AUTOMATIC EXCHANGE OF INFORMATION

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Context

- AEOI could bring significant positive effects in tax administration.
- However, legal and administrative frameworks should be in place to benefit from AEOI.
- Necessary reform on legal and administrative frameworks could be expanded beyond the need for AEOI to further strengthen tax administration.

Outline

- Bank Secrecy
- Expanding Reporting Requirement on Financial Institutions
- Reporting Requirement on Overseas Assets
- Access to Anti-Money Laundering Information
- Administrative Frameworks

Bank Secrecy

- ‘The era of banking secrecy is over’ in 2009
- Countries committed to the international standards on tax transparency need to change laws on bank secrecy
- It is an ideal opportunity to change the bank secrecy law or the tax administration (procedures) law to enable tax authorities access bank information on resident taxpayers or .

Expanding Reporting Requirement on Financial Institutions

- AEOI standards require financial institutions (FIs) to report information to tax authorities regarding the identity of non-resident taxpayers and payment made to them.
- This means FIs have IT systems that can report information to tax authorities regarding the identity of resident taxpayers and payment made to them if the law requires.
- In some countries in the region, a withholding tax on interest, or dividends is a final tax and tax authorities may not need such information per se.
- However, information on resident taxpayers would enable tax authorities to find undisclosed bank accounts or financial assets and detect tax avoidance/evasion.

Expanding Reporting Requirement on Financial Institutions

- The survey shows that out of 18 countries/ jurisdictions in the region, 8 countries/jurisdictions require FIs to report cross-border remittance.
- Remittance reporting could help tax authorities utilize EOIR and complement AEOI.
- For example, a resident taxpayer may not provide correct information on his resident country when he/she opens a bank account in FIs overseas.

(Fake residency)

- Countries with territorial PIT system could also benefit from remittance reporting.

Reporting Requirement on Overseas Assets

- The survey shows that out of 18 countries/jurisdictions in the region, 8 countries/ jurisdictions require resident taxpayers to report their overseas assets.
- Overseas asset reporting also could help tax authorities better utilize EOIR and complement AEOI.
- The reporting requirement could be combined with penalties of perjury or penalties under tax laws.

Access to Anti-Money Laundering Information

- The survey shows that out of 18 countries/jurisdictions in the region, in 13 countries /jurisdictions tax authorities can access AML information held by a Financial Intelligence Unit.
- AML information may include information that are not covered by AEOI, nor remittance reporting.

Administrative Framework

- To utilize EOIR, an audit cycle should be extended or more flexible. If tax inspectors are required to conclude a tax audit within a month, it would discourage the use of EOIR. This change may be in line with best practice to base all audits on risk assessment.
- To facilitate the use of EOIR, key performance indicators may need to be changed. It may lead tax inspectors to focus on risks of serious tax avoidance rather than conclude audits with easy-to-find issues, such as deductibility of expense.
- Information provided by AEOI could be used for tax (field) audits, but could also be used in correspondence inquiries aimed at taxpayers' voluntary compliance. Thus, AEOI could lead to establishing a matching system of taxpayers' returns with third party information.

Thank you