



MANUAL TRANSMITTAL

Department of the Treasury
Internal Revenue Service

4.11.5

AUGUST 25, 2025

EFFECTIVE DATE

(08-25-2025)

PURPOSE

- (1) This transmits revised IRM 4.11.5, Examining Officers Guide (EOG), Allocation of Income and Deductions Under IRC 482.

MATERIAL CHANGES

- (1) The following changes were made in accordance with the requirements described in IRM 1.11.2.2.4, Address Management and Internal Controls:

| IRM Reference | Description of Change |
|----------------|--|
| IRM 4.11.5.1 | Updated Policy Owner, Program Owner and added Contact Information. |
| IRM 4.11.5.1.2 | Updated Authority. |
| IRM 4.11.5.1.3 | Updated Roles and Responsibilities. |
| IRM 4.11.5.1.4 | Updated Program Management and Review. |
| IRM 4.11.5.1.5 | Added Program Controls. |

- (2) IRM 4.11.5.1.6, added definitions table from IRM 4.11.5.1.8.
- (3) IRM 4.11.5.1.8, moved definitions table to IRM 4.11.5.1.6.
- (4) IRM 4.11.5.6, updated references to IRM 4.46.6.9, Unagreed Report and IRM 4.27.1.8.1.2, Unagreed Closures with Automatic Stay.

EFFECT ON OTHER DOCUMENTS

This IRM supersedes IRM 4.11.5 dated November 19, 2019.

AUDIENCE

LB&I and SB/SE employees

Ronald H. Hodge II
Assistant Deputy Commissioner Compliance Integration
Large Business and International Division

4.11.5

Allocation of Income and Deductions Under IRC 482

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4.11.5.1
(08-25-2025)
Program Scope and Objectives

- (1) **Purpose:** This IRM section provides guidance for examiners working cases involving the allocation of income and deductions among taxpayers as provided for in IRC 482 and the regulations.
- (2) **Audience:** LB&I and SB/SE personnel.
- (3) **Policy Owner:** Large Business & International (LB&I) Policy under the Strategy, Policy and Governance office in Assistant Deputy Commissioner Integration (ADCCI) and the Director, Treaty and Transfer Pricing Operations (TTPO), LB&I.
- (4) **Program Owner:** Treaty and Transfer Pricing Operations (TTPO)
- (5) **Primary Stakeholders:** LB&I and SB/SE personnel.
- (6) **Contact Information:** To recommend changes or to make any other suggestions to this IRM section, contact the IRM author or see SPDER's IMD Contacts list by referencing guidelines provided in IRM 1.11.6.5, Providing Feedback About an IRM Section - Outside of Clearance. A request or inquiry can also be made at *LB&I Policy Gateway*.

4.11.5.1.1
(11-19-2019)
Background

- (1) IRC 482, Allocation of Income and Deductions Among Taxpayers, provides that:

In any case of two or more organizations, trades, or businesses (whether or not incorporated, whether or not organized in the United States, and whether or not affiliated) owned or controlled directly or indirectly by the same interests, the Secretary may distribute, apportion, or allocate gross income, deductions, credits, or allowances between or among such organizations, trades, or businesses, if he determines that such distribution, apportionment, or allocation is necessary in order to prevent evasion of taxes or clearly to reflect the income of any of such organizations, trades, or businesses. In the case of any transfer (or license) of intangible property (within the meaning of section 367(d)(4)), the income with respect to such transfer or license shall be commensurate with the income attributable to the intangible. For purposes of this section, the Secretary shall require the valuation of transfers of intangible property (including intangible property transferred with other property or services) on an aggregate basis or the valuation of such a transfer on the basis of the realistic alternatives to such a transfer, if the Secretary determines that such basis is the most reliable means of valuation of such transfers.

- (2) Treasury Regulations further define and expand upon IRC 482. See IRM 4.61.3.2.1 and IRC 482 regulations. A fundamental principle is the "arm's length standard" for transactions among commonly owned or "controlled" taxpayers. See Treas. Reg. 1.482-1(b)(1).
- (3) Judicial opinions and other legal authorities and guidance have over time interpreted IRC 482 and its regulations. See IRM 4.61.3.4.2, Researching Federal Tax Law.

4.11.5.1.2
(08-25-2025)
Authority

- (1) By law, the Service has the authority to conduct examinations under Title 26, Internal Revenue Code, Subtitle F – Procedure and Administration, Chapter 78, Discovery of Liability and Enforcement of Title, Subchapter A, Examination and Inspection, which includes, but is not limited to:
 - IRC 7602, Examination of books and witness

- IRC 7605, Time and place of examination

Note: Additional information related to conducting examinations is contained in 26 CFR 601.105, Statement of Procedural Rules.

- (2) IRC 482 provides guidance on the allocation of income and deduction among taxpayers. See IRM 4.11.5.1.1, Background, for additional information on IRC 482.

4.11.5.1.3
(08-25-2025)
**Roles and
Responsibilities**

- (1) Director, TTPO, is responsible for the policies and procedures of this IRM section.
- (2) Director, TTPO, is responsible for the oversight of the Transfer Price Practice (TPP), which examines IRC 482 issues in LB&I.
- (3) Personnel performing IRC 482 examinations, their managers and executives share an equal responsibility in the conduct of a quality IRC 482 examination.
- (4) The transfer pricing issue team has primary responsibility for determining 482 adjustments under this IRM. The team may include a case manager, an issue team manager, other managers, revenue agents, senior revenue agents, tax law specialists and economists, whose responsibilities include maintaining examination reports, managing the estimated completion date and other timelines, sharing primary adjustments with the team coordinator as soon as they are known, conducting the concurrent examination of the correlative adjustment taxpayer, and immediately advising another area office, such as SB/SE, when an IRC 482 allocation affects an allocation to a controlled taxpayer of that office.
- (5) The team coordinator is the examiner who has the audit information management system (AIMS) controls for the case and may also serve as the issue team member for all or some of the issues resulting in adjustments.

4.11.5.1.4
(08-25-2025)
**Program Management
and Review**

- (1) The TTPO director provides periodic briefing reports to the LB&I commissioner on:
 - a. Significant accomplishments and opportunities for improvement
 - b. Changes in procedures that have been implemented
 - c. Operational, technical, and staffing updates
 - d. Any other key information

4.11.5.1.5
(08-25-2025)
Program Controls

- (1) The relevant directors within TTPO (including the Director of Field Operations (DFO), TPP, and the Director, Advance Pricing and Mutual Agreement (APMA)) report to the TTPO director on a continual basis.
- (2) The TTPO director identifies goals and objectives to be achieved by their organization based on annual commitments of LB&I priorities.

4.11.5.1.6

(08-25-2025)

Terms and Acronyms

(1) The following table defines terms that appear throughout this IRM section:

| Term | Definition | Citation |
|-----------------------|--|------------------------------|
| Arm's Length Standard | The standard to be applied in every case is that of a taxpayer dealing at arm's length with an uncontrolled taxpayer. A controlled transaction meets the arm's length standard if the results of the transaction are consistent with the results that would have been realized if uncontrolled taxpayers engaged in the same transaction under the same circumstances (arm's length result). | Treas. Reg. 1.482-1(b) |
| Collateral Adjustment | Adjustment of related tax items, as provided for by regulations, reflecting implications of an allocation under IRC 482, including correlative allocations, conforming adjustments, and setoffs. | Treas. Reg. 1.482-1(g) |
| Controlled Taxpayer | A taxpayer under common ownership or common control with another. Control can be direct or indirect, need not be legally enforceable, and depends on the facts and circumstances. | Treas. Reg. 1.482-1(i)(5) |
| Primary Allocation | The initial allocation under IRC 482. | Treas. Reg. 1.482-1(g)(2)(i) |

(2) The following table provides acronyms that appear throughout this IRM section:

| Acronym | Definition |
|----------------|----------------------------------|
| CSA | Cost Sharing Arrangement |
| LB&I | Large Business and International |
| RA | Revenue Agent |
| RAR | Revenue Agent Report |
| SB/SE | Small Business and Self-Employed |

| Acronym | Definition |
|---------|--|
| SRA | Senior Revenue Agent |
| TTPO | Treaty and Transfer Pricing Operations |

4.11.5.1.7
(11-19-2019)

Related Resources

- (1) Related resources include:
- a. IRC 482, related regulations, case law, and other legal authorities and guidance. The applicable regulations have been revised several times. Be sure to apply the correct final, temporary, proposed, or re-designated regulations that are applicable to the examination tax years.
 - b. IRM 4.60.1, Exchange of Information.
 - c. IRM 4.60.2, Mutual Agreement Procedures and Report Guidelines.
 - d. IRM 4.60.3, Tax Treaty Related Matters.
 - e. IRM 4.61.3, Development of IRC 482 Cases.
 - f. Rev. Proc. 99-32, 1999-2 C.B. 296, which provides a mechanism for taxpayers to conform their accounts in connection with IRC 482 adjustments without certain secondary consequences that would otherwise result under Treas. Reg. 1.482-1(g)(3). See also IRM 4.61.3.5.4, Application of Rev. Proc. 99-32.
 - g. Rev. Proc. 2005-46, 2005-2 C.B. 142, which prescribes the procedure to be followed with respect to the claiming of any setoffs to adjustments prescribed by the IRS under IRC 482 under Treas. Reg. 1.482-1(g)(4).

4.11.5.2
(11-19-2019)

Overview of IRC 482 Allocation of Income and Deductions Among Taxpayers

- (1) The purpose of IRC 482 is to ensure taxpayers clearly reflect income attributable to controlled transactions and to prevent avoidance of taxes regarding such transactions. IRC 482 places a controlled taxpayer on a tax parity with an uncontrolled taxpayer in determining true taxable income. Transactions between controlled taxpayers will be subject to special scrutiny to ascertain whether common control is being used to reduce, avoid or escape taxes. In determining the true taxable income of a controlled taxpayer, the Service is not restricted to the case of improper accounting, to the case of a fraudulent or sham transaction or to the case of a device designed to reduce or avoid tax by shifting or distorting income, deductions, credits, or allowances. The authority to determine true taxable income extends to any case in which, either by inadvertence or design, the taxable income of a controlled taxpayer does not reflect an arm's length result as with an uncontrolled taxpayer.
- (2) Transactions between controlled taxpayers which may involve an IRC 482 issue include (but are not limited to) the following:
- a. One entity makes a loan or advance to another entity and charges no interest or charges an interest rate which is not arm's length (including an excessive rate).
 - b. One entity performs services for another entity without charge or at a charge which does not reflect an arm's length result.
 - c. One entity leases property to another entity without charge or at a charge that is not an arm's length result.
 - d. One entity sells tangible or intangible property to another entity without charge or at a sales price that is not an arm's length result.

- e. One entity licenses intangible property to another entity for no royalty fee or a fee that is not an arm's length result.
- f. One entity enters into a Treas. Reg. 1.482-7 cost sharing arrangement (CSA) with another entity to share costs to develop intangibles, but all costs are not appropriately shared.
- g. One entity contributes a valuable platform including intangibles upon entering into, or subsequent to entering into, a Treas. Reg. 1.482-7 CSA to be used and further developed by the parties in the arrangement (or changes its participation in a CSA) without receiving an arm's length payment from the other entity(ies).

4.11.5.3
(11-19-2019)
Primary and Correlative Adjustments

- (1) The initial allocation, which ordinarily increases the income of one or more members of the controlled group, is referred to as the "primary allocation" or the "primary adjustment" and the corresponding decrease of the other member(s) is the "correlative allocation" or "correlative adjustment."
- (2) Issue teams should review the advance notification procedures under IRM 4.60.2, Mutual Agreement Procedures and Report Guidelines, regarding primary and correlative adjustments, whenever an IRC 482 adjustment is anticipated.

4.11.5.3.1
(11-19-2019)
Primary Adjustment

- (1) Primary adjustments should be shared with the team coordinator as soon as they are known. These adjustments may affect other items within the taxpayer's tax return.

4.11.5.3.2
(11-19-2019)
Correlative Adjustment

- (1) The concurrent examination of the income tax return(s) of the correlative adjustment taxpayer(s) should ordinarily be made when a primary adjustment examination is underway.
- (2) For information on correlative adjustments, see Treas. Reg. 1.482-1(g)(2). Correlative adjustments are also addressed in Rev. Proc. 99-32. Taxpayers may, in certain situations, elect relief from otherwise applicable correlative adjustments. See IRM 4.61.3.5.4, Application of Rev. Proc. 99-32.

4.11.5.4
(11-19-2019)
Examination Reports

- (1) A statement will be made in the examination report prepared for the primary adjustment taxpayer to the effect that:
 - a. Separate reports of examination have been prepared reflecting the IRC 482 correlative adjustments.
 - b. Even if it does not impact liability for any open year, the correlative adjustment must be maintained in the correlative adjustment taxpayer's documentation for future determinations to which it may be relevant. See Treas. Reg. 1.482-1(g)(2)(ii).
- (2) Rules regarding the unauthorized disclosure of information apply to IRC 482 adjustments, despite the relationship between primary adjustment and correlative adjustment taxpayers. The primary adjustment and correlative adjustment taxpayers' report should not disclose tax return information of the other taxpayer except to the extent necessary to explain the primary and correlative adjustments.
- (3) The correlative adjustment should not be made until the primary adjustment has been made. Per Treas. Reg. 1.482-1(g)(2)(iii), the primary adjustment will not be considered to have been made and, accordingly, a correlative adjust-

ment is not required to be made until the date of a final determination on the primary adjustment under IRC 482. For this purpose, a final determination includes:

- a. Assessment of the tax following execution by the taxpayer of Form 870, Waiver of Restrictions on Assessment and Collection of Deficiency in Tax and Acceptance of Overassessment, with respect to such adjustment.
 - b. Acceptance of a Form 870-AD, (Offer of Waiver of Restrictions on Assessment and Collection of Deficiency in Tax and Assessment of Overassessment).
 - c. Payment of the deficiency.
 - d. Stipulation in the Tax Court of the United States.
 - e. Final determination of tax liability by offer-in-compromise, closing agreement, or final resolution (determined under the principles of IRC 7481) of a judicial proceeding.
- (4) To provide uniform treatment of all IRC 482 cases, agreed or unagreed, reports on the primary adjustment taxpayer and the correlative adjustment taxpayer should be prepared concurrently, kept together and transmitted to the next function, (e.g., Case Processing, Technical Services, or Office of Appeals).
- (5) In cases with no current tax effect as a result of a correlative adjustment (e.g., foreign entity, loss entity, etc.), place a statement in the correlative adjustment taxpayer's audit report to the effect that the correlative adjustments are deemed to have been made when and if:
- a. The adjustments are agreed to and assessment has been made; or
 - b. The deficiency has been paid and will be given effect to when the correlative adjustment produces a current tax effect.

It is important that this statement be included in all reports prepared for the taxpayer(s) to which the correlative adjustments apply so the subsequent issue team does not miss the effect of these adjustments in the event of a subsequent examination or carryback of losses or credits or other events which do have a tax effect. The historical case file of the taxpayer should include the examination report(s) with the primary and correlative tax effects.

- (6) The examiner will attach Form 3198, Special Handling Notice, to the case jacket of the correlative adjustment taxpayer to ensure that overpayments resulting from the correlative adjustments are not scheduled and refunded to the taxpayer. The Form 3198 will note the need to delay making a refund to the correlative adjustment taxpayer until the primary adjustment taxpayer has paid the deficiency resulting from the IRC 482 adjustment.
- (7) Correlative adjustment taxpayers whose tax liability is reduced will be advised of the nature of the adjustment(s), the reason the overpayment cannot be refunded at this time and the possible need to protect statute(s) of limitations from expiring. See IRM 4.10.13.5.2.3, Protested Primary Adjustments Involving Only U.S. Taxpayers for Primary Adjustment and Correlative Allocation.
- (8) The correlative adjustment taxpayer(s) will be invited to file a claim for refund (protective claim) if the period for filing a claim for refund expires in less than 180 days. Letter 897(DO) will be sent to solicit a claim for each taxable year needing protection. Once a protective claim is received, Form 895, Notice of Statute Expiration, will be attached and the statute will be updated according to IRM 25.6.22, Statute of Limitations, Extension of Assessment Statute of Limitations.

tions by Consent. See also IRM 4.10.13.5.2.3, Protested Primary Adjustments Involving Only U.S. Taxpayers for Primary Adjustment and Correlative Allocation.

4.11.5.5
(11-19-2019)
**Agreed IRC Section 482
Issues**

- (1) An agreed IRC 482 issue is where all affected (primary and correlative) taxpayers are in full agreement with the IRS's IRC 482 issue.
- (2) The examiner must obtain a signed agreement, using the appropriate Form 870, Waiver of Restrictions on Assessment and Collection of Deficiency in Tax and Acceptance of Overassessment, or payment of the deficiency from the primary adjustment taxpayer.
- (3) The examiner must make the correlative adjustment(s) and obtain agreement for the adjustment(s) using the appropriate Form 870.
- (4) The taxpayer should be advised that their cases can be more expeditiously adjusted and closed if the taxpayer(s) scheduled to receive refunds, if any, will voluntarily consent in writing to have the refunds applied against the proposed deficiencies.
 - a. The taxpayer's written consent statement(s) can be incorporated into Form 870.
 - b. The examiner's report in overassessment cases must include a statement as to whether or not consents, as provided for in this paragraph, have been furnished and if not, the reasons the consents were not obtained.
- (5) The examiner will attach Form 3198 to the return(s) involving an overassessment, as prescribed in IRM 4.11.5.4(6), above.

4.11.5.6
(11-19-2019)
**Unagreed IRC Section
482 Issues**

- (1) An unagreed IRC 482 cases is where any affected (primary or correlative) taxpayer does not agree to the IRS's adjustment under IRC 482. See IRM 4.46.5.7.1, Types of Examination Reports Based on Agreement, and IRM 4.46.6.9, Unagreed Report.
- (2) In unagreed IRC 482 cases when the correlative-adjustment taxpayer takes any inconsistent positions, do not make the correlative IRC 482 adjustments. Instead, explain the reason for not making the correlative adjustments. This explanation should be made in the revenue agent's report (RAR).
- (3) In all unagreed IRC 482 cases, the correlative adjustment taxpayer should be advised of the period of limitations under IRC 6511 for filing a claim for refund. If the period for filing a claim for refund expires in less than 180 days, the examiner should inform the taxpayer of the opportunity to file an amended return claiming a refund. Such claims should be picked up and submitted with the case, if possible.
- (4) In all unagreed IRC 482 cases, to ensure that overpayments resulting from the correlative adjustments are not scheduled and refunded to the taxpayer, the examiner will complete and affix Form 3198 to the return of the correlative adjustment taxpayer. See IRM 4.11.5.4, Examination Reports.
- (5) If the taxpayer or a related entity is involved in bankruptcy litigation see IRM 4.27.1.8.1.2, Unagreed Closures with Automatic Stay. Automatic stays due to bankruptcy may require a recalculation of the assessment statute expiration date and refund statute expiration date.

4.11.5.7
(11-19-2019)

**Related Cases Not
Managed In The Same
Compliance Area**

- (1) There may be instances when an IRC 482 allocation is examined in one area office and the issue will affect an allocation to a controlled taxpayer in another area office. The office making the initial examination will immediately advise the other area office of the issue and amount involved so appropriate steps may be taken to secure the return and protect the statute of limitations.
- (2) Immediately upon conclusion of the primary adjustment taxpayer's examination, a notice should be issued each other area office that will contain sufficient information to enable the receiving office to make the correlative adjustment to the related return. The initiating office examiner's case files will include copies of the notification.
- (3) Upon receipt of notification, the receiving office will take prompt action to make adjustments for the IRC 482 allocations resulting from the initial taxpayer examination. Reopening procedures will be considered in the event that the return has been examined and closed.