Global tax transparency: Managing your risk

Governments around the world are putting tax transparency at the top of their agenda.

Starting with the US led FATCA in 2010, the last 5 years has seen a revolutionary change in tax transparency regulations culminating in a number of agreements between international tax authorities to implement the Automatic Exchange of Information ("AEoI").

AEoI is a collective term used to cover the following regulations:

- Foreign Account Tax Compliance Act ('FATCA').
- Intergovernmental Agreements ('IGAs').
- United Kingdom's Crown Dependencies and Overseas Territories ('CDOT').
- Common Reporting Standard ('CRS').
- European Union's Directive of Administrative Cooperation in Tax Matters ('DAC').

2010	2012	2013-2014		2014
US FATCA	IGA FATCA	UK FATCA	OECD – Common Reporting Standard (CRS)	EU DAC
Focused from a US perspective, a comprehensive automatic exchange of tax information was enacted by FATCA.	Negotiations between governments concerning the implementation of FATCA lead to bilateral model Inter Governmental, Agreements (IGAs) including the opportunity for reciprocity.	Bilateral agreements were signed between the UK and Guernsey, Jersey and Isle of Man, consistent with the Model 1 IGA to implement FATCA.	The OECD received a mandate by the G8/G20 countries to develop a global reporting standard to achieve a comprehensive and multilateral automatic exchange of information (AEoI) in the future.	EU Directive on Administrative Cooperation (DAC) has been adopted incorporating the OECD CRS, with transformation into local country law by 31 December 2015. EU Savings Directive (EUSD) to be repealed.

A shift towards greater tax transparency

The shift towards greater tax transparency continued beyond FATCA as more countries recognised the need to tackle tax evasion at an international level. The implementation of FATCA provided the stepping stone necessary for motivated jurisdictions to start on the road to collecting information about their tax residents, and sharing this information with participating countries through the Common Reporting Standard (CRS). There has been significant worldwide interest in the adoption of CRS with nearly a 100 countries announcing that they will participate and 58 of these committing to an impending go live date of January 1 2016, with reporting commencing in 2017.

Complying with the CRS will be challenging as institutions will have to meet these significant new tax information reporting requirements. While many of the requirements are similar to FATCA there are substantial differences with a new focus on the tax residency of clients as opposed to identifying specified US persons.

Some of the challenges Financial Institutions are facing as part of their compliance program include:

- Jurisdictions joining at different times, with varying deadlines and guidance.
- Indicia for multiple jurisdictions to be identified and validated, not just US.
- Increased volume of accounts to be reviewed due to the number of countries in scope and the de minimus rule changes.
- Implementing differing audit, review and compliance procedures to meet different jurisdictions' requirements.
- Communication and query handling between investigating authorities in different jurisdictions and FIs (data privacy issues) as well as from clients.
- Logging evidence of compliance.

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The need to justify compliance

To further endorse AEoI's reporting requirements, UK's HMRC released a consultation document in July 2015, *'Tackling offshore tax evasion: a new corporate criminal offence of failure to prevent the facilitation of evasion'*. The document outlines a new Corporate Failure Offence for corporations that fail to take adequate steps to prevent the facilitation of tax evasion. This is likely to lead to a due diligence defense, where corporations will need to demonstrate:

- They have taken 'reasonable steps' to implement adequate compliance procedures to prevent the criminal facilitation of tax evasion by their agents.
- Detailed evidence that certain controls are in place to validate their compliance under these regulations.

Every Financial Institution will need to think about the implications on their business and ensure that as part of their compliance model for FATCA/CRS/CDOT/DAC, they have incorporated a robust, evidence-based controls infrastructure to meet tax authorities' demands.

How Can PwC Help?

In order to effectively manage compliance risk and demonstrate compliance, more and more financial institutions are looking to take a systematic approach to document the methods used to meet their obligations under AEoI. With this in mind, PwC has recently launched its **AEoI Compliance Hub**.

PwC's AEoI Compliance Hub is a web-enabled, intuitive and flexible system containing a comprehensive list of AEoI requirements and controls that an organisation can implement to comply with the AEoI regimes. It enables institutions to:

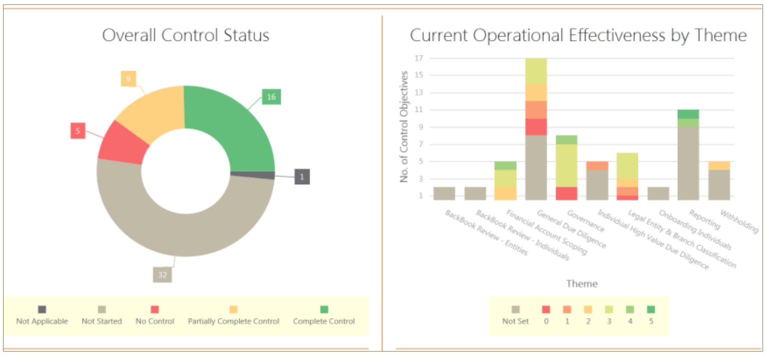
- Critically assess the gaps between existing procedures and AEoI requirements.
- Plan appropriate remediation activities.
- Maintain ongoing compliance.

The AEoI Compliance Hub is web based solution, with an extensive database enabling the storage of compliance evidence, to assist in demonstrating that 'reasonable steps' have been taken to comply with relevant regulations, and to prevent the criminal facilitation of tax evasion.

Irrespective of where your organisation is in meeting its AEoI compliance obligations, the AEoI Compliance Hub can be used:

- At the early stages of your programme to determine the list of requirements under each AEoI regime.
- During your AEoI programme to define any gaps in your existing activities allowing the business to isolate and remediate critical gaps.
- To assess multiple business units within the same organisation to determine each business units' AEoI readiness.
- To assist the project manager in the day to day management of the AEoI programme.
- To demonstrate what AEoI controls are in place and justify the organisations' compliance by loading evidence into the platform against each control.
- To maintain compliance of the AEoI regimes as part of business as usual ('BAU').

AEoI Compliance Hub



Interactive Dashboard - real time status reporting provides visibility of progress in remediating your compliance gaps. Information can be easily sliced and diced (e.g. by theme, business unit, regulation, etc.) to get valuable insights.

Who to contact

If you would like to know more about the AEoI Compliance Hub and how PwC can help you and your organisation meet its compliance obligations, please contact:

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