Regulatory and compliance

Automatic Exchange of Information

The past year has seen several notable changes to tax regulations in Saudi Arabia, part of a larger trend in the GCC that is bringing tax regimes closer in line with OECD standards. The updates have a positive benefit beyond that of diversifying government revenue; establishing standards and practices around tax encourages organizations to bring the same approach to other parts of their businesses.

Any organization, especially as large as banks, should have a strategy and known procedures upon which the tax risks associated to its operations are properly managed, controlled and reported to senior management. There are various causes of tax risks.

In this article, we will discuss operational tax risks as a result of Automatic Exchange of Information (AEOI) implementation. These risks can be as a result of a new or updated regulation, people, technology or process.

FATCA and CRS

In line with its efforts to improve international tax compliance and transparency, Saudi Arabia has signed several exchange of tax information agreements. With the United States, through the Foreign Account Tax Compliance Act (FATCA), the Kingdom agreed to share information on financial accounts held by US-specified persons and maintained by Saudi financial institutions. As a result, compliant Saudi financial institutions will not be subject to a 30 percent withholding tax on US-source income and gross proceeds.

Saudi Arabia also joined the OECD's Multilateral Convention on Mutual Administrative Assistance in Tax Matters (Multilateral Convention) which covers various means of exchanges including the Common Reporting Standard Multilateral Competent Authority Agreement (CRS MCAA). Unlike the FATCA agreement, which is non-reciprocal, under the CRS MCAA, Saudi Arabia has concluded a wide range of reciprocal exchange agreements.

Now after several years of AEOI implementation, it is imperative for banks to assess their onboarding and monitoring process from an AEOI compliance perspective. How effective and efficient is the process? How is it impacting customer experience? How does the entire journey end-to-end look like?

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This means assessing the onboarding, documenting, monitoring and reporting process without any disregard to the accuracy of the reports submitted.

Many financial institutions face challenges when generating their AEOI reports. These challenges range from missing data and missing or unmatching documentation. There are resulting doubts about the accuracy of the reports submitted the General Authority of Zakat and Tax (GAZT).

With the introduction of new technology, changing regulations and the competition for market share, "how fast and how many bank accounts can I open?" is the name of the game. This should not come at the cost of proper documentation and the collection of important AEOI reporting data.

Missing data and documentation are a strong indicator of lack of effective controls to collect such data or supporting documentation. These control gaps can be in the onboarding forms, procedures, or systems.

To address these risks, banks are encouraged to do a health check that will identify strong and weak points in this process. As a result of the health check report, banks should remediate the identified gaps, build on their strong controls and most importantly create or update their operational tax risk management framework to be in line with the organization's wider tax strategy and risk management.

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