

ASSEMBLY COMMERCE AND MILITARY AND VETERANS'
AFFAIRS COMMITTEE

STATEMENT TO

ASSEMBLY, No. 833

STATE OF NEW JERSEY

DATED: DECEMBER 9, 1996

The Assembly Commerce and Military and Veterans' Affairs Committee reports favorably Assembly Bill No. 833.

As reported, this bill exempts State-sponsored Foreign Sales Corporations from the tax imposed under the Corporation Business Tax Act, P.L.1945, c.162 (C.54:10A-1 et seq.). A Foreign Sales Corporation (FSC) is an entity established pursuant to sections 921 et seq. of the federal Internal Revenue Code, 26 U.S.C. §921 et seq., that provides certain incentive benefits to corporations which organize themselves as FSCs. According to the Department of Commerce and Economic Development, the primary benefit to be derived by participating corporations is the equivalent of a 15 percent exemption from federal income tax on export profits.

The bill also excludes dividends from a taxpayer's entire net income when dividends are received from a State-sponsored shared Foreign Sales Corporation qualified as an FSC under section 922 of the federal Internal Revenue Code to the extent that such dividends are deductible under 26 U.S.C. §245.

A shared FSC (SFSC) is essentially the same as an FSC except that rather than being composed of one participating exporting company, called a "shareholder," an SFSC can have up to 25 unrelated exporters. An exporter member of an SFSC could own as little as 4 percent of an SFSC. As used in this bill, "State-sponsored" means promoted by the State as an FSC or an SFSC, provided that the State has no ownership interest or managerial involvement in daily operations of an FSC or SFSC but does retain access to essential nonconfidential information such as share ownership, export earnings and compliance status.

According to the Department of Commerce and Economic Development, participation in an SFSC can significantly reduce the costs of maintaining an FSC for a corporation and can yield significant tax savings on income earned from exports.