

Tax Reporting Proposal: Resources for SBAs and Banks

September 2021

Background and Talking Points

What would the proposal do?

- The proposal, if enacted, would require banks to report to the IRS information on customer account inflows and outflows for almost every account owner. These new reporting requirements raise serious concerns about consumers' right to privacy. It would also increase the cost of tax preparation for individuals and small businesses and could discourage some consumers from joining the banking system.
- As originally proposed by Treasury, with just a \$600 threshold for gross inflows and outflows, nearly every bank account in the country would be captured by this newly proposed requirement. This approach does not target wealthy tax cheats, but instead captures information on almost every taxpayer.
- Even if the threshold is raised to \$10,000 as some have proposed, most active accounts would still be affected. That's because the threshold is for total inflows and outflows – not bank balances. That means that anyone who spends or receives an average of \$835 or more via their bank account each month would be affected. This includes direct deposits from employers, credit card and other bill payments and any other deposit or withdrawal.

Key Messages

- The banking industry firmly believes 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. Higher thresholds being discussed would still capture the overwhelming majority of active accounts, raising significant privacy and data security concerns.
- Implicit in this proposal is a presumption that most American's are not following the law. We believe the IRS should instead target those individuals actually suspected of cheating on their taxes, and not cast wide a net that captures everyone.
- This proposal would put customer privacy and data security at risk, 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, some of which the IRS has publicly stated it does not have the capacity to utilize. Under the new proposal, significant additional information, such as loan payments 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 should demonstrate that it can process the information it already receives before collecting vast amounts of new data.
- Much of the opposition to this proposal is really coming from taxpayers, not banks. Consumers are voicing real concerns about having their bank share this information with the IRS when the agency has a troubling track record of protecting taxpayer data. The IRS

is a constant target of cyber criminals and has recently suffered significant data breaches. The recent ProPublica series detailing the tax returns of individual Americans is just one example. 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 doesn't have the capability to effectively utilize that data.

- It is questionable whether the new reporting requirements would improve the IRS's ability to identify the high-income tax evaders the administration is apparently targeting. Instead, the proposal appears to capture the millions of small business owners that operate as sole proprietorships, needlessly increasing their tax preparation costs. We believe the IRS should instead focus on better utilizing the significant information it already receives and targeting those it believes are engaging in tax avoidance.
- The banking industry is working hard to reduce the number of unbanked in the country. As some interpret this proposal to require banks to police and report on the accounts of customers, we are concerned that it will undermine trust in the banking system and erode progress the industry has made.

Sample Language for a Bank Customer Communication:

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 detailed information on the inflows and outflows of almost every customer account.

Congress is expected to vote on this new proposal in the coming days.

If you oppose such a proposal, we encourage you to contact your lawmakers at this link provided by the American Bankers Association: aba.social/ContactCongress.

Sample Bank Social Media Post:

Instructions:

1. Download [this image](#) and upload it to a new blank social media post.
2. Copy/paste your selected language into the post:

Option 1: Attention customers: A proposal in Congress would require financial institutions to report detailed information on most customer bank accounts to the IRS every year. Your right to privacy could be at risk. Join us in telling lawmakers to oppose this plan: aba.social/ContactCongress

Option 2: We strongly oppose the proposal in Congress to require financial institutions to report to the IRS all account inflows and outflows for almost every bank account. Help us protect your privacy and tell Congress you oppose this plan: aba.social/ContactCongress

Sample SBA Social Media Posts:

Instructions:

1. Download [this image](#) and upload it to a new blank social media post.
2. Copy/paste your selected language into the post:

Option 1: Attention bankers: A proposal in Congress would require financial institutions to report detailed information on most customer bank accounts to the IRS every year. Your customers' right to privacy could be at risk. Tell lawmakers to oppose this plan: aba.social/ContactCongress

Option 2: We strongly oppose the proposal in Congress to require financial institutions to report to the IRS all account inflows and outflows for almost every bank account. Share this message with your customers and tell Congress to oppose this plan: aba.social/ContactCongress

Sample Responses to Customer Inquiries

Customer comes into bank and says they are withdrawing their funds because of tax reporting proposal:

We would urge you to reconsider – the safest place for your money is in the bank. The proposal is far from a done deal and is not currently in effect. We are working as an industry to push back against it because we believe it would put customer privacy and data security at risk. If you agree with us and oppose it, we encourage you to contact your lawmakers at this link provided by the American Bankers Association: aba.social/ContactCongress.

Customer is angry with bank for taking a “political position” on this issue:

We appreciate and value your feedback. While we rarely engage with our customers on policy issues, we made an exception in this case because we believe it puts your right to privacy and the security of your data at risk. We appreciate your point of view and value our customers.

Criticism of the Proposal from Beyond Banking:

Tax Policy Center: <https://www.taxpolicycenter.org/taxvox/bidens-effort-close-tax-gap-well-intentioned-flawed>

Sen. Crapo Press Release: <https://www.crapo.senate.gov/media/newsreleases/crapo-brady-introduce-bill-to-protect-taxpayer-rights-and-privacy->

Link to Grassroots Letter-Writing Tool Where Customers Can Contact their Member of Congress Directly:

<https://secureamericanopportunity.com/take-action/oppose-new-irs-reporting-requirements-take-action/>