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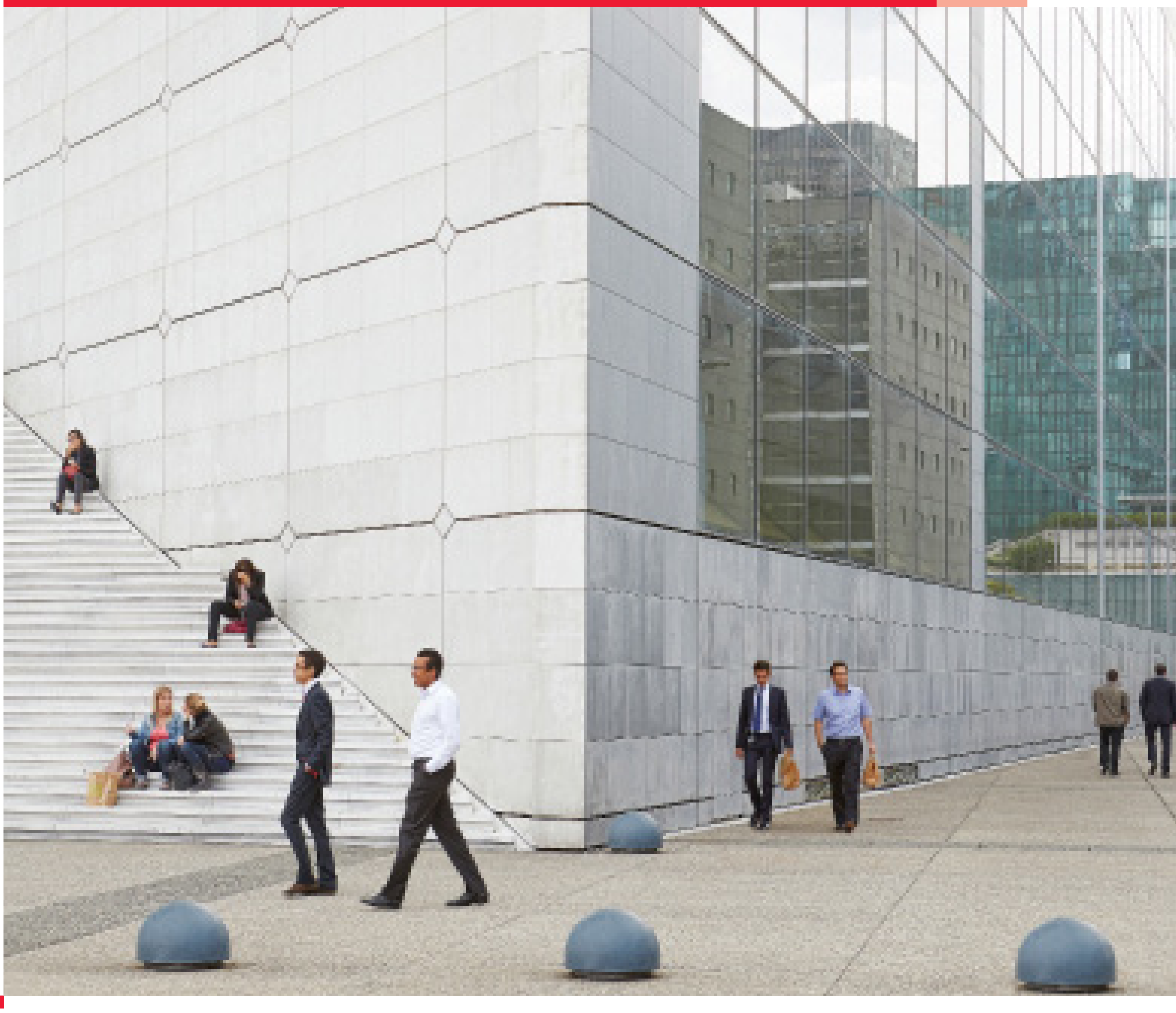
The Common Reporting Standard



In brief

Meet FATCA's intriguing new sibling: The Common Reporting Standard (CRS)

By adopting the USA's intricate Foreign Account Tax Compliance Act (FATCA), the world has tentatively embraced the implementation of an automatic exchange of financial account information. Numerous countries are now determined to introduce FATCA-like intergovernmental agreements (IGAs) with their other counterparties besides the USA after witnessing the major impact FATCA has made on tackling the USA's overseas tax evasion issues. Thus, CRS - a global version of FATCA (informally known as GATCA) - has emerged.

What is the CRS?

The CRS is a version of FATCA with alterations to accommodate various countries' needs

After decades of discussion and dialogue, the framework of CRS was finally issued in 2014 by the Organization for Economic Co-operation and Development (OECD) (link to PDF file). The CRS is one of the topics discussed in the Convention on Mutual Administrative Assistance in Tax Matters (The Convention) (link to PDF file). It is a global standard for Automatic Exchange of Information (AEoI) that is based on the FATCA Model 1 IGA. As with the IGA-backed FATCA, the CRS will be operating on the basis of a Competent Authority Agreement (CAA) which will be signed by the respective countries' tax authorities.

Exchange of information revolves around any data or numbers in any format with written remarks that can be used to clarify taxpayers' income or assets. AEoI is a ground-breaking and highly progressive development relating to the exchange of information between nations. The exchange of information by request approach or spontaneous approach is currently conducted on a case-per-case basis, which quantitatively and qualitatively limits the scope of information exchanged. On the other hand, AEoI enables tax authorities to automatically exchange the information in an agreed format during certain periods, through arranged channels, with a one-time-only agreement. Hence, it expands the scope of the exchanged information, with relatively hassle-free bureaucratic procedures involved.

While FATCA operates by bilateral IGA between the USA and each of its counterparties, the CRS works by two kinds of CAA: bilateral and multilateral. A bilateral CAA is an exclusive agreement between two jurisdictions' tax authorities only, whereas a multilateral CAA (MCAA) has multiple jurisdictions as the signatories, and each jurisdiction exchanges information with all of the MCAA signatories.

As of June 4th 2015, 61 jurisdictions have signed the MCAA (link to PDF file). These jurisdictions, including well-known tax havens such as Switzerland and the Cayman Islands, are expected to exchange information starting either in 2017 or 2018. Indonesia is one of the MCAA signatories, which triggers the obligation that Indonesian financial institutions will be ready to submit their first CRS report on September 2018.

Vital vocabulary

The three primary terms surrounding the Automatic Exchange of Information

Convention on Mutual Administrative Assistance in Tax Matters (The Convention)	• The Convention is a freestanding multilateral agreement designed to promote international co-operation for better operation of national tax laws, while respecting the fundamental rights of taxpayers. It covers the exchange of information, simultaneous tax examinations, tax examinations abroad, assistance in recovery and measures of conservancy, the service of documents, and joint audit facilities.
Competent Authority Agreement (CAA)	• The IGA version of CRS, based on FATCA Model 1 IGA. • A bilateral or multilateral agreement to conduct Automatic Exchange of Information (AEoI). The content itself is almost similar to FATCA's Model 1 IGA but differs a bit to accomodate signatories' needs as IGA is mainly constructed for USA-related purposes.
Common Reporting Standard (CRS)	• Also known formally as the Automatic Exchange of Information (AEoI) or informally as the global version of FATCA (GATCA). • Basically similar to FATCA with slight differences in various areas. While FATCA is implemented through IGA, the CRS is is implemented through CAA either between two countries (bilateral CAA) or more than two countries (multilateral CAA).

The differences between FATCA and the CRS

	FATCA	CRS
Timeframe	Clear deadlines for identification, reporting and withholding processes based on the applicable IGA.	The deadline for identification and reporting will be based on CAAs and on discussions between the signing jurisdictions.
Enforcement of the regulation	By withholding payments (non-IGA countries) and local regulations (IGA countries).	No withholding. The enforcement will depend on local regulations.
Threshold for identification	There are financial thresholds that can be applied, both to new and pre-existing individual and entity accounts.	The threshold only applies to pre-existing entity accounts.
Data to be reported	The information to be reported includes the name, address, taxpayer identification number (TIN), account number, account balance or value, gross amounts paid to the account in the year and total gross proceeds paid or credited to the account.	Similar to FATCA, with the addition of date and place of birth (in the case of an individual). For an entity account where one or more controlling persons are reportable persons, the institution must report the name, address, country(s) of residence, and TIN of the entity. In addition, the name, address, country(s) of residence, TIN and the date and place of birth of each reportable person must be reported as well.
Agreement	Between a jurisdiction's competent authority with the USA's Internal Revenue Service (IRS) (IGA countries) or a business with the IRS (Non-IGA countries).	Could be a multilateral agreement with more than one jurisdiction.
Reporting deadlines (starting from)	March 2015 (Non-IGA & IGA 2 countries). September 2015 (IGA 1 countries).	Nine months after the end of the calendar year based on the agreed CAA. Most likely, it will be start in 2017 or 2018.
Exchange information system	XML format, with IDES as the primary method to transmit the message.	XML format.
Reportable accounts	U.S. Persons, U.S. Entities, Passive Non-Financial Foreign Entities with Substantial U.S. Owner(s) and Non-Participating Foreign Financial Institutions.	An individual or an entity that is resident in a reportable jurisdiction under the tax laws of such jurisdictions. Therefore, an individual or an entity may be reported in several jurisdictions if he/she/it is a taxpayer in the respective jurisdictions.

Indonesia's CRS timeline

Indonesia will send the first CRS report in 2018; to whom?

On October 30th 2014, Indonesia signed a commitment to conduct its first GATCA reporting in 2018. However, the commitment is not an official signing of any CAA. On December 2014, Indonesia's Minister of Finance went to Singapore to discuss the exchange of information, generating speculation that Singapore will be Indonesia's first potential CRS counterparties (link in Bahasa). In addition, Indonesia became one of the MCAA signatories as of June 4th 2015. Therefore, Indonesia will send the first CRS report to more than 60 jurisdictions, excluding additional jurisdictions if Indonesia signs different CAAs with other countries.

2011
Indonesia signed the Convention on Mutual Administrative Assistance in Tax Matters, which the CRS is part of.

2014
MoF Rule No. 60/PMK.03/2014 and Presidential Decree No. 159 Year 2014 was released. Indonesia signed a commitment to start AEoI in 2018.

2015
Indonesia was listed as one of the MCAA signatories, triggering obligations for Indonesian FIs to submit the first CRS report in 2018 to more than 60 jurisdictions all over the world

2018
The anticipated CRS first reporting year, with 2017 as the first year to fulfill the CRS identification requirement.

Let’s talk

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