WHO WILL BENEFIT FROM A TERRITORIAL TAX? CHARACTERISTICS OF MULTINATIONAL FIRMS

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INTRODUCTION

Congress continues to consider moving to a territorial tax system as part of a general reform of the way the United States currently taxes corporations with operations abroad. Political and economic analysts have discussed at length the advantages and disadvantages of moving in that direction, as well as the justifications for doing so. The Joint Committee on Taxation (JCT) has estimated that the cost of moving to a territorial tax system would amount to $76 billion from 2012 to 2021 (Congressional Budget Office, 2011).

Under the current tax system, foreign income is subject to U.S. tax and a credit is provided for foreign taxes paid abroad. Although foreign income is subject to tax, deferral allows firms to avoid paying taxes on foreign income until that income is repatriated back to the U.S. parent. This ability is constrained to some extent by subpart F rules that impose current taxation on some forms of income, namely passive income. The limitation on the foreign tax credit, (used to compute the U.S. tax liability on foreign-source income), which is based on the foreign-source income for each separate limitation category rather than for each country, allows firms to engage in cross crediting within each income categories as another means to avoid U.S. tax on taxable foreign income.

A move to a territorial tax system would generally exempt foreign dividend income from U.S. tax, although the extent of anti-abuse rules and particulars of the tax reform policy are crucial to analyzing the economic and revenue effects. The estimate of a revenue *gain* from a reform that would supposedly exempt more income from taxation indicates the complexities of the current tax code and the importance of the exact type of proposal. Those estimates also depend heavily on the reaction of U.S. firms to that new tax system.

Anticipating how firms will adjust their businesses and financial activities is daunting. To aid in predicting how firms will respond, this paper provides data about firms' currently operating abroad (as identified by claiming a foreign tax credit) that shows how firms may be affected by a move to a territorial tax.

The following sections discuss relevant characteristics of U.S. multinational firms: size, location of business activity, types of taxable foreign income, excess credit positions, and tax rates faced by U.S.-owned foreign subsidiaries.

Data on size, location, taxable foreign income, and excess credit position use data from firms filing a form 1118 Foreign Tax Credit. That data includes foreign gross income and foreign income after adjustments and deductions that are taxable to the United States through repatriation, current taxation, or subpart F. It does not include foreign income of U.S. firms retained abroad.

Data for average tax rate measures of Controlled Foreign Corporations (CFCs) were obtained from the 2008 Form 5471 - Information Return of U.S. Persons with Respect to Certain Foreign Corporations. Effective tax rates were calculated as foreign taxes paid by CFCs (line 8 on Form 5471, Schedule E) divided by pre-tax earnings and profits (line 5d of Form 5471, Schedule H, plus the total income taxes paid (line 8 on Form 5471, Schedule E)). The analysis was restricted to CFCs with non-negative income and non-negative taxes.

All data carry limitations. The statistics in this article are based on information reported on Form 1118, Form 5471, and related corporate forms for those corporation or partnership income tax returns that were included in the 2008 Statistics of Income sample of corporate returns with accounting periods ending between July 2008-June 2009. These returns were selected after administrative processing but prior to any amendments or audit examination. Because these estimates are based

*The views expressed here are those of the authors and should not be interpreted as those of the Congressional Budget Office.

on a sample, they are subject to sampling error. However, as large corporations are sampled at 100 percent, the sampling error is not considered to be significant. Furthermore, foreign income from the Form 1118 is understated to the extent that they were not reported on the Form 1118. Form 1118 is only required when the taxpayer is eligible for a foreign tax credit and, thus, may not be filed for corporations with an overall foreign or domestic loss. Also, because of the multi-tiered structure of firm ownership and the multi-country location of firms and their subsidiaries, foreign source income that is reported on Form 1118 as being in one country can include income that originates in another country. Likewise, foreign income and taxes reported on the Form 5471 may not pertain to the country of incorporation.

SIZE OF FIRMS OPERATING ABROAD

Although the size of firms may not be as important as other firm characteristics for estimating firm responses to a territorial tax system, they are important in terms of the magnitude of income at stake. Additionally, larger firms may be viewed as a proxy for old firms. Those types of firms likely have significantly different repatriation practices than younger corporations and start-ups. Older, more established firms might have more pressure from shareholders to pay out dividends rather than re-investing; thus they may be constrained in their ability to retain significant amounts of income abroad in controlled foreign corporations in the advent of a switch to a territorial tax.

Table 1 shows the distribution of firms claiming a foreign tax credit by size of the U.S. corporation's assets and industry classification. By far, most firms with operations abroad are fairly small with 58 percent of firms filing an 1118 having assets less than $50 million and 22 percent of firms filing an 1118 having assets between $50 and $100 million. Even though most firms may be small, large multinational firms account for most of the economic activity abroad.

Manufacturing dominates the industry allocation for medium-sized and larger firms, accounting for 35 percent or more. Of the largest and smallest firms, over 20 percent are in the finance industry. The share of firms in the services industry is heavily concentrated in smaller firms and declines with size of the firms.

Table 2 provides an alternative measure of size – total receipts. The distribution for firms by total receipts measures both their size, in terms of revenues, as well as the level of one type of business activity. Total receipts are for the U.S. parent company filing an 1118 and include both domestic and foreign receipts.

As can be seen, firms with smaller levels of receipts tend to be in the service industry. Firms showing larger levels of receipts increasingly are located in the manufacturing industry, while the finance industry is concentrated initially among firms with smaller receipts that share drops significantly before slowly rising. That minor increase in the share of larger firms in the finance industry likely reflects the fact that some larger multinationals may get classified as financial while having another branch of the firm engaging in other activities.

LOCATION OF INCOME

A key aspect to determining the revenue implications of a move to a territorial tax system is where U.S. multinationals currently have income located and how that location would change. Additionally, if motivations for changing our current tax system center around promoting certain types of firms, then knowing how firms in different industries locate their income across countries helps to inform the debate over the benefits and costs of adopting a given tax reform option. Firms that are able to more easily locate income or investment in low-tax countries would benefit from a territorial tax system.

Table 3 provides foreign taxable income for major industries across member countries of the Organisation for Economic Co-operation and Development (OECD), counties that are part of the Group of Twenty Financial Ministers, the Central Bank Governors, and selected tax haven countries. The tax haven countries included here are a few countries commonly recognized as tax havens for their low (or zero) corporate tax rates or other advantageous corporate tax systems.

The data come from U.S. corporations filing a form 1118 and claiming a foreign tax credit. These data show the foreign income, by country, that is taxable under the current U.S. tax system. Thus, the data below include foreign income that was actively repatriated to the United States via divi-

Table 1
Distribution of Firms Operating Abroad in 2008 by Assets and Industry[1]

Number of Returns, By Size of Total Assets ($ millions)[2]

Major and selected minor industry	*Total*	*$0 under $50*	*$50 under $100*	*$100 under $250*	*$250 under $500*	*$500 under $2,500*	*$2,500 or more*
All industries	**14,083**	**8,148**	**3,165**	**662**	**454**	**892**	**760**
Mining	**233**	**78**	**65**	**16**	**11**	**28**	**35**
Construction	**414**	**247**	**123**	**15**	**9**	**14**	***6**
Manufacturing	**2,238**	**561**	**620**	**261**	**179**	**347**	**270**
Food	111	*38	*19	14	10	15	15
Petroleum, coal	28	0	*7	d	d	d	d
Chemical	322	80	92	24	23	40	63
Plastics, rubber	69	*8	24	d	d	d	d
Fabricated metal	250	*98	80	26	16	19	11
Machinery	379	172	70	41	27	43	26
Computer, electronic	375	51	115	51	32	79	46
Elec. Equip. Appliance	118	*18	48	19	15	10	*8
Transportation	116	*7	*26	14	10	29	30
Misc. and not allocable	470	88	139	51	39	97	55
Wholesale Trade	**895**	**311**	**318**	**81**	**57**	**81**	**47**
Retail Trade	**389**	**191**	**94**	**16**	**11**	**42**	**35**
Information	**838**	**481**	**182**	**37**	**24**	**66**	**48**
Finance and Insurance	**2,327**	**1743**	**172**	**50**	**59**	**117**	**186**
Real Estate, Rental, and Leasing	**1,215**	**914**	**250**	**21**	**10**	**13**	***7**
Services	**4,803**	**3237**	**1084**	**146**	**86**	**153**	**97**
Prof. scientific, tech.	1,663	1156	310	75	35	63	24
Holding companies mgt	1,695	1377	209	25	14	28	43
Other	1,446	704	565	46	37	62	*30
All Other Industries	**730**	**386**	**257**	**19**	**8**	**31**	**29**

[1] All Returns Filing Form 1118 - Tax Year 2008. The data do not include taxpayers with foreign-source income who were not eligible for the foreign tax credit due to an overall domestic or foreign loss and who chose not to file a Form 1118.

[2]All figures are estimates based on samples

*Data should be used with caution because of the small number of sample returns on which they were based.

d-Data deleted to avoid disclosure of information about specific taxpayers.

Table 2

Distribution of Firms Operating Abroad in 2008 by Total Receipts and Industry[1]

Major and Selected Minor Industry	*Total*	*Number of Returns by Size of Total Receipts ($ millions)[2]*			
		$0 under $50	*$50 under $100*	*$100 under $250*	*$250 or more*
All Industries, total	**14,083**	**7,806**	**2,103**	**2,088**	**2,086**
Mining	**233**	**126**	**17**	**27**	**63**
Construction	**414**	**139**	**151**	**80**	**43**
Manufacturing	**2,238**	**434**	**403**	**598**	**804**
Food	111	d	d	d	46
Petroleum, coal	28	d	d	d	18
Chemical	322	92	62	41	127
Plastics, rubber	69	10	19	17	23
Fabricated metal	250	d	d	79	46
Machinery	379	127	66	87	100
Computer, electronic	375	27	98	107	142
Elec. Equip. Appliance	118	d	d	51	31
Transportation	116	d	d	24	74
All Other	470	53	77	143	196
Retail Trade	**895**	**222**	**108**	**307**	**257**
Wholesale Trade	**389**	**54**	**72**	**155**	**109**
Information	**838**	**480**	**182**	**58**	118
Finance and Insurance	**2,327**	**1,805**	**91**	**156**	**275**
Real Estate, Rental, and Leasing	**1,215**	**1,088**	**96**	**13**	**18**
Services	**4,804**	**3,219**	**605**	**656**	**323**
Prof. scientific and tech.	1,663	924	281	302	156
Holding companies mgt	1,695	1,629	16	11	39
Admin. Waste	655	316	24	262	53
All other	791	350	284	81	75
All other industries	**730**	**239**	**378**	**38**	**76**

[1]All Returns Filing Form 1118 - Tax Year 2008. The data do not include taxpayers with foreign-source income who were not eligible for the foreign tax credit due to an overall domestic or foreign loss and who chose not to file a Form 1118.

[2]All figures are estimates based on samples.

d-Data deleted to avoid disclosure of information about specific taxpayers.

Table 3
Location of 2008 Foreign Taxable Income

Selected Country	*All Industries*	*Manufacturing*	*Wholesale and Retail Trade*	*Information*	*Finance, Insurance, Real Estate, Rental and Leasing*	*Services*
($ millions)						
All Geographic Areas	446,098	293,193	16,268	26,976	34,053	50,163
OECD Countries						
Australia	6,589	7,367	213	269	1,666	-3,247
Austria	1,091	521	38	15	58	454
Belgium	3,570	2,790	6	59	34	678
Canada	36,490	22,460	2,740	1,664	4,075	2,722
Chile	2,043	316	54	13	166	151
Czech Republic	733	286	6	371	35	27
Denmark	3,799	3,569	26	-83	47	198
Estonia	16	3	d	1	d	7
Finland	500	369	13	12	61	45
France	7,996	5,706	277	480	592	1,307
Germany	11,772	8,508	445	769	491	2,783
Greece	269	177	13	35	31	47
Hungary	1,176	759	46	338	18	13
Iceland	8	10	d	d	6	-7
Ireland	21,306	17,238	264	2,872	737	195
Israel	631	99	51	69	62	349
Italy	3,725	2,721	206	250	338	627
Japan	15,078	8,694	965	1,599	2,276	1,448
Luxembourg	11,071	10,111	132	-85	445	410
Mexico	11,034	5,250	524	1,073	530	2,699
Netherlands	22,600	16,997	417	1,301	636	3,083
New Zealand	715	33	22	94	397	160
Norway	19,111	18,127	16	27	79	84
Poland	1,242	416	48	322	93	360
Portugal	2,940	2,826	-17	26	28	81
Slovak Republic	93	50	d	d	10	3
Slovenia	46	38	d	-3	d	d
South Korea	3,784	1,866	271	328	345	969
Spain	8,387	7,446	305	191	215	452
Sweden	1,581	905	126	29	138	384
Switzerland	15,247	10,749	2,055	81	389	1,887
Turkey	2,156	1,843	9	-9	47	263
United Kingdom	40,827	18,575	1,568	2,061	5,500	12,295

Table 3 (Continued)
Location of 2008 Foreign Taxable Income

Selected Country	*All Industries*	*Manufacturing*	*Wholesale and Retail Trade*	*Information*	*Finance, Insurance, Real Estate, Rental and Leasing*	*Services*
Other Group of Twenty[3]						
Argentina	2,857	1,422	178	81	133	967
Brazil	11,457	5,623	167	725	1,655	2,392
China	9,730	4,895	125	3,214	242	1,143
India	3,620	498	141	539	54	2,198
Indonesia	5,872	4,119	38	51	47	448
Russia	2,227	1,709	32	21	105	260
Saudi Arabia	5,129	4,855	16	8	12	89
South Africa	1,013	355	46	161	158	264
Selected Countries with Low Tax Rates						
Bermuda	13,504	7,102	1,084	450	847	75
Cayman Islands	12,035	6,766	209	61	1,193	1,048
British Virgin Islands	1,054	1,125	4	d	-34	d
Singapore	9,642	4,440	203	332	400	4,130
Hong Kong	4,986	1,777	448	181	1,423	1,136
Taiwan	3,033	739	182	1,415	69	763

[1]All Returns Filing Form 1118 - Tax Year 2008. The data do not include taxpayers with foreign-source income who were not eligible for the foreign tax credit due to an overall domestic or foreign loss and who chose not to file a Form 1118.

[2] All figures are estimates based on samples.

[3]Group of Twenty Finance Ministers and Central Bank Governors

d-Data deleted to avoid disclosure of information about specific taxpayers.

dends, taxable under subpart F provisions, or was naturally currently taxable as income that flowed to the U.S. parent.

As can be seen from table 4, manufacturing dominates international business regardless of country. A large share of firms in the "other" industry is located in Chile. That category includes the petroleum and mining industries, which likely accounts for activities in that country. Over 70 percent of firms in Iceland are in finance, while Eastern Europe countries show a high share of information firms. The income reported here is taxable foreign income and does not represent the location of all foreign income but rather the location of currently taxable income, such as royalties, interest, or branch income, subpart F income, and what firms are repatriating from what countries.

REPATRIATED INCOME

One justification for considering moving to a territorial tax has come from concerns that the current system discourages repatriation of foreign income. Most territorial tax options would retain some form of anti-abuse, and some income would naturally continue to be taxed currently as a flow income, such as interest, even if dividends were excluded. Firms that have more income in other dividends and little income resulting from other sources, such as royalties and interest, would benefit more from a territorial tax. However, to the extent firms

Table 4
Gross 1118 Foreign Income by Type of Income in 2008[1]

Major and Selected Minor Industry	*Deemed Dividends Excluding Gross-up*	*Deemed Dividends Gross-up*	*Other Dividends Excluding Gross-up*	*Other Dividends Gross-up*	*Interest*	*Rents, Royalties and License Fees*	*Performance of Services Income*	*Total*
($ millions) [2]								
All Industries, Total	72,475	21,232	99,934	49,433	128,679	135,546	58,390	892,300
Agriculture, Forestry, Fishing and Hunting	0		5	1	2	6	29	83
Mining	1,029	459	7,544	2,957	1,102	2,346	4,061	31,725
Utilities	27	3	258	227	431	2,250	3,756	9,161
Construction	210	6	80	13	15	235	919	1,818
Manufacturing	51,970	15,925	68,308	35,580	14,604	75,893	10,684	463,812
Food	1,479	402	2,874	1,009	145	853	43	10,747
Beverage, tobacco	410	91	4,906	2,164	235	2,518	1	15,911
Textile	6	2	10	6	2	22	10	88
Apparel	92	7	112	36	37	468	59	1,111
Paper	980	456	839	502	314	926	14	6,196
Printing	12	3	18	7	31	28	7	259
Petroleum, coal	9,704	4,869	26,572	14,475	2,073	573	49	133,529
Chemical	9,569	2,682	12,074	7,483	2,535	23,680	1,587	84,103
Plastics, rubber	150	55	597	215	76	569	10	1,962
Nonmetallic mineral	183	44	47	21	66	62	105	730
Primary metal	713	186	883	220	1,000	221	166	6,775
Fabricated metal	830	109	412	233	182	604	129	4,539
Machinery	2,799	944	2,134	1,841	787	2,720	540	20,893
Computer, electronic	8,274	3,027	7,836	4,235	879	26,668	5,543	85,195
Elec. Equip. appliance,	14,099	2,007	2,452	541	3,143	3,628	100	36,688
Transportation	1,546	791	4,902	1,728	2,592	8,691	1,834	38,610
Furniture	10	4	66	31	9	38	23	476
Misc. and not allocable	1,115	247	1,576	832	498	3,626	464	16,000

Table 4 (Continued)

Gross 1118 Foreign Income by Type of Income in 2008[1]

Major and Selected Minor Industry	*Deemed Dividends Excluding Gross-up*	*Deemed Dividends Gross-up*	*Other Dividends Excluding Gross-up*	*Other Dividends Gross-up*	*Interest*	*Rents, Royalties and License Fees*	*Performance of Services Income*	*Total*
Retail Trade	1,114	468	1,390	893	218	3,002	105	11,333
Wholesale Trade	2,392	509	2,332	719	791	4,349	1,624	24,272
Transportation and Warehousing	170	24	452	204	148	362	14,507	21,891
Information	2,455	586	2,800	1,114	1,042	34,688	9,027	70,300
Finance and Insurance	7,723	995	7,020	1,635	50,915	4,769	4,175	114,801
Real Estate and Rental And Leasing	5	1	56	7	44	1,570	38	2,306
Services	5,379	2,257	9,687	6,236	59,760	8,325	13,198	148,659
Prof. scientific tech.	525	138	773	313	402	2,943	9,193	18,082
Holding companies mgt	3,925	1,911	6,616	4,002	58,786	1,892	1,442	112,842
Admin. waste	353	128	442	200	92	458	1,239	3,511
Educ. health, social assc.	4	2	62	5	7	63	157	329
Arts, entertainment, rec.	33	12	4	2	4	359	735	1,373
Accommodation and food	483	42	1,765	1,703	464	2,513	281	12,103
Other services	55	24	25	12	6	97	152	419

[1] All Returns Filing Form 1118 - Tax Year 2008. The data do not include taxpayers with foreign-source income who were not eligible for the foreign tax credit due to an overall domestic or foreign loss and who chose not to file a Form 1118.

[2] All figures are estimates based on samples.

can easily categorize income from royalties and interests to dividends, they too would benefit. This section provides details on the current repatriation behavior of firms, including the types of income that are currently subject to tax.

As can be seen in table 4, deemed dividends, which represent dividends taxable under subpart F, were highest, accounting for at least 10 percent of income in the agriculture, manufacturing, and retail trade industries. Firms in the utilities industry actively repatriate the most, with 33 percent of their taxable foreign income in the form of other dividends, followed by firms in retail trade and agriculture. Not surprising, the highest share of taxable foreign income comes from rents and royalties for firms in real estate and information, while for firms in the finance and insurance and service industries, the bulk of their taxable foreign income is in the form of interest payments.

EXCESS CREDITS

Our current tax system allows firms to cross credit. This means to use excess credits — credits that exceed the foreign tax credit limit — generated by taxes paid on income earned in high-tax countries to shelter income from low-tax countries that would be subject to residual U.S. taxes. Researchers estimated that in 2000 almost two-thirds of royalties were shielded from U.S. taxes through excess credits (Grubert & Altshuler, 2008).

Adopting a territorial tax would reduce the ability to generate excess credits by actively repatriating income in the form of dividends from high-tax countries to royalty or interest income. Furthermore, firms that are in an excess credit position, because they were unable to successfully cross credit, or have operations generally in higher tax countries would be less likely to benefit form a territorial tax. However, firms may be in an excess credit position because they were actively cross crediting and were unable to hit the target amount of taxable foreign-source income; that is, the amount of eligible foreign taxes was very close to the credit limit.

Table 5 provides the income, eligible taxes, and foreign tax credit limitation for firms in an excess credit position (defined by having at least one income basket in an excess credit position). The results show 66 percent of all firms were in an excess credit position. About 80 percent of firms in the mining and information industries were in an excess credit position, while only 27 percent of those in agriculture were.

Of firms that were in an excess credit position, 35 percent were in services, 17 percent were in manufacturing, and 15 percent were in the finance and insurance industry. The services industry also includes firms in whose focus is the management of holding companies. This sub-industry, manufacturing, and finance and insurance are all areas where firms may be more able to use profit shifting to avoid U.S. taxes and may be more likely to pursue cross crediting as a method for reducing U.S. tax on some forms of foreign income. Surprisingly, however, the credit limitation was only about half of the eligible taxes for manufacturing firms and even lower, about a quarter of eligible taxes, for firms in the management of holding companies or finance and insurance industries. Of all industries, firms in construction showed the highest share of the credit limit relative to foreign taxes, 72 percent, suggesting that many firms in an excess credit position were far from targeting the limit.

Many firms are in an excess credit position that does not equate to being taxed heavily on their foreign income or they are located largely in high-tax countries. While the majority of taxable income is not actively repatriated income, the excess credit position is a result, in part, of repatriation behavior. To the extent they can, firms have an incentive to locate income in low-tax countries and retain it abroad. Thus, the current share of firms in an excess credit position is not necessarily representative of firms' positions in the absence of deferral.

TAX RATES

A move to a territorial tax would not be beneficial if the average tax rates that U.S.-owned foreign subsidiaries pay were generally close to the U.S. rate. Tax rates across countries vary significantly, and firms in industries where the nature of the business allows them to locate in lower-tax countries will benefit more than those whose business locations must be restricted to higher-tax countries.

Table 6 lists the average tax rates for all U.S.-controlled foreign corporations (CFCs) by industry of the CFC. Not surprisingly, the highest tax rate is faced by firms in the raw materials and energy production. Firms are more likely to have to locate production according to physical land needs and

Table 5
Firms in an Excess Credit Position in 2008[1]

Major and Selected Minor Industry	*Number of Returns*	*Taxable Income Before Adjustments*	*Total Foreign Taxes Eligible for Credit*	*Foreign Tax Credit Limitation*
All Industries, Total	**9,242**	**276,013,694**	**138,146,109**	**70,000,344**
Agriculture, Forestry, Fishing and Hunting	**148**	**-21,254**	**6,405**	**459**
Mining	**186**	**10,632,408**	**6,348,518**	**3,614,262**
Utilities	**47**	**786,440**	**321,647**	**219,835**
Construction	**261**	**317,767**	**139,501**	**100,396**
Manufacturing	**1,544**	**205,631,635**	**103,604,730**	**57,977,713**
Food	81	2,004,847	800,536	491,505
Beverage, tobacco	13	440,005	177,271	78,840
Textile	21	33,652	16,220	3,685
Apparel	16	323,442	378,720	83,534
Paper	46	878,074	634,615	252,733
Printing	10	82,573	63,647	19,189
Petroleum, coal	15	107,647,778	60,898,970	37,419,692
Chemical	219	33,476,791	14,430,819	9,172,725
Plastics, rubber	54	1,218,572	510,008	96,621
Nonmetallic mineral	21	169,022	168,146	71,938
Primary metal	38	2,366,600	1,280,480	794,739
Fabricated metal	194	1,185,294	612,631	388,435
Machinery	206	6,388,244	3,190,645	1,727,342
Computer, electronic	278	28,883,440	11,044,018	5,862,027
Elec. Equip. appliance,	85	1,514,053	666,373	385,053
Transportation	89	17,216,135	7,832,030	829,360
Furniture	15	129,342	86,633	38,730
Misc. not allocable	144	1,673,773	812,969	261,563
Wholesale Trade	**617**	**3,977,235**	**1,960,732**	**446,728**
Retail Trade	**272**	**3,663,734**	**1,891,809**	**1,018,236**
Transportation and Warehousing	**75**	**797,186**	**403,538**	**176,066**
Information	**682**	**5,511,051**	**2,738,799**	**1,273,663**
Finance and Insurance	**1,372**	**18,749,681**	**9,132,180**	**2,113,991**
Real Estate, Rental, and Leasing	**773**	**95,269**	**97,868**	**17,065**
Services	**3,266**	**25,872,545**	**11,500,380**	**3,041,928**
Prof. scientific and tech.	1,020	907,201	1,365,386	179,703
Holding companies mgt	974	20,645,766	7,825,614	1,816,613
Admin. & waste mgt	579	691,803	307,259	170,442
Educ., health, social ass.	369	78,015	36,679	16,235
Arts, entertainment, rec.	256	220,270	75,800	19,981
Accommodation and food	40	3,290,006	1,862,928	822,392
Other services	28	39,483	26,714	16,562

[1]All Returns Filing Form 1118 - Tax Year 2008. The data do not include taxpayers with foreign-source income who were not eligible for the foreign tax credit due to an overall domestic or foreign loss and who chose not to file a Form 1118. Firms were counted in an excess credit position if at least one basket of income was in excess credit.

[2]All figures are estimates based on samples.

Table 6
Average Tax Rates Paid by CFCs in 2008 by Industry

Major and Selected Minor Industry of Controlled Foreign Corporation	*All CFCs*		
	Pretax E&P	*Foreign Taxes*	*Effective Tax Rate*
	($ thousands)		
All Industries	**824,623,617**	**116,519,136**	**14.1**
Raw Materials and Energy Production	**88,406,330**	**30,116,882**	**34.1**
Construction	**3,247,274**	**667,099**	**20.5**
Manufacturing	**185,549,721**	**25,342,171**	**13.7**
Food	10,356,953	2,022,322	19.5
Beverage, tobacco	18,233,781	2,591,652	14.2
Textile	294,451	57,621	19.6
Apparel	683,704	64,603	9.4
Leather	190,126	24,009	12.6
Wood	116,532	24,186	20.8
Paper	2,370,815	540,327	22.8
Printing	487,972	89,594	18.4
Petroleum, coal	3,364,679	731,285	21.7
Chemical	48,945,036	6,203,219	12.7
Plastics, rubber	3,166,462	523,387	16.5
Nonmetallic mineral	5,463,404	806,263	14.8
Primary metal	4,613,462	716,472	15.5
Fabricated metal	5,098,645	982,650	19.3
Machinery	8,146,585	1,595,253	19.6
Computer, elect.	28,223,610	1,917,366	6.8
Electric equip. appliance	7,816,697	1,094,168	14.0
Transportation	12,392,000	2,194,651	17.7
Furniture	284,174	52,817	18.6
Miscellaneous	25,300,632	3,110,327	12.3
Wholesale Trade	**60,759,664**	**10,064,240**	**16.6**
Retail Trade	**12,974,789**	**3,074,453**	**23.7**
Transportation and Warehousing	**5,590,026**	**699,210**	**12.5**
Information	**29,028,564**	**4,529,595**	**15.6**
Finance and Insurance	**135,398,004**	**14,530,504**	**10.7**
Real Estate, Rental, and Leasing	**9,839,125**	**1,047,455**	**10.6**
Services	**293,824,175**	**26,447,461**	**9.0**
Nature of Business Not Allocable	***5,945**	***65**	**1**

Table 7
Average Tax Rate Paid by OECD CFCs and Non-OECD CFCs in 2008 by Industry

Major and Selected Minor Industry of Controlled Foreign Corporation	*All CFCs in OECD Countries*			*All CFCs in Non-OECD Countries*		
	Pretax E&P	*Foreign Taxes*	*ETR (%)*	*Pretax E&P*	*Foreign Taxes*	*ETR (%)*
	($ thousands)			*($ thousands)*		
All Industries	**558,862,724**	**74,303,835**	**13.3**	**265,760,894**	**42,215,300**	**15.9**
Raw Materials and Energy Production	**38,642,591**	**12,585,370**	**32.6**	**49,763,739**	**17,531,512**	**35.2**
Construction	**2,546,264**	**563,040**	**22.1**	**701,010**	**104,059**	**14.8**
Manufacturing	**122,259,366**	**18,320,054**	**15.0**	**63,290,355**	**7,022,117**	**11.1**
Food	7,862,170	1,459,985	18.6	2,494,782	562,337	22.5
Beverage, tobacco	9,376,718	1,593,674	17.0	8,857,063	997,978	11.3
Textile	242,457	52,775	21.8	51,995	4,846	9.3
Apparel	304,878	38,153	12.5	378,826	26,450	7.0
Leather	50,247	3,049	6.1	139,879	20,960	15.0
Wood	94,151	19,895	21.1	22,381	4,291	19.2
Paper	1,740,912	369,547	21.2	629,903	170,781	27.1
Printing	206,000	41,818	20.3	281,972	47,777	16.9
Petroleum, coal	3,131,992	696,225	22.2	232,687	35,060	15.1
Chemical	31,738,710	4,277,556	13.5	17,206,326	1,925,662	11.2
Plastics, rubber	2,314,725	361,956	15.6	851,737	161,430	19.0
Nonmetallic mineral	4,197,106	613,914	14.6	1,266,298	192,349	15.2
Primary metal	4,212,722	676,402	16.1	400,740	40,070	10.0
Fabricated metal	3,876,734	756,729	19.5	1,221,911	225,920	18.5
Machinery	5,595,095	1,155,852	20.7	2,551,489	439,401	17.2
Computer, electronic	11,785,182	1,133,987	9.6	16,438,428	783,379	4.8
Elec. equip. appliance	5,220,058	804,853	15.4	2,596,639	289,315	11.1
Transportation	9,818,997	1,665,293	17.0	2,573,003	529,358	20.6
Furniture	196,814	39,817	20.2	87,360	13,000	14.9
Miscellaneous	20,293,697	2,558,575	12.6	5,006,935	551,751	11.0
Wholesale Trade	**48,233,540**	**7,684,818**	**15.9**	**12,526,124**	**2,379,422**	**19.0**
Retail Trade	**10,355,085**	**2,672,941**	**25.8**	**2,619,705**	**401,513**	**15.3**
Transportation and Warehousing	**2,498,903**	**402,976**	**16.1**	**3,091,123**	**296,234**	**9.6**
Information	**25,191,003**	**3,832,877**	**15.2**	**3,837,560**	**696,718**	**18.2**
Finance and Insurance	**103,400,296**	**9,924,826**	**9.6**	**31,997,708**	**4,605,678**	**14.4**
Real Estate, Rental, and Leasing	**8,836,251**	**950,862**	**10.8**	**1,002,874**	**96,593**	**9.6**
Services	**196,895,042**	**17,366,068**	**8.8**	**96,929,133**	**9,081,393**	**9.4**
Nature of Business Not Allocable	***4,382**	***4**	**0**	***1,563**	***61**	**4**

may be less likely to use intangible assets to shift profits to lower-tax countries.

Also not surprising are the low tax rates faced by manufacturing firms and those in the finance and insurance industry. More perplexing are the low rates for real estate and services, though the low tax rate in services may be driven by the management of holding companies sub-industry. Table 7 separates those tax rates for OECD countries and non-OECD countries.

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