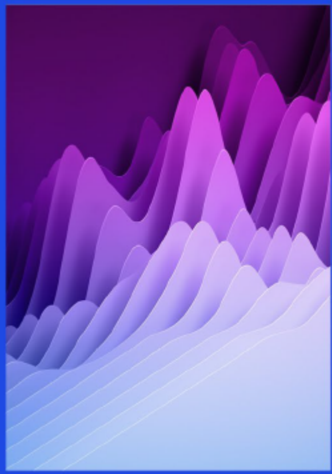
KPMG AEOI Updates & Tracking Service CRS Alert



Date:	31 May 2024	Alert Type:	Announcement
Country:	Hong Kong	Regime:	CRS

Hong Kong: Announced Common Issues in AEOI

On 20 May 2024, the Inland Revenue Department of Hong Kong (IRD) updated its website to include a page listing common reporting and due diligence errors made by Financial Institutions (FIs) that could lead to non-compliance of reporting obligations. These include the following:

— Non-reporting of Taxpayer Identification Number (TIN) and Date of Birth (DOB): IRD reminds FIs that the inclusion of a TIN (along with the issuing country) and DOB is mandatory for account holders and controlling persons of pre-existing accounts so long as the FIs possess the relevant records. For pre-existing accounts lacking TIN and DOB, FIs must make reasonable efforts to obtain this information by the end of the second calendar year following the year in which the accounts were identified as reportable.

— Incorrect TIN: IRD has observed that some FIs have reported a TIN with an incorrect structure or invalid value, affecting the accuracy of the reported information. FIs should leave the TIN data field blank if the TIN for account holders or controlling persons is unavailable, rather than inputting values such as NIL, 0, A, B, C in the data field. To improve the quality of reported information and reduce the administrative burden of correcting incorrect TINs, FIs should refer to the TIN information for various jurisdictions available on the OECD's Automatic Exchange Portal.

— Misinterpretation of undocumented accounts: FIs might misinterpret undocumented accounts as pre-existing individual accounts lacking self-certification forms. An undocumented account is one where FIs maintains pre-existing individual accounts with either a “hold-mail” instruction or “in-care-of”

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address in a reportable jurisdiction and no other indicia is identified for the account holder through electronic or paper record searches and relationship manager inquiries (for high value accounts). Moreover, FIs fail to obtain self-certification or documentary evidence to verify the account holder's residence.

- Misinterpretation of the change-in-circumstances and the follow-up procedures: A common misperception among FIs is that a change in circumstances only pertains to alterations in the account holder's details. However, a change is relevant only if it affects the account holder's status for AEOI purposes, whether through due diligence or self-certification. For instance, if an account holder provides a new address within the same jurisdiction, their reportable status remains unchanged, and no further action is needed. Consequently, if the new address is in a different jurisdiction, this alters the reportable status requiring the FI to follow due diligence procedures. In addition, FIs might fail to report the initially identified jurisdiction if the change in circumstances does not resolve the original jurisdiction. Upon identifying a change in circumstances, FIs must request a self-certification and new documentary evidence from the account holder to determine their reportable status and the appropriate jurisdiction for reporting. If the account holder does not respond within 90 days of discovery, FIs should treat the account holder as reportable to each jurisdiction for which it holds indicia.

- Incorrect classification of entity holder type: Some FIs may misclassify the entity account holder type when preparing the data file. For such clarifications, FIs can refer to paragraphs 2.2.3 and 2.2.4 of the Financial Account Information Return XML Schema and User Guide, here. Per the Financial Account Information Return XML Schema, the available entity holder types are as follows:

  - CRS101: Passive non-financial entity (NFE) with one or more controlling person who are reportable persons.

  - CRS102: Active NFE and a reportable person.

  - CRS103: Passive NFE and a reportable person.

- Misreporting due to human and system errors: FIs may overlook reportable accounts or inaccurately report the information due to human or computer errors. IRD has set out the penalties for non-compliance, incorrect returns, and fraud under Section 80B to 80F of the Inland Revenue Ordinance. To ensure accuracy and completeness, FIs should implement reconciliation checks during data extraction, prior to reporting.

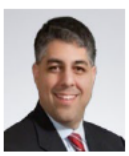
Reference: Common Issues in AEOI

For information on KPMG’s global AEOI network professionals, please email GO-FM AEOI Program Support.

For more information on KPMG AEOI Updates & Tracking Service, please see here.

For additional summaries of the latest AEOI developments, please visit KPMG’s TaxNewsFlash-FATCA/IGA/CRS Insights page, here.

Contact us



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