

# **Automatic Exchange of Financial Account Information in Tax Matters**



Financial Services and the Treasury Bureau

## **Policy Objectives**

- Expanding network of comprehensive avoidance of double taxation agreements (CDTAs) with major trading and investment partners, while signing tax information exchange agreements (TIEAs) on a need basis
- Fulfilling international obligations to enhance tax transparency by way of exchanging tax information

## Tax Information Exchange Arrangements

- **Existing Arrangement:**  
Exchange of Information (EOI) on request – CDTA or TIEA
- **Future Direction:**  
EOI on request + Automatic Exchange of Financial Account Information (AEOI)

## Why Committing Now?

- Fulfilling international obligations
- 67 jurisdictions publicly committed (14 are among Hong Kong's top 20 trading partners)
- International consensus with unified standard
- ↳ Pre-condition for AEOI - on a **reciprocal basis** with **appropriate partners** which can meet relevant requirements on **protection of privacy and confidentiality of information exchanged** and ensuring **proper use of data**

## Key Components of AEOI Standard

**Financial Institutions** – To report the financial account information of their account holders, based on the **Common Reporting Standard (CRS)** to their competent authority

**Competent Authority** – To sign **Competent Authority Agreement** with partners to implement AEOI (bilateral or multilateral)

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## Key Components of AEOI Standard (Cont'd)

### (a) Common Reporting Standard (CRS)

#### Scope of information to be reported:

- Personal data: name, address, tax residence, taxpayer identification number
- Financial data: account balance, investment income, sales proceeds from financial assets

#### Financial institutions required to report:

- Banks, custodians, insurance companies and investment entities

#### Scope of account holders subject to reporting:

- Individuals
- Entities (including trusts and foundations)
- Controlling persons (i.e. beneficial owners) of entities

#### Due diligence procedures

- Different due diligence procedures for different accounts

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## **Key Components of AEOI Standard (Cont'd)**

### **(b) Model Competent Authority Agreement (Model CAA)**

- Legal basis for financial account information to be exchanged
- Bilateral or multilateral
- Provides for the modalities of the exchange, specifying the content of exchange and the time that the competent authority should provide information
- Contains provisions on confidentiality and safeguards

## **Key Components of AEOI Standard (Cont'd)**

### **(c) Commentaries on CRS and Model CAA**

- To ensure consistent application and operation of the standard

### **(d) Guidance on Technical Solutions**

- A schema for exchanging information
- A standard in relation to IT aspects of data safeguards and confidentiality

## Possible Legal Framework

### Existing Framework (Inland Revenue Ordinance)

- Enabling provisions for EOI on request  
- CDTA or TIEA

**Notification and Review Mechanism under Inland Revenue (Disclosure of Information) Rules**

**Safeguards** to protect privacy and confidentiality following international standards

**IRD's information-gathering powers on identified persons** for the purpose of EOI on request **remain unchanged**

### Proposed Framework (Inland Revenue Ordinance)

- Enabling provisions for AEOI  
- CDTAs or TIEAs

**Due diligence procedures for financial institutions** to identify reportable accounts and furnish annual returns

**IRD's information-gathering powers on financial institutions**

**Record-keeping and return requirements for financial institutions**

**Safeguards** to protect data privacy and confidentiality following international standards

*To review if there would be any interfacing issues with other relevant ordinances*

## Engagement with Relevant Stakeholders

Initial views from financial industry bodies, business chambers and professional associations –

1. In general support of Hong Kong's commitment
2. Concerns about actual implementation
3. Compliance costs
4. Exercise caution in identifying future AEOI partners
5. Safeguards to protect privacy and confidentiality of information exchanged

## Work Ahead

### International front

- |             |   |  |
|-------------|---|--|
| Oct 2014    | — | To commit to the new standard at the Global Forum plenary                  |
| Oct 2015    | — | To submit initial implementation plan                                      |
| 2016 & 2017 | — | To provide annual report to the Global Forum on progress of implementation |
| End 2018    | — | To commence the first automatic exchange (the latest)                      |

### Domestic front

- |      |   |   |
|------|---|---|
| 2015 | — | To prepare detailed legislative proposals and engage LegCo and stakeholders |
| 2016 | — | To introduce relevant Bill into LegCo                                       |