New American
Written by Bruce Walker on December 16, 2009

IRS Creates New Unit for Rich Americans

The IRS has announced that it will be forming a new unit to focus on the very wealthy, particularly the wealthy who have complex business organizations and international operations. This new unit will focus on trusts, real estate, privately held businesses and other business entities controlled by the rich.

And this new IRS unit will not just operate in the United States — it is opening criminal offices in China, Panama, and Australia. Other nations like Britain, Germany, and Japan are creating similar tax units. Special simultaneous tax audits are being planned with Britain, Canada, and Australia. The new unit will also work with other governments to address the perceived problem of corporations seeking the most favorable jurisdiction in which to file its tax returns. Tax enforcement, which has long been essentially a domestic matter, is under the Obama Administration now becoming a global issue.

The IRS Commissioner Donald Shulman noted in his announcement that the wealthy may use perfectly legal mechanisms to avoid taxes, but that in some cases these may "mask aggressive tax strategies." Tax avoidance has long been an important factor for Americans with high incomes in determining where, when, and how to invest money. Congress has also used the Internal Revenue Code to encourage certain types of behavior and discourage other types of behavior. The threat earlier this year to virtually tax away the bonuses of AIG executives is one such example of how the tax code has been used to influence or, in a practical sense, control how people act by creating tax loopholes or imposing draconian tax surcharges or other sanctions.

National sovereignty has also long been used as an economic incentive for people to decide where to live and to invest their money. Monaco is one example of a small nation making very low tax rates an attraction for those with high incomes. The Isle of Man, which is independent of the government of the United Kingdom, is another example of the use of tax havens to attract the wealthy (the isle is also not part of the European Union, although it trades without tariffs with EU members.) Poor nations of Europe, like Macedonia and Cyprus, use their low-tax policies to encourage the movement of wealth into their nations.

Other larger nations or territories have used tax laws to promote prosperity. Switzerland has used its bank secrecy to protect account holders from scrutiny by national taxing authorities (although the IRS has compelled the Swiss banking firm, UBS to divulge more than 5,000 individual American clients to be used in criminal tax evasion cases.) Swiss banking privacy has helped the nation become a successful financial center. Hong Kong is one of the most remarkable examples of how governments of small polities can use tax laws to encourage wealth creation. Hong Kong has no sales tax, no capital gains tax, no VAT (value added tax), and a maximum income tax rate of 20 percent. This has produced a flourishing economy in Hong Kong (despite the ultimate overlordship of Red China.) Singapore also has very low tax rates, although permanent residents of the island nation receive somewhat more favorable treatment than non-residents.

The move by the U.S. government, particularly when done in collaboration with other major governments, may portend a globalization of tax enforcement and, later, a globalization of tax rates. This would certainly fit into the philosophy of President Obama and his staff, who seem to view sovereignty as an obstacle to international governance. Those concerned about global government may wish to watch this IRS program closely.

Photo: AP Images