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Automatic Exchange of Information – The Common Reporting Standard

What is CRS?

The Common Reporting Standard (CRS) was developed by the Organisation for Economic Co-operation and Development (OECD) to provide systematic and periodic exchange of tax residents' financial account information between participating jurisdictions.

This global standard is built upon information sharing legislation such as the US Foreign Account Tax Compliance Act (FATCA) and EU Savings Directive as a measure to improve tax transparency and counter tax evasion.

What is exchanged?

Under the CRS, jurisdictions obtain information from their financial institutions and exchange that information with other jurisdictions on an annual basis.

In brief, the CRS sets out:

1) Which financial institutions need to report
2) The types of accounts and taxpayers covered
3) Due diligence procedures
4) Financial account information to be exchanged.

Who is affected?

The CRS impacts a similar range of **financial institutions** (FIs) as FATCA, comprising:

- Depository institutions
- Custodial institutions
- Investment entities
- Specified insurance companies

Hong Kong will adopt a pragmatic approach to include all essential requirements of the Automatic Exchange of Information (AEOI) standard in its domestic law – penalties apply to FIs, employees of FIs and third-party service providers for non-compliance.

Financial accounts held by tax residents in CRS participating countries are reportable, including:

- **Individuals**
- **Entities** – including trusts and foundations, and the requirement to look through passive entities reporting on **controlling persons**.

CRS implementation commitment

As at 14 April 2016, 98 jurisdictions had committed to the CRS. Over 50 jurisdictions are early adopters, with a CRS implementation date of 1 January 2016.

Jurisdictions undertaking first information exchanges by 2017 (Early adopters)

- Anguilla
- Argentina
- Barbados
- Belgium
- Bermuda
- **British Virgin Islands**
- Bulgaria
- **Cayman Islands**
- Colombia
- Croatia
- Curaçao
- Cyprus
- Czech Republic
- Denmark
- Dominica
- Estonia
- Faroe Islands
- Finland
- France
- Germany
- Gibraltar
- Greece
- Greenland
- Guernsey
- Hungary
- Iceland
- India
- Ireland
- Isle of Man
- Italy
- Jersey
- Korea
- Latvia
- Liechtenstein
- Lithuania
- Luxembourg
- Malta
- Mexico
- Montserrat
- Netherlands
- Niue
- Norway
- Poland
- Portugal
- Romania
- San Marino
- Seychelles
- Slovak Republic
- Slovenia
- South Africa
- Spain
- Sweden
- Trinidad and Tobago
- Turks and Caicos Islands
- United Kingdom

Jurisdictions undertaking first information exchanges by 2018 (Late adopters)

- Albania
- Andorra
- Antigua and Barbuda
- Aruba
- Australia
- Austria
- The Bahamas
- Belize
- Brazil
- Brunei Darussalam
- Canada
- Chile
- **China**
- Cook Islands
- Costa Rica
- Ghana
- Grenada
- **Hong Kong**
- Indonesia
- Israel
- Japan
- Kuwait
- **Macau**
- Malaysia
- Marshall Islands
- Mauritius
- Monaco
- Nauru
- New Zealand
- Qatar
- Russia
- Saint Kitts and Nevis
- Samoa
- Saint Lucia
- Saint Vincent and the Grenadines
- Saudi Arabia
- Singapore
- Sint Maarten
- Switzerland
- Turkey
- United Arab Emirates
- Uruguay
- Vanuatu

Proposed CRS timeline

Early adopters* (e.g. Cayman Islands)

A **1 Jan 2016** Apply new account opening procedures

B **31 Dec 2016** Complete due diligence for pre-existing high-value individual accounts

C **31 May 2017** First CRS reporting date deadline to the Tax Information Authority

D **31 Dec 2017** Complete due diligence for all remaining pre-existing accounts

E **31 Dec 2018** All information on reportable accounts will be available for exchange, including the low-value individual pre-existing accounts and entity accounts

2016 **2017** **2018**

Late adopters (e.g. Hong Kong#)

A **1 Jan 2017** Apply new account opening procedures

B **Sep 2017** Register with the Inland Revenue Department (IRD)

C **Q4 2017** Submit test data files of self-developed reporting software to IRD for validation

31 Dec 2017 Complete due diligence for pre-existing high-value individual accounts

D **Jan 2018** IRD issues AEOI returns to registered Hong Kong FIs

May 2018 File AEOI returns to the IRD

E **End 2018** IRD's first exchange of information with AEOI partners

F **31 Dec 2018** Complete due diligence for all remaining pre-existing accounts

* CRS milestones for early adopter countries are one year earlier than late adopters

\# Target enactment date of CRS legislation in Hong Kong – middle of 2016

Impact of the CRS

Business impacts

Collecting complex and varied information

The CRS impacts information gathering from investors and account holders. FIs will need to collect account holder status and tax residency, which will differ from FATCA.

AEOI compliance is not optional

The CRS multiplies the number of account holders and investors that must be identified and reported. Asset managers and insurance companies are the most unprepared.

AEOI compliance will not be 'business as usual'

The CRS impacts processes such as customer onboarding, pre-existing customer due diligence, reporting and governance. Related systems and databases may also require modification.

Timely and comprehensive planning will be required to properly allocate resources

FIs should take into account the statutory timeline with its phased in obligations.

CRS compliance will increase costs and negatively impact margins

CRS compliance requires internal resources and external cost. An efficient compliance plan is necessary to minimise drains on both.

Commercial impact - systems & culture

FIs need to keep abreast of new global regulations, manage relationships with multiple tax authorities, and educate staff and clients on account opening procedures and reporting requirements.

The CRS is more than just an enhanced version of FATCA

The scope of CRS is much wider than FATCA:

- No *de minimis* account balance thresholds for reviewing individual account holders under the CRS
- Expansion of financial institutions subject to the CRS
- Search for non-resident account holders from possibly 90+ jurisdictions.

The strategy for avoiding reportable persons under FATCA is not likely possible under CRS.

Are you ready for the CRS?

- Where are you currently in your CRS compliance effort?
- How challenging has the preparation for the CRS regime been for your organisation?
- Are you confident that your organisation will achieve CRS compliance by the deadlines, especially if you have operations in early adopting jurisdictions?
- Do you know what the majority of affected organisations in your industry are doing to address the CRS requirements?

Are you ready for CRS? Please contact us to discuss how we can help:

Jeffrey Hau
Director, Risk Consulting
T: +852 2685 7780
E: jeffrey.hau@kpmg.com

Charles Kinsley
Principal, Tax
T: +852 2826 8070
E: charles.kinsley@kpmg.com

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KPMG's Hong Kong office was awarded **FATCA Firm of the Year** by Finance Monthly

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