



Automatic Exchange of Information (AEI)

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The international movement to end banking secrecy has gained new momentum with the enactment in the United States of its 2010 Foreign Account Tax Compliance Act or FATCA. The law obliges foreign banks to report to the US Internal Revenue Service (IRS) on the offshore holdings of US clients in excess of 50,000 euros. The move prompted five European countries -- Britain, France, Germany, Italy and Spain -- to call for a generalised automatic exchange of information in 2011.

As a result of the above and in the context of improving international tax compliance by further building on their relationship with respect to mutual assistance in tax matters, the Global Forum of the Organization for Economic Co-Operation and Development (“**OECD**”) developed the common reporting standard (“**CRS**”) for the automatic exchange of financial account information.

The CRS was developed by the OECD in order to tackle tax avoidance and evasion and improve tax compliance. Following this development the Republic of Cyprus signed on 29 October 2014, following a Council of Ministers decision dated October 22, 2014, the Multilateral Competent Authority



Agreement (“**the Agreement**”) for the automatic exchange of financial information of financial accounts. The jurisdictions or the signatories to the Agreement are parties or territories covered by the Convention on Mutual Administrative Assistance in Tax Matters (as amended) (“**the Convention**”).

A country that has signed or expressed its intention to sign the Convention will only become a Jurisdiction as defined in Section 1 of the Agreement once it has become a party to the Convention. The laws of the respective Jurisdictions require or are expected to require financial institutions to report information regarding certain accounts and follow related due diligence procedures, consistent with the scope of exchange contemplated by Section 2 of the Agreement and the reporting and due diligence procedures set out in the CRS.

A total 51 countries signed up to the Multilateral Competent Authority Agreement under which their national tax authorities will exchange information automatically from September 2017. And more than 30 other countries said they would sign up a year later in 2018. The aim is for every country to be kept fully informed about the offshore holdings of its citizens.

Cyprus is among the first countries to be implementing the Agreement while others are committed to doing so in 2018. In implementing the Agreement, the Minister of Finance issued a decree on 31st December 2015 (pursuant to the provisions of section 6 of the Income Tax Law 1978-2015) which became in force on 1st January 2016 (“**the Decree**”).



The above is applicable on banking institutions, insurance companies, collective investment funds and trusts. All of the aforementioned should ascertain that they have adequate information on their clients, as per the CRS whereas important information to be acquired is the tax residency of the client and the TIN (Tax Identification Number).

As far as the Republic of Cyprus is concerned, the first reporting period shall be the year 2016 and the information shall be exchanged in 2017. As mentioned in the standard of the OECD and the Decree, the financial institution has the option to exempt from the due diligence procedures and consequently the exchange of information, pre-existing corporate bank accounts with a total balance or account value of USD 250.000 or less as at 31st December 2015. For corporate bank accounts with a balance in excess of USD 250.000 as at or after the 31st December 2015, the financial institution should conduct due diligence for the classification of the beneficial owner of the said account, that is on whether the beneficial owner of the account is a reportable person or not within the scope of the Agreement and the Decree.

As far as pre-existing accounts maintained by natural persons are concerned with a balance or account value in excess of USD 1 million as at 31st December 2015, the due diligence procedures should be completed by the 31st December 2016 whereas for pre-existing accounts held by natural persons with a balance or value not in excess of USD 1 million as at 31st December 2015 should be completed by the 31st December 2017. Any new accounts as at 1st January 2016 shall be subject, as at the date of opening of same, to the due diligence procedures and to the classification of the ultimate beneficial owners on the basis of the OECD standard.

The financial institutions will be sending electronically to the Taxation Department all necessary information concerning clients who are tax residents of foreign countries which implement the OECD standard and who entered into an agreement with the Republic of Cyprus. As far as clients who are tax residents in any EU member state are concerned, the exchange of information shall be effected through the European Directive on Administrative Co-Operation in Tax Matters. The information received by the Taxation Department shall be transmitted to the competent tax authorities.

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