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6345 Balboa Blvd., Bldg. IV, Suite 285 Encino, CA 91316

1-(866) IRS-PROBLEMS or (818) 774-1813 / www.taxresolution.com

Battle Over Swiss Banking Records Intensifies

As Swiss bank UBS and the Swiss government consider reneging on a deal to turn over 52,000 names of U.S. clients, Justice Department warns criminal prosecution may be next step

For those who follow tax compliance news, February was a big month.

That's when the U.S. Department of Justice announced a deal with Swiss bank UBS.

The U.S. government agreed to waive criminal prosecution — federal prosecutors suspected the Swiss bank helped American clients evade as much as \$300 million a year in taxes from 2002 to 2007 — if UBS would provide the U.S. government with the names of its 52,000 U.S. clients.

The government, of course, suspects these 52,000 U.S. clients are using their Swiss bank account to hide money and avoid income taxes. For wealthy Americans, that's been a well-laid plan, since Swiss banks are known to offer absolute privacy.

Until now. Well, maybe.

Following the unprecedented agreement, the Swiss have hemmed and hawed, saying an order to release client names would violate Swiss banking law.

A Miami judge asked federal prosecutors what they would do if UBS reneged on the deal. Their response: UBS bank officials would face criminal prosecution.

This is quickly becoming something of an international banking incident. But what does it mean for you, an American taxpayer?

A lot, in fact.

Take what John A. DiCicco, Acting Assistant Attorney General for the Justice Department's Tax Division, said earlier this year about obtaining UBS's records: "It is time for those who are trying to hide from the IRS to rethink their actions. The

Department of Justice is committed to do all that it can to aid the IRS in locating those who would seek to hide behind secret accounts and in holding them accountable under the federal tax laws."

What DiCicco means, it's safe to say, is this: The IRS has now mustered its entire strength to dismantle the mechanisms that in the past have facilitated tax evasion.

The highest profile of these mechanisms are Swiss banks, which have made fortunes over the last century operating with a success model that promised to protect money without asking questions or telling secrets. From Americans trying to hide money to dictators trying to steal it, Swiss banks offered the best option.

So to combat tax evasion, the IRS has targeted everything from credit cards to banks located overseas, and in the past year, the federal government has been remarkably successful at obtaining records, creating a sort of tip sheet of those who may be cheating Uncle Sam.

For American taxpayers such as you, the writing is on the wall: Time is short. That's because, if you've used a traditional method of evading taxes such as overseas banks, the IRS will soon find out, if it hasn't already.

Uncle Sam won't back down from tax cheats. Ask the secretive Swiss.

Michael Rozbruch is a Certified Tax Resolution Specialist, a member of the American Society of IRS Problem Solvers and a Maryland CPA. You can contact him at 866-477-7762 to obtain a free subscription to his newsletter titled The IRS Times & Inquirer.