

GAO

Report to the Chairman, Committee on
Finance, U.S. Senate, and the Honorable
Charles E. Schumer, House of
Representatives

July 1991

TAX
ADMINISTRATION

IRS' Administration of
the International
Boycott Tax Code
Provisions



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General Government Division

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The Honorable Lloyd Bentsen
Chairman, Committee on Finance
United States Senate

The Honorable Charles E. Schumer
House of Representatives

This report responds to a September 13, 1990, request of the late Senator John Heinz for information on the administration of section 999 of the Internal Revenue Code. Section 999 was enacted in 1976 primarily to discourage participation in the Arab League's economic embargo of Israel. Section 999 required U.S. taxpayers to report their business activities with boycotting countries and denied several tax benefits to those who participate in unsanctioned international boycotts.

Specifically, we were asked to determine whether (1) Internal Revenue Service (IRS) agents examine routinely the IRS Form 5713 (International Boycott Report), which is used by taxpayers to report their business activities in boycotting countries, and (2) there have been prosecutions for failing to file, filing late, or filing false returns. We were also asked to determine whether the boycott information provided by the Department of Commerce, which administers the antiboycott amendments of the Export Administration Act (EAA) of 1979, is utilized by IRS agents in auditing section 999 issues.

We were asked to examine the timeliness of Treasury boycott reports to Congress and determine whether the reports can present more current and detailed information on the administration of section 999. As agreed, we also examined the extent of the loss of tax benefits associated with section 999 and the changes in reported boycott activity since 1976.

Our findings are summarized below. Appendix I provides a detailed background of section 999 and describes important differences between section 999 and the EAA. Appendix II shows trends in boycott activity obtained from reports filed at IRS, and Appendix III contains IRS Form 5713.

Background

Congress required Treasury to provide periodic reports with a "detailed description" of the administration of section 999. Since 1976, Treasury

has issued five boycott reports. The most recent report, issued in February 1991, described boycott activity ending in 1986.

All taxpayers with operations in or with boycotting countries¹ must file IRS Form 5713. In 1986, 2,104 taxpayers filed the form. A fine of up to \$25,000 and/or imprisonment of up to 1 year can be imposed for the willful failure to report boycott-related activities.

Some of the taxpayers who file Form 5713 receive one or more requests to engage in boycott activities as prerequisites of doing business in the boycotting countries. The boycott activities, which are defined in appendix I, include agreements to refrain from doing business with (1) boycotted countries, such as Israel, (2) blacklisted U.S. companies engaged in trade with Israel, or (3) companies whose owners or managers are of a particular nationality, race, or religion. In 1986, 533 taxpayers—25 percent of the filers of Form 5713—reported receiving a total of 11,246 boycott requests. Of the taxpayers who received boycott requests, only a small proportion actually reported agreeing to engage or engaging in boycotting activities. In 1986, 44 taxpayers reported participating in a total of 1,450 boycott agreements.

Boycott participants can lose four types of tax benefits: (1) the foreign tax credit on income taxes paid to boycotting countries, (2) the tax deferral on the earnings of U.S. foreign subsidiaries, (3) the tax deferral on certain income of interest-charge domestic international sales corporations, and (4) the exemption from tax of a portion of foreign trade income of foreign sales corporations.

Results in Brief

IRS international examiners audit returns of some taxpayers who have operations in boycotting countries. According to the 1991 Treasury boycott report, tax audits of boycott issues involved an average of 350 taxpayers in 1983 and 1984. We estimated that the audited returns were approximately 11 percent of the Forms 5713 filed in those 2 years. We did not find evidence of a taxpayer ever being fined or prosecuted for filing late or not filing a Form 5713.

IRS examiners are provided boycott-related data by the Department of Commerce. However, IRS is prohibited by law from providing confidential tax information to Commerce officials. The results of Commerce's

¹The boycotting countries are Bahrain, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates (UAE), and the Republic of Yemen.

boycott investigations cannot be used as conclusive evidence of boycott participation in tax audits because of the differences between the definitions of boycott participation in section 999 and the EAA.

Congress initially required Treasury to produce annual boycott reports but in 1984 changed the requirement to every 4 years. According to an IRS official, it is possible to issue boycott reports more frequently than every 4 years, as was done before 1985. However, the IRS data made available to Congress would still be at least 2 years old because of the time required by IRS to process the information from Forms 5713 and to audit returns of taxpayers who have operations in boycotting countries.

Although Congress required Treasury to provide a "detailed description" of the administration of section 999, Treasury reports did not provide detailed information on the results of IRS audits of boycott issues. Also, the 1991 Treasury report did not contain information shown in previous reports.

The estimated tax benefit losses of boycott participants appeared to be small. Treasury estimated that in 1986—due to section 999—40 corporate boycott participants paid an average of \$71,250 more in taxes. Treasury reports, however, did not provide a detailed description of the tax benefit losses of boycott participants by asset size and industry. We found that most boycott participants were manufacturing companies and that 26 of the 40 penalized corporations in 1986 had \$1 billion or more in assets.

The number of Forms 5713 filed was 1,462 in 1976, reached a zenith of 3,738 in 1981, and then decreased in 4 of the 5 years between 1982 and 1986. There were 6,335 reported boycott requests in 1976, 17,439 in 1978, and 11,246 in 1986. Requests to refrain from doing business with or employing individuals of a particular nationality, race, or religion increased in every year since 1976, more than doubling from 498 in 1976 to 1,076 in 1986. Treasury statistics show that Iraq, Jordan, Kuwait, Saudi Arabia, Syria, and the United Arab Emirates (UAE) were responsible for more than 60 percent of total boycott requests and agreements.

Objectives, Scope, and Methodology

- Our objectives were to determine
- whether IRS officials audit tax returns of taxpayers involved in trade with boycotting countries;

- whether there have been prosecutions for failing to file, filing late, or filing false returns;
- whether IRS officials use Commerce's boycott information in their audits of section 999 issues;
- whether Treasury reports can provide more current detailed information about the administration of section 999;
- the level and distribution of tax benefits losses suffered by boycott participants; and
- the trends in reported boycott activities since 1976.

To address these objectives, we reviewed IRS documents and interviewed officials at IRS' International Office and Mid-Atlantic Regional Office to determine how returns of taxpayers with operations in boycotting countries are audited and how IRS examiners use Commerce's boycott information in their tax audits. We interviewed officials at IRS' Criminal Investigations Office about prosecutions related to section 999. We examined the legislative history of section 999 and interviewed Treasury officials to identify changes in congressional reporting requirements. We interviewed officials at IRS' Statistics of Income (SOI) Division to determine when the information on Form 5713 is available to Treasury and what detailed information is available about boycott participants, including their tax benefits losses. We examined Treasury and Commerce 1979 to 1991 boycott reports to determine trends in reported boycott activity. We did not attempt to assess the reliability of IRS data because of time constraints. We interviewed private legal consultants knowledgeable of boycott issues about the administration of the boycott laws by Commerce and Treasury.

We did our work in Washington, D.C., and Philadelphia, Pa., between October 1990 and February 1991 in accordance with generally accepted government auditing standards.

IRS Examiners Responsible for Boycott Audits

The responsibility for auditing section 999 issues rests with IRS international examiners. The examiners are supposed to follow the directions in the International Boycott Audit Guidelines, which are part of the Internal Revenue Manual. Two issues examined are (1) whether the taxpayers who have operations in boycotting countries filed a Form 5713 and (2) whether boycott participants computed correctly the loss of tax benefits on their tax returns. The findings of IRS international examiners are sent to officials at the IRS International Office, who are responsible for providing training and guidance on section 999 matters to examiners.

According to the 1991 Treasury boycott report, IRS audits for fiscal years 1983 and 1984 included an average of 350 taxpayers who filed Forms 5713. For the same period, we estimated that the audited taxpayers filed approximately 11 percent of the 2-year average of total Forms 5713. The audits resulted in a total increase in tax liability of \$32,000 for 1983 and \$1.8 million for 1984. The report did not provide the reasons for the tax assessments or the characteristics of the audited taxpayers.

At our request, IRS' Criminal Investigations officials reviewed their records for prosecutions related to section 999. They did not find evidence of a taxpayer ever being fined or imprisoned for willfully failing to report boycott-related activities. Officials at IRS' International Office and private legal consultants knowledgeable of boycott issues we interviewed were not aware of any penalties or criminal prosecutions for willful failure to file a Form 5713.

Use of Commerce Information in IRS Audits

Taxpayers engaged in trade with boycotting countries are required to follow the antiboycott amendments of the EAA as well as section 999. Specifically, the EAA prohibited U.S. persons—individuals and businesses located in the United States and their foreign affiliates—from refusing to do business with anyone because of a foreign boycott demand and refusing to employ or otherwise discriminate against any U.S. person on the basis of race, religion, sex, or national origin. The EAA also prohibited the furnishing of information on the race, religion, sex, national origin, or business relationships with boycotted countries or blacklisted persons of any other U.S. person.

Commerce's Office of Antiboycott Compliance gathers information from U.S. persons, who are to report boycott requests quarterly on Form BXA 621-P, and conducts investigations of boycott activities independently from IRS. Commerce makes its boycott findings available to the public and to IRS' International Office, which sends it to IRS regional offices for use in taxpayer audits. IRS, however, is prohibited by section 6103 of the Internal Revenue Code from providing confidential tax information to Commerce.

Significant Differences Between Antiboycott Laws

Although section 999 and the EAA were designed to discourage participation of U.S. individuals and businesses in unsanctioned international boycotts, there are several differences between them. The two laws defined differently who is subject to them, the penalties for engaging in boycott activities, and what constitutes boycott participation.

Section 999 applies to all activities of U.S. taxpayers in all countries, including commercial activities in or between foreign countries. By contrast, the EAA only applies to the activities of U.S. individuals and businesses involved in the interstate or foreign commerce of the United States. As a result of this difference, boycott activities of foreign nationals employed by a U.S.-controlled foreign corporation in an entirely foreign transaction may trigger section 999 tax benefit losses but would not be subject to the EAA.

Section 999 penalizes boycott activity by denying tax benefits. However, the loss of tax benefits is lessened in several ways. First, foreign taxes would still be deductible on the tax return of the boycott participant. Second, section 999 allows boycott participants to elect one of two methods to compute the loss of tax benefits—the international boycott factor method and the specifically attributable income and taxes method (see app. II). Some boycott participants can select the method that results in lower tax benefit losses. Third, many boycott participants escape public criticism because the information on Form 5713 is confidential tax information.

In contrast to section 999, the EAA explicitly prohibits boycott activity. Moreover, Commerce can assess penalties independently of the U.S. tax situation of boycott participants, and their identities can be released to the public. The EAA provided for, among other administrative sanctions, a maximum civil penalty of \$10,000 per violation and denial of export privileges.

According to section 999, boycott participation exists only if there is a prior agreement to participate in boycott activity as a condition of doing business in a boycotting country. The agreement can be implied from the taxpayers' activities. Although Treasury can discover a pattern of activities by the taxpayer that imply the existence of a prior agreement, such an agreement must be proven to trigger tax penalties under section 999. The EAA did not require the existence of a prior agreement. For example, the EAA prohibited U.S. corporations from furnishing information to an Arab boycotting country about their business relationships with Israel. However, tax penalties would not be triggered under section 999 unless

there was a prior agreement to furnish the information as a condition of doing business in the boycotting country.

Congress Changed Reporting Requirement in 1984

Congress initially required Treasury to produce a boycott report every year but changed the reporting requirement in 1984. Section 441(c) of the Deficit Reduction Act of 1984 changed the annual reporting requirement to 4-year periods. Specifically, the section directed the Secretary of the Treasury to transmit a report to Congress "as soon after the close of each 4-year period as the data become available." This amendment applied to the fourth report, issued in April 1985, and the fifth report, issued in February 1991, which covers the 4-year period ending in 1986.

Treasury is currently transferring the reporting responsibility to IRS. According to IRS officials, it is possible to issue the boycott report more frequently than every 4 years, as was done before 1985. However, the information in the boycott report would still be at least 2 years old because of the time necessary to process Forms 5713 and to audit tax returns.

Treasury Reports Provided Limited Boycott Data

Congress required Treasury to produce periodic boycott reports in order to assess the effectiveness of section 999 "in discouraging participation in or cooperation with international boycotts." Congress specifically required Treasury to provide the number of Forms 5713 filed, the number of reported boycott participants, and a "detailed description" of the results of the audits of taxpayers with boycott operations, including the extent of unreported boycott activities uncovered by IRS audits and the tax benefits denied as a result of IRS audits.

We found that Treasury reports did not provide detailed information on the results of IRS audits of boycott issues. Also, the 1991 Treasury report did not provide some information contained in previous reports.

The only reference to tax audit results in the 1991 Treasury report was that "the IRS has completed audits for fiscal years 1983 and 1984. These audits involved an average of 350 taxpayers who filed Forms 5713 and resulted in an increase in tax liability of \$32,000 for 1983 and \$1.8 million for 1984." The report did not (1) provide an explanation for the increase in tax liability from 1983 to 1984, (2) note whether any penalties were involved for filing late, or (3) list the criteria for selecting the audited returns. Also, no information was provided on the percentage of

tax returns with Forms 5713 that were audited or the number of tax returns found without Forms 5713 that should have had one.

We found that the information compiled by IRS' SOI Division is more comprehensive than the information provided to Congress in Treasury boycott reports. For example, IRS data showed that in 1986 the majority of boycott participants were manufacturing companies with \$1 billion or more in assets and that the method of computing tax benefit losses varied by asset size.

We also found that the 1991 Treasury report did not provide some boycott information contained in earlier reports. For example, the first three reports showed the number of corporations filing Forms 5713 by industry and by country of operation. The 1991 report did not.

Tax Penalties Appeared to Be Small

Treasury reports did not assess the effectiveness of the tax penalties in deterring boycott participation. However, the tax penalties appeared to be small. Treasury estimated that its revenue from section 999 was \$2.85 million in 1986. A total of 40 corporations paid an average of \$71,250 more in taxes due to section 999 in 1986. Twenty-six of the 40 corporations had \$1 billion or more in assets.

Initial Upward Boycott Trends Reversed, With Some Exceptions

According to Treasury reports, the number of Forms 5713 filed increased rapidly starting in 1976 and reached a maximum of 3,738 forms in 1981. From 1982 through 1986, however, the number of Forms 5713 filed went down. Taxpayers filed 2,104 Forms 5713 in 1986, the lowest number since 1976. The 840 forms filed by corporations with \$100 million or more in assets were 44 percent of the forms filed in 1986.

In 1986, 25 percent—or 533 filers of Forms 5713—reported receiving a total of 11,246 requests to engage in boycott activity. This was the lowest number of total boycott requests since 1977. However, the number of specific requests to refrain from doing business with or employing individuals of a particular nationality, race, or religion more than doubled from 498 in 1976 to 1,076 in 1986.

In 1986, only 44 taxpayers reported that they had agreed to participate in 1,450 boycott agreements. These were the lowest numbers of boycott participants and boycott agreements since the enactment of section 999

in 1976. Forty of the 44 boycott participants reported losing tax benefits. Treasury statistics show that Iraq, Jordan, Kuwait, Saudi Arabia, Syria, and UAE were responsible for more than 60 percent of boycott requests and agreements. For all the boycotting countries except Saudi Arabia and Syria the number of boycott agreements in 1986 was equal to or higher than the number in 1976.

Since 1976, Treasury has issued several guidelines that have clarified what constitutes a boycott activity. We found that the November 1979 Treasury guidelines affected the level of reported boycott activity in or with Saudi Arabia. Before 1979, certain shipping and insurance conditions in letters of credit agreements required by Saudi Arabia were boycott-related and, thus, were reportable to Treasury. After Saudi Arabia provided commercial reasons for its shipping and insurance requirements, Treasury amended its regulations to exempt the shipping and insurance conditions from being reportable boycott activities in that country. As a result, the number of reported boycott requests related to shipping carriers and insurance agents originating in Saudi Arabia decreased more than 50 percent, from 1,126 in 1979 to 508 in 1986.

Corporations constitute the majority of taxpayers who have agreed to participate in boycotts. For every reported year from 1976 to 1986, except 1982,² the percentage of boycott agreements made by corporations hovered between 96 and 100 percent of total boycott agreements. In 1986, all 40 boycott participants who reported a reduction in tax benefits were corporations. Twenty-six of these corporate boycott participants had \$1 billion or more in assets.

Agency Comments

We discussed the contents of this report with agency officials, who generally agreed with the information we provided. Agency officials' views have been incorporated into this report where appropriate.

We are sending copies of this report to the Secretaries of Commerce and Treasury, the Commissioner of Internal Revenue, and other interested parties. We will also make copies available to others upon request.

²In 1982, 89 percent of boycott agreements were made by corporations.

The major contributors to this report are listed in appendix IV. If you have any questions, please contact me at (202) 275-6407.

Jennie S. Stathis

Jennie S. Stathis
Director, Tax Policy and
Administration Issues

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Abbreviations

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| DISC | domestic international sales corporation |
| EAA | Export Administration Act |
| FSC | foreign sales corporation |
| GATT | General Agreements on Tariffs and Trade |
| IBF | international boycott factor |
| IRS | Internal Revenue Service |
| SAIT | specifically attributable income and taxes |
| SOI | Statistics of Income |
| UAE | United Arab Emirates |

Operation of Boycott Laws

During the mid-1970s Congress approved two laws to discourage U.S. persons—individuals and businesses—from participating in unsanctioned international boycotts. These laws comprise the Ribicoff Amendment to the 1976 Tax Reform Act and the 1977 amendments to the Export Administration Act (EAA). The primary purpose of these congressional initiatives was to discourage U.S. persons from participating in the Arab League's economic boycott of Israel.

Section 999 of the Internal Revenue Code

The Ribicoff Amendment—found primarily in section 999 of the Internal Revenue Code—requires taxpayers to report their business activities with boycotting countries on their tax returns and imposes tax penalties on taxpayers who agree to participate in or cooperate with an international boycott that is not sanctioned by U.S. law.

Taxpayers have an obligation to report to the Internal Revenue Service (IRS) their operations in boycotting countries, any received requests to participate in boycotts, and actual boycott agreements. Boycott reporting is done on IRS Form 5713 (International Boycott Report). This form is attached to, and made part of, the annual U.S. income tax return. Willful failure to report boycott-related operations can result in a fine of up to \$25,000, imprisonment of up to 1 year, or both.

The tax penalties for participating in boycotts are the loss of (1) the foreign tax credit on income taxes paid to boycotting countries, (2) the tax deferral on the earnings of U.S. foreign subsidiaries in or with boycotting countries, (3) the tax deferral on certain income of domestic international sales corporations, and (4) the exemption from tax of a portion of foreign trade income of foreign sales corporations (FSC).

Foreign Tax Credit

In general, U.S. citizens and residents are taxed on their worldwide taxable income. This condition can result in foreign income being taxed by both the foreign government where the income is earned and the U.S. government. To reduce this possible double tax burden, U.S. taxpayers can claim a foreign tax credit on their U.S. tax return for income taxes paid to other governments.

Taxes paid on boycott-related foreign earnings, however, are not eligible for a foreign tax credit, although they still can be included as a deduction on the U.S. income tax return. A tax deduction reduces only taxable income, but a tax credit is a dollar-for-dollar reduction of U.S. income

tax liability. Consequently, it is generally more advantageous to credit foreign taxes than to deduct them.

Tax Deferral

In general, U.S. businesses may choose to conduct foreign operations through domestic or foreign corporations. The major tax advantage of operating as a U.S.-controlled foreign corporation is that certain foreign-earned income is generally not taxed by the United States until the income is distributed to the shareholders. This advantage is known as tax deferral.

Boycott-related foreign earnings, however, lose the benefit of deferral of taxation. Rather, income earned in boycotting countries is deemed to have been distributed by the U.S.-controlled corporations to U.S. shareholders and, therefore, must be considered as current year taxable income.

Tax Exemption of Foreign Trade Income

To encourage exports, Congress exempted from taxes a portion of the income earned by U.S.-controlled FSCs. FSCs that participate in an international boycott lose the tax exemption on the income earned in boycott-related operations. Such income becomes taxable in the current year, and foreign taxes paid on it do not qualify for the foreign tax credit.

Types of Boycotts

Not all forms of boycott participation trigger the tax penalties of section 999. U.S. tax law allows participation in boycotts sanctioned by U.S. law, regulations, or an executive order. Participation in primary boycotts, in which one country refuses to buy from or sell goods to another country, is also permitted.

Secondary and tertiary boycotts, however, are penalized by section 999. U.S. taxpayers engage in a secondary boycott if, as a condition of doing business in the boycotting country, they agree to refrain from doing business with a boycotted country, its nationals, and its businesses. In tertiary boycotts, U.S. taxpayers refuse to do business with other U.S. firms that have or have had dealings with the boycotted country.

Section 999 specifies two conditions that must be met before a taxpayer is deemed to be a boycott participant. First, an agreement must exist that specifies conditions for doing business with a boycotting country. The agreement can be implied from the actions of the taxpayer. Second,

the agreement must require the taxpayer to engage in one of following five types of secondary or tertiary boycott activities.

Type 1, refrain from doing business with or in a boycotted country or with the government, firms, or nationals of the boycotted country.

Examples of type 1 activities would be (1) an agreement not to use capital from a boycotted country in the production of goods to be exported to a boycotting country and (2) an agreement not to license patents and trademarks to nationals of a boycotted country in order to sign licenses in a boycotting country.

Type 2, refrain from doing business with any U.S. person engaged in trade within a boycotted country or with the government, firms, or nationals of the boycotted country. Examples of type 2 activities would be agreements to refrain from doing business with a blacklisted U.S. company as well as agreements to pick subcontractors from a list that excludes blacklisted companies. These latter agreements would not be boycott activities if it can be shown that the companies were excluded from the list for reasons not related to the boycott.

Type 3, refrain from doing business with a firm whose ownership or management is made up, in whole or in part, of individuals of a particular nationality, race, or religion or to remove (or refrain from selecting) directors of a particular nationality, race, or religion. An example of a type 3 activity would be to provide a certificate stating that the board of directors does not contain any boycotted country nationals.

Type 4, refrain from employing individuals on account of their nationality, race, or religion. An agreement with an Arab country not to employ Israeli nationals would be an example of a type 4 activity.

Type 5, refrain from shipping goods on a carrier or insuring goods with an entity owned, leased, or operated by a person not supporting the boycott. A type 5 activity would involve a taxpayer who agrees not to ship goods on a blacklisted ship.

Treasury guidelines provide two exceptions for goods exported to Saudi Arabia. Treasury ruled that Saudi Arabia can require a certificate stating that ships carrying goods are eligible to enter the ports of Saudi Arabia and that insurers of goods have duly qualified and appointed agents there. Treasury determined that those conditions were not boycott-related and, thus, not reportable. For other boycotting countries, however, those conditions are boycott-related and must be reported.

These exceptions for Saudi Arabia resulted when a letter sent by the Saudi Minister of Commerce to the Secretary of the Treasury explained the commercial rationale behind these two requirements. The shipping certificate was related to maritime matters such as the age and condition of the ship, and the insurance certificate was required to facilitate dealings with insurers by Saudi importers in the event of damage to insured goods. The number of reported type 5 requests and agreements originating in Saudi Arabia decreased since the issuance of the Treasury guideline, as shown in tables II.13 and II.14.

Boycotting Countries

The Department of the Treasury publishes a list, which is updated quarterly, of countries that may require participation in or cooperation with an unsanctioned international boycott. The countries included on this list are Bahrain, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates (UAE), and the Republic of Yemen.

Tax Audits

International examiners located in IRS offices throughout the country are responsible for auditing returns of taxpayers who have operations in boycotting countries. The audits include examining whether a Form 5713 was filed by corporations that have operations in boycotting countries and checking whether boycott participants estimated correctly their tax benefits losses. Audit results are to be sent to IRS' International Office, which is responsible for providing guidance for the conduct of audits and for sending Commerce's boycott-related information to IRS regional offices.

According to the 1991 Treasury boycott report, IRS audits for fiscal years 1983 and 1984 included an average of 350 taxpayers who filed Forms 5713. These taxpayers filed approximately 11 percent of the 2-year average of total Forms 5713 filed during that 2-year period. As a result of the audits, the total tax liabilities of the taxpayers increased by \$32,000 for 1983 and by \$1.8 million for 1984.

Treasury Boycott Guidelines

Treasury has issued several sets of guidelines in question-and-answer format related to section 999. These guidelines clarify the definitions of boycott activities and boycott participation and help U.S. taxpayers deal with boycott requests without violating section 999. For example, suppose that a U.S. construction contractor is faced with the boycott request to not hire individuals of Israeli nationality in a construction

project in an Arab country. The U.S. corporation can instead propose to require all job applicants to obtain a visa from the Arab government. In this way the burden of discrimination is shifted to the boycotting country.

The EAA

Taxpayers engaged in trade with boycotting countries have to follow the regulations of Commerce's Office of Antiboycott Compliance as well as Treasury's boycott regulations. The antiboycott amendments of the EAA prohibited U.S. persons from complying with most foreign boycott requirements and provided substantial penalties for violations.

Specifically, the antiboycott provisions of the EAA prohibited U.S. persons from complying with an unsanctioned foreign boycott by doing or agreeing to do the following:

- refusing, or requiring any other person to refuse, to do business with anyone pursuant to foreign boycott demands;
- refusing, or requiring any other person to refuse, to employ, or to otherwise discriminate against, any U.S. person on the basis of race, religion, sex, or national origin;
- furnishing information with respect to the race, religion, sex, or national origin of any other U.S. person;
- furnishing information about past, present, or prospective business relationships with boycotted countries or blacklisted persons;
- furnishing information about whether any person is associated with or involved in the activities of any charitable or fraternal organization that supports a boycotted country; and
- paying, honoring, confirming, or otherwise implementing a letter of credit that contains any prohibited boycott condition or requirement.

Boycott participants are subject to, among other sanctions, a maximum civil penalty of \$10,000 per violation and denial of export licenses. All U.S. persons must report received boycott requests quarterly to Commerce on Form BXA 621-P. The requests must occur in connection with transfers of goods and services between the United States and a foreign country, such as financing, forwarding and shipping, and certain other transactions that may take place offshore.

Differences Between the Two Antiboycott Laws

Both the EAA and section 999 were designed to discourage participation in unsanctioned international boycotts. However, there are some differences between them, including (1) the persons and activities subject to them, (2) the penalties for engaging in boycott activities, and (3) the definitions of boycott participation.

Persons and Activities Subject to the Antiboycott Laws

Section 999 applies to all business activities of all U.S. taxpayers with operations in or related to boycotting countries. Operations include transactions that are wholly foreign in nature, such as shipping goods between foreign countries, as well as those that involve exports from the United States.

In contrast, the antiboycott provisions of the EAA apply only to U.S. persons with respect to their activities in the interstate or foreign commerce of the United States. It should be noted that the House of Representatives' version of the original bill of the EAA contained a provision that would have made the boycott provisions applicable to all activities of U.S. persons, but it was rejected by Congress. As a result, actions taken by foreign nationals employed by a U.S.-controlled foreign corporation in an entirely foreign transaction may trigger tax penalties but would not be subject to the EAA's antiboycott penalties.

Penalties for Engaging in Boycott Activities

Section 999 penalizes participation in unsanctioned international boycotts—by denying tax benefits—but does not prohibit it. Boycott participants lose tax benefits only if they claim a foreign tax credit or benefit from tax exemption or deferral on earnings in boycotting countries. The loss of the foreign tax credit is lessened by the fact that foreign income taxes are still deductible on the U.S. tax return. Moreover, as shown in appendix II, section 999 allows certain taxpayers to minimize their tax penalties by choosing from two alternative methods of computing the tax penalties. Finally, the information reported by boycott participants on IRS Form 5713 is confidential tax information protected by section 6103 of the Internal Revenue Code. Disclosure of such tax information is subject to severe civil and criminal penalties.

Officials at IRS' International Office told us that they were not aware of any referrals to IRS' Criminal Investigations Office for filing late or false Forms 5713. At our request, IRS' Criminal Investigations Office reviewed their 1976 to 1990 files. They did not find any cases involving section 999. Also, IRS officials and private legal consultants knowledgeable of

boycott issues we interviewed were not aware of any penalties or criminal prosecutions for willful failure to file a Form 5713. Reports of audits of boycott issues received by IRS' International Office did not specify if the penalties recommended by IRS examiners were due to filing forms late.

In contrast to section 999, the EAA explicitly prohibited U.S. persons from participating in unsanctioned boycotts. There are severe civil penalties for engaging in such activities, including a maximum \$10,000 penalty for each violation and denial of export licenses. Criminal penalties consist of fines up to \$50,000 and 5 years in jail. The penalties provided in the EAA are assessed by Commerce officials independently of the U.S. tax liabilities of boycott participants. Moreover, the identity of boycott-related persons and the monetary penalties imposed upon them carry the disgrace of public disclosure. For example, the Export Administration Annual Report 1986 showed that 35 enforcement actions completed by the Office of Antiboycott Compliance resulted in settlements through consent agreements, which generally provided for the payment of civil penalties. The 35 consent agreements were listed by company name, date the order was signed, type of violation, and penalty.

Regulatory Definitions of Boycott Participation

The definitions of boycott participation in the antiboycott laws and regulations are not exactly equal. Two examples are the condition of the existence of a prior boycott agreement and the "apply-comply" distinction.

Existence of Prior Boycott Agreement

Section 999 specified that boycott participation exists only when there is a prior agreement to participate in boycott activity as a condition of doing business in a boycotting country. The EAA did not require the existence of a prior agreement. Thus, furnishing information about business relationships with a boycotted country is explicitly prohibited by the EAA but will not trigger tax penalties under section 999 unless there was an agreement to furnish the information as a condition of doing business in the boycotting country. Treasury regulations specified that providing information about blacklisted persons must be accompanied with other actions, such as termination of business in the boycotted country, in order to infer the existence of a boycott agreement.

Apply-Comply Distinction

The following two clauses are interpreted differently by the two boycott laws:

"The laws of the boycotting country will apply to this agreement."

“This agreement will comply with the laws of the boycotting country.”

According to Treasury regulations, an agreement stating that the laws of the boycotting countries implementing boycott requirements “apply to” a transaction is not deemed to be boycott participation because the taxpayer has not committed himself to taking boycott-related actions. If the second clause is substituted for the first clause, however, the agreement would constitute boycott participation. By contrast, the EAA regulations do not distinguish on the basis of “apply to” versus “comply with” language. Instead, both clauses would violate EAA regulations only if they specifically referenced the country’s boycott laws.

Cooperation Between Commerce and IRS

Commerce’s Office of Antiboycott Compliance voluntarily provides results of its investigations of boycott activities to IRS’ International Office. This information is, in turn, distributed to IRS’ regional and district offices. Officials at IRS’ district offices are to place Commerce’s information in the corresponding taxpayer file for use in current or future tax audits. An IRS regional official stated that Commerce’s information and Forms 5713 are generally the only boycott-related information available to an international examiner conducting an audit. IRS, however, is prohibited by section 6103 of the Internal Revenue Code from providing confidential tax information to Commerce officials.

Treasury Boycott Reports Provided to Congress

According to the Conference Committee Report of the Tax Reform Act of 1976, Congress asked Treasury to produce boycott reports in order to assess the effectiveness of section 999 in discouraging participation in or cooperation with unsanctioned international boycotts.

Frequency of Reporting

Congress initially required Treasury to produce a boycott report every year but changed the reporting requirement in 1984. Section 1067 of the Tax Reform Act of 1976 directed the Secretary of the Treasury to report on boycott activities “as soon after the close of each calendar year as the data become available.” Three boycott reports were issued under this law, titled The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code—in March 1979, December 1980, and May 1982.

Section 441(c) of the Deficit Reduction Act of 1984 amended the annual reporting requirement to 4-year periods. Specifically, the section

directed the Secretary of the Treasury to transmit a report to Congress "as soon after the close of each 4-year period as the data become available." The phrase "4-year period" was defined as the "period consisting of 4 calendar years beginning with calendar year 1982 and each subsequent fourth calendar year." This amendment applied to reports for periods after December 31, 1981. The fourth boycott report, issued in April 1985, covered Forms 5713 filed during calendar years 1980, 1981, and 1982. A fifth boycott report, issued in February 1991, covers the 4-year period ending in 1986.

Contents of Treasury Reports

Congress initially required Treasury to provide (1) the number of Forms 5713 filed, (2) the number of reported boycott participants, and (3) a "detailed description" of the results of the audits of taxpayers with boycott operations, including the extent of unreported boycott activities uncovered by IRS audits and the tax benefits denied as a result of IRS audits. Section 441(c) of the Deficit Reduction Act of 1984 had a similar list of information requests.

Section 441(c) directed that the Treasury boycott report contain the following information: (1) the number of Forms 5713 filed during the taxable years ending with or within each calendar year of the 4-year period, (2) the number of Forms 5713 where the taxpayer indicated international boycott participation or cooperation, and (3) a "detailed description" of how section 999 was administered during the 4-year period.

Treasury relied on two data sources to produce boycott reports: IRS Forms 5713 and audits of specific tax returns. Information on Forms 5713 is processed by IRS' Statistics of Income (SOI) Division, which sends summary tables to Treasury officials responsible for producing boycott reports. The boycott data available from the SOI Division are more comprehensive than the boycott reports sent to Congress. For example, IRS data include the number of boycott participants by type of taxpayer, industry, size of total assets, and specific tax effects of boycott participation. This information is not included in Treasury boycott reports. (See app. II for 1986 SOI Division data).

In addition, earlier Treasury boycott reports provided information on boycott activity not shown in the last two reports. For example, the first three boycott reports showed the number of corporations filing Forms 5713 by industry and by country of operation, but this information was missing in the fourth (1985) and fifth (1991) reports.

The second type of information presented in Treasury reports is the results of tax audits of returns with Forms 5713. Treasury reports contained only a brief paragraph with the results of such tax audits. For example, the only reference to tax audits in the 1991 boycott report was that IRS completed tax audits for fiscal years 1983 and 1984 that "involved an average of 350 taxpayers who filed Forms 5713 and resulted in an increase in tax liability of \$32,000 for 1983 and \$1.8 million for 1984." Treasury reports did not provide information about audit coverage, the characteristics of tax returns audited, or whether any taxpayers were penalized for not filing Form 5713.

Treasury is in the process of transferring the responsibility for preparing boycott reports to IRS' International Office. According to IRS officials, it would be possible to issue boycott reports more frequently than every 4 years, as was done before 1985. However, the information in future boycott reports would still be at least 2 years old because processing Forms 5713 takes approximately 2 years from the end of the filing year. For example, the latest boycott data processed by IRS correspond to tax year 1988. Also, audits of tax returns have a longer time lag. For example, the fifth boycott report, issued in February 1991, summarized tax audits for fiscal years 1983 and 1984.

Reported Boycott Activity and Tax Penalties

In this appendix, we present our analysis of boycott trends based on the five Treasury boycott reports and 1986 boycott data obtained from IRS' SOI Division. According to the 1991 Treasury boycott report, "for the 1986 tax year, reported boycott activity was at its lowest level since 1978. Since the last report in 1982, activity gradually increased, then fell sharply after 1984." This statement was supported by the decrease in three aggregate statistics: (1) total Forms 5713 filed, (2) total boycott requests, and (3) total boycott participants.

We determined trends in specific boycott activities by examining each of the five Treasury boycott reports issued since 1976. We found that the trends in aggregate statistics masked different trends in some specific statistics. For example, while the total number of boycott requests went down 23 percent from 1979 to 1986, corporate filers of Forms 5713 experienced a 160-percent increase in boycott requests to refrain from employing individuals of a particular nationality, race, or religion in the same period.

Corporate taxpayers with assets of \$1 billion or more comprised the majority of boycott participants in 1986. In the last part of this appendix we present a profile of boycott participants based on SOI Division data that were not used in the 1991 Treasury report.

We also found that reported boycott activities from different years were not always comparable. As was explained in appendix I, the significant decrease in reported boycott requests from Saudi Arabia are attributable to the issuance of a Treasury guideline that determined that a request related to shipping carriers and insurance agents was not boycott-related and, thus, not reportable.

The Number of Taxpayers Filing Forms 5713 Increased Initially, Then Decreased

Tables II.1 to II.4 show annual statistics of boycott activity for the period 1976 to 1986. The only information available for every year was the number of taxpayers filing Forms 5713, which increased 156 percent in the first 5 years, from 1,462 in 1976 to 3,738 taxpayers in 1981. The trend reversed from 1981 to 1986: the number of forms filed decreased 44 percent to 2,104 in 1986. The 1991 Treasury boycott report took notice of the reversed trend but did not discuss its underlying causes or associated effects.

Number of Boycott Participants Varied Greatly From 1976 to 1986

On the basis of available data, the number of taxpayers agreeing to participate in boycotts varied, from 273 in 1978 to 44 in 1986. Treasury reports did not provide sufficient information to determine the reasons for the big drop in the number of boycott participants.

Trend in the Number of Taxpayers Receiving Boycott Requests

The number of taxpayers who reported receiving boycott requests increased from 271 in 1976 to 610 in 1979. From 1982 to 1986 taxpayers receiving boycott requests decreased negligibly—from 537 in 1982 to 533 in 1986. Of the 2,104 taxpayers who filed a Form 5713 in 1986, 533 (25 percent) reported receiving at least one boycott request.

The total number of boycott requests increased 175 percent from 1976 to 1978, reaching its maximum level of 17,439 in 1978, as shown in table II.1. Reported boycott requests reached 16,824 in 1982, and then decreased 33 percent to 11,246 in 1986.

Table II.1: Historical Summary of Forms 5713 Filed, Requests, Participants, and Agreements, 1976-1986

| Year | Number of taxpayers filing Forms 5713 | Number of taxpayers receiving boycott requests | Number of taxpayers agreeing to participate in boycotts | Number of boycotts requests | Number of boycott agreements |
|------|---------------------------------------|--|---|-----------------------------|------------------------------|
| 1976 | 1,462 | 271 | 128 | 6,335 | 1,837 |
| 1977 | 2,864 | 561 | 256 | 9,808 | 4,134 |
| 1978 | 2,859 | 592 | 273 | 17,439 | 7,944 |
| 1979 | 3,197 | 610 | 179 | 14,620 | 6,639 |
| 1980 | 3,413 | 602 | 234 | 14,879 | 7,445 |
| 1981 | 3,738 | N/A | N/A | N/A | N/A |
| 1982 | 2,822 | 537 | 212 | 16,824 | 5,809 |
| 1983 | 2,789 | N/A | N/A | N/A | N/A |
| 1984 | 3,378 | N/A | N/A | N/A | N/A |
| 1985 | 2,418 | N/A | N/A | N/A | N/A |
| 1986 | 2,104 | 533 | 44 | 11,246 | 1,450 |

N/A = Data not shown in Treasury reports.

Source: Department of the Treasury, *The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code*, fourth (1985) and fifth (1991) reports.

Number of Boycott Agreements Reached Lowest Level in 1986

The trend in reported boycott agreements paralleled the trend in boycott requests. Initially, there was a 332-percent increase in boycott agreements from 1,837 in 1976 to 7,944 in 1978. There was an 81-percent decrease from 7,445 in 1980 to a low of 1,450 in 1986.

Table II.2 shows the extent of boycott requests and participation. In 1986, boycotting countries presented one or more boycott requests to 25 percent of the taxpayers filing Forms 5713. This is the highest percentage in the 1976 to 1986 period. On the other hand, the effectiveness of boycott requests reached its lowest level in 1986, since only 8 percent of the taxpayers receiving boycott requests agreed to participate.

The average number of reported boycott requests reached a maximum of 31 requests per taxpayer in 1982 and then decreased to 21 requests per taxpayer in 1986. Twenty-one was the lowest average number of requests received since 1977.

On the other hand, in 1986 there were 33 boycott agreements made per boycott participant, which was the second highest level of agreements made in the 1976 to 1986 period. In 1979, 37 boycott agreements were made per boycott participant. The average number of boycott agreements per participant rose sharply from 14 in 1976 to 37 in 1979, decreased to 27 in 1982, and increased to 33 in 1986.

As table II.2 shows, the proportion of reported boycott requests that resulted in boycott agreements was 29 percent in 1976, 50 percent in 1980, and 13 percent in 1986.

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Reported Boycott Activity and Tax Penalties

Table II.2: Extent of Boycott Requests and Participation, 1976-1986

| Year | Percent of filers of Forms 5713 who received boycott requests | Boycott participants as a percent of filers asked to participate | Boycott agreements as a percent of boycott requests | Number of boycott requests per filer asked to participate | Number of boycott agreements per boycott participant |
|-------------|--|---|--|--|---|
| 1976 | 19 | 47 | 29 | 23 | 14 |
| 1977 | 20 | 46 | 42 | 17 | 16 |
| 1978 | 21 | 46 | 46 | 29 | 29 |
| 1979 | 19 | 29 | 45 | 24 | 37 |
| 1980 | 18 | 39 | 50 | 25 | 32 |
| 1981 | N/A | N/A | N/A | N/A | N/A |
| 1982 | 19 | 39 | 35 | 31 | 27 |
| 1983 | N/A | N/A | N/A | N/A | N/A |
| 1984 | N/A | N/A | N/A | N/A | N/A |
| 1985 | N/A | N/A | N/A | N/A | N/A |
| 1986 | 25 | 8 | 13 | 21 | 33 |

N/A = Data not shown in Treasury reports.

Source: Department of the Treasury, The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code, fourth (1985) and fifth (1991) reports.

Corporations Are Majority of Filers of Forms 5713 and Boycott Participants

Tables II.3 and II.4 show corporate boycott activity for 1976 to 1986. Corporations, including DISCs and FSCs, comprise the vast majority of taxpayers involved in boycott activities. They accounted for 88 percent or more of the taxpayers filing boycott reports during 1976 to 1986. Since 1982, corporations filed 90 percent or more of Forms 5713, received 90 percent or more of boycott requests, and made at least 89 percent of the boycott agreements.

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Reported Boycott Activity and Tax Penalties**

Table II.3: Historical Summary of Corporate Forms 5713 Filed, Requests, Participants, and Agreements, 1976-1986

| Year | Number of corporations filing Forms 5713 | Number of corporations receiving boycott requests | Number of corporations agreeing to participate | Number of boycott requests received by corporations | Number of boycott agreements made by corporations |
|-------------|---|--|---|--|--|
| 1976 | 1,356 | 240 | 110 | 6,081 | 1,762 |
| 1977 | 2,521 | 510 | 223 | 9,711 | 4,066 |
| 1978 | 2,536 | 521 | 217 | 17,170 | 7,770 |
| 1979 | 2,892 | 496 | 172 | 14,079 | 6,615 |
| 1980 | 3,090 | 494 | 229 | 14,312 | 7,432 |
| 1981 | N/A | N/A | N/A | N/A | N/A |
| 1982 | 2,583 | 431 | 178 | 15,072 | 5,189 |
| 1983 | 2,550 | N/A | N/A | N/A | N/A |
| 1984 | 3,158 | N/A | N/A | N/A | N/A |
| 1985 | 2,192 | N/A | N/A | N/A | N/A |
| 1986 | 1,900 | 419 | 44 | 10,652 | 1,450 |

N/A = Data not shown in Treasury reports.

Source: Department of the Treasury, The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code, fourth (1985) and fifth (1991) reports.

In 1986, a total of 1,900 corporations filed Forms 5713; 419 (22 percent) of them received boycott requests. These 419 corporations represented 79 percent of the total taxpayers receiving boycott requests. Also, there were a total of 1,450 boycott agreements made by 44 boycott participants, all of whom were corporations.

As is shown in table II.4, corporations—including DISCs and FSCs—filed 1,900 Forms 5713 in 1986; individuals filed 100 forms; and partnerships filed 83 forms.

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Reported Boycott Activity and Tax Penalties**

Table II.4: Number and Percentage of Forms 5713 Filers, by Category

| Category | 1976 | 1977 | 1979 | 1982 | 1986 |
|--|-------------|-------------|-------------|-------------|--------------|
| Frequency distribution | 1,462 | 2,864 | 2,859 | 2,822 | 2,104 |
| Corporations (except DISCs, ^a FSCs ^b) | 1,237 | 2,118 | 2,015 | 1,683 | 1,597 |
| DISCs | 119 | 403 | 521 | 900 | 75 |
| FSCs | N/A | N/A | N/A | N/A | 228 |
| Individuals | 49 | 196 | 173 | 118 | 100 |
| Partnerships | 45 | 117 | 129 | 95 | 83 |
| Estates and trusts | 12 | 30 | 21 | 26 | ^c |
| Percentage distribution | | | | | |
| Corporations (except DISCs, FSCs) | 85% | 74% | 70% | 60% | 76% |
| DISCs | 8 | 14 | 18 | 32 | 4 |
| FSCs | N/A | N/A | N/A | N/A | 11 |
| Individuals | 3 | 7 | 6 | 4 | 5 |
| Partnerships | 3 | 4 | 5 | 3 | 4 |
| Estates and trusts | 1 | 1 | 1 | 1 | ^c |

N/A = Not applicable

^aDISCs are domestic international sales corporations.

^bFSCs are foreign sales corporations. FSCs were nonexistent before 1984.

^cTreasury did not show data in order to avoid disclosure of confidential tax information.

Source: Department of the Treasury, The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code, first (1979), second (1980), third (1982), fourth (1985), and fifth (1991) reports.

The trends in the number of Forms 5713 filed by corporations, individuals, partnerships, and trusts are similar: a rapid increase in the last part of the 1970s, followed by a decrease in forms filed from the early 1980s to 1986. The exception to these trends was the number of forms filed by corporations with \$100 million or more in assets, which increased in every reported year, except 1979. (See table II.5.)

DISCs and FSCs Reflect Changes in the Tax Law

Table II.4 also shows the number of DISCs reporting operations in boycotting countries. This number increased rapidly from 119 in 1976 to 900 in 1982 but dropped sharply to 75 in 1986. This pattern reflected tax law changes in 1984.

In 1971, Congress passed tax legislation creating DISCs to encourage U.S. companies to engage in export activities. The U.S. trading partners that are parties to the General Agreement on Tariffs and Trade (GATT) challenged the DISC provisions as being a prohibited export trade subsidy. To address the GATT charges, Congress established FSCs in the Deficit Reduction Act of 1984 and allowed the conversion of an export operation from a DISC to a FSC.

Corporate Boycott Reporting Varied Greatly by Asset Size

Table II.5 shows the distribution by asset size of corporations filing Forms 5713. Corporations with \$100 million or more in assets comprised the largest group of Form 5713 filers. The forms filed by these corporations increased 60 percent in 11 years, from 525 in 1976 to 840 in 1986. The share of Forms 5713 filed by these corporations ranged between 38 and 44 percent in the 1976 to 1986 period.

Table II.5: Number and Percentage of Corporations Filing Forms 5713, by Asset Size

| Corporation size | 1976 | 1977 | 1979 | 1982 | 1986 ^a |
|--------------------------------|-------|-------|-------|-------|-------------------|
| Frequency distribution | 1,237 | 2,118 | 2,015 | 1,683 | 1,900 |
| \$0 or not reported | 21 | 34 | 90 | 31 | 119 |
| \$1 to 9.9 million | 409 | 749 | 632 | 416 | 562 |
| \$10 million to \$99.9 million | 282 | 537 | 522 | 463 | 379 |
| \$100 million or more | 525 | 798 | 771 | 773 | 840 |
| Percentage distribution | | | | | |
| \$0 or not reported | 2% | 2% | 4% | 2% | 6% |
| \$1 to 9.9 million | 33 | 35 | 31 | 25 | 30 |
| \$10 million to \$99.9 million | 23 | 25 | 26 | 28 | 20 |
| \$100 million or more | 42 | 38 | 38 | 46 | 44 |

^a1986 data include regular corporations, FSCs, and DISCs.

Source: Department of the Treasury, The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code, first (1979), second (1980), third (1982), fourth (1985), and fifth (1985) reports.

Forms 5713 filed by corporations with assets from \$1 to \$9.9 million fluctuated during the 1976 to 1986 period. The number of Forms 5713 rose from 409 in 1976 to 749 in 1977, decreased to 416 in 1982, and increased again to 562 reports in 1986. The share of Forms 5713 filed by these small corporations was 30 percent in 1986. Boycott reporting by

corporations with assets from \$10 million to \$99.9 million decreased 29 percent from 1977 to 1986. These corporations filed about 20 percent of Forms 5713 from 1976 to 1986.

As shown in table II.6, the 840 corporations with \$100 million or more in assets that filed Forms 5713 in 1986 were only 0.03 percent of the 3.4 million active U.S. corporations but accounted for 44 percent of all corporations filing Forms 5713.

Table II.6: Number and Percentage of Active Corporations Filing Tax Returns and Forms 5713 in 1986, by Asset Size

| Corporation size | All active corporations | Corporations filing Forms 5713 |
|--------------------------------|-------------------------|--------------------------------|
| Frequency distribution | 3,428,515 | 1,900 |
| \$0 or not reported | 210,160 | 119 |
| Under \$10 million | 3,171,504 | 562 |
| \$10 million to 99.9 million | 37,565 | 379 |
| \$100 million or more | 9,286 | 840 |
| Percentage distribution | | |
| \$0 or not reported | 6.1% | 6.3% |
| Under \$10 million | 92.5 | 29.6 |
| \$10 million to 99.9 million | 1.1 | 19.9 |
| \$100 million or more | 0.3 | 44.2 |

Sources: Department of the Treasury, The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code, fifth (1991) report, and Internal Revenue Service, 1986 Corporation Income Tax Returns.

These 840 large corporations controlled \$5.4 trillion in assets, which was equivalent to 38 percent of the assets of all active corporations in the United States in 1986.

Six Arab Countries Accounted for Majority of Boycott Activities

As shown in table II.7, Kuwait, Saudi Arabia, Iraq, Syria, UAE, and Jordan were the principal sources of boycott requests. Of 10,652 reported boycott requests received in 1986, 70 percent originated in those six boycotting countries.

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Table II.7: Number and Percentage of Boycott Requests, by Country

| Country | 1976 | 1977 | 1979 | 1982 | 1986 |
|--------------------------------|--------------|--------------|---------------|---------------|---------------|
| Frequency distribution | | | | | |
| Iraq | 263 | 1,292 | 2,285 | 1,995 | 1,442 |
| Jordan | 86 | 228 | 1,119 | 961 | 601 |
| Kuwait | 366 | 1,040 | 1,970 | 3,072 | 1,969 |
| Saudi Arabia | 4,092 | 2,294 | 2,199 | 2,136 | 1,609 |
| Syria | 161 | 459 | 333 | 628 | 498 |
| UAE | 247 | 1,004 | 1,565 | 2,202 | 1,372 |
| Other countries | 1,120 | 2,867 | 3,453 | 4,078 | 3,161 |
| Total | 6,335 | 9,184 | 12,924 | 15,072 | 10,652 |
| Percentage distribution | | | | | |
| Iraq | 4% | 14% | 18% | 13% | 14% |
| Jordan | 1 | 2 | 9 | 6 | 6 |
| Kuwait | 6 | 11 | 15 | 20 | 18 |
| Saudi Arabia | 65 | 25 | 17 | 14 | 15 |
| Syria | 3 | 5 | 3 | 4 | 5 |
| UAE | 4 | 11 | 12 | 15 | 13 |
| Other countries | 18 | 31 | 27 | 27 | 30 |

Note: Treasury reports provided total requests received by all taxpayers for 1976. Data for other years are only requests received by corporate taxpayers.

Source: Department of the Treasury, The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code, first (1979), second (1980), third (1982), fourth (1985), and fifth (1991) reports.

In all six boycotting countries except Saudi Arabia and Syria there was an initial increase in boycott requests during the late 1970s and decreases from 1982 to 1986. In spite of the recent downward trend, the 1986 level of boycott requests in all countries except Saudi Arabia was at least three times the level of requests in 1976. In Saudi Arabia, reported boycott requests decreased in all reporting years from 4,092 in 1976 to 1,609 in 1986. The share of boycott requests from Saudi Arabia decreased from 65 percent in 1976 to 15 percent in 1986. These decreases in the number and share of requests by Saudi Arabia were due in part to regulatory changes in the definition of reportable boycott activity that were described previously in this report.

Table II.8 shows reported boycott agreements by country. Four countries accounted for 65 percent of the 1,450 boycott agreements in 1986: (1) Iraq obtained 21 percent of the boycott agreements, (2) UAE obtained 17 percent, (3) Kuwait obtained 16 percent, and (4) Jordan obtained 11 percent. Saudi Arabia obtained 27 percent of the boycott agreements in 1976 and only 9 percent in 1986.

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Table II.8: Number and Percentage of Boycott Agreements, by Country

| Country | 1976 | 1977 | 1979 | 1982 | 1986 |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| Frequency distribution | | | | | |
| Iraq | 98 | 494 | 669 | 783 | 304 |
| Jordan | 61 | 92 | 666 | 608 | 156 |
| Kuwait | 228 | 636 | 1,331 | 1,109 | 228 |
| Saudi Arabia | 498 | 954 | 1,065 | 453 | 137 |
| Syria | 119 | 133 | 105 | 123 | 29 |
| UAE | 140 | 282 | 1,050 | 456 | 248 |
| Other countries | 693 | 1,348 | 1,695 | 1,657 | 348 |
| Total | 1,837 | 3,939 | 6,581 | 5,189 | 1,450 |
| Percentage distribution | | | | | |
| Iraq | 5% | 13% | 10% | 15% | 21% |
| Jordan | 3 | 2 | 10 | 12 | 11 |
| Kuwait | 12 | 16 | 20 | 21 | 16 |
| Saudi Arabia | 27 | 24 | 16 | 9 | 9 |
| Syria | 6 | 3 | 2 | 2 | 2 |
| UAE | 8 | 7 | 16 | 9 | 17 |
| Other countries | 38 | 34 | 26 | 32 | 24 |

Note: Treasury reports provided total agreements made by all taxpayers for 1976. Data for other years are only agreements made by corporate taxpayers.

Source: Department of the Treasury, *The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code*, first (1979), second (1980), third (1982), fourth (1985), and fifth (1991) reports.

The trend in boycott agreements was similar to the trend in boycott requests, a rapid increase during the latter part of the 1970s and a decrease from 1982 to 1986.

Table II.9 shows, by country, the percentage of boycott requests that resulted in boycott agreements. In general, this percentage increased from 29 percent in 1976 to a high level of 51 percent in 1979 and then decreased to 14 percent in 1986. The country with the highest percentages in 1982 and 1986 was Jordan, with 63 percent and 26 percent, respectively.

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Table II.9: Boycott Agreements as a Percentage of Boycott Requests, by Country

| Country | 1976 | 1977 | 1979 | 1982 | 1986 |
|----------------------|-------------|-------------|-------------|-------------|-------------|
| All countries | 29 | 43 | 51 | 34 | 14 |
| Iraq | 37 | 38 | 29 | 39 | 21 |
| Jordan | 71 | 40 | 60 | 63 | 26 |
| Kuwait | 62 | 61 | 68 | 36 | 12 |
| Saudi Arabia | 12 | 42 | 48 | 21 | 9 |
| Syria | 74 | 29 | 32 | 20 | 6 |
| UAE | 57 | 28 | 67 | 21 | 18 |
| Other countries | 62 | 47 | 49 | 41 | 11 |

Source: Department of the Treasury, *The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code*, first (1979), second (1980), third (1982), fourth (1985), and fifth (1991) reports.

Boycott Requests and Agreements by Type of Activity

Tables II.10, II.11, and II.12 show the number of boycott requests and agreements by type of boycott activity. Types 1, 2, and 5 accounted for more than 90 percent of boycott requests and agreements in all reporting years.

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Table II.10: Number and Percentage of Boycott Requests, by Type of Boycott Activity

| Type | 1976 ^a | 1977 | 1979 | 1982 | 1986 |
|--------------------------------|-------------------|--------------|---------------|---------------|---------------|
| Frequency distribution | | | | | |
| Type 1 | 1,196 | 2,761 | 3,761 | 4,586 | 3,378 |
| Type 2 | 662 | 940 | 2,523 | 2,884 | 2,200 |
| Types 3 and 4 ^b | 498 | 162 | 413 | 1,055 | 1,076 |
| Type 5 | 3,979 | 5,321 | 6,227 | 6,547 | 3,998 |
| Total | 6,335 | 9,184 | 12,924 | 15,072 | 10,652 |
| Percentage distribution | | | | | |
| Type 1 | 19% | 30% | 29% | 30% | 32% |
| Type 2 | 10 | 10 | 20 | 19 | 21 |
| Types 3 and 4 | 8 | 2 | 3 | 7 | 10 |
| Type 5 | 63 | 58 | 48 | 43 | 38 |

Note: The five types of boycott activity are:

Type 1 = Refrain from doing business in a boycotted country.

Type 2 = Refrain from doing business with a U.S. person engaged in trade with a boycotted country.

Type 3 = Refrain from doing business with firms whose owners or managers are of a particular nationality, race, or religion.

Type 4 = Refrain from employing individuals of a particular nationality, race, or religion.

Type 5 = Refrain from shipping or insuring products on a carrier owned, leased, or operated by a person who does not participate in boycotts.

^aTreasury reports provided total requests received by all persons for 1976. Data for other years were requests received by corporations.

^bTypes 3 and 4 are combined in some Treasury reports.

Source: Department of the Treasury, The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code, first (1979), second (1980), third (1982), fourth (1985), and fifth (1991) reports.

**Appendix II
Reported Boycott Activity and Tax Penalties**

Table II.11: Number and Percentage of Boycott Agreements, by Type of Boycott Activity

| Type | 1976^a | 1977 | 1979 | 1982 | 1986 |
|--------------------------------|-------------------------|--------------|--------------|--------------------------|--------------|
| Frequency distribution | | | | | |
| Type 1 | 370 | 1,043 | 1,397 | 1,172 | 532 |
| Type 2 | 79 | 229 | 1,624 | 1,750 | 28 |
| Types 3 and 4 ^b | 23 | 27 | 76 | 378 | 5 |
| Type 5 | 1,365 | 2,640 | 3,484 | 1,711 | 885 |
| Total | 1,837 | 3,939 | 6,581 | 5,189^c | 1,450 |
| Percentage distribution | | | | | |
| Type 1 | 20% | 26% | 21% | 23% | 37% |
| Type 2 | 4 | 6 | 25 | 35 | 2 |
| Types 3 and 4 ^b | 1 | 1 | 1 | 8 | 0.3 |
| Type 5 | 74 | 67 | 53 | 34 | 61 |

Note: The five types of boycott activity are:

Type 1 = Refrain from doing business in a boycotted country.

Type 2 = Refrain from doing business with a U.S. person engaged in trade with a boycotted country.

Type 3 = Refrain from doing business with firms whose owners or managers are of a particular nationality, race, or religion.

Type 4 = Refrain from employing individuals of a particular nationality, race, or religion.

Type 5 = Refrain from shipping or insuring products on a carrier owned, leased, or operated by a person who does not participate in boycotts.

^aTreasury reports provided total agreements made by all persons only for 1976. Data for other years were agreements made by corporations.

^bTypes 3 and 4 are combined in some Treasury reports.

^cTotal does not match sum in Treasury reports.

Source: Department of the Treasury, The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code, first (1979), second (1980), third (1982), fourth (1985), and fifth (1991) reports.

Appendix II
Reported Boycott Activity and Tax Penalties

Table II.12: Boycott Agreements as a Percentage of Boycott Requests, by Type of Boycott Activity

| Type | 1976 ^a | 1977 | 1979 | 1982 | 1986 |
|---------------|-------------------|------|------|------|------|
| Type 1 | 31 | 38 | 37 | 26 | 16 |
| Type 2 | 12 | 24 | 64 | 61 | 1 |
| Types 3 and 4 | 5 | 16 | 12 | 36 | 0.5 |
| Type 5 | 34 | 50 | 56 | 26 | 22 |
| Average | 29 | 43 | 51 | 34 | 14 |

Note: The five types of boycott activity are:

Type 1 = Refrain from doing business in a boycotted country.

Type 2 = Refrain from doing business with a U.S. person engaged in trade with a boycotted country.

Type 3 = Refrain from doing business with firms whose owners or managers are of a particular nationality, race, or religion.

Type 4 = Refrain from employing individuals of a particular nationality, race, or religion.

Type 5 = Refrain from shipping or insuring products on a carrier owned, leased, or operated by a person who does not participate in boycotts.

^aTreasury reports provided total requests received by all persons for 1976. Data for other years were only requests received by corporations.

Source: Department of the Treasury, The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code, first (1979), second (1980), third (1982), fourth (1985), and fifth (1991) reports.

Type 5 activities accounted for the highest percentage of boycott requests and agreements in every reporting year except 1982. In 1986, for example, type 5 requests comprised 38 percent of the 10,652 boycott requests, and type 5 agreements comprised 61 percent of the 1,450 boycott agreements. Also, 22 percent of the type 5 requests resulted in boycott agreements in 1986, the highest ratio in 1986. The historical trend in the percentage of type 5 requests, however, was down, from 63 percent of all requests in 1976 to 38 percent in 1986.

Type 1 was the second largest category in 1986, with 32 percent of boycott requests and 37 percent of boycott agreements. Moreover, the historical trend in type 1 boycott activities increased from 19 percent in 1976 to 32 percent in 1986.

Types 3 and 4, which target individuals for reasons of their nationality, race, or religion increased from 2 percent of total requests in 1977 to 10 percent in 1986. Although type 4 boycott requests were the fewest, they exhibited a sizable upward trend, from 5 in 1976 to 517 in 1986.

Tables II.13, II.14 and II.15 show boycott requests and boycott agreements by type of activity in the six main boycotting countries. As was explained previously, there was a sharp decrease in type 5 boycott requests from Saudi Arabia from 1979 to 1986. From 1979 to 1982, for example, the number of type 5 requests in Saudi Arabia decreased from 1,126 to 867. By contrast, from 1979 to 1982 type 5 requests increased

Appendix II
Reported Boycott Activity and Tax Penalties

in most of the other main boycotting countries. Also, from 1979 to 1982 the number of type 5 boycott agreements decreased in every country except Iraq.

Table II.13: Number of Boycott Requests, by Country and Type

| Country | 1976 | 1977 | 1979 | 1982 | 1986 |
|---------------------|--------------------|--------------|--------------------|-------|------------------|
| Iraq | 263 | 1,292 | 2,285 | 1,995 | 1,442 |
| Type 1 | 112 | 446 | 926 | 702 | 581 |
| Type 2 | 32 | 173 | 637 | 503 | 203 |
| Types 3 and 4 | 6 | 30 | 97 | 127 | 176 |
| Type 5 | 113 | 643 | 625 | 663 | 482 |
| Jordan | 86 | 228 | 1,119 | 961 | 601 ^a |
| Type 1 | 21 | 46 | 376 | 325 | 131 |
| Type 2 | 5 | ^b | 45 | 52 | 224 |
| Types 3 and 4 | 0 | ^b | 7 | 260 | ^b |
| Type 5 | 60 | 156 | 691 | 324 | ^b |
| Kuwait | 366 | 1,040 | 1,970 | 3,072 | 1,969 |
| Type 1 | 132 | 349 | 388 | 522 | 465 |
| Type 2 | 28 | 93 | 382 | 927 | 408 |
| Types 3 and 4 | 3 | 4 | 23 | 87 | 62 |
| Type 5 | 203 | 594 | 1,177 | 1,536 | 1,034 |
| Saudi Arabia | 4,092 ^a | 2,294 | 2,199 | 2,136 | 1,609 |
| Type 1 | 518 | 576 | 461 | 838 | 418 |
| Type 2 | 540 | 144 | 545 | 207 | 374 |
| Types 3 and 4 | 468 | 22 | 67 | 224 | 309 |
| Type 5 | 2,506 | 1,552 | 1,126 | 867 | 508 |
| Syria | 161 | 459 | 333 | 628 | 498 |
| Type 1 | 55 | 279 | 147 | 300 | 188 |
| Type 2 | ^b | 12 | 49 | 119 | 64 |
| Types 3 and 4 | ^b | 14 | 18 | 60 | 87 |
| Type 5 | 97 | 154 | 119 | 149 | 159 |
| UAE | 247 | 1,004 | 1,565 ^a | 2,202 | 1,372 |
| Type 1 | 81 | 257 | 581 | 740 | 445 |
| Type 2 | 13 | 233 | 289 | 397 | 239 |
| Types 3 and 4 | 8 | 4 | 28 | 117 | 156 |
| Type 5 | 145 | 510 | 669 | 948 | 532 |

^aSum does not match total in Treasury reports.

^bTreasury did not show some data in order to avoid disclosure of confidential tax information.

Source: Department of the Treasury, The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code, first (1979), second (1980), third (1982), fourth (1985), and fifth (1991) reports.

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Reported Boycott Activity and Tax Penalties

Table II.14: Number of Boycott Agreements, by Country and Type

| Country | 1976 | 1977 | 1979 | 1982 | 1986 |
|---------------------|--------------|--------------|-------------|--------------------|-------------|
| Iraq | 98 | 494 | 669 | 783 ^a | 304 |
| Type 1 | 51 | 103 | 227 | 245 | 198 |
| Type 2 | 0 | 34 | 243 | 236 | 11 |
| Types 3 and 4 | 0 | 6 | 22 | 39 | 5 |
| Type 5 | 47 | 351 | 177 | 257 | 90 |
| Jordan | 61 | 92 | 666 | 608 | 156 |
| Type 1 | ^a | 19 | 294 | 264 | 47 |
| Type 2 | ^a | 12 | 30 | ^a | 0 |
| Types 3 and 4 | 0 | 0 | 6 | 236 ^b | 0 |
| Type 5 | 47 | 61 | 336 | 81 | 109 |
| Kuwait | 228 | 636 | 1,331 | 1,109 ^c | 228 |
| Type 1 | 95 | 158 | 119 | 62 | 47 |
| Type 2 | ^a | 58 | 345 | 728 | 0 |
| Types 3 and 4 | ^a | 0 | 5 | 31 | 0 |
| Type 5 | 120 | 420 | 862 | 260 | 181 |
| Saudi Arabia | 498 | 954 | 1,065 | 453 ^c | 137 |
| Type 1 | 58 | 207 | 101 | 116 | 38 |
| Type 2 | 57 | 62 | 404 | 29 | 9 |
| Types 3 and 4 | 12 | 6 | 11 | 28 | 0 |
| Type 5 | 371 | 679 | 549 | 250 | 90 |
| Syria | 119 | 133 | 105 | 123 ^c | 29 |
| Type 1 | ^a | 60 | 22 | 18 | 5 |
| Type 2 | ^a | 5 | 30 | 63 | 0 |
| Types 3 and 4 | ^a | 4 | 0 | 0 | 0 |
| Type 5 | 84 | 64 | 53 | 31 | 24 |
| UAE | 140 | 282 | 1,050 | 456 ^c | 248 |
| Type 1 | 35 | 67 | 308 | 52 | 86 |
| Type 2 | 4 | ^a | 258 | 244 | 5 |
| Types 3 and 4 | 5 | ^a | 5 | 22 | 0 |
| Type 5 | 96 | 202 | 479 | 126 | 157 |

^aTreasury did not show some data in order to avoid disclosure of confidential tax information.

^bType 3 agreements only.

^cSum does not match total in Treasury reports.

Source: Department of the Treasury, The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code, first (1979), second (1980), third (1982), fourth (1985), and fifth (1991) reports.

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Reported Boycott Activity and Tax Penalties**

Table II.15: Boycott Agreements as a Percentage of Boycott Requests, by Country and Type

| Country | 1976 | 1977 | 1979 | 1982 | 1986 |
|---------------------|-------------|-------------|-------------|-------------|-------------|
| Iraq | 37 | 38 | 29 | 39 | 21 |
| Type 1 | 46 | 23 | 25 | 35 | 34 |
| Type 2 | 0 | 20 | 38 | 47 | 5 |
| Types 3 and 4 | 0 | 20 | 23 | 31 | 3 |
| Type 5 | 42 | 55 | 28 | 39 | 19 |
| Jordan | 71 | 40 | 60 | 63 | 26 |
| Type 1 | N/E | 41 | 78 | 81 | 36 |
| Type 2 | N/E | N/E | 67 | N/E | 0 |
| Types 3 and 4 | N/E | 0 | 86 | 91 | 0 |
| Type 5 | 78 | 39 | 49 | 25 | N/E |
| Kuwait | 62 | 61 | 68 | 36 | 12 |
| Type 1 | 72 | 45 | 31 | 12 | 10 |
| Type 2 | N/E | 62 | 90 | 79 | 0 |
| Types 3 and 4 | N/E | 0 | 22 | 36 | 0 |
| Type 5 | 59 | 71 | 73 | 17 | 18 |
| Saudi Arabia | 12 | 42 | 48 | 21 | 9 |
| Type 1 | 11 | 36 | 22 | 14 | 9 |
| Type 2 | 11 | 43 | 74 | 14 | 2 |
| Types 3 and 4 | 3 | 27 | 16 | 13 | 0 |
| Type 5 | 15 | 44 | 49 | 29 | 18 |
| Syria | 74 | 29 | 32 | 20 | 6 |
| Type 1 | N/E | 22 | 15 | 6 | 3 |
| Type 2 | N/E | 42 | 61 | 53 | 0 |
| Types 3 and 4 | N/E | 29 | 0 | 0 | 0 |
| Type 5 | 87 | 42 | 45 | 21 | 15 |
| UAE | 57 | 28 | 67 | 21 | 18 |
| Type 1 | 43 | 26 | 53 | 7 | 19 |
| Type 2 | 31 | N/E | 89 | 61 | 2 |
| Types 3 and 4 | 63 | N/E | 18 | 19 | 0 |
| Type 5 | 66 | 40 | 72 | 13 | 30 |

N/E = not estimable.

Source: Department of the Treasury, *The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code*, first (1979), second (1980), third (1982), fourth (1985), and fifth (1991) reports.

Boycott Participants Elect One of Two Methods to Compute Their Tax Benefits Losses

U.S. taxpayers can elect one of two methods to estimate the loss of tax benefits—the specifically attributable income and taxes (SAIT) method and the international boycott factor (IBF) method. The election is done annually.

SAIT Method

This alternative is available to U.S. taxpayers who can separately identify the profits and losses of their business operations in the boycotting country. Factors that prove a clear separation of business activities include different entities, operations supervised by different management personnel, different products or services, and the existence of separate contracts.

Taxpayers who choose SAIT must report on their Form 5713, for each distinct and separate boycott operation, their share of the foreign taxes paid, their income subject to denial of tax deferral (known as Subpart F income), and their DISC and FSC income. A foreign tax credit is denied for the foreign taxes reported, and all boycott-related earnings must be included as U.S. taxable income in the current tax year.

IBF Method

IBF is used when income and taxes cannot be traced to specific operations and works as follows. First, the taxpayer estimates the international boycott factor, which is a fraction. The numerator is the sum of the purchases, sales, and payroll from operations in or related to boycotting countries. The denominator is the sum of purchases, sales, and payroll from foreign operations. The taxpayer then has to calculate the foreign tax credit reduction by multiplying the international boycott factor by the amount of credits allowable for foreign taxes paid during the year.

Taxpayers whose boycott-related operations produce low profits and small foreign taxes but involve substantial purchases, sales, or payroll activities would be better off computing the loss of tax benefits using the SAIT method. As shown in tables II.16 and II.17, SAIT was chosen by the largest number of boycott participants and resulted in smaller tax benefits losses.

Reported Tax Benefits Losses Decreased Substantially

Treasury boycott reports did not provide a detailed description of boycott participants by asset size, industry, and tax benefits losses. However, the tax benefits losses appeared to be small. As shown in table II.16, the number of corporations reporting losses in tax benefits decreased from 101 in 1979 to 40 in 1986.

Table II.16: Corporate Boycott Participants

| | 1976 | 1977 | 1979 | 1982 | 1986 |
|--|------|------|------|------|------|
| Boycott participants | 128 | 256 | 179 | 212 | 44 |
| Corporate boycott participants | 110 | 223 | 172 | 178 | 44 |
| Percentage | 86% | 87% | 96% | 84% | 100% |
| Corporations with losses in tax benefits | 35 | 100 | 101 | 87 | 40 |
| Percentage | 32% | 45% | 59% | 49% | 91% |
| Boycott participants that computed losses of tax benefits with | | | | | |
| IBF | 15 | 44 | 29 | 26 | 14 |
| SAIT | 20 | 56 | 72 | 61 | 26 |

Source: Department of the Treasury, The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code, first (1979), second (1980), third (1982), fourth (1985), and fifth (1991) reports.

In 1986, all 44 boycott participants were corporations. Of these, 40 reported a reduction in tax benefits due to their participation in an international boycott. According to Treasury, the four boycott participants that did not report a loss of tax benefits may have reported negative total income or no income attributable to boycott operations.

As shown in tables II.16 and II.17, the SAIT method has always been utilized by a larger number of boycott participants than IBF. For example, in 1986 SAIT was utilized by 26 out of 40 corporations, or 65 percent of boycott participants. The corporations using SAIT reported a reduction in foreign tax credits of \$432,000, or \$16,615 per corporate boycott participant. The group of corporations using IBF reported a reduction of \$687,000 in foreign tax credits or approximately \$49,071 per corporate boycott participant. This is \$32,456 more than the average loss of the group that chose SAIT.

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Reported Boycott Activity and Tax Penalties**

Table II.17: Reductions in Tax Benefits of Corporate Boycott Participants, by Method

Dollars in thousands

| Method | 1976 | 1977 | 1979 | 1982 | 1986 |
|---------------------------------|-----------|-----------|-----------|-----------|-----------|
| IBF | | | | | |
| Foreign tax credit before IBF | \$117,513 | \$619,583 | \$232,938 | \$315,600 | \$470,978 |
| Reduction | \$35 | \$322 | \$656 | \$1,300 | \$687 |
| Percent reduction | 0.03% | 0.05% | 0.28% | 0.41% | 0.15% |
| Subpart F income before IBF | \$54,493 | \$30,961 | \$124,299 | \$48,773 | \$322,512 |
| Increase | \$55 | \$912 | \$2,970 | \$2,464 | \$1,736 |
| Percent increase | 0.10% | 2.95% | 2.39% | 5.05% | 0.54% |
| DISC deemed distributions | \$6,851 | \$19,130 | \$63,606 | \$80,035 | \$0 |
| DISC boycott income | \$4 | \$494 | \$778 | \$265 | \$0 |
| Percent increase | 0.06% | 2.58% | 1.22% | 0.33% | N/E |
| FSC exempt income | a | a | a | a | \$35,129 |
| FSC boycott income | a | a | a | a | \$37 |
| Percent decrease | a | a | a | a | 0.11% |
| SAIT | | | | | |
| Reduction in foreign tax credit | \$74 | \$1,098 | \$6,563 | \$2,000 | \$432 |
| Increase in Subpart F income | \$345 | \$1,701 | \$8,718 | \$1,600 | \$2,966 |
| DISC boycott income | \$46 | \$874 | \$718 | \$800 | \$0 |
| FSC boycott income | a | a | a | a | \$136 |

N/E = not estimable.

^aFSCs were nonexistent before 1984.

Source: Department of the Treasury, *The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code*, first (1979), second (1980), third (1982), fourth (1985), and fifth (1991) reports.

Corporations using IBF suffered a larger average loss than the corporations using SAIT, but the IBF-related loss was still only .15 percent of total foreign tax credit of \$471 million claimed by the corporations using IBF. Corporations using SAIT report only the tax benefits lost; thus, the total tax benefits claimed were not available.

Treasury reports did not provide information on boycott participants by asset size. Thus, we were not able to determine whether corporate boycott participants with assets of \$100 million or more, whose number of Forms 5713 filed increased over time, also exhibited an increasing trend in boycott participation.

The information on boycott participants shown in tables II.18 and II.19 was provided by IRS' SOI Division and was not shown in Treasury reports. Table II.18 shows that the majority of boycott participants in

**Appendix II
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1986 were manufacturing corporations. Of 1,900 corporations filing Forms 5713 in 1986, 50 percent were manufacturing firms. Of 40 boycott participants with tax benefits losses, 80 percent were manufacturing firms.

Table II.18: Corporations Filing Forms 5713 in 1986, by Industry

| Industry | All corporations | Corporate boycott participants with tax benefits losses |
|---|-------------------------|--|
| Frequency distribution | | |
| Manufacturing | 957 | 32 |
| Wholesale and retail trade | 383 | NS |
| Finance, insurance, real estate, and services | 334 | NS |
| Other | 226 | NS |
| Total | 1,900 | 40 |
| Percentage distribution | | |
| Manufacturing | 50% | 80% |
| Wholesale and retail trade | 20 | NS |
| Finance, insurance, real estate, and services | 18 | NS |
| Other | 12 | NS |

NS = not shown to avoid disclosure of confidential tax data.

Source: IRS, SOI Division.

Table II.19 shows the tax effect of boycott participation on corporations by asset size in 1986. Large corporations with assets equal to or above \$1 billion used the SAIT method more often than corporations with assets below \$1 billion. On one hand, the large corporations were able to report smaller percentage decreases in their foreign tax credits and in their income subject to tax deferral than smaller corporations. On the other hand, the smaller corporations lost proportionately less exempt income from FSC operations than large corporations.

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Reported Boycott Activity and Tax Penalties

Table II.19: Tax Effects of Corporate Boycott Participation in 1986, by Asset Size

| Dollars in thousands | | |
|---------------------------------|--|---|
| Method | Corporations with assets below \$1 billion | Corporations with assets \$1 billion or above |
| IBF | | |
| Number of corporations | 9 | 5 |
| Foreign tax credit before IBF | \$8,160 | \$462,818 |
| Reduction | \$15 | \$672 |
| Percent reduction | .18% | .15% |
| Subpart F income before IBF | \$11 | \$322,501 |
| Increase | \$5 | \$1,731 |
| Percent increase | 45.45% | .54% |
| DISC boycott income | \$0 | \$0 |
| Exempt FSC income before IBF | \$13,768 | \$21,361 |
| FSC boycott income | \$1 | \$36 |
| Percent decrease | .01% | .17% |
| SAIT | | |
| Number of corporations | 5 | 21 |
| Reduction in foreign tax credit | \$44 | \$388 |
| Subpart F income | \$2 | \$2,964 |
| DISC boycott income | \$0 | \$0 |
| FSC boycott income | \$70 | \$66 |

Source: IRS, SOI Division.

Tax Revenue Estimates From Treasury Have Decreased

Treasury estimates that its revenue from the boycott provisions was \$2.85 million in 1986, as shown in table II.20. This was the lowest amount since 1978. This estimated revenue was paid by 40 out of the 44 corporate boycott participants in 1986. As table II.20 shows, the estimated revenue per penalized corporation was \$71,250 in 1986. The four boycott participants that did not report loss of tax benefits may have reported negative total income or no income attributable to boycott operations.

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Reported Boycott Activity and Tax Penalties**

Table II.20: Historical Summary of Corporations Reporting Tax Benefits Reductions and Estimated Revenue Effect, 1976-1986

| Year | Total corporations with reductions in tax benefits | Percent of boycott participants | Additional revenue collected due to section 999 | Revenue per boycott participant |
|-------------|---|--|--|--|
| 1976 | 35 | 32 | \$272,000 | \$7,771 |
| 1977 | 100 | 45 | 2,645,000 | 26,450 |
| 1978 | 146 | 67 | 11,329,000 | 77,596 |
| 1979 | 100 | 58 | 9,962,000 | 99,620 |
| 1980 | 88 | 38 | 7,264,000 | 82,545 |
| 1981 | 84 | N/A | 5,671,000 | 67,512 |
| 1982 | 87 | 49 | 4,182,000 | 48,069 |
| 1983 | 76 | N/A | 5,000,000 | 65,789 |
| 1984 | 65 | N/A | 6,120,000 | 94,154 |
| 1985 | 49 | N/A | 4,155,000 | 84,796 |
| 1986 | 40 | 91 | 2,850,000 | 71,250 |

N/A = not available.

Source: Department of the Treasury, The Operation and Effect of the International Boycott Provisions of the Internal Revenue Code, fourth (1985) and fifth (1991) reports.

IRS Form 5713-International Boycott Report

| | | |
|--|---|--|
| Form 5713 (Rev. January 1986) Department of the Treasury Internal Revenue Service | International Boycott Report For tax year beginning 19 and ending 19 ▶ Controlled groups, see specific instructions. | OMB No. 1545-0216 Expires 10-31-88 To be Filed in Duplicate (See Instruction B) |
| Name _____ | | Taxpayer identifying number _____ |
| Number and street _____ | | |
| City or town, state and ZIP code _____ | | |
| Address of Service Center where your tax return is filed _____ | | |
| Type of filer (check one): | | |
| <input type="checkbox"/> Individual <input type="checkbox"/> Partnership <input type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Estate <input type="checkbox"/> Other | | |
| 1 Individuals.—Enter adjusted gross income from your tax return (see instructions) | | |
| 2 Partnerships and corporations: | | |
| a Partnerships.—Enter each partner's name and taxpayer identifying number. b Corporations.—Enter the name and employer identification number of each member of the controlled group (as defined in section 993(a)(3)). Do not list members included in the consolidated return; instead, attach a copy of Form 851. List all other members of the controlled group not included in the consolidated return. If you list any corporations below or if you attach Form 851, you must designate a "common taxable year." Enter the name and employer identification number in line 4b of the corporation whose taxable year is designated. | | |
| Name | Taxpayer identifying number | |
| _____ | _____ | |
| _____ | _____ | |
| _____ | _____ | |
| _____ | _____ | |
| _____ | _____ | |
| If necessary, attach more sheets and check this box <input type="checkbox"/> | | |
| c Enter principal business activity code and description (see instructions) | Code | Description |
| d IC-DISCs.—Enter principal product or service code and description (see instructions) | _____ | _____ |
| 3 Partnerships.—Each partnership filing Form 5713 must give the following information: | | |
| a Partnership's total assets (Form 1065, page 1) | _____ | |
| b Partnership's ordinary income (Form 1065, page 1) | _____ | |
| 4 Corporations.—Each corporation filing Form 5713 must give the following information: | | |
| a Type of form filed (Form 1120, 1120-IC-DISC, 1120F, 1120-FSC, 1120L, 1120M, etc.) | _____ | |
| b Common taxable year election (see instructions)— | _____ | |
| (1) Name of corporation ▶ | _____ | |
| (2) Employer identification number | _____ | |
| (3) Common taxable year beginning 19 and ending 19 | _____ | |
| c Corporations filing this form enter— | _____ | |
| (1) Total assets (see instructions) | _____ | |
| (2) Taxable income before net operating loss and special deductions (see instructions) | _____ | |
| 5 Estates or trusts.—Enter total income (Form 1041, page 1) | | |
| 6 Enter the total amount (before reduction for boycott participation or cooperation) of the following tax benefits (see instructions): | | |
| a Foreign tax credit | _____ | |
| b Deferral of earnings of controlled foreign corporations | _____ | |
| c Deferral of IC-DISC income | _____ | |
| d Exempt FSC income | _____ | |
| Under penalties of perjury, I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. | | |
| Signature ▶ _____ | Date ▶ _____ | |
| Title ▶ _____ | | |
| For Paperwork Reduction Act Notice, see page 1 of the instructions. | | |
| | | Form 5713 (Rev. 1-86) |

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| 7 The following information must be submitted by every person filing Form 5713 (see specific instructions): | | Yes | No |
|---|---|-----|----|
| a | Are you a United States shareholder (as defined in section 951(b)) of any foreign corporation (including a FSC that does not use the administrative pricing rules) that had operations reportable under section 999(a)? | | |
| b | If so, is any foreign corporation a controlled foreign corporation (as defined in section 957(a))? | | |
| c | Do you own any stock of an IC-DISC? | | |
| d | Do you claim any foreign tax credit? | | |
| e | Do you control (within the meaning of section 304(c)) any corporation (other than a corporation included in this report) that has operations reportable under section 999(a)? | | |
| | If "Yes," did the corporation controlled by you participate in or cooperate with an international boycott at any time during its tax year that ends with or within your tax year? | | |
| f | Are you controlled (within the meaning of section 304(c)) by any person (other than a person included in this report) who has operations reportable under section 999(a)? | | |
| | If "Yes," did the person controlling you participate in or cooperate with an international boycott at any time during its tax year that ends with or within your tax year? | | |
| g | Are you treated under section 671 as the owner of a trust that has operations reportable under section 999(a)? | | |
| h | Are you a partner in a partnership that has operations reportable under section 999(a)? | | |
| i | Are you a foreign sales corporation (FSC) (as defined in section 922(a))? | | |

Part I Operations in or Related to a Boycotting Country (See Instructions)

| 8 Boycott of Israel.—Did you have any operations in or related to any country (or with the government, a company or a national of that country) associated in carrying out the boycott of Israel which is on the list maintained by the Secretary of the Treasury under section 999(a)(3) (see Instruction C)? | Yes | No |
|--|-----|----|
| If "Yes," enter name of the country(ies), taxpayer identifying number of person(s) having operations, principal business activity code, a description of the principal business activity; and if you are an IC-DISC, enter the product code. If necessary, attach additional sheets using the exact format and check this box <input type="checkbox"/> | | |

| Name of country (1) | Taxpayer identifying number of person(s) having operations (2) | Principal business activity | | IC-DISCs only—Enter product code (5) |
|------------------------|---|-----------------------------|--------------------|---|
| | | Code (3) | Description (4) | |
| a | | | | |
| b | | | | |
| c | | | | |
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9 Non-listed countries boycotting Israel.—Did you have operations in any non-listed country which you know or have reason to know requires participation in or cooperation with an international boycott directed against Israel?

| | |
|-----|----|
| Yes | No |
| | |

If "Yes," enter the country(ies), taxpayer identifying number of person(s) having operations, the principal business activity code, a description of the principal business activity; and if you are an IC-DISC, enter the product code. If necessary, attach additional sheets using the exact format and check this box

| Name of country (1) | Taxpayer identifying number of person(s) having operations (2) | Principal business activity | | IC-DISCs only—Enter product code (5) |
|------------------------|---|-----------------------------|--------------------|---|
| | | Code (3) | Description (4) | |
| a | | | | |
| b | | | | |
| c | | | | |
| d | | | | |
| e | | | | |
| f | | | | |
| g | | | | |
| h | | | | |

10 Boycotts other than the boycott of Israel.—Did you have operations in any other country which you know or have reason to know requires participation in or cooperation with an international boycott other than the boycott of Israel?

| | |
|-----|----|
| Yes | No |
| | |

If "Yes," enter the country(ies), taxpayer identifying number of person(s) having operations, the principal business activity code, a description of the principal business activity; and if you are an IC-DISC, enter the product code. If necessary, attach additional sheets using the exact format and check this box

| Name of country (1) | Taxpayer identifying number of person(s) having operations (2) | Principal business activity | | IC-DISCs only—Enter product code (5) |
|------------------------|---|-----------------------------|--------------------|---|
| | | Code (3) | Description (4) | |
| a | | | | |
| b | | | | |
| c | | | | |
| d | | | | |
| e | | | | |
| f | | | | |
| g | | | | |
| h | | | | |

11 Were you requested to participate in or cooperate with an international boycott?

| | |
|-----|----|
| Yes | No |
| | |

If "Yes," attach a copy (in English) of any and all such requests received during your tax year. If the request was in a form other than a written request, attach a separate sheet explaining the nature and form of any and all such requests. (See Instructions.)

12 Did you, in fact, participate in or cooperate with an international boycott?

| | |
|-----|----|
| Yes | No |
| | |

If "Yes," attach a copy (in English) of any and all boycott clauses agreed to, and attach a general statement of the agreement. If the agreement was in a form other than a written agreement, attach a separate sheet explaining the nature and form of any and all such agreements. (See Instructions.)

Note: If the answer to either question 11 or 12 is "Yes," you must complete the rest of Form 5713. If you answered "Yes" to question 12, you must complete Schedules A or B and C (Form 5713).

**Appendix III
IRS Form 5713-International Boycott Report**

Form 5713 (Rev. 1-86)

Page 4

Part II Requests for and Acts of Participation in or Cooperation with an International Boycott

| 13 a Did you receive requests to enter into, or, in fact, enter into any agreement (See instruction F.3 and F.5): | Requests | | Agreements | |
|--|----------|----|------------|----|
| | Yes | No | Yes | No |
| <i>Type of participation or cooperation</i> | | | | |
| (1) As a condition of doing business directly or indirectly within a country or with the government, a company, or a national of a country to— | | | | |
| (i) Refrain from doing business with or in a country which is the object of an international boycott or with the government, companies, or nationals of that country? | | | | |
| (ii) Refrain from doing business with any United States person engaged in trade in a country which is the object of an international boycott or with the government, companies, or nationals of that country? | | | | |
| (iii) 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, or to remove (or refrain from selecting) corporate directors who are individuals of a particular nationality, race, or religion? | | | | |
| (iv) Refrain from employing individuals of a particular nationality, race, or religion? | | | | |
| (2) 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? | | | | |

b Requests and agreements.—If the answer to any part of 13a is "Yes," indicate below: the country, the taxpayer identifying number, principal business activity code, description of the principal business activity, the number and the number code indicating the type of participation or cooperation requested or agreed to. Also, if you are an IC-DISC, enter the product code in column (5). (See Instructions.) If necessary, attach additional sheets using the exact format and check this box

| Name of country (1) | Taxpayer identifying number of person receiving the request or having the agreement (2) | Principal business activity | | IC-DISCs only—Enter product code (5) | Type of cooperation or participation | | | |
|----------------------------|--|-----------------------------|------------------------|---|--------------------------------------|-----------------|----------------------|-----------------|
| | | Code (3) | Description (4) | | Number of requests | | Number of agreements | |
| | | | | | Total (6) | Code (7) | Total (8) | Code (9) |
| a | | | | | | | | |
| b | | | | | | | | |
| c | | | | | | | | |
| d | | | | | | | | |
| e | | | | | | | | |
| f | | | | | | | | |
| g | | | | | | | | |
| h | | | | | | | | |
| i | | | | | | | | |
| j | | | | | | | | |
| k | | | | | | | | |
| l | | | | | | | | |
| m | | | | | | | | |
| n | | | | | | | | |
| o | | | | | | | | |
| p | | | | | | | | |
| q | | | | | | | | |

U.S. Government Printing Office: 1986-481-473/20077

**Appendix III
IRS Form 5713-International Boycott Report**

**SCHEDULE A
(Form 5713)**
(Rev. January 1986)

Department of the Treasury
Internal Revenue Service

**Computation of the International
Boycott Factor (Section 999(c)(1))**

*(To be completed only by persons not computing loss of tax benefits by the
specifically attributable taxes and income method on Schedule B (Form 5713).)*

OMB No. 1545-0216
Expires 10-31-88

▶ Attach to Form 5713. ▶ See instructions on back.

Name _____ Taxpayer identifying number _____

Name of country being boycotted (check one):

Israel Other (identify) ▶ _____

| Name of country (1) | Purchases, sales, and payroll attributable to boycotting operations, by operation | | |
|------------------------|---|----------------------|------------------------|
| | Boycott purchases (2) | Boycott sales (3) | Boycott payroll (4) |
| a | | | |
| b | | | |
| c | | | |
| d | | | |
| e | | | |
| f | | | |
| g | | | |
| h | | | |
| i | | | |
| j | | | |
| k | | | |
| l | | | |
| m | | | |
| n | | | |
| o | | | |
| Totals | | | |

1 Numerator of boycott factor (add totals of columns (2), (3), and (4)) _____

2 Denominator of boycott factor:

| | | |
|--|-------|--|
| a Total purchases from countries other than United States | _____ | |
| b Total sales to or from countries other than United States | _____ | |
| c Total payroll paid or accrued for services performed in countries other than United States | _____ | |
| d Total of lines 2a, b, and c | _____ | |

3 International boycott factor (divide line 1 by line 2d). Enter here and on Schedule C (Form 5713) (see instructions) _____ ▶

If you are involved in more than one boycott, use a separate Schedule A for each boycott and attach to Form 5713.

For Paperwork Reduction Act Notice, see page 1 of the Instructions for Form 5713.

Schedule A (Form 5713)(Rev. 1-86)

Appendix III
IRS Form 5713-International Boycott Report

Schedule A (Form 5713) (Rev. 1-86)

Page 2

General Instructions

(References are to the Internal Revenue Code.)

A. Purpose.—Complete Schedule A (Form 5713) if you cooperated with or participated in an international boycott and use the international boycott factor to figure the loss of tax benefits. If you do not use the international boycott factor for this purpose, you must specifically attribute taxes and income on Schedule B (Form 5713).

B. Who Must File.—Anyone who cooperates with or participates in an international boycott must file either this form or Schedule B (Form 5713) to figure the loss of tax benefits. One act of cooperation or participation creates the presumption that you cooperate with or participate in the boycott unless you rebut the presumption as explained in instruction C. The presumption applies to all your operations and those of each member of any controlled groups (defined in section 993(a)(3)) to which you belong, in each country that helps carry out the boycott.

C. Boycott Operations.—All your operations in a boycotting country are considered to be boycott operations, unless you rebut the presumption of cooperating with or participating in the boycott, as explained below. In addition, your operations that are not in a boycotting country are boycott operations if they are connected to your cooperation with or participation in the boycott.

You can rebut the presumption of cooperating with or participating in a boycott for a particular operation by demonstrating that that operation is separate from any cooperation with or participation in an international boycott. The presumption applies only to operations in countries that carry out the boycott, so you do not need to rebut the presumption for operations that are related to those countries, but that take place outside them.

D. International Boycott Factor.—Your international boycott factor reflects boycott purchases, boycott sales, and boycott payroll.

1. Controlled Groups.—All members of a controlled group

generally share one international boycott factor, which reflects all their purchases, sales, and payroll. If you, however, belong to two or more controlled groups, your international boycott factor will reflect the purchases, sales, and payroll of all the controlled groups to which you belong.

2. Partnerships and Trusts.—You are deemed to have a prorated share of the purchases, sales, and payroll of each partnership in which you are a partner and of each trust of which you are treated as the owner under section 671. Thus, your international boycott factor may also reflect purchases, sales, and payroll of partnerships and trusts.

Specific Instructions

Compute a separate boycott factor and fill out a separate schedule for each international boycott with which you cooperate or participate. Include your own operations and, if applicable, the operations of partnerships, trusts, and members of your controlled group.

To decide for what years you should report purchases, sales, and payroll for partnerships, trusts, and controlled groups, see the specific instructions for questions 7-13 of Form 5713.

Partnerships.—For a partnership, complete only lines a through o, the totals of columns (2), (3), and (4), and line 2. Give this information to all partners so they can compute their own international boycott factor.

Column (1).—For each boycott operation enter the name of the country to which your international boycott operation relates. For example, if you have an operation in Country Z, which is not a boycotting country, and the operation relates to Country X, which is a boycotting country, enter the name of Country X. The Secretary maintains a list, under section 999(a)(3), of countries that require cooperation with an international boycott. This list may not be all-inclusive.

Column (2).—For each boycott operation enter all purchases that are attributable to that operation and are made from boycotting countries.

Column (3).—For each boycott operation enter the sales that are attributable to that operation and are made to or from boycotting countries.

Column (4).—For each boycott operation enter the total payroll that is attributable to that operation and is paid or accrued for services performed in boycotting countries.

Line 1.—Add columns (2), (3), and (4). The numerator of your international boycott factor includes all of the following:

- (i) Purchases you made from boycotting countries.
- (ii) Sales you made to or from boycotting countries.
- (iii) Payroll you paid or accrued for services performed in boycotting countries.

Do not include amounts attributable to operations for which you rebutted the presumption of cooperating with or participating in the boycott.

Line 2.—The denominator of your international boycott factor reflects all your purchases, sales, and payroll in or related to all countries other than the United States. If applicable, the denominator also reflects these items for your controlled groups, partnerships, and trusts. Include here the amounts that are attributable to operations for which you rebutted the presumption of cooperating with or participating in the boycott.

Line 3.—Enter the international boycott factor from line 3 of this form on the appropriate line of Schedule C (Form 5713) as follows:

If you reduce your foreign tax credit (section 908(a)), enter the international boycott factor on line 2a(2) of Schedule C.

If you are denied a tax deferral on subpart F income (section 952(a)(3)), enter the international boycott factor on line 3a(4) of Schedule C.

If you are denied a tax deferral on IC-DISC income (section 995(b)(1)(F)), enter the international boycott factor on line 4a(2) of Schedule C.

If you are denied an exemption of foreign trade income of a FSC (section 927(e)(2)), enter the international boycott factor on line 5a(2) of Schedule C.

★ U.S. GOVERNMENT PRINTING OFFICE: 1986-491-473/20063

**Appendix III
IRS Form 5713-International Boycott Report**

**SCHEDULE B
(Form 5713)**

(Rev. January 1986)
Department of the Treasury
Internal Revenue Service

**Specifically Attributable Taxes
and Income (Section 999(c)(2))**

(To be completed only by persons not computing loss of tax benefits
by the international boycott factor on Schedule A (Form 5713).)
▶ Attach to Form 5713. ▶ See instructions on back.

OMB No. 1545-0216
Expires 10-31-88

Name _____ Taxpayer identifying number _____

Name of country being boycotted Israel Other (identify) ▶ _____

Specifically Attributable Taxes and Income by Operation (Use a separate line for each operation.)

| Name of country (1) | Principal business activity | | Foreign tax credit | Subpart F income | IC-DISC income | FSC income |
|----------------------------|-----------------------------|--------------------|---|---|--|--|
| | Code (2) | Description (3) | Foreign taxes attributable to boycott operations (4) | Prorated share of international boycott income (5) | Taxable income attributable to boycott operations (6) | Taxable income attributable to boycott operations (7) |
| 1 | | | | | | |
| 2 | | | | | | |
| 3 | | | | | | |
| 4 | | | | | | |
| 5 | | | | | | |
| 6 | | | | | | |
| 7 | | | | | | |
| 8 | | | | | | |
| 9 | | | | | | |
| 10 | | | | | | |
| 11 | | | | | | |
| 12 | | | | | | |
| 13 | | | | | | |
| 14 | | | | | | |
| 15 Total | | | | | | |

If you are involved in more than one international boycott, use a separate Schedule B (Form 5713) to compute the specifically attributable taxes and income for each boycott.
For Paperwork Reduction Act Notice, see page 1 of the Instructions for Form 5713. Schedule B (Form 5713) (Rev. 1-86)

Appendix III
IRS Form 5713-International Boycott Report

Schedule B (Form 5713) (Rev. 1-86)

Page 2

General Instructions

(References are to the Internal Revenue Code.)

A. Purpose.—Complete Schedule B (Form 5713) if you participated in or cooperated with an international boycott and if you figure the loss of tax benefits by specifically attributing taxes and income. If you do not specifically attribute taxes and income for this purpose, you must compute the international boycott factor on Schedule A (Form 5713).

B. Who Must File.—Anyone who participates in or cooperates with an international boycott must file either this form or Schedule A (Form 5713) to figure the loss of tax benefits. One act of participation or cooperation creates the presumption that you participate in or cooperate with the boycott unless you rebut the presumption as explained in instruction C. The presumption applies to all your operations, and those of each member of any controlled groups (defined in section 993(a)(3)) to which you belong, in each country that helps carry out the boycott.

Certain shareholders.—IC-DISC benefits, certain FSC benefits, the "deemed paid" tax credit under section 902, and the deferral of subpart F income are lost at the shareholder level. Shareholders in an IC-DISC, certain FSCs or a foreign corporation must report their prorated share of the tax benefits denied. The denial of these benefits are discussed in the specific instructions for columns (4) through (7).

C. Boycott Operations.—All your operations in a boycotting country are considered to be boycott operations, unless you rebut the presumption of participation in or cooperation with the boycott, as explained below. In addition, your operations that are not in a boycotting country are boycott operations if they are connected to your participation in or cooperation with the boycott.

You can rebut the presumption of participation in or cooperation with a boycott for a particular operation by demonstrating that operation is separate

from any participation in or cooperation with an international boycott. The presumption applies only to operations in countries that carry out the boycott, so you do not need to rebut the presumption for operations that are related to those countries, but that take place outside them.

Specific Instructions

File Schedule B (Form 5713) for the period covered by your income tax return. Report only your own taxes and income; do not include other members of any controlled groups to which you belong.

Column (1).—For each boycott operation enter the name of the country to which your international boycott operation relates. For example, if you have an operation in Country Z, which is not a boycotting country, and the operation relates to Country X, which is a boycotting country, enter the name of Country X. The Secretary maintains a list, under section 999(a)(3), of countries that require cooperation with an international boycott, but this list may not be all-inclusive.

Column (2).—For each boycott operation enter the principal business activity code. Page 4 of the Instructions for Form 5713 lists the codes.

Column (3).—For each boycott operation briefly describe the principal business activity.

IC-DISCs.—For each boycott operation enter the product code and description in parentheses. The Instructions for Schedule N of Form 1120-IC-DISC, list the codes.

Column (4).—For each boycott operation enter the foreign taxes that are paid, accrued, or deemed paid and are attributable to the boycott operation. These taxes are not eligible for the foreign tax credit. Omit foreign taxes otherwise disallowed under sections 901-907, 911, or 6038. For more information see Part N of the Treasury Department's International Boycott Guidelines.

Enter the column (4) total on line 2b, Schedule C (Form 5713).

Column (5).—For each boycott operation enter your prorated share of the controlled foreign corporation's income that is attributable to the boycott operation. (This includes your share of the section 923(a)(2) non-exempt income of a FSC.) This amount is not eligible for tax deferral. Omit the foreign corporation's income attributable to earnings and profits that are included in gross income under section 951 (except by reason of section 952(a)(3)). Also omit amounts excluded from subpart F income by section 952(b). In figuring the amount to enter in column (5), you are allowed a reasonable amount for deductions (including foreign taxes) allocable to that income.

Enter the column (5) total on line 3b, Schedule C (Form 5713).

Column (6).—An IC-DISC's taxable income attributable to boycott operations is not eligible for deferral. If you are a shareholder in an IC-DISC, follow these steps for each boycott operation and enter the result in column (6): Add the amount deemed distributed for the tax year under subparagraphs (A), (B), (C), (D), and (E) of section 995(b)(1). Subtract this total from the IC-DISC's taxable income attributable to the boycott operation for the tax year, before reduction for any distributions. If you are a corporation, prorate your share of the remainder and multiply by 16/17. If you are not a corporation, prorate your share of the remainder. Enter the result in column (6). Enter the column (6) total on line 4b, Schedule C (Form 5713).

Column (7).—A FSC's taxable income attributable to boycott participation or cooperation is not eligible for exemption from income tax. Enter in column (7) the amount of taxable income attributable to foreign trade income of a FSC that would have been exempt if there had not been boycott participation or cooperation for each boycott operation.

Enter the column (7) total on line 5b, Schedule C (Form 5713).

**Appendix III
IRS Form 5713-International Boycott Report**

**SCHEDULE C
(Form 5713)**
(Rev. January 1986)
Department of the Treasury
Internal Revenue Service

Tax Effect of the International Boycott Provisions

OMB No. 1545-0216
Expires 10-31-88

▶ Attach to Form 5713.

▶ For Paperwork Reduction Act Notice, see page 1 of instructions for Form 5713.

Name

Taxpayer identifying number

1 Method used in computing loss of tax benefits under sections 908(a), 952(a)(3), 995(b)(1)(F)(ii) and 927(e)(2) (check one):

- a** International boycott factor from Schedule A (Form 5713). See items 2a, 3a, 4a, and 5a below
- b** Identification of specifically attributable taxes and income from Schedule B (Form 5713). See items 2b, 3b, 4b, and 5b below

2 Reduction of foreign tax credit (section 908(a)):

- a** International boycott factor. Complete if you checked box 1(a) above and answered "Yes" to foreign tax credit question on line 7d, Form 5713—
 - (1)** Foreign tax credit before adjustment (line 6, Part III, Schedule B, Form 1118 (Rev. Oct. 1985) (corporations); or line 5, Part IV, Form 1116 (1985) (individuals))
 - (2)** International boycott factor (from Schedule A (Form 5713), line 3)
 - (3)** Reduction of foreign tax credit (multiply line 2a(1) by line 2a(2)). Enter here and on line 7, Part III, Schedule B, Form 1118 (corporations); enter here and on line 6, Part IV, Form 1116 (individuals)
 - (4)** Adjusted foreign tax credit (subtract line 2a(3) from line 2a(1))
- b** Specifically identifying income and taxes. Complete if you checked box 1b above and answered "Yes" to foreign tax credit question on line 7d, Form 5713. Enter the amount from line 15, column (4), Schedule B (Form 5713)
Enter the appropriate part of this amount on line 3, Part II, Schedule B, of all applicable Form(s) 1118 (corporations); or on line 4, Part III, of all applicable Form(s) 1116 (individuals).

3 Denial of deferral under subpart F (section 952(a)(3)):

- a** International boycott factor. Complete if you checked box 1a above and answered "Yes" to controlled foreign corporation question on line 7b, Form 5713—
 - (1)** Prorated share of total income of controlled foreign corporations (See instructions.)
 - (2)** Prorated share of income attributable to earnings and profits of controlled foreign corporations included in income under sections 951(a)(1)(A)(ii), 951(a)(1)(A)(iii), 951(a)(1)(B), 952(a)(1), 952(a)(2), 952(a)(4), and 952(b)
 - (3)** Subtract line 3a(2) from line 3a(1)
 - (4)** International boycott factor (from Schedule A (Form 5713), line 3)
 - (5)** Prorated share of subpart F international boycott income (multiply line 3a(3) by line 3a(4)). Enter here and on line 5, Worksheet A, contained in the instructions for Form 5471
- b** Specifically identifying taxes and income. Complete if you checked box 1b above and answered "Yes" to controlled foreign corporation question on line 7b, Form 5713. Enter the amount from line 15, column (5), Schedule B (Form 5713). Also enter this amount on line 5, Worksheet A, contained in the instructions for Form 5471

4 Denial of IC-DISC benefits (section 995(b)(1)(F)(ii)):

- a** International boycott factor. Complete if you checked box 1a above and answered "Yes" to IC-DISC question on line 7c, Form 5713—
 - (1)** Prorated share of section 995(b)(1)(F)(i) amount (see instructions).
 - (2)** International boycott factor (from Schedule A (Form 5713), line 3)
 - (3)** Prorated share of IC-DISC international boycott income (multiply line 4a(1) by line 4a(2)). (See instructions.)
- b** Specifically identifying taxes and income. Complete if you checked box 1b above and answered "Yes" to IC-DISC question on line 7c, Form 5713. Enter amount from line 15, column (6), Schedule B (Form 5713). Also enter this amount on the appropriate line of Schedule J, Form 1120-IC-DISC

Schedule C (Form 5713) (Rev. 1-86)

**Appendix III
IRS Form 5713-International Boycott Report**

Schedule C (Form 5713) (Rev. 1-86)

Page **2**

5 Denial of exemption of foreign trade income (section 927(e)(2)):

- a International boycott factor.** Complete if you checked box 1a above and answered "Yes" to FSC question on line 7i, Form 5713.
 - (1) Add amount from columns (a) and (b), line 10, Schedule B (Form 1120-FSC)
 - (2) International boycott factor (from Schedule A (Form 5713), line 3)
 - (3) Exempt foreign trade income of a FSC attributable to international boycott operations (multiply line 5a(1) by line 5a(2). Enter here and on line 1, Schedule F (Form 1120-FSC)
- b Specifically attributable taxes and income.** Complete if you checked box 1b above and answered "Yes" to question on line 7i, Form 5713. Enter amount from line 15, column (7), Schedule B (Form 5713). Also enter this amount on line 1, Schedule F (Form 1120-FSC)

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| |
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| |

Instructions

(Section references are to the Internal Revenue Code.)

You do not need to complete Schedule C (Form 5713) for a partnership or an IC-DISC. You must complete it, however, if you are a partner or an IC-DISC shareholder.

Controlled Groups.—Unless a controlled group (described in section 993(a)(3)) files a consolidated return, each member may choose independently either to apply the international boycott factor under section 999(c)(1) or to identify specifically attributable taxes and income under section 999(c)(2). Each member must consistently use a single method to figure the loss of tax benefits.

For example, a member that chooses to use the international boycott factor must apply it to determine its loss of the section 902 indirect foreign tax credit on a dividend that another member of the controlled group paid to it, even if the

other member determines its own loss of tax benefits by identifying specifically attributable taxes and income.

Thus, a person who applies the international boycott factor to one operation must apply the factor to all that tax year's operations under section 908(a), 952(a)(3), 995(b)(1)(F)(ii) or 927(e)(2).

A person who identifies specifically attributable taxes and income under section 999(c)(2) must use that method for all that tax year's operations under section 908(a), 927(e)(2), 952(a)(3), or 995(b)(1)(F).

An IC-DISC whose tax year differs from the common taxable year of the controlled group of which it is a member does not need to amend its return to show on Schedule J (Form 1120-IC-DISC) the amount of IC-DISC benefits lost because of boycott participation. Since the IC-DISC benefits are lost at the shareholder level, the shareholder must include in

income the prorated share of income attributable to boycott operations shown on line 4a(3).

Line 3a(1).—Enter your share of the income of the controlled foreign corporation on line 3a(1).

Non-exempt foreign trade income of a foreign sales corporation (FSC) that was computed without regard to the administrative pricing rules is subject to the subpart F rules. Enter your share of these types of income on line 3a(1).

Line 4a(1).—Prorated share of section 995(b)(1)(F)(i) amount.—A noncorporate shareholder enters its share of the earnings and profits of the IC-DISC reduced by its share of the distributions under sections 995(b)(1)(A), (B), (C), (D), and (E) on line 4a(1). A corporate shareholder takes its share of the earnings and profits of the IC-DISC and reduces it by the distributions under sections 995(b)(1)(A), (B), (C), (D), and (E). It multiplies this amount by 16/17 and enters the result on line 4a(1).

* U.S.G.P.O.: 1986-491-473/20079

Appendix III
IRS Form 5713-International Boycott Report



Instructions for Form 5713

(Revised January 1986)

International Boycott Report

(Section references are to the Internal Revenue Code.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Reporting Operations, Boycott Requests, and Boycott Compliance.—Generally, persons having operations in or related to boycotting countries are required to report those operations, the receipt of boycott requests, and boycott agreements on Form 5713.

Tax Benefits Which May Be Lost.—If there is an agreement to participate in or cooperate with an international boycott, taxpayers may lose a portion of: the foreign tax credit (section 908(a)); deferral of taxation of earnings of controlled foreign corporations (section 952(a)(3)); deferral of taxation of IC-DISC income (section 995(b)(1)(F)(ii)); and exemption of foreign trade income of a FSC (section 927(e)(2)).

The loss of tax benefits must be reported on either Schedule A or B (Form 5713), on Schedule C (Form 5713) and on Form 1116 (Individuals), Form 1118 (Corporations), Form 5471, Form 1120-IC-DISC or Form 1120-FSC.

Foreign Sales Corporations (FSCs) and Interest-Charge Domestic International Sales Corporations (IC-DISCs).—Foreign Sales Corporations and Interest-Charge Domestic International Sales Corporations were added to the Code by the Tax Reform Act of 1984. These entities are subject to the international boycott provisions of section 999.

Foreign sales corporations that compute their foreign trade gross income by using the administrative pricing rules of section 923(a)(3) will lose all or a portion of their exemption if they participate in or cooperate with an international boycott. FSCs that do not use these pricing rules may lose all or a portion of their exemption if they participate in or cooperate with an international boycott. Additionally, the amount of non-exempt foreign trade income computed without regard to the administrative pricing rules is subject to the subpart F rules of sections 951-964. Accordingly, for FSCs that have this type of income and that are controlled foreign corporations, U.S. shareholders of the FSC will be treated the same as any other U.S. shareholder in a controlled foreign corporation. The benefits of deferral will be lost at the shareholder level.

IC-DISCs are, generally, treated in the same manner that Domestic International Sales Corporations were treated. Thus, if an IC-DISC participates in or cooperates with an international boycott, IC-DISC benefits will be lost at the shareholder level.

General Instructions

A. Who Must File.—Except as provided in instruction F, you must file Form 5713 if you:

1. have operations; or
2. are a member of a controlled group (as defined in section 993(a)(3)), a member of which has operations; or
3. are a United States shareholder (within the meaning of section 951(b)) of a foreign corporation that has operations, but only if you own (within the meaning of section 958(a)) stock of that foreign corporation; or

4. are a partner in a partnership that has operations; or
5. are treated under section 671 as the owner of a trust that has operations

in or related to a boycotting country or with the government, a company, or a national of a boycotting country. However, if you are not a United States person (as defined below), you need not file Form 5713 unless you claim the benefits of the foreign tax credit under section 901, own stock of an IC-DISC or are a FSC that has exempt foreign trade income.

U.S. Person.—A U.S. person includes: a citizen or resident of the United States; a domestic partnership; a domestic corporation; and any estate or trust (other than a foreign estate or foreign trust). (See section 7701(a)(30).)

B. When and Where to File.—File Form 5713 (including Schedules A, B, and C, if applicable) in duplicate when your tax return is due, including extensions. Send one copy to the Internal Revenue Service Center, Philadelphia, PA 19255, and attach the other copy to your income tax return.

C. Boycotting Country.—A boycotting country is any country which is on the list maintained by the Secretary of the Treasury under section 999(a)(3). The list currently (as of October 1, 1985) includes Bahrain, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, Yemen Arab Republic, and Peoples Democratic Republic of Yemen.

Also, any other country in which you (or a member of the controlled group of which you are a member) have operations and which you know or have reason to know requires any person to participate in or cooperate with an international boycott other than a boycott referred to in section 999(b)(4)(A), (B), or (C) (see instruction F) is a boycotting country.

D. Definition of "Operations."—The term "operations" encompasses all forms of business or commercial activities and transactions (or parts of transactions), whether or not productive of income, including, but not limited to: selling; purchasing; leasing; licensing; banking; financing; and similar activities; extracting; processing; manufacturing; producing; constructing; transporting; performing activities ancillary to the foregoing (e.g., contract negotiating, advertising, site selecting, etc.); and performing services, whether or not ancillary to the foregoing.

You are considered to have operations "in a boycotting country" if you have an operation that is carried on in whole or in part in a boycotting country.

You are considered to have operations "with the government, a company, or a national of a boycotting country" if you have an operation that is carried on outside a boycotting country either for or with the government, a company, or a national of a boycotting country.

You are considered to have operations "related to a boycotting country" if you have an operation that is carried on outside a boycotting country for the government, a company, or a national of a non-boycotting country if you know or have reason to know that specific goods or services produced by the operation are intended for use in a boycotting country, or for use by or for the benefit of, the government, a company, or a national of a boycotting country, or for use in forwarding or transporting to a boycotting country.

E. Boycott Requests.—A boycott request is any request to enter into an agreement that would constitute participation in or cooperation with an international boycott.

F. Special Filing Situations and Waivers Regarding Form 5713.

1. Controlled Groups.—If you are a member of a controlled group of corporations, you do not have to file Form 5713 if you joined in the filing of a consolidated income tax return and Form 5713 was filed on behalf of all members of the controlled group who joined in the filing of that return. If the consolidated return is not filed on your behalf, you must separately file Form 5713.

Also, you, as a member of a controlled group, do not have to file Form 5713 if, for your tax year, all four of the following conditions are met: (a) you have no operations in or related to a boycotting country (or with the government, a company, or a national of a boycotting country), and owned no stock, directly or indirectly, of any corporation having such operations; (b) you received no boycott request and owned no stock, directly or indirectly, of any corporation receiving such requests; (c) you are not entitled to (or you forfeit) any benefits of deferral, IC-DISC, FSC, or the foreign tax credit; and, (d) you attach to your income tax return a certificate signed by a person authorized to sign the tax return of the common parent of your group stating that Form 5713 was filed on your behalf.

2. Partners.—Generally, if you are a partner in a partnership that has operations in a boycotting country, you are required to file Form 5713.

However, if the partnership did not participate in or cooperate with an international boycott and filed Form 5713 with its Form 1065, then you need not file Form 5713 if you have no operations in or related to a boycotting country, or with the government, a company, or a national of a boycotting country other than the operations that are reported on the Form 5713 filed by the partnership.

3. U.S. Sanctioned Boycotts.—Section 999(b)(4)(A) permits you to meet the requirements imposed by a foreign country with respect to an international boycott if United States law or regulations, or an Executive Order, sanctions participation in or cooperation with that international boycott. You need not report operations that fall within this exception.

4. Prohibition on Importation and Exportation.—Although you may agree to comply with prohibitions on exportation or importation described in section 999(b)(4)(B) and section 999(b)(4)(C) without incurring tax sanctions, you must report the operations under such agreements on Form 5713.

5. Unsolicited Tender Invitations.—If you receive an unsolicited tender invitation which contains a request to participate in or cooperate with an international boycott, you do not have to report the request unless you respond to the invitation.

6. United States Subsidiary or Sister Corporation.—If you are required to file Form 5713 and you are a subsidiary or sister corporation of a foreign corporation that is not required to file Form 5713, you do not have to report the operations, boycott requests, and boycott participation or cooperation of that foreign corporation if you do not claim, or if you forfeit, the benefits of deferral, IC-DISC, FSC and the foreign tax credit attributable to: (a) operations related to boycotting countries in connection with which there was participation in or cooperation with an international boycott, and (b) operations in boycotting countries which you cannot clearly demonstrate are clearly separate and identifiable from operations in connection with which there was participation in or cooperation with an international boycott.

If the foregoing conditions are satisfied, and the only reason you are required to file Form 5713 is that your foreign sister or foreign parent has reportable operations in or related to a boycotting country (or with the government, a company, or a national of a boycotting country), then you need not file Form 5713.

Appendix III
IRS Form 5713-International Boycott Report

This waiver does not relieve you of your obligation to report the operations, boycott requests, and boycott participation or cooperation of yourself, of United States members of your controlled group, and of foreign corporations of which you are a U.S. shareholder. If you are required to report on behalf of a foreign corporation of which you are a U.S. shareholder, you must report all operations, boycott requests, and boycott participation or cooperation of that foreign corporation whether or not they are effectively connected with the conduct of a trade of business in the United States.

7. Foreign Corporations That Are Required to Report Because of U.S. Branch Operations.—If you are a foreign corporation engaged in operations in the U.S. through a branch and are required to file Form 5713, you do not have to report the operations, boycott requests, and boycott participation or cooperation of your non-U.S. parent, subsidiaries, or sister corporations and your own operations, boycott requests, and boycott participation or cooperation that do not relate to your U.S. branch if you do not claim, or if you forfeit, the benefits of deferral, DISC, FSC, and the foreign tax credit attributable to: (a) operations related to boycotting countries in connection with which there was participation in or cooperation with an international boycott; and (b) operations in boycotting countries which you cannot clearly demonstrate are clearly separate and identifiable from operations in connection with which there was participation in or cooperation with an international boycott.

If the foregoing conditions are satisfied, and neither your U.S. branch nor any U.S. member of your controlled group has operations in or related to a boycotting country (or with the government, a company, or a national of a boycotting country), then you need not file Form 5713.

This waiver does not relieve you of your obligation to report all operations, boycott requests, and boycott participation or cooperation of your U.S. branch and of all U.S. members of each controlled group of which you are a member.

Moreover, all the operations, boycott requests, and boycott participation or cooperation of your U.S. branch must be reported even if they relate to the branch's operations that are not effectively connected with a U.S. trade or business. Additionally, if you or any member of a controlled group of which you are a member engages in operations in the United States directly rather than through the U.S. branch, and those operations are also operations in or related to a boycotting country, or with the government, a company, or national of a boycotting country, then you must report those operations, as well as all boycott requests and boycott participation or cooperation relating to those operations.

G. International Boycott Factor and Specifically Attributable Taxes and Income.—If there is participation in or cooperation with an international boycott, you must compute the loss of tax benefits. You may either use the international boycott factor, or you may determine the taxes and income specifically attributable to boycott operations.

If you compute the loss of tax benefits by using the international boycott factor, complete Schedules A and C (Form 5713). If you determine taxes and income specifically attributable to boycott operations, complete Schedules B and C (Form 5713).

Schedules A, B, and C (Form 5713) need not be filed if there was no participation in or cooperation with an international boycott.

IC-DISCs and partnerships need not complete Schedule C. However, they must complete parts of both Schedules A and B, unless all

shareholders, or all partners, compute the loss of their tax benefits using the boycott factor exclusively, or the specifically identifiable taxes and income method exclusively. In such cases, the IC-DISC and the partnership need complete only parts of Schedule A or parts of Schedule B.

H. Penalties.—Willful Failure to Report.—The willful failure to file Form 5713 may result in fines of \$25,000, imprisonment for not more than one year, or both.

Specific Instructions

Common Taxable Year of Controlled Group.—The taxable year for a controlled group is the same as the common taxable year (from line 4b(3)).

1. Individuals.—Enter your adjusted gross income (e.g., for 1985, line 32, Form 1040).

2c. Partnerships and Corporations.—Enter your principal business activity code number and description. Page 4 of the instructions provides the code list of business activities for corporations and partnerships. Using this list, enter the code number for the specific industry group from which the largest percentage of "total receipts" was derived. On Forms 1120, 1120S, and 1120F, total receipts means gross receipts (Forms 1120 and 1120S, page 1, line 1a; and Form 1120F, page 3, line 1a) plus all other income (Forms 1120 and 1120S, page 1, lines 4 through 10; and Form 1120F, page 3, lines 4 through 10). For IC-DISCs, "total receipts" means all income (page 1, line 1, Form 1120-IC-DISC). See the instructions for Form 1120-IC-DISC for business activities of an IC-DISC. For partnerships, "total receipts" on Form 1065 means gross receipts (page 1, line 1a) plus all other income (page 1, lines 4 through 10). For FSCs, enter total of columns (a) and (b), line 6, Schedule B (Form 1120-FSC).

2d. IC-DISCs.—Enter the major product code number and description from Schedule N, Form 1120-IC-DISC, page 5. This is the code number for the major product or service (as measured by export gross receipts) sold or provided by the IC-DISC.

4b. Common Taxable Year Election.—In general, the common taxable year of the controlled group is the taxable year of the common parent. However, the members of the controlled group may elect the taxable year of any member of the group as the common taxable year. This election is made by entering the name, taxable year and employer identification number of the designated corporation on line 4b.

All members of a controlled group must consent, in writing, to the common taxable year election. A common parent may consent to the common taxable year election by filing a consolidated return. Foreign corporations which are members of a controlled group need not sign the consent if they are not required to report. However, if the foreign corporation subsequently becomes liable to report, then it is bound by the common taxable year election previously made by the group. A copy of the consent must be attached to each member's Form 5713 filed for the first taxable year of such member to which the common taxable year election applies. In the event no common parent exists and no consensus is reached by the members of the controlled group, the common taxable year of the group will be the taxable year of the member of the controlled group whose taxable year ends in the latest month of the calendar year. The taxable year election is a binding election and can be changed only with the approval of the Secretary of the Treasury.

4c(1). Corporations.—Enter the amount of total assets (e.g., for 1985 forms, enter):

- (a) Form 1120: Schedule L, line 14, column (d);
- (b) Form 1120-IC-DISC: Schedule L, line 3, column (b);
- (c) Form 1120F: Schedule L, line 14, column (d);
- (d) Form 1120S: Schedule L, line 14, column (d);
- (e) Form 1120L: From Form 1120L;
- (f) Form 1120M: Annual Statement, page 11, line 22 (sum of columns 1 and 2);
- (g) Form 1120-FSC: Schedule L, line 14, column (d).

4c(2). Corporations.—Enter the amount of taxable income before net operating loss and special deductions (e.g., for 1985 forms, enter):

- (a) Form 1120: Page 1, line 28;
- (b) Form 1120-IC-DISC: Page 1, line 5 (Taxable income before net operating loss deduction and dividends-received deduction);
- (c) Form 1120F: Page 3, line 29;
- (d) Form 1120S: Page 1, line 28 (Taxable income);
- (e) Form 1120L: From Form 1120L;
- (f) Form 1120M: Page 1, line 4 (Taxable income before unused loss deduction);
- (g) Form 1120-FSC: Schedule B, Part II, line 18.

6.—Enter the applicable amounts as follows:

- (a) Foreign tax credit before adjustment (e.g., line 6, Part III, Schedule B, Form 1118 (Rev. 10-85) (corporations)); or line 5, Part IV, Form 1116 (1985) (individuals);
- (b) Pro rata share of total income of controlled foreign corporation (line 20, Schedule C, Form 5471);
- (c) Pro rata share of section 995(b)(1)(F)(i) amount (pro rata share of line 8, Part I, Schedule J, Form 1120-IC-DISC);
- (d) Exempt foreign trade income of a FSC. Enter total of columns (a) and (b), line 10, Schedule B (Form 1120-FSC).

Questions 7 through 13.

Filers Who Are Not Members of a Controlled Group.—Your answers to questions 7-13 on Form 5713 must reflect your operations, boycott requests and boycott participation or cooperation for your tax year. In addition, if you are:

- (a) a United States shareholder of a foreign corporation; or
- (b) a partner in a partnership; or
- (c) treated under section 671 as the owner of a trust,

then your answers to questions 7-13 must also reflect the operations in or related to boycotting countries (or with the government, a company, or a national of a boycotting country), boycott requests, and boycott participation or cooperation of the foreign corporation, partnership, or trust.

When you report on behalf of a foreign corporation as a United States shareholder, report the foreign corporation's operations, boycott requests, and boycott participation or cooperation for the foreign corporation's tax year that ends with or within your tax year.

When you report on behalf of a partnership as a partner, report the partnership's operations, boycott requests, and boycott participation or cooperation for the partnership's tax year that ends with or within your tax year.

**Appendix III
IRS Form 5713-International Boycott Report**

When you report on behalf of a trust as its owner under section 671, report the trust's operations, boycott requests, and boycott participation or cooperation for your tax year.

filers Who Are Members of a Controlled Group of Corporations.—If you are a member of a controlled group of corporations, the answers to questions 7-13 on the Form 5713 filed by you for your tax year must reflect:

- (a) your operations, boycott requests, and boycott participation or cooperation (and those of any trust of which you are treated as the owner under section 671) for your tax year that ends with or within the common taxable year that ends with or within your tax year (see instruction 4b);
- (b) the operations, boycott requests, and boycott participation or cooperation of each other member of the controlled group (and those of any trust of which a member of the controlled group is treated as the owner under section 671) for each member's tax year that ends with or within the common taxable year that ends with or within your tax year;
- (c) the operations, boycott requests, and boycott participation or cooperation of each foreign corporation or partnership on whose behalf you are reporting as a United States shareholder or as a partner, for the tax year of the foreign corporation or the partnership that ends with or within your tax year that ends with or within the common taxable year that ends with or within your tax year; and
- (d) the operations, boycott requests, and boycott participation or cooperation of each foreign corporation or partnership on whose behalf a member (other than you) of the controlled group is reporting as a United States shareholder or as a partner, for the tax year of the foreign corporation or the partnership that ends with or within such member's tax year that ends with or within the common taxable year that ends with or within your tax year.

The net effect of these reporting requirements is that the answers to questions 7-13 generally are identical for each member of the controlled group and need only be updated on a group basis once a year. The information is updated at the close of the common taxable year, and is reported by each member of the group for its tax year that ends with or after the common taxable year. If the tax years of all members, foreign corporations, and partnerships coincide with the common taxable year, then all information is reported on a current basis.

If all tax years do not coincide, then all or some of the information reported will reflect a time period that is out of phase with the reporter's tax year.

Example.—Assume that Corporations A, B, C and D are all members of a controlled group. Corporation A is the common parent and no common taxable year election is made. Corporations A, B, and C report on the basis of a calendar year. Corporation D reports on the basis of a July 1-June 30 taxable year. Corporation C owns 15 percent of Foreign Corporation X. Corporation X reports on the basis of an April 1-March 31 tax year. Corporations A, B, C, D, and X have operations in boycotting countries. The answers to questions 7-13 on the Forms 5713 filed by Corporations A, B and C for their 1985 tax years will reflect the operations of Corporations A, B and C for the 1985 tax year, the operations of Corporation D for the period July 1, 1984-June 30, 1985, and the operations of Corporation X for the period April 1, 1984-March 31, 1985. The answers to questions 7-13

on the Form 5713 filed by Corporation D for its tax year ending June 30, 1986, will be identical to those on the Forms 5713 filed by Corporations A, B, and C for their taxable years ending December 31, 1985. Thus, the answers to questions 7-13 on the Form 5713 filed by Corporation D for its tax year ending June 30, 1986, will not reflect any of Corporation D's operations for its July 1, 1985-June 30, 1986 tax year.

Part I.—Operations in or Related to a Boycotting Country

8. Boycott of Israel.—Question 8 concerns operations in or related to countries on the Secretary's list of countries associated in the boycott of Israel (or with the governments, companies, or nationals of those countries). Use a separate line for each country or each person having operations in that country, but do not use separate lines for separate operations by the same person in the same country.

Column (2).—Enter the taxpayer identifying number of each person having operations in or related to any of the listed countries. Include the taxpayer identifying number of all members of your controlled group which have operations in or related to the listed countries.

Additionally, if you or a member of your controlled group is the United States shareholder of a foreign corporation which has operations in or related to the listed countries (or with the governments, companies, or nationals of those countries), enter your employer identification number or the employer identification number of the member of your group who is the United States shareholder, and in parentheses enter the name and employer identification number, if available, of the foreign corporation having the operation in or related to the listed countries.

Column (3).—Enter the principal business activity code number (see page 4) of the person having operations.

Column (4).—Enter a brief description of the principal business activity.

Column (5).—If you are an IC-DISC, enter the product code. (See instructions for Schedule N (Form 1120-IC-DISC).)

9. Non-Listed Countries Boycotting Israel.—If the answer to question 9 is "Yes," use the same procedure outlined in the instructions for question 8 for any nonlisted countries which you know or have reason to know require participation in or cooperation with the international boycott of Israel.

10. Boycotts of Countries Other Than Israel.—If the answer to question 10 is "Yes," use the same procedure outlined in the instructions for question 8 for any international boycott other than the boycott of Israel.

11. Boycott Requests.—If you receive a substantial number of similar requests, you may attach a copy of one of these requests and attach a statement stating the number and nature of all other requests received.

12. Boycott Agreements.—If a substantial number of boycott agreements were entered into or were effective for the period covered by the report, and the boycott clauses are similar, you may attach a sample boycott clause and attach a statement stating the number and general nature of all other boycott clauses and agreements entered into. An agreement to participate in or cooperate with an international boycott continues for the entire period for which it is in effect and must be reported every year that it is in effect. Thus, a boycott agreement that continues over a three year period must be reported as participation in or cooperation with an international boycott in each of those three years.

Part II.—Requests for and Acts of Participation in or Cooperation with an International Boycott

13a.—Check "Yes" for any requests received or agreements entered into or continuing in effect during the period covered by the report with respect to any international boycott not excluded in instruction F.3. If no requests were received and no agreements were entered into or were in effect, enter "No."

13b.—Use a separate line for each country, each person, and each type of participation or cooperation, but do not use separate lines for similar types of participation or cooperation by the same person in the same country.

Column (2).—Enter the taxpayer identifying number of the person receiving the request or having the agreement.

Column (3).—Enter the principal business activity code number (see page 4) of the person receiving the request or having the agreement.

Column (4).—Enter a brief description of the principal business activity of the person receiving the request or having the agreement (see page 4).

Column (5).—If you are an IC-DISC, enter the product code. (See the instructions for Schedule N (Form 1120-IC-DISC).)

Columns (6) and (8).—Enter in column (6) the total number of requests of the same type that were received by the same person in the same country. Enter in column (8) the total number of agreements of the same type that were entered into by the same person in the same country.

Column (7).—Enter the code number listed below which indicates the type of participation or cooperation requested.

Column (9).—Enter the code number listed below which indicates the type of participation or cooperation agreed to.

| Code Number | Type of Participation or Cooperation Requested or Agreed to |
|-------------|--|
| 01 | 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. |
| 02 | Refrain from doing business with any United States person engaged in trade in a country which is the object of the boycott or with the government, companies, or nationals of that country. |
| 03 | 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, or to remove (or refrain from selecting) corporate directors who are individuals of a particular nationality, race, or religion. |
| 04 | Refrain from employing individuals of a particular nationality, race, or religion. |
| 05 | 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. |

**Appendix III
IRS Form 5713-International Boycott Report**

Codes for Principal Business Activity

These industry titles and definitions are based, in general, on the Standard Industrial Classification System authorized by the Regulatory and Statistical Analysis Division, Office of Information and Regulatory Affairs, Office of Management and Budget, to classify enterprises by type of activity in which they are engaged.

Using the list below, enter the code for the specific industry group from which the largest percentage of "total receipts" is derived. For an explanation of the procedure used to determine total receipts, see instructions for line 2c.

| AGRICULTURE, FORESTRY, AND FISHING | Code | RETAIL TRADE |
|---|---|--|
| Code 0400 Agricultural production 0600 Agricultural services, forestry, fishing, hunting, and trapping. | Rubber and misc. plastics products: 3050 Rubber products; plastics footwear, hose and belting. 3070 Misc. plastics products. | Code Building materials, hardware, garden supply, and mobile home dealers: 5220 Building materials dealers 5251 Hardware stores 5265 Garden supplies and mobile home dealers 5300 General merchandise stores 5400 Food stores. |
| <p align="center">MINING</p> Metal mining: 1010 Iron ores. 1070 Copper, lead and zinc, gold and silver ores 1098 Other metal mining. 1150 Coal mining. Oil and gas extraction: 1330 Crude petroleum, natural gas, and natural gas liquids. 1380 Oil and gas field services. Nonmetallic minerals (except fuels) mining: 1430 Dimension, crushed and broken stone; sand and gravel. 1498 Other nonmetallic minerals, except fuels. | Leather and leather products: 3140 Footwear, except rubber. 3198 Other leather and leather products. Stone, clay, glass, and concrete products: 3225 Glass products. 3240 Cement, hydraulic. 3270 Concrete, gypsum, and plaster products. 3298 Other nonmetallic mineral products. Primary metal industries: 3370 Ferrous metal industries; misc. primary metal products. 3380 Nonferrous metal industries. Fabricated metal products, except machinery and transportation equipment: 3410 Metal cans and shipping containers. 3428 Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products. 3430 Plumbing and heating, except electric and warm air. 3440 Fabricated structural metal products. 3460 Metal forgings and stampings. 3470 Coating, engraving, and allied services. 3480 Ordnance and accessories, except vehicles and guided missiles. 3490 Misc. fabricated metal products. | Automotive dealers and service stations: 5515 Motor vehicle dealers. 5541 Gasoline service stations. 5598 Other automotive dealers. 5600 Apparel and accessory stores. 5700 Furniture and home furnishings stores. 5800 Eating and drinking places. Misc. retail stores: 5912 Drug stores and proprietary stores. 5921 Liquor stores. 5995 Other misc. retail stores. |
| <p align="center">CONSTRUCTION</p> General building contractors and operative builders: 1510 General building contractors. 1531 Operative builders. Heavy construction contractors: 1611 Highway and street construction. 1620 Heavy construction, except highway. Special trade contractors: 1711 Plumbing, heating, and air conditioning 1721 Painting, paperhanging, and decorating 1731 Electrical work. 1740 Masonry, stonework, and plastering 1750 Carpentry and flooring 1761 Roofing and sheet metal work. 1771 Concrete work. 1781 Water well drilling. 1790 Miscellaneous special trade contractors. | Machinery, except electrical: 3520 Farm machinery. 3530 Construction, mining, and materials handling machinery and equipment. 3540 Metalworking machinery. 3550 Special industry machinery, except metalworking machinery. 3560 General industrial machinery. 3570 Office, computing, and accounting machines 3598 Engines and turbines, service industry machinery, and other machinery, except electrical. Electrical and electronic machinery, equipment and supplies: 3630 Household appliances. 3665 Radio, television, and communication equipment. 3670 Electronic components and accessories. 3698 Other electric equipment. | <p align="center">FINANCE, INSURANCE, AND REAL ESTATE</p> Banking: 6030 Mutual savings banks. 6060 Bank holding companies. 6090 Banks, except mutual savings banks and bank holding companies. Credit agencies other than banks: 6120 Savings and loan associations 6140 Personal credit institutions. 6150 Business credit institutions. 6199 Other credit agencies. Security, commodity brokers, dealers, exchanges, and services: 6210 Security brokers, dealers, and flotation companies. 6299 Commodity contracts brokers and dealers; security and commodity exchanges, and allied services. |
| <p align="center">MANUFACTURING</p> Food and kindred products: 2010 Meat products. 2020 Dairy products. 2030 Preserved fruits and vegetables. 2040 Grain mill products. 2050 Bakery products. 2060 Sugar and confectionery products. 2081 Malt liquors and malt. 2088 Alcoholic beverages, except malt liquors and malt. 2089 Bottled soft drinks, and flavorings. 2096 Other food and kindred products. 2100 Tobacco manufacturers. Textile mill products: 2228 Weaving mills and textile finishing 2250 Knitting mills. 2298 Other textile mill products. Apparel and other textile products: 2315 Men's and boy's clothing. 2345 Women's and children's clothing. 2388 Hats, caps, millinery, fur goods, and other apparel and accessories. 2390 Misc. fabricated textile products. Lumber and wood products, except furniture: 2415 Logging camps and logging contractors, sawmills and planing mills. 2430 Millwork, plywood, and related products. 2498 Other wood products, including wood buildings and mobile homes. 2500 Furniture and fixtures. Paper and allied products: 2625 Pulp, paper, and board mills. 2699 Other paper products. Printing, publishing, and allied industries: 2710 Newspapers. 2720 Periodicals. 2735 Books, greeting cards, and misc. publishing. 2799 Commercial and other printing, and printing trade services. Chemicals and allied products: 2815 Industrial chemicals, plastics materials and synthetics. 2830 Drugs. 2840 Soap, cleaners, and toilet goods. 2850 Paints and allied products. 2898 Agricultural and other chemical products. Petroleum refining and related industries (including those integrated with extraction): 2910 Petroleum refining (including those integrated with extraction). 2998 Other petroleum and coal products. | 3710 Motor vehicles and equipment. 3725 Aircraft, guided missiles and parts. 3730 Ship and boat building and repairing. 3798 Other transportation equipment. Measuring and controlling instruments; photographic and medical goods, watches and clocks: 3815 Scientific instruments and measuring devices; watches and clocks. 3845 Optical, medical, and ophthalmic goods. 3860 Photographic equipment and supplies. 3998 Other manufacturing products. | Insurance: 6355 Life insurance. 6356 Mutual insurance, except life or marine and certain fire or flood insurance companies. 6399 Other insurance companies. 6411 Insurance agents, brokers, and services. Real Estate: 6511 Real estate operators (except developers) and lessors of buildings. 6516 Lessors of mining, oil, and similar property 6518 Lessors of railroad property and other real property. 6530 Condominium management and cooperative housing associations. 6550 Subdividers and developers. 6599 Other real estate. Holding and other investment companies: 6742 Regulated investment companies. 6743 Real estate investment trusts. 6744 Small business investment companies. 6749 Holding and other investment companies, except bank holding companies. |
| <p>Page 4</p> | <p align="center">TRANSPORTATION, COMMUNICATION, ELECTRIC, GAS, AND SANITARY SERVICES</p> Transportation: 4000 Railroad transportation. 4100 Local and interurban passenger transit. 4200 Trucking and warehousing. Other transportation including transportation services: 4400 Water transportation. 4500 Transportation by air. 4722 Passenger transportation arrangement. 4723 Freight transportation arrangement. 4799 Other transportation services. Communications: 4825 Telephone, telegraph, and other communication services. 4830 Radio and television broadcasting. Electric, gas, and sanitary services: 4910 Electric services. 4920 Gas production and distribution. 4930 Combination utility services. 4990 Water supply and other sanitary services. | <p align="center">SERVICES</p> 7000 Hotels and other lodging places. 7200 Personal services. Business services: 7310 Advertising. 7340 Services to buildings. 7370 Computer and data processing services. 7392 Management, consulting, and public relations services. 7394 Equipment rental and leasing. 7398 Other business services. Auto repair and services; misc. repair services: 7500 Auto repair and services. 7600 Misc. repair services. Amusement and recreational services: 7812 Motion picture production, distribution, and services. 7830 Motion picture theaters. 7900 Amusement and recreation services, except motion pictures. Other services: 8015 Offices of physicians, including osteopathic physicians. 8021 Offices of dentists. 8090 Nursing and personal care facilities. 8071 Medical laboratories. 8099 Other medical services. 8111 Legal services. 8200 Educational services. 8911 Engineering and architectural services. 8932 Certified public accountants. 8933 Other accounting, auditing, and bookkeeping services. 8999 Other services, not elsewhere classified. |
| <p>Page 4</p> | <p align="center">WHOLESALE TRADE</p> Durable: 5008 Machinery, equipment, and supplies. 5010 Motor vehicles and automotive equipment. 5030 Lumber and construction materials. 5050 Metals and minerals, except petroleum and scrap. 5060 Electric goods. 5098 Hardware, plumbing and heating equipment. 5098 Other durable goods. Nondurable: 5110 Paper and paper products. 5129 Drugs, chemicals, and allied products. 5130 Apparel, piece goods, and notions. 5140 Groceries and related products. 5150 Farm-product raw materials. 5170 Petroleum and petroleum products. 5180 Alcoholic beverages. 5190 Misc. nondurable goods. | <p align="center">* U.S.G.P.O. 1986-491-473/20068</p> |

Major Contributors to This Report

**General Government
Division, Washington,
D.C.**

Jose Oyola, Assistant Director, Tax Policy and Administration Issues
Galen van Rensselaer, Evaluator
Susan Baker, Information Processing Assistant
Dorothy Maxwell, Clerk-Typist

**Philadelphia Regional
Office**

Alan Bennett, Evaluator-in-Charge

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