

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

- ◆ The IRS does not have the authority to unilaterally disclose tax return information in order to comply with EITI; however, the IRS may disclose tax return information to any person designated by the taxpayer.
- ◆ Public corporations meeting the materiality threshold determined by the U.S. EITI MSG could request the IRS to release the total amount of their federal income tax payments made each tax year to a third party reconciler.
- ◆ This would include public companies meeting the materiality threshold based on whole or in part through a partnership.

Reconciliation Based on Firm's 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.
 - Consolidated groups for tax purposes may consist of corporations that are related through ownership of at least 80%. Only domestic corporations may be included in the consolidated group. Corporations owned less than 80% are excluded completely from the consolidated return and file their own separate returns.
 - Financial consolidation rules differ from tax consolidation rules. Generally, a financial consolidated reporting group includes the parent corporation and all subsidiaries (both domestic and foreign) in which the parent has more than 50% ownership.

Income Tax Revenues Reported in the USEITI Report Would Represent Taxes from All Sources of Income

- Tax payments of the consolidated group reflect the profitability and tax benefits available to the group as a whole including upstream and downstream operations as well as activities completely unrelated to mineral extraction. Foreign source income also affects a firm's tax liability.
- The information provided on a corporation's consolidated tax return is insufficient to make an allocation of tax payments by source of income.

Reconciliation Will Be Limited to Income Taxes from Public Companies, not Individuals

- Individual owners of pass-through businesses, including sole proprietorships, partnerships, and S corporations would not be asked to report individual income tax payments.

Consistency of Entity Level Reporting

- ◆ 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.