

## PSI Report on "Tax Haven" Banks and US Tax Compliance

2008-07-17

Today the United States Senate Permanent Subcommittee on Investigations (PSI) issued a report on "Tax Haven Banks and US Tax Compliance." The PSI makes several recommendations to strengthen reporting (for tax purposes) of foreign accounts held by US persons.

Reforms recommended by the PSI include the following:

1. **Strengthening Qualified Intermediary (QI) Reporting of Foreign Accounts Held by US Persons.** In addition to prosecuting misconduct under existing law, the IRS should strengthen Qualified Intermediary Agreements by requiring QI participants to file 1099 forms for (1) all US persons who are clients (whether or not the client has US securities or receives US source income); and (2) accounts beneficially owned by US persons, even if the accounts are held in the name of a foreign corporation, trust, foundation, or other entity. The IRS should also close the "QI-KYC Gap" by expressly requiring QI participants to apply to their QI reporting obligations all information obtained through their Know-Your-Customer procedures to identify the beneficial owners of accounts.
2. **Strengthening 1099 Reporting.** Congress should strengthen the statutory 1099 reporting requirements by requiring any domestic or foreign financial institution that obtains information that the beneficial owner of a foreign-owned financial account is a US taxpayer to file a 1099 form reporting that account to the IRS.
3. **Strengthening QI Audits.** The IRS should broaden QI audits to require bank auditors to report evidence of fraudulent or illegal activity.
4. **Penalizing Tax Haven Banks that Impede US Tax Enforcement.** Treasury should penalize tax haven banks that impede US tax enforcement or fail to disclose accounts held directly or indirectly by US clients by terminating their QI status, and Congress should amend Section 311 of the Patriot Act to allow Treasury to bar such banks from doing business with US financial institutions.