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California to Compel Banks to Disclose Delinquent Taxpayer Account Date

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SB 86 just passed by the legislature includes a new provision for collection and enforcement of California tax liabilities. New Revenue and Taxation Code §19266 establishes the Financial Institutions Record Match System. The new record match system will require financial institutions operating in the State of California to match their depositor lists against a list of names and identification numbers of delinquent taxpayers and provide the results to the Franchise Tax Board on a quarterly basis.

Information provided to the Franchise Tax Board will be provided in confidence and without notice to the depositor taxpayer. There is no liability on the part of the financial institution for providing the information, but penalties if the information is not provided. Taxpayers need to recognize that bank secrecy is a myth if they owe money to the State of California.

When new R&T§19266 is viewed in conjunction with the Voluntary Compliance Initiative Two, set forth in R&T §19761 it is clear that California is applying a “carrot and stick” approach to tax compliance. It is going after existing delinquent tax debtors with the record match system and giving a chance to investors in abusive tax shelters and holder of unreported offshore accounts to minimize their penalty and prosecution exposure. For taxpayers who fail to deal with their tax obligations the “tax man commeth”. Since making a voluntary disclosure involves potential admissions of criminal wrongdoing, advice of counsel should be sought.

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