**January 9, 2012**

# Your Offshore Account May Get You into Tax Trouble

The IRS has so far conducted two voluntary disclosure programs in order to recoup tax money from offshore financial accounts that has been unpaid. As a result, the agency collected about nearly $3 billion in taxes, interest and penalties from 30,000 taxpayers that participated in the disclosure programs as of September 2010. If you have an offshore bank account in which you hide taxable income, beware because the law is fast catching up with you.

In the past, many people hide their income in Swiss bank accounts because of the Swiss banking laws that allow secrecy. But since 2009, the IRS has been waging an all-out war against tax cheaters (and they have been winning). So these days, it does not pay to hide your assets offshore anymore unless you do not mind spending time behind bars.

The IRS has been employing various methods to recoup lost taxes that include but are not limited to:

• Enforcement of legislation – the Foreign Account Tax Compliance Act (FATCA) requires taxpayers to report their assets worldwide above certain thresholds.

• The John Doe summons – this is a summons that empowers the IRS to summon anonymous persons that fit into a particular category. This was the summons the IRS used to compel the Swiss bank UBS to divulge personal banking details of more than 4,500 of its American customers suspected of dodging taxes.

• Forming agreements with other countries – these types of agreements are called Tax Information Exchange (TIE) Agreements. The government has signed these agreements with countries like Lichtenstein and Andorra, among others. Under the agreement, if the US is investigating a US citizen based in the foreign country that signed a TIE, the signatory country must give its full cooperation. It covers criminal and civil tax fraud. This is important because in Switzerland they never recognized civil tax fraud, but this loophole's been closed.

• Subpoenas – this is a new method used to get taxpayers to surrender incriminating evidence under penalty of contempt of court. But if they do comply, they incriminating themselves (strange as it may sound).

The penalties for tax evasion in offshore accounts are pretty steep. You may end up losing every cent you have overseas and still owe fines to the government. Generally, the basic fine is half of the highest balance in the account, every year. Then there is tax fraud penalty, which can be 75% of the taxes due. And willful fines could be $100,000 per account per year. This can easily make you bankrupt. On top of these, there is the possibility of jail time, house arrest or probation.

So the take home from this is – do not try to game the system. Instead, make sure all your assets (especially offshore ones) are tax-compliant.