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General Accounting Office
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General Government Division

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The Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

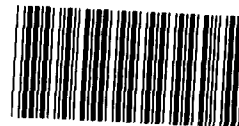
Dear Mr. Chairman:

This letter responds to your staff's request for information on the collection and exchange of data by the Internal Revenue Service (IRS) and the U.S. Customs Service (Customs). The information presented is the result of general observations of IRS and Customs officials on what type of data each agency collects, the extent of data sharing between the agencies, the type of data that officials in one agency would like from the other, and the barriers to additional data sharing. At your staff's request, this information is provided in matrix form. If you have any questions, please contact me at (202) 272-7904.

Sincerely yours,


Natwar M. Gandhi
Associate Director
Tax Policy and Administration
Issues

Enclosure



148885

GAO/GGD-93-33R IRS-Customs Data Systems Exchange

050805/148885

U.S. Customs Service	Internal Revenue Service
Automated Databases	
<ul style="list-style-type: none"> o The Automated Commercial System (ACS): a public-private data processing and telecommunications system <ul style="list-style-type: none"> o Contains 90%-95% of import entry summaries (100.9 million total records as of 1/29/93 and growing) o Is available on-line in regions o Shows related-party status o Contains third-party data available as of fiscal year 1990 <div style="margin-left: 40px;"> Manufacturer Buyer </div> o IM115: Census-prepared data containing information similar to that on the ACS as well as the 5%-10% of manually submitted 7501 forms with entries over \$1250 	<ul style="list-style-type: none"> o Returns Transaction Files <ul style="list-style-type: none"> o Contain data input from each type of tax return o Individual Master File <ul style="list-style-type: none"> o Contains key data fields from individual tax returns o Business Master File <ul style="list-style-type: none"> o Contains key data fields from business tax returns o Information Returns Master File <ul style="list-style-type: none"> o Contains data on interest, dividends, etc. by recipient o Information Returns Payer File <ul style="list-style-type: none"> o Contains data on interest, dividends, etc. by payment source o Currency and Banking Retrieval System <ul style="list-style-type: none"> o Contains notifications of cash transactions exceeding \$10,000 involving individuals, casinos, and foreign banks

U.S. Customs Service	Internal Revenue Service
Current Interagency Data Sharing	
<ul style="list-style-type: none"> o Customs officials report their total cooperation with IRS officials o IRS has access to all information on importers, manufacturers, third parties, and fraud investigations o IRS can use Customs data to find undisclosed related parties o IRS is using Customs computer tape to apply comparable uncontrolled price and resale methods of transfer pricing (IRS estimates this tape will save 2 weeks of work per examination) 	<ul style="list-style-type: none"> o Customs has access to any specifically requested tax return information relevant to a case going before a Federal grand jury o Customs has routine access to the Currency and Banking Retrieval System o Customs has access to publicly available statistical information o Customs has access to publicly available industry trend information
Interagency Cooperative Efforts	
<ul style="list-style-type: none"> o IRS and Customs Commissioners' Working Arrangement for Mutual Assistance and Exchange of Information formalizes interagency cooperation and communication, details data sharing and appoints agency liaisons for implementation o Joint training is conducted on agency methods of establishing transfer prices o IRS and Customs computer audit specialists take the same training at a university o IRS deducts delinquent duties from importer tax refunds 	

U.S. Customs Service	Internal Revenue Service
Unshared Information Desired by the Other Agency - Not Automated	
<ul style="list-style-type: none"> o Unit price as calculated by the IRS o Access to taxpayer information: <ul style="list-style-type: none"> o Amount of proceeds from sales o Amounts of, and methods by which companies pay, commissions o Amount of royalties paid after sale o Internal monetary transfers among companies after sale o Amounts of statutory charges deducted as cost of business o IRS appraisal reports o IRS examination reports o Information in Advance Pricing Agreements o Companies having section 482 transfer pricing adjustments o Companies IRS has targeted for review o "Tip offs" from IRS investigators who notice suspicious behavior o Information generated under reporting requirements of section 6038A 	

U.S. Customs Service	Internal Revenue Service
Unshared Automated Information Desired by the Other Agency	
<ul style="list-style-type: none"> o IRS forms #5471/5472 o contain information on foreign-owned U.S. corporations and U.S. interests in foreign corporations 	
Planned Systems Changes	
<ul style="list-style-type: none"> o Agency goal is to be paperless: o Automation of invoices (will take a minimum of 10 years) o All duties paid electronically o Increased analytic capacity for ACS o System being developed to establish "comparable prices" as information is entered on the database 	<ul style="list-style-type: none"> o Agency is implementing Corporate Account Processing System (CAPS) that is expected to consolidate current master files into one on-line database by 2000 o Agency also reported efforts to create a database of "comparable prices" (with help from Customs)

U.S. Customs Service	Internal Revenue Service
Barriers to Further Interagency Data Sharing	
<ul style="list-style-type: none"> o Matching Customs company identification numbers and IRS tax identification numbers is difficult and yields inconsistent results o Commodity codes represent groups of commodities that may not be specific enough for IRS o Searching ACS' 64.7 million (as of 1/29/93) on-line entry summary records for "comparable prices" would be time-consuming and entail prohibitive cost o Automating invoices will take a minimum of 10 years. Computer searches of invoices would still be time-consuming and expensive 	<ul style="list-style-type: none"> o Section 6103 of the Internal Revenue Code prohibits the disclosure of taxpayer information for unauthorized uses. Customs transfer pricing issues are not considered authorized use o Timing of IRS audits prevents them from providing useful current information to Customs o The aggregate information in IRS databases cannot be used for item-specific details o Most information desired by Customs is not on an automated database, nor does IRS have plans to automate it (e.g., examination reports, etc.)
Agency Views on Limitations on Interagency Cooperative Efforts	
<ul style="list-style-type: none"> o It is becoming more difficult to find true arm's length prices because (1) increasingly high numbers of transactions are between related parties and (2) commodities are becoming more specialized through the use of high technology o Customs and IRS databases will never match exactly o The agencies' differing methods of approaching and calculating product value prevent simple exchange of information. Customs looks at merchandise and calculates its worth. IRS looks at a company's records and calculates the merchandise's cost of production 	

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