TAX SYSTEMS

CRS – Complex Reporting Standard?

What is CRS?

CRS (Common Reporting Standard) is the global initiative to achieve an international standard for exchange of information. CRS requires all financial institutions to provide tax authorities with access and insight into taxpayer financial account data. Reporting requirements began in 2017 and will include 100 countries.

In many ways CRS is similar to FATCA, but there are key differences. For FATCA the scope of reporting is on accounts held by individuals and entities who are US resident for tax purposes, whereas for CRS this basic principle extends to multiple jurisdictions and presents many additional reporting challenges.

What changed?

January 2017 – HMRC launched new CRS and FATCA schema

HMRC's AEOI schema v2.0 is the initial schema for CRS reporting for UK financial institutions and also replaces the UK FATCA and CDOT submission schema.

Here are eight reporting requirements that changed:

- **Election Indicator Flags** – New flags report if organisations have elected not to report insurance contracts or dormant accounts.
- **Account Holder Type** – Account holder types have been updated, so one of the following is now required; Reportable Person (individual), Reportable Entity (organisation), Passive Non-Financial Entity, Passive Non-Financial Entity with Controlling Person(s).
- **Account Number Type** – An optional field for account number type has been introduced (IBAN, OBAN, ISIN, OSIN or Other may be entered).
- **Account Closed Indicator** – A new account closed indicator is now required where accounts have been closed.
- **Undocumented and Dormant Account Indicators** – New indicators are now required where accounts are undocumented or dormant.
- **Identification Number (IN) for Entities** – For entity accounts, the Tax Identification Number (TIN) has now been replaced with an Identification Number (IN) field. Additional a new IN type field has been added with permitted entities of GIIN, EIN, TIN, CRN and Other.
- **Place of Birth** – New place of birth fields (city of birth, country of birth etc.) have been added.
- **Schema Field Names** – A number of naming criteria have changed, for example Reportable Jurisdiction is now RES Country Code and FATCA User ID is now AEOR User ID.

The difference with FATCA

Common challenges:

- **Changing Requirements from HMRC** – All reporting schemas have changed since last year.
- **Increased Workload** – Reporting is increasing to up to 100 new territories by 2018.
- **Failing Submissions** – In 2015 HMRC reported that 60% of FATCA submissions failed.
- **Escalating Costs** – Changes to reporting and compliance around schemas and additional jurisdictions mean more time, effort and money.

Different schemas, different reports – Financial institutions in most jurisdictions will be required to produce a US reportable accounts using the FATCA schema AND a separate CRS report using the OECD schema.

Fewer threshold exemptions – A number of reporting threshold exemptions available in the FATCA legislation have changed in CRS. These include:

- The $50,000 threshold for individual accounts to be excluded from due diligence review and reporting requirements
- For entity accounts a threshold of $250,000 was available for pre-existing accounts, with accounts only requiring review where the balance at 30 June 2014 exceeded $250,000 or where the balance subsequently exceeded $1m. In CRS accounts are required to be reviewed when the balance subsequently exceeds $250,000 rather than $1m.

Under CRS all accounts are required to be reviewed.

Different entity classifications – In some circumstances entities may be classified differently for CRS than for FATCA, e.g. charitable trusts. In CRS where a trust meets certain criteria it may be classified as a financial institution and be required to report details of settlors and beneficiaries which are resident in reportable jurisdictions. Taking this into account many trusts may, as a result, be required to report for CRS in up to 100 jurisdictions.

Multiple jurisdictions – The rise in the number of reportable jurisdictions not only increases the number of reportable accounts but also the complexity of reporting. For example:

- Individuals may be joint resident in two or more jurisdictions and this will need to be reported for those individuals.
- For Passive Non-Financial Entities (PNFEs), details of the controlling persons are required to be reported. This can be complex, as multiple jurisdictions could be relevant at both the entity level and at the controlling person level.

For more information or to book a presentation, please contact a member of our new business team.

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