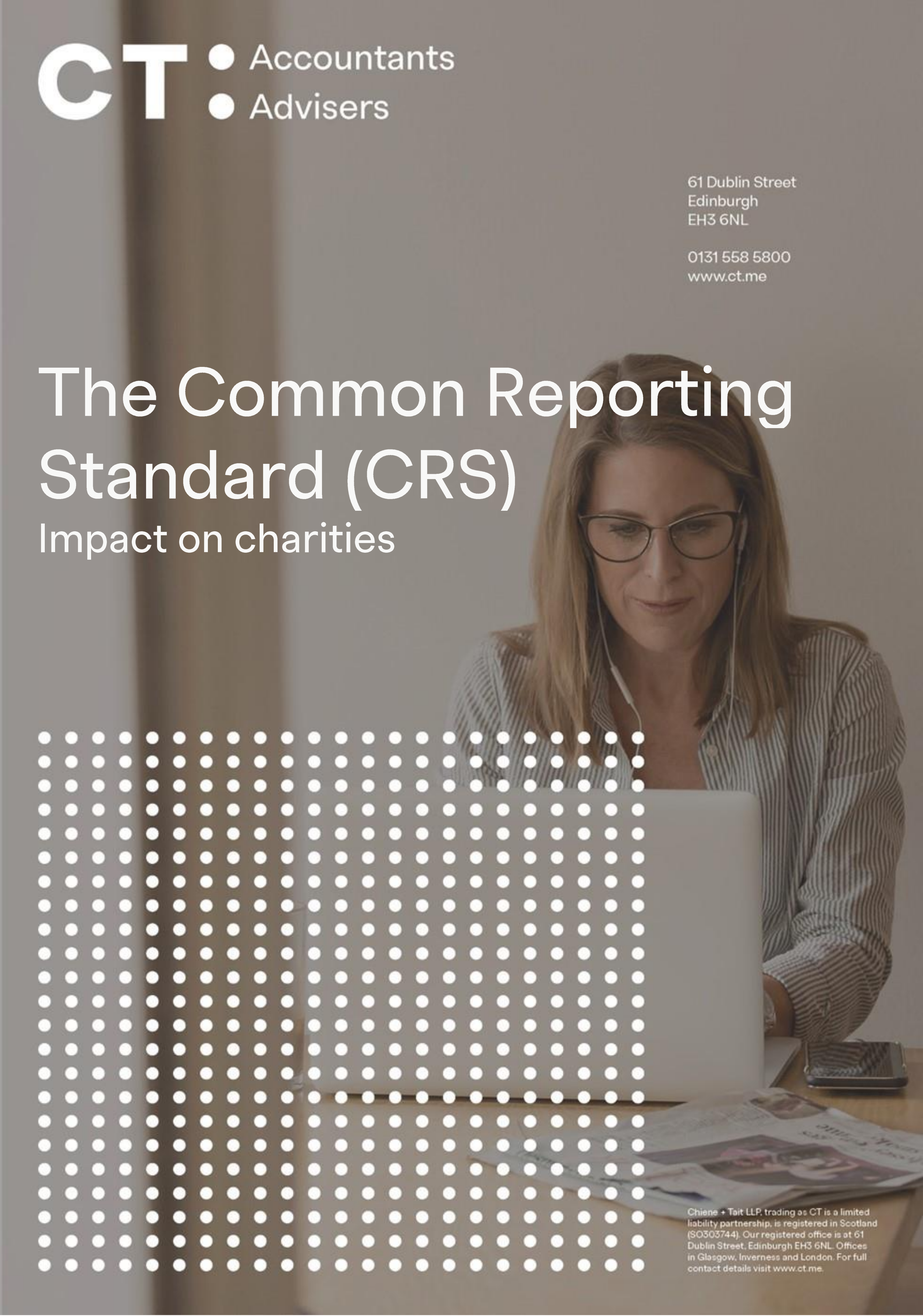

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The Common Reporting Standard (CRS)

Impact on charities

The Common Reporting Standard (CRS): Impact on charities

What is CRS?

CRS is an international regime to improve tax transparency by facilitating the exchange of information between participating jurisdictions. CRS varies from other tax transparency regimes, such as the FATCA regulations, in that charities are not exempt from CRS. Charitable companies and charitable trusts could fall within the CRS regime. The CRS regulations are onerous, and submissions for the previous calendar year must be made by the following 31 May.

Who falls within CRS?

Although aimed primarily at such institutions as banks and investment houses, CRS can also apply to charities.

CRS will apply to charitable companies and charitable trusts who are deemed to be 'financial institutions'. An entity will be a 'financial institution' where it meets two tests:

1. Its financial assets are managed, in whole or part, by an investment manager (or other financial institution) who has discretionary management over some or all of the assets; and,

2. At least 50% of its total income derives from financial assets. This test is applied to a cumulative three-year period, ending 31 December in the year preceding the year in which its status as a 'financial institution' is being determined.

   'Financial assets', as discussed above, include shares and securities, commodities, swaps, insurance or annuity contracts, and interests in partnerships. Financial assets do not include direct interests in real property or cash.

What do I do if my charity is a financial institution?

If your charity falls within the above definition of a 'financial institution', you must identify all your account holders and perform specific due diligence procedures on each of them in order to establish where they are tax resident. This due diligence information must be maintained for six years, irrespective of whether that account holder is a Reportable Account for that period.

Where the account holder is tax resident in a Reportable Jurisdiction, then the account is a Reportable Account. If the charity has no Reportable Account holders, then there is no report required to HMRC; nil returns are not required.

What are account holders?

Account holders will vary depending on whether you are a charitable company or a charitable trust. Account holders for charitable companies are any debt or equity interests in the company. This excludes any trade creditors of the charitable company that do not relate to the lending of money. HMRC do not consider that members of companies limited by guarantee or under Royal Charter or SCIOs hold an equity interest in the company.

Account holders for charitable trusts (including unincorporated associations) include:

- Beneficiaries (including recipients of grants)
- Settlors
- Those with effective control of the charity
- Lenders to the charity

What happens if I have Reportable Accounts?

If your charity has Reportable Accounts, you must perform specific due diligence procedures on each Reportable Person and disclose certain information to HMRC. This due diligence information is required to be maintained for six years, irrespective of whether the account is reportable for that period. Specified information regarding these Reportable Accounts must then be reported to HMRC for the calendar year to 31 December, by the following 31 May. The charity is also required to notify the Reportable Persons in advance of this, and there are deadlines for this notification.

Need more help?

If you want to know more about CRS and how it could impact your charity, please get in touch with our CRS team at crs@ct.me

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