

Understanding the Common Reporting Standard (CRS) for the global automatic exchange of financial account information

The CRS was developed by the Organization for Economic Co-operation and Development (OECD)¹, with the support of Canada and the other G20 industrialized countries, to combat global tax evasion and improve tax compliance. It will be implemented in Canada effective July 1, 2017.

The following information has been prepared to help customers of Canadian financial institutions understand the CRS, and how it might affect them. This document should not be construed as tax, legal or financial advice. The information below is current as of May 9, 2016. Further information is available from tax advisors and on the OECD website at: <http://www.oecd.org/tax/transparency/automaticexchangeofinformation.htm>.

1. WHAT IS THE CRS?

The CRS is a global model for the automatic exchange of information on financial accounts (such as bank, mutual fund and brokerage accounts, and some annuities and life insurance policies), that is similar to U.S. FATCA (see Question 3).

So far, more than 95 countries have agreed to implement the CRS (referred to as “CRS participating countries” in this document). Several countries have already passed legislation implementing the CRS effective January 1, 2016. Canada has issued draft legislation effective July 1, 2017, that will require financial institutions to begin reporting information annually to the Canada Revenue Agency (CRA) beginning in May 2018. Once the legislation is passed, the CRA will exchange information with those countries with which Canada has an agreement (before signing any agreements, Canada will ensure countries have safeguards to protect privacy and ensure the information is used only for tax purposes).

Generally, the CRS requires financial institutions in each CRS participating country to request the tax residency status of their customers and provide information to their local tax authority about any accounts held by tax residents of other countries. The CRS describes the information that will be exchanged, the different types of accounts and account holders covered, the financial institutions that will be required to report, and procedures that financial institutions must follow to identify reportable accounts (see Question 2).

2. DOES THE CRS APPLY TO ALL TYPES OF FINANCIAL ACCOUNTS?

The CRS applies to most financial accounts held by individuals and entities, including bank accounts, mutual funds, brokerage accounts, custodial accounts, annuity contracts (including segregated fund contracts), and life insurance policies with cash value (collectively referred to in this document as “accounts”). Accounts that are deemed to be low risk for tax evasion, such as most CRA registered plans (including RRSPs, RRIAs, RESPs, RPPs, PRPPs, and RDSPs), are excluded from the CRS (based on draft Canadian legislation). Accounts subject to reporting are referred to in the remainder of this document as “reportable” accounts.

¹The Organization for Economic Co-operation and Development (OECD) has 34 member countries, including Canada. Its mission is to promote policies that will improve the economic and social well-being of people around the world. For more information, see www.oecd.org.

3. HOW DOES THE CRS COMPARE TO U.S. FATCA?

The CRS was developed based on FATCA (the U.S. Foreign Account Tax Compliance Act), a U.S. tax law intended to improve tax compliance. In 2014, the Canadian government entered into an agreement with the U.S. to implement FATCA. As of July 1, 2014, Canadian financial institutions are required to identify account holders who are U.S. persons for U.S. tax purposes (both U.S. residents and U.S. citizens) and to report certain information about those accounts to the CRA which then exchanges this information with the U.S. Internal Revenue Service (IRS). Further information about FATCA is available on the CRA's website at: <http://www.cra-arc.gc.ca/tx/nnrstdnts/nhncdrprtng/fq-eng.html>.

The CRS expands upon FATCA by requiring Canadian financial institutions to identify and report to the CRA information about accounts held by persons who are resident for tax purposes in any country other than Canada or the U.S. The CRA will then exchange this information with tax authorities of the countries with which Canada has entered into an agreement. Reportable accounts held by U.S. persons will continue to be reported to the CRA under FATCA, not the CRS. One important difference between the CRS and FATCA is that FATCA provides exemptions for certain small accounts (below a U.S. \$50,000 threshold) held by individuals while the CRS does not.

4. HOW WILL CUSTOMERS OPENING ACCOUNTS AT CANADIAN FINANCIAL INSTITUTIONS BE AFFECTED BY THE CRS?

After June 30, 2017, customers opening accounts with a Canadian financial institution generally will be required to provide their tax residency status and tax identification number (TIN) for all countries in which they are resident for tax purposes. In addition, applications for accounts held by certain entities may require disclosure of the entity's individual controlling persons who are tax residents of countries other than Canada.

5. HOW WILL EXISTING CUSTOMERS WITH ACCOUNTS AT CANADIAN FINANCIAL INSTITUTIONS BE AFFECTED BY THE CRS?

Customers who hold accounts with Canadian financial institutions as at June 30, 2017 may be required to confirm their tax residency status and provide TINs for all countries in which they are a resident for tax purposes. It is expected that most Canadians with existing accounts at Canadian financial institutions will be minimally affected by the CRS, since many will be solely resident in Canada for tax purposes. Customers who are tax residents of other countries will have information on their reportable accounts reported to the CRA.

6. WHAT IF CUSTOMERS DO NOT PROVIDE REQUIRED INFORMATION ABOUT THEIR TAX RESIDENCY?

Canadian financial institutions and their customers will be required by law to comply with the CRS. It is important for customers to respond to requests from financial institutions to provide required information about their tax residency and TINs, even if they are not tax resident outside of Canada. If a customer does not respond, the customer's financial institution will generally be required to report the account to the CRA.

7. WHAT IF CUSTOMERS ARE UNSURE ABOUT THEIR TAX RESIDENCY?

Financial institutions cannot provide advice about tax residency rules to customers. It is possible to be a tax resident in more than one country. Customers who are unsure about their tax residency should consult a tax advisor. The OECD has information about tax residency rules for CRS participating countries: <http://www.oecd.org/tax/automatic-exchange/crs-implementation-and-assistance/tax-residency>.

8. WHAT IS A TAX IDENTIFICATION NUMBER (TIN)?

This is a number assigned by a country's tax authority for identification purposes. For example, in Canada, a Social Insurance Number (SIN) is a Canadian individual resident's TIN and, for entities, such as corporations and partnerships, the TIN will be the entity's Business Number (BN) issued by CRA. The OECD has information about TINs for CRS participating countries at: <http://www.oecd.org/tax/automatic-exchange/crs-implementation-and-assistance/tax-identification-numbers>.

9. IF A CANADIAN RESIDENT HAS AN ACCOUNT WITH A FINANCIAL INSTITUTION OUTSIDE CANADA, WILL INFORMATION BE REPORTED TO CRA?

If a Canadian resident has a reportable financial account in another country that has agreed to exchange information with Canada, the financial institution in that country will be required to report information to their local tax authority, which will then exchange that information with the CRA.

10. WHAT INFORMATION WILL BE SHARED UNDER THE CRS?

If an account is reportable, the CRS requires financial institutions to provide the following information to the local tax authority (e.g. CRA):

- Account holder's:
 - o Name
 - o Address
 - o Date of birth (for individuals)
 - o Tax identification number (TIN) (if country issues TINs)
 - o Country (countries) of tax residence
- Account number
- Account balance or value (or the closure of the account)
- Amount of interest, dividends, gross proceeds and other payments made or credited to the account (if applicable).

Other countries participating in the CRS may require additional information to be reported to their local tax authorities (such as the account holder's place of birth).