

# A Sign of the Times – How Asia's Wealth Managers Can React to Global Tax Compliance

Tax reporting and full regulatory compliance are never easy, and it is virtually certain that things will only get tougher across the globe. While Covid-19 has slowed so much economic and social activity around the world, governments and their authorities are even more in need of bolstering dwindling tax revenues than ever before to pay for burgeoning government debts. The wealth management community in all its shapes and forms, and the private clients and their families that they work for, therefore ignore the demands of tax transparency and enhanced reporting at their own peril. This is especially true for those wealthy private clients that have cross-border assets, businesses, family members and lifestyles: their wealth and their capacity to pay make them natural targets. There is a global shift to regulatory supervision based on substance over form, transparency over opaqueness, of full disclosure and exchange of information over poor transparency, and the wealth management community must either ride with it or be left foundering. But there also is a bright side to it for private banks and independent wealth management firms: they may turn what is an increased regulatory and administrative burden into a new service, by bolstering their ability to provide tax reports and assistance to their clients.

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**Hubbis has recently**

conducted a short survey amongst specialists in the Asian wealth management industry to find out how they are working with their clients to help promote and solve these complex and important challenges, and to find out if some are turning the challenge into a means of gaining a competitive edge over their peers. We have summarised the key findings in this short report and set them amidst our assessment of some of the key broader tax and compliance issues and considerations that the wealth industry in Asia should, or rather must, take on board.

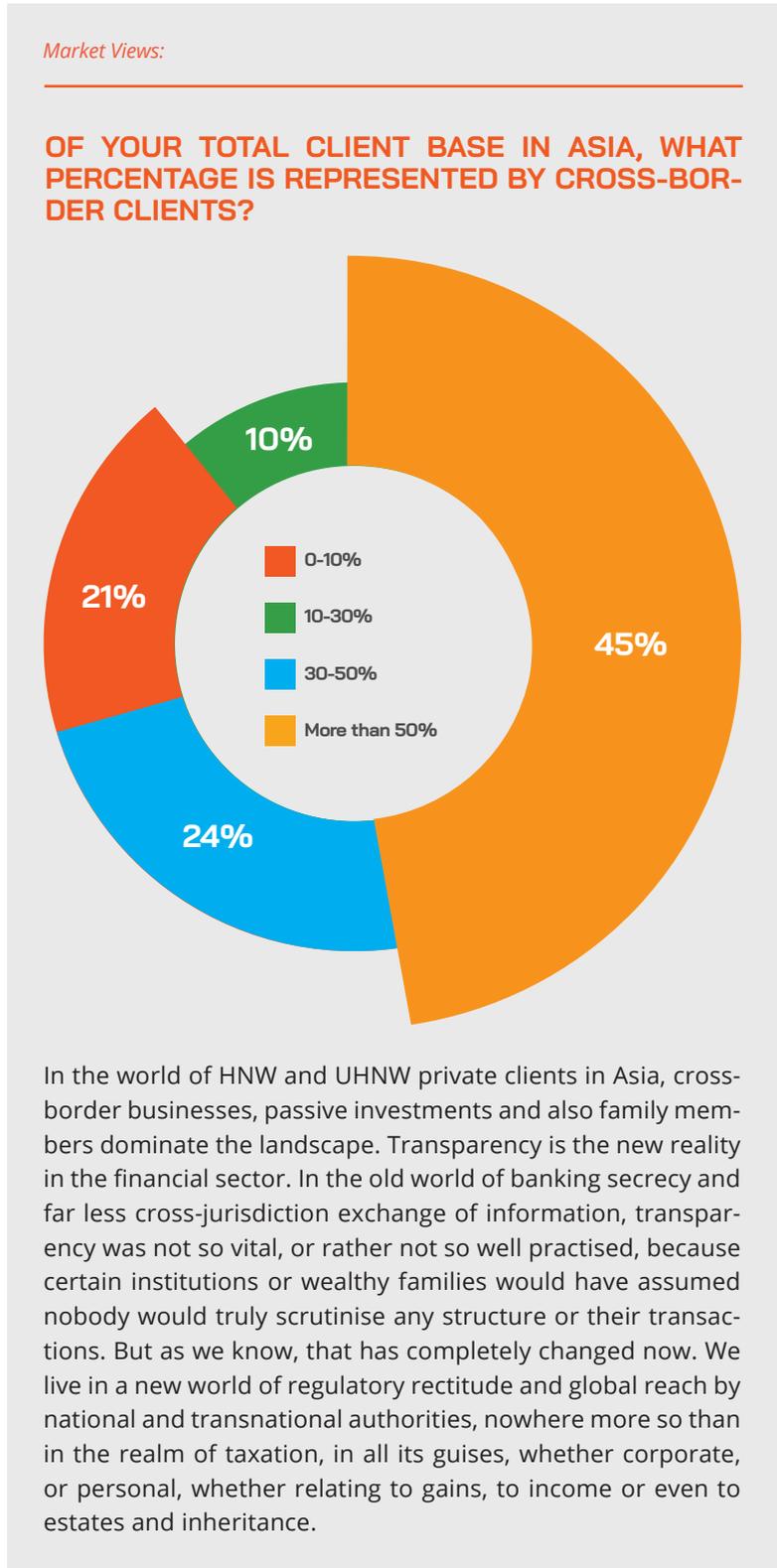
Year after year, cross-border private banking and wealth management have come under more scrutiny by regulators and the public. National tax amnesties, tax data leaks, and multinational initiatives by the US tax authorities and the OECD have created an entirely new reality for the industry. Since the introduction of the US Foreign Account Tax Compliance Act (FATCA) and the OECD’s Common Reporting Standard (CRS), tax transparency has therefore become increasingly important for banks and wealth managers around the globe, as clients need support for their filings and as regulators demand more accessibility to information on those private clients.

**Action stations**

A decade ago, one of the effects of the 2007-08 financial crisis was a clamp-down of the US on undeclared offshore accounts of its citizens, leading to the FATCA data exchange agreements with more than 100 countries. With the more recent introduction of the Automatic Exchange of Information (AEOI) already in

effect in more than 100 countries, private investors with an offshore account can be assured that their home tax authority will receive

data about it, sooner or later. With the global coronavirus pandemic impacting GDP and therefore tax revenues around the

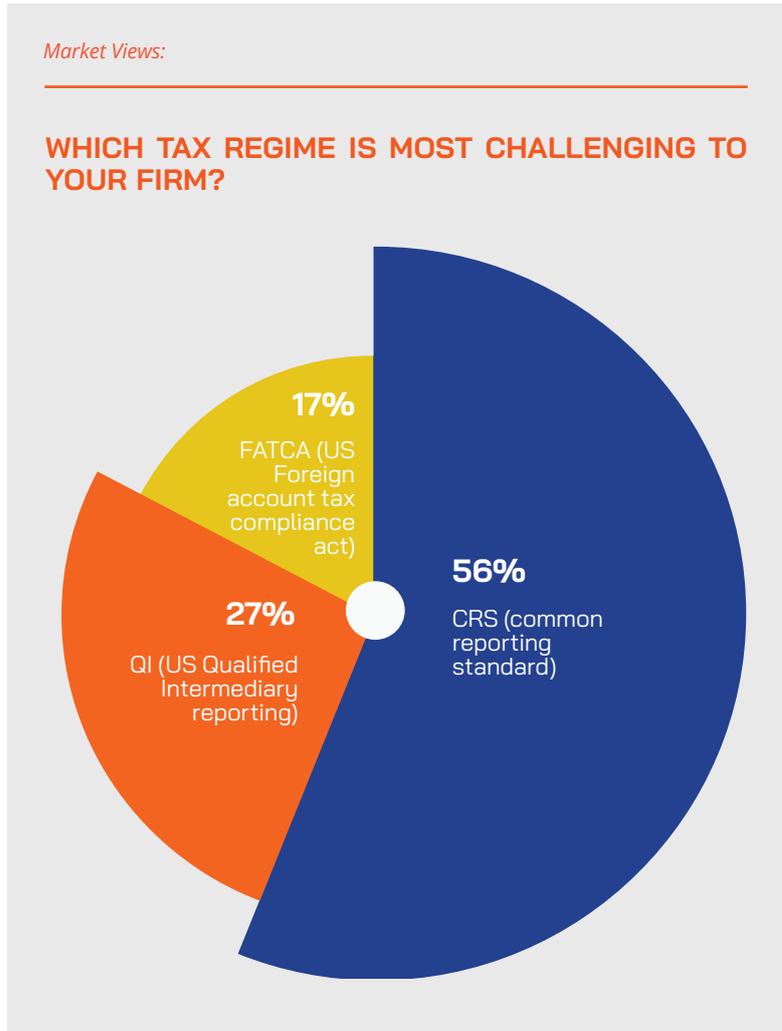


world, it is a given that governments will not hesitate to act upon the new data gathered to enforce taxation from offshore accounts.

Some governments are already taking action. The UK and Australian tax authorities are sending out letters to seek clarity from taxpayers who did not accurately declare their cross-border financial accounts. In Malaysia and Indonesia, where tax amnesty programmes have recently expired, government officials are reviewing the tax AEOI data against those who missed the opportunity to properly declare. In July 2020, the Chinese authorities reached out to their citizens living and working overseas, reminding them to declare their foreign-sourced income back at home. In short, the era of undeclared offshore accounts across the globe, and in this Asia Pacific region, certainly seems to be coming to an end.

### Question marks

There are therefore many pressing questions for financial institutions involved in the wealth management industry to think about. What measures are fiscal authorities taking around the world, based on the AEOI data they have begun to harvest? What will be the short and long-term effects of the Covid-19 crisis on cross-border wealth taxation? Which clients face the most pressing needs to address these matters? How can wealth management institutions and advisors best stay on top of these issues and keep their clients abreast of these requirements and also cognisant of the need to tackle them head on? How will the expectations and activities of wealthy cross-border clients evolve with regard to these matters?



And there are more questions. For example, how can the banks and wealth management firms help their clients with monitoring, filing and reporting? What best practices there are for financial institutions to fulfil their regulatory requirements and help their clients to remain or become fully tax compliant? How to best deploy digital solutions and practices to help handle tax reporting, tax calculation and tax services? How can they build on a tax platform approach to transform regulatory obligations into a better private banking client experience? How then can they turn what is, currently, another burden and layer of

cost for all parties from a negative to a positive and thereby help improve banker-client relationships and client 'stickiness'?

### Making a virtue out of necessity

Whatever follows, it is highly likely that tax reporting is becoming a key competency for any financial institution offering cross-border products and services. In addition to the submission of CRS and FATCA reports, authorities and clients alike will expect wealth managers to assist swiftly with any ad-hoc tax-related queries.

There are many who have for some time been imploring the

financial community to focus on these worrisome, but extremely topical matters, who have counselled the wealth management players to engage their wealthy private clients and their families in conversations on diligent, effective, transparent disclosures especially in face of the landslide of new taxation and tax mining as governments emerge from the pandemic with their finances in disarray. They strongly advise the wealth advisory community to become more proactive, systematically identifying and addressing such issues, encouraging conversations that will benefit all parties.

These needs also extend into the realm of estate and legacy planning, with more and more jurisdictions building out their inheritance tax (IHT) regimes, a practice that is even more likely to be extended and expanded as governments across the world address their burgeoning revenue and budget shortfalls.

### The tax avalanche

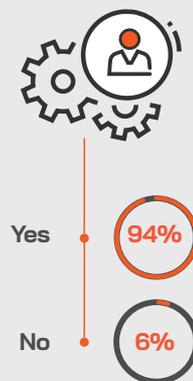
Indeed, many experts anticipate an avalanche of tax and authorities’ actions, hounding anyone who can pay for additional tax, as the governments emerge from this pandemic with their finances in tatters. In particular for the wealth industry, they fear that governments coming out of this pandemic will look at the high net worth population and, enabled by CRS, FATCA and AEOI they will have seen how much money is held offshore.

It is well known, for example, that in some of the ASEAN countries, HNW investors and UHNWIs hold vast wealth through Singapore, or other jurisdictions. In short, governments will likely look at wind-

falls such as an annual wealth tax or other means to raise more money than simply printing it through the central banks. The path towards a far more aggres-

sive tax environment in Asia and globally therefore seems to be well set and will very likely be directly aimed at the solvent members of any society.

### DO YOU COMMUNICATE ANY REPORTED CRS OR FATCA DATA TO YOUR CLIENTS?



First came the US Foreign Account Tax Compliance Act (FATCA) and then came OECD’s Common Reporting Standard (CRS), followed by the more recent introduction of the Automatic Exchange of Information (AEOI), which is already in effect, or at least in agreement, in more than 100 countries. And there are also other initiatives including MDR, standing for Mandatory Disclosure Rules, and the EU’s economic substance rules, which apply globally, and the OECD’s Base Erosion and Profit Shifting (BEPS) initiative, the last of which seeks to close gaps in international taxation for companies that allegedly avoid taxation or reduce tax burden in their home country.

Year after year, an entirely new reality has been wrought by the governments and multi-lateral bodies around the globe. Our survey indicated that the CRS regime is currently the most daunting for the wealth industry and its clients in Asia, with FATCA issues the next most important challenge. The wealth industry is certainly aware of these requirements and are reporting FATCA and CRS disclosures made to authorities to their private clients. In short, it is happening, and the private clients of Asia are becoming ever more aware that their financial affairs with the private banks and other wealth managers are no longer discrete, in fact they are available to any relevant authority through the AEOI net.

### Tax reporting moves centre stage for wealth managers

In conclusion, tax transparency has moved far closer to centre stage for banks and wealth managers around the globe. Indeed, tax reporting is becoming a key competency for any financial institution offering cross-border products and services. And Asia's wealth management industry will need to face up to the challenges of compliance across all facets of their business and operations. There are digital solutions available that will significantly enhance processes, activity and compliance around cross-border conduct and tax filings. Finding the right solutions to help them in this endeavour is a vital priority, as is contemplating the best internal processes and team structures to expedite improvements in the most effective manner possible.

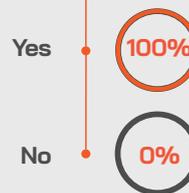
### Asia dancing to the global tune

Developments are taking place apace in Malaysia, Indonesia, Taiwan, and Australia. In 2019, China introduced an updated individual income tax law, which, while introducing tax cuts in the lower tax brackets, is also meant to close loopholes for high-income individuals. Part of the reform are stricter anti-avoidance rules, which intend to ensure that global income of Chinese nationals is taxed at the proper rates set by law, which are up to 45%. Just recently in July this year, the Chinese authorities have proven their determination to enforce the new laws, which, similar to the US practice, extend to citizens living outside of the Mainland China.

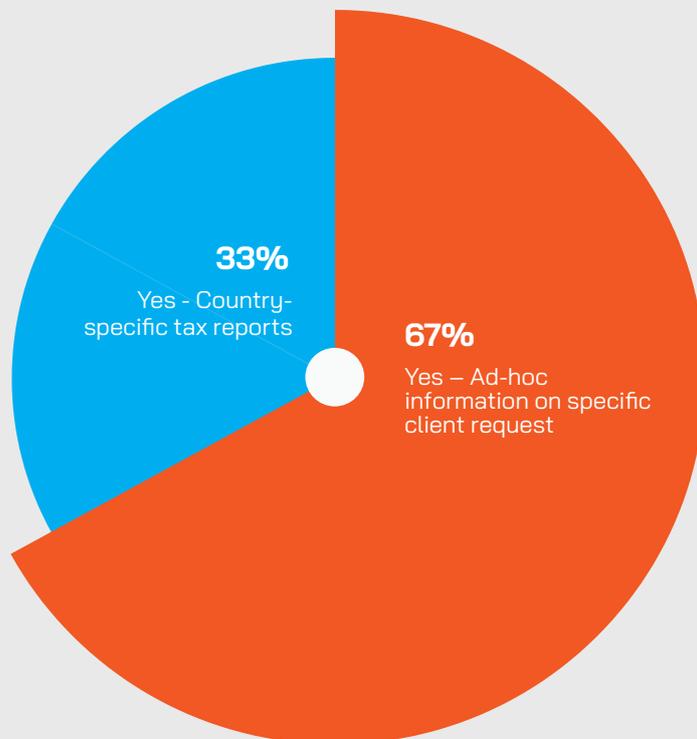
Chinese nationals living in Hong Kong and working for Chinese

Market Views:

**WOULD YOU AGREE THAT WITH GLOBAL TAX TRANSPARENCY, YOUR CLIENTS ARE NOW FACED WITH AN INCREASED DEMAND TO BE MORE TRANSPARENT WITH THEIR TAX AUTHORITIES.**



**IF YES, HOW DO YOU MANAGE THIS DEMAND? DO YOU PROVIDE ANY STATEMENTS OR REPORTS TO YOUR CROSS-BORDER CLIENTS TO HELP THEM FILE THEIR TAX DECLARATIONS?**



state-owned enterprises have been reminded to declare their income received in Hong Kong. In Hong Kong tax rates for individuals are markedly lower but now they are expected to pay up the difference to Mainland China rates. Chinese expats living in other places such as Singapore have been notified as well.

It can certainly be expected that further steps towards taxation of cross-border income and wealth will follow. Given the enormous sums involved – it is estimated that more than USD500 billion of Chinese private wealth is on bank accounts in Hong Kong alone – repercussions will be felt in offshore centres all over the world.

**It will only get tougher...**

There is no doubt that there will also be further and intensifying compliance challenges across Asia, as regulators in each country and globally demand ever-higher standards of monitoring and reporting, greater individual and corporate accountability, and as they roll out ever more demanding compliance audits. This makes it even more of an imperative for the banks and other wealth management firms to act early to enhance their understanding of tax and compliance issues and adopt the right approach to handling challenges amongst their client-facing and administrative teams.

Mandatory Disclosure Rules (MDRs) have not yet been adopted in Singapore, and it will likely be a while before they do so, although pressure from the OECD will ensure Singapore later participates. But anyone in the wealth management industry must be aware that the regulators worldwide see MDR as a necessary weapon against fiscal impropriety, so the OECD's

**WHO IS RESPONSIBLE FOR TAX REPORTING AT YOUR INSTITUTION?**



Reporting for clients is becoming more than hygiene, it is becoming a necessity and in the hands of forward-thinking wealth management institutions is becoming a discernible element with the overall USP. There are many who have for some time been imploring the financial community to focus on these worrisome, but extremely topical matters; they have counselled these wealth management players to engage their wealthy private clients and their families in conversations on diligent, effective, transparent disclosures especially in face of the landslide of new taxation and tax mining as governments emerge from the pandemic with their finances in disarray.

In a global, digitised world replete with increasing layers of regulation at local, regional and global levels, vigilance is ever more essential, and so too is the ability to provide clients as well as authorities with the key information they need to make their filings and their assessments. Banks and wealth firms must also help their clients as best they can, and in doing so, face up to the challenges of compliance across all facets of their business and operations, turning challenges to their advantage.

To help them do so, there is software in action and also being developed that will significantly enhance processes, activity and compliance across cross border conduct, reporting and data hygiene. Additionally, it helps to address the many challenges that banks face around CRS/FATCA reporting and AEOI, as well as their clients' tax reporting needs, recognising the need to improve the client experience by assisting with data, tax implications and reporting in relation to respective tax obligations.

stipulations will filter out into every market before long.

Economic Substance rules must be considered very seriously. Economic Substance rules are designed to put an end to an opaque structure designed to deceive and obfuscate. Transparent structures and full reporting will, therefore, inevitably become the new norms.

Just as with opaque structures often secreted in exotic jurisdictions, ultimate beneficial ownership (UBO) provisions are being tightened up, and those transgressing these guidelines and not reporting properly will be considered as owners of a potentially abusive structure, and therefore non-compliant for tax and reporting purposes.

The older mindset of opaque must therefore be replaced with the new mindset of transparency and compliance. And for Asia's wealthy investors, they should seek out jurisdictions that enhance their reputation and feeling of security. In a world of greater complexity, simplicity is the key.

Technology in the form of RegTech software and processes presents the opportunity for state-of-the-art solutions to help manage so many of these complex areas, but there is always the risk of dead-ends, investments in the wrong software, the wrong processes, as well as the ubiquitous cyber-risks to data and confidentiality.

### Turn defence into attack

Moreover, there is always the risk of putting the cart before the horse. Private banks and wealth management firms need to balance commercial drive and objectives with client-centricity. This means that while tax compliance is a vital necessity, it is not a

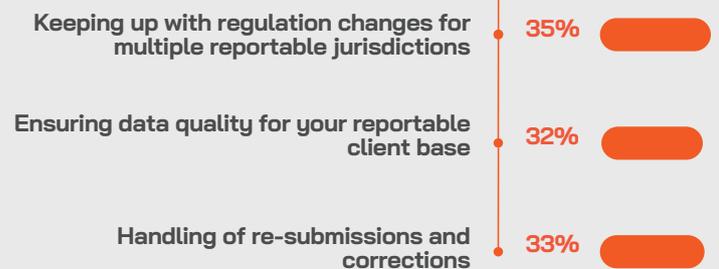
#### Market Views:

Respondents are under pressure from all quarters. The replies showed that they are fully aware they need to keep up with regulatory changes across multiple jurisdictions, they must ensure that data quality is high for the clients and for the authorities, while also maintaining privacy, and they are all too cognisant of the fact that the administrative burden of re-submissions and corrections to reporting is escalating all the time.

There is little doubt that that tax reporting is therefore becoming a key competency for any financial institution offering cross-border products and services. Not only do the banks need to report accurately, but they will also need to react rapidly when the authorities come knocking asking for more data or clarifications.

It can certainly be expected that further steps towards taxation of cross-border income and wealth will follow. Given the enormous sums involved – it is estimated that more than USD500 billion of Chinese private wealth is on bank accounts in Hong Kong alone – repercussions will be felt in offshore centres all over the world. And that means a major onus of responsibility on the wealth management institutions. As individual accountability is also on the rise, driven by the regulators, this is a considerable concern not only to the institutions, but to those who work in them.

### WHAT ARE YOUR MOST RELEVANT CHALLENGES IN TAX REPORTING NOW?



revenue generator, yet it must be handled in as business-centric a manner as possible. The leaders of Asia's wealth management institutions therefore need to work out how they can turn necessity and additional cost to a competitive advantage by providing tax and compliance related solutions that are aligned with the commercial objectives of their business and the needs of their end clients.

Banks and wealth firms must also stay agile. They must stay entirely current, especially as more agile technologies and methodology protocols are employed. The industry must, therefore, embrace change, not resist it. Private banks and wealth management firms must rise to the challenges of digital KYC/onboarding, AML monitoring, the expansion of digital platforms, the migration of data infrastructure to the Cloud, Artificial Intelligence, data security, cyber-crime and the tax filing and reporting demands of cross-border business activity in a world of increasing regulatory complexity.

### Europe leads, Asia will follow

Thus far, European private banks have led the way with specialised, country-specific tax reports which enable offshore banking clients to communicate confidently with their home tax authorities. Such reports have become a standard in European cross-border private banking, and we believe it is likely that the CRS will bring the requirement for such reports to offshore banking hubs worldwide.

Sophisticated client tax reporting is becoming an essential service and a factor of differentiation for financial institutions such as banks, asset managers, family offices and

trusts. It is therefore highly likely that those banks and other institutions that invest early and wisely in tax reporting technologies could turn a cost driver – the ever-increasing reporting obligations – into a competitive advantage, as they help produce tax reports as a client service, saving money and time for everyone concerned.

### Embracing the new reality

Transparency is the new reality in the financial sector. We live in a new world of regulatory rectitude and global reach by national and transnational authorities.

The reality is also that the banks and others who are fully on top of all this can offer solutions and structures that might help mitigate tax liabilities in a fully compliant manner. For example, foreigners trading in US securities or other assets could trigger an obligation for US estate taxes, but this can be planned for and mitigated compliantly very simply by holding assets through a separate corporate entity rather than in the individual name.

There are numerous US-resident family members of non-US Asian families, and as Asia is now embarking on the multi-trillion dollar, multi-decade transfer of wealth from the older, founder generations to the second and third and even fourth generations, some of whom will be living, studying or working in the US or in other countries dotted around the world, the families will have substantial US assets and therefore tax reporting obligations to consider.

### Making the private clients aware

Clients therefore need to be made aware of the issues so that they understand the complexities of US or other countries' taxes in rela-



tion to them, or their assets and family members, and then make sure they do not suffer unintended tax consequences.

The ensuing drive towards specialisation and personalisation will extend across all elements of the wealth and financial sectors, from trustee services, corporate management services, life insurance and accounting services. For example, client-specific accounting is likely to grow exponentially over the next 10 years, and as it does, the private banker can help guide the clients in these directions as well, thereby ensuring their role is truly aligned with their clients, as they help them select the subject matter experts that will be ever more essential.

### Being smarter than the street

There are always grey areas, so the line between avoidance and evasion in tax matters must be constantly and carefully assessed. Smart clients hire the right professionals who help them navigate the lines between genuine avoidance, which is conducted legally and correctly, versus evasion, which is illegal. Similarly, the smartest banks and other advisors are ahead of these needs and ready to curate far better asset, transaction and tax reporting.

The current hiatus in global economic and social activity is an opportunity to reanalyse the entire approach to all these burning issues. There is no doubt at all that these matters will only become more pressing and more pressured in the years ahead, so addressing these matters for the banks, the advisors and the future generations of private clients if no longer a luxury, it is a key necessity and therefore a vital competitive factor.

Remember also that no gain comes without potential pain. There is a rapidly increasing emphasis from the regulators worldwide on individual and collective accountability, so training from the ground up as to individual and firm-wide responsibility and accountability is essential.

### Growing pressure

There is ever more pressure on financial intermediaries, advisors and of course on their clients in relation to tax compliance. It is no longer just the duty of the taxpayer, as CRS anti-avoidance, MDR, as well as the new economic substance rules have shifted the burden of compliance on many more parties. There is at the same time a global shift to supervision based on substance over form, transparency over cloudiness, full

disclosure and exchange of information over poor transparency. Accordingly, most wise investors will want to steer clear of tax avoidance schemes, and also steer clear of wealth managers and advisors that do not help them in whatever way possible with their global tax filing and reporting obligations.

CRS audits are also around the corner, be prepared. The rollout of CRS and soon the CRS audits continues apace. Private banks and other wealth management firms must get their acts together. Most global banks have already conducted internal CRS reviews on implementation and remediation, while many of the smaller and local institutions are now reportedly going obtaining external FATCA/CRS reviews. In short, be wary of procrastinating.

### Grasping the opportunity

The time to act is now, not later. Those wealth management institutions that can see clearly how the whole shift of regulation and compliance worldwide is bringing them more intimately into ever more intrusive reporting obligations will be able to adapt their mindsets and their businesses to turn this fundamental shift into a competitive advantage. ■

## BearingPoint RegTech and its Global Tax Reporting & Compliance

BearingPoint RegTech, a business unit of management and technology consultancy 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 RegTech's products and services.

BearingPoint RegTech has more than 25 years of experience in regulatory reporting, risk management, tax reporting and supervisory technology software solutions, and expanded to APAC in 2017, winning clients across the region with their award winning tax reporting solution, FiTAX, and their client tax reporting solution EasyTax.

As the evolution of the tax transparency regimes has resulted in increased scrutiny by tax authorities worldwide, financial institutions are placing more emphasis on supporting clients with their respective jurisdictional tax reporting obligations. This has now become a key differentiating factor, particularly for private banks and wealth management firms. BearingPoint RegTech's tax reporting solutions offer financial institutions the possibility to cover both client tax reporting as well as regulatory tax reporting and facilitate a harmonised data management in this ever-changing regulatory environment.

The two heads of the business in this region are Bella Lai, Head of RegTech, APAC; she has over 23 years of experience in the financial services industry and is at the forefront of regulatory and compliance digital transformation, and Stefan Fuchs, Manager at BearingPoint RegTech in Singapore, who arrived from the Zurich office in early 2019.

### **FiTAX goes places**

BearingPoint RegTech's FiTAX is a standard software solution for financial institutions to generate tax reports for tax authorities around the world.

FiTAX is today a sophisticated and holistic 360° tax reporting solution, and market-leading in numerous countries throughout the world. From data acquisition to uploading an encrypted report file directly into the tax authorities' portals, FiTAX covers more than 130 jurisdictions.

The innovative reporting software fulfils the requirements of financial institutions to cover both the generic, and the country-specific, FATCA reporting requirements, it enables Qualified Intermediaries to prepare and send complete QI reports to the IRS in the US, while the CRS module enables financial institutions across the world to comply with CRS and AEOI. Moreover, the relatively new DAC6/MDR module serves intermediaries such as financial institutions, banks, trustees, asset managers and tax advisors in their drive to meet the new Mandatory Disclosure Rules (MDR) to comply with DAC6/MDR obligations.

FiTAX makes international tax reporting much easier, as it is a standardised and ready-to-use tax reporting software. Each module is independent and can be used as a stand-alone solution but in order to facilitate the implementation process, all reporting modules share the same user interface, the same IT infrastructure, the same access rights management and the same data.

### **EasyTax - towards a better client experience**

EasyTax is BearingPoint RegTech's standard software solution for producing country-specific tax reports, enables financial institutions to provide clients with a service to ease the burden of their tax filing duties. More than 80 financial institutions worldwide have already selected EasyTax to produce tax reports for their clients. A variety of client types, including private banks, wealth management firms, family offices, retail banks, banking package providers and tax reporting service providers, are currently using the EasyTax solution.

The standard tax reporting solution is built upon a history of more than 15 years of development and support for banks in assisting their clients' tax filing obligations, and BearingPoint RegTech now offers EasyTax in an unprecedented range of countries.

As to target clients, EasyTax, the client tax reporting software, is more specifically aimed at private banks and wealth managers because this solution is targeted to private clients, i.e. wealthy individuals that have offshore accounts that need help in filing their very complex account structure in their home country according to local regulation.