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IRS Closures Seen as Harmful to Overseas Taxpayers

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Summary by **taxanalysts**

International tax observers are raising concerns about the IRS's January 14 announcement that it will close the last of its civil-side enforcement offices in Frankfurt, Germany, London, and Paris.

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International tax observers are raising concerns about the IRS's January 14 announcement that it will close the last of its civil-side enforcement offices in Frankfurt, Germany, London, and Paris.

"That is bad. Real bad," said Charles M. Bruce of Bonnard Lawson, an international law firm in Switzerland.

The plan is one of many IRS responses to repeated budget cuts. Since 2010, Congress has slashed funding for the Service by about \$1.2 billion. For 2015, the agency is at \$10.9 billion -- down \$346 million from the prior year. (Prior coverage )

The offices perform enforcement and service functions and are attached to U.S. embassies or consulates. Their closure is projected to save the IRS several million dollars each year, the agency told Tax Analysts. The savings would come from downsizing operations, reducing facility and computer security, and cutting rotational relocation expenses, it said.

But Bruce criticized the closures, saying the IRS taxpayer service "is the principal contact -- human contact -- for U.S. taxpayers and other people dealing with the tax system" overseas.

The IRS closed a civil office in Beijing earlier in the fiscal year. The latest closures represent the last civil-side offices overseas; however, the IRS did not rule out eventually reopening offices overseas, and it will continue to operate criminal investigation functions abroad.

Another Layer of Complexity

The planned downsizing abroad, the observers said, would add another layer of U.S. tax code

complexity for many U.S. citizens and legal permanent residents already trying to navigate a foreign country.

"It limits the local resource in-country or -continent where they can get direct information," said Marylouise Serrato, executive director of American Citizens Abroad.

The closures would increase the challenges "for Americans who are trying to be compliant or are compliant," Serrato said, adding, "They don't have a deep understanding of the tax code because it is complicated -- more so complicated when you're dealing with the filing from overseas."

American Citizens Abroad has offices in Washington and Geneva. Its Professional Tax Advisory Council provides tax-related resources, including an online tax return preparer directory, to help Americans avoid heavy penalties.

Dave Daley, tax director of US Tax & Financial Services, pointed out that individuals who don't "owe very much or anything, many of them . . . deliver the [tax] returns" to the IRS foreign posts.

Hiring a U.S. tax professional can be a major hurdle for Americans with modest income abroad, Tim Johnson of American UK Tax Solutions said, adding that the service is expensive and that sometimes the search can be difficult.

"Good news for me, but probably not good for them," Johnson said. He added that an expatriate enlisting a tax professional's assistance costs more than for someone with the same income living in the United States.

Americans May 'Drop Out of the System'

Tax professionals are also concerned that a difficult income tax filing experience abroad might lead to the submission of noncompliant forms. "I suspect the IRS will get more returns that are done wrong," either by taxpayers showing that they owe more money or not enough, Johnson said.

Taxpayers might also "drop out of the system and stop filing U.S. tax returns," Johnson said.

When a country has a tax agency presence in foreign jurisdictions, it leads to more people filing their returns, said Liz Zitzow of British American Tax. "It's unwise," she said of the closures.

IRS Civil Foreign Posts

For years, the Service has opened civil foreign posts worldwide but had to close them for various reasons, including for budget and security reasons, according to the IRS.

A tax attaché is posted at each of the three closing IRS locations. They're also staffed with specialists in tax law and taxpayer services, as well as an administrative assistant. In Frankfurt, there's also a deputy tax attaché and secretary.

The IRS at these offices performs "enforcement tasks related to exchange of information upon request . . . with respect to treaty and tax information exchange agreement (TIEA) jurisdictions assigned to them."

While overseas tax practitioners rarely need the agency's guidance, some of them who have long used the London location -- the largest IRS overseas office -- praised its customer service. Having worked in London for two decades, Bruce, who also heads the United Kingdom's chapter of American Citizens Abroad, said he has often submitted tax documents to his local IRS office. "The people are excellent at what they do," he said.

Darlene Hart said that since she started US Tax & Financial Services in London, the IRS office there has been a "major support." She said her firm continues to use that location even with the expansion to other cities.

"By rights in Zurich, we should be using the Paris office, but because we know many of the people in the London office, we have a tendency to use" that location, Hart said.

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