

Tax Reporting in Times of Covid-19 – BearingPoint RegTech on the Future of Global Tax Reporting & Compliance

Since the introduction of OECD's Common Reporting Standard (CRS) and the US Foreign Account Tax Compliance Act (FATCA) agreements, tax transparency has become increasingly important for banks and wealth managers around the globe. In what way will tax authorities use the data they receive? And which influence will the Covid-19 crisis have? Tax reporting might become a key competency for any financial institution offering cross-border products and services. In addition to the submission of CRS and FACTA reports, authorities and clients alike will expect wealth managers to assist swiftly with any ad-hoc tax-related queries.

The brave new world of regulatory scrutiny

The introduction of US FATCA reporting, and the OECD's Automatic Exchange of Information have kept compliance professionals within the financial industry busy over the last couple of years. Meanwhile, most Asian countries participate in the sharing of data on cross-border accounts, for example economies such as China, Japan or Indonesia and also the most important offshore financial hubs Hong Kong and Singapore. Taiwan will also start exchanging data under CRS with selected countries in autumn 2020. Thailand will introduce the reporting in 2022. Both the US and the OECD's agreements leave international investors little room to manoeuvre in secrecy because tax transparency has become reality. Tax authorities are nowadays in a position that would have seemed impossible ten years ago. Some countries may have better data on offshore accounts than on the financial whereabouts of their taxpayers at home. In fact, Indonesia leveraged the introduction of the CRS in 2018 to introduce its own, slightly modified standard to report domestic bank accounts along with those owned by non-residents.

With all this data being exchanged between countries it is important to monitor how things will further develop and which impact they may have. 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. Similarly, the costs of the Covid-19 crisis will force governments around the

world to consolidate tax revenues, and therefore offshore wealth may be an obvious target. Even before the crisis hit, UK and Australian tax offices started to use CRS data to confront taxpayers who did not declare their offshore accounts properly. The Australian authorities [demonstrated](#) that they intend to ensure that its citizens will pay taxes on their assets held abroad – which are estimated to be more than USD100 billion. In countries like [Malaysia](#) or [Indonesia](#), where tax amnesties have expired in recent years after having limited success, government officials have publicly expressed their plans to put exchange of information data to use.

“We plan to be at the forefront of continuous assessment of the market, as well as thought leadership on how the banks could handle these crucial areas of tax reporting. Future considerations in this area will go beyond the annual CRS and FATCA reporting exercises. It will be pivotal to improve the client experience by assisting with data, tax implications and reporting in relation to their respective tax obligations.”

However, the actions of the People's Republic of China can be considered most important. 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 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 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.

For financial industry firms specialised in cross-border wealth management, the question is how to prepare for this change. Tax will most likely become an increasingly important topic for wealthy individuals holding offshore accounts in Asia. Expectations are also likely to rise for financial industry providers. Submitting a CRS and FATCA report on time once a year will not be sufficient anymore. Authorities will continue



BELLA LAI

BearingPoint

to analyse data on their taxpayers thoroughly throughout the year. Thus, clients will have to expect to receive data that has been disclosed on them. They need to be provided with detailed account information that helps them to file their tax declarations at home. Will private banks and wealth managers need to become tax specialists to continue to thrive in this environment?

Industry Insights from BearingPoint RegTech

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.

Bella Lai is Head of RegTech, APAC and has over 23 years

Getting Personal with Bella Lai

Bella Lai is Head of RegTech Asia Pacific. She joined BearingPoint RegTech almost two years ago in order to drive the company’s market growth in Asia Pacific. Lai has over 23 years of experience in the financial industry and is at the forefront of regulatory and compliance digital transformation. She started her career as a trader and subsequently moved into myriads of business focused areas with firms like Reuters, SWIFT network and IHS Markit; aiming to bridge the gap between data, regulatory compliance and the financial market ecosystems.

of experience in the financial services industry and is at the forefront of regulatory and compliance digital transformation. Stefan Fuchs is Manager at BearingPoint RegTech in Singapore, having arrived from the Zurich office in early 2019. 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. Breaking grounds in APAC with the award winning tax reporting solution FiTAX, and client tax reporting solution EasyTax, Lai and Fuchs ‘met’ with Hubbis recently by video call to share the trends in tax reporting and compliance implications for financial institutions including private banks and wealth management firms in the APAC region. 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.

BearingPoint RegTech combines regulatory know-how with a proven, reliable, and forward-looking RegTech solution suite, expert consulting capabilities, managed services and training seminars.

Opening the discussion, Hubbis asked Fuchs: “What are BearingPoint RegTech’s products and how can they help the wealth management community in APAC, especially at this difficult time?”

“FiTAX is our solution for CRS, FATCA and Qualified Intermediaries reporting which enables banks to report to authorities in an automated and audit-proof way,” he replies. “EasyTax is BearingPoint RegTech’s solution for multinational client tax reporting, allowing banks to provide their clients with tax reports that they can use to file income tax declarations in accordance to the regulations of their home countries.”



STEFAN FUCHS
BearingPoint

Fuchs is a software expert and worked in the tax reporting department of a major Swiss bank, giving him a privileged insight into the challenges of meeting the requirements of both external authorities and HNWI clients. He is today supporting BearingPoint RegTech's clients as an account manager and product expert from the Singapore office, while also working on specific development projects for the firm.

Lai provides the background picture for why the firm's solutions might gain traction rapidly in Asia, as they have already in Europe. She explained that they have been specifically designed by BearingPoint RegTech from the firm's deep and ever-expanding understanding of the many challenges that banks face around CRS/FATCA reporting and AEOI, as well as their clients' tax reporting needs.

"But many of these challenges are relatively new, as these are fairly recent regulations," she elaborates. "We plan to be at the forefront of continuous assessment of the market, as well as thought leadership on how the banks could handle these crucial areas of tax

Getting Personal with Stefan Fuchs

Stefan Fuchs is Swiss, from Zurich, and is a Manager at BearingPoint RegTech in Singapore. He has been with the firm for more than five years, following a roughly two-year stint at Credit Suisse in Zurich.

"Tax reporting has become a really big topic for the banks locally for the first time some 10 to 15 years ago," he reports. "Before that, they did not really care about tax, and this was then changing fast. "We were able at the bank to introduce processes, software and other solutions to deal with tax requirements from authorities. And that experience led me to BearingPoint just over five years ago."

He initially worked with BearingPoint in Zurich, and then moved to Singapore with the firm in 2019 just over a year ago. "I was one of the first people to set up in Singapore and start our RegTech office here, with the main goal being to repeat the success story that we have enjoyed in Europe with our software and tax solutions here locally."

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Rapid reaction

Fuchs explains that tax reporting for banks is not just about submitting mandatory reports to authorities, but being able to react to tax-related queries quickly and with expertise.

The big picture is that cross-border wealth management has come under ever more scrutiny by regulators and the public in the last decade or so. The introduction of the OECD Common Reporting Standard (CRS) and the US FATCA agreements have brought about a new era in cross border banking, a world where there is effectively no

more anonymity of ownership in financial assets.

"We are placing special emphasis on banks with a sizeable cross-border clientele, with a particular focus on private banking and wealth management in some of APAC's more developed financial markets, such as Hong Kong, Singapore and Australia," he reports.

No place to hide

The CRS, Lai elucidates, casts a very wide net that also includes complex structures of ownership, such as shares in passive investment entities or trusts. All the major banking hubs in APAC and Europe already participate, and most of the larger countries in APAC are already in or will be within a few years. "Investors with offshore financial accounts anywhere in the world can almost be certain that their home tax

authority will receive information about it," Lai comments.

At the same time, given the socio-economic impact of the Covid-19 crisis, ever more costly initiatives to sustain economic activity now dominate the agenda of governments all over the world. "You can be sure that governments will not hesitate to leverage their new information sources to enforce taxation from offshore financial accounts," she says.

But how are the firms addressing these new trends? "The banks will already have developed some processes and utilities to deal with their reporting obligations," Lai comments. "However, these solutions might be more reactive or tactical in nature, as compared to more proactive strategies from the perspectives of global compliance, technology and client experience."

Global compliance

As it pertains to global compliance, she observes that banks tend to delegate CRS reporting to their finance and tax departments, so dealing with the CRS becomes just another reporting task, which means they might be under-appreciating the compliance risks that the bank runs as a whole.

"The ultimate goal of the OECD is to tackle tax evasion. Participating governments might use the CRS as a tool to fight such practices, which often qualify as criminal offences depending on the respective local laws. Therefore, sound and effective CRS reporting technologies and processes should be a key concern, in just the same way as the AML and KYC due diligence as part of the client onboarding processes," she elucidates.

Lai remarks that some authorities, Singapore for example, have already started to ask financial institutions to provide reports of their CRS processes. "Other authorities will follow suit," she says, "and it is likely to lead to more specific queries into the whereabouts of specific clients and accounts on which CRS data is available. Banks must be able to respond to these queries quickly and in an organised manner to avoid compliance risks around charges of facilitating tax evasion."

"Through these endeavours, the banks and advisory firms can produce tax reports as a client service. A good tax report that takes into account the relevant country-specific tax rules can save clients substantial amounts of money, especially when complex capital gains tax rules, holding period abatements or similar particularities come into play."

Technology adoption

Fuchs reports that while some banks have invested in specialised software to deal with CRS and FATCA reporting, and might have centralised their reporting obligations into tax operations hubs, others still rely on more makeshift solutions involving self-built and/or semi-manual tools to create the necessary reports. "While this may be sufficient to cover single markets and limited volumes of reportable clients," he observes, "such solutions might pose a risk if the number of reportable clients expands and reporting regulations change, perhaps also becoming more complex."

Corrective reporting is one particular area where banks that have not invested in specialised software will be challenged, he adds. Drawing from the experience of the first few years of tax reporting under CRS and FATCA, it is not uncommon for tax authorities to ask for correction files of previous years, in some cases repeatedly on the same data. "A reporting system without automated and reliable correction functionalities will make this task even more daunting with every additional year," he cautions.

Being able to submit CRS and FATCA files correctly and within deadlines will be a necessary precondition for banks to meet tax transparency standards. To address the demanding requirements and challenges, BearingPoint RegTech has developed FiTAX, a standard software solution with a unique country coverage. The reporting software fulfils the requirements of the CRS, FATCA and further reporting regimes. FiTAX enables financial institutions to automate their regulatory reporting processes and to produce and send tax reports from a single platform. The software also includes data integrity checks to guarantee the correctness of reports.

Client experience

Lai notes that in many cases, banks provide information on data reported on international clients under the CRS only at their specific request, and it is rather uncommon that they support clients in filing their tax declaration on their cross-border accounts correctly. "This will become ever more important, however, when governments start to use their CRS data to have a closer look at how taxpayers declare their offshore accounts," Lai predicts.

She also explains that several fiscal authorities, notably the Australian Tax Office (ATO), UK's HMRC and the Belgian Administration of Taxes, have started to contact taxpayers directly if their personal income tax declaration on their offshore accounts doesn't match with the data they receive through the CRS. "Cases like these are likely to become more common," she reports, "so that once governments get around to using the CRS data they obtain effectively, and Covid-19 and other emergency-related spending put further pressure on them, it will be imperative to increase tax revenue."

No stones unturned

"Governments and regulatory bodies will increasingly require banks to have stable processes and technologies in place to deal with larger numbers of queries on the individual accounts and clients," Lai foresees. "Moreover, governments using CRS information to investigate the income tax declarations of their taxpayers will, in turn, direct clients to get in touch with their banks to help them with the necessary tax-relevant data."

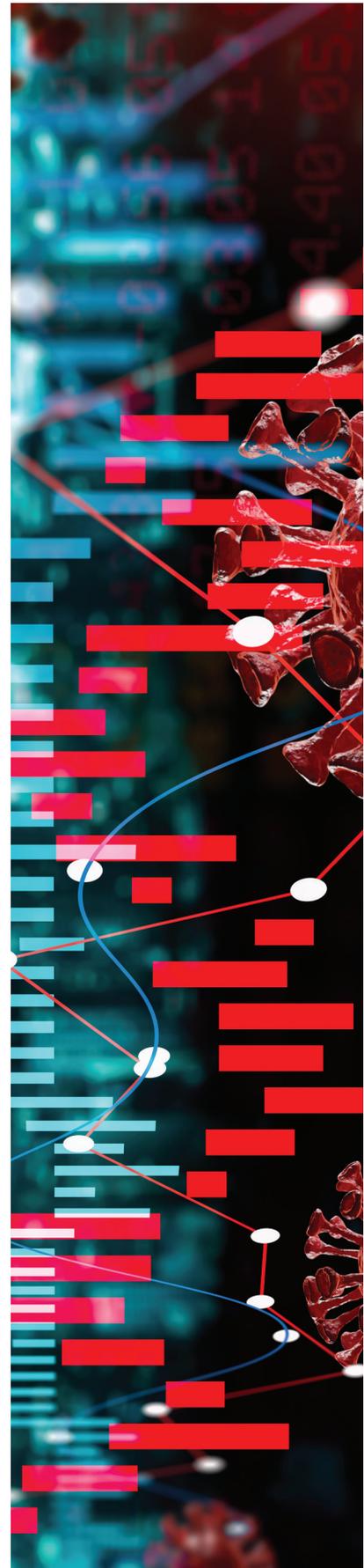
Europe leads and Asia to follow

Tax authorities in the APAC region have been doing little thus far to act on data received through the CRS. For example, going back to their taxpayers that have offshore accounts and verifying the tax filings against the CRS data is currently not very prevalent. "As this is something that has not really happened so far, the banks have not been feeling the pressure from clients to provide them with better tax assistance," Fuchs adds. "But that might change, as the tax authorities start to further scrutinise the CRS reports."

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, Fuchs expounds. "These 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," he projects.

The conclusion from Lai and Fuchs is that the banks that invest in tax reporting technologies now could turn a cost driver – the ever-increasing reporting obligations – into a competitive advantage. 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.

"Through these endeavours, the banks and advisory firms can produce tax reports as a client service," Lai says. "A good tax report that takes into account the relevant country-specific tax rules can save clients substantial amounts of



money, especially when complex capital gains tax rules, holding period abatements or similar particularities come into play.”

With EasyTax, BearingPoint RegTech offers a standard software which provides off- and on-shore tax calculation, withholding and reporting from a single software. BearingPoint RegTech is bringing into Asia the concepts and practises prevalent already in Europe. EasyTax compiles tax reports and has an extensive law coverage to calculate country-specific incomes, capital gains and wealth. Banks and advisory firms benefit from regular updates aligned with changing taxation laws. This also enables financial institutions to provide their offshore clients with a service to ease the burden of their tax filing duties. Without the need to grow and maintain in-house tax expertise.

Looking ahead

Fuchs observes that as the Covid-19 crisis has led governments across the world to spend unprecedented amounts of funds into sustaining national economies, tax authorities will

increase efforts to retrieve tax money. “Offshore banking accounts are an obvious target,” he explains, “given that CRS data is already available to scrutinise them more closely than has been done in the past.”

He refers to the events after the global financial crisis when in the summer of 2008, the US Senate initiated a probe into the effects of tax evasion via offshore banking, particularly aimed against Swiss banks. He recalls a lawsuit brought by the US Department of Justice against UBS, the largest bank in Switzerland, which was eventually settled with a landmark fine of USD780 million and the forced disclosure of some 5,000 accounts held by US residents in Switzerland. “Under considerable pressure from the US, the country later entered into the FATCA agreement with the US and the CRS agreement internationally,” he notes. With China just now beginning to enforce a system of [worldwide taxation for its citizens](#), also including citizens living abroad and thus mirroring US practice, financial institutions offering wealth management

services to Chinese nationals should be prepared to avoid similar pressures.

The Key Priorities

“To some extent, the pace of BearingPoint RegTech’s growth will depend on how governments and authorities here in Asia react after the first few years of CRS reporting. As the pressure increases for banks to invest in high quality tax reporting and transparency solutions, that will of course propel our growth path.” explains Lai. “We would also like to help our clients understand the long-term advantages of taking care of the client service side of tax reporting.

“BearingPoint RegTech is a well-known brand and market-leading in several countries in the area of tax reporting, financial reporting in general. Our aim is to strengthen our brand awareness and to also convince the APAC market of how our solutions can help to ease their burden. We have an exciting journey ahead. And we believe we have the right offerings for the environments we all face ahead,” Lai added. ■

Looking Under the Hood at BearingPoint’s FiTax and EasyTax RegTech Solutions

The two key solutions that Bella Lai, Stefan Fuchs and colleagues are promoting across the region from the Singapore hub for Asia are FiTAX, fast becoming standard software for financial institutions to generate tax reports for tax authorities around the world, and the EasyTax (International Client Tax Calculation & Reporting) software.

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 US' IRS, 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, as well as being a reliable solution addressing the reporting needs of financial institutions. 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.

Fuchs offers more insights and detail on EasyTax and its implementation. He cites the example of a major global European bank, from whose HQ data is sent from all of the local offices in Asia. "To allow EasyTax to work properly, this data needs to be converted before it is sent, so that means locally in Singapore," he explains. "So they have data warehouses and processes to ensure EasyTax is highly integrated into the overall platform of the bank. The whole chain of software that deals with tax reporting is of course quite complex, and the bigger banks then work with us to implement it and make it all work seamlessly across the globe."

And for smaller banks, the minimum required is basically just a server or even a laptop on which to run the EasyTax software, with data then fed in via Excel files output via PDF files. "They can do everything on their own," he explains, "there are no major barriers to its adoption, even for smaller banks and smaller wealth management businesses."

For BearingPoint RegTech, the next stage is also to further develop the EasyTax software to allow for direct client interaction with the software. This will help with post-tax portfolio assessment. "Every bank does provide performance reports, but these reports don't include any taxes, they are just not part of the calculation. But income and capital gains taxes are crucial to the equation, as well of course as different for each client in different jurisdictions."

The firm's belief is that Asia will pay more and more attention to tax and cross-border compliance, and as that happens, the individuals will be more concerned to ensure that they see their positions clearly and comply with their requirements.