



What's News in Tax

Analysis that matters from Washington National Tax

The FBAR: New Due Date, but Regulatory Pause Leaves Reporting Rules in Place

February 20, 2017

by [Steven M. Friedman](#) and [Timothy J. McCormally](#), Washington National Tax*

It has been almost one year since the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN") issued proposed changes to the rules for annually reporting foreign financial accounts on FinCEN Form 114, *Report of Foreign Bank and Financial Accounts*, (the "FBAR") and more than 18 months since Congress acted to align the FBAR filing deadline with the deadline for filing individual income tax returns. The combination of the statutory change and regulatory amendments (if finalized) will transform the landscape for FBAR reporting, easing reporting requirements for some filers but imposing additional burdens on others.

Because the penalties for noncompliance with the FBAR rules can be staggering—up to 100 percent of the highest amount held in the pertinent foreign financial accounts for *willful* failures—it is critical that owners of foreign financial accounts and individuals holding signatory authority over these accounts remain current on the FBAR rules. This article alerts taxpayers to the new filing deadline for calendar year 2016 FBAR reports, current limited exceptions to the annual filing requirements, the possible relief from penalties for previous failures to file, and the scope and current status of proposed changes for future FBAR filings.

* [Steven M. Friedman](#) is a director in the Practice, Procedure, and Administration group of Washington National Tax ("WNT"). [Timothy J. McCormally](#) is a director in WNT and former executive director of Tax Executives Institute.

Snapshot: Requirements for 2016 FBAR Filing

- ❖ Due date for 2016 FBARs is April 18, 2017, but a six-month automatic extension of the filing deadline to October 16 is available without having to file a specific extension request. (Previously, the deadline for filing the FBAR was June 30, without regard to the due date of the filer's income tax return, and no extensions were available.)
- ❖ E-filing remains the order of the day. Rather than paper filings of old Form TD F 90-22.1, filers must e-file their FBAR, including any delinquent or amended FBARs for prior years, using the BSA E-Filing System. Filers must ensure that their FBARs are *received* by the due date.
- ❖ Exceptions to the filing requirement for individuals with signing or other authority may apply to officers and employees of certain regulated U.S. entities, including publicly traded companies and financial institutions. The exceptions, however, are limited in scope and are *not* available to most U.S. officers and employees.
- ❖ Although FinCEN proposed substantial changes to the FBAR regulations in March 2016, there has been no indication when final regulations might be issued.
- ❖ Because companies often file not only their own FBAR, but also those of officers and employees who have signature or other authority over these foreign financial accounts, it is not too soon to begin preparing for this year's filings.

Background

Global transparency received a big boost in 2010 when the Foreign Accounts Tax Compliance Act ("FATCA") was enacted to target non-compliance by U.S. taxpayers using foreign accounts.¹ One consequence of FATCA was to vivify the independent, longstanding requirement to annually report foreign financial accounts on the FBAR.² The FBAR requirement emanates from the 1970 enactment of the Bank Secrecy Act, which imposes reporting requirements on profit and not-for-profit entities with respect to certain foreign bank and financial accounts.

¹ FATCA, which was enacted as part of the Hiring Incentives to Restore Employment (HIRE) Act, Public Law No. 111-145, 124 Stat. 71 (Mar. 18, 2009), requires foreign financial institutions ("FFIs") to report to the IRS information about financial accounts held by U.S. taxpayers, or by foreign entities in which U.S. taxpayers hold a substantial ownership interest. FFIs are encouraged to either directly register with the IRS to comply with the FATCA regulations (and FFI agreement, if applicable) or comply with the FATCA Intergovernmental Agreements ("IGA") treated as in effect in their jurisdictions. The United States has entered into more than 100 FATCA-related IGAs.

² For calendar years before 2013, FBARs were paper filed on Form TD F 90-22.1. Nevertheless, any delinquent or amended filings of FBARs for 2012 and earlier calendar years must be e-filed.

The global trend in tax transparency shows no signs of abating. Three events in 2016—the leaks of the so-called Panama Papers, expanded information sharing and return disclosures under measures to implement the Organisation for Economic Co-operation and Development’s base erosion and profit shifting (BEPS) action plans, and the winding down of the U.S. government’s Swiss Bank Program—illustrate the continuing attention given to hidden assets and unreported earnings around the world. And from the government’s perspective, the focus is paying off. For example, between March 2015 and January 2016, the Justice Department entered into non-prosecution agreements with 80 “Category 2” Swiss banks and collected *more than \$1.36 billion in penalties* from the participating banks.³ This amount does not take into account taxes and penalties paid by the individual account owners that neglected to report their income or failed to file the required forms such as the FBAR.

Although more than four decades old, the FBAR filing requirement has received increased attention during recent years.⁴ The scrutiny in focus is due not only to the enactment of FATCA (and correlative intergovernmental agreements related to financial accounts), but also to a significant increase in penalties for noncompliance that came into effect in 2004 and stepped-up IRS enforcement efforts aimed at unreported earnings from offshore accounts.⁵ While these changes were targeted at unlawful or even criminal conduct, their consequences undeniably extend to inadvertent failures and so-called benign actors. Prudence dictates that companies carefully review how the rules apply to them, their officers, and their employees.

While Congress passed legislation in 2015 advancing the due date of the form from June 30 to April 15 beginning for filings in 2017,⁶ the current FBAR rules and regulations are essentially those that have applied since calendar year 2010. A detailed discussion of the new FBAR due date follows.

Overview of FBAR Rules

Generally, FBAR reporting applies to each “United States person” (U.S. person) who has a financial interest in, or signature or other authority over, foreign financial accounts that have an aggregate value exceeding \$10,000 at any time during the *calendar* year. A U.S. person is defined as (1) a citizen or resident of the United States or (2) a domestic entity (including a corporation, partnership, trust, or

³ “Category 2 banks” are those institutions that had not yet been identified by the Justice Department and that voluntarily came forward to participate in the Swiss Bank Program (commenced in 2013), which offered amnesty from criminal prosecution in exchange for cooperation and the payment of appropriate civil penalties. *See generally* <https://www.justice.gov/tax/swiss-bank-program>.

⁴ The number of FBAR filings has grown by an average of 17 percent every year since FATCA’s enactment, reaching an all-time high in 2015 of more than 1.16 million forms. IRS News Release: *Foreign Account Filings Top 1 Million; Taxpayers Need to Know Their Filing Requirements*, IR-2016-42 (Mar. 15, 2016).

⁵ FBAR’s overall administration has been assigned to FinCEN, but the IRS has been delegated significant responsibilities in respect of investigation violations of the BSA, including the FBAR. Individuals must also answer questions regarding their financial interest in, or authority over, foreign financial accounts on their individual income tax returns (Form 1040, Schedule B, Part III, Line 7).

⁶ Surface Transportation and Veterans Health Care Choice Improvement Act of 2015, Pub. L. No. 114-41, § 2006(b)(11), 129 Stat. 443 (Jul. 31, 2015).

limited liability company, regardless of whether the entity is treated as disregarded for federal income tax purposes). Financial accounts are defined to include bank and securities accounts, insurance and annuity accounts with cash value, and commodity futures and options accounts.⁷ Also included in the definition are foreign mutual fund accounts or similar pooled fund accounts that (1) issue shares available to the general public, (2) have a regular net asset value determination, and (3) have regular redemptions. Limiting reportable funds to those having these characteristics generally results in foreign hedge funds and foreign private equity funds being excluded from the reporting requirement.

Final FBAR regulations issued in 2011⁸ by FinCEN provide a surprisingly narrow exception from reporting for certain officers and employees who are U.S. citizens or residents and have signature or other authority over these foreign financial accounts. The exception's limited scope, however, prompted questions and concerns from many U.S. corporations, which in turn led FinCEN to grant a filing extension with respect to certain officers and employees.⁹ This, however, is not your ordinary filing extension that grants an additional six months during which to file the required return. This extension has *morphed* into an extended deferral, for some filers, of *seven years*. In light of the six-year statute of limitations applicable to FBARs, which starts on the report's due date regardless of whether the FBAR is filed, the latest extension brings into question the need to file 2010 FBARs by those U.S. individuals who have taken advantage of the extension for calendar year 2010. Generally, the extension means many officers and employees will not have to file FBARs (for calendar years 2011-2016) until 2018 (although some, with the assistance of their employer, have opted to forgo the available deferral and filed annual FBARs). The exception, as well as how it would be revised under FinCEN's 2016 proposed regulations, is described later in the article.

Further complicating matters for *individuals* with FBAR reporting obligations is the separate requirement to file Form 8938, *Statement of Specified Foreign Financial Assets*.¹⁰ Foreign financial accounts over which an individual has signature authority (and that are reportable on the FBAR) are *not* required to be

⁷ 31 C.F.R. §§ 1010.350(c)(1)-(3).

⁸ RIN 1506-AB08, 76 Fed. Reg. 10245 (Feb. 24, 2011). As discussed later in this article (Proposed FinCEN Regulations Would Significantly Revise FBAR Filing Requirements), on March 1, 2016, FinCEN promulgated proposed regulations that would make significant changes to the FBAR rules. Because the proposed changes may be altered during the rulemaking process and, by their own terms, do not contain an effective date, U.S. persons continue to be subject to the 2011 FinCEN regulations.

⁹ FinCEN Notice 2016-1. See the later discussion under the heading *FinCEN Grants a Deferral to Certain Individuals*.

¹⁰ This reporting requirement under section 6038D of the Code, which first took effect for calendar year 2011, is filed with the individual's annual federal income tax return (e.g., Form 1040). The reporting requirement was expanded earlier this year when Treasury issued final regulations implementing reporting rules for certain domestic entities formed or availed of for purposes of holding specified foreign financial assets. T.D. 9752, 81 Fed. Reg. 8835 (Feb 23, 2016). A detailed discussion of Form 8938 is beyond the scope of this article, but note that the form and instructions were revised in late 2016. The current form may be accessed at <https://www.irs.gov/uac/Form-8938,-Statement-of-Foreign-Financial-Assets>. Unless otherwise indicated, section references are to the Internal Revenue Code of 1986, as amended (the "Code") or the applicable regulations promulgated pursuant to the Code (the "regulations").

reported on Form 8938, but the scope of foreign assets in which an individual has a reportable interest for purposes of Form 8938 is broader than those implicated by the FBAR rules (e.g., vested interests in a foreign pension plan or foreign deferred compensation plan may be reportable on Form 8938).

New Due Date, with Extension

The due date for filing FBARs, which must be submitted electronically, has historically been June 30, regardless of when the filer's income tax return is due. But beginning with calendar year 2016 FBARs filed this year, the new statutory due date is April 15. Although FBAR reporting falls under Title 31 of the U.S. Code (the Bank Secrecy Act), and thus is not subject to the procedural rules of the Internal Revenue Code (which is Title 26 of the U.S. Code), FinCEN announced that for 2016 FBARs the due date will coincide with the due date for filing Form 1040. As a result, the April 15 statutory due date for FBARs filed in 2017 shifts to April 18.¹¹ This is a departure from prior years when FBAR due dates that fell on a Saturday or Sunday were left unchanged. Because section 7503 of the Code does not automatically apply to FBAR filings (because it is limited to filings under Title 26 of the U.S. Code), presumably FinCEN will announce any future change from the April 15 statutory due date before a shift in due dates can occur.¹²

But wait, there's more to the new FBAR due date. The 2015 legislation also prescribes the granting of a six-month extension. Although the process for U.S. taxpayers to obtain an extension of time to file their *income* tax return is to affirmatively make such a request, FinCEN announced that FBAR filers in 2017 will *automatically* receive a six-month extension of time to file their FBAR. Thus, no action by an FBAR filer is required to receive the extension of time to file. This effectively moves the FBAR due date to October 15. For 2016 FBARs, FinCEN also announced that the due date will shift to October 16, 2017, since October 15 falls on a Sunday (again, an announcement by FinCEN was necessary because the Saturday, Sunday, or legal holiday rule in section 7503 does not apply to FBARs). Accordingly, U.S. individuals and entities have until October 16, 2017, to timely file their calendar year 2016 FBAR.

E-Filing Is Mandatory

Paper filings of old Form TD F 90-22.1 are no longer permitted because filers must e-file their FBAR, including any delinquent or amended FBARs for prior years, using the BSA E-Filing System.¹³

¹¹ Section 7503 of the Code shifts the due date of a tax return that falls on a Saturday, Sunday, or legal holiday in the District of Columbia to the next succeeding day that is not a Saturday, Sunday, or legal holiday in the District of Columbia. Because April 15 is a Saturday and April 17 is a legal holiday in the District of Columbia (Emancipation Day), the due date for filing 2016 individual tax returns becomes April 18, 2017.

¹² Alternatively, FinCEN could include a provision in revised FBAR regulations, prospectively aligning the FBAR filing deadline with the deadline for filing individual income tax returns or adopting the "next succeeding day" rule under section 7503 of the Code.

¹³ FinCEN has issued line-by-line e-filing instructions for FBAR, which provide much useful information. See BSA Electronic Filing Requirements For Report of Foreign Bank and Financial Accounts (FinCEN Form 114) (Release Date January 2017), available at <https://www.fincen.gov/sites/default/files/shared/FBAR%20Line%20Item%20Filing%20Instructions.pdf>.

U.S. entities that are new to the FBAR-filing world must first register and create an account on the website and designate a “Supervisory User” who will serve as the initial and primarily responsible user for the entity.¹⁴ After the FBAR is submitted, an immediate confirmation page is displayed and an email confirmation is also sent. Generally, within two business days, an additional email is sent listing the BSA Identifier assigned to the filed FBAR. This BSA Identifier should, if necessary, be used to amend or correct the FBAR filing. As in the past, filers must ensure that their FBAR is *received* by Treasury by the due date (i.e., filers should maintain the electronic confirmation of filing dated on or before the due date).

FinCEN Form 114 generally requires detailed information about each foreign account being reported, including maximum account value during the calendar year, type of account, account number, and the financial institution’s name and address. Filers with a financial interest in 25 or more accounts or having signature authority over 25 or more accounts need not submit detailed information on those accounts, but rather need only check the appropriate box in Part I of the form and retain that detailed information for FinCEN’s review upon request.

Importantly, the e-filing system permits individuals with signature or other authority over their employer’s foreign financial accounts to report such accounts separately from any personal accounts the individual is required to report. Although FinCEN did not highlight this change in its e-filing announcement, the modified rule is explained in a posting under “FBAR E-Filing FAQs.”¹⁵ Thus, more than one FBAR can be filed by an individual for a particular calendar year (in contrast to the requirement to file a single tax return for a taxable period).

FinCEN’s rules permit a third party, such as a CPA or attorney, to sign and submit FBARs on behalf of their clients through the BSA E-Filing System upon the client’s signing of FinCEN Form 114a, *Record of Authorization to Electronically File FBARs*. This authorization is *not* to be filed with the FBAR or otherwise submitted to Treasury but rather should be retained by the parties (the client and the authorized party). Filing as an authorized filer on behalf of an individual requires the authorized party to register and set up an account on the e-file website (i.e., an authorized party cannot file using the *No Registration* FBAR page reserved for individuals but must instead file as an institution). Combining the ability to authorize a third party with the option to file more than one FBAR allows individuals to authorize their employers (using FinCEN Form 114a) to file an FBAR on their behalf reporting the accounts over which the individuals have authority without the employers being involved in the filing of the FBARs concerning the individuals’ personal financial accounts.

¹⁴ When reporting their own accounts, individuals are not required to register and login before completing and submitting their report into the system.

¹⁵ http://bsaeiling.fincen.treas.gov/docs/FBAR_EFILING_FAQ.pdf.

U.S. Persons Have a “Financial Interest” in Accounts of Their Greater-Than-50-Percent-Owned Subsidiaries and Other Entities

In addition to having a financial interest in a foreign financial account when a U.S. person is a named owner of record or a named holder of legal title, a U.S. person is also treated as having a financial interest through indirect ownership, such as when the owner of record or holder of legal title is:

- A corporation in which the U.S. person owns directly or indirectly more than 50 percent of the voting power or total value of the shares;
- A partnership in which the U.S. person owns directly or indirectly more than 50 percent of the profits interest or capital; or
- Any other entity in which the U.S. person owns directly or indirectly more than 50 percent of voting power, total value of the equity interest or assets, or interest in profits.¹⁶

Thus, if a U.S. corporation owns a 51-percent profits interest in a foreign partnership and that partnership has a foreign bank account at any time during the 2016 calendar year, the U.S. corporation is considered to have a financial interest in the partnership’s account and should include the foreign account on the corporation’s FBAR (assuming the aggregate value of all foreign financial accounts of the U.S. corporation exceeded \$10,000 at any time during the calendar year).

Relief for Certain Delinquent FBAR Filers

U.S. persons that inadvertently failed to file FBARs but properly reported all income related to their foreign financial accounts on their U.S. tax returns and paid all tax can take advantage of a penalty-free option currently being offered by the IRS.¹⁷ Delinquent FBARs can be filed on a penalty-free basis if two further conditions are met: (1) the U.S. person is not under IRS exam, and (2) the U.S. person has not been contacted by the IRS about missing FBARs. The delinquent FBARs should be filed electronically using the BSA E-Filing System. Because there is a six-year statute of limitations for FBAR penalties (regardless of whether an FBAR is filed), the relevant years for missing FBARs are currently calendar years 2010-2015 (with the statute for 2010 closing on June 30, 2017).

FBARs filed under this delinquent submission procedure should select “Other” (in the drop-down menu) as the reason for the late filing on the cover page of the electronic form. Selecting “Other” will open a window that will allow the delinquent filer to provide a statement indicating that the criteria for penalty relief have been met: All income related to the foreign accounts has been reported; all taxes have been paid; and the late FBARs are being filed before IRS contact.

¹⁶ 31 C.F.R. § 1010.350(e)(2)(ii).

¹⁷ For a discussion of other options available to taxpayers with delinquent FBARs or other international information returns (e.g., Form 5471, 5472, 8858, 8865, etc.), see *What’s News in Tax, Have Undisclosed Foreign Assets? IRS Offers Options*, by Steven Friedman (Jul. 28, 2014).

Filing a Consolidated FBAR

A U.S. entity that owns directly or indirectly a greater-than-50-percent interest in another U.S. entity (such as a corporation or partnership) is permitted to file a consolidated FBAR on behalf of itself and the other entity.¹⁸ Significantly, in order for the lower-tier U.S. entity's filing obligation to be satisfied through its parent's consolidated FBAR filing, the lower-tier U.S. entity must be identified in Part V of the consolidated FBAR as the owner of at least one foreign financial account. *Foreign* subsidiaries that directly own a foreign financial account should *not* be reported in Part V. They themselves face no FBAR requirement; rather, the U.S. entity that has a financial interest in such a foreign account (through its more than 50 percent ownership of the foreign subsidiary) should be reported as the owner of the account in Part V.

When a consolidated FBAR is filed, all reportable accounts are shown in Part V, even those directly owned by the filer. In other words, accounts should not be reported in Part II if a consolidated report is filed.

The Reporting Exception for Employees and Officers

Certain U.S. persons may be required to file an FBAR even if they do not have a financial interest in a foreign financial account. FBAR reporting is required by a U.S. person who is an individual and who (alone or in conjunction with another) has signature or other authority over bank, securities, or other financial accounts in a foreign country. The preamble to the current regulations clarifies that an officer or employee who merely has supervisory control over a foreign financial account (i.e., the person can instruct others within the company to transfer or withdraw funds, but cannot directly transfer or withdraw funds) is *not* required to report such an account on an FBAR. This is because reporting is limited to those individuals who have control over the account *through direct communication to the person with whom the financial account is maintained*.¹⁹ The preamble also clarifies that only an individual (and not an entity) can have signature or other authority over an account (so a corporation should never complete Part IV of its FBAR).

Exceptions to the filing requirement for individuals with signature authority may apply to the officers and employees of six categories of entities subject to specific types of federal regulation, so long as the officers or employees have no financial interest in the reportable account *and* the foreign financial account is *directly* owned by the U.S. entity in which they serve as an officer or employee.²⁰ Officers and employees of the following "regulated entities" may qualify for the reporting exception:

- A bank that is examined by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, or the National Credit Union Administration;

¹⁸ 31 C.F.R. § 1010.350(g)(3).

¹⁹ 31 C.F.R. § 1010.350(f)(1).

²⁰ 31 C.F.R. §§ 1010.350(f)(2)(i)-(v).

- A financial institution that is registered with and examined by the Securities and Exchange Commission (“SEC”) or Commodity Futures Trading Commission;
- An “Authorized Service Provider”²¹ that provides services to investment companies (U.S. mutual funds) registered with the SEC;
- An entity with a class of equity securities listed (or American depository receipts listed) on any U.S. national securities exchange;
- A U.S. subsidiary of a U.S. entity with a class of equity securities listed on a U.S. national securities exchange, as long as the subsidiary is included in a consolidated FBAR report filed by the parent; and
- An entity that has a class of equity securities registered (or American depository receipts in respect of equity securities registered) under section 12(g) of the Securities Exchange Act (i.e., in general, corporations with more than \$10 million in assets and at least 500 shareholders of record).

Although this listing at first blush seemingly exempts from the FBAR filing requirements U.S. individuals who are officers and employees of a broad range of regulated entities, the reporting exception is, in fact, quite limited in scope. It is *not* available to the following individuals:

- Officers and employees of U.S. or foreign subsidiaries of U.S. publicly traded corporations who have signature authority over foreign financial accounts directly owned by controlled foreign corporations (“CFCs”), even though the U.S. parent company is obligated to report the CFC’s foreign financial accounts in its own FBAR;
- Officers and employees of U.S. subsidiaries of foreign corporations who have signature authority over foreign financial accounts, since the foreign parent itself is not required to file an FBAR and the U.S. subsidiary’s stock is not publicly traded. This rule applies even if the foreign corporation voluntarily files an FBAR report; and
- Officers and employees of a U.S. parent corporation who have signature authority over a foreign financial account of a U.S. or foreign subsidiary with regard to the subsidiary’s account. Similarly, officers and employees of a U.S. or foreign subsidiary who have signature authority over a foreign financial account of its U.S. parent do not qualify for the exception from reporting on the FBAR with regard to the U.S. parent company’s account. These exclusions from the reporting exception apply regardless of whether a consolidated FBAR report is filed.

²¹ An “Authorized Service Provider” is defined as an entity that is registered with and examined by the SEC and provides services to an investment company registered under the Investment Company Act of 1940.

FinCEN Grants a Deferral to Certain Individuals

As a result of questions raised regarding the limited scope of the reporting exception, in 2011 FinCEN provided certain officers and employees of these regulated entities who fall outside the reporting exception with an extension of time to report those accounts on their FBARs.²² Moreover, since the issues surrounding the reporting exception remain unanswered, the extension (or deferral) granted by FinCEN has been annually extended each successive year, in general, for the officers and employees delineated in the prior three bullet points.²³ Thus, individuals who take full advantage of the deferral granted by FinCEN could have FBARs due for calendar years 2011-2016 on April 15, 2018 (along with calendar year's 2017 FBAR, making a total of seven FBARs due next year).²⁴

Important

The extension does *not* apply to foreign financial accounts in which officers or employees have an *actual* financial interest or to personal accounts over which they have signature or other authority. Thus, an FBAR filing may be required to report calendar year 2016 accounts by October 16, 2017 (the original due date of April 15, extended automatically by six months). In these situations, an amended FBAR would need to be filed later to report any corporate accounts not originally required to be reported because of the extension of the FinCEN deferral.

Penalties

U.S. persons required to file an FBAR—whether a U.S. corporation reporting its financial interest in foreign financial accounts or individuals reporting their authority over such accounts—should not forget that civil penalties can be imposed for non-willful reporting failures. Delegated with the responsibility to enforce compliance, the IRS has discretion in determining the penalty for FBAR reporting violations. For circumstances when a penalty is deemed appropriate, the IRS has established mitigation guidelines to promote uniformity in the assertion of penalties.²⁵ Manager approval is required to assert more than one \$10,000 non-willful penalty per year, and in no event can the aggregate penalty amount exceed 50 percent of the highest aggregate balance of all accounts to which the violations relate during the years at issue.²⁶ Notwithstanding the reduced exposure under the IRS's mitigation guidelines, qualifying U.S. persons can achieve an even better result—filing delinquent FBARs on a wholly penalty-free basis; see *Relief for Certain Delinquent FBAR Filers*, above.

²² FinCEN Notices 2011-1 and 2011-2.

²³ See FinCEN Notices 2012-1, 2013-1, 2014-1, 2015-1, and 2016-1.

²⁴ The FinCEN notices issued in 2011 through 2014 set the deferred filing deadline as June 30 of the next succeeding year (e.g., Notice 2011-1 extended the due date from June 30, 2011, to June 30, 2012). Because Congress in 2015 passed legislation changing the due date of the FBAR from June 30 to April 15, FinCEN Notice 2015-1 advanced the deferred filing deadline to April 18, 2017; FinCEN Notice 2016-1 resets the deferred filing deadline to April 15, 2018.

²⁵ IRM § 4.26.16.6.6.1 (11-06-2015) specifies four threshold conditions for a reduced penalty that focus on the lack of prior criminal tax convictions, whether the money passing through the account was from an illegal source, the person's level of cooperation during the examination, and whether a civil tax fraud penalty was sustained for the year in question.

²⁶ IRM § 4.26.16.6 (11-06-2015) (FBAR Penalties, Exhibit 4.26.16-1).

Harsher penalties can be imposed for *willful* reporting failures. If willfulness is found, the total penalty for all years under examination will generally be limited to 50 percent of the highest aggregate balance of all unreported foreign financial accounts during the affected years (but in no event will the penalty exceed 100 percent of the highest aggregate balance of such accounts).²⁷ For purposes of this penalty, the violation is considered to have occurred on the due date for filing the FBAR. Thus, the IRS will use the balance in the foreign financial account at the close of April 15 (June 30 for pre-2016 calendar years) in calculating the penalty. The IRS's *Internal Revenue Manual* provides that "[t]he test for willfulness is whether there was a voluntary, intentional violation of a known legal duty."²⁸ The courts, however, have applied their own standards for willfulness. For example, the Fourth Circuit Court of Appeals equated reckless conduct with willfulness for purposes of the FBAR civil penalty,²⁹ and the federal district court in Utah found that willfulness can be established by an individual's reckless disregard of a statutory duty.³⁰

Proposed FinCEN Regulations Would Significantly Revise FBAR Filing Requirements

On March 10, 2016, FinCEN promulgated proposed amendments to its FBAR regulations, which would make several significant changes.³¹ Generally, the proposed regulations would—

- Expand and simplify the exemption for certain U.S. individuals with signature or other authority over foreign financial accounts, by eliminating the requirement for officers, employees, and agents³² of U.S. entities to report on accounts owned by the entity (or a subsidiary, parent, or another entity within the same corporate or other business structure of such entity) for which they have signature or other authority, but no financial interest, provided the entity (or any other entity within the same corporate or other business structure) has an FBAR filing obligation to report the foreign financial account;
- Remove the special rules permitting limited account information to be reported when a U.S. person has a financial interest in, or signature authority over, 25 or more foreign financial accounts, and instead require U.S. persons to report detailed account information on all foreign accounts;

²⁷ IRM § 4.26.16.6.5.3 (11-06-2015).

²⁸ IRM § 4.26.16.6.5.1 (11-06-2015). The IRS has the burden of establishing willfulness.

²⁹ *United States v. Williams*, 489 Fed. Appx. 655 (4th Cir. 2012) (taxpayer's failure to check the "foreign accounts" box on Schedule B of Form 1040 was evidence of willfulness).

³⁰ *United States v. McBride*, 110 AFTR 2d 2012-6600 (D. Utah 2012).

³¹ RIN 1506-AB26, 81 Fed. Reg. 12613 (Mar. 10, 2016).

³² The term "agent" incorporates entities and individuals, such as Authorized Service Providers and their employees if they are not owners of record or holders of legal title. An "Authorized Service Provider" is defined as an entity that is registered with and examined by the SEC and provides services to an investment company registered under the Investment Company Act of 1940.

- Require companies and other entities to maintain a list (for five years) of all officers, employees, and agents with signature or other authority over foreign financial accounts, making this list available to FinCEN and law enforcement authorities upon request; and
- Make other changes, including recognizing the changed due date for filing FBARs, beginning with the 2016 FBAR due in 2017, and the requirement that FBARs be filed electronically.

At a high level, the proposed FBAR regulations contain both good and bad news. The proposed revision to the signature authority exemption, which would eliminate FBAR reporting for officers and employees with signature or other authority (but no financial interest) provided their employer or other entity within the same corporate group is required to report the foreign financial account, would be welcome indeed. Moreover, since many employers prepare and file FBARs on behalf of their officers and employees with signature authority, this burden reduction would benefit them directly.

In contrast, the proposed deletion of abbreviated reporting for persons with a financial interest in, or signature authority over, 25 or more foreign financial accounts could impose significant administrative burdens on those companies and entities. Rather than simply listing the number of accounts and retaining detailed information for FinCEN's review upon request, the companies would have to enter and submit the required information through FinCEN's BSA E-Filing System for each foreign financial account.

Interestingly, the proposed regulations do not contain a proposed effective date, nor do they address the ongoing effect of FinCEN's earlier deferrals (by means of annual notices) of the FBAR filing requirements in respect of certain signature authority accounts. With respect to the deferrals, the FinCEN release issued with the regulations acknowledges that "as part of the final rule, it would need to determine the effect of the provisions of this proposed rule on earlier FBAR deferrals...."

In the preamble to the proposed regulations, FinCEN specifically requested comment on:

- Whether it should allow individuals to rely on the proposed reporting exemption, if finalized, with regard to FBAR filings properly deferred under the FinCEN Notices (the latest being Notice 2016-1);
- Whether removing the abbreviated reporting permitted for U.S. persons meeting the 25 account threshold will result in technology costs to implement systems to transfer account information to the BSA E-filing system; and
- Whether the proposed broadening of the signature authority reporting exemption combined with removal of the special abbreviated reporting for filers with 25 or more foreign financial accounts will increase or decrease a filer's burden.

The comment period on the proposed FinCEN regulations has closed. Whether and when final regulations will be promulgated, as well as what modifications might be made and what the overall effective date of the new regulations might be, remain unknown. Accordingly, the FBAR requirements discussed in this article and the potential for penalties continue to be relevant, not only with respect to the FBARs required to be filed by October 16, 2017, but potentially into the future.

Conclusion

Many companies have already taken the important step of instituting formal procedures for compliance with the FBAR reporting requirements. For those companies, as well as those still grappling with formalizing procedures, revisiting the rules may be prudent in light of the current opportunity for certain U.S. persons to file delinquent FBARs on a penalty-free basis. Considering the severe penalties at issue, taking extra care to determine who is required to file and the manner in which to file may be in order. Given the fast-approaching April 18 unextended due date that some filers may want to meet, considerations about FBAR filings for calendar year 2016 should be addressed in a timely manner.

□ □ □ □

The information contained in this article is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser. This article represents the views of the author or authors only, and does not necessarily represent the views or professional advice of KPMG LLP.