

Using IRS Data To Identify Income Shifting to Foreign Affiliates¹

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We use confidential Internal Revenue Service (IRS) data on the magnitude of U.S.-foreign intercompany transactions to develop a financial statement-based measure of the likelihood that U.S. multinational entities (MNEs) make net intercompany payments out of the U.S. Descriptive analysis shows that although sample firms report net *inbound* intercompany payments on average, high tech firms and small firms report average net outbound payments. The determinants of net outbound payments vary with size, but the likelihood that a firm reports net outbound payments is positively related to high tech operations and income tax incentives across all firms. Supplemental analyses show that firms with net outbound payments historically have not been more likely to be audited or assessed additional taxes upon IRS audit. Our study provides a validated measure based on publicly available data that researchers, investors, and policymakers can use to infer a substantial form of income shifting.

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¹ The Internal Revenue Service (IRS) provided confidential tax information to one of the authors pursuant to provisions of the Internal Revenue Code that allow disclosure of information to a contractor to the extent necessary to perform a research contract for the IRS. None of the confidential tax information received from the IRS is disclosed in this treatise. Statistical aggregates are used so that no specific taxpayer can be identified from information supplied by the IRS. All opinions are those of the authors and do not necessarily reflect the views of the IRS.

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