

Highlights of [GAO-09-478T](#), a testimony before the Committee on Finance, U.S. Senate

Why GAO Did This Study

Much offshore financial activity by individual U.S. taxpayers is not illegal, but numerous schemes have been devised to hide the true ownership of funds held offshore and income moving between the United States and offshore jurisdictions.

In recent years, GAO has reported on several aspects of offshore financial activity and the tax compliance and tax administration challenges such activity raises for the Internal Revenue Service (IRS). To assist the Congress in understanding these issues and to support Congress's consideration of possible legislative changes, GAO was asked to summarize its recent work describing individual offshore tax noncompliance, factors that enable offshore noncompliance, and the challenges that U.S. taxpayers' financial activity in offshore jurisdictions pose for IRS. This statement was primarily drawn from previously issued GAO products.

What GAO Recommends

GAO makes no recommendations in this testimony. GAO reiterates previous recommendations regarding the Qualified Intermediary (QI) program and refers to a previous matter that Congress consider extending the statute of limitations for offshore cases. IRS generally agreed with the recommendations about the QI program and with the suggestion about the statute of limitations. Legislation to extend the statute of limitations has been introduced but not enacted.

[View GAO-09-478T or key components.](#) For more information, contact Michael Brostek on (202) 512-9110 or brostekm@gao.gov.

TAX COMPLIANCE

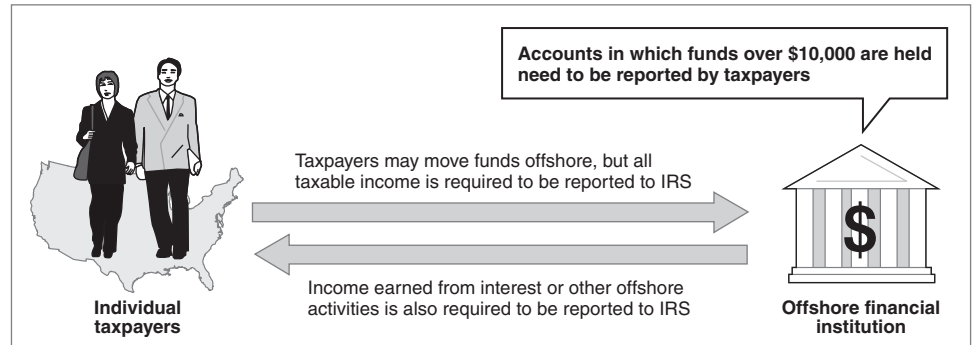
Offshore Financial Activity Creates Enforcement Issues for IRS

What GAO Found

Individual U.S. taxpayers engage in financial activity involving offshore jurisdictions for a variety of reasons. When they do, they are obligated to report any income earned in the course of those activities. They are also required to report when they control more than \$10,000 in assets outside of the country. However, much of this required reporting depends on taxpayers knowing their reporting obligations and voluntarily complying. Some taxpayers do not comply with their income and asset reporting obligations. Limited transparency, the relative ease and low cost of establishing offshore entities, and an array of financial advisors can facilitate tax evasion. IRS's Qualified Intermediary program has helped IRS obtain information about U.S. taxpayers' offshore financial activity, but as the recent case against the large Swiss bank UBS AG underscores, the program alone is insufficient to address all offshore tax evasion. Earlier, GAO had recommended changes to improve QI reporting, make better use of reports, and enhance assurance that any fraudulent QI activity is detected.

IRS examinations that include offshore tax issues can take much longer than other examinations. GAO's past work has shown that from 2002 through 2005, IRS examinations involving offshore tax evasion took a median of 500 more calendar days to develop and examine than other examinations. The amount of time required to complete offshore examinations is lengthy for several reasons, such as technical complexity and the difficulty of obtaining information from foreign sources. However, the same statute of limitations preventing IRS from assessing taxes or penalties more than 3 years after a return is filed applies to both domestic and offshore financial activity. The additional time needed to complete an offshore examination means that IRS sometimes has to prematurely end offshore examinations and sometimes chooses not to open them at all, despite evidence of likely noncompliance. In testimony before Congress, the Commissioner of Internal Revenue has said that in cases involving offshore bank and investment accounts in bank secrecy jurisdictions, it would be helpful for Congress to extend the time to assess a tax liability with respect to offshore issues from 3 to 6 years.

U.S. Taxpayers Are Required to Report Offshore Financial Activity



Sources: GAO summary of IRS information; Art Explosion (map).