

Foreign Corporations with Income Effectively Connected with a U.S. Business, 1989

Data Release

For 1989, there were 9,321 "foreign" corporations (i.e., those incorporated abroad) that reported \$102.9 billion of receipts generated from activities "effectively connected" with a U.S. trade or business. Overall, these companies reported a net deficit of \$130.7 million from these activities. By comparison, for 1988, there were 9,921 companies which reported \$77.1 billion of receipts and an overall net income of \$2.6 million [1].

Only about 35 percent (3,318) of the 9,321 foreign corporations reported a profit (i.e., net income on effectively connected activities) for 1989, totaling \$3.5 billion. These profitable companies had taxable income based on effectively connected activities of \$2.9 billion, which resulted in \$977 million of U.S. income tax after reduction by credits. This amount was substantially higher than the comparable 1988 amount of \$644 million of tax after credits.

Foreign corporations are subject to U.S. tax on income "effectively connected" with the conduct of a U.S. trade or business, as well as on other income from U.S. sources (i.e., investment income such as interest, dividends, rents, royalties and annuities). Data shown in Table 1 pertain to effectively connected income only [2]. Foreign corporations are 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 the taxable income, gross income is generally reduced by allowable deductions to the extent that such deductions are related to the effectively connected income. The same tax method, tax rates and credits used to reduce tax liability are available to both foreign and domestic corporations.

Industry and Country Characteristics

Foreign banks in the United States reported receipts of \$75.9 billion, or nearly 74 percent of the total effectively connected income. This was nearly a 50-percent increase over the 1988 banking receipts. Only 293 banks, 3 percent of all the foreign companies, generated these receipts for 1989. These banks averaged nearly \$260 million of receipts from U.S. effectively connected activities, substantially larger than the 11,780 U.S.-incorporated banks which averaged \$38 million of receipts from worldwide activities. Only 38 percent of the foreign banks reported profits for 1989, compared with 72 percent of the U.S. banks. However, the 111 profitable foreign banks did have \$2.4 billion of taxable income and \$808 million of U.S. income tax after credits. These banks accounted for

83 percent of the tax after credits reported by all foreign corporations.

Thirty-nine Japanese banks accounted for \$31.9 billion of receipts for 1989, about 42 percent of the total banking receipts by foreign companies. Only 8 of these banks reported profits, resulting in \$76 million of U.S. income tax after credits. By comparison, 18 Canadian banks had \$17.1 billion of receipts, 22 percent of the total foreign banking receipts. Canadian banks reported \$697 million of U.S. income tax after credits.

The 5,642 foreign corporations involved primarily in real estate (61 percent of the total) generated only \$2.3 billion (or 2 percent) of total receipts. This was an average of just \$404,000 per company. As a group, foreign real estate companies reported a net deficit of \$177 million for 1989, compared to the deficit of \$274 million reported for 1988. Corporations from the Netherlands Antilles accounted for a large part of the real estate industry: 38 percent of the number of returns, 34 percent of receipts and 52 percent of U.S. income tax after credits. Canadian and Japanese companies were also important parts of this industry group.

Among industry groups not shown in Table 1, foreign insurance companies had \$8.6 billion of receipts. Over 90 percent, or \$7.8 billion, of this amount was produced by 25 Canadian insurance companies. Additionally, foreign wholesalers generated \$9.8 billion of receipts from U.S. effectively connected activities; Switzerland represented 83 percent of these receipts. Foreign manufacturers had \$3.2 billion of receipts for 1989; United Kingdom companies which mostly produced primary metals accounted for 67 percent of these receipts.

Data Sources and Limitations

The statistics shown in this data release are based primarily on samples of Forms 1120F, *U.S. Income Tax Return of a Foreign Corporation* [3]. These samples were stratified based on size of total assets only. The achieved sampling rates for this form were either 13.39 percent (for returns with assets under \$50 million) or 100 percent (for all other returns). Because the data presented here 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 detailed discussion of CV's, see *Statistics of Income—1989, Corporation Income Tax Returns*. (Additional Form 1120F data are contained in that publication.)

The 1989 data contained in this data release cover returns with accounting periods that ended in the 12-month span beginning in July 1989 and ending in June

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1990. As a result of this span, the statistics include income received or expenses incurred during a 23-month span, from August 1988 through June 1990.

The income statement and tax data for foreign corporations shown in Table 1 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 thus excluded.

Notes and References

- [1] See Hobbs, James R., "Foreign Corporations with Income Effectively Connected with a U.S. Business, 1988," *Statistics of Income Bulletin*, Spring 1992, Volume 11, Number 4.

- [2] The 9,321 foreign corporations with U.S. effectively connected income shown in Table 1 also reported \$57 million of tax from U.S.-source income that was *not* effectively connected with a U.S. trade or business, \$39 million of branch profits and branch-level interest taxes, \$16 million of alternative minimum tax and \$2 million of environmental tax. These items are not included in the amounts shown in columns 8 and 9 of Table 1.

- [3] In addition to Form 1120F, the statistics may include data from Form 1120L, *U.S. Life Insurance Company Income Tax Return*, and Form 1120-PC, *U.S. Property and Casualty Insurance Company Income Tax Return*. Form 1120L was filed by foreign life insurance companies and Form 1120-PC was filed by foreign property and casualty insurance companies.

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Table 1.—Financial Items, by Selected Industrial Group and Country of Incorporation

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

Selected industrial group and country	Number of returns		Total receipts	Total deductions	Net income (less deficit)	Net income	U.S. income subject to tax	Income tax	
	Total	With net income						Before credits	After credits
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All industries									
All countries.....	9,321	3,318	102,862,063	102,925,319	-130,658	3,646,814	2,905,214	980,368	976,598
Australia.....	71	*17	985,746	1,045,422	-59,676	*19,456	*12,863	*4,373	*4,373
Bermuda.....	70	50	379,524	292,059	86,783	91,915	49,859	16,793	16,793
Canada.....	1,816	678	27,314,213	25,569,979	1,741,619	2,277,326	2,101,316	712,440	712,162
France.....	74	*21	5,181,596	5,173,870	7,718	*91,074	*16,346	*5,539	*5,539
Hong Kong.....	112	*35	468,100	506,639	-38,539	*3,956	*1,963	*638	*633
Italy.....	28	*19	3,328,575	3,369,379	-41,091	*38,055	*3,650	*1,183	*1,099
Japan.....	894	324	32,732,532	33,914,186	-1,182,239	341,978	318,175	107,390	105,710
Leeward Island.....	175	55	224,975	184,155	40,813	57,566	*5,472	*1,722	*1,722
Liberia.....	201	*52	226,485	237,825	-11,340	*9,816	*9,205	*3,042	*3,042
Netherlands.....	334	106	4,459,585	4,445,835	4,389	96,026	82,177	27,851	26,993
Netherlands Antilles.....	2,701	791	1,086,792	1,329,187	-251,688	159,255	127,449	41,765	41,765
Panama.....	843	327	77,365	91,103	-14,069	12,003	6,905	1,716	1,692
Saudi Arabia.....	*9	—	*509,004	*560,123	*-51,118	—	—	—	—
Switzerland.....	239	75	10,894,637	10,928,540	-36,469	108,595	*66,540	*22,589	*22,560
United Kingdom.....	395	178	5,180,478	5,221,539	-41,084	74,528	27,310	8,744	8,482
West Germany.....	223	131	3,134,818	3,207,164	-72,605	37,004	20,899	6,727	6,328
Banking									
All countries.....	283	111	75,938,193	75,646,020	382,922	2,646,870	2,387,043	811,557	808,120
Australia.....	4	—	931,172	1,001,393	-70,221	7,779	1,196	407	407
Bermuda.....	—	—	—	—	—	—	—	—	—
Canada.....	*18	—	*17,052,042	*14,994,939	*2,057,103	*2,082,836	*2,049,508	*696,833	*696,833
France.....	12	5	5,142,070	5,134,143	7,919	85,040	10,343	3,511	3,511
Hong Kong.....	*21	*5	*437,270	*468,068	*-30,798	*3,837	*1,844	*620	*615
Italy.....	12	4	3,308,338	3,343,762	-37,710	34,207	2,326	791	707
Japan.....	39	8	31,911,242	33,115,755	-1,205,098	235,205	229,827	78,141	76,461
Leeward Island.....	—	—	—	—	—	—	—	—	—
Liberia.....	—	—	—	—	—	—	—	—	—
Netherlands.....	*10	*3	*4,247,771	*4,235,768	*3,984	*52,630	*47,571	*16,174	*15,316
Netherlands Antilles.....	—	—	—	—	—	—	—	—	—
Panama.....	—	—	—	—	—	—	—	—	—
Saudi Arabia.....	—	—	—	—	—	—	—	—	—
Switzerland.....	*11	—	*2,138,081	*2,220,581	*-82,500	*26,962	—	—	—
United Kingdom.....	10	5	2,815,095	2,841,621	-26,526	16,732	5,670	1,928	1,666
West Germany.....	8	—	1,834,004	1,853,348	-19,344	14,939	7,892	2,683	2,284
Real estate									
All countries.....	5,642	1,985	2,279,195	2,413,024	-177,407	363,270	245,946	78,601	78,576
Australia.....	*15	*7	*174	*187	*-13	*9	—	—	—
Bermuda.....	*7	*7	*1,479	*829	*649	*649	*649	*133	*133
Canada.....	964	387	843,465	885,620	-42,283	43,036	13,802	3,072	3,072
France.....	*22	—	*177	*305	*-128	—	—	—	—
Hong Kong.....	*52	*15	*1,803	*2,443	*-640	*69	*69	*10	*10
Italy.....	*7	*7	*3,508	*140	*3,369	*3,369	*1,324	*392	*392
Japan.....	669	277	316,571	254,286	62,285	91,658	86,944	28,851	28,850
Leeward Island.....	98	*16	46,510	28,547	17,956	*24,527	*124	*19	*19
Liberia.....	119	*22	5,037	5,477	-441	*638	*26	*4	*4
Netherlands.....	179	55	90,102	119,947	-31,177	8,430	*144	*22	*22
Netherlands Antilles.....	2,123	603	784,106	953,010	-162,671	151,207	125,245	41,169	41,169
Panama.....	677	253	33,483	33,688	-515	10,481	6,376	1,635	1,611
Saudi Arabia.....	—	—	—	—	—	—	—	—	—
Switzerland.....	97	*15	11,580	16,578	-5,037	*68	*68	*10	*10
United Kingdom.....	*60	*15	*12,654	*14,820	*2,167	*81	*81	*12	*12
West Germany.....	*61	*31	*39,672	*35,903	*3,509	*3,651	*3,427	*1,117	*1,117

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

** Data deleted to avoid disclosure of information on specific corporations.

NOTE: This table includes only foreign corporation returns with income effectively connected with a U.S. trade or business.