Inc.

Learning from Paul Manafort's Crimes Can Save You $100,000. Here's How

Small business owners may not know about this requirement, but that won't save them from the massive penalties for failure to comply.

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Experience may be the best teacher, but no one wants to learn a $100,000 lesson.

Surprising though it may be, for this lesson, Paul Manafort is the teacher. Using his business tactics as an example can save you a significant amount of money-- the kind of money that can make or break small businesses. Clearly, Paul Manafort's approach is an example of what not to do.

If you've stayed up on the news lately, you already know that Paul Manafort was found guilty on eight counts of criminal charges last week, and of those eight, five were tax fraud, two were bank fraud, and one was failing to disclose his foreign accounts. The last one-- that's the tricky one. Failing to disclose foreign accounts can sometimes trip up even well-meaning, honest small business owners. While it may seem unlikely for a small business to have foreign business accounts, it's actually pretty common. Companies who produce their products abroad, or even those with a handful of vendors or customers abroad often find it easier to have one or two business accounts in a foreign country to pay or receive payments. And that seemingly insignificant decision can cause headaches down the road.

This catches some small business owners off guard for two reasons: The threshold for triggering a reporting requirement is low, and the penalties are high. If your company has foreign bank accounts that have more than $10,000 in them at any point during the year, you must file. This threshold is in aggregate. So, if you have two accounts that each have less than $10,000 in them, but that combine for over $10,000, you must report those accounts to the Department of Treasury annually.

Fail to do this, and the penalty is substantial: either 50 percent of your bank account balance, or $100,000, whichever is higher (though recently, some courts have sided with the taxpayer and set the maximum penalty at $100,000). If you want to avoid this penalty, you need to file an FBAR (foreign bank account report), also known as FinCEN Form 114, each year.

Even for those who were unaware of the requirement, the penalties are steep.

The FBAR requirement began as an initiative to uncover and deter tax fraud globally, but the perhaps unintended consequences are that many small business owners are unaware of this mandate, since it is separate from an IRS tax return. Many small business owners find themselves in hot water, and a $100,000 penalty is enough to put an end to an otherwise viable startup.

The penalties are lighter for those who are unaware of the filing requirement, but proving that you did not know about the requirement can be difficult, and the criteria are vague. A non-willful violation will still run you $10,000 per violation, which is significant to the small business owners I know. Plus the penalties are adjusted for inflation, so for penalties assessed after January 15, 2017, a non-willful failure to report penalty increases from $12,663 to $12,921, and the penalty for a willful failure to report increases from $126,626 to $129,210.

A good accountant can help you avoid this $100,000 penalty. However, it's worth noting that if you have an international business, you should have an accountant familiar with international tax law. This simple decision can save you large sums of money and stress down the road.

So now that you know about the additional requirements, make sure that disclosing your foreign accounts, if they meet the threshold, is on your annual to-do list during tax time. Failure to do so can mean a hefty price and an uncertain future for your small business.

PUBLISHED ON: AUG 29, 2018