



## AUTOMATIC EXCHANGE OF INFORMATION

### A global device to ensure tax compliance

#### Objective and principle

Over 100 jurisdictions have committed to an annual automatic exchange of financial account information from 2017 (EU member states and early adopters) or from 2018 (other adopters, including Hong Kong) under what is called the Common Reporting Standard (CRS). This new standard has arisen out of international agreements by governments, tax authorities, and global organisations.

The CRS requires financial institutions to perform due diligence procedures and to transmit systematically financial data from their non-resident customers. The type of information and the due diligence to put in place for all financial accounts are defined by the CRS.

#### Example

- Mr X, tax resident of jurisdiction A, has an account with a bank in jurisdiction B;
- The bank applies the due diligence procedures which are outlined by the CRS;
- The bank communicates in an electronic format to the tax authority of jurisdiction B the information concerning the financial accounts of Mr X;
- The tax authority of jurisdiction B transmits the information of Mr X automatically and electronically to the tax authority of jurisdiction A;
- The tax authority of jurisdiction A could use the information to check whether the tax affairs of Mr X are in order.

The tax authorities recognise the importance of financial institutions' role and financial institutions around the world will soon be collecting the data. It is also important that financial institutions' customers are aware that their data may be shared with their jurisdictions of residence, and of how this data will be used by tax authorities across the world to identify the few whose tax affairs are not compliant.

#### Financial Institutions to be involved

A broad range of financial institutions are covered by the CRS including custodial institutions, depository institutions, investment entities and specified insurance companies.

#### Information to be reported

The financial institutions have to identify the reportable accounts according to the CRS which distinguishes between different categories of accounts and customers. Reportable accounts can be accounts held by individuals or entities (including trusts and foundations), and passive non-financial entities must be looked through to report on the relevant controlling person.

The financial information to be reported include interest, dividends, account balance or value, income from certain insurance products, sales proceeds from financial assets and other income generated with respect to assets held in the account or payments made with respect to the account.



## Time line for collection and reporting of information

### January 2017

The CRS data capture obligation was introduced: reportable accounts had to be identified by financial institutions. In Hong Kong's case, the financial institutions had to identify those financial accounts held by residents of two reportable jurisdictions, namely Japan and the United Kingdom.

### July 2017

Reportable accounts of the remaining reportable jurisdictions must be identified by financial institutions in Hong Kong.

### Mid 2018

Financial institutions have to transmit the collected data to the tax authority of their jurisdiction (regarding calendar year 2017). In Hong Kong's case, full year data for residents of Japan and the United Kingdom and half year data for residents of the remaining reportable jurisdictions must be submitted.

### September 2018

The collected data is transmitted by the tax authority to every relevant tax authority of the jurisdiction of residence (regarding calendar year 2017). In Hong Kong's case, the data, full year or half year as appropriate, is transmitted to the tax authorities of the reportable jurisdictions when arrangements are in place with the reportable jurisdictions concerned to provide the basis for exchange.

### From 2019 on

Identifying and transmission of reportable accounts on a regular basis (regarding calendar year 2018 onwards: EU member states, jurisdictions of early adopters and other adopters). In Hong Kong's case, information of the financial accounts held by residents of reportable jurisdictions is transmitted to the relevant tax authorities.

June 2017