

Transactions Between Foreign Controlled Corporations and Related Foreign Persons, 1989

Data Release

For Tax Year 1989, there were 165 U.S. 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 [1]. These corporations received \$62.7 billion and paid \$116.8 billion in transactions with 2,752 related foreign persons. 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 corporations with a U.S. trade or business report transactions with related foreign persons [2].

The 165 corporations had \$637.1 billion of total assets for 1989. This was almost 45 percent of the total assets reported by all domestic corporations controlled by a foreign person [3]. This percentage increases to 49 percent when corporations classified as banks or credit agencies are excluded [4]. It is appropriate to exclude these types of corporations because corporations whose "sole" trade or business in the United States is banking, financing or a similar business do not have to file a Form 5472, *Information Return of a Foreign Owned Corporation* [5]. This form is the basis for the statistics presented in this data release.

Over 93 percent of the \$62.7 billion received by the corporations was from two types of transactions: amounts borrowed (58 percent) and sales of stock in trade (36 percent). Table 1 presents these data by country of residence of the foreign related person. Amounts borrowed by the foreign-controlled U.S. corporations was the primary type of receipt from related persons in eight of the ten countries shown in Table 1. Sales of stock in trade was the primary receipt from Japanese and Canadian related persons.

Nearly 73 percent of the \$116.8 billion paid by these 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 59 percent of the \$84.8 billion of purchases of stock in trade made by all persons. West Germany was second with an additional 11 percent.

In comparing the amount of receipts and payments on a country basis, foreign-controlled U.S. corporations reported almost four times the amount of payments to related persons in Japan than they received. U.S. corporations also paid considerably more than they received to related persons whose primary country of residence was West Germany, Canada or Sweden. The Netherlands and

Switzerland were the opposite, with U.S. corporations receiving more (mostly amounts borrowed) from related persons than they paid out.

Over 47 percent of the U.S. corporations reported manufacturing as their principal business activity for 1989 (see Table 2). Over 24 percent of the manufacturing corporations were owned by companies incorporated in the United Kingdom, accounting for 31 and 26 percent of the manufacturing corporations' total assets and total receipts, respectively.

Manufacturers of chemicals and allied products was the most populous group, accounting for 24 percent of all manufacturing corporations. Manufacturers borrowed \$24.8 billion from related foreign persons (69 percent of the total for all industries) and loaned \$11.6 billion (82 percent of the total).

Wholesale trade companies accounted for 32 percent of the 165 large foreign-controlled corporations. Total amounts received (\$22.8 billion) and paid (\$62.8 billion) by these companies were primarily the result of sales and purchases, respectively, of stock in trade. The \$16.7 and \$60.6 billion of wholesalers' sales and purchases of stock in trade accounted for 74 and 71 percent, respectively, of the totals for all industries.

Based on unpublished data, Japanese-owned U.S. corporations accounted for almost 53 percent of all wholesale trade companies. These corporations also accounted for 87 and 81 percent, respectively, of sales and purchases of stock in trade by wholesale trade companies.

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 are reflected in the total amounts received and paid, respectively, shown in Tables 1 and 2. (These tables also show the beginning balances.) The ending balances may not equal the actual amounts borrowed and loaned during the Tax Year 1989 period.

Control.—A U.S. corporation is considered to be 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

This data release was written by John Latzy, an economist with the Foreign Returns Analysis Section, under the direction of Chris Carson, Chief.

Transactions Between Foreign Controlled Corporations and Related Foreign Persons, 1989

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.

Number of Persons.—The data shown in Tables 1 and 2 generally represent the number of Forms 5472 attached to the 165 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 filed separate forms instead. When these were identified during statistical processing, the information on them was combined and the result treated as a single Form 5472. To this extent, the “number of persons” understates the actual number of Forms 5472 attached to the 165 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 related person. 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 and reinsurance premiums paid and received.

Tax Year 1989.—This includes corporate accounting periods that ended between July 1989 and June 1990.

Notes and References

- [1] Data include a small number of corporations that had over \$1 billion in total receipts for 1988 but fell below \$1 billion in total receipts for 1989. Due to the nature of this study, once corporations meet the criteria for inclusion, they are included in all subsequent studies as long as they have reportable transactions with related foreign persons.
- [2] The 165 U.S. 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, 1989,” *Statistics of Income Bulletin*, Winter 1992 - 1993, Volume 12, Number 3.
- [4] To arrive at this figure, four of the U.S. corporations that filed Forms 5472 whose primary (but not sole) business activity was banking or finance were also excluded.
- [5] Corporations with no “gross income” and foreign corporations, all of whose income was exempt from U.S. taxation, were also exempt from filing Forms 5472.

Transactions Between Foreign Controlled Corporations and Related Foreign Persons, 1989

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	West Germany	Canada	Japan	France
	(1)	(2)	(3)	(4)	(5)	(6)
Corporations:						
Number.....	165	89	66	86	71	52
Total assets.....	637,141,788	431,387,679	285,131,083	374,426,290	343,487,442	260,276,729
Total receipts.....	528,523,174	299,535,237	254,926,286	305,595,197	299,940,856	226,639,855
Transactions between corporations and related foreign persons						
Number of persons.....	2,752	423	215	183	174	159
Total amounts received.....	62,667,764	15,066,195	4,424,469	2,762,343	14,164,994	1,584,604
Sales of stock in trade.....	22,688,368	2,993,764	1,003,365	1,909,972	10,183,315	308,831
Sales of other tangible property.....	994,343	102,789	14,616	60,976	497,521	97,417
Rents and royalties.....	120,056	60,696	4,018	11,230	3,930	2,285
Sales, leases and licenses of intangible property.....	219,808	50,900	20,622	117	19,272	15,182
Consideration received for technical, managerial or like services.....	1,686,947	245,375	429,231	58,536	307,056	68,866
Commissions.....	299,326	12,215	8,654	56,890	155,512	1,668
Amounts borrowed:						
Beginning balance.....	32,042,182	11,620,907	2,506,266	342,013	2,606,506	1,172,178
Ending balance.....	36,126,809	11,428,383	2,931,951	588,236	2,878,804	1,078,562
Interest.....	437,489	163,119	12,013	15,511	119,585	11,794
Premiums for (re)insurance.....	94,619	8,956	—	60,877	—	—
Total amounts paid.....	116,816,677	15,390,000	9,689,055	7,211,241	53,369,355	2,727,457
Purchases of stock in trade.....	84,844,821	3,612,711	9,092,701	4,708,774	50,140,127	1,446,639
Purchases of other tangible property.....	4,292,429	147,601	62,687	1,687,839	2,194,099	53,533
Rents and royalties.....	535,130	92,553	104,223	3,249	247,271	8,859
Purchases, leases and licenses of intangible property.....	938,886	252,100	18,978	(¹)	10,013	3,721
Consideration paid for technical, managerial or like services.....	1,137,211	148,123	4,168	298,830	41,072	92,386
Commissions.....	171,687	18,071	27,237	4,213	14,643	1,066
Amounts loaned:						
Beginning balance.....	10,306,369	7,000,302	107,589	148,348	870,143	961,704
Ending balance.....	14,128,484	8,693,966	180,009	137,957	599,803	1,016,563
Interest.....	8,989,690	2,411,760	197,829	26,298	121,453	101,846
Premiums for (re)insurance.....	1,778,338	13,116	1,223	344,081	874	2,846

Footnotes at end of table.

Transactions Between Foreign Controlled Corporations and Related Foreign Persons, 1989

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—Continued

[Money amounts are in thousands of dollars]

Item	Netherlands (7)	Australia (8)	Switzerland (9)	Sweden (10)	Italy (11)
Corporations:					
Number.....	68	54	41	25	39
Total assets.....	337,186,720	267,559,570	155,003,847	144,494,050	215,912,823
Total receipts.....	227,966,361	225,394,831	135,702,511	122,162,491	171,230,848
Transactions between corporations and related foreign persons					
Number of persons.....	156	105	93	92	79
Total amounts received.....	10,216,758	874,131	3,824,613	374,909	129,204
Sales of stock in trade.....	290,396	177,988	1,272,766	86,861	41,806
Sales of other tangible property.....	70,525	3,789	13,919	498	698
Rents and royalties.....	1,340	5,499	5	1,814	294
Sales, leases and licenses of intangible property.....	13,667	1,712	69,378	3,210	1,655
Consideration received for technical, managerial or like services.....	68,439	890	85,095	10,569	2,214
Commissions.....	17,217	641	2,160	194	192
Amounts borrowed:					
Beginning balance.....	7,735,473	675,617	1,306,761	564,000	210,000
Ending balance.....	9,730,022	675,570	2,353,714	257,709	75,000
Interest.....	21,008	8,033	7,513	14,054	7,345
Premiums for (re)insurance.....	4,143	10	20,063	—	—
Total amounts paid.....	9,637,975	1,274,093	2,989,128	2,020,461	161,473
Purchases of stock in trade.....	268,991	496,866	2,223,304	1,937,793	160,309
Purchases of other tangible property.....	1,904	24,894	87,178	9,514	142
Rents and royalties.....	24,457	7,497	35,836	4,954	—
Purchases, leases and licenses of intangible property.....	18,374	450,045	174,195	2,797	19
Consideration paid for technical, managerial or like services.....	46,957	6,905	156,300	12,023	188
Commissions.....	1,377	242	13,615	17	168
Amounts loaned:					
Beginning balance.....	873,572	160,867	76,036	—	263
Ending balance.....	2,371,760	243,718	135,512	20,043	648
Interest.....	5,577,039	41,543	161,763	31,244	—
Premiums for (re)insurance.....	1,327,114	2,383	1,425	2,076	—

¹ Less than \$500.

NOTES: Because a given corporation could have related foreign persons in more than one country, corporation detail will not add to totals. Table includes domestic corporations that were "controlled" by a foreign person and had reportable transactions with a related foreign person. Data also include a very small number of foreign corporations that were engaged in a U.S. trade or business. The total number of corporations includes a small number whose total receipts were below \$1 billion. These corporations, however, had total receipts of \$1 billion or more for 1988. Detail may not add to totals because of rounding.

Transactions Between Foreign Controlled Corporations and Related Foreign Persons, 1989

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	Finance, insurance and real estate	Wholesale trade	Retail trade
	(1)	(2)	(3)	(4)	(5)
Corporations:					
Number.....	165	78	14	53	11
Total assets.....	637,141,788	353,767,984	146,660,902	78,779,409	21,687,317
Total receipts.....	528,523,174	248,496,286	28,356,771	203,444,912	30,661,252
Transactions between corporations and related foreign persons					
Number of persons.....	2,752	1,920	43	583	27
Total amounts received.....	62,667,764	32,092,390	1,394,453	22,798,337	2,891,414
Sales of stock in trade.....	22,688,368	5,569,808	19,032	16,749,865	—
Sales of other tangible property.....	994,343	427,631	—	524,907	—
Rents and royalties.....	120,056	56,918	29,142	6,372	—
Sales, leases and licenses of intangible property.....	219,808	175,996	—	43,812	—
Consideration received for technical, managerial or like services.....	1,686,947	764,320	18,442	682,098	—
Commissions.....	299,326	114,217	28,593	145,169	78
Amounts borrowed:					
Beginning balance.....	32,042,182	21,706,576	1,288,747	4,588,370	2,472,582
Ending balance.....	36,126,809	24,783,304	1,078,675	4,551,632	2,877,883
Interest.....	437,489	195,704	130,871	94,465	13,453
Premiums for (re)insurance.....	94,619	4,491	89,699	16	—
Total amounts paid.....	116,816,677	43,898,037	4,238,243	62,750,963	388,832
Purchases of stock in trade.....	84,844,821	23,818,753	55,467	60,606,870	2,374
Purchases of other tangible property.....	4,292,429	1,535,798	1,632,391	1,121,996	—
Rents and royalties.....	535,130	311,040	1,394	218,284	473
Purchases, leases and licenses of intangible property.....	938,886	911,703	—	20,809	6,293
Consideration paid for technical, managerial or like services.....	1,137,211	936,019	7,134	97,488	1,805
Commissions.....	171,687	90,548	28,280	36,066	4,152
Amounts loaned:					
Beginning balance.....	10,306,369	7,493,338	1,950,574	468,164	125,000
Ending balance.....	14,128,484	11,564,392	1,979,353	384,327	125,000
Interest.....	8,989,690	3,390,243	153,613	258,864	247,201
Premiums for (re)insurance.....	1,778,338	1,339,539	380,611	6,259	1,534

NOTES: Table includes domestic corporations that were "controlled" by a foreign person and had reportable transactions with a related foreign person. Data also include a very small number of foreign corporations that were engaged in a U.S. trade or business. The total number of corporations includes a small number whose total receipts were below \$1 billion. These corporations, however, had total receipts of \$1 billion or more for 1988. Detail may not add to totals because of rounding.