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*Transcript of May 18, 2011, IRS Hearing on Guidance(REG-146097-09) on Reporting
Interest Paid to Nonresident Aliens*

MARIA GRISEL VEGA: Good morning, and thank you for the opportunity to testify today. My name is Maria Grisel Vega; I'm here as a board member and treasurer of the Florida International Bankers Association, also known as FIBA, based out of Miami, Florida. FIBA is an organization of more than 70 financial institutions, from 18 countries, which are domestic banks as well as branches, agencies and representative offices of foreign banks licensed to operate in the United States.

Foreign banks comply with U.S. regulatory requirements and are examined by federal and state regulators. The primary market for FIBA members is Central and South America. FIBA aims to promote international banking and international trade finance based on established best practices and fully complying with U.S. regulatory requirements.

On behalf of FIBA I am here to request that you reconsider the proposed NRA reporting regulation and that you request that the proposed regulation be withdrawn.

FIBA understands that the IRS is interested in assuring that all U.S. taxpayers are complying with U.S. tax laws and that they declare their foreign source earnings. FIBA fully supports these goals. We also appreciate the professionalism and the integrity of the IRS personnel regarding the collection and the safeguarding of confidential information. The proposed NRA regulation has little to do with the enforcement of U.S. tax laws. However, they will have a considerable negative effect on the U.S. financial institutions, ultimately impacting the U.S. and Florida market and their taxpayers.

The proposed NRA regulation will result in a flight of capital out of the U.S. to other countries leading to a weakening of bank liquidity levels, significantly diminishing lending capacity of U.S. banks, and the loss of many U.S. jobs. In addition, this regulation will result in new documentation and record-keeping requirements and reporting requirements.

Let me start with the enforcement of U.S. tax laws. Contrary to what is stated in the preamble, the proposed NRA regulation has little to do with U.S. tax enforcement and is unlikely to improve the voluntary compliance of U.S. taxpayers. That is the objective of the FATCA legislation. Regarding the information on all NRA deposits will have a serious negative impact to Florida banks with the little-to-no added reciprocal value to the U.S. from this region.

Of the 58 tax treaties currently in effect, only two are from Central and South America, namely Mexico and Venezuela. It is unclear to FIBA whether the IRS has determined if these countries have met the necessary conditions for reciprocal exchange of information.

Within our institutions, the account-opening due diligence and documentation procedures ensure that the U.S. account holders do not go undetected. FIBA members with U.S. regulatory requirements, including, but not limited to, Customer Identification Program or the CIP; U.S. Patriot Act, including due diligence and enhanced due diligence requirements; compliance with IRS regulations to properly identify and complete the W-8BEN, W-8IMY, W-8ECI or W-9, as may be required; and we verify physical and mailing addresses, passports, ID, etcetera.

We constantly update our customer information and confirm NRA status at least every three years. Depositors who do not complete the required W-8 form every three years or provide incomplete, inconsistent or improperly completed forms will be subject to U.S. withholding requirements and reported to the IRS on the annual 1042 or 1042-S forms. What is definitely clear is that the NRA proposed regulation will result in a flight of capital from the U.S. financial institutions to other jurisdictions.

NRAs keep their deposits in United States for safety, personal and political reasons. There are numerous examples of political and financial instability in South and Central America countries over the years, and having their deposits in the U.S. is a means for our customers to hedge against these uncertainties. In numerous instances and in various countries, our customer deposits in the region have been nationalized, subjected to exchange controls with little or no warning, involuntarily converted into other currencies at unreasonable exchange rates, or even confiscated by their local governments.

Our customers deposit their funds in the United States due to its longstanding stability, the respect for financial privacy, and the confidence in U.S. banking system. The fear that this information may be sent back to their home countries, where the establishments have not been so consistent over time, will encourage many NRAs to take their capital to other stable jurisdictions that will protect their privacy and their security.

Latin American investors also maintain deposits in the U.S. banks for personal safety reasons due to kidnap and ransom epidemic in the region. As of 2006, five out of the 10 global kidnap-for-ransom hotspots are countries in Latin America, namely Mexico, Brazil, Ecuador, Colombia and Venezuela. Ironically the U.S. tax treaties might be sharing depositor information with two of these countries.

According to AIG's Crisis Management Division, there are over 20,000 reported kidnap-for-ransom incidents annually, and 48 percent of them occur in Latin America. Many more cases go unreported. Living in the United States, we do not appreciate this risk, but to our customers this is a reality they live with and they... and they try to protect themselves against. For our customers in the region, where their personal safety is a concern, the mere collection of bank deposit information, with only the possibility of it being shared with their home country, will result in many of the NRAs to withdraw their liquid capital.

Florida is a natural base for Central and Latin American countries. This is a very stable deposit base. The loss of this deposit base will weaken the financial stability of area

banks and dramatically reduce liquidity levels. This will be detrimental to the safety and staminus (ph) of our institutions.

Much of the NRA deposits are reinvested into the banking system and into Florida economy through personal and corporate loans and trade financing vehicles. The loss of these stable deposits will restrict lending capacity and ultimately result in loss of jobs. In Florida, the unemployment rate in March of 2001 was over 11 percent. Losing these deposits will result in even more jobs lost in Florida.

My final comment relates to the burdensome and duplicative record-keeping obligations. The proposed regulation indicates that NRA reporting will represent an estimated burden of 15 minutes per respondent per year. This 15-minute estimate reflects a fundamental misunderstanding of bank verification process and procedures. The reporting will require the purchase, set-up, update and ongoing maintenance of software; annual repurchase of forms; collecting the data in addition to the information currently collected; validating that the data and the amount are being reported, are balanced, and reconciled to the main systems; printing, stuffing, stamping and sending the information to our customers; electronically submitting the forms; storing and maintaining data for five years, plus additional audit and examiner reviews of the processes and the reports.

In conclusion the NRA proposed regulation does little to enhance compliance with U.S. tax laws, but will result in flight of capital to other jurisdictions, diminished bank liquidity, restricting bank lending capacity, loss of jobs, and burdensome and duplicative record-keeping requirements. For these reasons FIBA believes that the NRA proposed regulations should be withdrawn.

Thank you again for allowing me to testify on this very important issue to us.