

WG 2 – Common Reporting Standard (CRS) Implementation



Overview



- Introduction to Common Reporting Standard (CRS)
 - Enhance transparency
 - Reduce possibility for tax evasion
 - Increase voluntary disclosures of concealed assets
- Building Blocks
 - Legal framework
 - Technology and systems
 - Resource capabilities
 - Communication and outreach strategy
 - Framework for effective implementation
- Recommendations

Chairperson: **Mr Mohammed Noor Ahmad - Malaysia**
Rapporteur: **Ms Koh Wei Ling - Singapore**

Legal Framework



- Enacting legislation to translate CRS into domestic law
 - Establishing the legal obligation for financial institutions to collect and retain CRS information, and to submit CRS information to the tax authority.
 - Penalties for financial institutions that don't comply with CRS

- Legal basis for automatic exchange of information
 - Multilateral convention / double tax treaty provisions for automatic exchange of information
 - CRS Multilateral Competent Authority Agreement/bilateral agreement

Technology and Systems



- Designing IT systems to collect, store, process, send and receive CRS data

- Implementing IT system safeguards to protect privacy, safeguard data and ensure confidentiality

- Some jurisdictions can leverage their existing IT systems catered for FATCA

- Learning from the experience of CRS early adopters

Training Plan - Internal



- Developing a tiered training plan for staff
 - Subject matter experts
 - Staff involved in customer service such as frontline staff
 - Staff who use CRS information in their roles e.g. tax auditors
- On-going training and timely updates to training plans
 - Training staff on new risk assessment methodologies developed for analysis of bulk CRS data received

Risk Assessment



- Effective use of data is essential
 - Enhance transparency
 - Encourage voluntary compliance
 - Detect and deter tax evasion
- Be mindful that CRS data should not be viewed in isolation but should be integrated with existing datasets
 - Holistic, global picture of taxpayer's income and assets
 - Prioritise and segment taxpayers according to risk profile
- Good quality data is important

Communication / Outreach



- Effective communication with stakeholders essential for smooth implementation of CRS
- Stakeholder engagement plan for different groups
 - Financial institutions
 - Tax intermediaries
 - Other government agencies
 - Account holders / general public

Measurement and Monitoring



- Current focus on activities related to implementation
- Post implementation benefits from monitoring the effectiveness of CRS
- Important intangible benefits may be difficult to measure
 - Increase in voluntary compliance
 - Deterrence to tax evasion
- Consider the available options to quantify the benefits of CRS

Recommendations (1)



- SGATAR members to look for opportunities to collaborate, share ideas and develop CRS best practice.
- SGATAR members should utilize the SGATAR website as a knowledge sharing platform.
- SGATAR should organize regional CRS training for its members to build capability.
- Consider the need for capacity building and on-going staff training to effectively implement CRS.
- Take steps to prepare for increased customer enquiries and compliance work resulting from CRS.

Recommendations (2)



- Have a plan in place to communicate with financial institutions and key stakeholders.
- Use outcomes from audit work to improve the analysis of CRS data and assess the effectiveness of CRS.
- Recognise that the success of CRS will be determined by the quality of the data exchanged between SGATAR members.
- When considering appropriate penalty / tax compliance framework, SGATAR members could consider the principles of voluntary compliance, and deterring non-compliance and the balance that will work for them.



Thank You

Working Group 2 Report

Report on Working Group 2 – Common Reporting Standards (CRS) Implementation

Chairperson: Mr Mohammed Noor Ahmad - Malaysia

Rapporteur: Ms Wei Ling Koh - Singapore

Introduction

The Common Reporting Standard (CRS) for Global Automatic Exchange of Information (AEOI) was developed in 2014 to further enhance global tax transparency, thereby reducing the possibility for tax evasion. The CRS sets out the financial account information to be exchanged, the financial institutions required to report, the different types of accounts and taxpayers covered, as well as the customer due diligence procedures to be followed by financial institutions. 101 jurisdictions have now committed to implement this standard, with the first such exchanges due to begin in 2017.

Under the CRS, financial institutions in the committed jurisdictions will be required to transmit to their tax authorities, the CRS information of their account holders who are tax residents of the foreign jurisdictions that have a Competent Authority Agreement with the committed jurisdictions on an annual basis, and onward exchanged with the committed jurisdictions' partners, i.e. those jurisdictions with which they have Competent Authority Agreements.

It is expected that AEOI under the CRS will enable the discovery of formerly undetected tax evasion. It will enable governments to recover tax revenue lost to non-compliant taxpayers, and will further strengthen international efforts to increase transparency, cooperation, and accountability among financial institutions and tax administrations. Additionally, AEOI under the CRS will generate secondary benefits by increasing voluntary disclosures of concealed assets and by encouraging taxpayers to report all relevant information.

During the working group SGATAR members discussed best practices for the implementation of CRS and shared challenges and learning opportunities.

Most SGATAR members are not early adopters of CRS and therefore the majority of CRS data exchanges will begin to take place in 2018.

Discussion Points and Recommendations

Legal Framework

SGATAR members are working through the process of enacting legislation to translate CRS requirements into domestic law to allow for its implementation. The legislation will enable jurisdictions to meet their commitment to implement AEOI under the CRS, will establish the legal obligation for financial institutions to collect and retain CRS information, and submit the CRS information to the tax authority, amongst others.

Many jurisdictions have also included penalties in domestic legislation that can be imposed on financial institutions that fail to meet the CRS obligations. There was also discussion on imposing penalties on account holders who provide incorrect or falsified information.

The legal basis for engaging in AEOI under the CRS will be either the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAC) or bilateral tax treaties (e.g. double taxation agreements). A further Competent Authority Agreement (CAA) is required to be concluded either bilaterally or multilaterally to implement CRS.

Technology and Systems

Many jurisdictions are currently working on the detailed design of the CRS system and finalising IT specifications. This work includes identifying the extent to which current IT systems are able to collect, store, process, send and receive CRS data securely, reliably and effectively.

There is consensus that the information technology system **must** be able to protect privacy, safeguard data and ensure confidentiality.

Some jurisdictions reported that the technology and systems required to implement CRS were similar to those required to comply with the United States Foreign Account Tax Compliance Act (FATCA). For these jurisdictions, the ability to leverage on existing systems may streamline the process to implement CRS.

Technology challenges that were discussed included the ability to develop a system that is able to interact with financial institutions to securely receive information and then exchange that information with the AEOI partners using the Common Transmission System (CTS).

Finally, with around half of all global CRS participating jurisdictions being early adopters, SGATAR members adopting CRS in 2018 have an opportunity to leverage from the learnings and experiences of other jurisdictions in implementing IT solutions.

Training Plan - Internal

The scope of internal CRS training is likely to require a tiered approach. Tax administrations have identified the need for different levels of training for subject matter experts, staff involved in customer service such as frontline/call centre staff, staff that regularly use CRS information as part of their roles, e.g. tax auditors, and other staff with limited involvement in CRS. For example, detailed training for subject matter experts, FAQs tailored for frontline staff to enable them to respond to basic queries on CRS, and regular information updates for other staff to keep them posted on CRS developments.

The expected increase in the volume and quality of data obtained from exchanged CRS information may potentially give rise to new risk assessment methodology being developed. Staff would need to be trained in relation to these new risk assessment analytics and processes.

Risk Assessment

SGATAR members acknowledged that the effective use of CRS data is essential to enhance transparency, encourage voluntary compliance, and detect and deter tax evasion.

Tax administrations already hold large datasets relating primarily to taxpayers resident in their jurisdictions and should be mindful that the CRS data obtained should not be viewed in isolation but should be integrated into these existing datasets. This will provide tax administrations with a more holistic, global picture of the income and assets of their taxpayers and allow them to prioritise and segment taxpayers according to their risk profile through data analytics.

Additionally, the quality of CRS data underpins how it can be used. Tax authorities need to ensure that good quality data is exchanged to enable effective use.

Communication and Outreach Strategy

Communication and outreach to key stakeholders are essential for the successful implementation of CRS. A smooth transition can be achieved by maintaining open communication channels and providing relevant guidance to these key stakeholders, e.g. financial institutions, intermediaries, other government agencies, taxpayers and other revenue authorities. It is important to have a comprehensive, fit-for-purpose, stakeholder engagement plan tailored to the needs of these different groups.

There may be opportunities for tax officers to engage with the public on CRS through meetings, workshops and seminars. Maintaining an external webpage dedicated to the implementation of CRS is another way to allow stakeholders easy access to relevant information.

Communication and engagement with the industry may lead to opportunities to co-design systems to reduce compliance costs and reporting burdens.

Measurement and Monitoring

SGATAR members who have committed to AEOI under the CRS are currently focused on immediate implementation priorities, i.e. putting in place the implementing legislation, identifying technology solutions, training, and communications and outreach strategy with stakeholders.

Members recognised that following the implementation of CRS there will be a need to measure and monitor its effectiveness on an on-going basis.

It is recognised that many of the benefits of the CRS are intangible and may be difficult to express in explicit monetary terms. One example is increased voluntary compliance as a result of greater transparency.

However in some areas the outcomes of CRS may be more easily quantified and reported. These outcomes could include increased audit activity and the proportion of audits that result in material adjustments.

Recommendations

- SGATAR members should look for opportunities to collaborate, share ideas and develop CRS best practice.
- SGATAR members should utilise the SGATAR website as a knowledge sharing platform.
- SGATAR should organise regional CRS training for its members to build capability, for example technology solutions, advanced data analytics, etc.
- SGATAR members recognise that the bulk CRS data received may potentially result in an increase in EOI requests. This will require capacity building and on-going staff training to effectively implement CRS. An important part of the transition is taking steps to prepare for the increase in taxpayer enquiries and compliance work that is likely to result from implementing CRS.
- There should be a plan to communicate with financial institutions and other stakeholders to facilitate the smooth transition to CRS.

- Outcomes from audit work based on CRS data should be used to improve the analysis of audit data, create efficiencies for future audit work and assess the effectiveness of CRS.
- Recognise that the success of CRS will be determined by the quality of the data exchanged between SGATAR members.
- In determining the penalties framework and development of a compliance strategy appropriate for each SGATAR member, the respective tax administrations should consider the principles of promoting voluntary compliance and deterring non-compliance and the balance that works for them.
- In view of the frequent exchange of bulk data through AEOI there is an urgent need to increase the dedicated human resource for the effective implementation of CRS.