



Highlights of [GAO-07-237](#), a report to the Committee on Finance, U.S. Senate

## TAX ADMINISTRATION

# Additional Time Needed to Complete Offshore Tax Evasion Examinations

### Why GAO Did This Study

Much offshore financial activity is not illegal, but numerous illegal offshore schemes have been devised to hide or disguise the true ownership of income streams and assets. IRS studies show lengthy development times for some offshore cases, which suggests that time or the lack thereof could be an impediment to effectively addressing offshore schemes.

GAO was asked to (1) compare offshore and nonoffshore examination cases and determine whether the 3-year statute of limitations reduces offshore assessments, (2) compare enforcement problems posed by offshore cases to those where Congress has previously granted an exception to the statute, and (3) identify possible advantages and disadvantages of an exception to the statute for offshore cases. To address these objectives, GAO analyzed IRS data, reviewed examination files and other documents, and interviewed IRS officials and others in the tax practitioner and policy communities.

### What GAO Recommends

To provide IRS with additional flexibility in combating offshore schemes, Congress should consider a longer statute period for taxpayers involved in offshore activity. In e-mailed comments on a draft of this report, IRS expressed agreement that a longer statute makes sense and should enhance compliance.

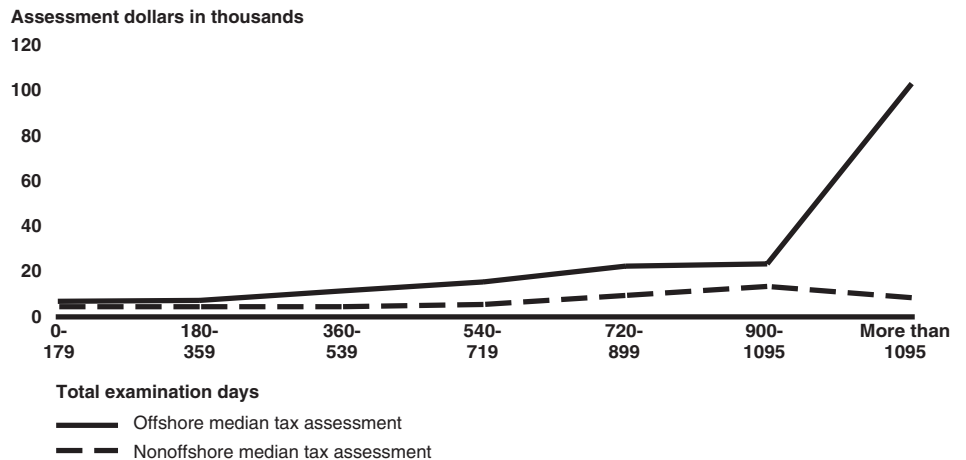
[www.gao.gov/cgi-bin/getrpt?GAO-07-237](http://www.gao.gov/cgi-bin/getrpt?GAO-07-237).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael Brostek at (202) 512-9110 or [brostekm@gao.gov](mailto:brostekm@gao.gov).

### What GAO Found

Examinations involving offshore tax evasion take much more time to develop and complete than other examinations for reasons such as technical complexity and the difficulty of obtaining information from foreign sources. When examinations are completed, the resulting median assessment from an offshore examination is almost three times larger than from other types of examinations. However, due to the 3-year statute, the additional time needed to complete an offshore examination means that IRS sometimes has to prematurely end offshore examinations and sometimes chooses not to open one at all, despite evidence of likely noncompliance. Although data were not available to measure the effect of the statute on assessments, IRS agents and managers told GAO that overall assessments for offshore cases are lower than they would be if IRS had more time to work these cases.

**Median Assessment Amount by Number of Examination Days, Examinations Closed with an Assessment, Fiscal Years 2002–2005**



Source: GAO analysis of IRS data.

Some offshore examinations exhibit enforcement problems similar to those where Congress has granted a statute change or exception in the past. For example, Congress changed the statute for certain abusive tax shelters that involved technical complexity and dilatory tactics on the part of taxpayers.

Through discussions with IRS officials and others in the tax practitioner and policy communities, GAO identified advantages and disadvantages to such an exception. Advantages included increased flexibility for IRS to direct enforcement resources to egregious cases of noncompliance and a possible deterrent to future noncompliance. Disadvantages included increased uncertainty and lack of closure for taxpayers. Our commenters also discussed design options to mitigate some of the disadvantages of a statute extension, such as making an exception apply to all taxpayers having offshore accounts/entities, and thereby, mitigating taxpayer uncertainty and lack of closure.