

July 20, 2021

The Honorable Ron Wyden  
Chairman  
U.S. Senate Committee on Finance  
Washington, D.C. 20510

The Honorable Mike Crapo  
Ranking Member  
U.S. Senate Committee on Finance  
Washington, D.C. 20510

The Honorable Richard Neal  
Chairman  
U.S. House Ways and Means Committee  
Washington, D.C. 20515

The Honorable Kevin Brady  
Ranking Member  
U.S. House Ways and Means Committee  
Washington, D.C. 20515

RE: Financial Institution Income Tax Reporting

Dear Chairmen Wyden and Neal and Ranking Members Crapo and Brady:

On behalf of the members of the American Bankers Association (ABA) and the undersigned State Bankers Associations, representing banks of all sizes in every state, we write to express concerns about a proposal included in the Administration's American Families Plan that would create new tax information reporting requirements for financial institutions. We urge members to oppose any efforts to advance this significant new reporting regime for a number of reasons we detail below.

Our members fully support adequate funding and resources to promote compliance with our Nation's tax laws. That said, we request that new financial institution tax reporting requirements be excluded from spending proposals for the reasons described below. The requirements are far more expansive and vastly more complicated than the few sentences of description suggest, would generate a new trove of data that the Internal Revenue Service (IRS) is unlikely to be able to use or protect, and would intrude into the lives of nearly every American.

Although limited information is available, we understand this proposal would require financial institutions and other providers of financial services to track and submit to the IRS information on every account above a *de minimis* threshold of \$600 of inflows and outflows during the year. This proposal would create a dragnet, collecting the financial information of most Americans and requiring significant resources to build, police, and maintain. Policymakers must consider how account-holder data would be protected and whether a program of this scale and scope infringes on the American people's reasonable expectation of privacy. As noted in the Administration's Tax Compliance Agenda, the IRS experiences 1.4 billion cyberattacks annually, has had multiple data breaches, and continues to deal with the fallout of identity theft and false tax returns. Adding an entirely new set of data may compound the IRS's systemic problem and expose even more taxpayer data.

In addition to the challenges associated with protecting this new data, policymakers should consider the potential unintended consequences of leveraging bank relationships to execute such a large-scale and detailed reporting regime. Privacy concerns are already cited as one of the top

reasons that individuals choose not to open bank accounts.<sup>1</sup> A reporting regime of this magnitude could exacerbate the wealth gap in this country by pushing those households on the cusp of banking services back into the unbanked and underbanked population.

Financial institutions already report a tremendous amount of data to the IRS and it is unlikely that the reported information would materially improve the IRS's ability to identify tax evaders or to deter evasion over and above the tools already at the IRS's disposal. The existing reporting regime captures the majority of taxable events of the high-income taxpayers that the Administration believes it is targeting, including sales and distributions, and earnings from investments, including brokerage, retirement, trust, S Corporation, and partnership (including offshore) accounts. We urge policymakers to ensure that the existing framework of information collection and oversight is fully utilized before adopting new requirements.

Despite assertions that this proposed regime would be simple to execute and represent a low or even no-cost mechanism to help narrow the tax gap, designing system capabilities to capture account inflows and outflows and other information is complex, expensive, and will take years. Having the raw data somewhere in a bank system does not mean it is easily compiled or produced to government specifications. For example, financial institutions would need to adjust their many customer systems to calculate gross inflows and outflows, account for *de minimis* protocols, navigate complications associated with joint account ownership, and identify transactions with foreign accounts, cash transactions, and transactions between accounts with the same owner.

The reporting system would need to apply across most, if not all, bank products – including many that do not currently require any IRS reporting and consequently do not have even the baseline analytical and reporting infrastructure needed to support this type of reporting. This would be a significant operational undertaking, especially for community banks that are often dependent on third-party service providers for their system updates.

Instituting a comprehensive new reporting regime would be significantly more complex than the Administration's proposal suggests and, more importantly, the costs of instituting such a program likely outweigh the benefits. We appreciate the opportunity to convey our policy concerns on this matter and urge members to oppose any efforts to advance this proposal.

Sincerely,

American Bankers Association  
Alabama Bankers Association  
Alaska Bankers Association  
Arizona Bankers Association  
Arkansas Bankers Association  
California Bankers Association  
Colorado Bankers Association  
Connecticut Bankers Association

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<sup>1</sup> Federal Deposit Insurance Corporation, "How America Banks: Household Use of Banking and Financial Services [-] 2019 FDIC Survey," p. 17

Delaware Bankers Association  
Florida Bankers Association  
Georgia Bankers Association  
Hawaii Bankers Association  
Idaho Bankers Association  
Illinois Bankers Association  
Indiana Bankers Association  
Iowa Bankers Association  
Kansas Bankers Association  
Kentucky Bankers Association  
Louisiana Bankers Association  
Maine Bankers Association  
Maryland Bankers Association  
Massachusetts Bankers Association  
Michigan Bankers Association  
Minnesota Bankers Association  
Mississippi Bankers Association  
Missouri Bankers Association  
Montana Bankers Association  
Nebraska Bankers Association  
Nevada Bankers Association  
New Hampshire Bankers Association  
New Jersey Bankers Association  
New Mexico Bankers Association  
New York Bankers Association  
North Carolina Bankers Association  
North Dakota Bankers Association  
Ohio Bankers League  
Oklahoma Bankers Association  
Oregon Bankers Association  
Pennsylvania Bankers Association  
Puerto Rico Bankers Association  
Rhode Island Bankers Association  
South Carolina Bankers Association  
South Dakota Bankers Association  
Tennessee Bankers Association  
Texas Bankers Association  
Utah Bankers Association  
Vermont Bankers Association  
Virginia Bankers Association  
Washington Bankers Association  
West Virginia Bankers Association  
Wisconsin Bankers Association  
Wyoming Bankers Association

cc: The Honorable Chuck Schumer  
The Honorable Nancy Pelosi  
The Honorable Mitch McConnell  
The Honorable Kevin McCarthy