



United States Corporate Income Tax Summary

SECTION 1: AT A GLANCE

Corporate Tax Rates	15% to 35%
Capital Gains Tax	15% to 35%
Alternative Minimum Tax	20% (a)
Withholding Tax – Nonresident	30% (b)
VAT Rates	N/A
Branch Profits Tax	30%
Foreign Tax Credit	Available
State and Local Tax	Various (c)

- (a) Imposed on the corporation’s “alternative minimum taxable income” (see Section 2).
- (b) Applies to interest, dividends, rents, and royalties that are not effectively connected to a U.S. trade or business.
- (c) Many states impose an additional tax based on income or capital. Also, most states and local jurisdictions impose a sales and/or use tax on sales of tangible property.

SECTION 2: CORPORATE INCOME TAX RATES AND TAXABLE INCOME

Overview

A corporation that is formed in the United States (“U.S.”) is a domestic corporation. In general, all other corporations are foreign. Domestic corporations must pay tax on their worldwide income, including income from branches (whether or not repatriated).

In general, foreign corporations are subject to U.S. tax on income from U.S. sources under two regimes. One regime applies regular U.S. corporate income tax rates to the net income effectively connected with a U.S. trade or business. The second regime imposes a 30% withholding tax on the gross amount of U.S. source portfolio income (like interest, dividends, rents, and royalties) that is not effectively connected with a U.S. trade or business. A taxpayer with both types of income may be subject to both tax regimes in the same tax year, although tax treaties may provide some withholding tax rate reductions.

A foreign corporation branch is taxed like a domestic corporation on income that is effectively connected to its U.S. operations. U.S. source income that is not effectively connected is taxed at a flat 30% rate (unless reduced by a tax treaty). The 30% tax is referred to as a “branch profits tax.”

Corporate Tax Rates and Taxable Income

The U.S. levies an income tax on a corporation's "taxable income" at the following graduated rates:

<i>Taxable Income</i>	<i>Rate</i>
Up to \$50,000	15%
Over \$50,000 but not over \$75,000	25%
Over \$75,000 but not over \$100,000	34%
Over \$100,000 but not over \$335,000	39%
Over \$335,000 but not over \$10,000,000	34%
Over \$10,000,000 but not over \$15,000,000	35%
Over \$15,000,000 but not over \$18,333,333	38%
Over \$18,333,333	35%

Taxable income equals a corporation's gross worldwide income less deductions allowed under the federal income tax law. Worldwide income includes income from a business, compensation for services, fees/commissions, rents, royalties, interests, dividends, gains from property transactions, and partnership income. However, profits from overseas subsidiaries are not normally taxed, unless the subsidiary distributes dividends or is sold or liquidated. Numerous exceptions to this general treatment may apply, resulting in current U.S. taxation or some or all of the foreign earnings.

Corporate Deductions

In general, corporations are permitted to deduct ordinary and necessary business expenses that are incurred in the taxpayer's trade or business, depreciation on business property, and certain losses related to the business. Business-related expenses are only deductible if the U.S. income tax laws do not otherwise require the expenses to be capitalized.

Depreciation. U.S. income tax law allows corporations to claim a deduction for both tangible property and certain intangible property used in the corporation's trade or business or for the production of income. Since corporations can not generally deduct the entire cost of property purchased in one year, the depreciation deduction recovers the cost of property over a number of years. The types of property eligible for depreciation include machinery, equipment, buildings, vehicles, furniture, patents, copyrights, and computer software.

Generally, corporations must use the Modified Accelerated Cost Recovery System ("MACRS") to compute depreciation. MACRS provides the recovery period and depreciation method for various classes of tangible property. Special rules exist for the depreciation of intangible property.

Here are the MACRS depreciation methods and recovery periods for certain assets:

Asset	Depreciation Method	Recovery Period (Years)
Commercial (non-residential) buildings	Straight-line	39
Computers/Peripherals	Double-declining balance or straight-line	5
Office furniture and equipment	Double-declining balance or straight-line	7
Machinery	Double-declining balance or straight-line	7

Net Operating Losses. Corporations are allowed a deduction for net operating losses of prior or subsequent years. Net operating losses arise when the corporation's allowable deductions exceed its gross income and may be carried back 2 years and forward 20 years.

Dividends-Received Deduction. Ordinarily, a corporate taxpayer is allowed to deduct 70%, 80%, or 100% of specified dividends received from either a domestic or certain foreign corporations.

Tax Incentives

A variety of preferential tax incentives are available to domestic corporations for activities such as those related to export, manufacturing/production activities, research and development expenditures, and investments in alternative energy technology.

SECTION 3: OTHER CORPORATE INCOME TAXES

Several corporate-level taxes, besides the corporate income tax described in Section 2, may be imposed on domestic and foreign corporations.

Capital Gains Tax

The U.S. taxes net gains on the sale or exchange of assets held for investment at the same rates as ordinary income (35% for the top corporate tax bracket). Net losses on sales or exchanges by a corporation can not be deducted against ordinary income; instead, these losses must be deducted against capital gains. A capital loss may be carried back 3 years and forward 5 years.

Alternative Minimum Tax

The alternative minimum tax ("AMT") ensures that corporations with economic income, but little or no taxable income, pay some corporate income tax. The AMT is imposed at a flat rate of 20% on alternative minimum taxable income ("AMTI"); corporations are required to pay the higher of its regular tax and the AMT amount for the tax year.

AMTI is computed by making certain adjustments to the corporation's regular taxable income. These adjustments occur because certain income and deduction items are treated differently under the regular corporate tax and the AMT systems. For example, depreciation deductions and net operating losses are computed differently for AMT purposes.

Withholding Tax

The U.S. imposes a flat 30% withholding tax on the gross amount of U.S. source portfolio income (like interest, dividends, rents, and royalties) realized by a foreign corporation if the income is not effectively connected with a U.S. trade or business. The rate is the same for all types of portfolio income, unless it is reduced under a tax treaty or the income is ECI.

Branch Profits Tax

The U.S. imposes a corporate-level 30% branch profits tax on a foreign corporation's earnings from its U.S. trades or businesses that are not reinvested in the U.S. trade or business by the end of the tax year. Also, the tax applies if the earnings are disinvested from a U.S. trade or business in a later tax year.

This 30% tax applies in addition to any U.S. income tax that the foreign corporation may owe on its effectively connected trade or business income. However, a tax treaty may reduce the rate of tax in its provisions.

Accumulated Earnings Tax

The accumulated earnings tax is a penalty tax that will be imposed if a corporation accumulates over \$250,000 USD of prior and current period earnings and profits. The tax is intended to discourage corporations from avoiding shareholder-level taxes by accumulating earnings and avoiding distributions to its shareholders. The tax is imposed at a rate of 15% on the corporation's accumulated taxable income.

Personal Holding Company Tax

The personal holding company tax is imposed on corporations that receive substantial income from passive activities and do not distribute the income to its shareholders. The tax is imposed at a rate of 15% on the undistributed income.

SECTION 4: FOREIGN TAX RELIEF

The U.S. allows either a deduction or a tax credit for foreign income taxes paid, or deemed paid, by a domestic corporation on foreign source income. Since domestic corporations are taxed on their worldwide income, the foreign tax deduction/credit is intended to avoid double taxation -- by the U.S. and a foreign country -- on foreign source income.

Usually, the foreign tax credit provides the most tax benefit, since credits reduce the taxpayer's tax liability on a dollar-for-dollar basis. Separate credit limitations exist for two categories of foreign-source income: (1) passive income and (2) general income.

SECTION 5: COMPLIANCE AND ADMINISTRATION

Administrative Agency

The Internal Revenue Service (“IRS”), an authority of the U.S. government, is the administrative agency responsible for enforcing and administering U.S. tax laws. The IRS exercises its power through formal rule or regulation making, investigation, and prosecution, although it acts mostly through more informal procedures (for example, issuing advisory rulings and negotiating with taxpayers).

Tax Return Due Date

All domestic corporations subject to U.S. income tax must file an income tax return by the 15th day of the third month following the close of the tax year (March 15th for calendar-year corporations). An automatic six-month extension is available, which provides the taxpayer with an extension for filing the return, but not for paying any tax due.

Estimated Tax Installment Payments

In general, domestic corporations must pay their tax liability in quarterly estimated tax installment payments. Normally, estimated tax payments are due on the 15th day of the 4th, 6th, 9th, and 12th months of the tax year in which income is earned. Special payment rules exist for certain large domestic corporations.

Consolidated Returns

Affiliated groups of domestic corporations (where a parent company has at least 80% ownership) are permitted to file consolidated federal income tax returns. Under a consolidated return, domestic corporations are able to offset the losses of one affiliate against the profits of another affiliate.

Transfer Pricing

Transactions between entities in different countries, or even between entities in different states within the United States, must be at arm’s length. To avoid penalty for substantial misstatement by the IRS, a contemporaneous report must have been prepared to support the transfer prices.

SECTION 6: STATE AND LOCAL TAXES

Income-Based Taxes

Most states and some local municipalities of the U.S. impose income taxes on corporations; the tax rates and tax bases vary, from 0 to 13 percent. States are not subject to the provisions of various U.S. income tax treaties; thus, some states consider foreign corporations to be subject to state income tax, even if the corporation was not subject to federal income tax.

Sales Tax

Sales taxes are imposed at the state and municipal levels at various rates, but typically between 5 and 10 percent. In general, states impose sales tax on tangible goods that are sold to a final customer.

Nexus

Corporations are subject to taxation if they have a taxable presence, called nexus, in the state. These standards are defined by the United States Supreme Court because they involve interstate commerce but interpretation of the standards are not uniform state by state. States are also separate sovereign entities and are not bound by income tax treaties between the United States and other countries.

SECTION 7: OTHER

Property Tax

Most local jurisdictions (counties, cities) impose a property tax on the market value of real and personal property located in their jurisdiction, although there are common exemptions, including inventory. Rates vary but 2 percent is a reasonable average.

Payroll Tax

Federal unemployment insurance, workers injury insurance, and social security contributions are required to be paid for employees.

Debt-to-Equity Rules

Interest deductions on debt to foreign parent may be limited or denied if the U.S. entity is thinly capitalized.