On November 4, 2019, the Internal Revenue Service (IRS) announced a new Large Business and International (LB&I) compliance campaign regarding Section’s 965 transition tax under the Tax Cuts and Jobs Act (TCJA). This is one of several dozen compliance campaigns that LB&I has announced since the initial 13 campaigns were identified in 2017, and is part of LB&I’s larger goals of improving return selection, identifying issues representing a risk of noncompliance and making the greatest use of limited resources. We have written at length regarding the IRS’s campaigns. Click here for prior coverage of the IRS’s campaigns. This announcement comes just over a month after the Treasury Inspector General for Tax Administration (TIGTA) issued a report questioning the effectiveness and efficiency of campaign issue selection. We wrote about the TIGTA report here. The IRS is presumably heeding TIGTA’s recommendation and is focused on Section 965 because of the substantial dollars associated with compliance. A list of all campaigns can be found here (the newest campaign is found under the tab “IRC 965”).

Section 965 was part of tax reform in the TCJA. It generally imposes a transition tax on a US shareholder’s pro rata share of accumulated earnings and profits of certain foreign corporations, as if those earnings had been repatriated to the US. The new campaign will focus examinations on US-based multinational companies’ 2017 and 2018 returns to ensure compliance with the transition tax in Section 965. The
campaign will also provide technical assistance to IRS teams working on Section 965
issues, with a focus on identifying and addressing taxpayer populations with
potential material compliance risk.

Practice Point: Multinational taxpayers should be mindful of this new campaign and
aware of any compliance issues they may face. Taxpayers should be aware that
returns selected for the transition tax campaign will also be examined for other
material issues, especially those related to TCJA planning.

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