

USEITI and Federal Income Tax Voluntary Disclosure



UNITED STATES
DEPARTMENT OF
THE TREASURY



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An Option for Voluntary Reporting and Reconciliation of Federal Income Taxes

- C corporations, which pay corporate income taxes, meeting the materiality threshold would voluntarily submit requests to the IRS to release the **total** amount of their federal income taxes each year to a third-party reconciler.
 - A C corporation is subject to Federal income tax as an entity separate from its shareholders. A C corporation's income generally is taxed when earned at the corporate level and is taxed again at the individual level when distributed as dividends to its shareholders. Corporate income that is not distributed to shareholders may be taxed at capital gains rates upon sale of stock by the shareholder.
 - S corporations, which are not subject to corporate income tax, are domestic corporations meeting certain conditions that elect not to be subject to the corporate tax. Those conditions include having no more than 100 shareholders, no ineligible shareholders, and only one class of stock.

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- Taxes would be based on a firm's "consolidated group" for tax purposes (i.e., a group consisting of entities that are all part of an affiliated group and file one tax return).
- Individual owners of pass-through businesses, including sole proprietorships, partnerships, and S corporations would not be asked to report individual income tax payments.
- The reporting mechanism will have to be appropriately structured to provide consistent entity level reporting for income taxes and other non-tax payments such as royalties.
 - The tax payer identification number(s) associated with each ONRR payer code will need to be provided to the third party reconciler to allow payments to be tracked to a consistent set of entities.

Understanding the Income Tax Data

- The information provided on a corporation's consolidated tax return is insufficient to make an allocation of tax payments by source of income. Consolidated tax payments cannot be further allocated based on the activities of each entity or operation within the group (e.g., upstream and downstream operations, transportation, activities unrelated to mineral extraction and foreign source income).
- Financial consolidation rules differ from tax consolidation rules. Tax figures cited in financial reports can not be used to reconcile tax payments.
- Aggregate income tax statistics reported for all C corporations need to be interpreted with care because industry classification of firms with multiple lines of business is inherently imprecise.
- Aggregate industry statistics are based on corporations' tax liabilities not the cash payments (or refunds) made during that tax year. The statistics do not reflect any changes made by the taxpayer through an amended return or by the IRS as a result of an audit.

Total Federal Receipts

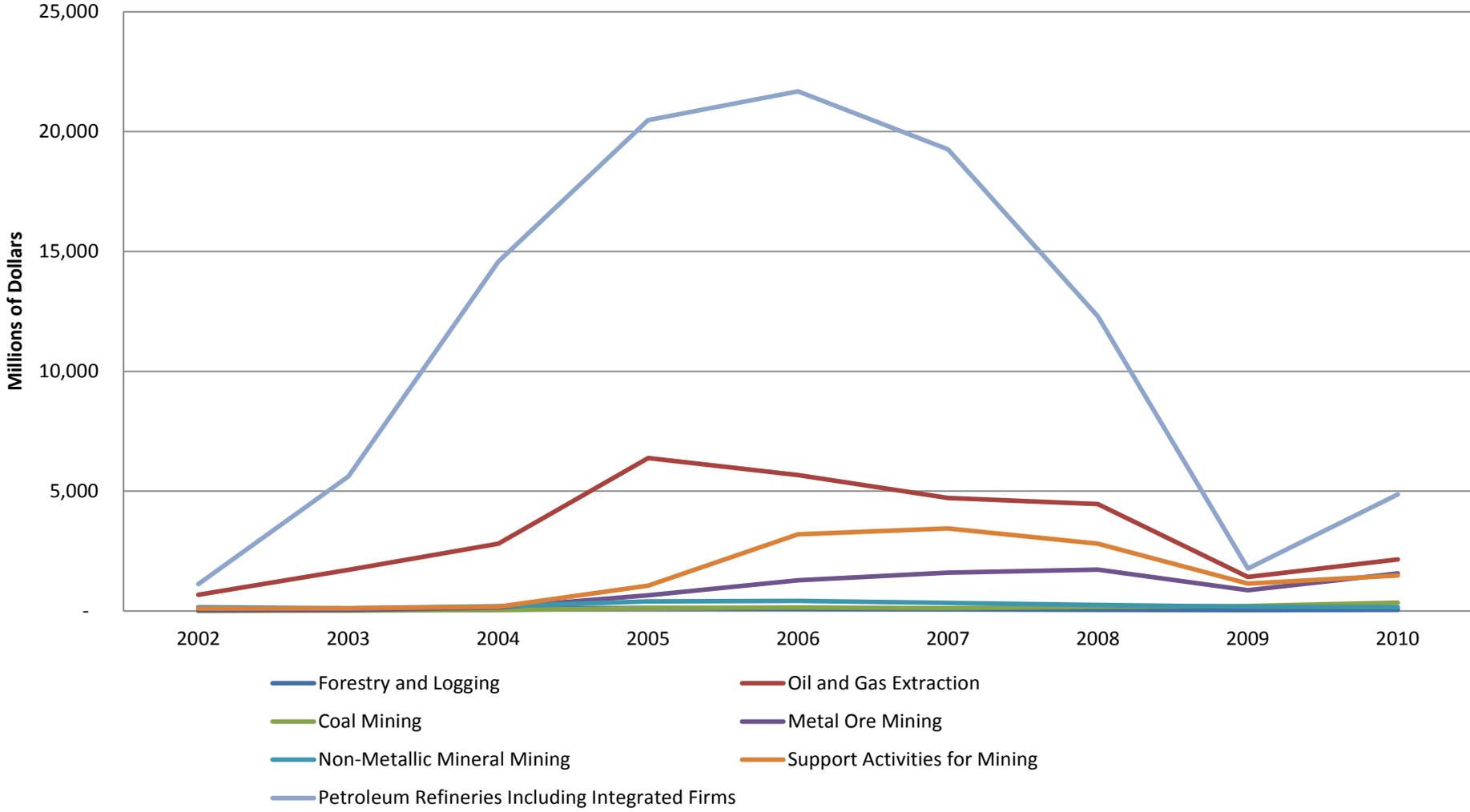
Federal Receipts by Source

(in billions of dollars)

| | 2010 | 2011 | 2012 |
|--|----------------|----------------|----------------|
| Individual income taxes | 898.5 | 1,091.5 | 1,132.2 |
| Corporation income taxes | 191.4 | 181.1 | 242.3 |
| Social insurance and retirement receipts | 864.8 | 818.8 | 845.3 |
| Excise taxes | 66.9 | 72.4 | 79.1 |
| Estate and gift taxes | 18.9 | 7.4 | 14.0 |
| Customs duties | 25.3 | 29.5 | 30.3 |
| Miscellaneous receipts | 96.8 | 102.8 | 107.0 |
| Total, receipts | 2,162.6 | 2,303.5 | 2,450.2 |

Note: Receipts do not include offsetting collections and offsetting receipts from the public (e.g., rents, bonuses and royalties, Medicare premiums, sale of energy from TVA, etc.). **Source:** Budget of the U.S. Government, Fiscal Years 2012-2014.

Federal Income Tax Revenue From Corporations in Selected Extractive Industries Tax Years 2002-2010



Source: IRS, SOI sample of corporate tax return files. Totals do not include S corporations, REITs and RICs. Businesses are classified into an industry category based on the taxpayer's determination of the business activity from which it derives the highest percentage of its total receipts, as reported on its tax return.