Common Reporting Standard (CRS) and FACTA

Overview of Common Reporting Standard (CRS):

The Common Reporting Standard (CRS) is a global information-gathering and reporting framework developed by the Organisation for Economic Co-Operation and Development (OECD). It requires the automatic exchange of financial account information between the tax authorities of participating jurisdictions.

CRS is closely aligned in concept with the U.S. Foreign Account Tax Compliance Act (FATCA) and is implemented through domestic legislation in participating countries, including Cyprus.

Purpose of CRS and FATCA:

CRS and FATCA are global tax transparency initiatives designed to:

- Facilitate the automatic exchange of financial information between jurisdictions
- Enable tax authorities (including the Cyprus Tax Department) to identify and address offshore tax evasion
- Promote financial transparency and tax compliance
- Establish a minimum global standard for the exchange of tax-related financial information
- Improve efficiency and reduce the cost of cross-border information exchange

The automatic exchange of information under CRS and FATCA serves as an additional tool for tax authorities to ensure that individuals accurately report their income and assets, thereby strengthening the integrity of the tax system.

Definition of a "Reportable Person":

A "Reportable Person" is defined as:

An individual or entity that is tax resident in a Reportable Jurisdiction under the laws of that jurisdiction and is not specifically excluded under CRS definitions.

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Cyprus Implementation:

The Republic of Cyprus has been a participating jurisdiction in the CRS since 2014.
Under Cyprus implementation requirements:

- Financial institutions must report relevant account holder information annually to the Cyprus Tax Department
- Information is automatically exchanged with the competent tax authorities of relevant foreign jurisdictions
- Reporting supports international tax transparency obligations and compliance enforcement

Reporting obligations of Financial Institutions:

The exchange of taxpayer information under FATCA and CRS is effectively achieved through the imposition of the obligations on the below Financial Institutions to review and report information about their account holders/investors.

- Banks
- Custodians
- Investment entities and asset managers
- Certain collective investment vehicles
- Insurance companies

Financial Institutions are required to:

- Apply due diligence procedures to identify account holders and controlling persons
- Determine tax residency status
- Identify reportable accounts
- Establish and maintain reporting systems for CRS compliance

Information reported under CRS:

- Name, Address, TIN, date and place of birth (in the case of individuals)
- Financial account balances

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- Interest
- Dividends
- Insurance compensations
- Other income generated
- Total gross proceeds from the sale or redemption of Financial Assets

Emerging developments suggest that digital and crypto-assets may increasingly fall within similar reporting frameworks in the future, although implementation varies by jurisdiction.

CRS includes specific categories of entities that are generally non-reportable or treated as low-risk, depending on classification.

Exempt non-reportable entities (financial institutions)
Certain Financial Institutions are treated as **Non-Reporting Financial Institutions**, such as:

- Central banks
- Government entities
- International organisations
- Certain pension funds and retirement funds
- Broad participation retirement funds
- Narrow participation retirement funds
- Certain regulated credit unions (jurisdiction-dependent)

Excluded or Low-Risk Entity Types (Non-Financial Entities)

Certain Non-Financial Entities (NFEs) are treated as low-risk or excluded, including:

- Active NFEs (where income is primarily operational rather than investment-based)
- Publicly traded companies and their affiliates
- Certain holding companies of non-financial groups
- Start-up companies (within initial operating period, subject to conditions)

Information Exchange Mechanisms (Beyond CRS/FATCA)

In addition to CRS and FATCA, tax authorities may exchange information via:

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- Double Taxation Avoidance Agreements (DTAs) through specific requests
- Bilateral Tax Information Exchange Agreements (TIEAs)
- EU Directive on Administrative Cooperation (DAC), which strengthens automatic exchange within the EU

Application to Cyprus-resident Trusts

The Cyprus Tax Department provided key clarifications in regard to the CRS application to Trusts. Depending on their structure and activities, trusts are classified under CRS as either Financial Institutions (FIs) or Non-Financial Entities (NFEs), each with specific reporting obligations.

It is important to note that compliance is key since non-compliance or discrepancies in reported information may lead to administrative penalties, regulatory investigations, increased scrutiny of financial activities and reporting audits.

The Common Reporting Standard (CRS), together with FATCA, forms a key pillar of global tax transparency and cooperation between tax authorities. By requiring financial institutions to identify and report information on account holders, CRS enhances the ability of jurisdictions such as Cyprus to detect offshore tax evasion and ensure proper tax compliance.

Overall, the framework strengthens the integrity of the international tax system by promoting consistent reporting standards, improving cross-border information exchange, and increasing transparency across financial markets and structures. Compliance with CRS obligations is therefore essential for both financial institutions and account holders to avoid regulatory exposure and potential penalties.

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained.

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