

Saudi Arabia is now a signatory to the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information

EY Global Tax Alert Library

Access both online and pdf versions of all EY Global Tax Alerts.

Copy into your web browser:

www.ey.com/taxalerts

Executive summary

On 2 November 2016, the Organisation for Economic Co-operation and Development (OECD) announced that the Kingdom of Saudi Arabia (KSA) joined the Common Reporting Standard (CRS) Multilateral Competent Authority Agreement (MCAA), committed to the first exchange of financial account information by September 2018 (2018 adopter).

KSA joins 86 other jurisdictions as signatories of the MCAA and over 100 countries committed to adoption of the CRS either as a 2017 or early adopter or 2018 adopter.

Similar to the US Foreign Account Tax Compliance Act (FATCA), the CRS requires certain financial institutions such as banks, brokers, funds, certain insurance companies and custodial institutions to amend their due diligence and tax reporting procedures.

Detailed discussion

The CRS¹

On 21 July 2014, the OECD published the Standard for Automatic Exchange of Information in Tax Matters (the Standard) which involves the systematic and annual transmission of "bulk" taxpayer financial account information by the source jurisdiction to the residence jurisdiction of the taxpayer.

The Standard consists of bilateral and reciprocal, non-reciprocal and multilateral Model Competent Authority Agreements (CAAs), the CRS and accompanying commentaries. The CAAs are intended as a template for intergovernmental agreements and link the CRS and the legal basis for the exchange allowing the financial account information to be exchanged. The CRS contains the type of financial institutions in scope, the financial account information to be exchanged and the due diligence and reporting procedures to be undertaken by financial institutions.

Financial institutions classified as either Depository Institutions, Custodial Institutions, Investment Entities and Specified Insurance Companies are considered Reporting Financial Institutions under the CRS and are required to amend onboarding procedures for account holders, perform additional due diligence procedures on existing accounts, monitor for a change in account holder circumstances and complete annual reporting to local competent authorities.

The legal basis for exchange

Certain legal instruments permit automatic exchange under the Standard. These include:

- ▶ Double Tax Agreements with the standard OECD Model Article 26
- ▶ The Multilateral Convention on Mutual Administrative Assistance in Tax Matters (the Convention), specifically Article 6²
- ▶ Tax Information Exchange Agreements

The Model CAAs also provide the administrative basis for the automatic exchanges. These specify the type of information to be exchanged and the timing and format of submission of such information.

Relevance for KSA

It is expected that Reporting KSA Financial Institutions (or KSA branches of other Partner Jurisdiction Financial Institutions) collect and retain the tax residence information of their account holders (both entities and individuals), personal details (including Tax Identification Numbers), and financial details including account balances and any amounts paid or credited to the account held.

As 2018 adopters, Reporting KSA Financial Institutions will also be expected to have new customer onboarding procedures in place from 1 January 2017 unless notified otherwise.

The first information exchange for Reporting KSA Financial Institutions should take place in 2018 for 2017 reportable accounts. The KSA General Authority for Zakat and Tax (GAZT) will need to collect this information and then exchange it before the end of September 2018. Although the reporting date for Reporting KSA Financial Institutions is yet to be determined, other CRS participating jurisdictions generally have reporting deadlines within six months of this date.

The GAZT will be able to receive information on account balances belonging to KSA tax residents that are held by financial institutions in jurisdictions with which KSA has agreed to exchange information, and moreover, account information about domestic and foreign entities that are controlled by KSA tax resident individuals and companies. Similarly, KSA will exchange data with these jurisdictions on the account information with local financial institutions belonging to non-KSA tax residents and KSA entities owned by non-KSA Controlling Persons. In practice therefore, all persons (being a physical person, legal entity or non-corporate structure) all over the world will be impacted by CRS and should be classified accordingly.

The CRS relies heavily on local Anti-Money Laundering (AML) and Know Your Customer (KYC) requirements for financial institutions and self-certification by account holders. Among other things, account holders must inform their financial institutions about their current tax residence status. The respective requirements under the local country law may differ from one jurisdiction to another and it is not uncommon that some individuals may be considered as tax resident in more than one country, or alternatively, as not a tax resident of any country. Therefore, validation procedures by Reporting KSA Financial Institutions may not be straightforward.

Impact of CRS MCAA

Owing to the ratification of the Convention and signing of the CRS MCAA by the KSA, certain information which was not previously accessible to the tax authorities will be automatically exchanged among them.

The CRS brings into scope a wide range of financial institutions, including businesses across the banking, wealth and asset management and insurance sectors. Although the CRS is based in large part on the Model 1 FATCA intergovernmental agreement, there are substantial differences between the two regimes, which could result in significant changes to existing IT systems, processes and procedures.

Individuals and entities holding accounts may need to determine and complete tax documentation to certify their status upon account opening or request of a financial institution.

Implications

Financial institutions in KSA should immediately begin to assess the likely impact of the CRS and what actions are required to become compliant.

Although it will be possible to leverage existing FATCA processes and systems, the scope, coverage and reporting volumes under CRS will be much greater:

- ▶ Significant scope for variation as CRS is implemented under local law
- ▶ Risks related to customer experience such as incorrect or duplicate reporting, customer responses and enquiries from foreign tax authorities
- ▶ Systems readiness and reportable data accessibility
- ▶ Resourcing challenges due to short implementation timeframes

The timeline for compliance is very tight with potentially, subject to further announcements, one month to comply.

Individuals and entities should also be prepared to certify their tax residence status to Reporting KSA Financial Institutions under CRS requirements when requested.

Endnotes

1. <http://www.oecd.org/tax/automatic-exchange/common-reporting-standard/>.
2. Please see EY Global Tax Alert, *Saudi Arabia to apply Convention on Mutual Administrative Assistance in Tax Matters as of 1 January 2017*, dated 13 October 2016.

For additional information with respect to this Alert, please contact the following:

Ernst & Young Middle East, Dubai

▶ Hannah Shipley +971 4701 0319 hannah.shipley@ae.ey.com

Ernst & Young & Co (Public Accountants), Riyadh

▶ Asim Sheikh +966 11 215 9876 asim.sheikh@sa.ey.com
▶ Ahmed Abdullah +966 11 215 9439 ahmed.abdullah@sa.ey.com
▶ Franz-Josef Epping +966 11 215 9478 franz-josef.epping@sa.ey.com
▶ Hosam Abdulkareem +966 11 215 9805 hosam.abdulkareem@sa.ey.com
▶ Imran Iqbal +966 11 215 9807 imran.iqbal@sa.ey.com
▶ Nitesh Jain +966 11 215 9842 nitesh.jain@sa.ey.com
▶ Parvez Maqbool +966 11 215 9849 parvez.maqbool@sa.ey.com
▶ Vladimir A Gidirim +966 11 215 9455 vladimir.gidirim@sa.ey.com
▶ Yousef Eldaw +966 11 215 9877 yousef.eldaw@sa.ey.com

Ernst & Young & Co (Public Accountants), Al-Khobar

▶ Syed Farhan Zubair +966 13 849 9522 farhan.zubair@sa.ey.com
▶ Ali Sainudheen +966 13 849 9550 ali.sainudheen@sa.ey.com
▶ Hatem Ghobara +966 13 849 9524 hatem.ghobara@sa.ey.com
▶ Javed Aziz Khan +966 13 849 9521 javed.aziz@sa.ey.com
▶ Jude deSequeira +966 13 849 9520 jude.desequeira@sa.ey.com

Ernst & Young & Co (Public Accountants), Jeddah

▶ Craig McAree +966 12 221 8501 craig.mcaree@sa.ey.com
▶ Ayman Abu El Izz +966 12 221 8400 ayman.abuelzz@sa.ey.com
▶ Irfan Alladin +966 12 221 8510 irfan.alladin@sa.ey.com
▶ Mohammed Desin +966 50 006 7280 mohammed.desin@sa.ey.com

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2016 EYGM Limited.
All Rights Reserved.

EYG no. 04042-161Gbl

1508-1600216 NY
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com