GAO Accountability * Integrity * Reliability
Highlights

Highlights of GAO-13-318, a report to congressional requesters

March 2013

# OFFSHORE TAX EVASION

## IRS Has Collected Billions of Dollars, but May Be Missing Continued Evasion

### Why GAO Did This Study

Tax evasion by individuals with unreported offshore financial accounts was estimated by one IRS commissioner to be several tens of billions of dollars, but no precise figure exists. IRS has operated four offshore programs since 2003 that offered incentives for taxpayers to disclose their offshore accounts and pay delinquent taxes, interest, and penalties. GAO was asked to review IRS's second offshore program, the 2009 OVDP. This report (1) describes the nature of the noncompliance of 2009 OVDP participants, (2) determines the extent IRS used the 2009 OVDP to prevent noncompliance, and (3) assesses IRS's efforts to detect taxpayers trying to circumvent taxes, interests, and penalties that would otherwise be owed. To address these objectives, GAO analyzed tax return data for all 2009 OVDP participants and exam files for a random sample of cases with penalties over $1 million; interviewed IRS Offshore officials; and developed and implemented a methodology to detect taxpayers circumventing monies owed.

### What GAO Recommends

Among other things, GAO recommends that IRS (1) use offshore data to identify and educate taxpayers who might not be aware of their reporting requirements; (2) explore options for employing a methodology to more effectively detect and pursue quiet disclosures and implement the best option; and (3) analyze first-time offshore account reporting trends to identify possible attempts to circumvent monies owed and take action to help ensure compliance. IRS agreed with all of GAO's recommendations.

View GAO-13-318. For more information, contact James R. White, (202) 512-9110 or whitej@gao.gov.

### What GAO Found

As of December 2012, the Internal Revenue Service's (IRS) four offshore programs have resulted in more than 39,000 disclosures by taxpayers and over $5.5 billion in revenues. The offshore programs attract taxpayers by offering a reduced risk of criminal prosecution and lower penalties than if the unreported income was discovered by one of IRS's other enforcement programs. For the 2009 Offshore Voluntary Disclosure Program (OVDP), nearly all program participants received the standard offshore penalty—20 percent of the highest aggregate value of the accounts—meaning the account value was greater than $75,000 and taxpayers used the accounts (e.g., made deposits or withdrawals) during the period under review. The median account balance of the more than 10,000 cases closed so far from the 2009 OVDP was $570,000. Participant cases with offshore penalties greater than $1 million represented about 6 percent of all 2009 OVDP cases, but accounted for almost half of all offshore penalties. Taxpayers from these cases disclosed a variety of reasons for having offshore accounts, and more than half of them had accounts at Swiss bank UBS.

Using 2009 OVDP data, IRS identified bank names and account locations that helped it pursue additional noncompliance. Based on a review of cases, GAO found examples of immigrants who stated in their 2009 OVDP applications that they were unaware of their offshore reporting requirements. IRS officials from the Offshore Compliance Initiative office said they have not targeted outreach efforts to new immigrants. Using information from the 2009 OVDP, such as the characteristics of taxpayers who were not aware of their reporting requirements, to increase education and outreach to those populations could promote voluntary compliance.

IRS has detected some taxpayers with previously undisclosed offshore accounts attempting to circumvent paying the taxes, interest, and penalties that would otherwise be owed, but based on GAO reviews of IRS data, IRS may be missing attempts by other taxpayers attempting to do so. GAO analyzed amended returns filed for tax year 2003 through tax year 2008, matched them to other information available to IRS about taxpayers' possible offshore activities, and found many more potential quiet disclosures than IRS detected. Moreover, IRS has not researched whether sharp increases in taxpayers reporting offshore accounts for the first time is due to efforts to circumvent monies owed, thereby missing opportunities to help ensure compliance. From tax year 2007 through tax year 2010, IRS estimates that the number of taxpayers reporting foreign accounts nearly doubled to 516,000. Taxpayer attempts to circumvent taxes, interest, and penalties by not participating in an offshore program, but instead simply amending past returns or reporting on current returns previously unreported offshore accounts, result in lost revenues and undermine the programs' effectiveness.