Alerts and Updates

IRS ANNOUNCES NEW VOLUNTARY DISCLOSURE PROGRAM WITH TRANSLATIONS IN EIGHT LANGUAGES

March 31, 2011

体字| Deutsch | 한국어| Español | فارسی| हिन्दी| русский язык | Tiếng Việt

The U.S. Internal Revenue Service (IRS) has announced a special voluntary disclosure program designed to bring offshore funds back into the U.S. tax system. The deadline for participation in the program is August 31, 2011. IRS Commissioner Douglas Shulman calls this new initiative "the last, best chance for people to get back into the system." We gave a detailed explanation of the program in our February 9, 2011, *Alert*, "IRS Announces New Voluntary Disclosure Program."

The new program is formally called the 2011 Voluntary Disclosure Initiative (OVDI) and has the following general components:

- A penalty equal to 25 percent of the amount held in foreign accounts/entities or value of foreign assets in the year with the highest aggregate asset value covering the periods 2003 through 2010.
    - A reduced penalty of 12.5 percent for those situations where the taxpayer's foreign assets did not exceed $75,000 in any calendar year covered by the program.
    - A 5-percent penalty for taxpayers who did not open the foreign account and for foreign residents who were unaware they were U.S. citizens.
- The filing of original and amended tax returns and the payment of taxes, interest and an accuracy-related penalty no later than August 31, 2011.

Potential Candidates for the OVDI

The OVDI applies primarily to U.S. persons and entities who have not complied with all of their U.S. tax-reporting obligations, including the following:

- Dual citizens of the United States and another country
- U.S. citizens living or doing business abroad
- U.S. green card holders
- Closely held U.S. business with operations abroad

- U.S. recipients of gifts and bequests from foreign persons
- U.S. beneficiaries of foreign trusts
- U.S. immigrants, particularly those who may have fled their home countries in times of strife

While the IRS is not targeting any specific ethnic groups for this program, the IRS has translated information about the program into:

- Chinese (both traditional and simplified)
- German
- Korean
- Spanish
- Farsi
- Hindi
- Russian
- Vietnamese

Why Should a Taxpayer Participate in the Offshore Voluntary Disclosure Initiative?

When a taxpayer makes a truthful, timely and complete disclosure of the taxpayer's noncompliance, the IRS will not recommend criminal prosecution. Taxpayers who do not submit a voluntary disclosure run the risk of detection by the IRS and the imposition of substantial monetary penalties, including the civil fraud penalty and various foreign information return penalties. All of these penalties are in addition to the risk of criminal prosecution and imprisonment. The IRS has increased its investigation of the foreign financial activities of U.S. taxpayers. Information regarding U.S. taxpayers' foreign activities has become more readily available to the IRS through tax treaties and whistleblowers. In addition, the IRS has confirmed it has expanded its investigation of foreign banks far beyond Switzerland's UBS, to other banks (large and small) in Europe, the Middle East and Asia.

For Further Information

If you would like more information about voluntary disclosure for offshore accounts, please contact Thomas W. Ostrander, the author of this *Alert*; Hope P. Krebs or Stanley A. Barg in Philadelphia; Jon Grouf in New York; Anthony D. Martin in Boston; any member of the International Practice Group; Michael A. Gillen of the Tax Accounting Group or the attorney in the firm with whom you are regularly in contact. Our February 9, 2011, *Alert* also gives a more detailed explanation of the 2011 OVDI.