<u>Virginia Banks Oppose Reporting Your Bank Account Data to IRS. Here's Why and What it Would Mean.</u>

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The Biden Administration is proposing a sweeping expansion of tax information reporting aimed at raising revenue to help offset the cost of additional spending programs in the American Families Plan. The proposal, if enacted, would require banks to report to the IRS information on the inflows and outflows of every account above a de minimis threshold of $600 during the year — or any account that has an average of $50 worth of activity each month.

On behalf of our members, the Virginia Bankers Association - representing banks in urban, rural, and suburban communities across the Commonwealth - strongly opposes this proposed tax information reporting requirement. While policymakers insist this provision is aimed at high income earners, it sweeps in almost every American with a bank account. This is bad public policy and should be rejected for a number of reasons you should care about – privacy, impact and cost.

Privacy

The IRS is a constant target for hackers and has had multiple data breaches. Adding this enormous amount of data for every account that meets the $600 de minimis threshold will expose even more taxpayer financial data to cyber risk.

The Biden Administration has failed to explain how this new information would be utilized to close the tax gap, and why virtually every American should sacrifice their financial privacy to enable closer inspection of the top 1% of taxpayers. There is already an extremely high level of information provided to the IRS, especially over the past several years, and banks are already subjected to compliance regulations like Suspicious Activity Reports (SARs), Currency Transaction Reports (CTRs) and Bank Secrecy Act/Anti-Money Laundering (BSA/AML) requirements to catch money launderers who are clearly evading taxes.

Impact

This proposal will undoubtedly drive current and potential customers, including the under- and unbanked, away from the banking industry. These individuals are more likely to not trust the IRS with more of their personal information and would be even more reluctant to have bank accounts as a result of this proposal. This mistrust of the IRS having private financial information should not be confused with the idea that the same individuals are not paying the taxes they owe; instead, this proposal only adds to the apprehension the unbanked and underbanked already feel about putting their trust in banks.

The impact on average Americans and the safety and privacy of their financial information would not be mitigated by raising the reporting threshold to $10,000 or even higher. The proposal contemplates reporting on gross annual inflows and outflows of customer accounts. Consider a taxpayer who earns $18 an hour, has no other income, and pays rent and other living expenses – the sum of gross inflows and outflows after taxes would be around $60,000. Self-employed contractors who buy materials and install them for customers, will commonly have gross inflows and outflows that far exceed the income they earn. That is just an example - in the end, whether it is average workers or self-employed citizens virtually all Americans will be subject to this new reporting.

Cost

For the IRS to design system capabilities to capture and report account inflows and outflows and other information is complex, expensive to maintain, and will take years to fully implement.

On the banking side, regardless of the threshold chosen, financial institutions would be required to develop the necessary technology and processes to identify the accounts, report to the IRS and customers, and educate customers and bank staff on what the information does (and does not) mean. The costs and related process improvements are fixed and will not materially change, no matter the threshold chosen.

The Bottom Line

This proposal claims to go after the wealthiest Americans the IRS believes are dodging taxes. But this proposal is neither targeted on the wealthy nor focused on those who dodge their tax bill.

We strongly support ensuring that everyone pay their fair share of taxes, but we believe that only a more targeted approach aimed at those truly suspected of tax avoidance merits consideration. Creating a huge dragnet targeted at all taxpayer accounts is like building a haystack to then look for the needle and simply goes too far.

Virginia banks continue to oppose this proposal, and we hope you will express your concerns to our elected officials as well. *To express your opposition to this misguided proposal, we encourage you to contact your lawmakers here: aba.social/ContactCongress.*

Following a 10-year career in retail and commercial banking, Bruce joined the Virginia Bankers Association in 1993, its 100th anniversary year. He has served as president and chief executive officer of the association since 2007 and was previously executive vice president.