

International Boycott Reports, 1995

Data Release

Under the Tax Reform Act of 1976, any 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, such as selling, purchasing, leasing, negotiating, processing, manufacturing, etc. For calendar year 1995, 1,283 corporations, 50 partnerships, and 3 individuals filed Form 5713, *International Boycott Report*, and reported operations in countries known to participate in unsanctioned international boycotts.

The Treasury Department maintains a list of countries known to participate in international boycotts. For 1995, the list of countries requiring cooperation with an international boycott included Bahrain, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, and the Republic of Yemen. These Arab nations boycotted Israel. Although most reports are filed by persons with operations in these countries, 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 a country. For 1995, most notably, Bangladesh, Egypt, Iran, and Pakistan participated in the boycott of Israel. Pakistan also maintained a boycott of India.

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 the Internal Revenue Code §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 that 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).

Participation in an international boycott may result in the loss of tax benefits, such as a reduction of the foreign tax credit or a reduction of exempt foreign trade income of a Foreign Sales Corporation (FSC). Participation could also result in the denial of deferred taxation of earnings of a Controlled Foreign Corporation or an Interest-Charge Domestic International Sales Corporation (IC-DISC). A single taxpayer may lose multiple tax benefits due to participation in an international boycott. Additionally, the Department of Commerce may fine the participating person.

For 1995, of the 1,336 persons who filed boycott reports, 207 persons reported receiving requests to participate in an international boycott. Less than 4 percent of these filers, 49 persons, agreed to participate in an international boycott. Of these participants, 20 corporations reported a reduction in tax benefits due to the international boycott provisions. Due to participation in an international boycott, 8 corporations reduced their foreign tax credit by \$280,635, and 15 corporations were denied deferral under subpart F of \$6,130,890. While no one reported a denial of IC-DISC benefits, four corporations decreased their foreign trade income exemption by \$696,255.

Filers may choose to compute the loss of their tax benefits by using the “international boycott factor method” or by specifically attributing taxes and income. For the international boycott factor method, the loss of tax benefit is computed by using a ratio of purchases, sales, and payroll in boycotting countries to total purchases,

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International Boycott Reports, 1995

sales, and payroll in all countries other than the United States. Three corporations computed their loss of tax benefits by using the international boycott factor method.

If a filer demonstrates 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, then, in lieu of applying the international boycott factor, 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. Eighteen corporations calculated their loss of tax benefits by this method. Seven of these corporations reported a reduction in their foreign tax credit totaling \$273,433. Fifteen parent corporations increased the taxable earnings of their controlled foreign corporations by \$6,130,890. This amount would have been tax-deferred under subpart F. Three corporations reported \$693,022 of taxable income that would have been FSC-exempt foreign trade income if they had not participated in a boycott.

Table 2 presents the loss of income and tax benefits by method of computation for 1992 through 1995. The reduction of foreign tax credits due to boycott participation decreased significantly during that period. For 1992, nearly \$4,000,000 in foreign tax credits were lost, compared to a loss of \$280,635 for 1995. The increase in subpart F income for 1992 was more than \$8,500,000. For 1995, this amount decreased nearly 30 percent to \$6,130,890.

Several factors may contribute to decreases in the loss of tax benefits. For example, events in the Middle East peace process may have affected participation in international boycotts. Two notable events occurred in 1994 and 1995. In July 1994, King Hussein of Jordan and Israeli Prime Minister Yitzhak Rabin signed a declaration ending the 46-year-old state of war between their countries. In September 1995, Rabin and Palestinian Liberation Organization (PLO) leader Yassir Arafat signed an agreement, ending Israel's occupation of West Bank cities. In addition, U. S. corporations, which historically had lost tax benefits due to participation in international boycotts, may have changed their corporate policies.

Statistics of Income (SOI) conducts a full-scale study of the International Boycott Reports every four years. All 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 Internal Revenue Service for these full-scale studies. The seventh report of this document includes information from the International Boycott Reports filed during 1994. A scaled-down study is 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 upon information received from a scaled-down study.

International Boycott Reports, 1995

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

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	202	9,144	3,029	33.1
	Type 1	119	3,240	1,134	35.0
	Type 2	18	1,625	871	53.6
	Type 3	21	678	4	0.6
	Type 4	15	644	2	0.3
	Type 5	136	2,957	1,018	34.4
Treasury-listed countries.....	Total	190	8,701	2,988	34.3
	Type 1	114	3,008	1,117	37.1
	Type 2	18	1,617	871	53.9
	Type 3	20	672	4	0.6
	Type 4	14	640	2	0.3
	Type 5	122	2,764	994	36.0
Bahrain.....	Total	43	415	320	77.1
	Type 1	21	170	138	81.2
	Type 2	**	**	**	**
	Type 3	**	**	**	**
	Type 4	**	**	**	**
	Type 5	26	95	50	52.6
Iraq.....	Total	6	18	5	27.8
	Type 1	**	**	**	**
	Type 2	**	**	**	**
	Type 3	**	**	**	**
	Type 4	**	**	**	**
	Type 5	5	11	2	18.2
Jordan.....	Total	37	355	163	45.9
	Type 1	16	95	32	33.7
	Type 2	5	40	32	80.0
	Type 3	4	8	--	--
	Type 4	3	7	--	--
	Type 5	28	205	99	48.3
Kuwait.....	Total	79	1,132	798	70.5
	Type 1	35	328	253	77.1
	Type 2	7	246	219	89.0
	Type 3	8	15	--	--
	Type 4	5	12	--	--
	Type 5	53	531	326	61.4
Lebanon.....	Total	36	181	122	67.4
	Type 1	12	32	20	62.5
	Type 2	4	16	10	62.5
	Type 3	--	--	--	--
	Type 4	--	--	--	--
	Type 5	27	133	92	69.2
Libya.....	Total	23	121	11	9.1
	Type 1	14	29	1	3.4
	Type 2	3	10	--	--
	Type 3	6	13	--	--
	Type 4	3	10	--	--
	Type 5	16	59	10	16.9
Oman.....	Total	49	735	171	23.3
	Type 1	23	291	68	23.4
	Type 2	8	129	61	47.3
	Type 3	6	72	1	1.4
	Type 4	3	58	--	--
	Type 5	31	185	41	22.2

Footnotes at end of table.

International Boycott Reports, 1995

Table 1. -- International Boycott Reports: Number of Persons Receiving Requests, Number of Requests Received, and Number of Agreements, by Boycotting Country--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	51	678	199	29.4
	Type 1	23	205	94	45.9
	Type 2	6	144	78	54.2
	Type 3	4	62	--	--
	Type 4	4	61	--	--
	Type 5	34	206	27	13.1
Saudi Arabia.....	Total	72	2,240	128	5.7
	Type 1	39	554	69	12.5
	Type 2	8	395	--	--
	Type 3	9	362	--	--
	Type 4	5	355	--	--
	Type 5	43	574	59	10.3
Syria.....	Total	61	1,350	687	50.9
	Type 1	40	585	335	57.3
	Type 2	11	397	329	82.9
	Type 3	9	70	2	2.9
	Type 4	9	74	2	2.7
	Type 5	36	224	19	8.5
United Arab Emirates.....	Total	112	1,345	376	28.0
	Type 1	59	640	106	16.6
	Type 2	12	88	9	10.2
	Type 3	10	58	--	--
	Type 4	8	54	--	--
	Type 5	71	505	261	51.7
Yemen, Republic of.....	Total	15	131	8	6.1
	Type 1	7	76	--	--
	Type 2	**	**	**	**
	Type 3	**	**	**	**
	Type 4	**	**	**	**
	Type 5	9	36	8	22.2
Nonlisted countries.....	Total	61	443	41	9.3
	Type 1	32	232	17	7.3
	Type 2	5	8	--	--
	Type 3	4	6	--	--
	Type 4	4	4	--	--
	Type 5	41	193	24	12.4

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.

International Boycott Reports, 1995

Table 2. -- International Boycott Reports: Loss of Tax Benefits, by Method, 1992-1995

(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
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
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

¹ Foreign Sales Corporation.

NOTE: No returns reported loss of benefits related to income from Interest-Charge Domestic International Sales Corporations for 1992 through 1995.