www.pwc.ch/financial-services

Opinion paper

MEGATREND FINANCIAL CENTRE

Tax transparency is going digital – and is on the increase

Three theories on the consequences of digital transformation for financial service providers – June 2017

pwc

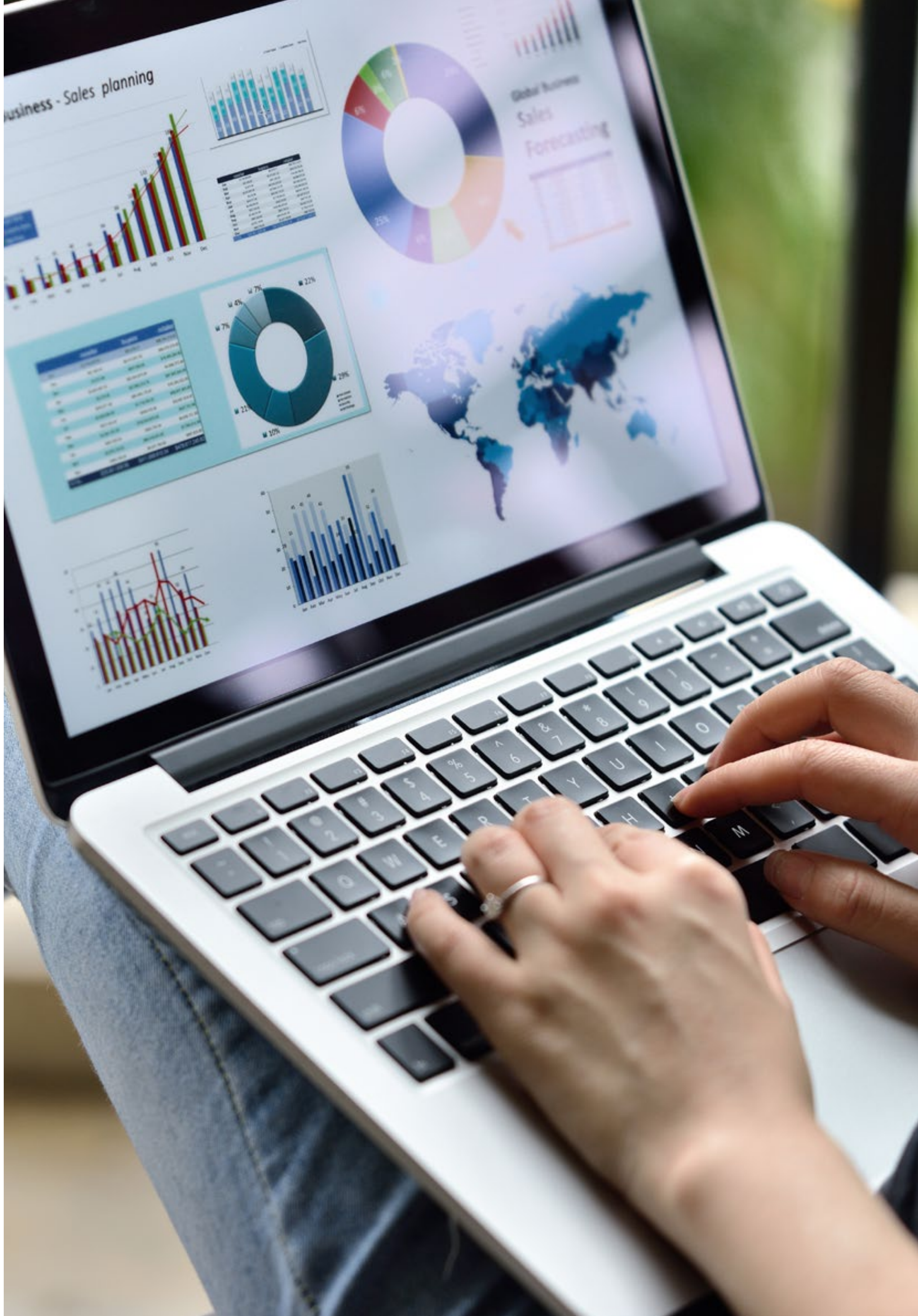
Dear reader

Digitalisation is one of the key objectives for the Swiss financial sector. New and effective business models are required – but they are hard to identify. Financial service providers and their clients are facing a quiet revolution: Industry 4.0. For one thing, the silent advance of data is changing how bank employees work – they will soon have software robots for colleagues. Added to this, tax administrations are introducing the consistent use of the new data streams through laws and appropriate investment. The arrival of automatic information exchange (AIE) in 2017 is like the white ripple along the coast that announces an imminent tidal wave. The following pages contain three theories for stimulating thinking around the future of digital development.

We hope you find it an inspiring read.

Dieter Wirth
Leader Financial Services

Christoph Schärer
Tax Partner



THEORY

1

Foreign tax administrations are systematically developing their competencies on a massive scale to put a stop to tax evaders and money launderers. For Swiss banks, this is redefining the relationship of trust between client and bank.

The facts

Swiss banks have been feeling the increase in the hunger for data and pressure from foreign tax administrations at least since the introduction of the AIE and the Foreign Account Tax Compliance Act (FATCA). The driving force behind this new international tax transparency is the OECD. But the trans-border exchange of personal data between bank and tax administration is only the first milestone. This is backed up by various normative reports sent to national tax administrations wanting to increase their revenue efficiency further. For example – in a report from September 2015, the OECD points to how collaboration between national tax authorities and their Financial Intelligence Units (FIU) can be consolidated and optimised through a "Whole of Government" approach. From the OECD point of view, as much access as possible for tax administrations to reports of suspicions – the data in Suspicious Transaction Reports (STR) – is essential.

On the one hand, the appropriate statutory requirements are required at national level to achieve such transparency. And on the other hand, countries need to ensure that operational structures and processes for data handling operate as efficiently as possible. This recommendation is based on an analysis of the civil and criminal options that national tax administrations have for accessing STRs in 28 countries.

The OECD report entitled "Putting Data to Work" from May 2016 demonstrates how tax administrations themselves can become more efficient in terms of data handling. Advanced Analytics is the use of statistical methods to make forecasts and draw conclusions as to cause and effect. Both are standard practice for any tax administration. In addition to organisational adaptations, the OECD also advises the use of both commercial analytical software and open source tools. Tax administrations basically need to ensure that all data can be analysed digitally. Administrations also need to share their best effectiveness information with other countries on a regular basis.

The value of more efficient data handling is demonstrated by estimates of additional tax revenue generated in this way. For example, South Korea reported that it generated one billion US dollars in the first half of 2014 as a result of more efficient data handling. Australia reported additional tax revenues of between 100 and 450 million US dollars per year between 2008 and 2013.

CONCLUSION

Foreign tax administrations are optimising their evaluation of tax data. Some are taking considerable steps to achieve this. Past legal principles are being widely extended via AIE and FATCA. The options for foreign tax administrations to access tax data will change the relationship between Swiss banks and their clients considerably. Confidentiality and exclusivity will be replaced by transparency and sharper competition in response to ever increasing data flows. It is not for nothing that, in a draft from the Federal Ministry of Finance, Germany wishes to remove the passage “Tax authorities are required to take consideration of the relationship of trust between banks and their customers” from the most important German tax law for the new tax regulation. In spite of the loss of trust, banks in Switzerland must therefore put their relationship with clients on a positive footing again.

The options for foreign tax administrations to access tax data will change the relationship between Swiss banks and their clients considerably

THEORY

2

Ever since 9/11 and the ensuing attacks, citizens have been giving governments even more control over their personal data. Doing away with cash will make financial service providers the servants of tax administrations and security authorities.

The facts

The right of government authorities to gather their citizens' data is gaining ground. The latest example of this is the central database proposed by the French government, which would store all the personal and biometric data of France's 60 million citizens. Since the New York attacks in 2001, citizens in an increasing number of countries are seeing security as far more important than the protection of privacy.

Governments have taken trans-border data flow from the security sector over into the tax sector – and therefore to banks with foreign customers. The declaration of serious tax evasion as a predicate offence to money laundering by the FATF in 2102 marked a turning point for the banks. The G-5 campaign is evidence of the impact of the international criminalisation of tax offences: In the fight against tax havens, Germany, France, Italy, Great Britain and Spain are calling for the G-20 to ensure that the trans-border exchange of information will also apply to the economic beneficiaries of companies and other legal entities based on a global standard. The OECD has also long been talking about the establishment of a national and globally networked register of the data of economic beneficiaries that is accessible to the public. Plans to do away with cash are also mainly for reasons of security. But the direct consequence of this is that every citizen will leave a complete data trail of their expenditure and contributions for tax administrations. Sweden leads the way in terms of cashless transactions, where the long-standing average for cash holdings has almost halved and there are scarcely any bank notes or coins left in circulation anymore. Even the homeless on the streets of Stockholm have been issued with digital readers. The trust of citizens in their government is looking strong – and fear of surveillance minimal.

Surveillance of cash flows and movements by tax and security authorities continues to increase

CONCLUSION

Through the international criminalisation of tax avoidance, governments are shaping the relationship of financial service providers with their clients. Surveillance of cash flows and movements by tax and security authorities continues to increase. Financial service providers therefore need to bring legal compliance – especially that of foreign countries – quickly up to the level of the tax and security authorities through internal data analysis. Above all, they need to ensure that no client relationship deemed to be compliant is "denounced" by government authorities – the worst case scenario. Cash is being eliminated over the mid-term, as the security situation for public spaces in Europe is not going to improve. This means that the banks are ultimately taking official responsibility for matters relating to tax and money laundering. They need to prepare their clients carefully by providing them with comprehensive and accurate information over the long term.

THEORY

3

Tax administrations in the Anglo Saxon area in particular are aiming for transparency when it comes to citizens and bank clients. The trend towards total digitalisation is unmistakeable. Financial service providers must monitor the new risks efficiently – whilst also exploiting the potential of digitalisation for the future.

The facts

In the field of Advanced Analytics, global tax authorities are not looking to Switzerland, but major campaigners against tax evasion such as Great Britain, for example. Tax authorities there were given 917 million pounds for this over six years ago. Over 40 legislatory changes have come into force between 2010 and 2015 with the same objective in view. They have extended government rights to data collection enormously. The British tax authorities recently proposed the introduction of obligations for cheque payments, money transfers and exchange bureaus. Further measures include making offences public (naming and shaming), stricter civil and criminal penalties and tougher rules on liability where companies are concerned. Under this regulatory approach, the offence of complicity with tax evasion is to be widely extended for companies, the principle of territoriality eliminated in favour of dual criminality and the burden of proof introduced for tax evaders.

The Australian government also intends to give its tax evasion Task Force 679 million Australian dollars over the next four years. The aim is to punish tax evasion by international corporates and the super rich and create additional tax liability of 3.7 billion Australian dollars. With this aim in view, stricter laws and the systematic use of data sources and third party information are to be implemented.

This includes aligning data across financial service providers, employers, state pensions, exchange indexes, vehicle registration offices, health insurance and money transfers in the construction industry and building maintenance services.

At a time of continuing uncertainty, having skilled bank advisors on hand will make a real difference to the Swiss financial sector

CONCLUSION

Even after the introduction of AIE and FATCA, the risk remains for Swiss banks that there will still be relationships with foreign clients lacking tax compliance – and that this might even get worse. Given the loss of control over their client data, banks have various options: They can do nothing. This increases the risk of coming under the spotlight again. But they can also press forward with the digitalisation of their existing client data, at least drawing level with tax administrations and security authorities. The third and best option involves making considerable improvements to their own data handling. Financial service providers need to do this anyway in order to optimise their business models and develop new products. This is the recommended – and proactive – response for banks to the fact that data and governments are controlling the future. And, at a time of continuing uncertainty, having skilled bank advisors on hand will make a real difference to the Swiss financial sector. But this requires Swiss banks to introduce total digitalisation that is also future-proof.

Contacts

+41 58 792 44 88

dieter.wirth@
ch.pwc.com

Dieter Wirth
Leader Financial Services

linkedin.com/pub/
dieter-wirth/1/6aa/392

+41 58 792 42 82

christoph.schaerer@
ch.pwc.com

Christoph Schärer
Tax Partner

linkedin.com/in/
christophs1