests.....	493	**	1,676	316	423	797
Type 4 requests.....	5	**	161	161	251	258
Type 5 requests.....	3,747	5,771	6,765	6,952	5,856	6,547
Number of corporations agreeing to requests.....	110	223	217	172	229	178
Number of agreements, total.....	1,762	4,066	7,770	6,615	7,432	5,189
Type 1 agreements.....	**446	1,056	1,255	**3,303	1,671	1,172
Type 2 agreements.....	**	239	2,853	**	2,730	1,750
Type 3 agreements.....	**23	17	423	55	50	351
Type 4 agreements.....	**	10	35	23	23	47
Type 5 agreements.....	1,293	2,744	3,204	3,504	2,958	1,869
All other persons						
Number of persons receiving requests.....	31	51	71	114	108	106
Number of requests, total.....	254	97	269	541	567	1,752
Type 1 requests.....	**22	50	146	111	149	421
Type 2 requests.....	**	**9	33	101	102	337
Type 3 requests.....	-	**	18	98	99	323
Type 4 requests.....	-	**	19	98	97	300
Type 5 requests.....	232	38	53	133	120	371
Number of persons agreeing to requests.....	18	33	56	7	5	34
Number of agreements, total.....	75	68	174	24	13	620
Type 1 agreements.....	**3	28	79	**5	4	125
Type 2 agreements.....	**	6	23	**	4	125
Type 3 agreements.....	-	-	18	-	-	124
Type 4 agreements.....	-	-	18	-	-	122
Type 5 agreements.....	72	34	36	19	5	124

**Data combined to avoid disclosure of information for specific taxpayers.

NOTE: See text for an explanation of the 5 different types of requests and agreements. Data for 1976 are for accounting periods ending in November and December.

Table 4.--Corporations: Tax Effect of the Boycott Provisions of the Internal Revenue Code, 1976-1982
 [Money amounts are in millions of dollars]

Item	1976	1977	1978	1979	1980	1981	1982
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Tax effect of the boycott provisions by corporations using boycott factor method:							
Number of corporations.....	14	44	48	29	31	21	26
Total boycott purchases, sales and payroll.....	n.a.	62	70	118	185	n.a.	165
Total purchases, sales and payroll outside the United States.....	n.a.	11,197	124,968	33,256	49,905	n.a.	52,973
Reduction of foreign tax credit:							
Number of returns.....	10	23	30	11	18	14	10
Credit before reduction.....	118	620	494	233	458	586	316
Reduction of credit.....	(¹)	(¹)	(¹)	1	2	3	1
Credit after reduction.....	117	619	493	232	456	583	314
Denial of tax deferral on income of--							
Controlled Foreign Corporations:							
Number of returns.....	5	23	21	12	14	11	13
Income.....	(¹)	1	1	3	5	3	2
DISC's:							
Number of returns.....	9	29	23	25	23	14	20
Income.....	(¹)	(¹)	(¹)	1	(¹)	(¹)	(¹)
Tax effect of the boycott provisions by corporations using specifically attributable taxes and income method:							
Number of corporations.....	21	56	98	72	57	63	61
Reduction in taxes eligible for foreign tax credits:							
Number of returns.....	7	26	51	30	29	28	32
Amount.....	(¹)	1	10	7	4	2	2
Denial of tax deferral on income of--							
Controlled Foreign Corporations:							
Number of returns.....	5	33	62	41	39	36	35
Income.....	(¹)	2	10	9	3	2	2
DISC's:							
Number of returns.....	13	26	34	25	12	24	24
Income.....	(¹)	1	1	1	1	2	1

n.a. - Not available.

¹Less than \$500,000.

NOTE: DISC's are Domestic International Sales Corporations. Data for 1976 are for accounting periods ending in November and December.