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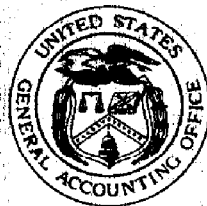
United States General Accounting Office

Fact Sheet for the Chairman, Committee  
on Finance, U.S. Senate

June 1994

**TAX  
ADMINISTRATION**

**Information on IRS'  
International Tax  
Compliance Activities**



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United States  
General Accounting Office  
Washington, D.C. 20548

General Government Division

B-257356

June 27, 1994

The Honorable Daniel Patrick Moynihan  
Chairman, Committee on Finance  
United States Senate

Dear Mr. Chairman:

This fact sheet responds to your request for information on (1) how the Internal Revenue Service (IRS) has used additional resources allocated to international compliance activities and (2) how IRS measures the effectiveness of its international tax compliance activities. In 1993 there were about 52,000 foreign-controlled corporations (FCCs) in the United States, 19,000 foreign corporations with business activities in the United States, and an estimated 80,000 U.S.-controlled foreign corporations.

We have previously reported<sup>1</sup> on problems associated with international tax compliance and the fact that proportionately more FCCs pay no U.S. income taxes versus U.S.-controlled corporations. We specifically pointed out the problems with enforcing section 482 of the Internal Revenue Code—transfer pricing.<sup>2</sup> Congress and others have raised questions about the complexity of the international tax laws and about IRS' ability to ensure that corporations are accurately calculating their tax liabilities. Therefore, Congress authorized IRS more international resources for fiscal year 1994. Before fiscal year 1994, IRS increased resources for international compliance by redirecting existing resources from other areas.

## Results in Brief

From fiscal year 1990 to 1993, IRS devoted more resources to international tax compliance activities—12 percent more in authorized positions and 25 percent more in time actually spent by international examiners and economists. IRS used these resources mainly to increase FCC examinations 353 percent and to initiate and expand its Advance Pricing Agreement (APA) program, which seeks to obtain agreement up front on transfer pricing issues to avoid later disputes during the examination process. In the same period, IRS' international examinations of non-FCC tax returns decreased 31 percent.

<sup>1</sup>International Taxation: Problems Persist in Determining Tax Effects of Intercompany Prices (GAO/GGD-92-89, June 15, 1992); International Taxation: Updated Information on Transfer Pricing (GAO/T-GGD-93-16, March 25, 1993); and International Taxation: Taxes of Foreign- and U.S.-Controlled Corporations (GAO/GGD-93-112FS, June 11, 1993).

<sup>2</sup>Transfer prices are prices companies charge related companies for goods and services transferred on an intercompany basis. Section 482 gives the Treasury Secretary broad authority to allocate income among related parties in order to clearly reflect the income of the parties and prevent tax evasion.

IRS has used many indicators to measure the effectiveness of its international tax compliance activities. In examinations, IRS has compared the additional tax recommended by international examiners with the number of staff hours used to do the examination.<sup>3</sup> This "tax per hour recommended" was 28 percent lower in 1993 than in 1990. The tax per hour for large non-FCCs examined under IRS' Coordinated Examination Program (CEP)<sup>4</sup> was at least 40 percent greater than the tax per hour for large FCCs under CEP in each year from 1990 through 1993. Examinations of smaller companies, which were not part of CEP, produced a tax per hour that fluctuated over time but was consistently lower than the rate for CEP firms. These statistics do not reflect actual taxes collected after any appeals.

In the appeals process, IRS has used as indicators the amounts sustained by IRS' Appeals compared to the proposed unagreed adjustments by examination. This sustention rate was about 29 percent of international tax, credit, and penalty adjustments recommended by examination in 1993, compared to about 44 and 23 percent in 1991 and 1992, respectively. Although IRS has used these indicators and others like them, it recently developed over 30 measures related to its international activities to more systematically reflect IRS' objectives of increasing voluntary compliance, reducing taxpayer burden, and improving productivity.

## Background

The responsibility for international tax compliance is shared by IRS' Assistant Commissioners (AC) for Examination and International and the Associate Chief Counsel (International). In regard to the examination of tax returns and day-to-day oversight of international enforcement activities, the Office of the AC (International) provides program direction and technical support. The Office of the AC (Examination) provides funding for the field resources to support the examination of tax returns.

International examiners are considered specialists and usually are assigned to teams to examine the international issues on tax returns. They usually do not have the overall responsibility for the examination of the tax return. Examinations of the largest domestic corporations and FCCs are

<sup>3</sup>When we refer in this fact sheet to recommended tax or tax per hour, we are referring to the projected tax figure used by IRS' international officials and computed by multiplying recommended income adjustments times the tax rate and adding any tax credit adjustments and penalties.

<sup>4</sup>IRS' Coordinated Examination Program involves the examination of the tax returns of about 1,700 of the largest and most complex corporations.

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done as part of CEP, with international examiners and economists assigned to deal with the international issues.

IRS' Associate Chief Counsel (International) establishes litigating positions for international tax issues in the courts, and international special trial attorneys around the country do the actual litigating. IRS attorneys also provide legal advice during examinations of tax returns. The Office of the Associate Chief Counsel (International) also has primary responsibility for the APA program. The Office of the Assistant Commissioner (International) has responsibility for administering the mutual agreement procedures associated with APAs.

IRS initiated the APA program in 1991 to obtain agreement up front on transfer pricing issues to avoid later disputes during the examination process. APAs are agreements between IRS and taxpayers over the methodology to be used in determining intercompany transactions between related parties. An APA proposal is voluntarily submitted by the taxpayer, and a team of IRS international experts headed by an attorney from the Office of the Associate Chief Counsel (International) reviews the proposal and negotiates with the taxpayer. In addition to the attorney, the IRS team usually comprises an economist, an international examiner, and a competent authority analyst.

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## Increase in Resources

IRS is using more resources for international compliance activities than in earlier years. IRS increased the authorized number of staff positions assigned to international tax compliance by about 12 percent from fiscal year 1990 through fiscal year 1993. During that time, the number of staff years realized for international examiners—staff directly involved in the examination of tax returns—increased 25 percent, from 472 to 592. (More detailed staffing information is shown in app. I.)

IRS is examining more corporate returns with international issues and has increased its emphasis on examining FCCs. Closed international examinations of FCC tax returns increased 353 percent, from 673 in fiscal year 1990 to 3,048 in fiscal year 1993. During that same period, closed international examinations of non-FCC tax returns decreased from 3,010 to 2,084, or by 31 percent.

IRS has also used increased resources to develop and expand the APA program. Since the program's inception in fiscal year 1991, IRS has reached agreements with taxpayers on 19 APAs, and it had 47 more in process at the

end of fiscal year 1993. During fiscal year 1993, IRS' Office of the Associate Chief Counsel (International) spent about 7 attorney years—about 9 percent of its nonmanagement attorney resources—on APAS, more than double the 3 attorney years spent in fiscal year 1992. International examiners reported spending about 2 staff years in fiscal year 1992 and about 2.5 staff years in 1993 on APAS. (More detailed information on increased IRS international compliance activities is shown in app. II.)

## Measures of Effectiveness

With respect to measures of the effectiveness of IRS' international tax compliance activities, IRS international examiners generally spent slightly more time per tax return examined and recommended less additional taxes per hour in fiscal year 1993 than in fiscal year 1990. However, most indicators fluctuated over the 4-year period—fiscal years 1990 through 1993. The number of international examiner hours taken to examine a tax return fluctuated from an average of 101 to an average of 115, ending with an average of 107 hours in 1993.

Recommended tax per hour decreased from a high of \$18,641 in fiscal year 1990 to \$13,491 in fiscal year 1993—with a low of \$9,049 in 1992.<sup>5</sup> The tax per hour for the large non-FCCs examined under IRS' CEP was at least 40 percent greater than the tax per hour for the large FCCs under CEP in each year in the period 1990 through 1993. In the same period, the tax per hour for non-CEP taxpayers fluctuated but stayed from about \$1,300 to \$22,100 lower than the tax per hour for similar types of CEP taxpayers.

Also, the no change rate—the percent of examinations in which no adjustments were recommended—on international examinations rose from 32 percent in fiscal year 1990 to 46 percent in fiscal year 1991 before declining to 27 percent in fiscal year 1993. Total recommended tax adjustments also fluctuated during the 4-year period, dropping from \$7.1 billion in fiscal year 1990 to a low of \$3.7 billion in fiscal year 1991 and rising to a high of \$7.4 billion in 1993.

According to IRS officials, the information on recommended tax adjustments is the best available data that provide a general basis for comparison and trending. However, IRS officials cautioned us on the use of recommended tax adjustments because international issues are usually only a part of the overall corporate examination. An international adjustment could be offset by an adjustment on another issue, and the

<sup>5</sup>The recommended tax is computed on the basis of the fiscal year when an international examination is completed and may be influenced by a few unusually large dollar cases in a particular year.

final results of the examination would include the offsetting adjustments. We also have concerns about these figures because they do not take into account the final tax results after disputes are resolved by Appeals or Chief Counsel, or through litigation.

Of the \$1.5 billion in recommended international tax, credit, and penalty adjustments for the larger dollar issues resolved in IRS' appeals process in fiscal year 1993, IRS' appeals officers sustained about \$429 million, or about 29 percent of the proposed adjustments by IRS' examiners. The percent of sustained adjustments was about 44 percent in fiscal year 1991 and 23 percent in fiscal year 1992. (More detailed information on effectiveness measures is shown in app. III.)

While IRS has used such indicators as recommended tax adjustments and no change rates to measure the effectiveness of international tax compliance activities, they did not systematically reflect IRS objectives. Consequently, IRS is developing new measures. A recent IRS task force developed over 30 measures to determine the effectiveness of international activities in meeting IRS' three key objectives—(1) increasing voluntary compliance, (2) reducing taxpayer burden, and (3) improving quality-driven productivity and customer satisfaction. IRS International management officials stated that baseline measures for the approved indicators would be developed by the end of fiscal year 1994. An example of a new indicator is the percentage of tax paid on filed returns to tax paid after examination.

## Objectives, Scope, and Methodology

Our objectives were to determine (1) the number of staff IRS allocated to international tax compliance activities, (2) how these staff were used, and (3) how IRS measures the effectiveness of its international tax compliance activities. We developed this information primarily for fiscal years 1990 through 1993.

To determine the number of staff allocated to international tax compliance activities, we requested authorized staffing numbers from IRS for the following IRS staff involved in international tax compliance activities: International headquarters staff, international examiners, international managers, economists, economist managers, appeals personnel, and Chief Counsel staff. We also obtained examination time charge information from IRS' Examination management reports for international examiners. We did not attempt to verify the accuracy of IRS' time reporting systems.

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To determine how IRS used the international staff, we reviewed IRS management reports from Examination and International and obtained summary information from the Time and Workload System in IRS' Chief Counsel's office. In addition, we obtained information from IRS' FCC database. We also interviewed various IRS officials from IRS' International and Examination functions and Chief Counsel's office.

To determine how IRS measures the effectiveness of its international tax compliance activities, we interviewed management officials from IRS' International and Examination functions and Chief Counsel's office. We reviewed IRS' management information reports and an IRS special task force study on international tax compliance effectiveness measures.

We noted various discrepancies in the different management reports, and IRS officials were unable to reconcile the differences. An IRS internal audit report also pointed out problems with some of the international management systems, which IRS has moved to improve. The management information, however, is the best available and according to IRS officials can be used for trend information.

We did our work between February 1993 and April 1994 in accordance with generally accepted government auditing standards.

We discussed the contents of this fact sheet on April 22, 1994, and May 17, 1994, with responsible IRS officials, including the Acting Assistant Commissioner (International) and APA and Appeals officials from IRS' Office of Chief Counsel. While generally agreeing with the fact sheet's contents, the IRS officials supplied us with corrected and clarifying information where needed. They also advised us of other IRS actions to improve international compliance. We modified the fact sheet accordingly.

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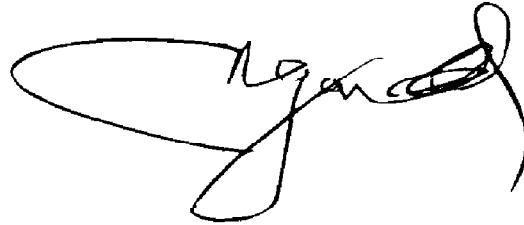
As agreed with the Committee, unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 30 days from the date of this letter. At that time we will send copies to the Secretary of the Treasury, the Commissioner of Internal Revenue, and other interested parties. We will also make copies available to others upon request.



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The major contributors to this fact sheet are listed in appendix IV. If you have any questions, please call me at (202) 512-9110.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Natwar M. Gandhi'. The signature is stylized with a large, sweeping initial 'N' and a long, trailing flourish.

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

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**Abbreviations**

AC	Assistant Commissioner
APA	Advance Pricing Agreement
CEP	Coordinated Examination Program
FCC	Foreign-controlled corporation
IRS	Internal Revenue Service

# Staff Assigned to International Tax Compliance Activities

To meet the growing concern over international tax matters, specifically those relating to FCCs and transfer pricing issues, IRS increased the staff assigned to examine tax returns and developed and expanded an Advance Pricing Agreement (APA) program. The APA program allows taxpayers to get up-front agreement with IRS on the transfer pricing methodology to be applied to intercompany transactions between related entities. The goal of the program is to avoid protracted disputes during subsequent examinations of the tax returns, which can be very costly for both the taxpayer and the government.

Table I.1 shows the authorized IRS staff involved in the major international activities by function from fiscal year 1990 through fiscal year 1993.

**Table I.1: IRS Authorized Staff Levels Assigned to International Compliance Activities**

	Fiscal year			
	1990	1991	1992	1993
International <sup>a</sup>				
Office of the Assistant Commissioner	49	51	57	58
International programs	128	134	137	147
Taxpayer service/compliance	460	441	418	412
Other	69	71	77	73
Examination				
International managers	52	56	60	60
International examiners	490	539	582	632
Economist managers	5	5	7	8
Economists	36	63	68	68
Chief Counsel				
International	100	93	91	96
Appeals staff	26	26	26	26
<b>Total</b>	<b>1,415</b>	<b>1,479</b>	<b>1,523</b>	<b>1,580</b>

<sup>a</sup>IRS headquarters staff are involved in negotiating tax treaties, providing assistance to other countries, examining tax returns and collecting taxes in U.S. possessions and for taxpayers residing outside the United States, and providing taxpayer assistance to U.S. taxpayers residing in foreign countries, as well as in providing oversight of the international compliance activities discussed in this fact sheet. Oversight of examinations and APA activities are carried out by staff in the Office of the Assistant Commissioner and in International Programs.

Source: IRS.

As shown above, the 12-percent increase in staff authorization from 1,415 to 1,580 was mainly due to increases in international examiners and

**Appendix I  
Staff Assigned to International Tax  
Compliance Activities**

economists—staff most directly involved in the examination of tax returns. Staff increases in International headquarters were mainly in the Office of the Assistant Commissioner (International) and in International Programs—staff who were most directly involved in the APA program and who provided technical support and oversight to international examiners.

IRS does not always fill all authorized positions because budgets do not always cover pay increases and other cost increases, and IRS has to reprogram funds to cover these additional costs. Also, IRS may not achieve the total staff years for new positions because they are not usually filled at the beginning of the year. Information was not readily available to determine the actual staff years realized for most types of staff authorized for international compliance. We were able to make these determinations for international examiners and economists, which represented most of the increase in resources. Table I.2 shows the staff years realized for international examiners and economists for fiscal years 1990 through 1993. For the years for which information was available, international examiner staff years increased from 472 to 592—or 25 percent—and economist staff years increased from 44 to 63—or 43 percent.

**Table I.2: International Examiner and Economist Staff Years Realized for Fiscal Years 1990 Through 1993**

	Fiscal year			
	1990	1991	1992	1993
International examiners	472	486	554	592
Economists	N/A	44	63	63
<b>Total</b>	<b>N/A</b>	<b>530</b>	<b>617</b>	<b>655</b>

Source: IRS.

# Increased International Compliance Activities

On the basis of IRS activity reports and discussions with IRS officials, we determined that IRS used the additional resources it allocated to international compliance activities since fiscal year 1990 primarily to increase examinations of FCCs. It also began developing and expanding the APA program.

From fiscal year 1990 through fiscal year 1993, IRS increased the number of tax returns with international issues examined by 39 percent—from 3,683 to 5,132. Examinations of FCC tax returns increased 353 percent—from 673 to 3,048; examinations of U.S.-controlled corporation and other tax returns decreased by 31 percent—from 3,010 to 2,084. Table II.1 shows the number of tax returns examined by international examiners broken down by type of taxpayer.

**Table II.1: Number of Tax Returns Examined by Type of Taxpayer for Fiscal Years 1990 Through 1993**

Type of taxpayer	Fiscal year			
	1990	1991	1992	1993
CEP-FCC	117	210	158	403
Other-FCC	556	1,427	1,725	2,645
<b>Subtotal of FCCs</b>	<b>673</b>	<b>1,637</b>	<b>1,883</b>	<b>3,048</b>
CEP non-FCC	1,151	811	685	919
Other non-FCC	1,859	901	1,632	1,165
<b>Subtotal of non-FCCs</b>	<b>3,010</b>	<b>1,712</b>	<b>2,317</b>	<b>2,084</b>
<b>Grand total</b>	<b>3,683</b>	<b>3,349</b>	<b>4,200</b>	<b>5,132</b>

Source: IRS, but adjusted by GAO to show non-FCC figures.

The average number of international examiner hours spent on tax returns with international issues fluctuated between fiscal years 1990 and 1993. Hours per FCC tax return decreased, while hours per non-FCC tax return increased. Table II.2 shows the average number of international examiner hours taken to examine a tax return for fiscal years 1990 through 1993.

**Table II.2: International Examiner Average Number of Hours Charged Per Tax Return for Fiscal Years 1990 Through 1993**

Type of taxpayer	Fiscal year			
	1990	1991	1992	1993
CEP non-FCC	176.2	173.4	288.3	236.3
CEP-FCC	374.1	276.1	269.4	218.8
Other non-FCC	45.5	59.6	67.9	66.9
Other FCC	88.3	60.3	76.6	62.8
<b>All non-FCCs and FCCs</b>	<b>103.3</b>	<b>101.0</b>	<b>115.0</b>	<b>107.1</b>

Source: IRS, but adjusted by GAO to show non-FCC figures.

**Appendix II  
Increased International Compliance  
Activities**

Because any one year can fluctuate due to a few extreme examinations, IRS has used moving averages to minimize the effects of the extreme cases. Table II.3 shows the 3-year moving averages for tax returns audited and international examiner time charged for fiscal years 1985 through 1993. Information was not available to break out the data by FCCS. There was not much difference in the average number of tax returns examined during the 1985 to 1987 period—4,219—and the 1991 to 1993 period—4,227. The average international examiner hours charged per return, however, has been increasing.

**Table II.3: 3-Year Moving Average of Tax Returns Examined and International Examiner Hours Charged Per Tax Return for Fiscal Years 1985 Through 1993**

Fiscal years	Type of taxpayer			
	CEP		Non-CEP	
	Tax returns	Hours	Tax returns	Hours
1985-1987	1,266	190	2,953	37
1986-1988	1,320	181	3,231	40
1987-1989	1,250	207	3,048	47
1988-1990	1,293	202	2,935	50
1989-1991	1,138	214	2,482	57
1990-1992	1,044	225	2,700	62
1991-1993	1,062	237	3,165	65

Source: IRS, but adjusted by GAO to achieve year-to-year consistency.

IRS has expanded the APA program since its inception in fiscal year 1991. Taxpayer requests for APAs increased from 19 in fiscal year 1991, to 23 in fiscal year 1992, and to 33 in fiscal year 1993. By the end of fiscal year 1993, IRS had reached agreement with taxpayers on 19 APAs, another 47 APAs were still pending, and 9 APA requests had been withdrawn. The 66 APA agreements reached or pending as of the end of fiscal year 1993 represented 58 taxpayers (6 taxpayers had more than 1 APA). The Office of the Associate Chief Counsel (International) spent 5,292 attorney hours on APAs in fiscal year 1992 and 11,485 attorney hours in fiscal year 1993. This represented 4 percent of the 131,575 hours spent in fiscal year 1992 and almost 9 percent of the 132,677 hours spent in fiscal year 1993 by nonmanagement attorneys in the Office of the Associate Chief Counsel (International). International examiners reported spending about 2 staff years in fiscal year 1992 and about 2.5 staff years in 1993 on APAs. According to IRS International officials, the international examiner time spent on APAs may be understated. In addition, there are other staff, i.e., competent authority analysts and economists, involved in APAs.

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**Appendix II  
Increased International Compliance  
Activities**

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In addition to developing the APA program, IRS is taking other steps to improve its capabilities to administer complex transfer pricing issues and other international compliance issues. Specifically, IRS is

- planning to expand the International Field Assistance Specialization Program with additional issue specialists in the transfer pricing and withholding taxation areas,<sup>6</sup>
- creating an Office of Financial Products and Transactions under the Assistant Commissioner (International) to consolidate IRS' efforts in this area,
- initiating a national task force to study withholding tax compliance,
- acquiring foreign tax credit computer software for international examiner use in examinations, and
- acquiring external databases for use by international examiners and economists in development of transfer pricing issues.

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<sup>6</sup>This program is designed to give IRS field officials practical, "how to" technical help in identifying and developing complex international tax issues.



# International Tax Compliance Effectiveness Measures

IRS indicators show that international examiners examined more tax returns in fiscal year 1993 than in 1990, shifted their emphasis to examining FCC returns, and spent more time per tax return (see app. II). At the same time, the amount of recommended tax adjustments per hour declined. According to IRS, this decline is partially attributed to the closing of several large cases in fiscal year 1990.

IRS cautioned us on the use of recommended international tax adjustments because the international issues have to be included in the overall examination of the taxpayer. An international adjustment may be offset by an adjustment on another issue, causing a different end result. Also, a large recommended adjustment against a single taxpayer in any one year could greatly affect the average for that year. We are also concerned over the use of recommended adjustments because they do not reflect the final tax adjustment. Many of the recommended adjustments are not sustained in Appeals or Counsel. However, information is not readily available to determine the final results of an examination. Regardless, the information can be used as indicators. Table III.1 shows the number of returns examined, number of direct international examiner hours, recommended tax adjustments, and tax per hour and hours per tax return for fiscal years 1985 through 1993.

**Table III.1: International Examiner Activities and Results for Tax Returns Examined During Fiscal Years 1985 Through 1993**

Fiscal year	Tax returns examined	Hours	Recommended tax adjustments (dollars in thousands)	Tax per hour	Hours per tax return
1985	4,173	335,396	\$4,840,061	\$14,431	80
1986	4,587	345,043	2,467,623	7,152	75
1987	3,897	367,794	3,843,379	10,450	94
1988	5,170	379,876	6,935,570	18,257	73
1989	3,829	434,411	5,825,360	13,410	113
1990	3,683	380,275	7,088,656	18,641	103
1991	3,349	338,295	3,673,158	10,858	101
1992	4,200	483,027	4,371,010	9,049	115
1993	5,132	549,528	7,413,662	13,491	107

Source: IRS, but adjusted by GAO to achieve year-to-year consistency.

Table III.2 shows the international recommended tax by type of taxpayer. The tax per hour for the large non-FCCs examined under CEP was at least

**Appendix III  
International Tax Compliance Effectiveness  
Measures**

40 percent greater than the tax per hour for the large FCCs under CEP in each year in the period 1990 through 1993. Together, the companies examined under CEP numbered about 1,700. The tax per hour for non-CEP taxpayers fluctuated at lower levels than the tax per hour for CEP taxpayers.

**Table III.2: International Recommended Tax Per International Examiner Hour for Fiscal Years 1990 Through 1993**

Type of taxpayer	Fiscal year			
	1990	1991	1992	1993
CEP non-FCC	\$27,799	\$16,458	\$15,591	\$25,257
CEP-FCC	8,412	10,918	8,832	11,232
Other non-FCC	12,033	(1,846)	2,181	3,108
Other FCC	1,316	9,589	5,100	4,184
All non-FCCs and FCCs	\$18,641	\$10,858	\$9,049	\$13,491

Source: IRS, but adjusted by GAO to show non-FCC figures.

Table III.3 shows the percent of international recommended tax, credit, and penalty adjustments for large dollar issues that were upheld by IRS. The level of unagreed recommended tax adjustments decreased significantly, from \$4.1 billion in 1991 to \$1.5 billion in 1993.

**Table III.3: Amount of Unagreed Recommended International Tax Adjustments and Amount Sustained by IRS Appeals or Counsel for Fiscal Years 1991 Through 1993 by Type of Taxpayer**

Dollars in millions			
Type of taxpayer and fiscal year	Unagreed recommended tax adjustments	Amount sustained	Percent sustained
Total			
1991	\$4,090	\$1,794	44%
1992	2,446	571	23%
1993	1,487	429	29%
FCC			
1993	178	50	28%
Non-FCC 1993	1,310	378	29%

Note: Percentages may not compute due to rounding.

Source: GAO calculations based on IRS information.

Because of the fluctuations that can be caused by large recommended adjustments for individual cases, IRS has used a moving average to minimize the effect of these extreme cases. Table III.4 shows the 3-year moving average of recommended tax adjustments per international

**Appendix III  
International Tax Compliance Effectiveness  
Measures**

examiner hour for fiscal years 1985 through 1993. Information was not available on FCCs before fiscal year 1990.

**Table III.4: 3-Year Moving Average of Recommended Tax Adjustments Per International Examiner Hour for Fiscal Years 1985 Through 1993**

Fiscal years	Type of taxpayer		
	CEP	Non-CEP	All CEP and non-CEP taxpayers
1985-1987	\$12,733	\$5,609	\$10,638
1986-1988	16,160	4,617	12,123
1987-1989	19,478	4,471	14,047
1988-1990	23,642	4,546	16,617
1989-1991	19,188	5,790	14,386
1990-1992	17,863	5,686	12,594
1991-1993	16,813	4,268	11,276

Source: IRS, but adjusted by GAO to achieve year-to-year consistency.

The no change rate on international issues for examined tax returns was lower for CEP-FCC examinations than for examinations of other FCCs. CEP-FCC tax return examinations had a lower no change rate than examinations of all taxpayers; and other FCC tax return examinations, while declining each year, had higher no change rates in 3 of the 4 fiscal years. Table III.5 shows the no change rates for fiscal years 1990 through 1993 by type of taxpayer.

**Table III.5: No Change Rate on International Issues for Completed Examinations for Fiscal Years 1990 Through 1993**

Type of taxpayer	Fiscal year			
	1990	1991	1992	1993
All taxpayers	32%	46%	33%	27%
CEP-FCC	14%	7%	6%	8%
Other FCC	47%	36%	35%	31%

Source: IRS.

As shown, IRS has used several measures at various times to evaluate the effectiveness of its international compliance activities. The types of measures described so far are results-oriented.

IRS has also used process-oriented measures. These measures have included such things as (1) lapsed time between the referral and the actual start of an examination and (2) examination cycle time. For fiscal year 1993, IRS established a goal for international examiners to start their

examinations within 60 days of referral and complete their examinations within 12 months. During fiscal year 1993, international examiners started their examinations within an average of 42 days, and they completed their examinations within an average of 10 months.

## New Effectiveness Measures

IRS recognized that measures like these were not complete and had a task force look at effectiveness measures. The task force identified over 30 measurement items that it categorized by IRS objectives and standards. A number of these measures were similar to current measures. IRS management is in the process of integrating the task force's recommended measures into those being used for business reviews and strategic planning processes. The new measures will be used by IRS starting in fiscal year 1995.

Some of the effectiveness measures categorized by the IRS objective they support appear in table III.6.

**Table III.6: Some Effectiveness Measures Categorized by Objective**

Increasing voluntary compliance	Taxpayer use of APAs, pre-filing determinations, record maintenance agreements, and private letter rulings. Percentage of tax paid on filed returns compared to total tax paid after examination, broken down by market segment.
Reducing taxpayer burden	Agreed international adjustments. Agreed foreign tax credit adjustments. Use of Accelerated Issue Resolution procedures. Number of international feature cases where APAs were used. Efforts to promote simplification and fairness. Results and cycle time of negotiations to minimize double taxation through the use of competent authority power.
Improving quality-driven productivity and customer satisfaction	Adherence to auditing standards. Return on investment on CEP international feature returns. No change rate, hours spent on no change returns, and adjustments per hour by market segments for non-CEP returns. Effective working relationships with taxpayers, taxpayer representatives, and professional organizations. Adherence to minimum training standards. Usefulness of the International Field Assistance Specialization Program. Cycle time for dealing with tax treaty partners under competent authority and collateral request activities.

Source: IRS.

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# Major Contributors to This Fact Sheet

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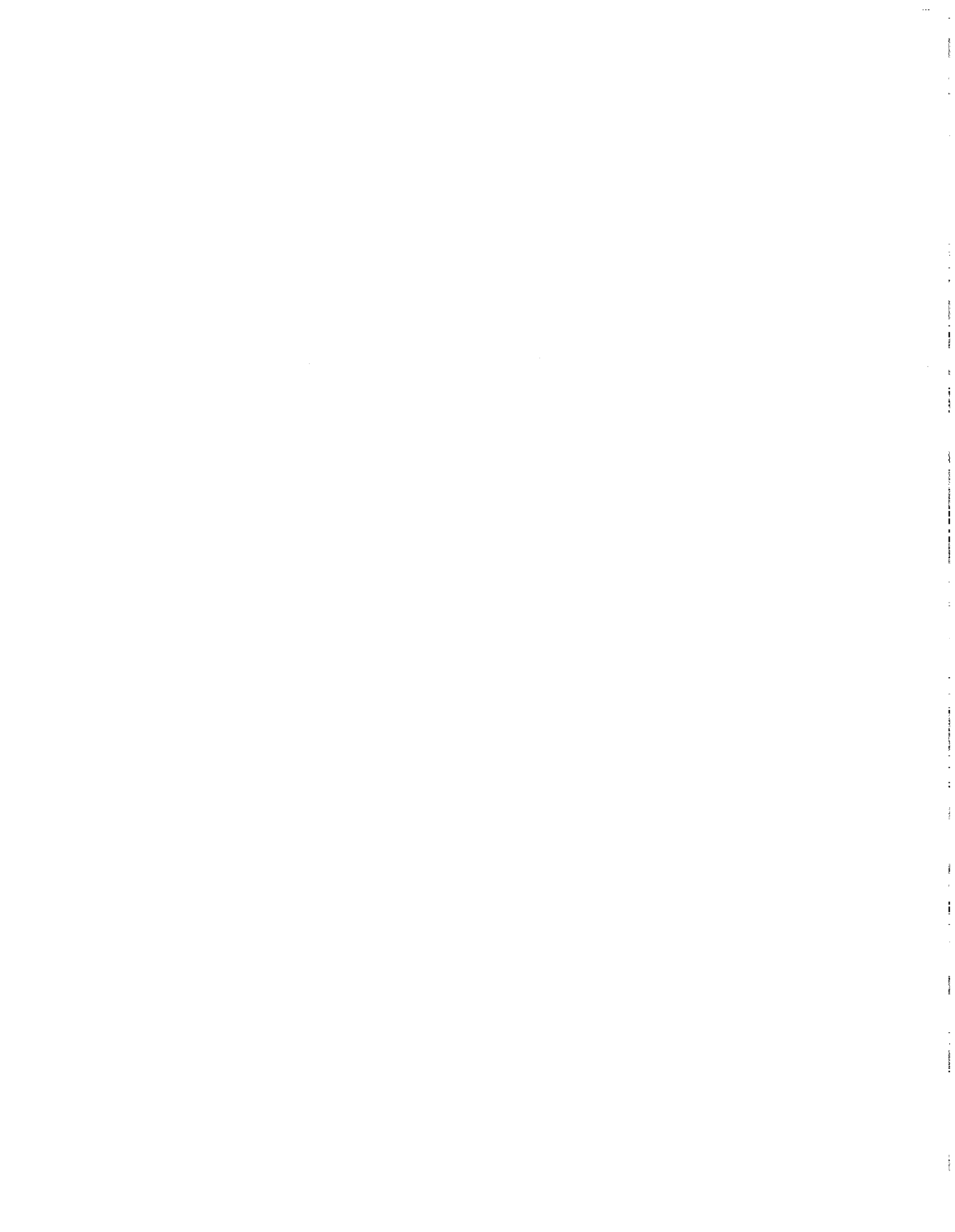
**General Government  
Division, Washington,  
D.C.**

Jose R. Oyola, Assistant Director, Tax Policy and Administration Issues  
Lawrence M. Korb, Assignment Manager

---

**Chicago Regional  
Office**

Thomas D. Venezia, Regional Management Representative  
Arthur Rubalcaba, Evaluator-in-Charge (Retired)  
Roger B. Bothun, Evaluator  
David E. Jakab, Evaluator  
Donald J. Kittler, Evaluator



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