

CLIENT ALERT

Internal Revenue Service Opens Second Offshore Voluntary Disclosure Initiative

The Internal Revenue Service (“IRS”) introduced a new Voluntary Disclosure Program on February 8, 2011 for U.S. taxpayers with undisclosed offshore accounts. The 2011 Offshore Voluntary Disclosure Initiative (“OVDI”) is based on the previous disclosure program that ran through October of 2009, but the most significant differences are a higher penalty structure and an eight-year look-back period. The OVDI terms include:

1. A 25% penalty on the highest aggregate account balance in the taxpayer’s undisclosed offshore accounts over an eight year period, 2003 through 2010.
2. The 25% penalty may be reduced to 12.5% for taxpayers whose offshore accounts did not surpass \$75,000 in any calendar year covered by the program, and to as low as 5% in certain very limited cases.
3. Participants must pay back taxes and interest for up to eight years as well as accuracy related and/or delinquency penalties.
4. Participants must file all original and amended tax returns and include payments for taxes, interest and accuracy related penalties.

The program generally provides for exemption from criminal prosecution and a significant reduction in civil penalties for U.S. taxpayers who choose to voluntarily participate in the program. The program is only open to those who complete

all requirements on or before August 31, 2011. Given this deadline, taxpayers wishing to participate in the OVDI will have to move quickly to gather all foreign account records and prepare amended tax returns and supporting schedules.

The U.S. government is committed to bringing all U.S. taxpayers with undisclosed offshore accounts into compliance. This is a second opportunity for those U.S. taxpayers who have not already disclosed their foreign bank accounts. Non-complaint taxpayers who are identified by the IRS prior to their voluntarily coming forward will not be permitted to participate in the OVDI and could face significantly steeper civil penalties and and/or criminal liability.

Taxpayers who are considering the IRS’s disclosure program should contact attorneys with experience in handling these types of matters. Our tax attorneys have experience handling many such cases both under the first IRS Offshore Disclosure Program and dealing with the IRS outside of these programs.

If you would like more information about the new Offshore Voluntary Disclosure Initiative or to discuss a particular set of facts, please contact one of our tax specialists listed below:

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