



IFIC

THE INVESTMENT
FUNDS INSTITUTE
OF CANADA

L'INSTITUT DES FONDS
D'INVESTISSEMENT
DU CANADA

IFIC'S OPERATION'S ADVOCACY UPDATES

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IFIC ADVOCACY SUCCESSES

- The Advantage Rules – Delayed implementation until January 1, 2019
- Removal of ‘Nil’ Reporting Requirement for CRS and FATCA reporting
- Reporting account holders US taxable status is sufficient - financial institutions (FIs) not required to also report whether the reportable account holder lives outside Canada for FATCA purposes
- Removal of requirement for mutual fund trusts to provide a list of their beneficiaries when filing their annual trust returns

IFIC ADVOCACY SUCCESSES

- Revenue Quebec will not be rejecting QESI files with valid registrations
- Revenue Quebec likely to accept updated registrations of TFSA rejects from prior years
- FIs allowed to use Customized Trading Summaries instead of RL18's for 2017 Tax Year
- 2017 exemption from RL16 country by country requirement

CRA NAME/SIN MISMATCH REPORT

- Purpose of the Report
- CRA October Updates
- Requesting additions of full SIN and client account number at the financial institution

REASON FIELDS ON CRA SLIP & XML FILINGS

- Financial institutions are penalized for errors beyond their control
- Most commonly with Estate and Residency issues
- A 'reason code' would allow FI to explain why the original slip needs to be canceled and replaced
- Advantages – reduce number of calls CRA agents need to make and speeds up processing of corrections
- Penalty administration can be reduced or processed more efficiently

REASON FIELDS ON CRA SLIP & XML FILINGS (CONT.)

- Challenge is whether this information can prevent the initial assessment of the FI?
- Asking for special processing for Estates – similar to TFSA's

ADDING REFERENCE NUMBER AND TAX YEAR ON PROGRAM ACCOUNT TRANSACTIONS

Adding this information to the transaction description on account statements and on-line transactions would:

- Reduce the number of calls to the CRA tax processing unit or general inquiry line
- Speed up payment processing of penalties and assessments
- Support client inquiries that corrections have been posted
- Help FIs reconcile the account and ensure all files submitted have been posted

POTENTIAL AGENDA TOPICS FOR NEXT MEETING WITH CRA

- 104.(13.3) – Invalid Designations by Mutual Fund Trusts
- Issuance of Tax Account Numbers in a timely fashion
- Reducing the copies of T-slips sent to investors
- Industry contact point for Estate filing questions

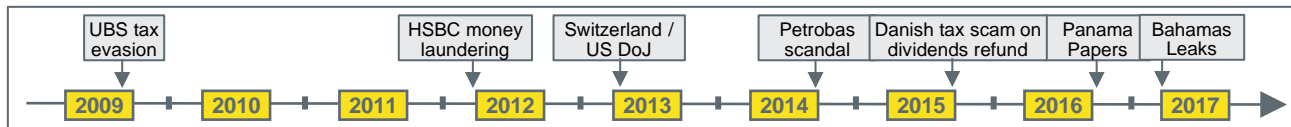


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INFORMATION REPORTING CRS UPDATE

GLOBAL TAX TRANSPARENCY



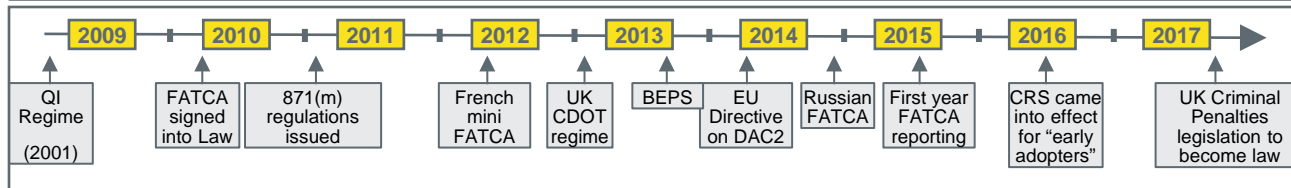
The tax world has changed significantly...

- Public scrutiny of personal and corporate tax affairs has radically increased
- Regulators are demanding global tax transparency (CRS* & FATCA**) to combat tax evasion
- Tax transparency is now a strategic, business wide issue for our clients

* Common Reporting Standard
** Foreign Account Tax Compliance Act



Government Reaction



CURRENT GLOBAL REPORTING LANDSCAPE

FATCA (113) VS. CRS (102)

US FATCA IGA Countries

Anguilla	Czech Rep.	Iceland	Mexico	South Africa
Barbados	Denmark	India	Montserrat	South Korea
Belgium	Estonia	Ireland	Netherlands	Spain
Bermuda	Finland	Isle of Man	Norway	Sweden
Bulgaria	France	Italy	Poland	Turks & Caicos
BVI	Germany	Jersey	Portugal	UK
Cayman Is.	Gibraltar	Latvia	Romania	
Colombia	Greece	Liechtenstein	San Marino	
Croatia	Greenland	Lithuania	Seychelles	
Curaçao	Guernsey	Luxembourg	Slovak Rep.	
Cyprus	Hungary	Malta	Slovenia	

Argentina
Faroe Islands
Niue

CRS Early adopters

(Jurisdictions undertaking first exchanges by 2017)

Antigua	Brazil	Hong Kong	Mauritius	Switzerland
Australia	Canada	Indonesia	New Zealand	Trinidad & Tob.
Austria	Chile	Israel	Saudi Arabia	Turkey
Azerbaijan	China	Japan	Singapore	UAE
Bahamas	Costa Rica	Kuwait	St. Kitts	
Bahrain	Dominica	Macao	St. Lucia	Macao
Panama	Grenada	Malaysia	St. Vincent	

Albania Brunei Marshall Isl. Pakistan Uruguay
Andorra Cook Isl. Monaco Russia Vanuatu
Aruba Ghana Nauru Samoa
Belize Lebanon Nigeria (2019) St.
Maarten

CRS Second wave adopters

(Jurisdictions undertaking first exchanges by 2018 or 2019)

Algeria	Georgia	Jamaica	Paraguay	Thailand
Angola	Guyana	Kazakhstan	Peru	Tunisia
Armenia	Haiti	Kosovo	Philippines	Turkmenistan
Belarus	Holy See	Moldova	Qatar	Ukraine
Cabo Verde	Honduras	Montenegro	Samoa	Uzbekistan
Dom. Repub.	Iraq	Nicaragua	Serbia	Vietnam
			Taiwan	

Jurisdictions that have not indicated a timeline or that have not yet committed to CRS

WHAT IS A TAX FUNCTION OPERATING MODEL?

- There has been substantial change to global customer tax laws and regulations in recent years
- These changes impact what financial firms' tax functions must address
- A big challenge has been how they address it: their “tax function operating model”
- The tax function operating model is how a financial firm's organization, people, process, data, and technology operate and interact to comply and to deliver value to its business lines, leadership, and shareholders.

HOW FATCA AND CRS COMPARE

FATCA – ITA Part XVIII

CRS – ITA Part XIX

Reportable Accounts	U.S. residents and citizens U.S. Specified Person, U.S. controlling persons of Passive NFFE	Any residents (both individuals and entities) other than Canada and the U.S. , including controlling persons of Passive NFE
New individual accounts	Self certification OR documentary evidence procedures described in U.S. regulations, followed by indicia testing \$50K USD exception on depository accounts Self Certification mandated effective July 1, 2017	Self Certification required, checked for reasonability by FI
New Entity accounts	Entity classification determines whether account is reportable. Look through Passive NFFE's for U.S. controlling persons	Entity classification determines whether account is reportable. Look through Passive NFE's for reportable controlling persons
Pre-existing individual accounts	Based on aggregate values, review for U.S. indicia, \$50K USD low value exemption. Enhanced due diligence required for >\$1MM USD annually	Based on aggregate values, no \$50K USD low value exemption . Enhanced due diligence required for >\$1MM USD annually. May apply residence address test or electronic search for lower value accounts
Pre-existing entity accounts	Based on aggregate values, \$250K USD low value exemption, needs to be documented when year end balance exceeds \$1MM USD	Based on aggregate values, \$250K low value exemption, however needs to be documented once year end balance exceeds \$250K USD
Withholding	30% on non-participating FFIs	Not applicable – CRS is not a withholding regime
Reporting	Report to CRA for exchange with IRS	Report ALL reportable accounts to CRA. CRA exchanges with countries per exchange agreements.

CANADIAN FI'S IMPACTED BY FATCA AND CRS

Financial Institution is...

- Depository Institution
- Custodial Institution
- Investment entity => Funds

Canadian Financial Institution is...

- Resident in Canada
- “Listed” Financial Institution

Reporting FI is not a non-reporting FI...

- Government entity, Bank of Canada, etc....

No concept of Deemed-Compliant FFI under CRS e.g. restricted funds => AMs that did not have reporting obligations under FATCA will under CRS

FATCA AND CRS PRODUCTS “IN SCOPE” FINANCIAL ACCOUNTS

- Depository accounts
 - Includes credit cards and other revolving credit facilities (unless an excluded account); reloadable payment cards, GIC
- Custodial Accounts
- Equity and debt instruments in investment entities
- Cash value insurance contracts and annuity contracts
- Client name accounts

Excluded accounts:

- RRSP, RRIF, PRPP, RPP, RDSP, RESP, DPSP, NISA, eligible funeral arrangements, TFSA
- CRS: Dormant accounts that do not exceed \$1K USD

Generally align between FATCA and CRS

IMPACT OF CRS ON FUNDS & DEALERS

- It is anticipated that the following entities will be considered FIs for the purposes of the CRS:
 - Investment Funds
 - Hedge Funds
 - Private Equity Funds
 - Similar Collective Vehicles
- Where an entity is considered an FI of the purposes of the CRS, it will be required to carry out the required documentation, due diligence and reporting procedures
- Do not assume that an entity is exempt from the requirements of the CRS just because it was exempt from FATCA/Part XVIII of the Income Tax Act (most notably, FI with local client base not exempt under CRS)
- Further, there is no exclusion for publicly traded interests in investment funds or pre-existing accounts with a balance of less than \$50,000 and therefore unit holdings previously considered out of scope for FATCA may be in scope for CRS

CRS MILESTONES

Important dates	1 July 2017	New account opening and documentation procedures must be in place
		Annual reporting deadline
	1 May 2018	First reporting due to the CRA to include information with respect to reportable accounts opened on or after 1 July 2017 and pre-existing accounts identified as reportable accounts as a result of due diligence
	31 December 2018	Complete due diligence with respect to pre-existing individual accounts with aggregated balances in excess of \$1 million USD as of 30 June 2017 (high value accounts)
	1 May 2019	Annual reporting deadline
	31 December 2019	Complete due diligence with respect to pre-existing lower value individual accounts and pre-existing entity accounts with balances in excess of \$250,000 as of 30 June 2017

WHAT DO FINANCIAL INSTITUTIONS NEED IN THEIR TAX OPERATIONS?

Required operations:

Document and classify their customers

Withhold and report on their customers accurately and on time

Ensure **control and oversight** and certify compliance

Remediate when necessary

Resolve inquiries and controversy when necessary

...globally, for all required tax jurisdictions and rule-sets.

How to support your team:

Provide tax guidance for all relevant jurisdictions and rule-sets so operations understands what must be done

Execute what must be done in a consistent and cost-sustainable way without upsetting customers

Govern and control what is being done to ensure transparency, oversight and auditability

Manage data in an efficient and structured way so outputs are accurate

Adapt to change to adjust what is being done and ensure sustainable compliance

ACCOUNT OPENING: SELF CERTIFICATION

- No prescribed format for self-certificate under CRS – may use CRA form, or develop an in-house form tailored to your customers
- Allows for account opening in person, on-line and via telephone; can be stand alone or embedded into account opening application
- Self-certifications (individuals) must include:
 - Name
 - Residence address
 - Jurisdiction(s) of residence for tax purposes
 - TIN
 - Date of Birth
- Self certifications must be positively acknowledged by the client, via a signature or other means
- CRA has developed self-certification forms, both for individuals and entities, for FI's that have obligations under FATCA and CRS, or only CRS

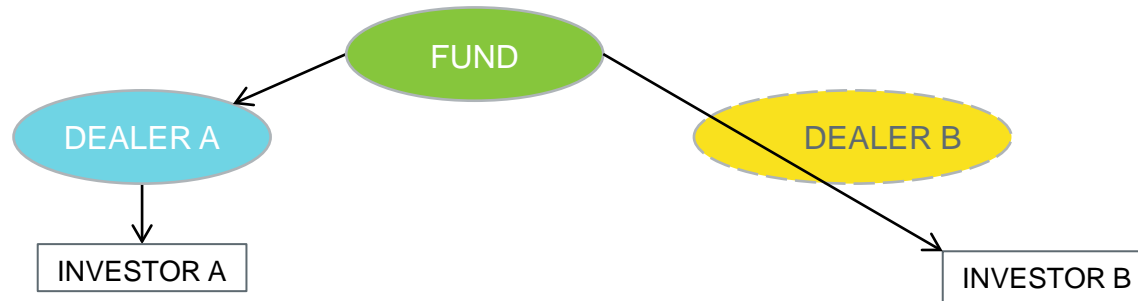
ALLOCATION OF REPORTING RESPONSIBILITIES

Nominee Name:

- Units held in nominee name (e.g. Investor “A”)
- Fund confirms status of Dealer (GIIN)
- Dealer performs Due Diligence
- Dealer reports to CRA (Part XIX filing)

Client Name:

- Units held directly in client name (e.g. Investor “B”)
- Dealer performs Due Diligence
- Dealer provides CRS account holder status to Fund
- Fund reports to CRA (Part XIX filing)



CRS REPORTING

- Reporting FI must provide its name, address and business number (BN)
 - Funds with “sub-fund” classes of shares can report using the corporation’s BN
- For each reportable account, the FI must provide account number and value/balance; additional information will depend on type of account

CRS REPORTING

- With regard to reportable persons, the FI must provide:
 - Name
 - Residence address
 - Jurisdiction of tax residence
 - Foreign TIN
 - Canadian TIN
 - Date of birth
- Controlling persons: note different requirements under CRS (Part XIX) and FATCA (Part XVIII), depending on the entity account type

NON-COMPLIANCE

- Non-compliance includes:
 - Failure to file information returns
 - On-going/repeated failure to supply accurate information or establish appropriate governance or due diligence
 - Intentional provision of substantially incorrect information
 - Deliberate or negligent omission of required information
 - Active assistance to reportable persons in avoiding the reporting obligations under Part XIX

CUSTOMER TAX OPERATIONS NEED TRANSFORMATION

SURVIVAL DEPENDS ON PIVOTING FROM “BARE-BONES COMPLIANCE” TO “VALUE CREATION”



1. Regulatory pressure toward international customer tax transparency continues relentlessly
2. Crippling **financial penalty** and **criminal negligence** loom as consequences for sticking with “the status quo”
3. Global compliance entails documenting and classifying customers, and withholding (if applicable) and/or reporting accurately and on time, for all tax jurisdictions, regulations and lines of business
4. Achieving this scope and scale of enterprise-wide compliance globally, while **preventing spiraling costs and unhappy customers**, in a way that is **sustainable, controlled and adaptable** to change – this is a significant challenge

CUSTOMER TAX OPERATIONS NEED TRANSFORMATION

SURVIVAL DEPENDS ON PIVOTING FROM “BARE-BONES COMPLIANCE” TO “VALUE CREATION”



5. To achieve this, financial institutions around the world must:
 - Pivot **from bare-minimum compliance** with regulatory change **to value creation** through **cost containment** and **risk reduction**
 - Consider **alternative models** for their end-to-end customer tax operations **capability**
6. Tax operations are not core to business objectives, and are increasingly pressured to “do more with less”
7. Tax operations’ **traditional ways** of providing capability to address growing needs **are inadequate** – adding more headcount, enhancing desktop tools, deploying specific software, more rigorous training of staff will not suffice
8. Tax operations departments need to transform and consider **new alternatives** to provide their capability

CUSTOMER TAX OPERATIONS NEED TRANSFORMATION

SURVIVAL DEPENDS ON PIVOTING FROM “BARE-BONES COMPLIANCE” TO “VALUE CREATION”

- Things to Consider:
 - Integrated capability across customer tax operations functions
 - Reliable and compliant outcomes from customer documentation through reporting
 - Embedded controls and transparency to reduce risk
 - Sustainable and scalable operating model
 - Reduces current cost base, avoid future cost bloat
 - Shed ownership of non-core processes and technology
 - Integrated with global network of tax professionals
 - Consistency of process and technology solutions
 - Technology enablement and automation

THANK YOU!

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