

**PRENTICE HALL'S
FEDERAL TAXATION**

1989

EDITION

WESTERN
CAMPUS BOOKSTORE

Corporations, Partnerships, Estates, and Trusts

JOHN L. KRAMER & LAWRENCE C. PHILLIPS

ANNA C. FOWLER SANDRA S. KRAMER SUSAN L. NORDHAUSER

1989

Prentice Hall's Federal Taxation, 1989: Corporations, Partnerships, Estates, and Trusts

Editors

JOHN L. KRAMER

University of Florida

LAWRENCE C. PHILLIPS

University of Miami

Co-authors

ANNA C. FOWLER

University of Texas at Austin

SANDRA S. KRAMER

University of Florida

SUSAN L. NORDHA

University of Texas at San Antonio



PRENTICE HALL, Englewood Cliffs, New Jersey 07632

Copyright © 1981 by John Wiley & Sons, Inc.

All rights reserved. Published simultaneously in Canada.

Reproduction or translation of any part of this work beyond that permitted by Sections 107 or 108 of the 1976 United States Copyright Act without the permission of the copyright owner is unlawful. Requests for permission or further information should be addressed to the Permissions Department, John Wiley & Sons, Inc.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought. *From a Declaration of Principles jointly adopted by a Committee of the American Bar Association and a Committee of Publishers.*

Library of Congress Cataloging in Publication Data:

Szuprowicz, Bohdan O 1931-

How to Avoid Strategic Materials Shortages

"A Wiley-Interscience publication."

Includes index.

1. Strategic materials. 2. Geopolitics.

I. Title

HC79.S8S98 355.2'4 80-24431

ISBN 0-471-07843-3

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

**To my father Jakob Szuprowicz
a lifetime warrior against socialist imperialism**

**The supreme excellence is to
subjugate the armies of your enemies
without ever having to fight them.**

**Sun-Tzu in *The Art of War*
written in the fifth century B.C.**

Chapter 1	What Are Strategic Materials?	1
	A Question of Access and Price, 2	
	National Economy and Security Considerations, 4	
	How to Identify Strategic and Critical Materials, 7	
	Energy Resources, 8	
	Basic Metals and Raw Materials, 11	
	High-Technology Materials, 16	
	Defense Industries and Military Materials, 19	
	The Most Critical Materials for the United States, 19	
	Gold, Silver, and Platinum Metals, 21	
	Industrial Diamonds, 26	
	Nuclear Materials, 27	
	Nonmetallic Strategic Materials, 29	
	Natural Rubber, 30	
	Grains and Foods as Strategic Commodities, 30	
Chapter 2	Why Shortages Will Occur in the Future	32
	The OPEC Idea, 33	
	Non-oil Minerals Producers Cartels, 37	
	State Monopolies, 41	
	New International Economic Order (NIEO), 43	
	Terrorism and Sabotage, 45	
	Third World Industrialization, 47	
	Government Regulation, 47	
	Embargoes and Military Action, 48	
	Resources War Policies, 49	
	Stockpiling and Buffer Stocks, 50	
	Transportation and Shipping Disruptions, 51	

Chapter 3	Growing Import Dependence of the West	53
	The End of an Era, 53	
	Relative Import Dependence of Major Countries, 55	
	Import Dependence of the United States, 57	
	Vulnerability of Japan, 60	
	Strategic Materials Requirements of Western Europe, 62	
	European Community Materials Policies, 63	
	Exposed Flanks of the NATO Alliance, 65	
Chapter 4	Soviet Bloc's Apparent Materials Self-Sufficiency	68
	Resources of the Soviet Union, 68	
	East Europe's Minerals Position, 71	
	The COMECON Organization, 74	
	Role of Cuba, Vietnam, Mongolia, Angola, and Afghanistan, 78	
	Effect of Potential Energy Shortages in the 1980s, 79	
	Nuclear Power Programs in the Soviet Bloc, 80	
	Soviet Materials Supply Organizations, 81	
	Growth of Soviet Navy and Merchant Marine, 84	
	Soviet Trading Subsidiaries in the World, 85	
	Soviet Bloc's Foreign Aid Policies, 86	
Chapter 5	Strategic Importance of Southern Africa	90
	Resources of "High Africa," 92	
	Effects of Strategic Materials Overhang, 95	
	Foreign Investment in South Africa, 97	
	Growth of South African Minerals Processing Industries, 98	
	Importance of Namibia, 100	
	Zimbabwe Resources, 100	
	Zambia's Mineral Resources, 102	
	Crucial Role of Zaire in Cobalt Supplies, 102	
	Angola and Mozambique, 103	
	Significance of Other Southern African Countries, 105	
Chapter 6	Chinese Minerals Position	107
	Sino-Soviet Cooperation Period, 107	
	Causes of the Sino-Soviet Rift, 109	
	Development of the Albanian Connection, 109	

China's Strategic Materials Deficiencies, 112
 The Four Modernizations, 113
 Military Modernization Requirements, 115
 Industrial Development Plan, 118
 Strategic Materials Development Priorities, 119
 Growth of Minerals Processing Industries, 124
 China Metals and Minerals Trade, 125
 Chinese Adventures in Africa, 128
 Chinese Foreign Aid Programs, 131

Chapter 7 Strategic Materials Supercartel 134

A Worst-Case Scenario, 134
 China Under Soviet and Western Embargoes, 136
 Sino-Soviet Conflict in Africa, 138
 Soviet Technology for African Commodities, 141
 Prospects for COMECON Supercartel Formation, 143
 Southern African Federation Concepts, 145
 Prospects for South African Supercartel, 146
 What the West Must Do to Protect Its Interests, 147

Chapter 8 Pacific Basin Resources Geopolitics 150

Industrialization of the Pacific Basin, 151
 The Japanese Dilemma, 152
 Australia's Mineral Resources, 154
 Pacific Role of Alaska and Canada, 161
 Strategic Materials Potential of Indochina, 164
 The Two Koreas, 166
 The ASEAN Treaty Countries, 168
 Other Pacific Basin Resources, 171
 ANZUS Treaty and Pacific Security, 175

Chapter 9 Latin American Minerals Potential and Problems 178

Strategic Minerals Resources of Latin America, 179
 The Growing Power of Brazil, 181
 Potential of Argentina, 183
 Significance of Mexico, 184
 The Role of Chile, 185
 Bolivia's Tin Economy, 186
 Importance of Peru, 187
 Jamaican Bauxite Position, 188

Caribbean Resources and Problems, 188
Soviet Bloc Interests in Latin America, 189

Chapter 10 What Are the Alternative Solutions to Shortages? 194

Materials Substitution, 196
Alternative Sources of Supply, 200
Development of Domestic Resources, 201
New Exploration Programs, 202
Antarctic and Polar Resources, 203
Ocean Resources, 204
Orbital and Space Resources, 205
Recycling and Waste Recovery, 206
Stockpiling, 208
Conservation Programs, 208
Product Redesign, 210
Change of Environmental Restrictions, 211
Materials Management Policies, 212
Investment and Tax Incentives, 213
Special Trade Agreements, 214
Foreign Aid Programs, 215
Trioceanic Alliance Concepts, 216
Military Action, 217

Chapter 11 Stockpiling Policies and Economics 220

Financing Requirements, 220
U.S. Strategic Stockpile, 222
Prospects for U.S. Economic Stockpile, 225
Production and Buffer Stocks, 225
French Stockpiling Programs, 226
German Stockpiling Programs, 226
Japanese Stockpiling Policies, 227
British Stockpiling Policies, 228
Other Stockpiling Programs, 228
Stockpiling as a Tool of Resources War, 229

Chapter 12 Politics of Undersea Resources 231

The Law of the Sea, 231
Undersea Mining Consortia, 233
Manganese Nodule Potential, 235

Contents	xvii
The Glomar Explorer Story, 237	
Prospects for Minerals from the Sea, 238	
Chapter 13 Foreign Policy Implications	240
Confluence of Political and Economic Objectives, 240	
Recognition of Critical Geopolitical Situations, 242	
Setting National Priorities in Foreign Policy, 245	
Security of Shipping Routes, 245	
Political Risk Insurance, 247	
Meaningful Foreign Trade Policies, 249	
Chapter 14 New Investment Opportunities	252
Corporations with Small Import Dependence, 254	
Corporations with Domestic Strategic Materials Assets, 256	
Corporations with Domestic Energy Resources, 260	
Modern Exploration and Drilling Technology, 265	
Materials and Products Substitution Programs, 268	
Financing New Facilities, 268	
Technology Transfer Programs, 270	
Chapter 15 How to Assess Your Vulnerability	273
Critical Danger Point Indications, 273	
Conditions Leading to Crisis, 280	
National Vulnerability Index, 285	
Industry Vulnerability Index, 289	
Corporate Vulnerability Index, 291	
Product Vulnerability Index, 292	
How to Set Up Your Own Vulnerability Index, 293	
 Index	 297

- Distribution 10-3, Holding Period and Character of Distributed Property 10-5*
 - Nonliquidating Distributions with Sec. 751 10-5
 - Section 751 Assets Defined 10-5, Exchange of Sec. 751 Assets and Other Property 10-7*
 - Terminating an Interest in a Partnership 10-11
 - Liquidating Distributions 10-11, Sale of a Partnership Interest 10-16, Retirement or Death of a Partner 10-19, Exchange of a Partnership Interest 10-22, Abandonment of a Partnership Interest 10-23, Gift of a Partnership Interest 10-24, Income Recognition and Transfers of Partnership Interest 10-25, Termination of a Partnership 10-26, Mergers and Consolidations 10-30, Division of a Partnership 10-31*
 - Optional Basis Adjustments 10-31
 - Election to Make Basis Adjustments 10-32, Optional Adjustments on Transfers 10-33, Optional Adjustments on Distributions 10-37, Special Adjustments on Distributions to Transferee Partners 10-41*
 - Limited Partnerships and Tax Shelters 10-42
 - Limited Partners 10-43, Tax Shelters and Limited Partnerships 10-44, Publicly Traded Partnerships 10-45*
 - Controversial Issues 10-45
 - Liabilities in Excess of Fair Market Value 10-45, Abusive Tax Shelters 10-46*
 - Tax Planning Considerations 10-47
 - Liquidating Distribution or Sale to Partners 10-47*
 - Compliance and Procedural Considerations 10-48
 - Section 754 Election 10-48, Section 732(d) Election 10-49*
 - Problem Materials 10-50
 - Discussion Problems 10-50, Problems 10-51, Tax Research Problems 10-58*
- CHAPTER 11
- S Corporations 11-1
- S Corporation Requirements 11-2
 - Shareholder Requirements 11-3, Corporate Requirements 11-4*
 - Election of S Corporation Status 11-5
 - Making the Election 11-5, Termination of the Election 11-7*
 - S Corporation Operations 11-11
 - Taxable Year 11-12, Accounting Method Elections 11-13, Ordinary Income or Loss 11-14, Special S Corporation Taxes 11-15*
 - Taxation of the Shareholder 11-18
 - Income Allocation Procedures 11-18, Family S Corporations 11-20, Loss and Deduction Pass-through to Shareholders 11-21*
 - Basis Adjustments 11-24
 - Basis Adjustments to S Corporation Stock 11-25, Basis Adjustments to Shareholder Debt 11-26*
 - S Corporation Distributions 11-27
 - Corporations Having No Earnings and Profits 11-27, Corporations Having Accumulated Earnings and Profits 11-29*
 - Other Rules 11-32
 - Tax Preference Items and Other AMT Adjustments 11-32, Transactions Involving Shareholders and Other Related Parties 11-33, Fringe Benefits Paid to a Shareholder-Employee 11-34, Investment Tax Credit (ITC) Recapture 11-35, Recapture of LIFO Benefits 11-36*
 - Controversial Issues 11-36
 - Tax Planning Considerations 11-38
 - Advantages of S Corporation Treatment 11-38, Disadvantages of S Corporation Treatment 11-39, When Should the S Corporation Election Be Made? 11-40, Election to Allocate Income Based on S Corporation's Accounting Methods 11-42, Increasing the Benefits from S Corporation Losses 11-43, Passive Income Requirements 11-44, Using an S Corporation When Liquidating 11-45*
 - Compliance and Procedural Considerations 11-46
 - Making the Election 11-46, Filing the Corporate Tax Return 11-46, Estimated Tax Payments 11-47, Administrative Rules 11-48, Sample S Corporation Tax Return 11-48*
 - Problem Materials 11-49
 - Discussion Problems 11-49, Problems 11-51, Tax Return Preparation Problem 11-57, Tax Research Problems 11-57*

CHAPTER 12

The Gift Tax 12-1

- Concept of Transfer Taxes 12-2
 - History and Purpose of Transfer Taxes 12-2*
- The Unified Transfer Tax System 12-3
 - Unified Rate Schedule 12-3, Impact of Taxable Gifts on Death Tax Base 12-3, Unified Credit 12-4*
- Gift Tax Formula 12-4
 - Determination of Gifts 12-4, Exclusions and Deductions 12-5, Gift-Splitting Election 12-6, Cumulative Nature of Gift Tax 12-6, Unified Credit 12-7*
- Transfers Subject to the Gift Tax 12-8
 - Transfers for Inadequate Consideration 12-8, Statutory Exemptions from the Gift Tax 12-10, Cessation of Donor's Dominion and Control 12-12, Valuation of Gifts 12-14, Gift Tax Consequences of Certain Transfers 12-16*
- Exclusions 12-19
 - Amount of the Exclusion 12-19, Present Interest Requirement 12-19*
- Gift Tax Deductions 12-21
 - Marital Deduction 12-22, Charitable Contribution Deduction 12-25*
- The Gift-Splitting Election 12-26
- Computation of the Gift Tax Liability 12-27
 - Effect of Previous Taxable Gifts 12-27, Unified Credit Available 12-28*
- Comprehensive Illustration 12-29
 - Background Data 12-29, Calculation of Tax Liability 12-30*
- Basis Considerations for a Lifetime Giving Plan 12-30
 - Property Received by Gift 12-31, Property Received at Death 12-31*
- Controversial Issues 12-32
 - Impact of the Dickman Ruling 12-33, Section 7872: Gift and Income Tax Consequences 12-33, De Minimis Rules 12-34*
- Tax Planning Considerations 12-35
 - Tax-Saving Features of Inter Vivos Gifts 12-35, Negative Aspects of Gifts 12-37*
- Compliance and Procedural Considerations 12-37
 - Filing Requirements 12-37, Due Date 12-38, Gift-Splitting Election 12-38, Short-Form Gift Tax Return 12-39, Liability for Tax 12-39, Determination of Value 12-39, Statute of Limitations 12-40*

Problem Materials 12-41

- Discussion Problems 12-41, Problems 12-43, Tax Return Preparation Problems 12-45, Tax Research Problems 12-46*

CHAPTER 13

The Estate Tax 13-1

- Estate Tax Formula 13-2
 - Gross Estate 13-2, Deductions 13-4, Adjusted Taxable Gifts and Tax Base 13-5, Tentative Tax on Estate Tax Base 13-5, Reduction for Post-1976 Gift Taxes 13-6, Unified Credit 13-6, Other Credits 13-7*
- The Gross Estate—Valuation 13-7
 - Date-of-Death Valuation 13-7, Alternate Valuation Date 13-10*
- The Gross Estate—Inclusions 13-11
 - Comparison of Gross Estate with Probate Estate 13-11, Property in Which Decedent Had an Interest 13-12, Dower or Curtesy Rights 13-12, Transferor Provisions 13-13, Annuities and Other Retirement Benefits 13-17, Jointly Owned Property 13-19, General Powers of Appointment 13-20, Life Insurance 13-21, Consideration Offset 13-22, Recipient Spouse's Interest in QTIP Trust 13-23*
- Deductions 13-24
 - Debts and Funeral and Administration Expenses 12-24, Losses 13-25, Charitable Contribution Deduction 13-25, Marital Deduction 13-27*
- Computation of Tax Liability 13-30
 - Taxable Estate and Tax Base 13-30, Tentative Tax and Reduction for Post-1976 Gift Tax 13-30, Unified Credit 13-31, Other Credits 13-31*
- Comprehensive Illustration 13-34
 - Background Data 13-34, Calculation of Tax Liability 13-35*
- Liquidity Concerns 13-35
 - Deferral of Payment of Estate Tax 13-36, Stock Redemptions to Pay Death Taxes 13-38, Special Use Valuation of Farm Realty 13-39*
- Generation-Skipping Transfer Tax 13-39
- Controversial Issues 13-41
 - Incidents of Ownership in a Life Insurance Policy 13-41, Estate Tax Consequences of Group Term Policies 13-42*

- Tax Planning Considerations 13-42
Use of Inter Vivos Gifts 13-42, Use of Exemption Equivalent 13-43, What Size Marital Deduction Is Best? 13-43, Use of Disclaimers 13-44, Role of Life Insurance 13-45, Qualifying the Estate for Installment Payments 13-45, Where to Deduct Administration Expenses 13-46, Use of Generation-Skipping Arrangements 13-46, Flower Bonds 13-46
- Compliance and Procedural Considerations 13-46
Filing Requirements 13-46, Due Date 13-47, Valuation 13-47, Election of Alternate Valuation Date 13-47, Documents to Be Included with Return 13-47
- Problem Materials 13-47
Discussion Problems 13-48, Problems 13-50, Comprehensive Problems 13-53, Tax Return Preparation Problem 13-54, Tax Research Problems 13-55
- CHAPTER 14**
Income Taxation of Trusts and Estates 14-1
- Basic Concepts 14-3
Inception of Trusts 14-3, Inception of Estates 14-3, Reasons for Creating Trusts 14-3, Basic Principles of Fiduciary Taxation 14-4
- Principles of Fiduciary Accounting 14-6
The Importance of Identifying Income and Principal 14-6, Effects of State Law or Terms of Trust Instrument 14-7, Principal and Income—The Uniform Act 14-7, Categorization of Depreciation 14-8
- Formula for Taxable Income and Tax Liability 14-9
Gross Income 14-9, Deductions for Expenses 14-10, Distribution Deduction 14-11, Personal Exemption 14-12, Credits 14-13
- Distributable Net Income 14-13
Significance of DNI 14-13, Definition of DNI 14-14, Manner of Computing DNI 14-15
- Determining a Simple Trust's Taxable Income 14-16
Allocation of Expenses to Tax-Exempt Income 14-17, Determination of DNI and the Distribution Deduction 14-18, Tax Treatment for Beneficiary 14-19, Short-Cut Approach to Proving Correctness of Taxable Income 14-19, Effect of Net Operating Loss 14-20, Effect of Net Capital Loss 14-20
- Comprehensive Illustration—Determining a Simple Trust's Taxable Income 14-21
Background Data of the Trust 14-21, Trustee's Fee 14-22, Distribution Deduction and DNI 14-22, Trust's Taxable Income 14-23, Categorizing a Beneficiary's Income 14-23
- Determining Taxable Income for Complex Trusts and Estates 14-24
Determination of DNI and the Distribution Deduction 14-24, Tax Treatment for Beneficiary 14-26, Effect of Net Operating Loss 14-29, Effect of Net Capital Loss 14-29
- Comprehensive Illustration—Determining a Complex Trust's Taxable Income 14-30
Background Data of the Trust 14-30, Trustee's Fee 14-31, Distribution Deduction and DNI 14-31, Trust's Taxable Income 14-32, Additional Observations 14-33
- Accumulation Distribution Rules 14-33
Purpose 14-33, When Applicable 14-34, Steps for Determining Tax on Accumulation Distribution 14-35
- Section 644 Tax 14-36
Purpose 14-36, When Applicable 14-37, Computation of the Tax 14-37
- Income in Respect of a Decedent 14-38
Definition and Common Examples 14-38, Significance of IRD 14-38
- Grantor Trust Provisions 14-41
Purpose and Effect 14-41, Revocable Trusts 14-42, Clifford Trusts 14-42, Post-1986 Reversionary Interest Trusts 14-44, Retention of Administrative Powers 14-45, Retention of Economic Benefits 14-45, Control of Others' Enjoyment 14-46
- Controversial Issues 14-46
Validity of Multiple Trust Regulations 14-46, Classification as IRD 14-47
- Tax Planning Considerations 14-48
Ability to Shift Income 14-48, Timing of Distributions 14-48, 65-Day Rule 14-49, Timing of Accumulation Distributions 14-49,

- Property Distributions 14-49, Choice of Year-End 14-50, Deduction of Administration Expenses 14-50*
- Compliance and Procedural Considerations 14-51
Filing Requirements 14-51, Due Date for Return and Tax 14-51, Section 644 Tax—Information about Grantor’s Income 14-52, Documents to Be Furnished to IRS 14-52, Sample Simple and Complex Trust Returns 14-52
- Problem Materials 14-52
Discussion Problems 14-53, Problems 14-54, Tax Return Preparation Problems 14-57, Tax Research Problems 14-57
- CHAPTER 15**
U.S. Taxation of Foreign-Related Transactions 15-1
- Jurisdiction to Tax 15-2
Country of Citizenship 15-3, Country of Residence 15-3, Type of Income Earned 15-3, Location Where the Income Is Earned 15-3
- Taxation of U.S. Citizens and Resident Aliens 15-4
Foreign Tax Credit 15-4, Foreign-Earned Income Exclusion 15-10, U.S. Citizens and Residents Employed in Puerto Rico and U.S. Possessions 15-16
- Taxation on Nonresident Aliens 15-16
Definition of Nonresident Alien 15-16, Investment Income 15-17, Trade or Business Income 15-19
- Taxation of U.S. Persons Doing Business Abroad 15-21
Domestic Subsidiary Corporations 15-22, Foreign Branches 15-22, Foreign Corporations 15-23, Controlled Foreign Corporations 15-28, Special Foreign Corporation Forms 15-36, Foreign Sales Corporations 15-37, Domestic International Sales Corporation 15-42, Possessions Corporations 15-45
- Controversial Issues 15-46
Income and Expense Allocations 15-46, Foreign Tax Credit Changes 15-47
- Tax Planning Considerations 15-48
Deduction Versus Credit for Foreign Taxes 15-48, Election to Accrue Foreign Taxes 15-49, Special Earned Income Elections 15-50, Tax Treaties 15-50, Special Resident Alien Elections 15-51
- Compliance and Procedural Considerations 15-52
Reporting the Foreign Tax Credit 15-52, Reporting the Earned Income Exclusion 15-52, Filing Requirements for Aliens and Foreign Corporations 15-55, FSC and DISC Filing Requirements 15-59, Section 482 Rules 15-59
- Problems Materials 15-60
Discussion Problems 15-60, Problems 15-62, Tax Return Preparation Problems 15-67, Tax Research Problems 15-67
- CHAPTER 16**
Administrative Procedures 16-1
- Role of the Internal Revenue Service 16-2
Enforcement and Collection 16-2, Interpretation of the Statute 16-3, Organization of the IRS 16-3
- Audits of Tax Returns 16-3
Percentage of Returns Audited 16-5, Selection of Returns for Audit 16-5, Alternatives for a Taxpayer Whose Return Is Audited 16-7, Ninety-Day Letter 16-11, Litigation 16-11
- Requests for Rulings 16-12
Information to Be Included in Taxpayer’s Request 16-13, Will the IRS Rule? 16-14, When Rulings Are Desirable 16-15
- Due Dates 16-15
Due Dates for Returns 16-15, Extensions 16-16, Due Dates for Payment of the Tax 16-16, Interest on Tax Not Timely Paid 16-17, Penalties 16-19
- Estimated Taxes 16-22
Payment Requirements 16-22, Penalty for Underpaying Estimated Taxes 16-23, Exceptions to the Penalty 16-24
- Other More Severe Penalties 16-24
Negligence Penalty 16-25, Substantial Understatement Penalty 16-26, Civil Fraud Penalty 16-28, Criminal Fraud Penalties 16-30
- Statute of Limitations 16-31
General 3-Year Rule 16-31, Six-Year Rule for

“Substantial” Omissions 16-32, When No Return Is Filed 16-23, Other Exceptions to 3-Year Rule 16-33, Refund Claims 16-35

Liability for Tax 16-35

Joint Returns 16-36, Transferee Liability 16-38

Tax Practice Issues 16-38

Statements on Responsibilities in Tax Practice 16-38, Statutory Provisions Concerning Tax Return Preparers 16-41, Rules of Circular 230 16-42, Other Penalties 16-42

Controversial Issues 16-43

Accountants’ Work Papers 16-43, Statute of Limitations—Fraudulent Return Replaced by Nonfraudulent One 16-44, Concept of “Substantial Authority” 16-44, Proposed Revisions to Circular 230 16-45

Problem Materials 16-46

Discussion Problems 16-46, Problems 16-48, Tax Research Problems 16-50

APPENDIX A

Tax Schedules A-1

APPENDIX B

Tax Forms B-1

APPENDIX C

Comparison of Tax Attributes for C Corporations, Partnerships, and S Corporations C-1

APPENDIX D

Credit for State Death Taxes D-1

APPENDIX E

Actuarial Tables E-1

APPENDIX F

Glossary F-1

APPENDIX G

Index of Code Sections G-1

APPENDIX H

Index of Treasury Regulations H-1

APPENDIX I

Index of Court Cases I-1

Subject Index J-1

What Are Strategic Materials?

Raw materials such as oil, iron ore, copper, aluminum, chromium, rubber, and many others are the lifeblood of modern industries. Most occur in the form of minerals or natural resources in practically every part of the world. Theoretically the earth's crust and the seas are believed to contain enormous reserves sufficient to satisfy the needs of the whole world for centuries to come.

In practice, however, mineral deposits that are *economically exploitable* with currently existing technologies are often concentrated in only a few regions of the world. Moreover many of the highly industrialized countries that are primary consumers of those raw materials often do not possess sufficient deposits of all the necessary minerals within their territorial boundaries. Japan is a good example of an economy with rapidly growing needs that must rely almost entirely on the imports of most of its raw materials from overseas.

When basic industries of a country become significantly dependent on supplies of such raw materials from foreign sources these become strategically important to the economies of those countries. Conversely an industrialized nation that possesses all the necessary raw materials within its own borders can consider itself truly self-sufficient. The United States until the late 1950s and the Soviet Union at present are two rare examples of such self-sufficient superpowers. China, Brazil, and southern Africa as a region are possible future groupings where such conditions may develop.

Not all the raw materials are of equal strategic importance to all the countries at all times. Even when a particular mineral is critical to one industry it may not be of importance to another unless it in turn depends on the output of the other industry. As a result the definition of what is a truly strategic and critical material will vary not only from country to country but also among industries and even enterprises within each country.

The concentration of global oil resources in the Middle East and the OPEC cartel focus the world's attention on oil as the most strategic and

critical material in the world. But oil is only one form of energy, and although up to a point it is indispensable to all countries and all modern industries it is not necessarily the most strategic or critical of them all.

Other minerals, less known than oil, are of immense strategic importance. These include chromium, cobalt, gold, titanium, tungsten, platinum, diamonds, or uranium. In recent years most of those minerals have been the subject of violent price and supply fluctuations often more unstable than the oil markets.

A QUESTION OF ACCESS AND PRICE

Among the 194 countries of the world there are three basic groups of nations that have differing vital interests in the supply and consumption of raw materials. These include the industrialized free market economies, the centrally planned economies dominated by the Soviet Union, and the developing countries of the Third World.

The industrialized free market economies are the largest users of all raw materials and account for about 70 percent of global consumption by volume. Those countries are also the largest producers of raw materials, accounting for about 45 percent of all such output in the world. This means that already 25 percent of the world's consumption of all raw materials must be imported by the industrialized free market economies from sources outside the territories under their political control (Figure 1.1).

As a result access to sources of raw materials and secure means of transportation to end-users is of paramount importance to industrialized free market economies. The price of raw materials under certain conditions may not be the decisive factor, particularly in the case of minerals whose sources are relatively few and for which substitute materials are not readily available. Such conditions are conducive to the formation of cartels that can unilaterally dictate the prices in full knowledge that continuing supplies even at escalating prices are of the utmost importance to the end-users.

By comparison the Third World countries produce about 30 percent of the world's raw materials. This is in fact somewhat less than the total production in the industrialized free market economies. However, the Third World countries consume only 6 percent of all the raw materials used in the world. In effect most Third World countries are large exporters of raw materials and of paramount importance to them is their ability to obtain the best price for their exports. This objective is often coupled with a desire to obtain financing and technology to establish more advanced minerals processing and end-user industries within their own countries. This objective becomes extremely important when one realizes that the world will need one billion new jobs before the year 2000, most of which must be created in Third World countries.