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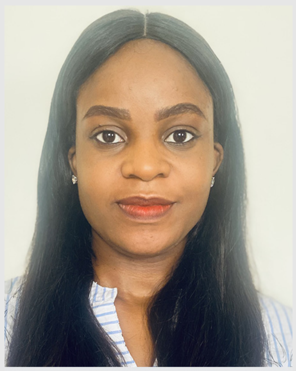

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In this article, the authors discuss how stakeholders in Nigeria will benefit from the adoption of the common reporting standard.

The world is constantly evolving. Internet and technology advancements have given individuals and business entities easier access to offshore banking and investment accounts. It has been alleged that these offshore bank accounts are sometimes used to hide taxable income from tax authorities.

In response, in September 2013 the G-20 countries asked the OECD to develop a common reporting standard to enable effective cross-border cooperation among tax administrations in participating countries. The result is the Common Reporting Standard — Multilateral Competent Authority Agreement (CRS-MCAA), which seeks to narrow the gap for cross-border tax evasion, reinforce confidence in the tax system, and boost state revenue. There are 110 countries committed to exchanging information under the CRS-MCAA.[1]

In 2017 Nigeria signed the CRS-MCAA, committing itself to the exchange of information of residents of other participating jurisdictions. To this end, the Federal Inland Revenue Service (FIRS) issued the Income Tax (Common Reporting Standard) Regulations, 2019, and the Income Tax (Common Reporting Standard) Implementation and Compliance Guidelines as the legal basis for the implementation of automatic exchange of information (AEOI). The regulations and guidelines provide the administrative framework and requirements for the successful implementation of the CRS in Nigeria.

The creation of accurate CRS returns by financial institutions (FIs) and the ultimate exchange of financial information between FIRS and participating jurisdictions requires complex processes and procedures that involve the cooperation of FIs, financial account holders, financial regulatory bodies, and tax authorities. To encourage stakeholders to commit to CRS in Nigeria, we discuss its benefits by drawing insights from other participating jurisdictions.

Benefits of CRS to Participating Countries

Improved Transparency and Tax Compliance

Since the implementation of CRS, many taxpayers have voluntarily disclosed their assets to tax authorities. Access to offshore financial information seems to have helped deter taxpayers from hiding taxable income earned abroad. For

[1] OECD, "Signatories of the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information and Intended First Information Exchange Date" (Dec. 10, 2020).

example, a European country reported that the number of foreign accounts declared by its tax residents increased from about 129,000 in 2013 (before the jurisdiction's 2014 commitment to AEOI) to over 325,000 in 2019.[2] A developing country in Asia reported that over 950,000 taxpayers disclosed their assets in 2016 as a result of the increased transparency brought about by CRS. Another European country reported that over 60,000 taxpayers made use of the voluntary disclosure mechanism between 2016 and 2019, of which 27,800 disclosed their assets in 2019.[3] The voluntary disclosure mechanism was introduced as part of the CRS strategy in some countries to give previously noncompliant taxpayers opportunities to correct their tax matters under specific terms.

CRS investigation exercises (including a review of the accuracy of reported AEOI information) are in progress in many participating jurisdictions and have also improved tax compliance.

Revenue Generation

The implementation of CRS has allowed tax authorities to generate increased revenues through the immediate collection of taxes on previously undisclosed income.

The 2020 Global Forum Annual Report noted that increased transparency from the exchange of information has helped identify about €107 billion in new revenue (tax, interest, and penalties) through voluntary disclosure programs and tax investigations.

A developed country reported collecting over €900 million as a direct result of AEOI between 2017 and 2019. Also, according to the report, developing countries have gained at least €29 billion from CRS implementation. Australia reported that exchange of information requests helped to collect additional tax revenue of about €130 million in 2016 and 2017.[4] Back in Europe:

- about €1.3 billion worth of taxable foreign income has been uncovered in Belgium between 2016 and 2019;
- more than €700 million was collected in Hungary between 2014 and 2017; and
- €128 million was collected in Norway between 2015 and 2019.[5]

Furthermore:

- €32 billion worth of assets was identified in France between 2013 and 2017;
- €51 billion was identified in Brazil between 2016 and 2017; and
- €4.2 billion was identified in Norway between 2015 to 2019.[6]

These assets will ultimately generate tax revenues for these countries.

Minimized Implementation and Compliance Costs

CRS implementation has minimized the need for extensive treaty and bilateral agreement negotiations because it provides a single-instrument platform through which information can be accessed. This reduces the time and administrative effort typically required for creating a legal basis for the exchange of information.[7]

The multilateral effort has also helped to identify cost-efficient means of exchanging information. The CRS's AEOI system has been designed in a standardized way that meets the needs of all jurisdictions while reducing the compliance burden on tax authorities.

Restored Level Playing Field

Before CRS implementation, noncompliant taxpayers could shift wealth to jurisdictions that did not fully participate in information exchange because of limited treaty network coverage.

However, CRS peer reviews being carried out today contain dedicated elements to ensure that all participating jurisdictions have an exchange of information treaty in place. They also make sure that participating jurisdictions put exchange of

[2] Global Forum on Transparency and Exchange of Information for Tax Purposes, "Tax Transparency and Exchange of Information in Times of COVID-19: 2020 Global Forum Annual Report" (Dec. 2020).

[3] *Id.*

[4] Global Forum on Transparency and Exchange of Information for Tax Purposes, "Tax Transparency 2018: Report on Progress" (2018).

[5] Global Forum, *supra* note 2.

[6] *Id.*

[7] *Id.*

information relationships in place and exchange the information in a timely manner.

CRS in Nigeria — Stakeholders' Benefits

Tax Authorities

Given the success of CRS in various jurisdictions, it is expected that easier access to Nigerian tax residents' offshore financial information will help Nigerian tax authorities increase tax revenue from previously undisclosed taxable income. We note, however, that section 23(k) of the Companies Income Tax Act and paragraphs 29, 30, and 31 of the third schedule to the Personal Income Tax Act (as amended) exempts some kinds of offshore income brought into Nigeria through approved channels. These provisions may restrict some revenue generation on offshore income, but tax authorities can generate revenue from nondisclosure of income (this may entail both exempt income and taxable income) and revenue from income not specifically exempt in the provisions.

Tax transparency is one of the CRS's major objectives. As more countries join, the scope of the information exchanged will be broadened and international tax evasion should be reduced. This will give Nigerian tax authorities a robust view of the country's tax revenue potential. Increased tax transparency brought about by CRS in Nigeria will also encourage voluntary tax compliance, especially for personal income taxes.

By ensuring an efficient exchange of information among jurisdictions, Global Forum members (OECD members as well as other jurisdictions that have agreed to implement tax-related information exchange) have not only committed to facilitating global cooperation but also enhanced the capacity and skills of tax authorities. The Global Forum organized several trainings on AEOI implementation and assisted with confidentiality and data safeguarding expertise that has contributed to the competency of Nigerian tax authorities.

Financial Institutions

CRS compliance involves extensive due diligence procedures. FIs are expected to review their customer database to determine reportable accounts and report specific information. CRS compliance will therefore help FIs retain up-to-date customer information and enhance existing anti-money-laundering controls.

Also, by ensuring proper customer data management, FIs can maximize data review to improve customer data-related processes. This will give FIs access to more and improved information about their customers and their needs, and will help them to make sound decisions on the development of products and services.

Proper customer data management will also make it easier to implement future regulatory developments that may require review of customer data. For example, FIs will be prepared if tax authorities require an investigation or further research to clarify cases relating to their customers.

Taxpayers

Taxpayers in Nigeria should enjoy a level playing field with regard to tax payments because it is expected that taxpayers will be more compliant as a result of greater transparency. This should bring relief to compliant taxpayers because we expect it to foster less pressure from tax authorities.

Recommendations and Conclusion

Significant progress has been made since CRS implementation and huge benefits have been achieved by many participating jurisdictions.

To achieve an efficient CRS process in Nigeria, taxpayers should cooperate with FIRS-directed FI instructions that are geared toward improving the quality of their tax returns. Furthermore, because of the CRS's wide scope, it is important for stakeholders to understand their obligations. FIRS should intensify its effort to sensitize the public by organizing stakeholder engagements in which questions can be addressed and public trust restored.

FIs, at the forefront of Nigerian CRS compliance, should continue to educate their customers and continue improving the quality of their submissions annually. Only then will tax authorities be able to fulfill their role in achieving the overall objectives of the CRS-MCAA.

The collective effort of stakeholders in Nigeria will go a long way in ensuring an efficient CRS process. The combined effort of the OECD and tax administrators around the world toward implementing the CRS will help to bring the expected change in taxpayers' attitudes toward voluntary disclosure, while helping participating governments efficiently generate new revenue. ■