ASSESSING THE RISK. JOINING THE CIRCLE OF INFORMATION EXCHANGE.

ProACT Sam Orgill examines the impact of Automatic Exchange of Information on the Money of Expats Living and Working Abroad.

Are you aware of the changes to international tax rules? Do you understand the impact this will have on your tax affairs when Living and Working Abroad or investing in overseas Property, Investments and Business?

Do you rely on discretion tax planning assuming “what the taxman doesn’t know is ok ?”

Do you think that if you own or rent property abroad that the income and / or capital gain is not taxable at home?

Maybe you assume that the bank, estate agent, or lawyer will tell you what tax is due?

Whatever your approach you should have updated your tax affairs since the start of 2016 - and probably have already started helping the tax man - giving him the information to find out if you owe him money. If your tax affairs are not up to date, and the tax man finds out, he will assess retrospectively and then charge you back tax and penalties, including potential fines and interest at up to 10%.

What has changed?

At the root of the changes being introduced around the world between 2016 and 2018 is technology. The internet allows the sharing of data, the compiling of records, the disruption of industries and changes to the way of life. These changes are as radically as the move from horse and cart to motor vehicles 100 years ago.

When the 1925 Trust and estates law was introduced in England it listed personal procession in order of importance at the time, being a saddle and bridle for the horse each person would own as his personal transport. Within 25 years the car had replaced that way of life. Horses were put out to pasture. People were no longer limited to living within walking distance of work, shops and leisure.

Travel took less time. Towns grew, cities expanded. Tarmac roads appeared in our towns and cities and linking the country in a dramatic change of the environment and way of life, not seen since the romans started building stone roads across Europe 2000 years ago.

Britain already had a national transport system in the 17th Century, with horse drawn stage coaches the mode of transport. These travelled from Stage Post to stage post, on a time table and fare structure. A network of Public Houses built up on the coach routes as a place to feed and water human and horse along the way.

This network still exists for buses and cars, modernised into local roads and expressways to rapidly move people, goods and information over greater distances.

Blacksmiths became redundant and motor repair and service businesses replaced them. Personal transport required a garage not a field. Hotels and

‘Fare Stage’ bus stops needed parking for cars, not stables and replacement horses.

The internet has caused an increase the speed with which information is exchanged. The rate at which information is rapidly increasing over further distances, across borders.

Internet Revolution

The internet is making a similar revolutionary change to life as we know it. High street shops are disappearing as we move online. Industrial estates are filled filled with warehouses shipping online purchases direct to peoples doors. Service businesses offer online applications, call centre reviews, from around the globe. Businesses don’t need people to be sat in the same building to work together.

Donald Trump wrestles with wanting jobs in America, when Google and the like can just as easily pool world talent working in California, India, China and Europe, connected by the internet and the associated technology.

Massive data servers run by social media giants and global businesses collate data on people and allow them to make global moves with a very small workforce.

Everything goes in circles - including information and data. We move swiftly to a cashless society using cards and smartphones to pay our way. Every electronic transaction is a record it goes securely to your bankers, who are bound by data protection law to protect your information. They are also bound by law to deduct tax and make a record of this. Every financial data with tax attached must be shared with the tax man by the financial institution.

And now the tax man has joined the internet revolution. In his quest for fair tax paid by all, international corporations, expats and overseas investors are being caught in the net. This new world is now being entered by governments looking to collect more taxes.

And they are looking at you.

Common Report Standards

Anti money laundering regulations were first introduced in the 1980s as a way of cracking down on 'crime' (and later terrorism). Worthy approaches but as governments made not paying enough tax an international criminal offence, they opened every man, woman and business around the world to the regulation of money laundering.

Common reporting standards (CRS) are based upon an international treaty agreed by world governments that introduces additional levels of scrutiny and better enable governments to gather information on what you are doing.

Before you say privacy, the key objective of CRS is to detect and identify those who do not pay enough tax, technically a criminal offence, and are therefore liable to be investigated by the investigating authorities - the tax man.

The Organisation for Economic Cooperation and Development (OECD) is the international body that are introducing these international, and common ,reporting standards. They are the source of the common reporting standards but understand their purpose - the automatic exchange of financial account information.

What Information is Exchanged ?

A financial account is any bank account, anyway of holding shares or stocks in a company including loans and debt of any format, any investment account holding, annuity or insurance contract, any cash value.

This may not include property but it does include the taxes payable on the property and the money used to buy or sell the property.

This may not include the balance of your savings or investment accounts, but it does require them to report to your tax man all interest, dividends, gains and profits that may be taxable.

Originally financial transactions required proof of name (ID card or passport) and address (utility bill or driving licence) of the parties carrying out the transactions.

This is extended with CRS to include the tax number of each individual and business involved in the transaction, i.e. to confirm their tax residence. This means a UK investor in a Cyprus or Spanish property is now recorded and known as a UK tax resident in that property purchase.

The ultimate beneficial owner must now be identified and recorded in the same way. An offshore company or Trust must be registered in its tax jurisdiction , with the name, address and tax number of all the beneficial owners of shares. No longer can contractors, businesses, or families hide their potential tax liability behind the tax affairs of a legitimate tax entity.

The range of Transactions requiring identification of parties and beneficiaries is also extended. Not just bank accounts and investments, also property purchase, property rental, company formation, currency exchange and wills and estates.

The scope of transactions have also increased from income, pensions, savings, royalties and dividends, to include capital gains and inheritance taxes. More and more outlets for investing money without paying tax.

Finally with CRS, the information gathered by each jurisdiction has been ratified in the international treaty, to allow governments to exchange all this data between governments.

What is the Implication of Information Exchange to my tax affairs?

Any transaction you undertake deemed to be recordable under CRS now requires the business carrying out the transactions to record the information of all parties and beneficiaries with the tax authority where the transactions is taking place.

Buy a Florida Holiday home and the information is recorded with the USA IRS. Note that the USA operate their own additional reporting process for Foreign Account Tax Compliance, that ensures information is obtained and exchanged.

That information includes the tax reference number for the country of tax residence of the parties to the transaction. So if a UK company has Russian shareholders, the dividends and corporation tax information is hashed with the beneficiaries home tax country.

Going forward every owner of a bank account, investment, trust, foundation, property or business overseas will have any income, capital gain or inheritance tax information both recordable in the country where the investment is held, shared with their home country.

What can the Tax Man at home do with that info?

The power of technology makes data sharing massive. In the UK, HMRC are receiving mountains of new information since 2016.

Remember that all countries around the world have to implement CRS between 2016 and 2018, so this new world order is not yet fully in place.

Cyprus implemented the new rules (ambitiously) in January 2016, the UK on 26/6/2017. New data sources are still coming on stream.

Think about your move to online tax returns and assessment. Any government around the world now can integrate all this data received, which has your home tax number attached, and compare it to what you have declared.

If you have bank interest, currency exchange gains, pension income, dividends, property rental income, property sales, inheritance, probate administration in any country around the world, whether you have shares in Facebook or own a small holiday home in Ireland, this taxable information is shared through information technology and your home country can use this information gathered on you to compare it to your declared income.

What Will happen Now?

The UK and US tax offices are informing anyone under their jurisdiction that they should report all income and they are gathering and receiving data on your worldwide activities. If in a 2017 or 2018 tax return, they find under declared income, additional tax and possible penalties will apply.

This is a warning shot. The tax man is getting allot of data and it takes time to get the system working. If he can flush out additional declarations then it is good for his tax collection.

Do you want to be found out down the line?

5 Review Actions for Your Money Business and Property Overseas

1. Make sure you have a clear tax residence, overseas or at home. If you don’t make tax returns somewhere then your home country can grab the tax and apply penalties.

2. Review your tax residency. If you live more than 183 days in a country in a year you become tax resident. Choose the best tax location for you and ensure your registration and residency are in order.

3. Accept you can't be a nomad. Banks and investments accounts will be frozen or will close accounts if you don't confirm your tax number, name and address. Of the individual or the beneficial owner.

4. Review Expat locations that suit your investment, business and family needs. Then review and get your tax returns and registrations up to date.

5. It may be best that you should make a tax declaration to your home country. The UK HMRC are already making enquiries to Expats Living and Working Abroad to confirm their tax affairs are in order.

ProACT offer a Free Review online or in office to assess your tax status and options to protect your assets for family and business and inheritance.

What should you Do?

All Expats or people investing offshore or in over seas property, should review their tax declaration approach in 2017 and 2018.

Expats based in countries like Cyprus enjoy huge benefits.

Cyprus anticipated the CRS impact and have introduced very low tax rates for overseas investors. Expat tax residents enjoy benefits including 0% on savings and dividends. Any Expat who is tax resident can pay no tax on bank interest or dividends and save capital gains and inheritance taxes.

If you don't declare your world wide income on the tax return in your country of tax residence, then you leave your self open to being taxed by your home country. The UK

HMRC are already sending offers for Expat Individuals and small business to declare their undeclared taxable income from the last few years.

If you are British, American, Australian, German or Russian, or any other nationality, your home country has a right to tax you on your worldwide income. You can only avoid this obligations by submitting a full tax return in your country of tax residence.

ProACT Partnership are a family business based in Cyprus & the UK, trusted by expats for over 15 years to handle their affairs as they make their dream moves abroad a reality.

For more information on our tax services please visit:

www.proactpartnership.com

If you're not already a member join our exclusive Living and Working Abroad Club, a lifestyle club dedicated to living and working abroad.