

The Individual Taxpayer Identification Number and New Customer Banking

What is an ITIN?

ITIN is the acronym for Individual Taxpayer Identification Number. The Internal Revenue Service (IRS) issues ITINs to people who need a taxpayer identification number and who are ineligible to obtain a Social Security number (SSN) from the U.S. government. SSNs may only be obtained by U.S. citizens and other classifications of persons who meet specific requirements of the Social Security Administration, including asylees and refugees, those non-citizens who have been given clearance to work in the United States, or those non-citizens who are eligible to receive certain government benefits.¹

Who can apply for ITINs?

Those who may need to acquire ITINs include non-resident aliens, U.S. resident aliens, or spouses or dependents of non-resident alien visa holders, U.S. resident aliens, or U.S. citizens.²

Why does the IRS issue ITIN numbers?

The Internal Revenue Service (IRS) issues ITIN numbers to carry out its tax collection functions. The IRS has revised its application process to ensure that such numbers are used primarily for tax administration purposes. Those who apply for an ITIN number must attach a federal tax return to the ITIN application (Form W-7) unless they meet one of several exceptions designated by the IRS.

What is an acceptable exception for obtaining an ITIN?

One of the permissible exceptions for obtaining an ITIN is for the third party reporting of mortgage interest. To use this exception, a person who applies for an ITIN must attach documentation with the IRS Form W-7 that demonstrates some evidence of a home mortgage loan. Acceptable documentation could include a copy of a contract to purchase a home that is located in the United States.³

What position does the IRS take on people using ITINs for personal identification?

According to the Internal Revenue Service, ITIN numbers should not be used for identification purposes. This is because the agency does not verify the authenticity of documents that ITIN applicants use to obtain the numbers with the same diligence that other government agencies would use to certify such information.⁴ For instance, an ITIN applicant is not required to apply for an ITIN number in person.

Why are banks and other financial institutions required to establish a Customer Identification Program?

Banks and other financial institutions must follow Bank Secrecy Act (BSA) regulations. The USA PATRIOT Act changed the way banks and other financial institutions must conduct themselves under the BSA. Title III of the USA PATRIOT Act,

which is known as the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, was enacted by Congress in an attempt to keep terrorists from using money laundering schemes to finance terrorist activities in the U.S. and abroad. One major provision of Title III included the introduction of the Customer Identification Program (CIP), which all banks, savings and loan associations, thrift institutions, credit unions, and other types of financial institutions must develop and implement.⁵

What is the purpose of a Customer Identification Program (CIP)?

The Bank Secrecy Act Anti-Money Laundering Examination Manual, which is prepared and published by the Federal Financial Institutions Examination Council (FFIEC), an interagency group of U.S. bank regulators, explains the purpose of the CIP and the information that banks must acquire from each new bank customer. Under the CIP, banks are responsible for conducting a risk analysis for each new customer as part of its total risk assessment program. The CIP requires that a bank form a reasonable belief that it knows the true identity of a customer.⁶ Since the bank has the most intimate knowledge of its customer base and products, the bank can determine the amount and type of identification it should obtain from its new customers as they open accounts and apply for loans.

What type of information do banks and other lending institutions have to collect from its new customers?

Federal banking regulations require banks and financial institutions to obtain a new customer's name, date of birth, address, and identification number as part of its CIP. If the customer is a U.S. citizen, this identification number must be a social security number. If the new customer is not a U.S. citizen, a variety of documents may be used, including an ITIN, passport number, alien identification number, or other type of unexpired government-issued document that shows the person's nationality or residence and that bears a photograph or similar safeguard.⁷ In addition, the bank must have procedures in place in order to verify the identity of the customer, and can, and often will, require the customer to provide additional information or documentation to the bank. It is important to note here that it is up to the bank to decide whether it has required enough identification from a customer to form a reasonable belief of the customer's identity as required by the bank's CIP.⁸ From a risk-based standpoint, it may not be sufficient for a bank or other financial institution to open an account or to grant a loan to a new customer based solely on a customer's presentation of an ITIN number.

What else do I need to know about ITINs and new customer banking?

Whereas the IRS intends for ITIN numbers to be used exclusively for tax identification purposes within the framework of the federal tax system, other federal agencies have embraced the use of ITINs for their own regulatory functions. Thus, it is incumbent upon federal agencies such as the Federal Reserve and the U.S. Treasury Department, and banks and other institutions that are regulated by those agencies, to decide whether the ITIN is appropriately used as part of a total information package for customers who establish new accounts or apply for loans. Therefore, the acceptance of ITIN numbers on the part of a bank or other financial institution as part of the package of documentation presented by the customer is permissible.

References

1. U.S. Code of Federal Regulations (<http://www.gpoaccess.gov/cfr/index.html>)
2. Bank Secrecy Act Anti-Money Laundering Examination Manual 2007
3. Internal Revenue Service, *About ITINS* (<http://www.irs.gov/individuals/article/0,,id=96287,00.html>)
4. Internal Revenue Service, Form W-7 (Rev. 2-2008)
5. Social Security Administration (www.socialsecurity.gov)

The answers provided to the Frequently Asked Questions are provided as a matter of public service for informational use and does not constitute legal advice and should not be used as such. Financial institutions are strongly urged to confer with regulatory counsel in evaluating these issues.

¹ Social Security Administration, *Social Security Numbers for Noncitizens - SSA Publication No. 05-10096*, December 2005. (<http://www.socialsecurity.gov/pubs/10096.html#immigration>).

² Internal Revenue Service, *About ITINS* (<http://www.irs.gov/individuals/article/0,,id=96287,00.html>).

³ Internal Revenue Service, Form W-7 (Rev. 2-2008).

⁴ *Supra*, note 2.

⁵ 31 CFR 103.121

⁶ *Bank Secrecy Act Anti-Money Laundering Examination Manual 2007*, (http://www.ffiec.gov/bsa_aml_infobase/documents/BSA_AML_Man_2007.pdf)

⁷ *Supra*, note 5.

⁸ *Supra*, note 6.