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Not Just Fat Cats Hopping Through FATCA Hoops

 **Addison Wiggin** , Contributor

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One of the most insidious measures to keep your capital from fleeing overseas became law in spring 2010. Almost no one noticed. It was tucked into a “jobs bill.”

Maybe you’ve heard of it by now, H.R. 2847, the Foreign Account Tax Compliance Act, or FATCA. Its stated aim is to crack down on moneybags “tax evaders.” One of its key provisions went into effect July 1, 2014.

Since one week ago, FATCA presents you a stark choice if you hold more than \$50,000 in “foreign financial assets”: You can bank at a foreign bank that coughs up information about account balances, deposits and withdrawals to the IRS... or else you can subject yourself to a 30% withholding tax on the income and gross proceeds from any U.S. assets in your foreign account. Should any of this violate local laws, the bank is required to close your account.

It’s become challenging at best and impossible at worst for the 7.6 million Americans living overseas to maintain a bank account where they live. Even the German giant Deutsche Bank recently shut down the account of Carrie Walczak, a woman from upstate New York living in Germany. “If eventually other or all banks follow Deutsche Bank’s lead, it could make my life very difficult,” she tells the *Reuters* newswire.

Alas, that’s not all FATCA does. Effective with tax year 2011, the law beefed up the reporting requirements if you hold “bank, brokerage or ‘other’” accounts with a total balance of \$10,000 or more. You have to put it on your Form 1040 Schedule B for the IRS, and you have to submit a Form TD F 90-22.1, otherwise known as a Foreign Bank Account Report, or FBAR, to the U.S. Treasury.

If your foreign assets total \$50,000 or more, the reporting requirements are stiffer. You must report ownership of any non-U.S. securities, any non-U.S. financial instrument or contract held for investment from a foreign issuer (think life insurance or an annuity) and any ownership stake in a foreign entity.

“It’s not just the super-rich doing it,” affirms David McKeegan of Hong Kong-based Greenback Expat Tax Services. “We’re talking average, middle-class people, people teaching English as a second language and doing freelance jobs making \$30,000–50,000 a year, simply because of the fact that they can’t open locked bank accounts.”

In early June, the Treasury Department issued a press release crowing that more than 77,000 “foreign financial institutions” have agreed to cough up information about their U.S. account holders to the IRS. Those banks and brokerages are located in nearly 70 countries — including one-time “tax havens” like Switzerland, the Cayman Islands and the Bahamas.

It seems like a lot of hoopla for not a lot of revenue. The congressional Joint Committee on Taxation figures FATCA will generate \$8.7 billion over 10 years. So that’s an average of \$870 million in a single year, or a whopping 0.18% of this year’s federal budget deficit.

I’m no conspiracy theorist, but upon examining the evidence it’s easy to conclude FATCA was never about raising revenue or cracking down on “tax cheats.” It’s about control. It’s about keeping you trapped in U.S. banks and the U.S. dollar if a Cyprus-like crisis comes America’s way.

If you want to park some of your assets overseas where you’re insulated from a sinking U.S. dollar and shaky U.S. banks but you can’t afford an army of lawyers and accountants, you have **three** choices.

#1 A small bank account. You can still keep a foreign bank account, (assuming you can find a foreign bank that will take your money), and as long as your total “foreign financial assets” are \$10,000 or less, it’s not reportable

#2 Foreign real estate. This does not qualify as a “foreign financial asset.” There are no tax or reporting rules other than those that apply to your ownership of property stateside.

#3 Gold. If you keep it in a safe-deposit box in an overseas bank, this too does not qualify as a “foreign financial asset.”

A longer version of this article appeared in [The Daily Reckoning](#).