

## **WHY FINANCIAL INSTITUTIONS IN NIGERIA SHOULD NOT IGNORE THE INCOME TAX (COMMON REPORTING STANDARD) REGULATIONS**



**T**he Common Reporting Standard (CRS) is a global initiative for the automatic exchange of financial information in the greatest detail yet since the tax transparency drive was escalated to enhance the implementation of the BEPS action plan.

Broadly speaking, CRS imposes an obligation on financial institutions to report on assets that they hold on behalf of non resident account holders, to the local tax authority which is then required to share the information with the respective tax authorities of the countries where the account holders are resident for tax purposes, provided such jurisdictions have signed either a bilateral or multilateral competent authority agreement with Nigeria.

In 2017 Nigeria became a party to the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information (MCAA CRS). In August 2019 the Federal Inland Revenue Service (FIRS) issued the Income Tax (Common Reporting Standard) Regulations, giving it a retroactive effect from the 1st of July 2019. This was to enable the Nigerian tax authority to fulfill its commitment to the OECD to commence CRS implementation by 2019. Financial Institutions in Nigeria are required to file the first set of Information Reports by May 2020.

Given the complexity of the due diligence and reporting processes for CRS reporting a preparation period of nine months set by the FIRS for implementation is hardly sufficient for

most financial institutions to build the capacity required for compliance.

There are two potential risks that financial institutions in Nigeria need to be aware of. The first is the risk of assuming non-eligibility. The CRS Regulation defines term “financial institutions” in a very broad sense for CRS compliance purposes and all eligible financial institutions including trustees and investment funds, other than those expressly exempted, are required to file Information Reports annually whether or not they hold assets for non resident account holders. Secondly, the Nigerian CRS Regulations impose huge penalties on defaulting financial institutions for failure to file correct and timely reports. This exposure to penalties poses significant compliance risks for financial institutions.

For the tax authorities, the payment of penalties by defaulting financial institutions is a ‘low hanging fruit’ of sorts for revenue generation and a strong deterrent for non compliance. The onus to avoid being caught remains that of the financial institutions. Organizations should therefore seek to take advantage of available capacity building initiatives such as training workshops designed to assist them with practical solutions.

UUBO in collaboration with a CRS expert from Mauritius is organizing a CRS Masterclass on the 12th of November 2019. For more information and enquiries contact [taxteam@uubo.org](mailto:taxteam@uubo.org)