



Looking for Lucre in All the Wrong Places

by Richard W. Rahn

The Obama administration has performed the unique trick of alienating the majority of our most important allies, while at the same time causing America to be viewed as a patsy by its enemies.

The situation is bound to get worse now that the administration has taken the position that most financial institutions outside the United States are conspiring to help Americans and others avoid U.S. taxes and, thus, is attempting to require all of these foreign financial institutions to report to — and, in effect, become agents of — the Internal Revenue Service. A global revolt is brewing against the United States for being an international financial bully. The consequences of this revolt are likely to be extremely damaging and long-lasting to the nation.

The administration has managed to cause serious damage to relations with our major allies over spying on them, acting as a financial imperialist and being perceived as an unreliable partner. The British, our closest ally, refused to go along with President Obama's intended attack on Syria. The French agreed to support us, but then Mr. Obama left the French hanging when he suddenly

reversed course. The Israelis, the Turks, the Egyptians, the Saudis and others no longer trust us because of our policy reversals. The administration has even managed to offend the mild-mannered Canadians owing of its failure to approve the Keystone XL pipeline and the bullying of their financial institutions.

The United States has been threatening to criminally indict nonresident foreign bank executives for not complying with U.S. tax law, even in cases when the banks were not operating in this country or violating their own nation's tax laws. This is causing great resentment, as one would expect. Each country has the right to its own tax and financial-privacy laws, whether the United States agrees or not. Europe and most other countries prohibit capital punishment.

What if other nations started indicting and imprisoning our federal or state government officials, including judges when they traveled outside of the country, for carrying out the death penalty? The point is, if the United States tries to enforce its laws on non-Americans working and living outside of the U.S. for acts that are not criminal in their home countries, it will put all Americans at risk if other countries start to retaliate, which is very likely, given the increased anger over U.S. actions.

The latest outrage is the Treasury Department's Foreign Account Tax Compliance Act, which, in essence, demands that all foreign financial institutions prove that they have no U.S. clients or "tax persons." If they do, however, they must collect taxes from them for the IRS. This is, of course, an impossible task for any financial institution in a world of dual citizenships and work permits. The cost of compliance for foreign financial institutions is huge. Estimates run in tens of billions of dollars, yet the Congressional Budget Office estimates that the regulation will only bring \$892 million per year into the U.S. Treasury. The proposed regulations are making it very difficult, if not almost impossible, for Americans living abroad to open bank accounts. The U.S. Treasury recently issued a "fact sheet" on the tax-compliance act, totally unsupported, not surprisingly, by actual facts, since the Treasury never did a cost-benefit analysis. In response, a spokesman for American Citizens Abroad stated, "I am not only outraged, but absolutely

astounded, that Treasury would issue such a statement of deliberately misleading lies." Of course, this same administration falsely told Americans they could keep their current health insurance and doctor under Obamacare.

Only nine countries have signed the intergovernmental agreement with Treasury to implement the Foreign Account Tax Compliance Act. Without a large number of countries signing on, the regulation will be impossible to enforce. Switzerland is one of the countries that signed on, but now there is a pushback among Swiss citizens who are unhappy with their government's acquiescence. They're now collecting signatures for a referendum to overturn the agreement (which is allowed under Swiss law). If the tax-compliance act is overturned, is the U.S. government going to fine or jail Swiss bankers who come to this country for not following IRS regulations when their own Swiss citizens have instructed them not to? Foreign financial executives have already been warned by some of their own governments not to travel to the United States. If the administration persists with the Foreign Account Tax Compliance Act and the prosecution of foreign financial executives, it is in danger of having them pull out trillions of dollars of foreign investment, which would be a disaster for the U.S. economy and would likely cause a new global recession, or worse.

The administration has the unmitigated gall to insult others by assuring foreign governments that all the sensitive financial information collected will be kept confidential. If the administration continues on this reckless and irresponsible course, the next president of the United States may well be forced to make an "apology" tour to most of the world's countries for wrecking the world economy.

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