

Transactions Between Foreign Controlled Corporations and Related Foreign Persons, 1988

Data Release

For Tax Year 1988, there were 121 corporations that: (1) had total receipts of \$1 billion or more; (2) were "controlled" by a foreign "person;" and (3) reported transactions with related foreign persons. These corporations received \$49.9 billion and paid \$77.6 billion in transactions with 1,776 foreign persons [1]. This information was reported in conjunction with Internal Revenue Code section 6038A, which was revised by the Tax Reform Act of 1986 to require that foreign controlled domestic corporations and foreign controlled foreign corporations with a U.S. trade or business report transactions with related foreign persons [2].

The 121 corporations had \$426.3 billion of total assets for 1988. This was 36 percent of the total assets reported by all domestic corporations controlled by a foreign person [3]. This percentage increases to 46 when banks and credit agencies are excluded. It is appropriate to exclude these types of corporations because companies engaged in banking or financing activities did not have to file a Form 5472, *Information Return of a Foreign Owned Corporation*, the basis of these statistics [4].

Over 96 percent of the \$49.9 billion received by the corporations was from two types of transactions: amounts borrowed (58 percent) and sales of stock in trade (38 percent). Table 1 presents these data by country of residence of the foreign related persons. Amounts borrowed by corporations was the primary type of receipt from related persons in the United Kingdom, Netherlands, Netherlands Antilles, West Germany, Switzerland and France. Sales of stock in trade was the primary receipt for Japan and Canada.

Nearly 80 percent of the \$77.6 billion paid by the corporations was the result of purchases of stock in trade. (Another 12 percent was from amounts loaned by the corporations to related foreign persons.) Japan accounted for 60 percent of the total \$61.9 billion of purchases of stock in trade from all persons. West Germany was second with an additional 11 percent of the total.

In comparing the amount of receipts and payments on a country basis, for Japan, West Germany and Canada, corporations made considerably more payments to related persons than they received. The Netherlands, Netherlands Antilles and Switzerland were the opposite, with corporations receiving more (mostly from amounts borrowed) from related persons than they paid out. For the United Kingdom and France, the amount of receipts and payments was about the same.

Table 2 presents Form 5472 data by industry groupings

of the reporting foreign controlled corporations. Over half of the corporations reported manufacturing to be their principal business activity for 1988. Manufacturers of chemicals and allied products was the most populous group, accounting for 25 percent of all manufacturing corporations. Manufacturers borrowed \$22.3 billion from related foreign persons (77 percent of the total for all industries) and loaned \$7.6 billion (83 percent of the total).

Wholesale trade companies accounted for 32 percent of the 121 large foreign controlled corporations. Total amounts received (\$18.0 billion) and paid (\$48.6 billion) by these trade companies were primarily the result of sales and purchases, respectively, of stock in trade. The \$14.2 and \$46.0 billion of wholesalers' sales and purchases of stock in trade accounted for 76 and 74 percent, respectively, of the totals for all industries.

The statistics shown in Tables 1 and 2 for Tax Year 1988 represent the first Form 5472 study conducted by the Statistics of Income Division [5]. Data from the 1989 study will be included in a future *Statistics of Income Bulletin* article to be co-authored by James Hobbs and John Latzy.

Explanation of Selected Terms

Amounts Borrowed and Loaned — Form 5472 collects information on both the beginning and ending balances of amounts borrowed and loaned by foreign controlled corporations from and to, respectively, their related foreign persons. The ending balances of these items are included in total amounts received and paid, respectively, shown in Tables 1 and 2. (These tables also show the beginning balances for these items.) The ending balances may not equal the actual amounts borrowed and loaned during the Tax Year 1988 period.

Control — A corporation is controlled by a foreign person when that person owns, directly or indirectly, at least 50 percent of: (1) the total voting power of the corporation's stock, or (2) the value of the corporation's outstanding stock. If a corporation is controlled by another corporation which, in turn, is controlled by a foreign person, then the first corporation is also considered to be controlled by the foreign person.

Foreign Person — The term "foreign person" generally includes: (1) any partnership, association, company or corporation that was not created or organized under the laws of the United States or the laws of any State; (2) any individual who is not a citizen or resident of the United States; (3) any individual who is a citizen of a U.S. possession, but is not otherwise a U.S. citizen or resident; and (4) any foreign trust, estate, or government.

This data release was written by James Hobbs and John Latzy, who are economists with the Foreign Statistics Branch, Daniel F. Skelly, Chief.

Transactions Between Foreign Controlled Corporations and Related Foreign Persons, 1988

Number of Persons — The data shown in Tables 1 and 2 for this item generally represent the number of Forms 5472 attached to the 121 income tax returns filed by corporations with total receipts of \$1 billion or more and that were controlled by a foreign person. Member corporations of an affiliated group that filed a consolidated income tax return could also join in filing a consolidated Form 5472 for transactions with a given foreign related person. However, some corporations that could have filed consolidated Forms 5472 instead filed separate forms. When these were identified during statistical processing, the information on them was combined and treated as a single Form 5472. To this extent, the "number of persons" understates the actual number of Forms 5472 attached to the 121 income tax returns included in this study.

Related Person — A person is related to the corporation which filed a Form 5472 if that person falls within the meaning of Internal Revenue Code sections 267(b), 482, or 707(b)(1). Form 5472 collects information on the type of relationship between the foreign controlled reporting corporation and the related foreign person. The four types of relationships specified on the form are: (1) the reporting corporation controls the related person; (2) the related person controls the reporting corporation; (3) the reporting corporation and the related person are under a common control by a third party; and (4) other. All of these types of relationships are included in these statistics.

Reportable Transactions — These transactions are shown in Tables 1 and 2 and include the following: (1) sales and purchases of stock in trade; (2) sales and

purchases of other tangible property; (3) rents and royalties paid and received; (4) sales, purchases and amounts paid and received for the use of copyrights, trademarks, designs, processes and other intangible property; (5) consideration paid and received for technical, managerial, scientific and like services; (6) commissions paid and received; (7) amounts borrowed and loaned; (8) interest paid and received; and (9) insurance premiums paid and received.

Notes and References

- [1] Total receipts and payments include small amounts, 3 and 1 percent, respectively, from transactions with related U.S. persons.
- [2] The 121 corporations shown in these statistics include a very small number of foreign corporations that were engaged in a U.S. trade or business. Nearly all of the companies were domestic, i.e., incorporated in the United States.
- [3] See Hobbs, James R., "Domestic Corporations Controlled by Foreign Persons, 1988," *Statistics of Income Bulletin*, Fall 1991, Volume 11, Number 2.
- [4] Corporations with no gross income and foreign corporations with all of their income exempt from U.S. taxation were also exempt from filing Forms 5472.
- [5] Tax Year 1988 includes corporations with accounting periods that ended between July 1988 and June 1989.

Transactions Between Foreign Controlled Corporations and Related Foreign Persons, 1988

Table 1.--Foreign Controlled Corporations with Total Receipts of \$1 Billion or More: Transactions Between Corporations and Related Foreign Persons, by Selected Country of Related Person

[Money amounts are in thousands of dollars]

Item	All countries	United Kingdom	Japan	Netherlands	Netherlands Antilles	West Germany	Switzerland	Canada	France
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Corporations: ¹									
Number.....	121	59	47	46	11	44	25	62	38
Total assets.....	426,307,137	273,117,377	161,008,393	241,997,103	28,085,305	152,788,460	100,811,851	265,567,085	192,735,874
Total receipts.....	398,920,741	209,347,413	204,754,843	172,394,125	21,221,398	155,682,678	88,110,428	239,067,232	184,575,068
Transactions between corporations and related foreign persons									
Number of persons.....	1,776	240	141	110	14	120	51	119	101
Total received.....	49,919,746	13,029,357	11,078,690	6,344,218	4,040,901	2,656,822	2,085,485	1,814,629	1,408,569
Sales of stock in trade.....	18,788,907	1,941,832	9,008,721	312,243	13,818	844,935	669,183	1,273,562	272,128
Sales of other tangible property....	346,567	23,328	166,363	4,208	146	25,665	--	37,148	923
Rents and royalties.....	71,345	24,855	507	122	--	655	3,980	6,614	1,051
Sales, leases, and licenses of intangible property.....	168,018	12,806	11,221	5,279	--	11,429	--	4,197	14,140
Consideration received for technical, managerial or like services.....	876,488	202,486	173,628	36,717	2,989	241,849	19	61,844	19,296
Commissions.....	132,640	11,141	91,208	1,565	323	8,273	72	4,036	1,078
Amounts borrowed:									
Beginning balance.....	26,633,116	10,645,381	1,257,073	6,435,315	2,508,192	1,141,197	2,064,333	355,855	618,058
Ending balance.....	29,173,549	10,729,393	1,576,484	5,964,111	4,023,625	1,457,522	1,403,476	402,272	1,087,567
Interest.....	349,232	72,562	50,558	19,972	--	66,494	8,669	24,751	12,387
Premiums for insurance.....	12,999	10,954	--	--	--	--	85	205	--
Total paid.....	77,628,325	11,313,083	39,827,765	1,083,083	346,547	7,892,009	941,445	4,463,962	1,222,088
Purchases of stock in trade.....	61,919,633	2,960,015	37,151,931	186,942	2	6,540,654	563,609	3,938,897	951,604
Purchases of other tangible property.....	2,048,490	5,430	1,729,549	528	58	45,658	13,048	55,575	117,176
Rents and royalties.....	343,717	51,260	205,791	4,572	--	53,793	8,042	1,399	8,480
Purchases, leases, and licenses of intangible property.....	359,618	196,828	1,569	25,971	1,126	16,979	108,636	2,209	1,395
Consideration paid for technical, managerial or like services.....	694,329	79,610	76,214	21,176	12,480	26,702	20,006	265,905	49,502
Commissions.....	143,950	16,303	10,599	2,632	22	26,552	339	1,604	2,890
Amounts loaned:									
Beginning balance.....	6,625,421	3,600,285	265,041	461,459	6,011	1,331,174	62,500	217,184	121,691
Ending balance.....	9,137,309	6,563,642	563,350	294,775	260	1,066,345	62,500	89,919	35,167
Interest.....	2,822,724	1,424,162	88,759	501,684	322,960	113,196	164,758	43,802	53,264
Premiums for insurance.....	158,556	15,832	2	44,804	9,638	2,130	506	64,653	2,611

¹ Because a given corporation could have related foreign persons in more than one country, corporation detail may not add to totals.

NOTES: Table includes domestic and foreign corporations that were engaged in a trade or business in the United States, that were "controlled" by a foreign person, and had any reportable transactions with a related foreign person. Detail may not add to totals because of rounding.

Transactions Between Foreign Controlled Corporations and Related Foreign Persons, 1988

Table 2.--Foreign Controlled Corporations with Total Receipts of \$1 Billion or More: Transactions Between Corporations and Related Foreign Persons, by Selected Industry Group of Corporation

[Money amounts are in thousands of dollars]

Item	All industries	Manufacturing	Wholesale trade	Retail trade
	(1)	(2)	(3)	(4)
Corporations:				
Number.....	121	61	39	7
Total assets.....	426,307,137	246,681,751	58,594,759	20,517,780
Total receipts.....	398,920,741	184,840,231	163,800,981	24,425,980
Transactions between corporations and related foreign persons				
Number of persons.....	1,776	1,226	437	18
Total received.....	49,919,746	27,289,519	17,968,104	2,133,477
Sales of stock in trade.....	18,788,907	3,781,216	14,248,780	2,800
Sales of other tangible property.....	346,567	132,378	201,907	--
Rents and royalties.....	71,345	47,802	12,901	--
Sales, leases, and licenses of intangible property.....	168,018	140,030	26,113	--
Consideration received for technical, managerial or like services.....	876,488	612,707	187,800	250
Commissions.....	132,640	34,479	92,695	--
Amounts borrowed:				
Beginning balance.....	26,633,116	20,660,811	3,093,686	1,707,193
Ending balance.....	29,173,549	22,322,455	3,134,271	2,117,423
Interest.....	349,232	218,197	61,848	13,004
Premiums for insurance.....	12,999	255	1,790	--
Total paid.....	77,628,325	26,612,905	48,579,531	307,941
Purchases of stock in trade.....	61,919,633	15,078,080	46,024,674	4,095
Purchases of other tangible property.....	2,048,490	450,988	1,596,243	--
Rents and royalties.....	343,717	145,087	197,835	--
Purchases, leases, and licenses of intangible property.....	359,618	346,559	11,933	1,126
Consideration paid for technical, managerial or like services.....	694,329	452,775	144,889	3,551
Commissions.....	143,950	106,074	32,744	2,768
Amounts loaned:				
Beginning balance.....	6,625,421	5,415,559	714,180	125,000
Ending balance.....	9,137,309	7,619,620	374,298	125,000
Interest.....	2,822,724	2,351,545	181,266	169,518
Premiums for insurance.....	158,556	62,175	15,649	1,883

NOTES: Table includes domestic and foreign corporations that were engaged in a trade or business in the United States, that were "controlled" by a foreign person, and had any reportable transactions with a related foreign person. Detail may not add to totals because of rounding.