Treasury Inspector General
for Tax Administration
Office of Audit

NEW LEGISLATION COULD AFFECT FILERS OF THE REPORT OF FOREIGN BANK AND FINANCIAL ACCOUNTS, BUT POTENTIAL ISSUES ARE BEING ADDRESSED

Issued on September 29, 2010

Highlights

Highlights of Reference Number: 2010-30-125 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

As a result of new legislation on foreign tax reporting and disclosure of financial assets, some taxpayers may be required to file the Report of Foreign Bank and Financial Accounts (FBAR) and the new foreign financial assets disclosure statement with their income tax return. These reporting requirements will potentially add to both taxpayer burden and the complexity of tax law changes. Specifically, United States citizens, residents, and domestic entities that have a financial interest in, or signature authority or other authority over, a foreign financial account that exceeds $10,000 in the aggregate at any time during the calendar year are required to file the FBAR. New legislation will require individual taxpayers with an aggregate balance of more than $50,000 in foreign financial assets to file a disclosure statement with their income tax return. The Internal Revenue Service (IRS) is working to address the impact that the legislative requirements have on United States citizens and residents.

WHY TIGTA DID THE AUDIT

This audit was initiated as part of our Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Globalization. The overall audit objectives of this review were to assess the policies and guidelines in place over information gathered with the FBAR by the Department of the Treasury and to determine how the IRS is monitoring and improving compliance with the FBAR filing.

WHAT TIGTA FOUND

The IRS, in collaboration with the Financial Crimes Enforcement Network, has revised the FBAR form and instructions, conducted education and outreach efforts on the filing of FBARs, increased the number of civil examination closings dealing with FBARs, and increased the number of FBAR penalty assessments and collections. From Calendar Years 2004 to 2009, the number of FBARs filed with the IRS has increased 145 percent from 217,699 to 534,043. In addition, the recently passed new legislation added Internal Revenue Code Section 6038D, requiring an individual taxpayer with an aggregate balance of more than $50,000 in foreign financial assets to file a disclosure statement with his or her income tax return in addition to possibly being required to file an FBAR.

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report. However, IRS management officials reviewed the report prior to its issuance and agreed with the facts and conclusions presented.

READ THE FULL REPORT

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

http://www.treas.gov/tigta/auditreports/2010reports/201030125fr.pdf.

Email Address: inquiries@tigta.treas.gov
Web Site: http://www.tigta.gov
Phone Number: 202-622-6500