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Offshore Tax Probe Picks Up

U.S. Chase for Cheats With Secret Accounts Looks to Israel, India and Elsewhere

By LAURA SAUNDERS

We're still coming after you.

That is the message from the U.S. government to Americans who evaded federal taxes by stashing money in secret offshore accounts, say lawyers who represent some of those people.

After getting a guilty plea from Switzerland's oldest private bank, which was ordered Monday to pay a total of $74 million for violating U.S. tax laws, federal investigators have fresh momentum thanks to leads gathered from interviews with confessed tax cheats.

Bloomberg News

Otto Bruderer, managing director of Wegelin & Co., arrives at U.S. federal court in New York, U.S. on Monday.

So far, U.S. officials have clawed back $5.5 billion in unpaid taxes and penalties in the past four years. At least another $5 billion is likely to be collected from continuing cases involving accounts at banks in Switzerland, India, Israel, Hong Kong, Singapore and elsewhere, according to estimates from lawyers who are tracking the various probes.

The number of confessions is expected to rise sharply from the current total of 38,000.

"The government has no intention of letting up in its relentless pursuit of wealthy Americans with secret accounts offshore, and soon it will have even more tools to work with" as a new law goes into effect, said Mark Matthews, a former chief of the Internal Revenue Service's criminal-investigations division who now is a lawyer at Caplin & Drysdale in Washington.

Spokesmen for the Justice Department and IRS declined to comment on continuing enforcement actions but have said they are aggressively pursuing those who violate

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A 2009 agreement with UBS AG first pierced the long-standing veil of Swiss bank secrecy. To avoid criminal charges, UBS paid $780 million and turned over the names of about 4,500 U.S. taxpayers with secret accounts. Since then, the IRS has offered limited amnesty programs to encourage more people to come forward.

Monday's order by a federal judge in New York against Wegelin & Co., which admitted it turned a blind eye to tax evasion allegedly committed by its American customers, marked a key victory in the crackdown efforts.

U.S. officials now are shifting their focus to other banks in Switzerland and other countries, ranging from sprawling giants to niche providers of offshore accounts to taxpayers with dual citizenship, according to lawyers representing some account holders.

"They saw the money moving out of UBS and into Wegelin, and now they are looking to see where else it is going," says Mr. Matthews.

Several Israeli banks have asked customers who are U.S. citizens or hold green cards to provide their Social Security or taxpayer-identification numbers if they want to keep their accounts open, say lawyers involved in the cases.

Barbara Kaplan, a lawyer at Greenberg Traurig LLP in New York, says Wegelin's guilty plea sends a message to other offshore banks that the U.S. government is ready and willing to pursue alleged wrongdoers even if they have no offices in the U.S.

In court documents, the U.S. government said that Wegelin set out to capture illegal banking business lost by UBS and another unidentified Swiss bank. Wegelin said the guilty plea was an attempt at "closure."

Other banks are also drawing scrutiny.

The U.S. is investigating how HSBC Holdings PLC catered to wealthy Indians born or living in the U.S., and whether it offered them clandestine accounts in India, said Bryan Skarlatos, a partner at law firm Kostelanetz & Fink LLP in New York who has represented more than 1,000 people with offshore accounts.

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Credit Suisse Group AG said it has been responding to subpoenas and other requests for information from U.S. authorities. A spokeswoman for the Swiss bank declined to comment further.

Swiss bank Julius Baer Group AG says it isn't the subject of the U.S. probe of undeclared accounts but has been in "close contact" and "constructive talks" with U.S. officials and expects to pay a fine, according to a bank spokesman.

The company "finished its retreat from the U.S. offshore business more than a year ago," the spokesman added.

Last year, U.S. prosecutors indicted three Israeli-American tax preparers for allegedly helping clients hide money in two unidentified Israeli banks. Lawyers involved in tax-evasion cases saw the criminal charges as a sign of growing interest in Israeli banks by U.S. investigators.

Meanwhile, financial firms are girding themselves for the Foreign Account Tax and Compliance Act, or Fatca, a federal law that takes effect in 2014 and will require foreign institutions to disclose the names of customers who are U.S. taxpayers.

Firms must scour their client lists to determine who is subject to U.S. taxes, or face penalties.

Countries or individual firms can sign agreements to abide by Fatca rules. If they don't, then U.S. companies, investment firms and banks must withhold 30% of payments such as dividends to account holders. Nine countries so far have signed or initialed—meaning provisional approval—Fatca agreements with the U.S., while another 40 are in negotiations, according to publisher Tax Analysts.

One notable holdout: China, which includes Hong Kong. Lawyers say it is unlikely that China would comply—or that the U.S. will impose the 30% tax.

"This has more to do with politics than taxes," says Robert Goulder, a lawyer with Tax Analysts. A Treasury spokeswoman says the department "has engaged with China and will continue to do so."

—Andrew Morse and Aaron Lucchetti contributed to this article.

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