

Common Reporting Standard Consultation

BSA Response

29th May 2024

 Building Societies
Association

Summary

The BSA welcomes the opportunity to engage with this HMRC consultation outlining proposals to implement the OECD's Cryptoasset Reporting Framework, and make amendments to the Common Reporting Standard, as well as outlining early proposals to extend the Common Reporting Standard to domestic reporting. At this time, the Cryptoasset Reporting Framework is not relevant for UK building societies, so this consultation response will not be addressing questions raised on this subject. The BSA welcomes the proposed amendments to Common Reporting Standard in the latest updates to the OECD Automatic Exchange of Information (AEOI) package. This will continue to improve the operations which support the tackling of offshore tax evasion. However, the BSA are hesitant to support early suggestions to streamline all tax reporting into the AEOI system without seeing further details on the transition process, including a cost benefit analysis, implementation timeline and how public awareness will be raised.

Common Reporting Standard (CRS)

In the consultation, the scope of the CRS will be extended to include certain digital financial products that can be used as alternatives to traditional financial accounts. We agree that it is sensible to bring higher-value Specified Electronic Money Products (SEMP) within scope of reporting, alongside Central Bank Digital Currencies (CBDC), allowing for some future proofing and reducing opportunities to evade CRS reporting. While the proposals add some additional information to be captured and reported, such as relation a Controlling Person holds to the Entity Account Holder, if the account is Pre-Existing or New, and if a valid self-certification has been obtained, we broadly feel that these changes are minor. However, some account holders continue to be unaware of why their tax information is being requested in a self-certification, so we feel there is more of a role for HMRC to play with UK account holders as to aims and purpose of the CRS framework and the AEOI.

The consultation outlines a potential additional change to regulations to introduce a new mandatory registration requirement so that all financial institutions, including those who do not regularly report, are to be registered for the AEOI for purposes of improving HMRC visibility of UK Reporting Financial Institutions. This addition is small and we support this proposal with the confirmation that institutions will not be required to submit a nil-return if they do not have any reportable returns.

Finally, the consultation outlines intended reform to the penalty provisions in the CRS regulations to make the penalties consistent with the Model Rules for Digital Platforms (MRDP), with penalties falling into penalties for either one-off single penalties for reporting incorrect or incomplete information or initial and continuing daily penalties for failing to comply with the collection, verification, reporting and other requirements in the framework. We agree that the proposed penalty amounts in Part 3 of the MRDP¹ are appropriate for use as penalties for breaches of CRS obligations.

¹ <https://www.legislation.gov.uk/ukxi/2023/817/part/3/made>

Domestic Reporting

The consultation also seeks views on the early suggestion that the CRS should absorb the reporting of UK resident taxpayers currently done under the Bank and Building Society Interest (BBSI) returns. While we understand the advantages of streamlining the reporting of tax information, this project would be a step change in how this information is currently gathered, collated and reported. Firstly, financial institutions only collate information on interest earned by UK tax residents in their accounts, significantly different from CRS which reports the total sum, meaning that financial institutions would be gathering, collating and reporting significantly more information than done currently. Additionally, information reported under BBSI captures information aligned to the tax year, whereas under CRS, information is reported from the calendar year. Should the two systems be amalgamated and truly streamlined into one reportable process, there would need to be an alignment of dates.

Streamlining BBSI into the CRS would amount to a significant systems change for a significant number of the UK building societies and credit unions who would very likely need to outsource these changes to external specialists. Any proposal must take account of the impact of these changes on all individual levels of reportable financial institutions, especially smaller institutions. Should these proposals be progressed, we would press for a detail cost benefit analysis to be carried out, with some distinct analysis on the impact on smaller institutions. Account holders of smaller financial institutions are significantly lower risk for tax evasion, the vast majority of whom do not receive enough interest on their funds for this to be taxable. We encourage HMRC to consider this reality for smaller institutions before implementing a policy which would amount to an entire systems change which may not yield sufficient benefits to the taxpayer to justify it. Any proposal must take account of these factors as well as the length of time it would take for a financial institution to implement this change, additional resources to implement the change and the upskilling of staff to the new returns system.

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The Building Societies Association (BSA) is the voice of the UK's building societies and also represents a number of credit unions.

We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the Government and Parliament, the Bank of England, the media and other opinion formers, and the general public.

Our members have total assets of over £507 billion, and account for 23% of the UK mortgage market and 19% of the UK savings market.