Statistics of Income Studies of International Income and Taxes

By Lissa Redmiles

On October 31, 2005, President Bush's tax reform panel submitted two proposals to the Treasury Department. The main goals of both plans include simplifying the tax code and modifying it to promote growth. Included among the many suggestions are recommendations for reform of the international tax rules [1]. Given these proposals and the increased globalization of the economy, it is helpful to have a general idea of how the U.S taxes international income today and what statistics on it are available.

Currently, the United States generally taxes U.S. persons on their worldwide incomes and foreign persons on their U.S-source incomes or the portion of their income that by definition is considered to be connected with a U.S. source. 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. Any person who does not fit the definition of a U.S. person is considered a foreign person [2].

Statistics of Income (SOI) conducts 14 studies of international income and taxes. These studies include data on the foreign activity of U.S. persons, as well as the U.S. activity of foreign persons. Table 1 lists the data sources for each of the studies mentioned in this article, as well as the current frequency of the study. Data for recent study years can be found on the Statistics of Income Web site (www.irs.gov/taxstats).

Corporate Foreign Tax Credit

Congress designed the corporate foreign tax credit provisions to remove potential double taxation on the foreign-source income of U.S. corporations. Double taxation occurs when an item of income is taxed by both the United States, as the corporation's country of residence, as well as by the country where the income arises. The current provisions allow U.S. businesses to credit their foreign taxes paid, accrued, or deemed paid against their U.S. income tax liability, subject to a limitation. This limitation prevents taxpayers from using taxes paid in a country with a higher tax rate than the U.S. to offset their tax liability on U.S. income. Taxes that exceed the limitation can be carried back 1 year or carried forward for 10.

Corporations are required to calculate this credit separately for different income categories to prevent taxpayers from combining income that is traditionally taxed at low rates, such as dividend or interest income, with income that is typically taxed at higher rates, such as active business income [3].

After rising from $123 billion to $162 billion, or 32 percent, from Tax Year 1994 to Tax Year 1998, the foreign-source taxable income for those returns claiming a credit, in constant 2002 dollars, fell slightly, to $161 billion, for Tax Year 2002 [4]. The fluctuation observed in the foreign-source taxable income over time roughly corresponds to similar fluctuations in worldwide taxable income reported by all corporations [5]. (See Figure A.) In general, the amount of current-year foreign taxes and the foreign tax credit claimed, in real terms, have followed the same pattern as the foreign-source taxable income.

For Tax Year 2002, manufacturing still composed the largest percentage (65 percent) of all foreign-source income reported by corporations claiming the foreign tax credit. As Figure B shows, such income comprised 54 percent of the worldwide income of the manufacturing industry. The information industry had the second largest ratio (36 percent) of foreign-source taxable income to worldwide income.

Six countries that traditionally account for large percentages of foreign-source taxable income are shown in Figure C. The largest percentage of foreign-source taxable income continues to be earned from the United Kingdom. Canada was responsible for the second largest percentage in Tax Year 1980 and 2002, but was edged out by Japan and West Germany for Tax Year 1992. The percentage from West Germany dropped from 8.5 percent for Tax Year 1992 to 2.5 percent for Germany for Tax Year 2002.

Controlled Foreign Corporations

In general, U.S shareholders of a foreign corporation are not taxed on its foreign-source income until such income is repatriated. In 1962, Congress created the Subpart F provisions of the Internal Revenue Code which deny this deferral of current U.S. taxation on

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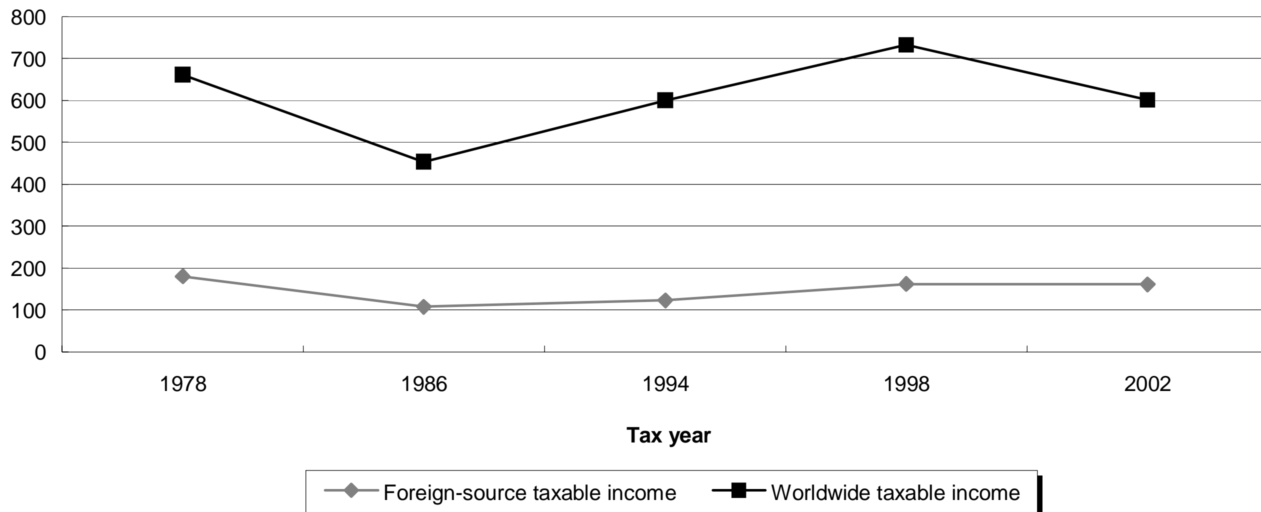
Figure A

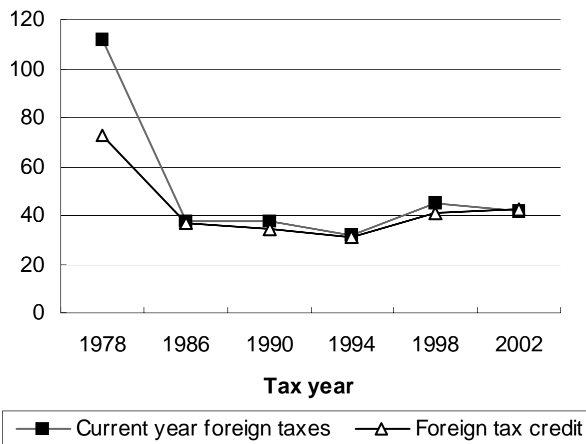
Foreign-Source Taxable Income of Corporations with a Foreign Tax Credit, Compared to Worldwide Taxable Income for All Corporations, for Selected Tax Years, 1978-2002



[1] For comparability, money amounts have been adjusted for inflation to 2002 constant dollars.

Figure B

Current Year Foreign Taxes and Foreign Tax Credit, for Selected Tax Years, 1978-2002



[1] For comparability, money amounts have been adjusted for inflation to 2002 constant dollars.

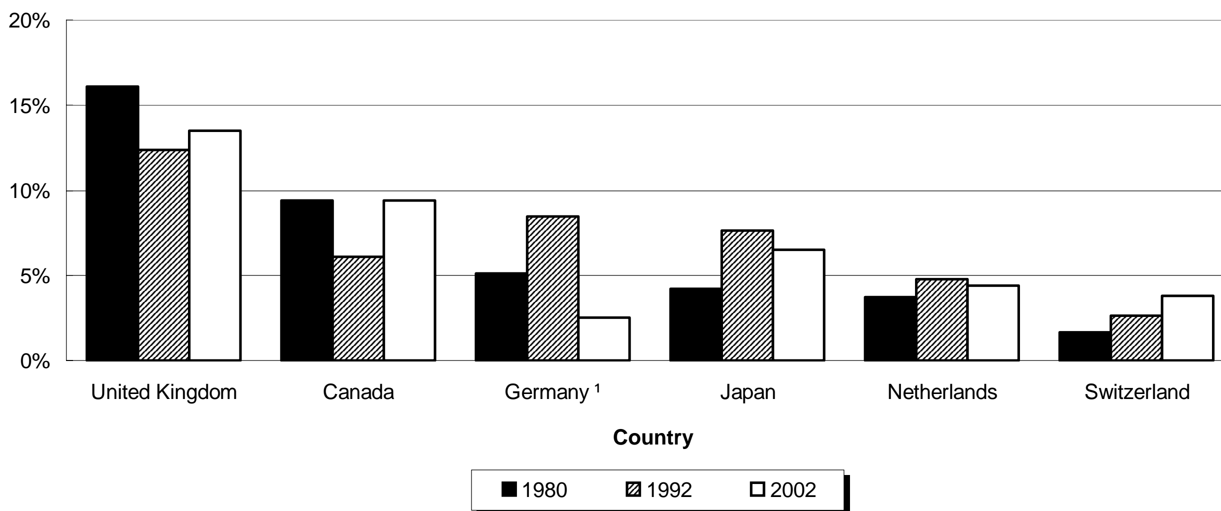
certain types of income earned by controlled foreign corporations (CFCs), including types of passive income which are highly mobile and can be transferred to low-tax jurisdictions, and payments between related parties, which can be used to shift income for tax advantage. CFC income subject to the Subpart F rules is treated as if it were a dividend repatriated to U.S. shareholders, and thus becomes subject to current U.S. tax [6].

For income tax purposes, a foreign corporation is considered to be a CFC if (on any day during the foreign corporation's tax year) U.S. shareholders own more than 50 percent of its outstanding voting stock, or more than 50 percent of the value of all its outstanding stock. To facilitate data collection, SOI defines a corporation as controlled if one U.S. corporation meets either of the 50-percent ownership requirements for a consecutive period of a minimum of 30 days during the foreign corporation's tax year.

Figure D depicts selected items from the major industrial sectors reported by the 7,500 largest controlled foreign corporations for Tax Year 2002. Goods production, which includes manufacturing and

Figure C

Percent of Foreign-Source Taxable Income, by Selected Country, for Selected Tax Years, 1980-2002



[1] West Germany in 1980 and 1992.

Figure D

Selected Items From the 7,500 Largest Controlled Foreign Corporations, by Major Industrial Sector, for Tax Year 2002

[Money amounts are in millions of dollars]

Major industrial sector	Number of largest Controlled Foreign Corporations	Total receipts	Current earnings and profits (less deficit) before income taxes	Total Subpart F income
	(1)	(2)	(3)	(4)
All industries	**7,500**	**2,280,610**	**162,060**	**31,421**
Raw materials and energy production	458	113,151	13,038	1,220
Goods production	2,165	1,071,846	65,280	9,796
Distribution and transportation of goods	864	542,128	18,486	4,015
Information	240	54,766	-5,345	1,029
Finance, insurance, real estate, and rental and leasing	1,816	254,389	32,907	7,233
Services	1,957	244,330	37,695	8,127

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

construction, accounted for the largest percentage of the total receipts (47 percent). In comparison, this industry group comprised 32 percent of total receipts from all U.S. corporations. Total receipts from the largest 7,500 controlled foreign corporations, adjusted for inflation, climbed 82 percent from Tax Year 1988 to Tax Year 2002 (see Figure E) compared to a real increase of 27 percent for all U.S. Corporations.

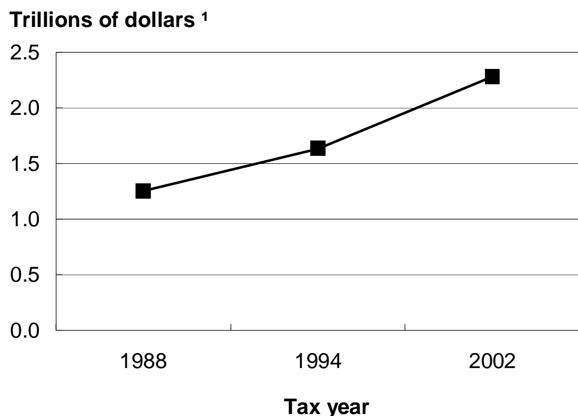
Figure F compares the percentage of total receipts of CFCs by country of incorporation for Tax Years 1988 and 2002, for selected countries. Together, these eight countries accounted for 70 percent of the total receipts for Tax Year 1988 and 60 percent of the total for Tax Year 2002. Of these, the percentage from the Netherlands increased the most, from 4.4 percent to 11 percent.

Foreign-Controlled Domestic Corporations

For SOI purposes, a company incorporated in the United States is foreign-controlled if foreign persons

Figure E

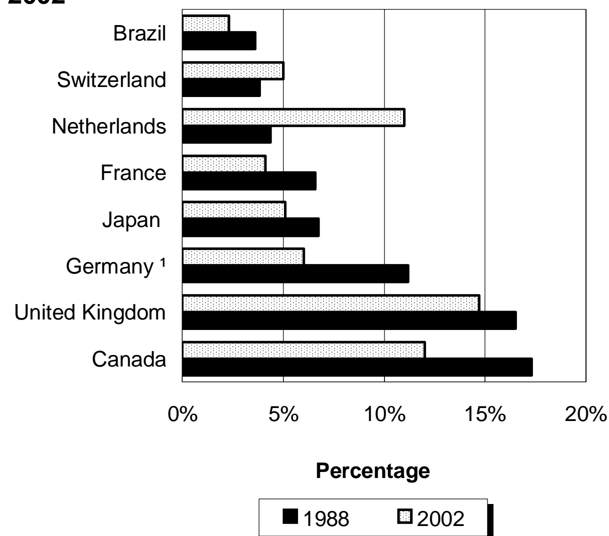
Receipts for the 7,500 Largest Controlled Foreign Corporations, for Selected Tax Years, 1988-2002



[1] For comparability, money amounts have been adjusted for inflation to 2002 constant dollars.

Figure F

Percentage of Total Receipts of 7,500 Largest Controlled Foreign Corporations, by Selected Country of Incorporation, Tax Years 1988 and 2002



[1] West Germany in 1988.

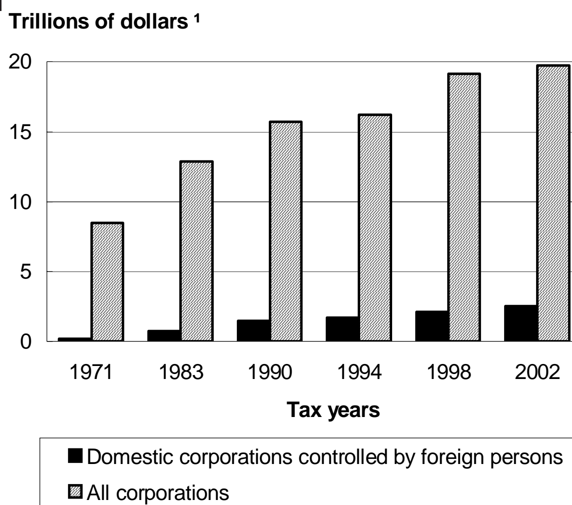
own 50 percent or more of the value of all of the corporation's stock at any time during the accounting period.

Over the past few decades, the portion of total receipts earned by all U.S. corporations attributable to domestic corporations controlled by foreign persons increased steadily, from just around 2 percent for Tax Year 1971 to almost 13 percent for Tax Year 2002. (See Figure G.) For Tax Year 2002, 61,615 domestic corporations controlled by foreign persons reported a total of $6.4 trillion in total assets and $2.5 trillion in receipts. Manufacturing industries generated 44 percent of these receipts, compared to 27 percent of the receipts from all corporations. Foreign persons from six countries, Japan, the United Kingdom, Germany, the Netherlands, Canada, and France, reported 72 percent of the receipts. (See Figure H.)

Foreign Corporations with U.S. Business Operations

The United States taxes certain income earned by U.S. branches of foreign corporations. Income that

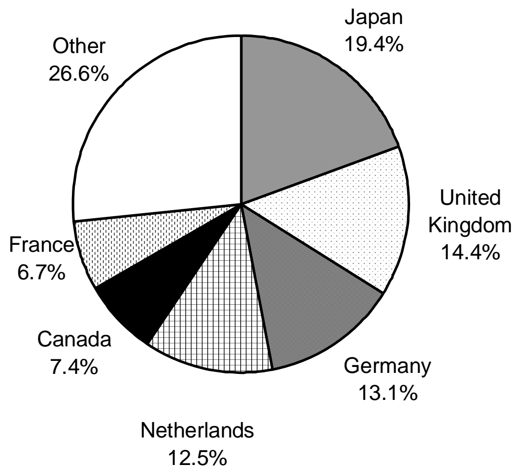
Total Receipts of Domestic Corporations Controlled by Foreign Persons and Total Receipts of All Corporations, for Selected Tax Years, 1971-2002



[1] For comparability, money amounts have been adjusted for inflation to 2002 constant dollars.

Figure H

Share of Total Receipts of Domestic Corporations Controlled by Foreign Persons, by Country, for Tax Year 2002



NOTE: Detail may not add to 100 percent because of rounding.

is “effectively connected” with a U.S trade or business is taxed at regular U.S. corporate tax rates [7]. Certain gains, profits, and other income that are not effectively connected are taxed at a flat 30 percent (this rate may be reduced or eliminated pursuant to a bilateral income tax treaty).

For Tax Year 2002, there were 12,705 foreign corporations with effectively connected U.S. income, about 0.2 percent of all active corporations filing a U.S. tax return. These firms reported approximately $106 billion dollars of total receipts and $3.3 billion in income subject to U.S. tax. They paid a total of $646 million of U.S. tax.

Since 1986, the first year statistics were available for these corporations, the number of these foreign corporations as a percentage of all corporate tax returns has remained relatively constant, at between 0.2 percent and 0.3 percent. The amount of total receipts, adjusted for inflation, grew approximately 48 percent between Tax Year 1986 and Tax Year 2002. In comparison, total receipts, adjusted for inflation, for all active corporations filing a return rose 39 percent over the same time period.

Transactions Between Large Foreign-Owned Domestic Corporations and Related Foreign Persons

The law requires foreign-owned domestic corporations to report their transactions with related foreign persons [8]. For SOI purposes, a domestic corporation is foreign-owned if at least 25 percent of the total voting power of all classes of stock permitted to vote, or 25 percent of the total value of all classes of stock of the corporation, was owned, directly or indirectly, at any time in the tax year, by a single foreign shareholder. SOI collects data from these transactions for foreign-controlled domestic corporations with total receipts of $500 million or more.

These large foreign-owned domestic corporations reported $167 billion of receipts from related foreign persons and payments of $354 billion for Tax Year 2002. In real terms, these amounts have almost doubled since Tax Year 1992. (See Figure I.) The sales of stock in trade accounted for 66 percent of the total amount received for Tax Year 2002, while purchases of stock in trade comprised 79 percent of the total amounts paid to related foreign persons. The finance and insurance industry group was responsible for the largest share of receipts, with $59 billion or 36 percent of the total, while the wholesale trade industry claimed the largest share of payments,

Figure I

Transactions Between Foreign-Owned Domestic Corporations with Total Receipts of $500 Million or More and Filing Form 5472 and Related Foreign Persons, for Selected Tax Years, 1992-2002

[Amounts in billions of dollars]

Item	1992	1996	2002
	(1)	(2)	(3)
From related foreign persons:			
Amounts received [1]	81	152	167
Amounts borrowed, ending balance [1]	87	154	499
To related foreign persons:			
Amounts paid [1]	179	243	354
Amounts loaned, ending balance [1]	25	35	189

[1] For comparability, money amounts have been adjusted for inflation to 2002 constant dollars.

Figure J

Percentage of Total Nonloan Receipts of Foreign-Owned Domestic Corporations with Total Receipts of $500 Million or More and Filing Form 5472 from Related Foreign Persons, by Country of Residence, Selected Tax Years, 1992-2002

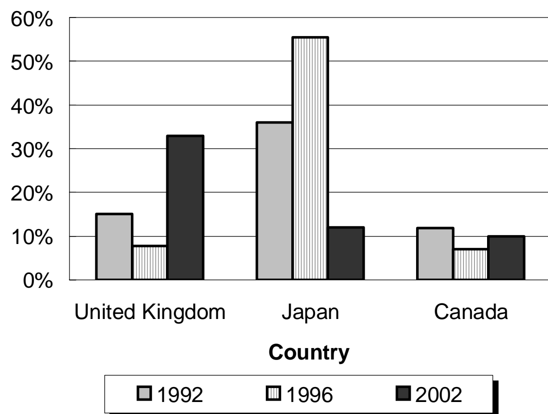
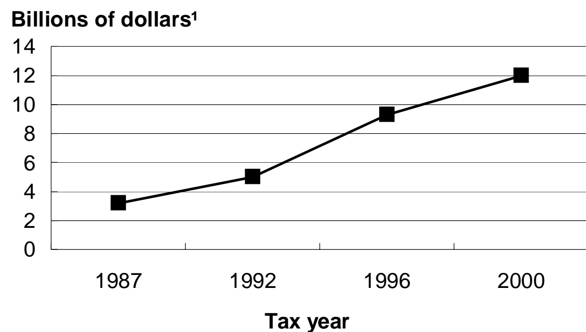


Figure K

Net Exempt Income of Foreign Sales Corporations for Selected Tax Years, 1987-2000



[1] For comparability, money amounts have been adjusted for inflation to 2000 constant dollars.

$158 billion or 45 percent of the total. Residents of Japan received the highest percentage of amounts paid for both Tax Years 1996 and 2002 (45 percent and 32 percent, respectively). The largest percentage of amounts received (33 percent) came from residents of the United Kingdom. For Tax Year 1996, however, residents of Japan accounted for the highest percentage of amounts received (55 percent). Figure J demonstrates the variability in the makeup of the amounts received by country of residence for different tax years.

Foreign Sales Corporations

Congress created Foreign Sales Corporations (FSCs) in 1984. A FSC was a company incorporated abroad and usually controlled by a U.S. person. A portion of the FSC "foreign trade income" was exempt from U.S. taxation. In 1999, Congress replaced the FSC provisions with the Extraterritorial Income Exclusion, which allowed taxpayers to deduct some of their qualifying trade receipts from their gross incomes. Congress subsequently repealed this exclusion and enacted a new domestic production deduction designed to encourage U.S. manufacturing without specifically targeting exporters [9].

For Tax Year 2000, FSCs reported a total of $349 billion of gross receipts and $6.7 billion of taxable income. Most FSCs (88 percent) were companies that exported manufactured products. Total net exempt income (income not subject to U.S. tax) reported by FSCs was $12 billion, an increase of 29 percent in real terms from Tax Year 1996. Figure K shows the steady rise in the net exempt income of FSCs, expressed in constant 2000 dollars, for selected tax years between 1987 and 2000.

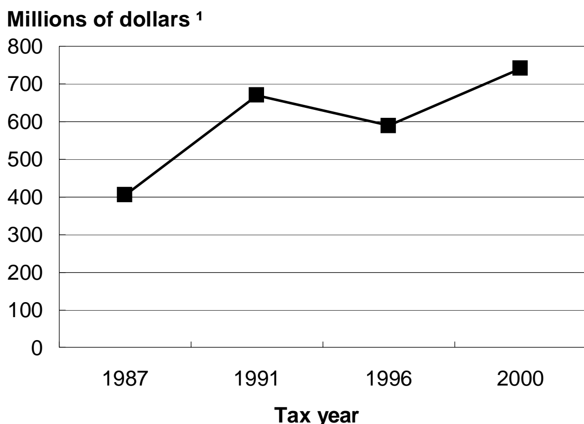
Interest Charge Domestic International Sales Corporations

Congress also created Interest Charge Domestic International Sales Corporations. To elect IC-DISC status, a domestic corporation must have "qualified export receipts" that constitute at least 95 percent of its gross receipts and must be able to classify at least 95 percent of its assets as "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 consist of property related to exporting. The benefit of an IC-DISC is that it allows companies a tax deferral on some of their export related incomes. While a small portion of the income of an IC-DISC is deemed distributed to the shareholder, the rest is not taxed until it is actually distributed, although the interest charge on the tax deferred income must be paid annually.

For Tax Year 2000, IC-DISCs earned $342 million of taxable income and reported $741 of accumulated tax-deferred income to their shareholders. Since 1987, accumulated tax-deferred income of IC-DISCs has risen roughly 83 percent in real terms (see Figure L), while the number of IC-DISCs has declined 39 percent, from 1,185 to 727, over the same time period.

Figure L

Accumulated Tax Deferred Income of Interest-Charge Domestic International Sales Corporations for Selected Tax Years, 1987-2000



[1] For comparability, money amounts have been adjusted for inflation to 2000 constant dollars.

International Boycotts

The international boycott provisions require U.S. persons to report their business operations in countries known to participate in a boycott not sanctioned by the U.S. Most of these operations are in countries known to participate in the Arab League's boycott of Israel. Taxpayers must also report certain types of requests to participate in an international boycott, any agreements to comply with those requests, and any tax consequences. Those taxpayers who participated in such a boycott lose a portion of certain tax benefits related to the boycott income. These benefits include the foreign tax credit, the benefits for FSCs, the exclusion of extraterritorial income, and the tax-deferral available to U.S. shareholders of a CFC or of an IC-DISC.

Figure M

Number of Persons Receiving International Boycott Requests and Agreeing To Participate, for Selected Years, 1976-2002

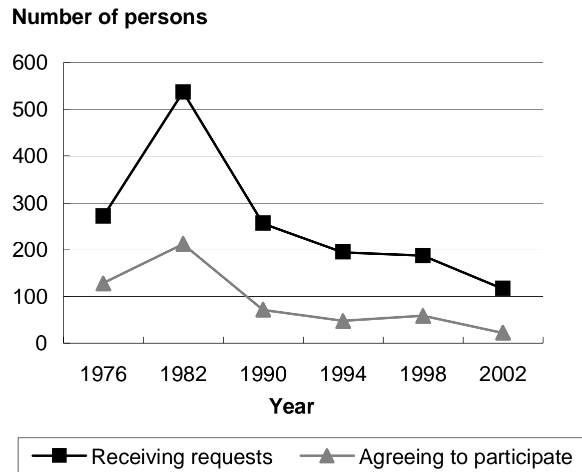


Figure M shows a comparison of the number of persons who have received boycott requests and the number who participated in a boycott for selected years. After a peak in the 1980s, the number who complied with a boycott request declined by more than 80 percent. For 2002, only 116 persons, out of a total of 1,255 who filed a boycott return, reported receiving requests, and only 22 agreed to participate in a boycott. The amount of tax benefits lost each year since 1976 has fluctuated somewhat, but remains relatively small compared to the overall U.S. tax liability. (See Figure N.)

U.S. Possessions Corporations

Currently, the possessions tax credit permits U.S. corporations that meet the requirements to qualify as a "possessions corporation" to credit the tax otherwise payable on possessions-source income. To meet the requirements, the corporation must derive 80 percent or more of its gross income over the eligible period from sources within the U.S. possession and 75 percent or more of its gross income from the active conduct of a trade or business in the U.S. possession. The eligible period is generally the shorter of 36 months or the period when the corporation actively conducted a trade or business in the U.S. possession.

Figure N

International Boycotts: Loss of Tax Benefits, for Selected Years, 1976-2002

[Amounts in thousands of dollars]

Type of tax effect [1]	Calendar year			
	1976	1986	1996	2002
	(1)	(2)	(3)	(4)
Reduction of foreign tax credit	180	993	133	697
Increase in Subpart F income	632	3,550	3,001	5,466
Reduction of foreign sales corporation income exemption	N/A	59	12	--
Reduction in IC-DISC or DISC deferral	79	3	--	--
Reduction in extraterritorial income	N/A	N/A	N/A	260
Item	**Tax year**			
	1976	1986	1996	2002
	(1)	(2)	(3)	(4)
U.S. corporate income subject to tax [1, 2]	580,081,933	453,315,068	733,634,140	600,553,517

N/A--Not applicable.

[1] For comparability, money amounts have been adjusted for inflation to 2002 constant dollars.

[2] Comparability between corporate income subject to tax and boycott tax effects is limited. Most boycott tax effects increase U.S. income subject to tax but the foreign tax credit effect increases U.S. income tax. Also, for 2002, tax effects include amounts for individuals.

Since its inception in 1921, Congress has imposed numerous restrictions on the possessions tax credit and finally repealed it altogether in the Small Business Protection Act of 1996. Due to transition rules, existing possessions corporations can claim credits through taxable years beginning before January 1, 2006 [10].

As a result of the additional legislative restrictions, the number of possessions corporations and the amount of possessions tax credit continue to drop. (See Figure O.) For 2003, some 201 possessions corporations reported $1.1 billion of possessions tax credit, a 72-percent decline from the amount reported for 1982.

Figure O

U.S. Possessions Corporations, Selected Tax Years, 1982-2003

[Money amounts in millions of dollars]

Tax year	Number of returns	Possessions tax credit [1]
	(1)	(2)
1982	544	3,920
1987	516	4,511
1993	474	5,842
1999	300	1,795
2003	201	1,107

[1] For comparability, money amounts have been adjusted for inflation to 2003 constant dollars.

Individual Foreign Tax Credit and Foreign Earned Income

The foreign-earned income exclusion is another legislative provision designed to promote U.S. trade. Currently, qualifying individuals living abroad can exclude up to a certain amount of foreign income ($80,000 for 2005, indexed to inflation in subsequent years) earned while performing a service (primarily wages, salaries, commissions, and fees) and exclude or deduct a certain amount of excess foreign housing cost.

U.S. taxpayers, regardless of their residency, can also claim a foreign tax credit for foreign taxes paid, as long as the taxes were not paid on income excluded under the foreign-earned income provisions. Also, like the corporate foreign tax credit, the credit is subject to a limitation computed separately for different categories of income.

Foreign-source income reported by all U.S. individuals shows substantially more real growth than worldwide income from all U.S individuals [11]. From 1987 to 2001, for example, worldwide income grew 43 percent in real terms, but foreign-source gross income more than quadrupled. Foreign-source income from the United Kingdom and Canada accounted for between 25 percent and 35 percent of the total for the last 4 study years.

There has also been dramatic growth in the total foreign tax credit claimed by individuals. For 2001,

Figure P

Selected Income, Exclusion, Tax and Credit Items, from Individual Returns for Selected Tax Years, 1987-2001

[Money amounts are in billions of dollars]

Item [1]	1987	1991	1996	2001	Percentage change 1987 to 2001
	(1)	(2)	(3)	(4)	(5)
Worldwide income [2]	4,381.3	4,562.5	5,181.6	6,245.1	43
U.S. income tax before credits	582.8	591.0	752.6	933.6	60
Foreign tax credit	1.6	2.4	4.0	6.3	287
Total foreign income exclusion	10.0	12.5	13.5	13.9	40
Returns with a Form 1116 [3]					
Foreign-source gross income	11.1	19.6	32.8	56.5	410
Foreign taxes paid	2.8	4.3	6.1	9.2	225
Returns with a Form 2555 [4]					
Total foreign earned income	12.8	17.9	23.8	27.4	115

[1] For comparability, money amounts have been adjusted for inflation to 2001 constant dollars.
[2] Worldwide income is total income or loss reported on Form 1040 before the foreign-earned income and housing exclusions have been taken.
[3] Taxpayers file Form 1116 to claim the foreign tax credit.
[4] Taxpayers file Form 2555 to claim the foreign-earned income exclusion, housing exclusion and or housing deduction.

U.S individual taxpayers paid $9.2 billion in foreign taxes and were able to credit $6.3 billion, a real increase of 287 percent from the amount claimed for Tax Year 1987. Nevertheless, this credit remains a small fraction, just 0.7 percent, of the total U.S. income tax before credits for 2001. (See Figure P.)

Foreign income earned by individuals abroad also rose steadily between Tax Years 1987 and 1991. For 1987, there were 171,191 taxpayers who reported almost $13 billion of foreign-earned income (in constant 2001 dollars), while, for 2001, some 294,763 taxpayers reported over $27 billion, an increase of about 115 percent.

U.S. individuals living in the United Kingdom historically have accounted for the largest percentages of the reported total foreign-earned income. Of the total number of U.S. individuals reporting foreign-earned income for 2001, about 11 percent lived in the United Kingdom and earned 20 percent of the total foreign-earned income reported. One noticeable shift, however, is the steady decline of foreign income earned in Saudi Arabia. In 1987, some 13,407 U.S. individuals living in Saudi Arabia reported almost 10 percent of the total foreign-earned income. In 2001, 7,449 such individuals earned 3 percent of the total foreign-earned income.

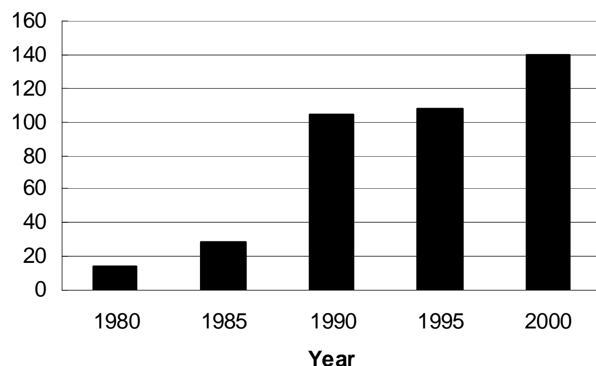
Foreign Recipients of U.S. Income

U.S. payors are required to report and withhold taxes on U.S.-source income distributed to foreign persons. The statutory tax rate for this income is a flat 30 percent, but bilateral income tax treaties or statutory exemptions reduce or eliminate this tax for the majority of recipients [12].

The real amount of payments distributed to foreign persons has grown from about $14 billion in 1980 to almost $140 billion for Tax Year 2000. (See Figure Q.) This growth is partly a result of the real increase in the average payment, which jumped 144

Figure Q

U.S. Income Paid to Foreign Persons, for Selected Years, 1980-2000



[1] For comparability, money amounts have been adjusted for inflation to 2000 constant dollars.

Figure R

U.S. Source Income Paid and Percentage of Total, by Recipient Country, for Selected Tax Years, 1980-2000

[Money amounts are in billions of dollars]

Recipient Country	1980		1990		2000	
	Total income paid [1]	Percentage of total	Total income paid [1]	Percentage of total	Total income paid [1]	Percentage of total
	(1)	(2)	(3)	(4)	(5)	(6)
All countries	**13.70**	**100.0**	**104.59**	**100.0**	**139.66**	**100.0**
United Kingdom	1.89	13.8	18.67	17.9	23.96	17.2
Japan	0.86	6.3	20.74	19.8	19.20	13.7
Cayman Islands	0.04	0.3	0.74	0.7	16.97	12.2
Canada	1.75	12.8	5.79	5.5	6.97	5.0
Germany [2]	1.29	9.4	4.68	4.5	5.64	4.0
France	0.86	6.2	4.74	4.5	4.94	3.5
Netherlands	1.46	10.6	4.94	4.7	4.62	3.3
Switzerland	2.09	15.2	4.20	4.0	3.01	2.2

[1] For comparability, money amounts have been adjusted for inflation to 2000 constant dollars.

[2] West Germany for 1980 and 1990.

percent, from $22,577 for Tax Year 1980 to about $55,157 for Tax Year 2000, and partly due to the sharp increase in the number of payments, which rose from roughly 600,000 to 2.5 million over the same time period. Some of the growth in the number of payments is due to the addition of Social Security payments during this time period.

The largest percentage of the income payments currently flows to recipients in the United Kingdom. The percentage to recipients in Japan increased from 6.3 percent for Tax Year 1980 to 28.5 percent for Tax Year 1995, but declined to 13.7 percent for Tax Year 2000. Foreign persons in the Cayman Islands, however, account for an increasing share of the total income payments, up to 12 percent for Tax Year 2000 compared to less than 1 percent for Tax Year 1980. (See Figure R.)

The total amount of withholding tax, in real terms, has also increased dramatically, but the average foreign tax withheld has fallen. For Tax Year 2000, withholding agents reported a total of $2.3 billion dollars in withholding taxes for foreign persons, an average of $893, compared to not quite $1.3 billion (in constant 2000 dollars), or an average of $2,111, for Tax Year 1980.

Nonresident Alien Estates

The U.S taxes estates of nonresident aliens with more than $60,000 in U.S. gross assets when such property is transferred at death. These assets include tangible or real property physically located in the United States and intangible property, like stocks or debt obligation, whose characteristics define it as U.S property [13]. While the threshold for taxation of these assets is lower than the threshold for U.S. citizens and residents, the tax is applied using the same progressive tax rate structure.

The United States has estate tax treaties with 18 nations. These treaties provide mutual administration assistance between the U.S. and each country and avoid double taxation. Estate tax treaties in some cases also modify the reporting requirements under U.S. domestic law. Accordingly, SOI presents returns for estates of decedents resident in a treaty country separately.

For 2005, some 167 nonresident alien nontreaty estate tax returns reported a total gross estate in the United States of $110 million, an average of $658,547 per estate, and had $26.3 million in estate tax liability. (See Figure S.)

There were 567 estate returns filed for decedents who resided in tax treaty countries. Of those reporting dollar amounts, the average gross estate was $515,759. Canada, Germany, and the United Kingdom had the most number of filers, while Switzerland had the highest average estate, $902,749. For both types of returns, real estate was the largest category of U.S. gross assets.

Figure S

Selected Items from Nonresident Alien Estate Tax Returns Filed in 2005
[Money amounts in whole dollars]

Item	Amount
Total U.S. gross estate [1]	109,977,332
Real estate	37,728,296
Stocks	46,149,878
Total allowable deductions	31,265,920
Taxable estate	78,711,291
Net estate tax	26,349,775

[1] For U.S. tax purposes.

Foreign Trusts

U.S. persons who transfer property to or receive a distribution from a foreign trust, or who receive certain foreign gifts, must report these transactions to the Internal Revenue Service. In addition, all foreign trusts with at least one U.S. owner must report an income statement and certain balance sheet items annually.

For 2002, U.S. persons gratuitously transferred property valued at $2.2 billion to foreign trusts, while foreign nongrantor trusts reported $311 million of distributions to U.S. persons [14] [15]. The largest percentages of both the transfers and distributions were between U.S. persons and foreign trusts located in Jersey (34 percent of transfers, 17 percent of distributions) and the Cayman Islands (18 percent of transfers, 22 percent of distributions).

Foreign trusts with at least one U.S. owner had almost $15 billion in assets and earned a total net income of $359 million. Trusts in the Bahamas earned 25 percent of the total net income, while Mexican trusts accounted for another 22 percent.

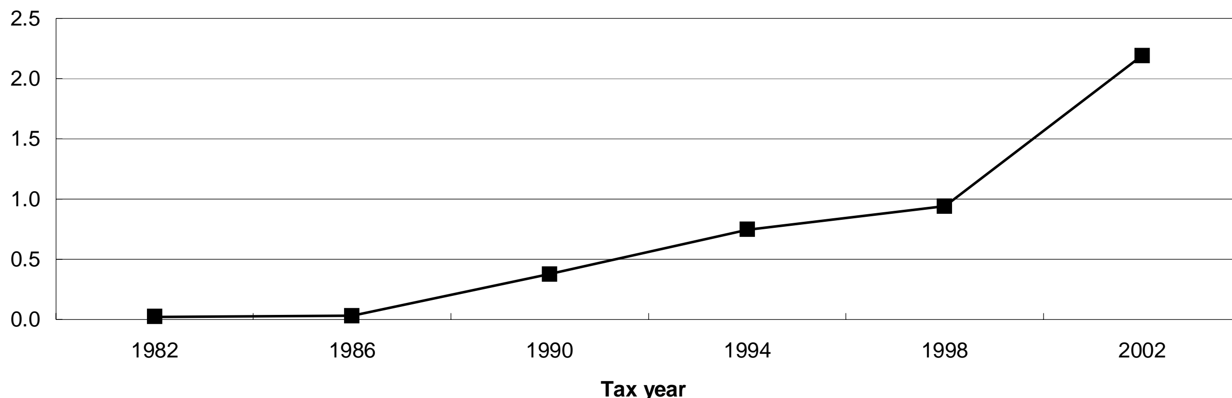
The amount of foreign trust transactions has increased dramatically in the last decade, partly because Congress imposed additional reporting requirements in the Small Business Job Protection Act of 1996. For example, the total value of transferred property, in 2002 dollars, jumped almost 500 percent between 1990 and 2002. (See Figure T.) Likewise, the number of foreign trusts with at least one U.S. owner rose from 291 for 1990 to 2,550 for 2002, and the net income of those trusts, adjusted for inflation, grew by roughly 5,400 percent.

Entity Classification Elections

SOI also collects data on foreign entities electing a classification for Federal tax purposes. Entities eligible to choose their classification status generally include limited liability companies, partnerships, and foreign entities that do not meet the definition of a corporation as outlined in Regulations section 301.7701-2(b)(8). An eligible entity can choose to be regarded as a corporation or partnership, or, if it has a single owner, to be disregarded as a separate entity.

Figure T

Value of Total Transferred Property Reported on Forms 3520, for Selected Tax Years, 1982-2002



[1] For comparability, money amounts have been adjusted for inflation to 2002 constant dollars.

Since 1997, SOI has processed data from about 32,000 new foreign entities electing a classification and from approximately 29,000 filing to change their existing statuses. The majority (70 percent) elected to be disregarded as a separate entity.

Summary

Many of the trends noted in this article show an increase in the amount of foreign activity of U.S. persons and the amount of U.S. activity of foreign persons. Total receipts of the largest 7,500 CFCs, for example, grew at a higher rate than total receipts of U.S. corporations. The portion of total receipts from all U.S. corporations earned by those controlled by foreign persons grew from 2 percent for Tax Year 1971 to nearly 13 percent for Tax Year 2002. The real amount of transactions between large domestic foreign-owned corporations and related foreign persons almost doubled between Tax Year 1992 and Tax Year 2002. Individual foreign-source income and foreign-earned income also increased noticeably between Tax Years 1987 and 2001. Likewise, the real amount of payments distributed to foreign persons rose by a factor of 10 between 1980 and 2000. Over the past two decades, however, fluctuations in foreign-source taxable income from corporations have roughly followed the same pattern as fluctuations in worldwide taxable income.

Data Limitations

These statistics do not include adjustments made during audit or on amended returns. Many of the studies are based on samples and thus are subject to sampling error. Specific data limitations for each study can be found in the most recent *Bulletin* article, available on the Web site: http://www.irs.gov/taxstats/index.html .

Notes and References

[1] For more information on the proposed changes to international taxation, see the Tax Reform Panel's Web site at http://www.taxreformpanel.gov/final-report/.

[2] For more complete definitions of U.S. persons and foreign persons, see Internal Revenue Code section 7701.

[3] The instructions to Form 1118 provide a description of each category of income. Note: the American Jobs Creation Act of 2004 eliminated many of the categories.

[4] Adjustments to constant dollars of the latest year for which statistics are available for each study were made for consistency, using the consumer price index. These adjustments do not necessarily adjust for country-specific inflation in the various foreign countries for which data were reported. See the Bureau of Labor Statistics Web site at: http://www.bls.gov.

[5] Worldwide income is reported as U.S. income subject to tax for all active corporations. See Table 1 in *Statistics of Income, Corporate Income Tax Returns* (Publication 16).

[6] Currently, a U.S. shareholder of a CFC may be required to include in gross income the shareholder's ratable share of the CFCs: (1) subpart F income; (2) increase in earnings invested in U.S. property; (3) previously excluded subpart F income withdrawn from "qualified investments" in less developed countries and in "foreign base company" shipping operations; (4) previously excluded export trade income withdrawn from investment in export trade assets; and (5) factoring income (income derived from the acquisition of a trade or service receivable).

[7] For a description of effectively connected income, see Internal Revenue Code sections 864 and 897 as well as the related Internal Revenue Regulations.

[8] For the definition of a related foreign person, see Jauquet, William P., "Transactions Between Large Foreign-Owned Domestic Corporations and Related Foreign Persons, 2002," *Statistics of Income Bulletin*, Winter 2005-2006, Volume 25, Number 3.

[9] For a more detailed description of the extraterritorial income exclusion and the domestic production deduction legislation, see Council for

International Tax Education, Inc., "New Domestic Production Incentive Legislation" at http://www.citeusa.org/articles/dpd2004.htm.

[10] For a more complete history of the possessions tax credit, see Nutter, Sarah E., "U.S. Possessions Corporation Returns, 1997 and 1999," *Statistics of Income Bulletin*, Summer 2003, Volume 23, Number 1.

[11] Worldwide income is total income or loss reported on Form 1040, *U.S. Individual Income Tax Return,* before the foreign-earned income and housing exclusions have been taken.

[12] For more information on the withholding requirements for foreign recipients of U.S. source income, see Luttrell, Scott, "Foreign Recipients of U.S. Income," *Statistics of Income Bulletin*, Summer 2003, Volume 23, Number 1.

[13] Stock is considered to be U.S. property if it is issued by a domestic corporation. Debt obligations are deemed U.S. property if the obligor is a U.S citizen or resident, domestic corporation, partnership, or governmental unit.

[14] Gratuitously transferred property refers to property transferred to a foreign trust for less than the fair market value.

[15] In a grantor trust, the grantor has certain elements of control over the use of the trust property or income.

Table 1.--Summary of Current Data Sources and Available Data for International Studies

Study	Frequency [1]	Sources of data	Classified by
Foreign Tax Credit-Corporations	Annually	Form 1118-*Foreign Tax Credit-Corporations*	Industry, country to which tax was paid, size of total assets
Controlled Foreign Corporations	Biannually	Form 5471-*Information Return of U.S. Persons with Respect to Certain Foreign Corporations*	Industry, country, size of total assets
Domestic Corporations Controlled by Foreign Persons	Annually	Forms 1120-*Corporate Income Tax Return*	Industry, country of residence of foreign owner
Foreign Corporations with Income Derived from U.S. Sources	Annually	Form 1120-F-*U.S. Income Tax Return of a Foreign Corporation*	Industry, country of residence of foreign owner
Transactions Between Large Foreign-Owned Domestic Corporations and Related Foreign Persons	Biannually	Form 5472-*Information Return of a 25 percent Foreign-owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business*	Industry
Foreign Sales Corporations	No more studies planned [2]	Form 1120-FSC-*U.S. Income Tax Return of a Foreign Sales Corporation*	Product or service, intercompany pricing method, country of incorporation, size of parent assets
Interest-Charge Domestic International Sales Corporations	Every fourth year	Form 1120-IC-DISC-*Interest-Charge Domestic International Sales-Corporation Return*	Product or service
International Boycotts	Annually	Form 5713-*International Boycott Report*	Country making the boycott request, type of request
U.S. Possessions Corporations	Biannually	Forms 1120-*Corporate Income Tax Return*, Form 5712-*Election to be Treated as a Possessions Corporation* and Form 5735-*Possessions Corporation Tax Credit Allowed Under Section 936*	Industry
Individual Foreign Tax Credit and Foreign Earned Income	Every fifth year	Form 1040-*U.S. Individual Tax Return*, Form 1116- *Foreign Tax Credit*, and Form 2555- *Foreign Earned Income*	Country, size of adjusted gross income
Foreign Recipients of U.S. Income	Annually	Form 1042S-*Foreign Person's U.S. Source Income Subject to Withholding*	Country of residence, principal type of income, and recipient type

Footnotes at end of table.

Table 1.--Summary of Current Data Sources and Available Data for International Studies--Continued

Study	Frequency[1]	Sources of data	Classified by
Nonresident Alien Estates	Biannually	Form 706NA-*United States Estate (and Generation-Skipping Transfer) Tax Return: Estate of Nonresident Not a Citizen of the United States*	Tax status, size of U.S. gross estate
Foreign Trusts	Every fourth year	Form 3520- *Annual Return to Report Transactions with Foreign Trusts and Receipt of Certain Foreign Gifts* and Form 3520-A- *Annual Information Return of a Foreign Trust with a U.S. Owner*	Country of foreign trust, size of net income or deficit
Entity Classification	Continuous	Form 8832- *Entity Classification Election*	Data available upon request only

[1] Frequency refers to current frequency and may not reflect the frequency of the study in prior years.
[2] FSC provisions have been repealed.