intention is to reinvest these earnings permanently outside the U.S. or to repatriate the earnings only when it is tax effective to do so.

Differences between effective income tax rates and the statutory U.S. federal income tax rate are as follows:

	2012	2011	2010
Statutory U.S. federal income tax rate	**35.0 %**	35.0 %	35.0 %
Tax on international activities	**(6.4)%**	(4.4)%	(7.8)%
Tax audit settlements	**(3.4)%**	(0.9)%	–
Other	**(0.4)%**	(0.7)%	0.4 %
Effective income tax rate	**24.8 %**	29.0 %	27.6 %

The 2012 effective tax rate decreased as compared to 2011. The 2012 effective tax rate reflects a favorable non-cash income tax adjustment of approximately $203 million related to the conclusion of the IRS's examination of UTC's 2006 – 2008 tax years, as well as a reduction in tax expense of $34 million related to the favorable resolution of disputed tax matters with the Appeals Division of the IRS for the tax years 2004 – 2005. Also included in the 2012 effective tax rate is the favorable income tax impact of $225 million related to the release of non-U.S. valuation allowances resulting from internal legal entity reorganizations. This is reported in the table above in tax on international activities.

The 2011 effective tax rate reflects approximately $63 million of favorable income tax adjustments related to the settlement of two refund claims for years prior to 2004, as well as a favorable tax impact of $17 million related to a U.K. tax rate reduction enacted in 2011. These favorable tax adjustments are partially offset by non-deductible charges accrued in 2011.

The 2010 effective income tax rate reflects a non-recurring tax expense reduction associated with management's decision to repatriate additional high tax dividends from 2010 earnings to the U.S. as a result of U.S. tax legislation enacted in 2010. This was partially offset by the non-deductibility of impairment charges, the adverse impact from the health care legislation related to the Medicare Part D program and other increases to UTC's effective income tax rate.

At December 31, 2012, tax credit carryforwards, principally state and foreign, and tax loss carryforwards, principally state and foreign, were as follows:

(DOLLARS IN MILLIONS)	Tax Credit Carryforwards	Tax Loss Carryforwards
Expiration period:		
2013-2017	$ 52	$ 626
2018-2022	17	378
2023-2032	310	1,053
Indefinite	808	2,115
Total	$ 1,187	$ 4,172

At December 31, 2012, we had gross tax-effected unrecognized tax benefits of $1,073 million, all of which, if recognized, would impact the effective tax rate. The table below includes both additional unrecognized tax benefits and related interest attributable to the acquisition of Goodrich in 2012. A reconciliation of the beginning and ending amounts of unrecognized tax benefits and interest expense related to unrecognized tax benefits for the years ended December 31, 2012, 2011, and 2010 is as follows:

(DOLLARS IN MILLIONS)	2012	2011	2010
Balance at January 1	**$ 946**	$ 891	$ 793
Additions for tax positions related to the current year	**232**	71	115
Additions for tax positions of prior years	**221**	71	80
Reductions for tax positions of prior years	**(21)**	(24)	(81)
Settlements	**(305)**	(63)	(16)
Balance at December 31	**$ 1,073**	$ 946	$ 891
Gross interest expense related to unrecognized tax benefits	**$ 40**	$ 23	$ 27
Total accrued interest balance at December 31	**$ 270**	$ 165	$ 144

We conduct business globally and, as a result, UTC or one or more of our subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as Australia, Belgium, Canada, China, France, Germany, Hong Kong, Italy, Japan, South Korea, Singapore, Spain, the United Kingdom and the United States. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 1998.

During the first quarter of 2012, the IRS completed examination fieldwork for our 2006 through 2008 tax years and issued its audit report. Based on the IRS audit report, we filed a protest with respect to certain IRS-proposed adjustments with which we do not agree. Resolution discussions with the Appeals Division of the IRS will commence on the unagreed items in 2013. However, the timing of any resolution is currently uncertain. During the third quarter of 2012, we reached final resolution with the Appeals Division of the IRS for our 2004 and 2005 tax years regarding certain proposed adjustments with which we did not agree. As a result of the above described events with respect to our 2004 – 2005 and 2006 – 2008 tax years, we recorded reductions in tax expense in the first and third quarters of 2012 in the aggregate amount of $237 million. IRS audit fieldwork for tax years 2009 and 2010 commenced in the first quarter of 2012 and is currently expected to continue into 2014.

UTC completed the Goodrich acquisition during 2012. Goodrich pre-acquisition tax years are also the subject of certain IRS audit, appeals and litigation activity. Goodrich tax years 2001 and 2002 are currently the subject of litigation involving the proper timing of certain deductions, which litigation is expected to continue through 2013. Goodrich tax years 2005 and 2006 are the subject of litigation with respect to a separate issue involving the proper