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IRS Targets Overseas Accounts

The IRS has set their aim at the wealthy taxpayers who maintain overseas bank accounts filled with undeclared taxable money. At the same time, the IRS is developing regulations that would require overseas banks to divulge information on their customers suspected of tax evasion.

One of the new IRS regulations sees the IRS directing foreign banks to focus more on customers who have in excess of \$500,000 in their bank accounts and with private banking arrangements rather than those with only \$50,000 or less. IRS regulations were passed by Congress last year and takes effect in 2013. These regulations compel foreign banks to inform the IRS about US account holders' details as part of continuous efforts to eradicate offshore tax evasion. Banks based outside the US face 30% withholding tax on certain payments from inside the US if they do not release the required information with the IRS.

The introduction of the regulations will have far-reaching impact on how banks conduct their business, including the operational processes like opening of accounts, and other aspects like IT management. As such the IRS has released a set of guidelines explaining the new regulations.

Banks and financial institutions around the world have shown their

eagerness to understand the new regulations. They include Allianz SE, Aegon NV and Commonwealth Bank of Australia who have posted comments with the IRS as soon as the first set of guidelines were released in August.

In a related development, the Justice Department has sought permission from the court to compel HSBC Bank USA to release details of their account holders of their branch in India who are suspected of tax evasion. The account holders are mostly US residents of Indian descent.

If the court grants the Justice Department petition, the IRS will issue a 'John Doe' summons that instructs HSBC to divulge information on US taxpayers with bank accounts at HSBC India. Such John Doe summonses are commonly used by the IRS to obtain information on people of unknown identities suspected of tax evasion.

The IRS petition to the court arose because of a case involving a man named Vaibhav Dahake of Somerset, New Jersey who was indicted in January of using undeclared accounts in the British Virgin Islands and HSBC India to dodge taxes. Petition records show that employees of HSBC Plc and its affiliates in the US assured Dahake that assets in HSBC India would not be reported to the IRS. As such, the IRS has reasons to believe that many HSBC India account holders are doing the same.

Part of the IRS efforts to combat tax evasion through offshore accounts is the Voluntary Disclosure program that is currently ongoing. This program allows errant taxpayers to step up and disclose their offshore assets, pay up their taxes with interests and penalties but avoid criminal prosecution. In the last Disclosure program in 2009, some 15,000 taxpayers participated and the IRS is still pursuing other taxpayers with information it obtained

there. The current disclosure program ends August 31.