



## Going Global with Tax Devastation

by Richard W. Rahn

THE FOREIGN ACCOUNT TAX COMPLIANCE ACT IS  
PROVOKING FOREIGN HOSTILITY

The administration and many in Congress seem to have learned nothing from the Obamacare disaster. Now that they have destroyed the world's best health care system, they are in the process of further destroying what was at one time a very functional global financial system.

In its place, they would erect a tax law whose costs were far higher than its benefits; that may drive hundreds of billions of dollars of job-creating foreign capital out of the United States; that could trigger a global financial crisis by driving up interest rates that the U.S. government pays on its bonds; that makes it almost impossible for Americans living abroad to open bank accounts; and that violates international trading agreements that the United States has signed.

The legislation has greatly angered foreign companies and friendly foreign governments such as Canada, because it demands that they report to the Internal Revenue Service, despite being sovereign entities. It is so complex that its implementation has had to be delayed numerous times because Treasury is unable to develop workable compliance systems, and hundreds of thousands of foreign financial firms that are subject to the law also cannot figure out how to comply with ever-changing regulations.

The measure could result in sensitive personal tax and financial data being shared with foreign governments (even untrustworthy

and corrupt ones, or worse), and it would violate many privacy laws and regulations and could put innocent people at risk for both their fortunes and lives.

Most Americans have never heard of the law, the Foreign Account Tax Compliance Act, which is beginning to cause the damage noted above. In essence, the act would require any financial institution (not just banks) anywhere in the entire world that has any dealings with anyone subject to U.S. tax laws to report to the U.S. government.

How any foreign financial institution could possibly know this in this age of dual citizenships and green cards is anyone's guess.

Last week, the Republican National Committee adopted a resolution calling for repeal of the law. Predictably, the Democrats and their big-government allies immediately claimed repeal would facilitate tax evasion — even though they are unable to design an implementation scheme that would work. This is another example of mindless left-wing ideology over rationality.

The law is now slated to go into effect on July 1, despite the fact that nobody can comply — neither the governments nor financial institutions. Accordingly, there is talk of another delay, in violation of the law. The Democrats should hope that the law never goes into effect, because the consequences are likely to be so bad that it may even drive the continuing Obamacare disaster off the news pages and cause even more people to vote against them.

The Foreign Account Tax Compliance Act is so typical of Washington. Some members of Congress were all worked up about Americans not paying taxes on money they had outside the United States. Rather than come up with a simple solution as most countries have done — to tax income where it is earned (i.e., a territorial tax system) and not where it resides once it has been originally taxed — they came up with the incredibly complex compliance act.

It is now obvious, as with Obamacare, that those who proposed and wrote the law had no idea how to design it to make it workable and how to make it compatible with existing U.S. and foreign privacy laws and treaties. Even

though it has been three years since the passage of the law, the Treasury has yet to produce a cost-benefit analysis.

What is known, according to the Congressional Joint Committee of Taxation, is that the law will only produce about \$800 million in tax revenue per year, while the compliance costs have been estimated by various parties to run well into the many tens of billions of dollars — not counting all of the economic damage resulting from reduced investment and job creation, which ultimately could be in the trillions of dollars.

How would most Americans and Congress react if a foreign government passed laws regulating U.S. businesses and people in the United States? Probably with justified outrage. The Foreign Account Tax Compliance Act is U.S. financial imperialism at its worst and is causing great resentment in much of the world, which is hurting U.S. interests.

Most financial institutions and their knowledgeable customers across the globe are opposed. American Citizens Abroad is persistent in the demand for repeal, because its members have been the first hit. Taxpayer groups, along with tax and financial economists, have expressed strong disapproval of the act and urged its repeal.

Even the former assistant secretary for tax at the U.S. Justice Department, Eileen O'Connor, has written a blazing critique of the law, which she ended by stating: "The administration's inability to implement the laws Congress passes is a problem. But perhaps a bigger problem is Congress biting off more than the administration can, or ought to, chew."

These are wise words that the American Founders would have endorsed, which remind us of the importance of limiting the size and scope of government.

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