U.S., Cayman Islands Reach Tax Deal

by Joseph M. Donegan on August 28, 2013

Falling in line with the push for greater global collaboration to combat tax evasion, the United States and the Cayman Islands have reached a tax deal to fight violations.

The partnership - which is partially designed to encourage other low-tax and favorable tax havens to join the U.S's anti-tax evasion legislation - means that the highly-scrutinized Cayman Islands will participate in the Foreign Account Tax Compliance Act set to take effect in July 2014. More specifically, the agreement "will provide certainty to Cayman's significant fund industry with respect to FATCA implementation," said Robert Stack, the U.S. Treasury Department's deputy assistant secretary for international tax affairs, according to Reuters.

The deal is a large win for the U.S.'s battle against tax evasion, as the small Caribbean destination currently has no income tax and is therefore a popular location for individuals with large investment holdings. Once the agreement between the U.S. and the Cayman Islands is signed, the latter will be required to disclose account information on all U.S. clients who hold more than $50,000 in assets in the small island. However, these thresholds may be higher for those who are married and filing jointly, the IRS noted. Failure to comply with the new tax law could result in a 30 percent withholding tax on U.S. source income, and may result in countries essentially being pushed out of U.S. markets.

The threat of these penalties may play a role in encouraging other small islands and countries who have not yet signed agreements with the U.S. to either do so, or risk being alienated from lucrative U.S. financial markets. For example, Bermuda and the British Virgin Islands have yet to forge an agreement with the U.S., and may face difficulties competing for investment funds with other countries that have entered into an international partnership, Reuters explained.