TAX POLICY

Historical Tax Treatment of INTELSAT and Current Tax Rules for Satellite Corporations

What GAO Found

As an international organization, INTELSAT was exempt from all U.S. federal income taxes, communications taxes with respect to activities under INTELSAT agreements, and customs duties on imports of communications satellite equipment. INTELSAT and its property, income, operations, and other transactions were also exempt from all taxes in the District of Columbia, except for those not used for, or related to, the purposes of INTELSAT. In contrast, COMSAT was subject to all applicable U.S. taxes.

Currently, U.S. income tax treatment of satellite corporations, like other corporations, depends, in part, on whether the corporation is incorporated domestically or is a foreign corporation. The United States taxes the worldwide income of U.S. domestic corporations, regardless of where the income is earned. However, when the tax is due depends on several factors, including whether the income is from a U.S. or foreign source and, if it is from a foreign source, whether it is earned through direct operations or through a subsidiary. Tax on income from a subsidiary may be deferred. The United States generally taxes foreign corporations on any U.S.-source income they earn, but taxes them only on certain types of foreign-source income (and generally only if the latter income is attributable to an office or fixed place of business in the United States). In order to avoid double taxation of income earned in a foreign country, the United States allows corporations to claim a credit for foreign taxes they paid on foreign-source income. Specific income-sourcing rules exist for determining the U.S. taxation of income that domestic and foreign corporations earn from space, ocean, or international communications activities. The rules differ depending on the type of activity and whether the corporation is domestic or foreign.

Roles of INTELSAT and COMSAT in the Worldwide Telecommunications Satellite System

- Designed, developed, and operated a global telecommunications system
- Owned INTELSAT spacecraft and certain monitoring ground equipment
- U.S. Signatory to INTELSAT
- INTELSAT investor
- Purchaser of satellite capacity for resale in U.S.
- Owned ground facilities for the satellite communication system

Source: Intelsat Global Service Corporation, COMSAT Corporation, used with permission; GAO.