



## **Transfer Pricing Enforcement Hampered by IRS Cuts, Executive Says**

[Tim Shaw, Checkpoint News](#)

July 30, 2025 · 5 minute read

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The IRS' targeted enforcement campaign gained traction until the agency's workforce and spending pools began to shrink this year, but a transfer pricing specialist urged taxpayers towards voluntary compliance and proactive recordkeeping.

### Villainization of Transfer Pricing

Mimi Song, chief operating officer of tax services provider Exactera, told Checkpoint she did not expect at the beginning of her career that the area of transfer pricing would become one of the top tax enforcement priorities for the IRS. After over two decades as a professional in the transfer pricing arena, Song has found it to be a "fascinating space" in which there often is "no one right answer," as the variance in facts and circumstances make transfer pricing a highly contextual subject.

"But what I think is interesting," Song said, is the "public sentiment" in which lawmakers and officials "are almost villainizing the concept of transfer pricing." Song, who previously managed an end-to-end transfer pricing framework for the Bank of Tokyo-Mitsubishi (or

MUFG Bank), explained that for many transfer pricing critics, that concept seems to only exist “to give multinationals an opportunity to take advantage of tax arbitrage situations.”

But that is “not the case,” she continued. The arms-length principle, the core transfer pricing “rule” or “mechanism,” was created “to ensure that all jurisdictions are able to tax their fair share” of income.

Though, “when we think about the globalization of the digital economy, tax rules were set” back when there were only brick-and-mortar establishments, Song added. Tax laws “didn’t evolve quickly enough to address the digital economy, which allows for companies now to basically sell their goods and services anywhere without necessarily having any sort of tax obligation or liability in every jurisdiction ... on a global scale.”

Song gave credit to the Organization for Economic Cooperation and Development for the “great work” done to “help level the playing field” around the practice of base erosion and profit-shifting. However, Song does not believe there are always “negative intentions” behind what the OECD describes as a worldwide race to the bottom. “I think that it was a fiscal fiduciary responsibility for those companies to maximize their shareholder returns, which obviously includes ... minimizing their tax liability if it makes business sense to do so,” she said.

But the IRS, under former Commissioner Danny Werfel, made it a point to allocate funds and manpower towards increasing audit scrutiny on what Werfel said were often abusive transactions that served no economic purpose other than to reduce federal tax exposure. In 2023 and 2024, the IRS launched several compliance enforcement initiatives to highlight areas of substantial noncompliance and tax dollars left on the table.

### A Smaller IRS

Among areas of emphasis for the IRS during the Biden administration were high-income individuals, complex partnerships, and, of course, transfer pricing. Now, after months of executive and congressional action that has chipped away at the IRS’ budget and workforce, the future of those initiatives is in doubt.

According to a [July 18 report](#) from the Treasury Inspector General for Tax Administration, the IRS’ workforce is 25% smaller as of May compared to before President Trump’s inauguration in January.

This represents a combined total 25,386 employees that accepted a deferred resignation offer or had “used some other incentive to leave” the IRS. Plus, another 294 received termination notices as part of the Trump administration’s government-wide reductions in

force. Approximately 3,000 probationary IRS employees were let go in February in accordance with guidance from the Office of Personnel Management.

The Large Business & International Division is the IRS unit that carries out transfer pricing examinations. LB&I has lost 20% of its workforce as of June, National Taxpayer Advocate Erin Collins [reported](#). As a whole, the IRS is now without roughly a third of its revenue agent bullpen.

Song said transfer pricing is unique in how many different industries it plays a part in. This means an IRS auditor conducting a transfer pricing investigation will likely find themselves combing through troves of documents and records detailing a taxpayer's specific situation and rationale behind their position.

This is necessary, Song explained, because the IRS spends a significant amount of money and time to conduct these audits, so it is looking for the "smoking gun" to justify the cost. "They're asking for a lot more information ... almost because of the way that businesses have evolved," she said. Information is "much more readily available," so the IRS now expects more data.

According to Song, the IRS goes into transfer pricing audits with "this preconceived notion that the taxpayer is up to no good."

With that in mind, Song recommended taxpayers not to get more aggressive with their transfer pricing strategies, even with a smaller IRS. While it is highly plausible that transfer pricing audits may be slower and lesser in frequency, compliance costs can add up for companies that are not prepared to tell their story.

Worth noting is that transfer pricing auditors are instructed in IRS guidelines to encourage taxpayers to cooperate with their investigation and perform a self-risk assessment, as if to say: "Hey guys, make my life a little bit easier. If you do, then maybe your audit will go faster," so "tell me where you think your areas of risk are."

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