



IRS Unveils Offshore Voluntary Compliance Initiative; Chance for 'Credit-Card Abusers' to Clear Up Their Tax Liabilities

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WASHINGTON — Internal Revenue Service officials today announced the launch of an initiative aimed at bringing taxpayers who used "offshore" payment cards or other offshore financial arrangements to hide their income back into compliance with tax law.

Under the Offshore Voluntary Compliance Initiative, eligible taxpayers who step forward will not face civil fraud and information return penalties. However, taxpayers will still have to pay back taxes, interest and certain accuracy or delinquency penalties.

Eligible taxpayers who come forward will also avoid criminal prosecution based upon application of the revised voluntary disclosure practice. A taxpayer who does not come forward now, however, will be subject to payment of taxes, interest, penalties and potential criminal prosecution.

"It's time for those involved in abusive avoidance schemes to make things right," said Acting IRS Commissioner Bob Wenzel. "Our investigators have gathered valuable information about offshore payment cards and offshore financial arrangements in recent months. With today's action, the IRS is sending the clear signal that those involved in these offshore schemes should come forward now on their own."

The Voluntary Compliance Initiative reflects an attempt to bring taxpayers back into compliance quickly while simultaneously gathering more information about the promoters of these offshore schemes. As part of the request to participate, the taxpayer must provide full details on those who promoted or solicited the offshore financial arrangement. The last day a taxpayer can apply is April 15, 2003.

The IRS will use this information to pursue promoters and to obtain information about taxpayers who have avoided tax through the use of offshore payment cards or other offshore financial arrangements and who do not come forward under the Voluntary Compliance Initiative.

"We are striking the proper balance with this initiative. It's sound tax administration, and it will help root out tax evasion," Wenzel said. "Those who misused offshore credit and other payment cards will be able to pay their fair share. Just as importantly, it will help the IRS get the people promoting these deals."

In addition to the names of those who promoted these offshore financial arrangements, taxpayers deemed eligible to participate in the Voluntary Compliance Initiative must provide the details on all aspects of the scheme used to avoid paying the proper tax liability.

Those who promoted or solicited others to avoid tax by using offshore payment cards and other domestic and offshore abusive schemes are not eligible to participate in the Voluntary Compliance Initiative. Complete details on this initiative and eligibility can be found in [Revenue Procedure 2003-11](#), which has also been issued today.

The Voluntary Compliance Initiative grows out of the two-year-old "John Doe" summons investigation. Since October 2000, the IRS has issued a series of summonses to a variety of financial and commercial businesses to obtain information on U.S. residents who held credit, debit or other payment cards issued by offshore banks.

Investigators have been using records from these summonses to trace the identities of those whose use of these payment cards may be related to hiding taxable income. The investigation itself has entailed combing through data on millions of transactions.

The results of the investigation have been promising. In its initial steps, the IRS has identified thousands of offshore payment card holders for potential examination. Dozens of cases have already been referred to Criminal Investigation for possible action.

An early estimate suggested possibly more than 1 million payment cardholders could be involved. After reviewing records in recent months obtained from the "John Doe" effort, the IRS has reduced its estimate of the number of abusive cardholders. This later information includes duplicate cards issued to the same individual, inactive or small-dollar accounts, people using the cards because of bad credit, persons traveling abroad and a wide range of other non-tax reasons for holding the cards. While an exact figure of the number of taxpayers involved remains uncertain, IRS officials believe the use of offshore credit, debit and charge cards to evade payment of U.S. taxes involves a substantial number of taxpayers.

"The John Doe summonses are providing us with the information we need," Wenzel said. "It's helping us separate honest taxpayers with legitimate needs from those whose goal is tax evasion. The information clearly highlights a major abusive area that must be addressed."

It is not illegal to have a credit, debit or other payment card issued by an offshore financial institution. However, such cards can provide easy access to offshore funds and accounts in tax haven or bank secrecy countries that allow income to be hidden. U.S. citizens must pay tax on their worldwide income.

Access to information is critical to ensuring the full and fair enforcement of the tax laws. In addition to techniques such as the use of these John Doe summonses, the United States has a broad network of bilateral treaties and agreements with countries throughout the world that allow the IRS to obtain information relevant to the tax liabilities of U.S. taxpayers. Information requested from other countries under these treaties and agreements is an important means by which the IRS identifies taxpayers who attempt to hide income offshore to avoid their tax obligations.

Under the Voluntary Compliance Initiative, eligible taxpayers will have to file or amend their returns and pay interest and certain civil penalties, as well as the tax. The interest and penalties depend on the amount of the unpaid tax liability, the years involved, whether a return was inaccurate or if a return should have been filed and was not.

For example, a taxpayer who understated his income to avoid \$100,000 in taxes in 1999 would wind up paying \$149,319 to the government. This includes the tax liability plus \$29,319 in interest and an additional accuracy-related penalty of \$20,000.

If a taxpayer did not step forward, his tax liability generally would include the civil fraud penalty of \$75,000, and therefore higher interest of \$42,758. The total amount due would be \$217,758, without considering probable additional civil penalties for failure to file certain information returns.

The accuracy-related penalty, cited in the above examples, is equal to 20 percent of the tax underpayment. The civil fraud penalty is up to 75 percent of the unpaid tax liability attributable to fraud.

To apply for the Voluntary Compliance Initiative, taxpayers must notify the IRS in writing and provide their name, taxpayer identification number, current address, daytime phone number and certain promoter information as specified in the Revenue Procedure.

The IRS voluntary disclosure practice, which assists agency investigators in determining whether a case is recommended for criminal prosecution, was updated in December (see News Release [IR-2002-135](#)).

As part of the Voluntary Compliance Initiative, the IRS will also be closely monitoring the filing of amended returns. If, in order to circumvent this initiative, taxpayers simply file an amended return without complying with the other required provisions, they run the risk of having the civil fraud penalty and other information return penalties applied.

Written requests for the Voluntary Compliance Initiative can be sent to the following mail addresses:

Regular mail:

National Offshore Voluntary Compliance Initiative Coordinator
P.O. Box 480
Bensalem, PA 19020

Overnight/Special Delivery:

National Offshore Voluntary Compliance Initiative Coordinator
11601 Roosevelt Blvd.
Philadelphia, PA 19154
DP S6005

Those seeking information by telephone should call: 215-516-3537 (not toll-free). In addition, a special e-mail address has been set up for taxpayers. All e-mail queries should be sent to VCI@irs.gov.

- [Statements](#) by Sens. Charles Grassley and Max Baucus
- [Statement](#) by Assistant Secretary Pam Olson
- [Fact Sheet 2002-12](#), IRS Sets New Audit Priorities
- [Offshore Credit Card Program](#) and John Doe Summonses

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