Domestic Corporations Controlled by Foreign Persons, 1990

by James R. Hobbs

For 1990, the 44,113 domestic corporations each "controlled" by a "foreign person" generated $1.1 trillion of worldwide receipts and reported total assets amounting to $1.7 trillion. These corporations, 1.2 percent of the U.S. total, accounted for 9.3 percent of the receipts and 9.1 percent of the assets reported on U.S. corporation income tax returns. The receipts and assets of foreign-controlled domestic corporations (FCDC's) increased for 1990 by 9.6 and 15.6 percent, respectively, over the 1989 levels. During the 1985-1990 period, FCDC's accounted for an increasingly larger percentage of the receipts and assets reported by all corporations (see Figure A).

The net income (less deficit) reported by FCDC's for tax purposes under the Internal Revenue Code was $4.0 billion for 1990. This was appreciably less than the 1989 and 1988 amounts of $8.3 and $11.2 billion, possibly reflecting the effects of the economic recession in the United States. Of all the FCDC's, 17,360 reported amounts of net income for 1990 totaling $29.4 billion (see Table 1). This was a slight increase (7 percent) over the $27.6 billion of net income for 1989. (Deficits by FCDC's increased 32 percent from $19.3 billion to $25.4 billion for 1990.) The profitable companies for 1990 also reported $23.7 billion of taxable income after statutory special deductions (i.e., "income subject to tax" shown in the statistics). The tax liability (i.e., "total income tax after credits") of FCDC's was $7.4 billion, over 20 percent higher than that for 1989. Tax liability increased by a greater percentage between 1989 and 1990 than did net income because: (1) total statutory special deductions, taken against net income, declined by 13 percent; (2) alternative minimum tax increased by 63 percent; and (3) tax credits decreased by 7 percent.

Direct Foreign Investment in the United States

Direct foreign investment in the United States can take several forms, including corporations, partnerships and even joint ventures. Under these forms of direct investment, the foreign investor has sufficient equity in the enterprise to control and participate in managing its operations [1].

In regard to corporations, a direct foreign investor can either gain control of an existing U.S. company or create a new company incorporated in the United States [2]. Another method of operating in the United States is through a branch of a foreign corporation. 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 [3]. This article focuses on domestic corporations that are controlled by a foreign person. Control is herein defined as ownership by any foreign person (i.e., an individual, partnership, corporation, estate or trust), directly or indirectly, of 50 percent or more of a U.S. corporation's voting stock at the end of the tax year. (The Explanation of Selected Terms section, below, gives a description of "foreign persons," as well as an explanation of the rules of attribution.) A separate tabulation will be included in *Statistics of Income--1990, Corporation Income Tax Returns*, covering branch operations of foreign corporations with income "effectively connected" with a U.S. trade or business [4].

FCDC's accounted for 9.3 percent of the receipts reported on all corporate returns.

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Growth of Companies

Direct foreign investment in the United States through foreign-controlled domestic corporations grew steadily and substantially during the 1985-1990 period. Worldwide receipts of FCDC's grew from $513.8 billion for 1985 to $1,060.3 billion for 1990, a 106.4 percent increase using current dollars. In comparison, worldwide receipts reported on all U.S. corporation income tax returns grew from $8.4 trillion for 1985 to $11.4 trillion for 1990, a 35.9 percent increase [5]. As a result of the rapid growth rate of FCDC's, their share of the receipts reported on all corporate returns increased from 6.1 percent for 1985 to 9.3 percent for 1990.

The growth of FCDC's can also be measured from the early 1970's, when a question concerning foreign ownership of companies was first placed on Form 1120, *U.S. Corporation Income Tax Return*. For 1971, these companies had $39.2 billion of worldwide receipts, just 2.1 percent of the $1.9 trillion reported for all corporations. (By 1990, this percentage had grown substantially.) FCDC's reported $1.1 billion of net income (less deficit) for 1971. This was 2.8 percent of their receipts. (For 1990, this percentage had decreased substantially, to 0.4.)

The growth of FCDC's can be viewed more specifically on an industrial basis. The three most significant industrial divisions for FCDC's have been manufacturing; wholesale and retail trade; and finance, insurance and real estate. Using total receipts as the measure, Figure B shows the growth of FCDC's as a percentage of all corporations for these three divisions. FCDC's in all three groups made significant increases over the 1985-1990 period. Under the Industry Characteristics section of this article, the extent of FCDC participation in different industries (at a more detailed level) for 1990 is examined.

On a foreign country basis, FCDC's controlled by persons from Japan reported the largest total receipts ($280 billion) for 1990, followed by the United Kingdom ($184 billion), Netherlands ($113 billion) and Canada ($103 billion). During the 1985-1990 period, Canada showed the largest rate of growth in receipts among these four countries (154 percent, using current dollars), followed by the United Kingdom (121 percent), Japan (110 percent) and the Netherlands (61 percent). The Country Characteristics section, below, provides additional information on FCDC's controlled by persons from other countries for 1990.

Total assets of domestic corporations controlled by a foreign person grew at an even faster rate than that for receipts. Between 1985 and 1990, assets increased 152.0 percent from $0.7 trillion to $1.7 trillion. During this period, their share of the book value of total assets reported on all U.S. corporation income tax returns grew from 5.1 percent to 9.1 percent. For 1971, these companies had reported $37 billion of assets, just 1.3 percent of the total.

The number of returns for foreign-controlled domestic corporations was 44,113 for 1990, a slight decrease compared to the 44,840 for 1989 and the 46,298 for 1988. (FCDC's could file consolidated returns for affiliated groups of corporations. To the extent that this happened, the data included in this article actually represent more companies than the stated number of returns.) Returns of FCDC's comprised a rather constant percentage of all U.S. corporation income tax returns, between 1.1 and 1.3 percent for each year between 1985 and 1990. This is in contrast to the rising percentages over this period for receipts and assets.

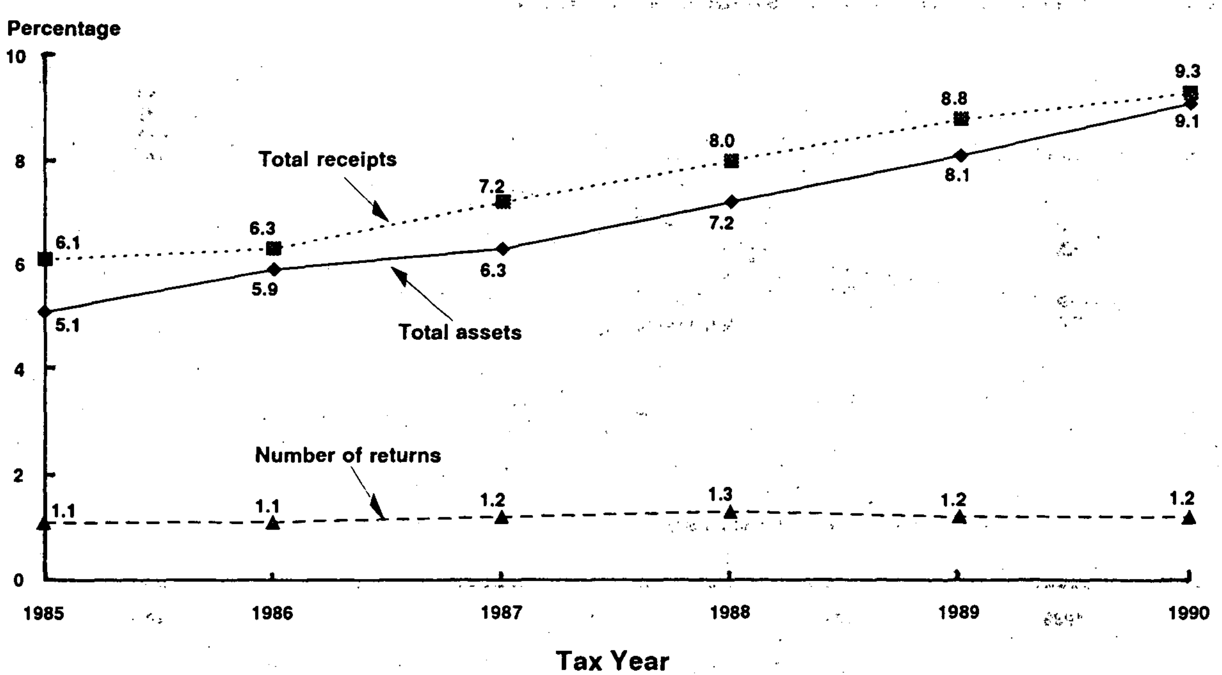
It should be noted that foreign-controlled domestic corporations are considerably larger, on average, than other companies. While they accounted for only 1.2 percent of the total returns filed by corporations, for 1990 they comprised 9.3 and 9.1 percent of the total receipts and assets, respectively. Percentages for these three items had similar magnitudes for 1985 through 1989. Going back to 1971, the percentage for number of returns was similarly lower than the percentages for total receipts and assets (0.3, 2.1 and 1.3 percents, respectively).

Industry Characteristics

Foreign-controlled domestic corporations were involved in every type of industrial activity, but, based on number of returns, were concentrated mainly in two industrial divisions: (1) wholesale and retail trade and (2) finance, insurance and real estate (see Table 1). (The Data Sources

Figure A

Foreign Controlled Domestic Corporations as a Percentage of All Corporations, 1985-1990



and Limitations section discusses how returns are industry coded during statistical processing.) For 1990, these two divisions accounted for nearly two-thirds of all returns filed by domestic corporations owned by a foreign person. FCDC's whose principal business activities were either in manufacturing or services represented another one-quarter of all FCDC returns.

By comparison, the trade and finance industrial divisions made up 45 percent of the returns filed by "other domestic corporations" (defined under the Explanation of Selected Terms section, below) for 1990, while the manufacturing and services divisions accounted for 34 percent of the total. (Later in this article, financial comparisons are made between FCDC's and other domestic corporations. Because companies in different industries often have different financial characteristics, whenever possible, based on the availability of data, these comparisons are made on an industrial basis.)

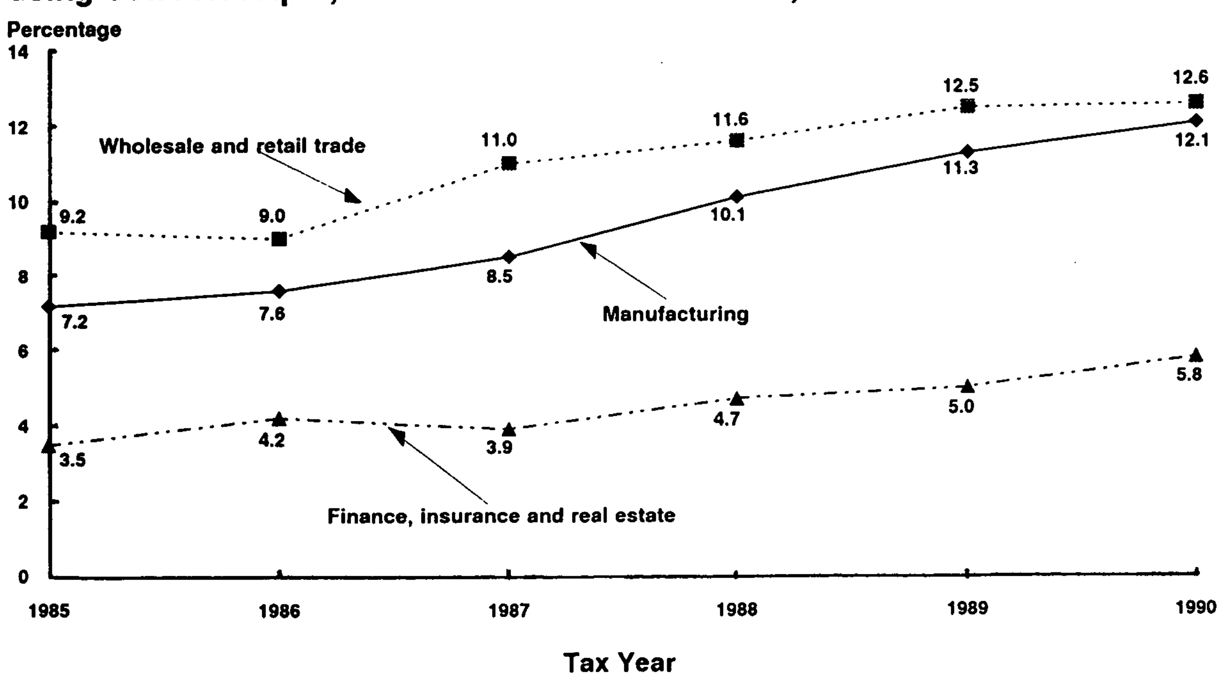
Looking at assets, once again two industrial divisions comprised most of the total for FCDC's for 1990. Finance, insurance and real estate and manufacturing accounted for $706 and $567 billion of total assets, respectively. This was 77 percent of the $1,652 billion of assets for all FCDC's. These two divisions also made up 79 percent of the total assets reported on returns of other domestic corporations. In this respect, FCDC's closely mirrored other domestic corporations.

Alternatively, using total receipts as the criterion, wholesale and retail trade and manufacturing were the two primary industrial divisions for FCDC's for 1990. Manufacturers reported $446 billion of receipts, while wholesalers and retailers, together, reported $416 billion. These two divisions accounted for 81 percent of the $1,060 billion of total receipts for all FCDC's. This percentage was substantially higher than the comparable one (59 percent) for other domestic corporations that filed U.S. corporation income tax returns.

Companies in different industries often have different financial characteristics. For instance, the comparative levels of assets and receipts of companies primarily engaged in wholesale and retail trade activities and those primarily engaged in finance, insurance and real estate activities differ significantly. FCDC wholesalers and retailers produced large amounts of receipts with relatively small amounts of assets, resulting in $1.82 of receipts for each dollar of assets for 1990. On the other hand, companies classified in finance, insurance and real estate reported large amounts of assets, but relatively

Figure B

Foreign Controlled Domestic Corporations as a Percentage of All Corporations, using Total Receipts, Selected Industrial Divisions, 1985-1990



small amounts of receipts. These FCDC's produced only $.16 of receipts for each dollar of assets. The same difference between these two industrial divisions is also reflected in the returns filed by other domestic corporations: $1.82 of receipts for each dollar of assets for wholesalers and retailers, and $.16 for finance, insurance and real estate companies.

Even though foreign-controlled domestic corporations accounted for less than one-tenth of the $11.4 trillion of worldwide receipts reported by all companies filing U.S. income tax returns for 1990, these companies played disproportionately large roles in certain industrial groups, as shown in Figure C [6]. In particular, FCDC's accounted for 61.6 percent of the receipts of all companies classified as wholesalers of motor vehicles and automotive equipment. This percentage may be overstated, however. Certain U.S. companies (not foreign owned) and their subsidiaries may have been involved in both the manufacturing and wholesaling of motor vehicles and reported tax information for these activities on a single income tax return. This return could have been classified in the manufacturing industrial division, rather than under trade. (Note that FCDC's comprised only 5.0 percent of the receipts of all companies classified as manufacturers of motor vehicles and equipment.) Conversely, many domestic companies controlled by foreign corporations acted as automotive wholesalers in the United States for products manufactured overseas by their parent companies. These domestic companies would have been classified in the trade industrial division.

There were several industrial groups in which foreign-controlled domestic corporations produced over 30 percent of the U.S. totals for receipts. These included wholesalers of metals and minerals (except petroleum and scrap), 39.0 percent; wholesalers of electrical goods, 36.1 percent; manufacturers of leather and leather products, 32.8 percent; security and commodity brokers and services, 32.0 percent; coal mining, 31.3 percent; and metal mining, 31.0 percent. Of these six groups, wholesalers of metals and minerals showed the largest percentage decline between 1989 and 1990, from 49.3 to 39.0 percent. Security and commodity brokers and services showed the largest percentage increase, from 13.9 to 32.0 percent. The percentages were relatively stable between 1989 and 1990 for the other four groups.

At the industrial division level, FCDC's accounted for 16.3 percent of the receipts reported by all mining companies. This was the largest percentage of FCDC involvement for a given division, followed by wholesale and retail trade (12.6 percent) and manufacturing (12.1 percent). Figure C does not show data separately for

Figure C

Total Receipts of Foreign Controlled Domestic Corporations as a Percentage of All Corporations, by Selected Industrial Groups, 1990

[Money amounts are in millions of dollars]

Selected industrial groups	All U.S. corporation income tax returns	Returns of foreign controlled domestic corporations	Percentage of all returns
	(1)	(2)	(3)
All industries ¹	**11,409,520**	**1,060,295**	**9.3**
Mining	**111,444**	**18,214**	**16.3**
Metal mining	12,173	3,775	31.0
Coal mining	20,699	6,482	31.3
Oil and gas extraction	65,878	6,545	9.9
Nonmetallic minerals, except fuels	12,695	*1,412	*11.1
Manufacturing	**3,688,694**	**446,045**	**12.1**
Food and kindred products	377,025	44,352	11.8
Tobacco manufactures	74,368	5,863	7.9
Textile mill products	58,968	4,207	7.1
Apparel and other textile products	73,063	2,023	2.8
Lumber and wood products	79,546	3,158	4.0
Furniture and fixtures	37,550	1,169	3.1
Paper and allied products	120,189	6,728	5.6
Printing and publishing	176,177	19,468	11.1
Chemicals and allied products	394,802	82,653	20.9
Petroleum (including integrated) and coal products	543,111	88,137	16.2
Rubber and miscellaneous plastics products	73,950	8,877	12.0
Leather and leather products	17,945	*5,892	*32.8
Stone, clay and glass products	65,404	16,354	25.0
Primary metal industries	148,006	26,073	17.6
Fabricated metal products	177,470	14,011	7.9
Machinery, except electrical	301,246	33,540	11.1
Electrical and electronic equipment	315,064	41,321	13.1
Motor vehicles and equipment	290,951	14,560	5.0
Transportation equipment, except motor vehicles	177,017	4,379	2.5
Instruments and related products	100,310	12,313	12.3
Wholesale and retail trade	**3,308,988**	**416,072**	**12.6**
Wholesale trade	1,629,528	341,042	20.9
Groceries and related products	237,989	16,225	6.8
Machinery, equipment and supplies	140,412	26,987	19.2
Miscellaneous wholesale trade	1,251,127	297,830	23.8
Motor vehicles and automotive equipment	139,103	85,663	61.6
Metals and minerals, except petroleum and scrap	117,033	45,669	39.0
Electrical goods	110,314	39,865	36.1
Farm-product raw materials	111,564	26,214	23.5
Chemicals and allied products	27,839	4,007	14.4
Petroleum and petroleum products	155,541	15,436	9.9
Retail trade	1,673,926	74,922	4.5
Finance, insurance and real estate	**1,954,710**	**112,518**	**5.8**
Banking	521,867	25,546	4.9
Credit agencies other than banks	267,471	10,000	3.7
Security, commodity brokers and services	88,887	28,410	32.0
Insurance	764,422	24,757	3.2
Insurance agents, brokers and service	39,633	2,241	5.7
Real estate	122,535	10,257	8.4

¹ Includes Agriculture, forestry and fishing; Construction; Transportation and public utilities; Services; and Nature of business not allocable, which are not shown separately.

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

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

Figure D

Foreign Controlled Domestic Corporations: Selected Items, by Selected Countries, 1990

[Money amounts are in millions of dollars]

Country	Number of returns: Total	Number of returns: With net income	Number of returns: With total U.S. income tax after credits	Total assets	Total receipts	Net income (less deficit)	Net income	Total U.S. income tax after credits
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All countries	**44,113**	**17,360**	**11,776**	**1,652,255**	**1,060,295**	**3,966**	**29,410**	**7,438**
Selected countries, total[1]	**29,721**	**11,123**	**7,729**	**1,450,451**	**929,584**	**4,446**	**25,742**	**6,729**
Percentage of all countries	67.4	64.1	65.6	87.8	87.7	[2]	87.5	90.5
Japan	6,672	2,490	1,777	413,368	280,126	-1,936	4,468	1,313
United Kingdom	4,513	2,206	1,613	314,511	183,998	5,070	8,920	2,506
Netherlands	1,713	542	503	170,169	113,427	711	3,590	1,032
Canada	7,866	2,171	1,445	180,125	102,666	-524	2,960	571
Germany	3,035	1,093	745	95,316	93,788	399	2,036	518
France	2,610	1,359	633	92,033	61,296	-3	1,070	211
Switzerland	1,354	582	409	75,554	49,444	827	1,525	370
Netherlands Antilles	1,172	549	498	56,014	23,926	-118	671	150
Australia	786	131	106	53,361	20,913	20	502	58

[1] This figure includes only those countries with $20 billion or more of total receipts for 1990 (see column 5). Country information is based on the location of the owner's country of residence, incorporation, organization, creation or administration, as reported on returns of domestic corporations with foreign owners.

[2] Not calculated.

several industrial divisions, including agriculture, forestry and fishing; construction; transportation and public utilities; and services. This is because FCDC involvement in these divisions was relatively low for 1990, accounting for only 1.7, 2.5, 1.7, and 4.7 percent, respectively, of the receipts for all companies classified in these divisions.

Country Characteristics

Domestic corporations are owned by persons throughout the world. However, for 1990, owners from nine countries controlled over two-thirds of the 44,113 domestic corporations classified as 50 percent or more controlled by a foreign person (see Figure D). (The countries represent the geographic location of the direct foreign owner's country of residence in the case of individuals, and country of incorporation, organization, creation or administration in the case of other "persons." Because holding companies located in a country different from that of the ultimate owner may directly own the stock of U.S. affiliates, the country reported on the tax return may not necessarily reflect the country of the ultimate owner. No data on the extent of this potential limitation are available.) The 29,721 corporations owned by persons from these nine countries accounted for approximately 90 percent of the most significant financial items for all FCDC's.

Domestic corporations controlled by Japanese persons had assets of $413 billion and worldwide receipts of $280 billion for 1990, amounts easily larger than those representing any other country. These receipts represented over 26 percent of the total for all FCDC's. (Japanese persons also accounted for the largest amount of receipts for the 1983-1989 period.) Over $199 billion of the receipts were produced by wholesale trade companies. Japanese-controlled wholesalers of motor vehicles and automotive equipment, metals and minerals (except petroleum and scrap) and of electrical goods produced $63, $35 and $33 billion, respectively, of receipts. Apart from wholesale trade, Japanese-controlled manufacturers and finance, insurance and real estate companies reported $46 and $24 billion of receipts, respectively.

Domestic corporations controlled by persons in the United Kingdom accounted for the second largest amount ($184 billion) of receipts for 1990 (as well as the second largest for the 1983-1989 period). These receipts represented over 17 percent of the 1990 receipts for all FCDC's. Unlike Japan, most of the U.K. receipts, totaling $105 billion, were produced by manufacturers. Some of the more predominant manufacturing industrial groups were petroleum and coal products ($26 billion), food and kindred products ($17 billion) and chemicals and allied products ($14 billion). Apart from manufacturing, an additional $29 and $23 billion of receipts were produced by companies classified in finance, insurance and real estate and in wholesale trade, respectively.

For 1990, Japanese-controlled domestic corporations reported an overall net deficit of nearly $2 billion, while U.K.-controlled companies reported a (positive) net income of over $5 billion. There are many factors which may have caused this large difference in "profits." Most are beyond the scope of this article. However, it is noteworthy to look at the reported profits and losses on a country/industry basis. In the finance, insurance and real estate industrial division, both Japanese- and U.K.-controlled companies reported relatively small amounts of net income on somewhat similar amounts of receipts ($24 and $29 billion, respectively).

For the wholesale trade area, both Japanese- and U.K.-controlled companies reported relatively small amounts of net deficits on very different levels of receipts ($199 billion for Japan and $23 billion for the United Kingdom). The manufacturing industrial division showed quite large differences between the two countries. Japanese-controlled corporations reported a net deficit of $1 billion on $46 billion of receipts, while U.K.-controlled companies reported net income of over $5 billion on $105 billion of receipts.

Net income (less deficit) for FCDC's declined between 1989 ($8.3 billion) and 1990 ($4.0 billion).

Approximately 27 percent of all FCDC's reported U.S. income tax liabilities (i.e., total income tax after credits) for 1990. This percentage varied considerably among different countries. Of the nine countries shown in Figure D, domestic companies with owners from the Netherlands Antilles had the highest percentage (42), while companies with owners from Australia had the lowest percentage (13). Japanese-controlled companies were similar to the total for all FCDC's, with 27 percent of them having tax liabilities. U.K.-controlled companies were above the average with 36 percent of them having tax liabilities, amounting to $2.5 billion. This was the largest amount of any country.

Receipts and Deductions

Approximately 90 percent of the nearly $1.1 trillion of total receipts reported by domestic corporations controlled by a foreign person consisted of "business receipts," i.e., receipts from sales and operations. These same companies reported nearly $1.1 trillion of total deductions for 1990. Cost of sales and operations was 67 percent of the total [7].

It is noteworthy to look at the "gross profit margin" of FCDC's and other domestic corporations. Gross profit margin is defined as the difference between business receipts and cost of sales and operations (i.e., gross profit) as a percentage of business receipts (see Table 1). The manufacturing and wholesale and retail trade industrial divisions accounted for most of the reported amounts of business receipts and cost of sales and operations. For manufacturers, FCDC's had somewhat smaller gross profit margins than did other domestic corporations, 29.4 versus 31.1 percent, for 1990. However, for trade companies, FCDC's reported gross profit margins only two-thirds the size of those reported by other domestic corporations, 16.2 versus 24.4 percent. Determining the factors which caused this difference is beyond the scope of this article.

Total receipts less total deductions for FCDC's amounted to $3.4 billion for 1990. This is somewhat less than the $4.0 billion of net income (less deficit) reported by these companies. Total receipts less total deductions includes all of the income "actually" (as opposed to "constructively") received by corporations and reported on tax returns. As differentiated from net income (less deficit), total receipts less total deductions includes nontaxable interest on State and local Government obligations and excludes constructive taxable income from related foreign corporations. Constructive income is comprised of includable income from Controlled Foreign Corporations and of foreign dividend income gross-up resulting from foreign taxes deemed paid. For 1990, FCDC's received $0.5 billion of tax-exempt interest on State and local Government obligations and $1.1 billion of constructive taxable income.

Net Income (Less Deficit)

The previous section discussed the difference, for statistical purposes, between total receipts less total deductions and net income (less deficit). It is also important to make the distinction between (positive) net income and taxable income (i.e., "U.S. income subject to tax" shown in the statistics). Because certain statutory special deductions, including the "net operating loss" deduction, were allowed most companies in computing their taxable income, the statistics for net income are generally larger than the amounts shown for taxable income.

The net income (less deficit) for foreign-controlled domestic corporations was $4.0 billion for 1990. This was a substantial drop from the 1989 and 1988 amounts of $8.3 and $11.2 billion. By comparison, net income (less deficit) reported on all corporation income tax returns was $370.6 billion for 1990, less than the 1989 and 1988 amounts of $389.0 and $413.0 billion.

FCDC's whose principal business activity was in manufacturing reported $8.1 billion of net income (less deficit) for 1990, an increase from the $6.7 billion reported for 1989. Wholesale and retail trade companies had a net deficit of $2.6 billion for 1990, a substantial change from the $0.9 billion profit they had the previous year. Finance, insurance and real estate companies also reported a net deficit ($0.7 billion) for 1990, as compared to the $0.8 billion profit they had for 1989. The services industrial division also had a net deficit, of $1.3 billion, for 1990, somewhat larger than the net deficit of $0.9 billion for the previous year.

The $4.0 billion of net income (less deficit) was the result of 17,360 corporations reporting $29.4 billion of (positive) profits and 26,753 companies reporting $25.4 billion of deficits [8]. Thus, less than 4 out of every 10 (39.4 percent) domestic corporations with foreign owners reported a profit for 1990. By comparison, 53.4 percent of other domestic corporations filing U.S. income tax returns for the same year reported profits. The percentage of FCDC's reporting a profit for 1990 was similar to those percentages for the 1984-1989 period, varying between 39.0 percent and 43.3 percent.

The percentage of companies reporting (positive) profits varied among different industrial groups. Over half (51.7 percent) of the FCDC's classified in wholesale and retail trade reported profits for 1990. However, just one-fourth (25.1 percent) of those companies classified in finance, insurance and real estate reported profits. For manufacturing, 44.6 percent of FCDC's reported profits (see Table 1).

Total income tax after credits for FCDC's increased to $7.4 billion for 1990.

Six out of every 10 FCDC's reported deficits for 1990. Collectively, these companies had $25.4 billion of deficits, up nearly 32 percent from the $19.3 billion reported for 1989, and 66 percent greater than the 1988 total deficit of $15.3 billion. Deficits could be carried back or forward to other tax years, under prescribed rules, to reduce the taxable income of those years (see "net operating loss deduction" in the Explanation of Selected Terms section).

The amount of pre-tax net income (less deficit) can be computed as a percentage of several key financial items (total assets, total receipts and net worth) for both foreign-controlled domestic corporations and other domestic corporations. It is desirable to compare these ratios between FCDC's and other domestic corporations on an industry basis (as opposed to an "all industries" basis) for two reasons. First, different business activities typically have different financial characteristics. For instance, companies classified in trade tend to have more receipts and less assets than do companies of similar size classified in finance, insurance and real estate. Second, the industry distribution between FCDC's and other domestic corporations may be significantly different. For example, 31 percent of FCDC's were classified in finance, insurance and real estate, as compared to only 17 percent of other domestic corporations.

Ratios of net income (less deficit) to total assets, total receipts and net worth, by industrial group, for other domestic corporations were available for the first time for 1990. (Previously, these ratios were computed for "other corporations" as opposed to "other domestic corporations." See the Explanation of Selected Terms section of this article for definitions of these terms.) The ratios for each of the three industrial groupings shown in Table 1 are all significantly lower for FCDC's than for other domestic companies. (However, ratios for just those returns which reported net income are somewhat similar between FCDC's and other domestic corporations.) For instance, the ratio of net income (less deficit) to total receipts for FCDC's was 1.8 percent for manufacturers, -0.6 percent for trade companies and also -0.6 percent for financial companies. By comparison, for other domestic corporations, the percentages were 5.1, 1.1 and 6.9, respectively (see Figure E).

Taxes

For 1990, profitable foreign-controlled domestic corporations reported $23.7 billion of "U.S. income subject to tax" (or taxable income, i.e., the base on which tax was computed for purposes of the statistics), resulting in $8.0 billion of regular tax. The $8.7 billion of total income tax before credits reported by FCDC's comprised the regular tax plus the alternative minimum tax, the environmental tax, and the tax from recapture of investment credits. The alternative minimum tax was nearly $0.7 billion for 1990.

The difference between the $29.4 billion of positive profit (or net income) and $23.7 billion of income subject to tax was the result of statutory special deductions. These deductions were allowed most corporations in computing their taxable income and included "net operating losses (NOL's)" from other years [9]. For 1990, the net operating loss deduction was $4.9 billion and accounted for 82.1 percent of the total statutory special deductions (see the Explanation of Selected Terms section of this article for a discussion of the net operating loss deduction). It is also noteworthy that FCDC's reduced their 1990 net income by 16.6 percent using NOL's from prior years, while other domestic corporations only reduced their net income by 8.3 percent using NOL's (see Table 1).

Tax credits totaling $1.3 billion reduced the U.S. tax liability of foreign-owned domestic corporations to $7.4 billion for 1990 [10]. The largest credits claimed were $1.0 billion of foreign tax credits and $0.2 billion of general business credits. Other credits included the U.S.

possessions tax credit, prior-year minimum tax credit, orphan drug credit and the nonconventional source fuel credit. The $7.4 billion of total U.S. income tax after credits represents the tax liability as reported by taxpayers. However, it does not include any changes made by taxpayers through amended returns or by the Internal Revenue Service as a result of examination or enforcement activities.

Like net income (less deficit), total income tax after credits as a percentage of key financial items can be compared for FCDC's and other domestic corporations. As shown in Table 1, ratios of total income tax after credits to total assets, total receipts and net worth are generally lower in each industrial division for FCDC's than for other domestic companies. (An exception does occur in the finance, insurance and real estate division when tax after credits is compared to net worth.) However, the differences in the ratios between the two groups of companies are not as pronounced as the ratios based on net income (less deficit).

For 1990, the ratio of total income tax after credits to total receipts for FCDC's was 1.0 percent for manufacturers, 0.3 percent for wholesalers and retailers and 1.0 percent for finance, insurance and real estate companies. By comparison, for other domestic corporations, the percentages were 1.2, 0.5 and 1.1, in those industries (see Figure F).

Table 1, as well as Figures E and F, may imply that there was a group of FCDC's that collectively reported a substantial amount of profits and, thus, total income taxes after credits. However, there were other FCDC's that reported substantial deficits.

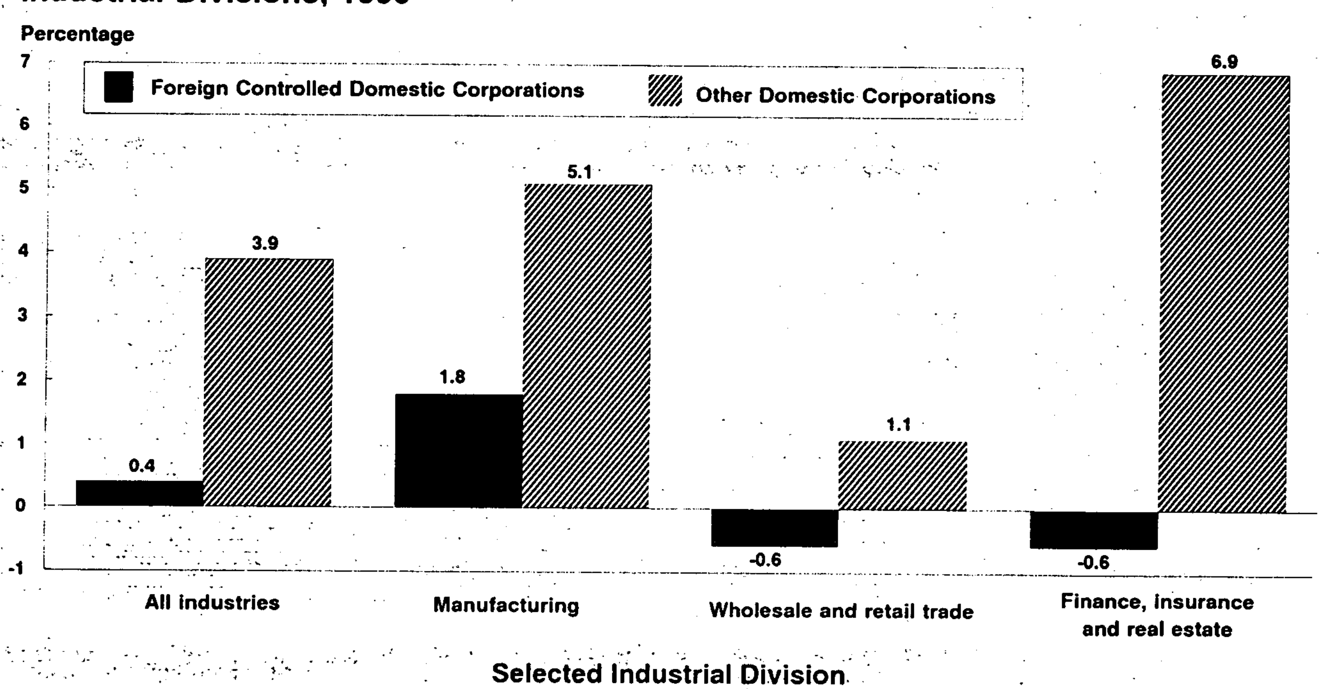
Table 1 also shows "worldwide income tax," which is defined as total income taxes after credits except the foreign tax credit. The foreign tax credit is included as a proxy for total foreign income taxes. Overall, for 1990, worldwide income taxes as a percentage of total assets, total receipts and net worth was lower for FCDC's than for other domestic corporations.

Age of Corporations

For the first time in recent years, selected financial data were compiled, for 1990, classified by the age of corporations (for both FCDC's and other domestic corporations) [11]. Two categories of corporations were established: "new" and "old." Each company included in the sample used for the statistics was placed into one of these categories based on the year of incorporation reported on the company's income tax return filed with the Internal Revenue Service. New corporations were those with years

Figure E

Net Income (Less Deficit) as a Percentage of Total Receipts for Selected Industrial Divisions, 1990



of incorporation of 1988 and after. Old corporations were those incorporated in 1987 and before, or with unknown (i.e., unreported) dates of incorporation.

It should be noted that the year of incorporation may be somewhat unreliable as an indicator of the true age of corporations and the related information reported on their tax returns. For example, a consolidated return may include companies which fall into both the old and new categories. However, the return (including all of the financial information contained in it) was classified into just one of the categories based on the year of incorporation of the parent company. Another limitation is the case of an old corporation reorganizing itself and, as a result, becoming a new corporation based on the new year of incorporation. Here, a new corporation is not necessarily the same as a new business. A third limitation is that the year of incorporation is an item which is difficult to verify during statistical processing because there are no other items that it can be compared to on a tax return form. Thus, it is subject to greater error due to taxpayer reporting and data entry errors. Despite these limitations, it is believed that an analysis of the data by age of the corporations is worthwhile. Further, there is no known bias in the accuracy of the year of incorporation between FCDC's and other domestic corporations.

Comparing the data for FCDC's and other domestic corporations shown in Figure G provides some additional information on the characteristics of FCDC's. First, new corporations comprise a greater part of the total number of FCDC's as compared to the total number of other domestic corporations, 33.1 percent versus 19.3 percent. As compared to other domestic corporations, the new FCDC's also account for larger parts of total assets (12.9 percent versus 7.2 percent) and total receipts (8.8 percent versus 6.7 percent). These characteristics of new companies may account for part of the growth of overall FCDC activity (previously discussed).

New companies tend to be smaller than the old companies, in terms of the average size of total assets and total receipts. This is true for both FCDC's and other domestic corporations. For example, new FCDC's averaged $6.4 million of receipts while their older counterparts had $32.7 million of receipts. Similarly, other new domestic corporations averaged $1.4 million of receipts compared to $4.7 million for their older counterparts. This comparison also shows that FCDC's on the average tend to be larger than other domestic corporations, whether or not they are newly incorporated (see the related discussion on this characteristic under the Growth of Companies section, above.)

Figure F

Total Income Tax After Credits as a Percentage of Total Receipts for Selected Industrial Divisions, 1990

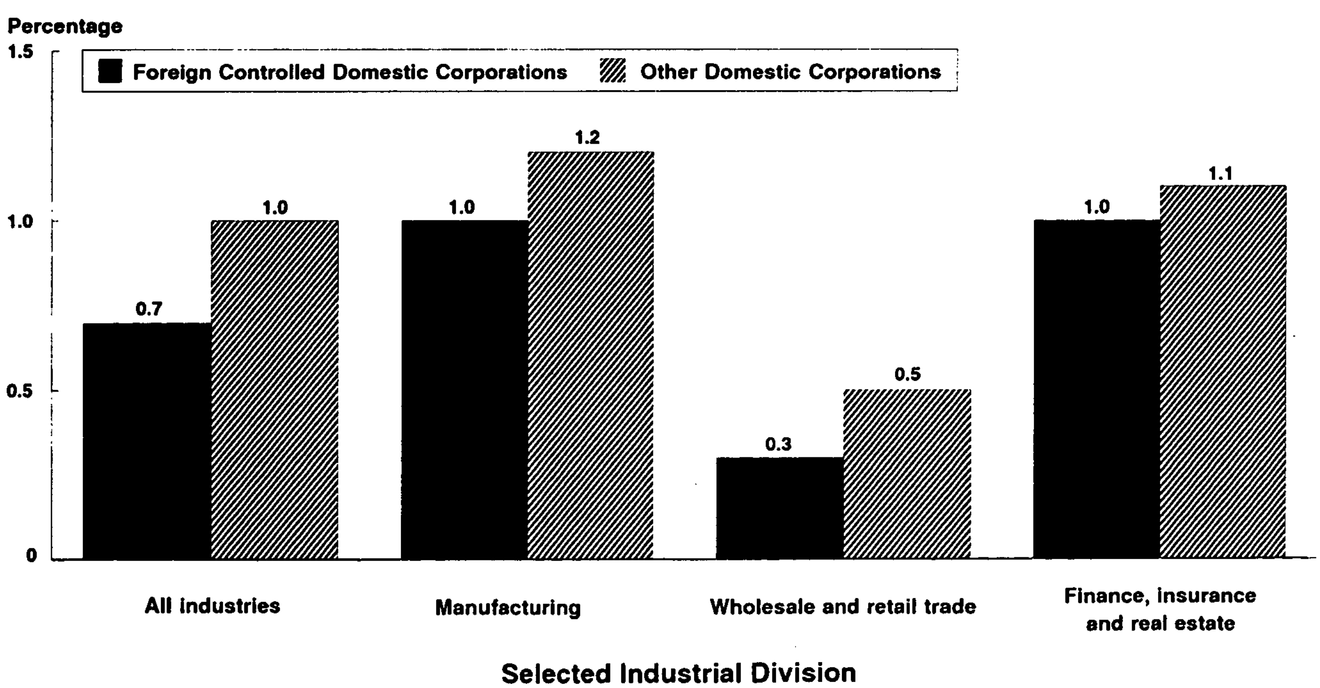


Figure G

Foreign Controlled Domestic Corporations Compared to Other Domestic Corporations, by Age of Corporations, 1990

[Money amounts are in millions of dollars]

Item, percentage	Foreign controlled domestic corporations			Other domestic corporations		
	All corporations	New corporations	Old corporations	All corporations	New corporations	Old corporations
	(1)	(2)	(3)	(4)	(5)	(6)
Item						
Number of returns, total	44,113	14,588	29,525	2,086,734	402,232	1,684,502
With net income	17,360	3,994	13,366	1,114,887	153,821	961,066
With total income tax after credits	11,776	3,244	8,522	821,272	125,975	695,297
Total assets	1,652,255	213,650	1,438,605	15,558,561	1,121,674	14,436,887
Net worth	372,357	42,519	329,838	4,111,212	327,819	3,783,393
Total receipts	1,060,295	93,544	966,751	8,492,959	569,280	7,923,679
Net income (less deficit)	3,966	-3,683	-7,649	333,289	3,554	329,735
Net income	29,410	1,626	27,784	449,306	24,900	424,406
Deficit	25,444	5,309	20,135	116,016	21,346	94,671
Income subject to tax	23,704	1,208	22,496	338,262	14,316	323,946
Total income tax:						
Before credits	8,719	484	8,235	117,470	4,776	112,694
After credits	7,438	447	6,992	87,020	3,765	83,255
Percentages						
Percentage of returns with:						
Net income	39.4	27.4	45.3	53.4	38.2	57.1
Total income tax after credits	26.7	22.2	28.9	39.4	31.3	41.3
Net worth as a percentage of total assets	22.5	19.9	22.9	26.4	29.2	26.2
Net income (less deficit) as a percentage of:						
Total assets	0.2	-1.7	0.5	2.1	0.3	2.3
Total receipts	0.4	-3.9	0.8	3.9	0.6	4.2
Net worth	1.1	-8.7	2.3	8.1	1.1	8.7
Total income tax after credits as a percentage of:						
Total assets	0.5	0.2	0.5	0.6	0.3	0.6
Total receipts	0.7	0.5	0.7	1.0	0.7	1.1
Net worth	2.0	1.1	2.1	2.1	1.1	2.2

NOTES: "New" corporations represent those with dates of incorporation of 1988 and after (i.e., through June 1991). "Old" corporations are those with dates of incorporation of 1987 and before, or with unreported dates of incorporation. Detail may not add to totals because of rounding.

On average, new companies (both FCDC's and other domestic corporations) tend to report less profits and taxes than do their older counterparts. Looking at net income (less deficit) as a percentage of total receipts, new FCDC's had a ratio of -3.9 for 1990, while old FCDC's had a 0.8 ratio. For other domestic corporations, the ratio was 0.6 percent for new companies and 4.2 percent for old companies. These percentages may also be compared to those shown for all industries in Figure E. Using total income tax after credits as a percentage of total receipts, the ratios for new and old FCDC's were 0.5 and 0.7 percent, respectively. For other domestic corporations, the ratios for new and old companies were 0.7 and 1.1 percent, respectively. Here, again, percentages may be compared to those shown for all industries in Figure F.

Summary

Direct foreign investment in the United States through FCDC's continued to grow at a relatively fast rate for 1990. While total assets reported on all U.S. corporation income tax returns increased by 3.1 percent (using current dollars) over the previous year, assets of domestic corporations controlled by foreign persons increased by 15.6 percent [12]. As a result, the percentage of total corporate assets accounted for by FCDC's jumped from 8.1 percent for 1989 to 9.1 percent for 1990. The share of total corporate receipts accounted for by FCDC's also increased, from 8.8 to 9.3 percent.

Two industrial divisions (manufacturing and trade) generated approximately 81 percent of the total receipts of all FCDC's. From a country perspective, domestic corporations controlled by persons in Japan had worldwide receipts of $280 billion, over 26 percent of the FCDC total. The United Kingdom accounted for another $184 billion of receipts, 17 percent of the total.

The collective net income (less deficit) reported by foreign-controlled domestic corporations decreased to $4.0 billion for 1990, as compared to $8.3 billion for 1989. This reflects the increase in deficits (from $19.3 to $25.4 billion) reported by FCDC's for 1990. However, profitable FCDC's reported increased amounts of net income, $29.4 billion for 1990 versus $27.6 billion for 1989. Total income tax after credits also increased for 1990 to $7.4 billion, up from $6.2 billion for 1989.

Explanation of Selected Terms

The following are brief explanations of some of the terms used in this article. For more extensive definitions, see *Statistics of Income—1990, Corporation Income Tax Returns.*

Alternative minimum tax.—This tax was designed to ensure that no taxpayer with substantial economic income could avoid significant tax liability through a legitimate use of exclusions, deductions and credits. It is included in the statistics shown for "Total income tax before (and after) credits."

Attribution rules.—In regard to domestic corporations that are 50 percent or more owned by one foreign "person," these rules provide that an individual shall be considered as owning the stock of a corporation if it is owned, directly or indirectly, by or for his or her 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 is 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, these persons may have met the 50-percent-or-more ownership criterion.

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 further defines the term, U.S. person.

Net income (or deficit).—This is the difference between gross receipts and the ordinary and necessary business deductions allowed by the Internal Revenue Code. In this article, it is also referred to as "profits." It reflects not only actual receipts, but "constructive" receipts as well, i.e., certain income from Controlled Foreign Corporations and the foreign taxes deemed paid on foreign dividends received. Interest from State and local Government obligations is excluded. Because certain statutory special deductions, including the net operating loss deduction, were allowed most corporations in computing their "taxable income" (or "income subject to tax"), the statistics for net income are generally larger than the amounts shown for "U.S. income subject to tax," i.e., the base on which the regular income tax was computed. See also the discussion of the "net operating loss deduction" in this section of the article.

Net operating loss deduction (NOLD).—A statutory "net operating loss" (NOL) for a given tax year could be carried back, in general, over a 3-year period to reduce the taxable income of those years, and any amount of the NOL not offset against income during that time could be carried forward against income for a period not exceeding 15 years. The amount of NOLD included in the statistics, however, consists only of losses from prior years carried forward and actually used to reduce taxable income for the current (1990) tax year. Losses incurred after the 1990 Tax Year and carried back to that year at a later date could not be reported on the tax returns used for this article. Net operating losses on which the 1990 deduction was based include: (1) the excess of ordinary and necessary business expenses over income in previous loss years, and (2) statutory special deductions claimed in a loss year for dividends received and for dividends paid on certain preferred stock of public utilities (or any excess of such deductions over net income).

Other corporations.—In previous articles, due to the limited availability of statistics, certain FCDC data (such as by industry) could only be compared to data for "other corporations" [13]. The data for "other corporations" were residuals, based on all U.S. corporation income tax returns, except those for domestic companies controlled by a foreign person. For Tax Year 1990, additional statistical information was produced and, as a result, FCDC data could be compared exclusively to data for "other domestic corporations" (defined below).

Other domestic corporations.—Data shown in this article for these companies are based on Forms 1120 (*U.S. Corporation Income Tax Return*); 1120A (*U.S. Corporation Short-Form Income Tax Return*); 1120L (*U.S. Life Insurance Company Income Tax Return*); 1120-RIC (*U.S. Income Tax Return for Regulated Investment Companies*); 1120-REIT (*U.S. Income Tax Return for Real Estate Investment Trusts*); and, 1120PC (*U.S. Property and Casualty Insurance Company Income Tax Return*), stock companies. The following forms were excluded: 1120S (*U.S. Income Tax Return for an S Corporation*); 1120F (*U.S. Income Tax Return of a Foreign Corporation*); 1120-IC-DISC (*Interest-Charge Domestic International Sales Corporation Return*); 1120-FSC (*U.S. Income Tax Return of a Foreign Sales Corporation*) and 1120PC (mutual companies). This was done in order to use a group of corporations, for which statistics were readily available, that was as comparable as possible to FCDC'S.

Worldwide income tax.—For purposes of this article, worldwide income tax is approximated by the addition of total U.S. income tax after credits plus foreign tax credit. The foreign tax credit is used as a proxy for total foreign income taxes.

Worldwide receipts.—A domestic corporation (i.e., one incorporated in the United States), whether controlled by a foreign person or not, could have business activities in a foreign country as well as the United States. "Worldwide" receipts for a U.S. corporation conducting business abroad through foreign subsidiaries may include dividends remitted from those subsidiaries and, to a certain extent, their undistributed earnings. Worldwide receipts also include those from foreign branch operations of U.S. companies.

Data Sources and Limitations

Sample

The statistics for domestic corporations controlled by a foreign person are based on samples of corporation income tax returns filed primarily on Form 1120. In addition, the 1990 statistics include data from the small numbers of other corporation income tax returns filed on Forms 1120L, 1120-RIC, 1120-REIT and 1120PC.

Forms 1120, 1120-RIC and 1120-REIT sampled returns were stratified based on the calendar year in which the return was filed (and sampled), business activity, size of total assets and size of "proceeds," which was the larger of the absolute value of net income (or deficit) or the absolute value of "cash flow" (i.e., net income plus depreciation plus depletion). Forms 1120L and 1120PC were sampled based on the size of total assets.

For 1990, the achieved sampling rates for Forms 1120 alone (the overwhelming majority of the returns used for the sample) ranged from less than 1 percent to 100 percent. In general, Form 1120 returns with assets of $25 million or more, or with "proceeds" of $5 million or more, were selected for the study at the 100-percent rate. For additional information on the sampling rates, see *Statistics of Income—1990, Corporation Income Tax Returns.*

Because the data presented are estimates based on samples, they are subject to sampling error. To properly use these 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 the CV's applicable to the corporation statistics, see *Statistics of Income—1990, Corporation Income Tax Returns.*

Nonsampling Limitations

Most of the data in this article relate to Tax Year 1990, defined to cover returns with accounting periods that ended in a 12-month span beginning in July 1990 and ending in June 1991. As a result of the 12-month span for ending accounting periods, the statistics shown in this article include income received or expenses incurred during a 23-month span. For Tax Year 1990, that span was from August 1989 through June 1991.

Returns were selected for this study based on taxpayers' responses to a question that appears on the various types of Form 1120 which asks whether any foreign person owned, directly or indirectly, 50 percent or more of the filing corporation's voting stock [14]. Taxpayers sometimes incorrectly answer this question, or do not answer the question at all. However, prior to tabulation, corporations with large amounts of assets for which there were changes in foreign ownership status between 1989 and 1990 were researched and verified. These large corporations have a dominating effect on the estimates for balance sheet, income statement and tax items.

Each return used for the statistics had an industry code reported or assigned during statistical processing. This code was used as a classifier of the returns. 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. 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.

There is an additional limitation related to data presented by industrial classification. Companies that sell similar products may not be classified in the same industry. For instance, FCDC's, as U.S. distributors of products made in foreign countries by their parent companies, were classified as wholesalers. However, other domestic corporations included in consolidated returns covering the manufacture and distribution of similar products may have been classified as manufacturers.

Each return used for the statistics also had a foreign country code assigned during statistical processing, which identified the owner's country. For individuals, it was the owner's country of residence. For all others, it was the country in which the foreign entity was incorporated, organized, created or administered. The code was also used as a classifier of the returns. To the extent that a holding company or other affiliated entity was part of a chain between a U.S. subsidiary company and the ultimate parent, the data are not entirely related to the foreign country under which they are shown.

Notes and References

[1] Direct investment is different from portfolio investment in that the latter exerts no control over the management of the enterprise, except to the extent, for example, of rights to vote periodically in stockholder meetings of corporations. The portfolio investor has a minimal interest in a company, and is primarily seeking dividend payments or an increase in the value of the shares of stock.

[2] The Bureau of Economic Analysis, U.S. Department of Commerce, periodically publishes data on foreign investors' outlays to acquire or establish U.S. businesses. See, for example, *United States Department of Commerce News*, BEA 92-23, June 9, 1992.

[3] Sections 7701(a)(4) and (5) of the Internal Revenue Code define 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 is "one which is not domestic."

[4] For the 1989 statistics, see "Foreign Corporations with Income Effectively Connected with a U.S. Business, 1989," *Statistics of Income Bulletin*, Summer 1993, Volume 13, Number 1, 1993.

[5] Beginning with 1988, returns of Foreign Sales Corporations and Interest-Charge Domestic International Sales Corporations were not included in the totals for all U.S. corporation income tax returns. Previously, they were. Because these returns accounted for such a small portion of the total for most financial items, this change is not considered to be significant in terms of year-to-year comparisons.

[6] For percentages comparable to those shown in Figure C for Tax Year 1989, see Hobbs, James R., "Domestic Corporations Controlled by Foreign Persons, 1989," *Statistics of Income Bulletin*, Winter 1992-1993, Volume 12, Number 3, 1993.

[7] For statistical processing purposes, certain items (such as sales and excise taxes, depreciation, depletion, amortization, advertising and interest expenses) reported by taxpayers in cost of goods sold schedules were transferred to their respective and separate deduction categories.

[8] The 26,753 companies reporting a deficit include a small number of "breakeven" companies, i.e., those whose receipts and deductions were equal.

[9] For 1990, the definition of total statutory special deductions was changed to include the deduction for capital gains dividends paid by regulated investment companies and the deduction for small life insurance companies.

[10] Table 1 shows estimates of "worldwide income tax" for foreign-controlled domestic corporations, as well as for other domestic corporations. These estimates are derived by adding foreign tax credit to the U.S. total income tax after reduction by all of the credits, on the assumption that the foreign tax credit represents the foreign income taxes paid by domestic corporations.

[11] For financial data of both FCDC's and other domestic corporations shown by size of total assets, see United States General Accounting Office, "International Taxation: Taxes of Foreign- and U.S.-Controlled Corporations," Fact Sheet, June 1993. Statistics by size of total assets were not available for this article.

[12] The 15.6 percent increase between 1989 and 1990 in the assets of domestic corporations controlled by foreign persons, as well as the 3.1 percent increase for all corporations, may overstate the actual "growth in investment." Assets are reported at book value on tax returns. The book value of newly acquired assets is generally greater than the book value of similar assets they replaced. New corporations may tend to have a greater percentage of new assets with greater book values. To the extent that new corporations composed a greater portion of FCDC's than they did for other companies, the comparison of 15.6 percent to 3.1 percent (above) may be limited.

[13] For previous articles, see Hobbs, James R., "Domestic Corporations Controlled by Foreign Persons, 1989," *Statistics of Income Bulletin*, Winter 1992-1993, Volume 12, Number 3; "Domestic Corporations Controlled by Foreign Persons, 1988," *Statistics of Income Bulletin*, Fall 1991, Volume 11, Number 2; and "Domestic Corporations Controlled by Foreign Persons, 1987," *Statistics of Income Bulletin*, Summer 1990, Volume 10, Number 1.

[14] The method of selecting returns for this study may exclude certain domestic companies that are effectively controlled by foreign persons, such as public companies in which "control" may be exercised with as little as 10 to 20 percent of the stock holdings.

Table 1.--Foreign Controlled Domestic Corporations Compared With Other Domestic Corporations, by Selected Industrial Division

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

Item, percentage	All industries: Foreign controlled domestic corporations	All industries: Other domestic corporations [1]	Manufacturing: Foreign controlled domestic corporations	Manufacturing: Other domestic corporations [1]
	(1)	(2)	(3)	(4)
Items				
Number of returns, total	44,113	2,086,734	5,416	182,714
With net income	17,360	1,114,887	2,414	102,270
With total income tax after credits	11,776	821,272	n.a.	n.a.
Total assets	1,652,254,912	15,558,561,219	566,732,159	3,216,492,428
Returns with net income	913,724,322	12,080,579,920	355,194,811	2,710,443,663
Returns with deficit [2]	738,530,590	3,477,981,299	211,537,348	506,048,765
Liabilities	1,279,897,915	11,447,348,941	373,890,566	2,074,897,659
Net worth	372,356,997	4,111,212,278	192,841,593	1,141,594,769
Returns with net income	236,036,080	3,655,068,074	128,106,556	1,045,133,815
Returns with deficit [2]	136,320,917	456,144,204	64,735,037	96,460,954
Total receipts	1,060,295,309	8,492,959,169	446,044,995	2,942,813,944
Returns with net income	666,765,615	6,626,319,026	285,947,805	2,493,930,283
Returns with deficit [2]	393,529,694	1,866,640,143	160,097,190	448,883,661
Business receipts (all returns)	950,082,520	7,172,459,068	418,337,354	2,719,996,152
Interest on State and local Government obligations (all returns)	465,194	30,988,327	59,861	1,571,620
Other interest (all returns)	67,315,202	802,818,017	9,294,273	70,118,397
Total deductions	1,056,921,369	8,156,878,750	438,642,559	2,818,522,044
Cost of sales and operations	709,052,295	4,712,665,636	295,156,696	1,874,656,327
Interest paid	77,561,887	664,247,126	21,445,968	125,304,465
Depreciation	28,927,272	272,952,354	14,384,259	100,061,959
Taxes paid	16,859,766	196,863,265	9,204,797	71,172,674
Amortization	4,210,232	24,164,689	2,349,461	8,628,829
Total receipts less total deductions	3,373,941	336,080,420	7,402,436	124,291,900
Constructive taxable income from related foreign corporations	1,056,823	35,716,736	776,210	28,765,844
Net income (less deficit)	3,965,570	333,289,411	8,118,786	151,487,283
Net income	29,409,652	449,305,734	16,034,236	180,533,375
Deficit	25,444,082	116,016,323	7,915,450	29,046,092
Total statutory special deductions	5,943,037	120,991,682	n.a.	n.a.
Net operating loss deduction	4,876,839	37,082,788	n.a.	n.a.
Income subject to tax	23,704,023	338,262,179	13,924,194	165,427,867
Total income tax before credits	8,718,529	117,470,387	5,053,350	59,303,135
Regular tax	8,008,250	109,891,047	4,717,191	55,926,868
Alternative minimum tax	661,032	7,059,815	302,730	3,114,955
Total credits	1,280,048	30,450,778	712,947	24,701,379
Foreign tax credit	970,622	23,980,990	527,675	20,249,689
General business credit	190,439	2,635,642	138,231	1,090,778
Total income tax after credits	7,438,480	87,019,609	4,340,404	34,601,755
Returns with net income	7,278,311	86,073,513	4,257,919	34,431,692
Worldwide income tax	8,409,102	111,000,599	4,868,079	54,851,444

Footnotes at end of table.

Table 1.--Foreign Controlled Domestic Corporations Compared With Other Domestic Corporations, by Selected Industrial Division -- Continued

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

Item, percentage	All industries		Manufacturing	
	Foreign controlled domestic corporations	Other domestic corporations [1]	Foreign controlled domestic corporations	Other domestic corporations [1]
	(1)	(2)	(3)	(4)
Percentages				
Percentage of returns with:				
Net income	39.4	53.4	44.6	56.0
Total income tax after credits	26.7	39.4	n.a.	n.a.
Returns with net income as a percentage of all returns, as measured by:				
Total assets	55.3	77.6	62.7	84.3
Total receipts	62.9	78.0	64.1	84.7
Net worth	63.4	88.9	66.4	91.6
Net worth as a percentage of total assets	22.5	26.4	34.0	35.5
Cost of sales and operations as a percentage of:				
Total receipts	66.9	55.5	66.2	63.7
Business receipts	74.6	65.7	70.6	68.9
Business receipts less cost of sales and operations as a percentage of business receipts (i.e., "gross profit margin")	25.4	34.3	29.4	31.1
Interest paid as a percentage of:				
Total assets	4.7	4.3	3.8	3.9
Liabilities	6.1	5.8	5.7	6.0
Total receipts	7.3	7.8	4.8	4.3
Depreciation as a percentage of:				
Total assets	1.8	1.8	2.5	3.1
Total receipts	2.7	3.2	3.2	3.4
Amortization as a percentage of:				
Total assets	0.3	0.2	0.4	0.3
Total receipts	0.4	0.3	0.5	0.3
Total receipts less total deductions as a percentage of:				
Total assets	0.2	2.2	1.3	3.9
Total receipts	0.3	4.0	1.7	4.2
Net worth	0.9	8.2	3.8	10.9
All returns: Net income (less deficit) as a percentage of:				
Total assets	0.2	2.1	1.4	4.7
Total receipts	0.4	3.9	1.8	5.1
Net worth	1.1	8.1	4.2	13.3
Returns with net income: Net income as a percentage of:				
Total assets	3.2	3.7	4.5	6.7
Total receipts	4.4	6.8	5.6	7.2
Net worth	12.5	12.3	12.5	17.3
Returns with deficit [2]: Deficit as a percentage of:				
Total assets	3.4	3.3	3.7	5.7
Total receipts	6.5	6.2	4.9	6.5
Net worth	18.7	25.4	12.2	30.1
Net operating loss deduction as a percentage of net income	16.6	8.3	n.a.	n.a.
All returns: Total income tax after credits as a percentage of:				
Total assets	0.5	0.6	0.8	1.1
Total receipts	0.7	1.0	1.0	1.2
Net worth	2.0	2.1	2.3	3.0
Returns with net income: Total income tax after credits as a percentage of:				
Total assets	0.8	0.7	1.2	1.3
Total receipts	1.1	1.3	1.5	1.4
Net worth	3.1	2.4	3.3	3.3
Worldwide income tax as a percentage of:				
Total assets	0.5	0.7	0.9	1.7
Total receipts	0.8	1.3	1.1	1.9
Net worth	2.3	2.7	2.5	4.8

Footnotes at end of table.

Table 1.–Foreign Controlled Domestic Corporations Compared With Other Domestic Corporations, by Selected Industrial Division – Continued

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

Item, percentage	Wholesale and retail trade: Foreign controlled domestic corporations	Wholesale and retail trade: Other domestic corporations [1]	Finance, insurance and real estate: Foreign controlled domestic corporations	Finance, insurance and real estate: Other domestic corporations [1]
	(5)	(6)	(7)	(8)
Items				
Number of returns, total	15,193	587,614	13,503	345,592
With net income	7,861	315,135	3,396	194,107
With total income tax after credits	n.a.	n.a.	n.a.	n.a.
Total assets	229,104,189	987,532,090	706,066,305	9,112,120,008
Returns with net income	120,723,459	667,721,567	368,606,985	7,002,841,231
Returns with deficit [2]	108,380,730	319,810,523	337,459,320	2,109,278,777
Liabilities	183,956,077	742,046,494	624,315,594	7,134,532,178
Net worth	45,148,112	245,485,596	81,750,711	1,977,587,830
Returns with net income	31,679,272	222,631,034	45,795,514	1,717,333,524
Returns with deficit [2]	13,468,840	22,854,562	35,955,197	260,254,306
Total receipts	416,072,449	2,079,253,916	112,518,337	1,587,066,723
Returns with net income	270,858,107	1,535,923,203	61,505,424	1,204,771,385
Returns with deficit [2]	145,214,342	543,330,713	51,012,913	382,295,338
Business receipts (all returns)	402,893,143	2,010,166,561	52,049,690	684,432,720
Interest on State and local Government obligations (all returns)	37,887	1,341,517	356,691	27,210,945
Other interest (all returns)	5,834,944	22,572,891	49,106,502	678,335,341
Total deductions	418,657,191	2,055,939,526	112,948,776	1,446,656,215
Cost of sales and operations	337,433,085	1,519,469,459	29,958,809	394,781,515
Interest paid	11,196,423	44,329,039	39,298,600	406,065,632
Depreciation	6,638,071	28,028,125	3,598,036	28,699,237
Taxes paid	3,477,026	33,042,832	2,143,437	24,484,830
Amortization	667,952	2,329,553	379,221	4,127,124
Total receipts less total deductions	-2,584,743	23,314,390	-430,439	140,410,508
Constructive taxable income from related foreign corporations	64,981	1,628,700	132,711	3,627,706
Net income (less deficit)	-2,557,649	23,601,572	-654,420	109,306,690
Net income	4,990,653	41,684,102	4,637,959	142,232,674
Deficit	7,548,302	18,082,530	5,292,379	32,925,984
Total statutory special deductions	n.a.	n.a.	n.a.	n.a.
Net operating loss deduction	n.a.	n.a.	n.a.	n.a.
Income subject to tax	4,011,899	38,041,006	3,453,646	60,802,826
Total income tax before credits	1,463,248	12,328,983	1,269,065	19,458,885
Regular tax	1,345,230	11,940,685	1,163,882	18,143,857
Alternative minimum tax	112,266	348,809	98,137	1,184,433
Total credits	47,272	1,175,849	114,721	1,878,858
Foreign tax credit	23,546	911,050	86,370	1,516,654
General business credit	20,293	193,682	23,429	165,950
Total income tax after credits	1,415,977	11,153,134	1,154,344	17,580,027
Returns with net income	1,379,835	11,072,430	1,142,483	17,394,733
Worldwide income tax	1,439,523	12,064,184	1,240,714	19,096,681

Footnotes at end of table.

Table 1.--Foreign Controlled Domestic Corporations Compared With Other Domestic Corporations, by Selected Industrial Division -- Continued

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

Item, percentage	Wholesale and retail trade		Finance, insurance and real estate	
	Foreign controlled domestic corporations	Other domestic corporations [1]	Foreign controlled domestic corporations	Other domestic corporations [1]
	(5)	(6)	(7)	(8)
Percentages				
Percentage of returns with:				
Net income	51.7	53.6	25.1	56.2
Total income tax after credits	n.a.	n.a.	n.a.	n.a.
Returns with net income as a percentage of all returns, as measured by:				
Total assets	52.7	67.6	52.2	76.9
Total receipts	65.1	73.9	54.7	75.9
Net worth	70.2	90.7	56.0	86.8
Net worth as a percentage of total assets	19.7	24.9	11.6	21.7
Cost of sales and operations as a percentage of:				
Total receipts	81.1	73.1	26.6	24.9
Business receipts	83.8	75.6	57.6	57.7
Business receipts less cost of sales and operations as a percentage of business receipts (i.e., "gross profit margin")	16.2	24.4	42.4	42.3
Interest paid as a percentage of:				
Total assets	4.9	4.5	5.6	4.5
Liabilities	6.1	6.0	6.3	5.7
Total receipts	2.7	2.1	34.9	25.6
Depreciation as a percentage of:				
Total assets	2.9	2.8	0.5	0.3
Total receipts	1.6	1.3	3.2	1.8
Amortization as a percentage of:				
Total assets	0.3	0.2	0.1	(3)
Total receipts	0.2	0.1	0.3	0.3
Total receipts less total deductions as a percentage of:				
Total assets	-1.1	2.4	-0.1	1.5
Total receipts	-0.6	1.1	-0.4	8.8
Net worth	-5.7	9.5	-0.5	7.1
All returns: Net income (less deficit) as a percentage of:				
Total assets	-1.1	2.4	-0.1	1.2
Total receipts	-0.6	1.1	-0.6	6.9
Net worth	-5.7	9.6	-0.8	5.5
Returns with net income: Net income as a percentage of:				
Total assets	4.1	6.2	1.3	2.0
Total receipts	1.8	2.7	7.5	11.8
Net worth	15.8	18.7	10.1	8.3
Returns with deficit [2]: Deficit as a percentage of:				
Total assets	7.0	5.7	1.6	1.6
Total receipts	5.2	3.3	10.4	8.6
Net worth	56.0	79.1	14.7	12.7
Net operating loss deduction as a percentage of net income	n.a.	n.a.	n.a.	n.a.
All returns: Total income tax after credits as a percentage of:				
Total assets	0.6	1.1	0.2	0.2
Total receipts	0.3	0.5	1.0	1.1
Net worth	3.1	4.5	1.4	0.9
Returns with net income: Total income tax after credits as a percentage of:				
Total assets	1.1	1.7	0.3	0.2
Total receipts	0.5	0.7	1.9	1.4
Net worth	4.4	5.0	2.5	1.0
Worldwide income tax as a percentage of:				
Total assets	0.6	1.2	0.2	0.2
Total receipts	0.3	0.6	1.1	1.2
Net worth	3.2	4.9	1.5	1.0

n.a. - not available.

[1] Includes Forms 1120, 1120A, 1120L, 1120-RIC, 1120-REIT, and 1120PC (stock). Excludes Forms 1120S, 1120F, 1120-IC-DISC, 1120-FSC and 1120PC (mutual).

[2] Includes "breakeven" returns, i.e., those with equal amounts of receipts and deductions.

[3] Less than 0.05 percent.