Recommendations for Form 5471 Simplification

Alliance for Competitive Taxation

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Contents

I. Introduction and Summary of Recommendations

The Alliance for Competitive Taxation ("ACT") is a coalition of leading American companies from a wide range of industries that supports a globally competitive corporate tax system. A list of ACT member companies is included in the final section of this submission.

Since enactment of the Tax Cuts and Jobs Act ("TCJA"), U.S. international information reporting has expanded exponentially through the addition of numerous Form 5471 schedules and increasingly detailed reporting requirements. While these changes have enhanced transparency, they have also substantially increased compliance burdens, filing volume, and administrative complexity for both taxpayers and the Internal Revenue Service ("IRS"). Much of the information currently reported is duplicative, decentralized across multiple schedules, or organized in a manner that limits efficient review and analysis.

ACT has identified opportunities to modernize Form 5471 reporting while preserving the information necessary for effective tax administration and IRS review. Rather than changing what taxpayers report, these recommendations focus on how information is organized and presented. Certain tax attributes—particularly earnings and profits ("E&P"), previously taxed earnings and profits ("PTEP"), and tested income—are already analyzed at the U.S. shareholder level for many U.S. international tax computations. Centralizing the reporting of these attributes would significantly reduce filing volume while improving reporting accuracy, enhancing the IRS's ability to efficiently review filings, and preserving the information necessary for effective tax administration.

ACT's recommendations are:

• **Aggregate Schedule J** – Replace CFC-by-CFC reporting of E&P attributes with a centralized Schedule J organized by U.S. shareholder and E&P category.

• **Aggregate Schedule P** – Replace CFC-by-CFC PTEP reporting with a centralized U.S. dollar Schedule P organized by U.S. shareholder and PTEP category.

• **Modernize Taxable Income Reporting** – Reconfigure Schedules C, H, I-1, and Q into a centralized reporting schedule that integrates the information reported across these schedules to reduce duplicative reporting while preserving the information necessary for effective tax administration.

These recommendations are intended to simplify the organization and presentation of information—not reduce the information available to the IRS or its ability to effectively administer the international tax rules. While we have highlighted these items as proposals that would provide significant simplification, we believe there are other opportunities to simplify 5471 reporting[1] further and would welcome the opportunity to discuss these and other similar proposals with the IRS and Treasury.

[1]In 2015, prior to enactment of the TCJA, the IRS estimated the time required to complete Form 5471 (including Schedules J and M) involves more than 163 hours: 26.5 hours for preparing and sending the forms to the IRS, and 136.5 hours for recordkeeping and learning about the law and the form. Since enactment of TCJA, substantially more information is now required to complete Form 5471 (including new Schedules H-1, I-1, P, Q, and R), so the compliance burden has increased. Based on the most recently published IRS statistics, 21,605 companies filed 106,732 Forms 5471 in 2021. Consequently, a conservative estimate of the current Form 5741 compliance burden that doesn't account for the post-TCJA complexity is 5.8 million hours (21,605 x 136.5 hours + 106,732 x 26.5 hours). We estimate that ACT's simplification recommendations would reduce the page count of Form 5471 filings by 25 to 30 percent, suggesting there are substantial potential benefits to simplification.

II. 5471 Simplification - The Why & The How

Why

U.S. International tax reporting and compliance requirements have expanded exponentially since the Tax Cut and Jobs Act (TCJA) of 2017. The proliferation of schedules and incremental reporting is yielding a number of unintended results, including:

Significant (5-10x) increase in size/volume of filing

Reduced submission accuracy due to highly integrated calculations

Strained resources from rising costs and diminishing perceived value

Forms that are inefficient for review and analysis

How

Regulate
Reducing filing complexity

Aggregate
Consolidating data and calculations into a single schedule

Reduce Redundancy
Simplifying by addressing duplicative data points and reporting

III. Objectives of Form 5471 simplification

Greater accuracy

Streamlined reporting will enable taxpayers to more accurately complete relevant schedules without sacrificing the level of detail desired.

Recommendation:
A consolidated schedule J listing the categories of E&P by CFC by US Shareholder in a more efficient manner (e.g. similar to Form 965) would allow the review of E&P attributes in one place as opposed to separate schedules within each form 5471.

Result:
- Eliminate excessive empty reporting for CFCs with limited activities
- Minimize compounding of schedules when multiple baskets are applicable
- Enable for more accurate review and reporting with more holistic view of attributes.

Enhanced review and analytical capabilities

Current review of a 5471 is narrowly focused on a CFC-by-CFC basis. While this makes sense for qualitative factors and financial statements, attributes which are aggregate in nature, such as subpart F income and tested income, become inefficient to review due to the volume and decentralization of reporting.

Recommendation:
Centralize reporting of schedules J and P can incorporate USSH ownership information to streamline congruency between schedules J/P and other inclusion related reporting (e.g. Form 8992, Form 1118, etc.)

Result:
- Enable more thorough and efficient review of key CFC attributes and their interplay with USSH-level inclusions, such as subpart F and NCTI
- Provide a centralized location to review information vs decentralized CFC-by-CFC

Reduced volume, keeping what matters

Cut filing volume while preserving the data needed for compliance. Many of today's schedules contain duplicative information.

Recommendation:
In addition to aggregating the reporting, integrate elements of schedule J and P (e.g. USSH information) in order to eliminate duplication. Also, consider ways to integrate/simplify the reporting of certain information that is reported on schedule Q as well as other schedules such as schedules C, H, and I-1. Slides 12 and 13 depict this as a new proposed schedule C-1.

Result:
- An aggregate taxable income schedule could preserve the same level of detail currently captured in the forms while removing duplication, eliminating empty space, and reducing overall pages by 80-90%

IV. a. Simplification Opportunity – Permit Aggregated Reporting on Schedule J (Illustrative Example – 50 CFC Filing Group)

Form 5471 Schedule J Page	Schedule J – Current State (by CFC)	Schedule J - Aggregated
Total E&P by CFC by Category (Total 959(c)(1), Total 959(c)(2), Total 959(c)(3), Total 964(e))	N/A	1
Part I (a) Post-2017 E&P Not Previously Taxed (post-2017 section 959(c)(3) balance)		2
Part I (b) Post-1986 Undistributed Earnings (post-1986 and pre-2018 section 959(c)(3) balance)		2
Part I (c) Pre-1987 E&P Not Previously Taxed (pre-1987 section 959(c)(3) balance)		2
Part I (d) Hovering Deficit and Deduction for Suspended Taxes	1	2
Part I (e)(i) Reclassified section 965(a) PTEP		2
Part I (e)(ii) Reclassified section 965(b) PTEP		2
Part I (e)(iii) General section 959(c)(1) PTEP		2
Part I (e)(iv) Reclassified section 951A PTEP		2
Part I (e)(v) Reclassified section 245A(d) PTEP		2
Part I (e)(vi) Section 965(a) PTEP		2
Part I (e)(vii) Section 965(b) PTEP	1	2
Part I (e)(viii) Section 951A PTEP		2
Part I (e)(ix) Section 245A(d) PTEP		2
Part I (e)(x) Section 951(a)(1)(A) PTEP		2
Part I (f) Total Section 964(a) E&P (combine columns (a), (b), (c), and (e)(i) through (e)(x))		2
Part II - 952(c) Recapture	1	1
Total Schedule J Pages	3	32
Number of CFCs	50 (Per CFC)	50 (Aggregated)
Total Pages	**150**	**32**

An aggregate Schedule J can reduce filing volume by basket by 80% - from 150 pages to 32 pages

IV. b. Simplification Proposal: Schedule J, Page 1

SCHEDULE J
(Rev. December 2020)
Department of the Treasury Internal Revenue Service

Accumulated Earnings & Profits (E&P) of Controlled Foreign Corporation

OMB No. 1545-0123

Name of person filing

Identifying number

a Separate Category (Enter code—see instructions.)
b If code 901j is entered on line a, enter the country code for the sanctioned country (see instructions)

Part I Accumulated E&P of Controlled Foreign Corporation

	Name of CFC	CFC EIN Ref ID	FC	Name of USSH	USSH EIN Ref ID	USSH %	(a) Post-2017 E&P Not Previously Taxed (post-2017 section 959(c)(3) balance)										
							1a Balance at beginning of year (as reported on prior year Schedule J)	1b Beginning balance adjustments (attach statement)	1c Adjusted beginning balance (combine lines 1a and 1b)	2a Reduction for taxes unsuspended under anti-splitter rules	2b Disallowed deduction for taxes suspended under anti-splitter rules	3 Current year E&P (or deficit in E&P) (enter amount from applicable line 5c of Schedule H)	4 E&P attributable to distributions of previously taxed E&P from lower-tier foreign corporation	5a E&P carried over in nonrecognition transaction	5b Reclassify deficit in E&P as hovering deficit after nonrecognition transaction	6 Other adjustments (attach statement)	7 Total current and accumulated E&P (combine lines 1c through 6)
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<u>The above is meant to be illustrative. As an example, for a 50 CFC filing group, the number of pages filed could be reduced by 80-90%.</u>

IV. b. Simplification Proposal: Schedule J, Page 2

SCHEDULE J (Rev. December 2020) Department of the Treasury Internal Revenue Service	Accumulated Earnings & Profits (E&P) of Controlled Foreign Corporation	OMB No. 1545-0123
Name of person filing		Identifying number

a Separate Category (Enter code—see instructions.)
b If code 901j is entered on line a, enter the country code for the sanctioned country (see instructions)

Page 2

Part I **Accumulated E&P of Controlled Foreign Corporation (Continued)**

	Name of CFC	EIN Ref ID	FC	Name of USSH	USSH EIN Ref ID	USSH %	(a) Post-2017 E&P Not Previously Taxed (post-2017 section 959(c)(3) balance) 8 Amounts reclassified to section 959(c)(2) E&P from section 959(c)(3) E&P	9 Actual distributions	10 Amounts reclassified to section 959(c)(1) E&P from section 959(c)(2) E&P	11 Amounts included as earnings invested in U.S. property and reclassified to section 959(c)(1) E&P (see instructions)	12 Other adjustments (attach statement)	13 Hovering deficit offset of undistributed post-transaction E&P (see instructions)	14 Balance at beginning of next year (combine lines 7 through 13)
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The above is meant to be illustrative. As an example, for a 50 CFC filing group, the number of pages filed could be reduced by 80-90%.

V. a. Simplification Opportunity — Permit Aggregated Reporting on Schedule P (Illustrative Example – 50 CFC Filing Group)

Form 5471 Schedule P Page	Schedule P – Current State (by CFC in FC & USD)	Schedule P – Aggregated (USD only)
Total PTEP by CFC by PTEP category	N/A	1
Part I (a) Reclassified section 965(a) PTEP	2 (FC & USD)	2
Part I (b) Reclassified section 965(b) PTEP		2
Part I (c) General section 959(c)(1) PTEP		2
Part I (d) Reclassified section 951A PTEP	2 (FC & USD)	2
Part I (e) Reclassified section 245A(d) PTEP		2
Part I (f) Section 965(a) PTEP		2
Part I (g) Section 965(b) PTEP		2
Part I (h) Section 951A PTEP		2
Part I (i) Section 245A(d) PTEP		2
Part I (j) Section 951(a)(1)(A) PTEP		2
Part I (k) Total		2
Total Schedule P Pages	4	23
Number of CFCs	50 (Per CFC)	50 (Aggregated)
Total Pages	**200**	**23**

An aggregate Schedule P in USD only can reduce filing volume by basket by 89% - from 200 pages to 23 pages

V. b. Simplification Proposal: Schedule P, Page 1

SCHEDULE P
(Rev. December 202X)
Department of the Treasury Internal Revenue Service

Previously Taxed Earnings and Profits of U.S. Shareholder
of Certain Foreign Corporations.

OMB No. 1545-0123

a Separate Category (Enter code—see instructions.)
b If code 901j is entered on line a, enter the country code for the sanctioned country (see instructions)

Part I Previously Taxed E&P in U.S. Dollars

						(a) Reclassified section 965(a) PTEP						
	Name of CFC	CFC EIN Ref ID	Name of USSH	USSH EIN Ref ID	USSH %	1a Balance at beginning of year (see instructions)	1b Beginning balance adjustments (attach statement)	1c Adjusted beginning balance (combine lines 1a and 1b)	2 Reduction for taxes unsuspended under anti-splitter rules	3 Previously taxed E&P attributable to distributions of previously taxed E&P from lower-tier foreign corporation	4 Previously taxed E&P carried over in nonrecognition transaction	5 Other adjustments (attach statement)
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6												
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The above is meant to be illustrative. As an example, for a 50 CFC filing group, the number of pages filed could be reduced by 80-90%.

V. b. Simplification Proposal: Schedule P, Page 2

SCHEDULE P (Rev. December 202X) Department of the Treasury Internal Revenue Service			Previously Taxed Earnings and Profits of U.S. Shareholder of Certain Foreign Corporations.	OMB No. 1545-0123

a Separate Category (Enter code—see instructions.)

Page 2

Part I Previously Taxed E&P in U.S. Dollars

						(a) Reclassified section 965(a) PTEP						
	Name of CFC	CFC EIN Ref ID	Name of USSH	USSH EIN Ref ID	USSH %	6 Total previously taxed E&P (combine lines 1c through 5)	7 Amounts reclassified to section 959(c)(2) E&P from section 959(c)(3) E&P	8 Actual distributions of previously taxed E&P	9 Amounts reclassified to section 959(c)(1) E&P from section 959(c)(2) E&P	10 Amounts included as earnings invested in U.S. property and reclassified to section 959(c)(1) E&P (see instructions)	11 Other adjustments (attach statement)	12 Balance at beginning of next year (combine lines 6 through 11)
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The above is meant to be illustrative. As an example, for a 50 CFC filing group, the number of pages filed could be reduced by 80-90%.

VI. a. Simplification Proposal: Potential New Schedule C-1

SCHEDULE C-1 (Form 5471)	Income Statement — Book to E&P and Taxable Income Department of the Treasury Internal Revenue Service ▶ Go to www.irs.gov/Form5471 for instructions and the latest information.	OMB No. 1545-0123 Attachment Sequence No. XXX

Name of person filing Form 5471		Identifying number
Name of foreign corporation	EIN (if any)	Reference ID number (see instructions)

	Income / deduction account	(a) Income Statement U.S. Dollars	(b) Income Statement Functional Currency	(c) E&P Adjustments	(d) CY E&P	(e) Taxable Income Adjustment	(f) Taxable Income	
Income								
1a	Gross receipts or sales							1a
b	Returns and allowances							1b
c	Subtract line 1b from line 1a							1c
2	Cost of goods sold							2
3	Gross profit (subtract line 2 from line 1c)							3
4	Dividends							4
5	Interest							5
6a	Gross rents							6a
b	Gross royalties and license fees							6b
7	Net gain or (loss) on sale of capital assets							7
8a	Foreign currency transaction gain or loss—unrealized							8a
b	Foreign currency transaction gain or loss—realized							8b
9	Other income (attach statement)							9
10	Total income (add lines 3 through 9)							10
Deductions								
11	Compensation not deducted elsewhere							11
12a	Rents							12a
b	Royalties and license fees							12b
13	Interest							13
14	Depreciation not deducted elsewhere							14
15	Depletion							15
16	Taxes (exclude income tax expense (benefit))							16
17	Other deductions (attach statement—exclude income tax expense (benefit))							17
18	Total deductions (add lines 11 through 17)							18
19	**Net Income (Loss)**							19

The above is meant to be illustrative. The proposed New Schedule C-1 would replace schedules C, H, and I-1.

VI. b. Simplification Proposal: Potential New Schedule C-1

Schedule C-1 (Form 5471) Page 2 | Name of foreign corporation ______________________________ EIN / Reference ID ____________________

Part II — CFC Income by Income Group

Important: Complete a separate Part II for each applicable separate category/source.

	Categories of Income (column (b)-(g))	(a) Taxable Income	(b) FPHCI	(c) FBC Sales Income	(d) FBC Services Income	(e) Other Subpart F	(f) Tested Income	(g) Residual Income	
1	Gross income								1
2	Definitely related expenses								2
3	Related person interest expense								3
4	Other interest expense								4
5	Research & experimental expenses								5
6	Other expenses								6
7	Current year tax on reattributed income from disregarded payments								7
8	Current year tax on all other disregarded payments								8
9	Other current year taxes								9
10	Net income								10
11	Foreign taxes for which credit allowed								11
12	Average asset value								12
13	High-tax election								13
14	Loss allocation								14
15	Net income after loss allocation								15

The above is meant to be illustrative. The proposed New Schedule C-1 would contain a restructured Schedule Q.

VII. ACT Member Companies

3M
Abbott Laboratories
ADP
American Express Company
Baker Hughes
Bank of America Corp.
The Boeing Company
Boston Scientific Corp.
Carrier Global Corp.
Caterpillar Inc.
Chevron Corporation
Cisco Systems, Inc.
The Coca-Cola Company
Corteva Inc.
Danaher Corporation
Dell Technologies, Inc.
The Dow Chemical Company
DuPont
Eli Lilly and Company
Emerson Electric Co.
Exxon Mobil Corporation
GE Aerospace
GE Vernova Inc.
General Mills Inc.
Google, Inc.
The Home Depot Inc.
Honeywell International Inc.
IBM Corporation
Johnson & Johnson
Johnson Controls, Inc.
JPMorgan Chase & Co.
Kenvue Inc.
Kimberly-Clark
MasterCard Inc.
McCormick & Company, Inc.
Morgan Stanley
Oracle Corporation
Otis Worldwide Corp.
PepsiCo, Inc.
Procter & Gamble Co.
Prudential Financial Inc.
RTX Corporation
S&P Global Inc.
State Street Corporation
Texas Instruments, Inc.
United Parcel Service, Inc.
Verizon Communications Inc.
Walmart Inc.
The Walt Disney Company