



Treasury Inspector General for Tax Administration Office of Audit

THE INTERNAL REVENUE SERVICE HAS MADE PROGRESS IN IMPLEMENTING THE FOREIGN ACCOUNT TAX COMPLIANCE ACT

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Highlights

Highlights of Report Number: 2015-30-085 to the Internal Revenue Service Commissioners for the Large Business and International and the Wage and Investment Divisions.

IMPACT ON TAXPAYERS

To improve U.S. taxpayer compliance with reporting foreign financial assets and offshore accounts, Congress passed the Foreign Account Tax Compliance Act (FATCA) in March 2010 as part of the Hiring Incentives to Restore Employment Act of 2010.

Under the FATCA, beginning with Tax Year 2011, individual taxpayers with specified foreign financial assets that meet a certain dollar threshold were to report this information to the IRS by attaching Form 8938, *Statement of Specified Foreign Financial Assets*, to their annual Form 1040, *U.S. Individual Income Tax Return*, or for nonresident alien taxpayers, to their Form 1040-NR, *U.S. Nonresident Alien Income Tax Return*. The FATCA also requires foreign financial institutions to report to the IRS information about financial accounts held by U.S. taxpayers or held by foreign entities in which U.S. taxpayers hold a substantial ownership interest.

WHY TIGTA DID THE AUDIT

The FATCA is an important development in U.S. efforts to improve tax compliance involving foreign financial assets and offshore accounts held by U.S. taxpayers. This audit was initiated to assess the IRS's progress in implementing the FATCA.

WHAT TIGTA FOUND

TIGTA found that the IRS has taken steps to provide information to affected stakeholders that explains the FATCA requirements and expectations.

However TIGTA identified improvements that are required to ensure compliance and to measure performance for foreign financial institutions. If plans are not properly documented, implementation and performance of compliance activities could experience unnecessary delays.

TIGTA also identified some limitations with the processing of paper Forms 8938. Specifically:

- Transcribed data are not validated to ensure accuracy.
- Data on Form 8938 continuation statements (used to report additional foreign accounts or other foreign assets) are not transcribed.
- Losses reported by taxpayers cannot be input as negative amounts.

If these issues are not properly addressed, any analysis of the potentially inaccurate or incomplete paper Form 8938 data will likely limit management's ability to make informed decisions and achieve the IRS's compliance objectives related to the FATCA.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS: 1) update the compliance activities in the FATCA Compliance Roadmap for identifying noncompliance by foreign financial institutions; 2) initiate a periodic quality review process for the processing of paper Forms 8938 to ensure the accuracy of the data being transcribed; and 3) ensure that the transcription issues identified in this report are addressed in the newest version of the Form 8938 transcription program.

The IRS agreed with the first two recommendations. However, the IRS disagreed with some programming changes related to the third recommendation due to budgetary constraints, limited resources, and competing priorities. The accuracy of the data obtained from Forms 8938 is a critical component for the success of the IRS's compliance activities with implementing the FATCA. As such, TIGTA believes that the IRS should make these programming changes a priority.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2015reports/201530085fr.pdf>.