OECD – Common Reporting Standard & Exchange of Information

accountant-blog

What is the Common Reporting Standard (CRS)

The Common Reporting Standard (CRS) has been developed by the Organisation for Economic Co-operation and Development (OECD), an organisation which gives directions and oversees the procedures against international tax evasion, aiming the improvement of international tax compliance and prevention of tax evasion.

The CRS is setting out the financial information to be automatically exchanged and reported between the adopting jurisdictions on an annual basis.

Who is affected and how

All individuals and entities (active and passive entities*) are affected by the implementation of the CRS.

The financial institutions situated in the jurisdictions who adopted the CRS, automatically exchange financial information on the financial accounts they hold, directly or indirectly, by account holders who are tax residents in other CRS adopting jurisdictions.

Types and method of information reported

The tax authorities, where individuals or organizations are tax residents, will be receiving information from the financial institutions situated in the country where the bank accounts are maintained in order to examine whether the income generated and inflowed in the bank account has been reported to the tax authority of the individual’s country of residence.

The financial institutions of each country which have adopted the CRS will report to the local tax authorities all necessary financial information for non-resident individuals as per the requirements of the standard. The local tax authorities will exchange this information with the tax authorities of the other countries which have adopted the CRS, on an annual basis.

The involvement of financial institutions

The financial institutions situated in the countries which have adopted the CRS are required to ask and receive information relating to the country of tax residence and tax identification number of the persons affected by the CRS. Without a self-certification, the financial institutions are obliged to consider the account holder as a reportable person and as a consequence, the financial institutions will report to their local tax authorities the information they already have for the undocumented bank accounts. In addition, without a self-certification the financial institutions cannot open a new bank account.

Active and Passive entities*

If the entity is a passive entity then the financial institution must identify its controlling persons/beneficial owners. If the controlling persons are reportable persons (tax residents of countries which have adopted the CRS), then information in relation to the entity's bank account must be reported.

The financial institutions will report the following financial information to the tax authorities:

- Bank account number
- Bank account balance
- Bank account turnover
- Bank account funds inflowed and outflowed

The financial institutions will report the following personal information to the tax authorities:

- Bank account holder
- Beneficial owners, controlling persons and related parties of entities and trusts

<u>Note</u>

**Passive entities*

- *An entity can be considered as passive if more than 50% of the entity's gross income consists of passive income, and - more than 50% of the entity's assets generate passive income (or are held for the purpose of generating passive income).*
- *Passive income is the income generated by an entity without any active/direct participation. Passive income consists of rental income, interest income, dividend income and royalty income.*

**Active entities*

- *Any non-passive entity can be considered as an active entity.*