Foreign Investment and Activity in the United States Through Corporations, 1983

By James R. Hobbs*

The 33,600 domestic corporations "controlled" by a foreign person generated $390 billion of worldwide receipts for 1983 and reported total assets amounting to $530 billion [1]. The 1 percent of U.S. corporations that were foreign-controlled accounted for more than 5 percent of the receipts and assets reported on all U.S. corporation income tax returns for 1983 (see Figure A).

For 1983, 8,000 foreign corporations (i.e., those incorporated abroad) reported nearly $21 billion of receipts generated from activities "effectively connected" with a U.S. trade or business. The majority, 67 percent, of these receipts were for foreign banks with U.S. branch operations.

FOREIGN INVESTMENT AND ACTIVITY IN THE UNITED STATES

Foreign direct investment in the United States can take several forms, including corporations, partnerships, and joint ventures. Under these forms of direct investment, the foreign investor has sufficient equity in the enterprise so as to control and participate in managing its operations [2].

A foreign direct investor can either gain control of an existing U.S. corporation, or create a new company incorporated in the United States. Another method of operating in the United States is through a branch operation of a foreign corporation. This article will first focus on domestic corporations that are controlled, i.e., owned, by a foreign person, and second on foreign corporations with branch operations in the United States [3].

There are several factors involved in the decision of a foreign investor to operate in the United States through either a "domestic" or "foreign" corporation [4]. These factors include, but are not necessarily limited to, the following: (1) the investor's short- and long-term objectives; (2) which type of corporation is best suited to penetrate the U.S. market; (3) availability of financial resources; (4) acceptable levels of risk, such as from product liability; (5) U.S. importation policies; (6) requirements on foreign investment by the investor's home country; and (7) both U.S. and home country tax considerations. The U.S. tax structure for both foreign-controlled domestic corporations and for foreign corporations operating in the United States are discussed in this article.

Figure A. — Foreign Investment and Activity Through Corporations as a Percentage of All Corporations, 1983[1]

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	All corporation income tax returns	Returns of domestic corporations owned by a foreign person		Returns of foreign corporations with U.S. effectively connected income	
		Number or amount	Percentage of all returns	Number or amount	Percentage of all returns
Number of returns	2,999,071	33,622	1.12%	8,001	0.27%
Total assets	$10,201,084,144	$530,334,499	5.20	(2)	(2)
Total receipts	7,135,494,059	389,908,798	5.46	$20,793,723	0.29
Business receipts	6,334,602,711	359,793,137	5.68	5,477,256	0.09
Net income (less deficit)	188,313,928	1,848,521	0.98	−1,117,898	N/A
Net income	296,932,146	12,447,588	4.19	693,369	0.23
Deficit	108,618,218	10,599,067	9.76	1,811,268	1.67
U.S. income subject to tax	218,686,396	10,706,827	4.90	468,995	0.21
Total U.S. income tax before credits	92,218,567	4,848,504	5.26	182,806[3]	0.20
Total U.S. income tax after foreign tax credit	72,267,402	4,177,943	5.78	157,572[3]	0.22
Total U.S. income tax after all credits	51,862,454	3,418,554	6.59	152,443[3]	0.29
Distributions to stockholders except in own stock	128,298,545	4,326,837	3.37	409,044	0.32

[1] Includes domestic corporations owned by foreign persons and foreign corporations with U.S. effectively connected income. For the foreign corporations, income statement items shown in this figure pertain only to income effectively connected with a U.S. trade or business.
[2] Balance sheet items of foreign corporations with U.S. effectively connected income are generally not included in the statistics. However, balance sheets for U.S. branches of foreign insurance companies are included in the statistics for all corporation income tax returns.
[3] Includes tax both on income effectively connected and *not* effectively connected with a U.S. trade or business.
N/A — Not applicable.

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DOMESTIC CORPORATIONS CONTROLLED BY FOREIGN PERSONS

U.S. Taxation

Domestic corporations that are controlled by a foreign person are taxed by the United States in a manner similar to that of other domestic corporations. Control is defined for this purpose as 50 percent or more direct or indirect ownership of a corporation's voting stock by at least one foreign entity, such as by a corporation.

For 1983, only 7 percent (2,437 returns) of the 33,622 returns of foreign-controlled domestic corporations indicated an exact 50 percent foreign ownership level. The great majority (over 89 percent, or 29,997 returns) indicated that the level of ownership was over 50 percent. Another 1,188 returns (4 percent) only indicated that ownership was 50 percent or more, but failed to provide the exact percentage of ownership [5].

Most domestic corporations are taxed on their worldwide income [6]. This includes corporations that are controlled by foreign persons. In general, the taxable income of a corporation is its gross receipts less ordinary and necessary business deductions and certain statutory special deductions [7].

Unfortunately, the statistics available for this article do not separate domestic taxable income from foreign-source taxable income for foreign-controlled domestic corporations. However, these corporations claimed $671 million of foreign tax credits for 1983. This amount reduced their total U.S. income tax before credits ($4.8 billion) by nearly 14 percent. The foreign tax credit is a credit allowed against U.S. income tax for income, war profits and excess profits taxes paid or accrued to foreign countries or U.S. possessions [8]. To claim a foreign tax credit, a corporation had to have generated foreign-source taxable income, paid or accrued foreign income tax on the foreign income, and had a U.S. income tax liability. By comparison, all of the approximately 3 million U.S. corporations claimed a total of $20 billion of foreign tax credits for 1983. This amount reduced their total U.S. income tax before credits ($92 billion) by almost 22 percent.

For taxable years beginning in 1983, the regular corporate tax rates were as follows:

Taxable income	Tax rate
$25,000 or less	15 percent
$25,001 to $50,000	18 percent
$50,001 to $75,000	30 percent
$75,001 to $100,000	40 percent
Over $100,000	46 percent

The Economic Recovery Tax Act of 1981 reduced corporate tax rates for the lowest income brackets. For taxable years beginning in 1983, the rates were reduced from 16 to 15 percent for taxable income of $25,000 or less, and from 19 to 18 percent for taxable income over $25,000 up to $50,000. Since the data shown in this article include returns with accounting periods that began in 1982, some income was taxed at rates of 16 and 19 percent, rather than 15 and 18 percent, for the two lowest income brackets. See the "Data Sources and Limitations: Nonsampling Limitations" section of this article for a description of accounting period and return coverage of this article.

Corporations which had net long-term capital gains could use an alternative method of tax computation, if it produced a lower amount of tax than under the regular method. Under the alternative method, net long-term capital gains were taxed separately at a rate of 28 percent. The remainder of taxable income was then taxed at the regular rates.

Credits could be used to reduce the tax calculated under either the regular or alternative methods. The two largest credits were the foreign tax credit (previously described) and the investment credit. In addition to the regular or alternative tax after credits, a corporation's tax liability could include an additional tax from recomputing prior-year investment credits and an additional tax for tax preferences.

Dividends paid by domestic corporations to the foreign persons who controlled them were generally subject to a withholding tax of 30 percent. However, this tax rate was often lower than 30 percent for recipients of dividends who resided in a foreign country that had a tax treaty with the United States. The tax withheld represented final payment of the actual tax liability on dividend payments in most instances. The responsibility for withholding the tax belonged to the payer (corporation) or its representative (usually a financial institution), rather than the foreign recipient of the dividend [9].

Dividends paid by foreign-controlled domestic corporations to U.S. persons were not subject to the withholding tax applicable to foreign recipients. However, these dividend payments did have to be reported to the Internal Revenue Service by the corporations. In turn, these dividends were reported as income, and taxed accordingly, on the recipient's U.S. income tax return.

Historical Growth

Foreign involvement in the U.S. corporate sector has grown substantially since the early 1970's. This involvement has been primarily through the foreign control of domestic corporations via stock ownership, as opposed to foreign corporations operating in the United States. This was the case in the early 1970's and had become even more so by 1983. See Figure A for 1983 data.

Total receipts of domestic corporations controlled by foreign persons increased from $39.2 billion for 1971 to

$389.9 billion for 1983. This was an 895 percent increase, using current dollars, over the 12-year period. In comparison, total receipts reported by all domestic corporations grew from $1.9 trillion for 1971 to $7.1 trillion for 1983, a 274 percent increase over the same time period. As a result of the growth rate of foreign-controlled domestic corporations, their share of receipts for all domestic corporations increased from 2.1 percent for 1971, to 5.5 percent for 1983 (see Figure B).

Total assets of domestic corporations controlled by foreign persons showed a similar growth rate. Assets reported increased from $36.7 billion, or 1.3 percent of the total for all domestic corporations, to $530.3 billion, or 5.2 percent of the all domestic corporation total, between 1971 and 1983.

It is also interesting to contrast the growth of foreign-controlled domestic corporations to that of Controlled Foreign Corporations (CFC's) of U.S. companies. CFC's were foreign subsidiaries whose voting stock was more than 50 percent controlled by U.S. corporations [10]. The total assets reported for CFC's rose from $167.8 billion for 1972 to $508.0 billion for 1980. (CFC data are not available for 1971 and 1983.) During this period, total assets of domestic corporations owned by a foreign person rose from $46.9 billion to $279.4 billion. Thus, while the asset level of domestic corporations owned by foreign persons was only 28 percent of that for CFC assets for 1972, that percentage had grown to 55 percent by 1980 [11].

Industry Characteristics

Foreign-owned domestic corporations were involved in every type of industrial activity for 1983. However, as Figure C shows, these corporations were concentrated in three industrial divisions: manufacturing; wholesale and retail trade; and finance, insurance and real estate. These three divisions accounted for 74 percent of the returns filed, 92 percent of the total receipts, and 90 percent of the total assets reported by all domestic corporations owned by a foreign person. By comparison, these percentages were higher than those for all corporations which filed U.S. corporation income tax returns for 1983. For this group of returns, the manufacturing, wholesale and retail trade, and finance, insurance, and real estate industrial divisions accounted for 53 percent of the returns filed, 78 percent of the total receipts, and 84 percent of the total assets.

Manufacturing corporations tend to have larger amounts of assets which generate larger amounts of receipts than do all other corporations. The 3,260 foreign-owned manufacturers had $219 billion of assets and $158 billion in total receipts for 1983. On the average, each manufacturer had $67 million of assets and produced $48 million of receipts. By comparison, the average foreign-owned company for all other industries had $10 million and $8 million of total assets and receipts, respectively [12].

Domestic corporations controlled by foreign persons were involved in the manufacture of many different products. Companies manufacturing petroleum and coal products (including integrated operations) had receipts totalling $50 billion for 1983. This was 32 percent of all receipts for manufacturing industries. Chemical manufacturers had another $25 billion of total receipts. In terms of total receipts, other significant manufacturing areas were food and kindred products ($14 billion), electrical and electronic equipment ($10 billion), tobacco ($8 billion), primary metals ($8 billion), and fabricated metal products ($8 billion).

The comparative levels of assets and receipts of foreign-owned companies engaged in wholesale and retail trade and those engaged in finance, insurance and real estate differed significantly. Trade companies produced large amounts of receipts ($165 billion) with relatively few assets ($66 billion). Stated another way, these companies produced nearly $2.50 of receipts for each dollar of assets. On the other hand, companies involved in finance, insurance and real estate had large amounts of assets ($191 billion), but only $35 billion of receipts. These companies produced less than $0.19 of receipts for each dollar of assets.

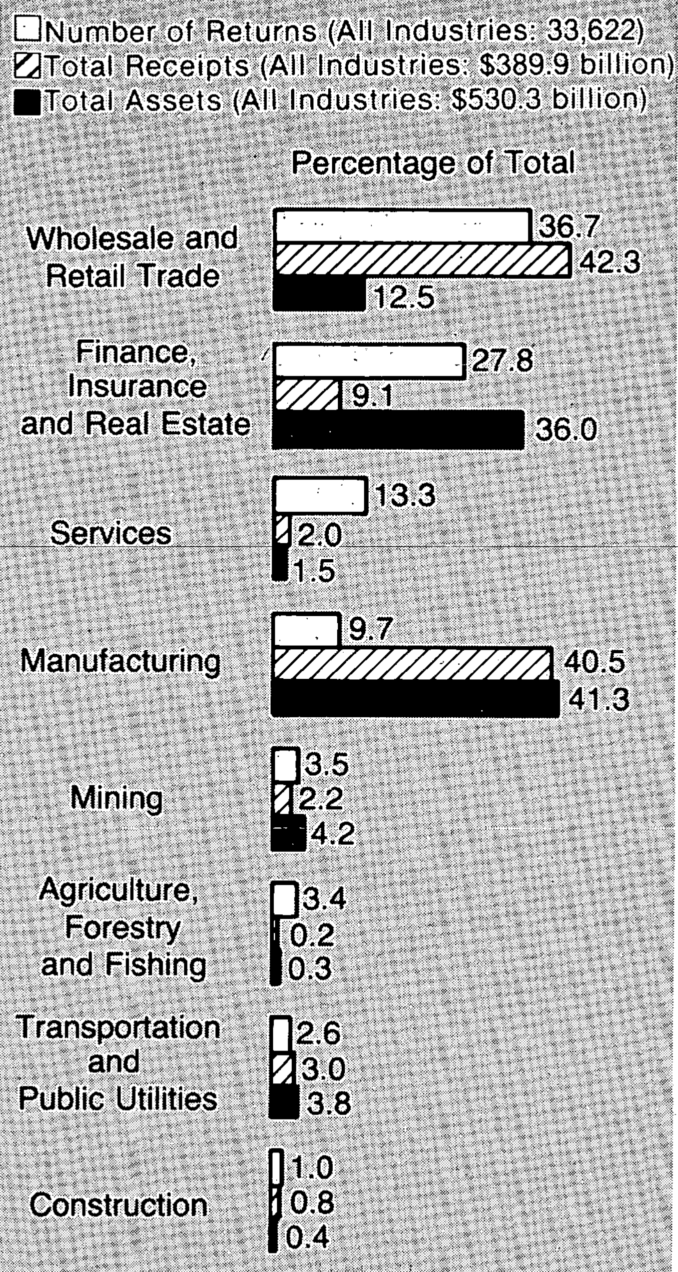
Figure B.—Domestic Corporations Owned by Foreign Persons as a Percentage of Total Domestic Corporations, 1971 and 1983

[All figures are estimates based on samples — money amounts are in thousands of dollars]

Item	1971			1983		
	Total domestic corporations [1]	Domestic corporations owned by a foreign person		Total domestic corporations [1]	Domestic corporations owned by a foreign person	
		Number or amount	Percentage of total		Number or amount	Percentage of total
Number of returns	1,732,609	5,154	0.30%	2,991,070	33,622	1.12%
Total assets	$2,889,221,468	$36,673,786	1.27	$10,201,084,144	$530,334,499	5.20
Total receipts	1,902,634,665	39,181,487	2.06	7,114,700,336	389,908,798	5.48
Net income (less deficit)	79,540,372	1,111,306	1.40	189,431,826	1,848,521	0.98
Net income	96,450,775	1,495,637	1.55	296,238,777	12,447,588	4.20
U.S. income subject to tax	83,022,626	1,343,597	1.62	218,217,401	10,706,827	4.91
U.S. income tax after credits	31,790,732	609,661	1.92	51,710,011	3,418,554	6.61
Distributions to stockholders except in own stock	32,489,040 [2]	460,350	1.42	127,889,501	4,326,837	3.38

[1] Excludes all data from returns of foreign corporations with income derived from U.S. sources, except for branches of certain foreign insurance companies.
[2] Estimated.
NOTES: Money amounts are in current dollars, except for total assets. Amounts for total assets are based on book values. Year-to-year comparability of the statistics is affected by changes in the tax law.

Figure C
Domestic Corporations Owned by Foreign Persons, by Industrial Division, 1983



Note:
Totals for "All Industries" include small amounts for "Nature of Business not Allocable," which is not shown separately.

The great majority of trade companies were wholesalers. Many of these companies were U.S. distributers of products made in foreign countries by their parent corporations. Wholesalers accounted for $143 billion, or 87 percent, of all receipts by trade companies.

Banks accounted for over 56 percent ($107 billion) of the total assets in the finance, insurance and real estate industrial division. These assets produced $11 billion of receipts for 1983, primarily interest. This 10:1 ratio of assets to receipts was similar to that for all U.S. (i.e., domestically incorporated) banks, which reported $2.8 trillion in assets and $314 billion of receipts, resulting in a 9:1 ratio [13].

Country Characteristics

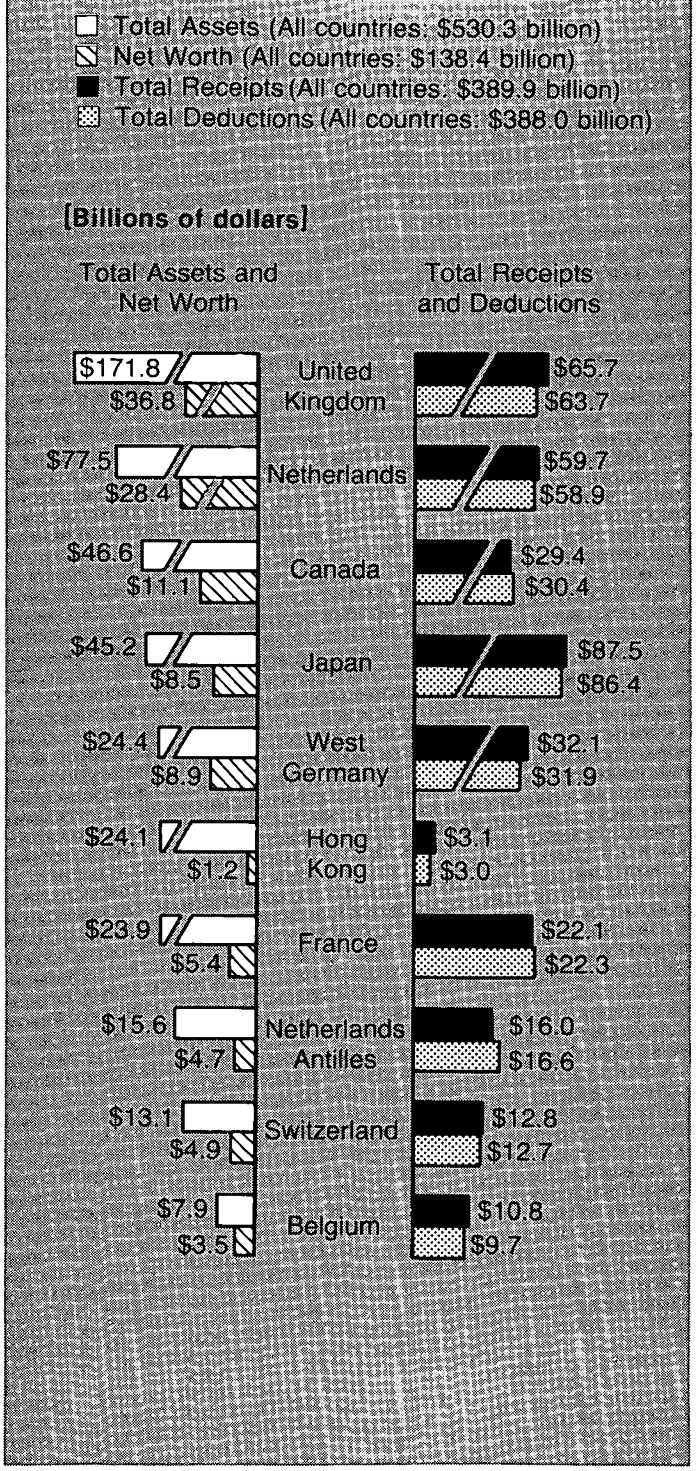
Domestic corporations are owned by persons throughout the world. However, for 1983, owners from the 10 countries shown in Figure D controlled nearly 63 percent of the 33,622 domestic corporations controlled by foreign persons. (The countries shown in Figure D are ranked by size of total assets of the corporations. They represent the geographic location of the foreign owner's country of residence, incorporation, organization, creation, or administration.) The 21,106 corporations owned by persons from these 10 countries accounted for 85 and 87 percent, respectively, of the total assets and receipts of all foreign-controlled domestic corporations.

Domestic corporations controlled by persons from the United Kingdom had a rapid growth rate. While the number of such corporations grew from 2,026 to 2,127, or 5 percent, from 1981 to 1983, their assets and receipts increased at a much higher rate. Assets increased by 87 percent, to $171.8 billion, and receipts rose by nearly 70 percent, to $65.7 billion.

Companies owned by persons from most of the other 10 countries shown in Figure D experienced moderate growth from 1981 to 1983, except for a decline in the total assets and receipts levels of U.S. corporations owned by persons in the Netherlands. While the number of U.S. corporations they owned increased from 1,267 for 1981 to 1,542 for 1983, the assets and receipts of these corporations decreased by 10 percent and 18 percent, respectively, over the same period. The decreases in assets and receipts were primarily in the manufacturing industries.

The level of assets relative to receipts for corporations owned by foreign persons varied from country to country. Three countries (the United Kingdom, Japan and Hong Kong) showed large variations from the average. For 1983, all foreign-controlled domestic corporations had an assets-to-receipts ratio of 1.36, i.e., $530.3 billion of assets to $389.9 billion of receipts. The United Kingdom (U.K.), Japan and Hong Kong had ratios of 2.61, 0.52, and 7.77, respectively. These ratios are the result, to a large degree, of

Figure D
Domestic Corporations Owned by Foreign Persons, by Selected Country of Foreign Owner, 1983



the kinds of business activities in which the corporations were involved. For instance, domestic corporations controlled by persons in Hong Kong were predominantly involved in finance, real estate, or insurance activities. This industrial segment accounted for 98 percent and 74 percent, respectively, of the total assets and receipts associated with corporations with owners in Hong Kong.

Finance, insurance and real estate, along with manufacturing, were the most common business activities of domestic corporations controlled by U.K. persons. Together these industrial divisions accounted for $156.6 billion of the $171.8 billion of total assets, and $47.1 billion of the $65.7 billion of total receipts of U.K.-controlled domestic corporations. Both of these business activities had high assets-to-receipts ratios, resulting in a 2.61 ratio overall for the United Kingdom.

Japan's assets-to-receipts ratio of 0.52 was quite different from that of Hong Kong and the United Kingdom. Wholesale trade was the predominant activity of Japanese-controlled domestic corporations. This industry group, which had a low assets-to-receipts ratio, accounted for 49 and 86 percent, respectively, of all assets and receipts of U.S. corporations with Japanese owners.

Figure D also shows the stockholders' equity (i.e., net worth) in the corporations' assets. Stockholders of domestic corporations controlled by foreign persons had an equity position (i.e., net worth as a percentage of total assets) which averaged 26.1 percent. However, this position varied considerably from country to country. For instance, of the 10 countries shown in Figure D, the equity position ranged from a high of 44.7 percent for Belgian-owned U.S. corporations to a low of 4.8 percent for U.S. firms owned by persons from Hong Kong. Manufacturers accounted for the major portion of assets (75 percent) and net worth (68 percent) of those corporations controlled by persons who resided in Belgium. On the other hand, corporations in the finance, insurance, and real estate industrial division accounted for nearly all of the assets (98 percent) and net worth (96 percent) of those corporations controlled by persons who resided in Hong Kong.

Income Statement and Tax Items

The 33,622 domestic corporations controlled by foreign persons generated almost $390 billion of total receipts for 1983. Over 92 percent of this total was "business receipts," i.e., receipts from sales and operations. Interest income of $17.6 billion accounted for an additional 5 percent of the total. Banks produced most of the interest receipts.

These same domestic corporations claimed $388 billion in deductions for 1983. Cost of sales and operations were $271.4 billion, or 70 percent of the total. Interest paid ($22.3 billion) and depreciation ($11.9 billion) accounted for 6 percent and 3 percent, respectively, of the total deductions.

The net income (less deficit) for these foreign-controlled companies was $1.8 billion for 1983 [14]. This was the result of 13,648 corporations reporting $12.4 billion of profits (as computed under the Internal Revenue Code) and 19,974 companies reporting $10.6 billion of deficits [15]. Thus, only 40 percent of the domestic corporations with foreign owners reported profits for 1983. By comparison, 56 percent of all corporations filing U.S. tax returns for 1983 reported profits which totalled $296.9 billion. The deficits for all corporations were $108.6 billion, resulting in a net income (less deficit) amount of $188.3 billion.

It is also instructive to compare the rate of return on assets for all corporations filing U.S. tax returns to that for foreign-controlled corporations. For this purpose, rate of return on assets is defined as net income (less deficit) as a percentage of total assets. As shown in Figure E, foreign-controlled domestic corporations had a low (0.3 percent) rate of return as compared to all corporations (1.8 percent).

Figure E.—Comparative Rates of Return on Assets, 1983
[All figures are estimates based on samples—money amounts are in billions of dollars]

Item	All corporations filing U.S. tax returns	Domestic corporations owned by a foreign person
Total assets	$10,201.1	$530.3
Net income (less deficit)	188.3	1.8
Rate of return	1.8%	0.3%

The data for 1983 reflect an improving U.S. economy. For all corporations filing U.S. tax returns, the rate of return on assets rose from 1.6 percent for 1982 to 1.8 percent for 1983. The rate of return on assets for domestic corporations owned by a foreign person improved marginally, from 0.291 percent for 1982 to 0.348 percent for 1983. This reflects an increase in net income (less deficit) of 41 percent and an increase in total assets of 18 percent.

For 1983, profitable foreign-controlled domestic corporations had $10.7 billion of "income subject to U.S. tax" (the base on which tax was computed), resulting in tax before credits of $4.8 billion [16]. The difference between the $12.4 billion of profits (or net income) and $10.7 billion of income subject to tax was the result of statutory special deductions. These deductions were allowed to most corporations in computing their taxable income and were for net operating losses from prior years and deductions for both intercorporate dividends received and for dividends paid on certain preferred stock of public utilities.

Tax credits totalling $1.4 billion reduced the U.S. tax liability of foreign-owned domestic corporations to $3.4 billion. The largest credits were $671 million of foreign tax credits and $616 million of investment credits. These companies also claimed $83 million of U.S. possessions tax credits.

Foreign-controlled domestic corporations reported $4.3 billion of distributions to their stockholders in cash and property other than the company's own stock. An additional $181 million of stock was also distributed to stockholders. The amount of distributions was considerably larger than the $1.8 billion of net income (less deficit) computed for tax purposes and reported for all of these corporations. However, as previously noted, a portion of these companies earned profits of $12.4 billion for 1983, out of which distributions could have been made. In addition, some of the distributions made for 1983 could have been made from the retained earnings of previous years.

FOREIGN CORPORATIONS WITH INCOME EFFECTIVELY CONNECTED WITH A U.S. TRADE OR BUSINESS

This section of the article switches the focus from foreign-controlled domestic companies to foreign corporations with income effectively connected with a U.S. trade or business.

U.S. Taxation

Foreign corporations are ones that were incorporated abroad. Thus, they were not created or organized in the United States, or under the laws of the United States or any of its States. These corporations are, however, subject to U.S. income tax on income effectively connected with the conduct of a U.S. trade or business and on income from U.S. sources that is not "effectively connected." There were two methods of taxation that applied to the income, depending on whether or not it was considered to be effectively connected with a trade or business in the United States [17].

Foreign corporations were taxed on income effectively connected with a U.S. trade or business in a manner similar to that used to tax the income of domestic corporations. To determine their taxable income, gross income that was effectively connected with a U.S. trade or business was reduced by allowable deductions to the extent such deductions were related to this income [18]. The same tax rates, tax methods, and credits used to reduce tax liability were available to both foreign and domestic corporations. See the section entitled "Domestic Corporations Controlled by Foreign Persons: U.S. Taxation" for a discussion of how tax liability was determined.

Fixed or determinable annual or periodic income from U.S. sources, such as interest, dividends, rents, royalties, annuities, and certain gains (such as from the sale or exchange of patents and copyrights) may or may not have been effectively connected income [19]. This was determined on the basis of whether the income was from assets used in the conduct of a U.S. trade or business and whether the activities of the U.S. trade or business were a principal factor in producing the income.

A foreign corporation could elect to treat income from U.S. real property as effectively connected income, even if it would not have otherwise been considered to be effectively connected income. This income included gross rents and gains from the sale or exchange of real property. This election permitted the corporation to apply deductions against this gross income as well.

Certain types of foreign-source income were also considered to be U.S. effectively connected income. For instance, interest received by a foreign bank from sources outside the United States was treated as effectively connected with the conduct of a U.S. trade or business if the bank had an office in the United States to which the income was attributable and the interest was derived from banking activities in the United States.

As mentioned previously, foreign corporations were also taxed on U.S.-source income that was not effectively connected with the conduct of a U.S. trade or business. This included certain amounts of investment income, such as interest, dividends, rents, royalties, annuities, and gains from the sale or exchange of certain property (including patents, copyrights, timber and coal). Gross income in these categories was taxed at a rate of 30 percent unless the rate had been reduced as the result of a tax treaty between the United States and the foreign company's country of incorporation [20].

Basically, then, a foreign corporation's total U.S. tax was the sum of (1) the tax on income effectively connected with the conduct of a U.S. trade or business and (2) the tax on U.S.-source income that was not effectively connected. It could also include (1) tax from recomputing prior-year investment credits, (2) additional tax for tax preferences, and (3) Personal Holding Company tax. Foreign tax, investment and other credits were used to reduce the corporation's tax liability (just as for domestic corporations).

The transfer of profits from a U.S. branch of a foreign corporation back to its main office in a foreign country was generally not subject to U.S. income tax. However, if the foreign corporation later distributed these profits as dividends and 50 percent or more of its gross income (over a 3-year period) was attributable to effectively connected income from its U.S. branch, then a portion of the distribution could become subject to a U.S. withholding tax of 30 percent. In addition, while interest paid by a U.S. branch of a foreign corporation to foreign creditors could be a tax deduction in calculating effectively connected taxable income, this interest could also be subject to a U.S. withholding tax similar to that described for dividends. These "second-level withholding taxes" could be reduced or eliminated by U.S. income tax treaties with other countries [21].

Only data for the 8,001 foreign corporations which had income effectively connected with a U.S. trade or business are included in this article. Foreign corporations with only U.S. source investment income (i.e., income not effectively connected with a U.S. trade or business) are not included in this article.

Historical Growth

The activity of foreign corporations in the United States has grown at a rapid pace. Total receipts of these corporations from activities effectively connected with a U.S. trade or business grew from $3.4 billion for 1971 to $20.8 billion for 1983, a 516-percent increase. This growth rate was notably higher than the 274-percent increase of all domestic corporations, but was considerably less than the 895-percent increase of domestic corporations controlled by foreign persons. It should be noted that total receipts for domestic corporations includes income from both domestic and foreign activities. It also includes investment-type income, such as interest and dividends not directly connected with a business activity. The amount of domestic-only, business-related income for 1971 and 1983 is not available for comparison to the U.S. effectively connected income of foreign corporations.

Industry Characteristics

As can be seen in Figure F, the finance, insurance and real estate industrial division accounted for the majority of business activity in the United States by foreign corporations. In fact, this division accounted for 79 percent of the returns filed and 80 percent of the total receipts resulting from trade or business effectively connected with the United States.

Foreign banks had receipts of $13.9 billion, or 67 percent of the 8,001 foreign corporations with U.S. effectively connected income. Nearly all of this income was interest. Only 162 foreign banks, 2 percent of the total, generated these receipts.

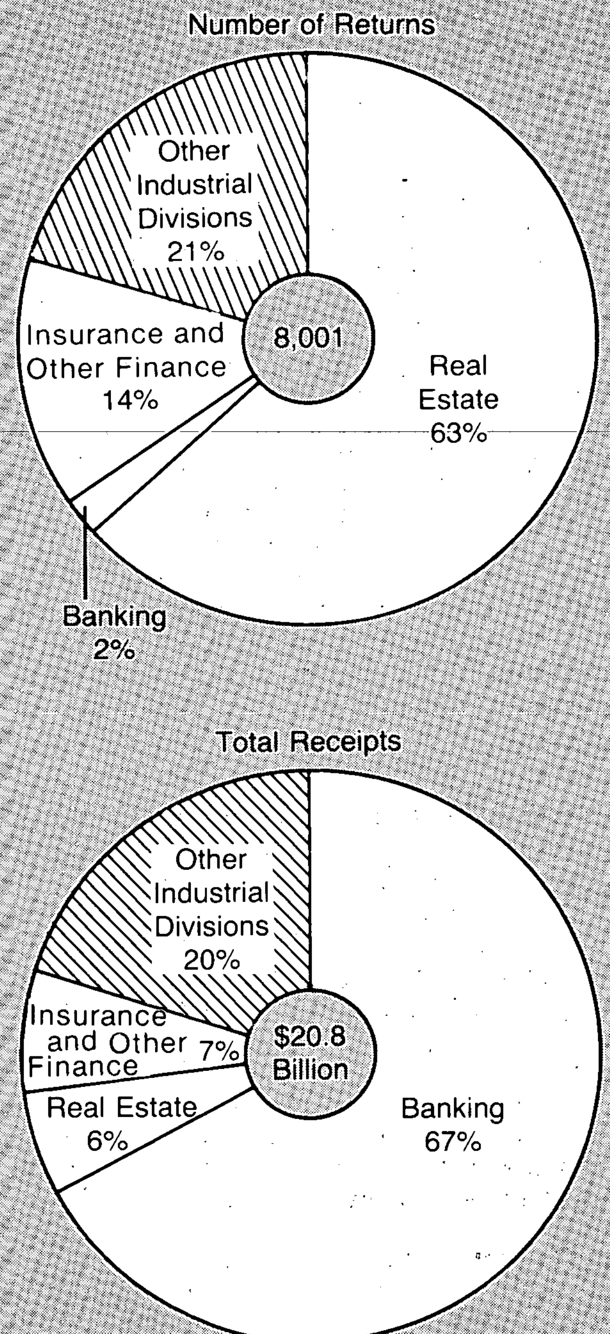
By contrast, the 5,044 foreign corporations involved in real estate (63 percent of the total) generated only $1.2 billion (or 6 percent) of total receipts. This was an average of just $239,000 per company. Rents were the largest income item and interest paid the largest deduction item for these foreign real estate companies. As a group, they reported a net deficit of $244 million for 1983. For every company that reported a profit (for tax purposes), nearly three others reported losses.

Country Characteristics

Three-fourths of the 8,001 foreign corporations which reported income effectively connected with a U.S. trade or business for 1983 were incorporated in only seven countries (see Figure G). These 5,912 foreign corporations also accounted for just over three-fourths of the effectively connected receipts of all foreign corporations operating a U.S. trade or business.

The Netherlands Antilles had the largest number of foreign-incorporated U.S. businesses, totalling 4,124, or nearly

Figure F
Foreign Corporations with Income Effectively Connected with a U.S. Trade or Business, by Industry, 1983



52 percent of the total. However, these corporations accounted for less than 10 percent of the effectively connected receipts of all foreign corporations. This coincided with the fact that 3,150 of these corporations were principally involved in real estate activities and produced only $920 million of receipts. As previously noted, foreign corporations involved in U.S. real estate activities tended to have relatively small amounts of receipts, as compared to those engaged in other business activities.

Figure G.—Foreign Corporations with Income Effectively Connected with a U.S. Trade or Business, by Selected Country of Incorporation, 1983

[All figures are estimates based on samples—money amounts are in millions of dollars]

Country	Number of returns	Total receipts
All countries	8,001	$20,794
Total selected countries	5,912	16,270
Japan	103	4,612
Canada	1,131	3,652
Netherlands Antilles	4,124	2,014
United Kingdom	185	1,606
France	21	1,563
West Germany	200	1,518
Switzerland	148	1,305

The majority of U.S. effectively connected receipts of Japanese corporations were produced by banks. In fact, U.S. branches of 13 Japanese banks produced $4.4 billion of U.S. effectively connected receipts. These receipts accounted for over 96 percent of the receipts of the 103 Japanese-incorporated businesses operating in the United States.

These 13 Japanese banks had $48 million of income subject to tax as a result of their U.S. effectively connected business activities. This taxable income resulted in over $22 million of U.S. taxes, prior to credits. However, this amount was reduced by over $17 million through the use of foreign tax credits. The United States allowed a foreign tax credit against income tax for certain taxes paid or accrued to foreign countries. These taxes relate to the corporation's foreign-source taxable income, certain types of which were considered to be U.S. effectively connected income. See the section entitled "Foreign Corporations with Income Effectively Connected with a U.S. Trade or Business: U.S. Taxation."

Income Statement and Tax Items

As Figure G shows, for 1983, 8,001 foreign corporations reported $20.8 billion of total receipts from activities effectively connected with a trade or business in the United States. Business receipts accounted for only 26 percent of this total, while over 65 percent, or $13.6 billion, of this total was interest income. The 162 foreign banks with U.S. branches accounted for $13.2 billion of this interest income.

Collectively, these foreign corporations claimed $21.9 billion of total deductions for 1983. In conjunction with banks producing the largest amount of receipts, deductions totalling $13.5 billion for interest paid accounted for 62 percent of the total deductions.

Foreign corporations realized an overall net deficit of $1.1 billion from their effectively connected activities. This was the result of 2,272 corporations having $693 million of profits and 5,729 companies that were without profits, totalling $1.8 billion of deficits. (A small number of these 5,729 companies were actually "breakeven" companies with equal amounts of receipts and deductions.) Thus, only 28 percent of the foreign corporations reported profits for 1983, as compared to 56 percent of all corporations filing U.S. tax returns.

Figure H compares 1983 data for all foreign companies and those specifically in the banking, real estate and transportation industries. Real estate companies and banks reported large amounts (i.e., aggregated amounts over $200 million) of both net income and deficit. However, the deficits outweighed profits for both of these industries. Among foreign transportation corporations, 65 companies reported $281 million of deficits, an average of over $4.3 million per company. Only 19 companies reported profits (totalling less than $4 million), an average of $191,000 per company.

Figure H.—Foreign Corporations with Income Effectively Connected with a U.S. Trade or Business: Net Income (Less Deficit), by Selected Industries, 1983

[All figures are estimates based on samples — money amounts are in millions of dollars]

Item	All industries	Real estate	Banking	Transportation
Number of returns, total	8,001	5,044	162	84
Net income (less deficit)	$-1,118	$-244	$-211	$-277
With net income:				
Number of returns	2,272	1,308	46	19
Net income	693	274	213	4
Without net income:				
Number of returns[1]	5,729	3,736	116	65
Deficit	1,811	517	424	281

[1] Includes "breakeven" returns with equal income and deduction amounts.

The profitable foreign corporations had $469 million of income subject to U.S. tax from their effectively connected activities with U.S. trades and businesses. This resulted in a tax of $166 million before credits. With reference to Form 1120F (the return form used by foreign corporations), this tax is called the "Section II" tax. Tax credits of $30 million reduced the U.S. tax liability to $136 million, with foreign tax credits of $25 million accounting for most of the credits. The $136 million of U.S. tax after credits represents less than 1 percent (i.e., 0.65 percent) of the $20.8 billion of total receipts generated by foreign corporations. This compares closely to the 0.70 percent calculated for all U.S. corporation returns using $50.1 billion of regular and alternative tax after credits as a percentage of the $7.1 trillion of total receipts. For these returns, foreign tax credits of nearly $20 billion accounted for a substantial portion of the $40.4 billion of total credits.

Foreign corporations with effectively connected U.S. trade and business income also incurred $12 million of income tax on U.S.-source income that was not effectively connected with their U.S. operations (i.e., "Section I" tax), $3 million of additional tax for tax preferences, and $881,000 of tax from recomputing prior-year investment credits. (The income which is the basis for Section I tax is not included in the income statement statistics for foreign corporations shown in this article.)

SUMMARY

Foreign investment and activity in the United States through corporations has grown at a faster rate than that of domestic corporations. From 1971 through 1983, worldwide receipts reported by all domestic corporations grew by 274 percent. During the same period, worldwide receipts of foreign-controlled domestic corporations increased by 895 percent. Similarly, the receipts of foreign corporations from activities effectively connected with a U.S. trade or business grew by 516 percent [22].

For 1983, foreign-controlled domestic corporations generated nearly 83 percent of their total receipts from two primary activities: manufacturing and trade. In contrast, foreign corporations with U.S. effectively connected income were largely involved in finance, insurance and real estate activities. Banks alone comprised 67 percent of the total receipts of these foreign corporations.

The 1983 Income Year was not a very profitable year for either foreign-controlled domestic corporations or foreign corporations with U.S. effectively connected income. Only 40 percent of the domestic corporations with 50-percent or more foreign owners reported profits (for tax purposes) for 1983, and only 28 percent of the foreign corporations had profits. By comparison, 56 percent of all corporations filing U.S. tax returns reported profits for 1983.

EXPLANATION OF SELECTED TERMS

Attribution Rules. — In regard to domestic corporations that are 50 percent or more owned by a foreign person, these rules provide that an individual shall be considered as owning the stock of a corporation that is owned, directly or indirectly, by or for his family. The family of an individual includes his or her spouse, brothers and sisters, ancestors, and lineal descendants. For more information on these rules, see section 267(c) of the Internal Revenue Code. However, if a corporation was owned by two or more unrelated persons neither of whom owned 50 percent or more of the corporation, then that corporation was excluded from the statistics even though, together, the persons may have met the 50 percent ownership criterion.

Equity Position. — For domestic corporations controlled by foreign persons, this is net worth expressed as a percentage of total assets.

Foreign Person. — A foreign person (or entity) is defined as a person other than a U.S. person. A U.S. person includes: (1) a citizen or resident of the United States, (2) a domestic partnership, (3) a domestic corporation, and (4) any estate or trust (other than a foreign estate or trust). Section 7701 of the Internal Revenue Code defines the term U.S. person.

Net Worth. — This is the stockholders' equity in the corporation, i.e., total assets less the claims of creditors. More specifically, it is the sum of capital stock plus paid-in or capital surplus plus appropriated and unappropriated retained earnings, less the cost of treasury stock. Table 1 shows these items separately for domestic corporations controlled by foreign persons.

Rate of Return on Assets. — For domestic corporations, this is the amount of net income (less deficit) calculated for U.S. tax purposes expressed as a percentage of total assets.

DATA SOURCES AND LIMITATIONS

Sample

The statistics for domestic corporations controlled by foreign persons shown in this article are based primarily on a sample of Forms 1120 (U.S. Corporation Income Tax Return). For foreign corporations with income effectively connected with a U.S. trade or business, the statistics are based primarily on a sample of Forms 1120F (Return of a Foreign Corporation). In addition to these forms, the statistics include data from Forms 1120L (U.S. Life Insurance Company Income Tax Return). Forms 1120L were filed by both domestic life insurance companies and foreign companies that carried on a life insurance business in the United States. Thus, data for both foreign-controlled domestic corporations and foreign corporations with income derived from U.S. sources could include information from Forms 1120L.

Form 1120 samples were stratified based on the size of total assets and net income (or deficit) and the business activity. For 1983, the sample rates achieved for these forms ranged from 0.46 percent to 100 percent. Forms 1120F were stratified based on the size of total assets and the business activity. However, balance sheet information was not collected from Forms 1120F for purposes of these statistics. The sample rates achieved for these forms ranged from 24.26 percent to 100 percent. Forms 1120L were stratified based solely on the size of total assets. The sample rates achieved for these forms ranged from 45.85 percent to 100 percent.

Because the data presented in this article are estimates based on samples, they are subject to sampling error. To properly use the data, the magnitude of the sampling error should be known. Coefficients of variation (CV's) are used to measure that magnitude. For a general discussion of CV's, see the Appendix to this publication. For a more detailed discussion of CV's for 1983, see *Statistics of Income—1983, Corporation Income Tax Returns*.

Nonsampling Limitations

Although most of the data in this article relate to Calendar Year 1983, the estimates cover returns with accounting periods that ended in a 12-month span between July 1983 and June 1984. As a result, this article shows income received or expenses incurred during a 23-month span, from August 1982 through June 1984.

Each return used for the studies described in this article was assigned an industry code during statistical processing. This code was used as a classifier of the returns, as shown in Tables 1 and 3 of this article. (Tables 2 and 4 are classified by geographical area.) The industry code represented the principal business activity (i.e., the activity which accounted for the largest portion of total receipts) of the corporation filing the return. However, a given return may have been for a company engaged in several business activities or may have been a consolidated return filed for an affiliated group of corporations which conducted different business activities. In general, foreign corporations could not be members of such affiliated groups. To the extent that some consolidated (and nonconsolidated) corporations were engaged in many types of business activities, the data in this article are not entirely related to the industrial activity under which they are shown.

The income statement data for foreign corporations shown in this article are only for those corporations which had income effectively connected with a U.S. trade or business. U.S.-source investment income (including interest, dividends, rents, royalties, annuities, and other fixed or determinable annual or periodic income) that was not effectively connected with the conduct of a U.S. trade or business is excluded from the data. The tax liability on this U.S. source investment income is, however, included in Tables 3 and 4 of this article.

FOOTNOTES

[1] For purposes of this article, "control" is defined as any foreign person (i.e., an individual, partnership, corporation, estate or trust) which owned, directly or indirectly, 50 percent or more of a U.S. corporation's voting stock at the end of the tax year. For rules of attribution, see the "Explanation of Selected Terms" section of this article and section 267(c) of the Internal Revenue Code.

[2] Portfolio investment is different from direct investment in that there is no control of the management of the enterprise, except to the extent, for example, of rights to vote periodically in stockholder meetings of corporations. Rather, the portfolio investor has a minimal interest in a company, and is primarily seeking dividend payments and/or an increase in the value of the shares of stock.

[3] For additional information on these subjects, see, for example, Zagaris, Bruce, *Foreign Investment in the United States*, Praeger Publishers, 1980; Guillerm, Christine and Kirk, Richard, *Direct Investment Techniques for the USA*, Kleuver Law and Taxation Publishers, 1983; and *Doing Business in the United States*, Price Waterhouse, 1985. The U.S. Department of Commerce periodically publishes data on foreign direct investment in the United States. For 1983, see Belli, R. David, "Foreign Direct Investment in the United States in 1983," *Survey of Current Business*, October 1984, Volume 64, Number 10, pp. 26–48. Also see, Howenstine, Ned G., "U.S. Affiliates of Foreign Companies: Operations in 1983," *Survey of Current Business*, November 1985, Volume 65, Number 11, pp. 36–50.

[4] Sections 7701(a)(4) and (5) of the Internal Revenue Code defined a domestic corporation as one created or organized in the United States or under the laws of the United States or any State. A foreign corporation was one which was not domestic.

[5] Information on ownership levels was obtained from Form 1120, page 3, question I(2), and Form 1120L, page 7, question H(2). These questions requested information including the owner's name, country and percentage of voting stock owned when any foreign individual, partnership, corporation, estate or trust owned, directly or indirectly, 50 percent or more of the corporation's voting stock at the end of the tax year.

[6] Domestic International Sales Corporations (through 1984) and Interest Charge Domestic International Sales Corporations (beginning in 1985) were not subject to U.S. taxation. Instead, the stockholders of these companies were subject to taxation when profits from these companies were distributed or deemed to be distributed to them. In addition, Small Business (or "S") Corporations were generally not taxed on their income, but rather passed the income on to their stockholders for taxation purposes. Finally, regulated investment companies and real estate investment trusts were only taxed on income that was not distributed to their stockholders.

[7] For a more complete discussion of taxable income, see *Statistics of Income—1983, Corporation Income Tax Returns*.

[8] For the most recent detailed information on corporate foreign tax credits, see Carson; Chris R., "Corporate Foreign Tax Credit, 1982: A Geographic Focus," *Statistics of Income Bulletin*, Fall 1986, Volume 6, Number 2, pp. 21–48.

[9] For the most recent detailed information on U.S.-source dividends (and other types of income, such as interest) paid to foreign persons, see Lewis, Margaret P., "Foreign Recipients of U.S. Income, and Tax Withheld, 1984," *Statistics of Income Bulletin*, Fall 1986, Volume 6, Number 2, pp. 61–77.

[10] For the most recent detailed information on Controlled Foreign Corporations, see States, William, "Controlled Foreign Corporations, 1982: A Geographic Focus," *Statistics of Income Bulletin*, Winter 1986–87, Vol. 6, No. 3, pp. 49–80.

[11] Gianelos, Arthur and Hobbs, James, "Statistics of Income Studies of International Income and Taxes: An Overview," *Compendium of Studies of International Income and Taxes, 1979–1983*, September 1985, pp. 3–8.

[12] Manufacturing companies had larger amounts of assets and receipts than did all other companies when we similarly look at all U.S. corporation income tax returns filed for 1983. For this group, the average manufacturer had $9 million of assets and $10 million of receipts. The average company for all other industries had $3 million and $2 million of total assets and receipts, respectively.

[13] U.S. Department of the Treasury, *Statistics of Income — 1983, Corporation Income Tax Returns*.

[14] For statistical purposes, net income (less deficit) is the difference between "modified" total receipts and total deductions. The $390 billion of total receipts is modified as follows: (1) tax exempt interest from State and local Government obligations is taken out and (2) "constructive" receipts are added in. Constructive receipts are the following types of taxable income from related foreign corporations: (1) includable income from Controlled Foreign Corporations and (2) foreign dividend income resulting from foreign taxes deemed paid.

[15] The 19,974 companies reporting a deficit include a small number of "breakeven" companies, i.e., those whose receipts and deductions were exactly equal.

[16] The $4.8 billion of total income tax before credits includes $59 million from additional tax for tax preferences and tax from recomputing prior-year investment credits.

[17] Section 864(c) of the Internal Revenue Code and the related Internal Revenue Regulations describe tests to be used in determining whether income is effectively connected with a U.S. trade or business.

[18] Charitable contributions were deductible, subject to a limitation, whether or not they were related to effectively connected income.

[19] While capital gains that were considered to be "effectively connected" with a U.S. trade or business were taxable income, other U.S. source capital gains were exempt from the U.S. income tax.

[20] For a list of tax treaties, see IRS Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Corporations*.

[21] The Tax Reform Act of 1986 replaced the "second-level withholding taxes" with "branch level profits and interest taxes," subject to modification or elimination by tax treaties. For tax years beginning after 1986, the U.S. branch of a foreign corporation could be subject to a 30-percent tax on amounts of its "dividend equivalent" and on certain "excess interest" deductions used in calculating effectively connected taxable income. Dividend equivalent is the branch's effectively connected earnings and profits for the year, reduced (or increased) by the amount of increase (or decrease) in the branch's U.S. net equity position during the tax year. Section 884 of the Internal Revenue Code specified the branch level profits and interest taxes.

[22] By making allowances for inflation through the use of the Gross National Product Implicit Price Deflator, the worldwide receipts, in constant dollars, of all domestic corporations increased by 60 percent from 1971 through 1983. By comparison, the worldwide receipts of foreign-controlled domestic corporations increased by 325 percent and the U.S. effectively connected receipts of foreign corporations rose by 163 percent over the same period. The source of the GNP Implicit Price Deflator is the *Survey of Current Business*, Bureau of Economic Analysis, U.S. Department of Commerce, July issues.

Table 1.—Domestic Corporations with 50 Percent or More Ownership by a Foreign Entity: Balance Sheets and Income Statements, by Industrial Division

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	All industries[1]	Agriculture, forestry, and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade	Finance, insurance, and real estate	Services
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Number of returns, total	**33,622**	**1,149**	**1,162**	**352**	**3,260**	**862**	**12,343**	**9,333**	**4,463**
With net income	**13,648**	**385**	**310**	**135**	**1,873**	**592**	**4,993**	**2,827**	**2,533**
Total assets	**530,334,499**	**1,826,447**	**22,047,801**	**2,172,726**	**219,225,274**	**20,085,931**	**66,127,339**	**191,094,419**	**7,691,712**
Cash	32,896,211	60,946	446,013	145,863	3,026,648	452,138	3,539,215	24,668,597	542,217
Notes and accounts receivable	135,012,204	156,560	1,825,419	594,380	26,840,930	1,499,208	19,938,668	82,578,305	1,544,491
Less: Allowance for bad debts	2,242,588	*4,715	44,506	7,678	620,254	33,820	635,691	855,104	40,820
Inventories	39,699,090	89,670	801,761	303,188	19,401,294	624,496	15,555,983	2,454,204	467,138
Investments in Government obligations	11,807,773	109	*15,545	*4,981	111,293	*85,868	205,152	11,383,091	*1,733
Other current assets	23,268,657	63,475	571,264	263,708	6,983,596	1,549,368	4,819,488	8,549,568	468,001
Loans to stockholders	4,874,811	*1,347	80,143	*2,462	2,760,766	*39,504	363,099	1,532,526	94,965
Mortgage and real estate loans	6,632,176	*72,370	*4,354	*17,497	71,823	1,731	25,631	6,318,000	120,769
Other investments	89,173,096	95,363	6,565,037	249,393	37,211,630	1,340,130	9,931,499	32,439,887	1,340,157
Depreciable assets	138,508,583	578,701	8,651,645	659,339	84,143,807	16,270,695	12,670,373	12,748,427	2,785,417
Less: Accumulated depreciation	44,314,496	165,089	2,331,494	288,249	29,977,191	3,877,179	4,219,605	2,676,196	779,373
Depletable assets	20,787,934	*44,622	4,186,658	35,107	13,988,383	459,226	1,326,449	729,843	*17,646
Less: Accumulated depletion	5,880,240	*2,953	1,069,868	2,960	4,008,837	174,388	574,762	43,289	*3,182
Land	10,194,266	755,806	145,872	103,644	3,209,153	291,153	861,065	4,522,101	293,333
Intangible assets (amortizable)	6,649,597	3,737	614,603	32,554	3,467,036	403,291	695,807	760,450	672,119
Less: Accumulated amortization	1,566,685	1,733	99,837	1,894	743,470	80,805	181,384	167,303	290,260
Other assets	64,834,111	78,232	1,685,190	61,390	53,358,665	1,235,314	1,806,350	6,151,313	457,361
Total liabilities	**530,334,499**	**1,826,447**	**22,047,801**	**2,172,726**	**219,225,274**	**20,085,931**	**66,127,339**	**191,094,419**	**7,691,712**
Accounts payable	35,924,965	75,977	1,171,065	471,345	15,477,351	1,173,692	12,984,426	3,559,414	1,005,922
Mortgages, notes, and bonds payable in less than one year	52,603,829	167,244	2,162,290	292,406	11,688,405	1,178,612	16,578,653	19,674,640	861,579
Other current liabilities	120,029,709	73,967	1,173,009	232,396	11,033,718	1,098,109	5,714,091	100,019,480	684,460
Loans from stockholders	19,226,919	377,693	2,059,748	172,896	7,836,094	140,890	2,832,950	5,110,513	695,074
Mortgages, notes, and bonds payable in one year or more	82,267,416	550,864	4,490,789	414,946	36,876,363	7,126,381	8,333,176	22,020,928	2,428,990
Other liabilities	81,901,204	110,691	1,303,717	132,053	64,985,889	1,771,834	1,621,321	11,501,432	458,383
Capital stock	26,591,247	317,342	1,330,575	78,046	8,541,867	1,897,022	6,102,027	7,320,654	987,602
Paid-in or capital surplus	85,672,445	496,805	9,864,172	399,345	39,428,490	3,908,229	10,859,034	19,288,721	1,423,209
Retained earnings, appropriated	847,170	—	*15,560	—	185,552	*1,847	123,502	520,341	*368
Retained earnings, unappropriated	25,638,908	−344,135	−1,512,398	−20,388	23,282,986	1,801,036	1,025,924	2,241,103	−829,340
Less: Cost of treasury stock	369,313	—	*10,725	319	111,441	*11,722	47,766	162,805	24,534
Total receipts	**389,908,798**	**732,291**	**8,449,595**	**3,014,927**	**157,738,858**	**11,855,553**	**164,917,873**	**35,391,398**	**7,790,909**
Business receipts	359,793,137	662,152	7,665,838	2,809,993	149,108,180	11,434,256	161,780,356	19,073,624	7,242,101
Interest	17,589,808	16,060	264,907	43,816	2,700,332	170,966	1,440,224	12,818,322	134,498
Interest on State and local Government obligations	282,824	—	—	*254	5,344	152	6,336	270,530	209
Rents	2,097,901	13,638	74,475	40,371	602,295	66,631	267,365	942,577	90,550
Royalties	1,889,074	*205	18,220	2,370	1,737,790	956	77,305	17,358	34,870
Net short-term capital gain reduced by net long-term capital loss	147,520	—	*454	*2,723	5,141	2,054	46,567	87,223	*3,359
Net long-term capital gain reduced by net short-term capital loss	1,550,888	*8,645	28,022	10,673	340,770	29,825	270,912	786,258	75,784
Net gain, noncapital assets	833,172	12,195	56,447	38,390	154,515	16,154	69,588	471,701	14,181
Dividends received from domestic corporations	750,896	*1,525	30,239	*1,454	390,118	964	121,681	196,876	8,040
Dividends received from foreign corporations	259,458	1,199	95,120	3,967	131,168	31	20,119	6,695	*1,159
Other receipts	4,714,119	16,672	215,873	60,916	2,563,206	133,566	817,420	720,235	186,158
Total deductions	**387,981,124**	**876,744**	**9,594,021**	**3,130,347**	**154,033,796**	**11,955,908**	**164,041,815**	**36,358,161**	**7,971,575**
Cost of sales and operations	271,372,629	414,835	4,651,384	2,529,726	98,952,238	7,217,796	141,908,332	11,715,650	3,967,477
Compensation of officers	2,151,457	12,792	50,561	39,568	681,505	82,403	582,972	482,060	219,597
Repairs	2,857,341	9,532	55,066	8,069	2,034,049	292,995	265,286	143,878	48,466
Bad debts	1,520,500	4,444	63,432	7,975	463,080	57,459	337,644	539,863	46,602
Rent paid on business property	4,280,320	19,318	124,749	33,836	1,902,261	159,071	1,135,824	647,901	257,310
Taxes paid	7,950,059	19,682	210,124	33,300	5,138,090	421,302	1,209,770	709,211	208,034
Interest paid	22,254,566	80,087	893,433	88,911	6,599,449	849,473	2,973,830	10,421,418	346,991
Contributions or gifts	93,525	*50	*344	262	69,398	2,465	9,564	10,743	699
Amortization	448,187	4,381	7,783	3,497	205,288	6,200	53,675	134,857	32,503
Depreciation	11,902,990	71,925	927,993	70,574	7,431,371	820,502	1,326,167	933,548	320,882
Depletion	791,081	*1,060	216,655	332	488,322	*2,898	63,193	12,898	*5,723
Advertising	5,773,073	3,090	24,166	9,799	3,236,846	16,830	2,163,916	229,841	88,584
Pension, profit-sharing, stock bonus, and annuity plans	1,534,002	*1,243	61,597	10,324	1,018,907	71,375	178,889	150,840	40,828
Employee benefit programs	2,566,672	7,301	115,766	10,937	1,523,424	109,944	375,110	350,266	73,877
Net loss, noncapital assets	295,050	14,708	69,539	*1,602	95,262	7,412	32,522	57,572	16,432
Other deductions	52,189,673	212,292	2,121,427	281,635	24,194,305	1,837,782	11,425,121	9,817,617	2,297,569
Total receipts less total deductions	1,927,675	−144,452	−1,144,426	−115,420	3,705,062	−100,354	876,058	−966,763	−180,665
Constructive taxable income from related foreign corporations	203,671	—	64,993	2,651	102,887	—	18,698	12,477	1,964
Net income (less deficit)	1,848,521	−144,452	−1,079,433	−113,023	3,802,606	−100,506	888,419	−1,224,816	−178,910
Net income	12,447,588	15,701	306,410	43,278	7,350,321	409,445	2,875,268	1,196,623	250,541
Income subject to tax	10,706,827	*12,195	186,655	33,205	6,713,801	388,643	2,514,770	701,451	156,108
Total income tax	4,848,504	*4,661	94,868	14,567	3,082,203	174,684	1,133,952	287,892	55,678
Regular and alternative tax	4,789,542	*4,625	84,786	14,381	3,046,077	173,977	1,127,699	284,727	53,270
Foreign tax credit	670,561	—	54,838	*2,107	546,696	*262	22,241	41,173	*3,244
U.S. possessions tax credit	83,125	—	—	—	9,616	52,801	20,708	—	—
Investment credit	616,058	*1,255	5,067	3,970	462,484	35,858	71,279	27,238	8,907
Jobs credit	11,488	*74	72	*83	3,794	*484	6,099	419	*463
Nonconventional source fuel credit	339	—	—	—	315	13	—	11	—
Alcohol fuel credit	149	—	—	—	149	—	—	—	—
Research activities credit	36,055	*121	114	39	32,480	305	2,796	*182	18
Employee stock ownership credit	12,175	—	—	—	11,449	348	378	—	—
Distributions to stockholders:									
Cash and property except in own stock	4,326,837	6,690	340,642	*5,199	2,560,755	530,889	272,298	570,694	39,670
Corporation's own stock	180,565	—	—	—	62,031	*2,602	82,459	33,473	—

*Estimate should be used with caution because of the small number of sample returns on which it is based.
[1]Includes "Nature of business not allocable," which is not shown separately.
NOTE: Detail may not add to totals because of rounding.

Table 2.—Domestic Corporations with 50 Percent or More Ownership by a Foreign Entity: Selected Items, by Geographic Area

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Geographic area[1]	Number of returns	Total assets	Total receipts	Business receipts	Total deductions	Net income (less deficit)	Net income	Income subject to tax	Total income tax— Before credits[2]	Total income tax— After credits
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
All geographic areas, total	**33,622**	**530,334,499**	**389,908,798**	**359,793,137**	**387,981,124**	**1,848,521**	**12,447,588**	**10,706,827**	**4,848,504**	**3,418,554**
Canada	**6,860**	**46,602,258**	**29,429,238**	**26,271,347**	**30,443,223**	**–974,763**	**868,896**	**547,092**	**231,231**	**151,321**
Latin America, total	**5,174**	**26,180,372**	**23,109,341**	**21,574,892**	**24,097,294**	**–982,132**	**261,917**	**159,507**	**70,649**	**39,955**
Mexico	453	1,225,931	972,125	909,253	1,019,932	–48,046	19,458	10,662	3,754	2,407
Central America, total	848	5,893,709	4,652,698	4,343,870	4,937,666	–284,374	63,952	45,281	17,501	16,317
Panama	685	5,796,902	4,495,358	4,203,056	4,799,838	–303,886	44,439	27,186	12,795	11,849
Caribbean, total	2,484	17,343,802	17,006,058	16,015,489	17,626,750	–614,339	157,989	99,904	47,891	20,729
Netherlands Antilles	1,320	15,584,182	16,051,776	15,172,600	16,600,430	–542,301	143,725	92,350	44,726	17,679
Trinidad and Tobago	*308	*5,794	*31,589	*31,576	*37,184	*–5,595	*—	*—	*—	*—
South America, total	1,390	1,716,930	478,460	306,280	512,946	–35,373	20,517	3,660	1,503	503
Venezuela	1,093	671,575	114,551	34,143	118,205	–3,660	14,090	702	303	72
Other Western Hemisphere	**265**	**3,484,243**	**6,451,417**	**6,307,332**	**6,751,699**	**–300,626**	**41,182**	**15,326**	**4,710**	**4,596**
Europe, total	**12,132**	**334,536,883**	**217,765,477**	**199,353,110**	**214,122,350**	**3,609,071**	**8,858,719**	**7,846,124**	**3,588,632**	**2,443,642**
Common Market countries, total	9,059	312,093,344	197,895,187	180,503,493	194,193,670	3,688,825	8,170,209	7,280,009	3,335,938	2,258,304
Belgium	344	7,869,964	10,789,260	9,122,534	9,745,817	1,045,260	1,122,236	1,106,172	507,361	27,248
France	2,048	23,920,523	22,061,050	20,497,866	22,277,074	–198,671	368,859	264,036	120,682	74,893
Italy	300	2,967,234	1,854,026	1,709,071	1,942,862	–92,844	13,862	9,781	4,244	2,613
Netherlands	1,542	77,475,240	59,690,165	54,800,667	58,905,550	782,544	2,171,128	1,999,983	928,263	744,485
United Kingdom	2,127	171,840,588	65,743,040	57,905,378	63,747,372	1,957,890	3,315,151	3,009,444	1,379,834	1,067,280
West Germany	2,217	24,393,796	32,087,479	31,049,556	31,864,313	239,502	1,115,899	849,171	380,607	329,196
Sweden	675	4,220,814	4,032,967	3,756,184	4,096,128	–69,258	118,719	113,857	50,790	47,260
Switzerland	1,423	13,118,569	12,835,306	12,330,125	12,694,556	128,084	513,353	426,399	192,306	130,050
Africa	**202**	**627,288**	**206,296**	**169,893**	**239,185**	**–32,889**	**6,018**	**1,808**	**459**	**419**
Asia, total	**6,079**	**90,919,064**	**98,772,809**	**92,723,559**	**98,037,271**	**686,330**	**1,938,343**	**1,757,242**	**791,986**	**716,250**
Thailand	*345	*142,137	*21,092	*11,401	*25,695	*–4,603	*—	*—	*—	*—
Taiwan	776	513,814	695,315	681,389	742,622	–47,307	4,473	3,101	470	296
Hong Kong	933	24,147,261	3,113,982	1,011,919	3,009,585	73,284	138,323	122,454	54,557	37,861
Japan	2,292	45,212,866	87,543,400	84,706,931	86,447,332	1,072,011	1,750,835	1,598,850	723,922	672,015
Oceania, total	**384**	**3,306,315**	**795,888**	**749,229**	**798,208**	**–2,320**	**29,693**	**9,763**	**3,481**	**3,035**
Australia	326	3,132,208	518,416	477,940	522,151	–3,735	24,133	4,406	1,519	1,347
Puerto Rico and U.S. Possessions	**228**	**2,160,829**	**1,854,628**	**1,774,658**	**1,645,510**	**209,328**	**211,710**	**205,477**	**94,122**	**9,647**
Country not stated	**2,297**	**22,517,246**	**11,523,705**	**10,869,118**	**11,846,382**	**–363,477**	**231,109**	**164,489**	**63,235**	**49,690**

*Estimate should be used with caution because of the small number of sample returns on which it is based.

[1]Geographic area is the location of the owner's country of residence, incorporation, organization, creation, or administration.

[2]Total income tax before credits includes $4,789,542,000 of regular and alternative tax. It also includes additional tax for tax preferences and tax from recomputing prior-year investment credits. The two largest credits are the foreign tax credit ($670,561,000) and the investment credit ($616,058,000).

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

Table 3.—Foreign Corporations with Income Effectively Connected with a U.S. Business: Income Statement and Tax Items, by Industrial Division

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Item	All industries[1]	Agriculture, forestry, and fishing	Mining	Construction	Manufacturing	Transportation and public utilities	Wholesale and retail trade	Finance, insurance, and real estate	Services
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Number of returns of active foreign corporations with U.S. business operations, total	**8,001**	**237**	**372**	**62**	**118**	**109**	**268**	**6,320**	**466**
With net income	2,272	56	134	*6	33	25	121	1,755	133
Total receipts	**20,793,723**	**67,418**	**241,775**	**349,754**	**903,790**	**804,918**	**1,305,306**	**16,719,636**	**397,307**
Business receipts	5,477,256	60,870	196,585	336,046	895,897	785,939	1,259,393	1,686,356	252,778
Interest	13,566,811	1,012	2,120	*4,597	1,380	*3,122	20,137	13,531,423	2,832
Interest on State and local Government obligations	29,515	*64	*27	—	—	—	*447	27,769	1,209
Rents	599,442	3,528	—	*1,589	*117	*821	*1,966	488,231	102,959
Royalties	7,538	*422	*822	—	—	—	([2])	6,293	—
Net short-term capital gain reduced by net long-term capital loss	21,388	—	*1,220	—	—	—	*5	18,900	1,264
Net long-term capital gain reduced by net short-term capital loss	357,882	*165	*767	*511	*679	—	*833	344,245	10,681
Net gain, noncapital assets	125,903	*233	*437	*3,555	18	33	*51	120,359	1,216
Dividends received from domestic corporations	64,831	*([2])	*110	—	*368	139	*1,420	62,440	355
Dividends received from foreign corporations	*4	—	*3	—	—	—	—	*1	—
Other receipts	543,152	1,125	39,683	3,456	5,331	14,863	21,053	433,618	24,014
Total deductions	**21,882,107**	**91,972**	**314,755**	**363,545**	**947,308**	**1,095,392**	**1,351,183**	**17,276,053**	**439,278**
Cost of sales and operations	3,723,239	26,138	65,429	326,950	735,779	515,884	1,066,394	916,880	69,783
Compensation of officers	122,980	*97	*4,795	*133	4,946	*648	8,962	99,900	3,500
Repairs	70,337	1,370	*5,399	*78	2,570	5,723	2,123	46,802	6,243
Bad debts	288,132	*([2])	*1,100	126	2,752	*1,780	15,670	265,355	1,349
Rent paid on business property	296,183	1,755	14,790	*1,397	6,697	11,244	11,190	149,249	99,811
Taxes paid	271,668	1,611	9,705	2,286	13,110	4,667	6,931	217,866	15,454
Interest paid	13,459,582	19,010	24,485	10,688	30,408	44,081	43,138	13,246,255	41,155
Contributions or gifts	8,105	—	30	4	45	—	*27	7,970	*29
Amortization	13,722	50	13	*([2])	*65	41	*448	11,874	1,229
Depreciation	448,708	16,351	43,576	2,781	35,524	33,643	8,246	265,012	43,387
Depletion	10,682	94	9,359	—	—	—	—	1,195	34
Advertising	50,733	417	867	*926	5,846	*1,290	21,326	13,073	6,987
Pension, profit-sharing, stock bonus, and annuity plans	28,114	—	3,404	—	*3,381	*1,247	1,867	17,053	*1,162
Employee benefit programs	51,185	114	4,977	157	3,785	*4,131	1,768	32,638	3,615
Net loss, noncapital assets	22,928	1,480	352	22	*991	*([2])	*32	19,754	*296
Other deductions	3,015,808	23,484	126,473	17,997	101,409	471,015	163,062	1,965,179	145,244
Total receipts less total deductions	**-1,088,383**	**-24,554**	**-72,981**	**-13,791**	**-43,518**	**-290,474**	**-45,876**	**-556,417**	**-41,971**
Net income (less deficit)	-1,117,898	-24,617	-73,007	-13,791	-43,518	-290,474	-46,323	-584,186	-43,180
Net income	693,369	5,298	34,834	*13,372	9,970	6,495	28,361	574,405	17,320
Deficit	1,811,268	29,916	107,841	27,163	53,489	296,969	74,684	1,158,590	60,500
Income subject to tax	468,995	1,222	28,262	*13,100	*4,430	*4,540	20,427	383,713	9,986
Total income tax[3]	182,806	325	14,714	*5,989	*1,735	*7,764	8,523	138,720	3,513
Foreign tax credit	25,234	—	—	—	—	—	—	25,231	*3
Investment credit	5,046	6	1,067	*1	*984	*18	*234	960	1,777
Jobs credit	39	—	—	—	—	*24	—	12	3
Research activities credit	44	—	44	—	—	—	—	—	—
Distributions to stockholders:									
Cash and property except in own stock	409,044	—	297,135	—	*8,407	—	*599	102,851	51
Corporation's own stock	542	—	—	—	—	—	—	542	—

*Estimate should be used with caution because of the small number of sample returns on which it is based.

[1]Includes "Nature of business not allocable," which is not shown separately.

[2]Less than $500.

[3]Total income tax includes $12,016,000 of Section I tax, which was based on income from U.S. sources that was not effectively connected with a U.S. trade or business, and $166,477,000 of Section II tax, which was based on income effectively connected with a U.S. trade or business. It also includes additional tax for tax preferences ($3,432,000) and tax from recomputing prior-year investment credit ($881,000).

NOTE: Detail may not add to totals because of rounding. Table excludes foreign corporation returns filed with only income from U.S. sources that was not effectively connected with a U.S. trade or business. Income statement items shown in this table pertain only to the effectively connected income of foreign corporations.

Table 4.—Foreign Corporations with Income Effectively Connected with a U.S. Business: Selected Items, by Geographic Area

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Geographic area[1]	Number of returns	Total receipts	Business receipts	Total deductions	Net income (less deficit)	Net income	Income subject to tax	Income tax		Total income tax after credits
								Total[2]	Section II tax	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
All geographic areas, total	**8,001**	**20,793,723**	**5,477,256**	**21,882,107**	**-1,117,898**	**693,369**	**468,995**	**182,806**	**166,477**	**152,443**
Canada	**1,131**	**3,652,389**	**1,451,351**	**3,943,990**	**-293,352**	**74,552**	**45,589**	**25,177**	**16,681**	**24,073**
Latin America, total	**5,275**	**3,265,725**	**1,440,959**	**3,705,068**	**-443,756**	**336,706**	**254,977**	**82,172**	**78,732**	**78,243**
Mexico	56	172,602	23,236	179,171	-6,686	2,984	356	84	84	84
Central America, total	741	252,120	214,008	294,769	-43,803	17,512	13,560	3,681	3,615	3,652
Panama	721	237,713	200,084	280,573	-44,014	17,023	13,070	3,516	3,450	3,491
Caribbean, total	4,409	2,439,314	1,108,885	2,725,192	-288,928	314,739	240,976	78,394	75,021	74,493
Cayman Islands	105	201,052	18,227	202,227	-1,206	8,577	6,940	2,831	2,831	1,801
Leeward Islands	126	210,603	140,189	203,467	7,088	15,056	116	1,241	18	1,241
Netherlands Antilles	4,124	2,013,852	943,591	2,304,783	-293,858	287,853	230,882	73,028	70,877	70,157
South America	69	401,688	94,830	505,936	-104,339	1,471	85	13	13	13
Other Western Hemisphere, total	**119**	**213,217**	**162,438**	**218,409**	**-5,348**	**18,945**	**13,129**	**4,516**	**4,401**	**4,380**
Bermuda	83	165,329	124,652	160,766	4,407	15,781	10,093	3,203	3,094	3,071
Europe, total	**803**	**7,226,690**	**1,728,383**	**7,391,553**	**-184,726**	**128,190**	**88,420**	**40,007**	**38,250**	**32,196**
Common Market countries, total	510	5,463,657	1,003,846	5,565,197	-104,272	100,825	67,909	30,554	29,913	23,042
Netherlands	58	272,659	2,743	262,393	9,944	12,802	1,799	498	498	471
France	21	1,562,822	67,138	1,626,038	-63,215	1,402	-	572	-	572
United Kingdom	185	1,606,185	363,123	1,643,391	-37,206	41,723	35,633	16,103	16,035	9,332
West Germany	200	1,517,994	509,056	1,497,363	18,831	44,644	30,328	13,357	13,356	12,642
Liechtenstein	107	5,734	1,723	6,410	-739	1,965	1,736	418	418	410
Switzerland	148	1,304,982	562,336	1,355,023	-53,450	20,739	16,498	8,071	6,999	7,844
Africa, total	**110**	**16,394**	**13,439**	**24,650**	**-8,256**	**1,682**	**1,138**	**324**	**317**	**319**
Liberia	106	15,276	12,369	23,452	-8,176	1,682	1,138	324	317	319
Asia, total	**354**	**6,043,225**	**554,402**	**6,208,952**	**-165,800**	**117,088**	**57,633**	**28,240**	**25,762**	**10,862**
Hong Kong	129	135,486	6,893	147,195	-11,712	1,521	372	119	65	119
Japan	103	4,612,363	178,461	4,542,856	69,446	111,678	56,512	27,908	25,484	10,544
Oceania	**66**	**135,634**	**62,702**	**144,473**	**-8,840**	**1,165**	**1,165**	**450**	**450**	**450**
Puerto Rico and U.S. Possessions	**33**	**140,941**	**4,369**	**136,179**	**1,519**	**7,786**	**256**	**41**	**41**	**41**
Country not stated	**109**	**99,509**	**59,212**	**108,832**	**-9,339**	**7,256**	**6,688**	**1,879**	**1,844**	**1,879**

[1]Geographic area is the location of incorporation of the foreign corporation.

[2]Total income tax before credits includes $12,016,000 of Section I tax, which was based on income from U.S. sources that was *not* effectively connected with a U.S. trade or business, and $166,477,000 of Section II tax (shown in Column 9), which was based on income effectively connected with a U.S. trade or business. It also includes additional tax for tax preferences ($3,432,000) and tax from recomputing prior-year investment credit ($881,000).

NOTES: Detail may not add to totals because of rounding. Table excludes foreign corporation returns filed with *only* income from U.S. sources that was *not* effectively connected with a U.S. trade or business. Income statement items shown in this table pertain only to the effectively connected income of foreign corporations.