

MONEY MATTERS

ALL EXPATS LIKELY TO BE AFFECTED BY CRS

As little as a year ago no-one would have thought this possible but it is now a fact that most countries in the world have agreed to the automatic exchange of tax and financial information on individuals.

The global agreement that has brought it about is known as the Common Reporting Standard (CRS). Its purpose is to combat tax evasion which has long been a global problem. It followed a similar process called FATCA established by the United States to more closely monitor the financial affairs of US citizens abroad but CRS will have a much wider global effect. Additional pressure to implement CRS resulted from the exposure of the now notorious 'Panama Papers' that revealed thousands of names of individuals, including many famous ones, who had secretly hidden their wealth in Panama.

Even if you live a quiet life in a remote part of Bali it is likely that some aspect of the international agreement will affect you at some point in time. Indonesians who hold assets outside the country will also be affected. In fact even holding a local bank account now means that the tax authorities will have access to your data on an annual basis as well as on request. The final hurdle to put this into law was achieved with the passing of a financial disclosure law in the House of Representatives just a few weeks before the publication of this article. Undoubtedly CRS was the driving force that made this possible. It is a major coup for the country as it should expand the very low tax base and increase revenue for the benefit of all.

How CRS has evolved

In 2014 47 countries agreed to signing an agreement that allowed the automatic exchange of information (AEOI). That number has now increased to over 100 and implementation is already starting this year.

Under the agreement each participating country will annually automatically exchange with other countries the below information:

1. Name, address, Taxpayer Identification Number (TIN) and date and place of birth of each Reportable Person.
2. Account number
3. Name and identifying number of the reporting financial institution;
4. Account balance or value as of the end of the relevant calendar year or at its closure, if the account was closed.

This is why you are likely to have to confirm your TIN and provide proof of identity and residential address in respect of any application for a bank account or financial product as well as a withdrawal from or surrender of an investment.

Indonesia and Singapore now included

On July 27 the House of Representatives in Indonesia passed a Regulation in Lieu of Law (Perppu) allowing the tax office to legally chase Indonesian taxpayers holding their wealth overseas. Meanwhile, the Ministry of Finance in Singapore also announced that it would engage in the Automatic Exchange of Information (AEOI) with Indonesia. Something the Indonesian government had been seeking for decades.

The offshore centres favoured by many expats, namely the Isle of Man, Jersey and Guernsey have all committed to start reporting this year. Indonesia and Singapore will start reporting next year. Even

Panama, which gained notoriety for its thousands of hidden accounts, has signed the agreement.

How will CRS affect you?

If you have opened or closed an account or conducted any significant financial transaction recently you will have noticed that institutions have started to ask for more than the usual proof of identity and residential address. There is now an additional form requiring you to declare the countries in which you are paying tax. They will ask for a Tax Identification Number (TIN) so this is a piece of information you will always need to have at hand. For taxpayers in Indonesia the number is the one we have always known as an NPWP. If you pay tax in the US your Social Security number serves as the TIN and in the UK it is the National Insurance Number.

If you always have the above information to hand then filling in the new forms should not be a problem.

But what if you do not have a TIN, perhaps because you are retired or a housewife etc.? It is not a problem but you have to state a reason and may be pressed for more information.

Banks now removing welcome mats

CRS has brought about other changes as financial institutions count the cost of compliance. Banks still want your business; without it they would be out of business themselves. But they do not welcome the additional burden and potential hassle of reporting on accounts which are held by people not resident in the same country as the account. After all, they don't get paid extra for all the work that is involved.

So something is happening that is similar to the consequence of FATCA when many institutions politely asked expatriate US nationals

to take their business elsewhere. It is now more difficult for expats to open accounts in countries other than the one they reside in, including their home country. Some banks are obliging long time customers to close their accounts if they no longer live in their home country.

Potential freezing of accounts

There is an even worse scenario now where banks are freezing accounts if they are not satisfied with the compliance information provided to them or have suspicions about the source of funds. This is to protect themselves against potential breaches of anti-money laundering regulations which have already cost erring banks billions of dollars in penalties. The major banks have been among the worst offenders so we can expect closer scrutiny from them in the future.

Fortunately it is still possible to open an account with a bank in one of the traditional offshore jurisdictions such as the Isle of Man or Jersey as they cater specifically to the international expat community. But in the new environment of disclosure expect a fairly thorough application process. I have known several cases where applicants have abandoned their applications when frustrated at excessive probing for further information only to come back for a second shot when their bank in their home country closes their accounts.

Where do we go from here?

It is likely that we can expect more compliance rather than less, but we should take some comfort in the fact that it is for the common good. Countries like Indonesia are going to see a massive increase in income from taxes and will hopefully see the consequential benefits in improved infrastructure as well as health and education.

The price we have to pay is more paperwork and more inconvenience but there is no escape (other than opting out of society) so the best strategy is to get well organised in terms of all the compliance requirements of ID, proof of residential address and now one more item, your TIN. Have these accessible at all times and form-filling will be plain sailing.

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