

The Tax Gap: Enhanced Bank Reporting Must Be Rejected

The Independent Community Bankers of America, representing community banks across the nation with nearly 50,000 locations, appreciates the opportunity to provide this statement for the record for today's hearing titled: "Closing the Tax Gap: Lost Revenue from Noncompliance and the Role of Offshore Tax Evasion."

ICBA is supportive of effective and balanced measures to increase revenue through improved compliance, including increased funding for targeted IRS audits. However, we strongly oppose the Administration's proposal to require increased bank reporting because of the costly, error-prone burden it would place on community banks in exchange for a highly uncertain benefit. We urge Congress to pursue other means of improving tax compliance.

Community Banks Already Responsible for Significant Reporting on Accounts and Transactions to the IRS and to Treasury

While full details are not yet available, the Administration's American Families Plan includes a proposal that would require financial institutions to report information on financial account flows. The White House believes that this and other compliance proposals would increase tax revenues by \$800 billion over a period of 10 years.

ICBA strongly objects to this proposal for the following reasons:

- It would create a costly and complex new reporting burden for community banks that already carry significant data collection and reporting obligations for the federal government, effectively acting as uncompensated agents of the government. These obligations include reporting to the IRS through the furnishing of Forms 1099 and 1098 to support tax compliance. More significantly, banks are subject to extremely burdensome reporting under the Bank Secrecy Act to detect tax evasion, money laundering, and expose shell companies used for terrorist financing and other crimes. Specifically, banks must file a currency transaction report (CTR) for every deposit or withdrawal of more than \$10,000, a threshold that has not increased since the 1970s, as well as suspicious activity reports (SARs). Banks dedicate significant resources to BSA reporting and report millions of transactions to the Financial Crimes Enforcement Network (FinCEN). More recently, banks are required to collect and report beneficial ownership information on commercial accounts under the new customer due diligence rule. The government increasingly turns to the banking system to act as police for a variety of criminal, or fully legal but controversial, conduct. Burdening community banks comes at a cost: It diverts resources and management from their core function of providing credit and other banking services to individuals, families, small businesses, and other entities that make up communities.
- The Administration proposal would expose banks penalties for inadvertent errors. The IRS will try to reconcile millions of pieces of information reported by banks with information provided by individuals. Mismatches will trigger audits. But there are numerous sources of mismatched information. Accounts are opened and closed throughout the year, and account ownership changes as couples marry and divorce and individuals are added and removed from accounts. These factors will reduce the value of the reported information, create mismatches, and trigger audits. Banks should not be placed in the middle of inevitable disputes between taxpayers and the IRS. Banks may be forced to freeze accounts or garnish income as disputes are addressed.
- The proposal would channel more personal taxpayer information into the IRS than the agency can realistically track and process. It is unreasonable to require banks to provide information at significant cost that cannot be effectively used.

- Estimates of the tax gap vary widely. There are serious grounds for skepticism of the Administration’s claim that increased tax enforcement would raise tax collections by \$700 billion. An analysis by the Congressional Budget Office found a much lower figure of \$103 billion. There is simply too much uncertainty to justify the creation of a significant new burden for community banks.
- Reporting to the level of granularity proposed by the Administration would infringe on account holders’ privacy. Much of the data collected on cash flows would be irrelevant to an account holder’s tax liability. The Administration’s proposal would be the equivalent of sending all account holder’s bank statements to the IRS.

ICBA supports the Administration’s proposal to increase the IRS’s audit resources. Better trained auditors with more sophisticated technology at their disposal may well significantly increase tax collections without costly, burdensome, and intrusive new bank reporting requirements.

Closing

Thank you for convening today’s hearing. Closing the tax gap can and should be an alternative to raising taxes on American individuals, families, and businesses. However, we ask you to reject enhanced bank reporting of customers’ personal financial statements and information that are unrelated to their income tax returns. This is a risky and counterproductive proposal that would yield uncertain benefits at significant cost to institutions that are best focused on serving their communities’ credit needs.