Episodes 67- On the Microsoft Tax Audit

This document provides resources for educators looking for ways to incorporate current events into their curriculum. Each podcast episode is approximately 20 minutes long and available on all major podcast outlets for free. This document provides opportunities for either short-answer/essay-style questions or discussion questions to delve further into topics. Email taxnerds@gmail.com for an answer key.

In this episode, we discuss the issue behind the largest single IRS assessment in history, what Microsoft disclosed about the issue, and what might happen next.

Concepts covered

- Large business audits
- Transfer pricing/income shifting
- Uncertain tax positions/ FIN 48

Multiple choice/True False

1. How much was the 2023 IRS assessment against Microsoft?
    a. $16 B
    b. $29 B
    c. $40 B
    d. $79 B

2. The assessment revolves around intercompany transactions between Microsoft and affiliates in which jurisdiction?
    a. Bermuda
    b. Ireland
    c. Puerto Rico
    d. Singapore

3. For what services did Microsoft U.S. make transfer payments to its foreign affiliate?
    a. Customer Service
    b. Legal Support
    c. Research & Development
    d. Software Production

4. When related parties transact with each other, which standard governs the prices they are supposed to charge?
    a. Arm's length standard
    b. Affiliated pricing standard

    c. Adjusted risk standard
    d. Acceptable return standard

5. What did the IRS argue was wrong with the intercompany transaction between Microsoft and its foreign affiliate?
    a. The transaction price was not determined by economists.
    b. The transaction was illegal.
    c. The transaction price was too low.
    d. The transaction did not receive IRS approval before it happened.

6. What was the tax holiday Microsoft negotiated?
    a. A 0% income tax rate in a foreign jurisdiction in exchange for hiring additional employees in that jurisdiction.
    b. A 20% income tax rate in the U.S. in exchange for moving its production facilities to the U.S.
    c. A 35% income tax rate in the U.S. on royalty income.
    d. A 0% income tax rate in the U.S. on royalty income.

7. What is the U.S. financial accounting standard that mandates a minimum level of disclosure to investors about uncertain tax planning?
    a. FAS 109
    b. FAS 131R
    c. FIN 48
    d. ASU 2016-07

8. Which of the following best characterizes an uncertain tax position? Select all that apply.
    a. They can involve uncertainty about whether the company qualifies for a tax benefit.
    b. They can involve uncertainty about whether the tax position will be audited.
    c. They can involve uncertainty about whether the amount of the tax benefit claimed is accurate.
    d. They can involve uncertainty about whether the tax position was reported prominently on the tax return.

9. Which of the following best characterizes the requirements of FIN 48? Select all that apply.
    a. It reduces the amount of tax benefits from uncertain tax positions that companies can recognize in their financial statements.
    b. It requires firms to disclose pending assessments from tax authorities.
    c. It requires firms to include portions of their tax returns in their financial statements.
    d. It requires firms to disclose a liability to reflect an estimate of the additional taxes they might owe to a tax authority if audited.

10. Microsoft's liability for uncertain tax positions as of June 30, 2023 was ___________the IRS assessment.
    a. $12 B less than
    b. the same as
    c. $12 B more than
    d. $29 B less than

11. What is Microsoft's next step in the audit process?
    a. Pay the $29 B assessment.
    b. File a case in Tax Court.
    c. File an appeal with the IRS.
    d. Shut down its foreign affiliate.