

Voluntary disclosure

The IRS is cracking down on people who have undisclosed income from hidden offshore accounts. It's a big job. To get a jump on it, in 2009 the Service offered reduced penalties for anyone who came forward to disclose voluntarily such accounts and bring those assets into the U.S. tax system. About 15,000 taxpayers came forward during the program, and another 3,000 have made voluntary disclosures since the program closed. Perhaps because of this success, a new voluntary disclosure program has been announced for 2011.

The overall penalty structure in the new program will be higher, which means that those who failed to take advantage of the 2009 program won't be rewarded for their delay. Participants will have to pay back-taxes and interest for up to eight years. A penalty of 25% may apply, but smaller offshore accounts may be hit with only a 12.5% penalty. In limited situations, taxpayers may qualify for a 5% penalty.

Taxpayers with unreported offshore accounts who do not come forward voluntarily face higher penalties and the possibility of criminal prosecution if they are caught. Tax advisors also face the possibility of sanctions from the IRS if they assist taxpayers who have hidden offshore accounts.

All paperwork in the new voluntary disclosure program must be filed with the IRS by August 31, 2011.