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Another IRS Voluntary Disclosure Program

Get ready for another offshore voluntary program. After two successful Voluntary Disclosure Programs in which about \$4.4 billion in hidden taxes was collected from about 33,000 taxpayers, the IRS is set to organize another one soon. In 2009, the first Voluntary Disclosure program, about \$3.3 billion in taxes and fines was collected whereas the second program in 2011 collected another \$1 billion.

The Voluntary Disclosure program is aimed at giving the opportunity to those who have been hiding taxable income in offshore accounts to declare their assets, pay a fine and avoid criminal prosecution. This time, the participants will have to pay a penalty of up to 27.5% of their biggest offshore asset or their biggest overseas bank account. They must also reveal details of the banks and identities of the advisers who helped them dodge paying taxes.

Since 2009, the IRS has stepped up its worldwide crusade against tax evasion by investigating and prosecuting tax cheats especially in well-known tax shelter countries like Switzerland, Panama, Lichtenstein, Hong Kong etc. In 2009, the IRS investigated UBS bank of Switzerland and successfully drew an admission from the bank that some of its officers had helped wealthy US clients start bank accounts for the purpose of depositing taxable income to evade taxes. This resulted in a fine of \$780 million and the disclosure of more than 4,500 names of American UBS depositors suspected of tax evasion. Since then, the IRS has also investigated HSBC Holdings Plc and the latest case involved Weglin & Co., another Swiss bank. Weglin & Co have admitted that 3 of its officers were involved in helping US depositors hide more than \$1.2 billion in bank accounts from the IRS.

“We’re gaining momentum in our international efforts and the word is spreading across the globe,” IRS Commissioner Doug Shulman told reporters on a conference call recently. Similar comments were made by Senator Carl Levin (D-Michigan), head of the Permanent Subcommittee on Investigations when he said the statistics show “how enormous the offshore tax evasion problem is”. In a recent press release, Levin said, “Taxpayers are turning themselves in because federal prosecutors have finally begun to go after the individual tax-haven banks, bankers and other financial professionals helping them cheat on their taxes.”

In the upcoming disclosure program, the IRS is raising the penalty rate to 27.5% compared to the penalties of 25% and 20% imposed in the 2011 and 2009 programs respectively. Taxpayers with smaller amounts of assets to declare will be charged lower rates. In addition, Shulman also said the rates may be increased or the program might be ended at any time. Unlike the previous two disclosure programs that had definite end dates, this next one will not.

“It makes a lot more sense for them to come in now and get the protection of not being prosecuted criminally,” Shulman said. “If we catch them involuntarily, it’s going to be much worse for the taxpayer.”