

# FATCA Readiness

## FATCA Reporting for 2015

February 2015



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# Introduction

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- ▶ In 2015, foreign financial institutions (FFIs) will need to address their reporting requirements under FATCA
- ▶ The nature and extent of FATCA reporting obligations will depend on where the FFI is located and whether reportable accounts have been identified by 31 December 2014
- ▶ Reporting is either direct to the IRS or to national tax authorities
- ▶ Many national tax authorities have yet to publish what they will require in 2015
- ▶ This uncertainty presents a significant operational challenge for FFIs

# Summary of the FATCA reporting requirements in 2015



# The US IRW House – Chapters 3, 4 and 61

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## Chapter 4

FATCA (effective 1 July 2014):  
Collection, validation and reporting (on Forms 8966) of certain information and documentation to identify offshore investments of US persons

Purpose: Ensure US persons pay US tax on income received through offshore investment

## Chapter 3

Withholding (generally at 30%) and reporting (on Forms 1042-S) of certain US source income paid to foreign persons. Also addresses effectively connected income of foreign partners, and gains from the sale of real property

Purpose: Collect tax on US source income of foreign persons

## Chapter 61

Reporting on US and foreign source income paid to US persons (i.e., Form 1099 reporting). Backup withholding applicable only where TIN/documentation requirements not met

Purpose: Enable IRS to match income paid with tax filings of US recipients

# Baseline requirements under FATCA for 2015

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## Who needs to report?

- ▶ Registered FFIs with reportable US persons
- ▶ Registered FFIs without reportable persons where nil returns are required

## What needs to be reported?

- ▶ New customers between 1 July 2014 and 31 December 2014 who are documented US persons
- ▶ Account holder balances and account holder details
- ▶ In some countries, other types of customers will need to be reported (e.g., pooled reporting for non-IGA)
- ▶ Nil returns in some countries

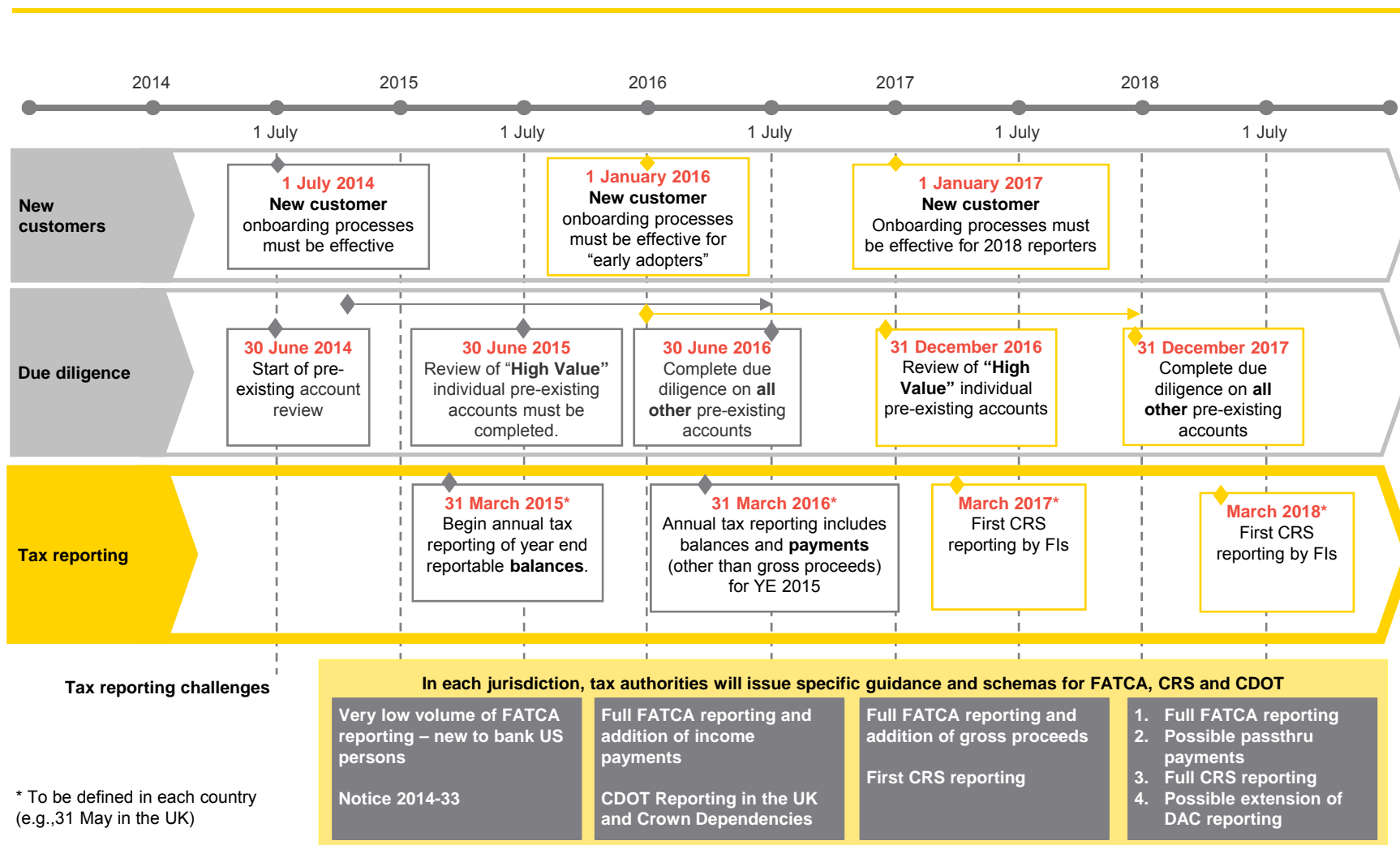
## When must reports be submitted?

- ▶ Varies by country – mostly between 31 March and 31 July 2015

## How does reporting take place?

- ▶ Manual data entry in some cases
- ▶ XML files submitted to tax authorities
- ▶ Variations by country

# Progressive increase of the reporting requirements





# Latest view of the global reporting landscape



# The FATCA landscape

## Model 1 countries (98)

### Signed and full reporting guidance issued (23)

Australia	France	Luxembourg	Singapore
BVI	Germany	Malta	South Africa
Canada	Guernsey	Mauritius	Spain
Cayman Islands	Ireland	Netherlands	Sweden
Denmark	Isle of Man	New Zealand	United Kingdom
Estonia	Jersey	Norway	

### Signed and no reporting guidance issued (24)

Bahamas	Curacao	Hungary	Lithuania
Barbados	Cyprus	Israel	Mexico
Belgium	Czech Republic	Italy	Poland
Brazil	Finland	Jamaica	Qatar
Bulgaria	Gibraltar	Latvia	Slovenia
Costa Rica	Honduras	Liechtenstein	Turks and Caicos

### Unsigned (51)

<http://www.treasury.gov/resource-center/tax-policy/treaties/Pages/FATCA-Archive.aspx>

All information correct as at 23 February 2015

## Model 2 countries (14)

### Signed (7)

Austria	Chile	Japan	Switzerland
Bermuda	Hong Kong	Moldova	

### Unsigned (7)

Armenia	Paraguay	San Marino	Macao
Iraq	Nicaragua	Taiwan	

### Non-IGA countries including

Argentina	Nigeria	Russia	Venezuela
Kuwait	Pakistan	Uruguay	Vietnam

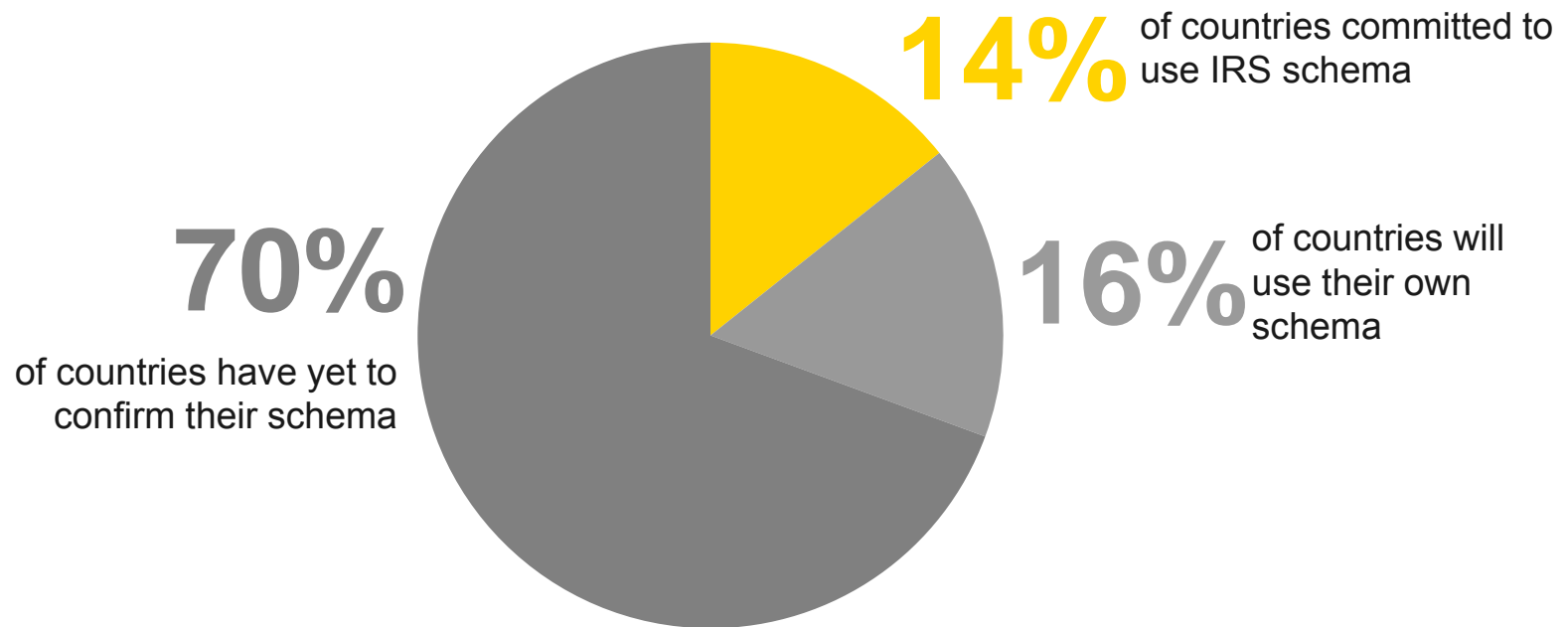


- ▶ Submit to IRS through IDES system (the IRS portal)
- ▶ All use same XML (v 1.1) schema published October 2014
- ▶ 31 March deadline with 90-day extension for 2014 filings

# Variations existing between all of the IGA Model 1 countries between schemas and local guidance

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**98** countries have signed or agreed to sign a Model 1 IGA

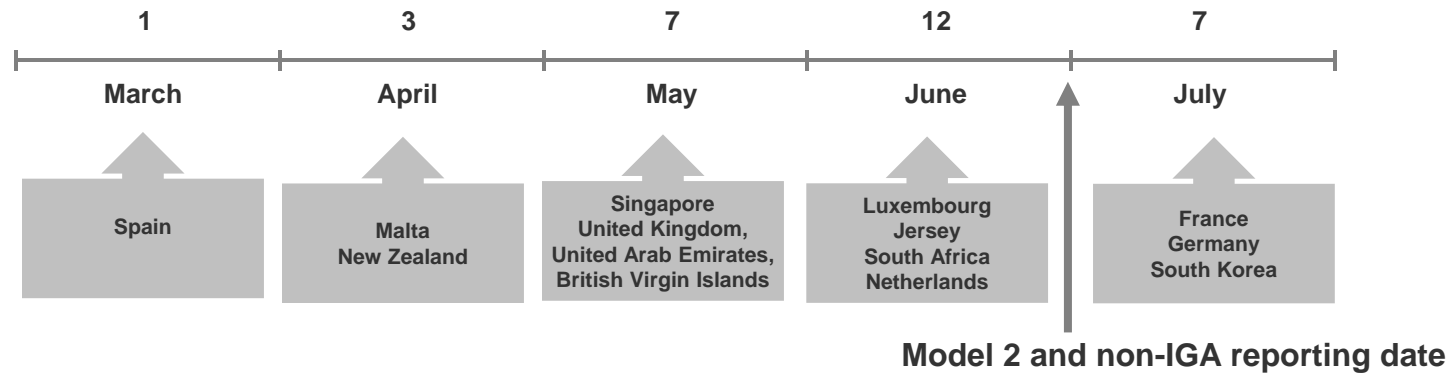


**Model 1, Option 2** – The IRS have announced a mechanism for countries to use the IDES portal to submit their data, subject to the local country approval before release.

**Singapore has signed up; will others follow?**

# Variations in the FATCA reporting timelines

**30** timelines confirmed



**68** timelines unknown

Such as: Brazil, Barbados, Latvia, Mexico, Poland, Philippines, Qatar, Turkey

# Practical challenges and considerations for FATCA reporting

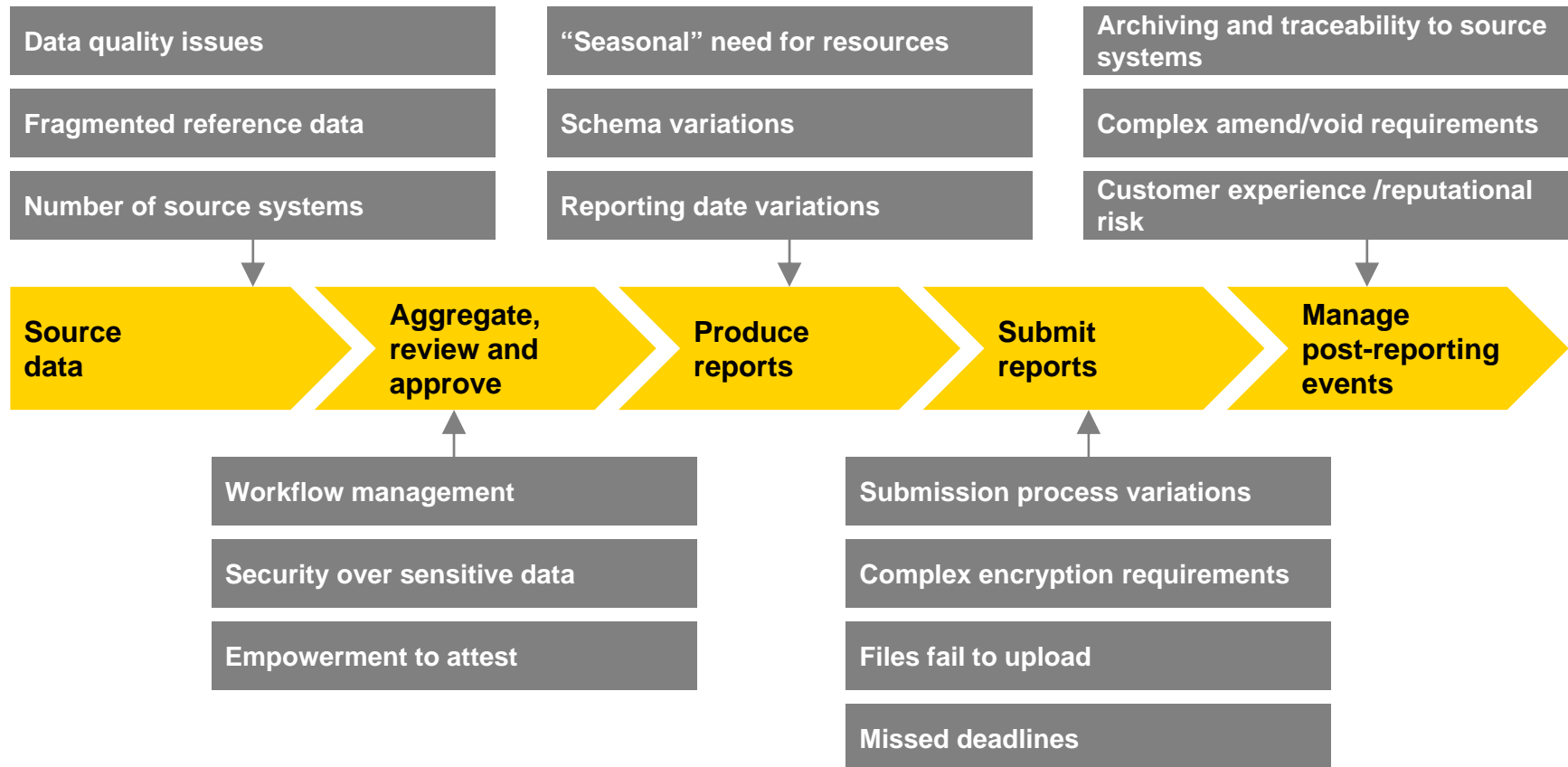
# The steps to complete FATCA reporting for TY2014

The following steps for FATCA reporting must be completed

	Identify client data and analytics	Reporting preparation	Submission packet preparation	Submission to Competent Authority	Post reporting activities
Activities	<p><b>Complete scoping</b></p> <ul style="list-style-type: none"> <li>- Identify:               <ul style="list-style-type: none"> <li>• Reportable entities</li> <li>• Reportable accounts</li> <li>• Source systems</li> <li>• Customer / account holder data required for reporting</li> </ul> </li> <li>- Reporting volumes</li> <li>- Required reporting schemas requirements and deadlines</li> </ul> <p><b>Extract customer data</b></p> <ul style="list-style-type: none"> <li>- Ensure reportable data:               <ul style="list-style-type: none"> <li>• Exists</li> <li>• Is accurate</li> <li>• Is formatted properly</li> </ul> </li> <li>- Perform data extraction</li> </ul>	<p><b>Enroll onto the Competent Authority submission portals</b></p> <ul style="list-style-type: none"> <li>- follow Competent Authority guidance for Model 1 IGA</li> </ul> <p><b>Develop reporting schema for Competent Authority</b></p> <ul style="list-style-type: none"> <li>- Based on IRS published schema (structure has not been modified by Competent Authority)</li> </ul>	<p><b>Identify and resolve exceptions</b></p> <ul style="list-style-type: none"> <li>- Missing required reportable data</li> <li>- Inaccurate or non-reportable data</li> <li>- Incorrect format</li> </ul> <p><b>Transform reporting data to a reportable file</b></p> <ul style="list-style-type: none"> <li>- Upload the following into applicable schema:               <ul style="list-style-type: none"> <li>• Reporting FI data</li> <li>• Reportable account holder information</li> <li>• Reportable account number and balance</li> </ul> </li> <li>- Generate NIL reports</li> </ul>	<p><b>Complete data file transmission processes</b></p> <ul style="list-style-type: none"> <li>- Complete file</li> <li>- Review submission messages</li> </ul> <p><b>Complete amendments / re-submissions where required</b></p> <ul style="list-style-type: none"> <li>- Filed incorrect data</li> <li>- Incomplete filings</li> </ul>	<p><b>Track status or filing with Competent Authority</b></p> <p><b>Manage Competent Authority requests</b></p> <ul style="list-style-type: none"> <li>- Respond to post submission inquiries</li> </ul> <p><b>Monitor tax regulation of Competent Authority for the following tax year</b></p> <ul style="list-style-type: none"> <li>- Provide additional data if required</li> <li>- Modify the reporting schema</li> </ul>
Potential Challenges	<ul style="list-style-type: none"> <li>▶ Additional time required to remediate data, dependent on initial data quality</li> <li>▶ Multiple data sources with disparate legacy systems and complex interfaces</li> <li>▶ Complicated legal analysis to determine FFI reporting requirements (i.e., trusts and sponsoring entities)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Front, middle, back office synergies required to accomplish reporting</li> <li>▶ Security for sensitive customer data</li> <li>▶ “Seasonal” need for resources</li> </ul>	<ul style="list-style-type: none"> <li>▶ Exception management as part of the submission process</li> <li>▶ Development of the schema and continuous updates as regulations change</li> </ul>	<ul style="list-style-type: none"> <li>▶ Variations in the process to submit files to Competent Authority</li> </ul>	<ul style="list-style-type: none"> <li>▶ Building a repeatable process with data traced to source systems</li> <li>▶ Archiving massive amounts of data</li> <li>▶ Complex amend/void file requirements</li> <li>▶ Adapting to regulatory change</li> </ul>

# Examples of inherent risks and challenges

There are risks and challenges at every step of the way. Reporting in 2015 will most likely be challenging.



# Market observations

Our market intelligence points to the following themes among financial institutions.

Most ready



Least ready

**Strategic reporting solution in place, and ready for reporting in 2015**

Even those organizations that expect to have their strategic solution in place are lining up a tactical reporting tool to provide contingency, or for use in certain jurisdictions.

**Strategic reporting solution under development. Tactical reporting solution deployed for 2015**

Reasonably common amongst larger organizations. Tactical solution useful for proving the process.

**Tactical reporting solution planned for 2015; used to understand process and inform 2016 solution**

Reasonably common amongst smaller institutions, especially those who may operate in fewer jurisdictions.

**No solution yet in place; reliance on paper and spreadsheets**

Was reasonably common until recently, however most are waking up to the inherent risks of this approach.

**Consideration being given to FATCA/CRS reporting as a Managed Service**

Large and small organisations are starting to assess whether FATCA/CRS reporting is an activity that they wish to retain in-house.

Factors include:

- ▶ Complexity of global requirements (potential for schema changes)
- ▶ Seasonal nature of the work
- ▶ Not a competitive differentiator
- ▶ Cost and risk benefits from using a proven managed service provider

**Reporting in 2015 will be challenging, but is an opportunity to prepare for 2016 and beyond**

Most organizations agree that reporting this year will be fraught with difficulty, but it will nonetheless be a good exercise to prepare for 2016 and 2017 when requirements and number of reportable persons become more onerous.



# FIRST, EY's tactical solution for 2015 reporting



# FIRST FATCA reporting tool

In response to market demand, EY has developed a proportionate tactical solution.

## FIRST's Key features:

- ▶ Is a light-touch tool to facilitate FATCA reporting
- ▶ Has user access controls and full audit records
- ▶ Accepts manual data-entry or CSV file upload
- ▶ Produces XML reports for submission to tax authorities
- ▶ Supports HMRC and IRS schemas; more in progress
- ▶ Enables pre-submission data review
- ▶ Includes nil reporting functionality
- ▶ Designed for 2015 but with potential to be a longer-term solution

## Role:

FIRST is suitable for a range of different scenarios:

- ▶ As an interim reporting solution while strategic solutions are in development
- ▶ As a longer-term solution where reportable customer numbers do not require the deployment of a strategic solution
- ▶ As a contingency option where the delivery of other reporting solutions is uncertain

	FIRST	Spreadsheet
CSV input	✓	✓
Manual input	✓	✓
Validation	✓	✓
XML output	✓	Potentially
User permissions	✓	✗
Audit trail	✓	✗
Rapid deployment	✓	✓
Pre-submission review process	✓	✗
Nil reporting integrated	✓	✗
Support and maintenance	✓	✗

# Encryption and submission to IDES

The IDES encryption process is complex and requires significant technical (cryptographic) know-how.

## Submission

Digitally sign XML with SHA256 algorithm

Compress XML

Encrypt with one-time-use AES256 key

Encrypt AES key with public key of recipient

Create transmission archive

Establish secure SFTP connection and transmit to IDES

## Receipt

Decompress archive

Decrypt AES key with private key

Decrypt compressed XML payload with AES key

Verify signature

Parse XML

Generate and store submission receipt

The submission process will vary from jurisdiction to jurisdiction.

The IDES process is complex. We understand that the IRS is NOT planning on providing software to enable this.

EY has developed a tool to support this process, however, we await the ability to test using the IDES portal.

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