11. INCOME TAXES

In millions of dollars	**2009**	2008	2007
Current			
Federal	**$(1,711)**	$ (4,582)	$(2,260)
Foreign	**3,101**	4,762	3,566
State	**(414)**	29	75
Total current income taxes	**$ 976**	$ 209	$ 1,381
Deferred			
Federal	**$(6,892)**	$(16,583)	$(2,109)
Foreign	**(182)**	(1,794)	(1,042)
State	**(635)**	(2,158)	(776)
Total deferred income taxes	**$(7,709)**	$(20,535)	$(3,927)
Provision (benefit) for income tax on continuing operations before noncontrolling interests (1)	**$(6,733)**	$(20,326)	$(2,546)
Provision (benefit) for income taxes on discontinued operations	**(106)**	(79)	344
Provision (benefit) for income taxes on cumulative effect of accounting changes	**—**	—	(109)
Income tax expense (benefit) reported in stockholders' equity related to:			
Foreign currency translation	**(415)**	(2,116)	565
Securities available-for-sale	**2,765**	(5,468)	(759)
Employee stock plans	**1,351**	449	(410)
Cash flow hedges	**1,165**	(1,354)	(1,705)
Pension liability adjustments	**(513)**	(918)	426
Tax on exchange offer booked to retained earnings	**3,523**	—	—
Income taxes before noncontrolling interests	**$ 1,037**	$(29,812)	$(4,194)

(1) Includes the effect of securities transactions and OTTI losses resulting in a provision (benefit) of $698 million and $(1,017) million in 2009, $238 million and $(959) million in 2008 and $409 million and $0 in 2007, respectively.

The reconciliation of the federal statutory income tax rate to the Company's effective income tax rate applicable to income from continuing operations (before noncontrolling interests and the cumulative effect of accounting changes) for the years ended December 31 was as follows:

	2009	2008	2007
Federal statutory rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal benefit	**8.4**	2.7	(70.4)
Foreign income tax rate differential	**26.0**	1.2	(217.2)
Audit settlements (1)	**4.4**	—	—
Goodwill	**0.5**	(2.2)	0.6
Tax advantaged investments	**11.8**	1.8	(100.9)
Other, net	**0.2**	0.3	(41.2)
Effective income tax rate (2)	**86.3%**	38.8%	(394.1)%

(1) For 2009, relates to the conclusion of the audit of various issues in the Company's 2003 - 2005 U.S. federal tax audit and a tax benefit relating to the release of tax reserves on interchange fees.
(2) The Company recorded an income tax benefit for 2007. The effective tax rate (benefit) of (394)% primarily resulted from pretax losses in the Company's ICG and N.A. Regional Consumer Banking businesses (the U.S. is a higher tax rate jurisdiction). In addition, the tax benefits of permanent differences, including the tax benefit for not providing U.S. income taxes on the earnings of certain foreign subsidiaries that are indefinitely invested, favorably impacted the Company's effective tax rate.

Deferred income taxes at December 31 related to the following:

In millions of dollars	**2009**	2008
Deferred tax assets		
Credit loss deduction	**$14,987**	$11,242
Deferred compensation and employee benefits	**3,626**	4,367
Restructuring and settlement reserves	**794**	1,134
Unremitted foreign earnings	**7,140**	4,371
Investments	**—**	5,312
Cash flow hedges	**1,906**	3,071
Tax credit and net operating loss carryforwards	**20,787**	18,424
Intangibles	**1,598**	—
Other deferred tax assets	**1,753**	4,158
Gross deferred tax assets	**$52,591**	$52,079
Valuation allowance	**—**	—
Deferred tax assets after valuation allowance	**$52,591**	$52,079
Deferred tax liabilities		
Investments	**$ (1,863)**	$ —
Deferred policy acquisition costs and value of insurance in force	**(791)**	(805)
Fixed assets and leases	**(677)**	(2,209)
Interest related items	**(683)**	(543)
Intangibles	**—**	(2,365)
Credit valuation adjustment on Company-issued debt	**(264)**	(1,473)
Other deferred tax liabilities	**(2,261)**	(215)
Gross deferred tax liabilities	**$ (6,539)**	$ (7,610)
Net deferred tax asset	**$46,052**	$44,469

The following is a roll-forward of the Company's unrecognized tax benefits.

In millions of dollars	**2009**	2008	2007
Total unrecognized tax benefits at January 1,	**$3,468**	$3,698	$3,144
Net amount of increases for current year's tax positions	**195**	254	1,100
Gross amount of increases for prior years' tax positions	**392**	252	120
Gross amount of decreases for prior years' tax positions	**(870)**	(581)	(341)
Amounts of decreases relating to settlements	**(104)**	(21)	(349)
Reductions due to lapse of statutes of limitation	**(12)**	(30)	(50)
Foreign exchange, acquisitions and dispositions	**10**	(104)	74
Total unrecognized tax benefits at December 31,	**$3,079**	$3,468	$3,698

Total amount of unrecognized tax benefits at December 31, 2009, 2008 and 2007 that, if recognized, would affect the effective tax rate are $2.2 billion, $2.4 billion and $1.9 billion, respectively. The remainder of the uncertain tax positions have offsetting amounts in other jurisdictions or are temporary differences.

Interest and penalties (not included in the "unrecognized tax benefits" above) are a component of the *Provision for income taxes*.

	2009		2008		2007	
In millions of dollars	**Pretax**	**Net of tax**	Pretax	Net of tax	Pretax	Net of tax
Total interest and penalties in the balance sheet at January 1,	**$ 663**	**$ 420**	$618	$389	$532	$335
Total interest and penalties in the statement of operations	**(250)**	**(154)**	114	81	93	58
Total interest and penalties in the balance sheet at December 31, (1)	**370**	**239**	663	420	618	389

(1) Includes $9 million for foreign penalties.

The Company is currently under audit by the Internal Revenue Service and other major taxing jurisdictions around the world. It is thus reasonably possible that significant changes in the gross balance of unrecognized tax benefits may occur within the next 12 months but the Company does not expect such audits to result in amounts that would cause a significant change to its effective tax rate, other than the following item. The Company expects to conclude the IRS audit of its U.S. Federal consolidated income tax returns for the years 2003-2005 within the next 12 months. The gross uncertain tax positions at December 31, 2009 for the items expected to be resolved is approximately $66 million plus gross interest of $10 million. The potential tax benefit to continuing operations could be approximately $72 million.

The following are the major tax jurisdictions in which the Company and its affiliates operate and the earliest tax year subject to examination:

Jurisdiction	Tax year
United States	2003
Mexico	2008
New York State and City	2005
United Kingdom	2007
Japan	2006
Brazil	2005
Singapore	2003
Hong Kong	2004
Ireland	2005

Foreign pretax earnings approximated $6.8 billion in 2009, $10.3 billion in 2008, and $9.1 billion in 2007 ($0.6 billion loss, $4.4 billion profit, and $0.8 billion profit of which, respectively, are in discontinued operations). As a U.S. corporation, Citigroup and its U.S. subsidiaries are subject to U.S. taxation currently on all foreign pretax earnings earned by a foreign branch. Pretax earnings of a foreign subsidiary or affiliate are subject to U.S. taxation when effectively repatriated. The Company provides income taxes on the undistributed earnings of non-U.S. subsidiaries except to the extent that such earnings are indefinitely invested outside the United States. At December 31, 2009, $27.3 billion of accumulated undistributed earnings of non-U.S. subsidiaries were indefinitely invested. At the existing U.S. federal income tax rate, additional taxes (net of U.S. foreign tax credits) of $7.4 billion would have to be provided if such earnings were remitted currently. The current year's effect on the income tax expense from continuing operations is included in the "Foreign income tax rate differential" line in the reconciliation of the federal statutory rate to the Company's effective income tax rate.

Income taxes are not provided for on the Company's savings bank base year bad debt reserves that arose before 1988 because under current U.S. tax rules such taxes will become payable only to the extent such amounts are distributed in excess of limits prescribed by federal law. At December 31, 2009, the amount of the base year reserves totaled approximately $358 million (subject to a tax of $125 million).

The Company has no valuation allowance on deferred tax assets at December 31, 2009 and December 31, 2008.

In billions of dollars

Jurisdiction/Component	DTA Balance December 31, 2009	DTA Balance December 31, 2008
U.S. Federal		
Net Operating Loss (NOL)	**$ 5.8**	$ 4.6
Foreign Tax Credit (FTC)	**12.0**	10.5
General Business Credit (GBC)	**1.2**	0.6
Future Tax Deductions and Credits	**17.5**	19.9
Other	**0.5**	0.9
Total U.S. Federal	**$36.3**	$36.5
State and Local		
New York NOLs	**$ 0.9**	$ 1.2
Other State NOLs	**0.4**	0.4
Future Tax Deductions	**3.0**	2.7
Total State and Local	**$ 4.3**	$ 4.3
Foreign		
APB 23 Subsidiary NOLs	**0.7**	0.2
Non-APB 23 Subsidiary NOLs	**0.4**	0.9
Future Tax Deductions	**4.4**	2.6
Total Foreign	**$ 5.5**	$ 3.7
Total	**$46.1**	$44.5

The following table summarizes the amounts of tax carryforwards and their expiry dates as of December 31, 2009:

In billions of dollars

Year of Expiration	Amount
U.S. foreign tax credit carryforwards	
2016	$ 0.4
2017	5.1
2018	5.3
2019	1.2
Total U.S. foreign tax credit carryforwards	**$12.0**
U.S. Federal net operating loss (NOL) carryforwards	
2028	$ 9.2
2029	5.4
Total U.S. Federal NOL carryforwards (1)	**$14.6**
New York State NOL carryforwards	
2028	$10.7
2029	1.2
Total New York State NOL carryforwards (1)	**$11.9**
New York City NOL carryforwards	
2028	$ 3.7
2029	1.2
Total New York City NOL carryforwards (1)	**$ 4.9**

(1) Pretax.

With respect to the New York NOLs, the Company has recorded a net deferred tax asset of $0.9 billion, along with less significant net operating losses in various other states for which the Company has recorded a deferred tax asset of $0.4 billion and which expire between 2012 and 2029. In addition, the Company has recorded deferred tax assets in foreign subsidiaries, for which an assertion has been made that the earnings have been indefinitely reinvested, for net operating loss carryforwards of $607 million (which expire 2012 - 2019) and $69 million (with no expiration).

Although realization is not assured, the Company believes that the realization of the recognized net deferred tax asset of $46.1 billion is more likely than not based on expectations as to future taxable income in the jurisdictions in which the DTAs arise and available tax planning strategies, as defined in ASC 740, *Income Taxes*, (formerly SFAS 109) that could be implemented if necessary to prevent a carryforward from expiring. Included in the net U.S. Federal DTA of $36.3 billion are $5 billion in DTLs that will reverse in the relevant carryforward period and may be used to support the DTA , and $0.5 billion in compensation deductions, which reduced additional paid-in capital in January, 2010 and for which no adjustment was permitted to such DTA at December 31, 2009 because the related stock compensation was not yet deductible to the Company. In general, the Company would need to generate approximately $86 billion of taxable income during the respective carryforward periods to fully realize its U.S. Federal, state and local DTAs.

As a result of the recent losses incurred, the Company is in a three-year cumulative pretax loss position at December 31, 2009. A cumulative loss position is considered significant negative evidence in assessing the realizability of a DTA. The Company has concluded that there is sufficient positive evidence to overcome this negative evidence. The positive evidence includes two means by which the Company is able to fully realize its DTA. First, the Company forecasts sufficient taxable income in the carryforward period, exclusive of tax planning strategies, even under stressed scenarios. Secondly, the Company has sufficient tax planning strategies, including potential sales of businesses and assets, in which it could realize the excess of appreciated value over the tax basis of its assets, in an amount sufficient to fully realize its DTA. The amount of the DTA considered realizable, however, could be significantly reduced in the near term if estimates of future taxable income during the carryforward period are significantly lower than forecasted due to deterioration in market conditions.

Based upon the foregoing discussion, as well as tax planning opportunities and other factors discussed below, the U.S. Federal and New York State and City net operating loss carryforward period of 20 years provides enough time to utilize the DTAs pertaining to the existing net operating loss carryforwards and any NOL that would be created by the reversal of the future net deductions which have not yet been taken on a tax return.

The U.S. foreign tax credit carryforward period is 10 years. In addition, utilization of foreign tax credits in any year is restricted to 35% of foreign source taxable income in that year. Further, overall domestic losses that the Company has incurred of approximately $45 billion are allowed to be reclassified as foreign source income to the extent of 50% of domestic source income produced in subsequent years and such resulting foreign source income is in fact sufficient to cover the foreign tax credits being carried forward. As such, the foreign source taxable income limitation will not be an impediment to the foreign tax credit carryforward usage as long as the Company can generate sufficient domestic taxable income within the 10-year carryforward period.

Regarding the estimate of future taxable income, the Company has projected its pretax earnings, predominantly based upon the "core" businesses that the Company intends to conduct going forward. These "core" businesses have produced steady and strong earnings in the past. During 2008 and 2009, the "core" businesses were negatively affected by the large increase in consumer credit losses during this sharp economic downturn cycle. The Company has already taken steps to reduce its cost structure. Taking these items into account, the Company is projecting that it will generate sufficient pretax earnings within the 10-year carryforward period alluded to above to be able to fully utilize the foreign tax credit carryforward, in addition to any foreign tax credits produced in such period.

The Company has also examined tax planning strategies available to it which would be employed, if necessary, to prevent a carryforward from expiring. These strategies include repatriating low taxed foreign earnings for which an assertion that the earnings have been indefinitely reinvested has not been made, accelerating taxable income into or deferring deductions out of the latter years of the carryforward period with reversals to occur after the carryforward period (for example, selling appreciated intangible assets and electing straight-line depreciation), holding onto available-for-sale debt securities with losses until they mature and selling certain assets which produce tax exempt income, while purchasing assets which produce fully taxable income. In addition, the sale or restructuring of certain businesses, can produce significant taxable income within the relevant carryforward periods.

The Company's ability to utilize its deferred tax assets to offset future taxable income may be significantly limited if the Company experiences an "ownership change," as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). In general, an ownership change will occur if there is a cumulative change in Citi's ownership by "5% shareholders" (as defined in the Code) that exceeds 50 percentage points over a rolling three-year period. The common stock issued pursuant to the exchange offers in July, 2009 and the common stock and tangible equity units issued in December, 2009 as part of Citigroup's TARP repayment did not result in an ownership change under the Code. However, these common stock issuances have materially increased the risk that Citigroup will experience an ownership change in the future. On June 9, 2009, the board of directors of Citigroup adopted a tax benefits preservation plan (the "Plan"). This Plan is subject to the shareholders' approval at the 2010 Annual Meeting. The purpose of the Plan is to minimize the likelihood of an ownership change occurring for Section 382 purposes. Despite adoption of the Plan, future transactions in our stock that may not be in our control may cause Citi to experience an ownership change and thus limit the Company's ability to utilize its deferred tax asset and reduce its stockholders' equity.