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Dual Citizens Worry: Will Israel Get A Special FATCA Deal?

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No U.S. person living abroad or U.S. person with foreign accounts or assets likes FATCA, the massive disclosure law enacted in 2010. See Oh Canada! Hating FBARs And FATCA. No foreign bank or financial institution does either. Some fee-based advisers may stand to make a pretty penny off the reams of disclosures and paperwork FATCA is producing. But no one else is happy with the law.

That includes foreign governments. But much of the multi-language grumbling may have been silenced by the accord announced by five European nations as they lined up with the Obama administration over transparency. See 5 Nations Join U.S. In Tax Evasion Crackdown. But that's hardly everyone.

In fact, reports suggest that Israel's government may ask for a deal to ease FATCA's impact. Israel is estimated to have 100,000 American citizens, many of whom have little contact with the U.S. and don't even visit. However, under FATCA's onerous disclosure provisions, their Israeli bankers will have to establish their citizenship and report their financial affairs to the IRS.

Israeli banks are doing what other foreign banks are doing: writing to their U.S.-national clients to warn them of the bank's FATCA reporting obligations. In some cases, banks are evidently coming down hard on U.S. clients, even advising that their accounts will be frozen unless they step forward and notify the IRS. Banks vary in what they are requiring and how rigorous they are about getting documentary proof from their customers. Yet any way you slice it, the reception is a cool one.

FATCA takes effect in earnest in January 2013, and financial institutions are gearing up in an effort to cope. Israel has a major U.S. presence, with larger numbers of affected Americans than any other country except Canada, which has had its own flurry of activity. See Oh Canada! Hating FBARs And FATCA.

Meanwhile, the Association of Banks in Israel has already asked Israel's central bank (Bank of Israel) for guidance. Some expect the Bank of Israel to ask the country's cabinet to reach a tax agreement with the U.S. to minimize the rather substantial disruption FATCA is already causing. And the disruption isn't over.

Curiously, Israel could rely on the precedent established when the U.S. entered into its deals with France, Germany, Italy, Spain and the U.K. That now seems to have been a smart move by those five countries. At the time they issued a statement embracing their work with the U.S. and IRS authorities.

The payoff? Their foreign banks need not deal directly with the IRS but can obtain FATCA-compliant status through their ***own*** governments. Hey, that sounds almost like sovereignty!

For more, see:

Israel May Seek Special Treatment On FATCA

FATCA Carries Fat Price Tag.

Will IRS Get Fat Off FATCA?

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IRS FATCA Guidance, Round 3

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