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GAO

Report to the Honorable Byron L. Dorgan, U.S. Senate

March 1999

TAX ADMINISTRATION

Foreign- and U.S.-Controlled Corporations That Did Not Pay U.S. Income Taxes, 1989-95

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GAO

United States
General Accounting Office
Washington, D.C. 20548

General Government Division

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March 23, 1999

The Honorable Byron L. Dorgan
United States Senate

Dear Senator Dorgan:

Based on your long-standing concerns about whether foreign-controlled corporations (FCC) are abusing transfer prices and not paying income tax, you asked us to update our 1995 work on the nonpayment of U.S. income taxes by FCCs and U.S.-controlled corporations (USCC).[1] This report provides (1) comparisons of the percentages of FCCs and USCCs that filed income tax returns showing no tax liabilities for 1989 through 1995, the latest years for which data were available, and (2) comparisons of selected characteristics, including age, industrial sector, and certain cost ratios, of large corporations—those with assets of $250 million or more or gross receipts of $50 million or more.

Our 1995 report and studies by others have suggested that differences in characteristics between FCCs and USCCs may partially explain the difference in their profitability. As in our 1995 report, we focused most of our work on large corporations because large FCCs accounted for more than 80 percent of the assets owned and gross receipts generated by nontaxpaying FCCs.

The data on taxes paid were obtained from corporate tax returns, as filed, and did not reflect IRS audit results or any net operating loss carrybacks from future years. We did not attempt to determine whether the corporations were abusing transfer prices. As agreed with your office, we plan to conduct a separate review of advance pricing agreements, one of the approaches the Internal Revenue Service (IRS) uses to resolve transfer pricing disputes.

Results in Brief

In each year between 1989 and 1995, a majority of corporations, both foreign- and U.S.-controlled, paid no U.S. income tax. Among large corporations, the percentage of FCCs that paid no tax exceeded that for USCCs from 1989 through 1993. In 1994, the difference between the two groups was not statistically significant, and in 1995, the percentage of large

[1]For purposes of this report, a corporation is an FCC if foreign individuals or entities own at least 50 percent of its voting stock. Transfer prices are prices used in transactions between affiliated corporations. Our previous related reports are: International Taxation: Transfer Pricing and Information on Nonpayment of Tax (GAO/GGD-95-101, Apr. 13, 1995) and International Taxation: Taxes of Foreign- and U.S.-Controlled Corporations (GAO/GGD-93-112FS, June 11, 1993).

FCCs that paid no U.S. income tax was slightly less than that of large USCCs. However, there are other ways to compare FCCs and USCCs. For example, in 1995, large FCCs paid $8.31 of tax per $1,000 in gross receipts, significantly less than the $15.58 paid by large USCCs.

Differences in the characteristics of large FCCs and USCCs may account for part of the differences in the amount of taxes paid by the two groups. One difference was the percentage of new corporations—those 3 years old or less—in each group. The IRS data we reviewed indicate that newer corporations were less likely than older corporations to pay taxes. From 1989 to 1993, a greater percentage of large FCCs than large USCCs were new, but from 1994 to 1995, a greater percentage of large USCCs than large FCCs were new.

Another significant difference between large FCCs and large USCCs was in their distribution across industrial sectors. In 1995, in comparison to large USCCs, large FCCs were more heavily concentrated in the manufacturing and wholesale trade sectors and less concentrated in the financial services sector. Aggregate ratios of costs to receipts for all large corporations differed significantly across industrial sectors. The difference in cost ratios across industries, combined with the fact that large FCCs and USCCs were concentrated in different industries, could account for some of the difference in the amount of taxes that large FCCs paid per dollar of receipts and that large USCCs paid. The ratio of taxable income per dollar of receipts should be inversely related to the ratio of costs per dollar of receipts.

Background

According to IRS data, about 60,000 FCCs and about 2.3 million USCCs filed income tax returns in 1995.[2] FCCs and USCCs may not pay U.S. income tax for a variety of reasons. For instance, some corporations may have zero tax liabilities because of current-year operating losses; losses carried forward from preceding tax years; or sufficient tax credits available to offset tax liabilities. Other corporations may report no taxable income because of the improper pricing of intercompany transactions. Any company that has a related company with which it transacts business needs to establish transfer prices for those intercompany transactions. The pricing of intercompany transactions affects the distribution of profits and ultimately the taxable income of the companies.

[2]We excluded from this study's scope certain entities, such as subchapter S corporations, which are corporations that are treated similarly to partnerships for federal income tax purposes.

Research efforts have attempted to explain why, on average, USCCs appear to be more profitable than FCCs.[3] Some researchers have concluded that part of the difference is attributable to differences in the characteristics of FCCs and USCCs, while acknowledging that transfer price abuses may also explain some of the difference.

The 1997 study, for example, focused on why FCCs tended to report a lower ratio of net income to gross receipts—a measure of profitability—than USCCs did. According to this study, differences in investment income, industrial classification, age, and amount of interest expense explain much of the difference in the profitability between FCCs and USCCs. That study also found that corporations whose largest foreign shareholders owned only 25 to 50 percent of the corporations' stock had low profitability, which was similar to corporations that were 100-percent owned by a single foreign shareholder. The author suggested that, if income-shifting through transfer price abuses were an important factor in explaining the differences in profitability across corporations, then one would expect single shareholder corporations to be less profitable because they would seem to have less difficulty in shifting income between affiliates. We were unable to identify any studies that were able to control for all potential factors, other than transfer price abuse, that may explain the difference in profitability.

Scope and Methodology

To meet our objectives, we obtained data from IRS' Statistics of Income (SOI) Division on corporate tax returns for 1989 through 1995. We used these data to determine the percentages of corporations that did not pay taxes in each year and to obtain information about their characteristics. We did not audit the SOI data; however, we conducted reliability tests to ensure the consistency of the data with selected FCC and USCC corporate statistics published by the SOI Division.

In this report, we defined a corporation as being large if its reported total assets in tax year 1995 were at least $250 million or its reported gross receipts totaled at least $50 million. For years preceding tax year 1995, we deflated the $250 million asset and $50 million receipt definition of large corporate size by the gross domestic product price deflator for those years. We made this adjustment in the dollar magnitude of the definition because changing price levels, over time, alter the purchasing power of gross receipts and assets.

[3] Harry Grubert, "Another Look at the Low Taxable Income of Foreign-Controlled Companies in the United States," Tax Notes International (Dec. 8, 1997), pp. 1,873-97; and David S. Laster and Robert N. McCauley, "Making Sense of the Profits of Foreign Firms in the United States," Federal Reserve Bank of New York Quarterly Review (Summer-Fall 1994).

Our report also compares "new" and "older" corporations. New corporations are those whose income tax returns showed incorporation dates within 3 years of the tax year date. For example, for tax year 1995, new corporations are those with incorporation dates no earlier than 1993. Other corporations are "older" corporations. A limitation on the precision of our comparison between "new" versus "older" FCCs and USCCs is that the definition of "new" relies on the dates of incorporation indicated on corporate tax returns. In some cases, corporations that merge may also reincorporate under a new corporate name. While the "new" entity may represent the combination of two mature corporations, our definition would count them as one "new" corporation.

The SOI data in this report are based on SOI's probability sample of taxpayer returns and thus are subject to some imprecision owing to sampling variability. Using SOI's sampling weights, we estimated confidence intervals for the percentage of nontaxpaying FCCs and USCCs for tax years 1989 through 1995.

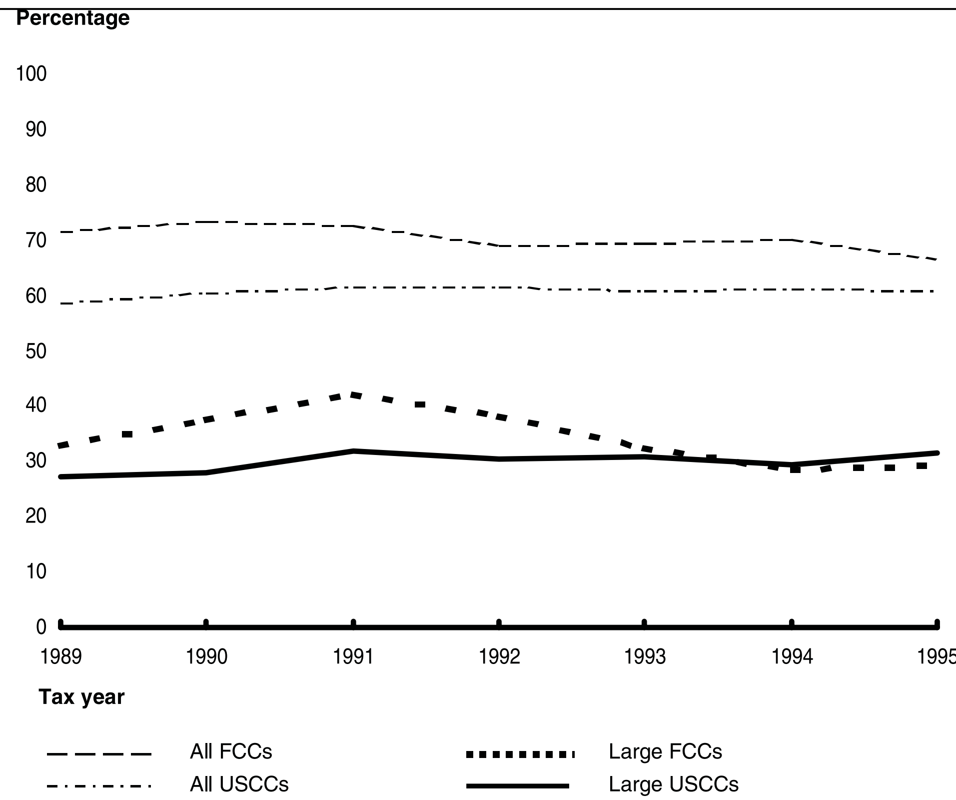
We requested comments on a draft of this report from the Commissioner of Internal Revenue and the Director of the Department of the Treasury's Office of Tax Analysis. IRS and Treasury's comments are discussed near the end of this letter. We did our review from July through December 1998 in accordance with generally accepted government auditing standards.

FCCs Were Less Likely Than USCCs to Pay U.S. Income Tax

In each year from 1989 through 1995, a majority of corporations, both foreign- and U.S.-controlled, paid no U.S. income tax. However, in each of these years, a higher percentage of FCCs than USCCs paid no taxes. The percentage of FCCs not paying taxes ranged from 67 percent to 73 percent during those years, while the percentage of USCCs not paying taxes ranged from 59 to 62 percent, as shown in figure 1 and appendix I, table I.1.

Large corporations, both FCCs and USCCs, were more likely to pay taxes than smaller corporations. Among large corporations, the percentage of FCCs that paid no tax exceeded that for USCCs from 1989 to 1993. However, in 1994, the difference between the two groups was not statistically significant, and in 1995, the percentage of large FCCs that paid no U.S. income tax was slightly less than that of large USCCs. In 1989, 33 percent of large FCCs and 27 percent of large USCCs paid no tax, while in 1995, 29 percent of large FCCs and 32 percent of large USCCs paid no tax. (See fig. 1 and app. I, table I.2.)

Figure 1: Trend in the Percentage of Corporations That Paid No U.S. Income Taxes, 1989-95



Note: Data presented are based on the number of corporate income tax returns filed with IRS in the indicated year. Large FCCs or USCCs are those with assets of at least $250 million or gross receipts of at least $50 million in constant 1995 dollars.

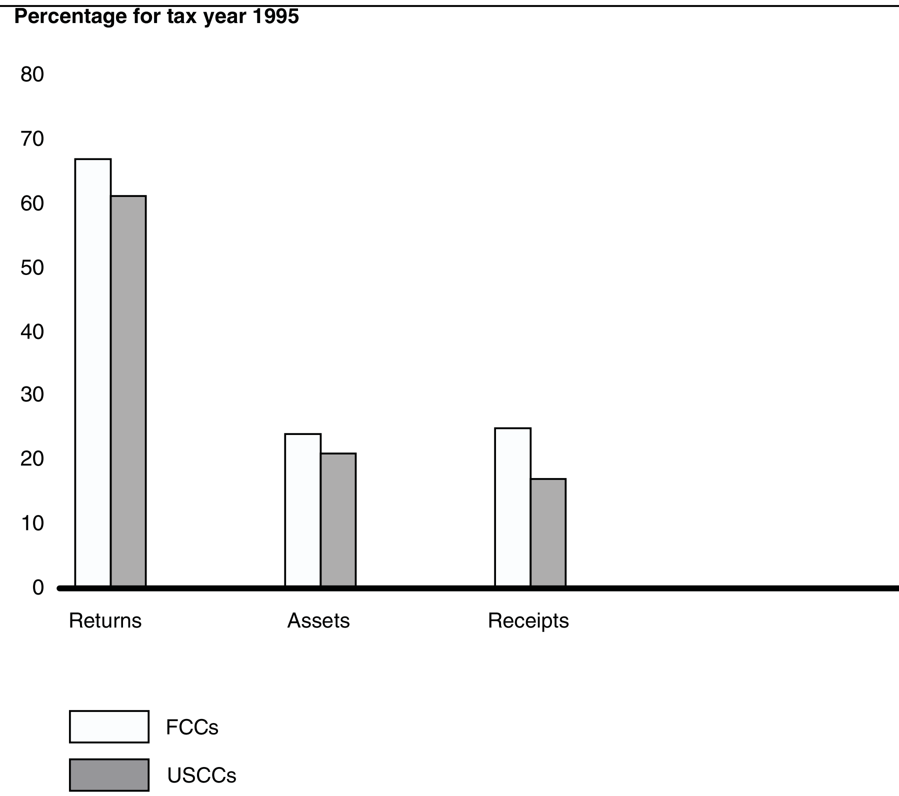
Source: GAO compilation of IRS data.

Nontaxpaying Corporations Accounted for a Smaller Share of Total Assets and Receipts Than Taxpaying Corporations

Although nontaxpaying corporations, both foreign- and U.S.-controlled, were the majority of all corporations that filed tax returns in 1995, they accounted for well under half of all corporate assets and receipts. The 67 percent of FCCs that paid no federal income tax in 1995 accounted for 24 percent of the assets and 25 percent of the gross receipts of all FCCs in that year, as shown in figure 2.

Similarly, the 61 percent of USCCs that paid no U.S. income tax in 1995 accounted for 21 percent of the assets owned by all USCCs and 17 percent of their receipts. (See also, table I.3. in app. I.)

Figure 2: Nontaxpaying Corporations' Percentage of Tax Returns, Assets, and Receipts, 1995



Note: Percentages are the ratio of nontaxpaying FCC or USCC returns filed, total assets, and gross receipts to all FCC or USCC returns, assets, and receipts.

Source: GAO compilation of IRS data.

Large Corporations Accounted for Most of the Assets of Nontaxpaying FCCs and USCCs

Large nontaxpaying FCCs and USCCs filed a small percentage of all returns filed by nontaxpaying corporations, yet they accounted for most of the assets of those corporations in 1995. Specifically, large nontaxpaying FCCs made up about 2 percent of all nontaxpaying FCCs but accounted for 84 percent of the assets of all nontaxpaying FCCs. Similarly, large nontaxpaying USCCs made up only about four-tenths of 1 percent of all nontaxpaying USCCs, yet they accounted for 80 percent of all nontaxpaying USCC assets. Also in 1995, large nontaxpaying FCCs accounted for 86 percent of the receipts generated by all nontaxpaying FCCs, while large nontaxpaying USCCs accounted for 48 percent of the receipts generated by all nontaxpaying USCCs. (See fig. I.1 in app. I.) The concentration of assets and receipts in the large nontaxpaying FCCs and USCCs was similar during the earlier years of our study period. This concentration was not unique to nontaxpaying corporations; taxpaying corporations were similarly concentrated.

Large FCCs Paid Less Income Tax Relative to Gross Receipts Than Large USCCs in 1995

Other ways to compare large FCCs and USCCs include examining (1) the percentage of large FCCs and USCCs that paid relatively little tax and (2) the taxes paid relative to gross receipts by large corporations, as shown in table 1. In 1995, the percentage of large FCCs and USCCs that paid less than $100,000 in tax was 42 percent for FCCs and 40 percent for USCCs. In 1995, large FCCs, as a whole, paid significantly less tax per $1,000 in gross receipts than did large USCCs, despite the fact that a greater percentage of large USCCs paid no tax. The reason for this is that the large FCCs that paid relatively little or no tax had significantly greater average gross receipts than did the large USCCs that paid little or no tax.

Table 1: Profile of Large FCCs and USCCs by Amount of Income Taxes Paid, 1995

Distribution by income tax paid	Number of returns	Percent of returns	Average: Gross receipts (millions)	Average: Income taxes paid (thousands)	Taxes paid per $1,000 receipts
Large FCCs					
No tax paid	812	29.4	$408	0	[a]
$1 or more but less than $100,000	341	12.3	172	$37	$0.22
$100,000 or more but less than $1 million	609	22.0	217	442	2.04
$1 million or more	1,005	36.3	873	11,294	12.94
Total	**2,767**	**100.0**	**$506**	**$4,204**	**$8.31**
Large USCCs					
No tax paid	4,843	31.5	$176	0	[a]
$1 or more but less than $100,000	1,242	8.1	133	$40	$0.30
$100,000 or more but less than $1 million	3,427	22.3	143	443	3.09
$1 million or more	5,851	38.1	1,110	21,033	18.96
Total	**15,363**	**100.0**	**$521**	**$8,112**	**$15.58**

Note: Columns may not sum to totals because of rounding.

[a]Data not applicable.

Source: GAO compilation of IRS data.

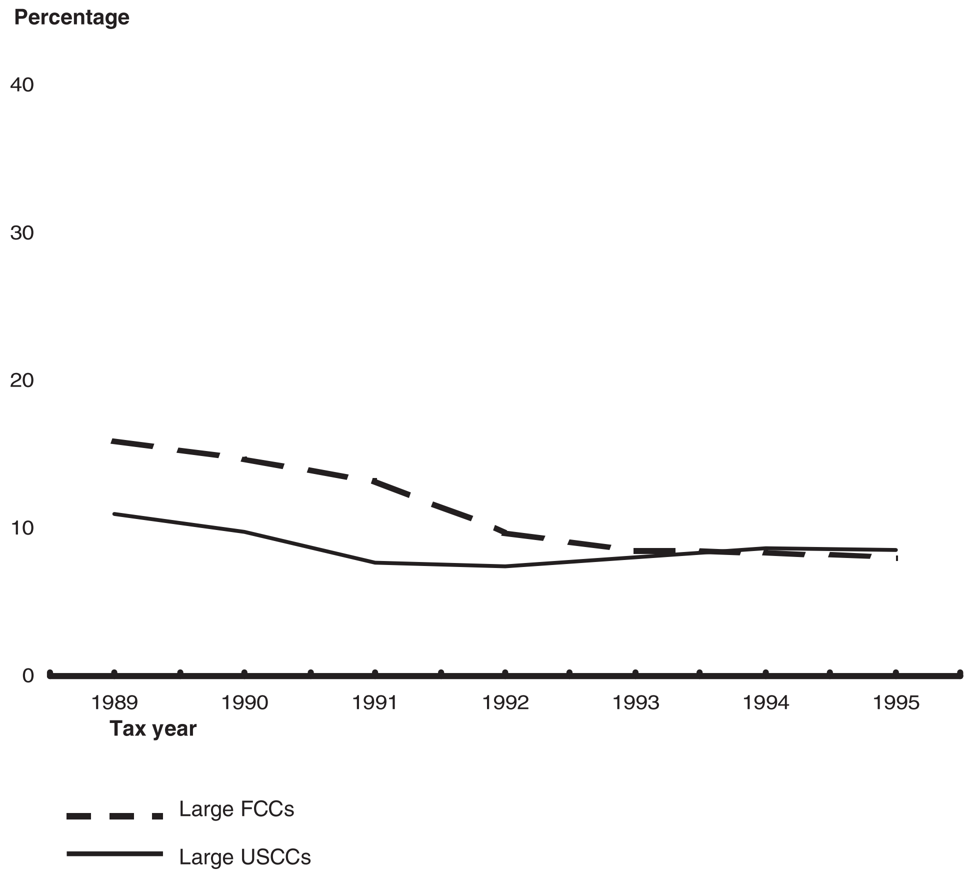
An earlier study of the relative profitability of FCCs and USCCs suggested that the lower relative age of FCCs partially explained their lower reported profitability.[4] That study also showed that the reported profitability of both FCCs and USCCs varied across industrial sectors.

Age Differences Between Large FCCs and USCCs

From 1989 to 1993, a greater percentage of large FCCs than large USCCs were new (i.e., incorporated for 3 years or less). However, as shown in figure 3, this relationship was reversed for 1994 and 1995, and although not statistically significant, the percentage of new large USCCs exceeded the percentage of new large FCCs. This change could explain, in part, why the percentage of nontaxpaying large FCCs declined relative to the percentage of nontaxpaying large USCCs over the same time period.

[4]Grubert, 1997, p. 1,880 (table 3, cols. 2 and 4) and p. 1,883 (table 6, cols. 1 and 2).

Figure 3: Trend in Percentages of Large FCCs and USCCs That Are New



Source: GAO compilation of IRS data.

The IRS data that we examined for tax years 1989-95 also showed that, in each of those years, the percentage of new large corporations paying no tax exceeded the percentage of older large corporations paying no tax. This relationship held for large FCCs, large USCCs, and all large corporations together. (See table I.4 in app. I.)

The Industrial Profile of Large FCCs Differed From That of Large USCCs

Large FCCs were more heavily concentrated in the manufacturing and wholesale trade sectors and less heavily concentrated in the financial services sector than were large USCCs. These differences in industrial concentration were found whether one compared large nontaxpaying FCCs to large nontaxpaying USCCs or all large FCCs to all large USCCs. Table 2 shows these comparisons for 1995.

Table 2: Percentage Distribution of Large FCCs and USCCs by Major Industry, 1995

	Large FCCs		Large USCCs	
Industry	**Nontaxpaying**	**All**	**Nontaxpaying**	**All**
Manufacturing	37.8	40.8	14.9	24.6
Wholesale trade	24.7	26.8	7.2	12.4
Financial services	15.8	13.5	54.8	32.4
Nonfinancial services	7.8	7.0	7.0	8.1
Retail trade	4.8	4.2	8.5	12.1
Other[a]	9.1	7.6	7.6	10.5
Total	**100.0**	**100.0**	**100.0**	**100.0**

Note: Columns may not sum to 100 because of rounding.

[a]Other includes transportation and public utilities; mining; construction; agriculture, forestry, and fishing; and other trades.

Source: GAO compilation of IRS data.

Cost Ratios Varied Significantly Across Industries

The ratios of the costs of goods sold and other costs to receipts varied significantly across industries, which could account for some of the difference between the amount of taxes that large FCCs paid per dollar of receipts and the amount that large USCCs paid. The ratio of taxable income per dollar of receipts should be inversely related to the ratio of costs per dollar of receipts. Corporations in the manufacturing, wholesale trade, and retail trade industries, on average, had significantly higher ratios of costs of goods sold to receipts than corporations in the financial and nonfinancial service industries. The largest component of costs of goods sold is purchases from other businesses, which, as table 3 on p. 10 indicates, are relatively unimportant for the two service industries.

In contrast, corporations in the financial services industry, on average, had significantly higher ratios of interest expenses to receipts. This pattern of differences in cost ratios across industries was similar for both all large FCCs and all large USCCs. The pattern also was similar for large nontaxpaying FCCs and USCCs, with one exception: the ratio of interest expenses to receipts for nontaxpaying USCCs in the financial services sector was not significantly higher than that for nontaxpaying USCCs overall. (See table I.5 in app. I.)

Wholesale trade, the industry with the highest ratio of costs of goods sold to receipts, had the lowest ratio of taxes paid to receipts, while financial services, the industry with the lowest ratio of costs of goods sold to receipts, had the highest ratio of taxes paid to receipts among the major industries. These relationships were similar for both large FCCs and large USCCs. The fact that a significantly larger percentage of all large USCCs were in the financial services industry and a significantly smaller percentage of them were in the wholesale trade industry (compared to large FCCs) may, in part, explain why the aggregate ratio of taxes paid to receipts, shown in table 3, was significantly higher for USCCs. Nevertheless, within each industry, the ratio of taxes paid to receipts was higher for large USCCs than for large FCCs in 1995. Moreover, in every major industry except the financial services industry, a greater percentage of large FCCs than large USCCs paid no tax at all for all the years that we examined. (See tables I.6 through I.8 in app. I.)

Table 3: Cost, Tax, and Other Ratios for Large FCCs and USCCs by Industry, 1995

Industry	Cost of goods sold as a % of receipts	Purchases as a % of receipts	Interest as a % of receipts	Taxes as a % of receipts	% of corporations in industry paying no tax
All large FCCs	**65.4**	**49.9**	**6.2**	**0.8**	**29.4**
Manufacturing	65.6	48.5	3.9	1.0	27.2
Wholesale trade	82.3	76.3	2.2	0.4	27.0
Financial services	30.5	1.6	24.9	1.4	34.3
Nonfinancial services	38.6	12.0	10.2	0.7	32.4
Retail trade	71.0	69.4	1.4	0.6	33.9
Other[a]	64.0	32.1	3.9	0.8	35.2
All large USCCs	**52.8**	**32.0**	**6.5**	**1.6**	**31.5**
Manufacturing	62.5	38.9	3.5	1.4	19.2
Wholesale trade	83.3	80.6	2.0	0.6	18.4
Financial services	29.2	1.1	17.6	2.1	53.4
Nonfinancial services	32.0	8.2	3.1	1.4	27.2
Retail trade	68.0	65.6	1.8	0.9	22.2
Other[a]	38.9	11.4	5.6	2.3	22.7

Note: All estimates in the first three columns have sampling errors of (+/-) 2 percent or less. All estimates in the fourth column have sampling errors of (+/-) 0.7 percent or less. All estimates in the last column have sampling errors of (+/-) 5 percent or less.

[a]Other includes transportation and public utilities; mining; construction; agriculture, forestry, and fishing; and other trades.

Source: GAO compilation of IRS data.

The data in table 3 do not reveal any logical relationships across industries between (1) the ratios of either costs or taxes paid to receipts and (2) the percentage of corporations paying tax in each industry. For example, even though corporations in the financial services industry, on average, had the lowest ratio of costs of goods sold to receipts and the highest ratio of taxes paid to receipts, a higher percentage of corporations in that industry paid no tax compared with all the other industries.

Agency Comments

We requested comments on a draft of this report from the Commissioner of Internal Revenue and the Director of the Department of the Treasury's Office of Tax Analysis. On March 8, 1999, we received comments prepared by IRS' Chief Operations Officer through the Office of the National Director for Legislative Affairs. The Director of the Office of Tax Analysis and his staff provided comments in a February 25, 1999, meeting.

Both IRS and Treasury were in overall agreement with the draft report. Both elaborated on issues we had raised, and both provided some technical comments, which we incorporated where appropriate.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to Senator William V. Roth, Jr., Chairman, and Senator Daniel Patrick Moynihan, Ranking Minority Member, Senate Committee on Finance; Representative Bill Archer, Chairman, and Representative Charles B. Rangel, Ranking Minority Member, House Committee on Ways and Means; Representative Amo Houghton, Chairman, and Representative William J. Coyne, Ranking Minority Member, Subcommittee on Oversight, House Committee on Ways and Means; and other interested congressional committees. We will also send copies to The Honorable Robert E. Rubin, Secretary of the Treasury; The Honorable Charles O. Rossotti, Commissioner of Internal Revenue; and other interested parties. Copies will also be made available to others upon request.

This report was prepared under the direction of Charlie W. Daniel, Assistant Director. Other major contributors are listed in appendix II. If you have any questions, please call Mr. Daniel or me on (202) 512-9110.

Sincerely yours,

James R. White

James R. White
Director, Tax Policy and
Administration Issues

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Figure I.1: Corporate Returns, Assets, and Receipts for Large Nontaxpaying FCCs and USCCs as a Percentage of All Nontaxpaying FCCs and USCCs, 1995 15

Abbreviations

FCC	Foreign-controlled corporations
IRS	Internal Revenue Service
SOI	Statistics of Income
USCC	U.S.- controlled corporations

Statistical Compendium

The tables and figure in this statistical compendium supplement those in the letter. All the values were obtained from IRS' SOI corporate data files for tax years 1989-95.[1]

Table I.1: Number and Percent of Returns for All Nontaxpaying FCCs and USCCs

	FCC returns				USCC returns			
		Confidence interval[a]				Confidence interval[a]		
Year	Number	Upper bound	Point estimate	Lower bound	Number	Upper bound	Point estimate	Lower bound
1989	32,135	76.3%	71.7%	67.1%	1,266,281	59.8%	58.9%	58.0%
1990	32,348	77.3	73.3	69.3	1,265,841	61.5	60.6	59.7
1991	35,138	76.6	72.8	69.0	1,265,390	62.7	61.8	60.9
1992	34,980	73.7	69.2	64.7	1,246,355	62.6	61.6	60.6
1993	37,588	72.9	69.6	66.3	1,217,410	61.6	60.9	60.1
1994	38,433	73.5	70.4	67.2	1,381,055	62.0	61.3	60.6
1995	40,195	70.2	66.8	63.4	1,377,092	61.8	61.1	60.4

Note: The number of returns are population estimates based on IRS' samples of corporate tax returns. Percentages are the ratio of nontaxpaying FCCs and USCCs to all (taxpaying and nontaxpaying) FCCs and USCCs, respectively.

[a]The upper and lower sampling error bounds of the percentage of nontaxpaying FCCs and USCCs indicate we are confident the true estimate of the percentage would be within these bounds in 95 out of every 100 samples.

Source: GAO compilation of IRS data.

Table I.2: Number and Percent of Returns for Large Nontaxpaying FCCs and USCCs

	FCC returns				USCC returns			
		Confidence interval[a]				Confidence interval[a]		
Year	Number	Upper bound	Point estimate	Lower bound	Number	Upper bound	Point estimate	Lower bound
1989	684	34.4%	33.0%	31.6%	3,860	27.9%	27.2%	26.5%
1990	819	39.1	37.7	36.3	3,896	28.9	28.1	27.4
1991	1,019	43.6	42.2	40.8	4,196	32.6	31.8	30.9
1992	948	39.7	38.3	36.9	4,059	31.2	30.5	29.8
1993	816	33.8	32.6	31.4	4,299	31.3	30.7	30.1
1994	739	29.7	28.6	27.5	4,291	30.1	29.5	28.9
1995	812	30.4	29.4	28.3	4,843	32.1	31.5	31.0

Note: The number of returns are population estimates based on IRS' samples of corporate tax returns. Percentages are the ratio of large nontaxpaying FCCs and USCCs to all large (taxpaying and nontaxpaying) FCCs and USCCs, respectively.

[a]The upper and lower bound confidence intervals of the percentage of nontaxpaying FCCs and USCCs indicate we are confident the true estimate of the percentage would be within these bounds in 95 out of every 100 samples.

Source: GAO compilation of IRS data.

[1]Filings made by Real Estate Investment Trusts and Regulated Investment Companies were included in our compilation. If they had been excluded, the difference would have been statistically insignificant.

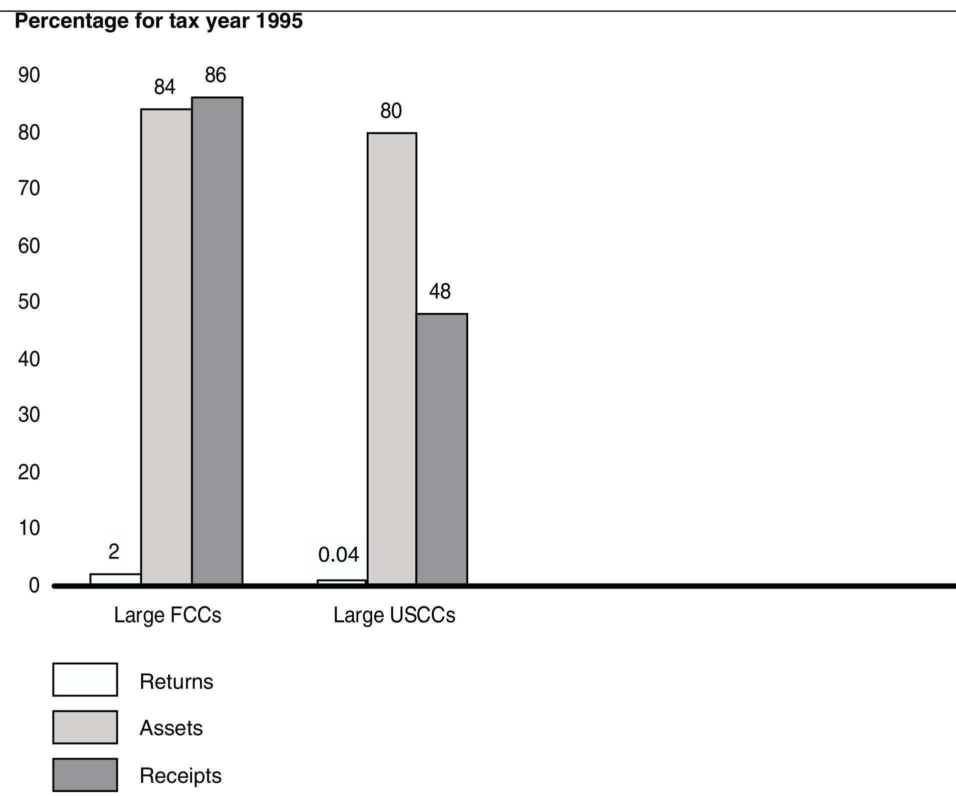
Table I.3: Assets Owned and Business Receipts Generated by All Nontaxpaying FCCs and USCCs

Year	FCCs Returns	FCCs Assets	FCCs Receipts	USCCs Returns	USCCs Assets	USCCs Receipts
1989	32,135	25.6%	21.0%	1,266,281	18.6%	16.9%
1990	32,348	28.5	22.5	1,265,841	20.3	18.1
1991	35,138	37.1	31.4	1,265,390	20.1	18.5
1992	34,980	28.4	29.0	1,246,355	20.8	18.5
1993	37,588	27.8	25.5	1,217,410	20.9	17.5
1994	38,433	23.2	21.2	1,381,055	21.0	17.0
1995	40,195	23.6	25.2	1,377,092	20.5	17.0

Note: Percentages are the ratio of nontaxpaying FCCs and USCCs to all (taxpaying and nontaxpaying) FCCs and USCCs, respectively. All percent estimates have sampling errors of (+/-) 1 percent.

Source: GAO compilation of IRS data.

Figure I.1: Corporate Returns, Assets, and Receipts for Large Nontaxpaying FCCs and USCCs as a Percentage of All Nontaxpaying FCCs and USCCs, 1995



Note: Percentages are those for large nontaxpaying FCC or USCC returns filed, total assets, and gross receipts to all nontaxpaying FCC and USCC returns, assets, and receipts.

Source: GAO compilation of IRS data.

Table I.4: Percentages of Large New and Older Nontaxpaying FCCs and USCCs

Year	FCCs New	FCCs Older	USCCs New	USCCs Older
1989	43.8%	30.9%	45.5%	25.1%
1990	48.8	35.9	48.0	26.0
1991	54.7	40.4	48.2	30.5
1992	41.4	38.1	47.7	29.1
1993	38.7	32.0	52.5	28.8
1994	32.5	28.3	48.5	27.8
1995	35.7	28.7	45.5	30.2

Note: “New” includes FCCs and USCCs incorporated within 3 years; “older” includes those incorporated earlier.

Source: GAO compilation of IRS data.

Table I.5: Selected Cost Ratios for Large Nontaxpaying FCCs and USCCs, 1995

Major industry	FCCs Cost of goods sold as % of receipts	FCCs Purchases as % of receipts	FCCs Interest as % of receipts	USCCs Cost of goods sold as % of receipts	USCCs Purchases as % of receipts	USCCs Interest as % of receipts
Manufacturing	72.1	54.1	3.9	67.7	48.2	4.8
Wholesale trade	76.7	72.5	3.7	87.5	83.9	1.6
Financial services	21.0	2.9	39.6	14.5	0.4	4.5
Nonfinancial services	41.5	5.6	15.0	31.4	10.7	5.3
Retail trade	61.3	56.5	2.8	68.0	64.8	2.6
Other[a]	73.4	52.6	4.2	46.5	14.7	8.5
Overall	**68.3**	**54.9**	**6.9**	**51.3**	**37.3**	**4.3**

Note: All estimates in this table have sampling errors of (+/-) 2 percent or less.

[a]Other includes transportation and public utilities; mining; construction; agriculture, forestry, and fishing; and other trades.

Source: GAO compilation of IRS data.

Table I.6: All and Large Nontaxpaying FCC and USCC Manufacturers and Wholesalers

	Manufacturers				Wholesalers			
	All		Large		All		Large	
Year	FCCs	USCCs	FCCs	USCCs	FCCs	USCCs	FCCs	USCCs
1989	50.0%[a]	55.6%	31.4%	19.7%	61.0%[a]	52.4%	33.0%[a]	18.2%
1990	56.3[a]	58.0	37.1	22.2	63.6	53.3	37.2	18.3
1991	57.6[a]	58.2	39.5	24.9	71.0	57.6	40.7	24.7
1992	55.1[a]	60.6	37.1	22.3	62.0	55.9	33.9	21.2
1993	54.9	57.5	29.8	20.4	67.0	54.4	28.1	18.5
1994	52.0	54.9	24.6	17.5	66.3	55.2	24.8	16.8
1995	53.1	57.5	27.2	19.2	64.0	55.3	27.0	18.4

Note: Percentages under the “all” category are the ratio of nontaxpaying FCCs or USCCs to all FCCs and USCCs by industry. Percentages under the “large” category are the ratio of nontaxpaying large FCCs or USCCs to all large FCCs or USCCs by industry. These estimates have sampling errors of (+/-) 10 percent or less except where noted.

[a]Sampling errors may be as high as (+/-) 13 percent.

Source: GAO compilation of IRS data.

Table I.7: All and Large Nontaxpaying FCCs and USCCs in Nonfinancial and Financial Services

	Nonfinancial services				Financial services			
	All		Large		All		Large	
Year	FCCs	USCCs	FCCs	USCCs	FCCs	USCCs	FCCs	USCCs
1989	71.1%[a]	63.1%	40.1%	27.9%	82.1%	56.3%	35.5%	40.3%
1990	83.8	63.8	35.7	24.5	84.5	58.7	37.6	41.9
1991	72.1[a]	65.4	50.7	29.3	79.9	59.6	40.8	44.7
1992	69.5[a]	65.0	46.4	26.8	79.6	57.7	41.6	45.7
1993	71.9	65.7	43.9	27.0	74.2	57.7	36.4	49.9
1994	64.4[b]	66.4	39.7	28.3	79.5	59.1	35.6	51.7
1995	61.1	65.9	32.4	27.2	74.7	58.0	34.3	53.4

Note: Percentages under the “all” category are the ratio of nontaxpaying FCCs or USCCs to all FCCs and USCCs by industry. Percentages under the “large” category are the ratio of nontaxpaying large FCCs or USCCs to all large FCCs or USCCs by industry. These estimates have sampling errors of (+/-) 10 percent or less except where noted.

[a]Sampling errors may be as high as (+/-) 17 percent.

[b]Sampling error is 11 percent.

Source: GAO compilation of IRS data.

Table I.8: All and Large Nontaxpaying FCCs and USCCs in Retail Trade

	All		Large	
Year	FCCs	USCCs	FCCs	USCCs
1989	82.6%[a]	59.1%	34.0%	27.6%
1990	59.7[b]	62.0	47.5	29.3
1991	72.6[c]	63.1	56.6	31.5
1992	72.1[c]	62.2	42.2	26.0
1993	71.9[a]	61.6	40.9	21.4
1994	78.8[a]	61.3	32.4	17.4
1995	78.4[a]	61.4	33.9	22.2

Note: Percentages under the “all” category are the ratio of nontaxpaying FCCs or USCCs to all FCCs and USCCs in retail trade. Percentages under the “large” category are the ratio of nontaxpaying large FCCs or USCCs to all large FCCs or USCCs in retail trade. These estimates have sampling errors of (+/-) 10 percent or less except where noted.

[a]Sampling errors may be as high as (+/-) 14 percent.

[b]Sampling errors may be as high as (+/-) 22 percent.

[c]Sampling errors may be as high as (+/-) 17 percent.

Source: GAO compilation of IRS data.

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