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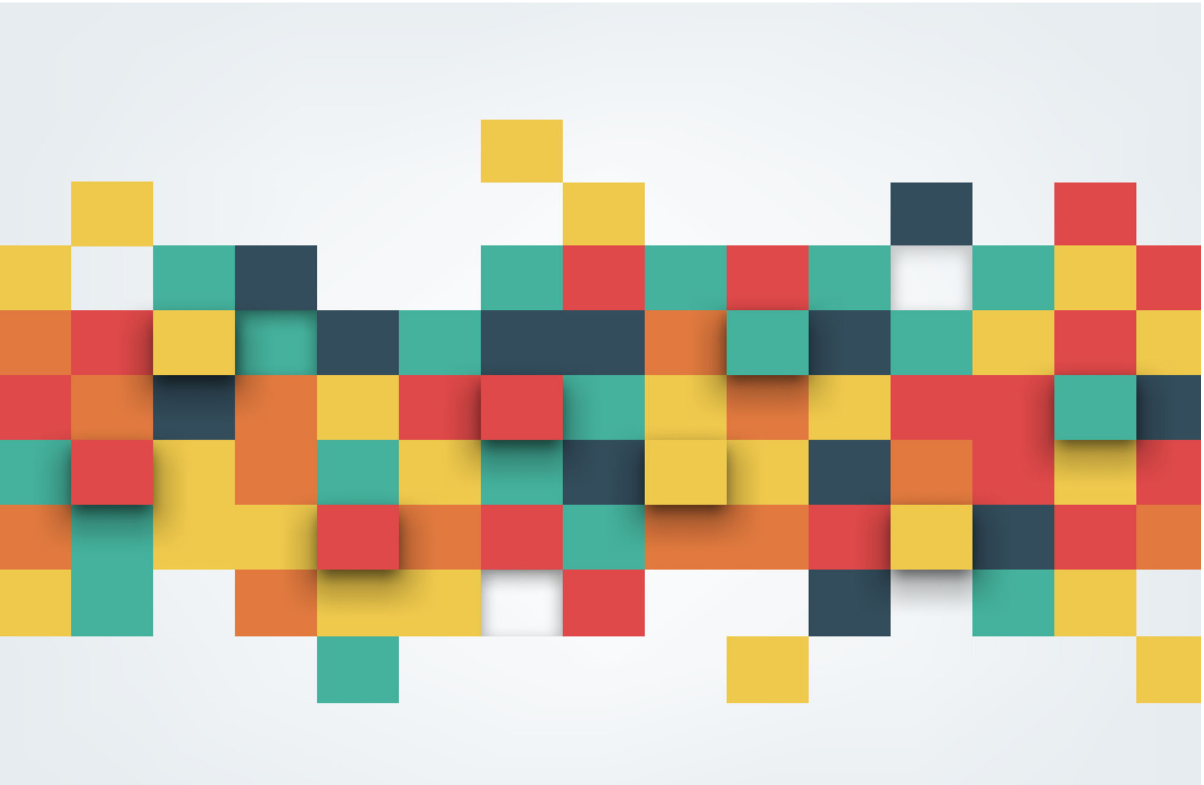

An Appetite for Tax Reporting

In the era of tax transparency, automation is key to ease the burden

Whitepaper

Regulation Asia

An Appetite for Tax Reporting

Regulators have taken an aggressive approach to tax reporting, particularly relating to non-resident income. Financial institutions are in the front line of reporting on their account holders and their assets. Tax automation makes compliance quicker and more efficient.

Tax reporting used to be simpler and easier. When national economies were smaller and were mostly made up of domestic players, transactions were less complex and involved fewer moving parts. A company or individual merely had to complete a tax return for their home jurisdiction, with, if required, a few details added for engagements with a small number of other countries. There was no such thing as numerous overseas divisions, investments or joint ventures. Tax reporting was just a small part of a what a tax department or person had to do, often not demanding attention until it got close to deadlines for submitting returns.

That has all changed. The concept of a global economy is now well embedded in how business groups and individuals look at the world and, as a consequence, their reporting obligations to an increasing number of tax authorities and regulators have become more complex. These tax authorities and regulators want to make sure they don't miss anything they should know about how organisations or individuals manage their affairs.

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This developing situation, including the initiation of new national and international reporting rules and regimes, is making multinational businesses, in particular, consider what processes and systems need to comply with a new tax and regulatory landscape. At a minimum, such groups employ tax reporting specialists whose only role is to keep up with multiple demands for information and ensure that the right information is sent to the right set of authorities at the right time.

Having the right people in place is one thing, giving them the appropriate tools to fulfil the group's tax reporting requirements is another. For a start, it's easy to see why paper-based preparation of submissions and calculations are long past their usefulness and that spreadsheets don't do the job completely anymore. No person or group of people can keep up with everything in this sphere without some sophisticated help, so while tax reporting has become more complex, it has also had to become automated.

Paper-based preparation of submissions and calculations are long past their usefulness

No sector has felt the impact of increased tax reporting requirements more than banks and financial services institutions. It is easier for politicians to put pressure on financial intermediaries (starting by banks) as they consider that those intermediates should know almost everything regarding behaviors of financial actors and the flows of money. Following highly public tax evasion scandals involving its citizens in the early part of this decade, the US was first out of the blocks with extra-territorial legislation, known as the Foreign Account Tax Compliance Act (FATCA), which sought to ensure that taxpayers didn't conceal financial assets overseas. Because it transpired that many overseas financial institutions had helped US citizens evade taxes, this legislation put the onus on these organisations to report to them the number and value of the accounts they held that were owned by US citizens.

Other regimes have since followed, including the Common Reporting Standard (CRS), which the OECD brought to life in 2014 to enable the Automatic Exchange of Information (AEOI) between national tax authorities. This international legal framework, which more than 100 jurisdictions have signed up to, also puts the burden on banks and financial institutions to report the financial assets held with them by non-residents to national tax authorities. Such initiatives have emboldened tax authorities and other regulators around the world to request more and more information from taxpayers. It is unlikely their appetites will be satisfied soon.

The Arrival of Tax Automation

The increasing complexity of tax reporting has hastened the arrival of automation. It is no longer of a question of if an organisation should automate its tax reporting, but what kind of automation does it need. No longer are tax departments at corporations generally, and financial institutions, in particular, talking about how it would be nice to have technologies, and systems, to deal with the demands from tax authorities, and other regulators, for more information. These are tools that are must-have. Now, because multiple national and international regimes require information from them, financial institutions need automated tax reporting processes and systems to avoid getting bogged down in filling out spreadsheets manually and exchanging them with colleagues and regulators. On top of the high costs, the risks of a manual approach are obvious, such as the input of wrong information and missed deadlines. While automation enables businesses keep up to date with regulatory requirements, it also helps them stay informed about the state of their reporting processes and what information is being submitted.

The automation of tax reporting – the kind that works seamlessly with existing company systems that hold relevant information – raises some fundamental questions for a business group, the main one being whether they develop a set of proprietary tools or they buy the technology they need from a specialist service provider. The answer to that question will depend on the depth and breadth of the group's tax reporting requirements, including a cost-benefit analysis, but the trend is in the direction of buying in from outside.

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Many financial groups are coming under more pressure to get the answer to this question right. In the early days of FATCA compliance, for example, they may have got by with their own in-house systems for tax reporting. The advent of CRS and other regimes, however, means that, for some, the resources they need to ensure that proprietary technology remains adequate and that they are up to date with rules and practice changes are not available anymore. It's the difference between a tactical and strategic approach.

More specifically, financial institutions are also reviewing what they have implemented to comply with the QI (Qualified Intermediary) regime in the US. This regulation was introduced in 2001 initially, and applies to investors in US securities, but due to the recent new QI agreement, the introduction of the QDD status, and the synergies with FATCA, many financial institutions are now having to investigate if their QI solutions and processes are still up to the job. Many financial institutions also review and improve their QI reconciliation processes and tools, in order to insure adequation between their own data and the data reported by their custodians and/or headquarters.

Institutions may find the cost of maintaining their own tools may be cheaper from a technical point of view, but when they look at the overall cost and time required to keep up with the substantive changes to the rules of different national and international regimes, which can vary widely, they often discover that the expense is far too much. They decide instead that it is better to bring in a specialist technology provider and rest, hopefully secure, in the knowledge that this will relieve the burden of running their own tax reporting systems. It takes the task of supplying the tools and making sure they remain up to the job and gives it to someone else.

When you consider that new and existing regimes are only likely to expand reporting requirements, as has happened already with the introduction of the mandatory disclosure rules (for the reporting of potentially aggressive tax planning arrangements to the authorities), it makes the decision to buy in a much easier one. At the same time, there are risks, such as in the disclosure of personal information or sensitive tax planning arrangements that can make institutions reluctant, if not hostile, to using a technology service provider for their tax reporting. Therefore, many financial institutions prefer using vendor solutions on premises. With this approach they benefit of the expertise of the vendor, and they remain master of their own data.

FiTAX to the fore

BearingPoint RegTech has stepped up to meet the need for tools to help automate tax reporting in today's environment. It has been doing so since 2001, when it launched its FiTAX product, which won "The Best Solution in Tax Reporting" award at the inaugural Regulation Asia Awards for Excellence 2018 in Singapore.

FiTAX is a standardised and ready-to-use tax reporting software that meets the reporting requirements of different regimes, including QI, QDD / 871(m), FATCA, CRS/AEOI and DAC6 /MDR reporting. It enables financial institutions to fulfil their tax reporting obligations in more than 130 countries and, with the help of a big-four tax adviser, is constantly updated with local guidance, specific rules, reporting formats and deadlines from tax authorities in these locations. This means financial institutions do not need to monitor or implement changes in-house and can focus instead on their core activities. Financial institutions can use the product from a single and centralised platform, whether they adopt a centralised or local approach to tax reporting. Each of the nine reporting modules is independent and shares the same user interface, IT infrastructure, access rights management and data.

FiTAX also deals with data quality and corrections robustly. As submissions to regulators are being prepared, it includes 1,600 checks that look at data elements such as format, type and plausibility and alerts users to look again at any of it. After submission to regulators, corrections can be made either from the core system feeding FiTAX, or in FiTAX itself, which identifies changes automatically and is fully automated.

FiTAX is used by more than 3,200 financial institutions, in Americas, EMEA and APAC; five global Tier-1 banks and three bank-to-bank services. Several international banking groups with strong footprints in APAC are FiTAX customers.

"We like to call it a 360° reporting solution – from data acquisition through to uploading directly an encrypted report file into the tax authorities' portals," says Dirk Jaensch, a partner of BearingPoint in Singapore. "Our goal is to provide more efficiency by reducing manual efforts."

BearingPoint also produces a related software product called EasyTax, which helps financial institutions calculate, report and book taxes for many different jurisdictions, and provides offshore clients with tax reports to help them with their tax filing requirements.

Easing the burden

At the same time, the biggest financial institutions are organising their tax reporting in a different way to the majority of other businesses. Many have set up what are called data hubs. This has been easier to do for financial institutions that have already brought together their IT platforms in one or a small number of centres. The larger institutions that operate data hubs are also tending to build, or have built, proprietary tax reporting systems to allow them to centralise their clients' data. This follows the trend among businesses for the centralisation of data management and the localisation of reporting to tax authorities.

But not only are the larger organisations centralising their collection and storage of data, they are also adopting a similar approach to managing their reporting as well. Previously where financial institutions housed their QI, FATCA and CRS data processing and tax reporting in the appropriate section of the business, they are now bringing them together in a single reporting unit. This allows substantial cost savings. And if each part of the business is using the same technology and data has been centralised, one team can handle every division's tax reporting.

Specialist technology companies are developing faster and better ways of collecting and transforming data into usable tax reporting information

The DAC6 (EU mandatory disclosure rules for intermediaries) and the Mandatory Disclosure Rules (MDR) from the OECD, are the latest regulatory changes to international regimes that financial institutions have to get used to. Both have established mandatory disclosure requirements to fight against aggressive tax arrangements and opaque structures and put the responsibility on financial intermediaries to identify, document and report such arrangements.

Keeping up

Specialist technology companies are developing faster and better ways of collecting and transforming data into usable tax reporting information all the time. Standard setting through organisations such as the XBRL Consortium, which works on providing the open data exchange standard for business reporting, is also changing rapidly. In addition to this, bilateral and multilateral agreements linked to CRS and other tax related changes will evolve in the coming months and years. It makes it essential that banks and financial institutions, who face the biggest tax reporting burdens, have systems that help them to comply with these modifications easily and efficiently.

A spin-off from the automation of tax reporting is the increased demand from clients for their financial institutions to help them with their own tax obligations. Clients observe the capabilities, augmented by technology, of their private

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bank and wealth management firms and are demanding more services in this area. They are seeking information such as income, capital gains and wealth which they can then submit in tax returns with various jurisdictions around the world. While this demand is growing, not all financial institutions are willing, or equipped, to satisfy it, as most of them do not offer tax advisory services.

Even if a financial institution is prepared to help a customer with their tax, the level of help that they can give may only extend as far as providing a list of the taxable transactions that the customer was liable for during a tax year, rather than anything that is country-specific. Sometimes the information can include calculations of capital gains or losses.

Some of the larger financial institutions have already benefited from centralised tax reporting across all transparency schemes and put the provision of client tax reports at the core of their customer management. At the same time, many financial institutions need to catch up on this opportunity so they don't lose out.

The growth in tax transparency worldwide combined with clients' focus on after-tax performance will challenge financial institutions to expand the tax services they offer.

It's clear that in an era of tax transparency where the appetite for as much information as tax authorities and regulators can get their hands on is only going to grow rather than reduce, financial customers want products that will save them time and cost in their tax reporting.

Making transparency last

Tax transparency has become accepted and a lot broader than many businesses and individuals are used to, as they are now faced with revealing all their offshore and onshore holdings under the rules of one tax reporting regime or another. It is a genuine security issue in some jurisdictions, where the risk of data breaches can mean tax transparency can present real risks for companies and individuals. But tax transparency is here to stay, and, if they haven't done so when they should have previously, many are choosing the voluntary disclosure programmes that some countries have introduced in a bid to uncover concealed assets.

Tax transparency may burnish an organisation's credentials with the public as a good corporate citizen, but to implement it incurs a hefty cost. At the same time, the benefits for organisations that do it properly are potential cost savings from data and process centralisation, as well as new value-added services to clients.

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About FiTAX

In light of regulations such as the Automatic Exchange of Information (AEoI) based on the OECD's Common Reporting Standard (CRS) or the Foreign Account Tax Compliance Act (FATCA) and its Intergovernmental Agreements (IGA1 and IGA2), financial institutions are facing the major challenge of having to fulfill the tax authorities' constantly changing requirements concerning reporting standards. To address this demanding challenge, we have developed FiTAX, a standard software solution for financial institutions to generate tax reports for tax authorities around the world. The reporting software fulfills the requirements of the CRS, FATCA and the Intergovernmental Agreements (IGA), QI, QDD and DAC6/MDR. More than 3,200 financial institutions in 130 countries use FiTAX as their main solution for tax reporting. This puts them in the position to automate their regulatory reporting processes and to produce and send tax reports from a single platform.

FiTAX is already the market leading software for tax reporting in Switzerland, Luxembourg and France and striving to grow further in the Americas and Asia.

About BearingPoint RegTech

With its RegTech product unit, BearingPoint is a leading international provider of innovative regulatory and risk technology solutions (RegTech and RiskTech) and services along the Regulatory Value Chain for Financial Services.

Customers representing 6,000 firms worldwide, among them large international banks, a major part of the largest European banks, leading insurance companies as well as supervisory authorities and central banks, trust BearingPoint's RegTech products and services.

We work closely with regulators and, as a member of standardization bodies such as the XBRL consortium, we actively contribute to the standard-setting process. We combine our regulatory know-how with our proven, reliable and forward-looking RegTech solution suite, expert consulting capabilities, as well as managed services and training seminars.

BearingPoint RegTech solutions:

- Abacus Solution Suite: Regulatory management, analytics and reporting
- FiRE: Regulatory reporting for Switzerland, Liechtenstein and Bahamas
- FiTAX: Tax authorities reporting for QI/EUSD/FATCA/UK-FATCA and CRS
- EasyTax: Country specific client tax reporting

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About Regulation Asia

Since the global financial crisis, financial regulation has become increasingly complex and fragmented across jurisdictions. Regulation Asia launched in November 2013, seeking to inform and analyse the impact of financial regulations on the Asia Pacific financial services industry.

Through news, feature articles, interviews, research and events, Regulation Asia's audience and subscription base has grown to include key regulatory bodies, financial services firms and service providers.

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