American Bankers Association
Building Success. Together.

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The Honorable Richard Neal
Chairman
House Committee on Ways and Means
Washington, D.C. 20515

The Honorable Ron Wyden
Chairman
Senate Committee on Finance
Washington, D.C. 20510

The Honorable Kevin Brady
Ranking Member
House Committee on Ways and Means
Washington, D.C. 20515

The Honorable Mike Crapo
Ranking Member
Senate Committee on Finance
Washington, D.C. 20510

Dear Chairmen Neal and Wyden and Ranking Members Brady and Crapo:

On behalf of the members of the American Bankers Association[1] (ABA), we are writing to reiterate our strong opposition to a proposal requiring banks to report to the IRS new information on their customers' accounts. The proposal would create a significant burden on small businesses and community banks and add no discernible value to tax enforcement. We understand that the proposal is under consideration and we are concerned that members are unaware of the important policy and operational issues associated with this proposal.

ABA and its members firmly believe that Americans should honor their tax obligations, but it is far from clear that requiring banks to report on every single customer financial account with gross inflows and outflows above $600 – creating a mountain of new data – will lead to better tax compliance. What's more, this proposal implicates customer privacy and data security on a massive scale, would increase compliance costs to individuals and small businesses, will work against important efforts to bring more Americans into the banking system, and has the potential to damage customer relationships for banks of all sizes across America.

Banks already report a tremendous amount of data to the IRS, much of which the IRS, as stated in public testimony, does not have the capacity to utilize. Under the new proposal, significant additional information, such as payments on loans or transfers between a taxpayer's various bank accounts, would be captured and reported. The amount of information submitted would be massive, unmanageable, and of questionable relevance to the calculation of taxable income. The IRS is a constant target of cyber criminals and has recently suffered significant data breaches. It is impractical and ill-advised for the government to put this significant amount of additional sensitive financial data at risk, especially when the IRS does not have the capability to effectively utilize or protect that data.

We also question whether the new reporting requirements would improve the IRS's ability to identify the high-income tax evaders the administration is apparently targeting, given the challenges of

[1] The American Bankers Association is the voice of the nation's $22.5 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $18 trillion in deposits and extend nearly $11 trillion in loans.

estimating compliance benefits. Indeed, in contrast to focusing on intricate partnership and pass-through returns of high earners, the proposed account inflow/outflow reporting appears to target the millions of small business owners that operate as sole proprietorships. This will needlessly increase their tax preparation costs. Instead, the IRS should focus on better utilizing the significant information it already receives and target those it believes are engaging in tax avoidance.

While all banks would be impacted, the massive and expensive effort to provide this data will especially burden small community banks. Designing a system to track and report inflows and outflows on all bank products is complicated and de minimis thresholds will do little to reduce this burden. Every financial institution will need to devote the resources needed to screen every single account to ascertain whether the gross activity falls above or below a threshold, even if only a portion of those accounts end up being reportable. Additional staff will also be needed on an ongoing basis merely to assist customers and their tax preparation professionals in understanding the reports and how the IRS might use them and reconciling them to both the taxpayer's and the IRS's expectations.

While this proposal would create significant challenges for banks and small businesses, there may be other negative impacts as well. Our member banks and policymakers share the common goal of reducing the number of unbanked Americans. A bank account, and more importantly a banking relationship, is an important steppingstone to financial health and independence. As some interpret this information reporting proposal effectively to require banks to police and report on the accounts of customers, we are very concerned that it will undermine trust in the banking system and erode the progress we have made reducing the number of unbanked and underbanked in the country.

Improving tax compliance is an important and laudable goal, and one we share. However, this proposed new regime would have major policy and operational challenges that have not been fully explored. This proposal introduces new concepts for taxpayers and banks that have significant consequences and advancing it even to a perceived limited number of taxpayers has critical implications.

This proposal would have an impact on nearly every one of your constituents. We urge you to think of what this initiative will mean for individual and business taxpayers in your communities as well as the negative impact it will have on local financial institutions asked to carry it out and oppose any efforts to attach this new reporting requirement to the reconciliation process.

Sincerely,

Bob Nichols

cc: Members of the House Committee on Ways and Means
Members of the Senate Committee on Finance