

International Boycott Reports, 1996

Data Release

During the mid-1970's, the United States adopted laws that sought to counteract the participation of U.S. firms and citizens in other nations' economic boycotts. Among these laws was the Ribicoff Amendment to the Tax Reform Act of 1976 (TRA 76) [1]. In this Act, boycott provisions were adopted discouraging U.S. firms and citizens from participating in foreign boycotts that the United States does not sanction. The laws are meant to prevent U.S. firms and citizens from being used to implement foreign policies of other nations which run counter to U.S. policy. Although the Arab League boycott of Israel is the principal foreign economic boycott, the laws apply to all boycotts that are unsanctioned by the United States.

Any U.S. person with "operations" in, or related to, boycotting countries is required to report such operations and all international boycott requests, agreements, and tax consequences to the Internal Revenue Service. Operations include all forms of business or commercial activities and transactions regardless of whether income is generated. Form 5713, *International Boycott Report*, is to be filed along with the filer's return. For Calendar Year 1996, 1,199 filers submitted Form 5713 and reported operations in countries known to participate in unsanctioned international boycotts. Of these filers, 1,129 were corporations, 66 were partnerships, and 4 were individuals.

A list of countries known to participate in international boycotts is maintained by the U.S. Treasury Department. All of the Arab nations on this list boycotted Israel. For 1996, the list of countries requiring cooperation with an international boycott included Bahrain, Iraq, Jordan, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, and the Republic of Yemen. Dropped from the list for 1996 was Kuwait. Most boycott reports are filed by persons with operations in these countries. However, the *International Boycott Report* must also be filed by any person with operations in any other country which requires participation in, or cooperation with, an international boycott as a

condition of doing business within such countries.

Table 1 presents the number of persons receiving requests, the number of requests, and the number of agreements by type for each of the listed countries. As defined in Internal Revenue Code section 999(b)(3), there are five ways in which a person may participate in or cooperate with an international boycott:

- (1) If the person agrees, as a condition of doing business directly or indirectly within a country or with the government, a company, or a national of that country,
 - (a) to refrain from doing business with or in a country, which is the object of the boycott, or with the government, companies, or nationals of the country (Type 1 request, as shown in Table 1); or
 - (b) to refrain from doing business with any U.S. person engaged in trade in a country, which is the object of the boycott, or with the government, companies, or nationals of that country (Type 2); or
 - (c) to refrain from doing business with any company whose ownership or management is made up, all or in part, of individuals of a particular nationality, race, or religion. Additionally, the U.S. person may agree to remove or refrain from selecting corporate directors who are individuals of a particular nationality, race, or religion (Type 3); or
 - (d) to refrain from employing individuals of a particular nationality, race, or religion (Type 4); or
- (2) If the person agrees, as a condition of the sale of a product to the government, a company, or a national of a country, to refrain from shipping or insuring products on a carrier owned, leased, or operated by a person who does not participate in or cooperate with an international boycott (Type 5).

TRA 76 does not prohibit conduct. However, conduct may result in the denial of U.S. tax benefits as a penalty for certain types of boycott-related agreements. Penalties apply to those taxpayers with

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IC-DISC (Interest-Charge Domestic International Sales Corporation), FSC (Foreign Sales Corporation), foreign subsidiary income deferral, and /or foreign tax credit benefits. A single taxpayer may lose multiple tax benefits due to participation in an international boycott. Fines may also be imposed by the Department of Commerce as a result of participation [2].

Of the 1,199 persons who filed 1996 boycott reports, 189 reported receiving requests to participate in an international boycott. Of those receiving requests, approximately 20 percent (39 persons) agreed to participate in an international boycott. Of these participants, 22 filers reported a reduction in tax benefits as a result of international boycott provisions. Due to participation in an international boycott, 4 corporations reduced their foreign tax credits by \$115,645, and 18 corporations reported an increase in subpart F income of \$2,617,031. While no one reported a denial of IC-DISC benefits, a drop in the foreign trade income exemption for FSC's of \$10,041 was reported.

If filers participate in or cooperate with an international boycott, they must compute the loss of tax benefits. Filers may choose to compute tax benefit losses by using either the "international boycott factor method" (Schedule A) or by specifically attributing taxes and income (Schedule B). Table 2 presents the loss of tax benefits by method of computation for 1992 through 1996.

The international boycott factor method computes loss of tax benefits by using a ratio of purchases, sales, and payroll in boycotting countries to total purchases, sales, and payroll in all countries other than the United States. Six corporations chose to compute their loss of tax benefits by using the international boycott factor method.

As an alternative to the factor method, filers may choose to compute loss of tax benefits by specifically attributing taxes and income. In order to use this method, rather than the factor method, filers must demonstrate that the foreign taxes paid and income earned for the taxable year are attributable to specific operations in which there was participation in or cooperation with an international boycott. When these requirements are met, then the amount of the foreign tax credit disallowed, the addition to subpart F income, and the amount of deemed distribution for the taxable year are reported. Of those corporations

calculating their loss of tax benefits by this method, three reported a reduction in their foreign tax credits totaling \$90,005. Twelve parent corporations increased the taxable earnings of their controlled foreign corporations by \$2,383,773. This amount would have been tax-deferred. Taxable income totaling \$10,041 would have been FSC-exempt foreign trade income if the taxpayers had not participated in boycotts.

The reduction of foreign tax credits due to boycott participation decreased significantly from 1992 through 1996. For 1992, nearly \$4,000,000 in foreign tax credits were lost, compared to a loss of \$115,645 for 1996. The increase in subpart F income for 1992 was more than \$8,500,000. For 1996, this amount decreased to \$2,617,031. The reduction of foreign trade income exemptions also dramatically decreased over the 1992 through 1996 period, although it increased for 1995. These significant reductions in the loss of tax benefits, resulting from decreased participation in boycotts, was fueled in part by more friendly Middle East relations and changes in corporate policies.

Explanation of Selected Terms

Earnings and Profits (Less Deficits) of Controlled Foreign Corporations.--The difference between beginning and end-of-year balances of accumulated earnings and profits available for distribution to stockholders. Earnings and profits for tax purposes differ from both taxable income and income per books of account, but include, for example, any tax-exempt income.

Foreign Tax Credit.--U.S. corporations are subject to tax on their worldwide incomes. The foreign tax credit provisions allow U.S. corporations to offset a portion of the U.S. tax on their worldwide incomes with a credit for taxes paid to a foreign tax authority on their foreign-source incomes. The foreign tax credit has served to help reduce the impact of double taxation on the same income, first by the foreign government and, again, by the U.S. Government.

FSC-Exempt Foreign Trade Income.--A Foreign Sales Corporation (FSC) is a company incorporated abroad, created to promote U.S. exports, and usually controlled by a U.S. person. A portion of the FSC's "foreign trade income" is exempt from U.S. taxation.

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This is income attributable to the sale or lease of “export property” outside the United States and to the performance of various types of export services outside the United States.

Interest-Charge Domestic International Sales Corporation.—Interest-Charge Domestic International Sales Corporations (IC-DISC’s) are certain small domestic corporations formed to promote exports of the U.S. parents’ products and services. By design, an IC-DISC provides a type of “tax deferral” benefit to its shareholders. No U.S. tax is imposed on certain types and amounts of IC-DISC income, i.e., payment of income tax is “deferred,” until the income is either actually distributed or “deemed” distributed to shareholders; the IC-DISC, itself, is not taxed. However, the IC-DISC is required to: (1) calculate the tax-deferred portion of its “taxable income” each year; (2) accumulate the tax-deferred income for the current year and prior tax years in a separate account; and (3) report the total accumulated amount of tax-deferred income to its shareholders each year. The IC-DISC’s shareholders are then required to pay interest charges on the tax that would have been imposed on the IC-DISC’s taxable income if the addition of the IC-DISC’s income would result in increased taxable income on the shareholder’s tax return [3].

Subpart F Income.—Under the Internal Revenue Code, U.S. stockholders of foreign corporations are generally not taxed on the profits of the foreign corporation until those profits are repatriated. The major exception to this general rule is provided in “Subpart F—Controlled Foreign Corporations” (Internal Revenue Code sections 951-964). Code section 951 provides that U.S. stockholders include in their gross income certain undistributed profits of foreign corporations controlled by U.S. stockholders. Subpart F income from a CFC includes certain insurance income, “foreign base company” income, international boycott participation income, bribes and other illegal payments to foreign government officials, and income from any country which the

United States does not recognize or with which it has severed relations.

Data Sources and Limitations

Statistics of Income (SOI) conducts a full-scale study of the *International Boycott Reports* every four years. For these studies, complete data from Forms 5713 filed during the calendar year are represented. *The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code* is produced and distributed by the Internal Revenue Service for these full-scale studies. The latest full-scale study (which is the seventh of its kind) includes information from the *International Boycott Reports* filed during 1994 [4]. Scaled-down studies are conducted all other years. General information is included for all taxpayers filing an *International Boycott Report* for these calendar years. However, complete information is included only for Forms 5713 filed by persons who received a request to participate in or cooperate with an international boycott. The statistical information in this data release is based on a scaled-down study.

Notes and References

- [1] See section 999 of the Internal Revenue Code.
- [2] For more information on fines, contact either U.S. Department of Commerce, BXA/Office of Antiboycott Compliance, Room 6098, Washington, DC 20230, phone (202) 482-2381, or U.S. Department of Treasury, Office of the General Counsel, Room 2004, 14th Street and Pennsylvania Avenue, N.W., Washington, DC 20220, phone (202) 622-1945.
- [3] For more information on IC-DISC’s, see “Interest-Charge Domestic International Sales Corporations, 1991,” *Statistics of Income Bulletin*, Summer 1995, Volume 15, Number 1, pp. 46-51.
- [4] *The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code*, Seventh Report, August 1997, Document 100321, Catalog number 24442Q, U. S. Department of Treasury.
SOURCE: IRS, *Statistics of Income Bulletin*, Publication 1136, Winter 1998-1999.

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Table 1.--International Boycott Reports: Number of Persons Receiving Requests, Number of Requests Received, and Number of Agreements, by Boycotting Country and Type of Request

Country	Type of request	Number of persons receiving requests ¹	Number of requests received	Number of agreements	Percentage (column 4/ column 3)
	(1)	(2)	(3)	(4)	(5)
All countries.....	Total	189	5,068	1,975	39.0
	Type 1	110	2,388	1,103	46.2
	Type 2	10	205	12	5.9
	Type 3	16	241	12	5.0
	Type 4	7	194	12	6.2
	Type 5	123	2,040	836	41.0
Treasury-listed countries.....	Total	177	4,144	1,561	37.7
	Type 1	98	1,864	808	43.3
	Type 2	10	203	12	5.9
	Type 3	15	236	12	5.1
	Type 4	7	192	12	6.3
	Type 5	107	1,649	717	43.5
Bahrain.....	Total	47	356	119	33.4
	Type 1	19	167	110	65.9
	Type 2	**	**	**	**
	Type 3	3	30	--	--
	Type 4	**	**	**	**
	Type 5	21	101	9	8.9
Iraq.....	Total	4	5	--	--
	Type 1	--	--	--	--
	Type 2	--	--	--	--
	Type 3	--	--	--	--
	Type 4	--	--	--	--
	Type 5	4	5	--	--
Jordan.....	Total	20	156	68	43.6
	Type 1	6	29	1	3.4
	Type 2	--	--	--	--
	Type 3	--	--	--	--
	Type 4	--	--	--	--
	Type 5	14	127	67	52.8
Lebanon.....	Total	40	139	79	56.8
	Type 1	**	**	**	**
	Type 2	--	--	--	--
	Type 3	**	**	**	**
	Type 4	--	--	--	--
	Type 5	26	97	56	57.7
Libya.....	Total	33	138	86	62.3
	Type 1	13	38	12	31.6
	Type 2	**	**	**	**
	Type 3	**	**	**	**
	Type 4	**	**	**	**
	Type 5	16	69	44	63.8
Oman.....	Total	74	436	187	42.9
	Type 1	27	221	74	33.5
	Type 2	**	**	**	**
	Type 3	5	8	--	--
	Type 4	**	**	**	**
	Type 5	37	196	113	57.7

Footnotes at end of table.

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Table 1.--International Boycott Reports: Number of Persons Receiving Requests, Number of Requests Received, and Number of Agreements, by Boycotting Country and Type of Request--Continued

Country	Type of request	Number of persons receiving requests ¹	Number of requests received	Number of agreements	Percentage (column 4/ column 3)
	(1)	(2)	(3)	(4)	(5)
Qatar.....	Total	57	338	179	53.0
	Type 1	23	203	127	62.6
	Type 2	**	**	**	**
	Type 3	3	13	--	--
	Type 4	**	**	**	**
	Type 5	27	101	52	51.5
Saudi Arabia.....	Total	80	970	349	36.0
	Type 1	31	256	94	36.7
	Type 2	4	87	--	--
	Type 3	5	88	--	--
	Type 4	3	86	--	--
	Type 5	37	453	255	56.3
Syria.....	Total	88	351	19	5.4
	Type 1	37	162	10	6.2
	Type 2	5	20	1	5.0
	Type 3	6	24	1	4.2
	Type 4	4	19	1	5.3
	Type 5	36	126	6	4.8
United Arab Emirates.....	Total	158	1,098	446	40.6
	Type 1	66	660	353	53.5
	Type 2	7	31	--	--
	Type 3	10	53	--	--
	Type 4	5	26	--	--
	Type 5	70	328	93	28.4
Yemen, Republic of.....	Total	33	157	29	18.5
	Type 1	12	87	4	4.6
	Type 2	**	**	**	**
	Type 3	**	**	**	**
	Type 4	**	**	**	**
	Type 5	15	46	22	47.8
Nonlisted countries.....	Total	54	924	414	44.8
	Type 1	42	524	295	56.3
	Type 2	**	**	**	**
	Type 3	**	**	**	**
	Type 4	**	**	**	**
	Type 5	69	391	119	30.4

¹ Data in this column may not add to the totals because persons could have received requests of more than one type and/or from more than one country.

** Data deleted to avoid disclosure of information about specific taxpayers.

NOTE: For an explanation of each of the five types of international boycott requests, see the definitions in Internal Revenue Code section 999(b)(3), which are provided in the text of this data release.

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Table 2.--International Boycott Reports: Loss of Tax Benefits, by Method, 1992-1996

(Money amounts are in whole dollars)

Method	Year	Reduction of foreign tax credit	Increase in subpart F income	Denial of FSC benefit ¹
	(1)	(2)	(3)	(4)
All methods.....	1992	3,876,303	8,572,193	374,475
	1993	1,631,556	7,455,541	369,579
	1994	476,965	6,414,923	146,650
	1995	280,635	6,130,890	696,255
	1996	115,645	2,617,031	10,041
Boycott factor method.....	1992	743,625	3,654,846	--
	1993	766,202	4,873,847	4,833
	1994	19,918	80,537	4,074
	1995	7,202	--	3,233
	1996	25,640	233,258	--
Specifically attributable taxes and income method.....	1992	3,132,678	4,917,347	374,475
	1993	865,354	2,581,694	364,746
	1994	457,047	6,334,386	142,576
	1995	273,433	6,130,890	693,022
	1996	90,005	2,383,773	10,041

¹ Foreign Sales Corporation.

NOTE: No returns reported loss of benefits related to income from Interest-Charge Domestic International Sales Corporations for 1992 through 1996.