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The Abuse of Foreign Income Tax Credit

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By

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ABSTRACT

This analytical study examines the abuse of foreign income tax credit with the provided data from 1996 – 2011. There are various ways to categorize the foreign tax credit, yet this study examines the foreign tax credit taken in various geographic regions. Additionally, it also analyzes the individual foreign tax credit claimed and corporate tax credit claimed to conclude on which unit abuses the credit utmost.

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Introduction

Every citizen that earns income through a job or through self-employment has to pay taxes on the income to the country they reside and/or are citizens of. Human nature may sometimes not be willing enough to pay a percent of their hard-earned money to the government as taxes. However, imagine if an individual had to pay taxes to two countries on the same income. This scenario may discourage corporations or individuals to seek economic opportunities overseas (Internal Revenue Service, 2016). The increased opportunities throughout various careers due to the increase in globalization has led to higher number of United States (US) citizens and corporations shifting internationally. However, shifting a US citizen or US based corporation to a different country does not exempt them from having a tax liability to the US government. They are also required to pay taxes on the income earned in the country they work, reside and/or operate in. The law has been mentioned recently by the IRS in Tax Tips as, "By law, U.S. citizens and residents must report their worldwide income. This includes income from foreign trusts, and foreign bank and securities accounts" (Internal Revenue Service, 2015). This scenario might result in double taxation on the earned income of the citizens and corporations.

Accordingly, to somewhat mitigate double taxation, the US provides the same option to both the residents and corporations through either a Foreign Income Tax Credit (FTC) or a Foreign Earned Income Exclusion. In this literature review I looked to understand how the individuals and corporations utilize and/or abuse FTC to reduce their US tax liability. Have the options been used heavily over the years? Have there been several aggressive tax arrangements made to significantly decrease tax liability? Finally, how has the government acknowledged or battled the abuse of the credits or exclusions? In this study, I plan to analyze the trends in foreign

tax credit taken against total foreign sourced income and total foreign taxes deemed paid in different geographic regions which will help conclude who, individuals or corporations, abuse the foreign credit the most.

Literature Review

Definitions

US taxpayers and entities owe tax to the US on their worldwide income, which can be offset by utilizing the FTC. The US residents can offset their US tax liability dollar for dollar by the amount of income tax they accrued or paid in the foreign country, with some qualifying limitations that are discussed later in this section. The same FTC is also applied to the corporations. The corporations that own only a small percentage of a foreign company, through ownership of shares, may not be able to claim the FTC credit. However, if the corporation owns at least "10% of voting stock of a foreign corporation", then the IRS will allow the taxpayer indirect credit which is elaborated below (West & Varma, The Past and Future of the Foreign Tax Credit, 2012).

US corporations are not taxed on the income of their foreign subsidiaries until the net income is distributed to the parent company in the form of interest or dividends. The corporation can claim FTC against their US tax liability by attaching the form 1118 (Internal Revenue Service, 2016) provided by the IRS to their corporate tax return. The form consists of Schedule A – H (Internal Revenue Service, 2016) which helps the corporation calculate the foreign tax credit along with reporting all of the foreign source income divided into categories and the period the income was earned in. (Internal Revenue Service, 2016)

However, if the US based corporation is only a pass through entity for the shareholder, then the corporation itself cannot claim any FTC; rather the FTC has to be claimed indirectly by

the shareholders. Thus, the taxpayers that receive a share of the foreign sourced income may claim it indirectly. “The foreign tax credit provisions, however, allow taxpayers an indirect credit for the foreign “taxes deemed paid” (Redmiles & Wenrich). Taxes deemed paid are the fair share of foreign income taxes paid on the distributed earnings which are proportionated to the ratio of the earnings to the total distribution (Redmiles & Wenrich). And, as mentioned above, the receiving taxpayers may only claim FTC on this foreign income of a subsidiary if the US corporation has at least 10% ownership in the foreign subsidiary. Individuals have to attach form 1116 (Internal Revenue Service, 2016), provided by the IRS, to their individual return in order to claim FTC. This form 1116 assist report all of the foreign source income and the related taxes deemed paid or accrued reported to the IRS to further justify their calculated amount of US tax liability.

Which foreign taxes qualify for the foreign income tax credit?

The tax code specifies a four step test for the foreign taxes to be eligible for the foreign tax credit. The four tests, as listed by the Internal Revenue Service, are (Internal Revenue Service, 2016):

1. The tax must be imposed on you
2. You must have paid or accrued the tax
3. The tax must be the legal and actual foreign tax liability
4. The tax must be an income tax (or a tax in lieu of an income tax)

The first test requires the foreign tax to be imposed by a foreign country. The foreign tax should also be on income, war profits, and/or excess profits taxes paid or accrued to a foreign city or province in order to qualify for the foreign income tax credit. The second requirement

requires for the foreign tax to be actually paid to the foreign country or accrued to a foreign country. The third requirement for the foreign tax to qualify for the credit is that it must be "legal and actual foreign tax liability that you paid or accrued during the year…is not necessarily the amount of tax withheld by the foreign country" (Internal Revenue Service, 2016). The IRS also disqualifies the foreign tax if is not reduced by any refunds of foreign tax made by the foreign country. The three examples presented below are provided by the IRS to further help taxpayers clearly understand the qualifications for the foreign tax credit. (Internal Revenue Service, 2016)

> Example 1: You received a $1,000 payment of interest from a Country A investment. Country A's withholding tax rate on interest income is 30% ($300), but you are eligible for a reduced treaty withholding rate of 15% ($150) if you provide a reduced withholding statement/certificate to the withholding agent. Your qualified foreign tax is limited to $150 based on your eligibility for the reduced treaty rate, even if $300 is actually withheld because you failed to provide the required withholding statement/certificate.

> Example 2: You are sent to Country A by your U.S. employer to work for two weeks. You earn $2,500 while in Country A. Under Country A tax law, non-residents are not taxed on personal services income earned in the country if working for a non-Country A employer, earn less than $3,000, and are in the country for less than 30 days. However, in order to leave Country A, you are required to pay tax on the $2,500, but you can file a claim for refund and have the full amount of tax refunded to you later. Because it is fully refundable, none of the tax is a qualified tax, whether or not you file a refund claim with Country A.

> Example 3: You are a shareholder of a French corporation. You receive a $100 refund of the tax paid to France by the corporation on the earnings distributed to you as dividend. The French government imposes a 15% withholding tax ($15) on the refund you received. You receive a check for $85. You include the $100 in your income. The $15 of tax withheld is a qualified foreign tax.

Furthermore, the last requirement for the foreign taxes paid to qualify for foreign tax credit is for the income tax to in fact be an income tax imposed generally on income, war profits, and excess profit taxes.

The foreign taxes should pass the above four step test to qualify for foreign income tax credit. However, there are foreign taxes which cannot be taken as a credit as listed below (Internal Revenue Service, 2016):

- Taxes on excluded income (such as the foreign earned income exclusion),
- Taxes for which you can only take an itemized deduction,
- Taxes on foreign mineral income,
- Taxes from international boycott operations,
- A portion of taxes on combined foreign oil and gas income,
- Taxes of U.S. persons controlling foreign corporations and partnerships who fail to file required information returns,
- Taxes related to a foreign tax splitting event, and
- Social security taxes paid or accrued to a foreign country with which the United States has a social security agreement. For more information about these agreements.

Individual Foreign Tax Credit

The Foreign Tax Credit for an Individual, Estate, or Trust can be claimed by filing Form 1116. The Instructions for Form 1116 published by the Department of the Treasury Internal Revenue Service (IRS) provides the latest credit or deduction that can be taken by the taxpayers. An individual can claim credit for eligible foreign taxes to offset their US tax liability, additionally they can take a deduction for the following (IRS):

There are certain foreign taxes which are not allowed as a credit because of boycott provisions. These are specified below (Internal Revenue Service, 2016):

1. Taxes paid to certain foreign countries for which a credit has been denied.
2. Taxes on income or gain that are not creditable because you do not meet the holding period requirement.
3. Taxes on income or gain that are not creditable because you have to make related payments.
4. Certain taxes paid or accrued to a foreign country in connection with the purchase or sale of oil or gas extracted in that country.
5. Taxes on income or gain that are not creditable because they were paid or accrued in connection with a covered asset acquisition

Corporate Foreign Tax Credit

The Foreign Tax Credit for Corporations can be claimed by filing Form 1118. The Instructions for Form1118 published by the Department of the Treasury Internal Revenue Service (IRS) provides the latest credit or deduction that can be taken by the taxpayers. “Corporations are required to calculate this credit separately for different income categories to prevent taxpayers from combining income that is traditionally taxed at low rates, such as dividend or interest income, with income that is typically taxed at higher rates, such as active business income”. (IRS) The corporation can claim tax credit for the following taxes (IRS):

1. Income, war profits, and excess profits taxes (defined in Regulations section 1.901-2(a)) paid or accrued during the tax year to any foreign country or U.S. possession;
2. Taxes deemed paid under sections 902 and 960; and
3. Taxes paid in lieu of income taxes as described in section 903 and Regulations section 1.903-1.

History

“In 1913, when the American income tax was first implemented, tax rates were low and this double taxation may have been a comparatively minor nuisance. In 1918, however, with the world at war and tax rates inflating rapidly around the globe, international double taxation was becoming a far more series burden on Americans doing business or investing abroad.” (West & Varma, 2012)

In 1921 Congress enacted the foreign tax credit limitation that specified as “a taxpayer could offset its overall US tax liability by the ratio of its foreign source income over its worldwide income” (West & Varma, The Past and Future of the Foreign Tax Credit, 2012). In equation form it simplified to the taxpayer’s US tax liability on worldwide income times the ratio

of the taxpayer's foreign source income over the taxpayer's worldwide income (West & Varma, The Past and Future of the Foreign Tax Credit, 2012).

When the foreign income tax credit was enacted, it allowed individuals and corporations to credit the total amount of foreign taxes paid (West & Varma, The Past and Future of the Foreign Tax Credit, 2012). This vulnerable act without a limitation can be highly subjected to abuse as companies "could credit an unlimited amount of tax paid to countries with tax rates that exceeded the US rate" (Redmiles & Wenrich). (Hollenbeck & Keenan Kahr, 2014) And, if the corporations planned strategically, the foreign tax credit at the time could also be used to offset US tax liability that arises from US sourced income.

To battle or limit foreign tax credit claimed, in 1932 Congress limited the foreign tax allowed on a "per country" limitation. (West & Varma, The Past and Future of the Foreign Tax Credit, 2012). This limitation not only made calculation of the credit difficult but it also required a separate calculation and credit amount for each country applicable. Later, to make limitations and reductions easier, in 1976 congress repealed the per country rule and leaving only the overall limitation which is still applicable in today's tax laws (West & Varma, The Past and Future of the Foreign Tax Credit, 2012). Later in the tax reform Act of 1986, additional limitations were added by Congress which required calculation of FTC with respect to various categories than countries (West & Varma, The Past and Future of the Foreign Tax Credit, 2012).

However, recently in 2004, Congress reduced the categories down to only two categories: interest expense and assets of foreign affiliates. (West & Varma, The Past and Future of the Foreign Tax Credit, 2012). These two categories could also be part of a "passive category income" basket which includes foreign personal holding company income like dividends,

interests and royalties. And the second category is the “general category income” includes any other income that does not fall under the passive income category. (West & Varma, 2012)

Battle by the Government

The Notice 98-5 dropped by the IRS in 1998 titled “Foreign Tax Credit Abuse” demotivates corporations from ‘a variety of abusing tax-motivated transactions with a purpose of acquiring or generating foreign tax credits that can be used to shelter low-taxed foreign source income from residual U.S. tax (IRS, 1998). These tax abusive arrangements involve

1. The acquisition of an asset that generates an income stream subject to foreign withholding tax, or
2. Effective duplication of tax benefits through the use of certain structures designed to exploit inconsistencies between U.S. and foreign tax laws (IRS, 1998).

The notice further provides examples as to how the above mentioned arrangements are being performed. Additionally, it also provides with regulations that will be in effect to prevent corporations from further abusing the credit. Thus, this notice was made effective December 23, 1997.

However, notice 98-5 that was published in 1998 was later withdrawn and replaced by Notice 2004-19. This notice was published on March 15, 2004 with a purpose “to describe the approach that the Treasury Department and the Internal Revenue Service (IRS) are using to address transactions involving inappropriate foreign tax credit results” (Chung, Internal Revenue Bulletin, 2004). The treasury and the IRS will continue to investigate transactions that involve inappropriate foreign tax credit results. One of the ways they intend to penalize the individual taxpayers or corporations is through the following: “the IRS will challenge the claimed tax consequences of such transactions under the following principles of existing law: the substance

over form doctrine, the step transaction doctrine, debt-equity principles, section 269, the partnership anti-abuse rules of § 1.701-2, and the substantial economic effect rules of § 1.704-1" (Chung, Internal Revenue Bulletin, 2004).

A recent example of this occurrence in the abuse of foreign income tax credit was present in the United States Government trial against Lehman Brothers Holdings that was released by Department of Justice on May 11th of 2015 (USAO - New York, Southern, 2015). In this case, that ruled in the favor of United States, the Lehman Brothers claimed they disagrees with the IRS' disallowance of the $67 million in FTC's to the company. Further to summarize the details and verdict on the case, US attorney Preet Bharara states, "'The Court's decision rightly rejected an audacious tax-avoidance scheme that would have cost taxpayers hundreds of millions of dollars in lost revenue had it been allowed to go forward. Lehman moved millions of shares of stock around in an attempt to create tax credits available only under its questionable – and, as the Court found, erroneous – reading of a tax treaty, which it then tried to use to avoid paying taxes on its unrelated income'" (USAO - New York, Southern, 2015).

Thus, this is one of the few ways the Treasury seems to be battling abusive arrangements for few years. Additionally, the statistics that were mentioned above also suggest that the treasury might have been successfully battling abusive arrangement as the amount of FTC claimed in dollars has been declining at a significant rate. However, the (Redmiles & Wenrich)equivalent statistics also raise questions regarding whether the treasury is taking enough measure to prevent the individuals, estates and trust from finding abusive ways to claim FTC advantageously.

Research

The following is an analytical study of the trends in the use of foreign income tax credit through number of returns, foreign source gross income, foreign source deduction, total income, and total taxes deemed paid, from 1996-2011 data from the Internal Revenue Service.

Research Questions

1. What, if any, trends exist in foreign deductions taken by region for individual returns?
2. What, if any, trends exist in foreign deductions taken by region for corporate returns?
3. Are individual tax returns with form 1116 greater in number than corporate returns with form 1118?
4. What, if any, trends exist in the percent of foreign income tax deductions claimed against foreign income for individuals and corporations?
5. What, if any, trends exist in the percent of foreign income tax deductions claimed against foreign taxes deemed paid for individuals and corporations?
6. What does this analytical study conclude for the greater abuse of foreign income tax credit by individuals or corporations?

Methodology

Data Collection

The purpose of this section is to present the details of the data that will be utilized to perform this research along with the various methods. The selection of the methods will help answer the above mentioned research questions thorough numerous analysis with a supporting reason.

The Internal Revenue Service releases data in increments of five years on the Statistics of Income (SOI) Tax Statics database for the open public to utilize in a legal manner. To summarize, the kind of samples IRS uses for this data, “The statistics in these publications are

based on information reported on Forms 1118 and related corporate tax forms for those corporation income tax returns with a foreign tax credit that were included in the Statistics of Income sample of returns. These returns were selected after administrative processing but prior to any amendments or audit examination." (IRS). Thus, these data sets do not include nay amended returns due to carry back of foreign tax credit or changes due to any preparer error.

Data Analysis Method

The SOI provides data categorized by geographic regions along with sub details as per each country into that region. The data also is broken down into total foreign income, the various categorized deductions, total taxable foreign income and total foreign taxes deemed. This data was filtered for necessity of this study and organized in a concise table which are provided in Appendix B below. These tables were later analyzed against the comparing data to form percentages that will help answer the research questions above.

Results and Analysis

Foreign Income Tax Credit by Form Type:

Figure 1 –Distribution of Tax Return across geographic region for Form 1116

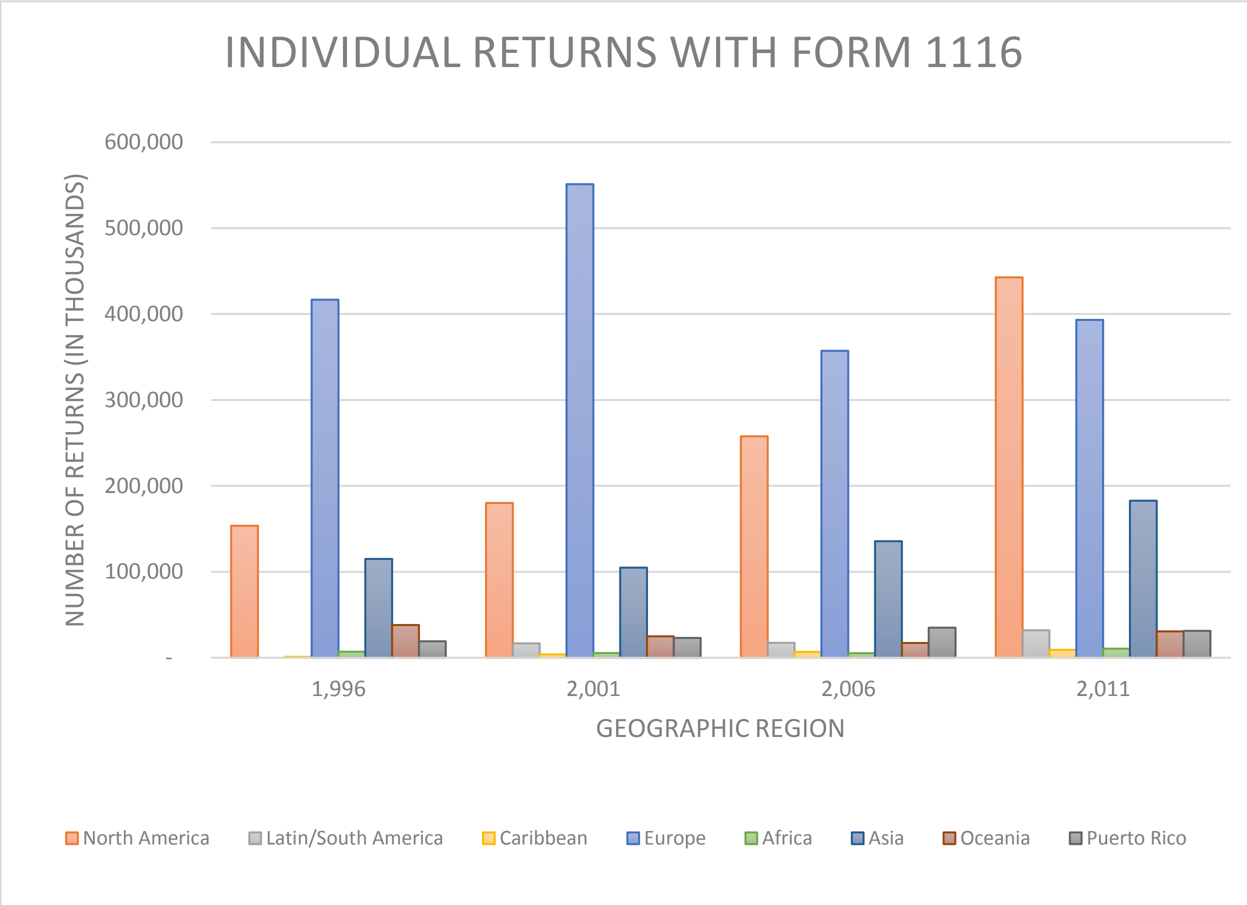
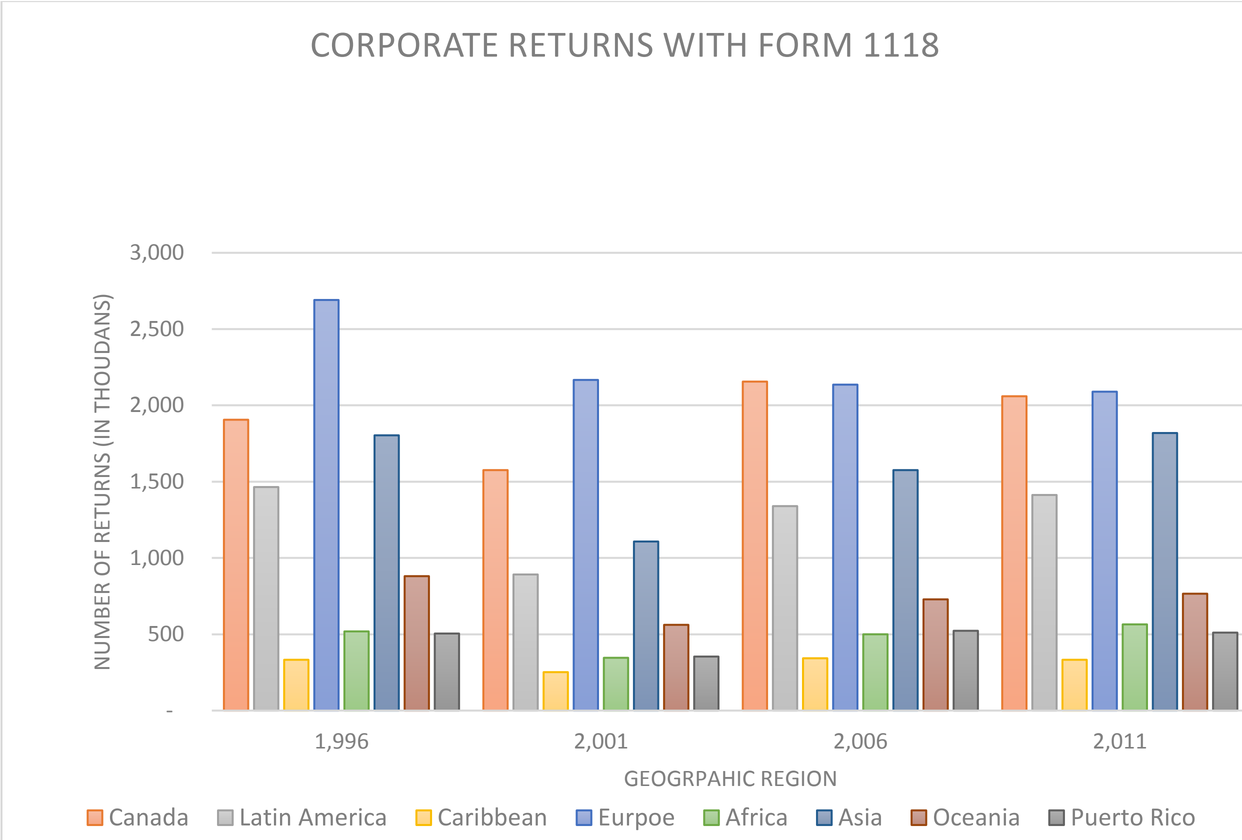


Figure 2 –Distribution of Tax Return across geographic region for Form 1118



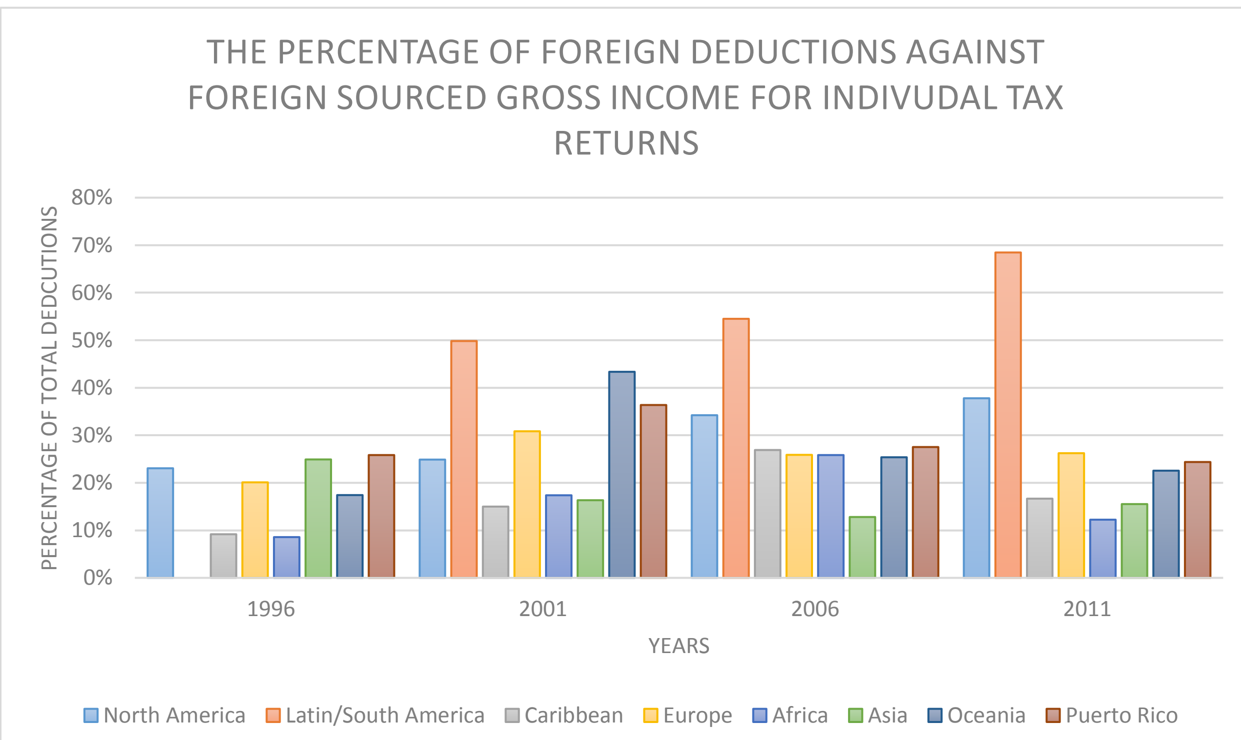
The distribution of individual tax returns that claimed foreign income tax credit on the IRS form 1116, over geographic region is shown in Figure 1. As the data is not selected as a sample from the data pool, rather is the original and accurate data from the IRS's statistics of Income database; it does not have to be compared to any specific dataset to check for reliability. In Figure 2 shown above is the distribution of corporate tax returns that claimed foreign income tax credit using form 1118 across various geographic region. For the data tables for the above charts see Table 1.1 and 2.1 in Appendix A.

A visual trend that can be observed of the two charts and the supporting Tables 1.1 and 2.1 in Appendix A demonstrates the similarities in trends across geographic regions though the various year span. For example, in the year of 1996 data, the trend line for data point would

follow the same pattern with Europe being the highest and North America or Canada coming in second. In the above section, research question three asked whether the volume of individual returns with form 1116 or corporate returns with form 1118 was higher. The above presented graphs along with the tables present in the Appendix demonstrate the higher volume of individual returns than corporate returns. A logical reason would be due to the various employees employed by a single foreign corporation, thus resulting in numerous individual returns generating from a single foreign corporation.

Total Foreign Income Deductions as a Percent of Total Foreign Source Gross Income

Figure 3. The Percentage of Deductions from Foreign Sourced Gross Income for Individual Tax Returns



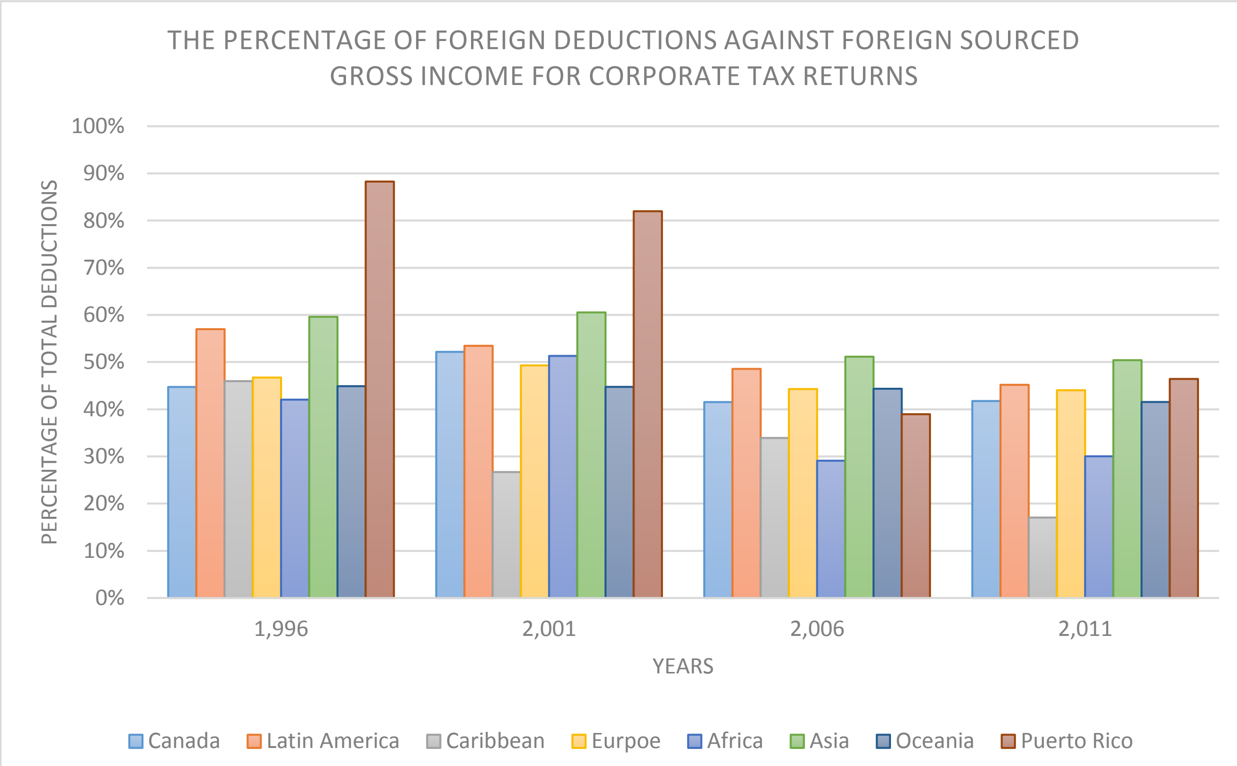
In the data analyzed above for the 15-year span, Statics of Income data was only available for Latin America starting 2001. However, the individual returns that reported foreign sourced Income from Latin America claimed 50% of that as foreign deductions. Further in 2006 and 2011, the percent of foreign deductions against foreign source income increased to 55% and 68%, respectively. The above presented graph displays the geographic trend in foreign deductions for individual returns, as research question one stated above. The foreign deductions have been utilized at its utmost in Latin America against other geographic regions for individual tax returns. This may suggest that the individuals have a greater advantage against U.S. tax liability to go to Latin/South America, if an option is available. Additionally, it also suggests that tax laws encourage or have hidden tax breaks for US citizens that work in Latin/South America.

The North America percentage presented above only represent the foreign sourced income from Canada, which still ranks higher in percentage than other geographic regions in other continents. Consequently, the trade agreements within the North and South America may provide the US labor force a higher tax break against other geographic regions. The average percent of foreign deductions claimed by various geographic region is provided in the table below.

Table 3.2 - Average for each geographic region of Foreign Source Gross Income to Foreign Source Deduction per year for individuals

	North America	Latin/South America	Caribbean	Europe	Africa	Asia	Oceania	Puerto Rico
1996	23%		9%	20%	9%	25%	17%	26%
2001	25%	50%	15%	31%	17%	16%	43%	36%
2006	34%	55%	27%	26%	26%	13%	25%	28%
2011	38%	68%	17%	26%	12%	16%	23%	24%
Average	**30%**	**58%**	**17%**	**26%**	**16%**	**17%**	**27%**	**29%**

Figure 4. The Percentage of Deductions from Foreign Sourced Gross Income for Corporate Tax Returns



In the above analysis, US citizens claimed most deductions in Latin America when compared in percentage against their total foreign sourced income. However, on the US corporate tax returns, Puerto Rico had the highest average for percentage of foreign deductions claimed as seen in table 4.1 below. The above presented graph displays the trend of Puerto Rico claiming the highest foreign deduction as asked by research question two. The percentage for deductions claimed against income for Puerto Rico were above 80% in 1996 and 201, however they significantly dropped to about half of the previous data collections in 2006 and 2011. This could lead to an observation of the data for Puerto Rico being slightly skewed due to great amounts of inconsistency in the data.

Additionally, the corporate tax returns seem to be have a higher percentage for deductions claimed against the foreign gross taxable income. The comparison of the individual

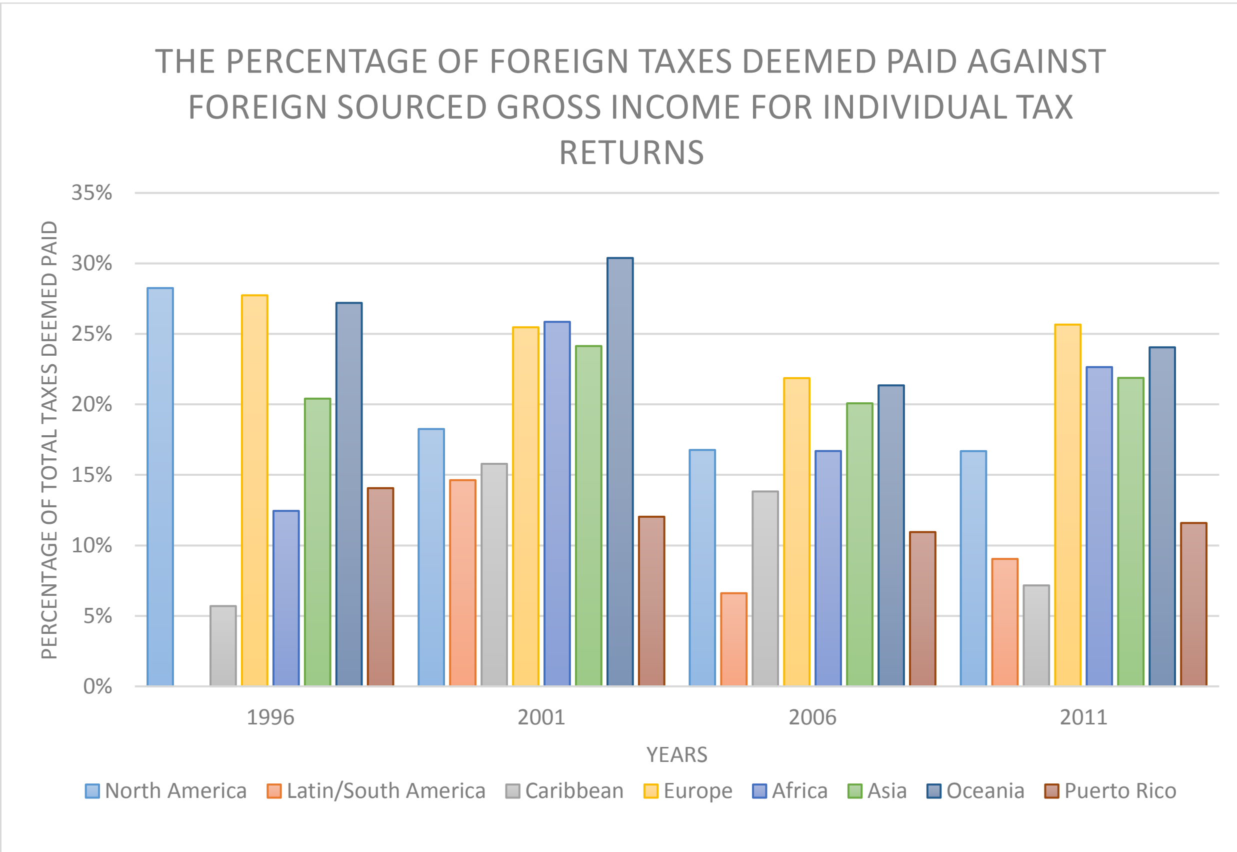
deductions against the corporate display greater advantages of the FTC credit to the corporation than the individuals. This trend of greater advantage of foreign deductions against foreign gross income, as asked in research question four, to the corporation versus the individuals contradicts with the volume of returns results. Accordingly, the increased volume of individual returns do not sum greater than the foreign deductions claimed against foreign income by the corporations.

Table 4.2 Average for each geographic region of Foreign Source Gross Income to Foreign Source Deduction per year for corporations

	Canada	**Latin America**	**Caribbean**	**Eurpoe**	**Africa**	**Asia**	**Oceania**	**Puerto Rico**
1,996	45%	57%	46%	47%	42%	60%	45%	88%
2,001	52%	53%	27%	49%	51%	61%	45%	82%
2,006	42%	49%	34%	44%	29%	51%	44%	39%
2,011	42%	45%	17%	44%	30%	50%	42%	46%
Average	**45%**	**51%**	**31%**	**46%**	**38%**	**55%**	**44%**	**64%**

Total Foreign Income Tax Deemed paid as a Percent of Total Foreign Source Gross Income

Figure 5. The Percentage of Taxes Deemed from Foreign Sourced Gross Income for Individual Tax Returns



The graph presented above, Figure 5, displays the percentage of foreign taxes deemed paid against the total foreign sourced income in the given time period over various geographic regions. Also, in the Table 5.1 presented below, displays the analysis averaged together into a single percentage for the given time frame. The previous analysis displayed Latin/South America having the highest deductions, which also translates to least US tax liability for US citizens with income from Latin and South American countries. This observation is recognized accurate, as Latin/South American region paid only 10% in taxes. In other words, the US tax liability was

approximately only 10% of the total foreign income earned, which also is the lowest tax bracket for individual taxpayers in the U.S.

Table 5.2 Average for each geographic region of Foreign Source Gross Income to Total Taxes Deemed Paid per year for individuals

	North America	Latin/South A	Caribbean	Europe	Africa	Asia	Oceania	Puerto Rico
1996	28%		6%	28%	12%	20%	27%	14%
2001	18%	15%	16%	25%	26%	24%	30%	12%
2006	17%	7%	14%	22%	17%	20%	21%	11%
2011	17%	9%	7%	26%	23%	22%	24%	12%
Average	**20%**	**10%**	**11%**	**25%**	**19%**	**22%**	**26%**	**12%**

Figure 6. The Percentage of Taxes Deemed from Foreign Sourced Gross Income for Corporate Tax Returns

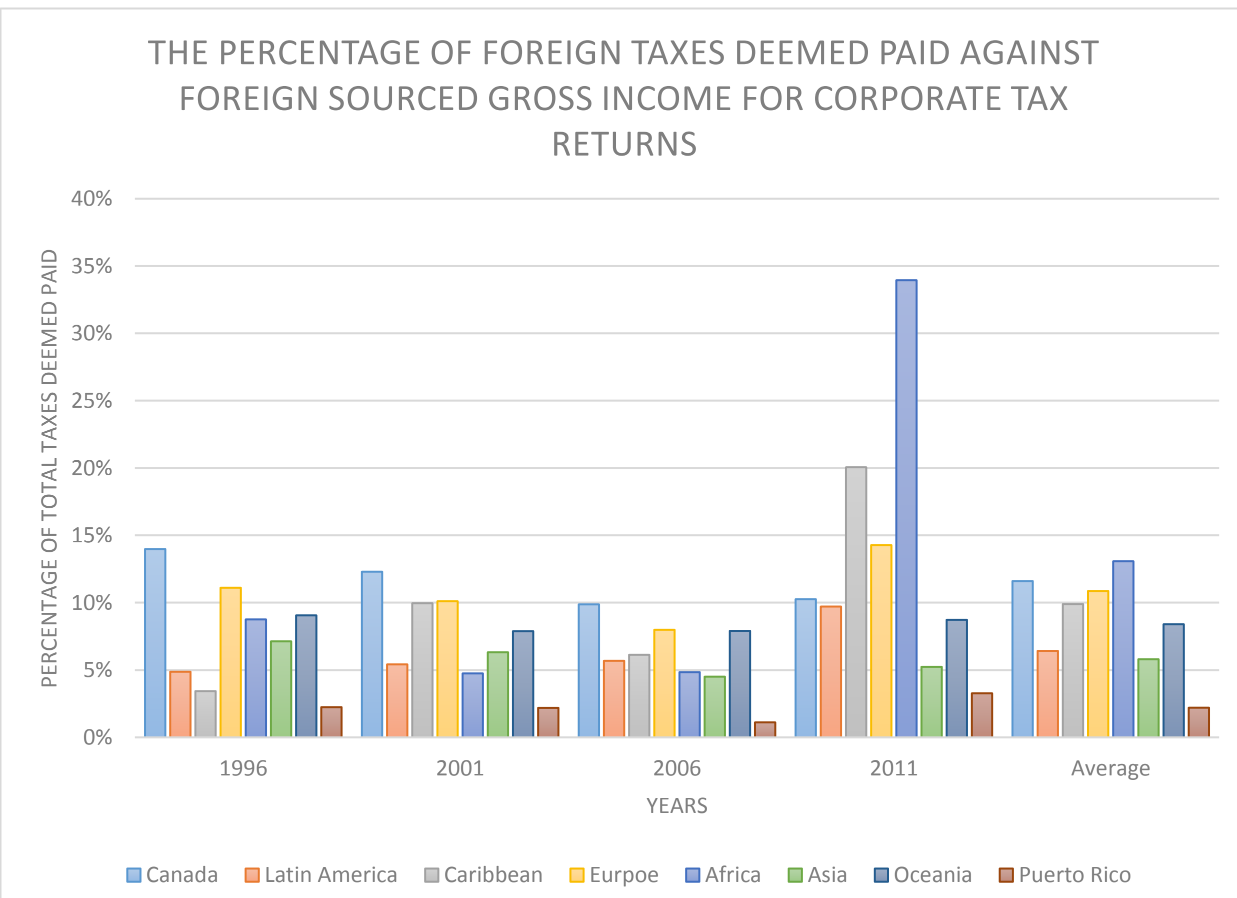


Figure 4 displays the Puerto Rico region claiming the highest deductions against foreign sourced income despite the drastic decrease in 2006 and 2011. Conjunctionally, as seen in the graph above Puerto Rico seems to have the lowest Foreign taxes deemed paid on the foreign sourced income reported for that region by all the corporations. The Puerto Rico region only paid 2% of taxes on the income earned in that region which is very low compared to the lowest individual foreign taxes deemed at 10% by Latin American region. Thus, this analysis repeatedly indicates the higher deductions and lower tax liabilities by the US corporations earning foreign sourced income against individuals earning foreign sourced income, as asked by research question five.

Table 6.2 Average for each geographic region of Foreign Source Gross Income to Total Taxes Deemed Paid per year for corporations

	Canada	Latin America	Caribbean	Eurpoe	Africa	Asia	Oceania	Puerto Rico
1996	14%	5%	3%	11%	9%	7%	9%	2%
2001	12%	5%	10%	10%	5%	6%	8%	2%
2006	10%	6%	6%	8%	5%	5%	8%	1%
2011	10%	10%	20%	14%	34%	5%	9%	3%
Average	12%	6%	10%	11%	13%	6%	8%	2%

Conclusions

This study analyzed the statistic obtained from the Statistics of Income database provided and maintained by the IRS. The data analyzed over the 15-year span from 1996 to 2011 presents various trends in the use of foreign income tax credit. The individual tax returns have a greater volume of taxpayers that claim the foreign income tax credit against the corporations. However,

the higher volume does not necessarily add up to higher utilization of credits, rather the corporations claim a much higher foreign income tax credit.

Although it is sensible to assume that the higher individuals return would result in a higher abuse foreign tax credits, however this study implied otherwise. The study shows that corporations only pay 2% taxes on as their US liability after claiming the credit on their foreign income in the most tax beneficial region like Puerto Rico. Nevertheless, individual taxpayers pay 12% taxes on as their US liability after claiming the credit on their foreign income in same region. This difference of almost 10% higher US taxes paid on foreign income by the individuals infers the abuse of the abuse of foreign income tax credit is at a higher rate than that by the individuals.

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Appendix A

Table 1.1 - Number of Individual Tax Returns Filled with Form 1116				
Number of Returns	1996	2001	2006	2011
North America	153,622	180,128	257,726	442,718
Latin/South America	-	16,673	17,359	31,961
Caribbean	1,058	3,873	6,816	9,197
Europe	416,745	551,223	357,218	393,233
Africa	6,978	5,433	5,272	10,535
Asia	115,018	104,845	135,617	182,776
Oceania	38,078	24,915	17,145	30,662
Puerto Rico	19,154	23,030	34,964	31,285

Table 2.1 - Number of Corporate Tax Returns Filled with Form 1118				
Number of Returns	1996	2001	2006	2011
Canada	1,906	1,576	2,156	2,060
Latin America	1,465	892	1,340	1,413
Caribbean	333	252	343	333
Eurpoe	2,691	2,167	2,136	2,090
Africa	519	346	500	565
Asia	1,804	1,108	1,576	1,819
Oceania	881	562	729	766
Puerto Rico	505	354	523	511

Tabe 3.1 - Average for each geographic region of Foreign Source Gross Income to Foreign Source Deduction per year for individuals								
Foreign Source Gross Income								
	North America	Latin/South America	Caribbean	Europe	Africa	Asia	Oceania	Puerto Rico
1996	2,960,489	-	187,952	9,058,447	314,752	5,390,621	494,028	791,929
2001	7,173,941	1,327,271	163,201	16,504,079	288,787	7,479,056	1,076,056	802,502
2006	12,133,130	4,330,765	612,320	24,809,573	680,565	11,696,581	1,196,689	1,442,788
2011	16,652,533	7,202,573	1,023,967	32,365,839	1,940,849	19,093,930	2,682,217	1,430,502
Foreign Source Deduction								
	North America	Latin/South America	Caribbean	Europe	Africa	Asia	Oceania	Puerto Rico
1996	682,653	-	17,245	1,820,697	26,994	1,343,203	86,050	204,630
2001	1,785,396	661,429	24,475	5,090,347	50,183	1,221,687	466,558	291,884
2006	4,152,170	2,360,572	164,730	6,420,816	175,845	1,497,691	303,656	397,177
2011	6,293,190	4,931,331	170,672	8,489,532	237,593	2,964,048	604,963	348,711
	North America	Latin/South America	Caribbean	Europe	Africa	Asia	Oceania	Puerto Rico
1996	23%	-	9%	20%	9%	25%	17%	26%
2001	25%	50%	15%	31%	17%	16%	43%	36%
2006	34%	55%	27%	26%	26%	13%	25%	28%
2011	38%	68%	17%	26%	12%	16%	23%	24%
Average	**30%**	**43%**	**17%**	**26%**	**16%**	**17%**	**27%**	**29%**

Tabe 4.1 - Average for each geographic region of Foreign Source Gross Income to Foreign Source Deduction per year for corporations								
Foreign Source Gross Income								
	Canada	Latin America	Caribbean	Eurpoe	Africa	Asia	Oceania	Puerto Rico
1996	26,878,811	35,629,448	5,192,952	126,490,604	5,678,937	74,982,034	11,233,599	4,094,328
2001	24,637,380	39,029,520	7,430,526	153,761,933	7,431,642	71,364,577	8,186,887	5,674,410
2006	51,363,576	76,470,600	18,348,771	262,833,565	20,799,775	115,970,868	18,030,166	19,248,274
2011	44,657,461	68,343,790	23,248,343	290,292,225	23,576,481	174,862,935	25,601,393	12,021,008
Foreign Source Deduction								
	Canada	Latin America	Caribbean	Eurpoe	Africa	Asia	Oceania	Puerto Rico
1996	12,023,022	20,302,634	2,386,900	59,107,107	2,387,558	44,687,518	5,043,694	3,614,064
2001	12,853,272	20,863,128	1,983,376	75,809,842	3,813,179	43,199,658	3,663,435	4,652,029
2006	21,330,370	37,134,094	6,223,172	116,404,267	6,052,513	59,318,530	7,996,554	7,498,020
2011	18,645,166	30,880,015	3,962,236	127,815,084	7,079,113	88,146,984	10,636,311	5,581,395
	Canada	Latin America	Caribbean	Eurpoe	Africa	Asia	Oceania	Puerto Rico
1996	45%	57%	46%	47%	42%	60%	45%	88%
2001	52%	53%	27%	49%	51%	61%	45%	82%
2006	42%	49%	34%	44%	29%	51%	44%	39%
2011	42%	45%	17%	44%	30%	50%	42%	46%
Average	**45%**	**51%**	**31%**	**46%**	**38%**	**55%**	**44%**	**64%**

Tabe 5.1 - Average for each geographic region of Foreign Source Gross Income to Total Taxes Deemed Paid per year for individuals								
Foreign Source Gross Income								
	North America	Latin America	Caribbean	Europe	Africa	Asia	Oceania	Puerto Rico
1996	2,960,489	-	187,952	9,058,447	314,752	5,390,621	494,028	791,929
2001	7,173,941	1,327,271	163,201	16,504,079	288,787	7,479,056	1,076,056	802,502
2006	12,133,130	4,330,765	612,320	24,809,573	680,565	11,696,581	1,196,689	1,442,788
2011	16,652,533	7,202,573	1,023,967	32,365,839	1,940,849	19,093,930	2,682,217	1,430,502
Total Taxes Deemed Paid								
	North America	Latin America	Caribbean	Europe	Africa	Asia	Oceania	Puerto Rico
1996	836,382	-	10,702	2,512,545	39,171	1,100,201	134,378	111,348
2001	1,309,506	194,148	25,759	4,203,495	74,667	1,805,403	326,964	96,557
2006	2,034,525	286,178	84,644	5,424,521	113,606	2,348,346	255,492	157,900
2011	2,778,640	651,001	73,322	8,305,468	439,534	4,177,757	645,055	165,772
	North America	Latin America	Caribbean	Europe	Africa	Asia	Oceania	Puerto Rico
1996	28%	-	6%	28%	12%	20%	27%	14%
2001	18%	15%	16%	25%	26%	24%	30%	12%
2006	17%	7%	14%	22%	17%	20%	21%	11%
2011	17%	9%	7%	26%	23%	22%	24%	12%
Average	**20%**	**8%**	**11%**	**25%**	**19%**	**22%**	**26%**	**12%**

Tabe 6.1 - Average for each geographic region of Foreign Source Gross Income to Total Taxes Deemed Paid per year for corporations								
	Foreign Source Gross Income							
	Canada	Latin America	Caribbean	Eurpoe	Africa	Asia	Oceania	Puerto Rico
1996	26,878,811	35,629,448	5,192,952	126,490,604	5,678,937	74,982,034	11,233,599	4,094,328
2001	24,637,380	39,029,520	7,430,526	153,761,933	7,431,642	71,364,577	8,186,887	5,674,410
2006	51,363,576	76,470,600	18,348,771	262,833,565	20,799,775	115,970,868	18,030,166	19,248,274
2011	44,657,461	68,343,790	23,248,343	290,292,225	23,576,481	174,862,935	25,601,393	12,021,008
	Total Taxes Deemed Paid							
	Canada	Latin America	Caribbean	Eurpoe	Africa	Asia	Oceania	Puerto Rico
1996	3,757,980	1,737,345	178,349	14,058,499	497,397	5,345,840	1,017,574	91,882
2001	3,031,747	2,115,145	739,647	15,538,763	352,963	4,508,640	645,613	124,594
2006	5,071,855	4,351,219	1,125,930	21,008,274	1,007,099	5,230,611	1,426,546	214,412
2011	4,580,304	6,639,645	4,661,994	41,431,900	8,002,281	9,165,329	2,235,871	393,314
	Canada	Latin America	Caribbean	Eurpoe	Africa	Asia	Oceania	Puerto Rico
1996	14%	5%	3%	11%	9%	7%	9%	2%
2001	12%	5%	10%	10%	5%	6%	8%	2%
2006	10%	6%	6%	8%	5%	5%	8%	1%
2011	10%	10%	20%	14%	34%	5%	9%	3%
Average	**12%**	**6%**	**10%**	**11%**	**13%**	**6%**	**8%**	**2%**