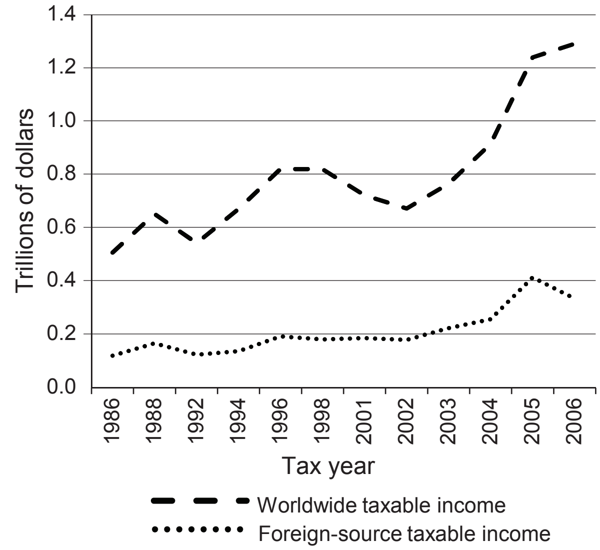
Statistics of Income

Foreign-Source Taxable Income of Corporations with a Foreign Tax Credit, Compared to Worldwide Taxable Income for All Corporations, Selected Tax Years, 1986–2006



Note: For comparability, amounts have been adjusted for inflation to 2006 constant dollars.

SOI Data for the Corporate Foreign Tax Credit, Tax Year 2006

The foreign tax credit is intended to prevent potential double taxation on the foreign-source income of U.S. corporations. Double taxation occurs when an item of income is taxed by both the United States, as a corporation's country of residence, as well as by the country from which the income originates.

The current law provisions allow U.S. businesses to credit their foreign taxes paid, accrued, or deemed paid against their U.S. income tax liability. Currently, the credit is limited to the amount of U.S. tax a corporation would have otherwise paid on foreign-source taxable income.

Corporations are required to calculate the credit separately for different income categories to prevent taxpayers from shifting nonbusiness, lower-taxed income (for example, investment income) overseas. Segregation of this low-taxed, nonbusiness income from other foreign income limits U.S. corporations from arranging foreign investments at the expense of U.S. tax revenue.

Corporations report the foreign income and taxes related to the foreign tax credit on Form 1118, Computation of Foreign Tax Credit—Corporations, and attach it to their corporate tax returns. The statistics for SOI's Corporate Tax Credit Study are estimates derived from a sample group of Form 1118.

Data Highlights:

- For Tax Year 2006, 6,947 U.S. corporations claimed a foreign tax credit.
- These corporations reported about $847 billion in worldwide taxable income, 39.6 percent or $336 billion of which was reported as foreign source.
- Corporations that claimed a foreign tax credit reduced their U.S. tax on worldwide income by 26.4 percent, from $296.8 billion to $218.6 billion.
- Corporations whose primary business was manufacturing claimed 64.0 percent of the total foreign tax credit, earned 43.6 percent of the worldwide taxable income, and accounted for 43.5 percent of the U.S. income tax before credits.
- Within the manufacturing category, petroleum and coal products manufacturing and chemical manufacturing companies combined to account for 41.1 percent of the total foreign tax credit and 23.2 percent of both worldwide taxable income and U.S. income tax before credits.
- Norway accounted for the largest percentage, 12.4 percent, of foreign taxes paid or deemed paid.
- Other countries that received a notable share of foreign taxes paid or deemed paid included the United Kingdom (10.7 percent), Canada (9.5 percent), and Japan (6.4 percent).

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