

Israeli bank nudges US clients toward IRS tax disclosure program

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* Bank Leumi sends letter to U.S. customers about IRS program

* Seen as sign that U.S. tax crackdown wider than Switzerland

* At least three Israeli banks seen under U.S. investigation

By Lynnley Browning

Jan 10 (Reuters) - Bank Leumi, the largest commercial bank in Israel, has urged U.S. clients to disclose information about their accounts to U.S. authorities, who are investigating Leumi and many other foreign banks over possible tax avoidance by Americans.

In a Dec. 16 letter obtained by Reuters, Bank Leumi le-Israel BM urged U.S. clients to enter the Internal Revenue Service's voluntary disclosure program, part of a wide-ranging U.S. crackdown on offshore tax dodging.

"As published in the media, U.S. authorities are conducting investigations of foreign banks in connection with compliance with U.S. tax laws," the bank said in the letter.

The U.S. effort has been focused largely on banks in Switzerland, but it has been known that banks in other countries, including Israel, are under scrutiny.

Under the voluntary disclosure program, Americans can tell the IRS about undisclosed income from offshore accounts, and in return possibly get reduced fines and penalties. About 38,000 Americans have taken part in the program since 2009, bringing in \$5.5 billion in back taxes. The IRS has grown less lenient over time.

The Leumi letter to clients said: "The bank supports you in this step and will assist you in this process by gathering the information and documents in the bank's possession that are required by the OVDP," in reference to the offshore voluntary disclosure program. The bank also gave a hot line for clients.

Asked about the letter, Lee Neumann, a Leumi spokesman in Tel Aviv, said, "Like other banks in the world, we decided to address our clients and advise them of the existence of the IRS's voluntary disclosure program. We also informed them that in the event they choose to apply for this program, the bank will provide them with any technical assistance that may be required from the bank." He declined to comment further.

An IRS spokesman declined to comment.

ISRAELI BANKS UNDER SCRUTINY

As previously reported by Reuters, Leumi and two other Israeli banks, Bank Hapoalim and Mizrahi-Tefahot, are under investigation by the U.S. Justice Department in connection with offshore private banking services that may have enabled wealthy Americans to evade taxes.

The broad probe comes as the United States moves closer to fully implementing in 2014 the Foreign Account Tax Compliance Act (FATCA), which requires foreign financial institutions to help ensure that U.S. clients comply with U.S. tax laws.

Bryan Skarlatos, a New York tax lawyer with Leumi clients who got the letter, said it "is the result of ratcheted up pressure on Bank Leumi." He said U.S. officials "are asking clients questions about Leumi accounts: who the bankers were, what they said, did they come to the U.S., whose idea was it."

Faced with a federal deficit of roughly \$1 trillion, the U.S. government is searching for new revenues and coming down hard on tax dodgers. Last July, the crackdown on offshore account holders saw Credit Suisse AG get a target letter saying it was a formal target of the U.S. probe.

Earlier this month, Switzerland's oldest private bank, Wegelin & Co., announced it would shut its doors after it pleaded guilty to helping Americans evade taxes. In 2009, UBS AG, Switzerland's largest bank, agreed to pay \$780 million to the U.S. government after admitting to similar wrongdoing with its private bank. The bank provided more than 4,400 names of U.S. account holders to U.S. authorities.

Jeffrey Neiman, a criminal defense lawyer and former federal prosecutor who was involved in the UBS case, said U.S. officials are eager to expand their push beyond Switzerland, "and the Israeli banks have whetted their appetite."

'CAUGHT IN CROSSFIRE'

Leumi told Reuters in September 2011 that its Swiss branch, Bank Leumi Switzerland, was cooperating with the Justice Department investigation "in accordance with Swiss law and under legal advisement."

Despite the scrutiny of Swiss banks, Leumi bought Banque Safdie, a small Swiss private bank, in 2011.

Datan Dorot, a tax lawyer in Boca Raton, Florida, with clients who are customers of Israeli banks, said Leumi had frozen

the accounts of some U.S. clients last year after they did not provide the bank with documentation regarding their compliance with U.S. tax laws, such as federal income tax returns.

"These people aren't tax-evading millionaires - they're mom and pops caught in the crossfire," Dorot said.

Asher Rubenstein, a tax lawyer in New York with similar clients, said that with FATCA looming, his clients "are getting a lot of pressure from the banks to provide W-9s." The IRS forms, filled out by clients and given to banks, require banks to withhold any tax the clients may owe the IRS.

FATCA requires foreign financial institutions to collect and turn over data on U.S. clients with accounts of at least \$50,000, or to withhold portions of interest, dividend and investment payments due clients and send the money to the IRS.

Last March, Leumi wrote to U.S. clients, citing FATCA and requesting that they submit W-9 forms and sign declarations that their accounts complied with U.S. tax laws, according to a copy of the letter from the bank's Haifa branch that was obtained by Reuters. In signing the forms, the letter said, clients "explicitly waive banking secrecy/consent to such disclosure."
