



*Exchange of Information
Capabilities Are Underutilized
by the Internal Revenue Service*

September 11, 2017

Reference Number: 2017-30-077

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Redaction Legend:

1 = Tax Return/Return Information

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HIGHLIGHTS

EXCHANGE OF INFORMATION CAPABILITIES ARE UNDERUTILIZED BY THE INTERNAL REVENUE SERVICE

Highlights

Final Report issued on
September 11, 2017

Highlights of Reference Number: 2017-30-077 to the Internal Revenue Commissioners for the Large Business and International Division and the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

As globalization continues to reduce barriers to cross-border commerce, tax authorities around the world have increased information exchanges with other countries to administer and enforce the tax laws of their respective countries. It is important for the IRS to maximize the use of the information received and collection assistance available from foreign countries.

WHY TIGTA DID THE AUDIT

Information provided by other countries presents a potentially important source of data for the IRS. This audit was initiated to evaluate the IRS's efforts to improve tax compliance by using information obtained through the Exchange of Information Program agreements with foreign countries.

WHAT TIGTA FOUND

The IRS did not have an adequate tracking system to account for the records foreign countries sent on a regular basis under the Automatic Exchange of Information Program. Access to these data is only given to a relatively small percentage of IRS compliance employees. Additionally, the IRS is not using the mutual collection assistance available from foreign countries to its full potential, and criteria has not been established for withdrawing issued collection assistance requests.

TIGTA found multiple problems with the Exchange of Information Program Office's processing of spontaneous information received from foreign countries that they believed may be

of interest to the United States for tax purposes. The problems include lack of tracking on whether information was forwarded to IRS compliance functions, errors in information forwarded, and the feedback process with the compliance functions. The IRS generally took timely corrective actions after TIGTA shared these observations with respect to the Spontaneous Exchange of Information Program.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS conduct outreach to alert Examination and Collection field functions on the availability and potential usefulness of automatic data provided by treaty partners; expand guidance on the recordkeeping required for tracking systemically received data; reinforce the importance of timely issuance of mutual collection assistance requests and establish criteria for withdrawing the requests when taxpayers have not fully paid; and make revenue officers aware of the tools to explore international asset identification.

In response to the report, IRS officials agreed with all recommendations. The IRS plans to publicize the availability of automatic data provided by treaty partners and will incorporate record keeping requirement into the Automatic Exchange of Information Program section of the Internal Revenue Manual. Additionally, the IRS will reinforce the importance of mutual collection assistance requests and make revenue officers aware of tools to identify international assets. The IRS will establish criteria and issue guidance for withdrawing collection assistance request when the taxpayer has not full paid. Furthermore, the IRS will consult with the Treasury Department Office of Tax Policy to determine if the United States could benefit by adopting mutual collection assistance with any additional countries.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 11, 2017

MEMORANDUM FOR COMMISSIONER, LARGE BUSINESS AND INTERNATIONAL
DIVISION
COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Exchange of Information Capabilities Are
Underutilized by the Internal Revenue Service (Audit # 201530021)

This report presents the results of our review to evaluate the Internal Revenue Service's (IRS) efforts to improve tax compliance by using information obtained through the Exchange of Information Program agreements with foreign countries. This review is included in our Fiscal Year 2017 Annual Audit Plan and addresses the major management challenge of the Impact of Global Economy on Tax Administration.

Management's complete response to the draft report is included as Appendix V. Copies of this report are also being sent to the Director, Office of Audit Coordination, for appropriate distribution within the Internal Revenue Service.

If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).



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Abbreviations

AEOI	Automatic Exchange of Information
CNC	Currently Not Collectible
EOI	Exchange of Information
FBAR	Report of Foreign Bank and Financial Accounts
GAO	Government Accountability Office
IMS	Issue Management System
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
LB&I	Large Business and International
MCAR	Mutual Collection Assistance Request
SB/SE	Small Business/Self-Employed
TIGTA	Treasury Inspector General for Tax Administration



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Background

As globalization and technological advancements continue to reduce barriers to cross-border commerce, individuals and businesses are increasingly conducting trade and earning income beyond traditional geographic or political boundaries. As such, tax authorities around the world have increased the use of information exchanges with other countries to administer and enforce the tax laws of their respective countries.

Tax authorities around the world have increased the use of information exchanges with other countries to administer and enforce the tax laws of their respective countries.

The exchange of information refers to the sharing of tax-related information between two or more countries for tax administration and enforcement purposes. These exchanges between national tax authorities generally occur under the provisions of international tax information sharing agreements. Information provided by other countries presents a potentially important source of data for the IRS. There are international agreements that allow the United States and other countries to exchange information with each other for the purpose of tax administration and enforcement purposes. Exchange of information (EOI) agreements are found in United States tax treaties and Tax Information Exchange Agreements.¹

Tax treaties and Tax Information Exchange Agreements provide that the exchange of information between countries be made through each country's designated "Competent Authority." The Competent Authority of each national government is responsible for all matters relating to the application and interpretation of the provisions of the international tax information sharing agreements to which that country is a party.² The United States Competent Authority is the Commissioner, Large Business and International (LB&I) Division. Each international tax information agreement contains uniquely worded provisions.³ Nevertheless, EOI agreements generally consist of three provisions:

- A general obligation to exchange information for purposes of carrying out the provisions of the agreement.
- Restrictions on the use and disclosure of information received.
- Language which limits the obligation of the Competent Authority to provide information when it is not obtainable, would violate laws, or would contradict public policy.

¹ See Appendix IV for a glossary of terms.

² Internal Revenue Manual (IRM) 4.60.1.1.1(1) (September 19, 2014).

³ IRM 4.60.1.1(3) (September 19, 2014).



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Disclosures to foreign tax authorities made pursuant to tax treaties must be accounted for in accordance with Internal Revenue Code Section 6103(p)(3) and the Privacy Act of 1974, 5 United States Code Section 552a (2013).⁴

The EOI Program was reviewed by the Government Accountability Office (GAO), with the report issued in September 2011.⁵ The GAO found that although the Internal Revenue Service (IRS) collects data from foreign jurisdictions, the agency does not consistently collect or analyze performance information, such as the type of information requested, whether the information was collected successfully, or feedback from staff that requested the information about its usefulness or their views on the process for obtaining it.

The EOI Program does not publish any business results due to restrictions under Internal Revenue Code Section 6105, *Confidentiality of Information Arising Under Treaty Obligations*. IRS management has set very general goals for the EOI Program. According to EOI Program management, the goals include:

- To carry out the effective exchange of information in a timely manner in accordance with the EOI provisions included in the relevant international instruments.
- To assist examiners, investigators, and other tax officials in securing relevant tax information from other tax administrations.
- To adhere to disclosure laws regarding taxpayer information and other sensitive tax data governing the exchange of such information and abiding by IRM 4.60.1.

The specific EOI Programs that Treasury Inspector General for Tax Administration (TIGTA) looked at are:

1. **Automatic Exchange of Information (AEOI) Program** – Relates to exchanges of certain tax information already agreed to be sent on a regular and systemic basis without the need for a specific request.
2. **Mutual Collection Assistance Request (MCAR) Program** – When one country collects taxes covered by the relevant treaty on behalf of another country.
3. **Spontaneous Exchange of Information Program** – Involves transmission of information that has not been specifically requested but which, in the judgment of the providing authority, may be of interest to a foreign partner for tax purposes. The exchange typically involves information discovered during a tax examination, investigation, or other administrative procedure that suggests or establishes noncompliance with the tax laws of a foreign partner or that is otherwise determined to

⁴ IRM 11.3.25.3(12) (July 23, 2015).

⁵ GAO, GAO-11-730, *IRS's Information Exchanges with Other Countries Could Be Improved through Better Performance Information* (September 9, 2011).



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be potentially useful to a foreign partner for tax purposes. The information may pertain to nonresident aliens, U.S. citizens, domestic or foreign corporations, or other taxpayers.

This review was performed at the IRS National Headquarters in Washington, D.C., in the EOI Program Office with information obtained from Small Business/Self-Employed (SB/SE) Division Headquarters personnel during the period October 2015 through May 2017. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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Results of Review

Automatic Exchange of Information Recordkeeping Is Inadequate, and the Usefulness of Information Is Unknown

The automatic exchange of information involves the transmission of bulk information from treaty partners⁶ on a regular and systemic basis.⁷ Generally, the information exchanged under this program includes “fixed, determinable, annual or periodic” income data routinely reported by payers in one partner country for payees reporting to be residents of the other partner country. Fixed, determinable, annual or periodic income includes, but is not limited to, dividends, interest, rents, royalties, salaries, and annuities. Other information, such as changes of residence or details on the purchase or disposition of real property, may also be exchanged.⁸ This information is provided to the IRS by CD-ROM using the standards recommended by the Organisation for Economic Co-operation and Development.⁹ According to AEOI Program management, the quality, quantity, and frequency of data transmitted is not mandated by a standard and any information transmitted is provided voluntarily by treaty partners. Consequently, some treaty partners are inconsistent on the frequency of data transmitted. For example, the IRS received data from a total of 28 countries, of which 7 sent data annually during Fiscal Years 2011 through 2015. For the remaining 21 countries:

- Six countries sent data for four fiscal years.
- Eight countries sent data for three fiscal years.
- Four countries sent data for two fiscal years.
- Three countries sent data for one fiscal year.

In Fiscal Year 2010, the IRS hired a contractor to process the AEOI data and upload it to the AEOI database on the Advanced Research Lab server located in the Enterprise Computing Center – Martinsburg. The AEOI database is searchable using the *Easy Search* tool (hereafter

⁶ In the context of automated exchanges of information, the use of “treaty partners” include those countries who have exchange of information agreements either from United States tax treaties or Tax Information Exchange Agreements.

⁷ This review excludes the automatic exchange of information that the United States conducts pursuant to the Foreign Account Tax Compliance Act.

⁸ IRM 4.60.1.1.3.3(2)(September 19, 2014).

⁹ The Organisation for Economic Co-operation and Development is a forum through which the governments of 35 member countries work together to promote policies that will improve the economic well-being of people around the world. The Organisation provides a forum in which governments can share experiences and seek solutions to common problems and set international standards on a wide range of issues, such as taxation.



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referred to as the application), both of which were developed by the contractor. From September 2009 to April 2016, the IRS estimates that it compensated the contractor more than \$2.5 million for its work. All records that are sent to the United States through the AEOI Program are available to search unless they cannot be loaded or imported. There are many reasons certain records cannot be uploaded onto the server. According to the IRS, the most common reasons are:

- A wide range of formatting issues in which record formats do not adhere to the Organisation for Economic Co-operation and Development established standards.
- Foreign country currency symbols are sometimes used.
- Unreadable characters can cause spacing issues, which will cause import failures because data fields are not properly aligned.
- Changes in formatting of the data fields (*e.g.*, date of birth).
- XML files that contain records that are malformed – these records would fail to be parsed and imported.

Furthermore, in addition to new data, treaty partners may send amendments to records provided in a prior submission. However, since the contractor posts both original and corrected records in the AEOI database, the record count of both the original and amended data are accounted for in the “received” and “posted” counts.

The United States paused sending information on United States source payments to treaty partners in 2012 to update the processes the IRS employs to assess whether United States exchange partners have the appropriate legal framework and infrastructure to safeguard the information exchanged, and implement these new processes. As of May 2017, the program continues to be paused, and there is no definitive timeline to restart the program. In the meantime, the IRS is still creating files for each country but is not sending them out. Because of the reciprocal nature of exchange-of-information relationships, it appears seven treaty partners have paused further automatic exchanges with the IRS pending resumption of IRS automatic exchange activity.¹⁰ Of the 21 treaty partners who were inconsistent in sending data, four partners stopped sending automatic exchange information after Fiscal Year 2012, and another three partners stopped sending information after Fiscal Year 2013.

Procedures are lacking to account for the number of records received and posted

The AEOI Program’s current tracking method is inadequate. It has been a challenge for the AEOI Program to respond to TIGTA’s request for the count of records received during Fiscal Years 2011 through 2015 by country and the number of records posted and searchable by the *Easy Search* application during the same period. This application is a front-end interface tool

¹⁰ Based on IRS incoming data records during Fiscal Years 2011 through 2015.



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that must be used to access the AEOI database and allows users to execute a variety of searches on the AEOI database.¹¹

According to AEOI Program management, the problem stems from inconsistent tracking of records received and posted. During the course of trying to respond to TIGTA's data request, the AEOI Program found multiple data discrepancies due to human data entry errors and incorrect interpretation of what was being tracked (*e.g.*, what the IRS initially presented to TIGTA as data received was actually an AEOI database record count, and AEOI Program had to conduct extensive analysis to provide TIGTA a count of raw data received). The main factors that contribute to the recordkeeping discrepancies include:

- Lack of continuity due to staffing turnover.
- Lack of formalized written guidance or procedures for tracking data.

On each occasion that discrepancies were found, TIGTA requested to have the data corrected. Due to the discrepancies found with record counts provided by the IRS, TIGTA cannot independently verify the accuracy of record counts data provided by the AEOI Program during our review period, as presented in Figure 1 below.

Figure 1: AEOI Records Received and Posted

Fiscal Year	Received	Posted	% Posted
2011	1,978,226	1,922,249	97.2%
2012	2,784,533	2,740,375	98.4%
2013	1,876,061	1,866,194	99.5%
2014	2,086,250	1,942,313	93.1%
2015	1,817,912	1,948,024	107.2% ¹²
Total	10,542,982	10,419,155	98.8%

Source: AEOI Program management.

Based on the IRS's most recent recordkeeping revisions, the contractor was able to upload 10,419,155 (98.8 percent) of the 10,542,982 records received from 28 countries during Fiscal Years 2011 through 2015.

¹¹ The types of questions that the application can help answer include:

- (1) Is a taxpayer receiving income abroad?
- (2) Does a taxpayer have any offshore accounts?
- (3) What income are foreign entities reporting about United States taxpayers?

¹² Records posted exceed records received because some records received in Fiscal Year 2014 were not posted until Fiscal Year 2015.



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Adequate accounting of this automatic exchange data is important for the overall success of the AEOI Program. It will allow the IRS to accurately identify which treaty partners send data that cannot be processed as well as provide proper feedback to the originating treaty partner that may increase the usefulness of the exchange information. AEOI Program management acknowledges that improvements are needed. Corrective actions have an added urgency given the IRS plans to resume the AEOI Program at some point, at which time it is anticipated that the AEOI partners who stopped sending their automatic data will also resume, thereby further increasing the volume of incoming data.

In response to our findings, on May 30, 2017, AEOI Program management informed us that their previous process of record keeping was replaced by a new record keeping process established in October 2016. TIGTA cannot comment on the whether this new system adequately addresses written guidance/procedure for AEOI personnel on the record tracking processes. However, the IRS should ensure that adequate measures and communications are in place related to their new process.

The AEOI data needs to be used more widely

As of August 31, 2016, the IRS had a total of 8,153 revenue agents¹³ and 3,205 revenue officers¹⁴ on staff in the LB&I and SB/SE Divisions.¹⁵ However, less than 1 percent (*i.e.*, only 36 revenue agents¹⁶ and 25 revenue officers) were approved to access the *Easy Search* application as of August 31, 2016. Furthermore, only one of the 36 revenue agents was from the LB&I Division's Global High Wealth area. We also found that only seven of the 25 revenue officers with access were from the SB/SE Division's International Collection group.¹⁷ To gain access, users are required to explain why they need access to the application, take training provided by the EOI Program Office, and then request access using the Online 5081 system. The training is a lecture and demonstration. The lecture portion covers topics such as what the EOI and AEOI Programs are, the treaties governing them, and the disclosure and confidentiality laws covering the programs. The demonstration shows how to conduct a basic search through the application.

IRS Policy Statement 5-1 states that enforcement action is a necessary component of a voluntary tax system and should be taken promptly in cases for which taxpayers have not shown

¹³ The 8,153 revenue agents exclude supervisory revenue agents. Of the 8,153 revenue agents, 5,050 revenue agents were assigned to the SB/SE Division and 3,103 revenue agents were assigned to the LB&I Division. Starting in February 2016, the LB&I Division initiated a flexible workforce and stopped categorizing revenue agents by general program versus international. Prior to that time, 720 revenue agents were assigned to international.

¹⁴ The 3,205 revenue officers were assigned to the SB/SE Division and exclude supervisory revenue officers.

¹⁵ Data provided by IRS Human Capital Management.

¹⁶ Of the 36 revenue agents, 10 revenue agents were assigned to the SB/SE Division and 26 revenue agents were assigned to the LB&I Division. Additionally, five supervisory revenue agents were approved to access to the application.

¹⁷ TIGTA's analysis was limited to reviewing employees approved to access *Easy Search*, and did not review the extent to which users may have accessed and communicated the information obtained.



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a good faith effort to comply.¹⁸ In addition, IRS Policy Statement 5-71 states that if, after taking all steps in the collection process, it is determined that an account receivable is currently not collectible (CNC), then it should be removed from active inventory.¹⁹

We reviewed two random samples of taxpayers—one sample of taxpayers in active collection inventory and one sample of taxpayers in CNC status. Each sample had the following characteristics:

- Taxpayers had liabilities of more than \$50,000.
- Taxpayers' Tax Year 2014 return showed residence in a country with a mutual collection income tax treaty.
- Taxpayers either showed evidence of foreign assets on the Tax Year 2014 return or on their Tax Year 2013 Report of Foreign Bank and Financial Accounts (FBAR) in a mutual collection income tax treaty country.

Using the application, we identified AEOI data on 22 (20 percent) of the 109 taxpayers from both active collection and CNC samples. For our sample of 81 individual taxpayers in active collection inventory as of December 2015,²⁰ we queried the application and found that the IRS received AEOI data from treaty partners for 17 (21 percent) of the 81 taxpayers. For our sample of 28 individual taxpayers that the IRS put in CNC status for financial hardship reasons as of May 2016, we queried the application and found that the IRS received AEOI data from treaty partners for five (18 percent) of the 28 taxpayers.

The knowledge that these taxpayers have or had foreign income or assets would be useful information for all examination and collection efforts. Before putting taxpayers in a status for which no collection effort will be made, it is important to identify all income sources for determining the taxpayer's ability to pay. Having access to this information would prompt revenue agents and revenue officers to look beyond domestic income sources and probe deeper to potentially discover additional international income not disclosed on the tax returns. Even when the AEOI data are a few years old, it would warrant follow-up on the status of foreign income sources and, if disposed, the nature of their disposition.

While granting access to the application to every revenue agent and revenue officer may be unnecessary, it would be reasonable to provide access to one revenue agent or representative for each examination team working in predominantly high-wealth/international areas. In response to our findings, AEOI Program management informed us that they have hosted additional training

¹⁸ IRM 1.2.14.1.1 (August 18, 1994).

¹⁹ IRM 1.2.14.1.14 (November 19, 1980). Accounts may be reported as CNC for a variety of reasons, including hardship (when the taxpayer is unable to meet necessary living expenses), decedent and decedent estates, and unable to contact or locate the taxpayer.

²⁰ See Appendix I for the detailed criteria.



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and have made the training available online for users to take according to their own schedule. While TIGTA cannot comment on whether the training has encouraged the use of information in examination and collection efforts where warranted, these efforts are important steps in helping to increase awareness and availability of the application. Additionally, all general program and international revenue officers should have access because taxpayers residing in and out of the United States can have assets abroad. At a minimum, at least one representative on each collection team should have the ability to research the application on behalf of a colleague in the same group. The usefulness of the AEOI database will increase once the United States resumes the AEOI Program and its treaty partners reciprocate by sending more data. During our discussions with IRS management, they stated that one individual could pull the data for wider use of others within their programmatic area.

Lack of notification to treaty partners regarding upload issues

Currently, the only time the IRS will notify treaty partners of upload issues is if the entire CD-ROM received is unreadable. Generally, it appears that the AEOI Program is effectively uploading incoming data to the AEOI database. However, when the data is analyzed as to each country, it is apparent that AEOI is not as successful uploading data from several countries. Despite the fact that over 98 percent of records received are successfully uploaded, we identified five countries for which the success rate is less than 80 percent. As Figure 2 illustrates, between Fiscal Years 2011 and 2015, the IRS had an average success rate of 71.3 percent for these five countries.

Figure 2: AEOI Records Received and Posted per Country With a Post Success Rate Under 80 Percent for Fiscal Years 2011–2015

Country	Incoming	Posted	% Posted
A	5,540	3,397	61.3%
B	152,772	116,040	76.0%
C	61,504	43,391	70.5%
D	35,996	17,083	47.5%
E	136,858	99,900	73.0%
Total	392,670	279,811	71.3%

Source: AEOI Program management.

The IRS is not able to explain why these countries have a lower success rate beyond the common reasons previously cited. At the same time, the IRS does not notify sending countries of record upload issues. According to AEOI Program management, the United States has paused sending this type of automatic data to treaty partners, and therefore, requesting corrections on the format of data received may not be practical.



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Records thought available are not searchable in the AEOI database

AEOI Program management informed TIGTA that they received a total of 309,559 records from two countries, and 308,492 of those records were uploaded to the AEOI database. However, TIGTA was not able to locate any of these records through the *Easy Search* application, and these two countries are not included in the drop-down list of searchable countries. AEOI Program management was unaware of this fact until TIGTA brought it to their attention. After researching the condition, AEOI Program management responded that the data from these two countries were uploaded but intentionally hidden from accessibility via the application because of potential issues in the data. However, the AEOI Program and contractor staff did not have a clear indication of what the issues were with the data because of insufficient documentation and a lack of continuity due to staffing turnover. In response to our finding, in October 2016, AEOI Program management informed TIGTA that both of these countries' records were made available for research. TIGTA confirmed the availability of the records by testing queries of Tax Years 2011 through 2015 records via the application.

Effectiveness and efficiency of operations is one of the objectives to be achieved by managers under the GAO Standards for Internal Control in the Federal Government. Management designs an internal control system to provide reasonable assurance over the safeguarding of assets. Management needs to identify appropriate knowledge and skills needed for various jobs and provide necessary training. Managers also need to define the objectives in specific and measurable terms to enable management to identify, analyze, and respond to risks related to achieving those objectives.²¹

The IRM addressing the Foreign-Initiated AEOI states what information should be recorded and that the information will then be converted into electronic database format.²² However, as shown below, the IRM is silent on how to record or where to record the information.

Upon receipt, EOI HQ records the exchange. Recorded information includes the sending country, tax year(s) or other period(s), dates the information was sent and received, number of records (if indicated in the cover letter), and other pertinent information readily available from the cover letter, such as income types included in the transmitted records...The information received is then converted into electronic database format for ease of reference and analysis. The purpose of the information is to determine tax compliance of United States taxpayers.

²¹ GAO, GAO-14-704G, *Standards for Internal Control in the Federal Government* (September 2014).

²² IRM 4.60.1.4.2(4) and (5) (September 19, 2014).



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Recommendations

The Commissioner, LB&I Division, should:

Recommendation 1: Conduct outreach to examination and collection field functions to alert the field on the availability and potential usefulness of automatic data provided by treaty partners in examination and collection efforts that can be gained by requesting and obtaining access to the *Easy Search* tool.

Management's Response: The IRS agreed with this recommendation and intends to publicize the availability of AEOI data through the development of practice network materials. Additionally, the AEOI Program is developing a quarterly newsletter for current AEOI database users and selected managers throughout LB&I and SB/SE Divisions. The newsletter will provide information such as newly available AEOI data and how the information can be used.

Recommendation 2: Expand upon the AEOI Program section of the IRM 4.60.1, *International Procedures – Exchange of Information*, to add recordkeeping requirements to track the incoming and outgoing records and those made available on the AEOI database.

Management's Response: The IRS agreed with this recommendation. The AEOI is currently tracking data in the Issue Management System (IMS) enhanced EOI interface and workbook. The AEOI Program has also created a check sheet for personnel to follow regarding the AEOI data tracking. The IRS will incorporate existing recordkeeping requirements into the AEOI section of the IRM.

Recommendation 3: Create procedures (*e.g.*, written guidance and/or desktop procedures) for AEOI personnel that: 1) allows AEOI personnel to accurately track the data and/or record counts received by country; 2) track the data by country that contractor uploaded to the AEOI database; and 3) monitor the difference in received and posted record counts by country to identify and resolve upload issues in a timely fashion.

Management's Response: The IRS agreed with this recommendation. The IRS implemented written procedures in October 2016. In addition to the check sheet and workbook referred to above, the AEOI Program uses Tableau to track and monitor records. The data analyzed in Tableau is cross-referenced to the workbook and the IMS.

The Mutual Collection Assistance Request Program May Not Be Used to Its Full Potential

The expanding overseas activities of United States entities (individuals, trusts, and businesses) has increased certain opportunities for tax avoidance and evasion. Actions taken by the IRS to address these issues include establishment of the international enforcement program. In Fiscal Year 2016, the IRS's international collection strategy identified the MCAR Program as an area



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of focus.²³ This program is an enforcement tool that can be used to help address noncompliance with the tax laws. The IRS estimated that for Tax Years 2008 through 2010, taxpayers underpaid an annual average of \$39 billion, with individual taxpayers accounting for \$29 of the \$39 billion. The IRS does not have a separate estimate for the international component of the Tax Gap. However, non-IRS sources estimate the international Tax Gap to be between \$40 billion and \$123 billion annually.²⁴

Certain tax treaties to which the United States is a party provide for mutual assistance in collection. The collection assistance provisions of a tax treaty enable one country to collect taxes covered by the treaty on behalf of the other country. A request of such assistance is referred to as an MCAR.²⁵ The United States currently has five mutual collection income tax treaty partners as follows:

- Canada
- Denmark
- France
- The Netherlands
- Sweden

There are some limitations on the type of taxpayer each country will pursue collection against. For example, the United States and all its mutual collection income tax treaty partners will generally not pursue MCAR collection action against one of their own citizens.

A United States request for collection assistance (hereafter referred to as “outgoing MCAR”) originates from the Field Collection effort in the SB/SE Division. If, after all domestic sources of collections have been exhausted, any assets are discovered in an MCAR treaty country, then the revenue officer will prepare an outgoing MCAR request. The SB/SE Division MCAR Coordinator reviews the request and forwards it to the EOI Program Office for issuance.

According to EOI Program management, their office is an administrator of the MCAR Program and is responsible for coordinating with the treaty partners. The EOI Program Office logs outgoing MCAR requests into the IMS and ensures that the request is sent to the appropriate country’s Competent Authority. The SB/SE Division is the owner of the IRS’s collection function.

According to EOI Program management, during Fiscal Years 2011 through 2016, the EOI Program issued a total of 525 requests for collection assistance from its MCAR treaty partners (see Figure 5). According to the SB/SE Division, MCAR treaty partners collected \$40.3 million on behalf of the United States during Fiscal Years 2012 through 2016. However, the IRS was

²³ Internal Revenue Service, *International Collection Strategy Briefing* (October 29, 2015).

²⁴ LB&I Division Fiscal Year 2012 Business Plan.

²⁵ IRM 4.60.1.7(1)(September 19, 2014)



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unable to provide data for Fiscal Year 2011 and was unable to completely account for the number of taxpayers that the Fiscal Years 2012 through 2016 collections in Figure 3 are associated with.²⁶ Figure 3 illustrates the collections accomplished under the MCAR Program by fiscal year.

Figure 3: Treaty Partners' Collection Totals on Behalf of the United States²⁷

Fiscal Year	MCAR Country A	MCAR Country B	MCAR Country C	MCAR Country D	MCAR Country E	Total
2012	\$2,804	\$0	\$7,974,037	\$0	\$254,786	\$8,231,627
2013	\$279,007	\$6,013,370	\$11,423,607	\$1,135,687	\$3,906,535	\$22,758,206
2014	\$267,558	\$118,207	\$1,501,726	\$1,988,355	\$851,894	\$4,727,740
2015	\$273,513	\$0	\$5,397	\$0	\$0	\$278,910
2016	\$3,316,991 ²⁸	\$882,975 ²⁹	\$82,205	\$0	\$0	\$4,282,171
Total	\$4,139,873	\$7,014,552	\$20,986,972	\$3,124,042	\$5,013,215	\$40,278,654

Source: SB/SE Division.

Furthermore, during Fiscal Years 2011 through 2016, the IRS received a total of 930 requests for collection assistance from its MCAR treaty partners, and it collected a total of \$33.8 million on their behalf of during Fiscal Years 2012 through 2016. However, the IRS was unable to completely account for the number of taxpayers that the Fiscal Years 2012 through 2016 collections in Figure 4 are associated with.³⁰ Figure 4 illustrates the collections by the IRS on behalf of the MCAR Program by fiscal year. According to the SB/SE Division Collection management, MCAR requests from treaty partners are only worked by the International Collection Group. As of April 2017, three international revenue officers are designated to work incoming MCARs as part of their regular collection inventory.

²⁶ The IRS provided complete information starting with the second quarter of Fiscal Year 2015 through Fiscal Year 2016.

²⁷ The IRS was unable to provide data for Fiscal Year 2011.

²⁸ ***** | *****.

²⁹ ***** | *****.

³⁰ The IRS provided complete information starting with second quarter of Fiscal Year 2015 through Fiscal Year 2016.



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Figure 4: United States Collection Actions on Behalf of Treaty Partners³¹

Fiscal Year	MCAR Country A	MCAR Country B	MCAR Country C	MCAR Country D	MCAR Country E	Total
2012	\$1,286,027	\$1,300	\$11,554,351	\$666,983	\$0	\$13,508,661
2013	\$891,854	\$16,909	\$6,547,334	\$4,821,380	\$778,545	\$13,056,022
2014	\$715,329	\$188,439	\$3,732,381	\$391,749	\$232,525	\$5,260,423
2015	\$636,444	\$0	\$50,453	\$23,659	\$50,700	\$761,256
2016	\$1,193,187	\$951	\$29,228	\$13,410	\$0	\$1,236,776
Total	\$4,772,841	\$207,599	\$21,913,747	\$5,917,181	\$1,061,770	\$33,823,138

Source: SB/SE Division.

There has been a significant drop in the number of outgoing MCARs

As shown in Figure 3, during Fiscal Years 2012 through 2016, the total dollar amount of the United States tax liabilities collected by the five mutual collection income tax treaty partners peaked in Fiscal Year 2013 but dropped off significantly since then. This is largely due to the fact that the IRS is not using the MCAR Program to its full potential. According to the EOI Program Office, it issued 207 outgoing MCARs in Fiscal Year 2013, but the use of MCARs has dropped thereafter. This is evidence by the nearly 77 percent drop in MCARs issued in Fiscal Year 2014, with no evidence of recovery since then. Further affecting the issue, our analysis of the IRS's revenue officer staffing shows a steady decline since Fiscal Year 2011. As shown in the Figure 5 below, from Fiscal Year 2011 to Fiscal Year 2016, the IRS lost 2,096 revenue officer positions, which represents a 37 percent decline. With fewer frontline employees to collect tax liabilities, the decline in outgoing MCARs is reasonably expected.

³¹ SB/SE Division was unable to provide data for Fiscal Year 2011.



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Figure 5: Outgoing MCARs Issued by the EOI Program Office

Fiscal Year	Number of Outgoing MCARs Issued	Average Number of Revenue Officers³²	Percentage of Outgoing MCARs by Revenue Officers
2011	39	5,621	< 1%
2012	134	5,186	2.6%
2013	207	4,748	4.4%
2014	48	4,439	1.1%
2015	42	3,994	1.1%
2016	55	3,525	1.6%

Source: Table 30 in the IRS Data Book for Fiscal Years 2011 through 2016 and EOI Program management.

IRS Collection management could not provide any firm causes for the drop in the number of MCARs issued. Their speculations include the shrinkage in the number of collection cases involving taxpayers residing in a foreign country and the reduction in international revenue officer staffing.

According to the IRS, until April 2016, the IRS had four teams of revenue officers in the International Collection Group dedicated to working international cases. Due to decreasing workload, three of these teams were detailed to the Offer in Compromise Program for a year. From April 2016 through April 2017, there was only one team of ten international revenue officers in the International Collection Group. Beginning in May 2017, the International Collection Group regained the four teams of revenue officers. However, the IRS is initiating an effort to “right-size” its collection function to reflect actual collection effort needed and plans to realign the International Collection Group sometime in August or September 2017. The International Collection Group will be reduced to two teams with 11 revenue officers on each team. The reduced focus on international collection will likely further reduce use of the MCAR collection tool.

Some taxpayers with balances due have assets in MCAR countries

We analyzed taxpayers in active collection inventory who had a balance due of more than \$50,000 as of December 2015. Based on information reported on their Tax Year 2014 return and Tax Year 2013 FBAR, we identified the following taxpayers that potentially have assets in an MCAR country that could be pursued. Figure 6 shows that 489 taxpayers potentially have assets

³² Represents the number of full-time equivalent positions actually used to conduct IRS operations. Excludes positions funded by reimbursements from other Federal agencies and private entities for services performed for these external parties.



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\$16.3 million to the United States.³⁷ We randomly selected and researched 23 of the 37 taxpayers. Our research disclosed that 18 of the 23 sample taxpayers were worked by SB/SE Division Field Collection. Revenue officers documented finding assets in foreign countries for 12 of the 18 taxpayers, but no such notations were found for the other six taxpayers. Eleven of the 12 taxpayers had assets in an MCAR country. The IRS issued an MCAR on eight of the 11 taxpayers. According to the EOI Program Office, as of January 2017, three MCARs are still being worked by treaty partners. *****1*****
*****1*****. However, four MCARs were closed without any collection—**1**
*****1*****. The IRS was unable to provide details on the eighth MCAR. Figure 7 details the breakdown by MCAR and non-MCAR countries and the taxpayers’ balance due amounts.

Figure 7: Taxpayers in CNC Status With Assets in MCAR Countries³⁸

Country	Total Population		Sample Taxpayers – Number of Taxpayers and Balance Due Amount (in Millions)					
	Number of Taxpayers	Balance Due (in Millions)	Revenue Officer Did Not Notate Potential Assets in a Foreign Country		Revenue Officer Notated Potential Assets in MCAR Countries		Revenue Officer Notated Potential Assets in Non-MCAR Countries	
			Number of Taxpayers	Balance Due	Number of Taxpayers	Balance Due	Number of Taxpayers	Balance Due
Country A	21	\$9.2	4	\$1.0	6	\$2.7	**1**	\$0.2
Country B	6	\$5.5	0	\$0.0	**1**	\$2.8	**1** ³⁹	\$2.7
Three Countries (*)	10	\$1.6	**1**	\$0.2	3	\$0.4	0	\$0.0
Total	37	\$16.3	**1**	\$1.2	**1**	\$5.9	**1**	\$2.9

Source: TIGTA analysis of the Individual Master File, Tax Year 2014 returns, Tax Year 2013 FBARs, and the IRS’s Integrated Collection System. (*) Three MCAR countries’ results were combined.

All revenue officers should receive training on international collection issues

We researched the 17 active collection and six CNC sample cases for which the revenue officers did not notate assets in a foreign country. We reviewed tax returns and taxpayers’ filed FBARs that were current at the time IRS Field Collection worked the cases. Our analysis found that eight of the 17 active collection cases involved taxpayers who disclosed assets in a foreign country: five taxpayers disclosed assets in MCAR countries, *****1*****

³⁷ The 37 taxpayers are all unique.

³⁸ The 37 taxpayers are all unique.

³⁹ Revenue officer notated assets in both MCAR and non-MCAR countries. *****1*****
*****1*****.



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*****1*****
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*****1*****. In all nine cases, the tax return showed a United States address at the time.⁴⁰

According to SB/SE Collection management, collection inventory is divided based on where the taxpayer resides. As a general rule, taxpayers that reside in the United States are worked by general program revenue officers. Conversely, delinquent accounts involving taxpayers that reside in a foreign country are worked by international revenue officers. Both international and general program revenue officers can use MCARs as a collection vehicle.

Our review of the training to all new revenue officers disclosed no mention of the MCAR Program and no instruction on checking Form 8938, *Statement of Specified Foreign Financial Assets*, for assets in an MCAR treaty country. The training with international collection issue coverage is only given to international revenue officers. This is insufficient because both general program and international revenue officers have to consider all potential collection sources regardless of where the taxpayer resides. Taxpayers can have assets abroad whether they live in a foreign country or in the United States. As evidenced by our research, the general program revenue officers potentially missed additional collection through the MCAR Program for eight of the 23 taxpayers for which there is no evidence that revenue officers researched for assets in an MCAR country.

The EOI Program Office needs to issue outgoing MCAR requests timely

As described above, we reviewed two random samples of taxpayers in active collection inventory and in CNC status, with liabilities of more than \$50,000, who on their Tax Year 2014 tax return showed residence in a country with a mutual collection income tax treaty and either showed evidence of foreign assets on the return or on their Tax Year 2013 FBAR in a mutual collection income tax treaty country.⁴¹

We found that revenue officers initiated actions to issue outgoing MCARs on 10 taxpayers. A review of those case records found that the EOI Program Office took an unreasonably long time to issue those MCARs after receipt of the request from the SB/SE Collection.⁴² The EOI Program Office *****1*****. The delay in the EOI Program Office issuing MCARs was also an issue identified in the IRS's last program review.⁴³ When we questioned the EOI Program Office about its timeliness policy for issuing MCARs, it responded that its policy is to issue the MCAR within 30 days after receipt of the MCAR issuance request from SB/SE Collection. The policy has been in place since late Calendar Year 2013, and

⁴⁰ In four of the nine cases, the IRS believed the lack of foreign asset research was justified given the circumstances (e.g., limited scope collection assignment, short duration of collection activities, or taxpayer eventual payment compliance).

⁴¹ The samples consisted of 81 taxpayers in active collection and 23 taxpayers in CNC status as of May 28, 2016.

⁴² The IRS was unable to locate the case record for one of the ten taxpayers.

⁴³ IRS, *Mutual Collection Assistance Request Program Review* (May 2013).



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formalized in Calendar Year 2015, but was not fully followed. As a sample of review, Figure 8, shows primarily pre-2015 cases with one 2016 case showing 106 days held. EOI Program management attributed this to staffing turnover, which negatively affected cycle time.⁴⁴ In response, according to EOI Program Management they plan to monitor timeliness by running monthly inventory reports for analysis to ensure timeliness. Additionally, a new policy has been implemented in which the SB/SE Division MCAR coordinator emails the outbound requests to the LB&I Division MCAR mailbox and concurrently copies the EOI Program analyst assigned to that MCAR country. The entire EOI Program team is currently taking part in a Lean Six Sigma analysis to streamline procedures and improve efficiencies. Inventory assignment and tracking is a critical part of this project, and EOI Program management expects to see continued improvement.

Figure 8: MCAR Issuance Timeliness (Number of Days to Issue)⁴⁵

Request Sent to EOI Program Office	MCAR Issued	Number of Days Request Was Held
8/30/2007	10/23/2007	54
5/13/2009	6/24/2009	42
9/11/2008	7/28/2009	320
10/21/2009	11/8/2009	18
4/26/2011	12/8/2011	226
9/27/2011	1/23/2012	118
12/12/2011	2/15/2013	431
11/7/2012	2/15/2013	100
3/9/2016	6/23/2016	106

Source: TIGTA analysis of data provided by EOI Program management.

To protect the Government’s interest by minimizing the possibility of collectible assets being moved from an MCAR treaty country, it is imperative that collection actions are taken as soon as foreign assets are located. Any delay in issuing MCAR requests could jeopardize the treaty partner’s chances of collecting on behalf of the United States.

Criteria are needed for withdrawing outgoing MCARs

Our sample taxpayer analysis found instances in which the IRS withdrew or tried to withdraw outgoing MCARs with no clear or consistent justification. Specifically, for three of the eight MCARs issued on CNC sample taxpayers, the IRS’s withdrawal actions were potentially

⁴⁴ The staffing turnover was associated with analysts assigned to work on a specific country.

⁴⁵ The IRS was unable to locate the case record for the 10th taxpayer.



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incorrectly taken. The case histories showed that the IRS initiated action to close the MCAR when the collection request had been open for a period of time or when the treaty partner had not sent payments or communication for a period of time.

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In order for the MCAR collection vehicle to work effectively, the IRS should not prematurely withdraw MCARs, which may take some time for the treaty partner to fulfill. The Collection Statute Expiration Date on each tax assessment gives the Government a 10-year window after the date of assessment to pursue collection. Additionally, the running of the 10-year window is suspended for the period during which the taxpayer is outside the United States, if such period of absence is for a continuous period of at least six months. The only apparent justification for withdrawing an MCAR is if the taxpayer fully paid or entered into payment arrangement with the United States or if the Collection Statute Expiration Date expired.

According to IRS Collection management, the determination to keep an MCAR open or withdraw it is subjective. Conversations between the SB/SE MCAR Coordinator and the EOI Program Office analysts take place regularly about the progress of MCARs and the associated collectability. An MCAR can be closed with the approval of the MCAR Coordinator’s immediate manager.

Treaties without MCAR provisions present opportunities to assist with collection

As shown in Figure 3, the MCAR Program can be an effective collection tool for the United States. To determine if the IRS should consult with the Department of Treasury to consider incorporating MCAR provisions into income tax treaties with more countries, we profiled active collection taxpayers with more than \$50,000 in liability as of December 2015 and



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CNC taxpayers with more than \$50,000 in liability as of May 2016. We analyzed their Tax Year 2014 return information and the Tax Year 2013 FBAR for residency and reported assets in non-MCAR treaty countries. In terms of the number of taxpayers, our analysis shows five potentially viable countries for new MCAR treaties with which the United States could consider revising an existing tax treaty to incorporate MCAR provisions or, taking the potential benefits of MCAR provisions into account, negotiating a new tax treaty.

While our analysis looked at taxpayers residing in or having assets reported in countries with which the United States does not have an income tax treaty with MCAR provisions in force with a minimum tax liability exceeding \$50,000, as shown in Figure 9, each of the five countries identified had taxpayers whose collective total liabilities exceeded \$24 million.⁴⁶

Figure 9: Viable New MCAR Treaty Countries

Country	Number of Taxpayers			Total Balance Due Amount (in Millions)		
	Active Collection	CNC	Total	Active Collection	CNC	Total (#)
Country A	32	4	36	\$23.3	\$1.5	\$24.8
Country B	94	8	102	\$45.7	\$12.6	\$58.3
Country C	130	8	138	\$62.8	\$0.9	\$63.8
Country D	191	10	201	\$180.6	\$2.0	\$182.6
Country E	442	33	475	\$257.9	\$39.6	\$297.5

*Source: TIGTA analysis of the Individual Master File, Tax Year 2014 returns, and Tax Year 2013 FBARs.
(#) The total dollar amount may be off due to rounding.*

The Office of Tax Policy in the Department of the Treasury, with input from the IRS, is the body that decides if new tax treaties, or protocols to existing tax treaties, with MCAR provisions are needed. Additionally, the State Department reviews all tax treaties. All negotiated treaties must also be approved by the Senate. According to the IRS, the United States signed a new Protocol to the tax treaty with one country, during Calendar Year 2013, which contains a provision to permit the United States and that country to collect taxes on behalf of each other.⁴⁷ The Protocol is still awaiting Senate approval.

⁴⁶ The taxpayer balance due amounts in Figure 9 are unique by country; however, the balance due amounts may be duplicated in multiple countries for those taxpayers with assets in more than one of the four countries presented.

⁴⁷ IRM 5.21.3.7(1) (January 7, 2016).



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Recommendations

The Deputy Commissioner for Services and Enforcement should:

Recommendation 4: Reinforce the IRS's Fiscal Year 2016 international collection strategy related to the MCAR Program to address the importance of issuing MCARs when warranted as an additional collection tool, and prioritize the timely processing of outgoing MCAR requests to maximize the use of limited resources.

Management's Response: The IRS agreed with this recommendation and will issue a technical collection communication to revenue officers to reinforce the international collection strategy related to the MCAR Program to address the importance of issuing MCARs where warranted. The EOI Program has issued written procedures to ensure timely issuance of MCARs.

Recommendation 5: Enhance revenue officers' awareness of tools to explore international asset identification.

Management's Response: The IRS agreed with this recommendation and will issue a technical collection communication to revenue officers to include the MCAR Program, as well as other tools to explore international asset identification.

Recommendation 6: Coordinate with the Treasury Department's Office of Tax Policy to identify additional countries with whom the United States could benefit by adopting MCAR provisions in an income tax treaty.

Management's Response: The IRS agreed with this recommendation and will consult with the Treasury Department's Office of Tax Policy to determine if the United States could benefit by adopting MCAR provisions in an income tax treaty with any additional countries.

Recommendation 7: Establish criteria for withdrawing issued outbound MCARs when the taxpayer has not fully paid.

Management's Response: The IRS agreed with this recommendation and will establish criteria and issue guidance for withdrawing issued outbound MCAR when the taxpayers has not full paid.

The Spontaneous Exchange of Information Program Required a Multitude of Enhancements

A spontaneous exchange of information involves the transmission of information that has not been specifically requested by another country's Competent Authority but which, in the judgment of the providing authority, may be of interest to a treaty partner for tax purposes. The exchange typically involves information discovered during a tax examination, investigation, or



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other administrative procedure that suggests or establishes noncompliance with the tax laws of a foreign partner or that is otherwise determined to be potentially useful to a foreign partner for tax purposes. The information may pertain to individual and business taxpayers.⁴⁸

Our review consisted of spontaneous information that the IRS received from its foreign treaty partners (hereafter referred to as incoming spontaneous exchanges). The incoming spontaneous exchanges are processed by the EOI Program Office and tracked on their IMS.

Lack of data on cases referred versus not referred

IRS procedure requires each exchange be assigned to an analyst who reviews the information, conducts basic Integrated Data Retrieval System and related research as appropriate, and determines whether the information merits consideration by an IRS examination or Criminal Investigation office.⁴⁹ The referral decision rests with the discretion of the analyst, with input from the immediate supervisor on a case by case basis. The EOI Program Office does not track referral decisions, and there is no data field on the IMS to do so. Prior to September 2015, multiple EOI Program analysts were available to work spontaneous changes. However, in September 2015, only one tax analyst was assigned to work all incoming spontaneous exchanges.

EOI Program management informed TIGTA that the comment section of the IMS does not capture the referral decision in the IMS, and the only way to find which division/function the information was forwarded to is to review the paper case file.

In February 2016, EOI Program management informed TIGTA that, in December 2015, it made a policy change to begin referring all incoming spontaneous exchanges to other appropriate IRS divisions/functions going forward. However, there is an exception with referrals to the LB&I Division's International Business Compliance Group. Referrals to that group must have a potential tax adjustment in excess of \$500,000 for filers or \$200,000 for nonfilers. Furthermore, for the next generation of the IMS, EOI Program management plans to add a field for referral decisions (referred/not referred) so they can track the disposition of the incoming exchanges.

The EOI Program Office processed a total of 52 incoming spontaneous exchanges during January 2016 through April 2016. To test the IRS's change in policy, we reviewed the 52 cases and found that the EOI Program Office did not fully comply with its new policy—six of the 52 cases were not referred. While in four of the six cases TIGTA agreed that the information from the spontaneous exchanges would have likely had an immaterial tax impact, the LB&I Division has determined that the field should make the determination as to whether to pursue the information, and the EOI Program should follow that guidance. *****1*****

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⁴⁸ IRM 4.60.1.3(1) (September 19, 2014).

⁴⁹ IRM 4.60.1.3.2 (September 19, 2014).



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*****1*****. It is important that data germane to tax compliance be provided to the IRS Examination function in a timely manner so that foreign partner identified issues can be pursued without jeopardizing the Assessment Statute Expiration Date.

Forwarding memorandums identified incorrect foreign countries

According to IRS procedures, to forward incoming spontaneous exchanges to IRS examination or Criminal Investigation for action, the EOI Program analyst must include a cover memorandum for transmittal.⁵⁰ The memorandum, along with all the documents received from the foreign partner, are submitted to EOI Program management for approval and then sent to the appropriate IRS division/function.

Our review of the 46 cases that the EOI program Office forwarded during January 2016 through April 2016 disclosed that 22 (48 percent) of 46 memos contained errors. All of these errors pertained to incorrectly identifying the country the information came from. For example, the memo states the information was provided by Country A, when the information is from Country B.

The above problem results from a lack of attention to details by the EOI Program analyst and reviewing official. The inaccurate communication could cause confusion for the receiving division/function as to which country the data are associated with.

In response to TIGTA's observations, the EOI Program manager took actions to rectify the issue. The EOI Program Office simplified the memorandum template by removing the reference to the country name in the attachment line. Furthermore, the analyst working spontaneous exchanges received face-to-face guidance and training from EOI Program management regarding the process for transmitting spontaneous cases.

The Survey Man tool and results are not used

IRS procedures require the EOI Program Office to obtain feedback from the IRS Examination function and Criminal Investigation via an online survey regarding any results achieved through the use of the incoming spontaneous exchanges. Additionally, any feedback received must be maintained for future reference.⁵¹ This type of information is critical for program improvement. By learning what is useful to the Examination function and Criminal Investigation, the EOI Program Office can provide feedback and encourage its foreign partners to provide more beneficial data.

Despite the requirement of a feedback mechanism, EOI Program management informed TIGTA that the EOI Program Office does not have a process to obtain feedback from the divisions/functions to which referrals were forwarded. At one time, there was an online survey

⁵⁰ IRM 4.60.1.3.2(4) (September 19, 2014).

⁵¹ IRM 4.60.1.3.2(7) (September 19, 2014).



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tool called “Survey Man,” but it was terminated by the IRS Information Technology organization. However, even though the Survey Man tool was no longer operational, the EOI Program Office’s referral memorandum continued to include the following statement:

We hope you found this information useful. To assist us in evaluating the Exchange of Information program, we would appreciate receiving your feedback regarding your experience within 30 days. Therefore, please take a few minutes to complete our questionnaire at [http://surveyman.web.irs.gov/...](http://surveyman.web.irs.gov/)

When TIGTA inquired about the Survey Man tool’s termination date, the EOI Program Office contacted the IRS Information Technology organization and learned that the Survey Man tool was never deactivated. Instead, there are just limits to the software that causes older surveys to be deleted because the software has limited storage space. Until March 2016, the EOI Program Office was under the wrong impression that Survey Man was unavailable and thus had not used the feedback received.

Our review of the 52 incoming spontaneous exchanges processed during January through April 2016 showed that for 19 cases (37 percent) there was no evidence showing that the EOI Program Office sent an acknowledgement letter to the sending foreign partner. For the remaining 33 cases (63 percent), the EOI Program Office sent a boilerplate e-mail acknowledging receipt with no feedback to the foreign partner regarding the usefulness of the provided data. The IRS procedure governing the spontaneous exchange program is silent on acknowledgement letters to the sending foreign partner. Notwithstanding, we believe acknowledging receipt is a common courtesy, and feedback that a specific type data was useful may encourage treaty partners to share more of that type of information in the future. In response to our review, EOI Program management issued a directive requiring an acknowledgment letter on all incoming spontaneous exchanges.

Language translation procedures need to be formalized

Our review of the 52 incoming spontaneous exchanges processed during January through April 2016 disclosed an instance in which the EOI Program Office was forced to close the case due to an Assessment Statute Expiration Date concern. The exchange required language translation assistance, but the request went unanswered by LB&I Division staff. The case languished to the point that the IRS could not pursue it. According to EOI Program management, non-English incoming exchanges are infrequent.

In response to our finding and to prevent a reoccurrence, the EOI Program Manager has directed the Spontaneous Exchange Analyst to contact the Advanced Pricing and Mutual Agreements translator for European languages on short documents and to submit Form 14078, *Request for Translation and/or Quality Review Service*, to the Wage & Investment Division Multilanguage Office for assistance with lengthy European documents and non-European languages. TIGTA did not perform tests to verify compliance with the new procedure.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the IRS's efforts to improve tax compliance by using information obtained through the EOI Program agreements with foreign countries. To accomplish this objective, we:

- I. Determined whether the EOI strategy is supporting Service-wide program goals and objectives.
 - A. Interviewed EOI Program staff to identify the goals that the IRS set for the EOI Program and for each individual exchange program.
 - B. Reviewed the applicable IRM sections to identify the goals and objectives of the EOI Program and how IRS manages information sent by foreign countries.
- II. Determined if the IRS is leveraging foreign data received under the AEOI Program to improve tax compliance.
 - A. Interviewed AEOI Program staff regarding the data it receives, procedures to account for the records, the processes involved to make the data available to IRS employees, and the feedback process with treaty partners.
 - B. Obtained and reviewed the AEOI Program's accounting of records received during Fiscal Years 2011 through 2015.
 - C. Obtained and compared the list of revenue agents and revenue officers approved to use the *Easy Search* tool against the total revenue agents and revenue officers on staff with the LB&I and SB/SE Divisions as of August 31, 2016.
 - D. For the 81 active collection status taxpayers sampled (Step III.E.1) and 28 taxpayers in CNC status for financial hardship reasons, searched the AEOI database to determine if the IRS has received AEOI records from treaty partners.
- III. Determined if the IRS is leveraging the MCAR Program to obtain foreign countries' assistance with collections to close the international tax gap.
 - A. Interviewed EOI Program staff, the SB/SE Division MCAR Coordinator, and SB/SE Collection management regarding MCAR responsibilities, including tracking and monitoring processes as well as MCAR trend, workload, and barrier issues.
 - B. Obtained from the EOI Program staff the number of MCARs requests that were issued by the United States and received from each treaty partner during Fiscal Years 2011 through 2016.



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- C. Obtained and analyzed from SB/SE Collection management:
1. The Fiscal Year 2016 International Collection Strategy document.
 2. The dollar amounts MCAR treaty partners collected on behalf of the United States and the United States collected on behalf of treaty partners for Fiscal Years 2012 through 2016.
 3. The number of taxpayers associated with the amounts collected by MCAR treaty partners and the United States from the second quarter of Fiscal Year 2015 through Fiscal Year 2016.
 4. The training course provided to new revenue officers, and any course with international collection issue coverage.
- D. Obtained and analyzed the revenue officer staffing statistics for Fiscal Years 2011 through 2016 from the IRS Data Book as well as the IRS's Tax Gap estimates.
- E. Determined if the IRS is maximizing treaty partners' assistance to help collect liabilities owed by individual taxpayers residing or having assets in an MCAR treaty country by selecting:
1. A statistically valid random sample of 81 active collection taxpayers from a population of 489 taxpayers based on a 95 percent confidence level, a 10 percent anticipated error rate, and a ± 6 percent precision.⁵² We worked with a contracted statistician to develop the sampling plan. To arrive at the population, we identified taxpayers meeting the following criteria:
 - a. Had a balance due of more than \$50,000 at the end of Calendar Year 2015 and were not in CNC status as of May 28, 2016.⁵³
 - b. Based on information reported on their Tax Year 2014 return, lived in an MCAR treaty country.

⁵² This sampling methodology was used based on the advice of TIGTA's contracted statistician. The number of taxpayers are unique by MCAR country. Some taxpayers may have assets in more than one MCAR treaty country. The 489 taxpayers consist of 465 unique taxpayers. A 10 percent exception rate was used because TIGTA was unsure what the exception rate would ultimately be.

⁵³ When identifying taxpayers with a balance due of more than \$50,000, we only considered the individual taxpayers' liability including miscellaneous civil penalties.



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- c. Based on their Tax Year 2014 return or Tax Year 2013 FBAR, reported assets in an MCAR treaty country.⁵⁴
 2. A statistically valid random sample of 23 taxpayers from a population of 37 taxpayers in CNC status as of May 28, 2016.⁵⁵ We worked with the contracted statistician and applied the same sampling parameters as detailed in step III.E.1.
 3. For the 81 sample taxpayers in Step III.E.1 and the 23 taxpayers in Step III.E.2:
 - a. Reviewed the collection case histories available in the Integrated Collection System as of November 2016 to determine if the taxpayer was worked by SB/SE Field Collection.⁵⁶ If so, determined whether the revenue officer notated finding assets in MCAR or non-MCAR treaty countries.
 - b. Researched the tax return and taxpayer's filed FBAR that were current at the time SB/SE Field Collection worked the cases, if the revenue officers did not make notation of foreign asset research.
 - c. Obtained information from the EOI Program Office on outgoing MCAR requests submitted by SB/SE Field Collection (*e.g.*, date of receipt and issuance and status of issued MCARs) for EOI Program Office issuance.
 4. Using the address and foreign asset information reported on the Tax Year 2014 return and Tax Year 2013 FBAR, profiled the active collection taxpayers (from Step III.E.1 population) for residency and reported assets in non-MCAR treaty countries and for consistency identified four countries to similarly profile the CNC taxpayers (from the Step III.E.2 population).
- IV. Determined whether the IRS is leveraging data provided by foreign countries under the Spontaneous EOI Program.
- A. Interviewed EOI Program staff regarding the spontaneous exchange data the IRS receives, including the processes and procedures that cover issues such as:
 1. How data is tracked and controlled.

⁵⁴ Foreign residency is based on the address on Tax Year 2014 Form 1040, *U.S. Individual Income Tax Return*, or Form 2555, *Foreign Earned Income*. The location of the assets is based on Tax Year 2014 Form 8938, *Statement of Specified Foreign Financial Assets*, or Tax Year 2013 FBARs. Tax Year 2014 Form 8938 data used were limited to those filed electronically and processed in Calendar Year 2015. We excluded taxpayers who filed a Form 1040NR, *U.S. Nonresident Alien Income Tax Return*, in our foreign residency and asset analyses.

⁵⁵ The population excluded taxpayers who were put into CNC status because of complete expiration of the statutory period for collection, death of an individual with no collection potential from the decedent estate or no collection potential for estate taxes, accounts below tolerance, and hardship.

⁵⁶ The open Integrated Collection System cases were current as of November 29, 2016, and the archived Integrated Collection System history was current as of November 28, 2016.



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2. Determined if data are usable for compliance purposes.
 3. The criteria used for determining whether to refer the incoming exchange to other IRS divisions/functions, and how that decision is tracked.
 4. The acknowledgement process between the United States and the sending foreign country.
 5. The feedback process between EOI Program Office and the IRS divisions/functions to which the data are forwarded.
- B. Obtained statistics on the scope of the incoming spontaneous exchanges. Reviewed all 52 incoming spontaneous exchanges processed during January through April 2016 to assess whether the analyst followed the EOI Program Office's policies when processing the exchanges, the accuracy of the information forwarded to IRS divisions/functions, and the acknowledgment to the sending foreign countries.

Data validation methodology

We were unable to independently validate the accuracy of dollar amounts and associated taxpayer count for the MCAR Program provided by SB/SE Collection management. We validated the sources relied on in the MCAR Program data analyses. We obtained a data extract of electronically filed Tax Year 2014 Forms 8938 processed in Calendar Year 2015. Before relying on the data, we selected sample records and verified them against the filed return. We also obtained data from the IRS's Individual Master File and Integrated Collection System that were available on the TIGTA's Data Center Warehouse. Prior to use, we selected samples from each extract and verified against the IRS's Integrated Data Retrieval System. The Tax Year 2013 FBAR data were secured by a previous TIGTA audit.⁵⁷ Due to the limited amount of information the IRS obtains related to FBAR data, the TIGTA audit team could not independently validate the account data provided by the Financial Crimes Enforcement Network.

⁵⁷ TIGTA, Ref. No. 2016-30-030, *Improvements Are Needed in Offshore Voluntary Disclosure Compliance and Processing Efforts* (June 2016).



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Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: EOI Program Office's policies, procedures, and practice relating to the tracking, processing, and monitoring of information exchanges/requests for the three EOI Programs we reviewed. We evaluated these controls by interviewing EOI and SB/SE Collection personnel; reviewing EOI policies and procedures; reviewing incoming spontaneous exchange case files, and reviewing collection case histories for the sampled taxpayers.



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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Deputy Commissioner for Services and Enforcement
Deputy Commissioner, Large Business and International Division
Deputy Commissioner, Small Business/Self-Employed Division
Assistant Deputy Commissioner International, Large Business and International Division
Director, Office of Audit Coordination



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Appendix IV

Glossary of Terms

Term	Definition
Calendar Year	The 12-consecutive-month period ending on December 31.
Competent Authority	The person responsible for all matters relating to the application and interpretation of the provisions of the international tax information sharing agreements to which the United States is a party. All exchanges of tax-related information with the foreign authority pursuant to income tax treaties and Tax Information Exchange Agreements involving the United States must occur through the Competent Authority.
Computing Centers	IRS Computing Centers support tax processing and information management through a data processing and telecommunications infrastructure.
Data Center Warehouse	An online database maintained by TIGTA. The Data Center Warehouse pulls data from IRS system resources, such as IRS Collection and Examination files, for TIGTA access.
Field Collection	The unit in the Area Offices consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled returns.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Foreign Partner	Any foreign tax jurisdiction with which the United States has an international tax information sharing agreement allowing for the spontaneous exchange of tax-related information.
Full-Time Equivalent	A measure of labor hours in which one full-time equivalent is equal to eight hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Year 2015, one full-time equivalent was equal to 2,088 staff hours. For Fiscal Year 2016, one full-time equivalent was equal to 2,096 staff hours.



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Term	Definition
Individual Master File	The IRS database that maintains transactions or records of individual tax accounts.
Integrated Collection System	An information management system designed to improve revenue collection by providing revenue officers access to the most current taxpayer information, while in the field, using laptop computers for quicker case resolution and improved customer service.
Integrated Data Retrieval System	IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Internal Revenue Code	Federal tax law begins with the Internal Revenue Code, enacted by Congress in Title 26 of the United States Code.
Internal Revenue Manual	The primary, official source of IRS "instruction to staff" relating to the organization, administration, and operation of the IRS. It details the policies, delegations of authorities, procedures, instructions, and guidelines for daily operations for all divisions and functions of the IRS.
Lean Six Sigma	A methodology which combines Lean, which focuses on eliminating waste and non-value added activities with Six Sigma, which improves process effectiveness and efficiency by reducing variation and increasing quality.
Online 5081	IRS automated method used to request access to Information Technology systems and applications.
Revenue Agent	Employees in the Examination function that conduct face-to-face examinations of more complex tax returns such as businesses, partnerships, corporations, and specialty taxes.
Revenue Officer	Conducts face-to-face interviews with taxpayers (and/or their representatives) at the taxpayer's place of business or residence or, on occasion, at an IRS office. These interviews may be unscheduled or scheduled, depending upon the case. This is done as part of the investigative process of collecting delinquent taxes and securing delinquent tax returns.



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Term	Definition
Tax Gap	The estimated difference between the amount of tax that taxpayers should paid and the amount that is paid voluntarily and on time.
Tax Information Exchange Agreement	A bilateral agreement with the primary purpose to facilitate the exchange of information for tax-related purposes between partner countries.
Tax Year	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.



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Appendix V

Management's Response to the Draft Report



COMMISSIONER
LARGE BUSINESS AND
INTERNATIONAL DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

August 25, 2017

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Douglas W. O'Donnell 
Commissioner, Large Business and International Division

SUBJECT: Draft Audit Report # 2015-30-021: "Exchange of Information
Capabilities Are Underutilized by the IRS"

Thank you for the opportunity to respond to the report entitled "Exchange of Information Capabilities are Underutilized by the Internal Revenue Service," which examined the Internal Revenue Service's traditional¹ Automatic Exchange of Information (AEOI), Mutual Collection Assistance Requests (MCAR) and Spontaneous Exchange of Information (EOI) programs.

The IRS recognizes the importance of the exchange of tax information and cross-border cooperation in the administration of taxes. The amount of such information exchanged for individuals has increased recently with the passage of the Foreign Account Tax Compliance Act (FATCA). In addition, tax administrations around the world are about to begin exchanging information filed by large corporations headquartered in their countries under the OECD supported "Country-by-Country" reporting program.

Since 2015, the IRS has exchanged significant amounts of information automatically with numerous foreign jurisdictions, pursuant to FATCA. FATCA Model 1A intergovernmental agreements (IGAs) entered into by the United States with many of its partner jurisdictions have enabled the United States to conduct reciprocal automatic information exchange with partners. Following the enactment of FATCA, significant progress has been made in the effort to combat offshore tax abuses, and the IRS is dedicated to ensuring that the information received automatically from its partners is used to improve compliance, reduce controversy, and heighten fairness and integrity in the tax system.

In particular, the IRS is exploring circumstances under which resumption of sending data to treaty partners through its traditional AEOI program might be appropriate. The traditional AEOI program was the subject of the AEOI portion of this audit.



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In support of its ongoing efforts to increase taxpayer compliance, the IRS must effectively track and use the large amounts of data the United States receives from its treaty partners under the traditional AEOI program. We are expanding outreach within the IRS regarding the traditional AEOI data the United States receives, including developing and enhancing materials for IRS employees on accessing, analyzing and using the information.

The IRS established an improved record keeping process in October 2016 to enhance the tracking of exchanges of traditional AEOI data. This included developing and implementing written procedures to help ensure AEOI data is appropriately tracked.

We are actively working to implement improvements to the MCAR Program. Revenue officers will receive information on the range of tools available for the identification of international assets. We will establish criteria for withdrawing issued outbound MCARs when the taxpayer has an outstanding account balance.

In addition, we have revised our written procedures to ensure the timely issuance of MCARs, including establishing timeframes for processing and implementing changes to how MCARs are received, assigned and reconciled. To ensure continued communication and cooperation, the IRS has also developed a format to regularly discuss the status of all open inbound and outbound MCARs and applicable resolution strategies with our MCAR treaty partners. These joint discussions have already begun with several MCAR treaty partners.

Information exchanged with our foreign partners spontaneously is also an important part of our EOI program. We appreciate your acknowledgment of the measures the IRS has taken to improve spontaneous EOI processes and to mitigate errors, including providing written guidance and training where appropriate. In addition to the actions noted in the report, EOI is now referring all spontaneous exchanges received from foreign partners to appropriate IRS functions for further compliance assessment.

We agree with the recommendations in your report. Attached are our comments and proposed actions in response to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Theodore D. Setzer, Acting Director, Treaty and Transfer Pricing Operations at (212) 298-2137.

Attachment



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Attachment 1

RECOMMENDATION 1:

The Commissioner, LB&I Division should conduct outreach to examination and collection field functions to alert the field on the availability and potential usefulness of automatic data provided by treaty partners in examination and collection efforts that can be gained by requesting and obtaining access to the *Easy Search* tool.

CORRECTIVE ACTIONS:

LB&I agrees with this recommendation and intends to publicize the availability of AEOI data through two different channels. First, availability of AEOI data will be publicized through the development of practice network (PN) materials. Second, the AEOI Program is developing a quarterly newsletter regarding AEOI data. This newsletter will be sent to current users in *Easy Search* and selected managers throughout LB&I and SB/SE. The newsletter will provide updates on newly available data, examples of how the data can be used and other relevant information.

IMPLEMENTATION DATE:

June 15, 2018

RESPONSIBLE OFFICIAL(S):

Director, Treaty and Transfer Pricing Operations, LB&I
Director, Treaty Administration, LB&I

CORRECTIVE ACTION(S) MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 2:

The Commissioner, LB&I Division should expand upon the AEOI section of the IRM 4.60.1, *International Procedures - Exchange of Information* to add record keeping requirements to track the incoming and outgoing records, and those made available on the AEOI database.

CORRECTIVE ACTIONS:

LB&I agrees with this recommendation. The AEOI Program is currently tracking traditional AEOI activity in the IMS enhanced EOI interface and traditional AEOI workbook. The AEOI Program has also created a check sheet for personnel to follow regarding the tracking of AEOI data. LB&I will incorporate existing record keeping requirements into the AEOI section of the IRM.

DATE:

June 15, 2018

RESPONSIBLE OFFICIAL(S):

Director, Treaty and Transfer Pricing Operations, LB&I



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Director, Treaty Administration, LB&I

CORRECTIVE ACTION(S) MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 3:

The Commissioner, LB&I Division should create procedures (e.g. written guidance and/or desktop procedures) for AEOI personnel that: 1) allow AEOI personnel to accurately track the data and/or record counts received by country; 2) track the data by country that contractor uploaded to the AEOI database; and 3) monitor the difference in received and posted record counts by country to identify and resolve upload issues in a timely fashion.

CORRECTIVE ACTIONS:

LB&I agrees with this recommendation and implemented written procedures in October 2016 for AEOI Program personnel. AEOI Program personnel currently use a check sheet listing the requisite procedures, including tracking incoming records and affiliated data points in IMS and in a traditional AEOI workbook. The check sheet and workbook are available on the AEOI internal SharePoint platform.

Additionally, the AEOI Program uses Tableau to track and monitor records. Tableau is a tool that allows users to query the database to view records received, records matched, types of income reported, and other data points, and also facilitates trend analysis and the identification of discrepancies. The data analyzed in Tableau is cross-referenced to the workbook and IMS.

IMPLEMENTATION DATE:

N/A

RESPONSIBLE OFFICIAL(S):

N/A

CORRECTIVE ACTION(S) MONITORING PLAN:

N/A

RECOMMENDATION 4:

The Deputy Commissioner Services & Enforcement should reinforce their FY 2016 international collection strategy related to the MCAR Program to address the importance of issuing MCARs where warranted as an additional collection tool and prioritize the timely processing of outgoing MCAR requests, to maximize the use of limited resources.



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CORRECTIVE ACTION:

SB/SE Collection agrees with this recommendation and will reinforce the FY2016 international collection strategy related to the MCAR Program to address the importance of issuing MCARs where warranted as an additional collection tool, through the issuance of a technical Collection communication to revenue officers.

LB&I's EOI Program has issued written procedures to ensure the timely issuance of MCARs, including establishing timeframes for processing and implementing changes to how MCARs are received, assigned and reconciled. LB&I and SB/SE have also developed a framework to discuss the status of all open inbound and outbound MCARs and applicable resolution strategies with our MCAR treaty partners. These joint discussions have already begun with several MCAR treaty partners.

IMPLEMENTATION DATE:

February 15, 2018

RESPONSIBLE OFFICIAL(S):

Director, Collection Policy, Small Business/Self-Employed Division
Director, Field Collection, Small Business/Self-Employed Division
Director, Treaty and Transfer Pricing Operations, LB&I
Director, Treaty Administration, LB&I

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 5:

The Deputy Commissioner Services & Enforcement should enhance all revenue officers' awareness of tools to explore international asset identification.

CORRECTIVE ACTION:

SB/SE Collection agrees with this recommendation and will issue a technical collection communication to revenue officers to include the MCAR program, as well as other tools to explore international asset identification.

IMPLEMENTATION DATE:

February 15, 2018

RESPONSIBLE OFFICIAL(S):

Director, Collection Policy, Small Business/Self-Employed Division
Director, Field Collection, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.



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RECOMMENDATION 6:

The Deputy Commissioner Services & Enforcement should coordinate with the Treasury Department's Office of Tax Policy to identify additional countries with whom the United States could benefit by adopting MCAR provisions in an income tax treaty.

CORRECTIVE ACTIONS:

LB&I agrees with this recommendation and will consult with the Treasury Department's Office of Tax Policy to determine whether the United States could benefit by adopting MCAR provisions in an income tax treaty with any additional countries.

However, the Treasury Department will only agree to collection assistance provisions if, after consultation with the IRS, the determination has been made that such provisions would result in a net benefit to the United States. As a longstanding policy matter, the Treasury Department has not sought to include provisions in double taxation treaties providing for assistance in the collection of taxes, primarily due to concerns that such provisions could result in a disproportionate level of burden on the IRS. Collection assistance provisions are not included in the U.S. model income tax convention, which is the baseline text the Treasury Department uses when it negotiates double taxation treaties. Moreover, collection assistance provisions are only one narrow component of a comprehensive double taxation treaty. The Treasury Department only considers it appropriate to enter into a double taxation treaty with a country when U.S. companies are experiencing unrelieved double taxation with respect to that country. The Treasury Department will not consider a double taxation treaty with the sole objective of establishing a collection assistance relationship.

IMPLEMENTATION DATE:

April 15, 2018

RESPONSIBLE OFFICIAL(S):

Director, Treaty and Transfer Pricing Operations, LB&I
Director, Treaty Administration, LB&I

CORRECTIVE ACTION(S) MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 7:

The Deputy Commissioner Services & Enforcement should establish criteria for withdrawing issued outbound MCAR when the taxpayer has not full paid.

CORRECTIVE ACTION:

SB/SE agrees with this recommendation and will establish criteria and issue guidance for withdrawing issued outbound MCAR when the taxpayer has not full paid.

IMPLEMENTATION DATE:

July 15, 2018



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RESPONSIBLE OFFICIAL(S):

Director Collection Policy, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.