

# IRS Announces New Individual §965 Compliance Campaign

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## PRACTICE AREAS

International Tax

The IRS Large Business and International division announced a new compliance campaign targeting individuals who may have unreported transition tax inclusions under IRC §965. The new campaign was announced on July 6, 2020.

Tax Cuts and Jobs Act of 2017 (TCJA) introduced sweeping changes to the taxation of foreign income. As a part of those changes, IRC §965 was introduced. IRC §965 requires that a U.S. shareholder of a controlled foreign corporation (CFC) or specified foreign corporation (SFC) include their share of post-1986 untaxed foreign earnings as if the earnings had been actually repatriated to the U.S.

IRC §965 was referred to as a “transition tax,” and the idea was that it would represent a toll charge in a shift from a worldwide tax system to a territorial model.

The new compliance campaign introduced by the IRS is titled “IRC Section 965 for Individuals”. The campaign aims to address non-compliance through soft letters and examinations. The IRS will start to address taxpayers who have not complied by mailing out soft letters and initiating examinations for tax years 2017 and/or 2018.

Soft letters are an enforcement tool used by the IRS to collect information from taxpayers. They represent an inquiry about a tax position reported or not reported in a certain year. Soft letters do not indicate a taxpayer is under audit or examination. They instead represent an attempt by the IRS to encourage voluntary compliance.

As the Internal Revenue Manual notes – not responding to a soft letter could lead to an examination: “If the soft letter requires a response, but none is received, next steps will be determined and pursued (including possibly

forwarding for examination”. Examinations can, of course, be costly and time consuming for taxpayers. If you receive a soft letter regarding IRC §965, you should contact a qualified tax professional to determine how best to respond.

If you have any questions, please do not hesitate to contact us.

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