

# I.R.S. PLACING WATCHDOG AGENTS IN INTERNATIONAL FINANCIAL CENTERS

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## Tags

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Over the past few years, global financial regulators and treasury departments have continuously sought out new ways to expose individuals engaged in cryptocurrency transactions. Yet, despite their efforts, individuals around the world have surpassed regulators' expectations and continued to abuse cryptocurrency, engaging in sophisticated cross-border money-laundering and tax evasion.

In 2015, approximately 21 million people globally owned virtual currencies, but according to I.R.S. Criminal Investigation, less than 900 people reported holding virtual currencies on U.S. tax returns that year. Rather than turn a blind eye to bad behavior, the I.R.S. (along with other taxing authorities) is ramping up its efforts to track down cryptocurrency users.

## I.R.S. CRACKDOWN

In summer 2019, the I.R.S. sent letters to more than 10,000 people warning of the possibility of penalties for not reporting virtual investments. It also made changes in the Form 1040. It now inquires whether an individual received, sold, sent, exchanged or otherwise acquired any financial interest in any virtual currency within the taxable year.

Last month, the I.R.S. published supplementary guidance on assisting taxpayers in understanding reporting obligations for specific transactions involving virtual currency.<sup>1</sup> In addition, the I.R.S. is increasing the number of cryptocurrency examiners in international cities where tech-savvy Americans may be avoiding reporting obligations.

## WORLD-WIDE ENFORCEMENT

On November 1, 2019, officials from the Joint Chief Global Tax Committee ("J-5"), a group of criminal tax investigators from the U.S., the U.K., Australia, Canada, and the Netherlands, shared their most significant challenges and insights with regard to investigation strategies on mitigating cross-border money laundering and tax evasion. The J-5 cooperate in gathering information on cybercrimes and sharing that data on a real-time basis. The J-5

- develops strategies to gather information and intelligence,
- initiates procedures to conduct joint investigations, and
- collaborates on effective communications.

<sup>1</sup> Rev. Rul. 2019-24.

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*“The I.R.S. plans to station one or more agents in Singapore, the Netherlands, and Dubai on a permanent basis to address virtual currency money laundering and tax avoidance concerns.”*

Chief of I.R.S. Criminal Investigation Don Fort (who participated in the J-5 meeting) stated, “This is not an exercise dealing with hypothetical scenarios. These are real investigators, using real data, finding real criminals through leads generated this week.”<sup>2</sup>

A few days following the November J-5 meeting, an I.R.S. spokesperson addressing an A.I.C.P.A. meeting in Washington announced the expansion of watchdog activities in financial centers in Singapore, the Netherlands, and Dubai. The move seems appropriate, considering Asia and the Middle East have replaced Caribbean jurisdictions as popular locations for wealthy individuals to hold funds.

In a 2018 Deloitte study, it was estimated that almost 20% of the financial wealth in Singapore is held by Europeans and North Americans.<sup>3</sup> According to the study, Singapore is Asia’s most mature and respected wealth management center for international clients.

Singapore has also become known as a friendly home to large-scale crypto-related technologies and fintech innovation companies due to its lenient cryptocurrency regulations. The Monetary Authority of Singapore (“M.A.S.”) – the country’s central bank – currently does not regulate virtual currencies. Thus, buying and selling cryptocurrency in Singapore is not difficult for American investors looking to cash out digital investments.

This will soon change. The M.A.S. is proactively working on a set of robust cryptocurrency regulations.

In line with the enhanced regulations, the I.R.S. plans to station one or more agents in Singapore, the Netherlands, and Dubai on a permanent basis to address virtual currency money laundering and tax avoidance concerns.

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<sup>2</sup> Joint Chiefs of Global Tax Enforcement, “J-5 Countries Host Crypto ‘Challenge’ in Search of Tax Criminals,” news release, November 8, 2019.

<sup>3</sup> Deloitte, *International Wealth Management Centre Ranking 2018*, 3rd Ed.

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