THE NEW REALITY OF GLOBAL TAX TRANSPARENCY - ARE YOU READY?

WITH NOWHERE LEFT TO HIDE ASSETS, THE FOCUS NEEDS TO BE ON FINDING SOLUTIONS TO DEAL WITH TODAY'S MANY INITIATIVES AIMED AT IMPLEMENTING GLOBAL TAX TRANSPARENCY, SAY PETER GOLOVSKY, ERIC BOES AND CONNIE LEUNG OF AMICORP GROUP.

Whilst the growth in Asian wealth is good news, it comes at a time when there is an increased global focus on three main issues which will impact everyone. These are: tackling tax evasion; promoting tax transparency; and facilitating automatic exchange of information (EOI).

Indeed, 2014 will likely go down in financial services history for finally putting the nail in the coffin of tax evasion.

Amid a slew of regulatory and other reforms aimed at delivering global tax transparency, it saw the G20, OECD, US and EU, together with many individual countries, making some very specific steps towards that goal.

At the request of the G20, for example, the OECD drafted Common Reporting Standards (CRS), now becoming the new global standard for automatic EOI on financial accounts.

"It is expected that during 2015, anywhere up to 90 countries will conclude multilateral and bilateral tax conventions for automatic EOI based on the CRS, some effective as of fiscal year 2016, some as of 2017," says Peter Golovsky, global head of private clients for Amicorp Group. Exchange is therefore predicted to commence in either September 2017 or September 2018.

A NEW GLOBAL REALITY

The US FATCA, it is now clear, was just the beginning in creating a global standard to tackle tax evasion.

"There is nowhere to hide, as successive meetings by G20 and G8 countries clearly show," says Eric Boes, global head of FATCA solutions at Amicorp Group. "Tax transparency is firmly on the agenda."

It is also a borderless trend which aims to create a level playing field. That could be seen, he explains, via the signing in late October 2014 by the OECD's global forum on transparency and EOI in Berlin – where more than 80 countries agreed to end banking secrecy and exchange information in the battle against fraud.

Broadly, there are two groups of countries – the "early adopters", involving 51 countries which have agreed to exchange information from September 2017; and another 30 countries, including Singapore and Hong Kong, which will sign up a year later.

Peter Golovsky
Amicorp Group

In addition, to ease the burden of FATCA compliance in Singapore, the government signed a Model 1 Intergovernmental agreement (IGA) with the US in early December.

"All these changes are profound, and are all pervasive in their impact," adds Golovsky. "They will affect everyone

Eric Boes
Amicorp Group

operating within the areas of wealth planning and structuring."

RESPONDING TO CHANGE

What this means for bankers and wealth planners, in relation to what they need to be thinking about in terms wealth structuring for their clients, boils down to compliance at three levels.

First, says Golovsky, client entities – in any structure – must comply with tax regulations and legislation in the country where the entity is established.

Secondly, each entity must comply with FATCA (and GATCA) in accordance with the relevant IGAs.

And thirdly, he adds, the ultimate beneficial owner (UBO) must comply with tax reporting requirements and other regulations in the country where the UBO is tax resident.

According to Connie Leung, head of private clients at Amicorp Group in North Asia, putting in place the right framework to help practitioners meet these needs and professionalising the advice isn't solely the responsibility of service providers.

There is also a need for more government promotion and policies to encourage this, she says.

CREATING A COMPLIANCE ADVANTAGE

While automatic EOI through different reporting frameworks makes life harder and more complicated for financial institutions, advisers and clients, it doesn't necessarily have to only create a negative impact.

For example, says Boes, transparency creates an excellent opportunity for advisers to improve their knowledge about a client.

In line with this, he suggests that wealth managers pivot their discussions with clients around the impact of these new regulations – to learn more about their citizenships, tax residences and the structures set up in the past.

In particular, Boes says it is especially important for wealth advisers to discover whether tax mitigation, asset protection or estate planning is the ultimate objective for their clients.

In terms of solutions for clients which look to mitigate the impact of taxes on the return on their investments, Leung recommends wealth management practitioners increasingly turn to trusts and foundations to help clients achieve their objectives.

At the same time, she warns that clients must realise most of these structures are also going to need to be disclosed.

Connie Leung
Amicorp Group

FINDING STRATEGIC SOLUTIONS

In response to the emerging related challenges that banks and other advisory firms now face with onboarding and managing clients, they are also considering alternatives.

For example, explains Golovsky, banks are critically examining what they view as core and also non-core to their wealth management businesses.

"That includes where the fiduciary business sits in terms of risk profile," he says.

Outsourcing to professional services firms like Amicorp is one option, to create a different delivery model for this part of the business.

"Strategic segmentation is going to be a growing trend," adds Leung. ■