# Some multinationals count disputed tax claims as assets despite legal risks



Some corporations are currently identifying significant amounts of money owed to them by tax authorities as assets on their balance sheets, despite these authorities denying any obligation. This practice has drawn the attention of financial analysts and shareholders, who are increasingly aware that these so-called IOUs may conceal significant financial risks. As governments worldwide tighten their scrutiny of multinationals and new global minimum tax frameworks come into play, the potential for unpleasant surprises hidden within financial statements grows.

A prominent example involves Coca-Cola, which has recognised a substantial IOU totalling approximately $6 billion, stemming from a ruling by the US Internal Revenue Service (IRS). This payment arises from a protracted legal battle regarding allegations that Coca-Cola improperly shifted profits to low-tax jurisdictions like Ireland. Rather than reflecting this payment as a loss, the company has classified it as a noncurrent asset in its financials under “other noncurrent assets.” Coca-Cola argues that the IRS switched methodologies regarding how overseas profits are calculated, and this dispute is currently under appeal in a court in Atlanta.

The logic behind such accounting practices hinges on the notion that companies can classify disputed payments as assets so long as they retain avenues for legal appeal, bolstered by legal opinions asserting that a favourable outcome is likely. Notably, auditors must endorse this legal rationale, affirming its reasonableness. Nevertheless, there remains a significant risk, as demonstrated by the case of VF Corp, owner of brands like The North Face and Vans, which recognised an $876 million payment to the IRS based on the belief of likely recovery. After an adverse court ruling, VF Corp was compelled to write off this amount, resulting in a painful adjustment to its net income.

Tax disputes can drag on for years, and outcomes are rarely certain. For instance, Uber recently reported a halt in demands for quarterly top-up payments from His Majesty’s Revenue & Customs (HMRC) regarding the application of VAT on rides. The Uber case highlights not only the complex labyrinth of tax regulations but also the consequences that arise when these regulations are disputed. Previously, Uber had accumulated an IOU amounting to £1.4 billion while engaging in this legal tussle, a figure that had inflated while the court case continued.

The disparity in how companies present these one-sided IOUs can complicate matters for shareholders. They may be labelled differently across various organisations, making them challenging to detect in financial footnotes. Furthermore, companies may vary in the detail they provide regarding the legal bases for their "more likely than not" assertions. As accounting researcher Olga Usvyatsky noted, the risk lies in the accuracy of companies’ estimates of these probabilities. If such evaluations prove incorrect, investors may face unexpected and significant losses.

Beyond merely inflating balance sheets, these accounting strategies also impact income statements, affecting key performance metrics like earnings per share. For instance, Coca-Cola’s disputed payment contributes over $10 million monthly in notional interest, serving to boost profit figures. This financial manipulation not only creates a misleading picture in the present but could lead to severe implications if the outcomes of pending legal disputes do not favour the companies involved.

In light of these complexities, auditors are encouraged to enhance the transparency of financial disclosures, particularly concerning contentious tax positions. A more comprehensive discussion of "critical audit matters" within annual reports could provide shareholders with better insight into the underlying legal arguments and the reasoning behind such significant financial entries.

As discussions around corporate tax structures evolve, the practices of major corporations like Coca-Cola will continue to be scrutinised, revealing the broader implications for financial reporting and fiscal integrity in the corporate world. Companies and their auditors must tread carefully in these contentious areas, ensuring clarity and accuracy in their representations of taxable positions to safeguard investor interests in an increasingly litigious and complex regulatory environment.

### Reference Map

1. Paragraphs 1, 2, 3, 4, 5, 6, 7
2. Paragraph 1, 2, 3
3. Paragraph 6
4. Paragraph 4
5. Paragraph 3
6. Paragraph 3
7. Paragraph 6

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.ft.com/content/9820bc7e-19f2-4e06-a921-0a618c91d64f> - Please view link - unable to able to access data
2. <https://www.ft.com/content/9820bc7e-19f2-4e06-a921-0a618c91d64f> - This article discusses how companies, including Coca-Cola, are listing disputed tax payments as assets on their balance sheets, despite tax authorities denying any obligation to repay. It highlights the potential financial surprises for investors due to these 'IOUs' and emphasizes the need for shareholders to examine how companies account for controversial tax positions. The piece also mentions similar cases involving VF Corp and Uber, illustrating the broader implications of such accounting practices.
3. <https://www.ft.com/content/2e3070a5-ad8d-4962-9811-e257cd94911e> - The article reports on the Big Four accounting firms—Deloitte, PwC, and KPMG—criticizing the IRS for its 'arbitrary, capricious, and unreasonable' treatment of multinational companies, specifically supporting Coca-Cola in a dispute that could cost the company $18 billion. The dispute centers on 'transfer pricing' arrangements for profits between subsidiaries, with the IRS altering the tax treatment of intercompany payments. The accountants warn that such actions undermine confidence in the US tax system.
4. <https://www.coca-colacompany.com/media-center/us-tax-court-enters-decision> - This press release from The Coca-Cola Company announces that the U.S. Tax Court has entered a decision in the ongoing tax case between the company and the IRS, reflecting a liability of approximately $2.7 billion, with the total amount anticipated to be approximately $6.0 billion including interest. Coca-Cola disagrees with the decision and plans to appeal, believing that the IRS and the Tax Court misinterpreted and misapplied the applicable regulations.
5. <https://www.ft.com/content/cd05fb4b-8e67-4996-a5f3-bf1b8ccdf3af> - The article discusses Coca-Cola's decade-long dispute with the US tax authorities, potentially owing $16 billion in back taxes for profits allegedly sheltered in low-tax countries. It details the IRS's claims that Coca-Cola's subsidiaries were shifted to low-tax countries like Ireland to artificially inflate profitability, while the company insists it followed a previously agreed formula. The dispute has broader implications for the IRS's stance on corporate tax structures and could set a precedent for other US companies.
6. <https://www.ft.com/content/f69d3795-7057-4ed3-884c-56529488c522> - This article delves into Coca-Cola's significant tax dispute with the US Internal Revenue Service (IRS), where the IRS claims the company has been underreporting its taxes by manipulating profits to low-tax jurisdictions, resulting in a potential $16 billion bill in back taxes. Despite this, Coca-Cola's external advisors, including EY, believe the company will prevail on appeal, and thus the company has made no provisions for this in its income statements.
7. <https://www.irishtimes.com/business/2025/03/21/big-four-accountants-attack-us-tax-authority-over-capricious-treatment-of-coca-cola/> - The article reports on the Big Four accounting firms—Deloitte, PwC, and KPMG—criticizing the IRS for its 'arbitrary, capricious, and unreasonable' treatment of multinational companies, specifically supporting Coca-Cola in a dispute that could cost the company $18 billion. The dispute centers on 'transfer pricing' arrangements for profits between subsidiaries, with the IRS altering the tax treatment of intercompany payments. The accountants warn that such actions undermine confidence in the US tax system.