Closing the International Tax Gap

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Abstract
In July of 1999, the Justice Department entered into a plea bargain with one John M. Mathewson of San Antonio, Texas. Mr. Mathewson was accused of money laundering through the Guardian Bank and Trust Co. Ltd., a Cayman Islands bank. Mr. Mathewson was chairman and controlling shareholder of Guardian, and in that capacity had access to information on its depositors. In return for a reduced sentence, Mr. Mathewson turned over the names of the persons who had accounts at Guardian. The result was an eye-opener: The majority of the accounts were beneficially owned by U.S. citizens, and the reason they used a Caymans bank had nothing to do with laundering funds earned in criminal activities. Instead, the accounts were in the Caymans for the purpose of evading federal income taxes on income earned legally, relying on the Caymans' lack of an income tax and promise of bank secrecy. The IRS ultimately settled 1,165 cases with the individual taxpayers for a total collection of $3.2 billion—an average of $1.7 million per taxpayer. This chapter focuses on the problem of closing the "international tax gap," defined as the portion of taxes owed but not collected from U.S. taxpayers when an international connection of some type hinders the IRS.

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