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IRS Proposal for Bank Disclosure of Foreign Accounts

This month the IRS proposed that governments should share information with other governments on details of their citizen's accounts held in US banks. This proposal is to get around bank secrecy laws after the long-running dispute between the IRS and UBS Bank of Switzerland that ended with the bank disclosing details of thousands of American account holders suspected of using these accounts to hide their assets.

The proposal has found agreement in the Obama Administration that says US banks should disclose to the IRS their accounts held by foreigners. This is in line with an earlier proposal during the Clinton administration on this matter.

New regulations have been set requiring foreign banks to reveal US customers to the IRS and withhold 30% of US interest and dividend payments from account holders who provide inadequate information to determine whether or not they are US citizens.

At present, a foreigner who has a bank account in a US bank and who resides abroad is not taxed on the interest earned by that account. Neither is the account reported to the IRS unless the foreigner is a resident of Canada. This makes it difficult for the IRS to provide information about such an account to a comparable tax agency in another country.

This new proposal is almost identical with the one earlier proposed by former President Clinton on January 17, 2001, three days before he left office. That first proposal was objected to by the Chairman of the House Ways and Means Committee, Bill Thomas and by certain banking groups namely the California Bankers Association, the Florida Bankers Association, and the Conference of State Bank Supervisors on the basis that such a move would result in massive capital flight from US banks.

The 2001 Clinton proposal also met with objections from the Center for Freedom and Prosperity (CFP). Andrew Quinlan, president of CFP said his group would also oppose the same proposal by the Obama Administration saying such a regulation would provide information to foreign governments, thereby putting the interests of foreign tax collectors above US law and before the US economy.

According to figures released by the US Commerce Department, foreigners have invested about $10.6 trillion into the American economy, out of which $3.6 trillion is held in banks and security brokerages. A study conducted in 2004 concluded that the Clinton proposal would have cost the economy a loss of $88 billion in capital.