



September 10, 2021

TO: The Honorable Members of the Pennsylvania Delegation to the US House of Representatives

RE: Opposition to Financial Institution Income Tax Reporting Proposal

The Pennsylvania Bankers Association writes on behalf of its more than 120 financial institution members to express our strong opposition to a proposal under consideration as part of the reconciliation package that would create new tax information reporting requirements for financial institutions. We urge members of the Pennsylvania delegation to oppose any efforts to advance this significant new reporting regime.

We support adequate funding and resources to promote compliance with our Nation's tax laws. That said, we request that new financial institution tax reporting requirements be excluded from the reconciliation package. The requirements are far more expansive and vastly more complicated than the few sentences of description suggest, would generate a new trove of data that the IRS is unlikely to be able to use or protect, and would impact the privacy of nearly every American.

This proposal would require financial institutions and other providers of financial services to track and submit to the IRS information on the inflows and outflows of every account above a *de minimis* threshold of \$600 during the year. This proposal would create a dragnet, collecting the financial information of nearly every American and requiring significant resources to build, police, and maintain. Policymakers must consider how account-holder data would be protected and whether a program of this scale and scope infringes on the American people's reasonable expectation of privacy. The IRS experiences 1.4 billion cyberattacks annually, has had multiple data breaches, and continues to deal with the fallout of identity theft and false tax returns. Adding an entirely new set of data will likely compound the IRS's systemic problem and expose even more taxpayer data.

In addition to the challenges associated with protecting this new data, policymakers should consider the potential unintended consequences of leveraging bank relationships to execute such a large-scale and detailed reporting regime. Privacy concerns are already cited as one of the top reasons that individuals choose not to open bank accounts. A reporting regime of this magnitude would potentially undermine our local banks' efforts to reach populations that are suspicious of working with regulated financial institutions and would push those households on the cusp of banking services back into the unbanked and underbanked population.

Despite assertions that this proposed regime would be simple to execute and represent a low or even no-cost mechanism to help narrow the tax gap, designing system capabilities to capture account inflows and outflows and other information is complex, expensive, and will take years. Having the raw data somewhere in a bank system does not mean it is easily compiled or produced to government specifications. The reporting system would need to apply across most, if not all, bank products – including many that do not currently require any IRS reporting and consequently do not have even the baseline analytical and reporting infrastructure needed to support this type of reporting. Additional representatives will then be necessary on an ongoing basis to assist customers and their income tax preparers in

understanding this new data. As you can see, this would be a significant operational undertaking, especially for community banks that are often dependent on third-party service providers for their system updates.

Finally, financial institutions already report a tremendous amount of data to the IRS, and it is subject to question that the reported information would materially improve the IRS's ability to identify tax evaders or to deter evasion over and above the tools already at the IRS's disposal.

We urge you to oppose any efforts to institute this new reporting regime.

If you have any questions, please contact me at dcampbell@pabankers.com/717-255-6916 or PA Bankers General Counsel Louise Rynd at lrynd@pabankers.com/717-255-6935.

Sincerely,

A handwritten signature in black ink that reads "Duncan Campbell". The signature is written in a cursive, flowing style.

Duncan Campbell
President and CEO
PA Bankers Association