February 8, 2012

US Government Indicts Wegelin for Tax Fraud

About a month ago, three officials from Wegelin, Switzerland's oldest bank, were indicted for abetting tax evasion. Now the bank itself has gone down the same path as the Justice Department indicts Wegelin on charges of assisting wealthy American taxpayers hide their taxable income in offshore accounts with the bank. It is estimated that at least $1.2 billion has been hidden in bank accounts held in Wegelin, based in St Gallen.

The latest move by the Justice Department has certainly set off speculation as to which bank the US government will go after next. A private banker based in Geneva commented, "It seems the US is shooting at everything in sight and we don't know when it's going to stop. I think the chances of another bank being indicted are pretty big. After all, why should the U.S. stop? Switzerland is small, it's an easy target, but a lot of money can be made out of it. When this whole thing started we didn't know how far the US would go, but now we've found out."

The recent events have caused many Swiss private bankers to avoid stepping into the US, even for personal holidays for fear of being arrested. The events have also prompted the sale of the 270 year old bank, which took place last week.

Some quarters have blamed Wegelin's outspoken Chief Executive Officer, Konrad Hummler of "brining the indictment himself" because of his unrestrained comments against the US in their hunt for tax evaders in offshore banking havens like Switzerland. Apparently, the Justice Department was irked by a "farewell, America" letter Hummler wrote to Wegelin clients in 2009, in which Hummler urged clients to sell any US securities they owned due to the increased Internal Revenue Service scrutiny of tax evaders.

Wegelin's rival banks have largely regarded Hummler's letter as a veiled invitation for clients to move their funds to Wegelin now that the US has begun its crackdown on tax evasion in Swiss banks like UBS Bank and Credit Suisse. Some in the Swiss banking circles deduced that Hummler's mistake was thinking Wegelin would not be targeted by the IRS because the bank does not have any US branches.

In the Wegelin sale, the bank moved most of its employees, along with clients and assets worth 21 billion Swiss francs to Notenstein Privatbank, which was itself bought by Swiss cooperative bank Raiffeisen for an undisclosed sum.

The indictment of Wegelin bank coincides with the IRS' latest offshore voluntary disclosure program in which the government allows taxpayers to confess to their tax evasion in exchange for a waiver of criminal prosecution.