



Are you ready for FATCA? Time for a review

Singapore Model 1 IGA in effect

On 5 May 2014, Singapore and the U.S. substantially concluded discussions on a Model 1 Intergovernmental Agreement (IGA) that will facilitate compliance with the U.S. Foreign Account Tax Compliance Act (FATCA) by Singapore-based financial institutions. As a result, Singapore has been included in the U.S. Treasury's list of jurisdictions that are treated as having an IGA in effect.

This is a welcome development for Singapore. For those who are well underway with their preparations to becoming FATCA compliant, this provides much sought after certainty, for others this signals a much needed drive to start preparing for FATCA.

What is FATCA?

In 2010, the U.S. enacted a tax law known as FATCA as a reaction to reported cases of Swiss banks helping taxpayers hide financial assets and income from tax.

FATCA works by requiring every financial institution in the world to report U.S. accountholders to the U.S. Internal Revenue Service. If a financial institution fails to enter into an agreement, they face a 30% withholding tax on their own and their customers' U.S.-source income and sales proceeds from the disposition of passive U.S. investments. A 30% withholding tax on sales proceeds is especially punitive as it matters not whether there was gain or loss on the sale.

FATCA will be accepted globally as almost every major financial institution has exposures to U.S. assets and the respective counterparties will enforce their compliance. U.S. based institutions will only pay U.S.-source amounts to parties that are FATCA compliant. Institutional compliance will typically be evidenced by a FATCA registration number which is provided when an institution enters into an agreement with the IRS.

What does the IGA mean for you?

Due to the breadth of FATCA, it will impact virtually all non-U.S. entities from banks and insurance companies to trust companies and treasury centers receiving most types of U.S.-source income. Even if an entity does not receive US income, it may still be affected by FATCA as part of an expanded affiliated group or if it indirectly receive payments from other financial institutions.

An IGA significantly reduces the compliance burden for Singapore-based financial institutions. Under the IGA, affected entities will report the required information on financial accounts held by U.S. persons to the Inland Revenue Authority of Singapore (IRAS) rather than the IRS. Following this, the financial institution's reporting obligations

are deemed to be met.

What should you consider now?

- **The application of the IGA**

The institutions which will be affected include banks, finance companies, custodians, nominees, insurance companies, brokers, and investment vehicles such as funds and trusts. It may also apply to regional treasury centres.

- **Entity classification**

A key initial focus on the classification of entities to identify any foreign financial institutions (“FFIs”) and establish the required scope of compliance. Groups who had already started this work should ensure that entity classifications have not changed under the IGA. Where applicable, groups should also consider identification of all related entities and corresponding issues.

- **Registration**

The IGA has extended the deadline for Singapore entities to register with IRS to 31 December 2014. There are, however, practical advantages to registering before 1 July 2014; and many Singapore financial institutions have adopted this “defensive” approach.

- **Client on-boarding**

Enhancements are required with respect to the review and monitoring of new accounts. Entities will need to put in place enhancements to their compliance programs and verification processes in order to identify customers and monitor any changes in circumstances.

- **Period of consultation**

The Singapore-U.S. IGA is expected to be signed during the second half of 2014. The Monetary Authority of Singapore and the Ministry of Finance will issue Regulations and Guidance in order to embed the IGA into local law. A consultation

on the Regulations and Guidance is expected. Singapore financial institutions will be invited to provide comments and raise any concerns. We would encourage you to input any comments and/or raise any concerns, in particular with respect to areas targeted specifically at your industry area.

How can Deloitte help you?

Our hands-on practical experience in leading and supporting a wide range of financial institutions with FATCA compliance has placed us in a strong position to develop deep industry expertise; to be leading FATCA specialists; and to develop a clear understanding of where we can add value to our clients.

We are ready to leverage this experience to assist you in navigating through the challenging journey to becoming FATCA compliant. Should you need any assistance in getting your business ready for FATCA, please contact the below or your usual contact in Deloitte.

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