

LT in Focus

CRS: the time to act is now

The Russian Government Resolution "On Implementation of Automatic Exchange of Financial Account Information with Foreign Competent Authorities ("The Resolution") was officially released on 19 June 2018 and will enter into force a month after its publication.

Russia signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Information back in the spring of 2016 at the OECD Tax Administration Forum in Beijing. The Common Reporting Standard (CRS) requires that financial institutions report details of financial assets they hold on behalf of non-resident taxpayers and the income derived therefrom to local tax authorities, who would then exchange that information with the jurisdiction(s) of the taxpayer's residence. Thus, the CRS gives tax authorities an effective tool to obtain information about their residents' wealth held abroad.

The adoption of the Resolution has raised many practical questions since the provisions of the document are not fully aligned with the CRS model rules. There are fundamental discrepancies as well, such as the concepts of "financial accounts"/"financial service agreement", and the definitions of "dormant accounts", and "new and pre-existing accounts". Please note that the final wording has the following substantial differences vs. the draft:

- The cut-off date separating new and existing clients coincides with the date of the Resolution's enactment, i.e. 20 July 2018.
- Effective 20 July, Russian financial institutions will be required to start requesting self-certification forms from new clients;

- A financial institution may deny a new contract or terminate an existing one if a client fails to provide the data requested.
- By 31 July 2018, the financial institutions must complete the account identification and file reports on pre-existing reportable accounts for 2017, such as:
 - Individual accounts with a balance or value above USD 1 million as at 20 July 2018;
 - Corporate accounts with a balance or value above USD 250,000 as at 20 July 2018.
- In the years to follow, the reports will have to be filed by 31 May of a year following the reporting year.

Given the time pressure, the financial institutions are facing a challenging and nontrivial task. According to the Resolution, they will have less than two weeks to identify and report all the qualifying accounts.

It shall be noted that in accordance with Federal Law No. 340-FZ of 27 November, 2017, no penalties will be charged during 2017–2019 for breaches discovered in 2017, 2018 and 2019. Time will show if the tax authorities are going to penalize breaches committed in 2017–2019, but discovered in 2020.

To summarize, the financial institutions are recommended to give their best reasonable effort to meet the reporting deadlines.

We hope that you will find this newsletter interesting and informative. Please feel welcome to contact us for more information on the topics covered.

Kind regards,

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