

Avoidance of CRS Reporting

Extract from NCA Amber ALERT (References 0608 - NECC)

Overview

The purpose of the alert is to raise awareness of the behaviours indicative of potential client avoidance of tax reporting requirements under the Common Reporting Standard (CRS).

The purpose of CRS in the fight against tax evasion

CRS calls on the tax authorities in all jurisdictions to automatically exchange information with other CRS participating jurisdictions annually. Further information on CRS can be found [here](#). CRS helps to protect the integrity of the UK's tax system by ensuring that HMRC has the full picture of the assets held by UK tax residents in foreign financial accounts, ensuring that foreign accounts cannot be used to evade tax.

If an accountant suspects that a client is attempting to evade paying tax, then it has to report the matter under the SAR regime. If individuals attempt to avoid or otherwise circumvent CRS reporting by providing inaccurate information or failing to provide required information they may be seeking to evade tax or to hide past tax evasion. Accountants should be mindful of whether the information provided by their client is accurate and whether this may have an effect on CRS reporting.

Red flag indicators of CRS avoidance

- Identity of ultimate beneficial owner or account holder is being disguised or hidden – the tax resident may not want his local tax authority to be aware of an account holding funds to avoid a tax liability.
- Place of tax residence is disguised – individuals may claim to be tax resident in low tax jurisdictions or in a jurisdiction that is non-CRS reportable but other sources of information indicates this is incorrect.
- Entity classification – the classification of an entity as active or passive impacts on whether the entity is reported for CRS. Individuals may wish to hide their wealth by wrongly classifying the nature of the entity.
- Purchasing second nationalities via Citizen by Investment and Residence by Investment schemes – individuals may use these schemes to claim a tax residence in that country but their lifestyle and business footprint suggests they are tax resident in another location.
- Flow of funds to non-CRS jurisdictions – not in itself a red-flag as such transfers can be legitimate but could be a red flag if the client indicates that the purpose is to ensure that the funds are not reported under CRS to the relevant tax authorities
- Deliberate refusal to provide tax KYC documentation – the individual may be trying to obscure their tax affairs or their country of tax residence.
- Tax nomads – a client stating that they are not tax resident may present a red flag if the accountancy does have information that suggests there is a country of residence and the client doesn't have a satisfactory explanation to support the claim.

Suspicious Activity Reporting [SARs]

If you know or suspect ML or TF activity you should make a SAR and include the alert reference 0608-NECC within the text *in addition* to the ongoing use of the Glossary of Terms. Guidance on reporting is available at: www.nationalcrimeagency.gov.uk

Data Protection Considerations

Please consider your obligations under the relevant data protection regulations and where necessary remove any related personal data from your systems securely and within a satisfactory timeframe.

Disclaimer

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