



Highlights of [GAO-10-429](#), a report to the Chairman, Subcommittee on Select Revenue Measures, Committee on Ways and Means, House of Representatives

### Why GAO Did This Study

Every year, the U.S. receives millions of legal visits by foreign individuals. Nonresident aliens—who are neither U.S. citizens nor residents—may be required to file a federal tax return if they earn U.S.-source income, and their noncompliance can contribute to the tax gap. As with U.S. citizens and residents, the Internal Revenue Service (IRS) is responsible for ensuring that nonresident aliens fulfill their tax obligations. GAO was asked to (1) identify what data are available on nonresident alien tax filing and compliance, (2) provide information on guidance IRS provides to nonresident aliens and third parties on tax requirements and any challenges associated with filing, and (3) assess actions IRS takes to enforce nonresident alien tax compliance. To meet its objectives, GAO examined IRS and other federal agency documentation, reviewed tax filing and other data, and interviewed IRS officials and other third parties.

### What GAO Recommends

GAO suggests that Congress consider raising the exemption threshold for income paid by a foreign employer and eliminating the certificate of compliance, or sailing permit, requirement. GAO also recommends that IRS determine if creating an automated program to identify improper filing of Form 1040 by nonresident aliens would be a cost-effective means of improving compliance. In commenting on a draft of this report, IRS agreed with our recommendation.

[View GAO-10-429](#) or [key components](#). For more information, contact Michael Brostek at (202) 512-9110 or [brostekm@gao.gov](mailto:brostekm@gao.gov).

## TAX COMPLIANCE

### IRS May Be Able to Improve Compliance for Nonresident Aliens and Updating Requirements Could Reduce Their Compliance Burden

#### What GAO Found

For tax year 2007, nonresident alien individuals filed about 634,000 Forms 1040NR, the U.S. Nonresident Alien Income Tax Return. IRS has not developed estimates for the extent of nonresident alien tax noncompliance because it often lacks information to distinguish between nonresident aliens and other filers, and examinations can be costly and difficult since many nonresident aliens would depart the country before IRS could examine their returns.

IRS's outreach and education efforts have focused on presenting information on nonresident tax issues to a variety of audiences and making information available on its Web site and in its publications. Nevertheless, some nonresidents, their employers, and paid preparers may not be aware of nonresident alien tax rules, according to representatives of groups that work with employers and nonresidents to assist them in fulfilling their tax obligations. Other filing challenges exist. For example, individuals filing Forms 1040NR cannot file electronically. Also, nonresidents in the U.S. for less than 90 days who earn over \$3,000 in compensation for services paid for by a foreign employer will likely have to file Form 1040NR, even if they owe no tax. The \$3,000 exemption threshold, enacted by Congress in 1936 to lessen the tax compliance burden on nonresident aliens and never adjusted for inflation or other purposes, likely results in a greater proportion of nonresident aliens having a filing requirement today than in 1936.

IRS has expanded its nonresident alien enforcement efforts over the past decade. However, IRS does not have a program to automatically identify nonresident aliens who improperly file Form 1040 instead of Form 1040NR, which can result in lost tax revenue when these taxpayers take unallowed deductions. IRS may be able to use taxpayer information to identify this type of noncompliance systematically. Finally, some nonresidents must file a certificate of compliance, referred to as a sailing permit, before departing the U.S. to ensure that tax obligations have been satisfied. The requirement is difficult to enforce and few nonresidents fulfill it, potentially leading to broader noncompliance if individuals assume the lack of enforcement extends to other tax rules.

**Nonresident Alien Filing Statistics, Tax Years 2003 through 2007**

Form 1040NR filers	2003	2004	2005	2006	2007
Number of filers (in thousands)	627	638	648	636	634
Total income reported (dollars in billions)	\$7.8	\$9.3	\$11.2	\$13.4	\$12.8
Total tax liability reported (dollars in billions)	\$1.5	\$1.8	\$2.1	\$2.5	\$2.5

Source: IRS.