

International Boycott Participation, 1990

Data Release

For tax year 1990, 1,210 corporations, 65 partnerships and 6 individuals reported operations in countries known to participate in unsanctioned international boycotts. Roughly one-fifth of these persons, 256, were requested to participate in boycotts, but only 71, less than 6 percent, actually agreed to participate. Forty-one persons, mostly corporations, lost tax benefits as a result of their boycott participation.

Since the Tax Reform Act of 1976, U.S. persons with business operations in countries known to participate in unsanctioned international boycotts must report these operations to the Internal Revenue Service. Those persons who agree to participate, or cooperate with, an international boycott can be penalized, having their U.S. tax benefits reduced by the extent to which benefits relate to boycott income. The benefits which can be reduced are the foreign tax credit, deferral of taxation on the earnings of Controlled Foreign Corporations, deferral of income from an Interest-Charge Domestic International Sales Corporation (IC-DISC), and tax exemption of foreign trade income of a Foreign Sales Corporation (FSC). (The Department of Commerce can also fine the participating person.)

A person is considered to have participated in an international boycott if:

- (1) as a condition of business with the boycotting country, the person agrees to refrain from:
 - (a) doing business in the boycotted country (Type 1 request, as shown in Table 1);
 - (b) doing business with any U.S. person in the boycotted country (Type 2);
 - (c) doing business with any company owned or managed by a particular nationality of the boycotted country (Type 3); and
 - (d) employing any person of a certain nationality, race or religion (Type 4), and
- (2) as a condition of the sale of a product to a boycotting country, the person refrains from using a shipper or insurer that does not participate in an international boycott

as defined above (Type 5).

For purposes of this determination, "country" includes governments, nationals or companies of the boycotting or boycotted country. A "person" could be a corporation, a partnership, an individual, an estate, a trust or other entity. A person refraining from importing or exporting products to the boycotted country, however, is not penalized.

The Treasury Department maintains a list of countries known to participate in an international boycott. All of the countries on the current list are Arab nations which boycott Israel. There are others that participated in unsanctioned boycotts in 1990, most notably Bangladesh, Iran and Pakistan. While all three boycotted Israel, Pakistan also maintained a boycott of India and Iran boycotted Iraq. (See Table 2.)

The participating person computes the loss of tax benefits with either the "international boycott factor method" or the "specifically attributable income and taxes method". (See Table 3.) With the former, the taxpayer computes the ratio of purchases, sales and payroll attributable to boycotting countries to the overall foreign purchases, sales, and payroll and reduces each tax benefit by this ratio. With the specifically attributable method, income and taxes attributable to operations related to boycott participation are disallowed as a portion of the tax benefits. For example, the taxpayer would have to lower the foreign taxes available for the foreign tax credit by the amount of foreign taxes paid to boycotting countries. Likewise, foreign trade income of a FSC from these countries would lose its tax exempt status.

With either method, the taxpayer converts a portion of its undistributed income from its controlled foreign corporations to subpart F income, thereby increasing the income subject to U.S. tax. IC-DISC boycott income is made taxable to its shareholders.

The statistics reported in the following tables were derived from all Forms 5713, *International Boycott Report*, filed during 1991 with an accounting period ending in 1990.

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Table 1.--Boycott Requests and Agreements, by Type

| Requests and agreements | Number of persons or requests | Number of persons or agreements | Percentage |
|---|-------------------------------|---------------------------------|------------|
| | (1) | (2) | (3) |
| Number of persons receiving requests and agreeing to participate..... | 256 | 71 | 28 |
| Total requests and agreements..... | 9,932 | 3,122 | 31 |
| Type 1..... | 3,786 | 952 | 25 |
| Type 2..... | 1,545 | 746 | 48 |
| Type 3..... | 581 | 43 | 7 |
| Type 4..... | 343 | 23 | 7 |
| Type 5..... | 3,677 | 1,358 | 37 |

NOTE: Types of requests and agreements are described in the text.

Table 2.--Operations, Requests and Agreements, by Boycotting Country

| Country | Number of persons with operations in countries boycotting-- | | Number of requests | Number of agreements |
|--|---|------------|--------------------|----------------------|
| | Israel | Others | | |
| | (1) | (2) | (3) | (4) |
| All countries..... | 1,449 | 220 | 9,932 | 3,122 |
| Treasury listed countries, total..... | 1,269 | 67 | 9,527 | 3,082 |
| Bahrain..... | 631 | -- | 517 | 264 |
| Iraq..... | 444 | 5 | 829 | 182 |
| Jordan..... | 588 | -- | 318 | 160 |
| Kuwait..... | 782 | 28 | 1,618 | 751 |
| Lebanon..... | 455 | -- | 217 | 115 |
| Libya..... | 230 | -- | 244 | 48 |
| Oman..... | 532 | 4 | 748 | 267 |
| Qatar..... | 504 | -- | 587 | 198 |
| Saudi Arabia..... | 1,077 | 14 | 1,934 | 373 |
| Syria..... | 393 | -- | 424 | 32 |
| United Arab Emirates..... | 811 | 11 | 1,960 | 682 |
| Yemen, Republic of..... | 329 | -- | 131 | 10 |
| Middle East, not allocable..... | 11 | 5 | -- | -- |
| Nonlisted countries, total..... | 180 | 174 | 405 | 40 |
| Bangladesh..... | 27 | 15 | 35 | 14 |
| Iran..... | 49 | (1) | 48 | 8 |
| Pakistan..... | 64 | 41 | 103 | 5 |
| Other countries..... | 214 | (1) | 219 | 13 |

¹ Data deleted to avoid disclosure of information about specific taxpayers.

Table 3.--Loss of Income and Tax Benefits, by Method

[Money amounts are in thousands of dollars]

| Method | Number of returns | Foreign tax credit reduction ¹ | Subpart F boycott income | FSC boycott income ² |
|---------------------------------------|-------------------|---|--------------------------|---------------------------------|
| | (1) | (2) | (3) | (4) |
| Boycott factor method..... | 15 | 960 | 6,111 | 3 |
| Specifically attributable method..... | 26 | 1,371 | 4,553 | 66 |

¹ For the boycott factor method, this amount is the reduction of foreign taxes available for credit.

² Foreign Sales Corporation foreign trade income.

NOTE: No returns reported loss of benefits related to income from Interest-Charge Domestic International Sales Corporations for 1990.