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Things that you must know about Foreign Bank Accounts

Many people get attracted towards the foreign bank accounts due to the benefits they get through these accounts. But if you are having an undisclosed foreign bank account then you need to beware. Nowadays, you cannot trust any bank for keeping your account secret. For an instance, the vaunted secrecy of Swiss along with many other tax havens is no more much secret at all. So, you need to think twice before putting your head in the sand. As your details can be disclosed anytime to IRS, so you are required to do something to avoid that problem. However, here we are mentioning some things that you must know about the foreign bank accounts.

You need to report your worldwide income
If you are a US resident, then you need to report your overall income to the US income tax return. And if you are having an interest in the foreign bank, then you need to report it too. What we mean by worldwide income here is everything you earn; it includes the foreign earnings, interest, dividends, wages and any other income. In the case your foreign income is taxed at any other place, even then you need to report to IRS. No matter how much is your income, you need to report it to IRS.

It is not enough to disclose the tax return
However, tax return filing is not enough; there is one more thing that you need to take into concern. Every US resident who is having a foreign bank account needs to file FBAR, which is due each June 30 for the previous year. You need to file a FBAR in the case the total amount of your foreign bank accounts exceeds $10000. Anytime when you get the amount exceeded than this value, you must file a FBAR. And in the case, your total foreign bank account balance does not exceed the amount of $10000, then you are not required to file FBAR, but reporting about your account earnings is still required.

Tax penalties
In the case you fail to report your worldwide income or forget to check the box which discloses that you having a foreign bank account, then it will be considered as a fraud or tax evasion. And in this case, high penalties can be set against you by IRS. The statute of limitations on such frauds is six years and the statute of limitations never gets expired on the civil tax fraud. So, you can be pursued for the back taxes even after 10 or 20 years.

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FBAR penalties are more bigger
You would really consider filing FBAR after knowing the penalty for its failure. In the case you fail to file an FBAR, a civil penalty of $10000 will be carried against you. This is the penalty for non-willful violation. But, in the case it has been found that all you did willfully, then a penalty greater than $100000 or 50% of your total foreign bank account can be carried against you. So, it is much necessary to file a FBAR in the case your balance in the foreign banks is more than $10000.

Prison term for various crimes
If you have been found convicted of tax evasion then you will have to remain in prison for five years along with a fine charge of $250000. The fine charge is same, but the prison term will be different in the case you file a false return. In the case you fail to file tax return, you would need to submit a fine of $100000 and face up the prison term of 1 year. However, the penalties are severe in the case you fail to file a FBAR. The prison term for this crime is up to 10 years and the monetary penalty can be up to the amount of $500000.

Available options
In the case you have not disclosed the information about your foreign bank accounts; you have two options- Voluntary Disclosure and Quiet Disclosure.

It is never too late for making a voluntary disclosure. Along with disclosing about your foreign bank accounts, you are required to make faithful arrangements with IRS for paying the tax and penalties set by them. The government will not prosecute against you if you admit your crime voluntarily, before any investigation is done on you.

In the case you find Voluntary Disclosure unsuitable as it is noisy, then you can go for quiet disclosure. In this, you are not required to go to IRS Criminal Investigation Division. In this disclosure method, you would be required to amend the past tax returns on your income, disclose that you are having a foreign bank account and should file for FBAR. In addition to that, you would also be required to pay all the taxes that you have skipped in the past and, to file for FBAR.