

# Americans Report Hidden Income Under Quiet Disclosure Agreements

by Joseph M. Donegan on May 13, 2013

The Internal Revenue Service has relied heavily on its Voluntary Offshore Disclosure Program to find tax law violators and recoup billions in hidden or unreported offshore tax funds, penalties and interest. However, a new government report reveals that the number of individuals reporting hidden income is on the rise, but some may be relying on another reporting method instead of the voluntary disclosure program.

The Government Accountability Office released new data indicating that thousands are likely relying on quiet disclosure agreements to report hidden income from foreign accounts without paying interest and penalties. Quiet disclosure agreements refer to a technique in which taxpayers attempt to avoid penalties by filing amended returns that report offshore income from previous years. As hidden income from foreign and offshore accounts can amount to billions of dollars, analysts note that quiet disclosure techniques - and the loss of interest and penalties - may lead to lost opportunities for the IRS to make progress in closing the tax gap.

The report found that the number of people reporting foreign accounts to the IRS almost doubled to 516,000 accounts from 2007 to 2010. The GAO noted that the sharp rise in people reporting account information suggests that fewer people are taking part in voluntary programs and simply reporting their income quietly.

"IRS has detected some taxpayers with previously undisclosed offshore accounts attempting to circumvent paying the taxes, interest and penalties that would otherwise be owed," the report said. "But based on GAO reviews of IRS data, IRS may be missing attempts by other taxpayers attempting to do so."

The GAO noted that only 39,000 people applied for the IRS amnesty program, meaning that thousands more are likely relying on quiet disclosures. While the IRS is not required to accept GAO recommendations for how to manage tax collection efforts, the agency is encouraging the IRS to analyze first-time offshore account reporting trends and implement new detection strategies to better identify those using the quiet disclosure method.