

New IRS Campaigns on Withholding and International Individual Tax Compliance

Moody's
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The IRS announced on May 21, 2018, the rollout of six additional compliance campaigns to be undertaken by the Large Business and International Division (LB&I).^[1] This recent rollout is the latest in a series of compliance campaigns initiated by LB&I since January 31, 2017. The campaigns are intended to make the greatest use of limited resources within the IRS by moving towards issue-based examinations and redeploying resources and training on issues that represent a high risk of non-compliance among taxpayers. Five of the six new issues pertain to US withholding and international individual tax compliance and will certainly impact many US expats and foreigners with US connections in Canada, Australia and other countries:

- **Forms 3520/3520-A:** US persons with interests or transactions in a foreign trust or receiving foreign gifts / US persons who own an interest in a foreign grantor trust
- **Forms 1042/1042-S:** US persons who make payments of US-source income to foreign persons
- **Nonresident Alien Tax Treaty Exemption:** Foreign persons who claim tax treaty benefits to classify certain US-source income as either effectively connected income or fixed, determinable, annual and periodic (FDAP) income;
- **Nonresident Alien (NRA) Schedule A and Other Deductions:** Foreign persons who claim deductions for certain eligible expenses under Form 1040NR Schedule A;
- **NRA Tax Credits:** Foreign persons claiming tax credits (earned income, qualifying dependents, education credits)

The addition of the above issues to the current roster of IRS campaigns should come as no surprise for tax practitioners with cross-border clients. However, it is noteworthy that the LB&I has rolled out, to date, a total of 35 campaigns over the past 18 months.^[2] The escalation of compliance campaign initiatives reflects a deliberate move by the IRS leadership towards data analytics and technology to sift through massive amounts of information from various sources. This trend will likely continue as IRS resources are overstretched to its limits, with the implementation of US Tax Reform taking top priority. The window for voluntary compliance for delinquent US expats and non-compliant foreign taxpayers is closing.^[3] As the saying goes, "*Be decisive. Right or wrong, make a decision. The road is paved with flat squirrels who couldn't make a decision.*" Don't be a squirrel. Get those tax and information returns filed soon.

^[1] <https://www.irs.gov/businesses/irs-announces-the-identification-and-selection-of-six-large-business-and-international-compliance-campaigns>

^[2] <https://www.irs.gov/businesses/large-business-and-international-compliance-campaigns>.

^[3] Indeed, the IRS announced last March that it will be ending the 2014 Offshore Voluntary Disclosure Program (OVDP) on September 28, 2018. <https://www.irs.gov/newsroom/irs-to-end-offshore-voluntary-disclosure-program-taxpayers-with-undisclosed-foreign-assets-urged-to-come-forward-now>

