

TREASURY SET TO CHASE OFF MORE FOREIGN CAPITAL

SATURDAY, JANUARY 08, 2011

The U.S. does not tax nonresident aliens on interest earned on their U.S. bank deposits. This is an implementation of a policy to draw their capital to the U.S.

The Treasury Department doesn't care too much about this policy – its mission is to increase tax compliance and collections. This disconnect with the broader policy of nontaxation is evident in recent proposed regulations issued by the Treasury Department.

Presently, under current Regulations, U.S. bank deposit interest payments are reported to the IRS only if the interest is paid to a U.S. person or a nonresident alien who resides in Canada. Treas. Regs. §1.6049-8. The IRS has now issued new proposed Regulations that will extend information reporting requirements to include bank deposit interest paid to nonresident aliens who reside in any foreign country.

The rationale for the enhanced reporting is to strengthen the U.S. information exchange program (*i.e.*, the U.S. reporting of tax information to other countries so that other countries can tax their residents) and reducing the ability of U.S. persons to avoid taxation by fraudulently claiming to be nonresident aliens.

Will this Regulation, if finalized, decrease U.S. bank deposits (and the resulting lending and increased economic activity that results from such deposits)? Well, it surely isn't going to increase them.

Proposed Treas. Regs. §1.6049-4 , §1.6049-5 , §1.6049-6 , §1.6049-8 , §1.3406(g)-1

Authored by Charles Rubin, Esq. Mr. Rubin is a Florida Bar Board Certified tax attorney with the firm of Gutter Chaves Josepher Rubin Forman Fleisher P.A. (www.floridatag.com) His practice focuses on protecting & enhancing individual, family & business wealth through: Planning to Minimize Taxes (U.S. & International) • Estate Planning, Charitable, Marital & Succession Planning • Business Structuring & Transactions • Trusts & Estates (Administration-Disputes-Drafting) • Creditor Protection. He can be reached at 561-998-7847 or at crubin@floridatag.com. This article was previously published at <http://www.rubinontax.blogspot.com>.