Accounting Period and Corporate Income Taxes

Accounting Period and Corporate Income Taxes Areas of Working Group Agreement

- Accounting period
  - Calendar year
- Tax payments to be reported on
  - Corporate taxes only
  - Payments based on consolidated tax group
- Identifying corporate tax payments
  - IRS transaction codes

Accounting Period

- Several options for accounting periods were examined
  - The Federal Government's fiscal year
  - Calendar year
  - Variable fiscal year
    - Reporting period defined by individual firm's books
- The EITI Secretariat believes that an adapted implementation request would be needed if the U.S. EITI wants to pursue a variable accounting period approach to reconciliation.

Accounting Period

- Therefore the working group recommends calendar year reporting:
  - Minimizes industry compliance costs
    - Majority of firms use calendar year reporting
    - Some accommodation required of any firm with non-calendar year reporting
  - DOI and IRS have capability to report calendar year data to the IA
    - Requires possible change to US DOI Unilateral Disclosure (currently based on fiscal year)
    - Requires narrative explaining differences between US EITI calendar year reports and DOI fiscal year reports (e.g., DOI Annual Financial Reports, Unilateral Disclosure, etc.)

Reporting of Corporate Income Tax

- The MSG has agreed that only corporate tax payments will be reported as part of USEITI, but the details for how to do so remain to be agreed upon by the MSG. The EITI Secretariat states that corporate tax reporting is an EITI requirement.
- Corporate income tax payments are made by C-corporations, which can be publically and privately held. The largest C-corporations are publically held firms.
- This will not affect businesses that are treated as pass-through tax entities, including S corporations, partnerships, and sole proprietorships. They do not pay corporate income tax and would not be asked to report individual income tax payments.
  - For these businesses, income, expenses and credits are passed through to their owners and income is taxed at the owners' tax rates along with income from other sources – hence the name, "pass-through entities"

Tax Payment Reporting By Entity Type

Business Entity Types		Tax payment information reported on
Public C-Corporation	→	Public C-Corporation
Private C-Corporation	→	Private C-corporation
S-Corporation		
Partnership (A C-corporation can be a member of a partnership. Income flowing to a C-corporation is taxed at the corporate level .)		
Sole proprietorship		

Taxes paid by individuals for income from S-corporations, partnerships and sole proprietorships <u>not</u> reported on

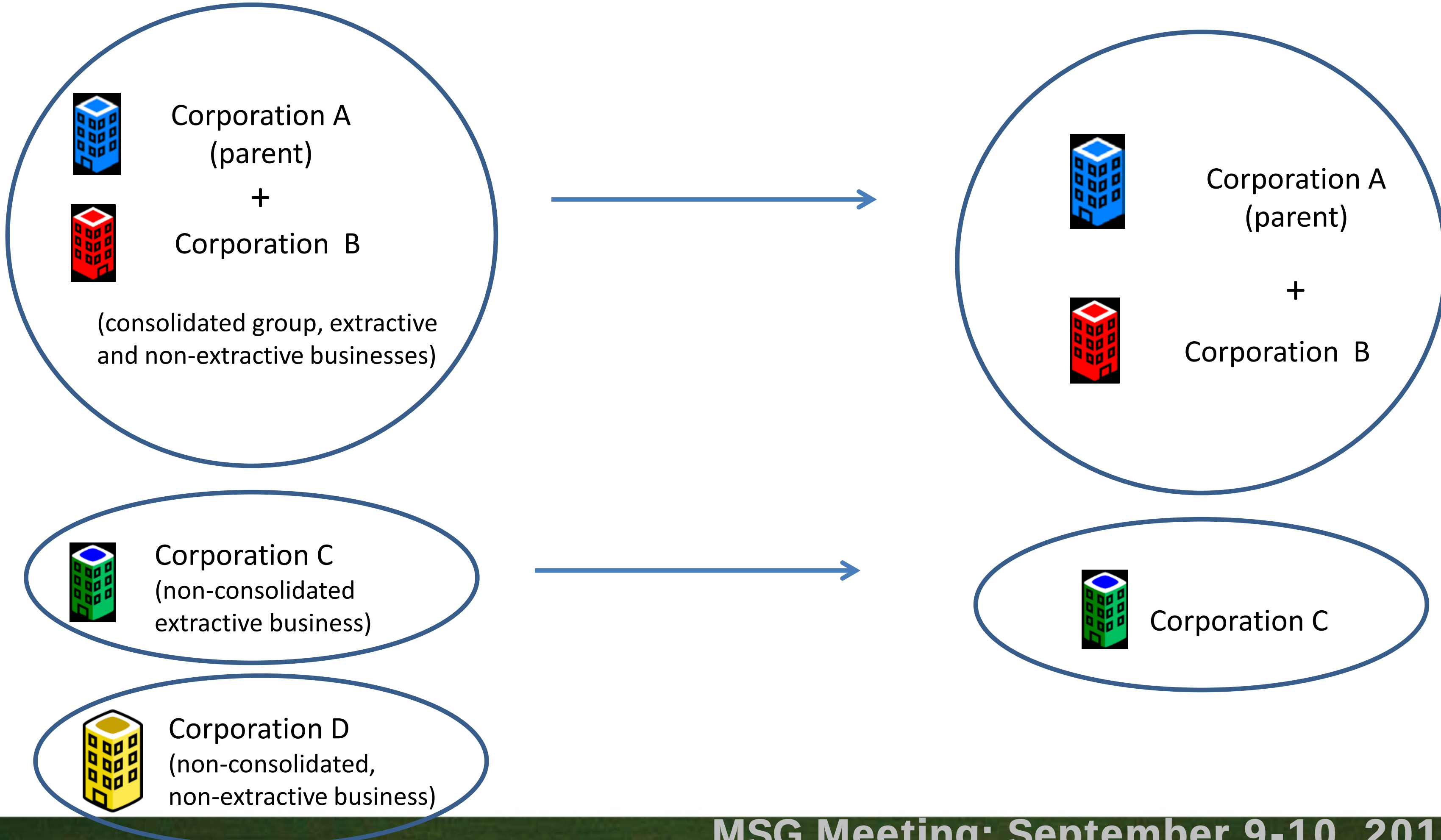
Reporting Based on Tax Consolidated Group

- Tax payments would be based on a firm's consolidated group for tax purposes.
  - Consolidated tax returns are a means of allowing corporations that are all part of an affiliated group to file one tax return, rather than each entity filing a separate tax return.
  - Tax payment information be based on:
    - A company's consolidated tax return and...
    - Any tax returns for stand alone extraction based subsidiaries

Simple Example of Tax Payment Reporting

Three corporate tax payers for federal income tax reporting

Tax payment information reported on



Identifying Corporate Tax Payments

- Payments (refunds) of corporate ‘cash’ tax payments can be identified in the IRS accounting system by 13 transaction codes
- Payments (refunds) would be accounted for in the accounting period they were made
    - For example, an overpayment applied to next year's tax liability would not be counted as a payment in the next year. The corporation's earlier tax payments, which resulted in the overpayment, would have already been accounted for.

IRS Transaction Codes

IRS transaction codes are used to identify a transaction being processed and to maintain a history of actions posted to a taxpayer's account on the Master File.

The following transaction codes can be used to identify 'cash' payment and refunds.

Cash Payment Transaction Code List

IRS Transaction Code	Description
610	Remittance with Return
620	Initial Installment Payment, Form 7004
640	Advanced Payment of Determined Deficiency or Underreported Proposal
660	Estimated Tax Federal Tax Deposit
670	Subsequent Payment
680	Designated Payment of Interest
690	Designated Payment of Penalty
720	Refund Payment

IRS Transaction Codes

Refund Transaction Code List	
IRS Transaction Code	**Description**
840	Manual Refund
841	Cancelled Refund Check Deposited
846	Refund of Overpayment

Overpayment Interest Transaction Code List	
IRS Transaction Code	**Description**
770	Credit Interest Due Taxpayer
776	Generated Interest Due on Overpayment

Overpayment of interest transaction codes are used to net out interest paid to the taxpayer associated with a refund. These transaction codes are only used in conjunction with transaction code 846.

IRS Transaction Codes

- ‘Cash’ payment information based on these 13 transaction codes would include penalties and interest. Attempting to separate out penalties and interest, which may be adjusted over time, would significantly increase the reporting burden for the IRS and the taxpayer.