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IRS Mulls Repeating Voluntary Disclosure Program

The IRS is 'seriously considering' repeating the Voluntary Disclosure Program for holders of secret offshore bank accounts that provides a partial amnesty from full prosecution of the law. The first Voluntary Disclosure Program was held between March and October 2009 that drew a response from 15,000 taxpayers arising from a crackdown on American offshore accounts in UBS bank of Switzerland. These taxpayers were spared from legal prosecution and only paid a fixed penalty. Since last October, another 3,000 taxpayers have 'fessed up, who face undetermined penalties.

Under the first program, the average payment to the IRS was more than \$200,000 per person.

The 18,000 taxpayers had to declare their assets, the names of the offshore banks, the names of bankers and advisors and their contact information.

As a result, more than two dozen UBS clients, bankers or advisors have been charged with tax crimes. UBS also paid a fine of \$780 million to the US in lieu of criminal prosecution and surrendered the names of American account holders it helped to dodge taxes.

However, if another amnesty period is allowed, the terms would be

different. According to IRS Commissioner Doug Shulman, the terms will not be as favorable as for those who stepped forward under the first program. In the original program, the account holders had to pay taxes on 6 years of undeclared income and a 20% penalty on those taxes plus 20% on the highest balance in the undisclosed accounts over the 6 years. This is a reduction from the normal penalty of 75% on unpaid taxes plus 50% on the highest balance.

Tax lawyers applauded the move for a second disclosure program.

Shulman said the information disclosed by the 18,000 taxpayers have been invaluable to the IRS 'in supplementing and corroborating prior leads, as well as developing new leads, involving numerous banks, advisers and promoters from around the world, including Asia and the Middle East'.

As a result, other tax havens like Luxembourg, Dubai and Singapore have started to feel the effects of the US initiative and have started to pay attention.

On the other hand, a new program that imposes a penalty of over 50% may be counter-productive as the high cost deters taxpayers from stepping forward, many of whose entire accounts would be wiped out.

Furthermore, some tax experts acknowledge that there are many taxpayers who do not intentionally dodge taxes but were prevented from paying up due to 'technical compliance issues'