

# [I.r.s. plan to uncover companies tax strategies](https://assignbuster.com/irs-plan-to-uncover-companies-tax-strategies/)

[Business](https://assignbuster.com/essay-subjects/business/)

I. R. S. Plan to Uncover Companies’ Tax Strategies In January the Internal Revenue Service (IRS) announced its proposed plans to end a legal loophole for major corporations, what they prefer to call Disclosure of Uncertain Tax Positions. With that, each year the companies have to report possible tax liabilities to the IRS that they managed to avoid due to doubtful means that may be disallowed in an audit. They don’t have to reveal what those means were, but they do have to set the money aside for those taxes and any penalties that arise and that money must remain in escrow for three years. That September the call for the regulations regarding overhauling the ruling and making those practices transparent started and those regulations became effective for the 2010 tax year effective December 15. The new law affects corporations (foreign and domestic) and insurance companies with assets in excess of $500 million, gradually reduced to $10 million by 2014. Kocieniewski seems to side with the corporations, but there are at least two valid reasons why the Government is justified in ending this money pit. (Kocieniewski)
The one major argument the IRS uses to support the new “ transparency” ruling is that its tax agents spend far too much time researching these claims as to their legitimacy and the agents’ time could be better spent going after tax cheats and proprietary information would not be shared. Of course the companies and their accounting agencies cried foul, counteracting that agents already “ find an issue and try to extract some kind of payment for its nuisance value”. (Lear)
The IRS’s position is a valid one. Let the average taxpayer try that one. If one owed X dollars in taxes for a household of his wife and him and yet paid taxes on four exemptions because his brother and sister-in-law stayed in the guest room for a few weeks, setting the rest in an account, the man would quickly be in jail! True corporations get tax advantages people don’t, on the premise of creating more jobs. However, if their deductions are legal they will find out soon enough, although most already know those questionable deductions would fail an audit. Their major problems are these huge reserves for possible taxes they used to pocket after the time limits.
Another major problem is that during these austere times and Federal budget cuts, Congress is pressuring the tax people to collect more revenue and with more and more US jobs going overseas the bolstering the economy and creating jobs arguments of the major companies is flimsy at best. There is very little information available to support the Government on this idea. But of course accountants and their associations are going side with the companies against the IRS. Figuring out two sets of tax figures for a client on a continual basis was without a doubt a very lucrative and long term partnership.
In conclusion, the new law is a difficult pill for the big companies to swallow. The previous IRS rule allowed the companies to keep any Uncertain Tax Position monies that weren’t audited within the three year statute of limitations. That was a lot of money for some of the major players, resulting in millions to billions of dollars in reserve “ just in case”. For example Sheraton owner Starwood Hotels had almost a billion dollars in reserve, 21 per cent of its total 2009 earnings. The Fortune 500’s biggest companies like GM and Microsoft had reserves of $5. 4 billion! Therefore if the corporations do business in the United States, they should be held to the same accountability as their employees are and pay Federal income tax at whatever rate they should. Grumbling for sure, but like the public they will learn to live with it.
Works Cited
Kocieniewski, David, “ I. R. S. Plan to Uncover Companies’ Tax Strategies”, New York Times. com, August 24, 2010.
Lear, Kelley, “ Playing the Tax Audit Lottery?”, Intaxication – Tax Buzz with a Twist, September, 7, 2010.