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TAX ADMINISTRATION

Comparison of the Reported Tax Liabilities of Foreign- and U.S.-Controlled Corporations, 1996-2000

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Highlights

Highlights of GAO-04-358, a report to congressional requesters

Why GAO Did This Study

In prior reports, GAO found differences in the percentages of foreign-controlled corporations (FCC) and U.S.-controlled corporations (USCC) reporting no tax liability. Based on concerns that FCCs could be avoiding taxes by improperly shifting income to lower tax countries, GAO was asked to compare, for the years 1996 through 2000, (1) FCCs and USCCs, based on the tax liabilities they reported on their U.S. income tax returns—including the percentages reporting zero liabilities—and (2) the differences in FCCs and USCCs in terms of age and industry concentration and the extent to which these differences might explain tax reporting patterns. The report provides information separately for large corporations—those with at least \$250 million in assets or \$50 million in gross receipts—because, while they account for only 1 percent of all corporations, they own over 93 percent of all assets reported on corporate returns.

www.gao.gov/cgi-bin/getrpt?GAO-04-358.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jim White at (202) 512-9110 or whitej@gao.gov.

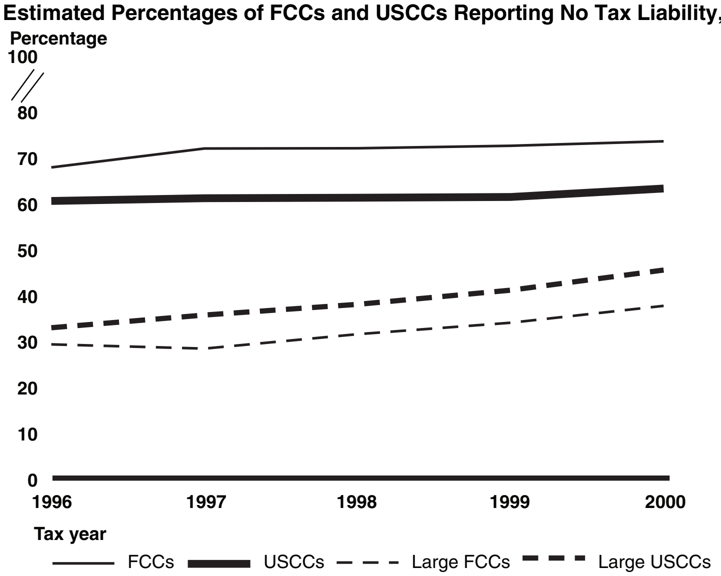
What GAO Found

Comparisons of the tax liabilities of FCCs and USCCs from 1996 to 2000 varied depending on the measure.

- A majority of all corporations reported no tax liabilities during these years, with a higher percentage of FCCs doing so than USCCs. However, the results were reversed for large corporations.
- A higher percentage of USCCs than FCCs reported tax liabilities of less than 5 percent of their total income, with similar results for large corporations.
- FCCs reported a lower amount of tax liability per \$1,000 in gross receipts than USCCs. The relationship was similar for large corporations.

FCCs and USCCs differ with respect to their age and industry concentrations. A greater percentage of FCCs than USCCs were new—incorporated for less than 3 years. FCCs were more concentrated in wholesale trade and financial services while USCC were more concentrated in nonfinancial services. Large FCCs and USCCs also differed in their age and industry concentrations. Age and industry concentration have been cited as possible explanations for the differences in tax liabilities reported by FCCs and USCCs. However, after controlling for age and industry concentration using a simple statistical model, the differences in taxes reported by FCCs and USCCs were not fully explained by these factors.

Estimated Percentages of FCCs and USCCs Reporting No Tax Liability, Tax Years 1996-2000



Source: GAO analysis of Internal Revenue Service data.