TAX ADMINISTRATION

Opportunities Exist to Improve IRS's Management of International Tax Dispute Resolution

What GAO Found

A U.S. multinational corporation (MNC) operating in a foreign country is subject to taxes in that country as well as in the United States. The U.S. MNC’s tax return may be audited by the United States or the other country. Such audits can result in an adjustment to the U.S. MNC’s taxable income that may result in income being subject to tax in both countries. If the U.S. MNC disagrees with the adjustment, it can ask the United States Competent Authority (USCA) within the Internal Revenue Service (IRS) to help resolve the dispute through the mutual agreement procedure (MAP). Generally, disputes are resolved by one country withdrawing some or all of the adjustment and the other country providing other relief to the MNC to address double taxation of income. The following figure provides an overview of the dispute resolution process.

Why GAO Did This Study

With increasing globalization, multinational corporations can take advantage of differences in countries’ corporate tax systems to reduce their overall tax liabilities. However, globalization can also lead to disputes about the correct tax liability for U.S. MNCs in different countries. GAO was asked to review how the United States administers the process for resolving international tax disputes when a U.S. MNC disagrees with a tax determination of another country.

This report (1) describes IRS’s dispute resolution process, (2) assesses the information IRS provides to taxpayers about the process, and (3) assesses the extent to which IRS evaluates its management of dispute resolutions cases. GAO reviewed IRS guidance on the MAP process, interviewed IRS officials and compared IRS actions to federal standards for internal control and GAO’s criteria for a good tax system. GAO analyzed MAP data for cases closed from 2013 to 2017 as well as a stratified random sample of MAP case files.

What GAO Recommends

GAO is making a total of eight recommendations, including that IRS improve the clarity of information on the dispute resolution process, track and use dispute resolution case data, ensure the quality of case data, and analyze trends in dispute case characteristics. IRS agreed with GAO’s recommendations and said it will provide detailed corrective action plans.

View GAO-19-81. For more information, contact James R McTigue at (202) 512-9110 or mctiguej@gao.gov.

Dispute resolution assistance is available to U.S.MNCs that need it and USCA provides comprehensive technical information on its website on how to request assistance. However, because USCA’s website does not provide an overview or plain language guidance on the MAP process U.S. MNCs may not have clear information on how to navigate the process.

USCA has taken a number of steps to ensure efficient management of MAP cases including assigning staff with requisite background and skills to cases according to their complexity and organizing staff into teams that specialize by countries. However, GAO identified a number of weaknesses that impact USCA’s management of MAP cases. These include the following:

- key data are not tracked and existing data are not used to assess the effective allocation of resources for the program,
- few controls have been established to monitor and ensure the reliability of the data in the case management database, and
- lack of trend analyses on dispute case characteristics that could help inform management decision making and the more efficient operation of the program.