



BACKGROUND

The Common Reporting Standard (CRS) is a global legal framework for the automatic exchange of information between multiple jurisdictions. Based on the United States FATCA legislation, the goal of CRS is to allow tax authorities to obtain details of financial assets held abroad by their residents.

CRS affects charities differently depending on whether or not the charity falls into the definition of a “financial institution” (FI). If a charity is an FI, it needs to comply with the CRS in two stages: firstly, by gathering the necessary information relating to defined “account holders”; and secondly by reporting relevant information to HMRC.

If a charity is not a financial institution, it will be an “active non-financial entity” (ANFE) and will not be subject to any due diligence or reporting requirements.

IS YOUR CHARITY A FINANCIAL INSTITUTION?

Broadly speaking, if a charity gets most of its income from donations and grants, it is unlikely to be a financial institution and will be considered an ANFE with no further action required.

At the other end of the spectrum, endowed charities which receive the majority of their income from investments managed on a discretionary basis by a professional investment manager are more likely to be a financial institution.

Generally, a charity will be categorised as a financial institution if 50% or more of its income derives from investments in financial assets and all or part of its financial assets are professionally managed. The definition of professionally managed would include assets managed by Quilter Cheviot under a discretionary mandate.

WHAT ARE THE REPORTING REQUIREMENTS?

Charities who are FIs need to provide information to HMRC on “reportable account holders” on an annual basis. Reportable account holders are likely to include beneficiaries; for more information please refer to the guides listed at the end of this briefing. Charities are required to gather certain information on account holders, including the account holder’s name, address, tax residence, tax identification number and, for individuals, date of birth. If the account holder is an entity rather than an individual, then the entity will also need to specify whether it is a financial institution itself.

An account holder will be reportable if they are tax resident in a country which has signed up to CRS (there are 101 in total, including the UK).

The first reporting deadline for CRS is 31 May 2017, by which time reporting charities will need to report information on any individuals and entities who were ‘account holders’ in 2016.

NEXT STEPS FOR CHARITIES

Charities should ensure that they understand their categorisation under CRS, and reporting charities (FIs) should check that they are gathering the relevant information that they will need to report to HMRC by 31 May 2017.

Reporting charities may also wish to consider the data protection law implications of holding personal data relating to account holders, and confirm that they have taken all necessary practical steps to ensure they are compliant.

We are not tax advisors and this guidance is provided on a best endeavours basis. If there is any remaining doubt concerning the charity’s reporting responsibilities, further advice should be taken from a suitably qualified tax professional.



USEFUL GUIDES:

Association of Charitable Foundations and Charity Finance Group: <http://www.acf.org.uk/policy-practice/common-reporting-standard>

HMRC: <https://www.gov.uk/hmrc-internal-manuals/international-exchange-of-information/ieim404700>

STEP - <https://blog.step.org/2017/01/26/crs-and-charities-january-2017-update/>

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