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# *PwC's Transfer Pricing Series*

## The Common Reporting Standard – Your foreign bank account could be coming to Nigeria

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**By Seun Adu**

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... information exchange can be a very effective tool in tackling tax evasion and avoidance. For example, 32 countries surveyed by the Global forum reported additional tax revenues of up to \$2 billion between 2012 and 2014 as a result of information exchange.

If you live in Nigeria and you have a foreign bank account; you should read this.

If things go as planned, the FIRS will soon have access to information on the money and other financial investments that you have in your foreign bank account. This will happen when the Common Reporting Standard (CRS) becomes effective in Nigeria. When the FIRS gets this information, it will want to know if you have paid the right amount of tax in Nigeria.

Here are some other things that you should know about the CRS.

### **What is the CRS and what does it mean for Nigerians?**

The CRS is a standard for automatic exchange of bank account information on individuals and certain types of entities. All countries that have implemented the standard will be required to automatically exchange this information on an annual basis.

In August 2017, Nigeria took a step towards implementing the standard by signing the Multilateral Competent Authority Agreement (MCAA) on the CRS. Implementing the CRS will allow Nigeria to automatically receive information on the bank accounts held in other countries by Nigeria tax residents.

### **Which countries can Nigeria get information from and how will the information be obtained?**

As at today, the list includes about 95 countries such as the UK, Netherlands, Belgium, Japan, and China. It also includes several of the popular offshore financial centres such as Bermuda, Cayman Islands, Luxembourg, and Mauritius.



All the banks in each of these countries will collate the required information and send to their tax authorities. The relevant tax authorities will then collate the information that relates to Nigeria (and other countries that they have agreed to share information with) and share.

Similarly, Nigerian banks will also be required to share information on the bank accounts held by individuals that are tax residents (and in some cases citizens) of other countries with the FIRS. The FIRS will then automatically share this information with these other countries.

For this to happen, Nigeria should have implemented the CRS and activated exchange relationships with the relevant countries.

### **What type of information will be shared?**

The information will include the details of the bank, the tax identification number of the owner of the bank account, the balance (or average balance depending on the rule in the country sharing the information) in the account as at the end of the period etc.

For some types of accounts, information on interest, dividends and other income earned will also be shared.

### **How will the information be used since an account balance does not necessarily mean taxable income?**

True, not all the money held in a foreign account by a Nigerian resident is liable to tax in Nigeria. The information will however help the tax authorities to ask important questions.

For example if the FIRS receives information that the balance in your bank account in Singapore grew from zero to \$2million in a certain year, but you have only declared a total income of \$0.5million in Nigeria, they would want to know: where the money in that account came from, if it is from income that should be taxed in Nigeria, and whether you have paid the tax that is due.

Ultimately, the information will help the tax authorities figure out if there might be taxable income that has not been declared in Nigeria.

### **How will banks know the tax residence of their account holders?**

The CRS gives some guidance around this. For accounts that are opened after the CRS kicks in, banks will be required to obtain this information as part of their KYC procedures. For existing accounts, banks are to review their records to see if

they have or can infer this information e.g. through the contact number or address matched to the account. In some cases, the account officer may be required to verify and obtain this information from the account holder.

In addition, the Global forum will publish guidance that can help banks with these and other issues.

### **When will the CRS start in Nigeria?**

This will depend on how quickly Nigeria concludes the remaining steps. So far Nigeria has signed the two international agreements that are required for the CRS to kick in. The next steps are to: introduce domestic legal framework, put in place the relevant information security measures, and then activate exchange relationships with the other countries that it intends to exchange information with.

Each of the remaining steps has its own complications and one would ordinarily expect that getting through these will take a while. However, the government seems determined to get things done very quickly and so there is a chance that this will not become an abandoned project.

### **Has the CRS worked in other countries?**

Although information exchange under the CRS will only start in September 2017, other information exchange agreements have been in use for several years. Data from the Global forum suggests that information exchange can be a very effective tool in tackling tax evasion and avoidance. For example, 32 countries surveyed by the Global forum reported additional tax revenues of up to \$2 billion between 2012 and 2014 as a result of information exchange.

Apart from catching tax avoiders, information exchange has also been reported to have a deterrent effect. This is where people start to disclose and pay tax on income that they would normally hide because they realise that they could be found out and penalised. The Global forum estimates that this deterrent effect has already increased tax revenues by \$55 billion.

### **Well, this is Nigeria; can the CRS really work here?**

Nigeria is already taking steps to make it work. The FIRS now has an information exchange department that will be responsible for implementing the CRS. Nigeria is also receiving assistance from the Global forum and other multilateral agencies on information exchange. In the last 3 months, Nigeria has been the venue of two Global forum workshops covering automatic

exchange of information and effective exchange of information.

While all of these may not guarantee the success of the CRS in Nigeria, it does show the level of seriousness that is being attached to the issue.

### **Final thoughts**

These are interesting times for taxation in Nigerian. A lot seems to be happening and it will be interesting to see how far Nigeria goes with all the initiatives that it has started in the last few years.

If the CRS becomes effective, the tax authorities will still need to develop the capabilities to analyse the information and identify real cases of tax

evasion. Without this ability, obtaining the information could very well be useless. It is likely that the tax authorities will need to use and develop data analytics capabilities to be able to analyse the large amounts of data that they would receive. They will need this to be able to deduce relevant insights very quickly.

How about you? What should you do? This may not be the time to wait to see if others get into trouble before acting. You should speak to your tax advisors to understand how the CRS could affect you.

Going by the seriousness with which the CRS agenda is being pursued, the relevant authorities are confident that it is not a matter of “if” but “when”.

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