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Robert W. Wood

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5 Nations Join U.S. In Tax Evasion Crackdown

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If you thought the world was becoming a smaller place ***before***, get ready. The U.S. Treasury—jointly with France, Germany, Italy, Spain and the U.K.–issued a statement expressing the intent to implement a government-to-government Foreign Account Tax Compliance Act (FATCA) framework. With nice timing, this notice was paired with the parallel release of massive proposed regulations to implement FATCA. See Treasury, IRS Issue Proposed Regulations for FATCA Implementation.

Whatever your view on the U.S. taxing authorities, it's hard not to be impressed by the IRS' foray into disclosure, reporting and withholding. After the U.S. carrot-and-stick approach with UBS and others, it enacted FATCA as the reporting and disclosure law for foreign financial institutions (FFIs). See Stripping FATCA From Our Diet. The law has rankled many in the international community, reaching the long arm of the IRS into foreign countries.

In effect, it orders foreign banks how to behave, forcing foreign institutions to do the IRS's dirty work. See Expats Call For FATCA

Repeal. At least that's the pejorative spin that seemed to threaten the very survival of the law. See Are Expats Derailing The FATCA Express? But that was ***then***.

Now, the U.S. and five key nations are shaking hands on joint efforts ***against*** tax dodgers. The U.S. is the big winner, but there's something for the gang of five nations too. See U.S. enlists 5 EU nations in offshore tax crackdown. The U.S. is willing to reciprocate in collecting and exchanging data on an automatic basis. See IRS: Expect Even More Transparent Foreign Accounts.

That means key details on accounts held in U.S. financial institutions by residents of France, Germany, Italy, Spain and the United Kingdom will be transparent. The approach under discussion would enhance compliance and facilitate enforcement to the benefit of all parties. See Foreign Deal on Tax Dodging. Many details remain to be worked out, but an outline is in place.

The five U.S.-tied countries support the underlying goals of FATCA. That segues nicely into the concerns whether some FFIs may not be able to comply with reporting and withholding requirements because of their ***own*** foreign country legal restrictions. In many cases, existing tax treaties will be used so FFIs can turn over information to their ***own*** governments rather than to the IRS directly.

What if the laws aren't in place to require FFIs to hand over data to their governments? The five nations will pursue such laws. Then the ***governments*** can swap data with each ***other***, and tax dodgers get caught.

For its part, the U.S. will ease up on the FFIs and not require separate agreements as long as FFIs are registered (or exempt), and as long as the U.S. is getting the info from the foreign governments. It's a win-win. See Will IRS Get Fat Off FATCA?

The U.S. is even willing not to sweat the small stuff that is unlikely to present big risks of tax evasion. That's good news for overburdened institutions. Some accounts are too small to bother with. Plus, it looks as if FFIs won't need to take the most serious actions like terminating accounts of customers who refuse to comply with disclosure details.

The U.S. may still not have elevated FATCA to the ranks of the most popular laws. See FATCA Carries Fat Price Tag. However, the joint announcement with five European nations is a huge win for the U.S. Treasury and the IRS. More will clearly follow.

For more, see:

FATCA: costs of compliance may be less than expected

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IRS FATCA Guidance, Round 3

Oh Canada! Hating FBARs And FATCA

Robert W. Wood practices law with Wood LLP, in San Francisco. The author of more than 30 books, including Taxation of Damage Awards & Settlement Payments (4th Ed. 2009 with 2012 Supplement, Tax Institute), he can be reached at Wood@WoodLLP.com. *This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.*