

***Statement for the Record***

*On behalf of the*

**American Bankers Association**

*before the*

**Subcommittee on Financial Institutions and Consumer Credit**

*of the*

**Committee on Financial Services**

**United States House of Representatives**

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**October 27, 2011**

Chairman Capito, Ranking Member Maloney, and members of the Subcommittee, the American Bankers Association (ABA) appreciates the opportunity to submit this statement for the record on the recent IRS proposal to require reporting on the deposits of non-resident aliens (NRA). ABA represents banks of all sizes and charters and is the voice of the nation's \$13 trillion banking industry and its two million employees.

ABA appreciates the efforts of this Subcommittee to oversee the development of IRS regulations that affect banks and bank customers. ABA is opposed to the recent effort by the IRS to require that U.S. banks report annually on deposit interest paid to any NRA. Such a requirement jeopardizes foreign deposits in U.S. banks, as many foreign nationals would withdraw their deposits and close their U.S. accounts rather than be subject to a rule requiring that details pertaining to their personal accounts and investments be reported to the IRS and shared with their home governments.

For many banks, the resulting outflow of deposits to the banks' deposit business will significantly reduce funds available for lending and investment purposes. This reduction in deposits will further weaken the economy by making it difficult for some community banks to provide much-needed services to their communities. Moreover, new reporting requirements would have no direct benefit to U.S. taxpayers. This income is not taxed, and reports on the deposits are made to foreign governments.

ABA would like to make three points that help to briefly show why the IRS should reconsider this rule:

- **The Flight of Foreign Deposits Would Negatively Impact the U.S. Economy**
- **Reporting Will Not Benefit U.S. Taxpayers**
- **Additional Compliance Would Be an Unnecessary and Costly Burden**

### **Flight of Foreign Deposits Would Negatively Impact the U.S. Economy**

There are legitimate reasons why NRAs place money in U.S. banks. Some are concerned about security risks in their home country and perceive the U.S. as a safer place for funds. Others have a lack of trust in their home governments. Still others are concerned that financial data could be revealed and their personal security would be threatened. These individuals view the U.S. as a reliable and safe place to deposit their money. If the proposed rule were implemented, it is very likely that many of these depositors will look for other alternatives in competing stable financial systems, thus removing deposits from U.S. banks.

NRA deposits are an important source of funding that supports economic growth. This is especially true in states that have large concentrations of these deposits, including Florida, California, New York, and Texas. The flight of substantial deposits will significantly reduce funds available for lending and investment purposes, which will hurt, not help, the economic recovery. The negative impacts from the new rule will reverberate across the U.S.

### **Reporting Will Not Benefit U.S. Taxpayers**

Since nonresident alien interest payments on U.S. deposits are not subject to tax in the U.S., the IRS would not further any U.S. financial interest by requiring this intrusive new reporting. Furthermore, deposit interest data is already available on an as-requested basis under existing information exchange relationships. The successful prosecution of a number of highly sophisticated, foreign tax evasion cases using U.S.-provided data demonstrates that the current information exchange relationships are more than sufficient for tax enforcement. This proposal, which would eventually lead to automatic exchange of deposit interest data, goes further than needed for the purposes of international cooperation.

### **Additional Compliance Would Be an Unnecessary and Costly Burden**

As this reporting does not benefit the taxpayers and is not necessary for foreign tax evasion cases, this additional obligation is an unnecessary and costly burden. It would not be an appropriate policy, regardless of the economic cycle. However, adopting this requirement now has even greater consequences, as noted above. Moreover, financial institutions are currently in the process of implementing the costly and burdensome processes that are required in order to comply with the new section 6050W and the Cost Basis reporting provisions that became effective at the beginning of this year. In addition, the IRS/Treasury are currently working on regulations implementing the

Foreign Account Tax Compliance Act (FATCA) provisions enacted last year for which financial institutions will be required to undergo even more burdensome and costly processes for compliance.

Furthermore, the banking industry is currently dealing with the massive regulations that resulted from the Dodd-Frank Act, and many community banks are having a hard time just trying to understand their impact. Adding these proposed regulations, which would have the effect of diminishing their deposit funds, would harm community banks with NRA deposits.

### **Conclusion**

ABA thanks the Committee for its leadership in evaluating this recent IRS proposal. The U.S. Treasury reached the correct decision in 2002 when it withdrew a similar proposal, following broad opposition by the financial community and significant concerns raised by Members of Congress. The case against the proposal has only become more compelling since then, as economic conditions are more challenging. Therefore, the IRS proposal to require that U.S. banks report annually on deposit interest paid to any non-resident alien should be rejected and withdrawn.