



**August 27, 2011**

## Offshore Voluntary Disclosure Initiative Deadline Approaches

The Offshore Voluntary Disclosure Initiative (OVDI), the IRS amnesty program for those with undeclared tax money in overseas accounts, is closing September 9. The original deadline was August 31 but has been extended due to Hurricane Irene. The OVDI is the IRS' program that gives a chance to taxpayers who have been evading taxes on their overseas assets to step forward and declare them in exchange for limited punishment. Even though the full weight of the law will not be brought down on the offenders, the punishment would still entail hefty fines and interests. But criminal charges will not be made.

If you have not declared your money in bank accounts overseas, you have only a short time left to do so. In 2009, when the IRS had a similar amnesty program, some 15,000 taxpayers participated. It was also the time when the IRS had its much-publicized tussle with UBS bank of Switzerland over the bank's involvement in abetting American tax evaders. Finally, the bank was fined \$780 million and was compelled to disclose personal banking details of more than 4,400 of its US clients suspected of dodging taxes. This month, a former UBS banker was charged with helping American clients hide more than \$216 million of taxable money in 60 bank accounts.

Now the IRS has moved its focus on another international bank, HSBC bank. The US has a worldwide taxation policy, meaning that if you are an American citizen, you are obligated to file US tax returns no matter where in the world you live and no matter from where you derive your income. If you live and work overseas, chances are you have a foreign bank account. Under US tax law, you must declare your foreign accounts if at

any time during the calendar year you have at least a total of \$10,000 in them.

Failure to declare your foreign assets could cost you between 300% and 350% of your assets. If the IRS discovers your foreign account, you will be liable to pay 50% of the accounts value for each year undeclared. However, under certain circumstances, you may be eligible for a reduced 25% fine instead. In addition, the IRS will impose a 25% one-time penalty on the amount of money you have overseas, levy interests and penalties and claim any outstanding back taxes.

Not only are tax cheats liable for the above punishments, but also innocent taxpayers ignorant of the law. It is common to find US taxpayers unaware of their foreign tax obligations. Among them are Americans who work, live and have married locals in foreign countries, second or third generation Americans from other countries living in the US who still maintain foreign assets etc.