



United States
General Accounting Office
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152653

General Government Division
B-258670

September 30, 1994

The Honorable J.J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

Trade data have been provided by the U.S. Customs Service (Customs) to the Internal Revenue Service (IRS) under a working arrangement signed in 1992 that seeks to enhance both agencies' enforcement efforts. The arrangement was signed following hearings by your Subcommittee in which the two agencies were encouraged to share such information. This letter responds to your request for information on the use to date of the data in developing tax audits of transfer prices.¹ A separate report will respond to your interest in the quality of the data.

To date, IRS has made 17 requests for Customs data. Of these, 14 were specifically for use in transfer pricing audits under section 482. In structured interviews, we discussed these 14 cases with the IRS field staff who requested the Customs data. We analyzed the reasonableness of the information we received by discussing it with IRS National Office representatives responsible for coordinating the use of the data.

Our discussions, which are summarized in the enclosure, indicated that a substantial tax adjustment was obtained in one case and savings in audit time were obtained in six cases as a result of the use of Customs data. IRS field staff also said they would like to receive data in a more accessible form. In half the cases, IRS field staff said they received the data within a time period they perceived as only "marginally adequate" at best.

¹Transfer prices are prices companies charge other related companies for goods and services transferred on an intercompany basis. Tax audits of transfer prices are done under section 482 of the Internal Revenue Code, which gives the Secretary of the Treasury broad authority to allocate income among related parties to prevent tax evasion or clearly reflect the income of the parties.

ADJUSTMENTS AND TIME SAVINGS ACHIEVED BY USING CUSTOMS DATA

Of the 14 transfer pricing cases in which IRS used Customs data, 8 cases were still open at the end of our work. The results for the six closed cases, as reported in our structured interviews, were:

- In one case, Customs data helped IRS settle a case for tens of millions of additional tax dollars for 1 year, and tens of millions of tax dollars were being negotiated for future years. IRS used the Customs data to validate reported values of imports from a tax haven country.
- In a second case, Customs data helped IRS identify an underpayment of income tax which was not deemed large enough to pursue further.
- In a third case, Customs data showed the IRS revenue agent that there was not a transfer pricing issue, and she stopped the audit.
- In the other three closed cases, the IRS revenue agent who handled them did not directly use Customs data because the data did not include commodity unit prices and quantities. The agent still described the information as "somewhat useful."

IRS field staff said that Customs data helped save time in 6 of the 14 cases. In 3 cases the staff took more time to complete the audit. The descriptions of time saved varied and in some cases were not precisely quantified. In two cases the time savings were said to be between 10 and 50 percent in time spent on the audits. In two other cases, the estimated time saved was 40 labor hours in one case and 100 to 150 hours in the other case. In the two remaining cases, IRS staff did not have an exact estimate but described the time savings as "substantial" in one case and "tremendous" in another.

IRS FIELD STAFF WOULD LIKE DATA MORE READILY ACCESSIBLE

Currently, IRS field staff receive data on a mainframe computer tape. According to an IRS National Office representative, district offices should have enough computer equipment and staff to readily convert the mainframe tape to a more accessible format. However, in some cases IRS field staff indicated that the mainframe tapes were cumbersome to use and they would like to receive the information in a more accessible format, such as diskettes.

The field staff are to initiate the request for data by sending a memorandum that describes the requested data fields and time periods to IRS' National Office. The National Office then is to forward the request to Customs. Customs is to extract the requested data and send the information on mainframe tapes to IRS' National Office. The National Office is to forward the tapes to the field staff, who are responsible for extracting the information from the tapes.

The field staff require the assistance of computer information specialists who have access to a mainframe computer. In five cases the requesting field staff identified access to the mainframe tapes as the largest problem they encountered in using the Customs data. They generally found it difficult to quickly secure the assistance of a computer specialist.

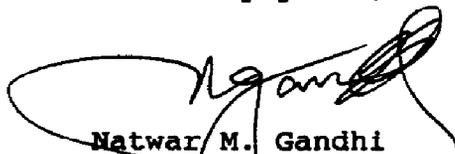
Since IRS has recently begun to step up its efforts to raise field agents' awareness of the Customs data, it will be increasingly important for the data to be accessible as the number of requests increase. For example, according to an IRS National Office representative, in 1994 IRS announced the availability of the Customs data on its electronic bulletin board. Also, information about the availability of Customs data was being added to an audit techniques manual and the Internal Revenue Manual. These measures may increase the number of requests for the Customs data.

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We shared our findings with IRS National Office representatives responsible for coordinating the use of Customs data, and they agreed that the data had been useful in transfer pricing cases.

If you or your staff have any questions regarding our work, please contact me at (202) 512-9044.

Sincerely yours,



Natwar M. Gandhi
Associate Director, Tax Policy
and Administration Issues

RESULTS OF DISCUSSIONS ABOUT 14 REQUESTS FOR CUSTOMS DATA
RELATED TO SECTION 482 AUDITS

- (1) How useful did you find the Customs data?

<u>Response</u>	<u>Cases</u>
Very useful	7
Generally useful	4
Somewhat useful	3
Not very useful	0
Not useful at all	0

- (2) Did Customs data help increase tax assessments?

<u>Response</u>	<u>Cases</u>	<u>Amount</u>
Yes	2	Tens of millions
No	4	None
Expect increase	8	\$550,000 quantified; other amounts unknown

- (3) Did Customs data save time?

<u>Response</u>	<u>Cases</u>	<u>Comments</u>
Yes	6	Saved 10 percent and 50 percent in hours, 40 and 100-150 hours, and "tremendous" and "substantial" time
No	3	Took more time but amount unknown
Do not know	5	

- (4) How adequate was the period of time required to receive Customs data?

<u>Response</u>	<u>Cases</u>
More than adequate	3
Generally adequate	4
Marginally adequate	5
Inadequate	0
Very inadequate	2

ENCLOSURE

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(5) What changes should be made to make Customs data more useful?

<u>Response</u>	<u>Cases</u>
Change computer tape format	6
Expand the database	5
No changes identified	3

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