



US anti-tax evasion law, FATCA, starts to hit home

By **Virginie Montet**
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The US Treasury has opened a new front in its war against offshore tax evasion. But for some it amounts to financial imperialism.

Americans with legitimate bank accounts outside the country, and foreigners working in the United States, have begun receiving letters from their banks in Paris, Tokyo, Johannesburg and elsewhere, informing them that their account information is being turned over to the US tax authority.

It is the culmination of a years-long effort by the Treasury, straining to close the chronic US budget deficit, to get to unreported incomes taxable under US law that get hidden away in bank accounts around the world.

For some the new Foreign Account Tax Compliance Act (FATCA) is an outrage: their foreign banks are now handing over their confidential information to the US government.

Under newly inked treaties with the United States, some 100 000 foreign financial institutions in more than 100 countries must report to the Treasury on the accounts of any so-called "US persons" - a US citizen, or anyone with an immigrant's "green card" or a US work permit.

"That's shocking, how can they do that?" said Helene, a French woman working in Washington after receiving a letter like that from her bank back home. She did not want her family name used.

For some time Americans with bank accounts abroad have been required to report them to the Treasury's Internal Revenue Service (IRS), in case they have US-taxable income in them.

But FATCA now puts the burden on foreign financial institutions to do the reporting. If they do not, the Treasury threatens a 30 percent withholding tax on the bank's US earnings.

Official estimates say FATCA will uncover enough hidden assets and income to generate some \$8-billion in additional tax payments to the US government over 10 years.

Richard Harvey, a tax law professor at Villanova University who helped craft the FATCA rules, estimates the take could be "more like \$20 to \$30-billion".

But with the huge task of collecting the data and handing it over, some foreign banks are wondering if allowing accounts from potentially US tax-liable customers is worthwhile.

In September La Revue Suisse, a newsletter for Swiss citizens abroad, said that some banks had stopped accepting accounts from certain clients because of the tougher regulations.

"I know that foreign nationals who live in the US, some of them have had their bank accounts back in Europe shut down," said Dan Mitchell, a tax reform expert at the Cato Institute.

"You are not talking only about Swiss banks or Cayman banks... you are talking banks in the UK, in Japan. Nobody likes this law."

Renouncing citizenship

The problem of the wealthiest Americans hiding money overseas to avoid taxes has existed for a long time. Harvey said FATCA was created in part because of the fear that the globalization of finance would give far more people the opportunity to hide their money.

"It was becoming very clear that it wasn't going to be just the very wealthy, but that it could really be the middle class and upper-middle class that could start moving income offshore."

While foreigners inside the United States squirm over having their offshore account data delivered to the IRS, a number of US citizens facing the same treatment are voting with their feet.

With the IRS chasing their accounts to force them to pay US taxes, last year some 3 000 people gave up US nationality, and another 1 577 did so in the first half of 2014.

But even doing that has been hit by the government: Washington has now hiked the fee for formally renouncing citizenship to \$2 350 from \$450.

And paying that does not fully fend off the taxman. The Treasury says renouncing citizenship will not erase outstanding US tax obligations.

FATCA, meanwhile, is generating ire against foreign governments for accepting the US reporting rules.

In Canada, where there are many people with dual US-Canadian nationality, the Alliance for the Defence of Canadian Sovereignty accused Ottawa of infringing on their rights by signing a FATCA accord with Washington.

The Cato Institute's Mitchell criticized the fact that, for their part, US banks are not even permitted to supply information to foreign governments on their nationals' US accounts.

"There is no reciprocity, it's a one-way street. It really is financial imperialism on the part of the USA."