PRESS RELEASE

Internal Revenue Service - Criminal Investigation
Chief Richard Weber

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Contact: *CI-HQ-COMMUNICATIONSEDUCATION@ci.irs.gov
IRS – Criminal Investigation

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Justice Department Announces Privatbank IHAG Zürich AG Reaches Resolution Under Swiss Bank Program

The Department of Justice announced today that Privatbank IHAG Zürich AG (IHAG) reached a resolution under the department's Swiss Bank Program. IHAG will pay a penalty of more than $7 million.

"The signing of these agreements is not only significant for the banks and for IRS-Criminal Investigation, but also for the thousands of accountholders who used these banks to hide their money offshore to criminally defraud the United States tax system," said Chief Richard Weber of IRS-Criminal Investigation. "As we delve into the details provided by these agreements, we learn more about who they are and how they hid their money from the government. Those who circumvent offshore disclosure laws no longer have room to hide."

"Through the information provided by IHAG and other Swiss banks in the Program, the department has unraveled the various schemes and identified the foreign jurisdictions used by U.S. taxpayers to conceal their foreign accounts," said Acting Assistant Attorney General Caroline D. Ciraolo of the Justice Department's Tax Division. "Foreign financial institutions and other entities that facilitated U.S. tax evasion should come forward and cooperate now, before time runs out."

The Swiss Bank Program, which was announced on Aug. 29, 2013, provides a path for Swiss banks to resolve potential criminal liabilities in the United States. Swiss banks eligible to enter the program were required to advise the department by Dec. 31, 2013, that they had reason to believe that they had committed tax-related criminal offenses in connection with undeclared U.S.-related accounts. Banks already under criminal investigation related to their Swiss-banking activities and all individuals were expressly excluded from the program.

Under the program, banks are required to:

- Make a complete disclosure of their cross-border activities;
- Provide detailed information on an account-by-account basis for accounts in which U.S. taxpayers have a direct or indirect interest;
- Cooperate in treaty requests for account information;
- Provide detailed information as to other banks that transferred funds into secret accounts or that accepted funds when secret accounts were closed;

- Agree to close accounts of accountholders who fail to come into compliance with U.S. reporting obligations; and

- Pay appropriate penalties.

Swiss banks meeting all of the above requirements are eligible for a non-prosecution agreement.

According to the terms of the non-prosecution agreement signed today, IHAG agrees to cooperate in any related criminal or civil proceedings, demonstrate its implementation of controls to stop misconduct involving undeclared U.S. accounts and pay a penalty in return for the department's agreement not to prosecute this bank for tax-related criminal offenses.

IHAG, a private bank established in 1949 and based in Zurich, Switzerland, is part of a privately-owned and diversified group of companies of which the top holding company is IHAG Holding AG (IHAG Holding). IHAG formerly maintained a branch office in Lugano, Switzerland, which closed in 2009.

Despite understanding that U.S. taxpayers had a legal duty to report to the Internal Revenue Service (IRS) and pay taxes on the basis of all their income, including income earned in accounts maintained at IHAG, IHAG intentionally opened and maintained accounts that were undeclared with the knowledge that, by doing so, IHAG was helping these U.S. taxpayers violate their legal duties.

In a few instances, IHAG assisted certain recalcitrant U.S. persons in further concealing undisclosed accounts by moving the funds to another jurisdiction and returning the funds to IHAG in a different name in order to conceal the U.S. persons' ownership of the assets and enable the recalcitrant accountholders to continue to maintain undeclared accounts at IHAG. For example, a family of U.S. persons held assets at IHAG in the name of a Liechtenstein foundation, and another unrelated U.S. person held funds in the name of a Panama foundation. These foundation structures were designed to conceal the true beneficial ownership of the assets. In the case of the Panama foundation, IHAG assisted the U.S. person in creating the foundation. The value of the assets in the two accounts together totaled approximately $63 million.

To assist these U.S. clients in further concealing their assets and evading U.S. taxes, in order to maintain these recalcitrant individuals as IHAG clients, IHAG personnel – with the assistance of an unaffiliated fiduciary services firm in Zurich and with the knowledge and approval of bank management – moved assets from the two foundation accounts to an unaffiliated bank in Hong Kong. The funds then returned to IHAG under the name of a Singapore entity wholly owned by IHAG's parent company, IHAG Holding, so that the accounts would bear no trace of the U.S. persons' beneficial interest in the assets held in the accounts. The multi-step scheme also involved an entity in Hong Kong in which IHAG Holding owned a minority interest.

This scheme enabled the assets to be stripped of any indicia of U.S. ownership. In effectuating this scheme, IHAG took advantage of Swiss law, which allowed IHAG in these circumstances to treat the accounts as if know-your-customer review of the accounts had occurred in Singapore. Accordingly, IHAG did not apply Swiss know-your-customer requirements when the accounts returned to IHAG under a different name. IHAG's files for the accounts deliberately did not contain any documentation of the U.S. persons' interest in the assets in the accounts. IHAG knowingly and willfully committed tax fraud with respect to those accounts.

In a few other instances, IHAG assisted clients in establishing foundations used to hold their assets at IHAG. The U.S. persons who were the beneficial owners of the foundation accounts were properly identified as beneficial owners of the foundations on certain forms pursuant to Swiss know-your-customer rules. However, the foundations were identified as the beneficial owner on IRS Forms W-8BEN, thereby masking the true beneficial ownership of the accounts by U.S. persons.

For example, in 2006, an account held in the name of a Panama company was opened. In connection with the opening of the account, bank documents identified a U.S. person as the beneficial owner of the assets. However, a Form W-8BEN signed by two Swiss citizens and a citizen of Liechtenstein falsely

declared that the Panama company was the beneficial owner. The U.S. person instructed IHAG not to communicate with him by phone and insisted on using code names when communicating with IHAG.

IHAG also offered a variety of traditional Swiss banking services that it knew could assist, and that did assist, U.S. taxpayers in concealing assets and income from the IRS. These services included hold mail, as well as accounts opened in the name of pseudonyms.

Since Aug. 1, 2008, IHAG held a total of 182 U.S.-related accounts with a high value of approximately $791 million. IHAG will pay a penalty of $7.453 million.

In accordance with the terms of the Swiss Bank Program, IHAG mitigated its penalty by encouraging U.S. accountholders to come into compliance with their U.S. tax and disclosure obligations. While U.S. accountholders at IHAG who have not yet declared their accounts to the IRS may still be eligible to participate in the IRS Offshore Voluntary Disclosure Program, the price of such disclosure has increased.

Most U.S. taxpayers who enter the IRS Offshore Voluntary Disclosure Program to resolve undeclared offshore accounts will pay a penalty equal to 27.5 percent of the high value of the accounts. On Aug. 4, 2014, the IRS increased the penalty to 50 percent if, at the time the taxpayer initiated their disclosure, either a foreign financial institution at which the taxpayer had an account or a facilitator who helped the taxpayer establish or maintain an offshore arrangement had been publicly identified as being under investigation, the recipient of a John Doe summons or cooperating with a government investigation, including the execution of a deferred prosecution agreement or non-prosecution agreement. With today's announcement of this non-prosecution agreement, noncompliant U.S. accountholders at IHAG must now pay that 50 percent penalty to the IRS if they wish to enter the IRS Offshore Voluntary Disclosure Program.

Acting Assistant Attorney General Ciraolo thanked the IRS and in particular, IRS-Criminal Investigation and the IRS Large Business & International Division for their substantial assistance. Acting Assistant Attorney General Ciraolo also thanked Kathleen E. Lyon, who served as counsel on this matter, as well as Senior Counsel for International Tax Matters and Coordinator of the Swiss Bank Program Thomas J. Sawyer, Senior Litigation Counsel Nanette L. Davis and Attorney Kimberle E. Dodd of the Tax Division.

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