

Individual Foreign-Earned Income and Foreign Tax Credit, 1996

by Jeff Curry, Maureen Keenan Kahr, and Sarah E. Nutter

For 1996, U.S. taxpayers reported \$21.1 billion in foreign-earned income on their individual income tax returns, an increase in real percentage terms of 33.3 percent from 1991 (the last time this study was done). Over the same time period, the increase in the foreign tax credit and foreign-source gross income (upon which the credit is based) was much higher, 68.3 percent and 67.8 percent, respectively. For 1996, U.S. taxpayers reported foreign-source gross income of approximately \$29.1 billion and claimed slightly over \$3.5 billion in foreign tax credits. There was also a notable increase in the number of taxpayers reporting a foreign tax credit on their U.S. individual income tax returns between 1991 and 1996. A foreign tax credit was claimed on 2.1 million returns for 1996, an increase of 140.8 percent from 1991.

Between 1991 and 1996, the real growth in Asian-based earned income exceeded that of European-based earned income for those taxpayers claiming the foreign-earned income exclusion. Total foreign-earned income reported by Asian-based taxpayers grew 50.5 percent (in real terms) to \$8.4 billion, while amounts reported by European-based taxpayers increased 12.4 percent to \$7.5 billion. For 1996, Asian-based taxpayers, especially those based in Hong Kong, Singapore, and China, reported substantially higher amounts of foreign-earned income compared to 1991 levels, accounting for \$8.4 billion (39.8 percent) of the \$21.1 billion in foreign-earned income, while European-based individuals reported \$7.5 billion (35.3 percent). During this same time period, foreign-source gross income reported for foreign tax credit purposes for Asian countries grew 74.6 percent (in real terms) to \$5.4 billion, outpacing the growth related to foreign-source gross income for European countries, which grew 36.6 percent to \$9.1 billion.

Overview of Foreign-Earned Income Provisions

An exclusion for foreign-earned income was initially included in Federal income tax law in 1926. The goals of the provision were to equate the tax burden

of U.S. citizens abroad with that of their domestic counterparts and to provide an incentive for U.S. participation in foreign trade. For 1996, qualified U.S. citizens or resident aliens living and working abroad could elect to exclude a certain amount of foreign-earned income and an excess foreign housing cost amount under section 911 of the Internal Revenue Code. The election was made separately for each of the exclusions. To qualify, an individual must have had a foreign tax home and satisfied either the bona fide residence or physical presence test. Only U.S. citizens could use the bona fide residence test. The bona fide residence test was generally satisfied if the individual had established and maintained residence in a foreign country for an uninterrupted period that included an entire taxable year. An individual would not be considered a resident if a statement was submitted to the taxing authorities of the foreign country indicating non-residency and the foreign country did not subject the individual to foreign income taxation. Under the physical presence test, an individual had to be present in a foreign country during at least 330 full days during any period of 12 consecutive months.

In general, earned income was compensation received for personal services. Thus, wages, salaries, and professional fees qualified as earned income for purposes of the exclusion. Taxpayers engaged in a trade or business that used both capital and services to produce income could treat as earned income any reasonable amount that did not exceed 30 percent of the taxpayer's share of the net profits of the trade or business. Earned income also included employer-provided allowances or reimbursements such as cost-of-living allowances, overseas compensation differentials, quarters, education allowances, and the full rental value of property or facilities provided by the employer. To qualify for the exclusions, the earned income had to be foreign-earned income. In general, it would be foreign-earned income if personal services were performed in a foreign country. The actual location of the employer and employee at the time compensation was received did not affect this determination. Not included in foreign-earned income were pensions, annuities, compensation by the U.S. government, and income excluded by an employer to compensate for meals and lodging provided for the employer's convenience.

For 1996, the maximum amount of foreign-

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earned income that could be excluded was \$70,000, prorated on a daily basis for the qualifying period. If both the foreign-earned income and housing exclusion were elected, the foreign housing exclusion was calculated first. The foreign-earned income exclusion was then limited to the excess of foreign-earned income over the housing exclusion.

Qualified housing expenses were reasonable housing costs paid or incurred during the tax year. In general, they included such expenses as utilities, insurance, and rent. The excess housing cost amount was equal to the individual's qualified housing expenses for the tax year over a base-level amount (\$9,216 for 1996) prorated on a daily basis. To the extent these were employer-provided amounts, the excess housing cost amount was allowed as a foreign housing exclusion. Housing costs related to self-employment were allowed as a foreign housing deduction in computing adjusted gross income. The foreign housing deduction was limited to the excess of foreign-earned income over the sum of foreign-earned income and housing exclusions. Any excess housing amount that was not deductible could be carried over to the following tax year.

In addition to the exclusions (foreign-earned income and housing) and the housing deduction, individuals could also claim a foreign tax credit (discussed in more detail in the *Overview of Foreign Tax Credit Provisions* section) for foreign income taxes paid or accrued on two types of foreign-source income: (1) foreign-earned income for which the foreign-earned income exclusion was not claimed, and (2) foreign-source income that did not qualify for the exclusions or deduction.

U.S. taxpayers filed Form 2555, *Foreign Earned Income*, with Form 1040, *U.S. Individual Income Tax Return*, or Form 1040PC to claim the exclusions and the housing deduction. For 1996, of the 120,351,208 individual income tax returns filed with the Internal Revenue Service, 279,758 had a Form 2555 attached, approximately 0.2 percent of the total [1]. Tables 1 and 2 present statistics for individual income tax returns

reporting the foreign-earned income exclusion, foreign housing exclusion, and foreign housing deduction.

Total Foreign-Earned Income

As shown in Figure A, U.S. individuals reported \$21.1 billion of foreign-earned income for 1996, an increase in real percentage terms of 33.3 percent from 1991 [2] [3]. The increase in foreign-earned income can be attributed both to greater numbers of taxpayers reporting the exclusion as well as real increases in the average income earned by these individuals. The number of returns reporting foreign-earned income (with a Form 2555 attached) increased 26.7 percent to 279,758 for 1996. In addition, the average amount of foreign-earned income per return (measured in 1996 constant dollars) increased from \$71,720 for 1991 to \$75,480 for 1996.

The largest percentage increases in income were reported by taxpayers based in Asia. Asian-based individuals reported \$8.4 billion of foreign-earned income, a real increase of 50.5 percent from 1991. Over the same time period, the real growth in foreign-earned income increased at a much slower rate for European-based individuals at \$7.5 billion (a 12.4-percent real increase from 1991) and Latin American- and South American-based individuals at \$0.9 billion (a 9.9-percent real increase from 1991). The percentage of foreign-earned income reported by North American-based taxpayers increased by 3.1 percent to \$1.7 billion for 1996.

Out of approximately 280,000 individual income tax returns with a Form 2555 for 1996, nearly half reported tax homes in the following countries: the United Kingdom (8.4 percent), Canada (8.3 percent), Germany (8.2 percent), Japan (7.3 percent), Hong Kong (4.5 percent), Saudi Arabia (3.9 percent), France (3.1 percent), Switzerland (2.4 percent), and Israel (2.4 percent). The number of returns with a Form 2555 reporting German tax homes, the top tax home reported for 1991, declined by 10.2 percent from 1991 levels to 22,802 for 1996. Over the same time period, the number of returns with Hong Kong tax homes increased by 110.9 percent to 12,564 for 1996. The decrease in the number of returns reporting German tax homes may be attributed to a decreased U.S. military presence across this time period, while the substantial increase in the number of

Between 1991 and 1996, foreign-earned income reported on Asian-based returns increased 50.5 percent to \$8.4 billion.

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Figure A

Foreign-Earned Income, Exclusion, and Housing Deduction, by Selected Country or Region, Tax Years 1991¹ and 1996

[Money amounts are in thousands of dollars]

Selected country or region	Number of returns			Total foreign-earned income			Foreign-earned income exclusion before deductions		
	1991	1996	Percentage change	1991	1996	Percentage change	1991	1996	Percentage change
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All geographic areas.....	220,851	279,758	26.7	15,839,440	21,116,034	33.3	10,016,696	12,090,833	20.7
North America².....	25,477	29,027	13.9	1,673,536	1,724,579	3.1	1,217,661	1,142,495	-6.2
Canada.....	20,517	23,333	13.7	1,370,300	1,305,384	-4.7	1,018,804	890,953	-12.5
Other North America.....	4,960	5,694	14.8	303,236	419,195	38.2	198,857	251,542	26.5
Asia.....	73,396	94,764	29.1	5,590,022	8,413,042	50.5	3,503,719	4,606,251	31.5
China.....	1,532	4,561	197.7	110,156	529,850	381.0	80,452	235,427	192.6
Hong Kong.....	5,958	12,564	110.9	682,965	1,687,824	147.1	483,241	703,510	45.6
Indonesia.....	3,713	3,568	-3.9	354,611	427,181	20.5	211,811	196,815	-7.1
Japan.....	20,003	20,456	2.3	1,510,959	1,649,367	9.2	1,089,545	891,250	-18.2
Saudi Arabia.....	13,143	11,033	-16.1	980,554	851,479	-13.2	766,630	623,144	-18.7
Singapore.....	3,056	5,049	65.2	385,614	809,346	109.9	262,646	300,513	14.4
Taiwan.....	4,850	6,070	25.2	391,385	471,315	20.4	289,487	309,441	6.9
Other Asia.....	21,141	31,463	48.8	1,173,779	1,986,680	69.3	319,907	1,346,151	320.8
Europe.....	84,486	92,534	9.5	6,630,546	7,452,455	12.4	3,863,695	3,934,552	1.8
France.....	8,784	8,553	-2.6	765,429	692,880	-9.5	544,834	378,440	-30.5
Germany.....	25,389	22,802	-10.2	1,159,185	1,236,579	6.7	885,305	805,460	-9.0
Switzerland.....	5,611	6,674	18.9	537,329	645,362	20.1	365,175	368,867	1.0
United Kingdom.....	23,004	23,426	1.8	2,602,442	2,705,533	4.0	1,436,235	1,102,496	-23.2
Other Europe.....	21,698	31,079	43.2	1,566,160	2,172,101	38.7	632,145	1,279,289	102.4
Latin/South America.....	16,039	13,761	-14.2	836,681	919,630	9.9	593,914	564,819	-4.9
Other.....	21,453	49,672	131.5	1,108,656	2,606,328	135.1	837,707	1,842,716	120.0

Selected country or region	Housing exclusion			Housing deduction		
	1991	1996	Percentage change	1991	1996	Percentage change
	(10)	(11)	(12)	(13)	(14)	(15)
All geographic areas, total.....	1,155,354	1,880,610	62.8	50,127	75,447	50.5
North America².....	36,355	49,569	36.3	1,552	2,454	58.1
Canada.....	20,521	16,344	-20.4	1,341	2,016	50.3
Other North America.....	15,834	33,225	109.8	211	438	107.8
Asia.....	600,199	1,164,465	94.0	23,662	39,036	65.0
China.....	16,762	104,462	523.2	210	3,363	1,503.9
Hong Kong.....	130,174	409,097	214.3	3,907	18,440	372.0
Indonesia.....	22,722	39,974	75.9	611	1,047	71.5
Japan.....	243,089	243,372	0.1	11,432	5,334	-53.3
Saudi Arabia.....	13,680	16,132	17.9	944	1,396	48.0
Singapore.....	68,010	182,462	168.3	1,616	2,769	71.3
Taiwan.....	33,613	26,710	-20.5	1,520	2,362	55.4
Other Asia.....	72,150	142,256	97.2	3,424	4,325	26.3
Europe.....	437,224	512,668	17.3	21,589	22,614	4.7
France.....	64,112	50,774	-20.8	2,035	3,756	84.6
Germany.....	35,226	61,236	73.8	1,874	1,868	-0.3
Switzerland.....	37,251	49,212	32.1	2,199	1,990	-9.5
United Kingdom.....	208,562	204,684	-1.9	11,282	7,170	-36.4
Other Europe.....	92,073	146,762	59.4	4,198	7,830	86.5
Latin/South America.....	41,611	69,469	67.0	1,422	2,175	53.0
Other.....	39,965	84,439	111.3	1,902	9,168	382.0

¹ For comparability, 1991 amounts have been adjusted for inflation to 1996 constant dollars.

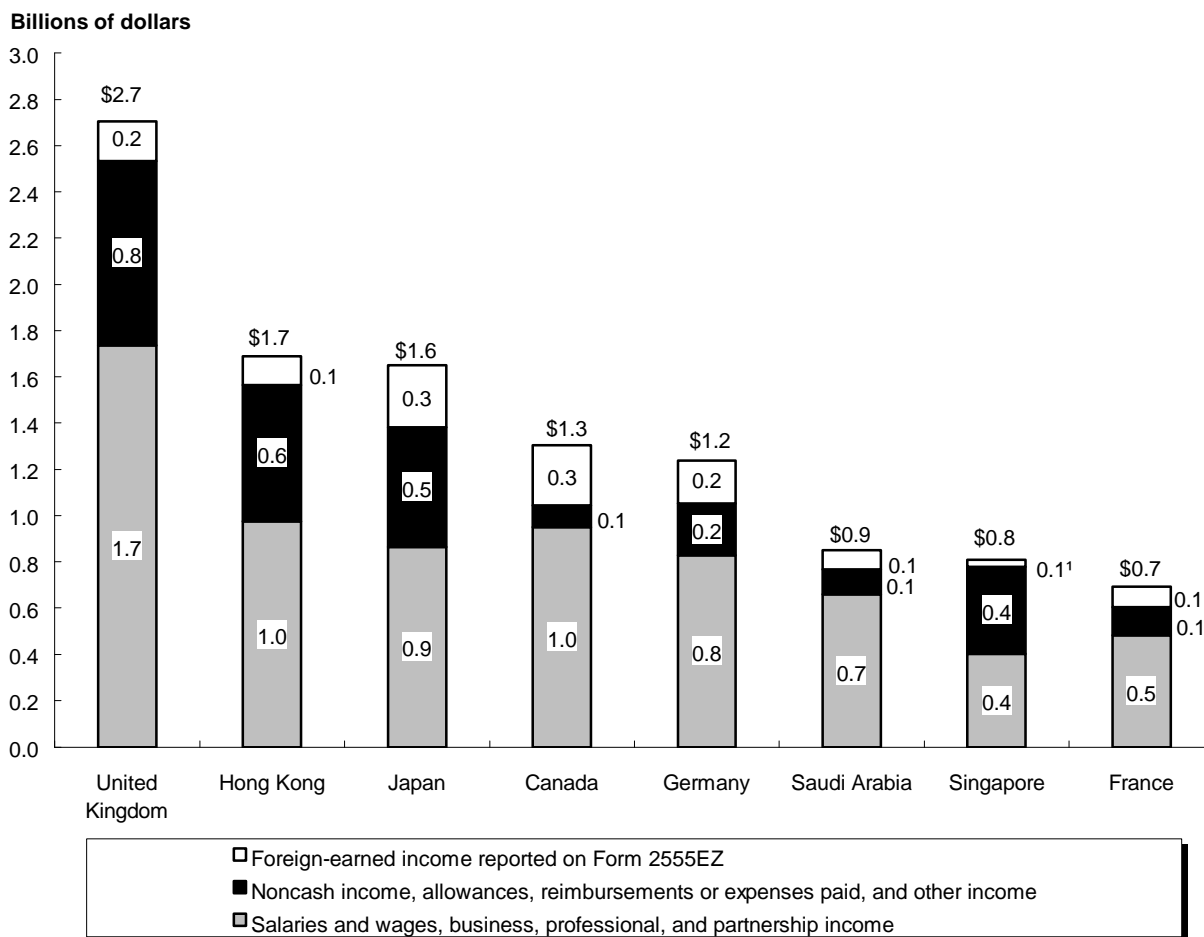
² Greenland is included in the amount for 1996 (\$3,270,000 of foreign-earned income exclusions), but is not included in the 1991 amount because data are not available.

NOTE: Detail may not add to totals because of rounding.

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Figure B

Foreign-Earned Income by Selected Country, Tax Year 1996



¹ Less than \$50,000,000.

NOTE: Detail may not add to totals because of rounding.

returns reporting Hong Kong tax homes was probably attributable to the expanding Asian economy [4].

Figure B depicts the countries with the largest amounts of foreign-earned income reported on individual tax returns for 1996. More than half of the \$21.1 billion in foreign-earned income was reported by individuals with tax homes in the United Kingdom (12.8 percent), Hong Kong (8.0 percent), Japan (7.8 percent), Canada (6.2 percent), Germany (5.9 percent), Saudi Arabia (4.0 percent), Singapore (3.8 percent), and France (3.3 percent). With the exception of Singapore, which replaced Switzerland as a leading source of foreign-earned income, individuals

in these same countries reported the largest amounts of foreign-earned income for 1991.

For 1996, Hong Kong-based individuals nearly doubled their percentage share of total foreign-earned income from 1991; their percentage share increased from 4.3 percent of the total for 1991 to 8.0 percent of the total for 1996. During this same time period, Singapore-based individuals increased their percentage share of total foreign-earned income from 2.4 percent to 3.8 percent. By contrast, Switzerland-based individuals, who accounted for 3.4 percent of the total for 1991, reported 3.1 percent of total foreign-earned income for 1996.

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Composition of Foreign-Earned Income

Of the \$21.1 billion in foreign-earned income reported for 1996, approximately \$18.4 billion were reported on Form 2555. The remainder (\$2.8 billion) was reported on Form 2555-EZ. Data related to the composition of foreign-earned income are not available on Form 2555-EZ; therefore, the breakdown discussed below includes only those amounts reported on Form 2555.

For 1996, salaries, wages, allowances, and reimbursements made up 91.8 percent of the \$18.4 billion foreign-earned income reported on Form 2555. Of this, salaries and wages accounted for 68.9 percent and allowances and reimbursements for 22.9 percent. Noncash, business, partnership, and other foreign-earned income made up the remaining 8.2 percent. The average salary for a taxpayer living and working abroad was approximately \$65,920. However, the average salary varied greatly among the countries. As shown in Figure C, in the top eight countries (with the largest percentage of Forms 2555 attached),

Hong Kong-based individuals reported the highest average salaries (\$95,700), followed closely by individuals based in the United Kingdom (\$95,300) and Singapore (\$91,800). By contrast, German-based individuals reported an average salary of \$47,900.

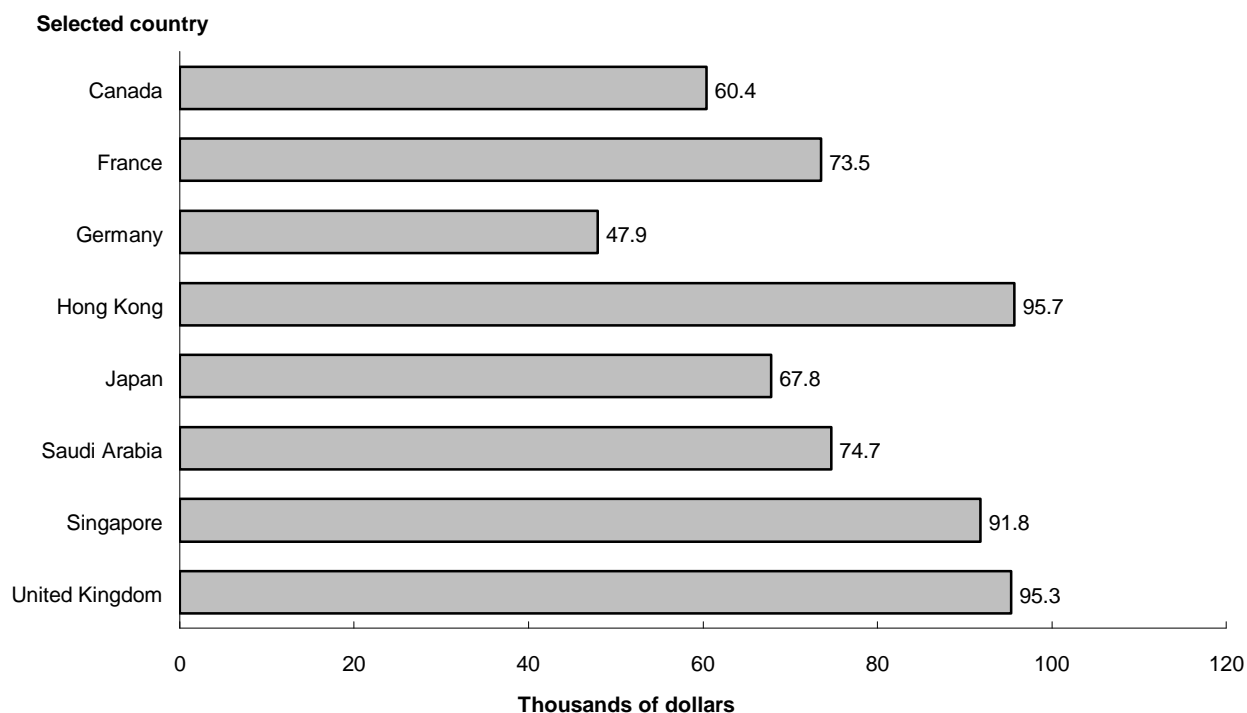
Foreign-Earned Income Exclusion, Housing Exclusion, and Housing Deduction

From 1991 to 1996, the foreign-earned income exclusion increased 20.7 percent in real terms to \$12.1 billion. In addition, the housing exclusion showed substantial growth, increasing from \$1.2 billion (in 1996 constant dollars) for 1991 to almost \$1.9 billion for 1996, an increase of 62.8 percent. The housing deduction grew significantly as well, increasing by 50.5 percent, with the amount of housing deduction claimed growing from \$50.1 million for 1991 (in 1996 constant dollars) to \$75.4 million for 1996 (Figure A).

For 1996, Asian-based individuals, in particular,

Figure C

Average Foreign Salaries and Wages Earned by U.S. Taxpayers Claiming the Foreign-Earned Income Exclusion on Form 2555, by Selected Country, Tax Year 1996



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reported substantially higher housing exclusions and deductions than for 1991. While the growth in the number of returns and foreign-earned income exclusions claimed by Asian-based individuals hovered around 30 percent, the housing exclusion amounts claimed nearly doubled to \$1.2 billion. During the same time period, the amounts claimed by these individuals in housing deductions increased 65.0 percent to \$39.0 million.

Of the \$1.9 billion of housing exclusions reported, 21.8 percent was for Hong Kong, 12.9 percent for Japan, 10.9 percent for the United Kingdom, and 5.6 percent for China. In fact, Asian-based tax returns accounted for 33.9 percent of all returns with a Form 2555 but 61.9 percent of the total amount of housing exclusions claimed. This may be due, in part, to the high cost of living in this area [5]. For 1996, the average housing exclusion was approximately \$30,900 (Table 1).

The housing deduction, which is taken as a statutory adjustment, is reported by qualified taxpayers reporting foreign-earned self-employment income. For 1996, the average deduction for those taxpayers claiming it was about \$18,200. Those taxpayers claiming the housing deduction increased their total statutory adjustments (which at the same time reduced their adjusted gross incomes) by about 35.7 percent, from about \$211 million before the deduction to approximately \$287 million after the deduction.

U.S. taxpayers claiming the foreign-earned income and housing exclusions and the housing deductions reported worldwide income of \$30.1 billion for 1996. These individuals used the exclusions and deduction to reduce their worldwide incomes by approximately \$14.0 billion, or about 46.6 percent. More than half of all taxpayers claiming the exclusions owed no U.S. income tax after claiming the exclusions, housing deduction, and any foreign tax credit to which they were entitled.

Overview of Foreign Tax Credit Provisions

For 1996, U.S. taxpayers with income from sources outside the United States, regardless of their residency, could claim a credit against their U.S. income tax liability for most foreign taxes they paid or accrued (except for taxes paid on income excluded under the foreign-earned income provisions). The purpose of

**For 1996, U.S. taxpayers
exclaimed \$3.5 billion
in foreign tax credits, a
68.3-percent increase
from 1991.**

the credit, originally created in 1918, is to avoid double taxation on foreign-source income, since the United States taxes its citizens and resident aliens based on their worldwide incomes.

The foreign tax credit is subject to a limitation based on the taxpayer's total U.S. income tax liability. These limitations prevent taxpayers from using the foreign taxes paid in relatively high tax rate countries to off-set taxes paid on their U.S.-source incomes. The limitation is computed separately for the following categories of foreign-source income: passive income, high withholding tax interest, financial services income, shipping income, dividends from an Interest-Charge Domestic International Sales Corporation (IC-DISC), distributions from a Foreign Sales Corporation (FSC), lump-sum distributions from certain retirement plans, and other (general limitation) income [6]. The allowable credits for each type of foreign-source income are then added together.

Passive income generally includes dividends, interest, rents, royalties, and annuities. High withholding tax interest is foreign interest income that is subject to a gross withholding tax of at least 5 percent. Financial services income includes income derived by a financial services entity engaged in banking, financing, or insurance. Shipping income is income from the use of any aircraft or vessel in foreign commerce or income derived from space and ocean activities. IC-DISC dividends represent the proportion of IC-DISC dividends that are from a foreign source, while FSC distributions are derived from earnings and profits attributable to foreign trade income, or from qualified interest and carrying charges. Lump-sum distributions are distributions from a retirement plan that are subject to U.S. tax using income averaging. General limitation income is all other income from sources outside the United States.

The limitation on the foreign tax credit for each different type of income is calculated by multiplying the total U.S. income tax liability before credits by the ratio of the foreign-source taxable income for that type of income to total U.S. taxable income. Foreign taxes paid in excess of the limitation can be carried back 2 years and then forward up to 5 years. Taxes carried to

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another year are added to the taxes available for credit for that year for the same limitation income. To claim the foreign tax credit, taxpayers filed Form 1116, *Foreign Tax Credit*, with Form 1040 or Form 1040PC. Tables 3 through 5 present statistics on the foreign tax credit and related foreign-source income reported on individual income tax returns.

Foreign-Source Gross Income

Foreign-source gross income is all income earned outside the United States, except for income used to claim the foreign-earned income exclusion. For 1996, approximately \$29.1 billion of foreign-source gross income were reported by taxpayers. This represents about 7.4 percent of the total worldwide income for those taxpayers who reported foreign-source income, and 0.6 percent of the total worldwide income for all U.S. taxpayers. (These statistics include only the foreign-source gross income reported on Form 1116, because some taxpayers with foreign-source income do not file Form 1116 [7].) Between 1991 and 1996, foreign-source gross income grew 67.8 percent in real percentage terms, while worldwide income reported on all individual U.S. tax returns grew only 13.6 percent (Figure D).

Almost \$9.3 billion, representing 31.9 percent, of total foreign-source gross income were reported without a specific country being stated. Of the \$19.8 billion of foreign-source gross income that had a stated country, 23.9 percent was earned in the United Kingdom, 12.5 percent in Canada, 9.3 percent in Japan, and 6.2 percent in Hong Kong (Figure E). The average foreign-source gross income reported for these countries was \$23,155, \$17,391, \$44,694, and \$121,289, respectively. The overall average foreign-source gross reported by U.S. taxpayers was \$17,073. The region with the highest growth in foreign-source gross income between 1991 and 1996 was Asia. Foreign-source gross income reported for Asian countries grew 74.6 percent during that time period, increasing from just under \$3.1 billion (in 1996 constant dollars) for 1991 to \$5.4 billion for 1996 (Figure F). For additional data on foreign-source gross income by region or country, see Table 4.

Foreign Taxes and Foreign Tax Credit

U.S. taxpayers paid (or accrued) \$5.4 billion in foreign taxes for 1996. This was before carrybacks, carryovers, and reductions. The four countries to

Figure D

Selected Income, Exclusion, and Credit Items, Tax Years 1991 and 1996

[Money amounts are in thousands of dollars]

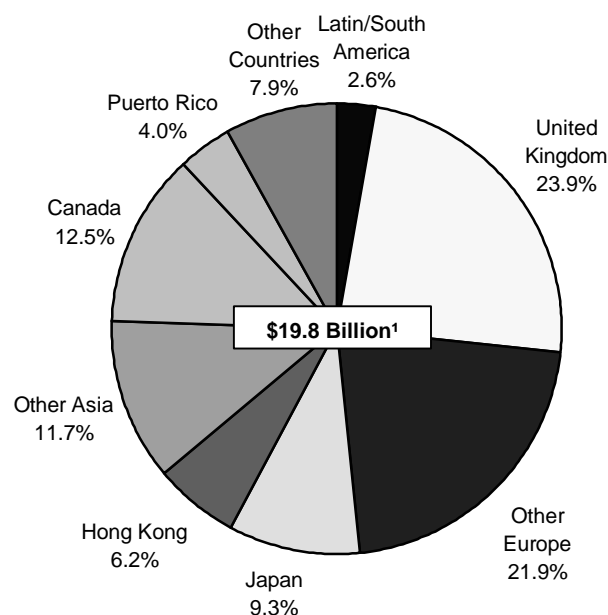
Item	1991 ¹	1996	Percentage change
	(1)	(2)	
Worldwide income.....	4,042,557,991	4,590,604,003	13.6
Form 2555			
Total foreign-earned income.....	15,839,440	21,116,034	33.3
Foreign-earned income exclusion before deductions.....	10,016,696	12,090,833	20.7
Housing exclusion.....	1,155,354	1,880,610	62.8
Housing deduction.....	50,127	75,447	50.5
Form 1116			
Gross foreign-source income.....	17,325,785	29,077,624	67.8
Foreign tax credit ²	2,096,131	3,527,077	68.3

¹ For comparability, 1991 amounts have been adjusted for inflation to 1996 constant dollars.

² The amount of foreign tax credit for 1996 reported in this article differs slightly from the foreign tax credit amount of \$3,538,835,000 published in *Statistics of Income, Individual Income Tax Returns--1996*, Publication 1304, because returns with a foreign tax credit of less than \$10 and no Form 1116 attached were not included in this study.

Figure E

Gross Foreign-Source Income, by Selected Country or Region, Tax Year 1996



¹ Gross foreign-source income reported on the Form 1116 with stated country or region.

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Figure F

Gross Foreign-Source Income and Foreign Taxes, by Selected Country or Region, Tax Years 1991 and 1996

[Money amounts are in thousands of dollars]

Item, selected country or region	1991 ¹	1996	Percentage change
	(1)	(2)	(3)
Gross foreign-source income, total	17,325,785	29,077,624	67.8
North America ²	3,117,449	2,960,489	-5.0
Canada.....	2,885,682	2,468,517	-14.5
Other North America.....	231,767	491,972	112.3
Asia	3,087,230	5,390,621	74.6
Japan.....	1,587,627	1,842,271	16.0
Hong Kong.....	321,023	1,229,504	283.0
Other Asia.....	1,178,580	2,318,846	96.7
Europe	6,632,449	9,058,447	36.6
United Kingdom.....	2,983,612	4,730,144	58.5
Germany.....	946,418	1,137,928	20.2
Other Europe.....	2,702,419	3,190,375	18.1
U.S. Possessions ³	909,919	791,929	-13.0
Other	3,578,736	10,876,138	203.9
Foreign taxes paid or accrued, total	3,818,457	5,397,212	41.3
North America ²	613,967	836,382	36.2
Canada.....	534,897	676,628	26.5
Other North America.....	79,069	159,754	102.0
Asia	777,091	1,100,201	41.6
Japan.....	387,474	387,812	0.1
Hong Kong.....	54,085	148,546	174.7
Other Asia.....	335,532	563,843	68.0
Europe	1,817,878	2,512,545	38.2
United Kingdom.....	844,853	1,246,990	47.6
Germany.....	293,613	424,043	44.4
Other Europe.....	679,412	841,512	23.9
U.S. Possessions ³	128,459	111,348	-13.3
Other	481,062	836,736	73.9

¹ For comparability, 1991 amounts have been adjusted for inflation to 1996 constant dollars.

² Greenland is included in the amount for 1996 (\$1,749,000 of gross foreign-source income and \$46,000 of foreign taxes paid or accrued), but is not included in the 1991 amount because data are not available.

³ Includes Puerto Rico.

which U.S. taxpayers paid or accrued the most foreign taxes were the United Kingdom, Canada, Germany, and Japan. Combined, the foreign taxes paid or accrued to those four countries accounted for slightly over 50 percent of the total. Over \$1.2 billion in foreign taxes were paid or accrued to the United Kingdom (23.1 percent of the total amount), followed by \$0.7 billion to Canada (12.5 percent), \$0.4 billion to Germany (7.9 percent), and \$0.4 billion to Japan (7.2 percent). Other countries with large amounts of foreign taxes paid or accrued included Switzerland and Mexico, in addition to Hong Kong (Figure G). About 10.0 percent of the

\$5.4 billion in foreign taxes paid or accrued were reported without a stated country.

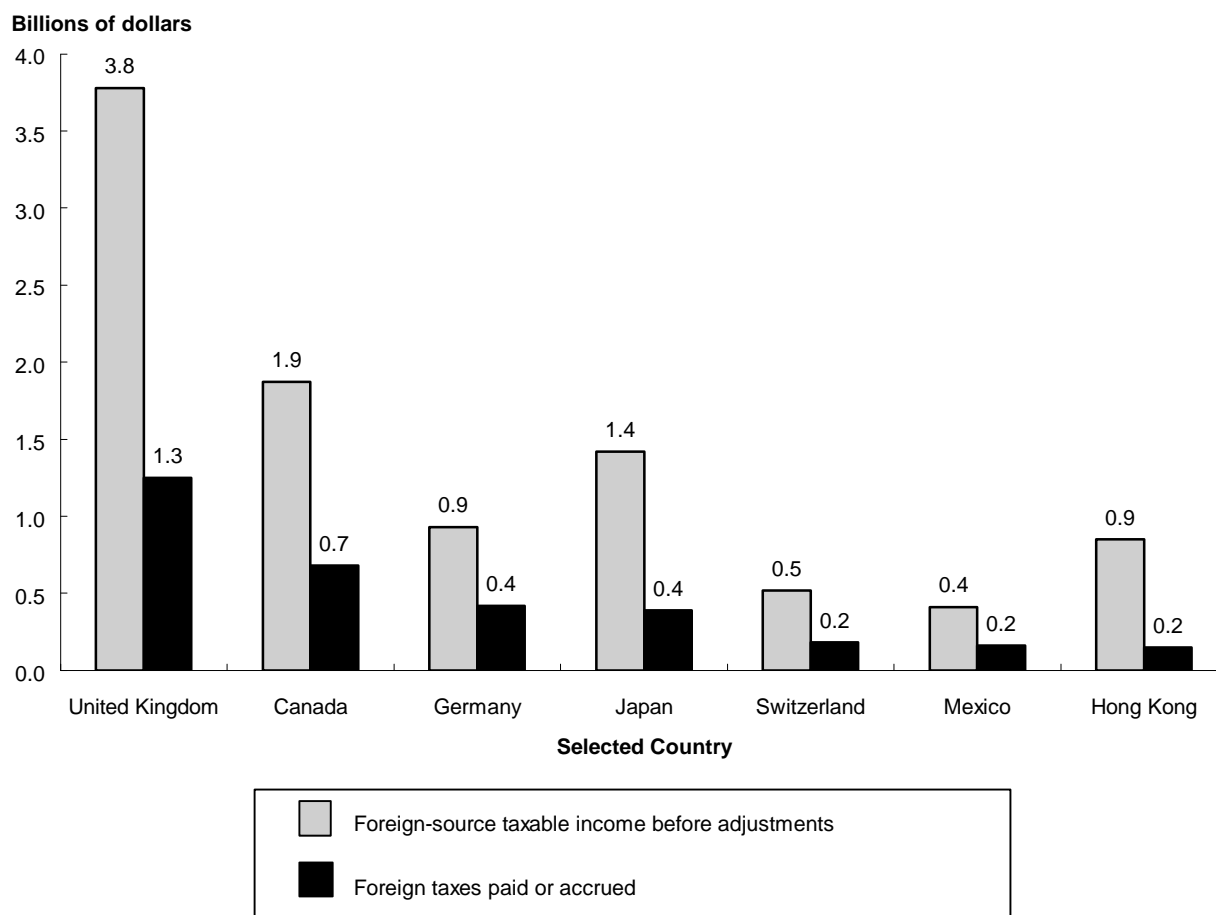
Between 1991 and 1996, total foreign taxes paid or accrued grew 41.3 percent in real percentage terms. As shown in Figure F, Asia showed the most real growth in foreign taxes paid or accrued (41.6 percent), followed closely by Europe (38.2 percent) and North America (36.2 percent). Asia also showed the most real growth in foreign-source gross income. However, the percentage growth was much higher (74.6 percent) than for foreign taxes paid or accrued.

The two types of income for which most of the \$5.4 billion in foreign taxes were paid or accrued

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Figure G

Foreign-Source Taxable Income and Foreign Taxes, by Selected Country, Tax Year 1996



were general limitation income and passive income. Nearly \$4.7 billion in foreign taxes were reported for general limitation income, representing 87.2 percent of the total, and \$0.6 billion for passive income, representing 11.0 percent of the total. Total foreign taxes available for credit after carrybacks, carryovers, and reductions were nearly \$6.3 billion, and the foreign tax credit before adjustments (see Explanation of Selected Terms) was just over \$3.5 billion. Nearly 84 percent of the foreign tax credit before adjustments was reported for general limitation income. Table 5 presents additional data on foreign taxes, by income type.

For 1996, the total foreign tax credit claimed was over \$3.5 billion and reduced the average U.S. income tax liabilities of taxpayers who claimed it by

3.3 percent. Between 1991 and 1996, the total foreign tax credit increased 68.3 percent in real terms, from \$2.1 billion (in 1996 constant dollars) to \$3.5 billion, an increase of \$1.4 billion (Figure D). The average foreign tax credit for 1996 was \$1,679, down from \$2,401 (in 1996 constant dollars) for 1991. Between 1991 and 1996, the number of taxpayers claiming a foreign tax credit grew at a faster rate (140.8 percent) than the amount of foreign tax credit claimed (68.4 percent).

Summary

For 1996, U.S. taxpayers reported \$14.0 billion in foreign-earned income and housing exclusions, an increase in real percentage terms of 25.1 percent from 1991. However, the largest percentage in-

Individual Foreign-Earned Income and Foreign Tax Credit, 1996

creases were related to the housing exclusions, which increased 62.8 percent during this period to \$1.9 billion. Asian-based taxpayers accounted for the bulk of the increases in the exclusions, particularly the housing exclusion. In real terms, the foreign-earned income exclusions claimed by Asian-based taxpayers increased to \$4.6 billion, an increase of 31.5 percent, while the amounts claimed as housing exclusions nearly doubled, reaching \$1.2 billion for 1996.

Foreign-source gross income reported by U.S. taxpayers reached approximately \$29.1 billion, and the total foreign tax credit claimed was slightly over \$3.5 billion for 1996. Between 1991 and 1996, there was a notable increase in both foreign-source gross income and the foreign tax credit. In real terms, foreign-source gross income grew 67.8 percent, and the foreign tax credit grew 68.3 percent. In the same time period, there was also a notable increase in the number of taxpayers reporting a foreign tax credit on their U.S. income tax returns. For 1996, a foreign tax credit was claimed on nearly 2.1 million returns, an increase of 140.8 percent from 1991.

Data Sources and Limitations

The 1996 data presented in this article are based on a sample of individual income tax returns, Forms 1040 and 1040PC, processed during Calendar Year 1997, with either a foreign tax credit, an attached Form 1116, a foreign-earned income exclusion, housing exclusion or housing deduction, or an attached Form 2555 or Form 2555-EZ. Foreign-source income and taxes are underreported in this article to the extent that these amounts were not adequately reported on Form 1116 to support the foreign tax credit claimed on Form 1040. About 19.7 percent of Forms 1040 and 1040PC (as originally filed) with a foreign tax credit did not include the supporting Form 1116. The average foreign tax credit reported on these returns was \$28. Foreign-source income and losses are also underreported to the extent that taxpayers who were not eligible for a credit did not file Form 1116. Taxpayers who had foreign-source income but paid no taxes or had no U.S. tax liability before credits could not claim a foreign tax credit.

About 1.6 percent of the sampled returns with a foreign tax credit or an attached Form 1116 and 10.5 percent of the sampled returns with an attached Form 2555 or Form 2555-EZ were for tax years prior to

1996, reported on delinquent returns processed during the 1996 filing period. These prior-year returns were included as a representation of 1996 returns filed after December 31, 1997. The sampled returns used for the statistics do not reflect adjustments made during audit examination, which determines the acceptability of the reported data.

The sample was stratified based on: (1) the presence or absence of Form 2555, *Foreign Earned Income*, Form 2555-EZ, *Foreign Earned Income Exclusion*, and Form 1116, *Foreign Tax Credit*; (2) presence or absence of other specific forms or schedules; (3) the larger of positive income or negative income; (4) the size of business and farm receipts; and (5) the usefulness of returns for tax policy modeling purposes. The 1996 foreign-earned income and foreign tax credit data are based on a sample of 31,657 returns and a population of 1,903,543 returns [8]. For a general description of the sampling procedures and data limitations of Statistics of Income tabulations, see *Statistics of Income, Individual Income Tax Returns 1996* and the Appendix to this issue of the *Bulletin*.

Explanation of Selected Terms

Foreign Tax Credit Adjustments.—These include reductions for participation in unsanctioned international boycotts and increases permitted by tax treaties between the United States and certain foreign countries.

Statutory Adjustments.—Certain adjustments to total income were allowed as deductions in the calculation of adjusted gross income. These included payments to an IRA, moving expenses, the deduction for one-half of self-employment tax, the self-employed health insurance deduction, payments to a self-employed Keogh retirement plan or a simplified employee pension (SEP), forfeited interest penalty, alimony paid, and the foreign housing deduction.

Foreign-Source Taxable Income.—This is foreign-source gross income less deductions and losses reported as part of the foreign tax credit computation. The deductions include any expenses directly related to foreign-source income, a prorated share of the taxpayer's itemized or standard deductions, and a prorated share of interest expenses.

Worldwide Income.—This is the total income or loss reported on Form 1040 or Form 1040PC before the foreign-earned income and foreign housing

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exclusions have been taken. It includes salaries and wages; taxable interest; dividends; taxable refunds of State and local income taxes; alimony received; business income or loss; capital gains or losses, and taxable distributions from an IRA; taxable pensions and annuities; income or loss from rents, royalties, partnerships, S corporations, and estates and trusts; farm income or loss; unemployment compensation; taxable Social Security benefits; and other income or losses.

Notes and References

[1] Data for all taxpayers who filed a Form 1040 for 1996 cited in this article are from *Statistics of Income, Individual Income Tax Returns 1996, Publication 1304*.

[2] Data in this article are compared to 1991 data because this is the last year for which comparable statistics are available.

[3] For comparability, 1991 amounts presented in this article are adjusted for U.S. inflation to 1996 constant dollars. However, these adjustments do not necessarily adjust for country-specific inflation in the various foreign countries for which income was reported. The inflation-adjusted constant dollars are based on the Consumer Price Index (CPI-U) computed and reported by the U.S. Department of Labor, Bureau of Labor Statistics, Monthly Labor Review. The consumer price index represents annual averages of monthly indices and approximates buying patterns of typical urban consumers.

<u>Year</u>	<u>CPI-U</u>
1996	156.9
1991	136.2

[4] The World Bank compiles statistics related to economic growth and development. For Hong Kong, the average annual percentage growth in gross domestic investment was 11.1 percent across the period 1990 to 1997. The average annual percentage growth in gross domestic

investment for East Asia and the Pacific was 12.3 percent for this same period. By contrast, for this same period, the overall world percentage growth was 2.4 percent, while Europe and Central Asia declined by 7.5 percent (Table 4.10, World Development Indicators 1999, World Bank, 1999).

[5] The Office of Allowances of the United States Department of State computes indexes of living costs abroad on a quarterly basis. The local index provides a measure of the cost of living at a foreign location compared with the cost of living in Washington, D.C. (i.e., the index for Washington, D.C. equals 100). The local indices for October 1996, were 221 for Tokyo, Japan; 135 for Hong Kong; 142 for Singapore; and 122 for Beijing, China. These, as well as other statistics, are available on the United States Department of State website: www.state.gov.

[6] Foreign income reported in the IC-DISC (Interest-Charge Domestic International Sales Corporation) category may include dividends from a former DISC (Domestic International Sales Corporation). The IC-DISC entity was created by the Deficit Reduction Act of 1984 and replaced the DISC.

[7] Some taxpayers with a foreign tax credit fail to file Form 1116 with their returns, but still claim a foreign tax credit on Form 1040. Also, some taxpayers deduct their foreign taxes on Schedule A rather than taking a credit by filing Form 1116. Therefore, foreign-source income for these taxpayers would not be reported.

[8] The primary reason for the difference between the total number of returns in the population and the total number of returns in Table 3 is that returns with a foreign tax credit of less than \$10 were not included in the population, but could have been included in the full individual income tax returns sample for other reasons.

SOURCE: IRS, Statistics of Income Bulletin, Summer 1999, Publication 1136 (9-99).

Individual Foreign-Earned Income and Foreign Tax Credit, 1996

Table 1.--Individual Income Tax Returns With Form 2555: Source of Income, Deduction, Tax Items, and Foreign-Earned Income and Exclusions, by Size of Adjusted Gross Income

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Size of adjusted gross income	Number of returns	Selected income, exclusion, deduction, and credit items reported on Form 1040					
		Adjusted gross income or deficit	Worldwide income ¹	Salaries and wages		Foreign earned income exclusion ²	
				Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
All returns.....	279,758	15,979,033	30,129,323	266,657	25,449,201	279,004	11,982,578
Adjusted gross deficit.....	13,594	-213,077	374,140	11,242	501,353	13,579	546,801
Zero.....	36,026	--	1,190,305	34,997	1,167,841	35,929	1,181,566
\$1 under \$10,000.....	83,680	256,576	3,402,297	79,246	3,092,279	83,467	3,066,007
\$10,000 under \$25,000.....	40,387	671,927	2,400,473	38,122	2,031,226	40,173	1,615,633
\$25,000 under \$50,000.....	32,516	1,172,114	2,874,106	31,318	2,438,557	32,417	1,509,938
\$50,000 under \$75,000.....	21,441	1,303,702	2,517,211	21,088	2,212,875	21,431	1,011,766
\$75,000 under \$100,000.....	12,235	1,060,292	1,953,078	11,788	1,717,231	12,176	696,343
\$100,000 under \$200,000.....	23,370	3,299,970	5,173,941	22,889	4,554,523	23,350	1,326,592
\$200,000 under \$500,000.....	23,370	3,730,249	5,070,239	12,447	4,389,205	12,741	788,483
\$500,000 under \$1,000,000.....	23,370	1,779,950	2,111,837	2,474	1,662,954	2,626	168,357
\$1,000,000 or more.....	23,370	2,917,330	3,061,697	1,045	1,681,159	1,116	71,092

Size of adjusted gross income	Selected income, exclusion, deduction, and credit items reported on Form 1040--continued							
	Total adjustments		Taxable income		Foreign tax credit		Total income tax	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
All returns.....	57,917	286,925	139,383	13,514,038	72,714	1,748,205	132,527	2,169,847
Adjusted gross deficit.....	6,834	21,231	--	--	*12	*1	*64	*24
Zero.....	*97	*104	--	--	--	--	--	--
\$1 under \$10,000.....	13,728	26,068	6,033	11,429	1,496	247	5,191	1,439
\$10,000 under \$25,000.....	10,767	30,930	27,950	190,462	6,400	5,038	24,902	22,978
\$25,000 under \$50,000.....	8,877	36,198	31,954	708,013	12,110	30,515	29,667	81,223
\$50,000 under \$75,000.....	4,933	26,236	21,347	932,666	9,832	52,699	20,903	112,598
\$75,000 under \$100,000.....	3,372	20,479	12,223	846,187	8,521	76,939	12,015	106,373
\$100,000 under \$200,000.....	5,257	37,678	23,367	2,834,034	19,109	341,553	23,316	373,927
\$200,000 under \$500,000.....	3,025	46,549	12,756	3,479,489	11,643	574,408	12,721	507,043
\$500,000 under \$1,000,000.....	651	23,335	2,631	1,706,643	2,530	294,890	2,628	308,676
\$1,000,000 or more.....	375	18,118	1,121	2,805,116	1,062	371,915	1,121	655,564

Size of adjusted gross income	Selected income, exclusions, and deductions reported on Form 2555							
	Total foreign-earned income		Foreign-earned income reported on Form 2555 only		Salaries and wages		Business or professional income (less loss)	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)
All returns.....	279,758	21,116,034	201,112	18,357,647	191,911	12,650,855	15,140	560,644
Adjusted gross deficit.....	13,594	603,016	10,626	477,169	9,186	379,007	1,805	62,282
Zero.....	36,026	1,198,596	14,170	481,440	13,483	449,414	1,309	17,771
\$1 under \$10,000.....	83,680	3,193,320	47,896	1,892,639	45,902	1,699,921	4,204	69,269
\$10,000 under \$25,000.....	40,387	1,880,645	31,468	1,573,254	29,455	1,335,709	3,079	73,471
\$25,000 under \$50,000.....	32,516	2,097,511	26,543	1,914,729	25,632	1,526,800	1,711	62,659
\$50,000 under \$75,000.....	21,441	1,721,106	19,329	1,645,991	18,683	1,195,414	997	50,706
\$75,000 under \$100,000.....	12,235	1,434,933	11,609	1,412,013	11,093	963,257	512	30,058
\$100,000 under \$200,000.....	23,370	3,568,031	23,037	3,545,358	22,550	2,132,145	911	77,431
\$200,000 under \$500,000.....	12,756	3,348,869	12,692	3,345,790	12,393	1,784,999	**	**
\$500,000 under \$1,000,000.....	2,632	1,111,922	2,627	1,111,612	2,490	601,016	**519	**82,469
\$1,000,000 or more.....	1,122	958,086	1,113	957,653	1,045	583,173	91	34,529

Footnotes at end of table.

Individual Foreign-Earned Income and Foreign Tax Credit, 1996

Table 1.--Individual Income Tax Returns With Form 2555 Exclusion or Housing Deduction: Source of Income, Deduction, Tax Items, and Foreign-Earned Income and Exclusions, by Size of Adjusted Gross Income--Continued

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Size of adjusted gross income	Selected income, exclusions, and deductions reported on Form 2555--continued							
	Partnership income (less loss)		Noncash income		Allowances, reimbursements, or expenses paid by employers		Less: meals and lodging excluded	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(24)	(25)	(26)	(27)	(28)	(29)	(30)	(31)
All returns.....	1,102	198,467	20,892	247,823	60,082	4,210,558	2,706	39,932
Adjusted gross deficit.....	*23	*998	996	9,194	1,382	28,133	*317	*5,017
Zero.....	--	--	*604	*8,039	900	7,858	*97	*3,404
\$1 under \$10,000.....	*301	*8,561	2,663	23,224	5,268	90,623	971	8,594
\$10,000 under \$25,000.....	*99	*3,417	2,519	26,902	5,803	125,356	425	6,786
\$25,000 under \$50,000.....	*101	*4,399	2,377	26,520	7,684	282,835	454	8,643
\$50,000 under \$75,000.....	*21	*2,051	2,067	26,779	7,252	339,784	203	2,972
\$75,000 under \$100,000.....	*39	*7,924	1,836	18,505	6,314	353,990	148	1,782
\$100,000 under \$200,000.....	114	17,385	4,219	49,948	13,820	1,160,981	*79	*1,787
\$200,000 under \$500,000.....	202	66,552	2,762	35,866	9,173	1,229,250	**	**
\$500,000 under \$1,000,000.....	146	58,881	633	13,986	1,820	347,645	*,**10	*,**946
\$1,000,000 or more.....	56	28,300	213	8,858	664	244,105	--	--

Size of adjusted gross income	Selected income, exclusions, and deductions reported on Form 2555--continued							
	Other foreign-earned income (less loss)		Foreign-earned income exclusion before deductions		Housing exclusion		Housing deduction	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(32)	(33)	(34)	(35)	(36)	(37)	(38)	(39)
All returns.....	14,479	529,231	279,246	12,090,833	60,938	1,880,610	4,154	75,447
Adjusted gross deficit.....	*269	*2,571	13,594	552,350	1,095	19,185	*147	*1,579
Zero.....	*520	*1,763	36,026	1,186,346	759	8,634	--	--
\$1 under \$10,000.....	1,728	9,636	83,467	3,063,381	4,490	53,647	*334	*3,537
\$10,000 under \$25,000.....	1,199	15,185	40,290	1,634,850	5,666	81,982	800	9,316
\$25,000 under \$50,000.....	1,522	20,159	32,417	1,535,176	8,558	155,678	801	8,151
\$50,000 under \$75,000.....	1,650	34,229	21,431	1,021,499	7,718	175,507	553	6,819
\$75,000 under \$100,000.....	1,396	40,061	12,176	702,529	6,406	175,964	362	4,607
\$100,000 under \$200,000.....	3,077	109,255	23,360	1,339,212	14,263	509,701	567	9,155
\$200,000 under \$500,000.....	2,388	169,542	12,743	794,558	9,465	504,958	352	16,707
\$500,000 under \$1,000,000.....	546	68,143	2,626	170,275	1,834	140,196	162	10,518
\$1,000,000 or more.....	184	58,687	1,116	71,886	684	55,158	75	5,057

*Estimate should be used with caution because of the small number of sample returns on which it is based.

**Data combined to avoid disclosure of information for specific taxpayers. However, data are included in the appropriate totals.

¹ Worldwide income is total income or loss reported on Form 1040 or Form 1040PC before the foreign-earned income exclusion, housing exclusion, and housing deductions have been taken.

² Amount reported on Form 1040 is the total amount of foreign-earned income exclusion after subtracting deductions allocable to excluded income.

NOTE: Detail may not add to totals because of rounding.

Individual Foreign-Earned Income and Foreign Tax Credit, 1996

Table 2.--Individual Income Tax Returns With Form 2555: Foreign-Earned Income Exclusion, Housing Exclusion, and Housing Deduction, by Country or Region

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Country or region	Number of returns	Total foreign-earned income	Foreign-earned income on Form 2555 only	Foreign-earned income			
				Salaries and wages	Business or professional income (less loss)	Partnership income (less loss)	Noncash income
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
All geographic areas.....	279,758	21,116,034	18,357,647	12,650,855	560,644	198,467	247,823
North America, total.....	29,027	1,724,579	1,411,595	1,118,103	81,608	*3,457	8,890
Canada.....	23,333	1,305,384	1,045,254	876,297	70,505	*3,363	5,077
Greenland.....	50	3,270	--	--	--	--	--
Mexico.....	5,645	415,925	366,341	241,806	11,102	*95	3,812
Latin/South America, total.....	13,761	919,630	830,100	599,071	29,426	*6,286	8,131
Argentina.....	1,027	106,922	100,954	67,782	*2,927	*1,213	779
Brazil.....	2,889	221,409	202,586	131,283	*4,669	--	1,449
Chile.....	1,316	106,261	92,097	70,974	*3,169	--	959
Colombia.....	749	54,221	54,221	38,333	--	--	*1,233
Panama.....	980	49,662	45,691	41,082	*1,019	--	*2
Peru.....	503	46,393	42,025	33,077	--	--	*1,219
Venezuela.....	1,954	167,166	152,958	117,258	*2,871	*1,307	914
Other Latin and South American countries.....	4,343	167,596	139,568	99,282	14,771	*3,766	1,576
Caribbean, total.....	5,484	318,495	211,446	172,186	*3,025	--	4,276
Bermuda.....	1,324	105,263	67,987	50,184	*208	--	*1,787
Cayman Islands.....	1,089	53,595	24,195	20,133	--	--	*1,238
Jamaica.....	426	25,677	24,630	21,542	*1,648	--	*14
Other Caribbean countries.....	2,645	133,960	94,634	80,327	*1,169	--	1,237
Europe, total.....	92,534	7,452,455	6,637,265	4,440,851	269,320	125,020	63,849
Austria.....	2,023	106,870	95,947	66,179	*8,479	--	*85
Belgium.....	2,536	314,929	309,760	175,729	*1,738	*8,075	4,280
Czech Republic.....	956	69,420	64,710	47,388	*6,496	*3,421	*151
Denmark.....	1,169	67,022	46,147	32,725	--	--	*763
Finland.....	668	41,770	*27,707	*21,237	--	--	*563
France.....	8,553	692,880	603,040	403,288	41,169	36,804	3,886
Germany.....	22,802	1,236,579	1,052,889	769,482	48,939	10,988	5,727
Greece.....	744	38,191	30,765	22,826	*623	--	*439
Hungary.....	485	46,736	44,102	26,872	*3,654	--	*621
Ireland.....	404	37,801	37,801	23,241	*4,271	--	*944
Italy.....	4,004	208,541	180,910	134,998	*3,628	*344	1,471
Luxembourg.....	143	23,114	23,114	12,144	--	--	*250
Netherlands.....	3,486	323,127	272,733	162,911	*4,061	--	7,211
Norway.....	892	81,263	75,166	44,232	--	--	*212
Poland.....	1,069	67,105	62,060	35,894	*2,416	*684	*479
Portugal.....	487	17,894	17,227	12,560	*644	--	*91
Russia.....	3,878	259,876	226,573	160,508	9,954	*5,780	3,776
Sweden.....	957	69,547	56,614	48,321	*2,075	--	191
Switzerland.....	6,674	645,362	533,335	402,694	16,463	2,768	2,873
Turkey.....	2,131	79,332	65,617	52,711	*3,967	--	*101
United Kingdom.....	23,426	2,705,533	2,532,274	1,579,404	101,708	55,014	28,177
Other European countries.....	5,047	319,563	278,774	205,507	9,035	1,142	1,558
Africa, total.....	10,138	546,621	482,236	393,700	3,917	*3,926	4,522
Algeria.....	170	20,139	20,138	18,166	--	--	*45
Angola.....	*79	7,615	*7,104	*5,542	--	--	--
Egypt.....	1,393	116,507	111,871	84,759	*1,811	*3,560	1,826
Kenya.....	1,209	38,446	35,649	32,721	660	--	--
Nigeria.....	1,196	91,336	87,364	70,902	10	366	877
South Africa.....	1,188	67,422	61,038	50,614	124	--	*318
Other African countries.....	4,903	205,156	159,071	130,996	1,312	--	1,456

Footnotes at end of table.

Individual Foreign-Earned Income and Foreign Tax Credit, 1996

Table 2.--Individual Income Tax Returns With Form 2555: Foreign-Earned Income Exclusion, Housing Exclusion, and Housing Deduction, by Country or Region--Continued

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Country or region	Number of returns	Total foreign-earned income	Foreign-earned income on Form 2555 only	Foreign-earned income			
				Salaries and wages	Business or professional income (less loss)	Partnership income (less loss)	Noncash income
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Asia, total.....	94,764	8,413,042	7,325,424	4,666,341	137,403	47,379	144,346
China.....	4,561	529,850	501,448	251,628	*10,408	*3,315	17,619
Hong Kong.....	12,564	1,687,824	1,563,949	927,215	30,144	16,952	23,496
India.....	1,348	100,372	93,986	69,201	*1,285	--	1,895
Indonesia.....	3,568	427,181	399,958	209,118	*2,223	*7,210	4,267
Israel.....	6,640	332,454	199,566	181,036	3,991	*4,713	*1,916
Japan.....	20,456	1,649,367	1,380,158	840,736	16,140	*7,465	11,581
Malaysia.....	1,670	157,986	149,891	92,174	*855	--	1,759
Pakistan.....	666	41,578	37,432	29,524	*1,853	--	*843
Philippines.....	4,027	240,733	212,809	144,929	*7,343	*1,727	7,741
Saudi Arabia.....	11,033	851,479	745,106	648,471	*7,789	*1,932	27,049
Singapore.....	5,049	809,346	778,983	397,236	*2,282	*2,933	24,259
South Korea.....	4,979	272,201	206,117	127,804	*6,261	--	4,452
Taiwan.....	6,070	471,315	367,000	272,172	30,684	398	2,127
Thailand.....	3,140	275,658	247,412	163,522	*1,111	--	4,560
United Arab Emirates.....	2,184	159,585	134,834	95,002	*3,934	--	4,628
Other Asian countries.....	6,809	406,113	306,775	216,573	11,100	734	6,154
Oceania, total.....	8,918	628,085	485,305	383,479	2,005	3,556	9,436
Australia.....	5,833	468,219	380,850	291,200	*1,745	*2,952	7,908
New Zealand.....	1,932	107,222	71,334	62,315	*261	*604	*1,206
Other Oceania countries.....	1,153	52,644	33,121	29,964	--	--	322
All other countries.....	25,132	1,113,127	974,276	877,125	33,941	8,844	4,373

Footnotes at end of table.

Individual Foreign-Earned Income and Foreign Tax Credit, 1996

Table 2.--Individual Income Tax Returns With Form 2555: Foreign-Earned Income Exclusion, Housing Exclusion, and Housing Deduction, by Country or Region--Continued

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Country or region	Foreign-earned income--continued			Foreign-earned income exclusion before deductions	Housing exclusion	Housing deduction
	Allowances, reimbursements, or expenses paid by employers	Less: meals and lodging excluded	Other foreign-earned income (less loss)			
	(8)	(9)	(10)			
All geographic areas.....	4,210,558	39,932	529,231	12,090,833	1,880,610	75,447
North America, total.....	162,934	--	36,603	1,142,495	49,569	2,454
Canada.....	71,169	--	18,843	890,953	16,344	2,016
Greenland.....	--	--	--	*3,270	--	--
Mexico.....	91,765	--	17,761	248,272	33,225	438
Latin/South America, total.....	168,572	*2,016	20,629	564,819	69,469	*2,175
Argentina.....	26,512	--	*1,741	47,014	12,174	*949
Brazil.....	58,631	--	6,554	107,941	30,681	*2
Chile.....	17,574	*1,778	*1,198	73,094	5,287	*315
Colombia.....	9,763	--	*4,891	36,101	2,818	--
Panama.....	*3,478	--	*108	39,055	*1,048	--
Peru.....	6,326	--	1,403	25,894	*958	--
Venezuela.....	26,517	--	4,092	99,110	10,889	*74
Other Latin and South American countries.....	19,771	*238	642	136,610	5,614	*835
Caribbean, total.....	28,604	*52	3,407	234,835	15,922	*852
Bermuda.....	13,885	--	1,923	58,179	10,982	--
Cayman Islands.....	*2,876	*52	--	49,183	*1,652	*126
Jamaica.....	*966	--	461	19,011	*204	*148
Other Caribbean countries.....	10,877	--	1,023	108,462	3,084	*578
Europe, total.....	1,478,750	3,220	262,696	3,934,552	512,668	22,614
Austria.....	17,732	--	*3,471	76,253	4,969	*250
Belgium.....	107,072	--	12,867	135,397	29,920	*676
Czech Republic.....	4,188	--	*3,067	41,010	2,073	*627
Denmark.....	12,076	*183	*766	41,344	1,382	--
Finland.....	*5,908	--	--	35,678	*714	--
France.....	113,087	--	4,805	378,440	50,774	3,756
Germany.....	184,350	--	33,403	805,460	61,236	1,868
Greece.....	*3,290	--	*3,588	27,142	*1,011	--
Hungary.....	12,202	*454	*1,207	24,609	5,690	*387
Ireland.....	9,122	--	*223	23,338	1,069	*28
Italy.....	37,631	*112	2,951	128,078	13,728	940
Luxembourg.....	9,880	--	*840	9,093	2,755	--
Netherlands.....	78,798	--	19,752	173,805	24,666	*14
Norway.....	26,236	--	*4,486	37,927	3,825	--
Poland.....	21,869	--	*716	36,011	7,806	*406
Portugal.....	*3,931	--	--	12,210	*1,408	--
Russia.....	42,480	*1,048	5,121	158,538	24,254	3,491
Sweden.....	*5,415	--	*611	47,910	1,814	*496
Switzerland.....	95,640	--	12,896	368,867	49,212	1,990
Turkey.....	7,507	*143	*1,474	61,730	2,332	*220
United Kingdom.....	626,724	*1,176	142,423	1,102,496	204,684	7,170
Other European countries.....	53,612	104	8,029	209,216	17,346	--
Africa, total.....	69,451	*321	7,043	405,805	15,620	*905
Algeria.....	*1,209	*45	*764	10,698	--	--
Angola.....	*1,563	--	--	*4,943	*910	--
Egypt.....	19,627	*277	565	75,703	4,578	*2
Kenya.....	*2,267	--	--	33,811	*1,015	--
Nigeria.....	13,597	--	1,613	65,586	2,442	*2
South Africa.....	7,164	--	2,817	49,206	1,749	--
Other African countries.....	24,024	--	1,284	165,858	4,926	*901

Footnotes at end of table.

Individual Foreign-Earned Income and Foreign Tax Credit, 1996

Table 2.--Individual Income Tax Returns With Form 2555: Foreign-Earned Income Exclusion, Housing Exclusion, and Housing Deduction, by Country or Region--Continued

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Country or region	Foreign-earned income--continued			Foreign-earned income exclusion before deductions	Housing exclusion	Housing deduction
	Allowances, reimbursements, or expenses paid by employers	Less: meals and lodging excluded	Other foreign-earned income (less loss)			
	(8)	(9)	(10)	(11)	(12)	(13)
Asia, total	2,175,312	32,961	187,605	4,606,251	1,164,465	39,036
China.....	204,979	*4,140	17,639	235,427	104,462	3,363
Hong Kong.....	530,808	*412	35,746	703,510	409,097	18,440
India.....	19,109	--	2,496	53,421	9,050	*224
Indonesia.....	144,609	*819	33,350	196,815	39,974	*1,047
Israel.....	7,546	*8	372	290,203	2,830	--
Japan.....	463,322	*842	41,756	891,250	243,372	5,334
Malaysia.....	50,693	*66	4,475	84,461	14,204	*170
Pakistan.....	5,213	--	--	26,731	1,556	*144
Philippines.....	46,719	--	4,350	162,514	21,947	*1,063
Saudi Arabia.....	78,791	22,631	3,705	623,144	16,132	*1,396
Singapore.....	339,759	*69	12,584	300,513	182,462	2,769
South Korea.....	65,399	--	2,202	176,803	29,159	*282
Taiwan.....	50,984	*1,188	11,823	309,441	26,710	*2,362
Thailand.....	69,361	*733	9,591	151,803	28,581	*361
United Arab Emirates.....	29,429	*525	2,367	110,256	12,199	*681
Other Asian countries.....	68,591	1,528	5,149	289,959	22,730	1,400
Oceania, total	77,050	*84	9,863	383,566	26,340	*172
Australia.....	69,213	--	7,831	258,213	24,769	*64
New Zealand.....	4,916	--	2,032	77,304	1,481	*108
Other Oceania countries.....	2,921	*84	--	48,049	90	--
All other countries	49,885	1,278	1,385	818,509	26,557	7,239

* Estimate should be used with caution because of the small number of sample returns on which it is based.

NOTE: Detail may not add to totals because of rounding.

Individual Foreign-Earned Income and Foreign Tax Credit, 1996

Table 3.--Individual Income Tax Returns With a Foreign Tax Credit or a Form 1116: Sources of Income, Deductions and Tax Items and Foreign Income, Taxes, and Credit, by Size of Adjusted Gross Income

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Size of adjusted gross income	Number of returns	Selected income, exclusion, deduction, and credit items reported on Form 1040						
		Adjusted gross income or deficit	Salaries and wages		Foreign-earned income exclusion		Foreign housing deduction	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All returns.....	2,116,727	419,812,229	1,434,902	177,972,229	84,147	4,932,218	2,147	50,498
Adjusted gross deficit.....	1,125	-51,967	1,039	68,379	1,123	53,990	--	--
Zero.....	*312	--	*312	*10,004	*312	*9,040	--	--
\$1 under \$10,000.....	133,377	579,928	35,956	374,141	5,968	269,136	*50	*1,116
\$10,000 under \$25,000.....	190,959	3,439,049	78,839	1,373,788	8,705	494,662	197	1,874
\$25,000 under \$50,000.....	388,011	14,540,633	260,877	7,928,374	13,351	782,087	285	3,411
\$50,000 under \$75,000.....	310,413	19,408,554	189,056	9,101,822	10,662	649,341	335	4,311
\$75,000 under \$100,000.....	253,816	22,233,037	194,162	12,008,165	8,827	542,004	313	4,262
\$100,000 under \$200,000.....	457,194	63,256,286	364,670	36,768,514	19,682	1,153,813	428	7,560
\$200,000 under \$500,000.....	256,416	77,939,563	207,397	41,144,639	11,903	745,915	312	13,370
\$500,000 under \$1,000,000.....	75,415	51,379,596	60,869	23,756,090	2,548	163,788	153	9,749
\$1,000,000 or more.....	49,689	167,087,549	41,724	45,438,313	1,066	68,442	74	4,844

Size of adjusted gross income	Selected income, exclusion, deduction, and credit items reported on Form 1040--continued						Returns with a Form 1116	
	Taxable income		Foreign tax credit		Total income tax		Worldwide income ²	
	Number of returns	Amount	Number of returns	Amount ¹	Number of returns	Amount	Number of returns	Amount
	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
All returns.....	2,109,461	354,060,304	2,101,207	3,527,077	2,090,616	103,864,864	1,703,163	390,560,653
Adjusted gross deficit.....	--	--	*12	*1	*3	*13	1,125	9,581
Zero.....	--	--	--	--	--	--	*312	*9,040
\$1 under \$10,000.....	129,216	342,198	128,904	3,793	128,462	61,051	88,727	685,898
\$10,000 under \$25,000.....	189,454	1,664,831	188,643	26,109	182,660	221,314	143,819	3,245,549
\$25,000 under \$50,000.....	387,850	9,684,158	383,468	95,561	377,731	1,482,900	279,674	11,640,743
\$50,000 under \$75,000.....	310,412	14,200,195	309,582	138,447	309,599	2,494,682	254,536	16,898,799
\$75,000 under \$100,000.....	253,816	17,132,807	253,461	166,702	253,601	3,412,854	198,472	18,286,210
\$100,000 under \$200,000.....	457,194	50,429,802	456,260	564,316	457,133	11,689,501	390,611	56,626,034
\$200,000 under \$500,000.....	256,416	66,487,600	255,912	804,007	256,345	19,190,281	228,582	72,135,458
\$500,000 under \$1,000,000.....	75,415	45,438,202	75,342	494,454	75,402	15,002,531	69,787	48,465,771
\$1,000,000 or more.....	49,687	148,680,511	49,623	1,233,688	49,679	50,309,736	47,518	162,557,571

Size of adjusted gross income	Returns with a Form 1116--continued							
	Foreign income, taxes and credit reported on Form 1116							
	Gross foreign-source income		Foreign-source deductions and losses		Foreign-source taxable income before adjustments ³		Foreign taxes paid or accrued on:	
							Total	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
All returns.....	1,695,167	29,077,624	1,490,366	7,640,315	1,697,274	21,437,309	1,683,488	5,397,212
Adjusted gross deficit.....	774	17,513	985	19,199	997	-1,686	859	7,982
Zero.....	*156	*8,458	*312	*1,345	*312	*7,112	*312	*3,002
\$1 under \$10,000.....	87,616	168,599	72,645	50,253	88,475	118,346	88,119	46,003
\$10,000 under \$25,000.....	143,458	624,949	122,654	171,433	143,702	453,516	140,964	128,756
\$25,000 under \$50,000.....	276,025	1,243,459	237,536	233,214	276,273	1,010,245	274,887	306,953
\$50,000 under \$75,000.....	254,349	1,739,248	224,144	246,844	254,505	1,492,404	250,666	333,894
\$75,000 under \$100,000.....	198,283	1,483,106	171,014	170,842	198,463	1,312,264	195,066	358,732
\$100,000 under \$200,000.....	389,103	3,879,686	338,989	539,698	389,133	3,339,987	387,961	1,064,269
\$200,000 under \$500,000.....	228,175	5,263,549	211,244	1,017,046	228,178	4,246,503	227,555	1,235,699
\$500,000 under \$1,000,000.....	69,776	3,034,179	65,966	532,025	69,776	2,502,154	69,688	596,371
\$1,000,000 or more.....	47,451	11,614,878	44,877	4,658,415	47,460	6,956,463	47,411	1,315,550

Footnotes at end of table.

Individual Foreign-Earned Income and Foreign Tax Credit, 1996

Table 3.--Individual Income Tax Returns With a Foreign Tax Credit or a Form 1116: Sources of Income, Deductions and Tax Items and Foreign Income, Taxes, and Credit, by Size of Adjusted Gross Income--Continued

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Size of adjusted gross income	Returns with a Form 1116--continued							
	Foreign income, taxes and credit reported on Form 1116--continued							
	Foreign taxes paid or accrued on--continued:							
	Dividends		Rents and royalties		Interest		Other income	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)
All returns.....	1,315,825	403,282	15,706	172,410	74,397	46,864	358,084	4,774,656
Adjusted gross deficit.....	322	36	**	**	**	**	577	7,935
Zero.....	--	--	--	--	--	--	*312	*3,002
\$1 under \$10,000.....	77,545	4,234	**11	**136	**982	**1,392	10,741	40,251
\$10,000 under \$25,000.....	94,460	12,141	*1,235	*2,402	9,517	3,000	46,005	111,213
\$25,000 under \$50,000.....	206,734	16,439	*359	*174	16,619	3,044	58,627	287,295
\$50,000 under \$75,000.....	193,491	23,291	1,554	7,083	6,742	3,177	52,631	300,344
\$75,000 under \$100,000.....	147,361	15,209	4,690	56,142	6,802	629	41,360	286,752
\$100,000 under \$200,000.....	311,199	50,406	3,792	18,131	22,743	5,158	76,151	990,574
\$200,000 under \$500,000.....	188,162	68,440	2,155	48,243	6,567	5,836	46,051	1,113,180
\$500,000 under \$1,000,000.....	57,767	42,637	962	8,756	2,284	3,781	14,056	541,198
\$1,000,000 or more.....	38,784	170,448	949	31,342	2,142	20,847	11,572	1,092,913

Size of adjusted gross income	Returns with a Form 1116--continued									
	Foreign income, taxes and credit reported on Form 1116--continued									
	Foreign taxes available for credit		Foreign tax carryover		Reduction in foreign taxes		Gross foreign tax credit		Foreign tax credit after adjustments ⁴	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(33)	(34)	(35)	(36)	(37)	(38)	(39)	(40)	(41)	(42)
All returns.....	1,698,783	6,267,325	258,440	2,077,410	64,878	1,207,297	1,687,631	3,514,753	1,687,644	3,515,570
Adjusted gross deficit.....	955	11,306	622	7,845	472	4,521	*12	*2	*12	*1
Zero.....	*205	*2,940	--	--	*106	*62	--	--	--	--
\$1 under \$10,000.....	87,571	23,861	7,085	9,534	3,174	31,676	84,255	3,542	84,255	3,542
\$10,000 under \$25,000.....	143,137	85,965	29,737	21,993	4,542	64,783	141,503	25,407	141,503	25,390
\$25,000 under \$50,000.....	279,016	245,281	55,220	80,363	8,716	142,035	275,131	94,571	275,131	94,564
\$50,000 under \$75,000.....	253,914	332,033	33,892	126,805	11,040	128,666	253,705	137,347	253,705	137,352
\$75,000 under \$100,000.....	198,232	723,971	35,645	486,565	7,021	121,326	198,117	164,964	198,117	164,951
\$100,000 under \$200,000.....	390,117	1,191,109	61,031	441,873	15,921	315,033	389,677	562,233	389,677	562,186
\$200,000 under \$500,000.....	228,359	1,377,275	23,636	428,821	10,600	287,245	228,067	801,178	228,077	801,796
\$500,000 under \$1,000,000.....	69,766	699,533	7,471	178,052	2,354	74,890	69,714	493,817	69,714	494,028
\$1,000,000 or more.....	47,509	1,574,049	4,099	295,560	929	37,060	47,449	1,231,692	47,452	1,231,759

* Estimate should be used with caution because of the small number of sample returns on which it is based.

**Data combined to avoid disclosure of information for specific taxpayers.

¹ The foreign tax credit reported here differs slightly from the foreign tax credit amount of \$3,538,835,000 reported in *Statistics of Income, Individual Income Tax Returns--1996*, Publication 1304, because returns with a foreign tax credit of less than \$10 and no Form 1116 attached were not included in this study.

² Worldwide income is total income or loss reported on Form 1040 or Form 1040PC before the foreign-earned income exclusion, housing exclusion and housing deductions have been taken.

³ Adjustments include allocation of foreign losses, recapture of prior-year foreign losses, and recharacterization of income.

⁴ Adjustments include reductions for participation in unsanctioned international boycotts and increases permitted by tax treaties between the United States and certain foreign countries.

NOTE: Detail may not add to totals because of rounding.

Individual Foreign-Earned Income and Foreign Tax Credit, 1996

Table 4.--Individual Income Tax Returns with Form 1116: Foreign-Source Income, Deductions, and Taxes, by Country or Region

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Country or region	Number of returns	Gross foreign-source income	Foreign-source deductions and losses	Foreign-source taxable income before adjustments ¹	Foreign taxes paid or accrued on:				
					Total	Dividends	Rents and royalties	Interest	Other income
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All geographic areas.....	1,703,163	29,077,624	7,640,315	21,437,309	5,397,212	403,282	172,410	46,864	4,774,656
North America, total.....	153,622	2,960,489	682,653	2,277,836	836,382	30,566	27,389	12,432	765,995
Canada.....	141,943	2,468,517	600,571	1,867,946	676,628	29,785	24,841	11,960	610,041
Greenland.....	*336	*1,749	*103	*1,646	*46	*46	--	--	--
Mexico.....	11,343	490,223	81,979	408,244	159,708	735	2,548	472	155,953
Latin/South America, total.....	20,340	523,533	139,692	383,841	109,635	2,930	510	265	105,930
Argentina.....	2,302	72,741	12,835	59,907	18,808	85	95	*2	18,626
Brazil.....	4,749	173,478	36,601	136,877	39,284	1,285	321	173	37,505
Chile.....	2,704	46,676	4,595	42,081	11,911	499	*8	*51	11,353
Colombia.....	1,645	99,012	64,820	34,192	10,318	*273	*40	*25	9,979
Panama.....	243	6,065	376	5,689	1,332	*(²)	*29	--	*1,302
Peru.....	1,397	18,835	961	17,874	7,518	*(²)	--	--	7,517
Venezuela.....	1,770	64,735	14,538	50,196	14,724	*221	*3	--	14,500
Other Latin/South America countries	5,529	41,990	4,965	37,024	5,740	566	*14	*15	5,147
Caribbean, total.....	1,058	187,952	17,245	170,708	10,702	830	73	28	9,770
Bermuda.....	466	20,967	2,420	18,547	535	*437	--	--	*99
Cayman Islands.....	43	133,869	10,878	122,991	*113	*1	--	--	*112
Jamaica.....	162	9,759	1,676	8,083	2,394	*(²)	--	*28	2,366
Other Caribbean countries.....	389	23,358	2,272	21,088	7,658	391	*74	--	7,194
Europe, total.....	416,745	9,058,447	1,820,697	7,237,750	2,512,545	104,507	115,736	15,584	2,276,717
Austria.....	1,741	47,192	10,906	36,286	20,804	22	--	*3	20,780
Belgium.....	7,623	393,851	105,738	288,113	109,587	165	930	22	108,470
Czech Republic.....	392	16,878	1,779	15,100	5,604	9	*8	*3	5,583
Denmark.....	3,887	34,134	2,734	31,401	13,740	893	--	*6	12,841
Finland.....	8,516	19,319	3,339	15,979	6,135	1,693	*35	--	4,407
France.....	12,702	681,757	154,466	527,292	134,148	2,003	1,206	192	130,746
Germany.....	20,146	1,137,928	206,751	931,177	424,043	15,444	1,253	1,771	405,575
Greece.....	2,511	36,887	1,812	35,075	5,942	*384	*4	*2	5,552
Hungary.....	759	23,148	2,272	20,876	10,152	--	*(²)	--	10,152
Ireland.....	2,531	56,478	34,998	21,480	6,329	667	*16	*3	5,643
Italy.....	6,597	270,998	51,823	219,175	108,664	1,934	44,930	453	61,347
Luxembourg.....	1,299	21,957	2,769	19,188	7,298	*45	--	*3	7,250
Netherlands.....	65,433	419,047	108,537	310,509	80,228	15,601	*2,103	*106	62,419
Norway.....	4,202	53,296	4,316	48,980	29,031	316	*(²)	*1	28,714
Poland.....	1,406	22,132	2,278	19,854	7,934	6	*14	--	7,914
Portugal.....	2,849	8,760	1,043	7,718	2,843	34	*16	*5	2,788
Russia.....	2,278	72,990	12,296	60,694	18,060	*4	--	*4	18,052
Spain.....	11,264	242,100	27,583	214,517	55,794	1,785	193	147	53,669
Sweden.....	11,856	55,237	6,936	48,301	24,040	779	*(²)	245	23,016
Switzerland.....	32,669	625,175	104,256	520,918	177,253	10,346	*61,270	6,562	99,075
Turkey.....	1,436	18,287	2,422	15,865	10,432	*7	*45	*5	10,376
United Kingdom.....	204,282	4,730,144	949,845	3,780,299	1,246,990	49,797	3,711	6,042	1,187,440
Other European countries.....	10,364	70,749	21,795	48,950	7,492	2,572	*2	*8	4,910
Africa, total.....	6,978	314,752	26,994	287,758	39,171	282	108	--	38,782
Algeria.....	466	32,564	1,999	30,565	6,288	--	--	--	6,288
Angola.....	*892	*145,295	*4,510	*140,785	--	--	--	--	--
Egypt.....	548	34,209	2,990	31,219	6,095	*80	--	--	6,015
Kenya.....	*20	*1,250	*131	*1,119	*536	--	--	--	*536
Nigeria.....	473	18,381	2,609	15,771	4,037	*92	--	--	3,945
South Africa.....	2,854	28,741	4,402	24,338	9,026	102	*17	--	8,907
Other African countries.....	1,726	54,311	10,351	43,961	13,190	7	*91	--	13,092

Footnotes at end of table.

Individual Foreign-Earned Income and Foreign Tax Credit, 1996

Table 4.--Individual Income Tax Returns with Form 1116: Foreign-Source Income, Deductions, and Taxes, by Country or Region--Continued

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Country or region	Number of returns	Gross foreign-source income	Foreign-source deductions and losses	Foreign-source taxable income before adjustments ¹	Foreign taxes paid or accrued on:				
					Total	Dividends	Rents and royalties	Interest	Other income
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Asia, total	115,018	5,390,621	1,343,203	4,047,417	1,100,201	47,123	8,924	2,753	1,041,401
China.....	7,038	261,351	23,085	238,266	70,162	118	*38	--	70,006
Hong Kong.....	10,137	1,229,504	383,071	846,433	148,546	475	*70	*14	147,987
India.....	2,612	63,319	2,642	60,677	23,317	122	--	*17	23,178
Indonesia.....	4,077	291,937	57,748	234,189	96,424	60	*114	52	96,199
Israel.....	10,535	84,883	9,123	75,761	40,027	1,440	334	567	37,686
Japan.....	41,220	1,842,271	421,006	1,421,265	387,812	36,924	6,756	1,113	343,018
Malaysia.....	3,618	105,638	25,297	80,341	24,977	101	*56	*(²)	24,821
Pakistan.....	1,314	13,706	1,241	12,465	*1,584	*(²)	--	*(²)	*1,584
Philippines.....	2,834	136,790	75,084	61,706	26,866	16	*75	*31	26,743
Saudi Arabia.....	526	22,803	1,934	20,869	1,442	5	--	--	*1,438
Singapore.....	8,223	475,325	39,454	435,871	118,584	1,826	*788	152	115,817
South Korea.....	4,574	244,255	107,469	136,786	37,132	311	*198	*266	36,357
Taiwan.....	4,154	425,705	172,435	253,270	67,179	5,158	489	420	61,112
Thailand.....	3,933	125,251	16,088	109,163	41,072	93	*6	121	40,851
United Arab Emirates.....	231	7,905	911	6,994	*148	*2	--	--	*146
Vietnam.....	288	18,875	1,394	17,481	7,165	--	--	--	7,165
Other Asian countries.....	9,706	41,102	5,221	35,883	7,765	473	--	--	7,293
Oceania, total	38,078	494,028	86,050	407,979	134,378	8,777	3,064	1,615	120,922
Australia.....	30,314	421,333	68,631	352,702	111,544	7,142	2,763	1,035	100,605
New Zealand.....	7,593	58,690	14,556	44,134	19,185	1,524	*302	576	16,783
Other Oceania countries.....	172	14,007	2,864	11,143	3,651	112	--	*5	3,534
U.S. Possessions, total	19,154	791,929	204,630	587,299	111,348	389	3,431	132	107,396
Puerto Rico.....	19,145	789,815	203,337	586,478	111,032	383	3,431	*124	107,095
Other U.S. Possessions.....	*9	*2,114	*1,293	*821	*316	*6	--	*8	*302
Country not stated	1,346,354	9,277,466	3,307,707	5,969,759	537,523	204,078	13,136	14,055	306,254
FSC dividends ³	4,470	8,405	2,578	5,827	1,629	159	*37	--	*1,433
IC-DISC dividends ⁴	38,996	70,002	8,866	61,136	3,698	3,641	--	--	*56

* Estimate should be used with caution because of the small number of sample returns on which it is based.

¹ Adjustments include allocation of foreign losses, recapture of prior-year foreign losses, and recharacterization of income.

² Less than \$500.

³ FSC's are Foreign Sales Corporations.

⁴ IC-DISC's are Interest-Charge Domestic International Sales Corporations.

NOTE: Detail may not add to totals because of rounding.

Individual Foreign-Earned Income and Foreign Tax Credit, 1996

Table 5.--Individual Income Tax Returns with Form 1116: Foreign-Source Income, Deductions, and Taxes, by Type of Income

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Type of income	Number of returns ¹	Gross foreign-source income		Foreign-source deductions and losses		Foreign-source taxable income before adjustments ²	
		Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
All returns.....	1,703,163	1,695,167	29,077,624	1,490,366	7,640,315	1,697,274	21,437,309
Passive income.....	990,577	987,660	6,439,744	839,120	1,635,667	987,660	4,804,076
High withholding tax interest.....	27,308	27,039	192,865	26,293	50,150	27,179	142,715
Financial services income.....	53,690	53,270	680,147	41,705	75,363	53,273	604,784
Shipping income.....	380	380	84,868	216	76,744	380	8,124
Dividends from an IC-DISC ³	38,996	38,971	70,002	30,315	8,866	38,971	61,136
Distributions from an FSC ⁴	4,470	4,470	8,405	4,125	2,578	4,470	5,827
Lump-sum distributions.....	*2,928	*2,928	*73,569	*2,928	*41,247	*2,928	*32,322
General limitation income.....	645,193	634,812	21,528,024	599,378	5,749,699	638,439	15,778,324

Type of income	Foreign taxes paid or accrued on:						
	Total		Dividends		Rents and royalties		Interest
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns
	(8)	(9)	(10)	(11)	(12)	(13)	(14)
All returns.....	1,683,488	5,397,212	1,315,825	403,282	15,706	172,410	74,397
Passive income.....	981,401	594,817	790,287	219,810	10,257	141,777	45,471
High withholding tax interest.....	26,145	18,186	14,071	2,712	*30	*142	11,101
Financial services income.....	53,492	65,693	46,250	4,609	*51	*64	*3,399
Shipping income.....	358	967	*181	*25	--	--	*11
Dividends from an IC-DISC ³	38,978	3,698	37,736	3,641	--	--	--
Distributions from an FSC ⁴	4,470	1,629	4,419	159	*9	*37	--
Lump-sum distributions.....	*2,928	*3,993	*10	*192	--	--	--
General limitation income.....	622,704	4,708,229	430,063	172,135	5,379	30,390	14,811

Type of income	Foreign taxes paid or accrued on--continued:				Foreign taxes available for credit		Foreign tax credit before adjustments ⁵	
	Interest --continued	Other income		Foreign taxes available for credit		Foreign tax credit before adjustments ⁵		
	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	
	(15)	(16)	(17)	(18)	(19)	(20)	(21)	
All returns.....	46,864	358,084	4,774,656	1,698,783	6,267,325	1,687,631	3,514,753	
Passive income.....	28,432	166,442	204,798	986,957	1,082,117	980,324	481,254	
High withholding tax interest.....	8,200	1,598	7,133	27,057	20,777	26,544	14,254	
Financial services income.....	*129	4,073	60,892	53,511	80,492	53,198	58,033	
Shipping income.....	*21	*188	*921	358	1,591	354	1,491	
Dividends from an IC-DISC ³	--	*1,287	*56	38,990	3,914	38,968	3,382	
Distributions from an FSC ⁴	--	*50	*1,433	4,470	1,630	4,470	967	
Lump-sum distributions.....	--	*2,918	*3,801	*2,928	*3,753	*2,928	*3,710	
General limitation income.....	10,082	189,897	4,495,622	637,105	5,073,051	626,066	2,951,662	

* Estimate should be used with caution because of the small number of sample returns on which it is based.

¹ Taxpayers may report more than one type of foreign-source income on a return. Consequently, the number of returns by type of income do not add to total.

² Adjustments include allocation of foreign losses, recapture of prior-year foreign losses, and recharacterization of income.

³ IC-DISC's are Interest-Charge Domestic International Sales Corporations.

⁴ FSC's are Foreign Sales Corporations.

⁵ Adjustments include reductions for participation in unsanctioned international boycotts and increases permitted by tax treaties between the United States and certain foreign countries.

NOTE: Detail may not add to totals because of rounding.