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United States General Accounting Office
Washington, DC 20548

October 1, 2002

The Honorable Henry A. Waxman
Ranking Minority Member
Committee on Government Reform
House of Representatives

The Honorable Jim Turner
Ranking Minority Member
Subcommittee on Technology and
Procurement Policy
Committee on Government Reform
House of Representatives

Subject: ***Information on Federal Contractors That Are Incorporated Offshore***

Some U.S.-based multinational companies have found that the effective tax rate on income earned from foreign sources can be reduced if they are incorporated in countries that either do not tax corporate income at all or tax the income at a lower rate than the U.S. corporate tax rate. Consequently, some U.S.-based companies incorporate from the outset in these so-called "tax haven" countries.[1] In addition, some companies that were incorporated in the United States have reincorporated in tax haven countries through "corporate inversion transactions."

According to the Department of the Treasury, the term "inversion" is used to describe a broad category of transactions through which a U.S.-based multinational company restructures its corporate group so that after the transaction the ultimate parent of the corporate group is a foreign corporation.[2] Generally, after an inversion transaction, shareholders of the former U.S. parent company hold stock of the newly formed foreign parent, and the operations of the company are unchanged. Treasury also noted that there has been a marked increase recently in the frequency, size, and

[1] The term "tax haven" is generally used in research and the media to refer to countries that have no or nominal taxes. Multinational companies incorporated in a tax haven may have U.S. based subsidiaries that pay U.S. taxes. The Organization for Economic Cooperation and Development (OECD) has developed criteria for identifying countries that may engage in harmful tax competition in the form of tax havens.

[2] Department of the Treasury, Office of Tax Policy, *Corporate Inversion Transactions: Tax Policy Implications* (Washington, D.C.: May 17, 2002).

profile of inversion transactions. This year, several bills have been introduced in Congress that address such transactions.

You asked us for information on the extent to which large federal contractors are incorporated offshore. In response, we agreed to determine which, if any, of the largest 100 publicly traded federal contractors are incorporated in a tax haven country or have engaged in a transaction characterized by independent observers as an inversion.

We used the General Services Administration's listing of top federal contractors to identify (1) the top 100 federal contractors that are publicly traded corporations and (2) the total dollar amount that was obligated in fiscal year 2001. We reviewed various public documents filed by the corporations with the Securities and Exchange Commission (SEC) on its Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system to identify the state or country where the contractor is incorporated. When the data we needed to do our analysis were not available on EDGAR, we obtained our information from the corporations' Web sites and from published reports. To determine whether a country is considered a tax haven, we made reference to the work the Organization for Economic Cooperation and Development did on tax haven countries.[3] Finally, to determine whether a transaction has been characterized as an inversion, we reviewed the corporations' SEC filings and reports published by organizations, including Congressional Research Service and the New York State Bar Association Tax Section. We did our work in August and September 2002 in accordance with generally accepted government auditing standards.

Results

Four of the top 100 federal contractors that are publicly traded corporations are incorporated in a tax haven country. Table 1 lists the four corporations, the dollar amount of their federal contract obligations in fiscal year 2001, the country where they are incorporated, and the year of incorporation.

[3] Organization for Economic Cooperation and Development, *Towards Global Tax Co-operation: Progress in Identifying and Eliminating Harmful Tax Practices* (2000); Organization for Economic Cooperation and Development, *The OECD's Project on Harmful Tax Practices: The 2001 Progress Report* (November 2001); and OECD's *List of Unco-operative Tax Havens* (April 18, 2002). We referred to OECD's list of 31 countries that have made commitments to end "harmful tax practices" by December 31, 2005, as well as to OECD's list of seven countries that have not made such commitments. The commitments are to transparency and effective exchange of information. In this report we refer to these 38 countries as tax havens.

Table 1: Federal Contractors, out of the Top 100 Publicly Traded Federal Contractors, Incorporated in a Tax Haven Country

Name of corporation	Federal contract obligations FY 2001 (dollars in thousands)	Incorporation location	Incorporation date
McDermott International, Inc.	1,885,243	Panama	1983
Foster Wheeler, Ltd.	286,298	Bermuda	2001
Accenture, Ltd.	278,990	Bermuda	2001
Tyco International, Ltd.	206,387	Bermuda	1997

Source: GAO analysis of General Services Administration contract data and SEC records.

The four corporations accounted for about $2.7 billion for contract obligations in fiscal year 2001, which is about 2.6 percent of the $102 billion in federal contract obligations awarded to the top 100 publicly traded corporations. (See enc. I for a list of the top 100 publicly traded federal contractors.)

Three of the four corporations (McDermott International, Inc., Foster Wheeler, Ltd., and Tyco International, Ltd.) have engaged in transactions that have been characterized as inversions.[4] The enclosure provides more information on how the four corporations became incorporated offshore.

We are sending copies of this letter to the Chairman of the House Committee on Government Reform and the Chairman of the Subcommittee on Technology and Procurement Policy of the House Committee on Government Reform; the Chairmen and Ranking Minority Members of the House Committee on Ways and Means and the Senate Committee on Finance; and other interested parties. We will also make copies available to others upon request. In addition, this letter will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions, please contact me on (202) 512-9110 or Ralph Block on (415) 904-2150.

James R. White
Director, Tax Issues

Enclosure

[4] New York State Bar Association Tax Section, *Report on Outbound Inversion Transactions*, Report No. 1014 (Albany, N.Y.: May 24, 2002) and Congressional Research Service, *Firms That Incorporate Abroad for Tax Purposes: Corporate "Inversions" and "Expatriation"* (Washington, D.C.: Sept. 20, 2002).

Information on Corporations Receiving Federal Contracts and Those That Are Incorporated Offshore

The following table lists the top 100 federal contractors that are publicly owned corporations, the dollar amount of their fiscal year 2001 federal contracts, the state or country where they are incorporated, and the year of incorporation.

Table 2: Top 100 Publicly Traded Federal Contractors

Rank	Company name	Federal contract obligations FY 2001 (dollars in thousands)[a]	Incorporation location	Incorporation date
1	Lockheed Martin Corporation	17,951,303	Maryland	1995
2	The Boeing Company	14,362,243	Delaware	1916
3	Raytheon Company	6,123,605	Delaware	1998
4	Newport News Shipbuilding, Inc.	5,689,359	Delaware	1996
5	Northrop Grumman Corporation	5,636,124	Delaware	1985
6	General Dynamics Corporation	4,928,238	Delaware	1952
7	United Technologies Corporation	3,500,465	Delaware	1934
8	Science Applications International Corporation	2,654,492	Delaware	1984
9	TRW, Inc.	2,499,816	Ohio	1916
10	AmerisourceBergen Corporation	1,900,969	Delaware	2001
11	McDermott International, Inc.	1,885,243	Panama	1983
12	General Electric Company	1,808,984	New York	1892
13	American Management Systems, Inc.	1,675,676	Delaware	1970
14	Computer Sciences Corporation	1,648,495	Nevada	1959
15	Honeywell International, Inc.	1,442,018	Delaware	1985
16	BAE Systems, plc.	972,526	United Kingdom	1977
17	Health Net, Inc.	944,618	Delaware	1990
18	Fluor Corporation	931,885	Delaware	2000
19	ITT Industries, Inc.	879,772	Indiana	1995
20	Alliant Techsystems, Inc.	862,269	Delaware	1990
21	Exxon Mobil Corporation	707,283	New Jersey	1882
22	The IT Group, Inc.	671,977	Delaware	1987
23	Philipp Holzmann AG	655,360	Germany	1849
24	Textron, Inc.	600,533	Delaware	1967
25	Oshkosh Truck Corporation	566,511	Wisconsin	1917
26	Electronic Data Systems Corporation	560,767	Delaware	1994
27	Motorola, Inc.	552,520	Delaware	1947
28	Unisys Corporation	549,905	Delaware	1999
29	Jacobs Engineering Group, Inc.	536,130	Delaware	1987
30	Halliburton Company	534,177	Delaware	1924
31	Washington Group International, Inc.	531,234	Delaware	1993
32	WorldCom, Inc.	503,811	Georgia	1983
33	International Business Machines Corporation	498,656	New York	1911
34	Dell Computer Corporation	493,423	Delaware	1987
35	L-3 Communications Holdings, Inc.	482,248	Delaware	1997
36	BP, plc	480,858	United Kingdom	1998
37	Affiliated Computer Services, Inc.	451,067	Delaware	2001

38	DaimlerChrysler AG	435,921	Germany	1998
39	The Titan Corporation	424,087	Delaware	1986
40	Cardinal Health, Inc.	422,120	Ohio	1979
41	Anteon International Corporation[b]	406,304	Delaware	1996
42	GTSI Corporation	402,408	Delaware	1983
43	AT&T Corporation	398,326	New York	1885
44	Humana, Inc.	394,135	Delaware	1964
45	Harris Corporation	389,970	Delaware	1926
46	CACI International, Inc.	380,524	Delaware	1985
47	Rockwell International Corporation	372,131	Delaware	1996
48	The Wackenhut Corporation	356,968	Florida	1958
49	Rolls-Royce, plc	327,792	United Kingdom	1906
50	Engineered Support Systems, Inc.	321,384	Missouri	1981
51	Valero Energy Corporation	310,202	Delaware	1981
52	Goodrich Corporation	308,283	New York	1912
53	Johnson Controls, Inc.	299,592	Wisconsin	1900
54	CNF, Inc.	295,113	Delaware	1958
55	Anthem, Inc.	293,153	Indiana	2001
56	ManTech International Corporation	291,513	New Jersey	1968
57	Foster Wheeler, Ltd.	286,298	Bermuda	2001
58	Accenture, Inc.	278,990	Bermuda	2001
59	URS Corporation	262,489	Delaware	1991
60	SRA International, Inc.	234,926	Delaware	1984
61	Rockwell Collins, Inc.	234,075	Delaware	2001
62	The Procter and Gamble Company	224,212	Ohio	1837
63	General Motors Corporation	222,440	Delaware	1916
64	FedEx Corporation	214,907	Delaware	1997
65	Oracle Corporation	212,468	Delaware	1986
66	Tetra Tech, Inc.	211,705	Delaware	1988
67	Verizon Communications, Inc.	207,210	Delaware	1983
68	Tyco International, Ltd.	206,387	Bermuda	1997
69	Motor Oil (Hellas) Corinth Refineries S.A.	199,462	Greece	1970
70	Archer Daniels Midland Company	189,876	Delaware	1923
71	Veridian Corporation	188,960	Delaware	1986
72	Smiths Group, plc	184,232	United Kingdom	2000
73	Ford Motor Company	179,126	Delaware	1919
74	Texas Instruments, Inc.	178,631	Delaware	1938
75	Computer Associates International	172,202	Delaware	1974
76	United Industrial Corporation	171,044	Delaware	1959
77	Orbital Sciences Corporation	161,286	Delaware	1987
78	Ball Corporation	153,613	Indiana	1922
79	Parker-Hannifin Corporation	153,562	Ohio	1938
80	Philip Morris Companies, Inc.	149,634	Virginia	1919
81	Xerox Corporation	139,224	New York	1906
82	Sprint Corporation	136,200	Kansas	1938
83	ConAgra Foods, Inc.	131,850	Delaware	1975
84	GenCorp, Inc.	131,848	Ohio	1915
85	Siemens AG	124,452	Germany	1966
86	Roy F. Weston, Inc.	124,380	Pennsylvania	1957
87	Holly Corporation	121,831	Delaware	1947
88	McKesson Corporation	121,526	Delaware	1994
89	Telos Corporation	118,803	Maryland	1972

90	KPMG Consulting, Inc.	117,456	Delaware	1999
91	Cubic Corporation	117,054	Delaware	1984
92	PC Connection, Inc.	116,919	Delaware	1997
93	DRS Technologies, Inc.	116,395	Delaware	1968
94	Avaya, Inc.	115,079	Delaware	2000
95	Hillenbrand Industries, Inc.	114,456	Indiana	1969
96	Furniture Brands International, Inc.	112,395	Delaware	1921
97	Berkshire Hathaway, Inc.	111,993	Delaware	1973
98	Lucent Technologies, Inc.	107,402	Delaware	1995
99	WGL Holdings, Inc.	105,260	Virginia	2000
100	Olin Corporation	104,121	Virginia	1892
	Total	**101,770,865**		

[a]Contract obligations include contracts with subsidiaries. According to a General Services Administration (GSA) official, GSA follows a multi-step process (that includes using Dun & Bradstreet assigned D-U-N-S numbers, company names, and company affiliations) to aggregate federal contracts by company. We did not verify GSA's federal contractors listing for accuracy or completeness.

[b]Formerly Azimuth Technologies, Inc.

Source: General Services Administration, Securities and Exchange Commission, and GAO Internet research.

Four of the top 100 federal contractors that are publicly traded corporations are incorporated in a tax haven country. Information on when these four corporations (McDermott International, Inc., Foster Wheeler, Ltd., Accenture, Ltd., and Tyco International, Ltd.) were incorporated in a tax haven country is discussed below.

McDermott International, Inc.: With over $1.8 billion in federal contract obligations in fiscal year 2001, McDermott International was the 11th largest publicly traded federal contractor. Almost three-quarters of the contracts awarded to McDermott International, Inc. and its subsidiaries and their joint ventures were with the Department of Energy (DOE). Most of the contract amounts were for providing facilities support services at Department of Energy facilities in Oak Ridge, Tenn., and Albuquerque, N. Mex. Other Energy Department contracts were for work related to nuclear reactors, hazardous waste clean up and Strategic Petroleum Reserve operations.

McDermott International's filings with the SEC and McDermott International's Web site did not contain information on the circumstances surrounding its incorporation in Panama. However, a May 2002 report by the New York State Bar Association provides some background on how McDermott Incorporated, a U.S.-based corporation, exchanged shares with McDermott International to become a Panama-based corporation.[5] McDermott Incorporated, which was incorporated in Delaware in 1946, had a Panamanian subsidiary, McDermott International. In 1983, shareholders of McDermott Incorporated exchanged their shares for McDermott International shares.

[5] New York State Bar Association Tax Section, *Report on Outbound Inversion Transactions*, Report No. 1014 (Albany, N.Y.: May 24, 2002).

Foster Wheeler, Ltd.: With over $280 million in federal contract obligations in fiscal year 2001, Foster Wheeler, Ltd., was the 57th largest publicly traded federal contractor. Sixty-two percent of Foster Wheeler contracts were with the Department of Defense, with another 34 percent held by the Department of Energy. Fifty-three percent of the contract dollars were for hazardous waste cleanup or other environmental services, with another one-third for facilities maintenance or construction.

According to filings with the SEC, the Foster Wheeler Corporation was originally incorporated in New York in 1900 and reorganized to become a Bermuda corporation in 2001. In order to accomplish its change in domicile, it established a new subsidiary, Foster Wheeler, Ltd., based in Bermuda and wholly owned by Foster Wheeler Corporation. Foster Wheeler, Ltd., indirectly owned another company, Foster Wheeler LLC, a Delaware company. On May 25, 2001, Foster Wheeler LLC became the surviving entity of a merger with Foster Wheeler Corporation. Because Foster Wheeler LLC was already a subsidiary of Foster Wheeler, Ltd., the Bermuda corporation became the new parent company. All shares in the Foster Wheeler Corporation were converted into shares of Foster Wheeler, Ltd. According to the prospectus to shareholders filed with the SEC, the Foster Wheeler Corporation made this transaction to have a more favorable regulatory environment, attract non-US investors, improve their worldwide effective tax rate, and provide for greater flexibility to restructure.

Accenture, Ltd.: With about $280 million in federal contract obligations, Accenture was the 58th largest publicly traded federal contractor in fiscal year 2001. Accenture contracted with many departments of the government, but about 43 percent of its contracts were with the Department of Defense. About 98 percent of Accenture's contract dollars are for automatic data processing and telecommunications services and equipment.

According to SEC filings, Accenture, Ltd. was incorporated in Bermuda in 2001. The company was formerly associated with Arthur Anderson and Andersen Worldwide. Prior to incorporating in Bermuda, Accenture was operating as a series of related partnerships and corporations under the control of its partners through the mechanism of contracts with a Swiss coordinating entity. In April 2001, Accenture's partners voted to pursue an initial public offering. According to the prospectus filed with the SEC, the partners were to generally exchange all of their interests in these partnerships and corporations for Accenture stock.

Tyco International, Ltd.: With over $200 million in federal contract obligations, Tyco International was the 68th largest publicly traded federal contractor in fiscal year 2001. About 76 percent of Tyco's federal contracts are with the Department of Defense. The contracts are for such products and services as aeronautical and nautical system manufacturing, architect and engineering services, construction and restoration of facilities, maintenance and repairs, general purpose machine manufacturing, and environmental consulting services.

According to SEC filings, in 1997 Tyco International, Ltd., incorporated in Massachusetts, merged into ADT Limited, a Bermuda corporation. The name of the combined company was changed from ADT Limited to Tyco International, Ltd. Each

Tyco share was converted to one share of stock in the combined company. In a press release, Tyco said that the combined company would provide cost, marketing, and service synergies. According to the prospectus to shareholders filed with the SEC, keeping the company incorporated in Bermuda would allow the combined company to preserve certain advantages enjoyed by ADT Limited. For example, Tyco International reported that its overall tax savings was over $400 million in 2001.

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