

February 2004

# INTERNATIONAL TAXATION

## Information on Federal Contractors With Offshore Subsidiaries



G A O

Accountability \* Integrity \* Reliability

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United States General Accounting Office  
Washington, D.C. 20548

February 2, 2004

The Honorable Byron Dorgan  
Ranking Minority Member  
Subcommittee on Competition, Foreign Commerce, and Infrastructure  
Committee on Commerce, Science, and Transportation  
United States Senate

The Honorable Carl Levin  
Ranking Minority Member  
Permanent Subcommittee on Investigations  
Committee on Governmental Affairs  
United States Senate

Every year, U.S.-based multinational corporations transfer hundreds of billions of dollars of goods and services between their affiliates in the United States and their foreign subsidiaries. Such transactions may be a part of normal business operations for corporations with foreign subsidiaries. However, it is generally recognized that given the variation in corporate tax rates across countries, an incentive exists for corporations with foreign subsidiaries to reduce their overall tax burden by maximizing the income they report in countries with low income tax rates, and minimizing the income they report in or repatriate to countries with high income tax rates. Various studies have suggested that U.S.-based multinational corporations appear to engage in transactions such as these that shift income from their affiliates in high-tax countries to subsidiaries in low-tax countries to take advantage of the differences in tax rates in foreign countries.<sup>1</sup>

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<sup>1</sup>A survey of studies that examine income shifting by multinational corporations appears in Department of the Treasury, Office of Tax Policy, *The Deferral of Income Earned Through U.S. Controlled Foreign Corporations* (Washington, D.C.: December 2000), 197-213.

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In 2002, GAO reported that 4 of the 100 largest publicly traded federal contractors are incorporated in a “tax haven” country that either does not tax corporate income or taxes the income at a low rate.<sup>2</sup> As a follow-up to the report, you asked us to determine which, if any, of the 100 largest publicly traded federal contractors we identified in our 2002 report have subsidiaries that are incorporated in a tax haven country. You further asked us to determine, to the extent possible, which of these subsidiaries are Foreign Sales Corporations, a type of corporation that can exempt a portion of its foreign sales income from U.S. tax.

To determine which, if any, of the 100 largest publicly traded federal contractors (in terms of fiscal year 2001 contract obligations) we identified in our 2002 report have subsidiaries in a tax haven country, we reviewed various public documents the corporations filed with the Securities and Exchange Commission (SEC) on its Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system. We used information from the documents each corporation filed with the SEC that were the most recent available at the time we reviewed that corporation’s filings. However, as the SEC only requires public corporations to report their significant subsidiaries,<sup>3</sup> we were only able to identify those subsidiaries that the contractors reported to the SEC, or disclosed through other means. In certain cases, we obtained subsidiary information from corporate representatives or the corporations’ Web sites. To determine whether a country is considered a tax haven, we referred to the criteria the Organisation of Economic Co-operation and Development (OECD) has developed to characterize tax haven countries. We did not attempt to determine if corporations with subsidiaries in tax haven countries engaged in transactions with their subsidiaries intended to reduce their overall tax burden. (For a more detailed discussion of our scope and methodology, see app. I). We

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<sup>2</sup>U.S. General Accounting Office, *Information on Federal Contractors That Are Incorporated Offshore*, GAO-03-194R (Washington, D.C.: Oct. 1, 2002). The term “tax haven” is generally used in research and the media to refer to countries that have no or nominal taxes. In this report, the term “tax haven country” includes various possessions and overseas territories of the United States and other countries. For an expanded discussion of tax havens, see appendices I and II. For a list of the 100 largest publicly traded federal contractors in fiscal year 2001, see appendix. III.

<sup>3</sup>Public corporations may omit information in their SEC filings on subsidiaries which, when considered in the aggregate, would not constitute a significant subsidiary, and on consolidated wholly owned multiple subsidiaries carrying on the same line of business (such as chain stores).

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conducted our review between July and December 2003 in accordance with generally accepted government auditing standards.

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## Results in Brief

Fifty-nine of the 100 largest publicly traded federal contractors from fiscal year 2001 report having a subsidiary in a tax haven country. Fifty-eight of these 59 corporations also report having additional foreign subsidiaries in countries other than tax havens. Likewise, 26 of the 59 corporations that report having a subsidiary in a tax haven country report that at least one of these subsidiaries is a Foreign Sales Corporation. Four of these 26 contractors also report having additional Foreign Sales Corporations in countries other than tax havens. However, as the SEC only requires corporations to report their significant subsidiaries, there may be additional corporations among the 100 largest publicly traded federal contractors that have a subsidiary in a tax haven country. Likewise, some corporations that report having a subsidiary in a tax haven country could have additional subsidiaries in tax haven countries that they have not reported. The simple existence of a subsidiary in a tax haven country does not signify that a corporation has established that subsidiary primarily for the purpose of reducing its overall tax burden.

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## Background

There are few corporations of any significant size that are not faced with applying international tax rules to some aspect of their business. Under the U.S. income tax system, domestic corporations are taxed on income regardless of where it is earned. Thus, U.S. corporations are subject to U.S. tax on income from foreign operations in addition to the foreign tax they pay on such income in the country where it is earned.<sup>4</sup> However, income a corporation's foreign subsidiary earns is usually not subject to U.S. tax until the subsidiary repatriates the income to its U.S. parent.<sup>5</sup> The deferral of U.S. tax liability from a foreign subsidiary's income can provide that subsidiary's U.S. parent corporation with financial benefits if this income is invested abroad on a long-term basis.

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<sup>4</sup>Under the U.S. foreign tax credit system, corporations generally can reduce the U.S. tax on income earned from foreign operations by the amount of the income and withholding taxes they pay on this income in the country where it is earned.

<sup>5</sup>Certain income of a U.S. corporation's foreign subsidiary, such as passive, investment-type income is subject to U.S. tax without regard to whether the income is repatriated to the U.S. parent.

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Likewise, every year, U.S.-based multinational corporations transfer hundreds of billions of dollars of goods and services between their affiliates in the United States and their foreign subsidiaries. Although such transactions may be a part of normal business operations for multinational corporations, variations in corporate tax rates across countries create the potential for multinational corporations to engage in transactions with their foreign subsidiaries with the purpose of reducing their overall tax burden. For example, multinational corporations may try to maximize the income they report in countries with low tax rates through the pricing of intercompany transactions of goods or services. Pricing of intercompany transactions across tax jurisdictions can affect the distribution of profits and, therefore, taxable income among related companies. Underpayment of U.S. income taxes can result from the inappropriate pricing of transactions between interrelated companies with operations in both the United States and in a country with a lower tax rate.<sup>6</sup> Likewise, multinational corporations may try to minimize income reported in the United States through deductible interest payments to their subsidiaries in low-tax countries. Under certain circumstances, the interest expense that U.S. corporations pay on debt that their foreign subsidiaries issue them is deductible for U.S. tax purposes, and can serve to reduce a corporation's taxable income in the United States. Transactions intended to reduce a corporation's overall tax burden may be particularly relevant to corporations with subsidiaries in tax haven countries that impose no or nominal tax on income.

The United States has, however, enacted various legislative provisions since the 1970s intended to reduce the amount of U.S. tax that U.S. corporations pay on income earned from the export of goods and services to foreign countries. One set of these provisions, the Foreign Sales Corporation (FSC) provisions, was enacted in 1984 as a replacement to the Domestic International Sales Corporation (DISC) provisions (enacted in 1971).<sup>7</sup> A Foreign Sales Corporation generally is not subject to U.S. income tax on certain foreign trade income, and a U.S. corporation generally is not subject to U.S. income tax on dividends paid by a Foreign Sales

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<sup>6</sup>Even when the U.S. corporate tax rate is lower than that of another country, intercompany pricing abuses can occur by shifting income through another related company that operates in a low-tax country.

<sup>7</sup>The United States replaced the DISC benefit with the FSC provisions after a General Agreement on Tariffs and Trade (GATT) panel ruled that the DISC benefit was a prohibited export subsidy.

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Corporation out of certain earnings. As such, Foreign Sales Corporations and their parent corporations can receive a tax benefit from income reported in the United States that is not available to U.S. corporations that report income from other types of foreign subsidiaries, which is taxed without the FSC exemption, generally at the time it is repatriated to the United States.

The Internal Revenue Service (IRS) estimates that in 2000, the latest year for which data are available,<sup>8</sup> there were 4,200 Foreign Sales Corporations representing gross receipts of \$349.0 billion, total income of \$43.9 billion, taxable income of \$6.7 billion, and a tax liability of \$2.3 billion. An estimated 88 percent of these Foreign Sales Corporations reported receipts from the sale of manufactured products. Foreign Sales Corporations can only be established in U.S. possessions (excluding Puerto Rico) or countries with whom the United States has an agreement on the exchange of tax information, including a number of tax haven countries.

In 2000, the FSC Repeal and Extraterritorial Income Exclusion Act<sup>9</sup> replaced the FSC provisions with the Extraterritorial Income (ETI) provisions.<sup>10</sup> The ETI provisions provide corporations with tax benefits similar to those the FSC provisions provide. However, the ETI provisions permit corporations to exclude certain qualifying foreign trade income from U.S. tax, and are not restricted to the export of goods and services through a foreign corporation. Although the FSC provisions were repealed in 2000, Foreign Sales Corporations in existence prior to September 30, 2000, can continue to use the FSC rules for transactions related to a binding contract with an outside party.

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<sup>8</sup>Foreign Sales Corporation data in this report are from IRS' Statistics of Income division estimates. GAO did not verify these data.

<sup>9</sup>PL. 106-519.

<sup>10</sup>Although the United States designed the FSC provisions to comply with GATT, in 1999 the World Trade Organization (WTO), which supplanted GATT in 1995, concluded that the FSC provisions constituted a prohibited export subsidy. Likewise, although the ETI benefit was designed to comply with WTO rules, the WTO ruled in 2001 that the ETI provisions constitute an illegal export subsidy, and has since approved the European Union's request to assess up to \$4 billion in sanctions against the United States. The European Union has stated that they will begin to impose sanctions beginning March 1, 2004, if the United States fails to comply with the WTO ruling. Congress is currently considering a number of proposals intended to replace the ETI provisions with alternative tax benefits.

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## Over Half of the 100 Largest Publicly Traded Federal Contractors Report Having a Subsidiary in a Tax Haven Country, Including Some that Report Having a Foreign Sales Corporation in a Tax Haven Country

Eighty-six of the 100 largest publicly traded federal contractors from fiscal year 2001 report having a foreign subsidiary, of which 59 report having a subsidiary incorporated in a tax haven country. Of these 59 corporations, 58 also report having additional foreign subsidiaries in countries other than tax havens. However, as the SEC only requires public corporations to report their significant subsidiaries, there may be additional corporations among the 100 largest publicly traded federal contractors that have a subsidiary in a tax haven country. Likewise, some corporations that report having a subsidiary in a tax haven country could have additional subsidiaries in tax haven countries that they have not reported. However, given SEC regulations, these subsidiaries would not be “significant” in relation to their parent corporations’ consolidated assets or equity in income from continuing operations. (For a complete list of the corporations among the 100 largest publicly traded federal contractors from fiscal year 2001 that report having a subsidiary in a tax haven country, see app. IV).

In addition, 26 of the 59 federal contractors that report having a subsidiary in a tax haven country report that at least one of these subsidiaries is a Foreign Sales Corporation. Four of these 26 corporations also report having additional Foreign Sales Corporations in countries other than tax havens. Other than these 26 corporations, one additional corporation among the 100 largest publicly traded federal contractors reports having a Foreign Sales Corporation. The predominance of Foreign Sales Corporations incorporated in tax haven countries among the 100 largest publicly traded federal contractors is comparable to the incorporation locations of all Foreign Sales Corporations. According to the IRS, in 2000 an estimated 92 percent of all Foreign Sales Corporations were incorporated in the tax haven countries of the U.S. Virgin Islands (52 percent), Barbados (35 percent), and Bermuda (5 percent). According to an IRS official, the vast majority of Foreign Sales Corporations are incorporated in tax haven countries because, although a portion of the income these corporations earn is exempt from U.S. tax, this income may be subject to tax in the country where it is earned. As such, incorporating a Foreign Sales Corporation in a country with a high tax rate would not provide the overall tax savings that the FSC provisions would otherwise provide.



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As SEC regulations do not specifically require corporations to report if a subsidiary is a Foreign Sales Corporation in their public filings,<sup>11</sup> additional corporations among the 100 largest publicly traded federal contractors that may have a Foreign Sales Corporation in a tax haven or other country. Furthermore, some corporate representatives we spoke with stated that their Foreign Sales Corporations are largely dormant or are being phased out, given that the FSC benefit has been replaced by the ETI benefit. (For a complete list of the corporations among the 100 largest federal contractors from fiscal year 2001 that report having a Foreign Sales Corporation in a tax haven country, see app. IV).

The simple existence of a subsidiary in a tax haven country does not signify that a corporation has established that subsidiary primarily for the purpose of reducing its overall tax burden (although the Foreign Sales Corporation benefit was created for that express purpose). Likewise, we did not attempt to determine if corporations with subsidiaries in tax haven countries engaged in transactions with their subsidiaries intended to reduce their overall tax burden.

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## Agency Comments

We provided a draft of this report to the IRS and the SEC for their comment. In a letter dated January 12, 2004, the IRS stated that they had no comments with regard to tax administration issues, and had referred the report to the Department of The Treasury to comment on tax policy issues. On January 12, Treasury provided oral comments on several technical issues, which we incorporated into this report where appropriate. The SEC stated in a January 13, 2004, letter that the report provided a useful description of the 100 largest publicly traded federal contractors' offshore subsidiaries and related tax matters. On the same date, the SEC also provided an additional oral comment on a technical matter, which we incorporated into this report.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this report. We will then send copies of this report to the Commissioner of Internal Revenue, the Chairman, Securities and Exchange Commission, and other interested parties. We will also make copies

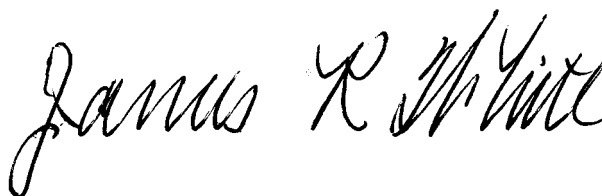
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<sup>11</sup> A corporation may be required to disclose if a subsidiary is a Foreign Sales Corporation if that information is material under federal securities laws.

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available to others on request. In addition, this report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you have any questions concerning this report, please contact me on (202) 512-9110. Key contributors to this report are listed in appendix V.

A handwritten signature in black ink that reads "James R. White". The signature is written in a cursive style with a large initial "J" and "W".

James R. White  
Director, Tax Issues

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# Scope and Methodology

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We used the list of the 100 largest publicly traded federal contractors in fiscal year 2001 identified in our October 2002 report, *Information on Federal Contractors That Are Incorporated Offshore* (GAO-03-194R) as the basis to determine which, if any, of the 100 largest publicly traded federal contractors have subsidiaries in tax haven countries. To identify which, if any, of these corporations report having a subsidiary in a tax haven country, we reviewed various public documents the corporations filed with the Securities and Exchange Commission (SEC) on its Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system. For U.S. corporations, we reviewed the lists of subsidiaries that public corporations are required to include as an exhibit (Exhibit 21)<sup>1</sup> to a number of forms they file with the SEC. We obtained this exhibit from each corporation's Form 10-K<sup>2</sup> because, according to the SEC, although U.S. corporations can include Exhibit 21 with a number of forms, they most often file this exhibit with Form 10-K on an annual basis. However, for 2 U.S. corporations, we obtained subsidiary information from Exhibit 21 to Form S-1,<sup>3</sup> because that form was the most recent filed with the SEC that contained this exhibit. For foreign corporations, we obtained subsidiary information from Form 20-F,<sup>4</sup> or an exhibit to this form (Exhibit 8), which foreign corporations registered with the SEC file on an annual basis instead of Form 10-K. For each corporation, we reported information from the Exhibit 21 or Form 20-F that was the most recent available at the time we reviewed that corporation's filings with the SEC.

As the SEC only requires public corporations to report their significant subsidiaries, we were only able to identify those subsidiaries the contractors reported to the SEC or disclosed through other means. Within Exhibit 21 or Form 20-F, public corporations may omit information on those subsidiaries that do not constitute a significant subsidiary when considered in the aggregate. The SEC considers a subsidiary to be

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<sup>1</sup>In Exhibit 21, public corporations are required to list their subsidiaries and the names under which they do business, and their state or jurisdiction of incorporation or organization.

<sup>2</sup>Form 10-K is used for the annual reports or transition reports that corporations file with the SEC according to the Securities Exchange Act of 1934.

<sup>3</sup>Form S-1 is a Registration Statement corporations file with the SEC according to the Securities Act of 1933.

<sup>4</sup>Form 20-F is used as the Registration Statement, Annual Report, or Transition Report that foreign corporations file with the SEC according to the Securities Exchange Act of 1934.

significant if: 1) the parent corporation and its other subsidiaries' investments in and advances to the subsidiary exceed 10 percent of the consolidated total assets of the parent corporation and its subsidiaries, 2) the parent corporation and its other subsidiaries' proportionate share of the total assets (after intercompany eliminations) of the subsidiary exceeds 10 percent of the consolidated total assets of the parent corporation and its subsidiaries, or 3) the parent corporation and its other subsidiaries' equity in the income from continuing operations<sup>5</sup> exceeds 10 percent of the consolidated income from continuing operations of the parent corporation and its subsidiaries. Corporations may also omit information on consolidated wholly owned multiple subsidiaries carrying on the same line of business (such as chain stores). Likewise, the SEC does not specifically require corporations to report whether a subsidiary is a Foreign Sales Corporation within their filings.<sup>6</sup>

For a number of corporations, we supplemented information from EDGAR with information from corporate representatives or the corporations' Web sites. For example, we contacted 22 corporations to clarify or supplement unclear or incomplete information they reported in their Exhibit 21 filings. We also obtained information on the principle subsidiaries for 5 foreign corporations that are not registered with the SEC from annual reports or other information available on these corporations' Web sites. Furthermore, we contacted the 18 corporations that did not report having any foreign subsidiaries in their SEC filings to verify this information. Some of these corporations disclosed having foreign subsidiaries that they did not report in their SEC filings (implying that in the aggregate, these corporations did not deem these subsidiaries to be significant), including 4 that disclosed having a foreign subsidiary in a tax haven country (these corporations are noted in apps. III and IV). We did not contact corporations that reported having foreign subsidiaries only in countries other than tax havens to determine if they had additional subsidiaries incorporated in a tax haven country that they did not report.<sup>7</sup>

To determine whether a country is considered a tax haven, we referred to the Organisation of Economic Co-operation and Development's work on

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<sup>5</sup>In this case, the SEC defines such income as income from continuing operations before income taxes, extraordinary items, and the cumulative effect of a change in accounting principle.

<sup>6</sup>A corporation may be required to disclose if a subsidiary is a Foreign Sales Corporation if that information is material under federal securities laws.

tax havens – OECD, *Progress in Identifying and Eliminating Harmful Tax Practices* (2000); *The OECD's Project on Harmful Tax Practices: The 2001 Progress Report* (November 2001); and *List of Unco-operative Tax Havens* (April 18, 2002, and revised on May 20, 2003). Although the OECD does not provide a unique definition of the term “tax haven,” we use the term in this report because it is the term we used in our October 2002 report to refer to countries that impose no or nominal tax on corporate income, and because the OECD has established a set of criteria to characterize a tax haven country or jurisdiction. Specifically, the OECD stipulates four major features of a tax haven: 1) no or nominal income tax, 2) rules that prevent the effective exchange of information with foreign tax authorities, 3) a lack of transparency in the operation of legislative, legal, or administrative provisions, and 4) the absence of a requirement for a substantive local presence. In general, the OECD classifies a country as a tax haven if it meets the criteria of no or nominal income tax, and at least one of the other criteria. (For a list of countries the OECD considers tax havens, see app. II).

Finally, although we identify the corporations among the 100 largest publicly traded federal contractors that report having a subsidiary in a tax haven country, we did not attempt to determine if these corporations engaged in transactions with their subsidiaries intended to reduce their overall tax burden.

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<sup>7</sup>We did include information on additional subsidiaries that TRW, Inc. did not report in its Exhibit 21 filing, which we obtained during the course of communication with TRW, Inc.'s corporate parent, Northrop Grumman Corporation (another of the 100 largest publicly traded federal contractors; see app. IV).

# List of Tax Haven Countries

The Organisation of Economic Co-operation and Development (OECD) has identified 39 countries or jurisdictions that they consider to be tax havens.<sup>1</sup> In this report we refer to these 39 countries and jurisdictions as tax havens:

• Andorra	• The Principality of Liechtenstein
• Anguilla	• Malta
• Antigua and Barbuda	• The Republic of the Marshall Islands
• Aruba	• Mauritius
• Bahamas	• The Principality of Monaco
• Bahrain	• Montserrat
• Barbados	• The Republic of Nauru
• Belize	• Netherlands Antilles
• Bermuda	• Niue
• British Virgin Islands	• Panama
• Cayman Islands	• St. Christopher (St. Kitts) and Nevis
• Cook Islands	• St. Lucia
• Cyprus	• St. Vincent and the Grenadines
• Dominica	• Samoa
• Gibraltar	• San Marino
• Grenada	• Seychelles
• Guernsey	• Turks & Caicos
• Isle of Man	• U.S. Virgin Islands
• Jersey	• Vanuatu
• Liberia	

<sup>1</sup>The OECD has identified two types of tax haven countries—the 34 countries that have made commitments to cooperate with the OECD in addressing “harmful tax practices” by December 31, 2005, and the 5 countries that have not made such commitments (Andorra, Liberia, The Principality of Liechtenstein, The Republic of the Marshall Islands, and the Principality of Monaco). The commitments are to transparency and effective exchange of information.

# The 100 Largest Publicly Traded Federal Contractors (Fiscal Year 2001)

The following table lists the 100 largest federal contractors that are publicly traded corporations, their rank among the 100 largest publicly traded federal contractors in fiscal year 2001, the dollar amount of their fiscal year 2001 federal contracts, the state or country where they are incorporated, and the number of their foreign subsidiaries. Unless otherwise noted, we obtained the information on the number of each corporation's foreign subsidiaries from forms filed with the Securities and Exchange Commission. We were unable to provide information on the number of foreign subsidiaries for the Lockheed Martin Corporation, which did not include this information in an Exhibit 21 filing, and did not respond to our request for this information before this report was completed. Likewise, Honeywell International, Inc., which did not report having any foreign subsidiaries in its Exhibit 21 filing, provided us with information on its Foreign Sales Corporations, but not its other foreign subsidiaries.

**Table 1: The 100 Largest Publicly Traded Federal Contractors**

Company name	Rank	Federal contract obligations FY 2001 (dollars in thousands) <sup>a</sup>	Incorporation location	Number of foreign subsidiaries
Accenture, Inc.	58	\$278,990	Bermuda	153
Affiliated Computer Services, Inc.	37	451,067	Delaware	24
Alliant Techsystems, Inc.	20	826,269	Delaware	0
Altria Group, Inc. <sup>b</sup>	80	149,634	Virginia	263
American Management Systems, Inc.	13	1,675,676	Delaware	17
AmerisourceBergen Corporation	10	1,900,969	Delaware	1 <sup>r</sup>
Anteon International Corporation <sup>c</sup>	41	406,304	Delaware	4 <sup>r</sup>
Anthem, Inc.	55	293,153	Indiana	0
Archer Daniels Midland Company	70	189,876	Delaware	9
AT&T Corporation	43	398,326	New York	116 <sup>r</sup>
Avaya, Inc.	94	115,079	Delaware	62
BAE Systems, plc	16	972,526	United Kingdom	6 <sup>ds</sup>
Ball Corporation	78	153,613	Indiana	47
Bearingpoint, Inc. <sup>e</sup>	90	177,456	Delaware	101
Berkshire Hathaway, Inc.	97	111,993	Delaware	13
The Boeing Company	2	14,362,243	Delaware	96
BP, plc	36	480,858	United Kingdom	27
CACI International, Inc.	46	380,524	Delaware	2
Cardinal Health, Inc.	40	422,120	Ohio	98

**Appendix III  
The 100 Largest Publicly Traded Federal  
Contractors (Fiscal Year 2001)**

(Continued From Previous Page)

<b>Company name</b>	<b>Rank</b>	<b>Federal contract obligations FY 2001 (dollars in thousands)<sup>a</sup></b>	<b>Incorporation location</b>	<b>Number of foreign subsidiaries</b>
CNF, Inc.	54	295,113	Delaware	49 <sup>r</sup>
Computer Associates International	75	172,202	Delaware	45
Computer Sciences Corporation	14	1,648,495	Nevada	97
ConAgra Foods, Inc.	83	131,850	Delaware	4
Cubic Corporation	91	117,054	Delaware	6
DaimlerChrysler AG	38	435,921	Germany	1
Dell, Inc. <sup>f</sup>	34	493,423	Delaware	76
DRS Technologies, Inc.	93	116,395	Delaware	10
Electronic Data Systems Corporation	26	560,767	Delaware	313
Engineered Support Systems, Inc.	50	321,384	Missouri	0 <sup>r</sup>
Exxon Mobil Corporation	21	707,283	New Jersey	90
FedEx Corporation	64	214,907	Delaware	75
Fluor Corporation	18	931,885	Delaware	202
Ford Motor Company	73	179,126	Delaware	46
Foster Wheeler, Ltd.	57	286,298	Bermuda	92
Furniture Brands International, Inc.	96	112,395	Delaware	9
GenCorp, Inc.	84	131,848	Ohio	29
General Dynamics Corporation	6	4,928,238	Delaware	26 <sup>g</sup>
General Electric Company	12	1,808,984	New York	10
General Motors Corporation	63	222,440	Delaware	200
Goodrich Corporation	52	308,283	New York	62
GTSI Corporation	42	402,408	Delaware	0 <sup>r</sup>
Halliburton Company	30	534,177	Delaware	131
Harris Corporation	45	389,970	Delaware	32
Health Net, Inc.	17	944,618	Delaware	2
Hillenbrand Industries, Inc.	95	114,456	Indiana	27
Holly Corporation	87	121,831	Delaware	0
Honeywell International, Inc.	15	1,442,018	Delaware	3 <sup>r</sup>
Humana, Inc.	44	394,135	Delaware	2
International Business Machines Corporation	33	498,656	New York	98
The IT Group, Inc. <sup>h</sup>	22	671,977	Delaware	25 <sup>r</sup>
ITT Industries, Inc.	19	879,772	Indiana	142
Jacobs Engineering Group, Inc.	29	536,130	Delaware	48
Johnson Controls, Inc.	53	299,592	Wisconsin	76
L-3 Communications Holdings, Inc.	35	482,248	Delaware	45 <sup>r</sup>
Lockheed Martin Corporation	1	17,951,303	Maryland	unknown



**Appendix III  
The 100 Largest Publicly Traded Federal  
Contractors (Fiscal Year 2001)**

(Continued From Previous Page)

<b>Company name</b>	<b>Rank</b>	<b>Federal contract obligations FY 2001 (dollars in thousands)<sup>a</sup></b>	<b>Incorporation location</b>	<b>Number of foreign subsidiaries</b>
Lucent Technologies, Inc.	98	107,402	Delaware	93
ManTech International Corporation	56	291,513	New Jersey	15
McDermott International, Inc.	11	1,885,243	Panama	10
McKesson Corporation	88	121,526	Delaware	0
Motor Oil (Hellas) Corinth Refineries S.A.	69	199,462	Greece	2 <sup>s</sup>
Motorola, Inc.	27	552,520	Delaware	20
Newport News Shipbuilding, Inc. <sup>l</sup>	4	5,689,539	Delaware	0
Northrop Grumman Corporation <sup>l</sup>	5	5,636,124	Delaware	52 <sup>r</sup>
Olin Corporation	100	104,121	Virginia	13
Oracle Corporation	65	212,468	Delaware	84
Orbital Sciences Corporation	77	161,286	Delaware	0
Oshkosh Truck Corporation	25	566,511	Wisconsin	20
Parker-Hannifin Corporation	79	153,562	Ohio	95
PC Connection, Inc.	92	116,919	Delaware	0
Philipp Holzmann AG	23	655,360	Germany	5 <sup>s</sup>
The Procter and Gamble Company	62	224,212	Ohio	306
Raytheon Company	3	6,123,605	Delaware	95
Rockwell Automation, Inc. <sup>k</sup>	47	372,131	Delaware	10
Rockwell Collins, Inc.	61	234,075	Delaware	2
Rolls-Royce, plc	49	327,792	United Kingdom	30 <sup>ss</sup>
Science Applications International Corporation	8	2,654,492	Delaware	15
Siemens AG	85	124,452	Germany	102
Smiths Group, plc	72	184,232	United Kingdom	11 <sup>s</sup>
Sprint Corporation	82	136,200	Kansas	56
SRA International, Inc.	60	234,926	Delaware	0
Telos Corporation	89	118,803	Maryland	0 <sup>mr</sup>
Tetra Tech, Inc.	66	211,705	Delaware	3
Texas Instruments, Inc.	74	178,631	Delaware	51
Textron, Inc.	24	600,533	Delaware	19
The Titan Corporation	39	424,087	Delaware	4
TRW, Inc. <sup>n</sup>	9	2,499,816	Ohio	33 <sup>r</sup>
Tyco International, Ltd.	68	206,387	Bermuda	1,736
Unisys Corporation	28	549,905	Delaware	8
United Industrial Corporation	76	171,044	Delaware	2
United Technologies Corporation	7	3,500,465	Delaware	66
URS Corporation	59	262,489	Delaware	94

**Appendix III  
The 100 Largest Publicly Traded Federal  
Contractors (Fiscal Year 2001)**

(Continued From Previous Page)

Company name	Rank	Federal contract obligations FY 2001 (dollars in thousands) <sup>a</sup>	Incorporation location	Number of foreign subsidiaries
Valero Energy Corporation	51	310,202	Delaware	10
Veridian Corporation <sup>o</sup>	71	188,960	Delaware	0
Verizon Communications, Inc.	67	207,210	Delaware	2
The Wackenhut Corporation <sup>p</sup>	48	356,968	Florida	47
Washington Group International, Inc.	31	531,234	Delaware	35
Weston Solutions, Inc. <sup>q</sup>	86	124,380	Pennsylvania	1 <sup>r</sup>
WGL Holdings, Inc.	99	105,260	Virginia	0
WorldCom, Inc.	32	503,811	Georgia	187
Xerox Corporation	81	139,224	New York	216
<b>Total</b>		<b>\$101,770,865</b>		

Sources: General Services Administration, Securities and Exchange Commission, corporate representatives, and GAO Internet research.

<sup>a</sup> Contract obligations include contracts with subsidiaries.

<sup>b</sup> Formerly Philip Morris Companies, Inc.

<sup>c</sup> Formerly Azimuth Technologies, Inc.

<sup>d</sup> BAE Systems, plc also participates in eight foreign joint ventures.

<sup>e</sup> Formerly KPMG Consulting, Inc.

<sup>f</sup> Formerly Dell Computer Corporation.

<sup>g</sup> Does not include Veridian Corporation (or its subsidiaries), which General Dynamics acquired after fiscal year 2001. Information on Veridian Corporation and its subsidiaries are presented separately in this report.

<sup>h</sup> Assets acquired by the Shaw Group in May 2002; corporation still exists in bankruptcy.

<sup>i</sup> Merged with Northrop Grumman Corporation in November 2001.

<sup>j</sup> Does not include Newport News Shipbuilding or TRW, Inc. (or their subsidiaries), which Northrop Grumman acquired after fiscal year 2001. Information on Newport News Shipbuilding and TRW, Inc., and their subsidiaries are presented separately in this report.

<sup>k</sup> Formerly Rockwell International Corporation.

<sup>l</sup> Rolls-Royce, plc also participates in 20 foreign joint ventures.

<sup>m</sup> Telos Corporation also holds a 50 percent interest in a foreign joint venture that has been inactive since 2000.

<sup>n</sup> Acquired by Northrop Grumman Corporation in December 2002.

<sup>o</sup> Acquired by General Dynamics Corporation in August 2003.

<sup>p</sup> Acquired by Group 4 Falck (Denmark) in May 2002; does not include Wackenhut Corrections Corporation (or its subsidiaries), which is now an independent corporation.

<sup>q</sup> Formerly Roy F. Weston, Inc. and now privately held.

<sup>r</sup> Corporation provided information on foreign subsidiaries directly to GAO.

<sup>s</sup> Information on foreign subsidiaries from annual report or other information available on corporation's Web site.

# Federal Contractors that Report Having a Subsidiary in a Tax Haven Country

The following table shows the 59 corporations among the 100 largest publicly traded federal contractors that report having a subsidiary incorporated in a tax haven country. Although the dollar amount of contract obligations for each corporation includes contracts with their subsidiaries, we did not identify if these obligations were related to subsidiaries in tax haven countries. The number of foreign subsidiaries and number and location(s) of foreign subsidiaries in tax haven countries include information on Foreign Sales Corporations. For the 26 corporations that report having a subsidiary in a tax haven country that is a Foreign Sales Corporation, separate information on the number of Foreign Sales Corporations and the number and location(s) of Foreign Sales Corporations in tax haven countries is provided. The information provided for each corporation is based on its latest available information either filed with the Securities and Exchange Commission, provided to GAO, or presented on its Web site at the time we performed our review of that corporation. Unless otherwise noted, we obtained the information on the number and locations of foreign subsidiaries and Foreign Sales Corporations for each corporation from forms filed with the SEC.

**Table 2: Corporations Among the 100 Largest Publicly Traded Federal Contractors that Report Having Subsidiaries and Foreign Sales Corporations Incorporated in Tax Haven Countries**

Company name	Federal contract obligations FY 2001 (dollars in thousands) <sup>a</sup>	Incorporation location	Number of foreign subsidiaries <sup>b</sup>	Number and location(s) of foreign subsidiaries in tax havens <sup>b</sup>	Number of subsidiaries that are Foreign Sales Corporations	Number and location(s) of Foreign Sales Corporations in tax havens
Accenture, Inc.	\$278,990	Bermuda	153	19 Andorra (1) Bermuda (5) Gibraltar (8) Isle of Man (2) Mauritius (3)	0	0
Affiliated Computer Services, Inc.	451,067	Delaware	24	2 Barbados	0	0
Altria Group, Inc. <sup>c</sup>	149,634	Virginia	263	9 Bahamas (1) British Virgin Islands (1) Cayman Islands (1) Panama (3) U.S. Virgin Islands (3)	2	2 U.S. Virgin Islands
Archer Daniels Midland Company	189,876	Delaware	9	1 Cayman Islands	0	0

**Appendix IV  
Federal Contractors that Report Having a  
Subsidiary in a Tax Haven Country**

(Continued From Previous Page)

Company name	Federal contract obligations FY 2001 (dollars in thousands) <sup>a</sup>	Incorporation location	Number of foreign subsidiaries <sup>b</sup>	Number and location(s) of foreign subsidiaries in tax havens <sup>b</sup>	Number of subsidiaries that are Foreign Sales Corporations	Number and location(s) of Foreign Sales Corporations in tax havens
AT&T Corporation	398,326	New York	116 (Subsidiary information provided directly by corporation)	5 Cyprus (2) Panama (1) U.S. Virgin Islands (2)	2	2 U.S. Virgin Islands
Avaya, Inc.	115,079	Delaware	62	4 Bahrain (1) Barbados (1) Gibraltar (1) Panama (1)	1	1 Barbados
Bearingpoint, Inc. <sup>d</sup>	117,456	Delaware	101	22 Aruba (2) Barbados (1) Bermuda (8) British Virgin Islands (2) Cayman Islands (2) Netherlands Antilles (6) Panama (1)	0	0
The Boeing Company	14,362,243	Delaware	96	31 Bermuda (6) British Virgin Islands (1) Cayman Islands (1) U.S. Virgin Islands (23)	2	1 U.S. Virgin Islands
BP, plc	480,858	United Kingdom	27	1 Guernsey	0	0
Cardinal Health, Inc.	422,120	Ohio	98	5 Barbados (1) Bermuda (1) British Virgin Islands (1) Malta (1) St. Lucia (1)	0	0
CNF, Inc.	295,113	Delaware	49 (Subsidiary information provided directly by corporation)	3 Bermuda	0	0
Computer Associates International	172,202	Delaware	45	1 Bahrain	0	0
Cubic Corporation	117,054	Delaware	6	1 U.S. Virgin Islands	1	1 U.S. Virgin Islands

**Appendix IV  
Federal Contractors that Report Having a  
Subsidiary in a Tax Haven Country**

(Continued From Previous Page)

Company name	Federal contract obligations FY 2001 (dollars in thousands) <sup>a</sup>	Incorporation location	Number of foreign subsidiaries <sup>b</sup>	Number and location(s) of foreign subsidiaries in tax havens <sup>b</sup>	Number of subsidiaries that are Foreign Sales Corporations	Number and location(s) of Foreign Sales Corporations in tax havens
Dell, Inc. <sup>e</sup>	493,423	Delaware	76	3 Barbados (1) Cayman Islands (1) Panama (1)	0	0
Electronic Data Systems Corporation	560,767	Delaware	313	8 Bahrain (1) Barbados (2) Bermuda (3) Panama (2)	2	Barbados (1) Bermuda (1)
Exxon Mobil Corporation	707,283	New Jersey	90	11 Bahamas	0	0
FedEx Corporation	214,907	Delaware	75	13 Antigua (1) Bahamas (1) Barbados (1) Bermuda (1) Cayman Islands (2) Grenada (1) Netherlands Antilles (2) St. Kitts (1) St. Lucia (1) Turks & Caicos (1) U.S. Virgin Islands (1)	0	0
Fluor Corporation	931,885	Delaware	202	27 Barbados (5) Bermuda (7) British Virgin Islands (2) Guernsey (8) Liechtenstein (2) Mauritius (3)	2	Barbados
Ford Motor Company	179,126	Delaware	46	1 Cayman Islands	0	0
Foster Wheeler, Ltd.	286,298	Bermuda	92	8 Bermuda (6) Mauritius (1) Netherlands Antilles (1)	0	0
Furniture Brands International, Inc.	112,395	Delaware	9	3 Barbados (1) Vanuatu (2)	0	0
GenCorp, Inc.	131,848	Ohio	29	2 Bermuda (1) U.S. Virgin Islands (1)	0	0

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Federal Contractors that Report Having a  
Subsidiary in a Tax Haven Country**

(Continued From Previous Page)

<b>Company name</b>	<b>Federal contract obligations FY 2001 (dollars in thousands)<sup>a</sup></b>	<b>Incorporation location</b>	<b>Number of foreign subsidiaries<sup>b</sup></b>	<b>Number and location(s) of foreign subsidiaries in tax havens<sup>b</sup></b>	<b>Number of subsidiaries that are Foreign Sales Corporations</b>	<b>Number and location(s) of Foreign Sales Corporations in tax havens</b>
General Dynamics Corporation <sup>f</sup>	4,928,238	Delaware	26	4 Cayman Islands (2) Cyprus (1) U.S. Virgin Islands (1)	1	1 U.S. Virgin Islands
General Motors Corporation	222,440	Delaware	200	13 Barbados (3) Bermuda (2) Cayman Islands (4) Mauritius (1) Netherlands Antilles (1) U.S. Virgin Islands (2)	3	3 Barbados (1) U.S. Virgin Islands (2)
Goodrich Corporation	308,283	New York	62	7 Barbados (2) Cayman Islands (2) Gibraltar (1) Mauritius (1) U.S. Virgin Islands (1)	3	2 Barbados (1) U.S. Virgin Islands (1)
Halliburton Company	534,177	Delaware	131	17 Cayman Islands (13) Liechtenstein (2) Panama (2)	0	0
Harris Corporation	389,970	Delaware	32	3 Bermuda (1) Cayman Islands (1) U.S. Virgin Islands (1)	1	1 U.S. Virgin Islands
Health Net, Inc.	944,618	Delaware	2	2 Bermuda (1) Cayman Islands (1)	0	0
Hillenbrand Industries, Inc.	114,456	Indiana	27	2 Barbados (1) Bermuda (1)	1	1 Barbados
Honeywell International, Inc.	1,442,018	Delaware	3 (Subsidiary information provided directly by corporation)	2 Barbados	3	2 Barbados
International Business Machine Corporation	498,656	New York	98	6 Bahamas (1) Barbados (1) Bermuda (2) British Virgin Islands (2)	1	1 Barbados

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Federal Contractors that Report Having a  
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(Continued From Previous Page)

<b>Company name</b>	<b>Federal contract obligations FY 2001 (dollars in thousands)<sup>a</sup></b>	<b>Incorporation location</b>	<b>Number of foreign subsidiaries<sup>b</sup></b>	<b>Number and location(s) of foreign subsidiaries in tax havens<sup>b</sup></b>	<b>Number of subsidiaries that are Foreign Sales Corporations</b>	<b>Number and location(s) of Foreign Sales Corporations in tax havens</b>
ITT Industries, Inc.	879,772	Indiana	142	3 Bermuda (1) Cayman Islands (1) U.S. Virgin Islands (1)	2	2 Bermuda (1) U.S. Virgin Islands (1)
Jacobs Engineering Group, Inc.	536,130	Delaware	48	5 Barbados (1) Cyprus (1) Panama (1) U.S. Virgin Islands (2)	1	1 Barbados
L-3 Communications Holdings, Inc.	482,248	Delaware	45	3 U.S. Virgin Islands	3	3 U.S. Virgin Islands
Lucent Technologies, Inc.	107,402	Delaware	93	3 Barbados (1) Bermuda (1) Cyprus (1)	1	1 Barbados
ManTech International Corporation	291,513	New Jersey	15	1 Panama	0	0
McDermott International, Inc.	1,885,243	Panama	10	9 Mauritius (1) Netherlands Antilles (1) Panama (7)	0	0
Northrop Grumman Corporation <sup>g</sup>	5,636,124	Delaware	52 (Subsidiary information provided directly by corporation)	2 Bermuda (1) Cayman Islands (1)	1	0
Olin Corporation	104,121	Virginia	13	1 Bermuda	0	0
Oracle Corporation	212,468	Delaware	84	4 Cayman Islands (2) Barbados (1) Netherlands Antilles (1)	1	1 Barbados
Oshkosh Truck Corporation	566,511	Wisconsin	20	1 Barbados	0	0
The Procter & Gamble Company	224,212	Ohio	306	6 Barbados (2) Bermuda (2) British Virgin Islands (1) Cayman Islands (1)	1	1 Barbados

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(Continued From Previous Page)

<b>Company name</b>	<b>Federal contract obligations FY 2001 (dollars in thousands)<sup>a</sup></b>	<b>Incorporation location</b>	<b>Number of foreign subsidiaries<sup>b</sup></b>	<b>Number and location(s) of foreign subsidiaries in tax havens<sup>b</sup></b>	<b>Number of subsidiaries that are Foreign Sales Corporations</b>	<b>Number and location(s) of Foreign Sales Corporations in tax havens</b>
Raytheon Company	6,123,605	Delaware	95	4 Bermuda (1) U.S. Virgin Islands (3)	1	1 U.S. Virgin Islands
Rolls-Royce plc	327,792	United Kingdom	30 <sup>h</sup> (Subsidiary information obtained from annual report available on corporation's Web site)	1 Guernsey	0	0
Science Applications International Corporation	2,654,492	Delaware	15	2 Barbados (1) Bermuda (1)	0	0
Sprint Corporation	136,200	Kansas	56	3 Bermuda (1) Cayman Islands (2)	0	0
Texas Instruments, Inc.	178,631	Delaware	51	7 Bahamas (1) Barbados (3) Bermuda (1) Cayman Islands (1) Panama (1)	3	3 Barbados
Textron, Inc.	600,533	Delaware	19	1 Barbados	1	1 Barbados
Titan Corporation	424,087	Delaware	4	3 Barbados (1) Cayman Islands (1) U.S. Virgin Islands (1)	0	0
TRW, Inc.	2,499,816	Ohio	33 (Subsidiary information provided directly by corporation)	2 Barbados (1) Bermuda (1)	2	1 Barbados



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Federal Contractors that Report Having a  
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(Continued From Previous Page)

<b>Company name</b>	<b>Federal contract obligations FY 2001 (dollars in thousands)<sup>a</sup></b>	<b>Incorporation location</b>	<b>Number of foreign subsidiaries<sup>b</sup></b>	<b>Number and location(s) of foreign subsidiaries in tax havens<sup>b</sup></b>	<b>Number of subsidiaries that are Foreign Sales Corporations</b>	<b>Number and location(s) of Foreign Sales Corporations in tax havens</b>
Tyco International, Ltd.	206,387	Bermuda	1,736	115 Bahamas (8) Barbados (17) Belize (1) Bermuda (55) British Virgin Islands (3) Cayman Islands (5) Cyprus (3) Gibraltar (5) Isle of Man (1) Jersey (2) Marshall Islands (8) Mauritius (3) Panama (2) U.S. Virgin Islands (2)	1	1 U.S. Virgin Islands
United Technologies Corporation	3,500,465	Delaware	66	4 Cayman Islands	0	0
URS Corporation	262,489	Delaware	94	7 Bermuda (1) Cayman Islands (1) Cyprus (4) Panama (1)	0	0
Valero Energy Corporation	310,202	Delaware	10	2 Bermuda	0	0
Verizon Communications, Inc.	207,210	Delaware	2	1 Bermuda	0	0
The Wackenhut Corporation <sup>1</sup>	356,968	Florida	47	3 Belize (1) Panama (2)	0	0
Washington Group International	531,234	Delaware	35	1 Bermuda	0	0
WorldCom, Inc.	503,811	Georgia	187	10 Barbados (1) Bermuda (3) British Virgin Islands (1) Cayman Islands (1) Panama (4)	0	0

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Federal Contractors that Report Having a  
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*(Continued From Previous Page)*

<b>Company name</b>	<b>Federal contract obligations FY 2001 (dollars in thousands)<sup>a</sup></b>	<b>Incorporation location</b>	<b>Number of foreign subsidiaries<sup>b</sup></b>	<b>Number and location(s) of foreign subsidiaries in tax havens<sup>b</sup></b>	<b>Number of subsidiaries that are Foreign Sales Corporations</b>	<b>Number and location(s) of Foreign Sales Corporations in tax havens</b>
Xerox Corporation	139,224	New York	216	24 Aruba (1) Barbados (4) Bermuda (10) Cyprus (1) Jersey (1) Mauritius (1) Netherlands Antilles (3) Panama (2) Turks & Caicos (1)	2	2 Barbados

Sources: General Services Administration, Securities and Exchange Commission, corporate representatives, and GAO Internet research.

<sup>a</sup> Contract obligations include contracts with subsidiaries.

<sup>b</sup> Includes foreign sales corporations.

<sup>c</sup> Formerly Philip Morris Companies, Inc.

<sup>d</sup> Formerly KPMG Consulting, Inc.

<sup>e</sup> Formerly Dell Computer Corporation.

<sup>f</sup> Subsidiary and Foreign Sales Corporation information does not include Veridian Corporation (or its subsidiaries), which General Dynamics acquired after fiscal year 2001. Information on Veridian Corporation and its subsidiaries are presented separately in this report.

<sup>g</sup> Subsidiary and Foreign Sales Corporation information does not include Newport News Shipbuilding or TRW, Inc. (or their subsidiaries), which Northrop Grumman acquired after fiscal year 2001. Information on Newport News Shipbuilding and TRW, Inc., and their subsidiaries are presented separately in this report.

<sup>h</sup> Rolls-Royce, plc also participates in 20 foreign joint ventures, including one joint venture incorporated in the tax haven country of Isle of Man.

<sup>i</sup> Acquired by Group 4 Falck (Denmark) in May 2002; does not include Wackenhut Corrections Corporation (or its subsidiaries), which is now an independent corporation.

# GAO Contacts and Staff Acknowledgments

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