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Foreign deposits may be scrutinized

BY BRIAN BANDELL

Many Florida bankers are worried that an IRS proposal to boost reporting requirements for foreign depositors could chase away deposits and weaken internationally focused banks.

The flight of foreign deposits could have painful implications on Miami's Brickell Avenue, home to one of the most vibrant international banking sectors in the U.S. Deposits from foreigners are often converted into domestic loans. This business supports transactions and wealth management

services that are tied to thousands of jobs.

International bank branches in Florida held \$9.9 billion in deposits on Sept. 30, up by 18 percent from a year earlier, according to the Florida

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DEPOSITS: Banks may have to disclose foreigners' interest income to IRS

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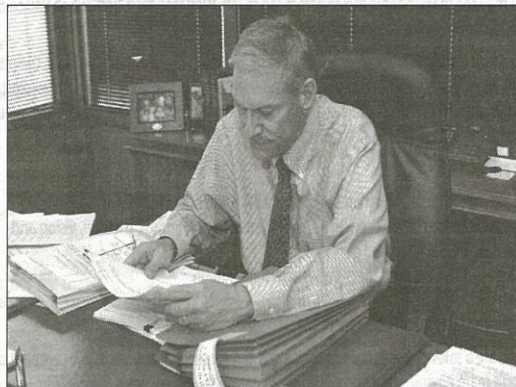
Office of Financial Regulation. In addition, local banks such as BAC Florida Bank, Espirito Santo Bank, BBU Bank and Pacific National Bank draw a large amount of their deposits from foreigners.

Under current rules, foreigners do not have to pay taxes to the U.S. on interest earned in their accounts here, but banks are not required to report that income to their home countries, either. The IRS has proposed a new regulation where banks must disclose foreigners' interest income to the IRS, which could then share it with their homelands.

Banking attorney Clemente Vazquez-Bello, a shareholder with Gunster in Miami, said the IRS hopes to use the information to exchange for data on U.S. citizens in offshore banks, and to identify foreign companies controlled by Americans, but the consequences of doing so could cause foreign depositors to leave.

"They want to take away our banking business offering privacy and confidentiality," Vazquez-Bello said. "This is unnecessary overkill without regard to the impact it would have to our businesses and economy."

Many wealthy foreigners favor accounts in the U.S. because of privacy rules and the



MARK FREERKS

Attorney Clemente Vazquez-Bello said the IRS hopes to use information it gleans from banks to exchange for data on U.S. citizens.

stability of both its economy and political system, he said.

CONCERNS OVER SECURITY

A wealthy family from another country could be worried about the government seizing their businesses or criminals learning about their wealth and kidnapping them, said Alex Sanchez, president of the Florida Bankers Association. Some companies

in Mexico City have instructed employees not to drive fancy cars and wear flashy jewelry.

Sanchez said he's headed to the White House and the U.S. Department of the Treasury in an attempt to halt the proposed IRS regulation.

"By draining tens of billions of dollars in deposits from our banks, this would hurt our economy," Sanchez said. "It has always been the policy of the U.S. to encourage the flight of capital to the U.S. Why do we want to change that now?"

Patricio Perez, managing director for RSM McGladrey's bank accounting practice in Miami, said countries such as Panama are competing hard to take foreign deposits from the U.S., and the proposed IRS regulation would give the competitors the edge. The loss of deposits would have a huge impact in Miami, where many banks revolve around foreign business, he said.

"If a bank lost a certain percentage of deposits, it is obviously going to diminish its lending opportunities and it obviously has to cut down on the staff to service those deposits and loans," Perez said.

Rafael F. Saldaña, president and CEO of Coral Gables-based BBU Bank, said the proposed IRS regulations could chase away foreign deposits that help the South Florida economy.

"We use that money to lend locally to business people who create economic development and jobs here in South Florida," he said. "Money that could be available for local lending won't be available."

Vazquez-Bello said the IRS proposal is not needed in light of a new law, the Foreign Account Tax Compliance Act (FACTA), set to start in 2013. It would force all foreign banks that maintain an account in the U.S. to either say they have no U.S. depositors or provide the IRS with information on their U.S. depositors. Since most foreign banks need an account here to conduct business, that law would have a broad impact and halt a lot of the tax evasion, Vazquez-Bello said.

He said the IRS should let FACTA play out before enforcing a new regulation.

bbandell@bizjournals.com | (954) 949-7515